

Update from the Third Party Working Party

Simon Black (Aviva)
Robert Treen (Willis Towers Watson)

20 June 2016



Disclaimer

This handout and presentation represents the personal views of the speaker who does not accept any liability for reliance on it and make no warranty as to its content or accuracy.

This handout supports the research effort of the Institute and Faculty of Actuaries Third Party Working Party and is not written advice directed at the particular facts and circumstances of any given situation and/or data.

The materials contained in this presentation pack and any oral representation of it by the working party are explicitly outside the scope of the TAS.

Third Party Working Party

- Seventh iteration of the Institute and Faculty of Actuaries Third Party Working Party (TPWP), which investigates third party motor claims (injury and property damage)
- Scope focussed on private car comprehensive (PCC) including geographical analysis
- Data representing earned premium for accident year 2015 of £8.3 billion for private car comprehensive
- This pack represents the first stage of this year's research to be presented at the GIRO conference in September 2016

Acknowledgements

Working Party:

Simon Black (Chair)
Nigel Carpenter
Kyveli Charsouli
Mark Douglas
Jacqui Draper
Leanne Emmanuel
Yan Liu
Lee Ramsden
Thomas Scates
Klaas Sijbrandij
Glen D'Souza
Robert Treen

Data contributors:

Acromas
Admiral
Advantage
Ageas
Allianz
Aviva
AXA
Chaucer
Covea
Direct Line Group
esure
Groupama
LV=
RSA
Tesco Underwriting
The Co-operative Insurance
Zurich



4

Market statistics

Notes on data

- The collection of contributing insurers has changed materially over the years. Relative to last year's study this year's includes additional data from some contributors (generally relating to more accounts) and, in some cases, less data from other contributors.
- In addition, in each year it is common for a number of insurers to make relatively subtle changes to their definitions of claim statistics. In the aggregate, these lead to distortions when comparing the market studies between different years.
- Not all contributors are able to supply data to support every claim statistic in each study. There are generally (but not always) improvements in the availability of data from year to year, and as such, the results of the most recent study will be based upon data from an increased proportion of the contributor companies (and not just new contributors). Again, this introduces a material distortion into any analysis which attempts to compare the results across different studies.
- It is reasonably common for insurers to restate the claims statistics of prior accident years (and prior periods of development), particularly in the case where portfolios (including movements on prior year liabilities) have been acquired or disposed of by the contributor(s) in question. Other reasons for such changes can be changes in the availability of granular data pertaining to (potentially large) segments of portfolios (such as in the case where data is provided by bordereaux rather than being integrated in insurer administration systems) or in some cases changes in the mapping of data to classes.
- For this reason, we would recommend that if the user of the research wishes to understand how trends have evolved over time, then they should focus on looking at trends by accident year within the latest study, rather than attempting to compare the results across studies.
- Likewise we do not consider statistically valid any back engineering of individual contributors' contributions.



5



1. Scene Setting

2. Market Statistics: TPPD

3. Market Statistics: TPI

4. Market Statistics: Geography

5. Conclusions

Scene Setting

Summary

- Motor environment continues to evolve rapidly; with both tailwinds and headwinds from the **insurer's** perspective:
 - FCA uncertainty: big data, add-ons; competition
 - Solvency II
 - Increased litigation & now US style class action
 - Fuel prices, the cost of motoring and more cars
 - CORs remain challenging
 - Low investment returns
 - PPOs and review of Ogdén discount rate
 - CMC developments and ABSs
 - Increases to General Damages⁽⁴⁾
 - Brexit and ensuing political uncertainty
 - Chancellor's autumn statement
 - Moj and LASPO Act
 - MedCo and further whiplash initiatives
 - Technology
 - Post RSA ruling TPPD inflation offset by AD income
 - Market premium rates⁽¹⁾
- PRA returns for 2015 show a net COR of 112% as against 111% in 2014 on a pure accident year basis (101% and 100% on a financial year basis)⁽²⁾
- Our study covers the cost of third party claims, which make up 70% of motor insurance claims costs – the OFT figures cite 50% for TPI, 20% for TPPD.⁽³⁾
- TPWP therefore focuses on the most material and analytically problematic areas of cost, in order to provide information to help actuaries, consumers, regulators and companies make informed decisions.

Sources

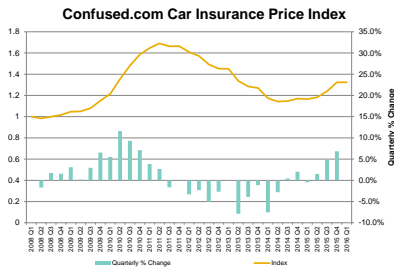
1. Confused.com Insurance Price Index shows PCC rates increased by 13.7% in 12 months to end March 2016
2. EY Analysis of All Best data
3. http://www.cif.gov.uk/newsroom_officialmarketstudies/private-motor-insurance/Motor_Insurance.pdf
4. Justice College Guideline increases on 1/01/15 of 3.4%

20 June 2016

7

Scene Setting

Motor Premium Rate Movements



- The Confused.com Car Insurance Price Index shows that PCC premiums began to increase slowly in the second half 2014.
- In 2015 premium rates increased more strongly, particularly in the second half of the year with increases of 5% in Q3 and 7% in Q4.
- In 2016 Q1 premium rates were unchanged from the previous quarter and 14% higher than a year previously.



20 June 2016

8



1. Scene Setting

2. Market Statistics: TPPD

3. Market Statistics: TPI

4. Market Statistics: Geography

5. Conclusions

20 June 2016

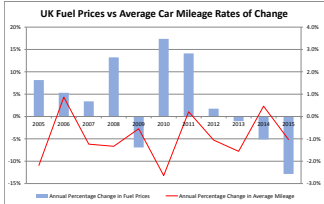
9

Market Statistics
Road Usage Data

Period	Car Park	Average Mileage	% Change
2004	27,028	9,065	
2005	27,520	8,866	-2.2%
2006	27,609	8,943	0.9%
2007	28,000	8,832	-1.2%
2008	28,161	8,714	-1.3%
2009	28,246	8,667	-0.5%
2010	28,421	8,437	-2.6%
2011	28,467	8,455	0.2%
2012	28,722	8,366	-1.1%
2013	29,141	8,236	-1.6%
2014	29,611	8,274	0.5%
2015	30,250	8,188	-1.0%

- The average mileage driven has fallen by 10% over the period from 2004 to 2015.
- The overall number of vehicles registered has increased by 12% over the same time period.
- As a result, the total number of miles driven by cars has increased by 1% over the time period whilst the mileage driven by all vehicles has increased by 3%, largely driven by light vans.

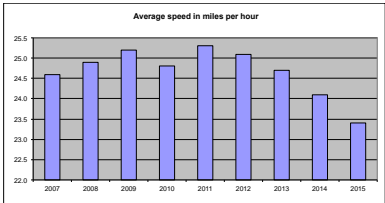
- Average mileage does not appear to be closely aligned with change in petrol prices



20 June 2016 Source: [https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-weekly-statistics/](https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-weekly-statistics)
<https://www.gov.uk/government/organisations/departments-for-transport/about/statistics>

10

Market Statistics
Road Congestion – reduction in average speed



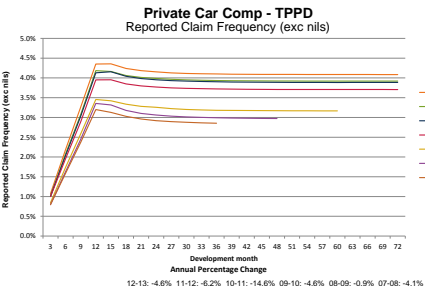
- Congestion (measured as the inverse of average speed during morning hours) has increased year on year since 2011.
- Average increase in congestion was 1.9% p.a. from 2011 to 2015.
- Congestion is positively correlated with the car park size and total number of miles driven per year.
- However, there seems to be no clear relationship between congestion and the number of accidents from Stats 19.



20 June 2016 Source: <https://www.gov.uk/government/statistics/congestion-on-local-a-roads-england-october-to-december-2015>

11

Market statistics
Claim frequency (excluding nils)



TPPD frequency fell by 30% from 2007 to 2013.
Possible reasons:

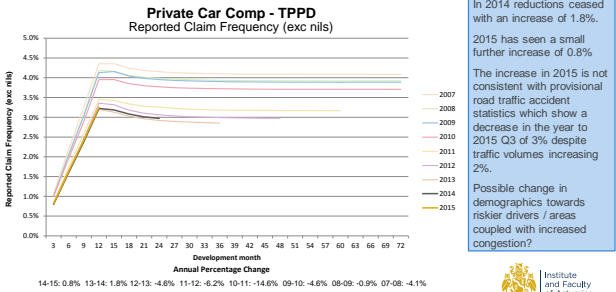
- Improved car safety
- Improved road safety
- Reduction in mileage



20 June 2016

12

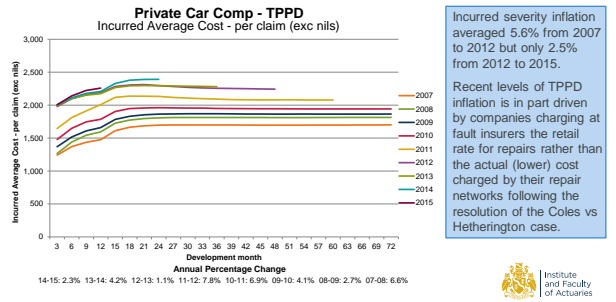
Market statistics
Claim frequency (excluding nils)



20 June 2016

13

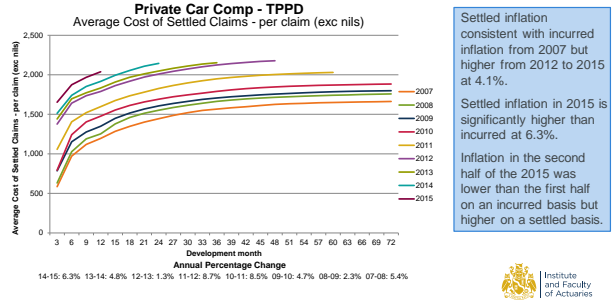
Market statistics
Incurred average Cost (excluding nils)



20 June 2016

14

Market statistics
Settled average Cost (excluding nils)

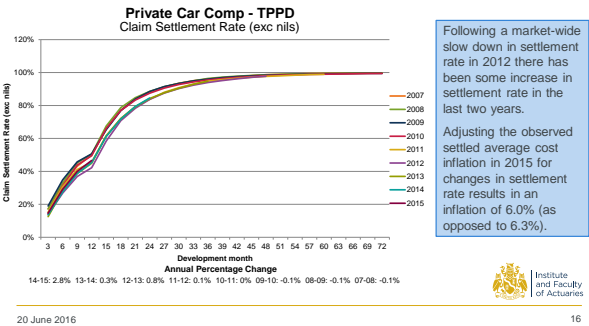


20 June 2016

15

Market statistics

Settlement Rate (excluding nils)



Institute
and Faculty
of Actuaries

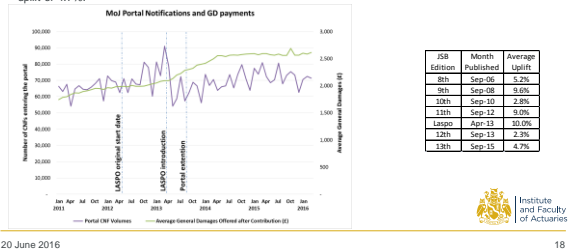
1. Scene Setting
2. Market Statistics: TPPD
3. Market Statistics: TPI
4. Market Statistics: Geography
5. Conclusions

20 June 2016

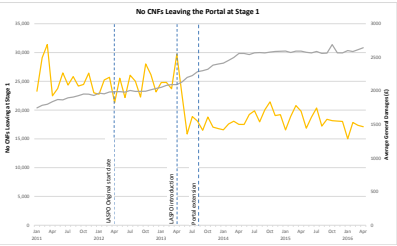
17

MoJ Portal Notifications and GD payments

- The number of claims reported through the portal has recovered to pre-LASPO levels, having fallen by over 10% after the introduction of LASPO.
- General Damage payments have stabilised with a rolling 12 month year on year inflation of 0.6% to March 2016. This followed a marked rise from 2012 to 2014 (c 23%), in line with the expected increases from the Judicial College Guidelines for the Assessment of General Damages and the 10% uplift in general damages post-LASPO upheld by the Court of Appeal - see table below.
- The 13th edition of the Judicial College Guidelines was published on 17th September 2015 with an average uplift of 4.7%.



MoJ Portal Stage 1 Exit



Stage 1 exit counts have reduced slightly by 0.9% from 2014 to 2015, which masked a much bigger year on year reduction in the second half of 2015 (about 6%).

Notes

- These figures include:
 - Claim Notification Forms that have not had a response at the end of Stage 1 – Liability
 - Claim Notification Forms where liability has not been accepted, and
 - Claim Notification Forms where liability has been accepted with contributory negligence other than a seatbelt.
- The figures do not include Claim Notification Forms that were taken out of the process using the Exit function during Stage 1.

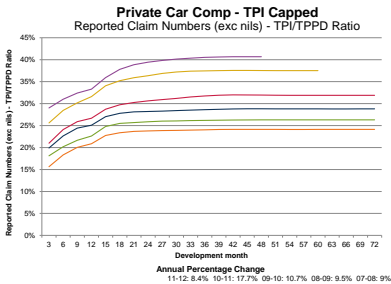


20 June 2016

19

Market statistics

Ratio of TPI to TPPD claim numbers (excluding nils)



Huge increase in proportion of claims with injury element from under 25% in 2007 to over 40% in 2013

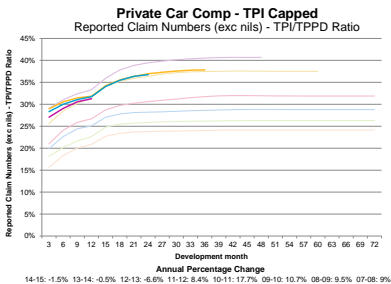


20 June 2016

20

Market statistics

Ratio of TPI to TPPD claim numbers (excluding nils)



LASPO caused reduction of 6.6% in 2013 and there have been further small reductions in 2014 and 2015.
Number of authorized CMCs has fallen by 4% in the year to 1 June 2016 to 942, down from a peak of over 2,500 in 2011.
The numbers of registered ABSs has continued to increase to over 500.

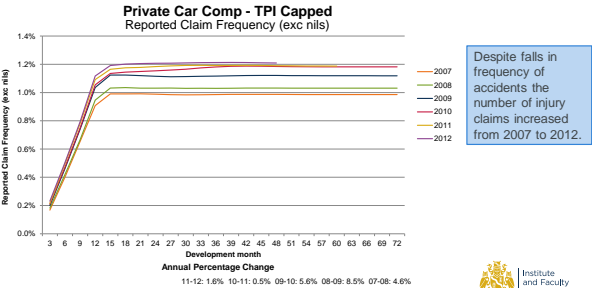


20 June 2016

21

Market statistics

TPI Frequency (excluding nils)

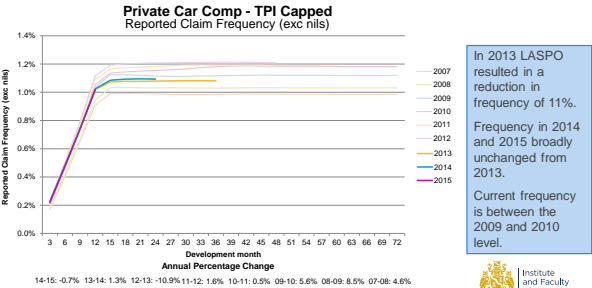


20 June 2016

22

Market statistics

TPI Frequency (excluding nils)

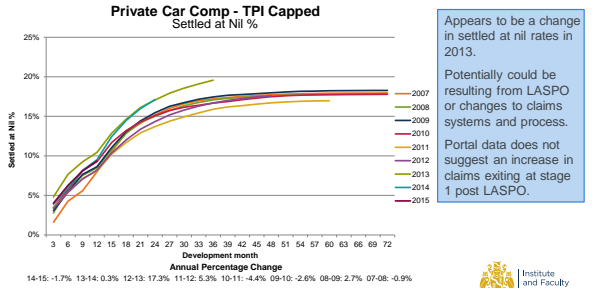


20 June 2016

23

Market statistics

Settled at nil proportion

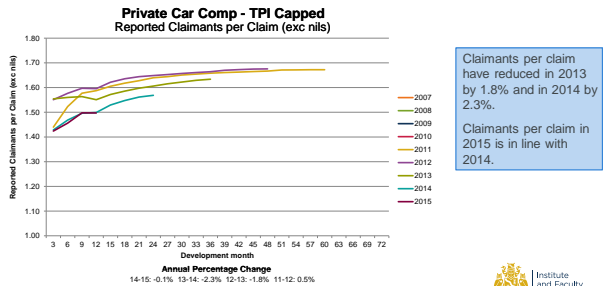


20 June 2016

24

Market statistics

Claimants per claim (excluding nils)

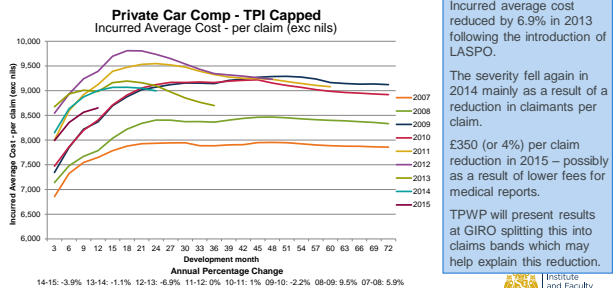


20 June 2016

25

Market statistics

TPI Capped Incurred Average Cost (excluding nils)

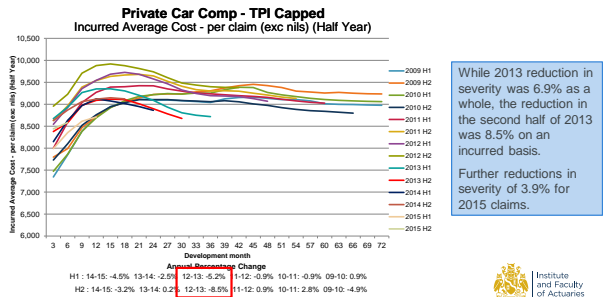


20 June 2016

26

Market statistics

TPI Capped Incurred Average Cost (excluding nils)

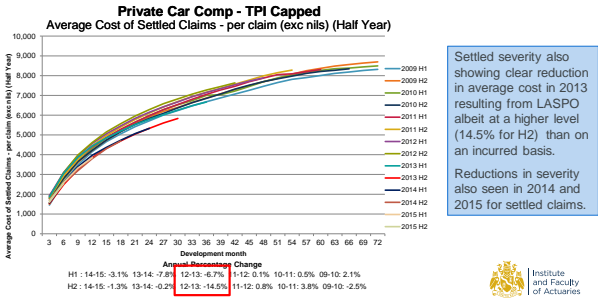


20 June 2016

27

Market statistics

TPI Capped Settled Average Cost (excluding nils)

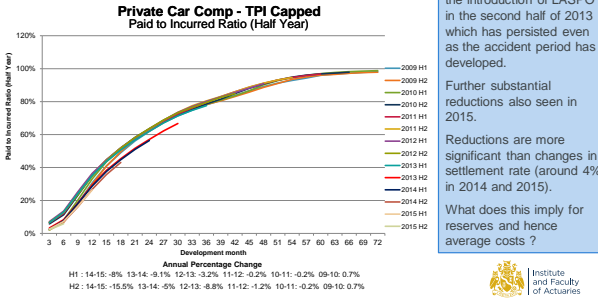


20 June 2016

28

Market statistics

Paid to incurred ratio

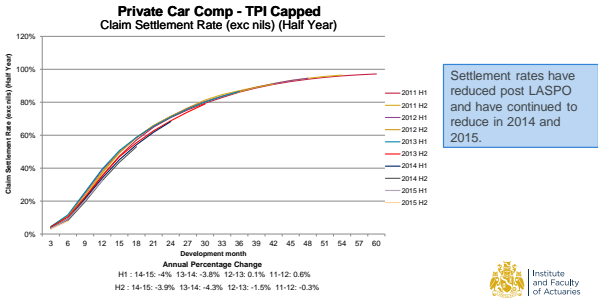


20 June 2016

29

Market statistics

TPI Settlement Rate (excluding nils)



20 June 2016

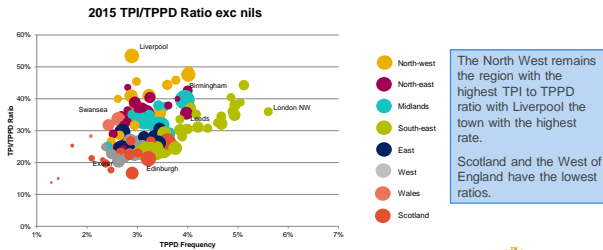
30

- 1. Scene Setting
- 2. Market Statistics: TPPD
- 3. Market Statistics: TPI
- 4. Market Statistics: Geography
- 5. Conclusions

20 June 2016

31

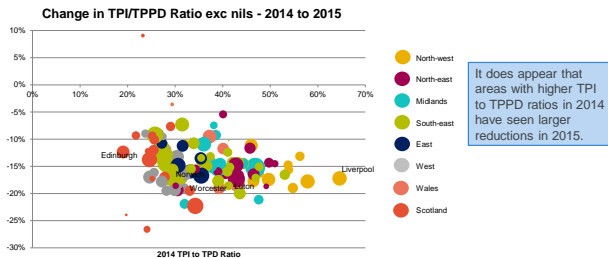
Market statistics
TPI to TPPD Ratio (excluding nils)



20 June 2016

32

Market statistics
Change in TPI to TPPD Ratio (excluding nils)



20 June 2016

33

Market statistics

By Region

2015 accident year				Change from 2014 accident year			
Region	TPPD Frequency exc nils	TPI Frequency exc nils	TPI to TPPD exc nils	Region	TPPD Frequency exc nils	TPI Frequency exc nils	TPI to TPPD exc nils
North-west	3.2%	1.3%	42.0%	North-west	16.3%	-2.4%	-16.1%
North-east	3.1%	1.1%	35.6%	North-east	13.7%	-4.1%	-15.6%
South-east	3.9%	1.1%	29.1%	South-east	12.4%	-3.6%	-14.3%
Midlands	3.4%	1.2%	34.4%	Midlands	12.0%	-3.4%	-13.7%
Wales	2.8%	1.0%	34.5%	Wales	10.0%	-6.5%	-15.1%
East	3.0%	0.8%	27.0%	East	11.3%	-5.3%	-14.9%
West	2.9%	0.7%	24.9%	West	9.4%	-7.5%	-15.5%
Scotland	3.0%	0.4%	14.7%	Scotland	15.1%	-4.5%	-17.0%

Note that 2014 accident year numbers are 24 months developed and 2015 accident year figures are 12 months developed.

20 June 2016 34



- 1. Scene Setting
- 2. Market Statistics: TPPD
- 3. Market Statistics: TPI
- 4. Market Statistics: Geography
- 5. Conclusions

20 June 2016 35

Conclusions

- **TPPD**
 - Accident rates, which had been a source of positive news for insurers, increased in 2014 by 1.8% and again in 2015 by 0.8%.
 - Severity inflation remains significantly above price inflation in 2015 at between 2% and 6.5%.
- **TPI Capped**
 - The reductions in frequency post LASPO have persisted with frequency unchanged in 2014 and 2015.
 - There have been significant reductions in severity of around £350 or 4% in 2015.
 - It appears that settlement rates and overall payment speed have fallen post LASPO.
- **Geography**
 - No significant change to the geographic claims experience although there is some evidence that the towns with the highest TPI to TPPD ratios are seeing the largest reductions.

20 June 2016 36

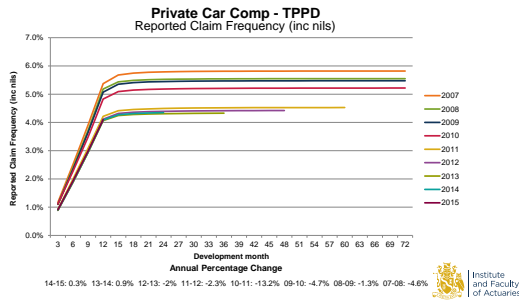
Appendix

20 June 2016

37

Market statistics

Claim frequency (including nils)

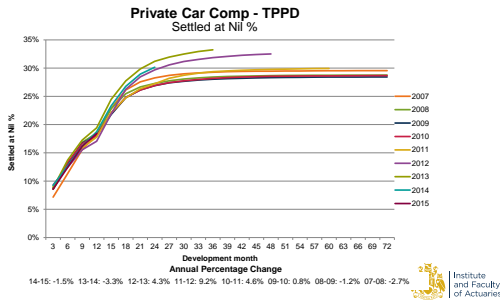


20 June 2016

38

Market statistics

Settled at Nil %

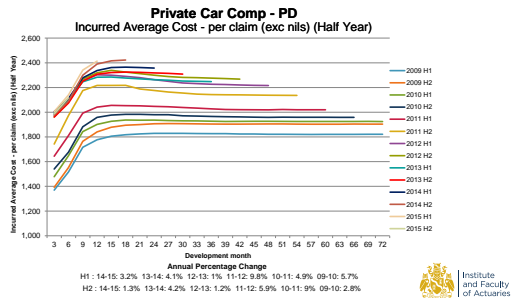


20 June 2016

39

Market statistics

Incurred average Cost (excluding nils)

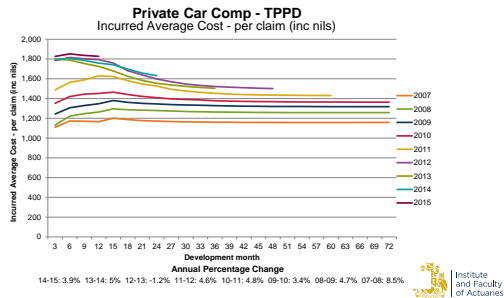


20 June 2016

40

Market statistics

Incurred average Cost (excluding nils)

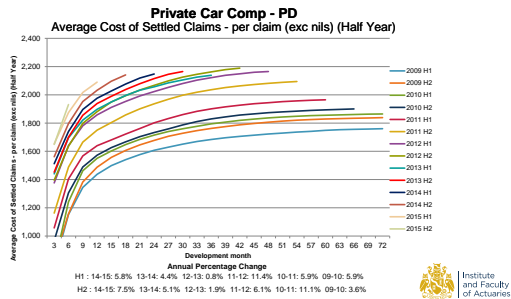


20 June 2016

41

Market statistics

Settled average Cost (excluding nils)

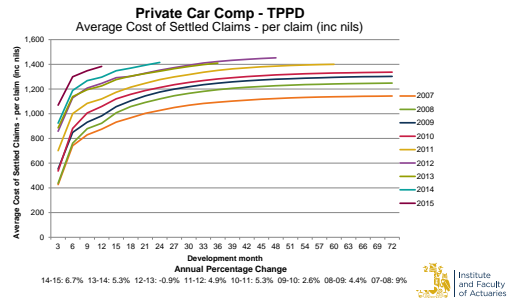


20 June 2016

42

Market statistics

Settled average Cost (including nils)

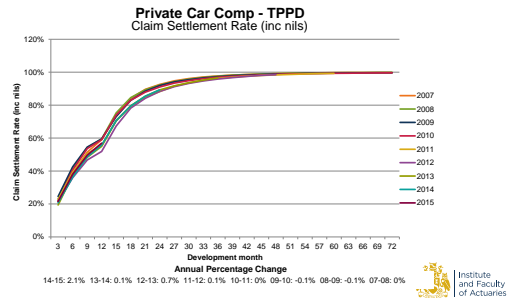


20 June 2016

43

Market statistics

Settlement Rate (including nils)

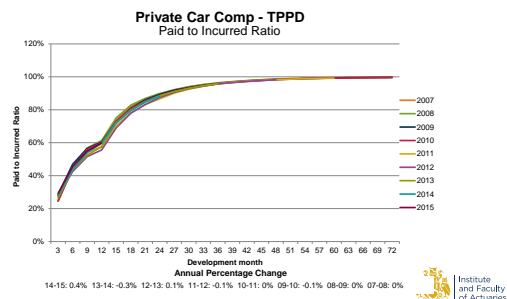


20 June 2016

44

Market statistics

Paid to Incurred Ratio

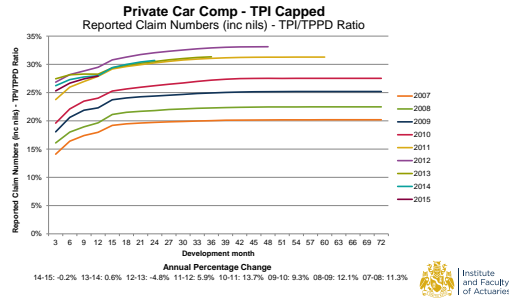


20 June 2016

45

Market statistics

Ratio of TPI to TPPD claim numbers (including nils)

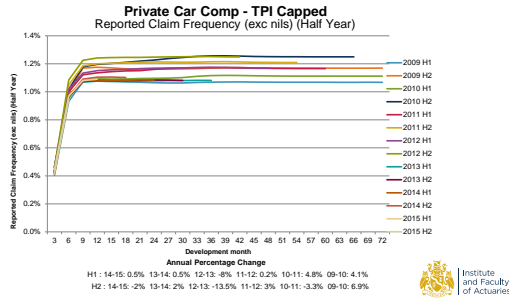


20 June 2016

46

Market statistics

TPI Frequency (excluding nils)

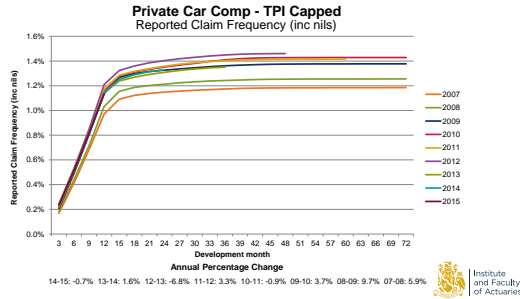


20 June 2016

47

Market statistics

TPI Frequency (including nils)

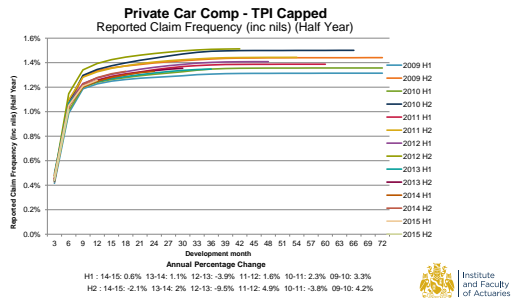


20 June 2016

48

Market statistics

TPI Frequency (including nils)

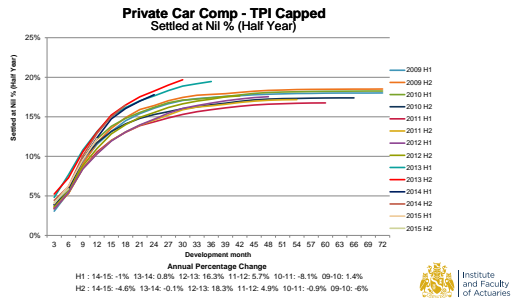


20 June 2016

49

Market statistics

Settled at nil proportion

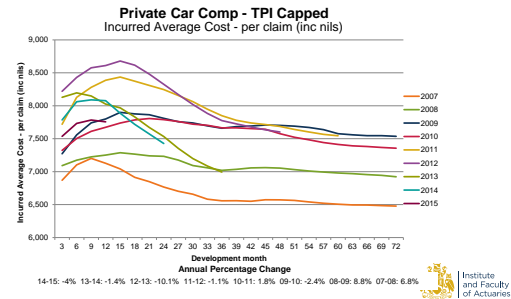


20 June 2016

50

Market statistics

TPI Capped Incurred Average Cost(including nils)

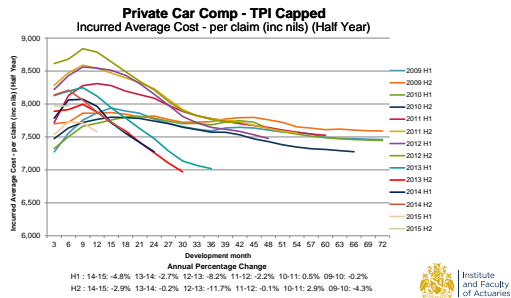


20 June 2016

51

Market statistics

TPI Capped Incurred Average Cost (including nils)

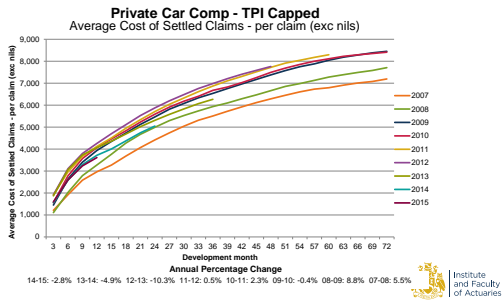


20 June 2016

52

Market statistics

TPI Capped Settled Average Cost (excluding nils)

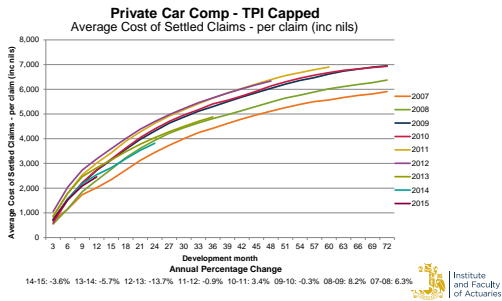


20 June 2016

53

Market statistics

TPI Capped Settled Average Cost (including nils)

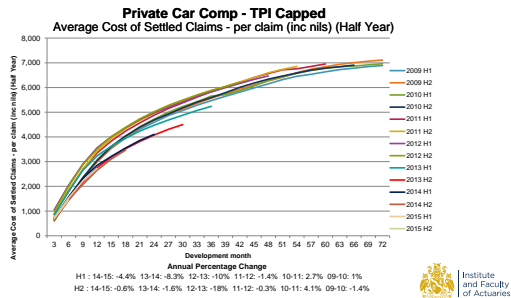


20 June 2016

54

Market statistics

TPI Capped Settled Average Cost (including nils)

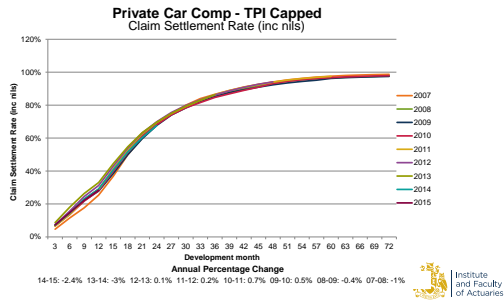


20 June 2016

55

Market statistics

TPI Settlement Rate (including nils)

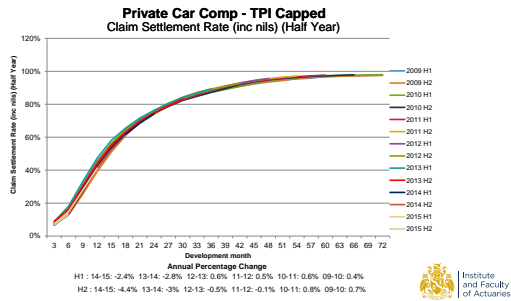


20 June 2016

56

Market statistics

TPI Settlement Rate (including nils)

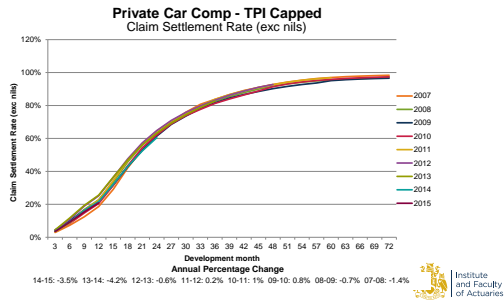


20 June 2016

57

Market statistics

TPI Settlement Rate (excluding nils)

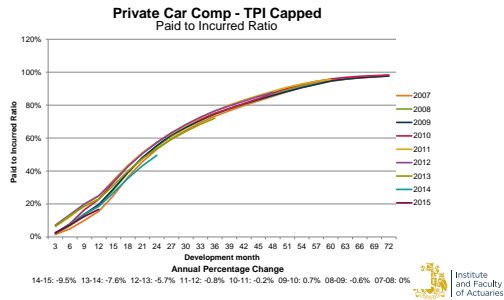


20 June 2016

58

Market statistics

Paid to incurred ratio

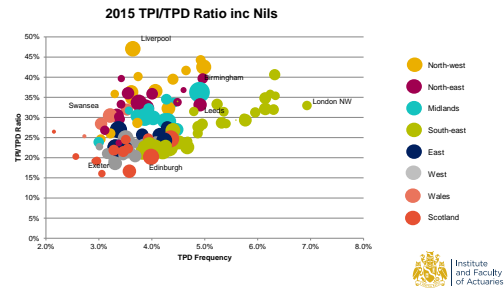


20 June 2016

59

Market statistics

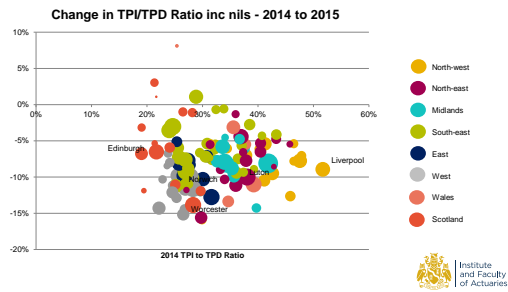
TPI to TPPD Ratio (including nils)



20 June 2016

60

Market statistics
Change in TPI to TPPD Ratio(including nils)



20 June 2016

61
