GI in a GFC World

General Insurance Impacts of the Global Financial Crisis

Institute of Actuaries of Australia

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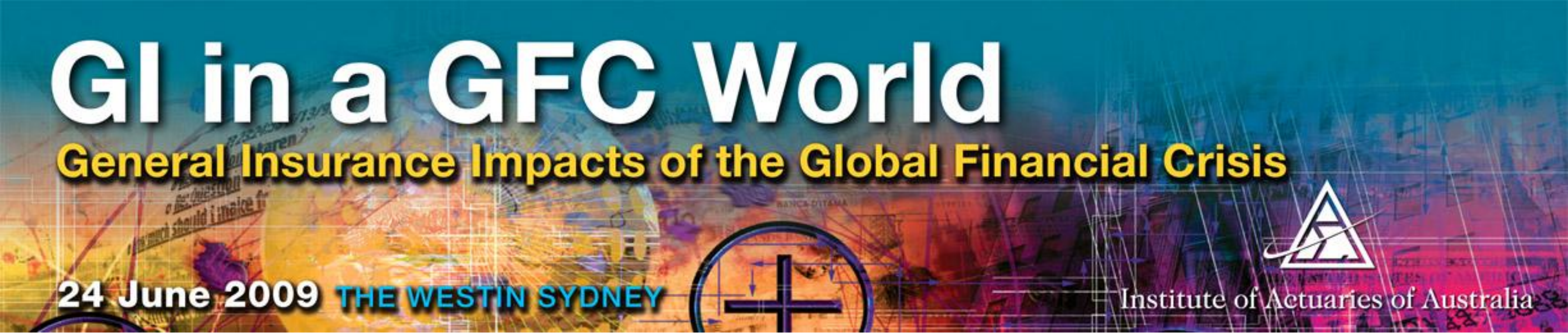
THE WESTIN SYDNEY 1 MARTIN PLACE, SYDNEY



The Impact of the GFC on Claims Experience

– Short Tail

Elaine Collins

Sensitivity to Recession Motor Market

Positive Neutral Negative

Motor market	Potential area of sensitivity	Potential revenue implication	Potential expense implication
Exposure base	• Reduced number of new vehicles	Less premium growth	Lower frequency of claims
	• Less annual mileage	Lower premium due to lower rating	Lower frequency of claims
	• Lower value vehicles (new and used)	Lower due to lower rating	Lower claims cost to replace
	• More older vehicles	Lower premium due to lower rating	Lower claims cost to replace
	• More smaller vehicles	Lower premium due to lower rating	Lower claims cost to replace / repair
	• Less well maintained vehicles	Neutral	Increased claims frequency
	• Less business use of personal vehicles	Lower premium due to lower rating	Neutral
Buying behaviour	• Less broad / expensive coverage	Lower premium due to less coverage	Less claims covered
	• Higher voluntary excesses	Lower premium due to higher excess	Lower proportion of claims covered / fewer claims
	• Greater shop-around – more quotes	Lower premium due to competition	Costs of quoting
	• Less honesty at proposal for reduced quote	Lower premium due to lower 'perceived' exposure	Neutral
Claims	• Fewer accidents	Less 'ancillary' revenue from referrals (i.e. body shops)	Lower overall claim payment
	• Lower body shop costs	Neutral	Lower claims costs to repair
	• Lower write-off costs	Neutral	Lower claims costs to replace
	• Increase in fraud and exaggerated claims	Neutral	Higher claims costs
	• Increased theft and vandalism claims	Neutral	Higher claims costs

Sensitivity to Recession Household Market

Positive Neutral Negative

Household market	Potential area of sensitivity	Potential revenue implication	Potential expense implication
Exposure base	• Reduction or halt in new build	Less premium growth	Lower frequency of claims
	• Less well maintained properties	Neutral	Higher claims frequency
	• Lower insured values	Less premium	Lower claims costs to replace
	• Increase in repossessions	Lower premium due less broad coverage purchased	Increased vandalism and other claims costs
Buying behaviour	• Less broad / expensive coverage	Lower premium due to less coverage	Fewer claims covered
	• Higher voluntary excesses	Lower premium due to higher excess	Lower proportion of claims covered / fewer claims
	• Greater shop-around – more quotes	Lower premium due to competition	Costs of quoting
	• Increase in households without coverage	Less premium due to fewer policies sold	Fewer claims covered
	• Fewer property transactions	Reduced customer churn	Neutral
	• Less honesty at proposal for reduced quote	Lower premium due to lower 'perceived' exposure	Neutral
Claims	• Lower repair costs	Neutral	Lower claims costs to repair
	• Lower re-build costs	Neutral	Lower claims costs to replace
	• Increase in fraud and exaggerated claims	Neutral	Higher claims costs
	• Increased theft and vandalism claims	Neutral	Higher claims costs

Sensitivity to Recession Motor Market

Reduced number of new vehicles, leading to less premium growt but lower frequency of claims

Less well maintained vehicles, leading to increased claim frequency

More older vehicles, leading to lower premiums and lower claims cost to replace

Less annual mileage per ve premiums cy of claims

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Less business use of personal vehicles, leading to lower premiums due to lower rating

More smaller vehicles, leading to lower premiums and lower claims cost to

Higher voluntary leading to lower premiur fewer claims being cov

Increase in fraud and exaggerated claims, leading to higher claims costs

Less broad/expensive coverage, leading to lower premiums and fewer claims being covered

Lower write-off costs, leading to lower claims costs to replace

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Accelerated channel shift to aggregators, leading to lower premiums and higher acquisition costs on aggregators

Increase in theft and vandalism claims, leading to higher claims costs

Less honesty at proposal for reduced ding to lower premiums due ver 'perceived' exposure

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Fewer accidents, leading to less 'ancillary' revenue from referrals (i.e. body shops), and lower overall claim payment

Sensitivity to Recession Household Market

Reduction or halt in new build
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Less well maintained
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frequency

Increase in repossessions, leading to lower premium due to less broad coverage purchased, and increased vandalism and other claims costs

Lower re-build, leading to lower claims costs to replace

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claims, leading to higher claims
costs

Lower insured values, leading to lower
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Higher voluntary excesses, leading
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Less broad/expensive coverage,
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Accelerated channel shift to aggregators, leading to lower premiums and higher acquisition costs on aggregators

Greater shop around and more quotes, leading to lower premiums and increased costs in quoting

Increase in househo
coverage, leading to less premium
and fewer claims

leading to lower claims cost to repair

Less honesty at proposal for reduced quote, leading to lower premiums due to lower ‘perceived’ exposure

Fewer property transactions, leading to reduced customer churn

Increase in fraud and exaggerated claims, leading to higher claims costs