



---

# Driving For Profit

**A View of the UK Private and Commercial  
Motor Insurance Markets 2014**

11 Old Jewry  
London, EC2R 8DU  
United Kingdom

Tel +44 (0)20 7847 1500  
Fax +44 (0)20 7847 1501

[milliman.com](http://milliman.com)

## 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<sup>1</sup>.

### Private Motor

1.2 Starting with UK Private Motor, the overall performance of the market in 2014 has resulted in a pre-tax net insurance ratio<sup>2</sup> of 0.5%, i.e. a small profit. Historically, this ratio has been highly distorted by material releases or strengthening of prior years' reserves held by the Direct Line Group. Excluding the Direct Line Group, the figures indicate that the market in aggregate is operating at a slight loss with a pre-tax net insurance ratio of -0.7% in 2014. 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	2014
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	-588	-843
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%	-8.1%	-12.6%
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%	4.3%	0.5%
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%	-0.7%

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 of other sources of revenue or expenditure include add-on services such as Breakdown Recovery or Legal Expense cover, or fee income from referring to solicitors the details of policyholders who have had accidents for which they were not liable (although the impact on results of referral fees has been greatly reduced, 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 to 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 further increasing the market pre-tax losses for those financial years. Many more insurers strengthened their reserves in 2011, partially offset by reserve releases by the Direct Line Group. In the 2012 to 2014 financial years, the market saw overall reserve releases, again mostly attributable to the Direct Line Group (nearly half of the overall release in 2014). The extent to which there will be further strengthening/releases of prior years' reserves across the various insurers is uncertain as it cannot be easily ascertained what margins remain within those prior years' reserves.

<sup>1</sup> Analyses were performed based on information included in the Prudential Regulation Authority ("PRA") returns submitted by PRA regulated insurance companies as at 31 December 2014.

<sup>2</sup> 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:

$$\text{(Incurred Claims + Expenses Incurred)} / \text{(Earned Premiums)}$$

and the Investment Ratio is calculated as:

$$\text{(Average Reserves Held)} \times \text{(Corresponding Historic Annual Market Cash Return)} / \text{(Earned Premiums)}$$

- 1.5 We note that, throughout this report, claims and reserve amounts are on an undiscounted basis. The information by insurer regarding the impact of discounting on their booked reserves that was available within the Prudential Regulation Authority (“PRA”) returns appeared inconsistent and we therefore decided to present our results using reserves on an undiscounted basis to enable meaningful comparison.
- 1.6 Excluding the Direct Line Group (and, where appropriate, its predecessor insurers), the pre-tax net insurance ratio across the industry remained stable at -0.7% (compared to -0.6% in 2013), but was negative for the sixth successive year.
- 1.7 Considering only the underwriting performance for the current year (i.e. ignoring movements in prior years’ reserves), the market operated unprofitably in 2014 with a pre-tax net insurance ratio of -12.6%, deteriorating from -8.1% in 2013. Performance has varied markedly from insurer to insurer, with the Direct Line Group, the largest Private Motor insurer (regulated by the PRA – see paragraph 5.2.1 below) by market share, achieving a net combined ratio in 2014 of 129.1% (after adjustment of the expense ratio shown in the PRA returns to mitigate one-off costs), while Aviva, the second largest Private Motor insurer by market share, achieved a net combined ratio of 112.4%, and Ageas (including Tesco Underwriting), the third largest, achieved a net combined ratio of 106.6%. It is worth noting that the significant reserve releases made recently by the Direct Line Group implies a conservative reserving philosophy and (assuming no change in that philosophy in 2014) some prudence in the current year booked loss ratio as at the end of 2014. Allowing for that, Direct Line Group’s underlying underwriting performance is probably more in-line with that of its peers than the above ratios suggest.
- 1.8 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	2014
<b>Average Gross Earned Premium (£)</b>	242	242	279	305	345	356	371	370	372	365	366	382	355	359	400	404	377	359
<b>Claims Frequency</b>	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%	12.3%	12.3%
<b>Average Gross Incurred Claim (£)</b>	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	2,483	2,494
<b>Net Expense Ratio (Including Claims Management Costs)</b>	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%	27.0%	28.4%

- 1.9 The average gross earned premium decreased in 2014 from £377 to £359. This is the second consecutive decrease in average gross earned premiums and indicates that average gross earned premiums in 2014 were at much the same level that they were in 2010 (and in 2002). Some of the fall in 2014 in the average premium for the Private Motor market was due to anticipation of beneficial outcomes arising from LASPO, specifically a reduction in the number of fraudulent and exaggerated personal injury claims. This has been compounded by competitive pressures.
- 1.10 We note that, in the first quarter of 2015, there has been a further decrease in market premium rates. However, market commentators are predicting that, notwithstanding the continuing highly competitive nature of the market, premium rates will rise throughout the rest of 2015 (indeed, a small increase has already been observed in the second quarter of 2015), as the current rates are believed to be unsustainable.
- 1.11 After a run of continuous decreases between 2006 and 2011, claims frequency has since remained broadly flat. On the other hand, average gross incurred claim amounts increased steadily between 2006 and 2011, stabilised in 2012, and then decreased in 2013. In 2014 there was a marginal increase. The Ministry of Justice (“MoJ”) reforms to the claims environment, which were enacted in 2010 with further reforms becoming effective in 2013, and LASPO have had the effect of countering the normal inflationary pressures on claims costs.

1.12 Finally, the net expense ratio across the market has increased over the last two years, reflecting the decrease in average premium observed during the same period.

**Commercial Motor**

1.13 Table 1.3, below, indicates that the overall performance (including reserve releases from prior years) of the UK Commercial Motor market has improved in 2014 to a pre-tax net insurance ratio of -1.4% (from -8.3% in 2013). The causes of the better performance in 2014 were twofold: improvement in the operating loss for current year business; and releases from prior years’ reserves (there had been strengthening of prior years’ reserves in 2013). However, here too the results have been affected by historical prior years’ reserve movements relating to the Direct Line Group, albeit to a lesser degree than have the Private Motor results. Excluding the Direct Line Group, the market shows an overall pre-tax net insurance ratio of -0.5% in 2014 (a significant improvement from -6.4% in 2013). As seen within 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	2014
Pre-Tax Profit (excluding reserve releases from prior years) in £m	148	82	-29	-132	-278	-280	-135	-144	-186	-50
Pre-Tax Net Insurance Ratio (excluding reserve releases from prior years)	6.5%	3.7%	-1.3%	-6.1%	-15.0%	-15.0%	-5.7%	-5.7%	-6.9%	-2.0%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years)	15.0%	18.0%	14.4%	10.3%	-8.4%	-8.0%	-7.1%	-1.3%	-8.3%	-1.4%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years and excluding DLG)	14.7%	18.6%	15.3%	11.5%	-6.9%	-6.1%	-3.8%	-3.5%	-6.4%	-0.5%

1.14 We note that, in 2005, the predecessor to the PRA 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.

1.15 We note that the consistency of the data related to Commercial Motor exposure (i.e. vehicle years) has diminished in recent years, making it difficult to reproduce Table 1.2 above in a meaningful way.

**General Comments and Recent Developments**

1.16 Following adverse publicity, referral fees (whereby lawyers and other third parties pay insurers for the names and contact details of accident victims) were outlawed as part of LASPO, which was implemented in April 2013. LASPO also requires that all parties in injury claims 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. However, despite the introduction of LASPO, the number of claims registered with the MoJ road traffic accident (“RTA”) portal has not dropped – for the period April 2014 to December 2014 they were about 10% higher compared to the same period a year earlier (and for some months higher than the numbers observed pre-LASPO). Nevertheless, the Institute and Faculty of Actuaries has reported that there has been a 12% reduction in the number of motorists making whiplash claims since the introduction of LASPO and a 35% reduction in the number of claims management companies (“CMCs”), with a 65% reduction in legal fees.

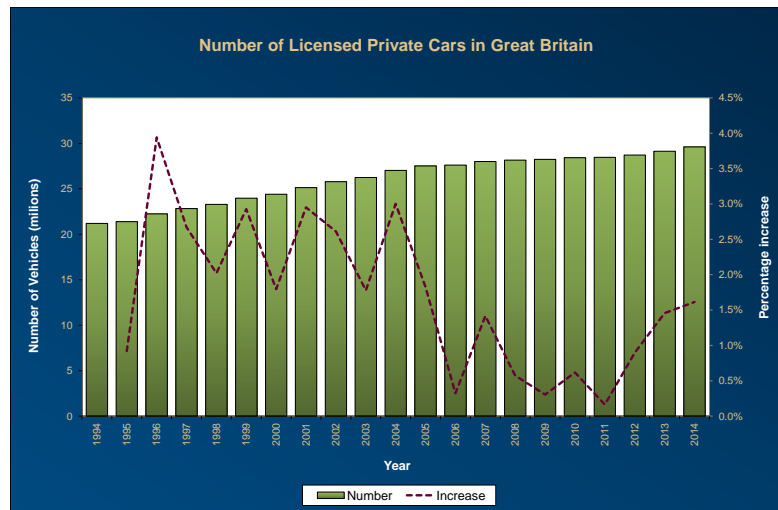
- 
- 1.17 In December 2014, it was announced by the Government that a new medical reporting portal for whiplash claims was to be introduced. MedCo, the new body, which is funded by the insurance industry, will allocate medical experts to whiplash claims, rather than CMCs themselves sourcing doctors to provide diagnoses. Only medical reports emanating from medical experts allocated by MedCo will be eligible to support whiplash claims. The main aim of MedCo is to reduce insurance fraud and to tackle the rise in unsubstantiated whiplash claims. According to the Association of British Insurers (“ABI”), in 2014 there were around 9,500 whiplash claims a week, costing insurers around £2 billion a year (roughly £90 per driver). MedCo will help to speed up both the identification of those pursuing fraudulent or exaggerated claims and the treatment of those with genuine injuries.
- 1.18 Another initiative which has been set up to reduce fraudulent claims is the introduction of askCUE Personal Injury service. The service, which is mandatory from 1 June 2015, has been established by the ABI, the Law Society, the Motor Accident Solicitors Society (“MASS”), the Association of Personal Injury Lawyers (“APIL”), and the Motor Insurers Bureau (“MIB”). Approved organisations will be able to use this service to access past claims records of potential claimants. The records will relate only to personal injury or industrial illness incidents which have been reported to insurers.
- 1.19 In addition to tackling fraudulent or exaggerated whiplash claims, measures are also being taken to target other fraudulent types of claims. ‘Crash for Cash’ and ‘Ghost Broking’ have been two of the major issues in recent years, but fraudsters are finding other ways to make large sums of money. Known insurance fraud costs the industry around £1.3 billion a year (of which £835 million are specific for Motor) and undetected scams are believed to cost the industry an additional £2.1 billion. According to the Insurance Fraud Bureau, the annual cost of ‘Crash for Cash’ fraud is £392 million (which equates to £14 per driver). The Insurance Fraud Register, an industry-wide database of known insurance fraudsters, went live at the end of 2013, with the aim of protecting honest customers and helping to lower the cost of insurance by improving fraud detection and making it more difficult for criminals to commit fraudulent activities. Other databases, such as the Motor Insurance Database and My License (see below) are also assisting insurers to identify fraudulent claims.
- 1.20 My License, a Government initiative, which provides driving records online, went live in November 2014. Insurers now 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. Under the old system, it was believed that 23% of drivers inaccurately disclosed their driving records. The ABI believes that My License will help to reduce the average premium by around £15. The head of the MIB hopes that My License will be adopted by the whole of the industry by the end of 2015.
- 1.21 The Competition Markets Authority has banned the use of price parity agreements between aggregators and insurers, following an agreement made in June 2014. These pricing agreements, known as “most favoured nation clauses”, were perceived as restricting competition, as they prevented insurers from pricing their products differently on other online platforms. Initially, the ban was not going to apply to small aggregators (those with fewer than 300,000 annual sales), but this decision has been reversed. The new regulations came into effect in April 2015.
- 1.22 The number of in-force telematics policies increased from 296,000 in December 2013 to 323,000 in December 2014, an increase of 9%. In general, telematics policies have appealed mostly to younger drivers who, assuming their driving experience demonstrates that they are low risk, can gain material premium savings. Latest telematics research suggests that around 90% of UK students would be willing to use a telematics device in order to secure lower premiums. Furthermore, 64% of drivers who have had a telematics device installed believe that their own driving behaviour has improved as a result. However, the current cost for insurers (often passed to policyholders) of implementing telematics solutions makes it difficult to appeal to the mass market and it may take several years for the necessary technology to become sufficiently affordable for telematics insurance to become a mainstream insurance product.

- 1.23 Trials of driverless cars have been started in the UK, backed by £19 million of Government funding. Three projects have been instigated to investigate the new technology, as well as to consider the legal and insurance aspects. If driverless cars were introduced, then this will mean that a different approach to premium rating would be needed, as existing rating factors relating to the policyholder, such as age, driving experience, past claims, and driving records, would be of limited or no relevance. Product liability cover is also likely to play a greater part in the insurance of driverless cars, and there is a concern regarding the much increased exposure to cyber risk in such vehicles compared with conventional cars. However, there is limited enthusiasm for the new technology among consumers – in a recent survey, out of 2,000 respondents, only 14% said that they would consider buying a driverless car.
- 1.24 The UK motor market continues to be very competitive. Stable markets depend on 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 (i.e. in favour of consumers over manufacturers). It is possible that the greater information and insight that telematics data might provide to insurers will help to restore a more even balance to the market. However, as noted above, associated costs for telematics products remain high and market penetration remains low, and so it may be many years before insurers are able to benefit significantly from telematics data.
- 1.25 Interest rates have been low for several years and are expected to remain so. Therefore, investment income will continue to provide insurers with only a very thin cushion against underwriting shortfalls.
- 1.26 With the decline in average premiums in the market, with fierce market competition restraining insurers from increasing premiums by as much as they would like, and with continuing uncertainty regarding the magnitude of the savings that insurers will actually achieve as a result of the recent reforms, we expect that the frail positive pre-tax insurance ratio seen in the UK Private Motor market in 2012 to 2014 will prove to be temporary and that results will slip back into deficit during 2015.
- 1.27 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
  - Claims frequency and average size
  - Comparative performance of major players in the markets
- 1.28 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 Financial Services Authority. With effect from 1 April 2013, responsibility has been split between the newly created 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.

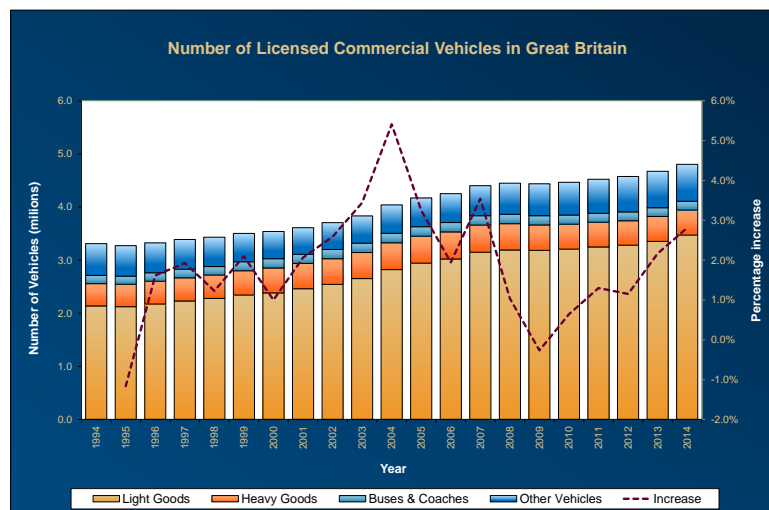
## 2. MARKET PROFITABILITY

2.1 The bars in Figure 2.1 below show the number of licensed private cars in Great Britain<sup>3</sup> as at the end of each of the last 21 years, and the dotted line shows the year-on-year increases 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 21 years and the year-on-year increases in those numbers.

**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

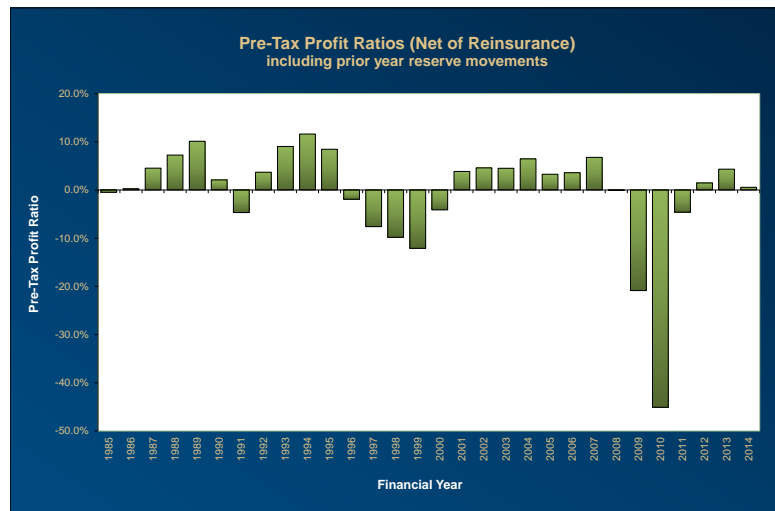


2.2 The number of licensed private cars in Great Britain reached 29.6 million by the end of 2014, a 1.6% increase since 31 December 2013. Between 2008 and 2012, the rate of increase in the number of licensed private cars was less than 1% per annum, much lower than the rate of increase in earlier years (which could be explained by the depressed economic conditions experienced over this period), followed by increases of 1.5% in 2013 and 1.6% in 2014.

<sup>3</sup> Based on quarterly vehicle licensing statistics produced by the Department for Transport. Note that these figures do not include Northern Ireland.

- 2.3 The number of licensed commercial vehicles in Great Britain reached 4.8 million as at 31 December 2014, a 2.8% increase since 31 December 2013. The rate of increase, again, was relatively low at less than 2% per annum between 2008 and 2012, with the number of registered commercial vehicles actually decreasing from 2008 to 2009, but is now back to levels observed before the financial crisis.
- 2.4 The UK Private Motor insurance market has exhibited classic cyclical characteristics for more than 25 years, as shown by its profitability history in Figure 2.3 below measured by the pre-tax profit ratios<sup>4</sup>.

**Figure 2.3**  
**UK Private Motor: Profitability History**



- 2.5 The data underlying Figure 2.3 above and Figure 2.4 below have been derived from the PRA returns (up to the end of 2014), 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, Hastings and, with effect from 2009, Zurich's UK business). We have taken the number of licensed private cars in the UK in 2014 (29.6 million in Great Britain, plus 0.9 million in Northern Ireland) as a proxy for the size of the UK Private Motor insurance market (i.e. 30.5 million cars). The PRA returns show that 60% (18.3 million) of these cars were insured in 2014 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 5.0 million vehicles, with 61% (3.0 million) of these vehicles insured by PRA-regulated companies.
- 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 significantly, far more so than did the rest of the market. The Group then made material prior years' reserve releases in 2011 to 2014.

<sup>4</sup> 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:

$$\frac{\text{Incurred Claims} + \text{Expenses Incurred}}{\text{Earned Premiums}}$$

and the Investment Ratio is calculated as:

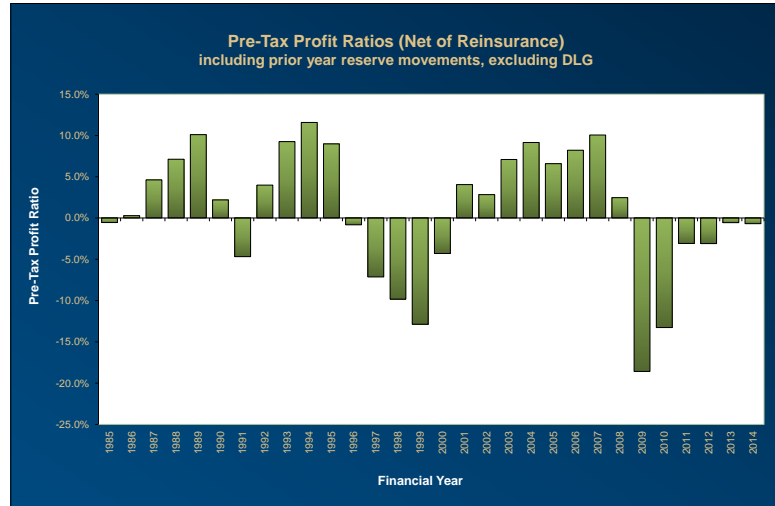
$$\frac{\text{Average Reserves Held} \times \text{Corresponding Historic Annual Market Cash Return}}{\text{Earned Premiums}}$$

"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 claims reserves for prior accident years



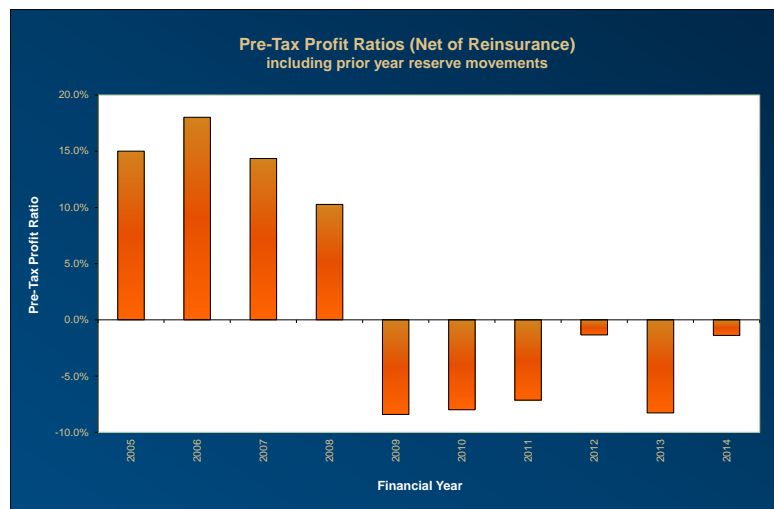
2.7 We restate, in Figure 2.4 below, the figures in Figure 2.3, this time excluding the figures of the Direct Line Group and of its component parts.

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



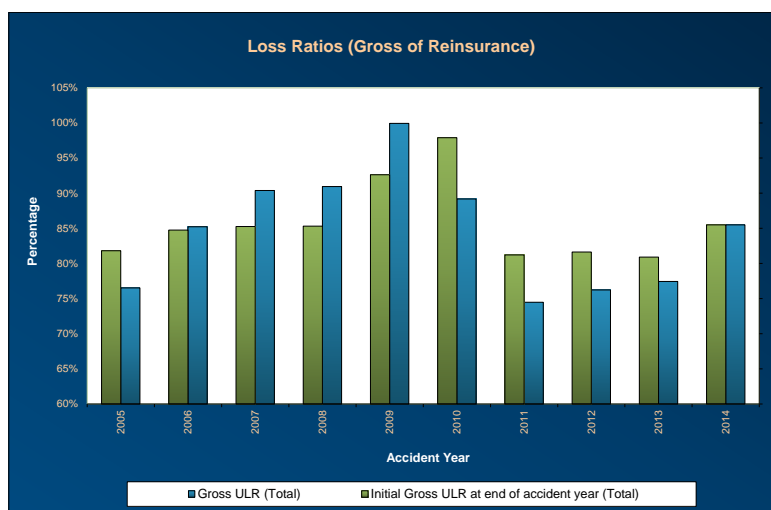
2.8 Although, because of changes in definitions within the PRA returns, we are unable to show the profitability history for Commercial Motor over such a long period as for Private Motor, Figure 2.5 below shows that over the last 10 years the UK Commercial Motor insurance market exhibits a similar pattern 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 and 2014, prior years' reserves were strengthened for Commercial Motor in 2013 (with small releases in 2014). The analysis is based on Fleet, Non-fleet and Other Commercial Motor combined.

**Figure 2.5**  
**UK Commercial Motor: Profitability History**



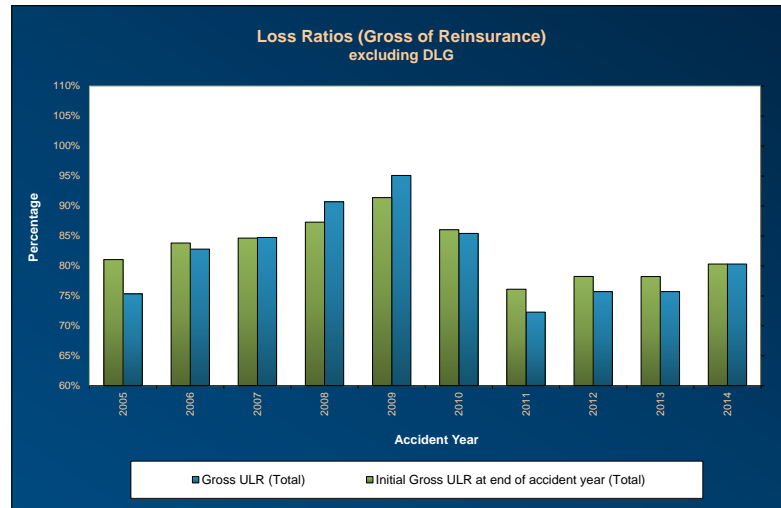
- 2.9 Net expense ratios (including claims management costs) for Private Motor insurers have been, over the last 25 years, 22% to 31%, and, over the last 10 years for Commercial Motor insurers, have been 24% to 31%; investment income as a proportion of net premiums was mostly between 6% and 10% for the period 1990 to 2008, since then it has significantly declined to proportions close to 1%. This leaves the claims 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 year-to-year movements in the results.
- 2.10 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 2014 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 than this indicates subsequent reserve strengthening.

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



- 2.11 As can be seen in Figure 2.6 above, the loss ratios estimated as at the end of accident years 2005 and 2010 to 2013 have subsequently been viewed to have been conservative and the latest estimated loss ratios for these years are lower than these initial estimates. However, for accident years 2006 to 2009, there has been subsequent strengthening of the loss ratios initially estimated as at the end of those accident years. The recent observed trend would tend to indicate that the indicative 2014 loss ratio of 85.5% is likely to decrease in future years and to move closer to the levels currently estimated for accident years 2011 to 2013 – i.e. around 75%.
- 2.12 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.

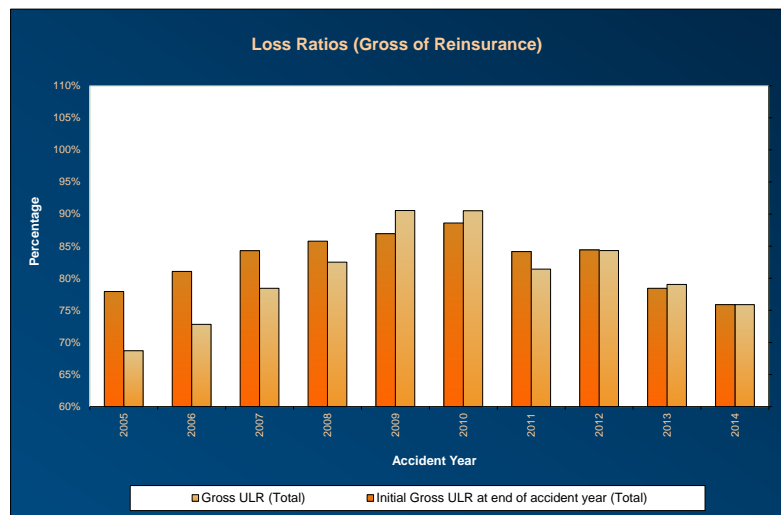
**Figure 2.7**  
**UK Private Motor: Gross Loss Ratios by Accident Year (excluding those relating to the Direct Line Group)**



2.13 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 to 2009 accident years has not been as strong as when considering the situation for the whole market including the Direct Line Group, and the degree of weakening seen in respect of 2010 to 2013 accident years has also not been as strong. The 2007 to 2009 accident years 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.

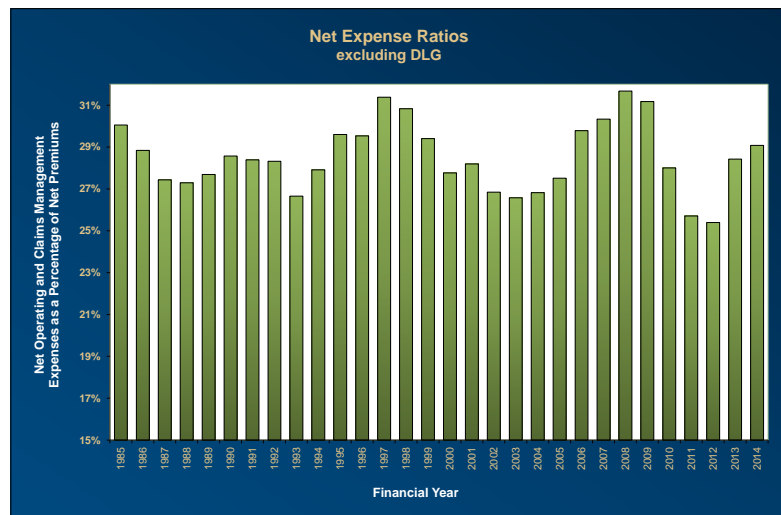
2.14 Similarly to Figure 2.6 and Figure 2.7, we show the gross loss ratios for Commercial Motor (Fleet and Non-fleet combined) by accident year in Figure 2.8 below, this time with the darker bar representing the loss ratio set at the end of the accident year in question and the lighter bar the loss ratio booked for that accident year as at the 2014 year-end. This shows releases made to the reserves booked as at the end of accident years 2005 to 2008 and 2011 to 2012, whereas those reserves booked as at the end of accident years 2009 to 2010 and 2013 have subsequently required strengthening.

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

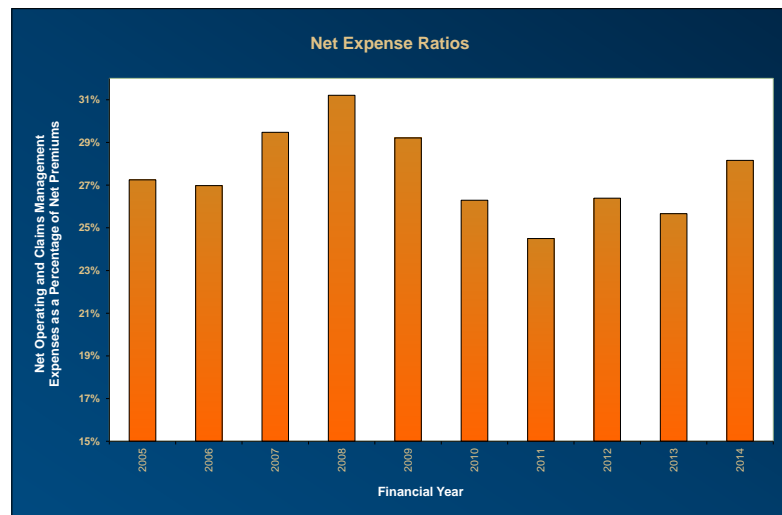


- 2.15 Although Figure 2.6, Figure 2.7 and Figure 2.8 show only estimates of the ultimate loss ratios (in particular, the more recent accident years' loss ratios are likely to be subject to future movements), they do indicate that there was a strong upward trend in the loss ratios, which was reversed in 2010 for both Private Motor and Commercial Motor following large increases in premium rates. Premium rates reduced for Private Motor in 2012 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.
- 2.16 As already alluded to, 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. We expect that the loss ratio for accident year 2014 for Private Motor is likely to reduce from the level booked as at the 2014 year-end but it is still too early to say whether or not the impact of decreased premium rates will outweigh the impact of the various reforms and the consequential improved claims experience, leading to a higher or lower ultimate loss ratio for the 2014 accident year compared to that of the 2013 accident year.
- 2.17 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 appears 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**

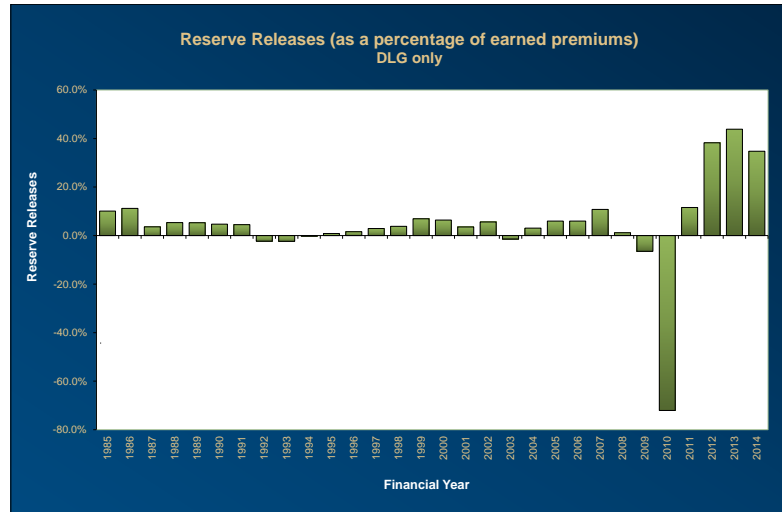


**Figure 2.10**  
**UK Commercial Motor: Market Expense Ratios**

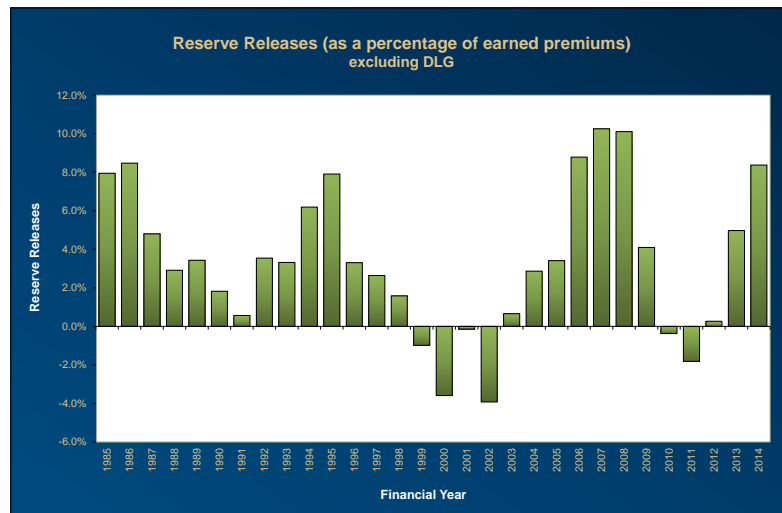


- 2.18 With net expense ratio percentages mostly in the mid to high 20s and with investment income providing little mitigation recently, breakeven loss ratios have been about 70% to 80% in recent years. These net expense ratio graphs exhibit cyclical patterns with the pattern for Private Motor being 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 and 2014, Commercial Motor saw expense ratios increasing again, while in 2013 and 2014, the expense ratio for Private Motor also increased materially, due at least in part to falling average earned premiums.
- 2.19 Having referred in earlier paragraphs 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 2014, 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)**

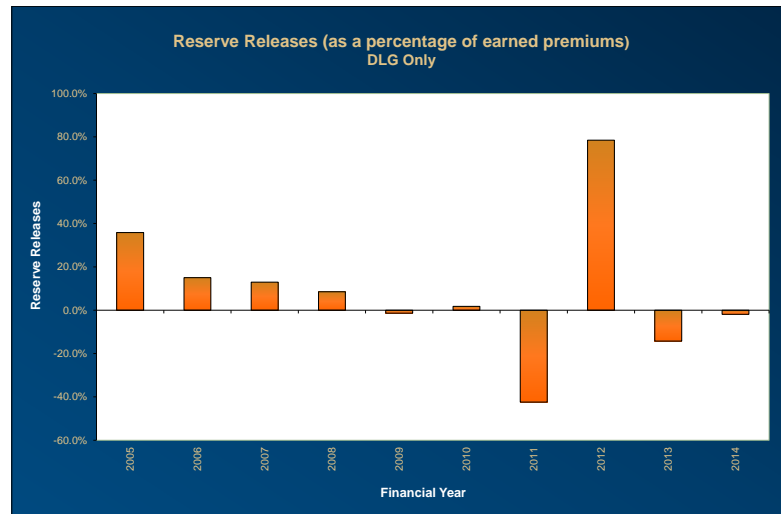


**Figure 2.12**  
**UK Private Motor: Prior Years' Reserve Releases in Each Accident Year**  
**(relating to the entire market excluding the Direct Line Group)**

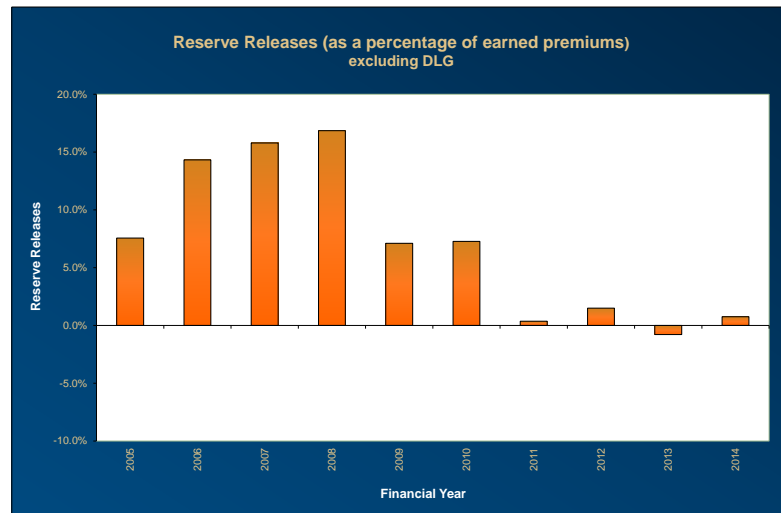


2.20 The patterns shown in Figure 2.11 and Figure 2.12 are very different from one another. Before 2009, the Direct Line Group companies tended, in aggregate, to provide year-on-year releases from their reserves, equivalent on average to about 4% of the net premiums for each year. However, in 2009, the Group strengthened claims 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 years 2013 and 2014 exhibit a similar pattern for the Direct Line Group and for the rest of UK Private Motor, with significant releases on prior years' claims 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)**

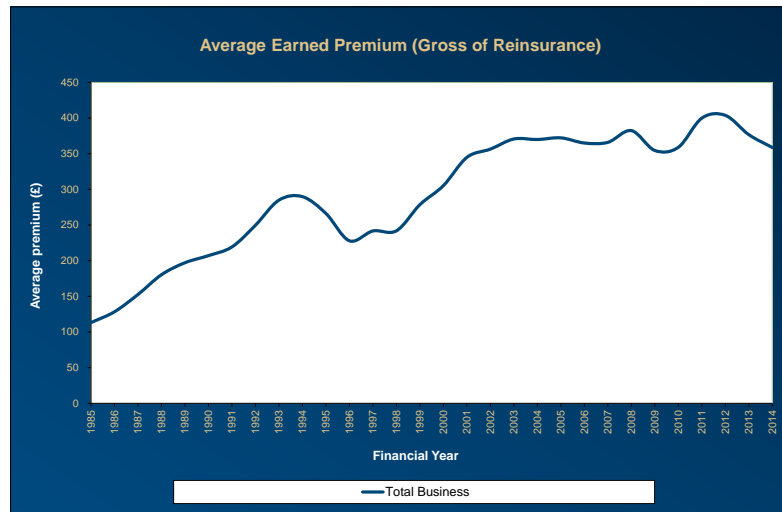


2.21 UK Commercial Motor (excluding the Direct Line Group) has shown reserve releases up until 2012, while in 2013 the market showed reserve strengthening, albeit very small. In 2014, the market showed reserve releases, again very small. The Direct Line Group experienced material strengthening of claims reserves in 2011 followed by a significant reserve release in 2012. It then strengthened its claims reserves in 2013 and again, to a lesser extent, in 2014.

### 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, there was steady growth in premium rates. Since then average premiums have been largely flat with a few oscillations. This is illustrated in Figure 3.1 below:

**Figure 3.1**  
**UK Private Motor: Average Earned Premium History**



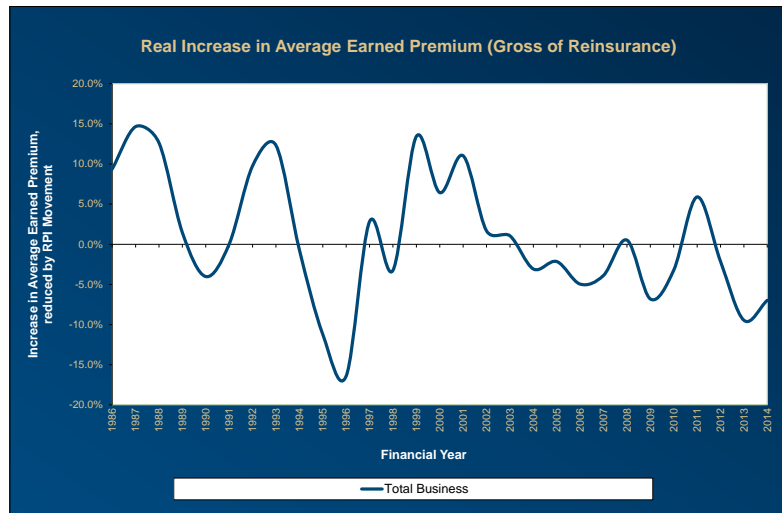
3.2 In 2008 and 2009, insurers struggled to translate headline premium rate rises into sustained increases in average written premiums, as consumers took advantage of their increasing ability to shop around. In 2010 and 2011, it appears that the rate increases stuck. Those rate increases continued into 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 premiums fall for the tenth consecutive quarter, although the second half of 2014 saw premiums increase slightly. As expected, the outlawing of gender-based premium rating at the end of 2012 caused premiums for young men to fall, but the increases in premium rates charged to young women were less than expected.

3.3 We note that the quality of the information on exposure available in the PRA returns for UK Commercial Motor has diminished in recent years making it difficult to perform a meaningful and reliable analysis of the historical average earned premium.



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

**Figure 3.2**  
**UK Private Motor: Average Earned (inflation-adjusted) Premium History**



3.5 Figure 3.2 above provides a view of the “real” development of average Private Motor market premiums. It can also be seen from Figure 3.2 above that in the past 10 years (save 2011) policyholders had been subject to “real” decreases in their motor insurance premiums.

3.6 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 claims costs has been dampened by decreasing accident rates. On the other hand, year-on-year inflation in bodily injury claims 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

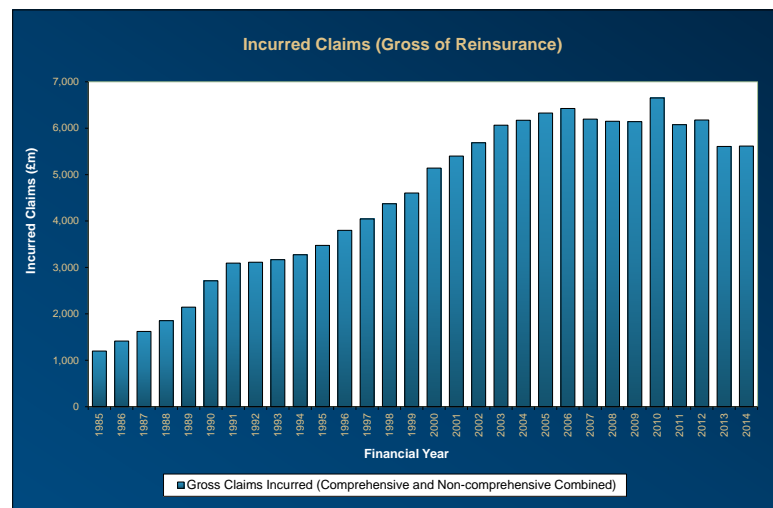
4.1 Figure 4.1 below shows the aggregate gross claims incurred by the Private Motor market during each of the financial years from 1985. Over this period, the cost of Private Motor insurance claims has risen substantially (an increase of around 500%). Claims costs reached a peak in 2006 after which they fell back by about 6% and, save for a spike in 2010, remained fairly flat between 2007 and 2012. This has been followed by a drop in 2013 with another minor drop in 2014. 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 claims amount for 2009 (based on the immediately prior year's figures) would have been roughly 6% higher, i.e. back to the 2006 level, and we would expect there to have been a similar uplift in 2010 through 2014.

4.1.2 They have also been distorted by business moving between PRA-regulated and non-PRA-regulated insurers. 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.

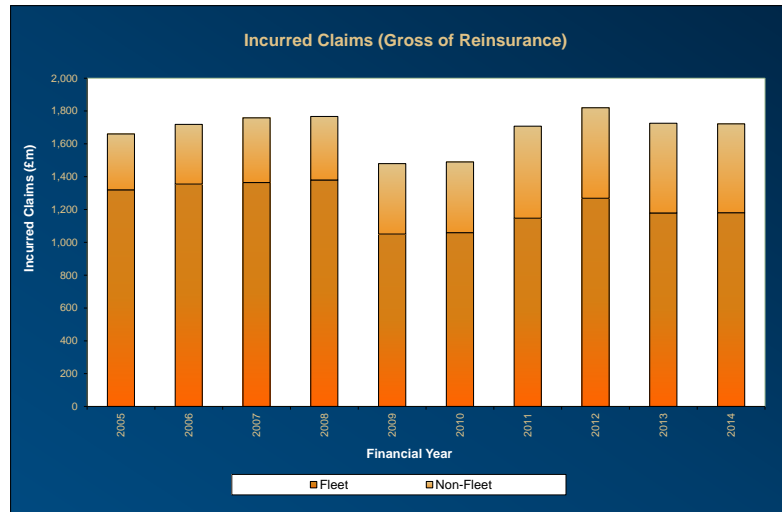
4.1.3 The numbers underlying Figure 4.1 are both the claims amounts incurred in that financial year plus movements in that financial year in respect of the prior years' claims reserves. The spike in 2010 would reflect prior years' reserve strengthening conducted in that financial year, especially that conducted by the Direct Line Group. Similarly, the lower figures in 2013 and 2014 relative to 2012 are largely due to releases of prior years' reserves.

**Figure 4.1**  
**UK Private Motor: Incurred Claims History**



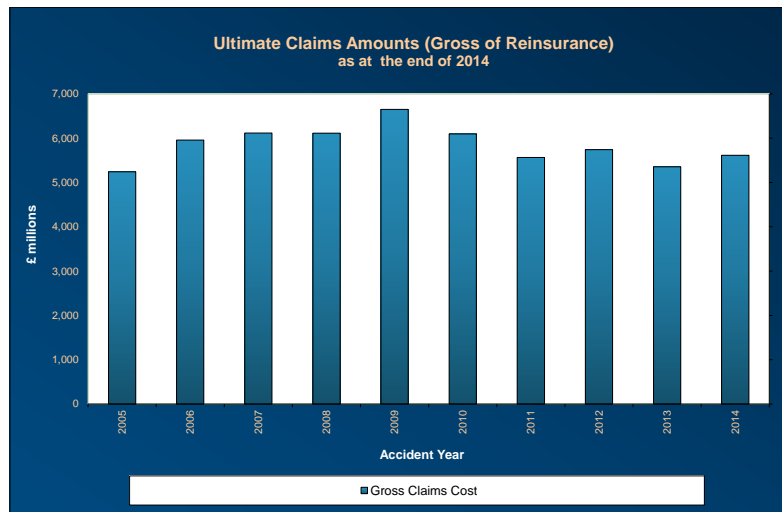
4.2 Figure 4.2 below shows the aggregate gross claims incurred by the Commercial Motor market for the last 10 financial years. Claims costs peaked in 2008, and then fell back by about 16% in 2009 which can largely be attributed to Zurich's relocation to Ireland. Had Zurich not relocated, the aggregate decrease in 2009 would have been only about 3%. In 2011, there was a sharp increase of 15% in gross incurred claims, 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 followed by a very minor decrease (0.2%) in 2014.

**Figure 4.2**  
**UK Commercial Motor: Incurred Claims History**

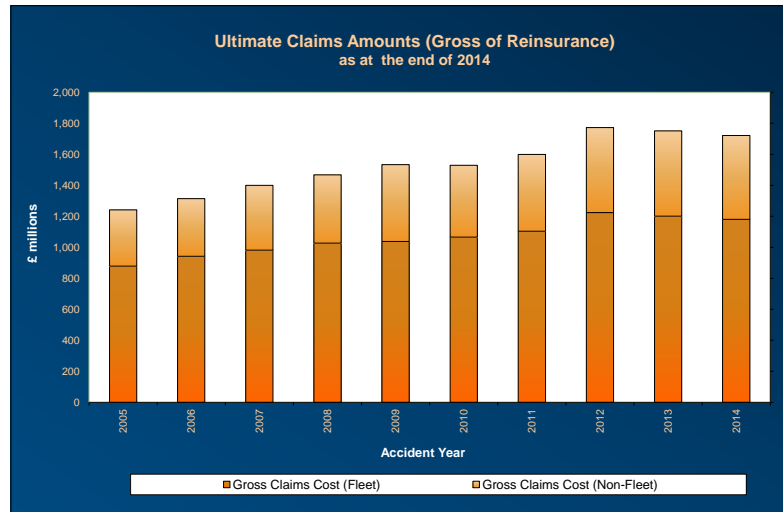


4.3 As mentioned above, Figure 4.1 and Figure 4.2 are based on financial year results, i.e. the claims amounts for each financial year are those booked for the then current accident year, plus the reserve adjustments made during the year in respect of prior accident years' claims. We have also considered the aggregate gross claims costs by accident year, based on the ultimate amounts booked by the market as at 31 December 2014, i.e. redistributing all of the prior years' reserve movements back to the accident years of origin. These ultimate claims 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: Gross Ultimate Claims Amounts as at 31 December 2014**

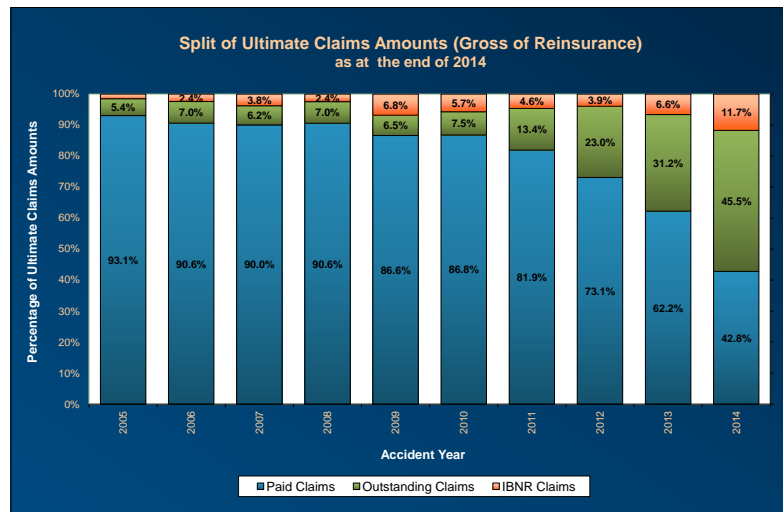


**Figure 4.4**  
**UK Commercial Motor: Gross Ultimate Claims Amounts as at 31 December 2014**



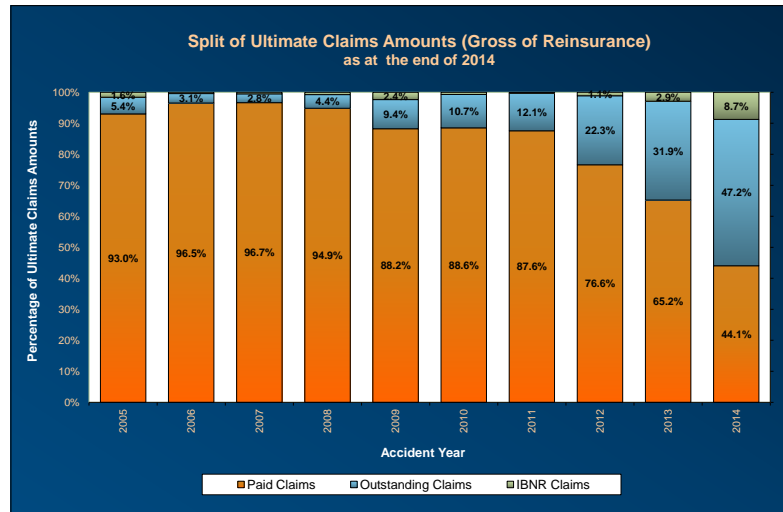
- 4.4 The claims amounts relating to the more recent accident years are based on data that is relatively immature, especially for the 2014 accident year. Therefore, there is greater uncertainty regarding the ultimate claims costs for these accident years than for earlier accident years.
- 4.5 Figure 4.5 and Figure 4.6 show how the Ultimate Claims Amounts, illustrated in Figure 4.3 and Figure 4.4 above, are split between paid, outstanding and amounts incurred but not reported (IBNR)<sup>5</sup>. They indicate that the Commercial Motor claims are generally reported and settled quicker than Private Motor claims

**Figure 4.5**  
**UK Private Motor: Composition of Gross Ultimate Claims Amounts as at 31 December 2014**



<sup>5</sup> 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: Composition of Gross Ultimate Claims Amounts as at 31 December 2014**



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

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

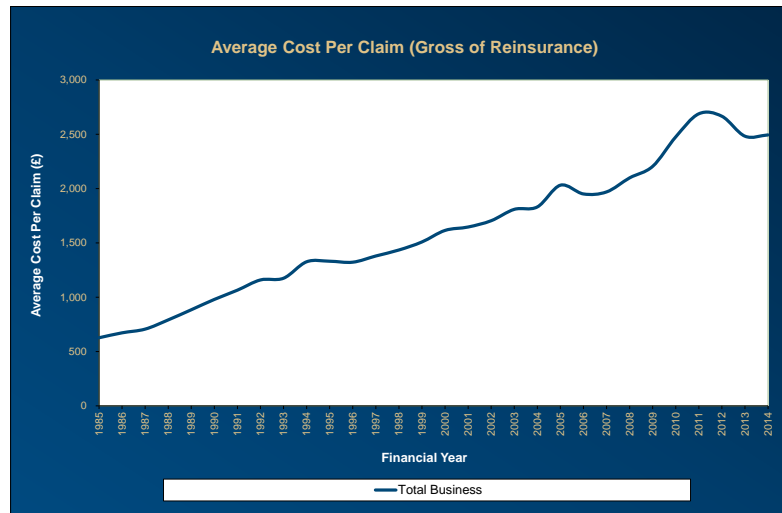
We consider each of these in turn in the paragraphs below.

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 18.3 million in 2014, a 52% increase. This figure for 2014 has fallen back by nearly 1.5% per annum from 21.4 million vehicles insured in 2004. The 18.3 million also falls well short of the total number of Private Motor vehicles on the roads in the UK (as at 31 December 2014, there were 30.5 million cars licensed for use on UK roads<sup>6</sup>). 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 six years due to action taken by the authorities to crack down on driving without insurance (and the UK Government has recently announced further action in this direction), in 2013 there were roughly 1.2 million motorists on UK roads with no insurance cover.

<sup>6</sup> Vehicle Licensing Statistics: Statistical Release April 2015 as published by the Department for Transport; Northern Ireland Transport Statistics 2011 to 2012 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 (Figure 4.7 does not take into account prior years' reserve movements).

**Figure 4.7**  
**UK Private Motor: Average Claims Cost History**

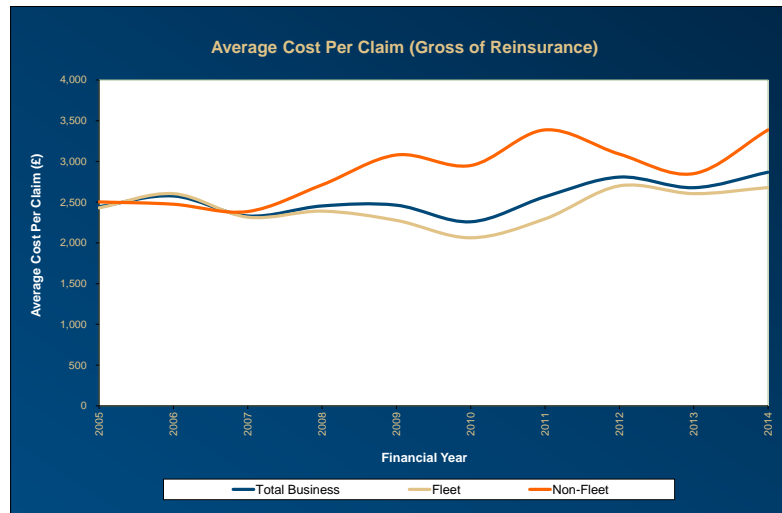


4.9 The average cost of claims has increased from £627 in 1985 to £2,494 in 2014, an increase of 298%. This is equivalent to 4.7% per annum since 1985, a rate which, aside from a few blips, has been relatively steady, at least until the more recent years. We note that the average cost per claim decreased from £2,689 in 2011 to £2,666 in 2012 and to £2,483 in 2013, with a slight increase to £2,494 in 2014. The combined effects of the MoJ Reforms, LASPO and proactive management of potentially fraudulent claims are likely to have been significant contributors to such reductions in the average cost per claim, especially as whiplash claims have fallen by 12% since LASPO came into force (as noted in paragraph 1.16 above).

4.10 During 2014, RPI increased by 2.4%, and had increased by 103% between 1990 and 2014 (equivalent to an average increase of 2.9% per annum). This shows clearly that, over the long term, average claims costs for Private Motor insurance have been increasing at a rate well above that of price inflation. The main driver for this has been inflation in injury settlement costs. The inflation in injury settlement costs has been compounded by increases in the proportion of claims that involve personal injury, albeit that the increased proportion often involve lower cost, soft tissue injuries.

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 (Figure 4.8 does not take into account prior years' reserve movements).

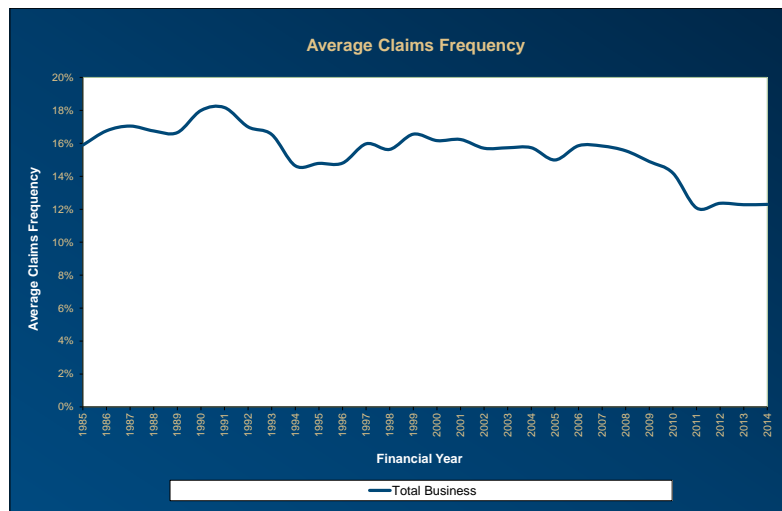
**Figure 4.8**  
**UK Commercial Motor: Average Claims Cost History**



4.12 The average costs per claim for the Commercial Motor lines of business have oscillated over the last 10 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 fluctuating around £2,500 over the period. We note that, in 2014, both Non-fleet and Fleet showed an increase in the average cost per claim.

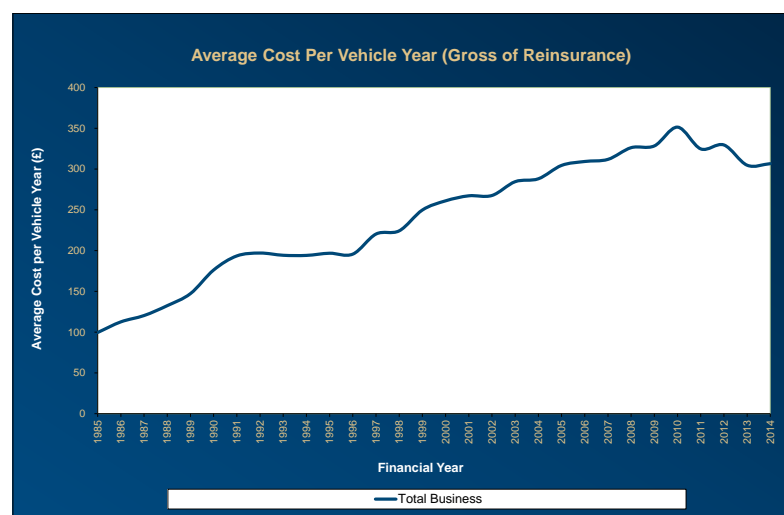
4.13 Having considered the average costs per claim, we now consider the frequency of claims. Figure 4.9 below shows the average frequency (number of claims as a proportion of the number of vehicle years) for Private Motor.

**Figure 4.9**  
**UK Private Motor: Average Claims Frequency**



- 4.14 Figure 4.9 above shows that, while overall Private Motor claims frequency had remained reasonably stable at around 15% to 16% for the period 1997 to 2006, there was a downwards trend over the period 2006 to 2011, since then frequency has been relatively stable. Some of the downward trend up to 2011 is likely to have been linked to the adverse prevailing economic conditions, which led to less private motoring in the UK than hitherto, although, with improving economic conditions in the UK, that could have been expected to have started to reverse by now.
- 4.15 Putting together the average claims costs and the frequency of claims per vehicle gives the average claims cost per vehicle (also known as burning cost). In Figure 4.10 below we show the average Private Motor claims cost per vehicle insured, gross of reinsurance.

**Figure 4.10**  
**UK Private Motor: Average per Vehicle Claims Cost History**



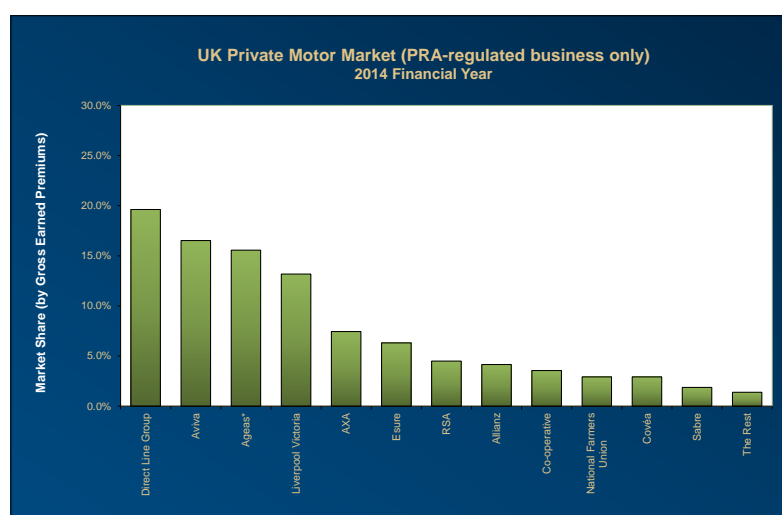
- 4.16 Figure 4.10 above makes clear that, between 1998 and 2009, there was a continuous growth in the average claims cost per vehicle. From 2011 onwards, we can observe a downward trend in average cost per vehicle year which would support the recently decreasing trend in premium rates (although maybe not the magnitude – it should also be remembered that, ignoring the effect of movements in prior years’ claims reserves, the UK Private Motor insurance market has been loss-making since accident year 2005). In 2014, the average cost per vehicle increased slightly for UK Private Motor.
- 4.17 The inconsistency of the exposure data for Commercial Motor within recent PRA returns has made it difficult to produce reliable analyses of claims frequency and average per vehicle claims cost for Commercial Motor.



## 5. PERFORMANCE COMPARISONS

5.1 During 2014, 98.6% (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 65% 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, to 25.7% in 2011, to 20.8% in 2013, to 19.6% in 2014, 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 2014, as measured by gross earned premiums.

**Figure 5.1**  
**UK Private Motor: Insurers Regulated by the PRA by Market Share**

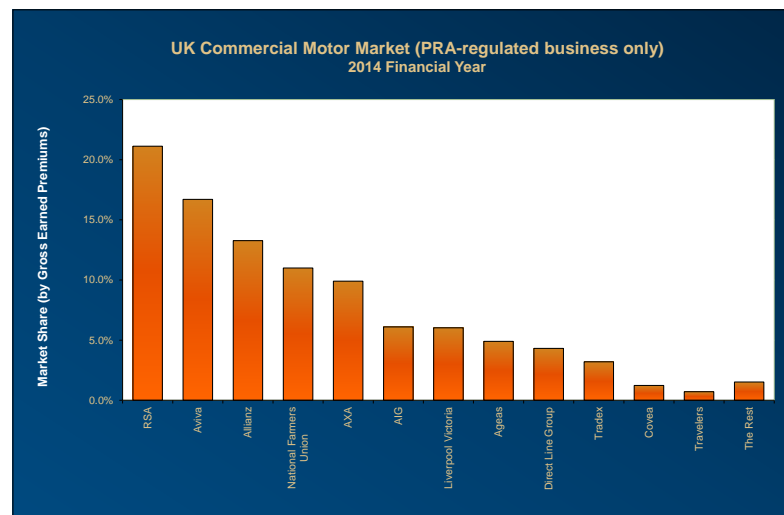


5.2 The following are among the notable businesses not included within Figure 5.1 above:

- 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 three million cars as at the end of 2014. The total UK premiums in 2014 for Admiral were £1.5 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 2014 the gross premium income earned by Advantage in respect of Private Motor was £442.0 million (which would have placed it between Esure and AXA in Figure 5.1 above) with just over 1.3 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 that was regulated by the PRA's predecessor body were attributable to Zurich.
- 5.2.4 The Markerstudy Group (Markerstudy Insurance, Zenith Insurance and, since 30 June 2015, the Chaucer UK motor business) which is also domiciled in Gibraltar has become another significant player of the UK Private Motor market.

5.3 For Commercial Motor, 98.5% 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 2014. Roughly half of the market has been underwritten by RSA, Aviva and Allianz, with National Farmers Union taking a further 11.0%. 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 2014, as measured by gross earned premiums.

**Figure 5.2**  
**UK Commercial Motor: Insurers by Market Share**



5.4 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).

**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 2014 Financial Year**

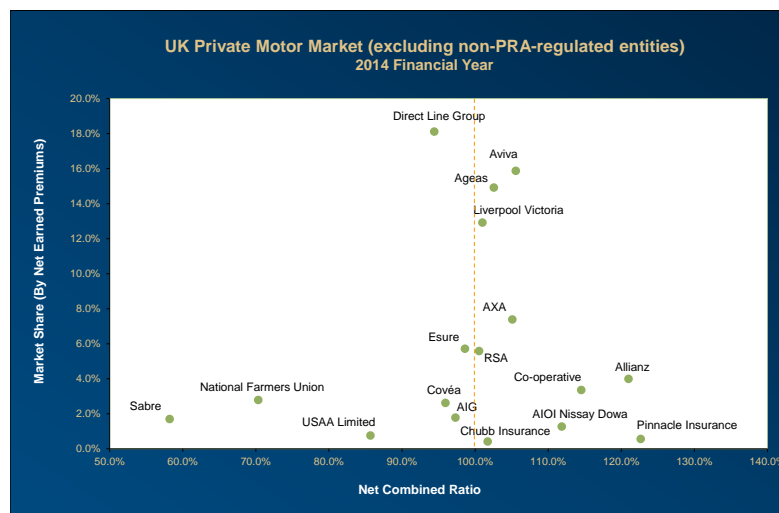
Insurer	Market Share	Net Earned Premiums in £m	Net CY LR	Net PY LR	Net LR CY + PY	Claims Management Costs Ratio	Expenses Ratio	Net Combined Ratio CY	Net Combined Ratio PY + CY
Direct Line Group	18.1%	1,211.8	91.6%	-35.4%	56.1%	10.3%	28.0%	129.1%	94.4%
Aviva	15.9%	1,061.8	85.5%	-6.6%	78.9%	6.0%	20.6%	112.4%	105.6%
Ageas*	14.9%	998.1	81.7%	-5.0%	76.7%	3.2%	22.6%	106.6%	102.5%
Liverpool Victoria	12.9%	864.2	83.3%	-10.8%	72.5%	6.0%	22.5%	112.0%	101.0%
AXA	7.4%	494.2	82.1%	-4.1%	78.0%	3.8%	23.3%	109.2%	105.1%
Esure	5.7%	382.7	94.5%	-20.8%	73.7%	4.1%	20.7%	119.4%	98.6%
RSA	5.6%	374.0	73.0%	-11.4%	61.6%	9.0%	30.0%	111.8%	100.5%
Allianz	4.0%	267.4	73.8%	12.2%	86.0%	7.0%	27.9%	107.0%	121.0%
Co-operative	3.4%	225.2	87.7%	-18.4%	69.2%	5.7%	39.6%	130.3%	114.5%
National Farmers Union	2.8%	187.0	69.0%	-24.4%	44.6%	5.0%	20.7%	95.2%	70.3%
Covéa	2.6%	175.7	81.2%	-15.7%	65.5%	6.5%	24.0%	109.5%	95.9%
AIG Europe	1.8%	119.8	57.7%	-1.3%	56.4%	5.4%	35.5%	96.3%	97.3%
Sabre	1.7%	114.4	55.9%	-21.5%	34.4%	3.5%	20.3%	79.6%	58.2%
Aioi Nissay Dowa	1.3%	85.6	78.3%	-5.3%	73.0%	2.7%	36.1%	120.6%	111.8%
USAA Limited	0.8%	51.4	65.6%	-15.1%	50.5%	11.3%	23.9%	100.7%	85.7%
Pinnacle Insurance	0.6%	38.0	92.4%	7.1%	99.5%	4.3%	18.9%	115.2%	122.7%
Chubb Insurance Company	0.4%	28.3	55.3%	5.9%	61.2%	2.9%	37.7%	95.8%	101.7%
The Rest	0.1%	7.4	46.5%	-74.0%	-27.5%	1.6%	64.9%	113.3%	39.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>6,687</b>	<b>83.0%</b>	<b>-13.6%</b>	<b>69.4%</b>	<b>6.2%</b>	<b>24.8%</b>	<b>113.6%</b>	<b>100.4%</b>

\* includes Tesco Underwriting

5.5 The 100.4% net combined ratio indicated for the market excludes any investment return. Based on the current market conditions we have estimated the investment ratio to be 1.0% of net earned premiums. Allowing for investment income would bring the PRA-regulated UK Private Motor market to a profit of 0.5% of net earned premiums (as already quoted in Table 1.1 above).

5.6 In Figure 5.3 below, we show, for companies with more than 0.4% of the Private Motor market (by net earned premiums), net combined ratios and market shares for the 2014 financial year.

**Figure 5.3**  
**UK Private Motor: Net Operating Profit Versus Market Share**



5.7 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 / commission from ancillary services.

5.8 Similarly, in Table 5.3 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).

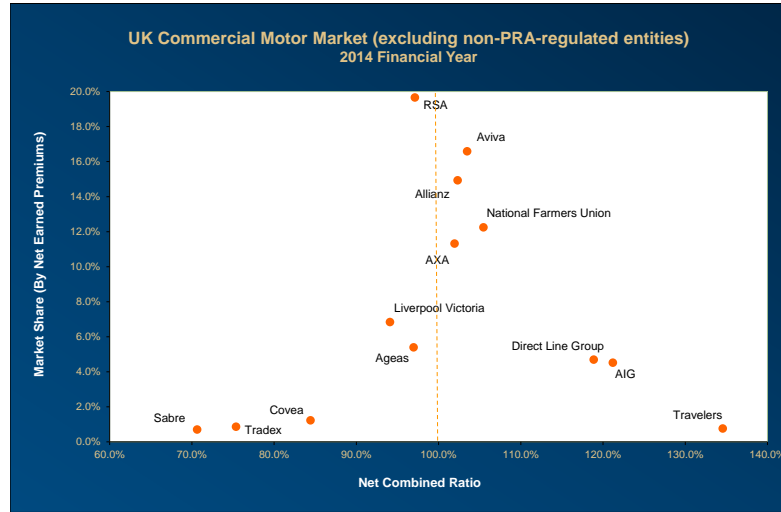
**Table 5.3**  
**UK Commercial Motor: Comparison of Performance of the Major Players Within the PRA-regulated Part of the UK Commercial Motor Market During the 2014 Financial Year**

Insurer	Market Share	Net Earned Premiums in £m	Net CY LR	Net PY LR	Net LR CY + PY	Claims Management Costs Ratio	Expenses Ratio	Net Combined Ratio CY	Net Combined Ratio PY + CY
RSA	19.7%	488.9	79.2%	-5.6%	73.6%	5.3%	18.2%	102.7%	97.1%
Aviva	16.6%	412.5	77.1%	-8.1%	69.1%	8.2%	26.2%	111.3%	103.5%
Allianz	14.9%	371.3	69.8%	9.8%	79.7%	5.9%	16.7%	91.4%	102.3%
National Farmers Union	12.3%	304.6	78.4%	2.0%	80.4%	5.2%	19.8%	102.4%	105.5%
AXA	11.3%	281.6	73.4%	2.9%	76.3%	4.0%	21.6%	99.0%	101.9%
Liverpool Victoria	6.8%	170.3	72.6%	-7.6%	65.0%	2.5%	26.6%	101.8%	94.1%
Ageas	5.4%	134.4	78.2%	-7.0%	71.2%	2.3%	23.4%	103.3%	96.9%
Direct Line Group	4.7%	116.8	82.6%	1.4%	84.0%	5.6%	29.2%	116.9%	118.9%
AIG	4.5%	112.5	77.8%	-3.0%	74.8%	27.6%	18.8%	109.3%	121.2%
Covéa	1.2%	30.7	74.8%	-20.4%	54.5%	5.7%	24.2%	102.8%	84.4%
Tradex Insurance	0.9%	21.5	71.6%	-23.9%	47.7%	17.1%	10.6%	88.2%	75.4%
Travelers	0.8%	19.1	76.4%	14.8%	91.2%	3.4%	40.0%	119.4%	134.6%
Sabre	0.7%	17.6	61.0%	-15.0%	46.0%	4.1%	20.6%	85.5%	70.6%
The Rest	0.2%	4.5	103.5%	-5.8%	97.7%	12.9%	54.3%	163.6%	165.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>2,486.5</b>	<b>76.1%</b>	<b>-1.8%</b>	<b>74.2%</b>	<b>6.5%</b>	<b>21.5%</b>	<b>102.9%</b>	<b>102.3%</b>

5.9 The indicative 102.3% net combined ratio for the market excludes any investment return. Based on the current market conditions we have estimated the investment ratio to be 0.9% of net earned premiums. Allowing for investment income would keep the PRA-regulated UK Commercial Motor market in unprofitable territory with a loss of -1.4% of net earned premiums (as already quoted in Table 1.3 above).

5.10 In Figure 5.4 below, we show, for companies with more than 0.7% of the Commercial Motor market (by net earned premiums), net combined ratios and market shares for the 2014 financial year.

**Figure 5.4**  
**UK Commercial Motor: Net Operating Profit Versus Market Share**



## 6. ACKNOWLEDGEMENT

Thanks are due to Ian Penfold and Peter Moore for their work in analysing the PRA returns and their editorial input to this Market View.

## 7. DISCLAIMER

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, LLP. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2015 Milliman, LLP.

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:

Gary Wells ([gary.wells@milliman.com](mailto:gary.wells@milliman.com)),  
Derek Newton ([derek.newton@milliman.com](mailto:derek.newton@milliman.com))  
Jeff Courchene ([jeff.courchene@milliman.com](mailto:jeff.courchene@milliman.com))  
Vincent Robert ([vincent.robert@milliman.com](mailto:vincent.robert@milliman.com))  
at our London office:

11 Old Jewry  
London EC2R 8DU  
United Kingdom