Driving For Profit

A view of the UK Private and Commercial Motor insurance markets 2013

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1. EXECUTIVE SUMMARY

1.1 In this year's edition of *Driving For Profit* we present the results of our analyses of the performance of the Private and Commercial Motor market in the UK[1].

Private Motor

1.2 Starting with UK Private Motor, the overall performance of the market in 2013 has resulted in a pre-tax net insurance ratio[1] of 3.4%. This ratio has been highly distorted by the large prior years' reserve release made by the Direct Line Group. Excluding the Direct Line Group, the figures indicate that the market in aggregate is still operating at a loss with a pre-tax net insurance ratio of -0.6% in 2013. This is shown in Table 1.1 below.

Table 1.1
UK Private Motor: Performance Summary

	Financial Year																
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pre-Tax Profit (excluding reserve releases from prior years) in £m	-641	-771	-840	-130	282	549	371	315	-72	-263	-237	-464	-1,350	-1,243	-468	-497	-652
Pre-Tax Net Insurance Ratio (excluding reserve releases from prior years)	-10.3%	-11.6%	-12.0%	-1.7%	3.4%	6.6%	4.3%	3.5%	-1.1%	-4.1%	-3.7%	-6.8%	-20.8%	-18.5%	-6.1%	-6.4%	-9.0%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years)	-7.6%	-9.8%	-12.1%	-4.1%	3.8%	4.6%	4.5%	6.5%	3.3%	3.6%	6.7%	-0.1%	-20.9%	-45.1%	-4.6%	1.4%	3.4%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years and excluding DLG)	-7.1%	-9.8%	-12.9%	-4.3%	4.0%	2.8%	7.1%	9.2%	6.6%	8.2%	10.1%	2.5%	-18.6%	-13.3%	-3.1%	-3.1%	-0.6%

1.3 It should be noted that these figures relate mostly to the business of Private Motor insurance (including Motorcycle) in isolation. By and large, they do not take into account other sources of revenue or expenditure, even if indirectly related to Private Motor insurance. Examples would include revenues or profits from add-on services such as Breakdown Recovery or Legal Expense cover, or from fee income from referring to solicitors policyholders who have had accidents for which they were not liable (although the impact on results of referral fees should be marginal going forward, following the implementation of the Legal Aid, Sentencing and Punishment of Offenders Act ("LASPO") in April 2013).

1.4 The Private Motor pre-tax net insurance ratios shown above were bolstered in the 2004-2008 financial years by releases from prior years' reserves. In 2009 and especially in 2010, a few insurers, most notably those in what is now the Direct Line Group, strengthened their prior years' reserves, thus pulling down the results for those financial years. Many more insurers strengthened their reserves in 2011, offset by reserve releases by the Direct Line Group. In 2012 and 2013, the market saw an overall release, although this was mostly attributable to a further significant release by the Direct Line Group (two-thirds of the overall releases in 2013). The extent to which there will be further strengthening/releases of prior years' reserves across the various insurers is uncertain.

1.5 Excluding the Direct Line Group and its predecessor insurers, the pre-tax net insurance ratio across the industry still shows dramatic improvement since 2010 (from -13.3% to -0.6%), albeit it remains negative.

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[1] The pre-tax net insurance ratio is taken to be Investment Ratio less the (Combined Ratio minus 100%), where the Combined Ratio is calculated as:

(Incurred Claims + Expenses Incurred) / (Earned Premiums)

and the Investment Ratio is calculated as:

(Average Reserves Held) x (Corresponding Historic Annual Market Cash Return) / (Earned Premiums).

1.6 Considering only the underwriting performance for the current year (i.e. ignoring movements in prior years' reserves), the market operated unprofitably in 2013 with a pre-tax net insurance ratio of -9.0%. Performance has varied markedly from insurer to insurer, with the Direct Line Group, the largest Private Motor insurer by market share, achieving a gross combined ratio in 2013 of 124.1% (after adjustment of the expense ratio from the PRA returns to mitigate the one-off cost that was due to the divestment), while Aviva, the second largest Private Motor insurer by market share, achieved a gross combined ratio of 98.9% and was outperformed only by the Binomial Group which experienced a gross combined ratio of 75.6%.

1.7 Table 1.2 below shows some key performance indicators for Private Motor (Comprehensive and Non-Comprehensive business combined, Motorcycle business not included).

Table 1.2
UK Private Motor: Key Performance Indicators

	Financial Year																
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average Gross Earned Premium (£)	242	242	279	305	345	356	371	370	372	365	366	382	355	359	400	404	370
Claims Frequency	16.0%	15.6%	16.6%	16.2%	16.2%	15.7%	15.7%	15.7%	15.0%	15.9%	15.8%	15.5%	14.9%	14.2%	12.1%	12.4%	12.5%
Average Gross Incurred Claim (£)	1,380	1,435	1,509	1,615	1,646	1,704	1,809	1,831	2,031	1,951	1,969	2,099	2,205	2,476	2,689	2,666	2,391
Net Expense Ratio (Including Claims Management	30.1%	29.7%	28.4%	26.9%	27.3%	25.6%	26.1%	26.5%	26.2%	27.8%	27.7%	28.1%	27.4%	21.6%	25.7%	25.7%	27.8%

1.8 The average gross earned premium decreased in 2013 from £404 to £370. This decrease in average gross earned premium is the most significant in the last 16 years and follows a material increase in 2011 consolidated in 2012. It is the general view of commentators that the average premium for the Private Motor market decreased in 2013 due to fierce competition and the anticipation of beneficial outcomes arising from LASPO. We note that it has continued to decrease, by a further 8% to 10%, in the first two quarters of 2014.

1.9 After a run of continuous decreases between 2006 and 2011, claim frequency increased slightly in 2012 and 2013. On the other hand, the average gross incurred claim amount broadly stabilised in 2012, after several years of high inflation, and even decreased in 2013. Some decreases were to be expected, because of Ministry of Justice (MoJ) reforms to the claim environment, which were enacted in 2010 and again in 2013, and the impact of LASPO.

Commercial Motor

1.10 Table 1.3, below, indicates that the overall performance (including reserve releases from prior years) of the UK Commercial Motor market has deteriorated in 2013 to a pre-tax net insurance ratio of -6.9% (from -5.7% in 2012), following an improvement in performance from its trough in 2009. The causes of the deterioration in 2013 were twofold: deterioration in the operating loss for current year business; and strengthening of prior years' reserves. However, here too the results are significantly affected by the Direct Line Group releasing in 2012 a large amount of prior years' reserves and strengthening reserves in 2013. Excluding the Direct Line Group, the market shows an overall pre-tax net insurance ratio of -6.4% in 2013. As seen with the Private Motor market, insurers have experienced noticeably varied performance.

Table 1.3
UK Commercial Motor: Performance Summary

	Financial Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pre-Tax Profit (excluding reserve releases from prior years) in £m	148	-30	-29	-132	-278	-280	-135	-144	-186
Pre-Tax Net Insurance Ratio (excluding reserve releases from prior years)	6.5%	-1.3%	-1.3%	-6.1%	-15.0%	-15.0%	-5.7%	-5.7%	-6.9%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years)	15.0%	17.5%	14.4%	10.3%	-8.4%	-8.0%	-7.1%	-1.3%	-8.3%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years and excluding DLG)	14.7%	18.1%	15.3%	11.5%	-6.9%	-6.1%	-3.8%	-3.5%	-6.4%

1.11 We note that, in 2005, the Financial Services Authority ("FSA") changed some of the definitions of general insurance business reporting categories. This change resulted in inconsistencies between the 2004 and 2005 regulatory returns for the Commercial Motor categories. Therefore, throughout this Market View we have considered only financial years 2005 onwards when analysing the Commercial Motor market.

1.12 Similarly to Table 1.2, Table 1.4 below shows some key performance indicators for Commercial Motor (Fleet and Non-Fleet business combined, "Other" business not included).

Table 1.4
UK Commercial Motor: Key Performance Indicators

	Financial Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Average Gross Earned Premium (£)	615	638	623	634	639	628	651	699	734
Claims Frequency	19.6%	19.7%	22.5%	22.2%	22.6%	24.6%	21.4%	21.0%	21.4%
Average Gross Incurred Claim (£)	2,445	2,658	2,331	2,454	2,463	2,259	2,567	2,808	2,687
Net Expense Ratio (Including Claims Management Costs)	25.9%	26.8%	28.4%	30.8%	28.0%	26.0%	24.3%	26.1%	25.3%

1.13 The average gross earned premium continued increasing in 2013. There was also a 4% decrease in the average gross incurred claim amount, the impact of which on the results has been partially offset by a slight increase in the frequency.

General Comments

1.14 In September 2012, the Office of Fair Trading ("OFT") referred the Private Motor insurance market to the Competition Commission after issuing a report in which it described the UK Private Motor insurance market as "dysfunctional". The report set out how premiums were being pushed up by £225 million a year as insurers focused on raising rivals' costs in order to gain a competitive advantage. Evidence showed that, as insurers of not-at-fault drivers had control over the repairs and vehicle replacement services for their drivers, those insurers were generating revenues through rebates and referral fees and so inflating the costs to the insurers of at-fault drivers. The Competition Commission's investigation is still ongoing but the final report is due to be published by 27 September 2014. The initial findings of the investigation, published in 2013, were that:

- Inefficiencies within the market are costing consumers between £150 million and £200 million a year, which add around £6 to £8 onto a motor insurance policy
- Following accidents, many car repairs aren't being completed to an acceptable standard
- Consumers find it difficult to find the best value products, because of the sale of add-ons, and consumers do not fully understand their legal entitlements after an accident.

1.15 In June 2014, the Competition and Markets Authority, which took over from the Competition Commission, proposed some changes:

- While, following an accident, the cost of providing a replacement vehicle to the non-fault driver should remain with the insurer of the at-fault drivers, a dual rate cap on those costs (low and high rate cap) should be introduced
- Consumers should be provided (both as at policy inception and as at the first notification of a loss) with better information about their rights following an accident and with better information on the costs and benefits of no-claims bonus protection
- Price parity agreements between price comparison websites should be outlawed as they are perceived to have been limiting the prices insurers could offer customers

1.16 Legal changes - MoJ Reforms: There have been several recent legal developments related to the cost of claims. The process relating to small personal injury claims (between £1,000 and £10,000) was streamlined with effect from April 2010. This was intended to accelerate settlements, to reduce legal costs and administrative expenses, and to reduce the scope for litigation. As a result, insurers noted accelerated claim payments in the early stages of claim development. In April 2013, further MoJ reforms were implemented, which included extending to £25,000 the upper limit for personal injury claims to fall within the streamlined process (while also including claims arising in relation to employers' liability and public liability policies), fixing solicitor fees and reducing prescribed time-frames.

1.17 Legal changes - LASPO: Following adverse publicity for referral fees (whereby lawyers and other third parties pay for the names and contact details of accident victims), they were outlawed as part of LASPO, which received Royal Assent in May 2012 and was implemented April 2013. LASPO also requires that all parties now have to pay their own legal costs, and that neither 'success fees' nor 'after-the-event' insurance premiums may be recovered from an unsuccessful defendant in an injury claim. To mitigate the fact that claimants must meet their own costs in pursuing claims, awards for general damages were increased by 10% with effect from 1 April 2013. Since its implementation, the MoJ Portal has received 11% fewer road traffic accident claims (497,983 between April 2013 and the year-end, compared with 559,135 in the same period the year before), which might in part be due to a 22% reduction in the number of claim management companies (CMCs) that are currently active. However, despite the reduction in claim numbers, the average damages paid out have increased, with an 18% increase over the year to December 2013.

1.18 Whiplash Reform: Recent figures indicate that the total cost of whiplash claims to the industry is more than £2 billion per annum, which equates to £90 per insured driver. There is rarely physical evidence of injury in whiplash-related claims which makes difficult any validation or repudiation of claims. While many whiplash-related claims are genuine and relate to real pain and suffering, it is likely that some of the cost of whiplash claims is due to fraudulent activity, with claims being made for exaggerated or even non-existent injuries. Some of the LASPO measures (as mentioned above) are intended to reduce the cost of whiplash claims to the industry, but the government (through the Transport Select Committee) is looking at further reforms which would help tackle what is a major industry issue. Later in 2014, the government will introduce independent medical panels (which will be funded by insurers) to identify exaggerated or fraudulent claims for whiplash. The government is hoping to reduce the cost of motor insurance, as only evidence from accredited professionals will be considered, while still protecting those who have suffered genuine injuries.

1.19 With measures being taken to combat fraudulent whiplash claims, attention has now turned to dealing with other fraudulent claim costs. In 2013, motor claims were the most commonly detected source of insurance fraud and the most costly. In 2013, nearly 60,000[2] fraudulent motor claims were detected, an increase of 34% over 2012. These claims were for amounts totalling £811 million. The most common type of motor insurance fraud remains staged or contrived accidents. Additionally, claims are often made for vehicle damage unrelated to the claim event or for injuries to passengers who were not in any vehicle involved in the claim event.

1.20 The number of in-force telematics policies increased from 180,000 in July 2013 to 296,000 in January 2014. Additionally, there are now more than 16 providers offering a telematics product, whereas a few years ago there were only two main providers. In general, telematics policies have appealed mostly to younger drivers who, assuming their driving experience demonstrates that they are low-risk, can see premium savings of up to £1,000. Newly manufactured cars are including an increasing amount of in-built telematics technology, which will present car manufacturers and insurers greater opportunities to work together. Moreover, a telematics aggregator will soon be launched, which will take telematics into the mainstream market.

1.21 My Licence is a new government initiative which will see all driving records accessible online. The migration is expected to be completed by mid-2015. As a result of this move, insurers will have access to accurate information about all policy applicants, including any driving convictions and penalty points, which means that they can be more confident regarding their underwriting. Full disclosure of all driving offences is expected to lead to lower premiums for honest motorists.

1.22 Interest rates remain low and therefore investment income will provide insurers with only a very thin cushion against underwriting shortfalls. The “forward guidance” recently provided by the Bank of England recognised significant improvements for the UK economy but said that there needs to be further growth in the economy before interest rates would be raised and, when they come, increases in interest rates are likely to be gradual and limited. It is therefore unlikely that returns will pick up materially in the near future.

1.23 The UK motor market continues to be very competitive, struggling with the various competing pressures. Stable markets depend on the manufacturers being able to make an adequate return on capital and there being an even balance between the interests of the various stakeholders. In the case of UK Private Motor, we believe that various factors, in particular the continued influence of price comparison websites, mean that the balance is weighted in favour of the policyholders over the insurers. It is possible that telematics, with the greater information and insight that telematics data provides to insurers, will restore a more even balance to the market. However, despite significant recent advances, collecting, handling, and analysing the telematics data will prove challenging for many insurers.

1.24 With the continuing decline in average premiums in the market and uncertainty regarding the magnitude of the savings that insurers will actually achieve as a result of the recent reforms, we suspect that the positive pre-tax insurance ratio seen in the UK Private Motor market in 2012 and 2013 will prove to be temporary and that results will slip back in 2014.

1.25 In the rest of this Market View, we review some of the statistics behind the recent performance of the UK Private and Commercial Motor insurance markets. In particular, we consider:

- Market profitability;
- Premium rates;
- Claim frequency and average size; and
- Comparative performance of major players in the markets.

[2] Source: Association of British Insurers.

1.26 Please note that, in this Market View, when we refer to the PRA we are referring to the UK supervisory body, or bodies, with responsibility at the relevant time for the UK insurance market and UK insurers. Between 2001 and 31 March 2013 that role was held by the FSA. With effect from 1 April 2013, responsibility has been split between the newly created Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), with the Financial Services Authority being abolished. Prior to 2001, responsibility was held by HM Treasury and before that by the Department of Trade and Industry.

2. MARKET PROFITABILITY

2.1 The bars in Figure 2.1 below show the number of licensed private cars in Great Britain[3] as at the end of each of the last 20 years, and the dotted line shows the year-on-year increase in those numbers. Similarly, Figure 2.2 below shows the number of licensed commercial vehicles in Great Britain as at the end of each of the last 20 years.

Figure 2.1
Number of Licensed Private Cars on the Roads of Great Britain

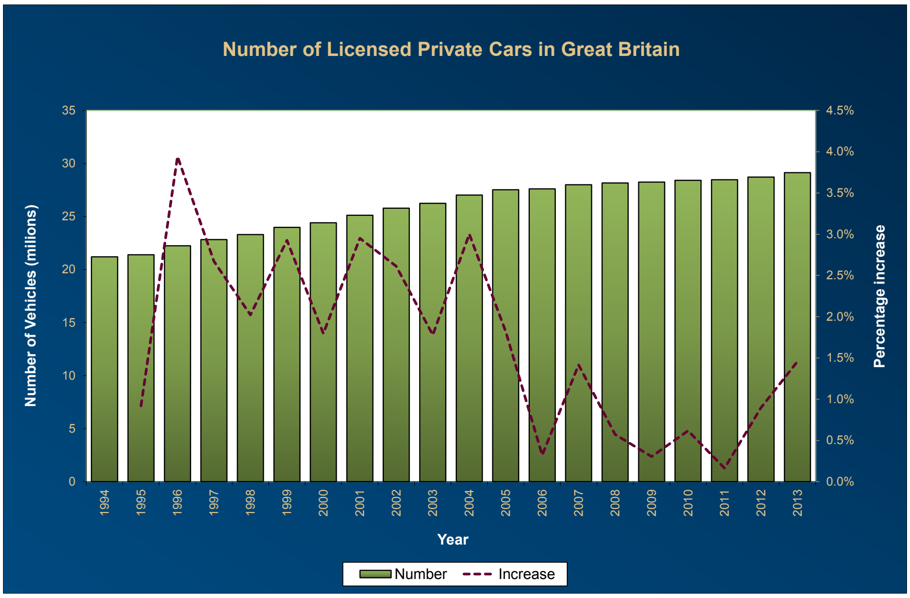
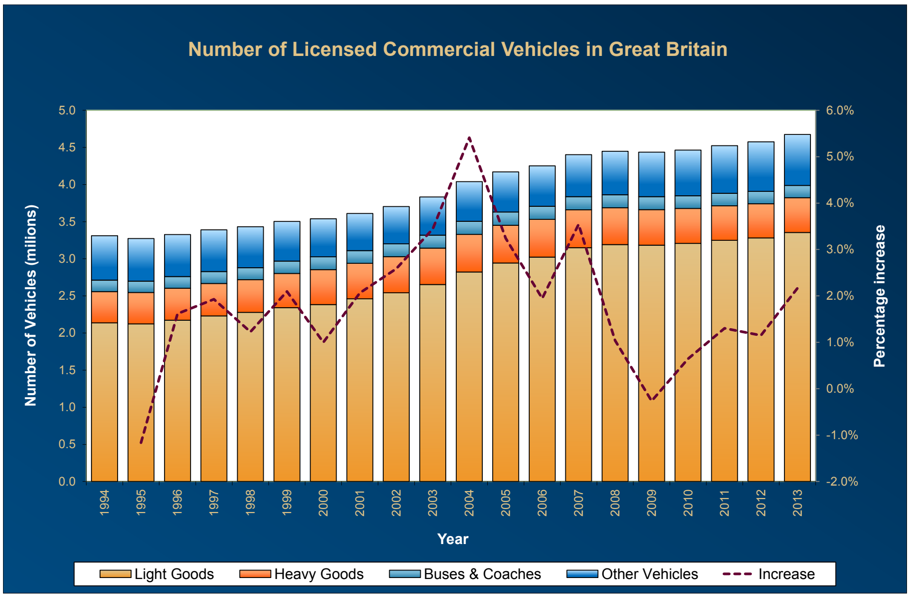


Figure 2.2
Number of Commercial Vehicles on the Roads of Great Britain



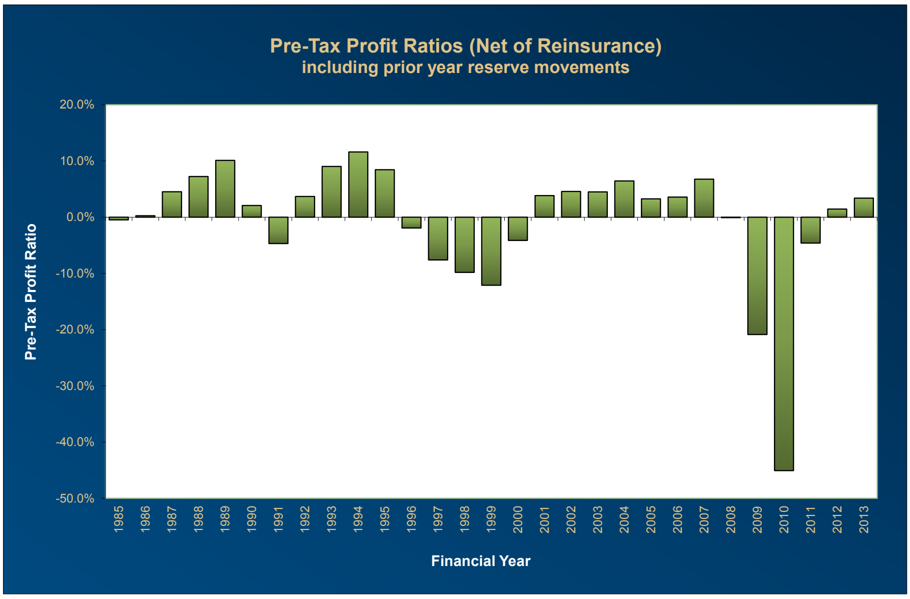
[3] Based on quarterly vehicle licensing statistics produced by the Department for Transport. Note that these figures do not include Northern Ireland.

2.2 The number of licensed private cars in Great Britain reached 29.1 million as at 31 December 2013, a 1.5% increase since 31 December 2012. Between 2008 and 2012, the rate of increase in the number of licensed private cars has been less than 1% per annum (which could be explained by the depressed economic conditions experienced over this period), followed by a 1.5% increase in 2013.

2.3 The number of licensed commercial vehicles in Great Britain reached 4.7 million as at 31 December 2013, a 2.2% increase since 31 December 2012. The rate of increase has, again, been less than 2% per annum for recent years, with the number of registered commercial vehicles actually decreasing from 2008 to 2009.

2.4 The UK Private Motor insurance market has exhibited classic cyclical characteristics for over 25 years, as shown by its profitability history in Figure 2.3 below measured by the pre-tax profit ratios[4].

Figure 2.3
UK Private Motor: Profitability History



2.5 Figure 2.3 above and Figure 2.4 below have been derived from the PRA returns (up to the end of 2013), comprising the aggregated data for Private Motor Comprehensive, Private Motor Non-Comprehensive and Motorcycle business. Therefore, these graphs, and all other figures and tables within this Market View, exclude all UK motor business written in the Lloyd's market or by insurers that are subject to regulatory supervision outside the UK (e.g. Admiral, Equity Red Star, Quinn Insurance, Hastings and, with effect from 2009, Zurich's UK business). We have taken the number of licensed private cars in the United Kingdom in 2013 (29.1 million in Great Britain, plus 0.9 million[5] in Northern Ireland) as a proxy for the size of the UK Private Motor insurance market (i.e. 30.0 million cars). The PRA returns show that 62% (18.7 million) of these cars were insured in 2013 by companies supervised by the PRA. A similar calculation for the UK Commercial Motor market gives an estimate, for the size of the UK Commercial Motor insurance market, of 4.7 million vehicles, with 63% (3.0 million) of these vehicles insured by PRA regulated companies.

[4] In above, the pre-tax profit ratio is taken to be 100% minus the Insurance Ratio. The Insurance Ratio comprises the Combined Ratio less the Investment Ratio, where the Combined Ratio is calculated as:

(Incurred Claims + Expenses Incurred) / (Earned Premiums)

and the Investment Ratio is calculated as:

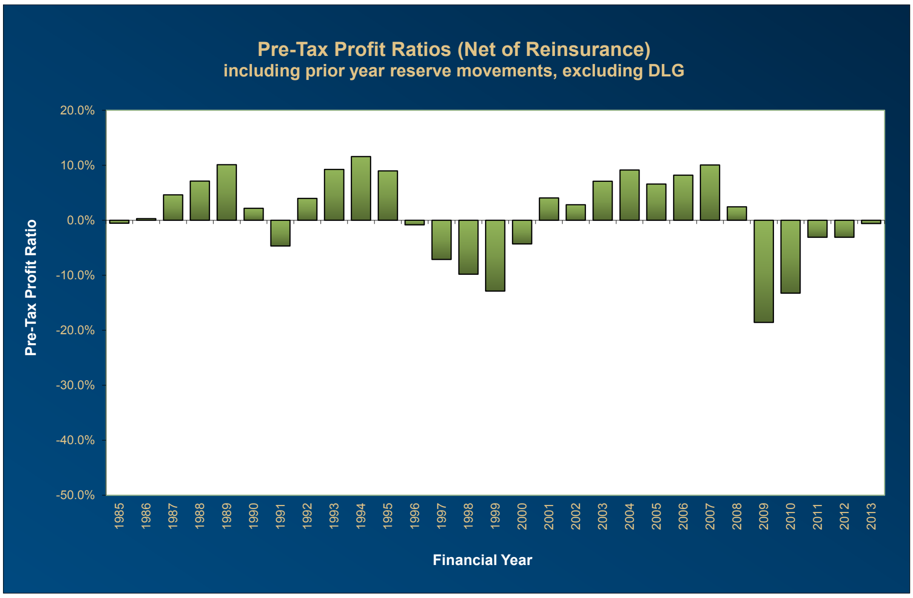
(Average Reserves Held) x (Corresponding Historic Annual Market Cash Return) / (Earned Premiums).

"Incurred claims" in this case means the ultimate costs of claims incurred during the financial year plus the cost of movements during the year in the claim reserves for prior accident years

[5] Northern Ireland Transport Statistics 2011-12 as published by the Department for Regional Development.

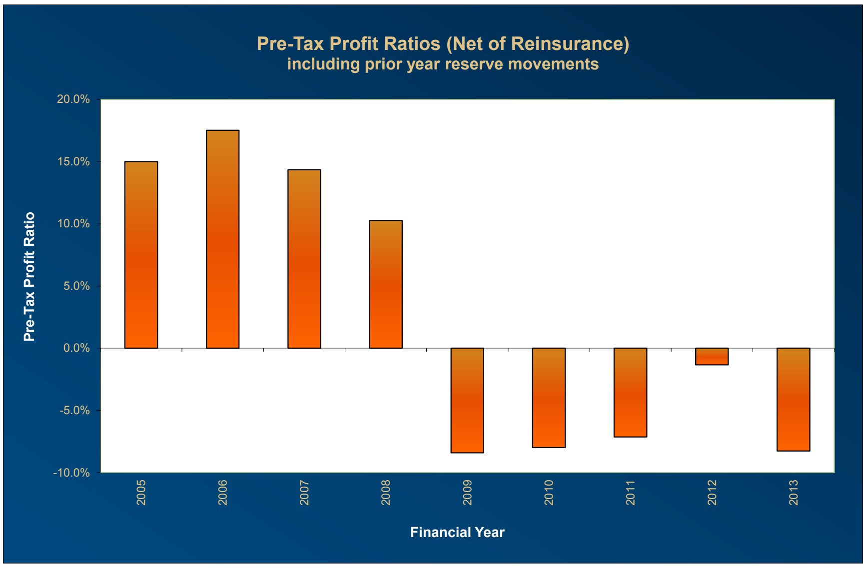
2.6 The pre-tax profit ratios in Figure 2.3 above are distorted by the results published by the Direct Line Group. During 2010, the then component parts of the Group (Direct Line, Churchill, NIG and UK Insurance) strengthened their prior years' reserves very significantly, far more so than did the rest of the market. The Group then made material prior years' reserve releases in 2011, 2012 and 2013. We restate, in Figure 2.4 below, the figures in Figure 2.3, this time excluding the figures of the Direct Line Group and of its component parts.

Figure 2.4
UK Private Motor: Profitability History (excluding the Direct Line Group)



2.7 Because of changes in definitions within the PRA returns, we are unable to show the profitability history for Commercial Motor over such a long period as for Private Motor, Figure 2.5 below shows that over the last nine years the UK Commercial Motor insurance market exhibits a similar pattern to the UK Private Motor market, albeit one that, on average, has been more profitable. We note that, while Private Motor saw some releases of prior years' reserves during 2013, prior years' reserves were strengthened for Commercial Motor in 2013. The analysis is based on Fleet, Non-Fleet and Other Commercial Motor combined.

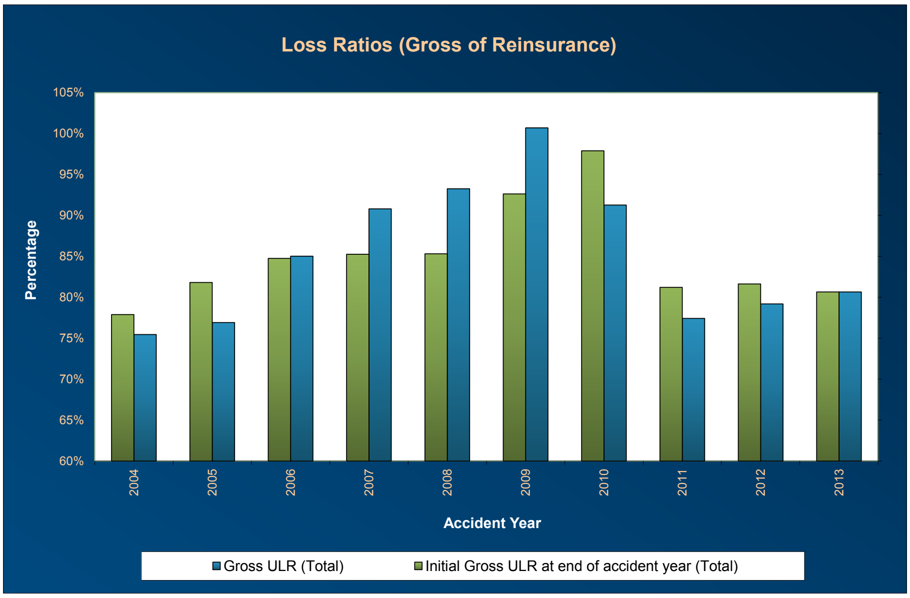
Figure 2.5
UK Commercial Motor: Profitability History



2.8 Net expense ratios (including claim management costs) over the last 25 years have been 22% - 30% for Private Motor insurers (with the exception of 2010) and have been 24% - 31% over the last nine years for Commercial Motor insurers; investment income as a proportion of net premiums was mostly between 6% and 10% for the period 1990-2008, since when it has significantly declined to proportions close to 1%. This leaves the claim experience – both the underlying losses incurred in the financial year in question and the effect of releases from or strengthening of reserves in respect of prior years' claims – as the main driver of the results.

2.9 In Figure 2.6 below we show the gross loss ratios for Private Motor (Comprehensive and Non-Comprehensive combined) by accident year. For each accident year there are two ratios: that denoted by the green bar is the loss ratio recorded across the market for that accident year at the end of the accident year in question; and that shown in blue represents the estimate of the loss ratio for that accident year as at the 2013 year end. If the green bar is taller than the blue bar then this indicates that there were subsequent releases from the reserves initially set up at the end of the particular accident year; if the blue bar is the taller then this indicates subsequent reserve strengthening.

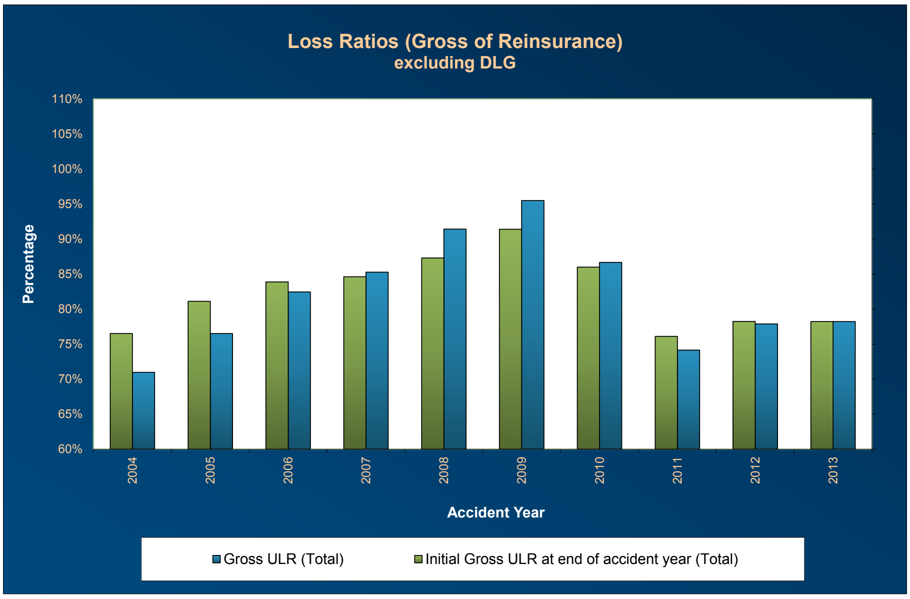
Figure 2.6
UK Private Motor: Gross Loss Ratios by Accident Year



2.10 As can be seen in Figure 2.6, the loss ratios estimated as at the end of accident years 2004-2005 and 2010-2012 have subsequently been viewed to have been conservative and the latest estimated loss ratios are lower than these initial estimates. However, for accident years 2006-2009, there has been subsequent strengthening of the loss ratios estimated as at the end of those accident years.

2.11 Again, this pattern is distorted by the strengthening during 2010 (and some subsequent releases) of prior years' reserves within what has since become the Direct Line Group. Therefore, we have restated in Figure 2.7 below the gross loss ratios across the market, excluding those relating to the Direct Line Group.

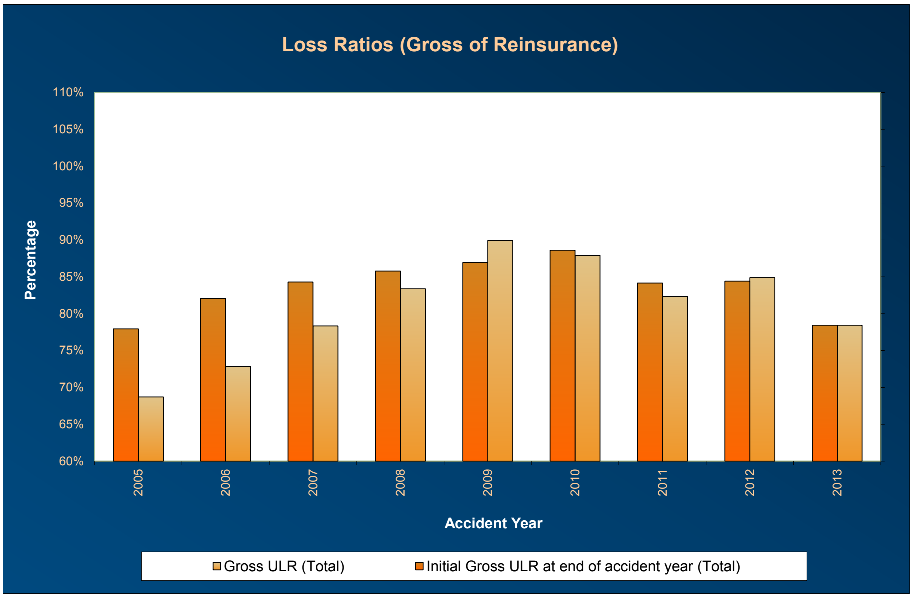
Figure 2.7 UK Private Motor: Gross Loss Ratios by Accident Year, Excluding Those Relating to the Direct Line Group



2.12 The pattern in Figure 2.7 is similar to that in Figure 2.6 save that the degree of strengthening seen in respect of the 2007-2009 accident years has not been as strong as when considering the situation for the whole market including the Direct Line Group. Accident years 2007-2009 were the first to be materially affected by the increasing frequency of claims relating to soft tissue injuries, such as whiplash, and the increasing costs of credit hire – as these issues had not previously appeared in the data it took time for their impact to be recognised fully.

2.13 Similarly to Figure 2.6 and Figure 2.7, we show the gross loss ratios for Commercial Motor (Fleet and Non-Fleet combined) by accident year in Figure 2.8 below, this time with the darker bar representing the loss ratio set at the end of the accident year in question and the lighter bar the loss ratio booked for that accident year as at the 2013 year-end. This shows releases made to the reserves booked as at the end of accident years 2005-2008 and 2010-2011, whereas those reserves booked as at the end of accident years 2009 and 2012 have subsequently required strengthening.

Figure 2.8
UK Commercial Motor: Gross Loss Ratios by Accident Year



2.14 Although Figure 2.6, Figure 2.7 and Figure 2.8 do not indicate the ultimate position (in particular, the most recent accident years' loss ratios are likely to be subject to future movements), they do indicate that there has been a strong upward trend in the loss ratios, which appears only to have been reversed in 2010 for both Private Motor and Commercial Motor following large increases in premium rates. Premium rates reduced for Private Motor in 2012 (and subsequently in 2013), leading to a higher average gross loss ratio for accident year 2012 over the accident year 2011. The average gross loss ratio appears broadly unchanged for accident year 2013 with insurance companies expecting the benefits from LASPO to offset the decrease in premium rates, although past experience is that the ultimate loss ratio for a particular accident year differs from that set at the end of the accident year in question. The improving gross loss ratio for accident year 2013 for Commercial Motor results to a large extent from premium rates increases.

2.15 In Figure 2.9 and Figure 2.10 below, we consider the net expense ratios for Private Motor (excluding the Direct Line Group, for which there appear to be some unusual movements, especially in 2010) and for Commercial Motor respectively.

Figure 2.9
UK Private Motor (excluding the Direct Line Group): Market Expense Ratios

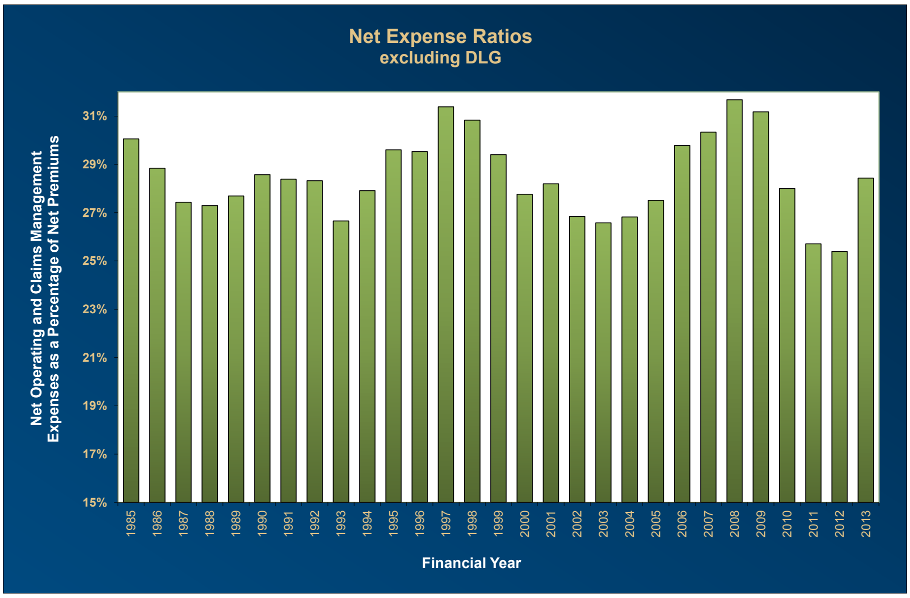
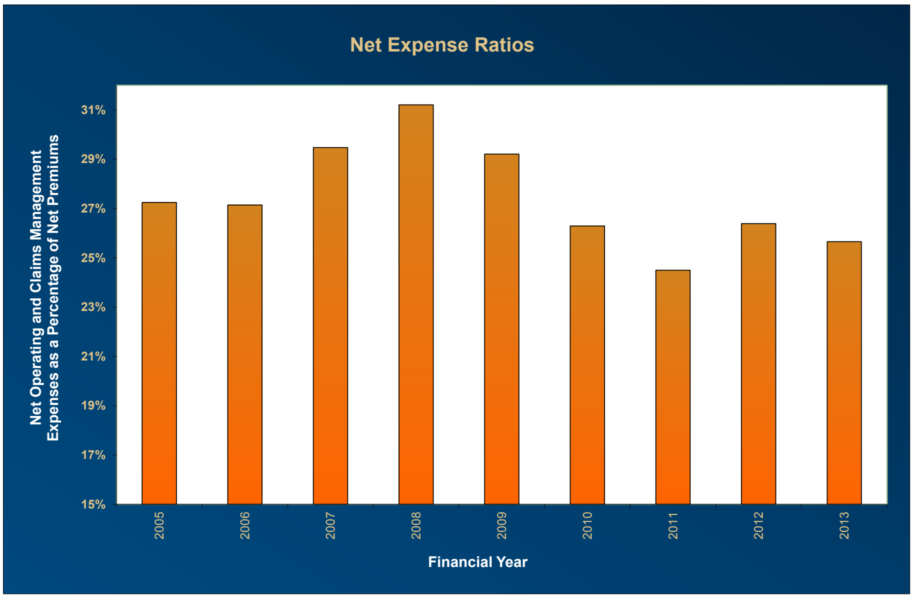


Figure 2.10
UK Commercial Motor: Market Expense Ratios



2.16 With net expense ratio percentages mostly in the mid to high 20s and with investment income providing little mitigation over recent years, breakeven loss ratios have been about 70%-80% in recent years. These net expense ratio graphs exhibit cyclical patterns with the pattern for Private Motor being particularly clear. Notwithstanding various initiatives among insurers to control costs, the downward trend in the expense ratios since the 2008/2009 accident year peak is testimony to the industry achieving sustained increases in earned premiums, particularly in accident years 2010 and 2011. However, in 2012 Commercial Motor saw expense ratios increasing again, while in 2013 the expense ratio for Private Motor also increased materially.

2.17 Having alluded to the movements in the prior years' reserves that have occurred during recent financial years, we set out in Figure 2.11 to Figure 2.14 below the reserve releases, expressed as a percentage of net earned premiums, for each financial year to 31 December 2013, separately for the Direct Line Group's Private Motor business, for the whole of the UK Private Motor market (excluding the Direct Line Group), for the Direct Line Group's Commercial Motor business, and for the whole of the UK Commercial Motor market (excluding the Direct Line Group).

Figure 2.11 UK Private Motor: Prior Years' Reserve Releases in Each Accident Year Relating to the Direct Line Group Only

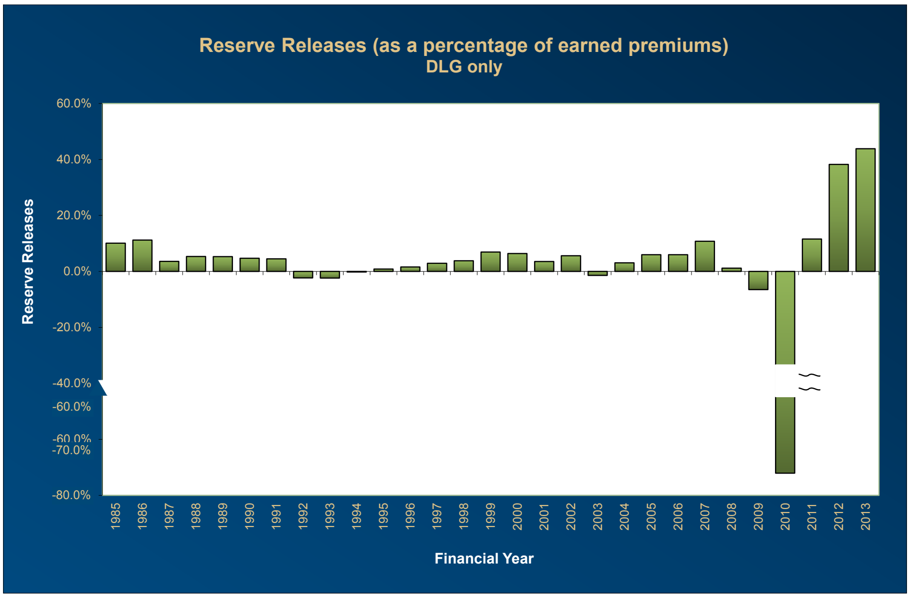
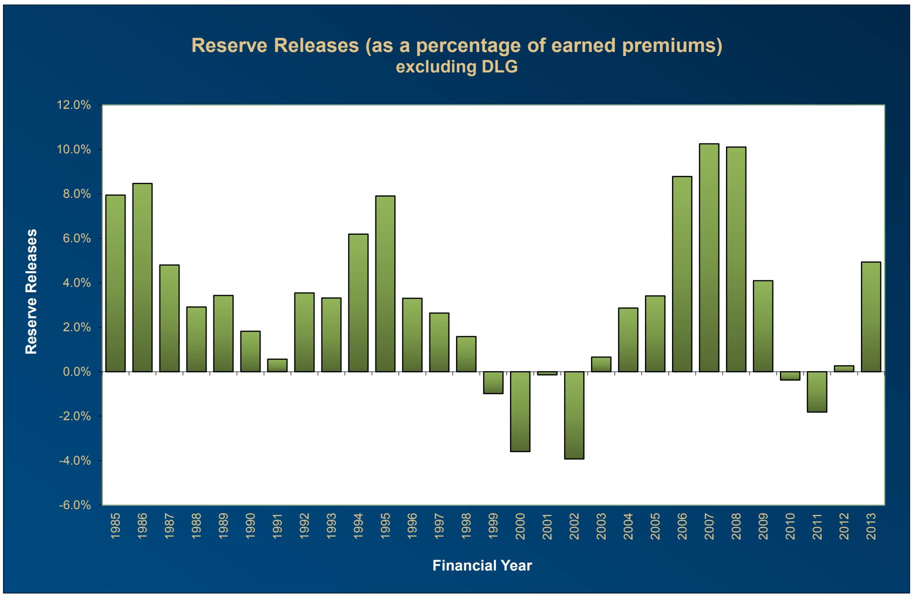


Figure 2.12
UK Private Motor: Prior Years' Reserve Releases in Each Accident Year Relating to the Entire Market Excluding the Direct Line Group



2.18 The patterns shown in Figure 2.11 and Figure 2.12 are very different from one another. Before 2009, the Direct Line Group companies (which were all part of the RBS Group throughout that period) tended, in aggregate, to provide year-on-year releases from their reserves, equivalent on average to about 4% of the net premiums for each year. However, in 2009, the Group strengthened claim reserves and did so again to a much greater extent in 2010. It then appeared to reverse some of the 2009/2010 strengthening in both 2011 and 2012. Over the same period, the rest of UK Private Motor had, in aggregate, generated a far less consistent pattern of releases, with strengthening required in some years and significant releases in 2006, 2007 and 2008. Further, more modest, releases followed in 2009, although there was a small degree of strengthening in 2010 and further strengthening in 2011. Accident year 2013 exhibits a similar pattern for the Direct Line Group and for the rest of UK Private Motor, with significant releases on prior years' claim reserves for both.

Figure 2.13 UK Commercial Motor: Prior Years' Reserve Releases in Each Accident Year Relating to the Direct Line Group Only

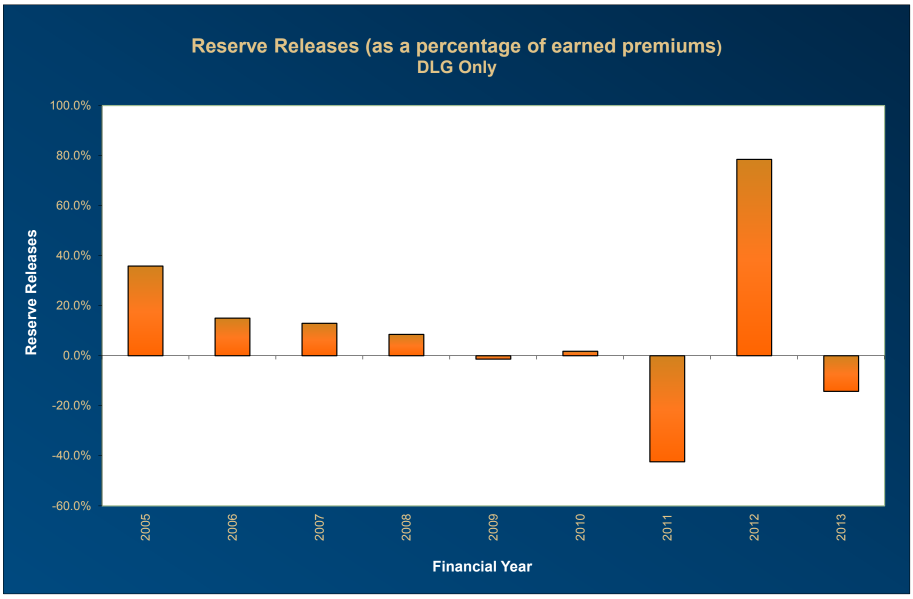
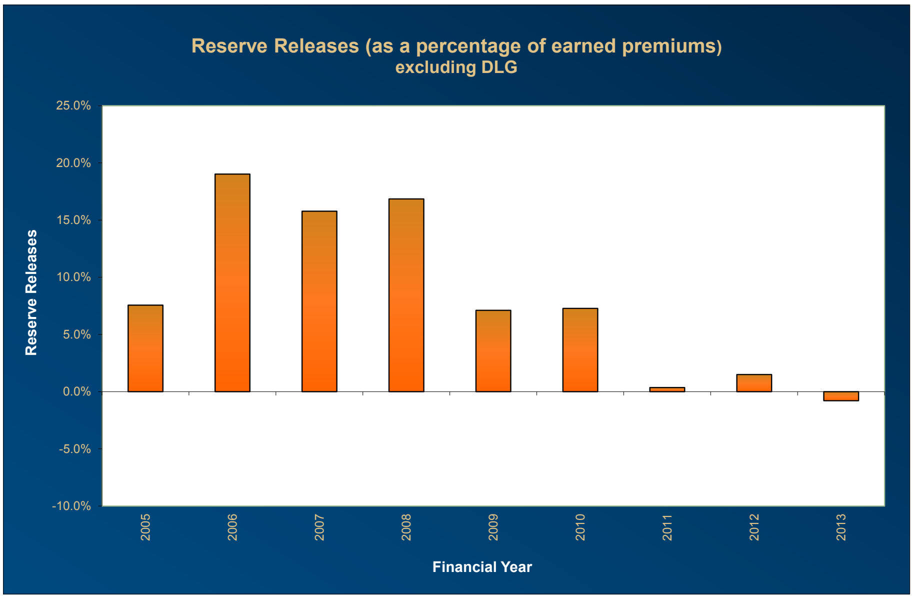


Figure 2.14
UK Commercial Motor: Prior Years' Reserve Releases in Each Accident Year Relating to the Entire Market Excluding the Direct Line Group

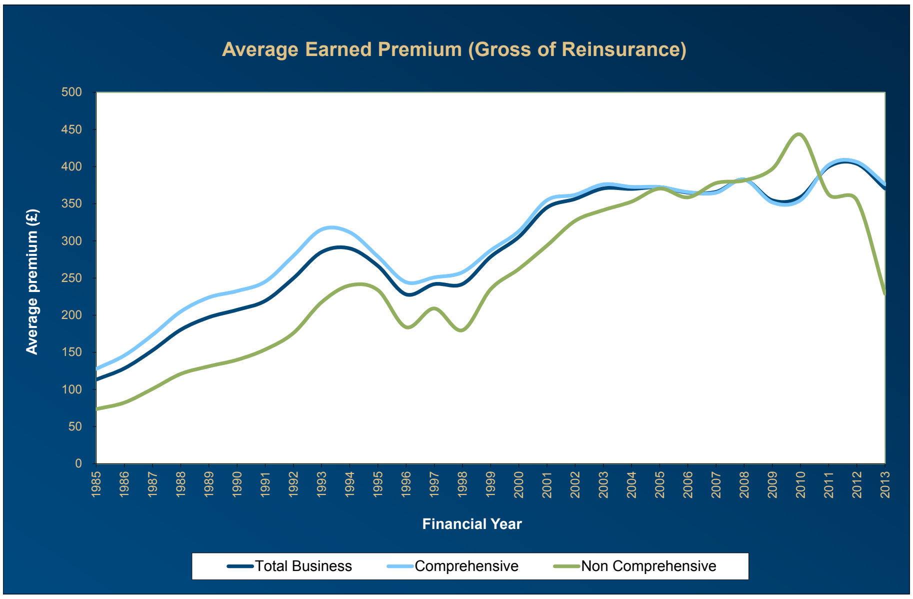


2.19 UK Commercial Motor (excluding the Direct Line Group) has shown reserve releases up until 2012, while in 2013 the market showed reserve strengthening, albeit very small. The Direct Line Group has experienced a material claim reserves strengthening in 2011 followed by a significant reserve release in 2012 and then reverted back to claim reserves strengthening in 2013.

3. PREMIUMS

3.1 Figure 2.3 and Figure 2.4 above show that the bottom of the previous trough within the UK Private Motor underwriting cycle was in 1998. Average Private Motor market premiums had been in steady decline since about 1993, bottoming out towards the end of 1996. From 1998 to 2003 (2005 for Non-Comprehensive business), there was steady growth in premium rates. Since then Non-Comprehensive average premiums have shown upward movement (particularly in 2010) followed by a sudden significant downward movement in 2011 onwards, whereas Comprehensive average premiums have been largely flat with a few oscillations. In 2011, Non-Comprehensive average premiums fell significantly below Comprehensive average premiums for the first time since 2004 and, in 2012, market premiums for both the Comprehensive and Non-Comprehensive markets remained close to their 2011 level. In 2013, market average premiums for the Comprehensive market reduced compared to their 2012 level but to a lesser extent than for the Non-Comprehensive market. This is illustrated in Figure 3.1 below:

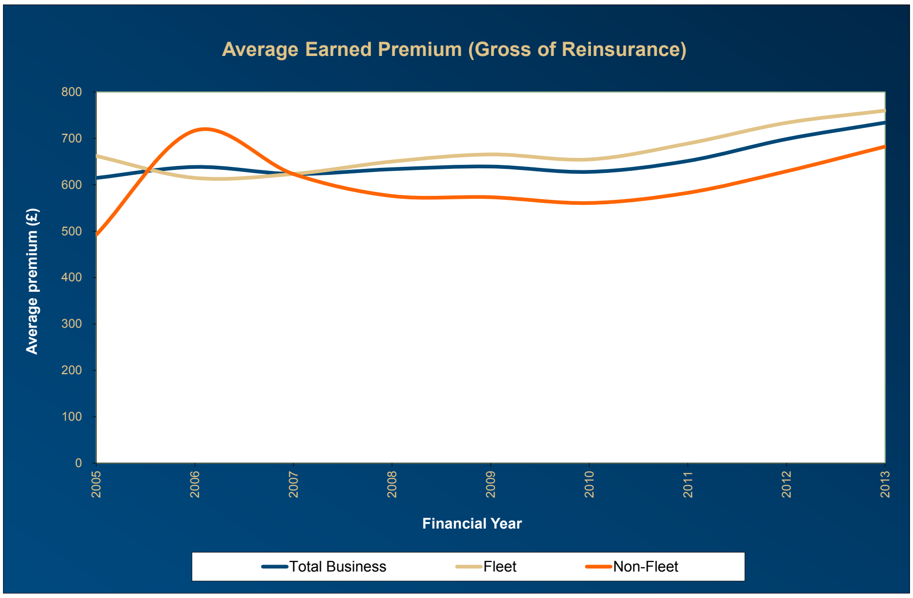
Figure 3.1
UK Private Motor: Average Earned Premium History



3.2 In 2008 and 2009, insurers struggled to translate headline premium rate rises into sustained increases in average written premiums, as consumers took advantage of their increasing ability to shop around. In 2010 and 2011, it appears that the rate increases applied to Comprehensive premiums stuck. Those rate increases continued into 2012 but their impact seems to have been largely negated by subsequent rate reductions. Premium rates continued to fall in 2013 due to competition and the anticipation of benefits from LASPO, and indeed mid-2014 saw the 10th consecutive fall in premiums. The outlawing of gender-based premium rating at the end of 2012 has, as expected, caused premiums for young men to fall, but the increases in premium rates charged to young women have been less than expected.

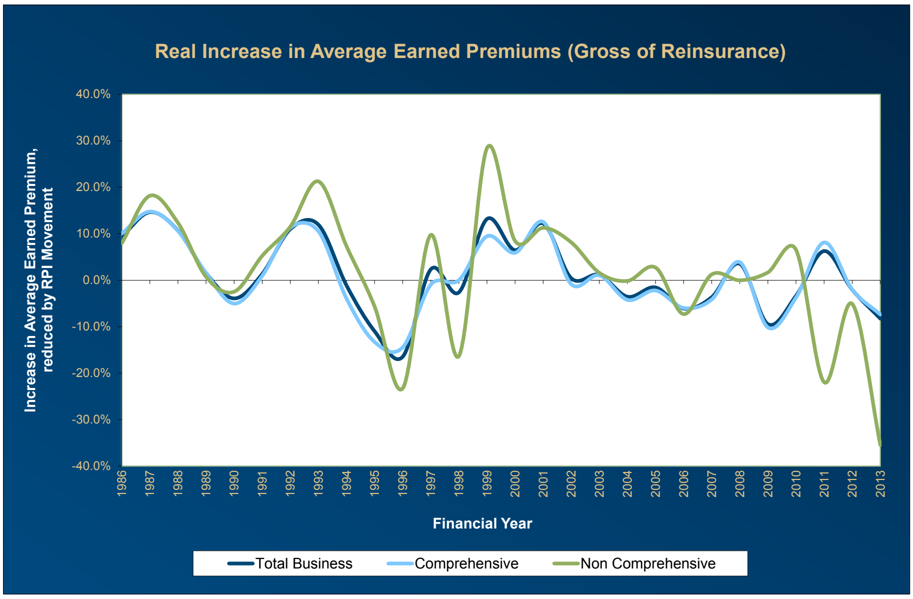
3.3 As can be seen in Figure 3.2 below, average Commercial Motor premiums have remained relatively stable over the last 8 years with a slight but continuous uplift from 2011. Non-Fleet average premiums have shown more volatility than Fleet average premiums, but not to the same extent as seen within the Private Motor industry over the same period.

Figure 3.2
UK Commercial Motor: Average Written Premium History



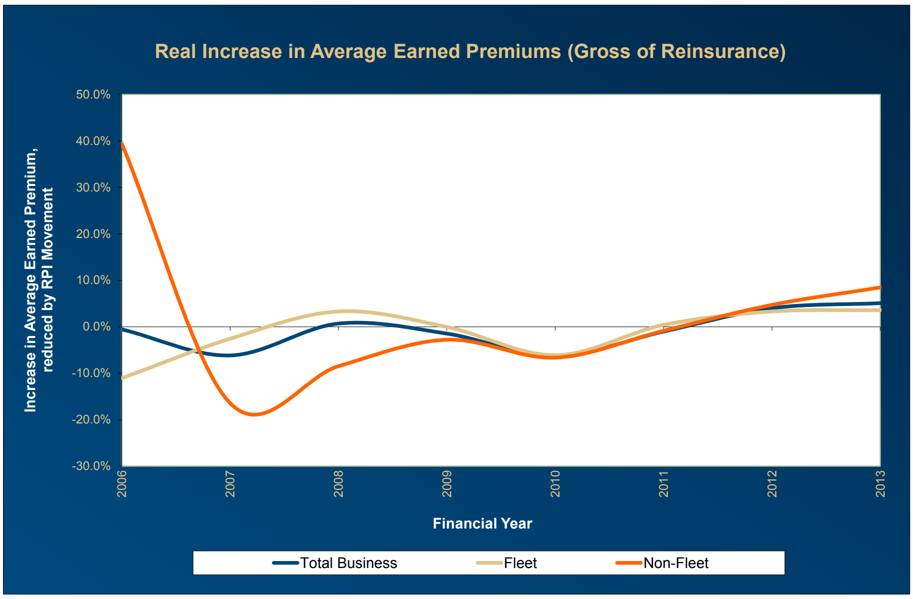
3.4 In Figure 3.3 and Figure 3.4 below we have offset the year-on-year changes in the average earned premiums shown in Figure 3.1 and Figure 3.2, respectively, by the corresponding movements in the Retail Price Index ('RPI').

Figure 3.3
UK Private Motor: Average Earned (Inflation-Adjusted) Premium History



3.5 Figure 3.3 above provides a view of the "real" development of average Private Motor market premiums. We notice that Non-Comprehensive premium rates have been more volatile in "real" terms than those for Comprehensive business. However, Non-Comprehensive business accounted for only 2% of the total premiums earned in 2013, which follows a steady decline from 1314%, the level at which it had remained between 1998 and 2004. Therefore, the premium rate movement for the total business tracks closely that observed for the less volatile Comprehensive business. The reducing exposure has made Non-Comprehensive business more susceptible to changes in the exposure profile, which in turn has made the average earned premium measure for that business more volatile. It can also been seen from Figure 3.3 above that policyholders had been subject to "real" decreases in their motor insurance premiums for Comprehensive and Non-Comprehensive business in 2013.

Figure 3.4
UK Commercial Motor: Average Earned (inflation-adjusted) Premium History



3.6 From Figure 3.4, we can see that "real" increases in average written premiums for total Commercial Motor business follow the same pattern as that for Fleet business as Fleet has constituted roughly 70% (by earned premiums) of the Commercial Motor market over the last 9 years.

3.7 Adjusting the average premium increases by movements in RPI provides a crude representation of inflation-adjusted movements. In practice, the year-on-year inflation in damage claim costs has been dampened by decreasing accident rates. On the other hand, year-on-year inflation in bodily injury claim costs has been far greater than the rise in RPI, with the lower accident frequency only partially mitigating this inflation as the proportion of accidents that involve bodily injury claims has also been rising. This is discussed in more detail in the Section 4 of this Market View.

4. CLAIMS

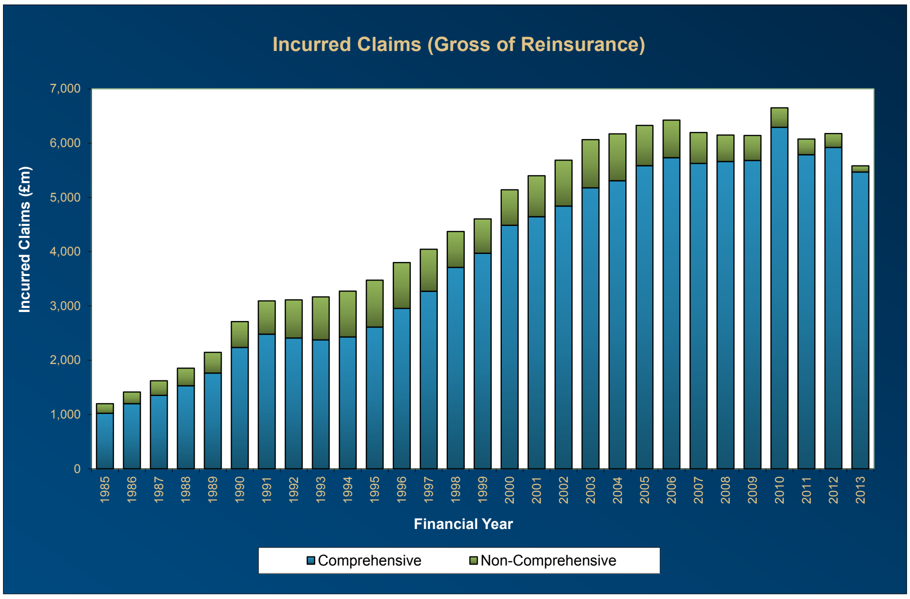
4.1 Figure 4.1 below shows the aggregate gross claims incurred amounts by the Private Motor market during each of the financial years from 1985. Over this period, the cost of Private Motor insurance claims has risen substantially (an increase of around 500%). Costs appeared to have reached a peak in 2006 after which they fell back by about 6% and, save for a spike in 2010, have remained fairly flat between 2007 and 2012, followed by a minor drop in 2013 (which was due to a large extent to releases of prior years' reserves). However, this pattern is not a true reflection of what has been happening in the market:

4.1.1 The figures from the PRA returns have been distorted over time by insurers within the UK market moving in or out of PRA supervision. For example, had Zurich not restructured so that its UK business now falls within the supervisory remit of the Central Bank of Ireland, the incurred claim amount for 2009 would have been (based upon the immediately prior year's figures) roughly 6% higher, i.e., back to the 2006 level, and we would expect there to have been a similar uplift in 2010 through 2013.

4.1.2 They have also been distorted by business moving between insurers regulated by the PRA and insurers not regulated by the PRA. For example, Admiral, which falls under the regulator in Gibraltar, materially increased its share of the UK market in 2010 and 2011, presumably taking its increased market share largely from insurers regulated by the PRA, which will have had a dampening effect on the numbers underlying Figure 4.1.

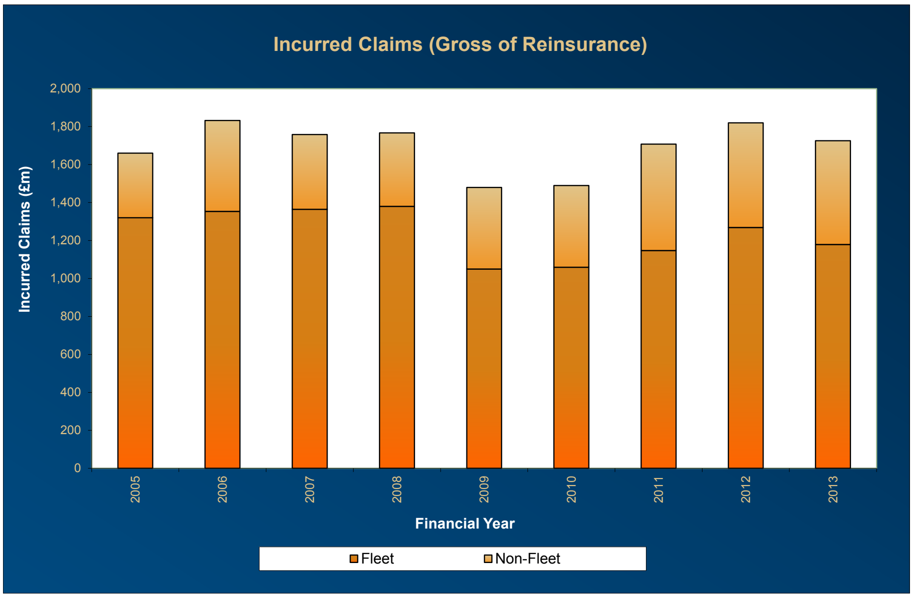
4.1.3 The numbers underlying Figure 4.1 are both the claim amounts incurred in that financial year plus movements in that financial year in respect of the prior years' claim reserves. The spike in 2010 would reflect prior years' reserve strengthening conducted in that financial year, especially that conducted by the Direct Line Group.

Figure 4.1
UK Private Motor: Incurred Claim History



4.2 Figure 4.2 below shows the aggregate gross claims incurred amounts by the Commercial Motor market for the last nine financial years. Costs peaked in 2008, and then fell back by about 16% in 2009 which can largely be attributed to Zurich's relocation to Ireland. Had Zurich not relocated, the aggregate decrease in 2009 would have only been about 3%. In 2011, there was a sharp increase of 15% in gross incurred claim amounts, with Non-Fleet being the main source of the increase, and a further 7% in 2012 (this time Fleet being the driver). There was a 5% decrease in 2013.

Figure 4.2
UK Commercial Motor: Incurred Claim History



4.3 As mentioned above, Figure 4.1 and Figure 4.2 above are based on financial year results, i.e. the claim amounts for each financial year are those booked for the then current accident year, plus the reserve adjustments made during the year in respect of prior accident years' claims. We have also considered the aggregate gross claim costs by accident year, based on the *ultimate* amounts booked by the market as at 31 December 2013, i.e. redistributing all of the prior years' reserve movements back to the accident years of origin. These ultimate claim amounts are shown in Figure 4.3 and Figure 4.4 below, which exhibit slightly different patterns from those in Figure 4.1 and Figure 4.2.

Figure 4.3
UK Private Motor: Ultimate Claim History

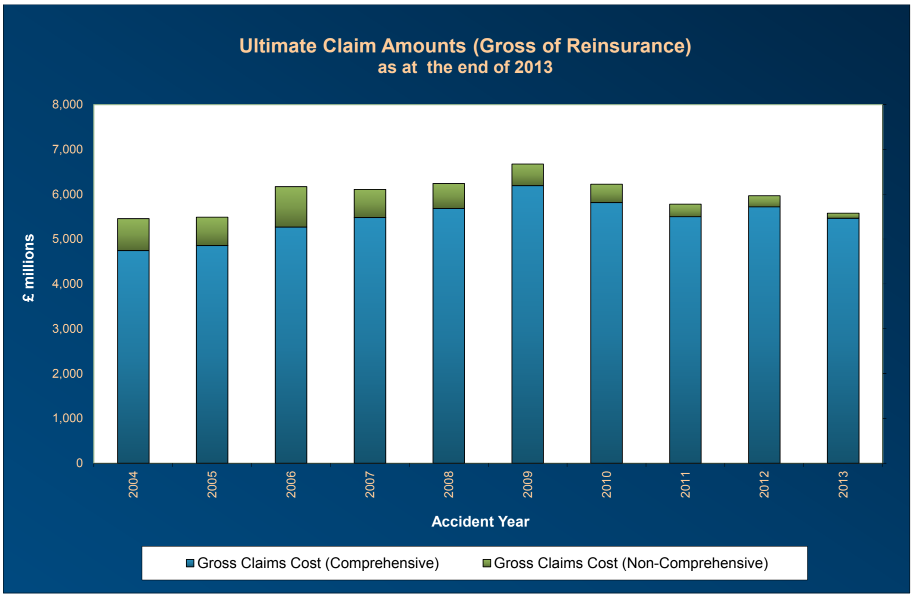
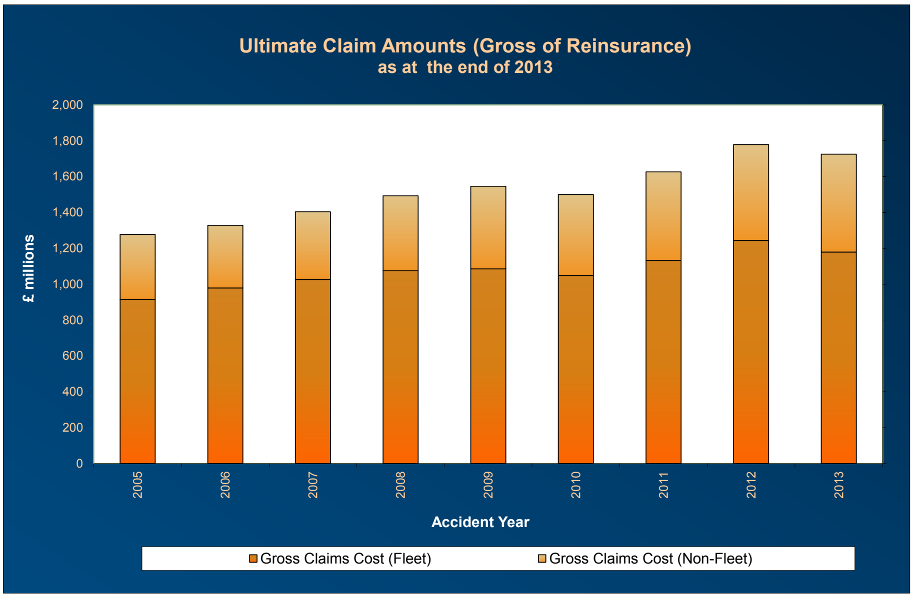


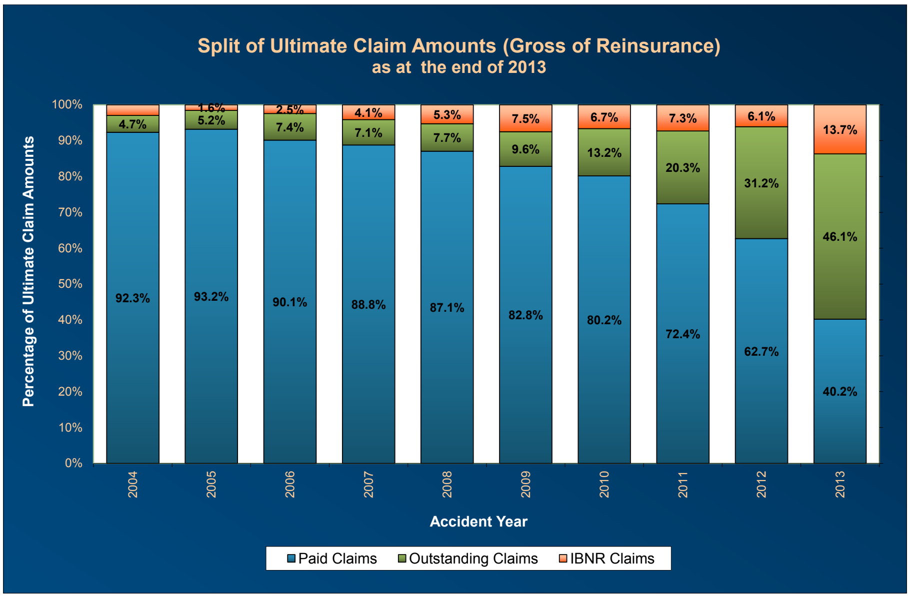
Figure 4.4
UK Commercial Motor: Ultimate Claim History



4.4 The claim amounts relating to the more recent accident years are based on data that is relatively immature, especially for the 2013 accident year. Therefore there is greater uncertainty regarding the ultimate claim costs for these accident years than for earlier accident years.

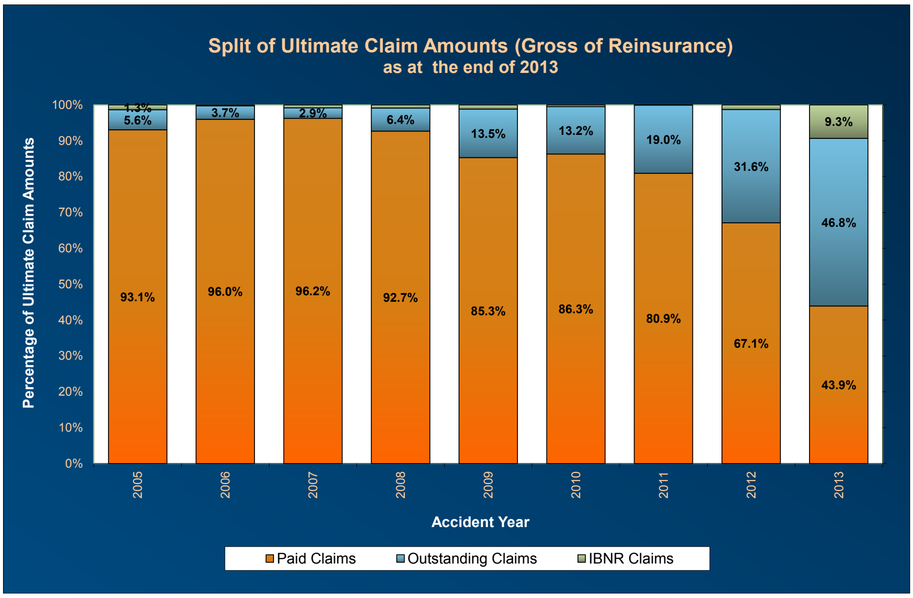
4.5 Figure 4.5 and Figure 4.6 show how the ultimate claim amounts, illustrated in Figure 4.3 and Figure 4.4 above, are split between paid, outstanding, and incurred but not reported (IBNR[6]) amounts. They indicate that the Commercial Motor claims are generally reported and settled quicker than Private Motor claims.

Figure 4.5
UK Private Motor: Ultimate Claim History



6 The IBNR amount includes allowance for both claims that have been incurred but not yet reported ('pure IBNR') and for claims that have been reported but which may be deficient (or excessive) in the size of case estimate ('incurred but not enough reported' or IBNER).

Figure 4.6
UK Commercial Motor: Ultimate Claim History



4.6 There are three main factors to consider when examining claim costs:

- The number of vehicles insured
- The average cost per claim (which we express as the total claim cost incurred divided by the number of claims incurred)
- Claim frequency (which we measure in terms of the number of claims incurred expressed as a proportion of the number of vehicles insured)

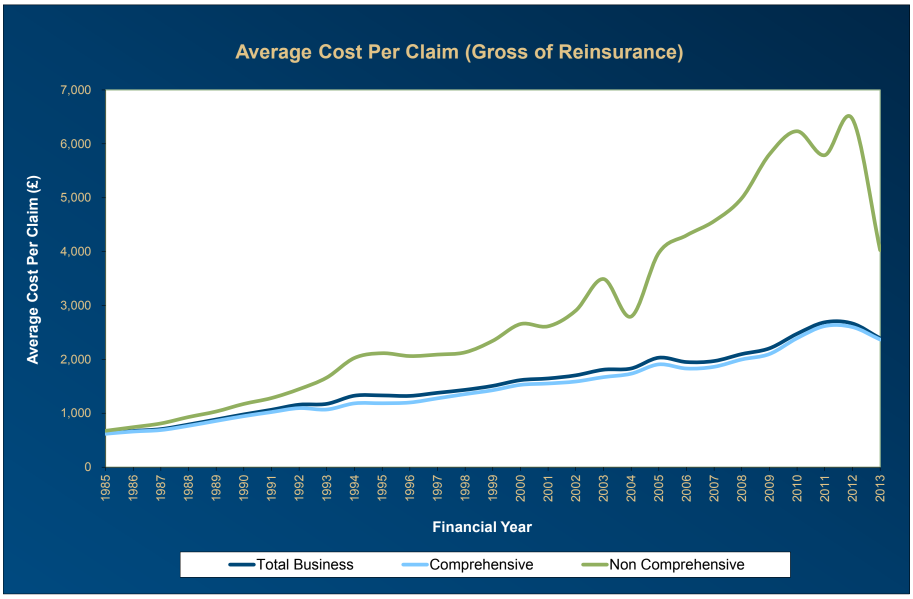
We consider each of these in turn in the paragraphs below.

4.7 The number of Private Motor vehicles covered by the insurance companies shown in the PRA returns rose from 12.0 million in 1985 to 18.7 million in 2013, a 56% increase. This figure for 2013 has fallen back by nearly 1.5% p.a. from 21.4 million vehicles insured in 2004. The 18.7 million also falls well short of the total number of Private Motor vehicles on the roads in the UK (by 31 December 2013, there were 30.0m cars licensed for use on UK roads[7]). Most of the shortfall relates to vehicles insured via Lloyd's or by non-PRA regulated insurance companies. The rest are primarily vehicles being driven on UK roads without any insurance cover. Although the number of uninsured drivers on UK roads has fallen materially over the past five years because of action taken by the authorities to crack-down on driving without insurance (and the government has recently announced further action in this direction), there remain roughly 1.2 million motorists (i.e. 4% of licensed vehicles) on UK roads with no insurance cover.

[7] Vehicle Licensing Statistics: Statistical Release April 2013 as published by the Department for Transport; Northern Ireland Transport Statistics 2011-12 as published by the Department for Regional Development.

4.8 The average incurred cost per claim for the Private Motor industry, for each financial year and gross of reinsurance, is illustrated in Figure 4.7 below (which does not take into account prior years' reserve movements).

Figure 4.7
UK Private Motor: Average Claim Cost History



4.9 The rate of increase for Comprehensive claims has been relatively stable over time when compared with that of Non-Comprehensive claims.

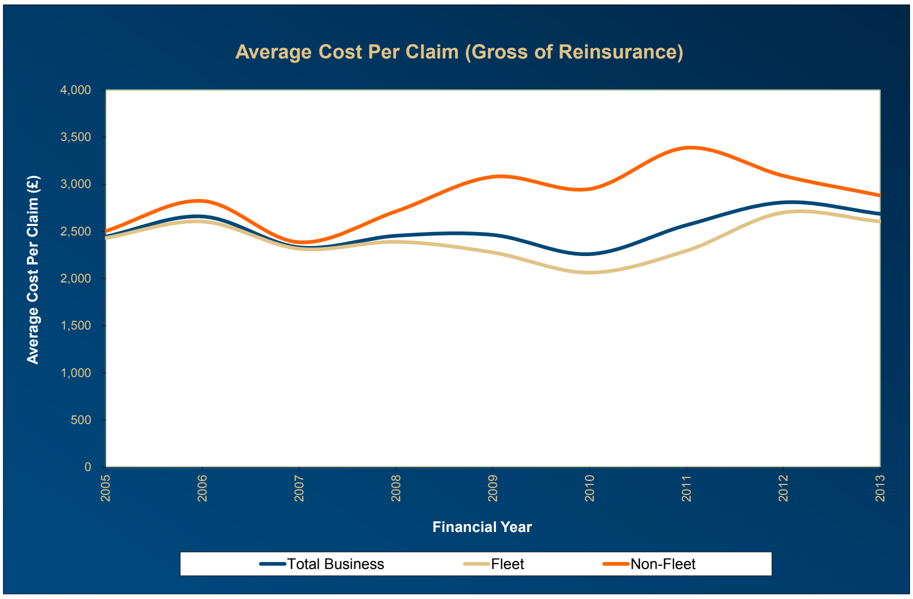
4.9.1 The average cost of Comprehensive claims has increased from £619 in 1985 to £2,368 in 2013, an increase of 283%. This is equivalent to 4.7% per annum since 1985, a rate which, aside from a few blips, has been relatively steady. We note that the average cost per claim has decreased from £2,619 in 2011 to £2,600 in 2012 and £2,368 in 2013. It is too early to draw definitive conclusions but the combined effects of the MoJ Reforms, LASPO and proactive mitigation of fraudulent claims are likely to have been significant contributors to such reductions in the average cost per claim.

4.9.2 The average cost of Non-Comprehensive, although showing a long-term increasing trend, exhibits more volatile patterns in recent years due in part to the material reduction in exposure (from 3.3 million vehicle years in 2003 to 0.7 million in 2013), making the average cost per claim more sensitive to the occurrence (or non-occurrence) of large bodily injury claims.

4.10 During 2013, the RPI increased by 3%, and had increased by 90% between 1990 and 2013 (equivalent to an average increase of 2.7% per annum). This shows clearly that, over the long term, average claim costs for Private Motor insurance have been increasing at a rate well above that of price inflation (especially for Non-Comprehensive claims). The main driver for this has been inflation in injury settlement costs. These costs are relatively more significant for Non-Comprehensive cover – hence the steeper rate of increase for Non-Comprehensive average claim costs. The inflation in injury settlement costs has been compounded by increases in the proportion of claims that involve personal injury.

4.11 The average cost per claim for Commercial Motor, for each financial year and gross of reinsurance, is illustrated in Figure 4.8 below (which does not take into account prior years' reserve movements).

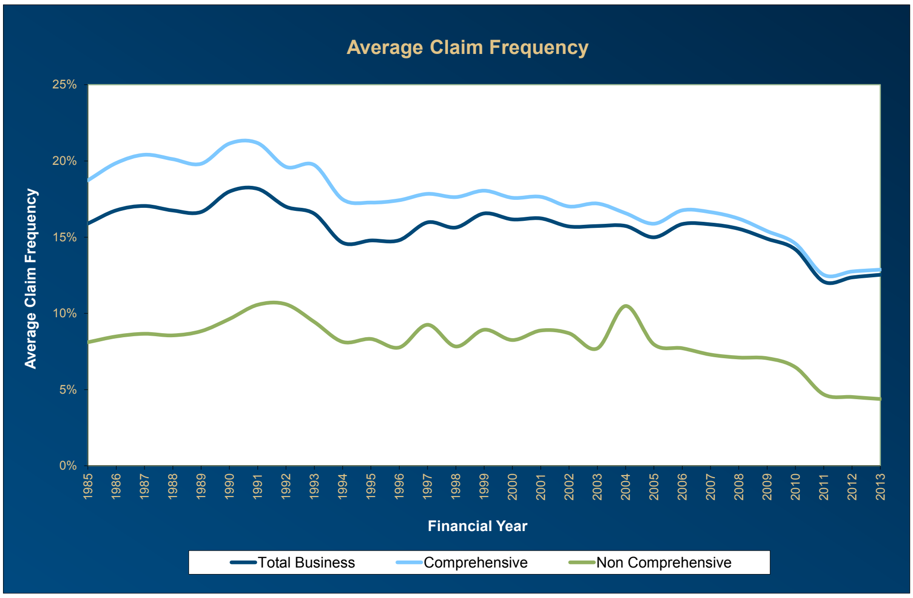
Figure 4.8
UK Commercial Motor: Average Claim Cost History



4.12 The average costs per claim for the Commercial Motor lines of business have oscillated over the last nine years. The upward trend to 2011 of the average costs for Non-Fleet and the slight downward trend of the costs in respect of Fleet appear to cancel each other out, with the average cost per claim for total business oscillating around £2,500 over the period. We note that, in 2013, both Non-Fleet and Fleet showed a decrease in the average cost per claim.

4.13 Having considered the average costs per claim, we now consider the frequency of claims. Figure 4.9 below shows the average frequency (number of claims as a proportion of the number of vehicle years) for Private Motor.

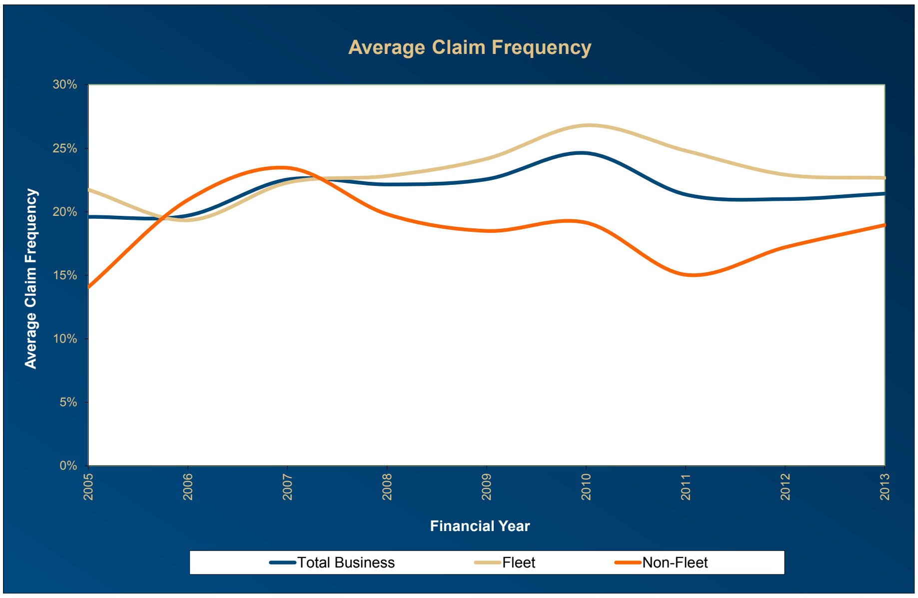
Figure 4.9
UK Private Motor: Average Claim Frequency



4.14 Figure 4.9 above shows that, while overall Private Motor claim frequency had remained reasonably stable at around 15%-16% for the period 1997-2006, there has been a downward trend over the period 2006-2011, which has only been partially reversed in 2012-2013. Some of the downward trend is likely to have been linked to the adverse prevailing economic conditions, which led to less private motoring in the UK than hitherto. There is evidence that, as economic conditions improve, vehicle usage is picking up once more.

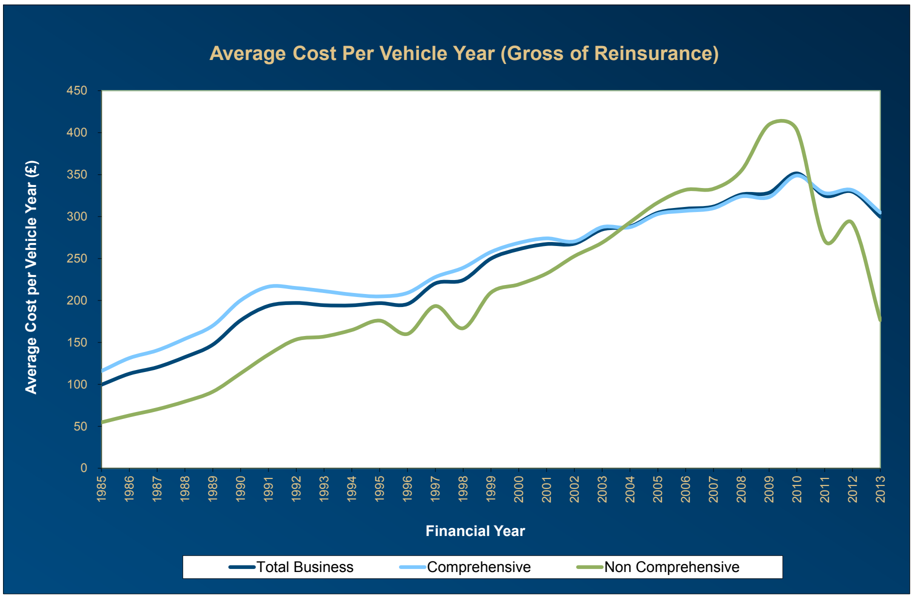
4.15 Figure 4.10 shows that average claim frequency across all Commercial Motor has varied around 20-23% over the past nine years.

Figure 4.10
UK Commercial Motor: Average Claim Frequency



4.16 Putting together the average claim costs and the frequency of claims per vehicle gives the average claim cost per vehicle (also known as burning cost). In Figure 4.11 below we show the average Private Motor claim cost per vehicle insured, gross of reinsurance. Again, this demonstrates the more volatile nature of those claims experienced under Non-Comprehensive policies.

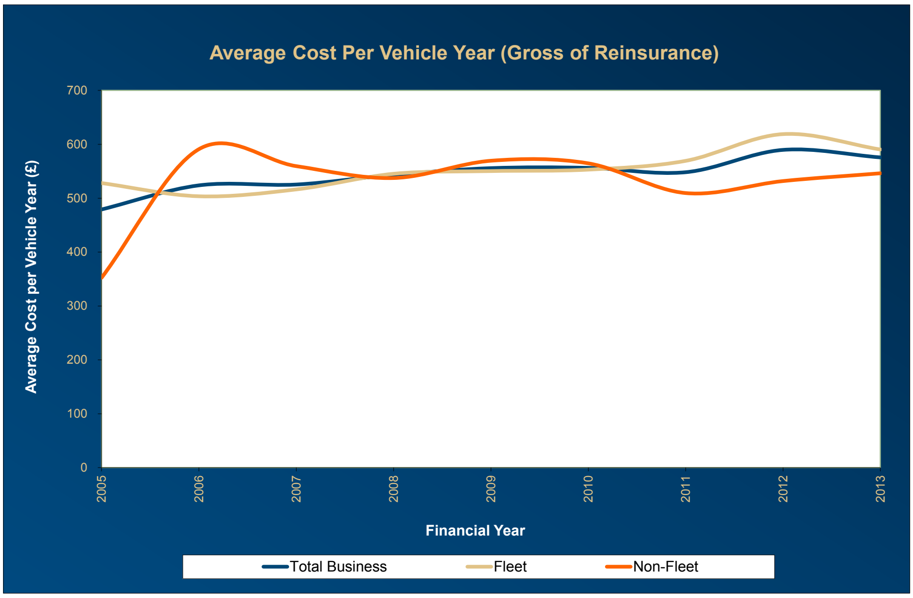
Figure 4.11
UK Private Motor: Average per Vehicle Claim Cost History



4.17 Figure 4.11 above makes clear that, between 1998 and 2009, the growth in the average claim cost per vehicle had been noticeably greater for Non-Comprehensive business than for Comprehensive business with the result that the observed average claim cost per vehicle insured for Non-Comprehensive business had, since 2004 and until 2010, exceeded that of Comprehensive business, despite the more limited scope of cover. From 2011 onwards, we can observe a downward trend in average cost per vehicle year which would support the recently decreasing trend in premium rates (although maybe not the magnitude – it should also be remembered that, ignoring the effect of movements in prior years' claim reserves, the UK Private Motor insurance market has been loss-making since accident year 2005).

4.18 Figure 4.12 below shows the average Commercial Motor claim cost per vehicle insured, gross of reinsurance.

Figure 4.12
UK Commercial Motor: Average per Vehicle Claim Cost History



4.19 The Insurance Fraud Bureau estimates that undetected fraudulent claims total over £2.1 billion per annum. Moreover, it estimates that the costs to insurers of organised fraudulent motor claims total £392 million per annum. During 2013, UK insurers identified as fraudulent 59,900[8] motor insurance claims, with a total value of £811 million (up by 34% on 2012). Membership of the Insurance Fraud Bureau now covers around 95% of the UK's Personal Lines insurers and many insurers are taking active steps to identify and investigate potentially fraudulent claims as they are notified. The Insurance Fraud Register, which was launched in September 2012, is an insurer-funded cross-industry database containing all data on known fraudsters, which enables insurers to identify individuals who have committed fraud against other insurers in the past. Additionally, the My Licence database, which is due to be fully operational in 2015, will make it more difficult for individuals to obtain lower premiums by the non-disclosure of driving offences at the point of sale. All these measures are expected to stem the growing cost of the fraudsters.

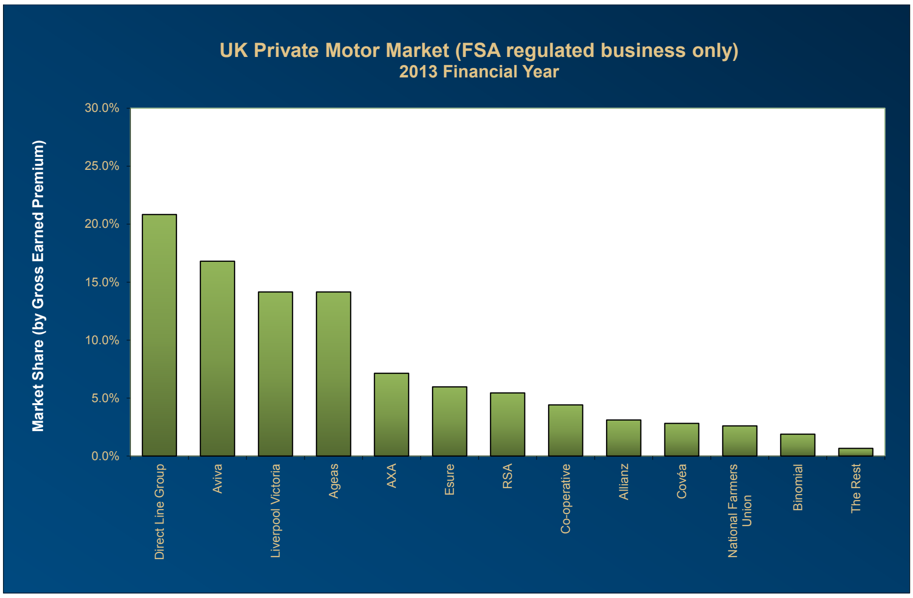
4.20 Up until April 2013, CMCs (and other entities within the claim management chain) were paying referral fees for the name and contact details of accident victims and potential claimants. This practice has now been outlawed as part of the LASPO Bill, which came into effect in April 2013. This will take some cost out of the claim management process for claims notified after April 2013.

[8] Source: The Association of British Insurers.

5. PERFORMANCE COMPARISONS

5.1 During 2013, 99.3% (as measured by gross earned premium income) of that part of the UK Private Motor market then regulated by the PRA comprised just 12 players. Furthermore, nearly 66% of the UK Private Motor market then regulated by the PRA was spread between just four insurance groups (Direct Line, Ageas, Aviva, and Liverpool Victoria). Direct Line Group remains the largest by market share, although that share has fallen significantly from 36.8% in 2010 and 25.7% in 2011 to 20.8% in 2013, which can partly be explained by Tesco Insurance having moved its underwriting partnership from the Direct Line Group to Ageas. Figure 5.1 below shows the comparison in market share for those insurers that had more than 1% of the PRA -regulated part of the UK Private Motor market in 2013, as measured by gross earned premium.

Figure 5.1
UK Private Motor: Insurers by Market Share



5.2 The following are among the notable businesses not included within Figure 5.1 above:

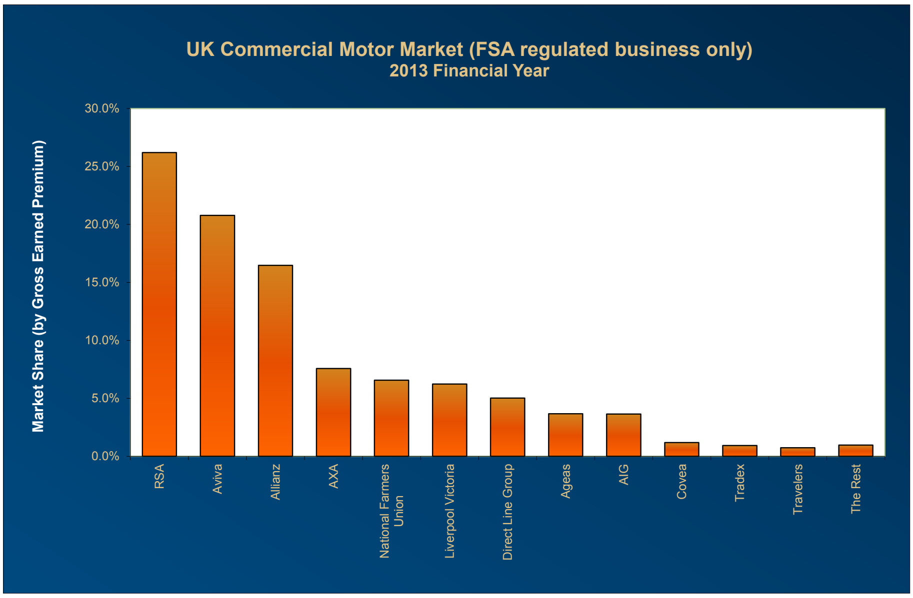
5.2.1 Admiral, which is registered and supervised in Gibraltar: Admiral accounts for around 11% of the whole UK Private Car insurance market in vehicle terms, insuring over 3 million cars as at the end of 2013. The total UK premium in 2013 for Admiral was £1.6 billion, gross of co-insurance (which is slightly more than the Direct Line Group).

5.2.2 Advantage, also registered and supervised in Gibraltar, operates in the UK under the Hastings brand. In 2013 the gross premium income earned by Advantage in respect of Private Motor was £372.2m (an amount between the equivalent amounts for RSA and Co-operative) with just over 1 million cars insured.

5.2.3 Zurich restructured its European operations in early 2009 so that its motor insurance business is now regulated in Ireland and operates in the UK under a branch structure. Prior to relocation, 7% of the total premiums for UK Private Motor insurance business, then regulated by the PRA's predecessor body, were attributable to Zurich.

5.3 For Commercial Motor, 99.0% of the market (as measured by gross earned premium income and excluding Lloyd's business and that written by insurers that are subject to regulatory oversight elsewhere in the EU) comprised just 12 players in 2013. Roughly half of the market has been underwritten by RSA and Aviva, with Allianz taking a further 16.5%. Figure 5.2 below shows the comparison in market share for those insurers that had more than 0.7% of the Commercial Motor market in 2013, as measured by gross earned premium.

Figure 5.2
UK Commercial Motor: Insurers by Market Share



5.4 We note that, in Figure 5.2 above and in Table 5.2 below, figures and amounts related to AXA are for Fleets only and therefore do not include Non-Fleet business (as the information was missing from the relevant form of the PRA returns). We estimate the volume of premium for Non-Fleet to be roughly 40% of that of Fleet which would leave AXA in fourth place but closer to Allianz.

5.5 In Table 5.1 below we have extracted from the statutory returns to the PRA details regarding the performance of the major participants in the UK Private Motor market (excluding those not regulated directly by the PRA). The gross incurred claims in Table 5.1 relate purely to accident year 2013, i.e. there is no allowance for the strengthening of, or releases from, prior years' reserves.

Table 5.1
UK Private Motor: Comparison of Performance of the Major Players Within the PRA-Regulated Part of the UK Private Motor Market During the 2013 Financial Year

Insurer	Market share	Gross earned premiums (£000)	Gross incurred claims (£000)	Gross loss ratio	ULAE Ratio	ULAE	Expense ratio	Expenses (£000)	Average premium (£)	No of Vehicles ('000)	Combined ratio
Direct Line Group	20.8%	1,441,559	1,296,327	89.9%	8.7%	125,971	25.4%	366,164	349	4,127	124.1%
Aviva	16.8%	1,162,528	848,976	73.0%	6.4%	74,919	19.4%	225,958	462	2,514	98.9%
Liverpool Victoria	14.1%	978,893	766,874	78.3%	5.4%	52,747	22.3%	218,327	330	2,963	106.0%
Ageas	14.1%	978,884	767,731	78.4%	1.5%	15,050	19.9%	194,930	330	2,964	99.9%
AXA	7.1%	494,106	388,645	78.7%	5.1%	25,411	26.3%	129,949	354	1,397	110.1%
Esure	6.0%	412,846	376,321	91.2%	2.8%	11,398	20.5%	84,671	312	1,323	114.4%
RSA	5.4%	377,002	296,385	78.6%	8.3%	31,284	27.7%	104,584	434	869	114.7%
Co-operative	4.4%	305,164	262,722	86.1%	2.5%	7,662	29.5%	90,172	452	675	118.2%
Allianz	3.1%	215,727	161,628	74.9%	6.1%	13,105	26.9%	58,028	432	499	107.9%
Covéa	2.8%	194,685	160,779	82.6%	3.5%	6,770	20.3%	39,591	363	536	106.4%
National Farmers Union	2.6%	180,064	143,547	79.7%	5.4%	9,655	21.6%	38,821	361	499	106.6%
Binomial	1.9%	131,104	75,274	57.4%	2.9%	3,797	15.3%	20,083	716	183	75.6%
The Rest	0.7%	46,037	35,299	76.7%	5.6%	2,577	26.8%	12,321	360	128	109.0%
TOTAL	**100.0%**	**6,918,599**	**5,580,508**	**80.7%**	**5.5%**	**380,346**	**22.9%**	**1,583,599**	**370**	**18,677**	**109.0%**

5.6 Similarly, in Table 5.2 below, we have extracted from the statutory returns to the PRA details regarding the performance of the major participants in the UK Commercial Motor market (excluding those not regulated directly by the PRA). The gross incurred claim amounts in Table 5.2 relate purely to accident year 2013, i.e. there is no allowance for the strengthening of or releases from prior years' reserves.

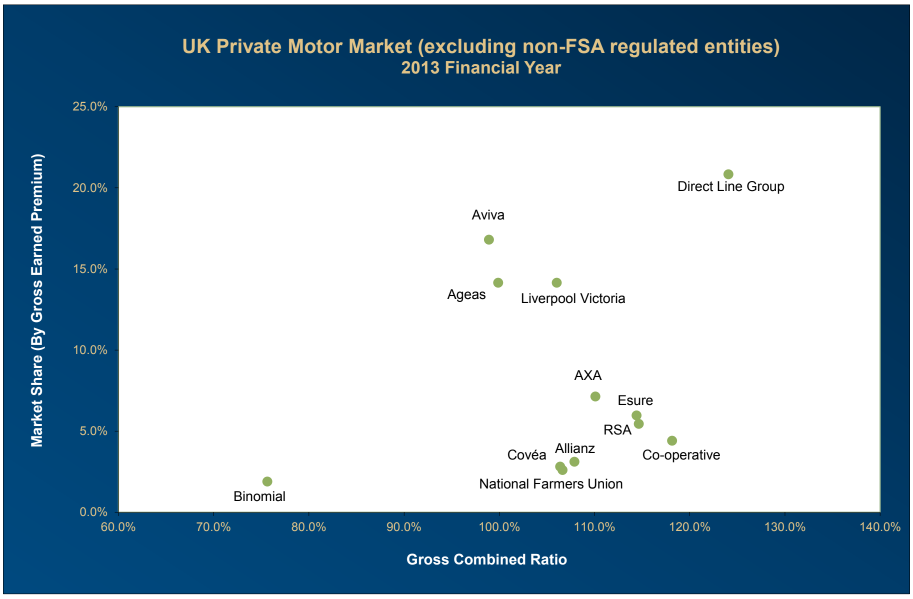
Table 5.2
UK Commercial Motor: Comparison of Performance of the Major Players Within the PRA-Regulated Part of the UK Commercial Motor Market During the 2013 Financial Year

Insurer	Market share	Gross earned premiums (£000)	Gross incurred claims (£000)	Gross loss ratio	ULAE Ratio	ULAE	Expense ratio	Expenses (£000)	Average premium (£)	No of Vehicles ('000)	Combined ratio
RSA	26.2%	576,265	481,045	83.5%	4.5%	25,645	14.6%	84,357	673	856	102.6%
Aviva	20.8%	457,114	338,637	74.1%	6.4%	29,165	23.4%	106,779	735	622	103.8%
Allianz	16.5%	362,305	247,920	68.4%	4.3%	15,595	17.2%	62,487	766	473	90.0%
AXA	7.6%	166,499	127,822	76.8%	3.6%	5,914	21.1%	35,092	753	221	101.4%
National Farmers Union	6.6%	144,528	107,362	74.3%	5.0%	7,191	20.0%	28,893	607	238	99.3%
Liverpool Victoria	6.2%	137,060	105,722	77.1%	2.4%	3,266	26.4%	36,141	596	230	105.9%
Direct Line Group	5.0%	110,551	110,898	100.3%	5.5%	6,089	29.4%	32,492	2,303	48	135.2%
Ageas	3.7%	80,954	57,797	71.4%	2.0%	1,589	20.5%	16,565	340	238	93.8%
AIG	3.6%	80,233	97,797	121.9%	2.7%	2,203	13.8%	11,072	0	0	138.4%
Covea	1.2%	26,250	15,961	60.8%	3.6%	940	18.1%	4,745	1,250	21	82.5%
Tradex	0.9%	20,480	11,600	56.6%	1.0%	212	22.0%	4,499	1,575	13	79.6%
Travelers	0.7%	16,412	12,807	78.0%	3.4%	557	35.5%	5,823	0	0	116.9%
The Rest	1.0%	21,237	10,068	47.4%	1.7%	365	33.6%	7,139	574	37	82.7%
TOTAL	**100.0%**	**2,199,888**	**1,725,436**	**78.4%**	**4.5%**	**98,730**	**19.8%**	**436,083**	**734**	**2,997**	**102.7%**

Note: The exposure (No of Vehicles) was not available for AIG or for Travelers. The AXA figures and amounts shown above comprise just Fleets business as Non-Fleet business information was not available in Form 32 of the PRA returns.

5.7 In Figure 5.3 below, we show, for companies with more than 1% of the Private Motor market (by gross earned premium), gross combined ratios and market shares for the 2013 financial year.

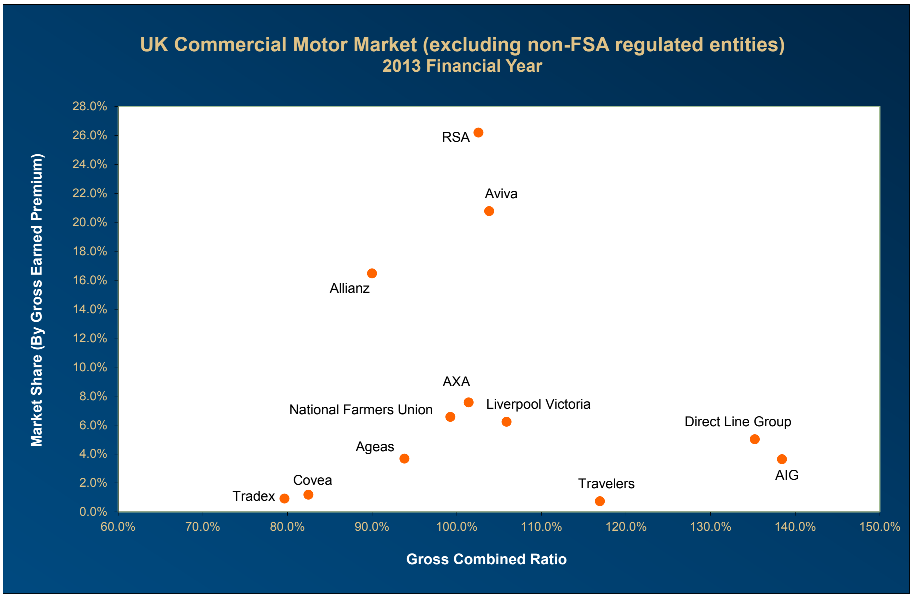
Figure 5.3
UK Private Motor: Gross Operating Profit *versus* Market Share



5.8 Those positioned on the left-hand side of the graph are the more profitable insurers; those positioned towards the top of the graph are the larger insurers. These figures do not allow for investment income, or for other sources of income such as profits or commission from ancillary services.

5.9 In Figure 5.4 below, we show, for companies with more than 0.7% of the Commercial Motor market (by gross earned premium), gross combined ratios and market shares for the 2013 financial year.

Figure 5.4
UK Commercial Motor: Gross Operating Profit *versus* Market Share



5.10 RSA, with the largest market share, has the lowest expense ratio, as one might expect because of economies of scale. However, the expense ratios of some of its competitors appear comparatively high. We note here that insurers may account for their claims and expenses differently from one another. These differences might partly explain some of the apparent variations in their relative experience.

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DISCLAIMER

If you would like to discuss any of the issues arising from our "*Driving for Profit*" Market View, please speak with your usual contact at Milliman, or one of the people listed below:

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