MILLIMAN MARKET VIEW

Driving for Profit

A view of the UK private and commercial motor insurance markets 2015

July 2016

Derek Newton, FIA, BSc
Vincent Robert, FIA, IA
Peter Moore, FIA, BSc

Milliman

Table of Contents

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 2015 has resulted in a pretax net insurance ratio[2] of -0.4%, i.e., a small loss. This ratio has historically 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 rest of the market in aggregate is operating at a more pronounced loss, with a pretax net insurance ratio of -4.5% in 2015. This is shown in the table in Figure 1.

FIGURE 1: UK PRIVATE MOTOR – PERFORMANCE SUMMARY[3]

	Financial Year														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Pre-Tax Profit (excluding reserve releases from prior years) in £m	282	549	371	315	-72	-263	-237	-464	-1,350	-1,243	-468	-497	-588	-843	-967
Pre-Tax Net Insurance Ratio (excluding reserve releases from prior years)	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%	-14.8%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years)	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%	-0.4%
Pre-Tax Net Insurance Ratio (including reserve releases from prior years and excluding DLG)	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%	-4.5%

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.

1.4 The Private Motor pretax 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 pretax losses for those financial years. Many more insurers strengthened their reserves in 2011, partially offset by reserve releases by the Direct Line Group. Thereafter, the market has seen overall reserve releases, again mostly attributable to the Direct Line Group (which contributed over half of the overall releases in 2015). The extent to which there will be further strengthening or 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.

[1] Analyses were performed based on information included in the Prudential Regulation Authority (PRA) returns submitted by PRA-regulated insurance companies as at 31 December 2015. As such, the analyses exclude the performance of insurers not regulated directly by the PRA, e.g., those registered in Gibraltar, Dublin, or other countries, or those that operate via Lloyd's.

[2] The pretax 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 Historical Annual Market Cash Return) / (Earned Premiums)

[3] Figure 1 gives performance indicators for the last 15 years. For prior years, see previous editions of *Driving for Profit.*

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. We do not believe that this has materially distorted the results as presented in this Market View.

1.6 Excluding the Direct Line Group (and, where appropriate, its predecessor insurers), the pretax net insurance ratio across the industry worsened to -4.5% (compared to -0.7% in 2014), and was negative for the seventh 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 2015, with a pretax net insurance ratio of -14.8%, deteriorating from -12.6% in 2014. Performance has varied from insurer to insurer, with the Direct Line Group, which is the largest Private Motor insurer by market share (of those regulated by the PRA), achieving a net combined ratio in 2015 of 124.0%. Aviva, the second-largest Private Motor insurer by market share, achieved a net combined ratio of 108.1%, and Ageas (including Tesco Underwriting), the third-largest, achieved a net combined ratio of 107.2%. It should be noted 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 2015) some prudence in the current year booked loss ratio as at the end of 2015. Allowing for that, Direct Line Group's underlying underwriting performance would have been more in line with that of its peers than the above ratios suggest.

1.8 Figure 2 shows some key performance indicators for Private Motor (Comprehensive and Non-Comprehensive business combined, Motorcycle business not included).

FIGURE 2: UK PRIVATE MOTOR – KEY PERFORMANCE INDICATORS

	Financial Year														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average Gross Earned Premium (£)	345	356	371	370	372	365	366	382	355	359	400	404	377	356	354
Claims Frequency	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%	12.2%	11.6%
Average Gross Incurred Claim (£)	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	2,604
Net Expense Ratio (Including Claims Management Costs)	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%	28.6%

1.9 The average gross earned premium decreased marginally in 2015 from £356 to £354. This is the third consecutive year-on-year decrease in average gross earned premiums and indicates that average gross earned premiums in 2015 were at much the same level that they were in 2009. Some of the fall, over the past three years, in the average premium for the Private Motor market was due to anticipation of beneficial outcomes arising from the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO), specifically a reduction in the number of fraudulent and exaggerated personal injury claims. This has been compounded by competitive pressures.

1.10 The market has reported significant premium rate increases during the second half of 2015 and the early part of 2016. As the average gross earned premium measure lags the price increases implemented by insurers by about six months, we should see average gross earned premiums increasing in 2016. Indeed, this likely explains the slowing down of the fall that we had seen for the previous two years. The recent premium rate increases are partly as a result of the increase in the Insurance Premium Tax (see paragraph 1.16 below).

1.11 After remaining broadly flat for a few years, in 2015 the claims frequency fell from 12.2% to 11.6%. Counteracting this, the average gross incurred claims amounts increased in 2015 from £2,494 to £2,604. These trends are a result of various actions, taken by the government and the industry to reduce claims costs (e.g., by reducing the incidence of soft tissue claims), as well as more macro influences.

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

COMMERCIAL MOTOR

1.13 Figure 3 indicates that the overall performance (including reserve releases from prior years) of the UK Commercial Motor market has improved in 2015 to a pretax net insurance ratio of 0.7%, the first profit seen in seven years. The better performance in 2015 is largely down to 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 the Private Motor results. Excluding the Direct Line Group, the market shows an overall pretax net insurance ratio of 1.3% in 2015 (an improvement from -0.5% in 2014). As seen within the Private Motor market, insurers have experienced noticeably varied performances.

FIGURE 3: UK COMMERCIAL MOTOR – PERFORMANCE SUMMARY[4]

	Financial Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Pre-Tax Profit (excluding reserve releases from prior years) in £m	148	82	-29	-132	-278	-280	-135	-144	-186	-50	-90
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%	-3.9%
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%	0.7%
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%	1.3%

1.14 The consistency of the data related to Commercial Motor exposure (i.e., vehicle years) has diminished in recent years. Therefore, we have not reproduced Table 1.2 for Commercial Motor as we do not believe that such a table would facilitate meaningful comparisons.

GENERAL COMMENTS AND RECENT DEVELOPMENTS

1.15 In order to deter those looking for 'easy cash' from potentially making false claims, the government introduced the policy that compensation for whiplash claims cannot be provided as cash, but instead must be in the form of medical care. The increase in the small claims limit, from £1,000 to £5,000, was intended to remove much of the need for legal representation and hence save on legal costs. It is expected that this will reduce total costs by £1 billion (roughly £40 to £50 per policy), and many insurers have publicly committed to pass on these savings to policyholders through premium rating.

1.16 In November 2015, the Insurance Premium Tax (IPT) rate increased from 6.0% to 9.5%, adding £18.80 onto the average car insurance premium. The IPT rate will increase further to 10% in October 2016. The 20% increase in the average Shoparound quote of the Automobile Association (AA) for a comprehensive car insurance policy is largely attributed to the substantial increase in the IPT. There are valid concerns that the level of motor fraud will further increase: as premiums rise from the introduction of the IPT, there is a greater incentive to provide false information in order to receive a lower quote.

[4] 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 2004 and 2005 regulator returns for the Commercial Motor categories. Therefore, throughout this Market View, we have considered only financial year 2005 onwards when analysing the Commercial Motor market.

1.17 MedCo, announced by the government at the end of 2014, went live in April 2015. The medical reporting portal for whiplash claims allocates medical experts to whiplash claims, rather than claims management companies (CMCs) themselves sourcing doctors to provide diagnoses. Currently, Medco receives over 40,000 medical reports per month. In the 2015 Autumn Statement, George Osborne announced the abolishment of compensation for soft tissue injuries in the near future; this could either render MedCo defunct or implies that the system could be expanded for other types of claims in the future. While it may be too early to discuss the effects of the initiative, there has been some dissatisfaction that is due to the actions of the medical reporting organisations on the system.

1.18 Another initiative which has been set up to reduce fraudulent claims is the introduction of askCUE Personal Injury service. The service, which became mandatory from 1 June 2015, was established by the Association of British Insurers (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 are able to use this service to access past claims records of potential claimants. The records relate only to personal injury or industrial illness incidents which have been reported to insurers.

1.19 In addition to whiplash claims, 'crash for cash' and 'ghost broking' continue to cost the industry. Throughout 2015 there have been multiple high-profile cases of ghost broking: one ghost broker was sentenced to three years in prison for selling fake policies, while penalties in other cases have been lighter. 'Crash for cash' claims have continued to be especially prevalent, costing the industry £400 million a year. Aviva identified more than 3,000 such claims in 2015 (equivalent to a 'crash for cash' claim every three hours). As in 2014, Birmingham continued to have the highest frequency of identified 'crash for cash' claims in 2015—with one in four identified claims taking place in the city.

1.20 The market share of telematics insurance continues to grow in the UK, with the number of live policies increasing by 41% over 2015. While telematics policies are predominantly aimed at younger drivers, 60% of drivers claimed they would consider purchasing such policies if they led to lower premiums. Despite the growth, market penetration by telematics insurance remains low. Various surveys indicate that a significant proportion of drivers still have misconceptions about telematics and how insurance companies use personal data. For example, it is widely believed that drivers are tracked in real time and their data is shared with third parties.

1.21 Driverless car trials started in the UK in February 2015 and George Osborne announced that driverless cars could be on UK roads as early as 2017. Testing of driverless lorries is being undertaken on smaller roads before being extended to motorways. Over 90% of road accidents are due to human error (such as speeding, driving under the influence, and driver inattention). Research has suggested that automated vehicles could reduce collision numbers by 95% and it is therefore possible that driverless cars could prevent more deaths than the seatbelt. However, research also shows that 68% of the British population are currently sceptical of driverless cars and would feel uncomfortable as a passenger. Furthermore, over 50% said they were concerned about the consequences of making a claim against a driverless car in the sense that they would be immediately viewed as being at fault. As driverless vehicles become more prolific, it is expected that there will be a fundamental shift in the way that motor insurance operates; age and other individual specific traits will become less important, and a greater emphasis on product liability will be made.

1.22 As automated vehicles become more prevalent, along with the general increase in the connectivity of vehicles, hacking will rise. It has been estimated that, by 2020, 250 million vehicles worldwide will be connected to the Internet. Although connected cars will be safer in some ways, there is a risk that they will be less secure. Policymakers and car manufacturers need to help reduce the vulnerability of vehicles; but, as technology security experts warn, it could take a decade to catch up with hackers' developing methods.

1.23 We foresee that the UK motor market will continue 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). However, some insurers continue to make a reasonable return on their motor books

and we suspect that others make an adequate return when ancillary sources of income (e.g., revenue from legal services cover, etc.) are taken into account.

1.24 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.

1.25 As noted in paragraph 1.10 above, the Private Motor market has been increasing premium rates in late 2015 and early 2016. This should arrest the decline in market performance and could restore it to marginal profitability over the current year. However, insurers remain constrained by fierce competition in the market, which will limit future premium rate increases. Moreover, we are concerned that the savings in claims costs that insurers have achieved (or have anticipated that they will achieve) as a result of the recent reforms might not be sustainable. Therefore, we consider it highly possible that any bounce-back in performance in 2016 will be reversed in 2017.

1.26 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:

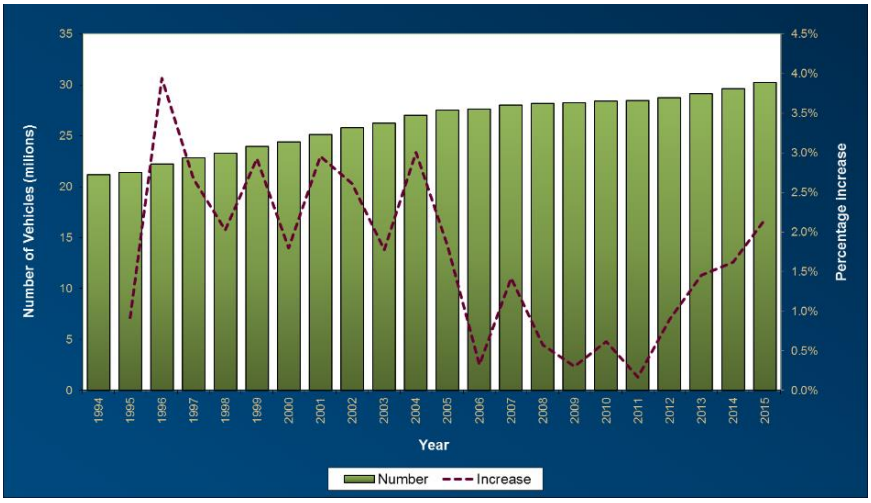
- Market profitability
- Premium rates
- Claims frequency and average size
- Comparative performance of major players in the markets

1.27 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 abolished. Prior to 2001, responsibility was held by HM Treasury and before that by the Department of Trade and Industry.

2. Market Profitability

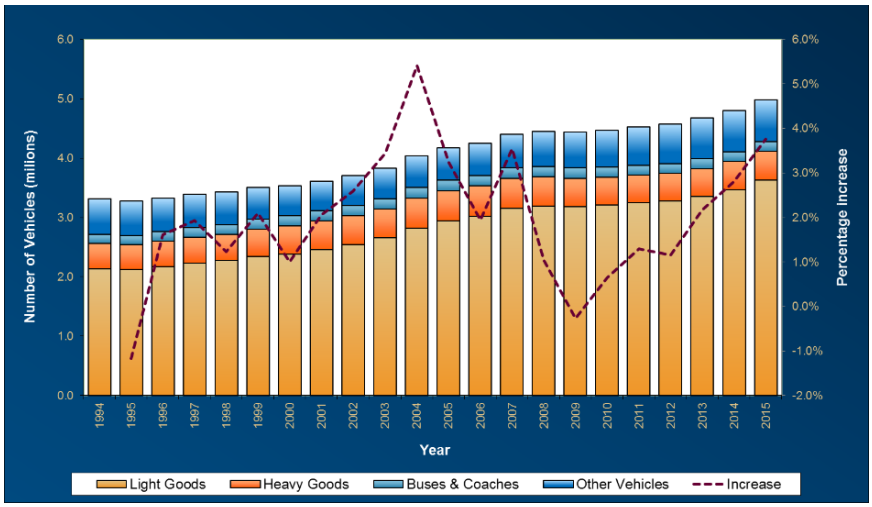
2.1 The bars in Figure 4 show the number of licensed private cars in Great Britain[5] as at the end of each of the last 22 years, and the dotted line shows the year-on-year increases in those numbers. Similarly, Figure 5 shows the number of licensed commercial vehicles in Great Britain as at the end of each of the last 22 years and the year-on-year increases in those numbers.

FIGURE 4: NUMBER OF LICENSED PRIVATE CARS ON THE ROADS OF GREAT BRITAIN



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

FIGURE 5: NUMBER OF COMMERCIAL VEHICLES ON THE ROADS OF GREAT BRITAIN

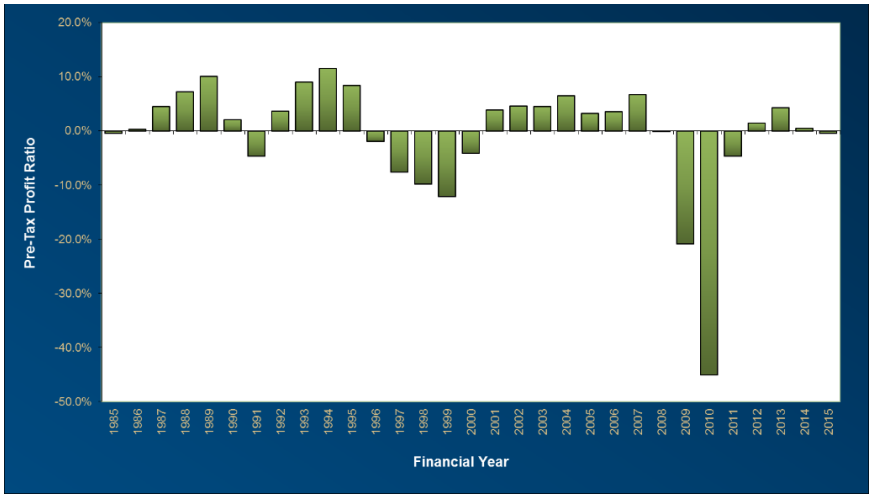


2.2 In 2015, the number of licensed private cars in Great Britain broke the 30 million mark (reaching 30.3 million by the end of 2015, a 2.2% increase since 31 December 2014). Between 2008 and 2012, the rate of increase in the number of licensed private cars was less than 1% per annum, much lower than the rate of increase in earlier years (which could be explained by the depressed economic conditions experienced over this period). However, since then, per annum increases of over 1.5% have been seen.

2.3 The number of licensed commercial vehicles in Great Britain reached 5 million as at 31 December 2015, a 3.8% increase since 31 December 2014. The rate of increase, again, was relatively low, at less than 2% per annum between 2008 and 2012. The number of registered commercial vehicles actually decreased from 2008 to 2009, but it is now greater than the levels observed before the global 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 6, measured by the pretax profit ratios.[6]

FIGURE 6: UK PRIVATE MOTOR – PROFITABILITY HISTORY

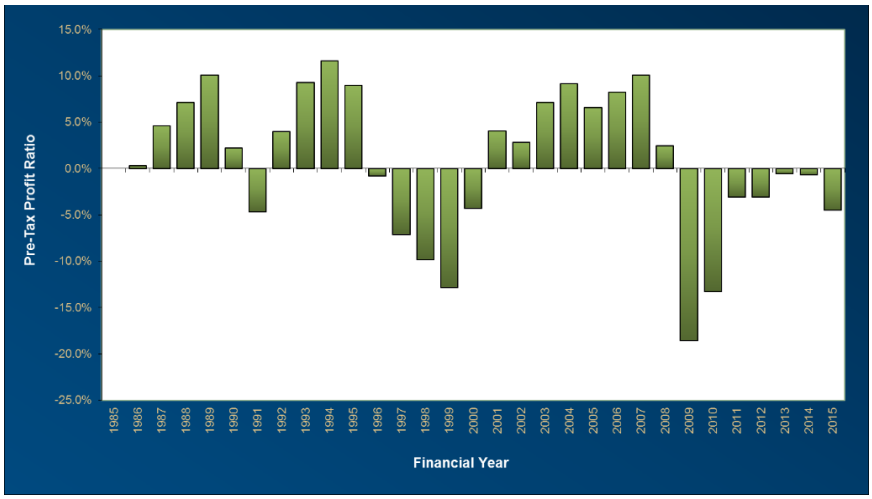


6 In Figure 2.3, the pretax profit ratio is taken to be 100% minus the Insurance Ratio. The Insurance Ratio comprises the Combined Ratio less the Investment Ratio, where the Combined Ratio is calculated as: (Incurred Claims + Expenses Incurred) / (Earned Premiums) and the Investment Ratio is calculated 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 claims reserves for prior accident years.

2.5 The data underlying Figure 6 and Figure 7 have been derived from the PRA returns (up to the end of 2015), 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, Hastings and, with effect from 2009, Zurich's UK business). We have taken the number of licensed private cars in the UK in 2015 (30.3 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., 31.2 million cars). The PRA returns show that 61% (18.9 million) of these cars were insured in 2015 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 5.2 million vehicles, with 63% (3.3 million) of these vehicles insured by PRA-regulated companies.

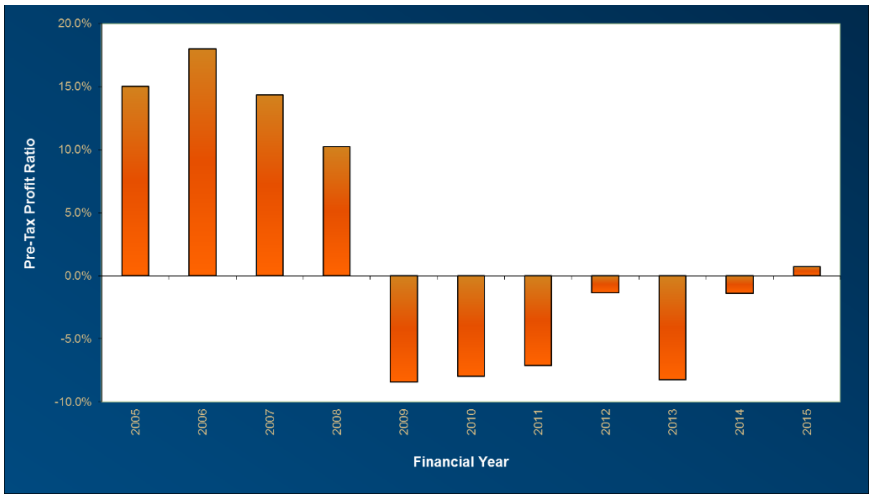
2.6 The pretax profit ratios in Figure 6 are distorted by the results published by the Direct Line Group. During 2010, the then component parts of the Group strengthened its prior years' reserves significantly, far more so than did the rest of the market. The Group then made material prior years' reserve releases in 2011 to 2015. We restate, in Figure 7, the data in Figure 6, but this time excluding the numbers from the Direct Line Group and its component parts.

FIGURE 7: UK PRIVATE MOTOR – PROFITABILITY HISTORY (EXCLUDING THE DIRECT LINE GROUP)



2.7 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 8 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. The analysis is based on Fleet, Non-Fleet, and Other Commercial Motor combined.

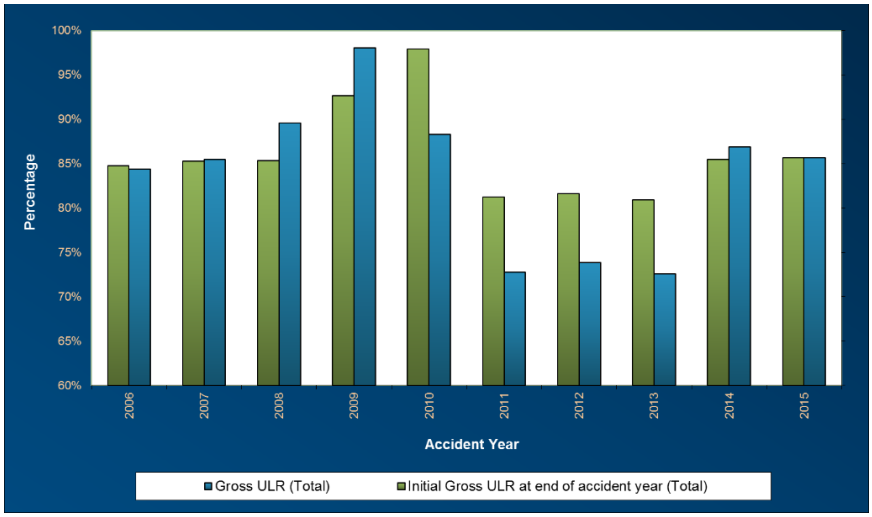
FIGURE 8: UK COMMERCIAL MOTOR – PROFITABILITY HISTORY



2.8 Net expense ratios (including claims management costs) for Private Motor insurers have been, over the last 25 years, between 22% and 31%, and, over the last 10 years for Commercial Motor insurers, have been between 24% and 31%. Investment income as a proportion of net premiums was mostly between 6% and 10% for the period 1990 to 2008, but 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.

2.9 In Figure 9, 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: the green bars denote the loss ratio recorded across the market for that accident year at the end of the accident year in question; and the blue bars represent the estimate of the loss ratio for that accident year as at the 2015 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.

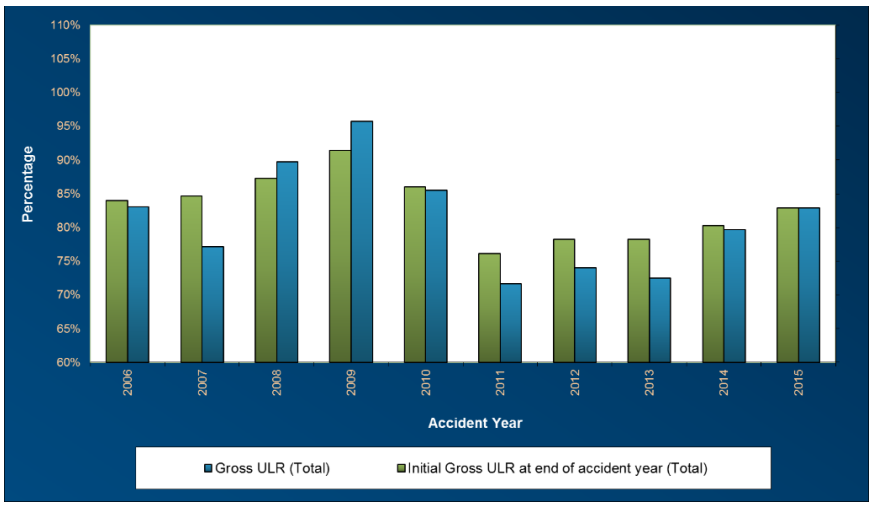
FIGURE 9: UK PRIVATE MOTOR – GROSS LOSS RATIOS BY ACCIDENT YEAR



2.10 As can be seen in Figure 9, the loss ratios estimated as at the end of accident years 2006 and 2010 to 2013 have subsequently been viewed to have been conservative and the latest estimated loss ratios for these years are lower than their initial estimates. However, for accident years 2007 to 2009 and 2014, there has been subsequent strengthening of the loss ratios initially estimated as at the end of those accident years. The strengthening seen for accident year 2014 seems to go against the recent observed trend of large releases. However, accident years 2011 to 2013 have seen further releases during the 2015 calendar year and so the strengthening seen for accident year 2014 may well reverse going forward.

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 10 the gross loss ratios across the market, excluding those relating to the Direct Line Group.

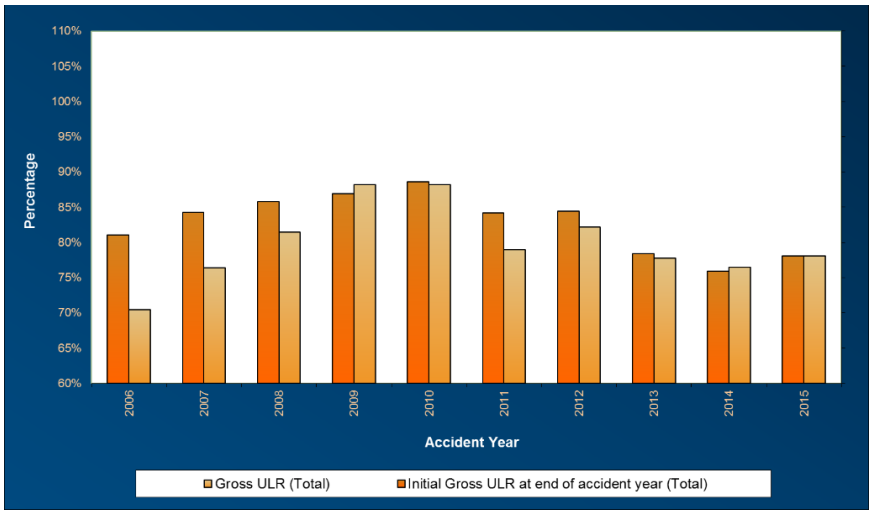
FIGURE 10: UK PRIVATE MOTOR – GROSS LOSS RATIOS BY ACCIDENT YEAR (EXCLUDING THOSE RELATING TO THE DIRECT LINE GROUP)



2.12 The pattern in Figure 10 is similar to that in Figure 9, 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 releases seen in respect of 2010 to 2013 accident years has also not been as strong. Additionally, the strengthening seen for accident year 2014 in Figure 9 appears to be solely down to the Direct Line Group strengthening its reserves for that accident year. 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.

2.13 Similarly to Figures 9 and 10, we show the gross loss ratios for Commercial Motor (Fleet and Non-Fleet combined) by accident year in Figure 11, 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 2015 year-end. This shows releases made to the reserves booked as at the end of accident years 2006 to 2008 and 2010 to 2013, whereas those reserves booked as at the end of accident years 2009 and 2014 have subsequently required strengthening. The strengthening seen in accident year 2014 can again be largely attributed to the Direct Line Group strengthening its reserves for that accident year.

FIGURE 11: UK COMMERCIAL MOTOR – GROSS LOSS RATIOS BY ACCIDENT YEAR



2.14 Although Figures 9, 10, and 11 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. 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 ratios for accident years 2014 and 2015 for Private Motor are likely to reduce from the level booked as at the 2015 year-end. However, it appears likely that the impact of decreased premium rates will outweigh the impact of the various reforms and the consequential improved claims experience and so we anticipate higher ultimate loss ratios for accident years 2014 and 2015 compared with that of the 2013 accident year.

2.15 In Figures 12 and 13, 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 12: UK PRIVATE MOTOR (EXCLUDING THE DIRECT LINE GROUP) – MARKET EXPENSE RATIOS

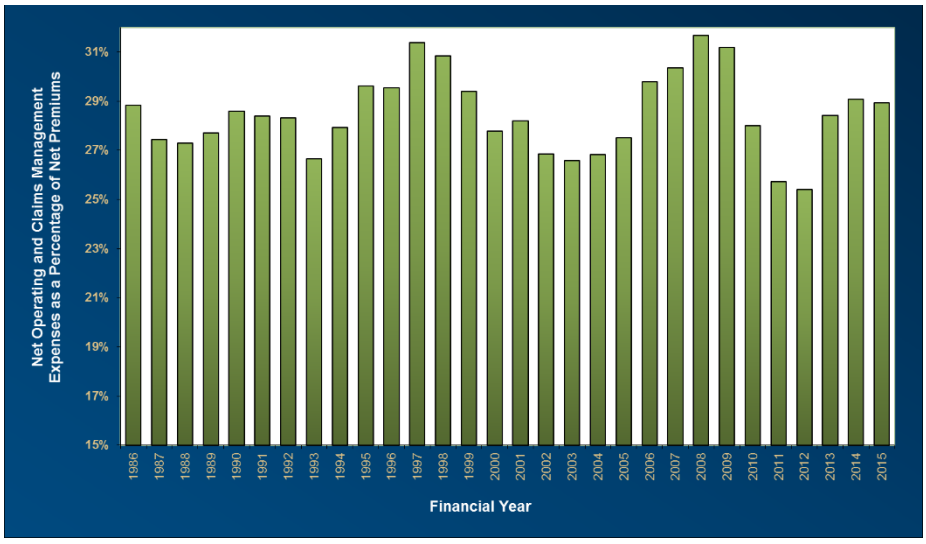
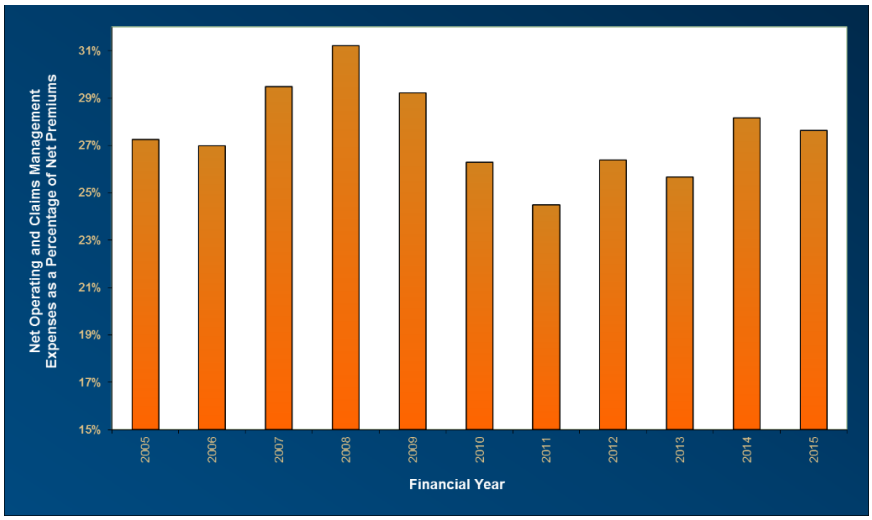


FIGURE 13: UK COMMERCIAL MOTOR – MARKET EXPENSE RATIOS



2.16 With net expense ratio percentages mostly in the mid- to high 20s, and with recent levels of investment income providing little mitigation, 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 particularly clear. Notwithstanding various initiatives among insurers to control costs, the downward trend in the expense ratios since the 2008/2009 accident year peaks 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, which was due at least in part to falling average earned premiums. The expense ratios for both Private Motor and Commercial Motor have decreased marginally in 2015 compared with 2014.

2.17 Having referred in earlier paragraphs to the movements in the prior years' reserves that have occurred during recent financial years, we set out in Figures 14 to 17 the reserve releases, expressed as a percentage of net earned premiums, for each financial year to 31 December 2015, 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 14: UK PRIVATE MOTOR: PRIOR YEARS' RESERVE RELEASES IN EACH ACCIDENT YEAR (RELATING TO THE DIRECT LINE GROUP ONLY)

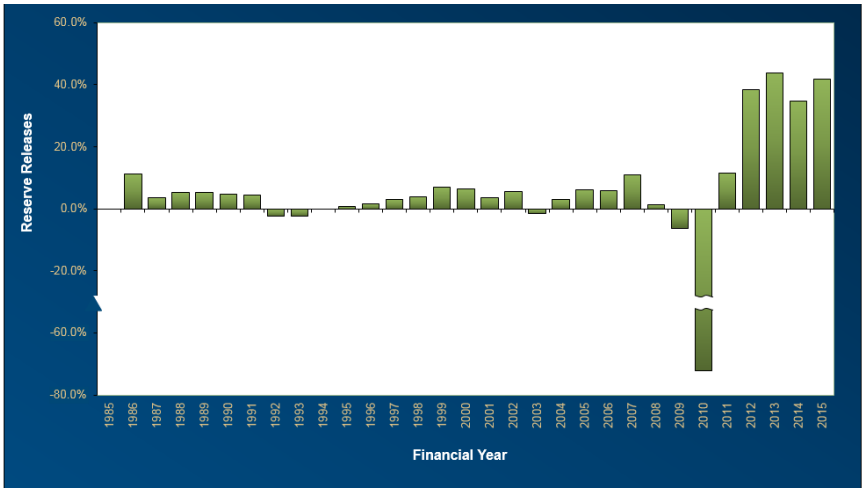
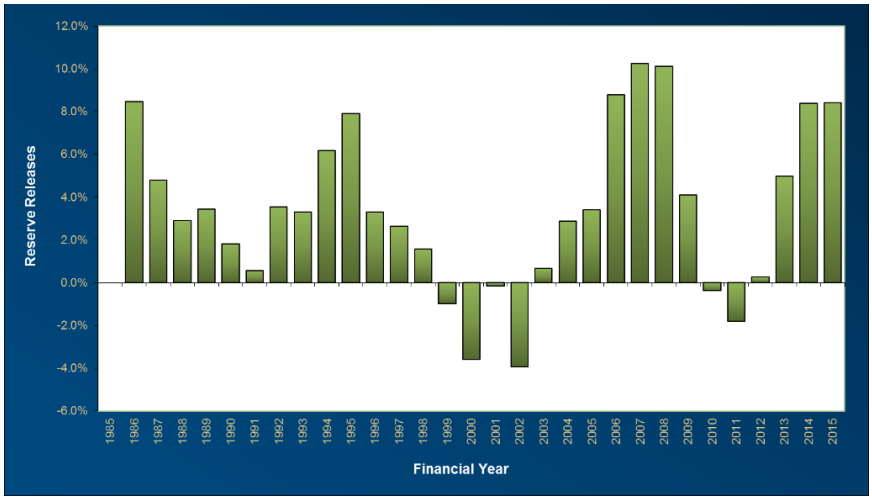


FIGURE 15: UK PRIVATE MOTOR: PRIOR YEARS' RESERVE RELEASES IN EACH ACCIDENT YEAR (RELATING TO THE ENTIRE MARKET EXCLUDING THE DIRECT LINE GROUP)



2.18 The patterns shown in Figures 14 and 15 are very different from one another. Before 2009, the Direct Line Group companies tended, in aggregate, to provide year-on-year releases from its 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 appears to have reversed much of the 2009/2010 strengthening but has held particularly strong reserves in respect of the most recent accident year, with the reserve margins then released progressively in later financial years. Historically, the rest of UK Private Motor has, in aggregate, generated a clearly cyclical pattern of releases, the amplitude of which has increased over time, with strengthening required from 1999 to 2002 and again from 2010 to 2012. Accident years 2013, 2014, and 2015 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 16: UK COMMERCIAL MOTOR: PRIOR YEARS' RESERVE RELEASES IN EACH ACCIDENT YEAR (RELATING TO THE DIRECT LINE GROUP ONLY)

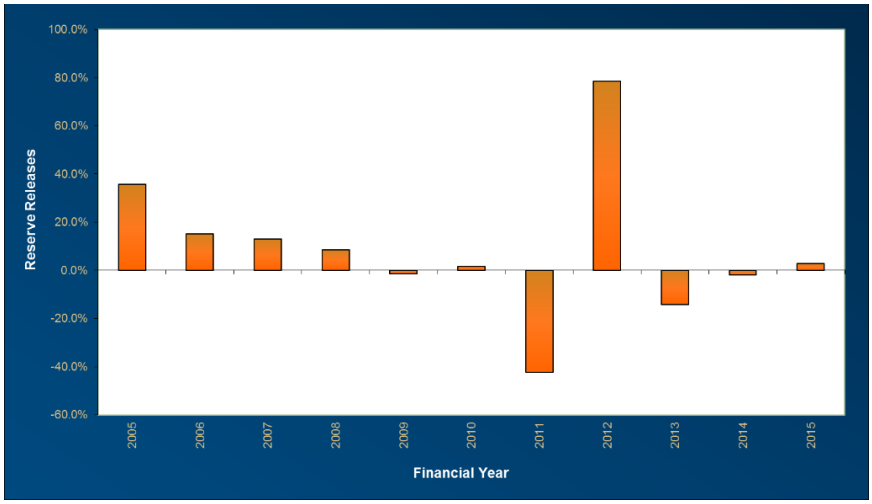
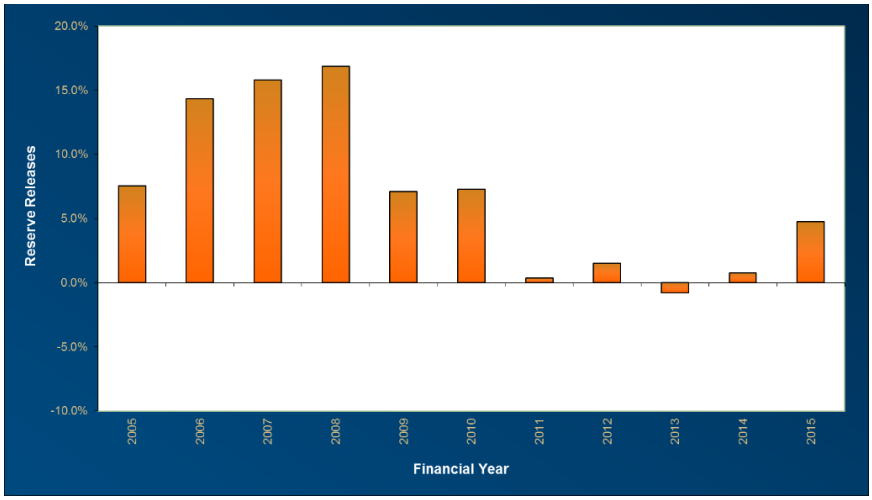


FIGURE 17: UK COMMERCIAL MOTOR: PRIOR YEARS' RESERVE RELEASES IN EACH ACCIDENT YEAR (RELATING TO THE ENTIRE MARKET EXCLUDING THE DIRECT LINE GROUP)



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 market showed reserve releases again in 2014 and further significant reserve releases (amounting to approximately 5%) in 2015. 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 since then overall reserve movements have been relatively small.

3. Premiums

3.1 Figures 6 and 7 above show that, over the last 25 years, the UK Private Motor underwriting cycle bottomed out in 1999 and again in 2009 and 2010. A key driver has been the premium rates charged in the market.

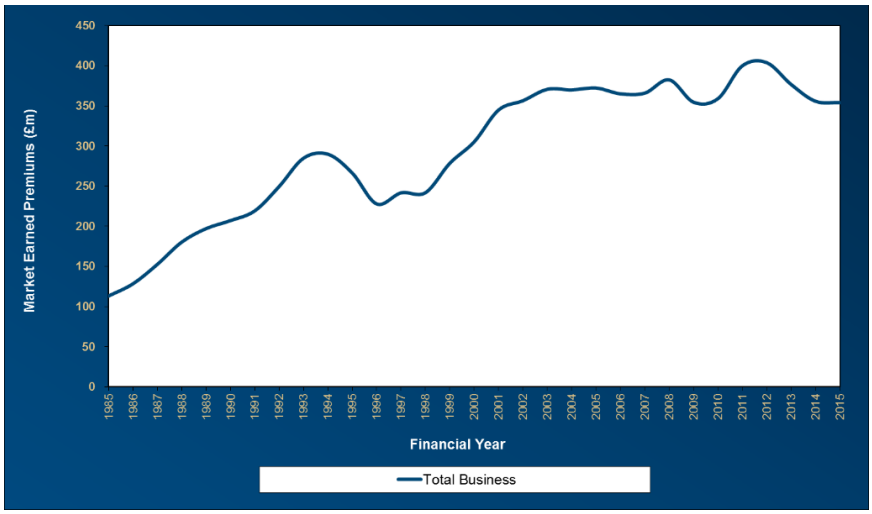
3.1.1 Average Private Motor market premiums had been in steady decline since about 1993, bottoming out towards the end of 1996. This is what led to the 1999 trough in underwriting performance.

3.1.2 From 1998 to 2003, there was steady growth in premium rates. For the following five years average premiums were largely flat with a few oscillations. 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. This resulted in the poor underwriting result in 2009 and 2010.

3.1.3 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, which was due to competition and the anticipation of benefits from LASPO, and indeed mid-2014 saw premiums fall for the 10th 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. In 2015, average earned premiums remained stable.

3.2 This progression in market premiums is illustrated in Figure 18.

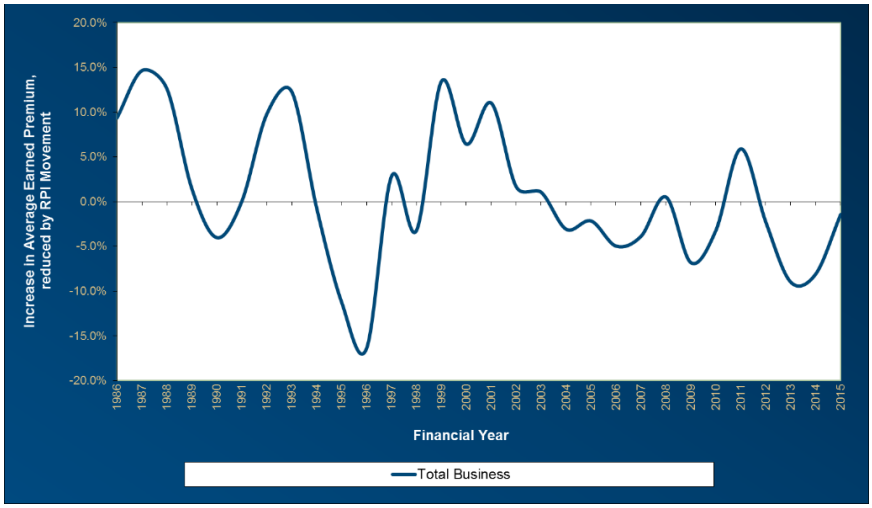
FIGURE 18: UK PRIVATE MOTOR – AVERAGE EARNED PREMIUM HISTORY



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 19, we have offset the year-on-year changes in the average earned premiums shown in Figure 18, by the corresponding movements in the Retail Price Index (RPI).

FIGURE 19: UK PRIVATE MOTOR – AVERAGE EARNED (INFLATION-ADJUSTED) PREMIUM HISTORY



3.5 Figure 19 provides a view of the 'real' development of average Private Motor market premiums. It can also be seen from Figure 19 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

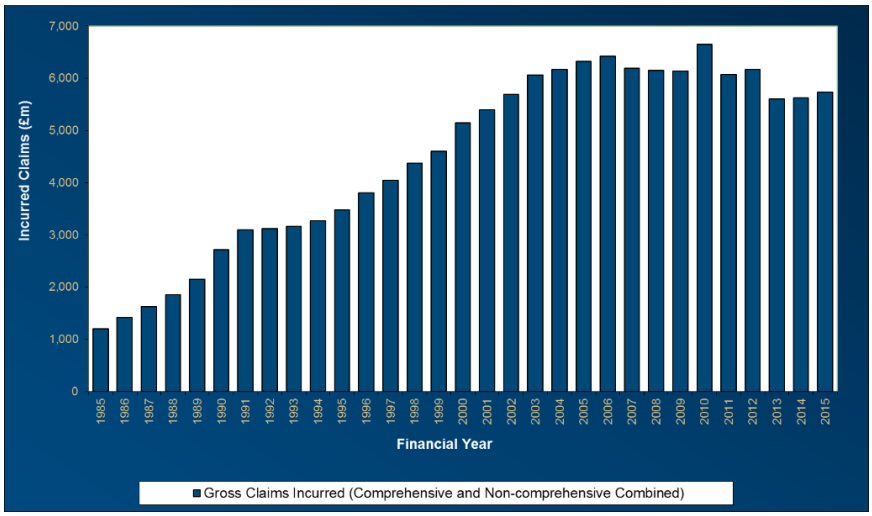
4.1 Figure 20 shows the aggregate gross claims incurred by the Private Motor market during each of the financial years from 1985. Over this period, the cost of Private Motor insurance claims has risen substantially (an increase of around 500%). Claims costs reached a peak in 2006 after which they fell back by about 6% and, save for a spike in 2010, remained fairly flat between 2007 and 2012. Following a further drop in 2013, claims costs have grown slightly. 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 2015.

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 20. Hastings has also grown to be a significant part of the UK market in recent years, but its performance is not included within the data analysed.

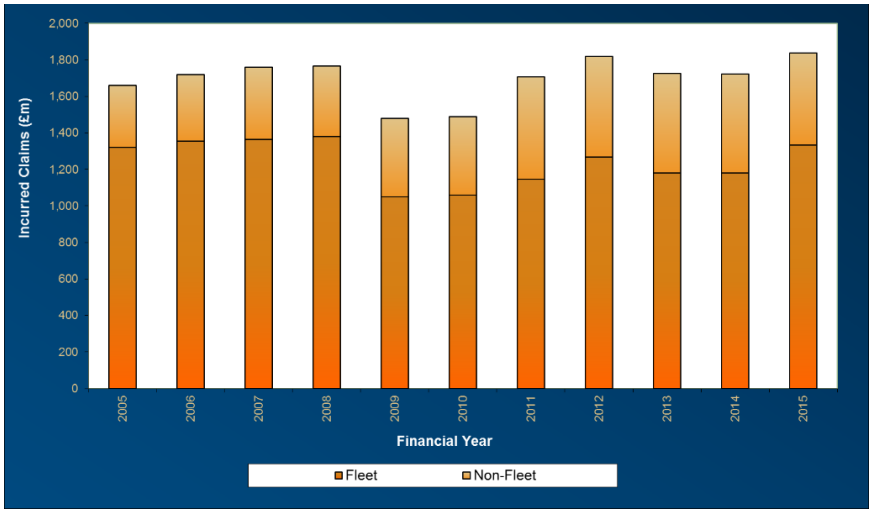
4.1.3 The numbers underlying Figure 20 are both the claims amounts incurred in that financial year plus movements in that financial year in respect of the prior years' claims reserves. The spike in 2010 would reflect prior years' reserve strengthening conducted in that financial year, especially that conducted by the Direct Line Group. Similarly, the lower figures in 2013 to 2015 relative to 2012 are largely due to releases of prior years' reserves.

FIGURE 20: UK PRIVATE MOTOR – INCURRED CLAIMS HISTORY



4.2 Figure 21 shows the aggregate gross claims incurred by the Commercial Motor market for the last 11 financial years. Claims costs reached a new high in 2015 (after a 7% increase from the 2014 level), with Fleet being the main source of the increase. Claims costs had previously peaked in 2008 and 2012. The 16% fall seen in 2009 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%. Non-Fleet was the main source of the sharp increase of 15% in gross incurred claims in 2011, with Fleet being the driver of the 7% increase in 2012.

FIGURE 21: UK COMMERCIAL MOTOR – INCURRED CLAIMS HISTORY



4.3 As mentioned above, Figures 20 and 21 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 2015, i.e., redistributing all of the prior years' reserve movements back to the accident years of origin. These ultimate claims amounts are shown in Figures 22 and 23, which exhibit slightly different patterns from those in Figures 20 and 21.

FIGURE 22: UK PRIVATE MOTOR – GROSS ULTIMATE CLAIMS AMOUNTS AS AT 31 DECEMBER 2015

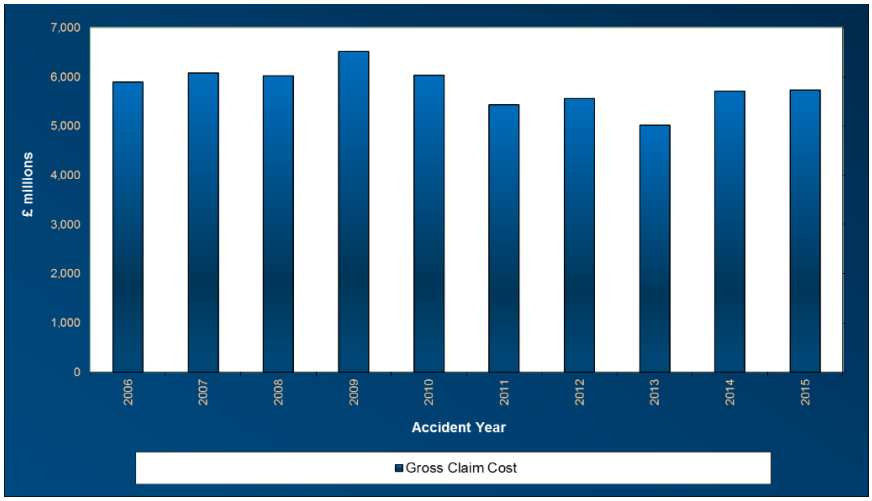
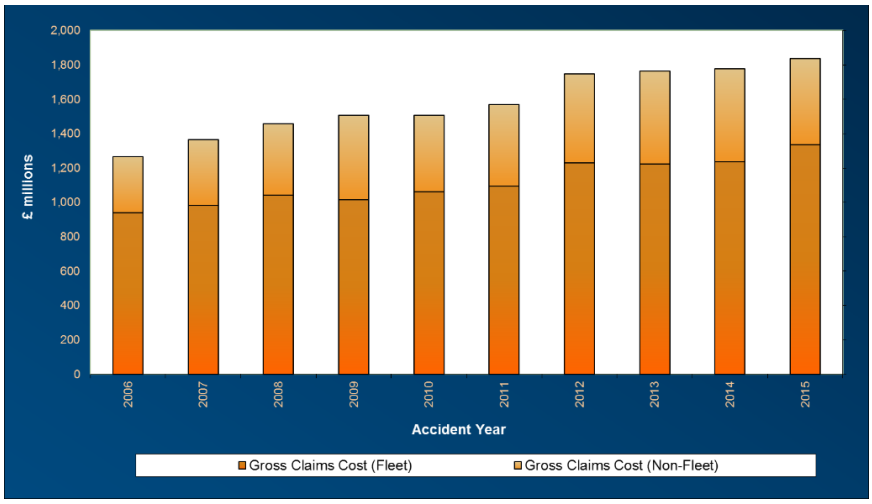


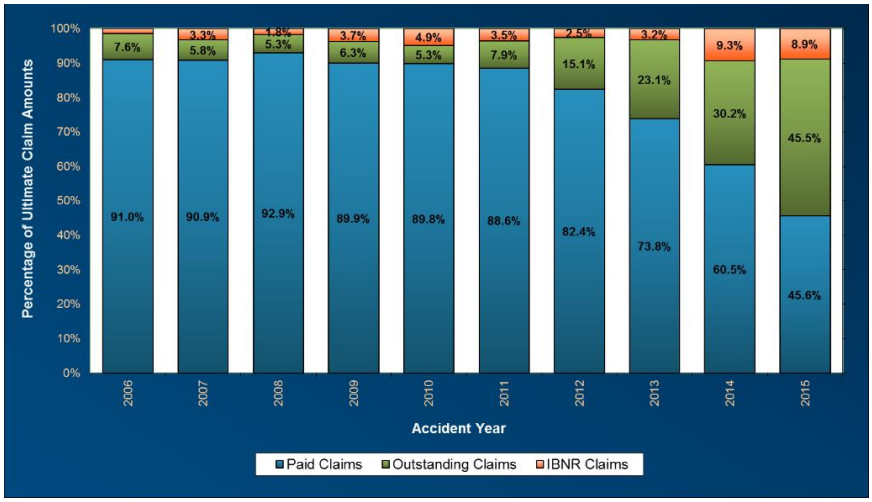
FIGURE 23: UK COMMERCIAL MOTOR – GROSS ULTIMATE CLAIMS AMOUNTS AS AT 31 DECEMBER 2015



4.4 The claims amounts relating to the more recent accident years are based on data that is relatively immature, especially for the 2015 accident year. Therefore, there is greater uncertainty regarding the ultimate claims costs for these accident years than for earlier accident years.

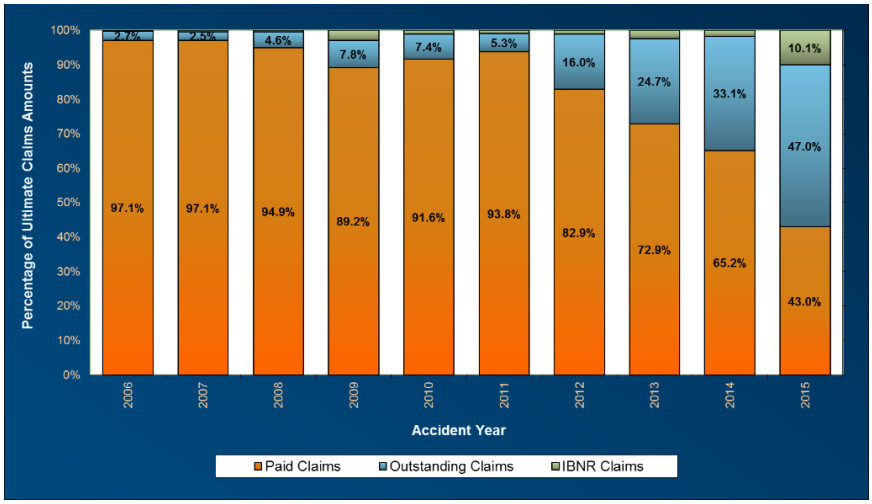
4.5 Figures 24 and 25 show how the Ultimate Claims Amounts, illustrated in Figures 22 and 23, are split between paid, outstanding, and amounts incurred but not reported (IBNR).[7] They indicate that the Commercial Motor claims are generally reported and settled quicker than Private Motor claims.

FIGURE 24: UK PRIVATE MOTOR – COMPOSITION OF GROSS ULTIMATE CLAIMS AMOUNTS AS AT 31 DECEMBER 2015



[7] 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 25: 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)

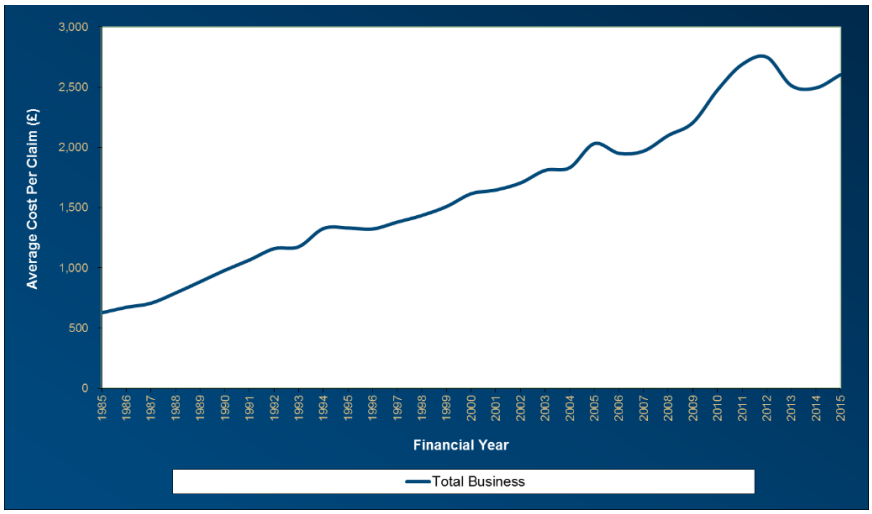
We consider each of these in turn in the paragraphs below.

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 18.9 million in 2015, a 57% increase. This figure peaked in 2004 (with 21.4 million vehicles) and then gradually fell down to 18.4 million in 2013. However, it has started to increase again over the past two years. The 18.9 million also falls well short of the total number of Private Motor vehicles on the roads in the UK (as at 31 December 2015, there were 31.2 million cars licensed for use on UK roads[8]). Most of the shortfall relates to vehicles insured via Lloyd's or by non-PRA-regulated insurance companies. The rest are primarily vehicles driven on UK roads without any insurance cover. Although the number of uninsured drivers on UK roads has fallen materially over the past seven years because of 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 2015 the Motor Insurance Bureau estimated that 2.8% of all UK motorists drive without insurance .

[8] Vehicle Licensing Statistics: Statistical Release April 2016, 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 26 (Figure 26 does not take into account prior years' reserve movements).

FIGURE 26: UK PRIVATE MOTOR – AVERAGE CLAIMS COST HISTORY

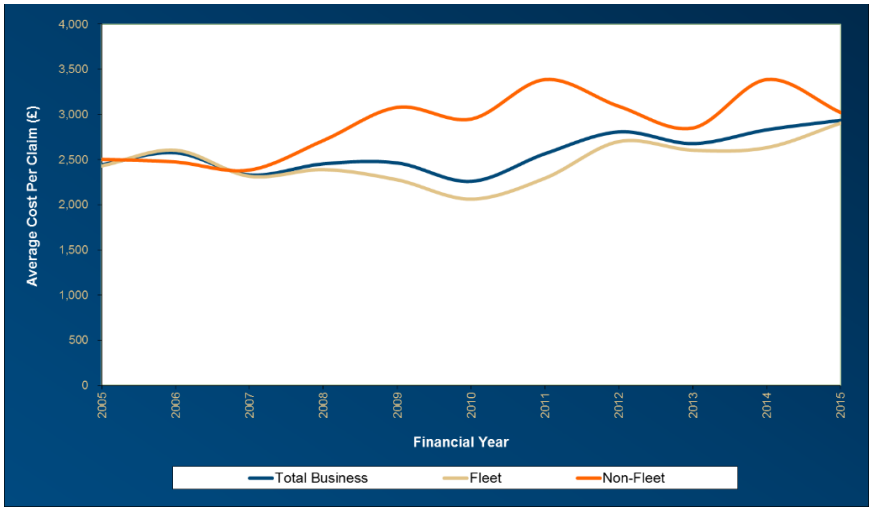


4.9 The average cost of claims has increased from £627 in 1985 to £2,604 in 2015, an increase of 316%. This is equivalent to 4.9% per annum since 1985, a rate which, aside from a few blips, has been relatively steady, at least until the more recent years. We note that the average cost per claim decreased from £2,689 in 2011 to £2,483 in 2013, and then increased to £2,604 in 2015. The combined effects of the Ministry of Justice (MoJ) reforms, LASPO, and proactive management of potentially fraudulent claims were expected to contribute to reductions in the average cost per claim. However, the reductions appear to be reversing now.

4.10 During 2015, RPI increased by 1%, and had increased by 105% between 1990 and 2015 (equivalent to an average increase of 2.4% 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 27 (Figure 27 does not take into account prior years' reserve movements).

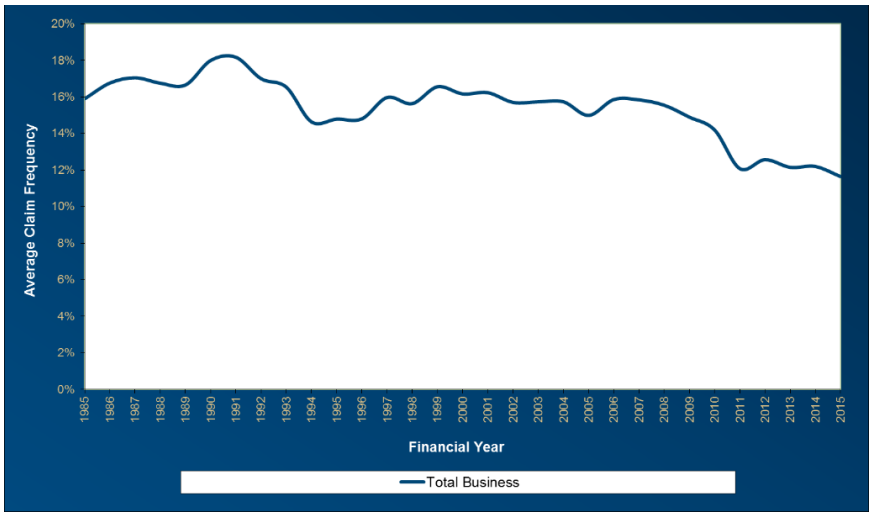
FIGURE 27: UK COMMERCIAL MOTOR – AVERAGE CLAIMS COST HISTORY



4.12 The average costs per claim for the Commercial Motor lines of business have oscillated over the last 10 years. The average cost per claim for total business has been showing an upwards trend over the past five years, with the oscillations being less pronounced than seen for the average costs per claim for Fleet and Non-Fleet individually.

4.13 Having considered the average costs per claim, we now consider the frequency of claims. Figure 28 shows the average frequency (number of claims as a proportion of the number of vehicle years) for Private Motor.

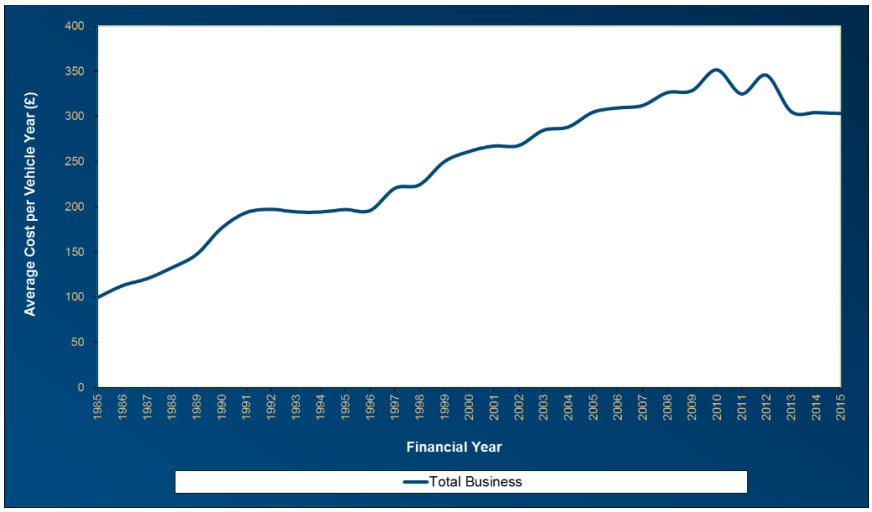
FIGURE 28: UK PRIVATE MOTOR – AVERAGE CLAIMS FREQUENCY



4.14 Figure 28 shows that, while overall Private Motor claims frequency had remained reasonably stable at around 15% to 16% for the period 1997 to 2006, there has been a downwards trend since 2006. Some of the downwards 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 the burning cost). In Figure 29 we show the average Private Motor claims cost per vehicle insured, gross of reinsurance.

FIGURE 29: UK PRIVATE MOTOR – AVERAGE PER VEHICLE CLAIMS COST HISTORY



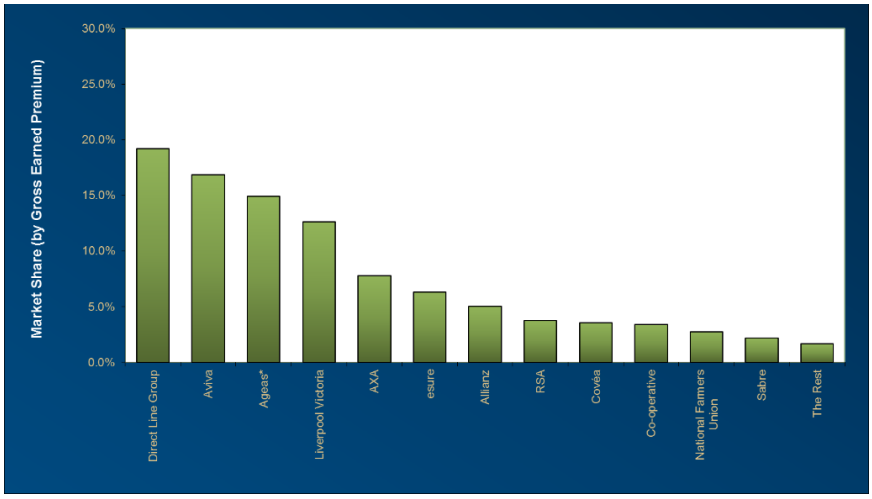
4.16 Figure 29 makes clear that, between 1998 and 2009, there was a continuous growth in the average claims cost per vehicle. From 2011 onwards, we can observe a downwards trend and then a flattening out in average cost per vehicle year, which would support the decreasing trend in premium rates in the 2012 to 2014 period (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). The average cost per vehicle for UK Private Motor has remained relatively constant over the past two years.

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 2015, 98.3% of that part of the UK Private Motor market then regulated by the PRA comprised just 12 players (as measured by gross earned premium income). Furthermore, 63.6% of the UK Private Motor market then regulated by the PRA was spread between just four insurance groups (Direct Line, Aviva, Ageas, and Liverpool Victoria). Direct Line Group remains the largest by market share, although that share has fallen significantly from 36.8% in 2010 to 19.2% in 2015, which can partly be explained by Tesco Insurance having moved its underwriting partnership from the Direct Line Group to Ageas. Figure 30 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 2015, as measured by gross earned premiums.

FIGURE 30: UK PRIVATE MOTOR – INSURERS REGULATED BY THE PRA BY MARKET SHARE



5.2 The following are among the notable businesses not included within Figure 30:

5.2.1 Admiral, which is registered and supervised in Gibraltar, insured 3.3 million vehicles at the end of 2015. The total UK written premiums in 2015 for Admiral were £1.5 billion, gross of coinsurance (which is more than that written in 2015 by the Direct Line Group).

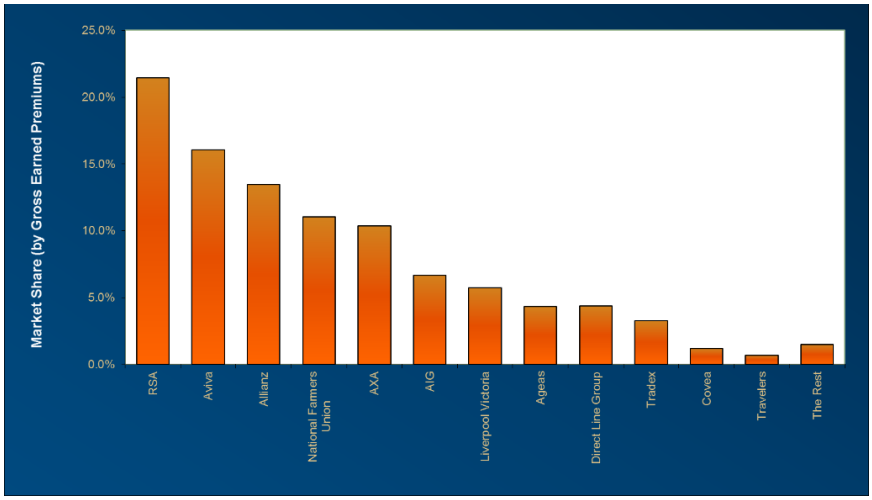
5.2.2 Advantage, also registered and supervised in Gibraltar, operates in the UK under the Hastings brand. In 2015, Hastings' market share (by number of vehicles), in respect of Private Motor, grew to 5.8%, with just over 2 million cars insured.

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 in the UK Private Motor market.

5.3 For Commercial Motor, 98.5% of the market comprised just 12 players in 2015 (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). Roughly half of the market has been underwritten by RSA, Aviva, and Allianz, with National Farmers Union taking a further 11.0%. Figure 31 shows the comparison in market share for those insurers that had more than 0.7% of the Commercial Motor market in 2015, as measured by gross earned premiums.

FIGURE 31: UK COMMERCIAL MOTOR – INSURERS BY MARKET SHARE



5.4 In Figure 32, 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).

FIGURE 32: UK PRIVATE MOTOR – COMPARISON OF PERFORMANCE OF THE MAJOR PLAYERS WITHIN THE PRA-REGULATED PART OF THE UK PRIVATE MOTOR MARKET DURING THE 2015 FINANCIAL YEAR

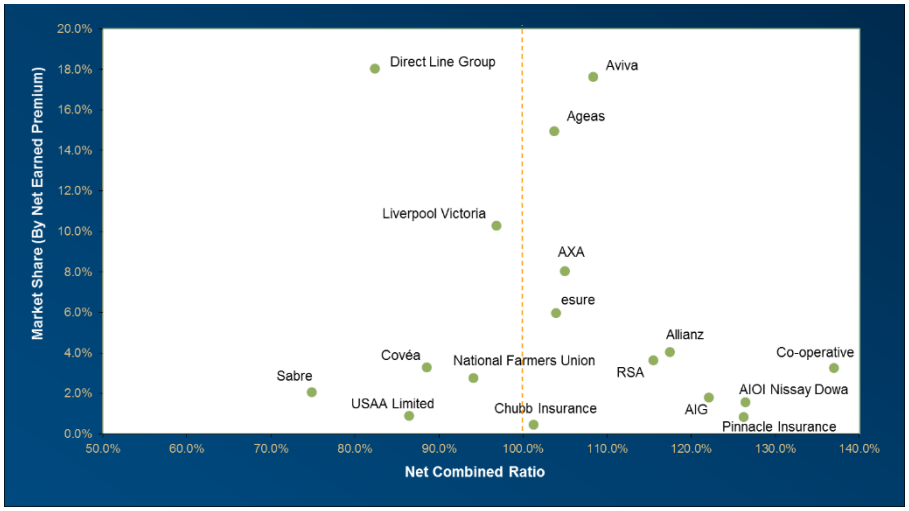
Insurer	Market Share	Net Earned Premiums in £'000s	Net CY LR	Net PY LR	Net LR CY + PY	Claims Management Costs Ratio	Expenses Ratio	Net Combined Ratio CY	Net Combined Ratio PY + CY
Direct Line Group	18.0%	1,175.5	84.8%	-42.2%	42.6%	10.5%	29.3%	124.0%	82.3%
Aviva	17.7%	1,150.0	85.1%	-0.1%	84.9%	5.4%	18.0%	108.1%	108.3%
Ageas*	15.0%	975.7	82.4%	-4.6%	77.8%	3.6%	22.4%	107.2%	103.7%
Liverpool Victoria	10.3%	671.3	92.9%	-29.8%	63.1%	4.7%	28.9%	127.7%	96.8%
AXA	8.1%	525.5	84.8%	-3.5%	81.3%	3.8%	19.9%	108.4%	104.9%
esure	6.0%	390.2	92.0%	-11.8%	80.2%	4.5%	19.2%	115.7%	103.9%
Allianz	4.0%	263.7	96.9%	-13.9%	83.0%	7.8%	26.6%	130.2%	117.4%
RSA	3.7%	238.7	80.9%	-8.0%	72.9%	9.5%	33.1%	123.4%	115.4%
Co-operative	3.3%	213.3	88.2%	-6.3%	82.0%	6.5%	48.4%	140.3%	136.9%
Covéa	3.3%	216.0	78.1%	-17.4%	60.7%	3.9%	23.9%	105.2%	88.5%
National Farmers Union	2.8%	180.3	82.2%	-7.4%	74.8%	-1.1%	20.5%	106.8%	94.1%
Sabre	2.1%	134.8	64.1%	-13.1%	51.0%	3.5%	20.3%	87.8%	74.8%
AIG Europe	1.8%	118.1	77.6%	0.5%	78.0%	6.7%	37.3%	120.8%	122.0%
Aioi Nissay Dowa	1.6%	103.9	85.3%	-2.6%	82.7%	1.7%	41.9%	131.4%	126.4%
USAA Limited	0.9%	59.7	50.4%	-0.7%	49.7%	11.0%	25.7%	87.1%	86.4%
Pinnacle Insurance	0.9%	56.1	104.8%	-1.6%	103.2%	3.2%	19.9%	126.8%	126.2%
Chubb Insurance Company	0.5%	31.7	57.2%	1.9%	59.1%	2.9%	39.2%	99.3%	101.2%
The Rest	0.2%	10.8	41.5%	-3.7%	37.8%	2.1%	51.6%	94.7%	91.4%
TOTAL	**100.0%**	**6,515**	**85.0%**	**-14.6%**	**70.5%**	**5.8%**	**25.2%**	**115.8%**	**101.5%**

*Note: *Includes Tesco Underwriting, CY = Current Year; PY = Previous Years*

5.5 The 101.5% 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 0.9% of net earned premiums. Allowing for investment income would bring the PRA-regulated UK Private Motor market to a loss of 0.4% of net earned premiums (as already quoted in Figure 1 above).

5.6 In Figure 33, 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 2015 financial year.

FIGURE 33: 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 and commission from ancillary services.

5.8 Similarly, in Figure 34, 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).

FIGURE 34: UK COMMERCIAL MOTOR – COMPARISON OF PERFORMANCE OF THE MAJOR PLAYERS WITHIN THE PRA-REGULATED PART OF THE UK COMMERCIAL MOTOR MARKET DURING THE 2015 FINANCIAL YEAR

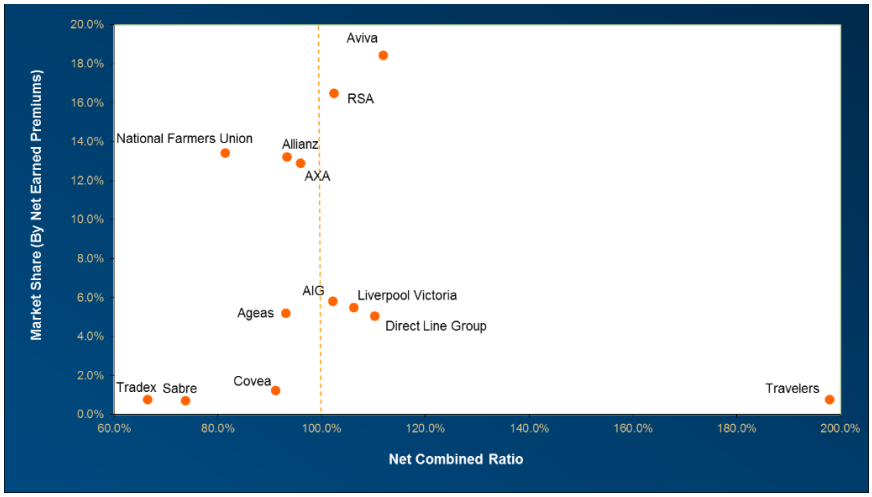
Insurer	Market Share	Net Earned Premiums in £m	Net Current Year LR	Net PY LR	Net LR CY + PY	Claims Management Costs Ratio	Expenses Ratio	Net Combined Ratio CY	Net Combined Ratio PY + CY
Aviva	18.4%	425.0	77.0%	3.6%	80.5%	6.7%	24.7%	107.5%	111.9%
RSA	16.5%	380.1	80.5%	0.3%	80.8%	6.2%	15.3%	102.0%	102.3%
National Farmers Union	13.4%	309.2	75.3%	-18.6%	56.7%	5.0%	19.7%	98.9%	81.4%
Allianz	13.2%	304.6	72.6%	-3.3%	69.3%	4.8%	19.1%	96.9%	93.3%
AXA	12.9%	297.7	74.8%	1.7%	76.4%	-0.9%	20.3%	98.3%	95.9%
AIG	5.8%	133.8	63.5%	-4.1%	59.3%	21.4%	21.4%	106.3%	102.1%
Liverpool Victoria	5.5%	126.4	87.3%	-21.3%	66.0%	4.7%	35.5%	127.6%	106.1%
Ageas	5.2%	120.3	77.8%	-10.0%	67.8%	2.7%	22.6%	102.0%	93.1%
Direct Line Group	5.1%	116.8	77.8%	-3.4%	74.4%	5.7%	30.1%	113.1%	110.2%
Covéa	1.2%	28.7	77.7%	-22.4%	55.3%	7.8%	28.0%	109.6%	91.1%
Tradex Insurance	0.8%	17.7	67.7%	-31.3%	36.4%	20.8%	9.1%	85.0%	66.4%
Travelers	0.8%	18.1	104.7%	44.8%	149.5%	7.3%	41.0%	149.9%	197.8%
Sabre	0.7%	16.8	65.0%	-18.3%	46.8%	2.9%	24.0%	92.0%	73.7%
The Rest	0.4%	9.4	67.5%	5.2%	72.7%	2.7%	30.5%	101.3%	105.9%
TOTAL	**100.0%**	**2,304.5**	**76.4%**	**-4.4%**	**72.0%**	**5.7%**	**21.8%**	**103.9%**	**99.5%**

Note: CY = Current Year; PY = Previous Years

5.9 The indicative 99.5% 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 profit of 1.4% of net earned premiums.

5.10 In Figure 35, 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 2015 financial year.

FIGURE 35: UK COMMERCIAL MOTOR – NET OPERATING PROFIT VERSUS MARKET SHARE



6. Acknowledgement

Thanks are due to Henry Monksfield for his work in analysing the PRA returns and his editorial input to this Market View.

If you would like to discuss any of the issues arising from our *Driving for Profit* Market View, please contact the authors or your usual Milliman consultant.

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Derek Newton
derek.newton@milliman.com

Vincent Robert
vincent.robert@milliman.com

Peter Moore
peter.moore@milliman.com