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Effective Management of Third Party Claims

December 18, 2013

Key Outlines

Third Party – Evolution over the years

Third Party Claims – Character & Issues

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Third Party Claims – Character & Issues

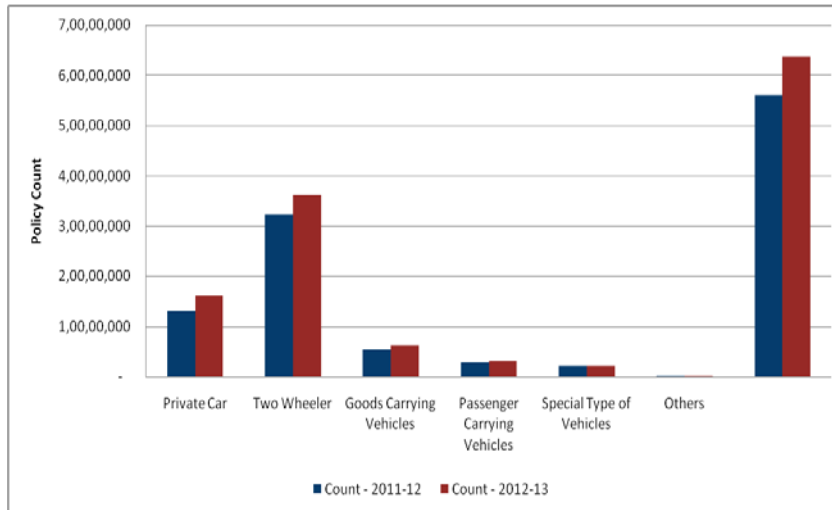
Industry Growth & TP Contribution- GWP

	Motor Third Party	Industry*	Proportion
FY 2011-12	9,085	52,877	17.2%
FY 2012-13	12,057	62,961	19.2%
Growth Rate	32.7%	19.1%	

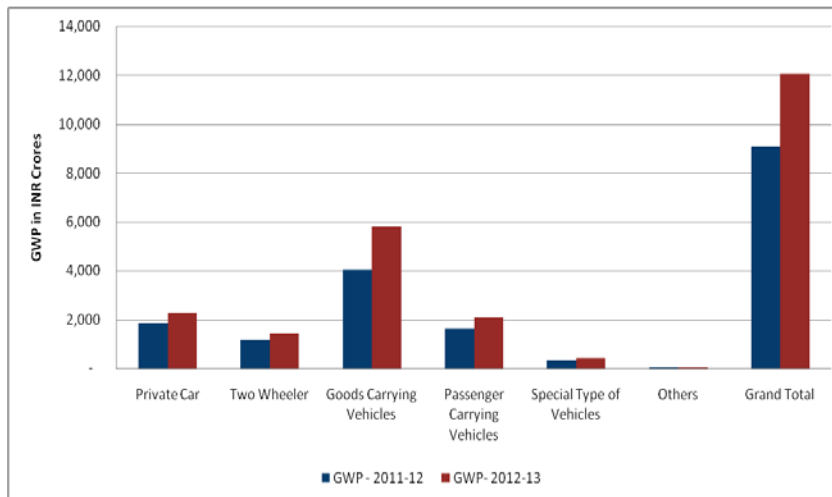
*Industry total excludes mono-line insurance companies

Data Source: IIB and IRDA

Third Party – Premium & Policy Count



- Third Party is experiencing rapid growth
 - 13.8% in policy count
 - 32.7% in GWP



Data Source: IIB



Motor Third Party Pool

UWY	Ultimate Loss Ratio (Lower End)	Ultimate Loss Ratio (Upper End)
2007-08	159%	197%
2008-09	188%	233%
2009-10	200%	249%
2010-11	213%	263%
2011-12	145%	145%
2012-13 (Declined Risk Pool)	210%	240%

Key Outlines

Third Party – Evolution over the years

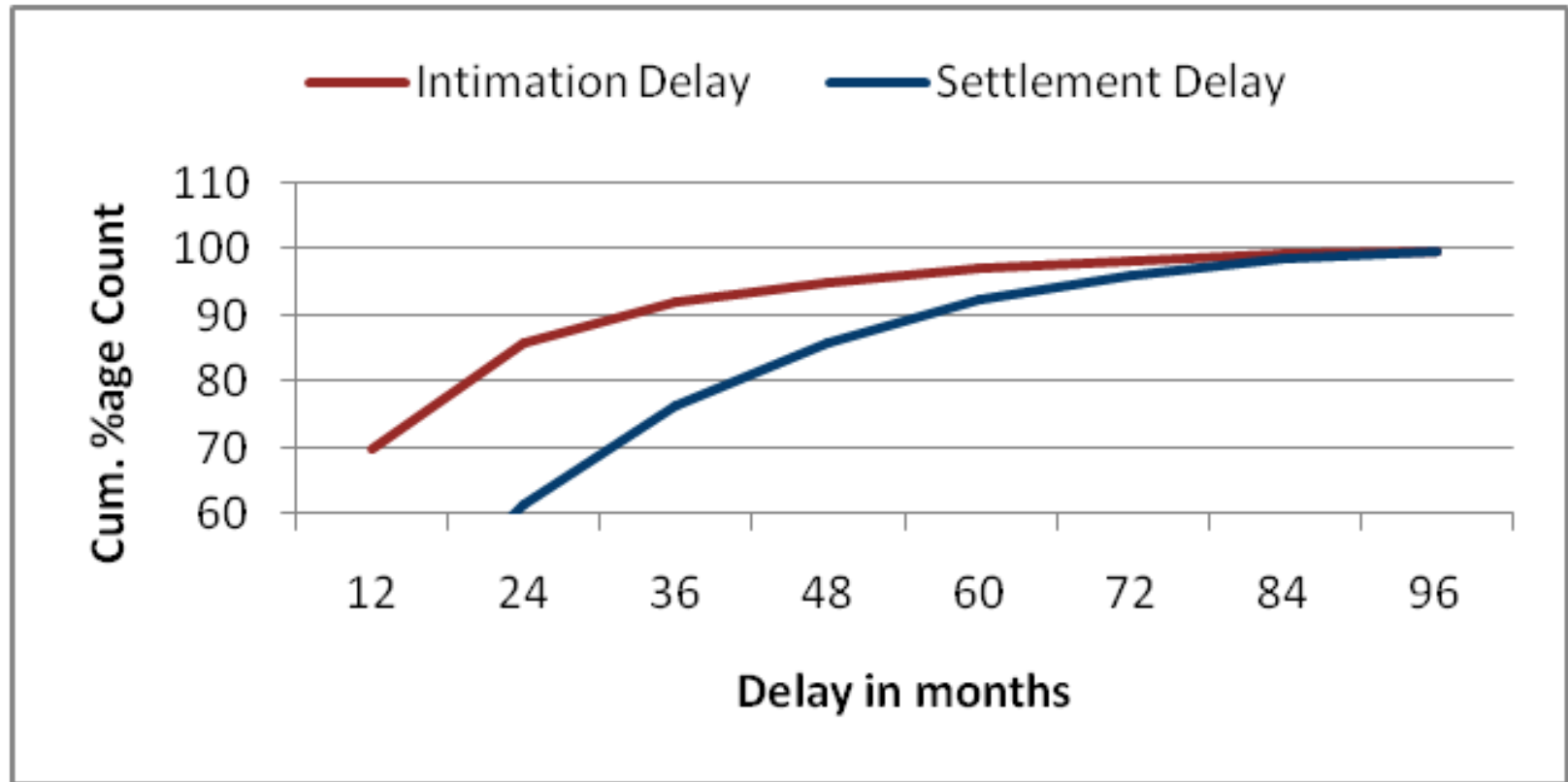
Third Party Claims – Character & Issues

REPORTING AND SETTLEMENT DELAYS



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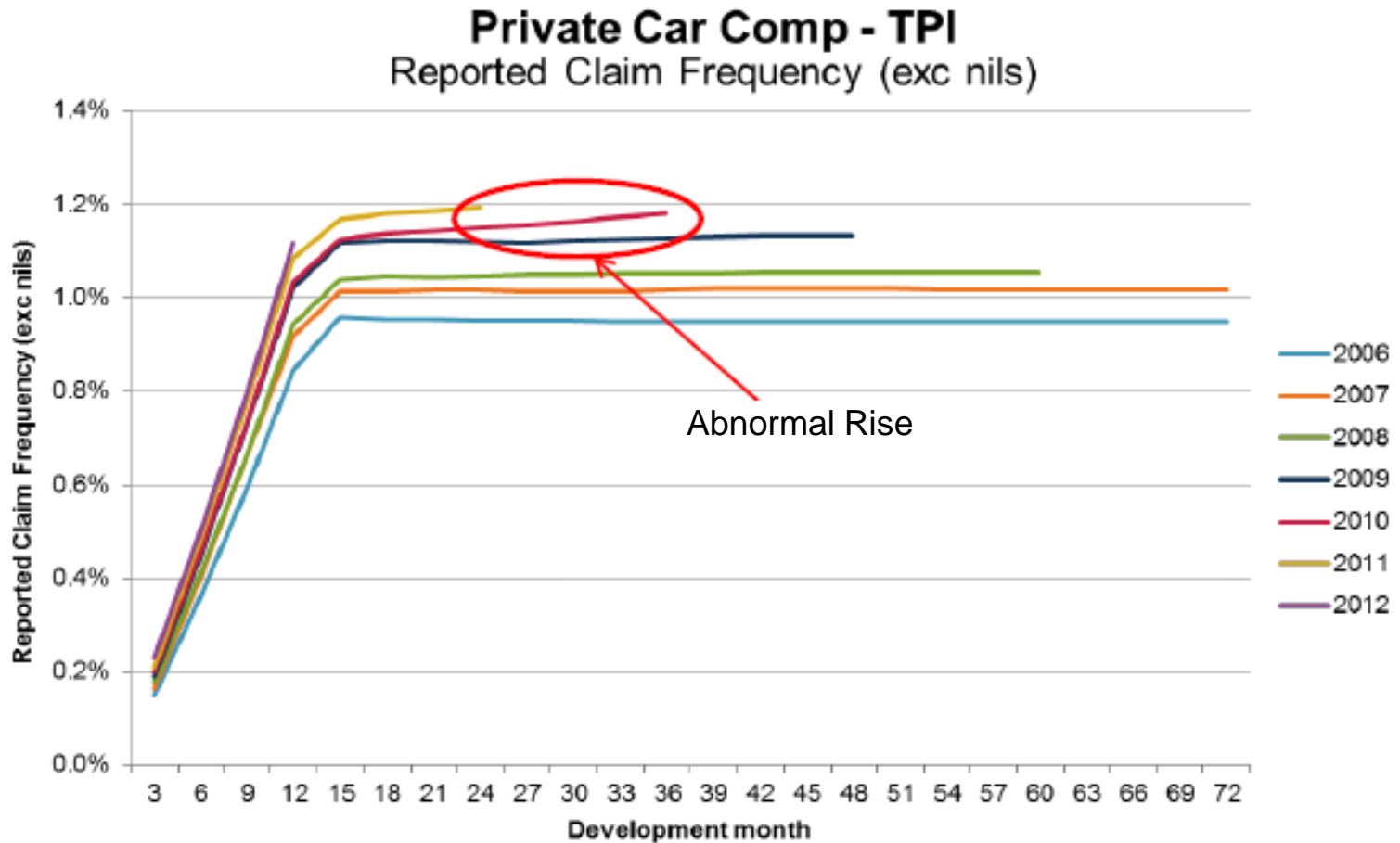
Claim Delays – Indian Experience



Source: Claim Development Analysis of Motor Third Party Claims by IIB

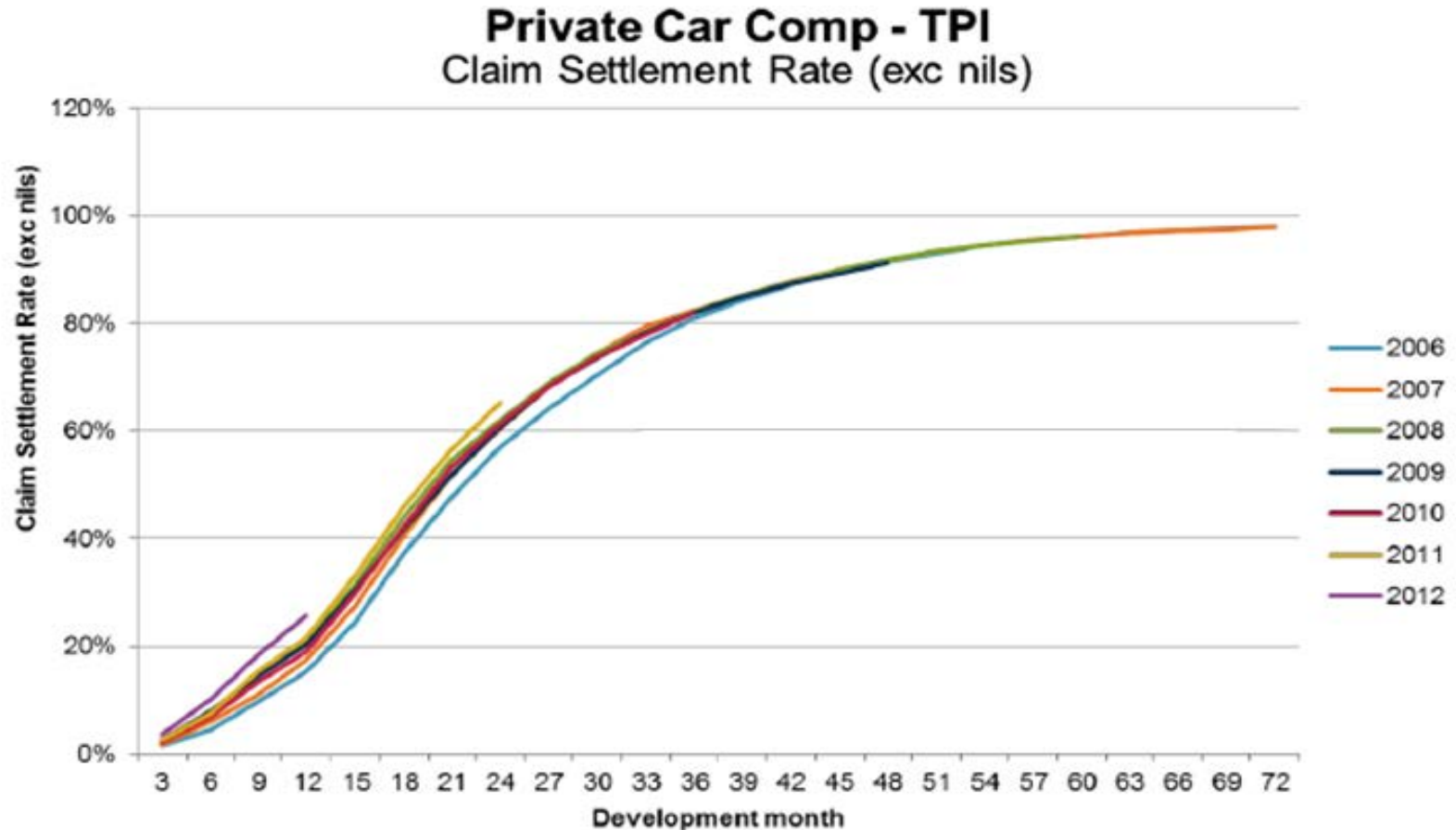
Do we know the tail of this business?

Reported Claim Frequency - UK



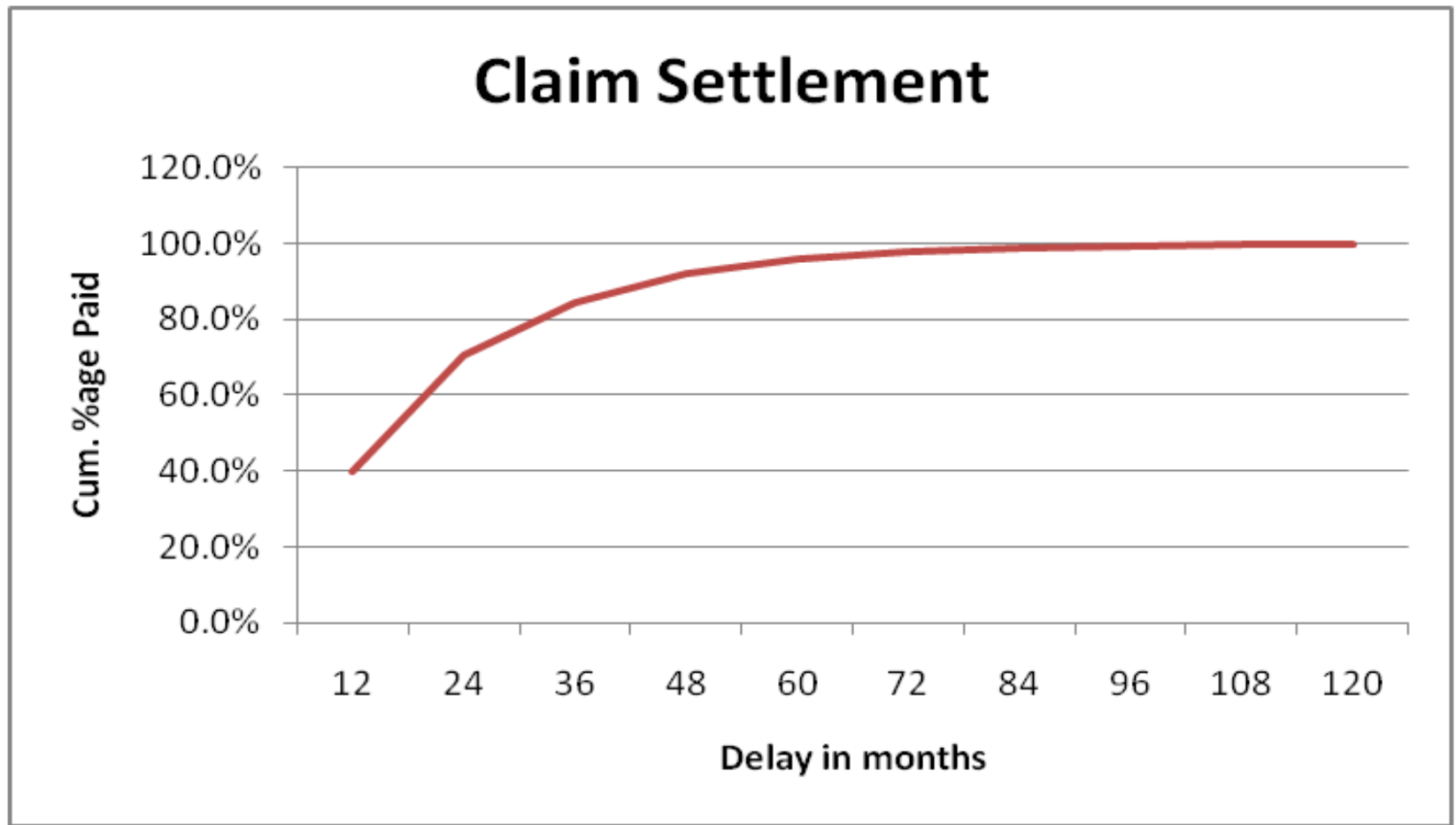
Source: Update from Third Party Working Party
- David Brown and Rob Treen

Claim Settlement Rates - UK



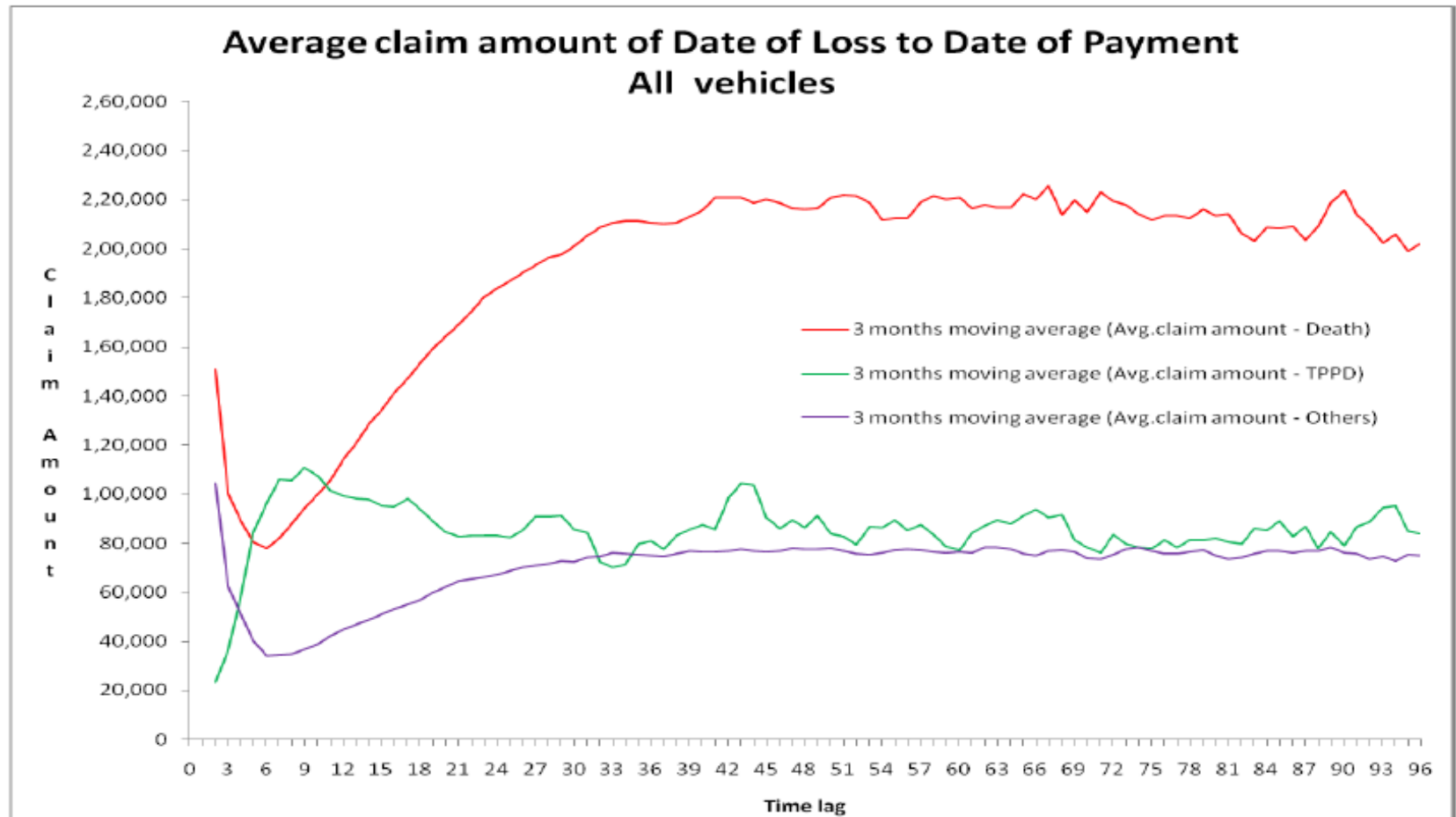
Source: Update from Third Party Working Party
- David Brown and Rob Treen

Claim Settlement Rates - US



CLAIM SEVERITY

Claim Severity by time lag - India

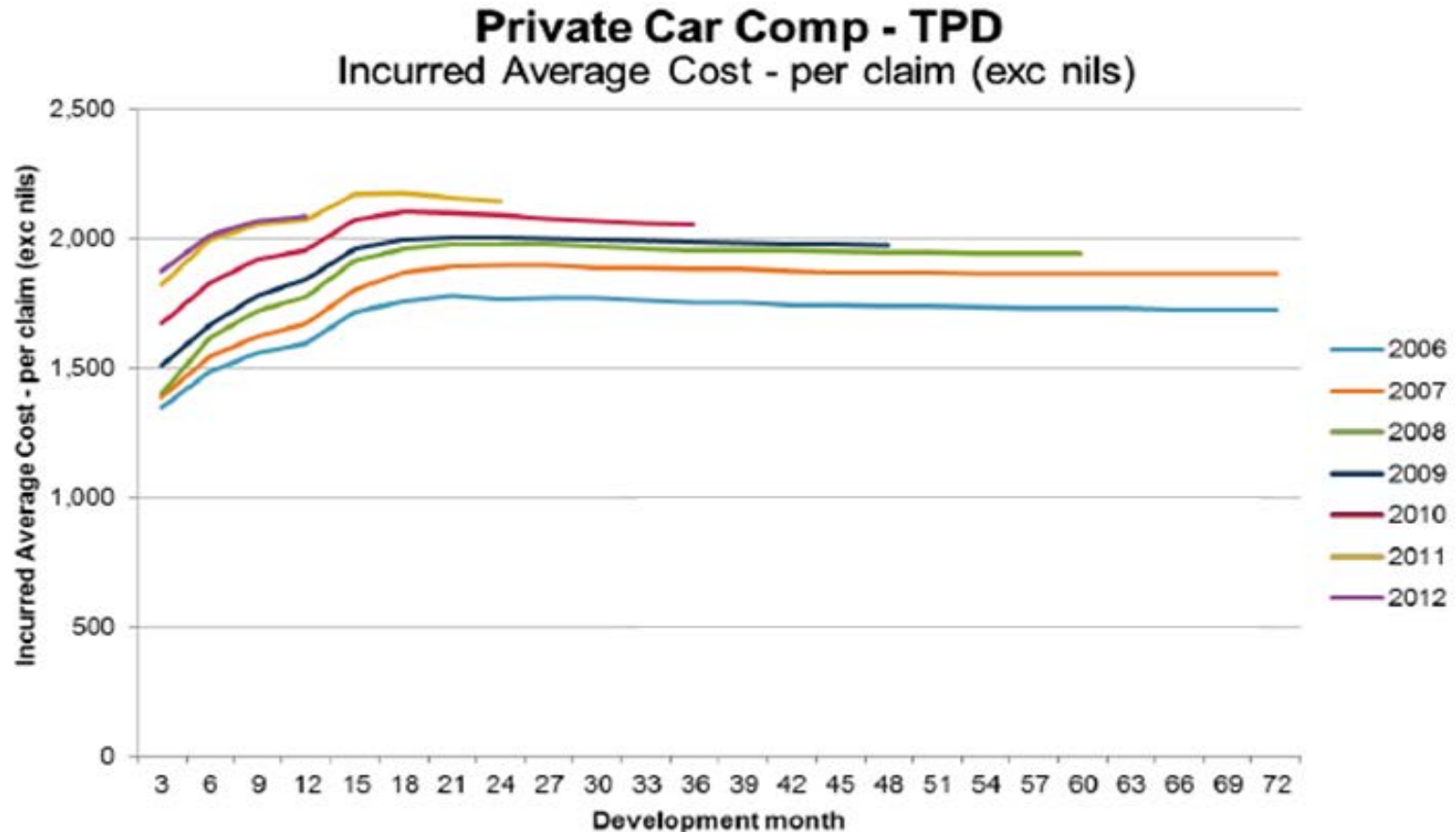


Source: IIB report on Motor Third Party Claims
Analysis of Claim Severity By Time lag bands
and Nature of loss

Reasons

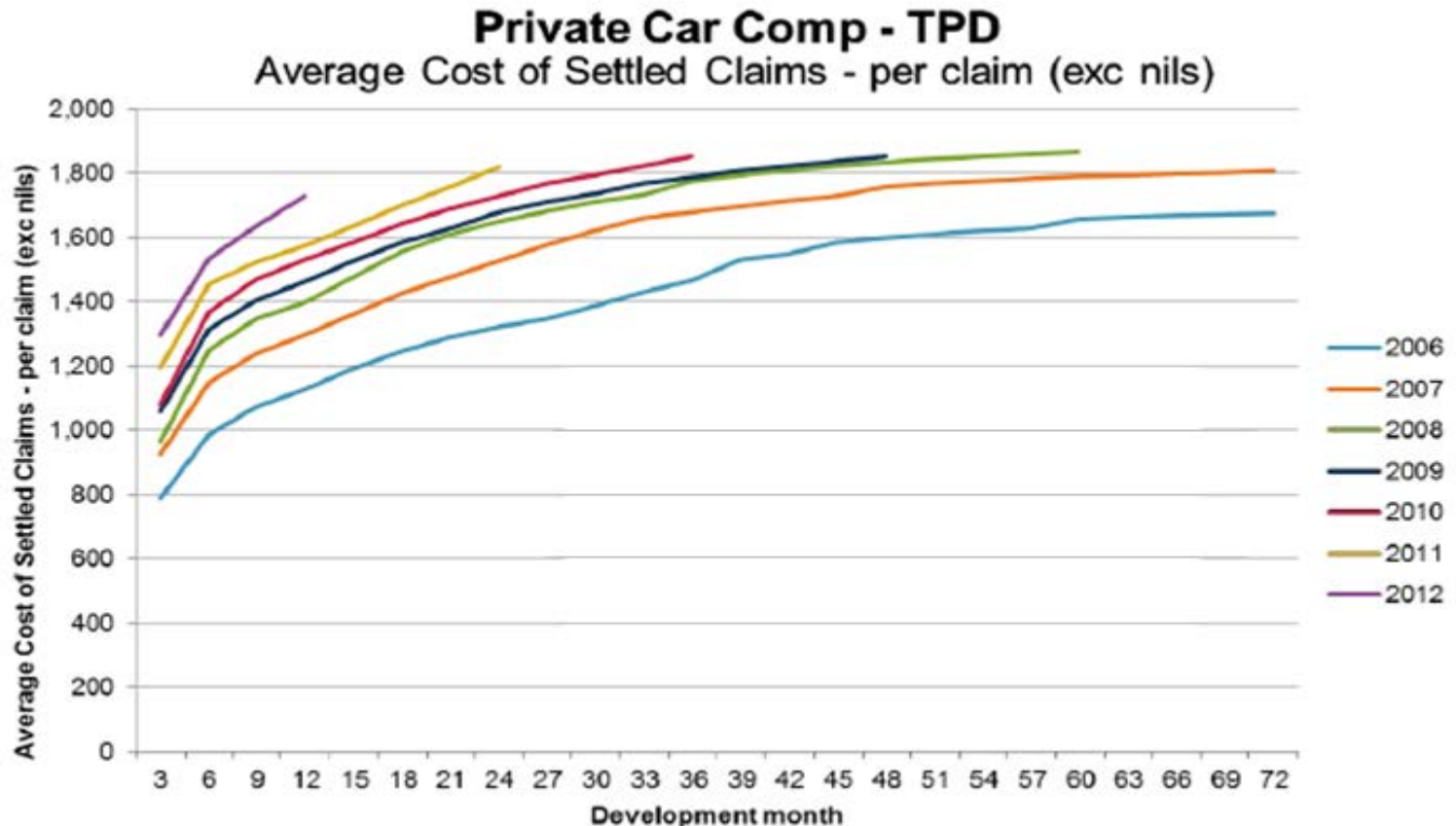
- Interest Income
- Large claims get settled late
- Inflation – other than wage inflation
- Fraud
- ?????

Claim Severity by time lag - UK



Source: Update from Third Party Working Party - David Brown and Rob Treen

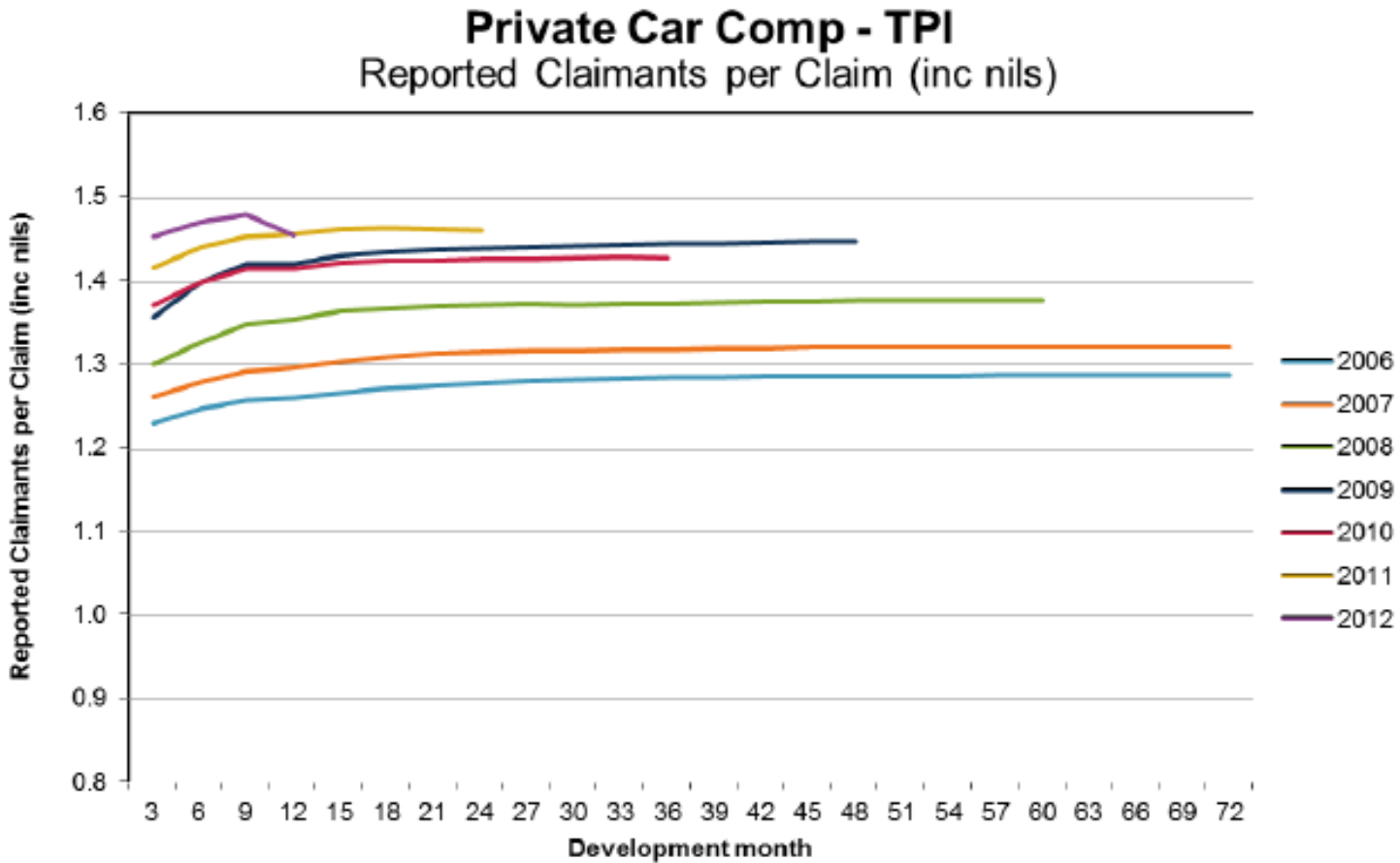
Claim Severity by time lag - UK



Source: Update from Third Party Working Party
- David Brown and Rob Treen

ACCUMULATION

Accumulation



Source: Update from Third Party Working Party
- David Brown and Rob Treen

Indian Experience - ???????



OTHERS

Challenges

- Inflation – Is CPI the right measure to change rates?
 - Studies suggest wage inflation index is better
 - Is there an Indian index?
- Mix of Injury and Death claims– is it changing?
- Large Claims
 - What is the size of a large claim today?
 - Was it a large claim 5 years ago?
- Court Awards
 - Sarla Verma, Rajesh Rajgirwhat's next?
- Change in legislation

Third Party – De-tariffing

- **Product Construct is governed by the Act and being mandatory in nature needs to be templated**
- **However pricing could be de-tariffed**
 - **Leading to better price discovery**
 - **More efficient claims management**
- **However key concern remains recognition of claims development and claims inflation**
 - **Council and IIB could play key role in access to data and standardizing approaches**
 - **IAI could train members on pricing and reserving long tail lines**

TP coverage in EU area

Minimum Amount of Insurance Coverage in Select Countries, 2009

Bureau code	Personal injury		Property damage	
	Per person	Per accident	Per person	Per accident
Austria	n.a.	€5 million	n.a.	€1 million
Belgium	n.a.	Unlimited	n.a.	€100 million
Bulgaria	€358,000	€512,000	n.a.	€102,000
Czech Republic	€1,319,000	n.a.	n.a.	€1,319,000
Denmark	n.a.	n.a.	n.a.	€2,550,000
Estonia	€351,000	€12,890,000	€102,000	n.a.
France	n.a.	Unlimited	n.a.	€1 million
Finland	n.a.	Unlimited	n.a.	€3.3 million
Greece	n.a.	€500,000	n.a.	€100,000
Hungary	n.a.	€5,636,000	n.a.	€1,879,000
Italy	n.a.	€774,685	n.a.	€774,685
Ireland	n.a.	Unlimited	n.a.	€1 million
Norway	n.a.	Unlimited	n.a.	€1,235,000
Netherlands	Refer to the compendium	€5 million	n.a.	€1 million
Poland	n.a.	€1.5 million	n.a.	€300,000
Romania	n.a.	€1.5 million	n.a.	€300,000
Slovakia		€2.5 million	n.a.	€500,000
Slovenia	n.a.	€3.7 million	n.a.	€750,000
United Kingdom	n.a.	Unlimited	n.a.	€1,027,000

Source: As reported by the Council of Bureaus on January 21, 2009.

Pricing Regulation

Practice for Price Approvals in Select European Countries

Country	Is tariff approval required?	Must rates be submitted?	Percentage of uninsured drivers
Austria	No	No	0.5
Belgium	No	Yes	1
Bulgaria	No	Yes	40
Croatia	Yes	No	3
Czech Republic	Yes	No	
Denmark	No	No	<1
Estonia	Yes	Yes	
Finland	No	No	0.01
France	No	No	<0.05
Germany	No	Yes	0.5
Greece	No	No	3
Hungary	No		3
Ireland	No	No	10–13
Italy	No	No	0.5
Netherlands	No	No	1.8
Norway	No	No	3-5
Poland	No	No	1.5–2
Slovakia	Yes ^a		
Slovenia	No		
Spain	No	Yes	4-5
Sweden	No		1
Switzerland	No	No	0.1
Turkey	Yes		>40
United Kingdom	No	No	5

Source: Munich Reinsurance K Forum, 2002.
a. Minimum rates

Motor Third Party Pool

- In the event of de-tariffing the pool could become redundant
- Each company can price segments and underwrite as per its risk appetite
- If certain segments arise which are perceived high risk (high cost of insurance) a new declined pool mechanism could be contemplated with appropriate subsidy mechanism

Thank You



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