



This is a short version of the 2014 report on third party motor claims from the Institute and Faculty of Actuaries (IFoA), analysing 2013 data

These are the interim results for the fifth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims, analysing data from across approximately 95% of the UK motor insurance industry for 2013 (01 January to 31 December 2013 unless otherwise stated). Third party motor insurance claims make up 70% of all motor insurance claims costs.

A full copy of the report is available on request. This document provides an abridged version of detailed findings for media use to support issued media releases.

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Glossary

TPI: third party injury – claims arising when a driver causes personal injury to other persons for which he/she is liable.

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

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

CMC – claims management companies. These businesses offer claim management services to assist individuals in making claims for items such as compensation. They will provide either access to 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.

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

LASPO : Legal Aid, Sentencing and Punishment of Offenders Act (in force from 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.

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

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



Key findings of the report

- 1. For the first time in 10 years a reduction in the number of third party injury claims (10%) and the TPI/TPD ratio (5%) have been recorded.** However, injury claims remain higher than third party damage claims at a ratio of 30.7%.
- 2. The average TPD claim value in 2013 was £2,100. The average TPI claim (excluding large claims) in 2013 was £8,500.**
- 3. Recent legal changes such as LASPO have had a significant impact on third party injury claims.** The initial impact seems to be a:
 - Reduction in third party injury claims frequency of 10%
 - A reduction in the number of claimants per claim (from 1.6 to 1.5, representing 4%)
 - A reduction in the average cost per claimant (from £5,000 to £4,750, representing 5%)However, we are uncertain as to what the final impact of these, and other legal changes (such as the upcoming whiplash reforms), will be.
- 4. The overall number of motor accidents and the frequency of third party damage claims both continue to fall.** Since 2009 there has been a 27% reduction in the number of damage claims. This contrasts with a decrease of 4% for injury claims over the same period.
- 5. The numbers of claims management companies (CMCs) reduced by 35% in 2013 and their turnover data shows a reduction in Motor Personal Injury claims of 33% (from £354m to £238m).** There appears to be a correlation between these drops. The number of CMCs has now halved since 2011 (in 2011 there were 2,500 CMCs).
- 6. Regions with the highest volume of CMCs continue to record the highest frequencies of third party injury claims.** London (2.2%), Liverpool (2.0%) and Manchester (2.0%), all record the highest frequency of claims. *(NB. Frequency references the numbers of claims as a percentage of the number of cars, rather than just volume. As such, frequency offers a fair comparison between more and less urban/populated areas).*
- 7. Quoted third party motor insurance premiums have fallen for the third year.** To the end of March 2014 (year-on-year) they fell by 19%. We believe that the reduction reflects an anticipation of claim frequency reductions by insurers and the impact of a very competitive market. Net of previous premium increases, motor insurance premiums have increased below the rate of inflation since 2007.



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, June 2014.

Road Usage measured in average mileage driven per vehicle

Period	Average Mileage	% Change
2003	9,279	
2004	9,085	-2.1%
2005	8,898	-2.1%
2006	8,967	0.8%
2007	8,861	-1.2%
2008	8,710	-1.7%
2009	8,668	-0.5%
2010	8,452	-2.5%
2011	8,452	-0.0%
2012	8,380	-0.9%
2013	8,368	-0.1%

Source : <https://www.gov.uk/government/organisations/department-for-transport/about/statistics>

Average car mileage per year has fallen by 10% since 2003 with the average annual reduction 1% a year. Snow in the first quarter of 2013 resulted in a reduction in mileage for this quarter. Removing this distortion would suggest an increase of 0.7% in average mileage in 2013 and suggests that an increasing trend in mileage per vehicle may occur in 2014. The change in average annual mileage appears to be weakly aligned with change in petrol prices.



Latest development TPD claims

The table shows the *changes* in the frequency of TPD claims and *changes* in the settled at nil TPD rates.

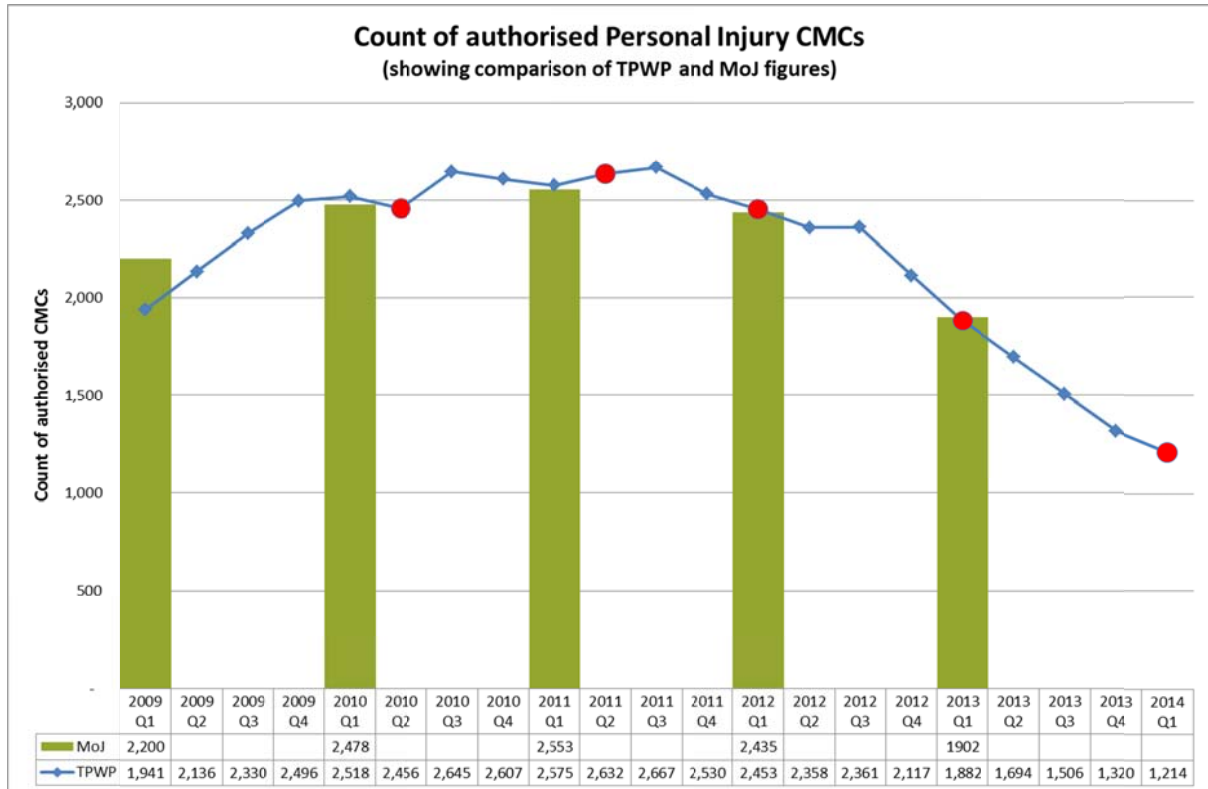
Period	Frequency	Settled at Nil
2008-2009	-1.0%	-3.3%
2009-2010	-5.3%	-1.5%
2010-2011	-13.5%	2.3%
2011-2012	-5.7%	7.9%
2012-2013	-5.6%	16.4%
Average (2008 – 2013)	-6.3%	4.1%

TPD frequency continues to fall with reductions of over 5% in both 2012 and 2013 with frequency falling by 27% since 2009. This is partly a result of the reduced mileage per vehicle but TPD 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.

Incurred claim severity inflation has ranged from 3% to 7% from 2008 to 2012. This has been slowing in 2013 with initial indications showing inflation between -1% and 3% in 2013.



Claims management companies



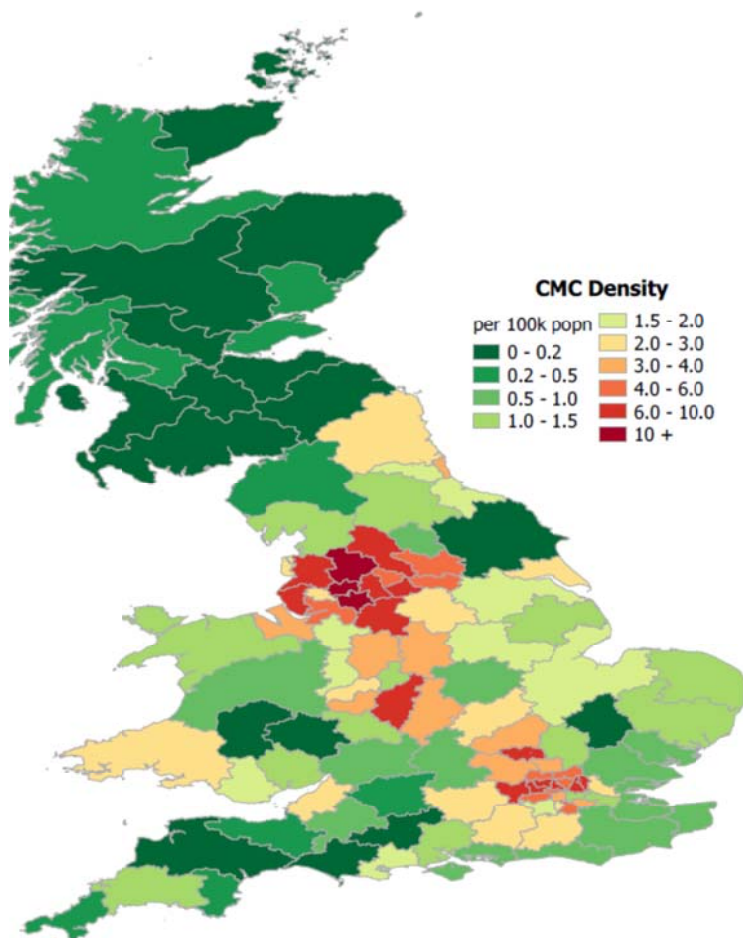
Source : <http://www.justice.gov.uk/claims-regulation>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/337975/claims-management-regulation-annual-report-13-14.pdf

The number of authorised CMCs decreased to 1,214, a reduction of 35% in the year to 04 April 2014. This compares to a drop of 24% in the previous year. The number of CMCs has now halved from its peak of more than 2,500 in 2011 and now stands at levels last seen at the end of 2007.



CMC Counts (for top 15 postcode areas)



Source : <https://www.claimsregulation.gov.uk/>

<http://www.justice.gov.uk/claims-regulation>

CMC density is the number of CMCs per 100,000 people living in an area. The average CMC density across the UK is 2.0 CMCs per 100,000 people. Despite the drop in CMC numbers the 2014 figures continue to show that the North West, West Yorkshire, West Midlands and London have the highest concentration of CMCs. CMC densities are lower in more rural areas.

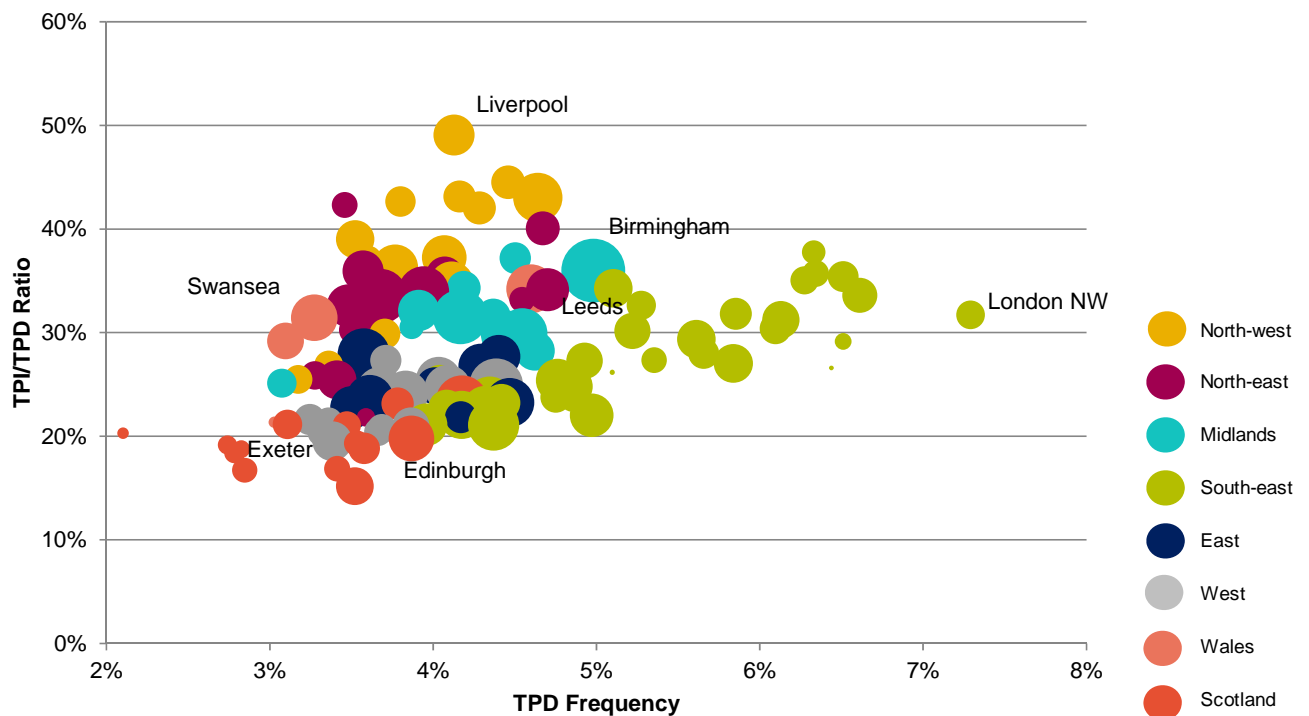


Claims Experience by Geography

TPI/TPD Ratio By Area

By looking at the ratio of TPI/TPD 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).

TPI/TPD Ratio



The graph plots the 2013 TPI to TPD ratio against TPD frequency for UK postal towns with the size of the bubble corresponding to exposure (ie number of vehicles in the area).

The North-West tends to have a high TPI to TPD ratio with Liverpool having the highest ratio in the UK. The south-east (and especially London) has a high frequency of TPD claims.

Scotland and the West Country have low TPD frequency and low TPI to TPD ratio.

The overall picture is similar to that observed in 2011 when this exercise was last carried out.



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

Period	Latest Position	% Change
2008	1.1%	
2009	1.1%	7.9%
2010	1.2%	4.7%
2011	1.2%	0.9%
2012	1.2%	1.4%
2013	1.0%	-10.1%
Average 2008 to 2013		0.8%

The frequency of TPI claims has fallen by 10% in 2013 with the current levels of TPI frequency now between 2008 and 2009 levels. This reduction in frequency for 2013 is largely seen to be a result of the LASPO reforms.

The late reporting of claims seen for the 2010 accident year, which was often attributed to claim farming activities, has not been observed for more recent accident periods.



Annual percentage change in severity of claims – TPI

Period	% change in incurred severity	% change in settled severity
2009 H1*	9.5%	11.2%
2009 H2	7%	8.7%
2010 H1	2.5%	4%
2010 H2	-2.3%	-0.5%
2011 H1	0.8%	1.3%
2011 H2	3.7%	5.8%
2012 H1	1.5%	4.2%
2012 H2	2.4%	4%
2013 H1	-1.3%	-3.9%
2013 H2	-7.6%	-25.8%

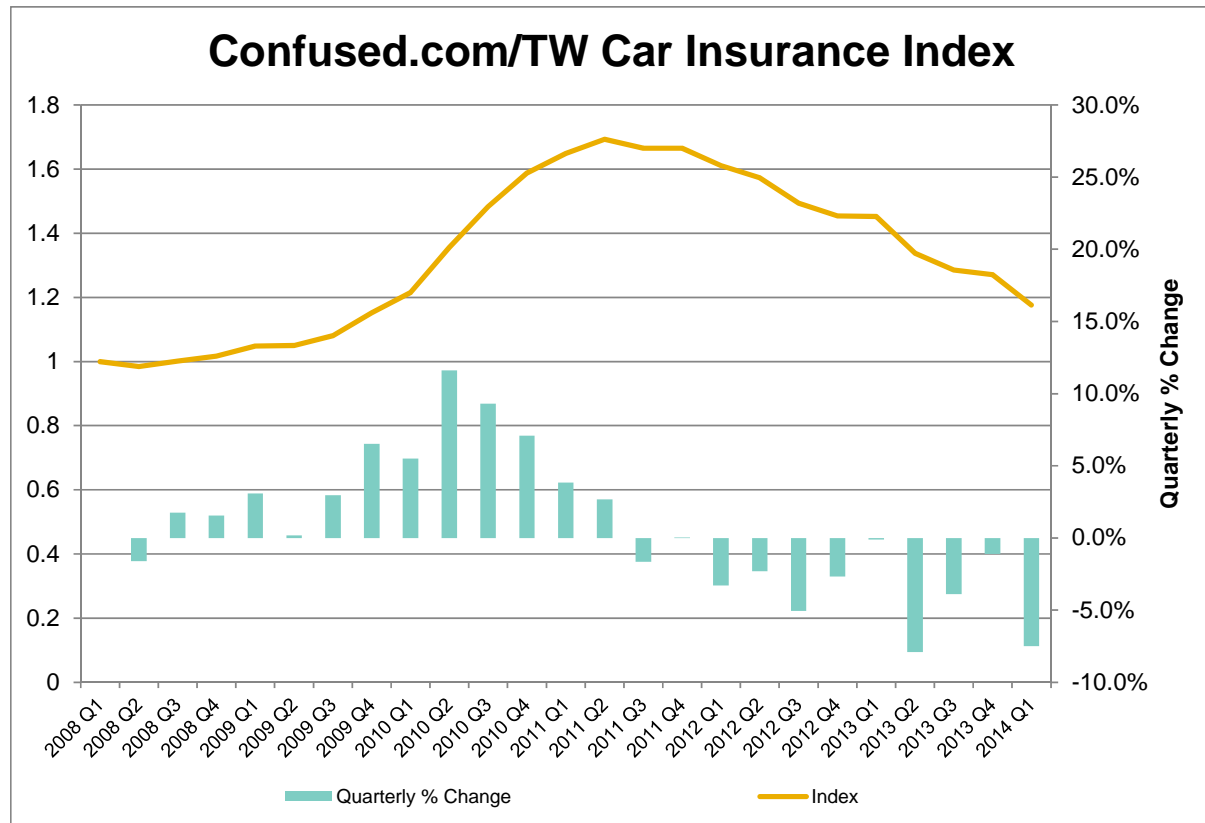
*** H1 represents January – June claims, H2 represents July- December claims**

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.

Incurred average cost has fallen by over 4% for the full 2013 accident year with a significant drop in 2013 H2 potentially as a result of LASPO (which had less impact in 2013 H1). For the impact of settled average costs in 2013 H2 where there has been a very large 25% reduction it should be noted that only 11% of claims have yet been settled for this period.



Confused.com/Towers Watson car insurance index



Motor premium quotes rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to fall from the end of 2011 with premiums 9.8% lower at the end of March 2013 than a year earlier and this has been followed by a further 19% reduction by the end of March 2014.

The recent premium reductions are a result of increasing competition together with the insurance companies' anticipations of the negative claims inflation arising principally from the LASPO reforms.

These recent reductions in average claim sizes and frequency of TPI claims are more than offset by the reductions in premiums.



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 its far larger size.

The motor insurance industry lost money in 2011, 2012 and 2013 (as per the FSA/PRA returns based on combined operating ratios). In 2013 there was a loss of 9p 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 with premiums 9.8% lower at the end of March 2013 than a year earlier and this has been followed by a further 19% reduction by the end of March 2014.

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 and the introduction of LASPO in 2013. There are also future proposed Whiplash initiatives and Competition and Market Authority proposals on Credit Hire/repair. These changes have also helped lead to some of the results discussed in this research, and are a continuing source of uncertainty within the motor insurance industry.

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.

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

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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.



Institute and Faculty of Actuaries

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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.

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