



This is a short version of the interim findings of the upcoming 2015 report on third party motor claims from the Institute and Faculty of Actuaries (IFoA), analysing 2014 data

These are the interim results for the sixth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims provided by 18 of the top 20 UK motor insurers in 2014 (01 January to 31 December 2014 unless otherwise stated). The study focussed on private car comprehensive (PCC) experience and is based on PCC earned premium of £7.8 billion for the 2014 accident year.

Third party motor insurance claims make up 70% of all motor insurance claims costs.

This document provides first findings for media use to support issued media releases.

- Page 1, glossary
- Page 3, key findings of the report
- Page 4, appendix of supporting data with supporting commentary
- Page 17, supporting background information

Glossary

Burning cost: The average cost of insurance claims per vehicle. This is a combination of the frequency of a claim, and the average cost of a claim.

CMA: Competition and Markets Authority

CMC: Claims management companies. These businesses offer claim management services to assist individuals in making claims for items such as compensation. They will either provide their own solicitors or access to other third party solicitors to assist the individual in making a claim.

Claims farming: Claims management companies retrospectively filing claims on behalf of clients.

Claim severity: the average cost to insurers of a claim.

JSB: Judicial Studies Board, see Judicial College.

Judicial College: Formerly the Judicial Studies Board (JSB), is responsible for training judges in Crown, County and higher courts in England and Wales and tribunals judges in England and Wales, Scotland and Northern Ireland. It publishes the “Guidelines for the Assessment of General Damages in Personal Injury Cases” which are designed to provide a clear and logical framework for the assessment of damages in personal injury cases.



LASPO: Legal Aid, Sentencing and Punishment of Offenders Act (in force since 1 April 2013). LASPO introduced a number of measures that impacted TPI claims, including the banning of referral fees that were formally used to encourage claim filing and reductions to the third party legal costs which can be recovered as part of the TPI claim.

MedCo: Since 6 April 2015 all soft tissue injury claims caused by a road traffic accident are subject to diagnosis by contractors of a new company, MedCo. It is a system to facilitate the sourcing of medical reports in soft tissue injury claims brought under the MoJ's new Pre-Action Protocol for Low Value Personal Injury Claims in Road Traffic Accidents.

MoJ Portal: the Ministry of Justice claims portal is a stakeholder-led secure electronic communication tool for processing low value personal injury claims.

Nil claims: Claims which are notified but ultimately settle for no payment to the claimant.

Small claims: claims made for under £20,000.

TPI: third party injury – claims arising when a driver causes personal injury to other persons for which he/she is liable. In the analysis TPI claims have been “capped” at £50,000 (for accidents in 1999, indexed at 7% per annum for other accident years) to remove the distorting effect of very large claims.

TPPD: third party property damage – claims arising when a driver causes damage to the property of other persons for which he/she is liable.

TPI/TPPD ratio: the ratio of TPI/TPPD represents the proportion of (third party) insured accidents involving (third party) injury. So a 50% figure would mean that 1 out of every 2 TPPD claims have an associated TPI claim.

TPWP: Third Party Working Party- Working party that is part of the Institute and Faculty of Actuaries (IFoA).



Key findings

- 1. The 2103 LASPO reform had a significant impact on third party injury claims** with reductions in third party injury claims frequency, the number of claimants per claim and in the average cost per claimant.
- 2. The long-term effects of legal changes such as LASPO remain uncertain.** Whilst at a headline level, reductions in average incurred cost have continued in 2014 (-2%), when considering claims on a settled basis, average costs are increasing again (3%), in contrast to a significant fall in 2013 (-15%) immediately after LASPO came into force. There is no strong evidence of the impact of the reforms varying by region.
- 3. The reduction in claim numbers reported in 2013 has stalled in 2014, with TPI claim frequency increasing by 1.7% and a much smaller 0.2% increase in TPPD claims.** It is too soon to say whether these increases represent normal fluctuations or a return to the trend of year-on-year increases seen prior to 2013.
- 4. The average TPPD claim value in 2014 is estimated to be £2,430. The average TPI claim (excluding large claims) in 2014 is projected to be £8,680.**
- 5. The small increase in TPPD claims frequency should be set against equivalent small increases in mileage, cars in use and congestion.** It is also important to note that increasing numbers of TPPD claims are being settled at nil. For 2013 claims, over 30% are expected to settle without payment. However, the cost of claims settled with payment continues to rise, with claims inflation in 2014 of 2.6% on an incurred basis and 6.8% on a settled basis.
- 6. TPI claims saw a further reduction in the average number of claimants per claim (-2.8%, 2013: -1.4%).** The severity of small claims also continues to fall (-2%, 2013: -7.3%). These may suggest that actions to reduce fraudulent or exaggerated claims are effective.
- 7. Quoted third party motor insurance premiums increased slightly in the second half of 2014 to fall again in the first quarter of 2015.**
After 2.5 years of premium decreases due to increasing competition as well as negative claims inflation from the LASPO reforms, premiums rose slightly in the second half of 2014 only to fall back in the first quarter of 2015.
- 8. Over the period April 2014-March 2015, the number of authorised Personal Injury CMCs has decreased further by 13% to 979,** following the large reductions of 41% and 25% over the previous two years. These reductions could be linked to the banning of referral fees following the implementation of LASPO. Despite the fall in the number of CMCs turnover actually increased in the year to March 2015 by 30% to £310m. This is likely to be driven by increased volumes of TPI claims.



Appendix 1: supporting data

Source of all data unless otherwise stated is the Institute and Faculty of Actuaries, Update from the Third Party Working Party, July 2015.

UK Road Usage measured in average mileage driven per vehicle

UK Car Park measured in thousand licensed cars

Period	Car Park	% Change	Average Mileage	% Change
2003	26,240		9,234	
2004	27,028	3.0%	9,065	-1.8%
2005	27,520	1.8%	8,866	-2.2%
2006	27,609	0.3%	8,943	0.9%
2007	28,000	1.4%	8,832	-1.2%
2008	28,161	0.6%	8,714	-1.3%
2009	28,246	0.3%	8,667	-0.5%
2010	28,421	0.6%	8,437	-2.7%
2011	28,467	0.2%	8,455	0.2%
2012	28,722	0.9%	8,366	-1.1%
2013	29,141	1.5%	8,236	-1.6%
2014	29,611	1.6%	8,257	0.3%

Source:

<https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-weekly-statistics/>
<https://www.gov.uk/government/organisations/department-for-transport/about/statistics>

Average car mileage per year has fallen by 11% since 2003 with an average annual reduction 1% a year. The change in average annual mileage does not appear to be closely aligned with change in petrol prices. The number of licensed cars has risen by 13% since 2003, essentially offsetting the reduction in average mileage. The total mileage driven in 2014 is back to the 2003 level.



Road Congestion measured as reduction of average speed during morning hours

Year	Average speed in miles per hour
2007	24.6
2008	24.9
2009	25.2
2010	24.8
2011	25.3
2012	25.1
2013	24.7
2014	24.1

Source: <https://www.gov.uk/government/statistics/congestion-on-local-a-roads-england-january-to-march-2015>

Congestion has increased year on year since 2011. It is positively correlated with the total number of miles driven per year.

The average increase in congestions was 1.6% a year from 2011 to 2014. In 2015 congestion has increased further by 0.8% with an average speed of 23.9 mph at the year ending March



Latest development TPPD claims

TPPD Frequency

The table shows the *changes* in the frequency of TPPD claims (excl. Nils) and *changes* in the settled at nil TPPD rates.

Period	Change in Frequency	Change in Settled at Nil
2006-2007	-1.6%	5.9%
2007-2008	-3.1%	-3.6%
2008-2009	-1.2%	-3.4%
2009-2010	-5.1%	-0.7%
2010-2011	-14.2%	3.3%
2011-2012	-6.7%	8.9%
2012-2013	-5.0%	6.3%
2013-2014	0.2%	-0.2%
Average (2006-2014)	-4.7%	2.0%

From 2006 to 2013 TPPD frequency has fallen on average by 4.7% per year and 32% in total.

This was partly a result of the reduced mileage per vehicle but TPPD frequency rates have reduced by more which represents a continuation of a general trend in reducing numbers of accidents with increased safety measures within vehicles and reductions in speeding seen over the period.

In 2014 this reduction in TPPD frequency appears to have stopped with the frequency in 2014 0.2% higher than 2013 at the same point in time.

Whilst the stalling in frequency reduction does come following increases in car park, mileage and congestion, these increases are no more marked than in previous years, when frequencies have decreased nonetheless

There has been a continuous trend since 2010 for a greater proportion of TPPD claims to settle at Nil cost. For the 2013 accident year the proportion of TPPD claims settling at nil could exceed 30%. This could potentially arise from tighter processes associated with management of TPI claims under the MoJ portal.



TPPD severity

The table shows the *changes* in the severity of TPPD claims (excl. Nils) both on a reported (incurred) and settled basis.

Period	Change in Incurred Severity	Change in Settled Severity
2006-2007	10.2%	10.1%
2007-2008	5.8%	4.5%
2008-2009	2.7%	2.1%
2009-2010	3.7%	3.9%
2010-2011	5.7%	6.9%
2011-2012	7.4%	8.7%
2012-2013	1.0%	3.5%
2013-2014	2.6%	6.8%
Average (2006-2014)	4.9%	5.8%

Claims severity can be increased in two ways for an accident occurring in any particular period; either based on the latest estimates for claims handled across all claims reported to date; or based on the amounts paid for the claims that have settled to date. Neither measure is perfect but each gives insight into the average level at which claims will ultimately settle.

Following significant levels of incurred claims inflation in 2011 and 2012, the inflation rates in 2013 and 2014 are more modest at between 1% and 2.6%.

However the settled average cost inflation has been much higher in 2013 and 2014 at around 5% p.a.

There is some suggestion that case reserve strength has reduced which would lead to understatement in incurred inflation and help to explain the difference between the incurred and settled severity for 2013 and 2014.



Latest development TPI claims

The 2103 LASPO reform had a significant impact on TPI claims. The ban on referral fees and cash incentives together with reduced costs payable in Road Traffic Accident (RTA) cases lead to substantial reductions in TPI claims frequency and severity.

Change in Reported TPI Claim Frequency (excluding Nil claims) at latest development

Period	Change in Frequency
2006-2007	4.5%
2007-2008	4.8%
2008-2009	8.0%
2009-2010	4.5%
2010-2011	-0.6%
2011-2012	0.2%
2012-2013	-9.9%
2013-2014	1.7%
Average (2006-2014)	1.5%

In 2013 the TPI frequency fell by 10%. This reduction is largely seen as a result of the LASPO reforms and is consistent with the MoJ Portal statistics.

The frequency has increased slightly by 1.7% in 2014. This is less than suggested from the portal where claimant notifications are back to pre-LASPO levels.

Change in Reported TPI claim severity (excluding Nil claims) at latest development

Period	Change in Incurred Severity
2006-2007	2.0%
2007-2008	5.7%
2008-2009	7.8%
2009-2010	-0.7%
2010-2011	1.1%
2011-2012	-0.9%
2012-2013	-7.3%
2013-2014	-2.0%
Average (2006-2014)	0.6%



The level of Capped TPI inflation in the period 2010 to 2012 following the introduction of the MoJ portal has been low.

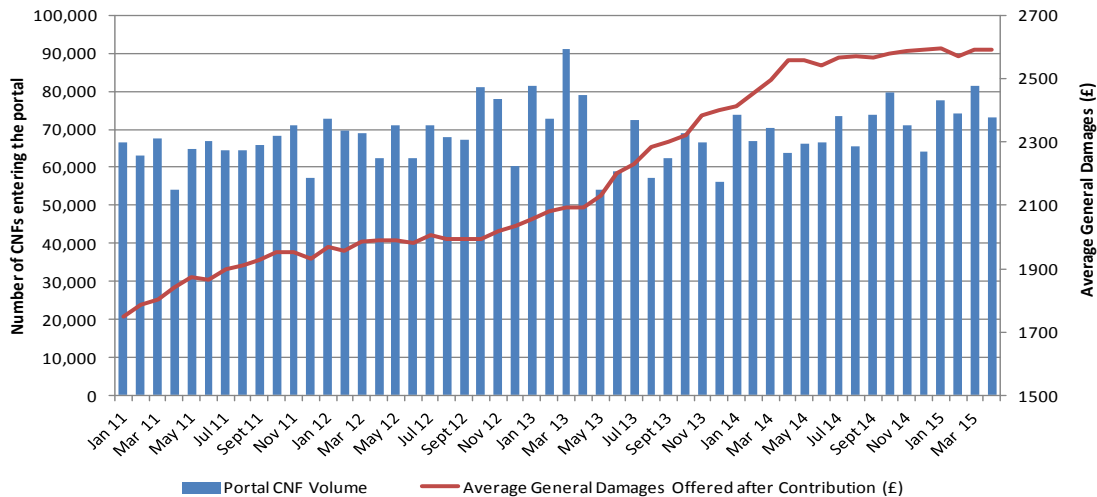
Following the reduction in legal fees as a result of LASPO and the related reforms the severity of small claims fell by 7.3% in 2013 and a further 2.0% in 2014.

However it should be noted that development patterns have fundamentally changed and ultimate costs may defy initial expectations



Moj portal

Moj Portal Notifications and GD payments



The number of claims reported through the portal has recovered to pre-LASPO levels, having fallen by 10% after the introduction of LASPO.

General Damage payments have stabilised, following a marked rise post-LASPO (c 23%). This is in line with the expected increases from LASPO and the 10% uplift in general damages from case law, as described in the Judicial College Guidelines for the Assessment of General Damages in Personal Injury Cases (<http://ukcatalogue.oup.com/product/9780199687824.do>).



Stats 19 data

The Stats 19 report looks at the number of personal-injury road traffic accidents in Great Britain that were reported to the police in 2014. It analyses the number of people killed or injured in these accidents and which road user group they were in.

	2014	Percentage change from:		
		Last year	Five years ago	2005-2009 average
		2013	2009	
Killed	1,775	⬇️ 4%	⬆️ 20%	⬆️ 37%
Seriously injured	22,807	⬇️ 5%	⬆️ 8%	⬆️ 16%
KSI¹	24,582	⬇️ 5%	⬆️ 9%	⬆️ 18%
Slightly injured	169,895	⬇️ 6%	⬆️ 13%	⬆️ 21%
All casualties	194,477	⬇️ 6%	⬆️ 12%	⬆️ 21%

1 Killed or seriously injured.

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/438040/reported-road-casualties-in-great-britain-main-results-2014-release.pdf

Stats 19 has historically shown a consistent fall in the number of casualties, directionally consistent with the reduction in TPPD frequency.

However, in the 12 months to the end of 2014 there has been a 4% increase in the number of casualties over and above the 2% increase that might have been expected due to increased traffic volumes. The vulnerable user groups (pedestrians, pedal cyclists and motorcyclists) all account for disproportionately more casualties than would be expected given the distance travelled.

This may be related to reported increases in cycling – e.g. a 12% increase in Cycle to Work scheme in 2014 (c.f. 16% in 2013 and 8% in 2012, source: Cycle To Work Alliance), although in London deaths and serious injuries to cyclists are down despite a 60% increase post 2008 (Source: London Mayor’s Office/ TFL (June 2015), <http://www.london.gov.uk/media/mayor-press-releases/2015/06/london-cycling-now-the-highest-on-record-as-rate-of-deaths-and>)

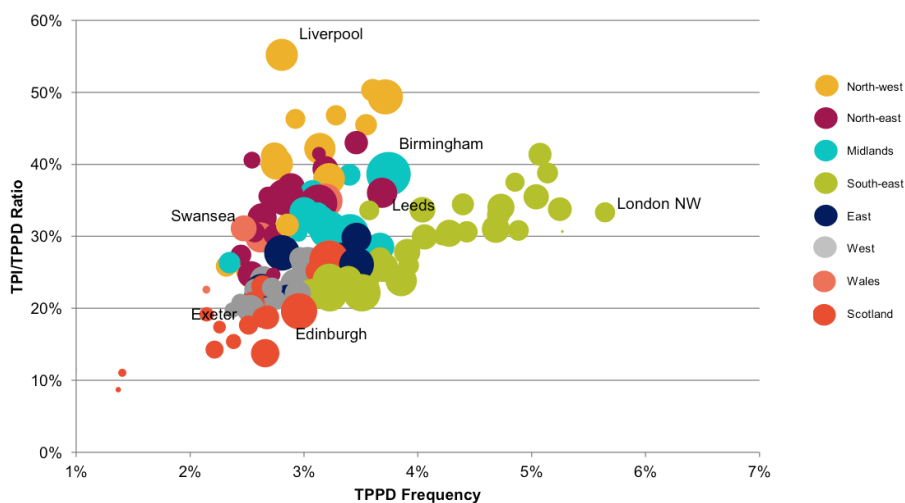


Claims experience by geography

TPI/TPPD ratio by area

By looking at the ratio of TPI/TPPD claims it is possible to obtain an indication of the propensity of road accidents involving third parties that result in TPI claims (higher ratios indicate more injury claims per accident).

2014 TPI/TPPD Ratio exc nils

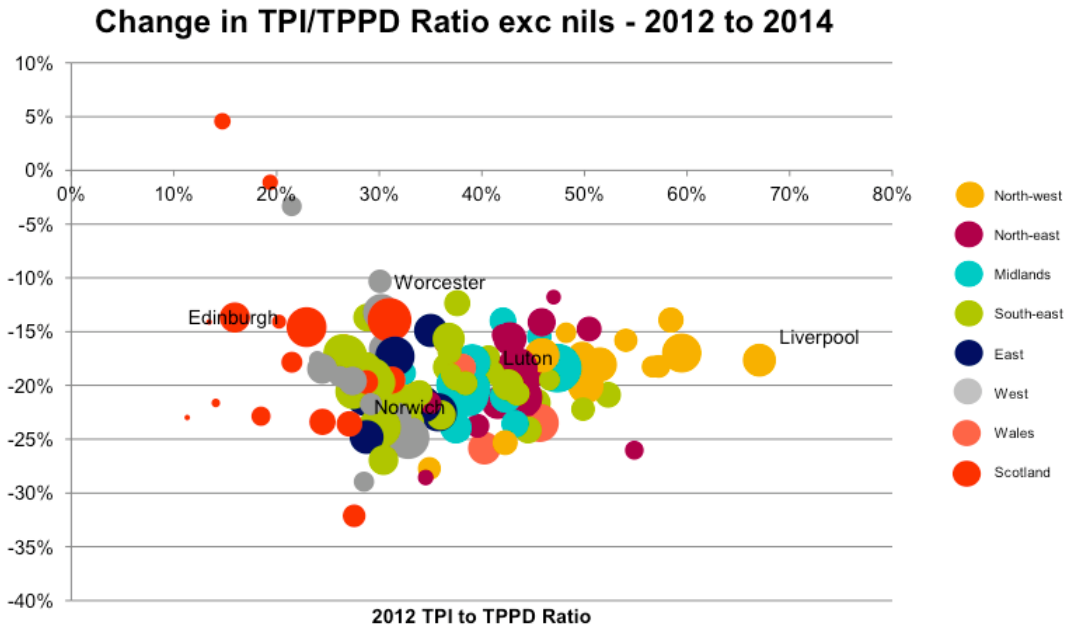


The graph plots the 2014 TPI to TPPD ratio against TPPD frequency for UK postal towns with the size of the bubble corresponding to exposure (i.e. number of vehicles in the area). Overall the picture is similar to last year's.

The North West continues to have a high TPI to TPPD ratio with Liverpool having the highest ratio in the UK with around 55% of accidents resulting in an injury claim, which compares to the national TPI to TPPD ratio sitting just above 30%. The South East (and especially London) has a high frequency of TPPD claims. Scotland and the West Country have both low TPPD frequencies and low TPI to TPPD ratios.

The TPI to TPPD ratios by region are shown below.

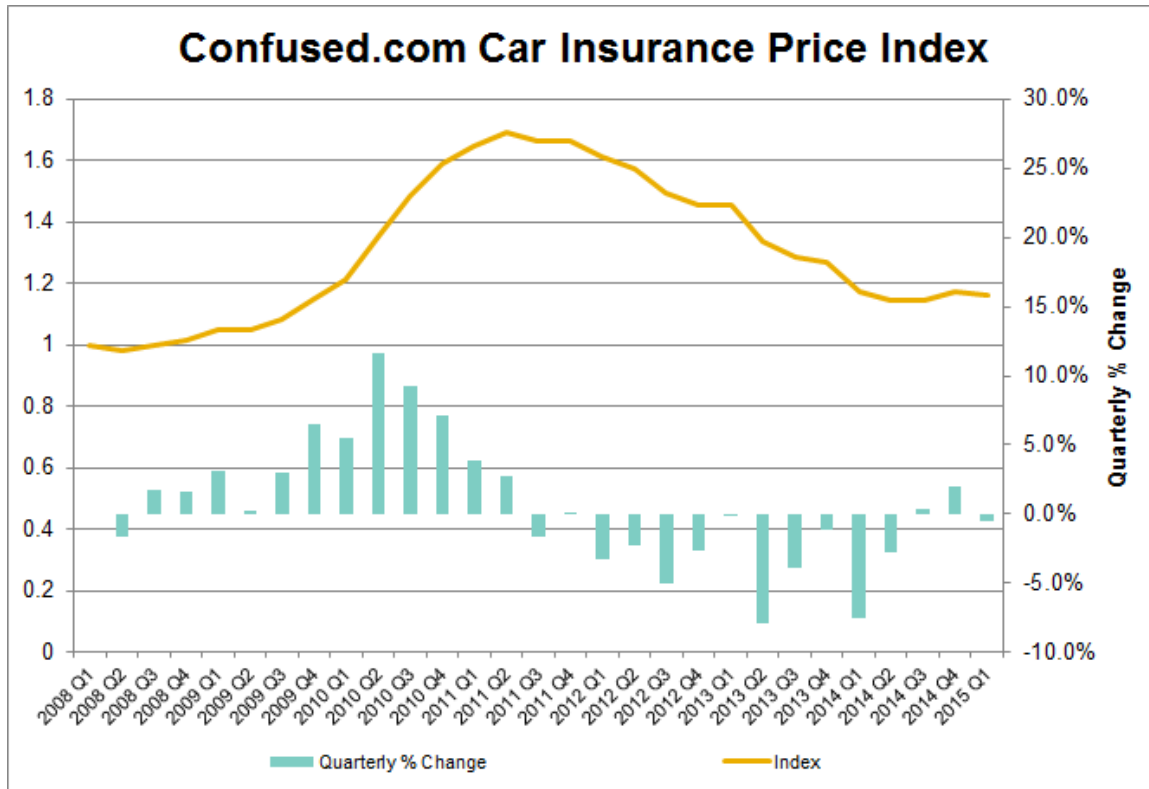
Region	TPI/TPPD
North West	43%
North East	33%
South East	30%
Midlands	32%
Wales	30%
East	26%
West	24%
Scotland	20%



The LASPO reform, in force since 1 April 2013, seems to have reduced the TPI/TPPD ratio (although this is still developing, so the ultimate shift will be less than the currently shown). It does not appear to have a greater impact on areas with high TPI to TPPD ratio to begin with.



Motor premium rate movements



Motor premium quotes rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to decrease from the end of 2011 and continued to fall sharply until 2014 Q2, reflecting increasing competition as well as negative claims inflation from the LASPO reforms.

Since then premiums have risen slightly but reduced by 0.5% in the first quarter of 2015. From 2008 to 2015 premium rates have risen by an average of 2% per year.



Claims management companies

Number of authorised personal injury claims management companies (PI CMCs) and their turnover.

Year	Number of PI CMCs	Period	Turnover of PI CMCs
2011 Q1	2,553	Dec 2009 - Nov 2010	£377m
2012 Q1	2,435	Dec 2010 - Nov 2011	£455m
2013 Q1	1,902	Dec 2011 - Nov 2012	£354m
2014 Q1	1,125	Dec 2012 - Nov 2013	£238m
2015 Q1	979	Dec 2013 - Nov 2014	£310m

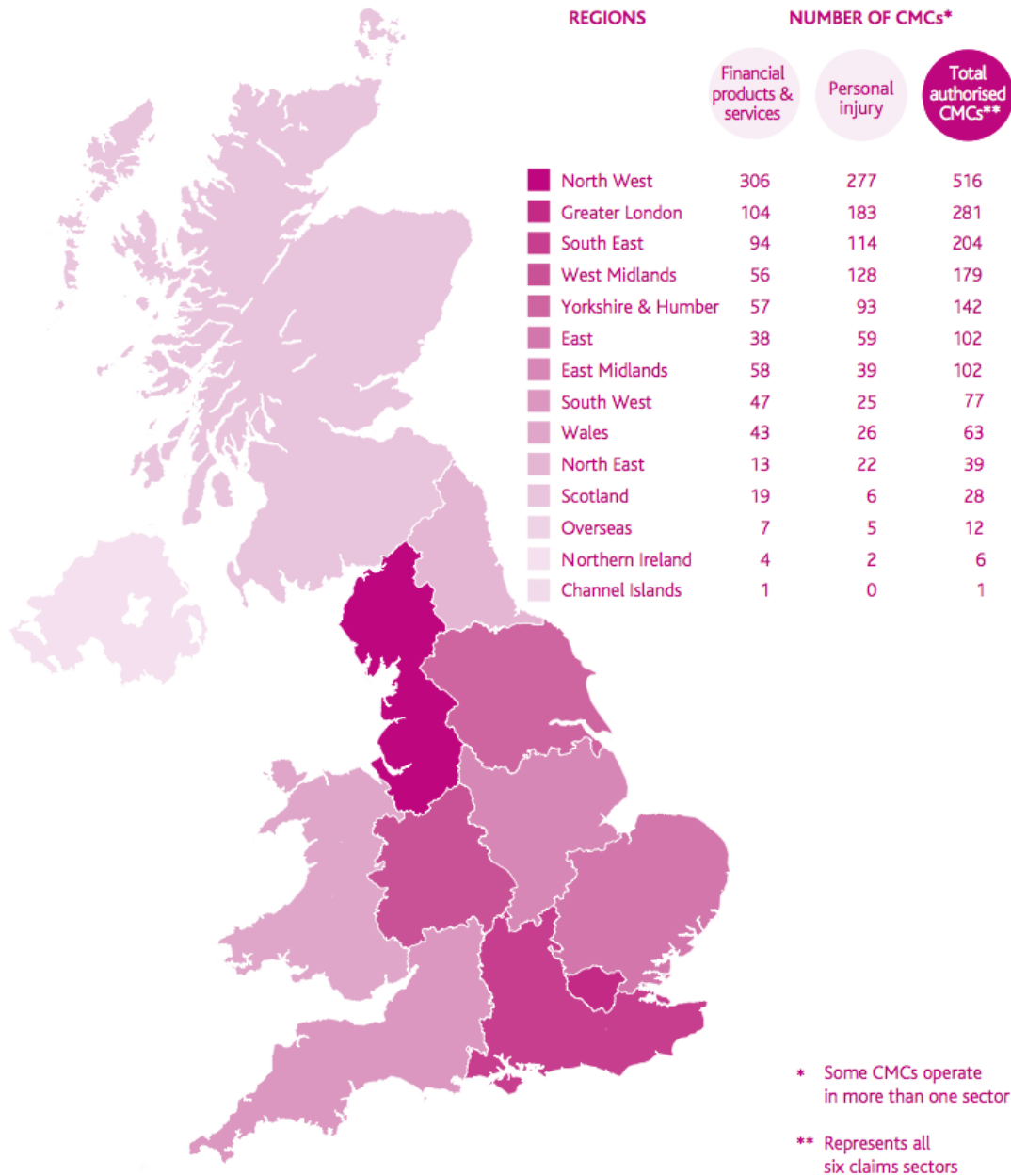
Source: <https://www.gov.uk/government/collections/claims-management-regulator-annual-reports>

The LASPO reforms introduced in April 2013 lead to a significant change in the personal injury claims market. From April 2014 to March 2015 the number of authorised PI CMCs fell by 13% to 979, following the large reductions over the previous two post-LASPO years. It appears that the market started to stabilise after adjusting to the ban on referral fees and cash incentives and the reduction of costs payable in Road Traffic Accident (RTA) cases.

After the decline in turnover in 2012 and 2013, turnover has increased this year by 30% to £310m. This is likely to be driven by increased volumes of TPI claims in combination with the largest CMCs increasing their market share and the return of smaller CMCs to the market with new LASPO-compliant business models.



CMC counts by region



Source:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/444434/CMR_Annual_Report_2015_WEB_final_.pdf

Despite the drop in CMC numbers the 2014 figures continue to show the highest concentration of CMCs remains in the North West region followed by London, the South East and West Midlands. CMC densities are lower in more rural areas.



Appendix 2: supporting background information

Background to the motor insurance industry

Motor insurance offers cover to both personal and commercial customers in the UK and is compulsory in respect of third party property damage and third party bodily injury. For personal lines, this paper focuses on comprehensive cover rather than non-comprehensive cover due to its far larger size.

The motor insurance industry lost money in each of the past four years (as per the FSA/PRA returns based on combined operating ratios). In 2014 there was a loss of 14p for every £1 of premium sold when comparing claims and expenses against premium income, excluding reserve releases. (See Deloitte Analysis of AM Best data).

Motor premiums rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to fall from the end of 2011 and continued to decrease sharply until the second half of 2014 when they started to increase again slightly.

There have been many regulatory changes aimed at helping policyholders that have impacted the motor insurance industry in recent years, such as the introduction of the MoJ portal in 2010, the introduction of LASPO in 2013 and most recently the MedCo Portal becoming operational in April 2015. These changes have also helped lead to some of the results discussed in this research. Reforms will continue to be implemented throughout 2015/16. A consultation regarding MedCo is currently taking place to assess its initial effectiveness.

Background to the Working Party

The Institute and Faculty of Actuaries commissioned a working party to investigate third party motor insurance based on some worrying inflationary trends being reported by individual insurers.

About the Institute and Faculty of Actuaries (IFoA)

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body.

Research undertaken by the IFoA is not commercial. As a learned society, research helps to fulfil two royal charter requirements; to further actuarial science and serve the public interest.

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

Members of the IFoA have a statutory role in the supervision of pension funds and life insurance companies. They also have a statutory role to provide actuarial opinions for managing agents at Lloyd's. Members are governed by the IFoA. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of actuaries in society.

The IFoA is available to provide independent expert comment to the media on a range of actuarial-related issues, including enterprise risk management, finance and investment, general insurance, health and care, life assurance, mortality, and pensions.



Disclaimer

The views expressed in this publication are those of invited contributors and not necessarily those of the Institute and Faculty of Actuaries. The Institute and Faculty of Actuaries do not endorse any of the views stated, nor any claims or representations made in this publication and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this publication. The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this publication be reproduced without the written permission of the Institute and Faculty of Actuaries.