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Update from the Third Party Working Party

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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.

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Third Party Working Party

- Fourth iteration of the Institute and Faculty of Actuaries Third Party Working Party (TPWP), which investigates third party motor claims (injury and property damage)
- Scope now includes private car comprehensive (PCC) and commercial motor business
- Greater volumes of data than ever before:
  - Data representing earned premium for accident year 2012 of:
    - £9.1 billion for private car comprehensive
    - £1.6 billion for commercial vehicle fleet
    - £1.2 billion for commercial vehicle non-fleet
  - An increase in the number of contributors since last year

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Acknowledgements

Working Party:

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- Ben Train

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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 one new insurer contributor; additional data from some contributors (generally relating to more accounts); and, in some cases, less data from other contributors.
- In addition, 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 improvements (but not always) 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.
- Related to the above two points, the TPWP notes that, with regards to the consistency of claim statistic definitions, the data received for this year was generally of higher quality than has been the case in previous reviews.
- 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.

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Introduction

- This presentation summarises the findings of the fourth TPWP analysis of third party property damage (“TPD”) and bodily injury (“TPI”) claims.
- Initial results were presented in June covering analysis of TPD and capped TPI triangular data for Private Car Comprehensive, Commercial Vehicle Fleet and Commercial Vehicle Non-Fleet.
- This presentation also includes additional analysis split by claim size for Private Car Comprehensive data only.
- The TPD claims have been analysed in five layers, given in 2010 money, indexed at 7% pa for other accident years
  - 0 to £1k
  - £1k to £10k
  - £10k to £20k
  - £20k to 50k
  - £50k +
- The bodily injury claims have been analysed in 11 layers , given in 2010 money, indexed at 7% pa for other accident years
  - 0 to £1k
  - £1k to £10k
  - £10k to £20k
  - £20k to 50k
  - £50k to £100k
  - £100k to £250k
  - £250k to £500k
  - £500k to £1m
  - £1m to £2m
  - £2m to £5m
  - £5m+
- Bodily injury claims have further been split by head of damage (third party legal fees, damages, other)

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Introduction
Graph terminology

- When presenting results of a layered analysis, there is a choice in how to partition the claim amounts:
  - Type 1: In which claims that exhaust the width of a particular layer contribute an amount equal to the layer's width
  - Type 2: In which claims that exhaust the width of a particular layer are removed from that layer, and the full claim amounts "from ground up" ("FGU") are allocated to the next layer up

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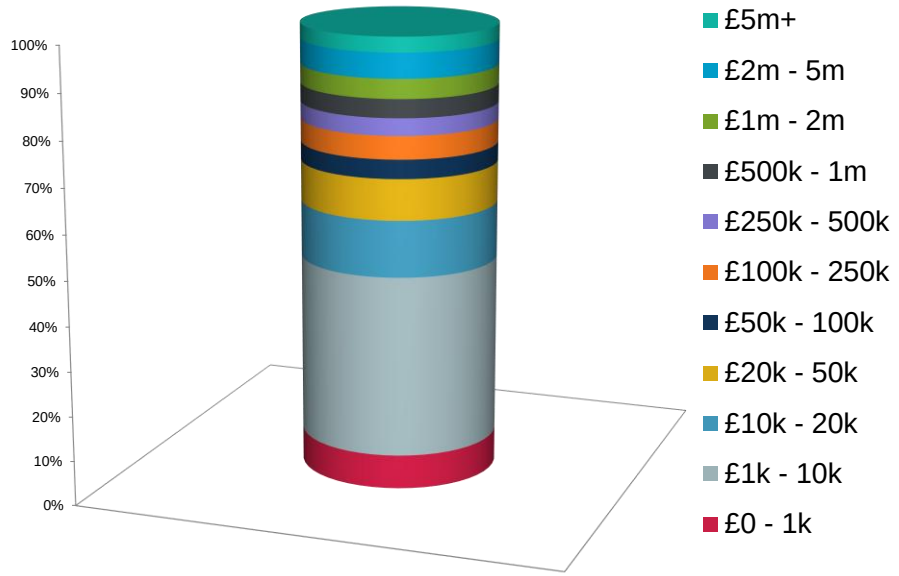
Introduction
Graph terminology

- Using the Type 1 definition, a claim of £15,000 from accident year 2010 contributes:
  - £1k to Layer 1 (0 – £1k)
  - £9k to Layer 2 (£1k – £10k)
  - £5k to Layer 3 (£10k – £20k)
  - £0 to all other layers
- The chart shows the projected total TPI burning cost split by layer using Type 1 definition.
- In this presentation, any charts which use this definition will be accompanied with a version of this graphic. Shading represents the portion(s) of the claim that is relevant to the given statistic.



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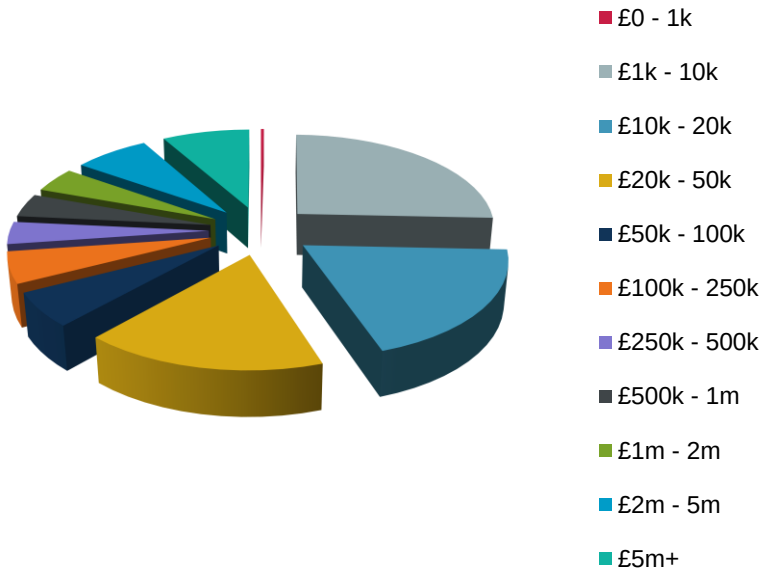
Introduction
Graph terminology

- Using the Type 2 definition, a claim of £15,000 from accident year 2010 contributes:
  - £15k to Layer 3 (£10k – £20k)
  - £0 to all other layers
- The chart shows the projected total TPI burning cost split by layer using Type 2 definition.
- In this presentation, any charts which use this definition will be accompanied with a version of this graphic. Shading represents the portion(s) of the claim that is relevant to the given statistic.



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Introduction
Methodology

- TPD claims have been projected by layer on a quarterly accident period basis and monthly development basis for all layers.
- For TPI, the contributors have been modelled split into three groups based on their excess incurred development.
  1. Companies with development over 120% at 24 months
  2. Companies with development between 80% and 120% at 24 months
  3. Companies with development less than 80% at 24 months
- All groups have at least three companies in them and over £1bn of premium in 2012.
- This allows for shifting proportions of business between companies with different case reserving philosophies.
- For TPI layers up to an including £100k to £250k the data has been projected on a quarterly accident period basis and monthly development basis and for higher layers on an annual accident period basis and monthly development basis.
- For TPD the projections were based on an equal weighting of paid and incurred modelling. For TPI the projections were based on incurred data with the exception of the three lowest layers where paid data was used if there was evidence of changes in case reserving.

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Introduction
Methodology

- The Head of Damage analysis uses the following definitions to split the data into layers:
  - Only settled claims are used.
  - The heads of damage on each claim are assigned to the layer containing the total settled cost of the claim (indexed at 7% to 2010).
  - For example, if a claim settles at £75k then each head of damage will be allocated to the £50k to £100k layer and nothing will be allocated to any other layer – as with a Type 2 definition.

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Scene Setting
Summary

- Motor environment is evolving fast: but with tailwinds as well as headwinds from **insurer** perspective:

  - Gender Directive
  - Solvency II
  - Low investment returns
  - Fuel prices and the cost of motoring
  - Market premium decreases(1)
  - CORs above 100%
  - PPOs and review of Ogden discount rate
  - MoJ – extension of process, review of fees
  - LASPO Act
  - Whiplash consultation, increase to SCT
  - OFT enquiry on credit hire / repair
  - Simmons v Castle – general damages up 10%

- FSA returns for 2012 show a net COR of 105% and a loss ratio of 76% for 2012. (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 TPD. (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/TW Insurance Price Index shows PCC rates dropped by 15.0% in 12 months to end June 2013
2. Deloitte Analysis of AM Best data
3. http://www.oft.gov.uk/shared_oft/market-studies/private-motor-insurance/Motor_Insurance.pdf

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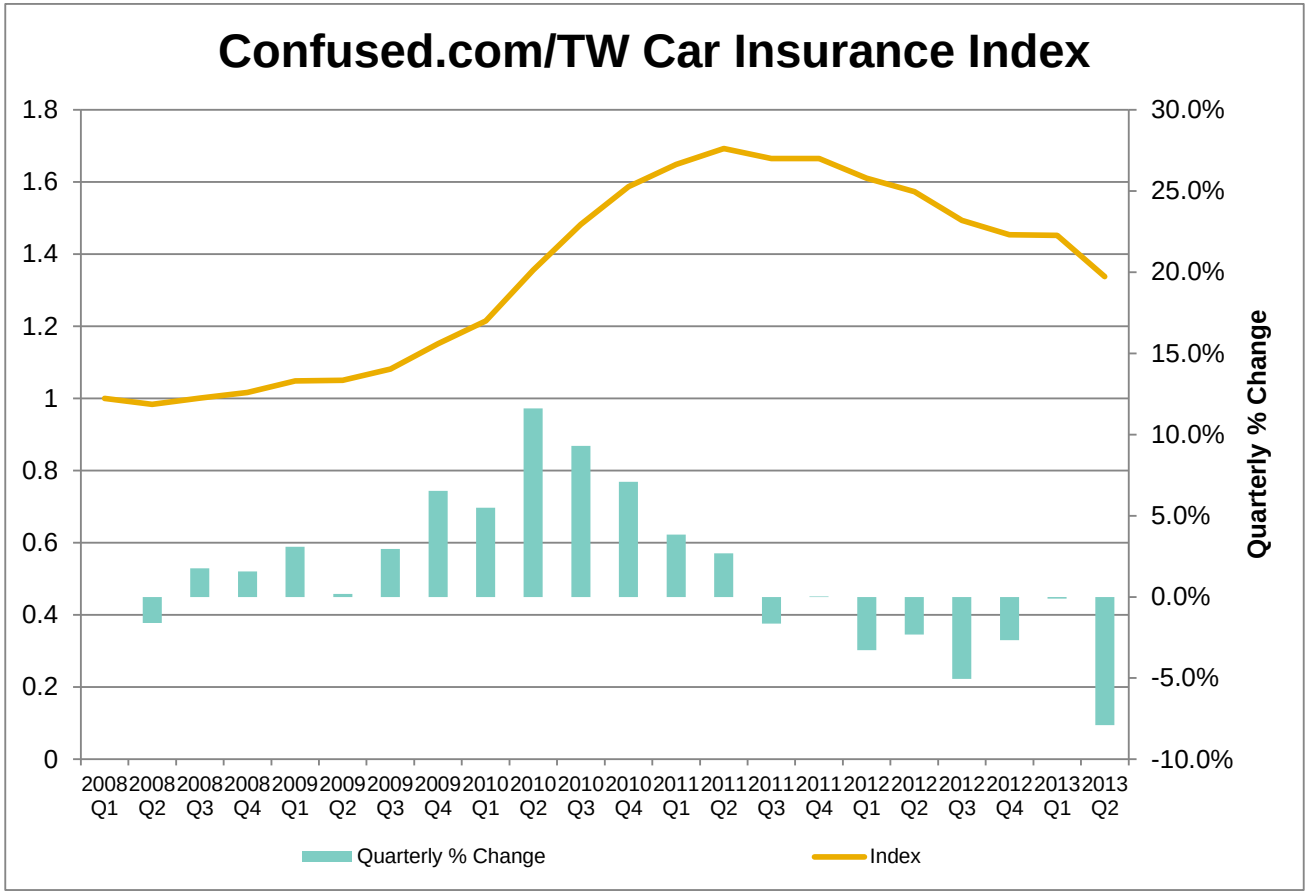
Scene Setting
Motor Premium Rate Movements



- The Confused.com/ Towers Watson index shows that PCC premiums began to fall at the end of 2011 and fell for each quarter in 2012.
- Premium levels remained unchanged in the first quarter of 2013 but fell by 7.9% in the second quarter of 2013.
- Premiums are 15.0% lower at the end of 2013 Q2 than a year earlier and 21.0% lower than two years ago.

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Property Damage
Conclusions from June results

	PCC	Fleet	Non-Fleet
Frequency Inflation	• 2012 **TPD frequency continues to drop** but at lower rate than for previous accident years (-1.6% from 2011); but with signs in Q4 that the drops may have ended. • Reductions in frequency not explained by changes in miles driven	• TPD frequency has **fallen by 2%** in 2012 • TPD frequency is higher than for PCC and without the same deflation post 2009	• TPD frequency **fell by 3%** in 2012 • TPD shows overall levels of frequency between PCC & Fleet. Generally more deflationary than PCC or Fleet recently
Severity Inflation	• TPD 2012 incurred severity inflation **at 0.6%** whereas settled inflation is at **10%**.	• Incurred TPD severity inflation **is 5.5%** in 2012. • TPD shows slightly higher overall level than PCC, with less favourable run off.	• TPD incurred severity **fell 2.3%** in 2012. • TPD shows higher costs than PCC or Fleet. Inflation is in line with PCC (lower than Fleet); but with unusual downturn in 2012.

- Annual percentage changes quoted give the latest position of the relevant accident year divided by the equivalent position of the previous year (for example, the 2012 accident year position as at 31 December 2012 divided by the 2011 accident year position as at 31 December 2011).
- The annual percentage changes could be distorted by shifts in development pattern and hence the 'ultimate' inflation rates could be different from presented.

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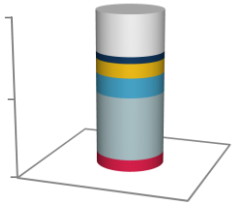
Property Damage

Projected Results



Projected Ultimate TPD Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate TPD Claim Frequency (Non-nil claims per million vehicle years)	Ultimate TPD Claim Severity (£)	Ultimate TPD Burning Cost (£)	Year-on-Year Change in Frequency (% pa)	Year-on-Year Change in Severity (% pa)	Year-on-Year Change in Burning Cost (% pa)
2004	10.3	43,126	1,225	52.8			
2005	11.4	48,332	1,234	59.6	12.1%	0.7%	12.9%
2006	13.1	44,086	1,413	62.3	-8.8%	14.5%	4.5%
2007	13.4	44,032	1,597	70.3	-0.1%	13.0%	12.9%
2008	13.5	42,132	1,708	72.0	-4.3%	7.0%	2.4%
2009	14.2	40,657	1,779	72.3	-3.5%	4.2%	0.5%
2010	14.6	37,968	1,890	71.7	-6.6%	6.2%	-0.8%
2011	14.3	32,932	2,066	68.1	-13.3%	9.4%	-5.2%
2012	13.7	32,227	2,236	72.1	-2.1%	8.2%	5.9%
Average					-3.6%	7.8%	4.0%

- Year-on-year reduction in non-nil claim frequency since 2007 with a significant 13.3% reduction in 2011. Frequency has fallen by 2.1% in 2012. These trends are very similar to the results from June.
- **Severity inflation has averaged 8% from 2004 with inflation in 2011 and 2012 slightly higher than the long term average. This is more consistent with the settled claim inflation observed in June as opposed to the incurred inflation of 0.6%.**
- Burning cost inflation has increased in 2012 following reductions in 2010 and 2011.

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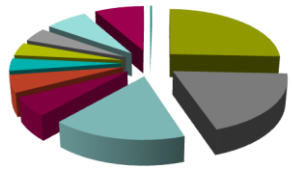

Property Damage

Projected Results (Type 2)

Private Car Comprehensive TPD Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£0 - 1k	£1k - 10k	£10k - 20k	£20k - 50k	> £50k
Frequency exc Nils (finishing in layer) (claims per million policy years)					
2004	21,886	20,245	802	172	22
2005	25,657	21,665	815	174	20
2006	22,432	20,629	822	186	16
2007	21,288	21,660	869	198	18
2008	19,758	21,384	808	166	16
2009	18,830	20,965	710	141	12
2010	17,132	20,086	622	119	8
2011	14,135	18,149	536	104	8
2012	13,117	18,484	522	97	8
Average Cost (£)					
2004	188	1,834	8,901	18,040	62,382
2005	214	1,936	9,484	19,404	53,988
2006	242	2,109	10,178	20,751	71,010
2007	269	2,289	10,892	22,404	61,065
2008	298	2,420	11,631	23,440	66,048
2009	339	2,519	12,453	25,014	66,921
2010	384	2,647	13,301	26,365	70,031
2011	461	2,777	14,192	27,948	76,903
2012	519	2,914	15,128	29,572	81,573
Burning Cost (£)					
2004	4.1	37.1	7.1	3.1	1.4
2005	5.5	42.0	7.7	3.4	1.1
2006	5.4	43.5	8.4	3.9	1.1
2007	5.7	49.6	9.5	4.4	1.1
2008	5.9	51.7	9.4	3.9	1.0
2009	6.4	52.8	8.8	3.5	0.8
2010	6.6	53.2	8.3	3.1	0.6
2011	6.5	50.4	7.6	2.9	0.6
2012	6.8	53.9	7.9	2.9	0.6

- TPD cost is dominated by claims between £1k and £10k which account for 75% of the total TPD cost.
- Around 40% of claims are below £1k in 2012.
- Of the severity inflation in 2011 of 9.4%, 2.7% can be attributed to a shift in the % of claims within layers (in particular from claims <£1k to £1k to £10k) and 6.5% to inflation within layers.
- For 2012 the equivalent figures are 2.2% and 5.9%.

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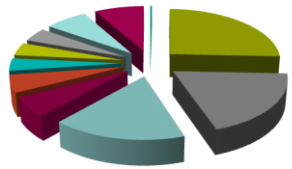

Property Damage

Projected Results (Type 2)

Private Car Comprehensive TPD Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£0 - 1k	£1k - 10k	£10k - 20k	£20k - 50k	> £50k
Frequency % Change					
2004	4.3%	0.5%	-0.5%	-1.5%	2.4%
2005	17.2%	7.0%	1.7%	1.3%	-8.9%
2006	-12.6%	-4.8%	0.8%	7.1%	-20.0%
2007	-5.1%	5.0%	5.6%	6.2%	14.7%
2008	-7.2%	-1.3%	-7.0%	-16.0%	-15.2%
2009	-4.7%	-2.0%	-12.2%	-15.1%	-24.6%
2010	-9.0%	-4.2%	-12.4%	-15.7%	-28.8%
2011	-17.5%	-9.6%	-13.7%	-12.7%	-1.8%
2012	-7.2%	1.8%	-2.7%	-6.9%	-7.4%
Average Cost % Change					
2004	19.7%	6.7%	6.9%	7.7%	23.1%
2005	13.8%	5.6%	6.6%	7.6%	-13.5%
2006	13.0%	8.9%	7.3%	6.9%	31.5%
2007	11.0%	8.6%	7.0%	8.0%	-14.0%
2008	11.0%	5.7%	6.8%	4.6%	8.2%
2009	13.5%	4.1%	7.1%	6.7%	1.3%
2010	13.5%	5.1%	6.8%	5.4%	4.6%
2011	19.8%	4.9%	6.7%	6.0%	9.8%
2012	12.8%	4.9%	6.6%	5.8%	6.1%
Burning Cost % Change					
2004	24.9%	7.3%	6.4%	6.1%	26.1%
2005	33.4%	13.0%	8.4%	9.0%	-21.1%
2006	-1.2%	3.7%	8.2%	14.5%	5.2%
2007	5.3%	14.0%	13.1%	14.6%	-1.4%
2008	3.0%	4.4%	-0.6%	-12.1%	-8.3%
2009	8.1%	2.1%	-6.0%	-9.4%	-23.6%
2010	3.3%	0.7%	-6.4%	-11.2%	-25.5%
2011	-1.1%	-5.2%	-8.0%	-7.4%	7.9%
2012	4.6%	6.9%	3.7%	-1.5%	-1.7%

- Average cost inflation is high in the lowest layer resulting in more claims falling into the £1k to £10k layer.

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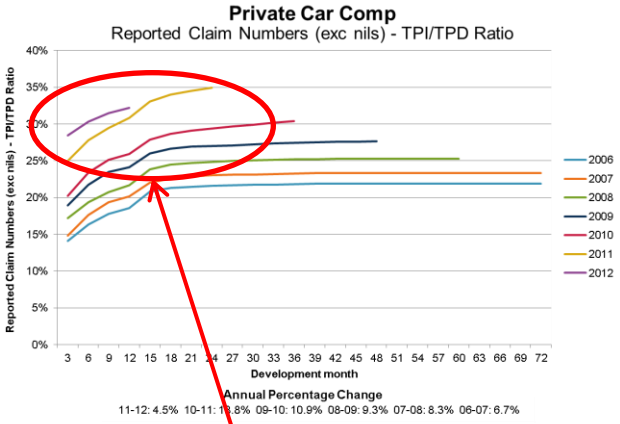
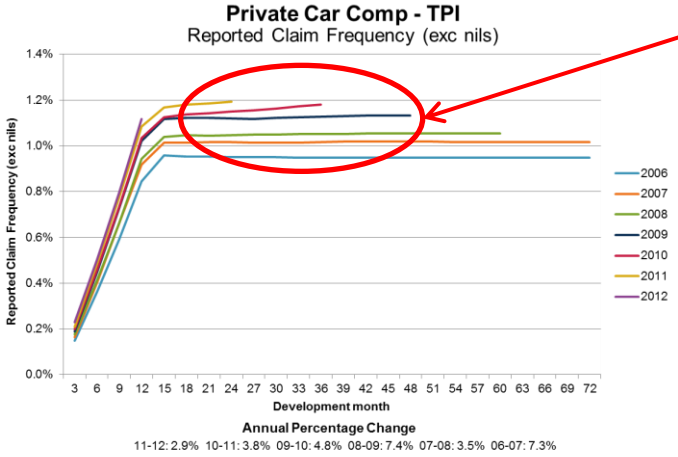
Capped bodily injury

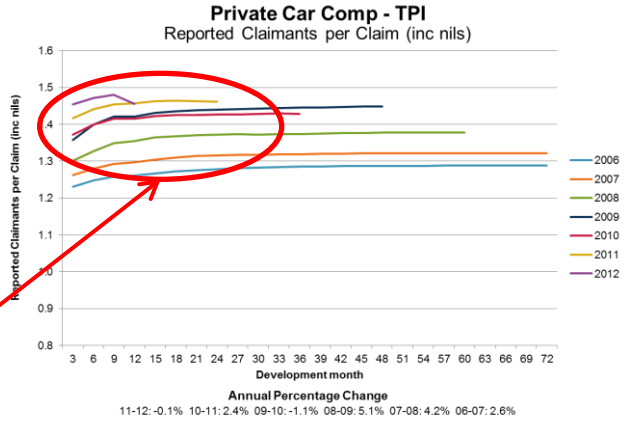
Conclusions from June results



TPI to TPD ratios continue to increase with a 19% increase in 2011 and 4.5% increase in 2012.



Late deterioration in claim frequency for 2010. Evidence of claims farming?



Increase in claimants per claim was an inflationary driver in earlier years. However, this has been significantly lower post MOJ.

Note: TPI claims have been "capped" at £50,000 (for accidents in 1999, indexed at 7% per annum for other accident years). This is a slightly different cap from the layered analysis.

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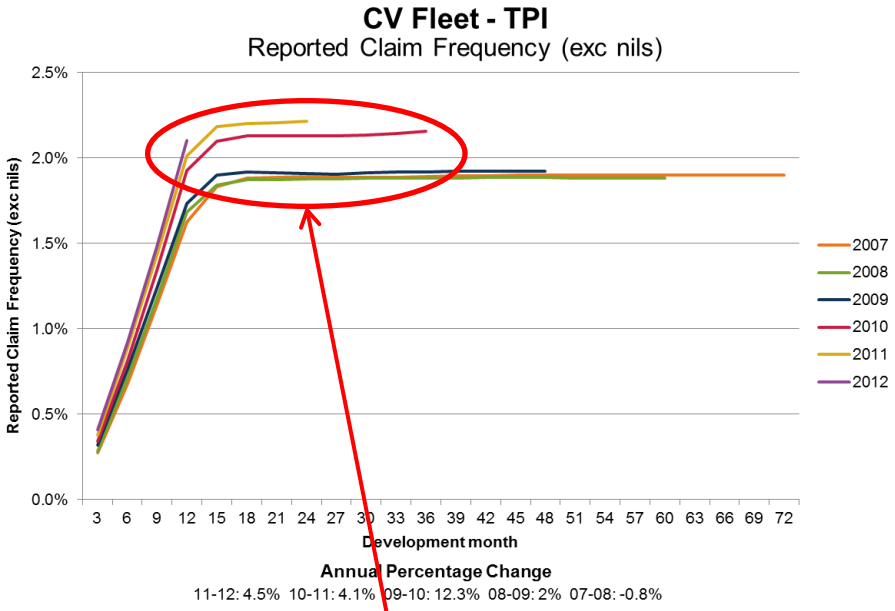
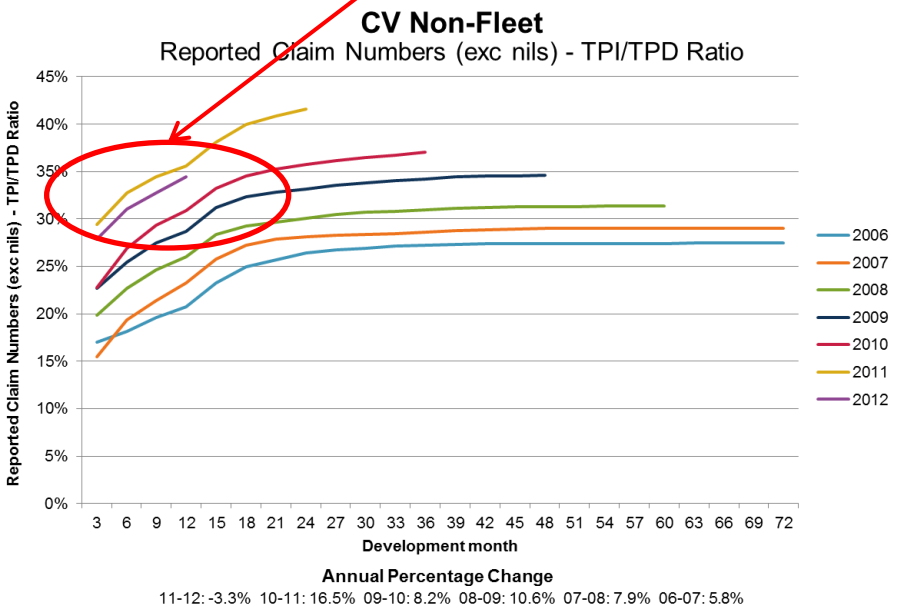
Capped bodily injury

Conclusions from June results



Commercial Vehicles (Fleet and Non Fleet) have not escaped the inflationary frequency trends seen in Private Car Comprehensive TPI capped

Commercial vehicle non-fleet shows unusual reduction in TPI/TPD and frequency in 2012



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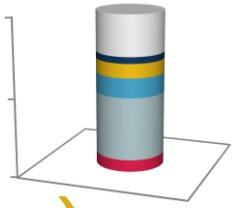
Capped bodily injury

Projected Results (Type 1 – incl capped component of excess claims)



Projected Ultimate Capped TPI Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate TPI Capped Claim Frequency (Non-nil claims per million vehicle years)	Ultimate TPI Capped Claim Severity (£)	Ultimate TPI Capped Burning Cost (£)	Year-on-Year Change in Frequency (% pa)	Year-on-Year Change in Severity (% pa)	Year-on-Year Change in Burning Cost (% pa)
2004	10.6	8,887	7,112	63.2			
2005	11.7	8,797	7,094	62.4	-1.0%	-0.3%	-1.3%
2006	13.5	8,997	7,493	67.4	2.3%	5.6%	8.0%
2007	13.8	9,868	7,733	76.3	9.7%	3.2%	13.2%
2008	14.8	10,366	8,411	87.2	5.0%	8.8%	14.2%
2009	15.5	11,207	9,228	103.4	8.1%	9.7%	18.6%
2010	15.8	11,796	9,326	110.0	5.2%	1.1%	6.4%
2011	15.1	12,017	9,845	118.3	1.9%	5.6%	7.5%
2012	14.4	12,419	10,415	129.3	3.3%	5.8%	9.3%
Average					4.3%	4.9%	9.4%

Note : Bodily Injury claims are capped at £100k in 2010 money, indexed at 7% pa.

- Burning cost inflation post MoJ is in the range 6-9% whereas from 2007 to 2009 it was in the range 13% to 19%.
- 2012 is estimated to have frequency inflation of 3.3% and severity inflation of 5.8%. The 2012 severity is estimated to be above £10,000 for the first time.

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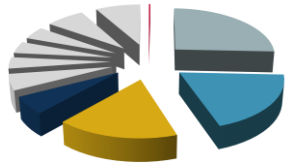
Capped bodily injury
Projected Results (Type 2)



Private Car Comprehensive Capped TPI Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£0 - 1k	£1k - 10k	£10k - 20k	£20k - 50k	£50k to £100k
Frequency exc Nils (finishing in layer) (claims per million policy years)					
2004	1,003	5,094	1,828	721	135
2005	1,066	5,231	1,625	659	119
2006	1,016	5,430	1,671	677	116
2007	1,098	6,093	1,762	704	122
2008	959	6,499	1,898	802	121
2009	870	7,038	2,129	950	131
2010	803	7,804	2,106	883	122
2011	786	8,079	2,087	869	119
2012	765	8,502	2,112	844	118
Average Cost (£)					
2004	267	3,749	9,179	19,355	45,297
2005	270	3,832	9,776	20,640	48,149
2006	280	4,057	10,471	22,069	51,790
2007	304	4,220	11,197	23,482	55,279
2008	322	4,496	12,021	25,059	58,931
2009	349	4,799	12,919	26,639	62,972
2010	470	5,075	13,726	28,443	67,733
2011	644	5,387	14,758	30,537	73,318
2012	828	5,869	15,833	32,316	78,229
Burning Cost (£)					
2004	0.3	19.1	16.8	14.0	6.1
2005	0.3	20.0	15.9	13.6	5.7
2006	0.3	22.0	17.5	14.9	6.0
2007	0.3	25.7	19.7	16.5	6.8
2008	0.3	29.2	22.8	20.1	7.1
2009	0.3	33.8	27.5	25.3	8.2
2010	0.4	39.6	28.9	25.1	8.3
2011	0.5	43.5	30.8	26.5	8.8
2012	0.6	49.9	33.4	27.3	9.2

Note that the KPIs in this table have not been indexed to 2010 money, only the band limits have. For example, the £43.5 burning cost for 2011 in the £1k to £10k layer is in 2011 money for claims between £1.07k and £10.7k.

- Around 70% of claims are estimated to be between £1k and £10k. These claims account for approximately 40% of the total capped bodily injury cost.
- £0 to £1k layer has experienced significant inflation, with an average cost in 2012 approximately £800. This inflation is driven by an increasing proportion of these claims having a legal fee element. LASPO may reverse this trend.

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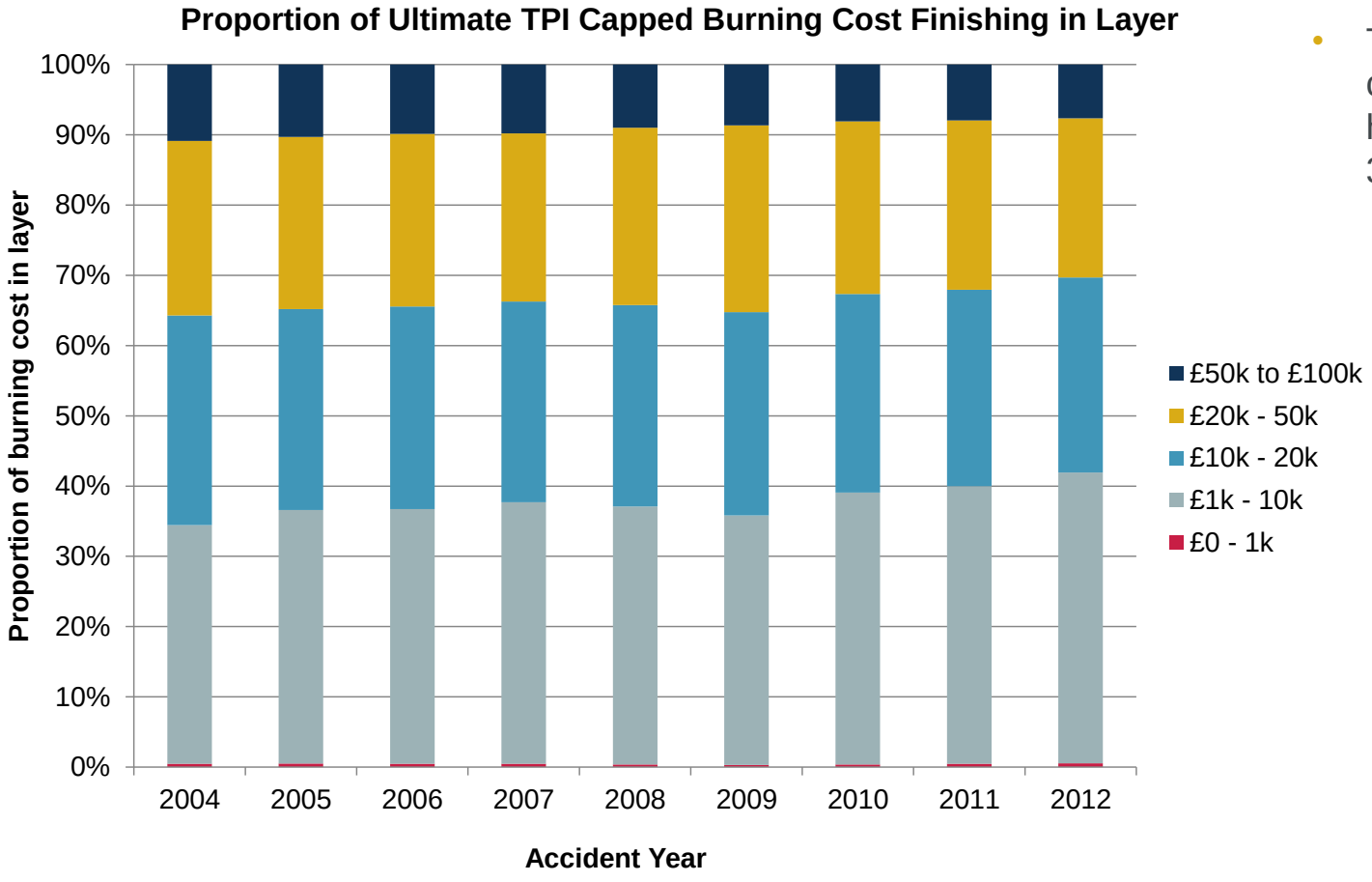
Capped bodily injury
Projected Results (Type 2)



- The proportion of cost for claims between £1k and £10k has increased from below 35% in 2004 to 40% in 2012.

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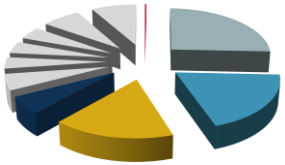
Capped bodily injury
Projected Results (Type 2)



Private Car Comprehensive Capped TPI Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£0 - 1k	£1k - 10k	£10k - 20k	£20k - 50k	£50k to £100k
Change in Frequency exc Nils (finishing in layer)					
2004	13.7%	13.3%	-6.0%	-17.0%	-13.5%
2005	6.2%	2.7%	-11.1%	-8.6%	-11.9%
2006	-4.7%	3.8%	2.8%	2.6%	-2.7%
2007	8.1%	12.2%	5.5%	4.0%	5.9%
2008	-12.7%	6.7%	7.7%	14.0%	-1.0%
2009	-9.2%	8.3%	12.2%	18.5%	7.7%
2010	-7.7%	10.9%	-1.1%	-7.1%	-6.5%
2011	-2.1%	3.5%	-0.9%	-1.6%	-2.3%
2012	-2.7%	5.2%	1.2%	-2.8%	-1.3%
Change in Average Cost					
2004	8.1%	3.4%	5.8%	6.9%	6.3%
2005	1.1%	2.2%	6.5%	6.6%	6.3%
2006	3.5%	5.9%	7.1%	6.9%	7.6%
2007	8.6%	4.0%	6.9%	6.4%	6.7%
2008	5.8%	6.5%	7.4%	6.7%	6.6%
2009	8.5%	6.7%	7.5%	6.3%	6.9%
2010	34.7%	5.7%	6.3%	6.8%	7.6%
2011	36.9%	6.2%	7.5%	7.4%	8.2%
2012	28.6%	8.9%	7.3%	5.8%	6.7%
Change in Burning Cost					
2004	22.9%	17.1%	-0.5%	-11.3%	-8.1%
2005	7.4%	5.0%	-5.3%	-2.5%	-6.3%
2006	-1.3%	9.9%	10.1%	9.7%	4.7%
2007	17.4%	16.7%	12.8%	10.7%	13.1%
2008	-7.6%	13.6%	15.6%	21.6%	5.6%
2009	-1.5%	15.6%	20.5%	26.0%	15.0%
2010	24.3%	17.2%	5.1%	-0.8%	0.6%
2011	34.0%	9.9%	6.6%	5.6%	5.8%
2012	25.2%	14.7%	8.5%	2.9%	5.3%

- The increase in BI frequency in 2008 and 2009 observed across most size bands.
- However, the increase in frequency in 2010 to 2012 restricted to the £1k to £10k band with frequencies flat or declining for higher claim size band.
- The burning cost inflation for the £1k to £10k band is significantly higher than for total capped BI.

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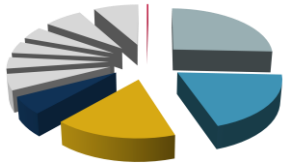
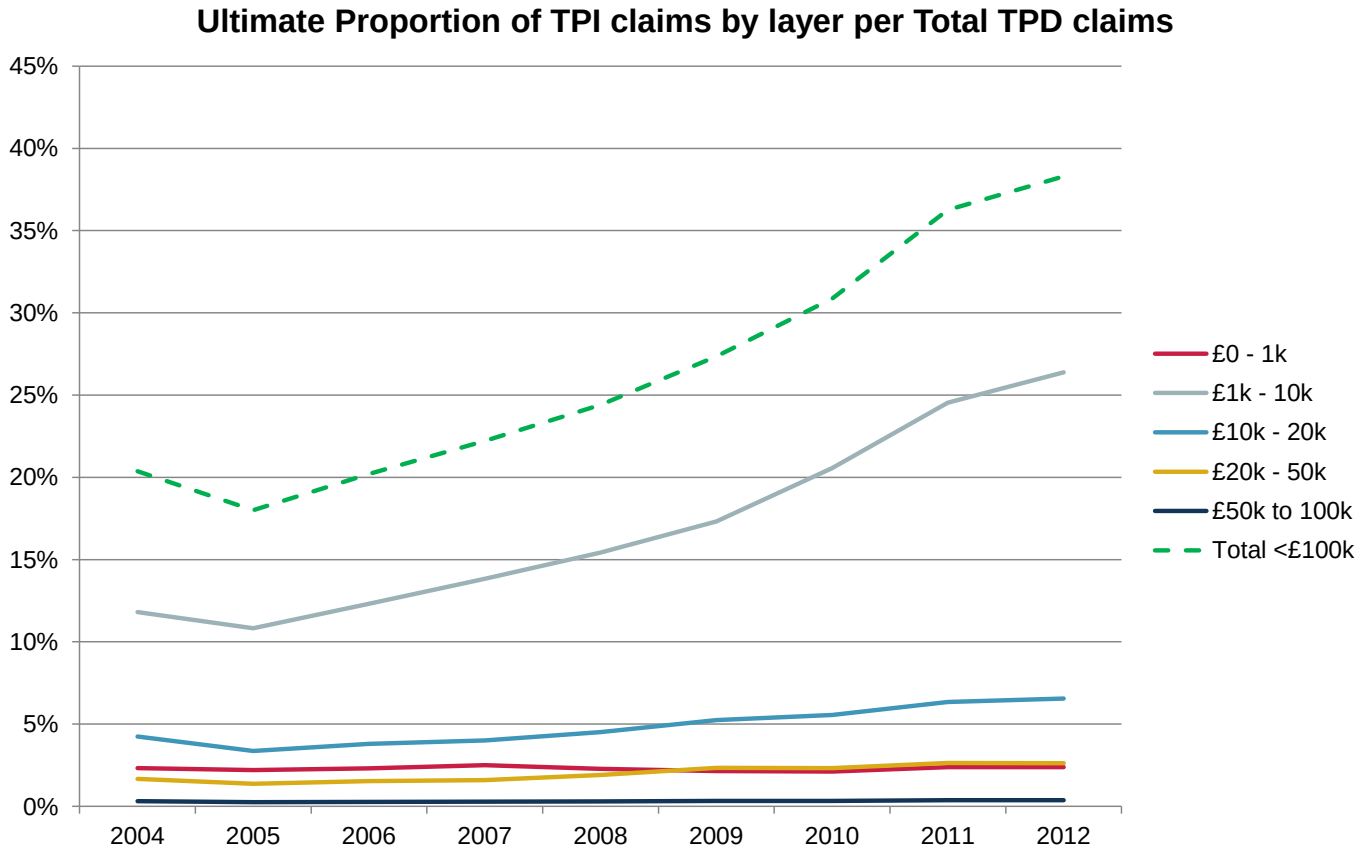
Capped bodily injury
Projected Results (Type 2)





- The graph shows the proportion of the total number of TPD claims resulting in TPI claims of various sizes.
- While the ultimate proportion of TPD claims has increased over time for each layer, for the £1k to £10k layer the increase has been substantial.
- Estimated total TPI/TPD ratio around 39%.

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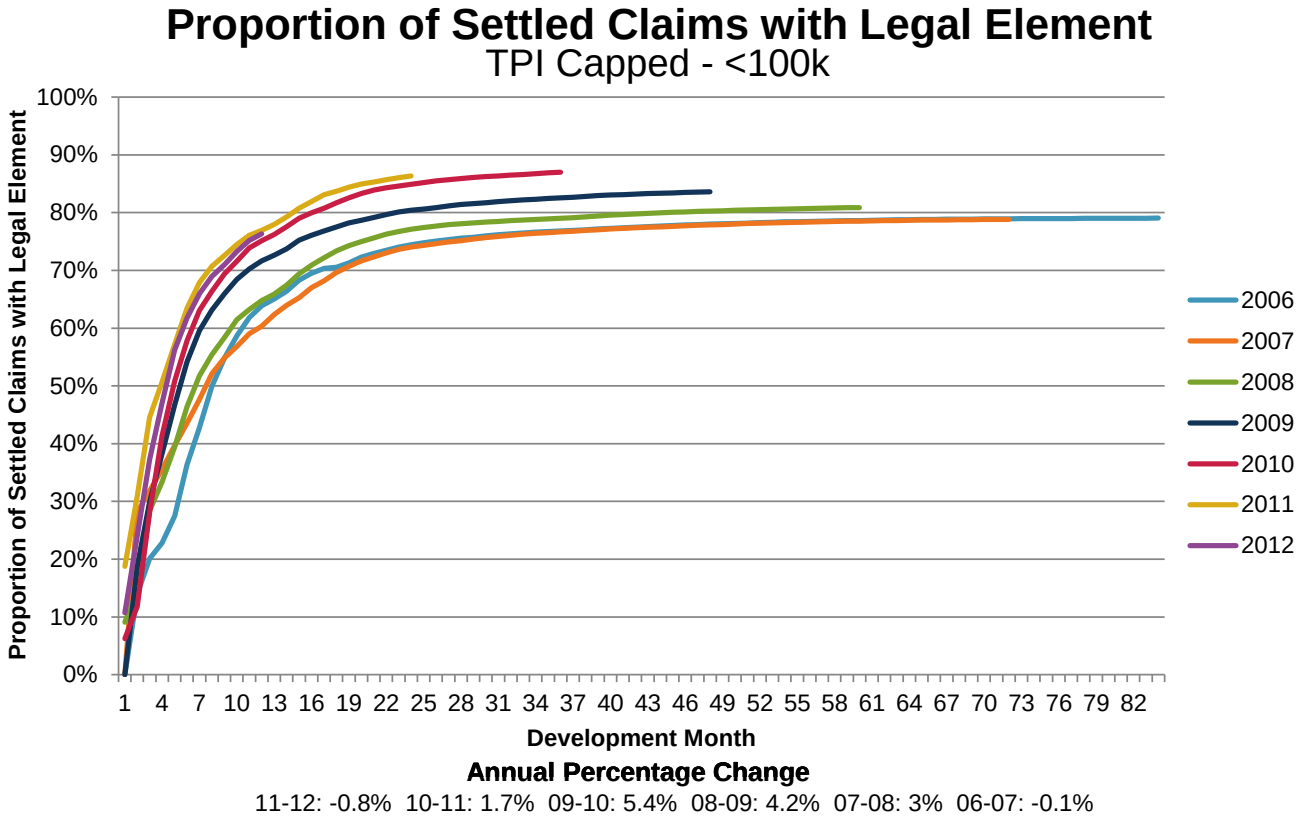
Capped bodily injury
Third party legal fees (Type 2)



- Head of damage analysis uses only settled claims, and Type 2 definitions based on settled cost.
- Graphs for each head of damage and claim size band are included in the appendices.
- The introduction of the MoJ portal in 2010 appears to have caused an increase in the proportion of claims with third party legal fees but there has been no further increase in 2011 and 2012.

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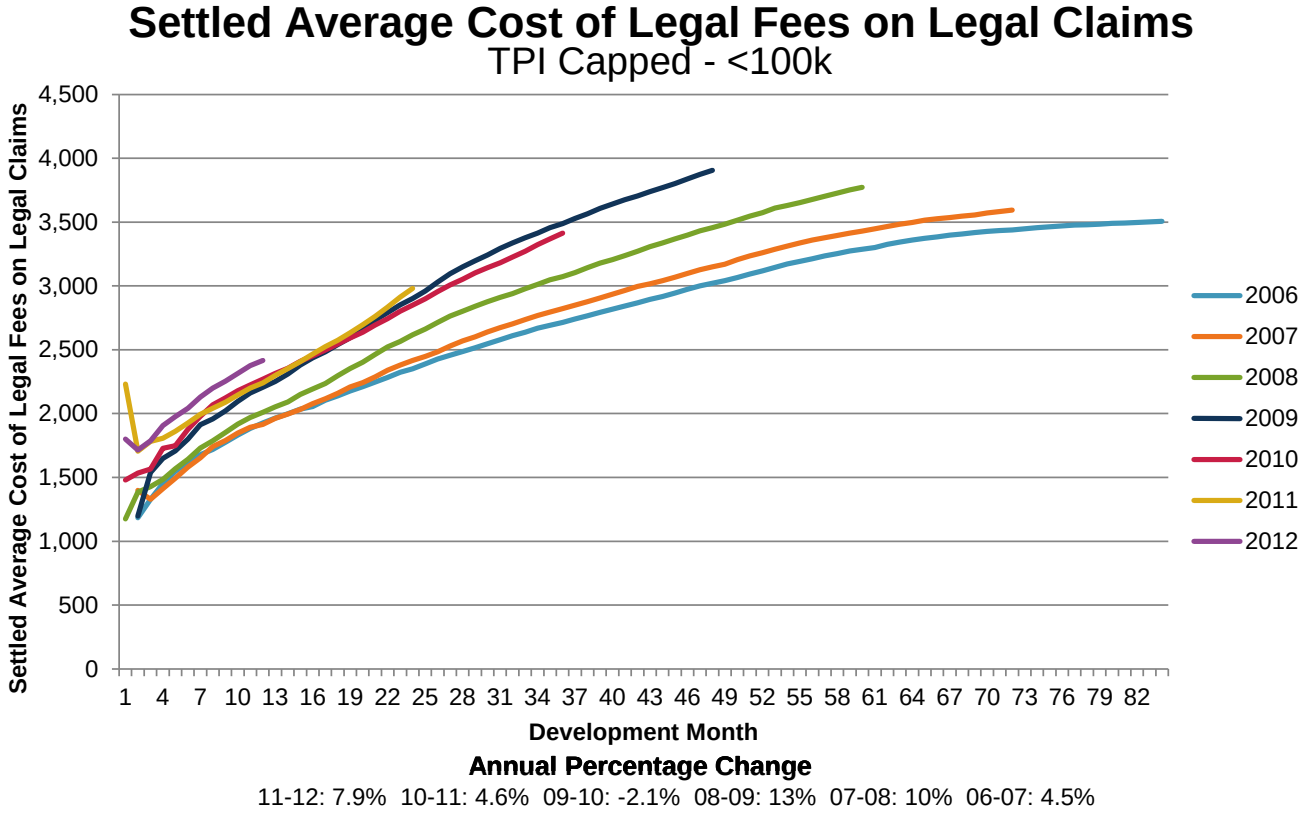
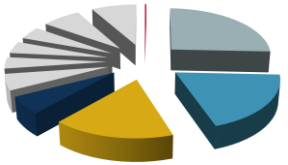
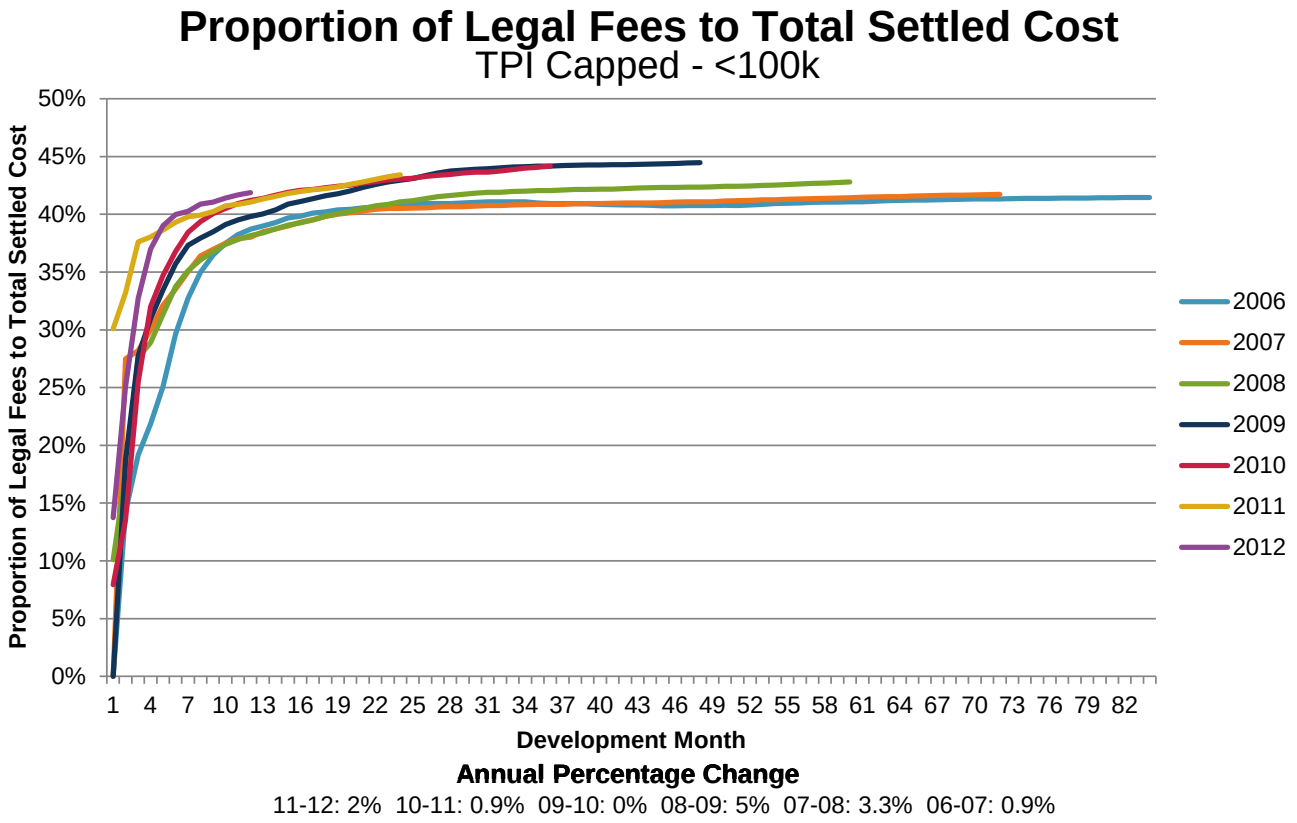
Capped bodily injury
Third party legal fees (Type 2)



- The average cost of legal fees on claims which have a legal fee payment increased significantly from 2006 to 2009.
- While the MoJ protocols and the fixed recoverable costs may have stalled this inflation in 2010, the inflation rate is 4.6% in 2011 and 7.9% in 2012.
- The average cost for legal fees for claims between £1k and £10k is around £2.5k.

Capped bodily injury
Third party legal fees (Type 2)





- Consequently, legal fees are an increasing proportion of the cost of capped BI claims.
- **The introduction of the MoJ process has not resulted in a reduction in the proportion of total claim cost from legal fees as intended.**
- The reduction in fixed recoverable costs in 2013 may reduce this proportion.

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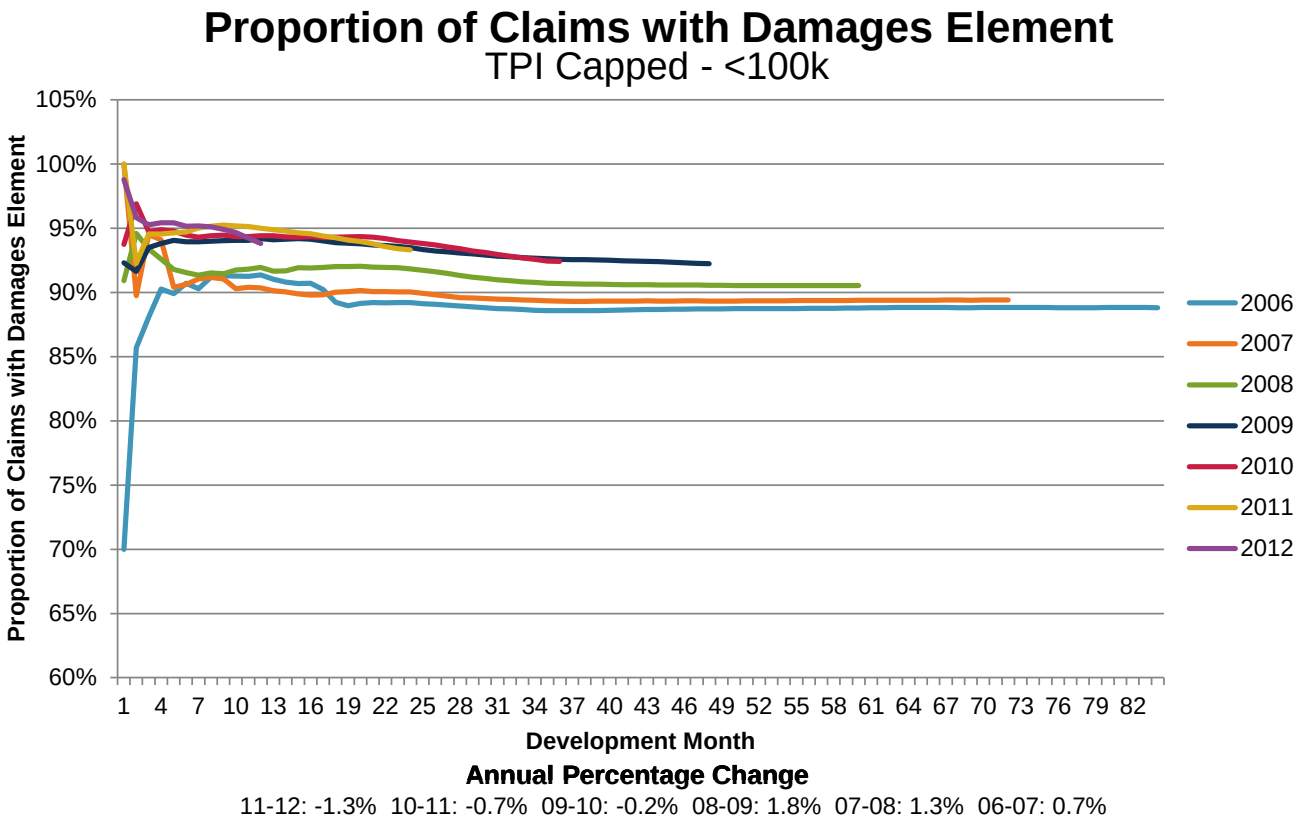
Capped bodily injury
Damages (Type 2)



- The proportion of settled claims with a damages element (general or special) increased slightly in 2009 but has remained reasonably consistent thereafter.
- A small proportion of claims have no damages element. This may be due to a variety of factors, for example claims only having own legal costs or rehabilitation costs.

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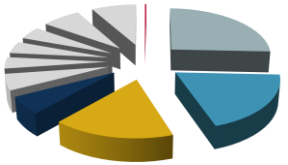
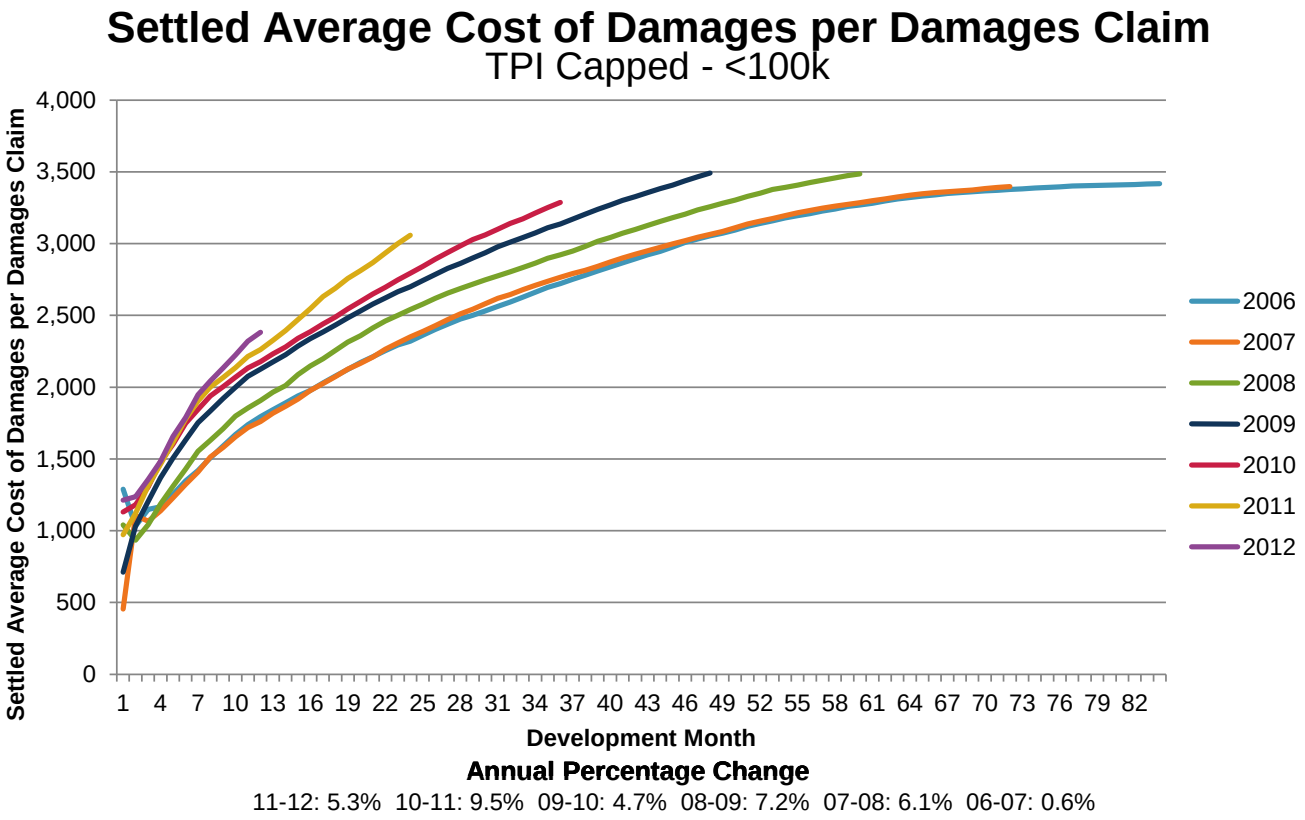
Capped bodily injury
Damages (Type 2)





- The settled average cost inflation of damages on claims which have a damages element is higher than legal fee inflation.
- There has been an acceleration in settlement cost in 2012 calendar period which is most notable for 2011 accident year.
- Changes in average JSB guidelines are set out below:
  - 9th Edition – Sept 2008 – 3%
  - 10th Edition – Sept 2010 – 3%
  - 11th Edition – Sept 2012 – 8%
  - LASPO & Simmons v Castle – Apr 2013 - 10%
  - 12th Edition due Oct 2013 - 3%

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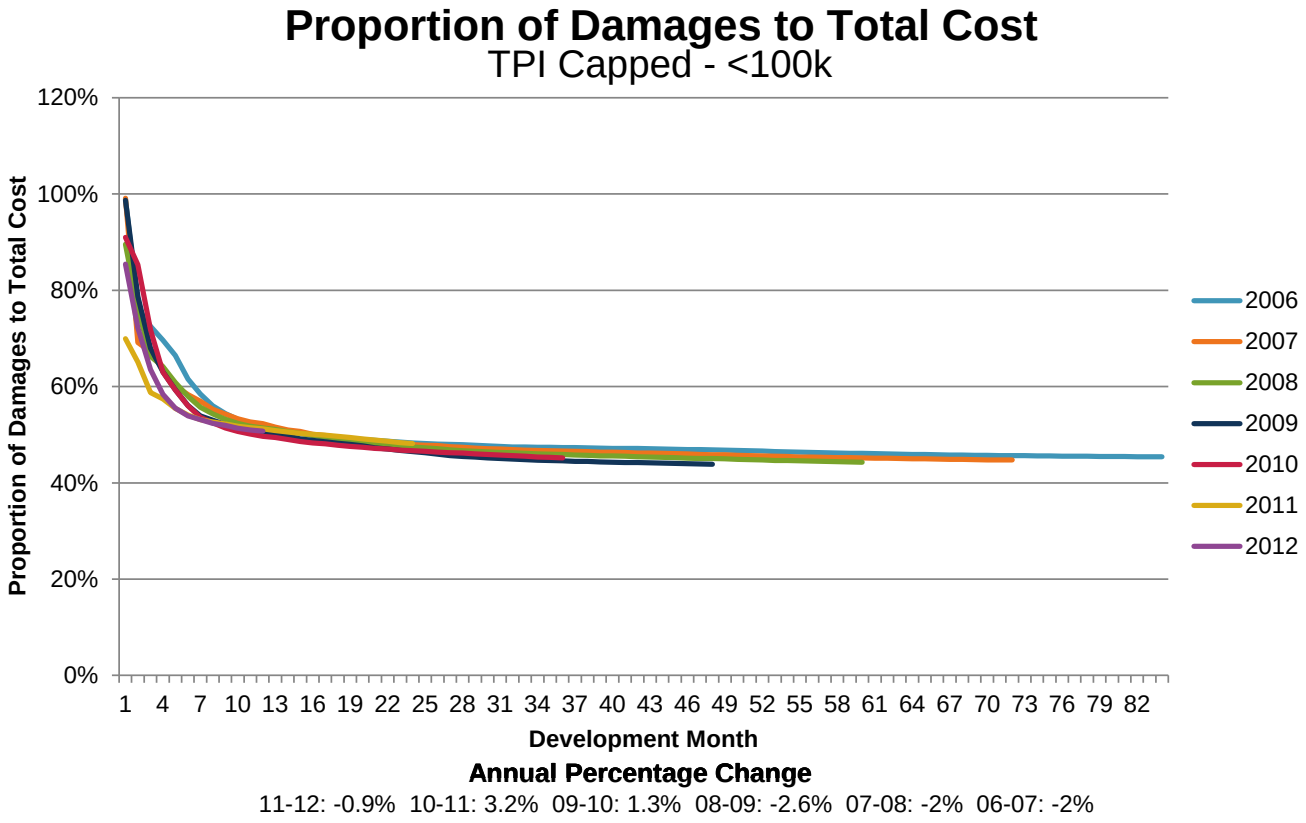
Capped bodily injury
Damages (Type 2)



- The proportion of total cost relating to damages fell from 2006 to 2009 as legal fees increased but has remained reasonably consistent since.
- The proportion of claims cost going to the claimant has not increased since the introduction of the MoJ process as intended.

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2. Scene Setting
3. TPD: Market Statistics
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6. Conclusions

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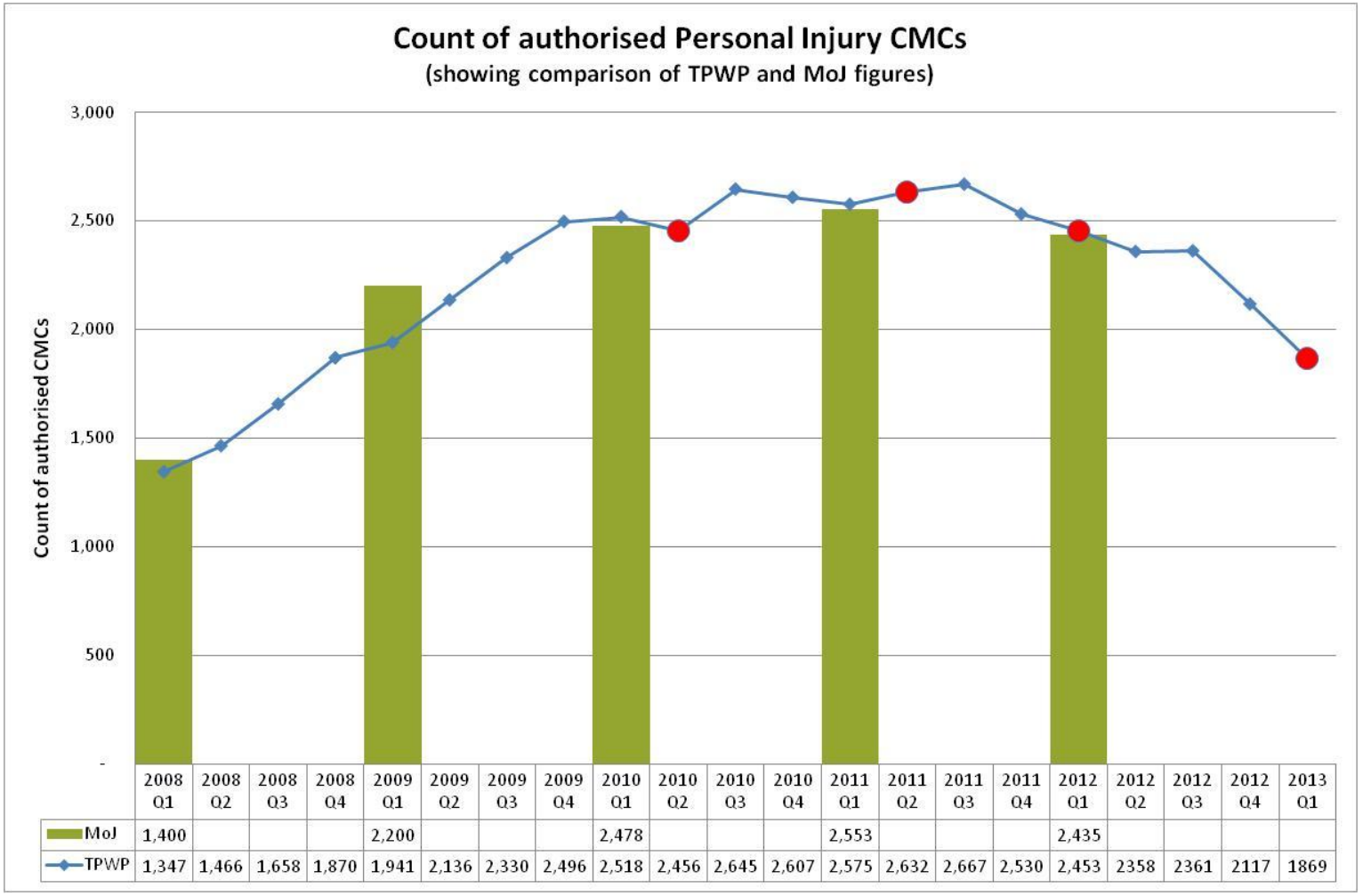
Capped bodily injury
Claims Management Companies

Key

- TPWP estimate of count of CMCs.
- TPWP data extraction periods.
- Count of CMCs from MoJ annual report.



	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
MoJ	1,400				2,200				2,478				2,553				2,435				
TPWP	1,347	1,466	1,658	1,870	1,941	2,136	2,330	2,496	2,518	2,456	2,645	2,607	2,575	2,632	2,667	2,530	2,453	2358	2361	2117	1869

Source: https://www.claimsregulation.gov.uk/
http://www.justice.gov.uk/claims-regulation

Capped bodily injury
Claims Management Companies

- The number of authorised CMCs decreased to 1,869, a reduction of 24% in the year to March 2013. This compares to a drop of 5% in the previous year.
- The decline in the number of CMCs is accelerating. A third of the reduction occurred in the second half of March, probably driven by Civil Litigation Reforms, including LASPO and the reduction in fixed recoverable costs.
- The latest Claim Management Regulation report shows that turnover for Personal Injury sector (measured year to Nov 2012) has fallen by £101m from £455m to £354m. This is a 22% reduction and is in line with the reduction in the number of authorised CMCs.

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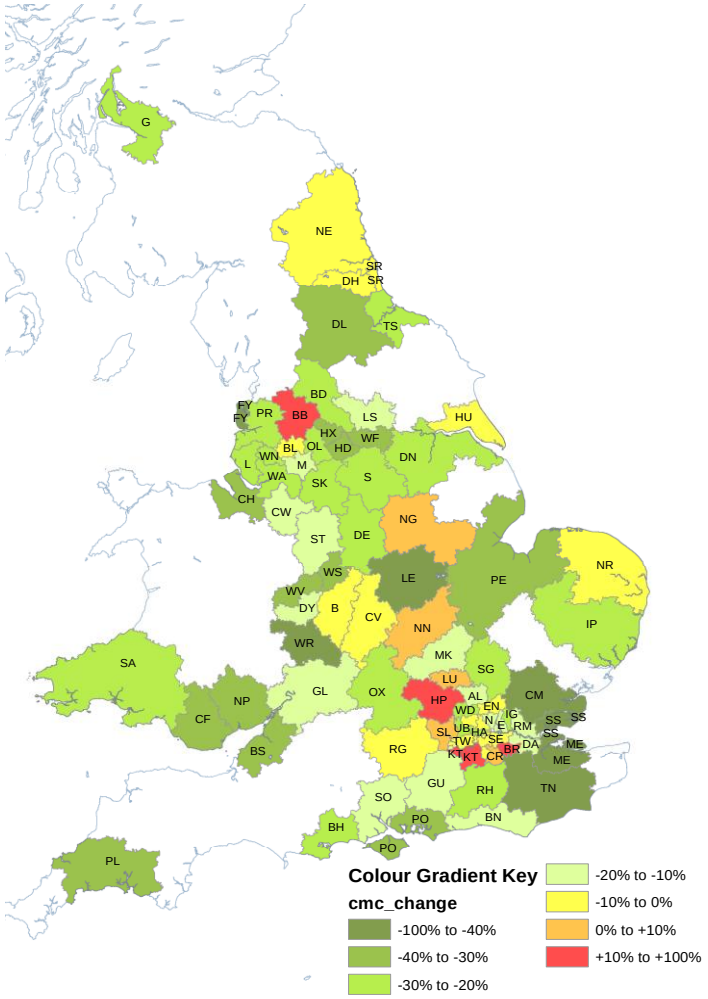
Capped bodily injury
Claims Management Companies



- The graph shows the percentage change in number of CMCs from March 2012 to March 2013 by postal area excluding postcode areas with fewer than 6 CMCs.
- Most of the country is experiencing reductions. Most of the exceptions are in South East or the East Midlands
- The South East has the majority of postcode areas where there has been increase in CMC count.
- CMC densities have typically been lower in South London than North London but this gap is narrowing.
- Areas to the north west of London including Slough, Hemel Hempstead and Luton have also seen increases.

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Scene Setting
Legislative Developments

1 April 2013 – Notification basis
Referral fee ban
Non-recoverability of ATE premiums and success fees from defendants
10% increase in general damages

31 July 2013 – Accident basis
Extension of Portal to include RTA claims up to £25,000 and EL/PL claims
Fixed recoverable costs within the RTA portal for claims between £10k and £25k:
- £200 for Stage 1
- £600 for Stage 2

30 April 2013 – Notification basis
Reduction of fixed recoverable costs within the RTA portal (claims from £1k to £10k):
- From £400 to £200 for Stage 1
- From £800 to £300 for Stage 2

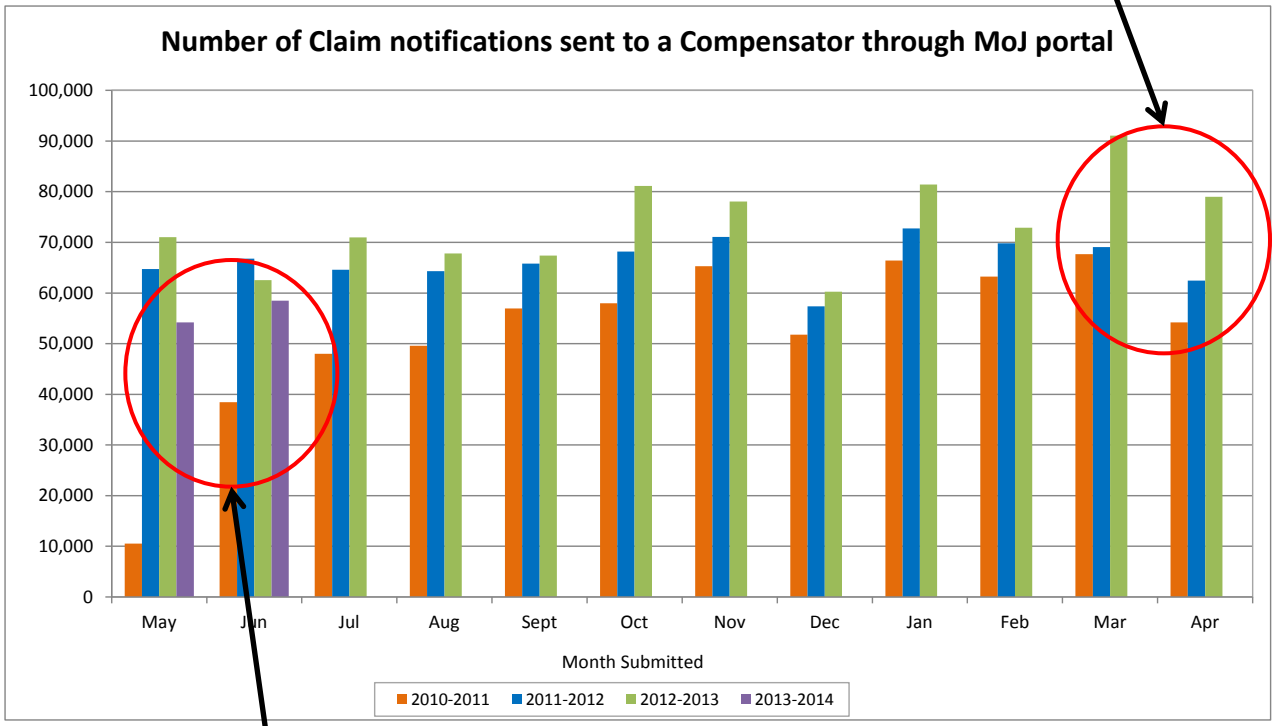
Payment of Stage 1 portal fee pushed back until receipt of Stage 2 settlement pack - less scope for the "£400 club"

Awaiting results of consultation
Independent medical panels for diagnosis
Allowing more whiplash claims to be challenged in the small claims court
Ogden
OFT referral to Competition Commission Whiplash Inquiry

Capped bodily injury
MoJ Portal Notifications

- The number of MoJ portal claim notification has increased by over 30% in March and April this year compared to same period in 2012.
- This is likely to be due to lawyers registering claims before the introduction of LASPO and the reduction of the fixed recoverable costs in the portal.
- The number of notifications has fallen in May and June of 2013 by 24% and 6% respectively compared to the same month in 2012.

Spike in claim notifications in March 2013



Reductions in notification post LASPO and reduction of fixed recoverable cost in the portal

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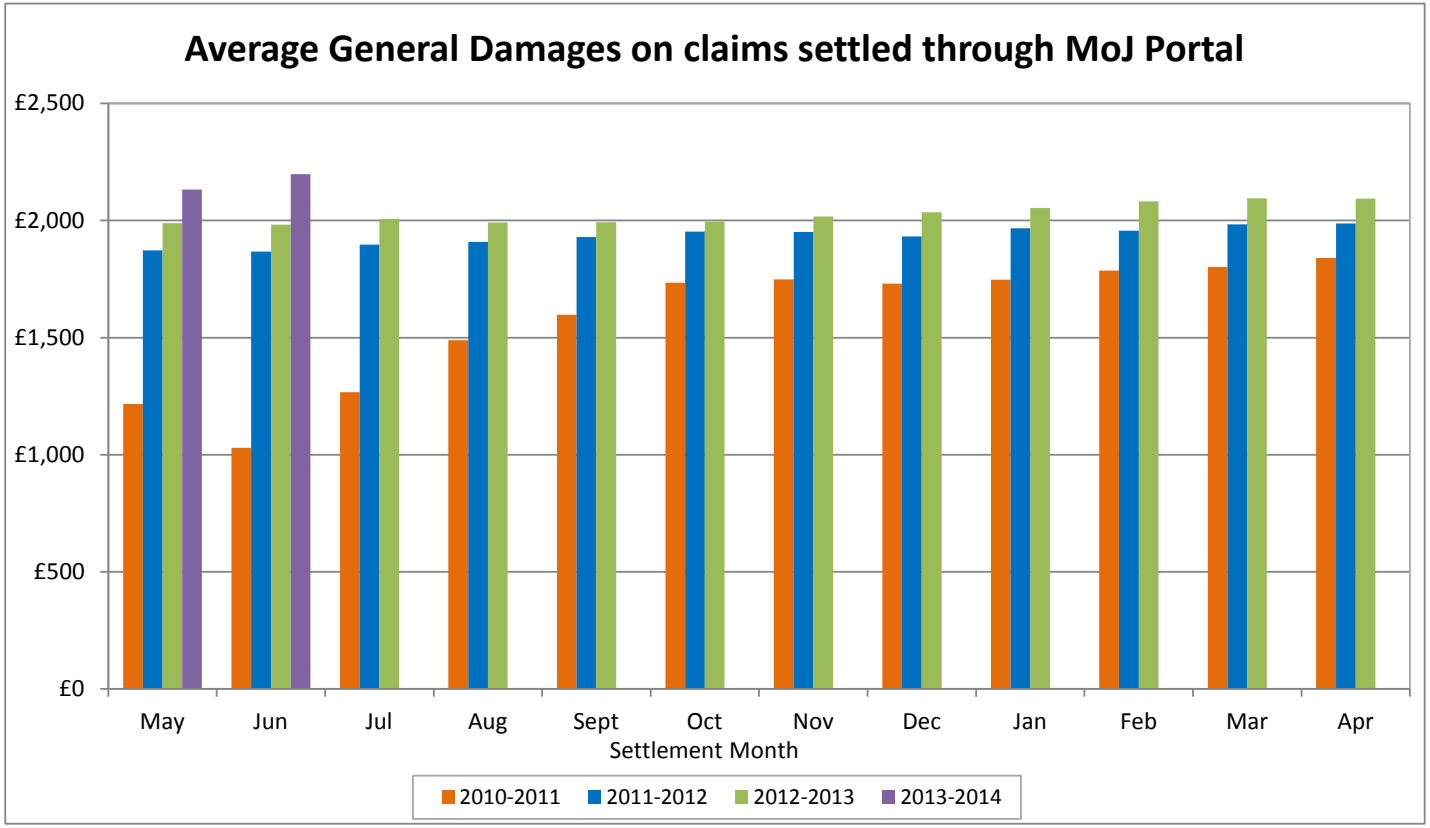
Source: http://www.claimsportal.org.uk

Capped bodily injury
MoJ Portal Costs

- The impact of the 8% increase in General Damages under JSB guidelines in September 2012 has been blurred as claims are grouped by month settled rather than month notified.
- The effect of 10% increase to General Damages through LASPO can be seen in May & June 2013.



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Source: http://www.claimsportal.org.uk

Impact of Legal Reforms (1 of 2)

Possible Impact	Considerations for Actuaries
Spike of notifications pre-reforms as CMCs try to beat the referral fee ban	High development factors in Q4 2012 / Q1 2013 diagonals; high base for projection. Does this spike bring forward claims that would otherwise have been notified later?
Referral fee ban / reduced legal fees result in lower CMC activity and reduced future claim frequency	Allowance in pricing; Prior assumptions in reserving for B-F / Cape Cod methods. What are the characteristics of the claims that no longer arise – late-notified?, multiple claimant?, potential fraud indicators?, geographically concentrated?
10% increase in general damages	Allow for in average cost methods. Does your data allow you to consider GDs separately?

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Impact of Legal Reforms (2 of 2)

Possible Impact	Considerations for Actuaries
Reduced legal fees in and outside MoJ portal	Allow for in average cost methods. Lower proportion of legal fees will change development patterns if projecting BI / Legal combined. Caution should be used in view legal inflation post the 2010 measures.
Stage 1 legal fee now paid later in the process	Distorts development patterns based on legal payments (but incurred claim patterns should be OK?)
Claims between £10k-£25k now brought within MoJ portal	Speeding up of settlement; reduced legal fees. Does this band now develop more like the £0-£10k band?
Timing difference between fee reduction in portal and outside creates temporary incentive for claimant solicitors to force claims out of portal	Possible higher MoJ drop-out rate May-July leading to slower development / higher legal costs?

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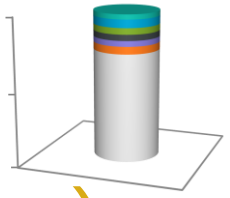
Excess bodily injury



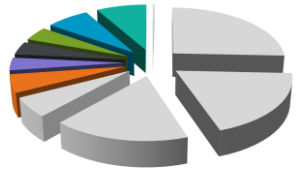
Projected Results (Type 1 – excl capped component of excess claims)

Projected Ultimate Excess TPI Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate Excess of Capped Claim Frequency (claims per million vehicle years)	Ultimate Excess of Capped Claim Severity (£)	Ultimate Excess of Capped Burning Cost (£)	Year-on-Year Change in Frequency (% pa)	Year-on-Year Change in Severity (% pa)	Year-on-Year Change in Burning Cost (% pa)
2004	10.6	105	285,435	29.9			
2005	11.7	96	292,493	28.1	-8.4%	2.5%	-6.1%
2006	13.5	88	349,034	30.6	-8.8%	19.3%	8.8%
2007	13.8	89	354,849	31.5	1.2%	1.7%	2.9%
2008	14.8	87	366,874	31.9	-1.9%	3.4%	1.4%
2009	15.5	89	466,876	41.5	2.1%	**27.3%**	**30.0%**
2010	15.8	77	458,881	35.5	-13.0%	-1.7%	-14.5%
2011	15.1	77	523,853	40.1	-1.0%	14.2%	13.0%
2012	14.4	77	594,555	46.1	1.2%	13.5%	14.9%
Average					-3.7%	9.6%	5.5%

- The frequency of large claims has fallen by 3.7% on average since 2004.
- However the average severity has increase by 9.6% over the same period.
- The overall change in frequency for 2011 and 2012 has been small. However the estimated claims inflation is over 13%, and 2012 appears to be a poor year for large claims with an average severity of almost £600k. However there is material uncertainty in the projection of this year owing its immaturity.

Excess bodily injury
Projected Results (Type 2)



Private Car Comprehensive Excess TPI Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m to 5m	> £5m
Frequency (finishing in layer) (claims per million policy years)						
2004	62	23	11	4	4	2
2005	58	19	10	4	3	1
2006	55	17	8	4	3	2
2007	53	17	9	6	3	1
2008	54	17	8	3	3	1
2009	53	17	10	4	4	2
2010	47	15	8	4	3	1
2011	45	15	7	5	3	1
2012	45	14	9	5	3	1
Average Cost (£000s)						
2004	101	230	453	904	2,034	5,419
2005	108	253	494	1,045	2,243	6,572
2006	115	262	513	1,066	2,528	7,145
2007	125	285	577	1,139	2,567	6,655
2008	133	295	614	1,167	2,847	7,779
2009	138	319	634	1,227	3,056	7,954
2010	154	330	649	1,409	3,158	9,016
2011	170	360	740	1,523	3,327	8,395
2012	183	376	826	1,649	3,694	9,359
Burning Cost (£)						
2004	6	5	5	4	7	10
2005	6	5	5	5	7	7
2006	6	4	4	5	7	11
2007	7	5	5	6	8	8
2008	7	5	5	4	8	10
2009	7	5	6	5	12	14
2010	7	5	5	5	9	11
2011	8	5	6	7	11	12
2012	8	5	7	9	12	14

- It is unclear how PPOs are treated in this data and is likely to vary by data contributor.
- There is significant uncertainty in the projection of 2011 and 2012 owing to the relative immaturity of the years and the time taken for large claims to settle. This uncertainty is magnified for the very large claims where there are only a small number of claims.

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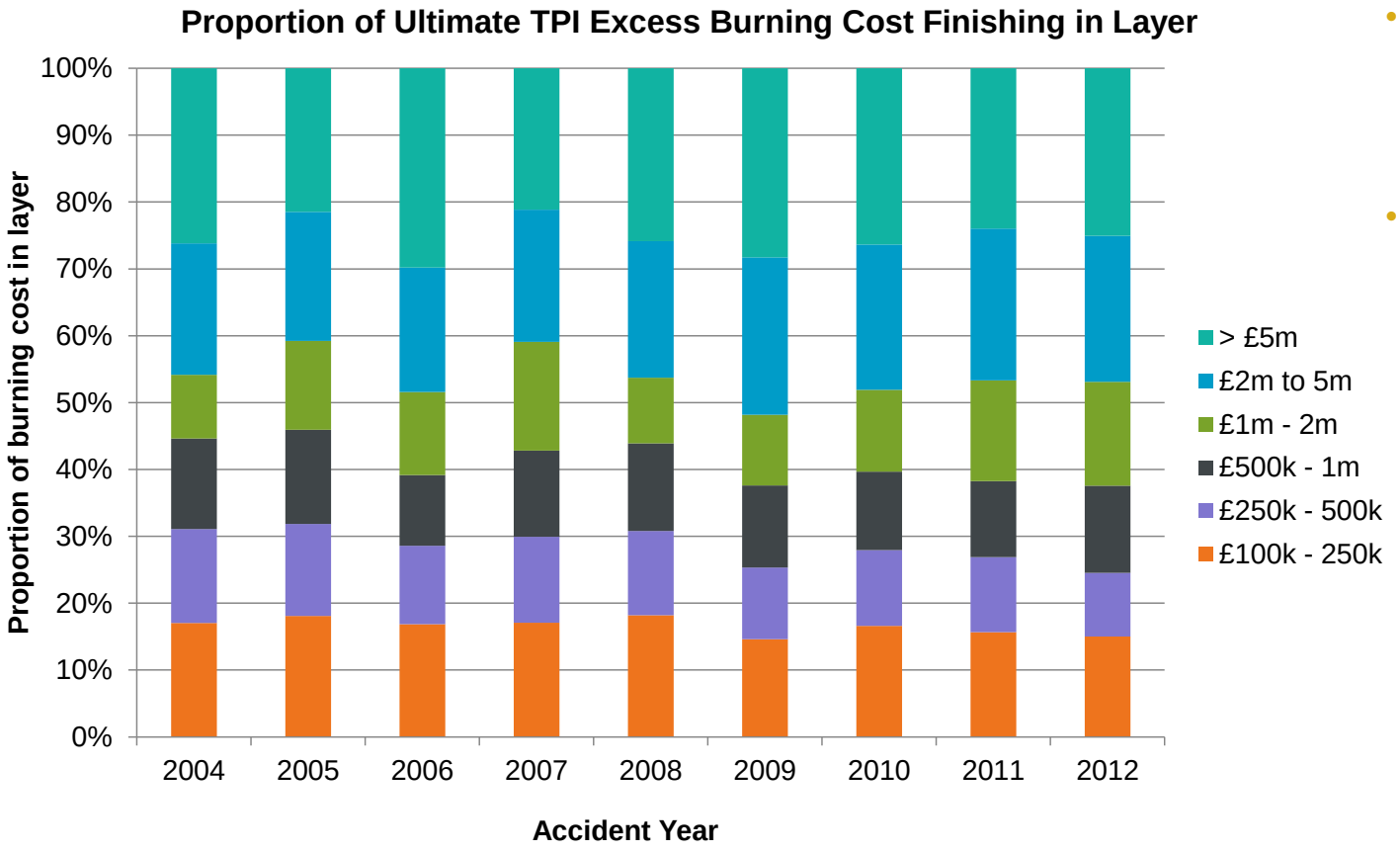
Excess bodily injury
Projected Results (Type 2)



- The proportion of claims cost for claims above £1m has increased somewhat over the period.
- In 2009, which saw burning cost increase by 30%, over 50% of the burning cost came from claims over £2m.

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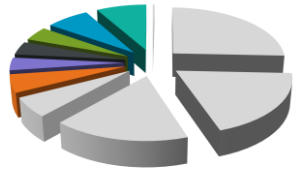
Excess bodily injury
Projected Results (Type 2)



Private Car Comprehensive Excess TPI Type 2 Layered Results (all layers given in 2010 money, indexed at 7% pa)

Accident Year	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m to 5m	> £5m
Change in Frequency (finishing in layer)						
2004						
2005	-5.7%	-15.7%	-9.9%	14.3%	-15.7%	-36.1%
2006	-6.7%	-12.2%	-22.9%	-2.2%	-8.9%	36.2%
2007	-3.2%	4.3%	12.8%	27.0%	8.8%	-20.9%
2008	2.5%	-3.0%	-2.3%	-39.8%	-5.0%	6.9%
2009	-2.9%	-1.2%	14.1%	29.2%	35.3%	34.8%
2010	-11.3%	-10.9%	-19.1%	-12.4%	-22.4%	-28.7%
2011	-4.4%	1.1%	-4.7%	27.0%	10.8%	9.2%
2012	0.9%	-7.6%	16.7%	8.3%	-1.3%	6.6%
Change in Average Cost						
2004						
2005	6.7%	10.0%	9.0%	15.6%	10.3%	21.3%
2006	6.4%	3.5%	3.9%	2.1%	12.7%	8.7%
2007	8.7%	9.0%	12.5%	6.8%	1.6%	-6.9%
2008	6.1%	3.3%	6.3%	2.4%	10.9%	16.9%
2009	4.3%	8.3%	3.3%	5.2%	7.3%	2.2%
2010	11.1%	3.3%	2.5%	14.8%	3.3%	13.3%
2011	10.2%	9.2%	14.0%	8.1%	5.4%	-6.9%
2012	8.1%	4.6%	11.6%	8.3%	11.0%	11.5%
Change in Burning Cost						
2004						
2005	0.6%	-7.2%	-1.8%	32.1%	-7.0%	-22.5%
2006	-0.7%	-9.1%	-19.9%	-0.2%	2.6%	48.1%
2007	5.3%	13.7%	26.9%	35.7%	10.5%	-26.4%
2008	8.7%	0.2%	3.8%	-38.3%	5.3%	24.9%
2009	1.3%	7.0%	17.9%	35.9%	45.2%	37.8%
2010	-1.5%	-8.0%	-17.1%	0.5%	-19.8%	-19.1%
2011	5.4%	10.4%	8.7%	37.2%	16.7%	1.7%
2012	9.0%	-3.3%	30.3%	17.3%	9.5%	18.9%

- The increases in overall severity for 2011 and 2012 come from an increase in frequency for very large claims (greater than £1m for 2011; between £500k and £2m for 2012)
- As PPO propensity increases with the size of the claims, 2009, 2011 & 2012 are likely to be poor years for PPOs.

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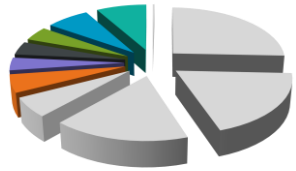
Excess bodily injury
Projected Results (Type 2)



Change in Frequency

	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m to 5m	> £5m
Average all	-3.9%	-5.9%	-3.0%	3.6%	-1.2%	-2.4%
Average 4	-4.5%	-4.8%	0.7%	11.7%	3.5%	2.9%
Average 2	-1.8%	-3.3%	5.5%	17.3%	4.5%	7.9%

Change in Average Cost

	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m to 5m	> £5m
Average all	7.7%	6.4%	7.8%	7.8%	7.7%	7.1%
Average 4	8.4%	6.3%	7.7%	9.0%	6.7%	4.7%
Average 2	9.1%	6.9%	12.8%	8.2%	8.2%	1.9%

Change in Burning Cost

	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m to 5m	> £5m
Average all	3.4%	0.1%	4.6%	11.7%	6.5%	4.5%
Average 4	3.5%	1.2%	8.5%	21.8%	10.5%	7.7%
Average 2	7.2%	3.3%	19.0%	26.9%	13.1%	9.9%

- Long term fall in frequency in layers £100k to £1m not seen in higher layers.
- Long term average consistent with layer indexing.
- Long term average burning cost higher for higher layers.

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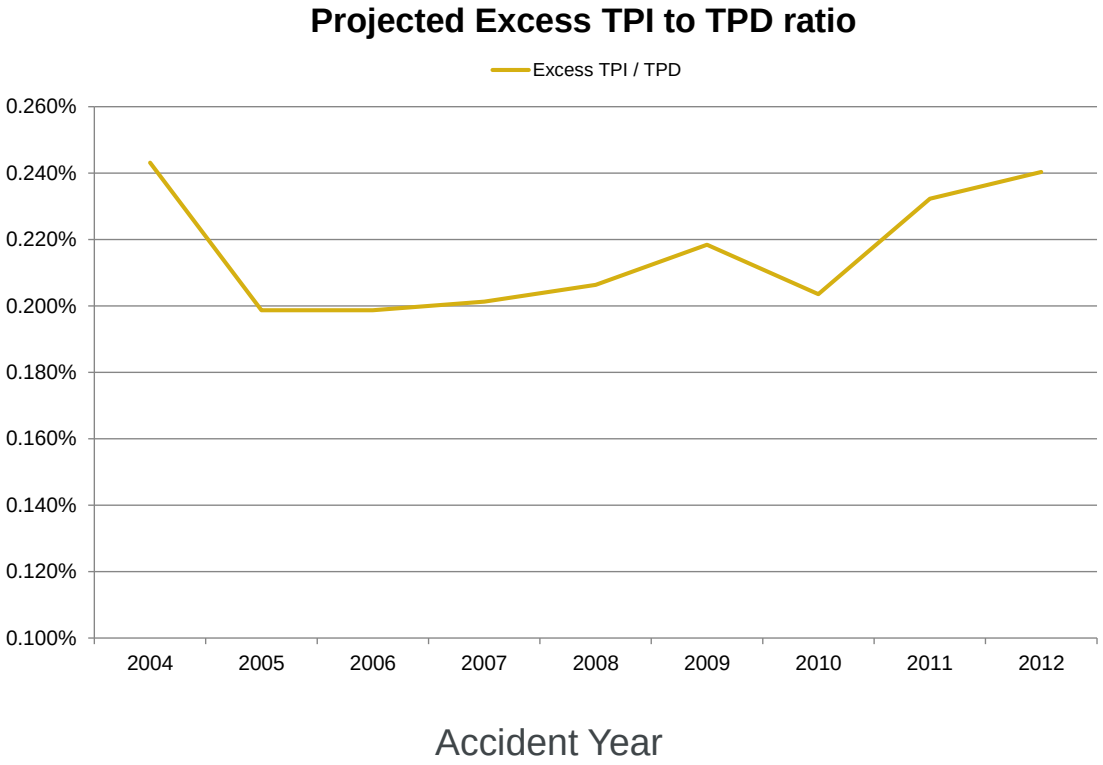
Excess bodily injury

Projected Results (Type 1 – excl capped component of excess claims)



- From 2006 to 2010 the large claim frequency trend matched the overall accident frequency reasonably well with around 0.2% of TPD claims resulting in a BI claim over £100k.
- However there has only been a modest decrease in large BI claim frequency in 2011 whereas the TPD frequency has fallen by 13% resulting in an increase in the excess TPI to TPD ratio.

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5. Excess TPI:
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Excess bodily injury

STATS19 external data insight – weather and casualty type

Injury severity distribution by Casualty type

	Fatal	Severe	Slight
Pedestrian	1.9%	20.7%	77.4%
Cyclist	0.7%	15.2%	84.1%
Other	1.0%	9.3%	89.7%

Injury severity distribution by Road conditions

	Fatal	Severe	Slight
Rain	1.5%	12.9%	85.6%
Snow/Ice	1.0%	11.1%	87.9%
Other	1.3%	13.7%	85.0%

- STATS19 data includes data on type of casualty, severity of injuries and weather conditions of traffic accidents reported to the police.
- Higher likelihood of Severe/Fatal injuries when Pedestrians and Pedal Cyclists are involved.
- Variation in severity of injuries by weather conditions is less marked. Some evidence to suggest extreme snow and rain results in fewer severe injuries.
- This might have impacted the 2010 large claim experience where there was a significant amount of snow.

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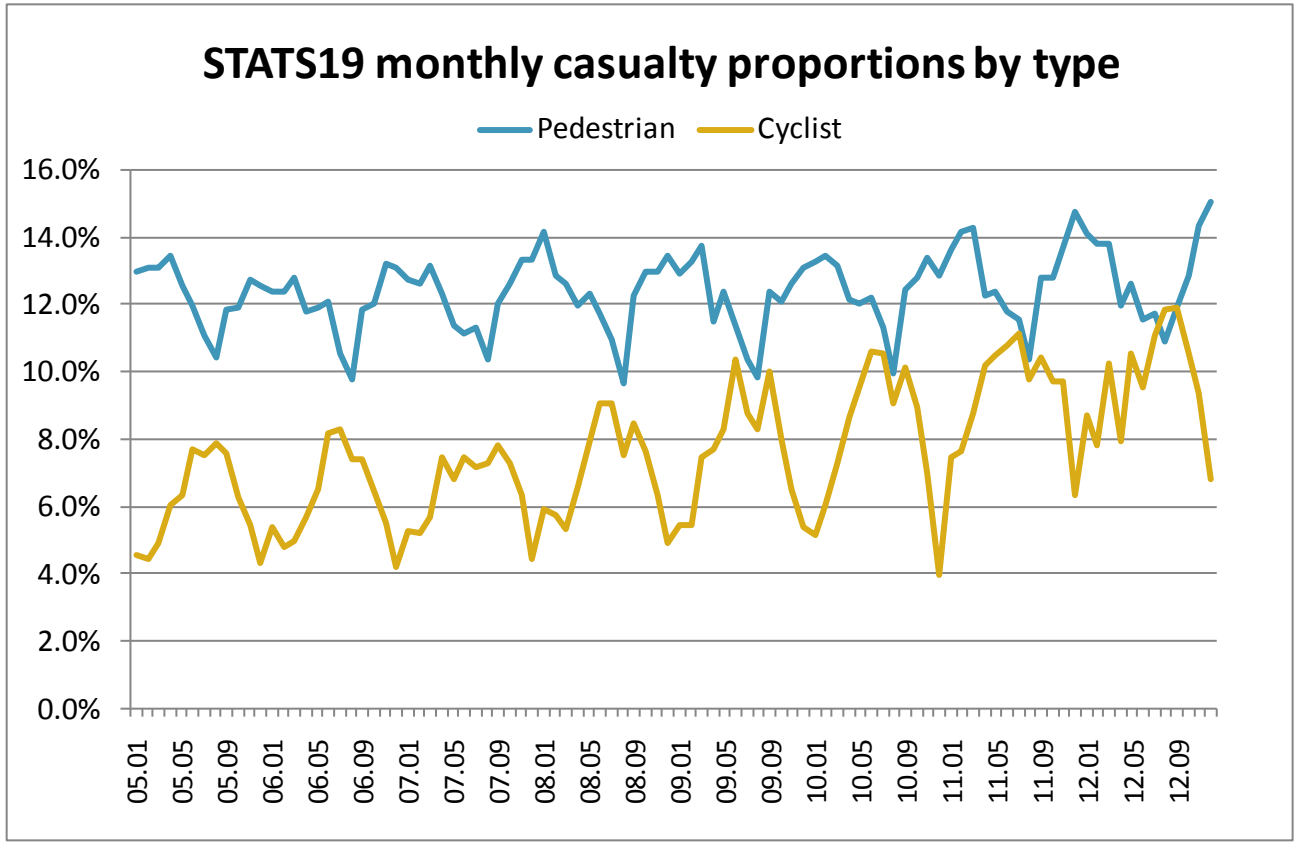
Excess bodily injury

STATS19 external data insight – casualty type trends



- Cyclists are becoming an increasing proportion of casualties (6.1% in 2005 to 9.8% in 2012).
- Proportion of pedestrians now 12.9% vs 12.4% in 2010.
- Consequently expect increasing proportion of pedestrian and cyclist casualties in large Insurance claims.
- Given greater chance of serious injuries in these groups may expect to see gradual trend of increasing large claim costs.

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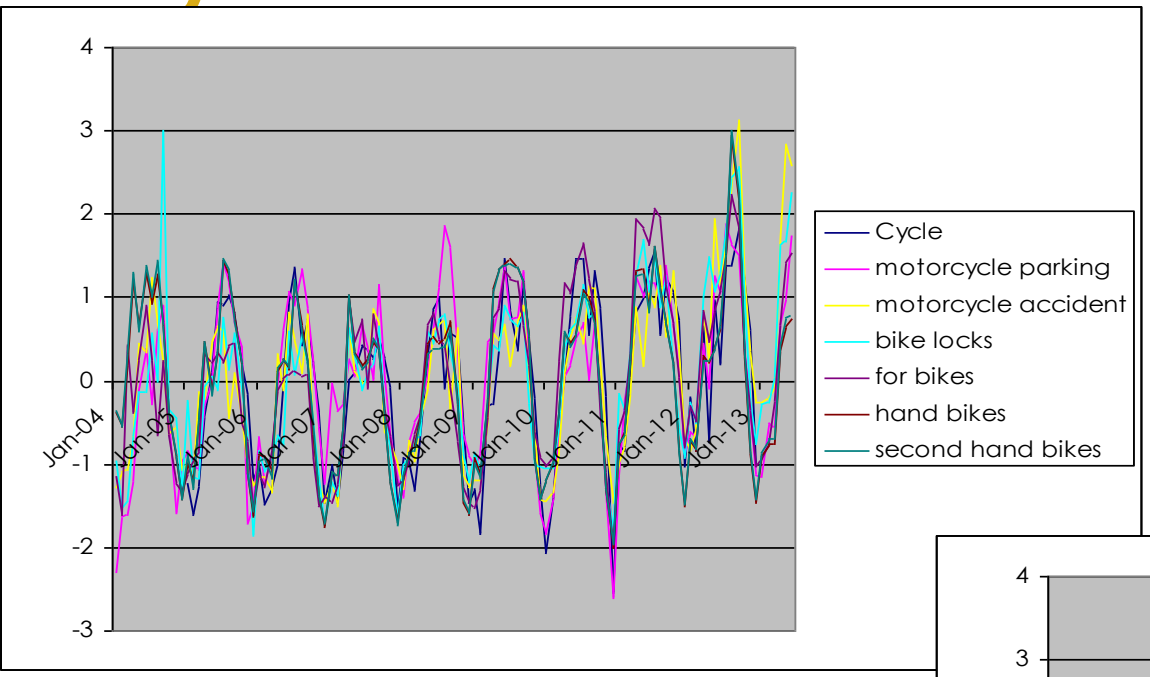
Google Correlate

- Correlates data with internet search terms based on time (measured weekly)
- Are there any datasets which correlate with the numbers of casualties in UK road accidents that are
  1. Cyclists
  2. pedestrians

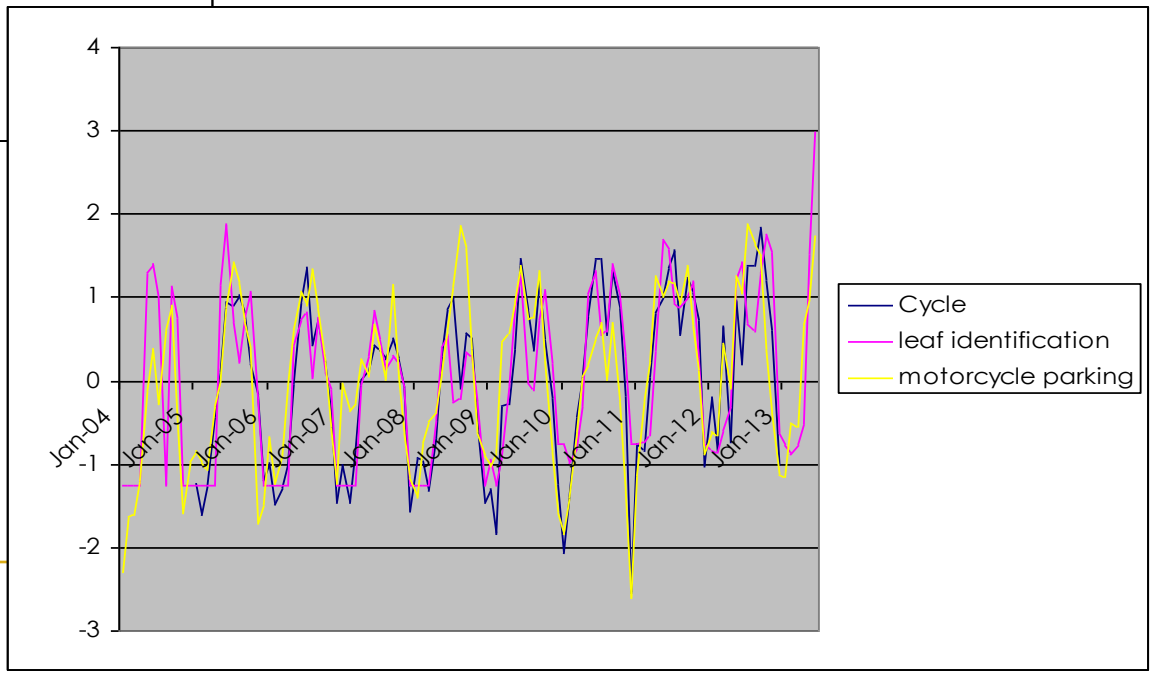
Data Source: Google Correlate (http://correlate.googlelabs.com)

Cyclists



←Potential connection to interest in biking which has seen same gradual increase and seasonality as cycling accidents

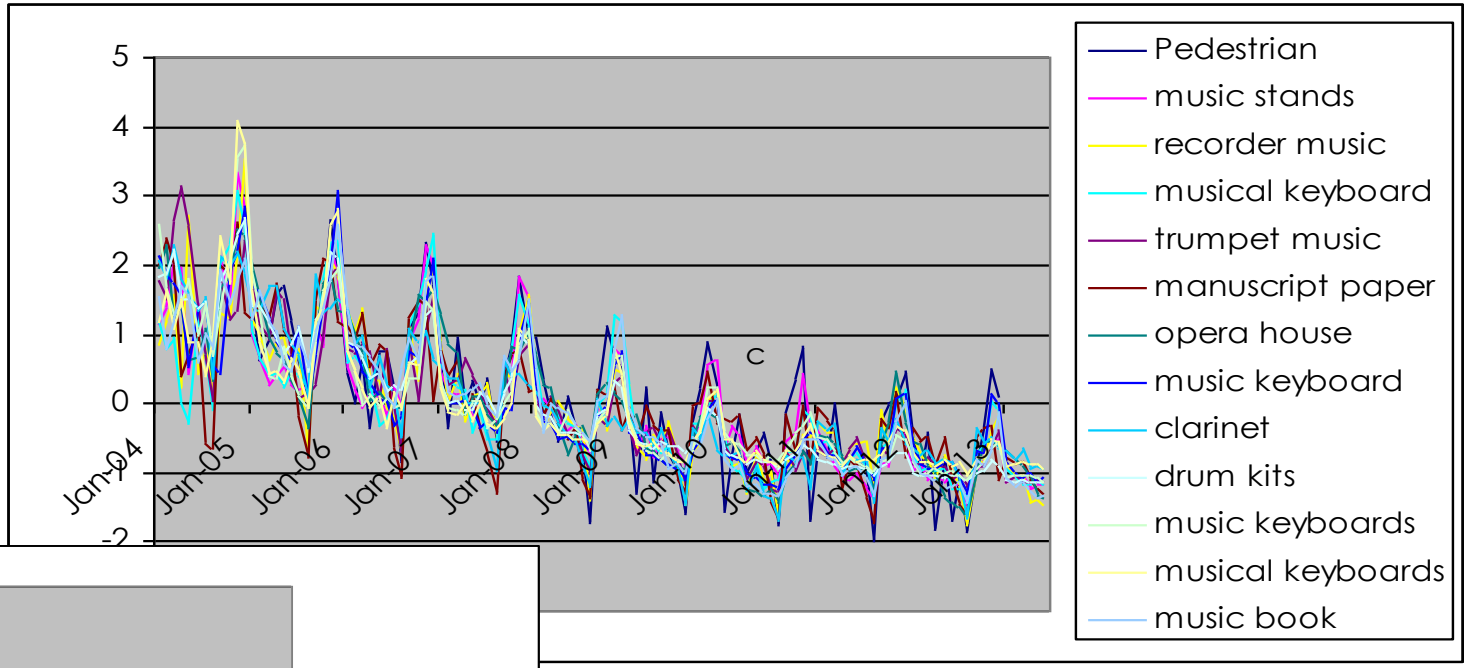
→But top correlate is “leaf identification” where causal connection is much less clear!

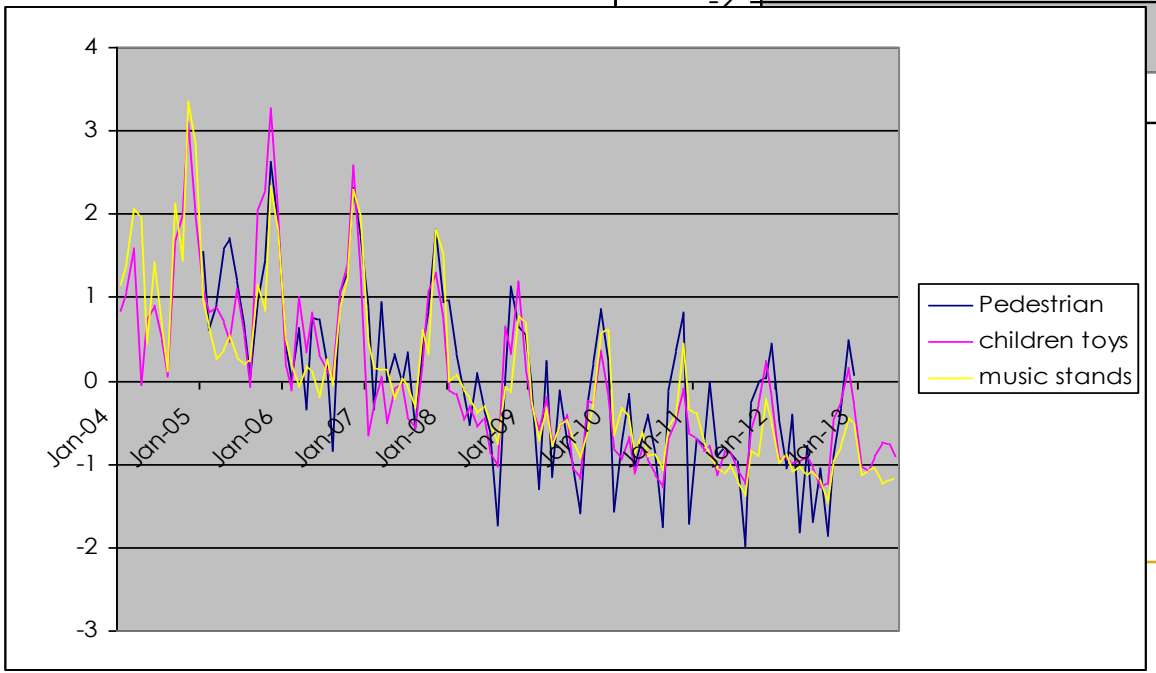


Data Source: Google Correlate (http://correlate.googlelabs.com)

Pedestrians

→Bizarre musical connection for pedestrians





←Although top correlate is children's toys

Data Source: Google Correlate (http://correlate.googlelabs.com)

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Conclusions

- Fewer accidents, but more TPI driven by whiplash type claims
- Greater costs per accident on TPD; capped and excess TPI
- Burn cost inflation of 6% (TPD), 9% (TPIC), 15% (TPIX) in 2012 (cf long term averages of 4%; 9%; 6%) on 70% of cost of Motor Insurance, and yet rates **down 15%**
- Unprecedented reforms on capped TPI underway. Caution on positive impacts of these, building on lessons of persistent legal cost inflation following introduction of fixed cost regime in 2010
- Large TPI experience is volatile but inflationary: 2009, 2011 & 2012 are poor (so far). Poor experience is determined by increases in relatively small numbers of the very largest claims. Potential connection with increases in cyclists

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Appendices