Update from the Third Party Working Party
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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

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Covea
Direct Line Group
Esure
Groupama
LV=
RSA
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The Co-operative Insurance
Zurich

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 sole 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 claim 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 contributory company. Such restate changes can be due to changes in the way in which claims are assessed and processed, the way in which data is managed, and/or the way in which data is reported. Thus, restate changes can often be judged to (potentially marginally) improve the quality of data. In some cases, however, restate changes are carried out for other reasons (such as changes in the way in which data is input). In such cases, restate changes can be seen as a distortion of the data (and potentially reduce the quality of the data).
- 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.

1. Scene Setting
4. Market Statistics: Geography
5. Conclusions
Scene Setting

Summary

1. Scene Setting
4. Market Statistics: Geography
5. Conclusions
Market Statistics
Road Usage Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Car Park</th>
<th>Average Mileage</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>27,628</td>
<td>8,904</td>
<td>-2.2%</td>
</tr>
<tr>
<td>2005</td>
<td>27,720</td>
<td>8,904</td>
<td>-2.0%</td>
</tr>
<tr>
<td>2006</td>
<td>28,834</td>
<td>8,904</td>
<td>-1.9%</td>
</tr>
<tr>
<td>2007</td>
<td>29,632</td>
<td>8,904</td>
<td>-1.4%</td>
</tr>
<tr>
<td>2008</td>
<td>28,421</td>
<td>8,904</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2009</td>
<td>27,520</td>
<td>8,904</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2010</td>
<td>28,000</td>
<td>8,904</td>
<td>-0.3%</td>
</tr>
<tr>
<td>2011</td>
<td>27,520</td>
<td>8,904</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2012</td>
<td>28,000</td>
<td>8,904</td>
<td>0.0%</td>
</tr>
<tr>
<td>2013</td>
<td>28,000</td>
<td>8,904</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

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

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.

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

Source: https://www.gov.uk/government/statistics/congestion
https://www.gov.uk/government/statistics/roads-
england products petroleum data sets/oil and
government/about/statistics/congestion and
ft/transport/about/statistics/roads-
england
Market statistics
Claim frequency (excluding nils)

Insights from the 2014 data showed an increase of 1.8% in 2015. This increase in 2015 is not consistent with previous data, which showed a decrease in the first half of 2015 and an increase in the second half. The increase in 2015 is likely due to a decrease in the resolution rate for repair claims, coupled with increased competition.

Market statistics
Inurred average Cost (excluding nils)

Inurred severity inflation averaged 5.6% from 2007 to 2012 but only 2.9% from 2012 to 2015. Recent levels of TPPD inflation are partly driven by companies charging at fault insurers the retail rate for repairs rather than the actual (lower) cost charged by their repair networks following the resolution of the Coles vs Hetherington case.

Market statistics
Settled average Cost (excluding nils)

Settled inflation consistent with incurred inflation from 2007 but higher from 2012 to 2015 at 4.1%.

Settled inflation in 2015 is significantly higher than incurred at 6.3%. Inflation in the second half of the 2015 was lower than the first half on an incurred basis but higher on a settled basis.
Market statistics
Settlement Rate (excluding nils)

Following a market-wide slow down in settlement rate in 2012 there has been some increase in settlement rate in the last two years. Adjusting the observed settled average cost inflation in 2015 for changes in settlement rate results in an inflation of 6.0% (as opposed to 6.3%).

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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%.
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 8%).

Huge increase in proportion of claims with injury element from under 20% in 2007 to over 40% in 2013.

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 ABIs has continued to increase to over 500.

Note: These figures include:
- Claims notified where liability has been accepted, but that have not settled.
- The figures do not include Claim Notification Forms that were taken out of the process using the Exit function during Stage 1.
Reported Claim Frequency (exc nils)  

Settled at Nil %

0.0% 0.2% 0.4% 0.6% 0.8% 1.0% 1.2% 1.4%

20 June 2016

In 2013 LASPO resulted in a reduction in frequency of 11%. Frequency in 2014 and 2015 broadly unchanged from 2013. Current frequency is between the 2009 and 2010 level.

Market statistics
TPI Frequency (excluding nils)

20/06/2016
**Market statistics**

*Claimants per claim (excluding nils)*

- **Private Car Comp - TPI Capped**
  - Reported Claimants per Claim (exc nils)
  - Incurred Average Cost - per claim (exc nils)
  - Annual Percentage Change
  - 20 June 2016

Clamants per claim have reduced in 2013 by 1.8% and in 2014 by 2.3%.

**TPI Capped Incurred Average Cost (excluding nils)**

- **Private Car Comp - TPI Capped**
  - Incurred Average Cost - per claim (exc nils)
  - Annual Percentage Change
  - 20 June 2016

Incurred average cost reduced by 6.9% in 2013 following the introduction of LASPO.

The severity fell again in 2014 mainly as a result of a reduction in claimants per claim.

E350 (or 4%) per claim reduction in 2015 – possibly as a result of lower fees for medical reports.

TWPWP will present results at GIRO splitting this into claims bands which may help explain this reduction.

While 2013 reduction in severity was 6.9% as a whole, the reduction in the second half of 2013 was 8.5% on an incurred basis.

Further reductions in severity of 9.9% for 2015 claims.
Market statistics

TPI Capped Settled Average Cost (excluding nils)

Settled severity also showing clear reduction in average cost in 2013 resulting from LASPO albeit at a higher level (14.5% for H2) than on an incurred basis. Reductions in severity also seen in 2014 and 2015 for settled claims.

Material reduction in paid to incurred ratio following the introduction of LASPO in the second half of 2013 which has persisted even as the accident period has developed.

Further substantial reductions also seen in 2015:

- Reductions are more significant than changes in settlement rate (around 4% in 2014 and 2015).
- What does this imply for reserves and hence average costs?

Market statistics

Paid to incurred ratio

Market statistics

TPI Settlement Rate (excluding nils)

Settlement rates have reduced post LASPO and have continued to reduce in 2014 and 2015.
1. Scene Setting
4. Market Statistics: Geography
5. Conclusions

Market statistics
TPI to TPPD Ratio (excluding nills)

The North West remains the region with the highest TPI to TPPD ratio with Liverpool the town with the highest rate. Scotland and the West of England have the lowest ratios.

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

It does appear that areas with higher TPI to TPPD ratios in 2014 have seen larger reductions in 2015.
Market statistics
By Region
2015 accident year

<table>
<thead>
<tr>
<th>Region</th>
<th>TPPD Frequency exc N M</th>
<th>TPI Frequency exc N M</th>
<th>TPI to TPPD exc N M</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-east</td>
<td>3.3%</td>
<td>1.1%</td>
<td>40.0%</td>
</tr>
<tr>
<td>North-east</td>
<td>3.1%</td>
<td>1.1%</td>
<td>40.0%</td>
</tr>
<tr>
<td>South-east</td>
<td>3.9%</td>
<td>1.1%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Midlands</td>
<td>3.4%</td>
<td>1.2%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Wales</td>
<td>2.8%</td>
<td>1.2%</td>
<td>34.5%</td>
</tr>
<tr>
<td>East</td>
<td>3.0%</td>
<td>0.8%</td>
<td>27.0%</td>
</tr>
<tr>
<td>West</td>
<td>2.9%</td>
<td>0.7%</td>
<td>24.9%</td>
</tr>
<tr>
<td>Scotland</td>
<td>3.0%</td>
<td>0.4%</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>TPPD Frequency exc N M</th>
<th>TPI Frequency exc N M</th>
<th>TPI to TPPD exc N M</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-east</td>
<td>14.6%</td>
<td>9.0%</td>
<td>55.0%</td>
</tr>
<tr>
<td>North-east</td>
<td>13.7%</td>
<td>8.1%</td>
<td>49.8%</td>
</tr>
<tr>
<td>South-east</td>
<td>10.4%</td>
<td>8.6%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Midlands</td>
<td>12.0%</td>
<td>8.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Wales</td>
<td>10.6%</td>
<td>8.6%</td>
<td>15.1%</td>
</tr>
<tr>
<td>East</td>
<td>11.9%</td>
<td>9.3%</td>
<td>13.0%</td>
</tr>
<tr>
<td>West</td>
<td>9.6%</td>
<td>7.8%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Scotland</td>
<td>15.1%</td>
<td>8.8%</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

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

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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.
Appendix

Market statistics
Claim frequency (including nils)

Market statistics
Settled at Nil %
Market statistics
Settled average Cost (including nils)

Market statistics
Settlement Rate (including nils)

Market statistics
Paid to Incurred Ratio
Market statistics
Ratio of TPI to TPPD claim numbers (including nils)

Market statistics
TPI Frequency (excluding nils)

Market statistics
TPI Frequency (including nils)
Market statistics
TPI Settlement Rate (excluding nils)

Market statistics
Paid to incurred ratio

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

Change in TPI:TPD Ratio inc nils - 2014 to 2015

Liverpool
Luton
Worcester
Norwich
Edinburgh
-20%
-15%
-10%
-5%
0%
5%
10%
0% 10% 20% 30% 40% 50% 60%
2014 TPI to TPD Ratio
Change in TPI/TPD Ratio inc nils - 2014 to 2015

North west
Midlands
South west
East
Wales
Scotland