Motor and Home Insurance - what next after Ogden and Weather?
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Introductions

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Agenda

• Ice-breaker to ensure you don’t fall asleep
• State of the personal lines market
• Motor
  – Pricing
  – Claims trends
• Home
  – Pricing
  – Claims trends
• Other topics
Q1: In what year was the first Edinburgh Fringe?

A: 1926  
B: 1947  
C: 1956  
D: 1965  

Q2: What UK region pays the highest av. car insurance premium? (confused.com)

A: Scotland  
B: North East England  
C: South West England  
D: London  

Q3: What is the name of the male giant panda in Edinburgh Zoo?

A: Bai Yun  
B: Yang Guang  
C: Su Lin  
D: Bao Bao  

Q4: Approx. how many car insurance policies were cancelled in the last year?

A: 1 million  
B: 1.3 million  
C: 1.7 million  
D: 2.1 million
State of the UK Personal lines market
UK Motor Market
Pricing
Impact of the Civil Liability Act on Pricing

• Increase of £15-£25 for the average motorist by the end of the year because of the new Ogden rate

• Younger drivers will pay £50-£100 more per year

• Whiplash reforms to deliver a reduction in premium from April 2020

• Pricing will also be impacted by high claims inflation
UK Motor Claims Inflation
Bodily Injury
Personal Injury “Ogden” rate

- Rate set at -0.25%
- GAD recommended a rate of +0.25%

<table>
<thead>
<tr>
<th>Government Actuary’s advice to the Lord Chancellor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted return</td>
</tr>
<tr>
<td>Tax and Expenses</td>
</tr>
<tr>
<td>Return post Tax and Expenses</td>
</tr>
<tr>
<td>Inflation</td>
</tr>
<tr>
<td>Real Return</td>
</tr>
</tbody>
</table>

- Rate to be reviewed at least every 5 years
- Future rate dependent on political and economic considerations
- Potential for multiple rates
Personal Injury “Ogden” rate
Scenarios to reach a discount rate of -0.25%

Option 1 - Reduction in equities

<table>
<thead>
<tr>
<th>Asset class</th>
<th>GAD low risk portfolio</th>
<th>Portfolio required to reach a discount rate of -0.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>32.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Gilts</td>
<td>30.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>17.5%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Cash</td>
<td>10.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Property</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>10.0%</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

Option 2 - Reduction in duration*

<table>
<thead>
<tr>
<th>Asset class</th>
<th>GAD 40 year return</th>
<th>GAD 20 year return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>3.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Gilts</td>
<td>-0.6%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>0.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Property</td>
<td>3.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>0.8%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*Illustrative example of reducing the duration from 40 years to 20 years. GAD in fact used a duration of 43 years in their best estimate calculation.
Whiplash reforms

- Whiplash reforms aim to make it more difficult to make a dishonest claim by revisiting the way damages are awarded and moving to a prescribed tariff-based approach.

- The Act increases the small claims track limit to £5,000 for road traffic claims meaning claimants will not be able to recover legal costs for the majority of minor injuries.

- The new approach will be supported by medical evidence and therefore the need to employ legal professionals to support claiming is likely to be made redundant. Removing the legal cost element and validating the claim through medical evidence should in turn reduce claims farming and fraud.

- MoJ as requested potential audit evidence that the reforms will lead to a reduction in premium.

- What next?
Other Topics
Brexit

• Contract certainty
• Business and operational change
• Personnel
• Suppliers
Climate Change
New entrants and new products

Amazon.com

Google

Tesla car

New entrants and new products
Status of global market progression - IFRS 17 programmes

Company A
- Impact assessment
  - Identify the high-level impacts of IFRS 17
  - Define the high-level TOM, project plan

Company B
- Strategy and assess

Company C
- Strategy and assess

Company D
- Strategy and assess
  - Define the scope of the initiative, plan for the detailed GAP analysis

Company E
- High level Design
  - Understand and design requirements
  - Identify system capabilities to acquire
  - Prepare detailed project plans, resource profiles and budgets

Company F
- Design

Company G
- Design

Company H
- Design

Company I
- Design

Company J
- Design

Company K
- Design

Company L
- Design

Company M
- Design

Company N
- Design

Company O
- Design

Company P
- Design

Company Q
- Design

Company R
- Design

Company S
- Construct and implement

Company T
- Construct and test
  - Build and test the changes to the TOM

Company U
- Construct and test

Company V
- Transition
  - Adjust the opening balance sheet of the comparative period disclosed

Company W
- Parallel run
  - Simulation of the P&L, OCI and balance sheet as if IFRS 17 is already in effect

Company X
- Partial FT

Company Y
- Business as usual
  - Ensure continuity and flexibility in the quarterly disclosure

Company Z
- Operate, review and deployment

Strategy and architecture

26 September 2019
FCA Market Study

The Industry challenge

During 2018, the Consumer agenda became dominant across Financial services.

The Household Insurance Thematic Review raised issues which insurers have already had to respond to.

The FCA is moving the dial and price regulation is a possible outcome.

The Pricing Market Study will inform regulatory action in the GI market.

What next?

What remedies will be implemented from the draft report?

What impact will there be on all customers?

What impact on insurer and broker business models?

How do conduct and pricing fit together long term?
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