



Deloitte Gibraltar Motor
Insurance Seminar 2012

The Big Country

October 2012



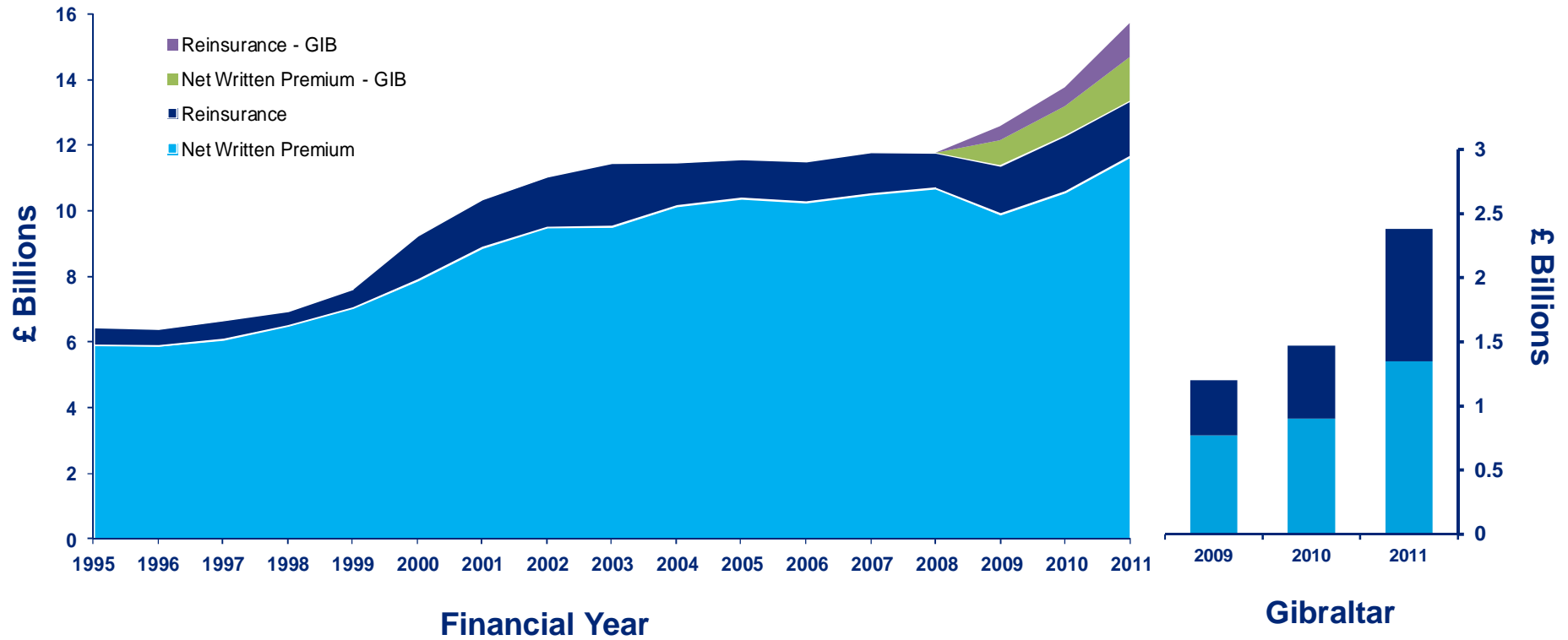
Deloitte Motor Seminar 2012

Agenda

- **Current Profitability**
- Benchmarking of Individual Insurers - UK & Gibraltar
- Commercial Lines Motor is Changing
- Future Profitability
- Competition Commission inquiry
- Questions

UK Motor Market 2011

Gross Written Premiums

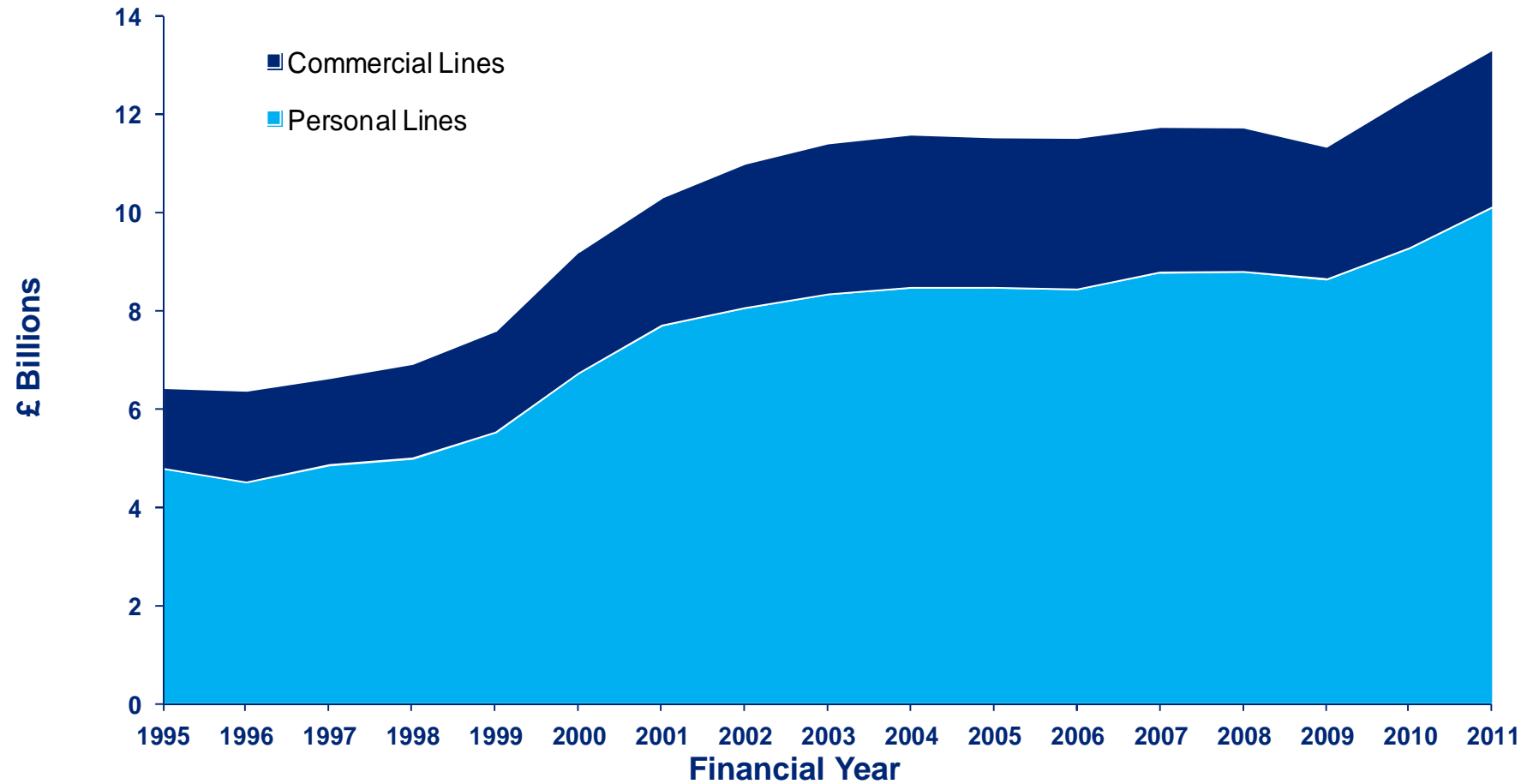


Source: Deloitte Analytics based on ABI data

Notes: 2011 Gibraltar GWP includes GWP from the following companies Southern Rock, Enterprise Insurance, Calpe Insurance, Preserve Insurance, together they account for £194m GWP. The GWP of these companies did not feature in the Gibraltar market GWP in 2010.

UK Motor Market 2011

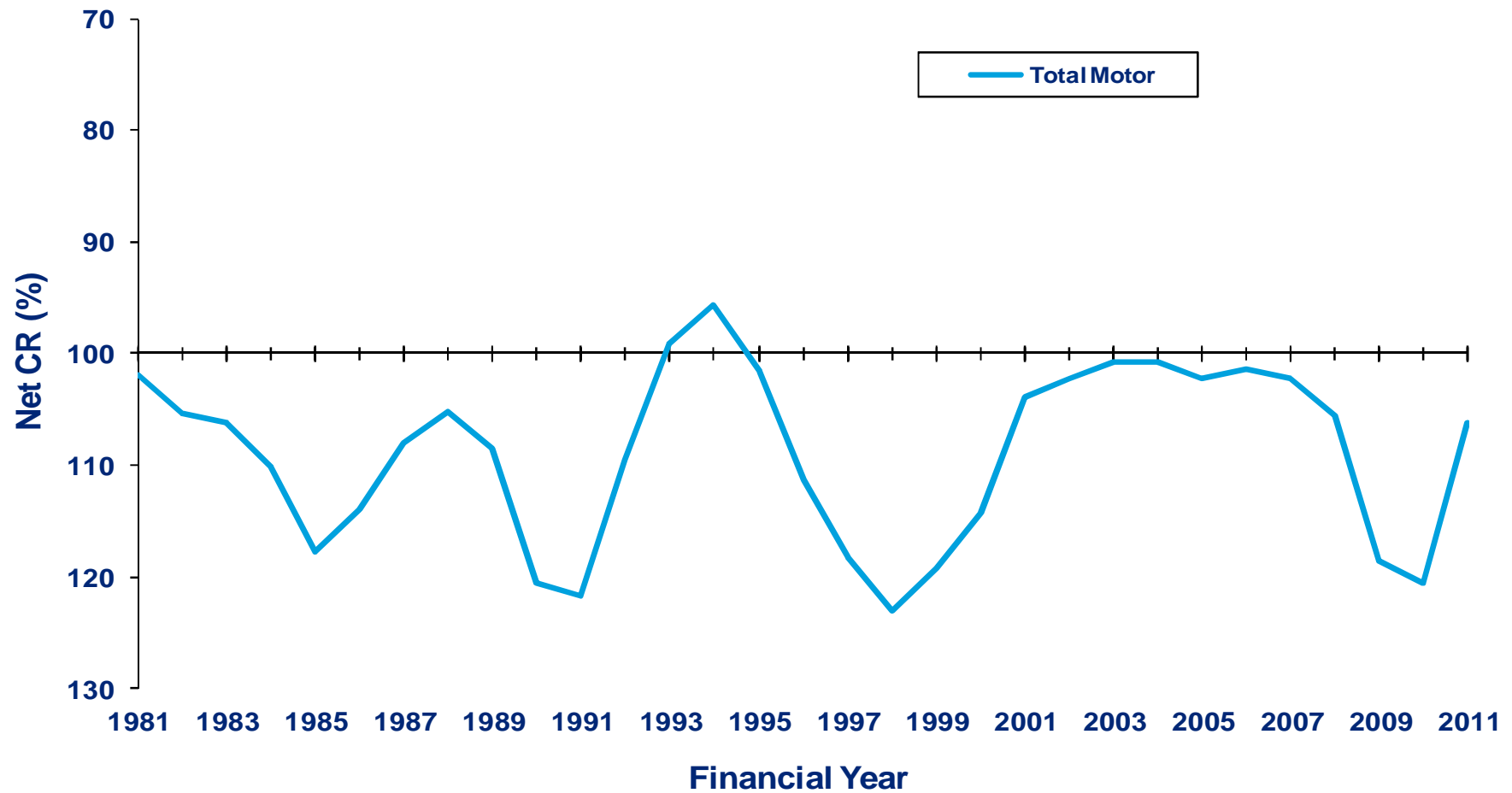
Gross Written Premiums



Source: Deloitte Analytics based on ABI data

UK Motor Market 2011

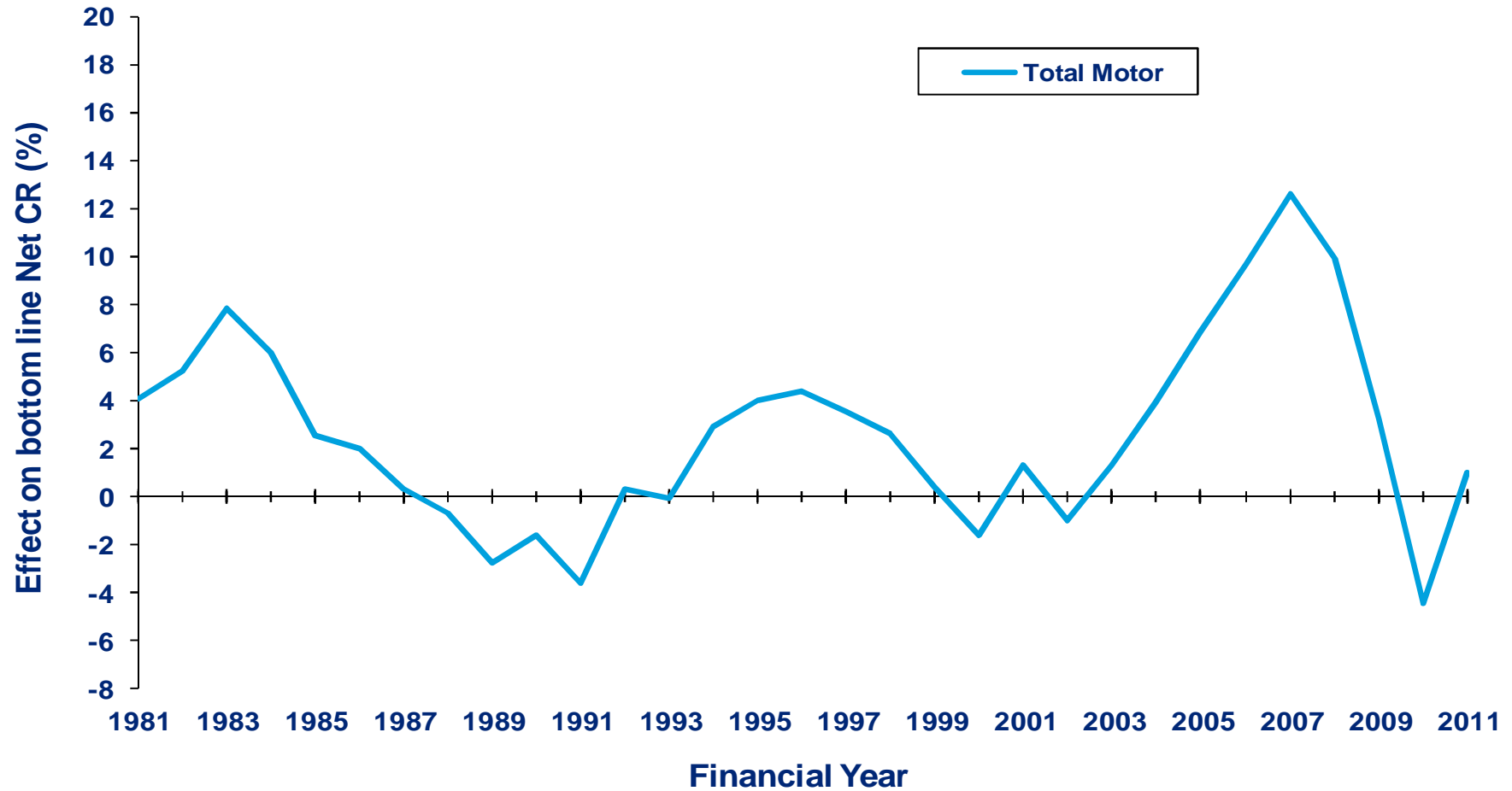
Historical Net Combined Ratios



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

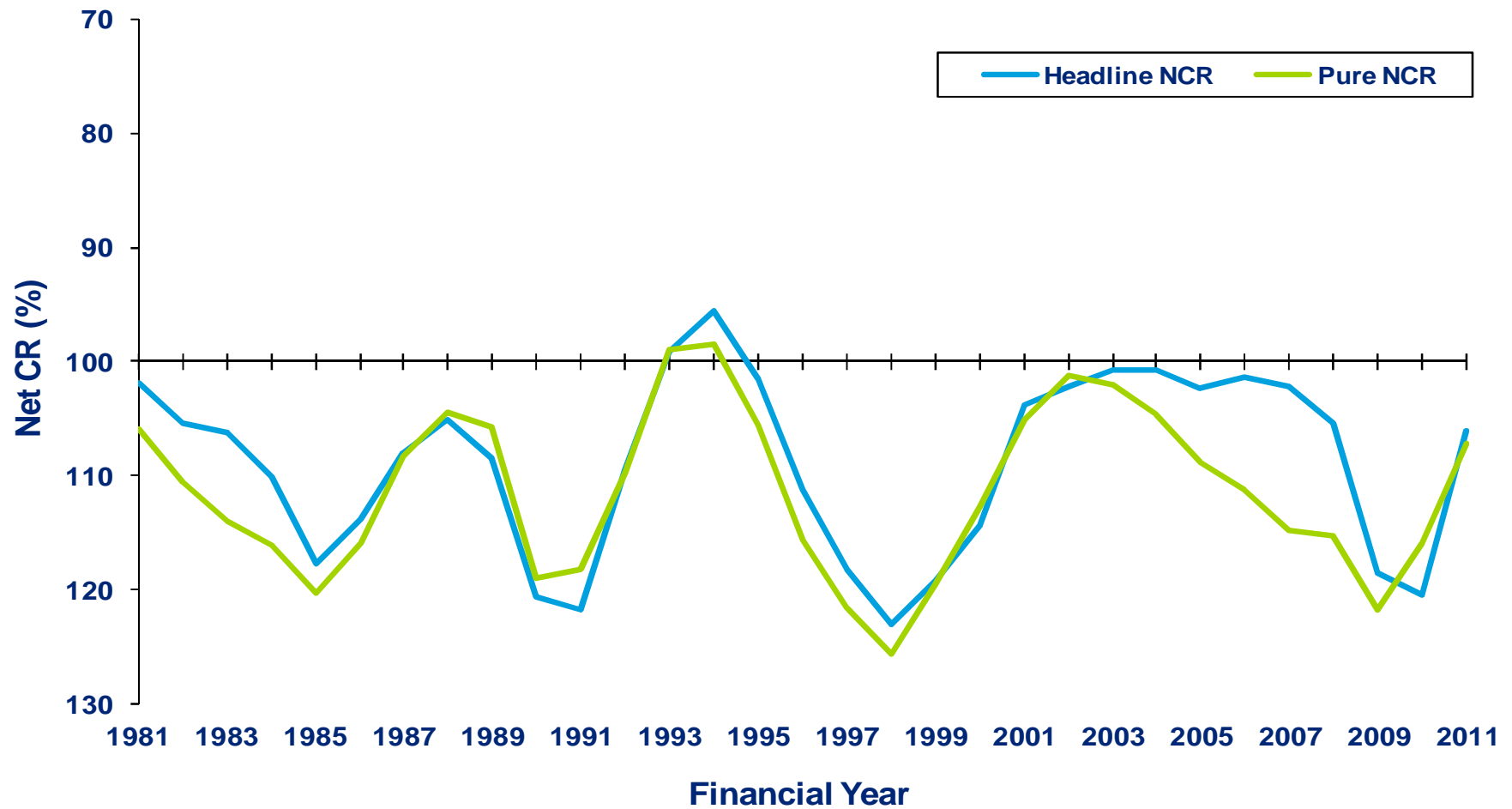
Reserve Releases



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

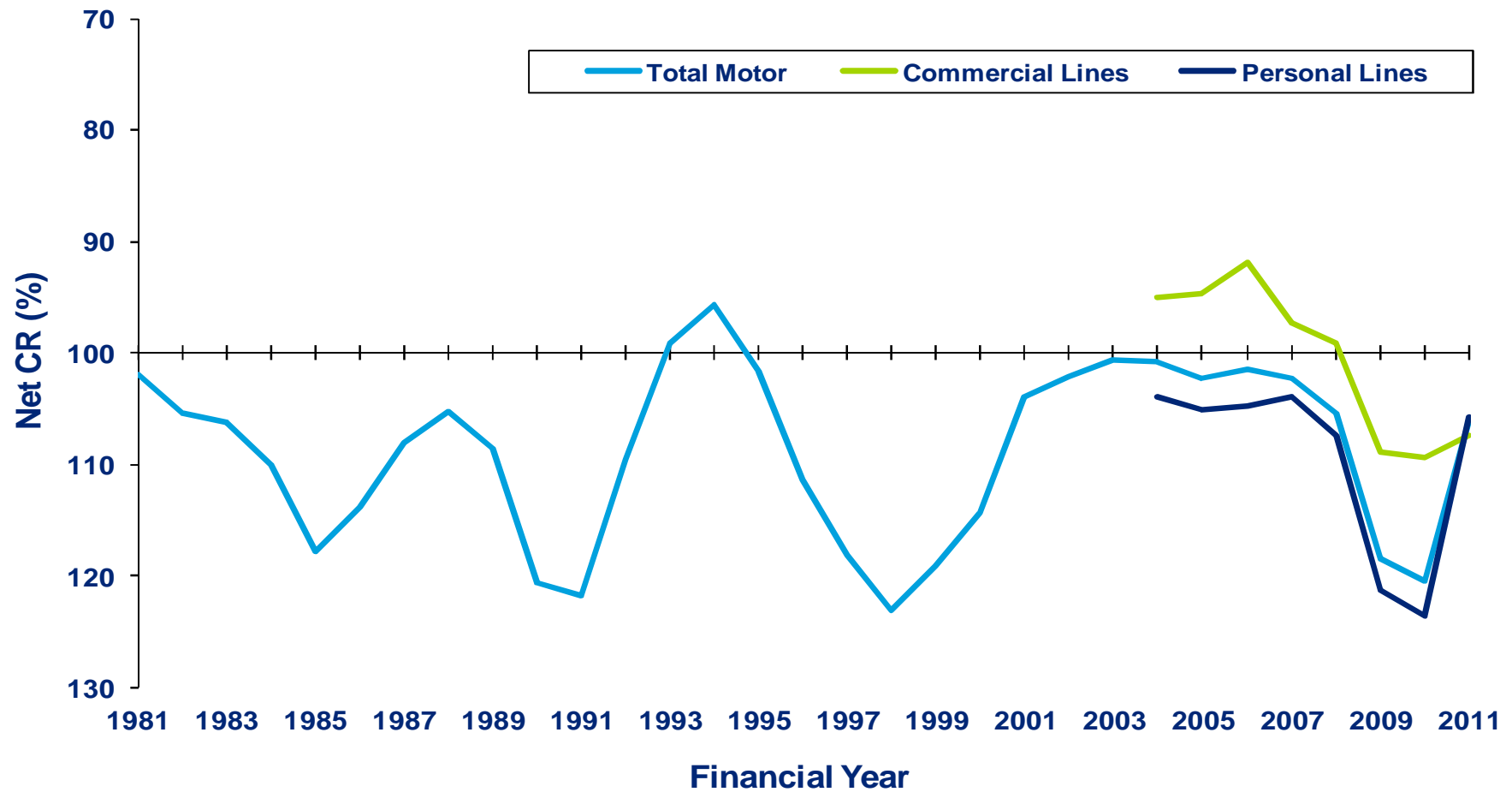
Historical Net Combined Ratios: “Headline” vs. “Pure” for Total Motor



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

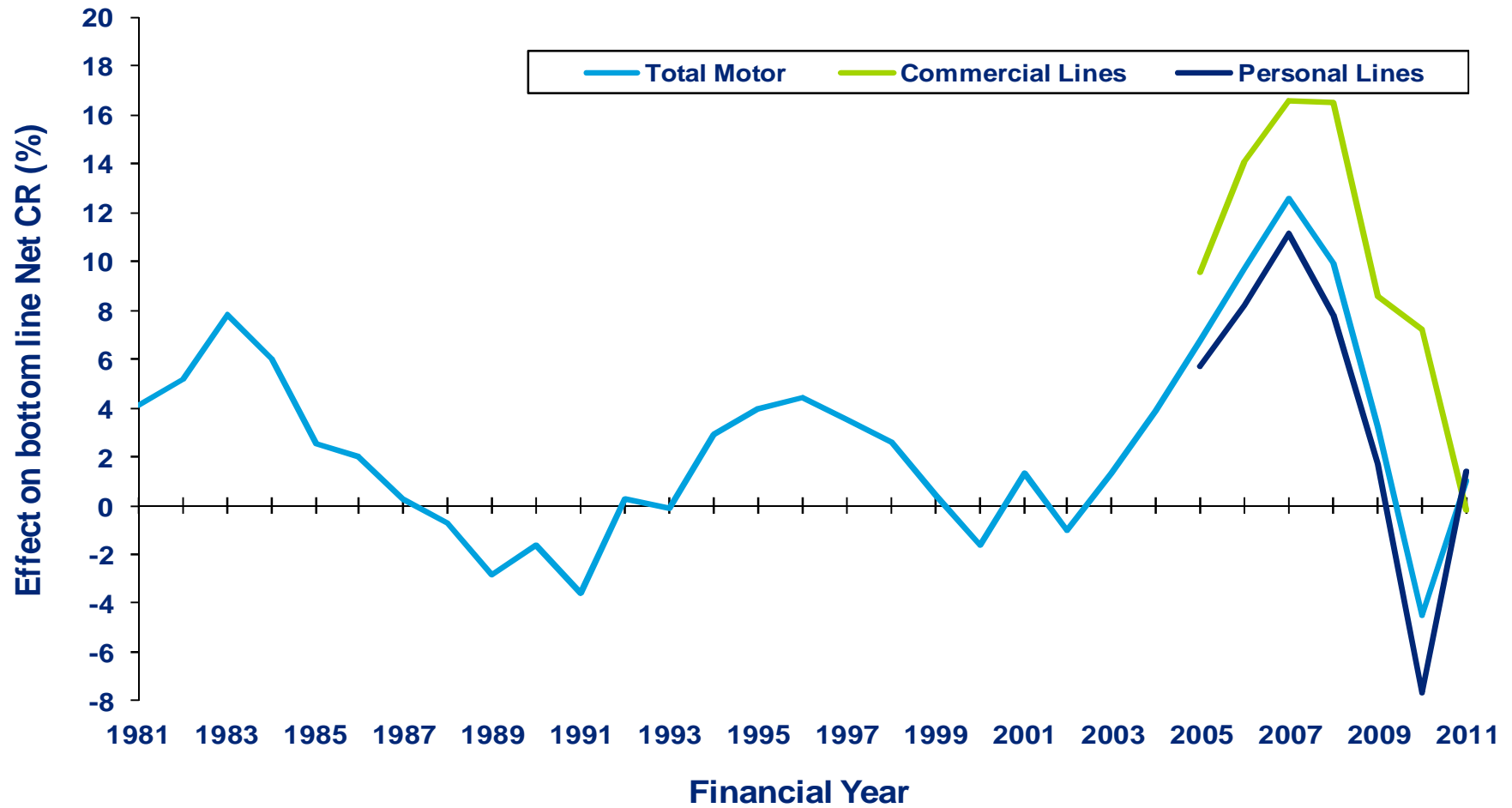
Historical Net Combined Ratios



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

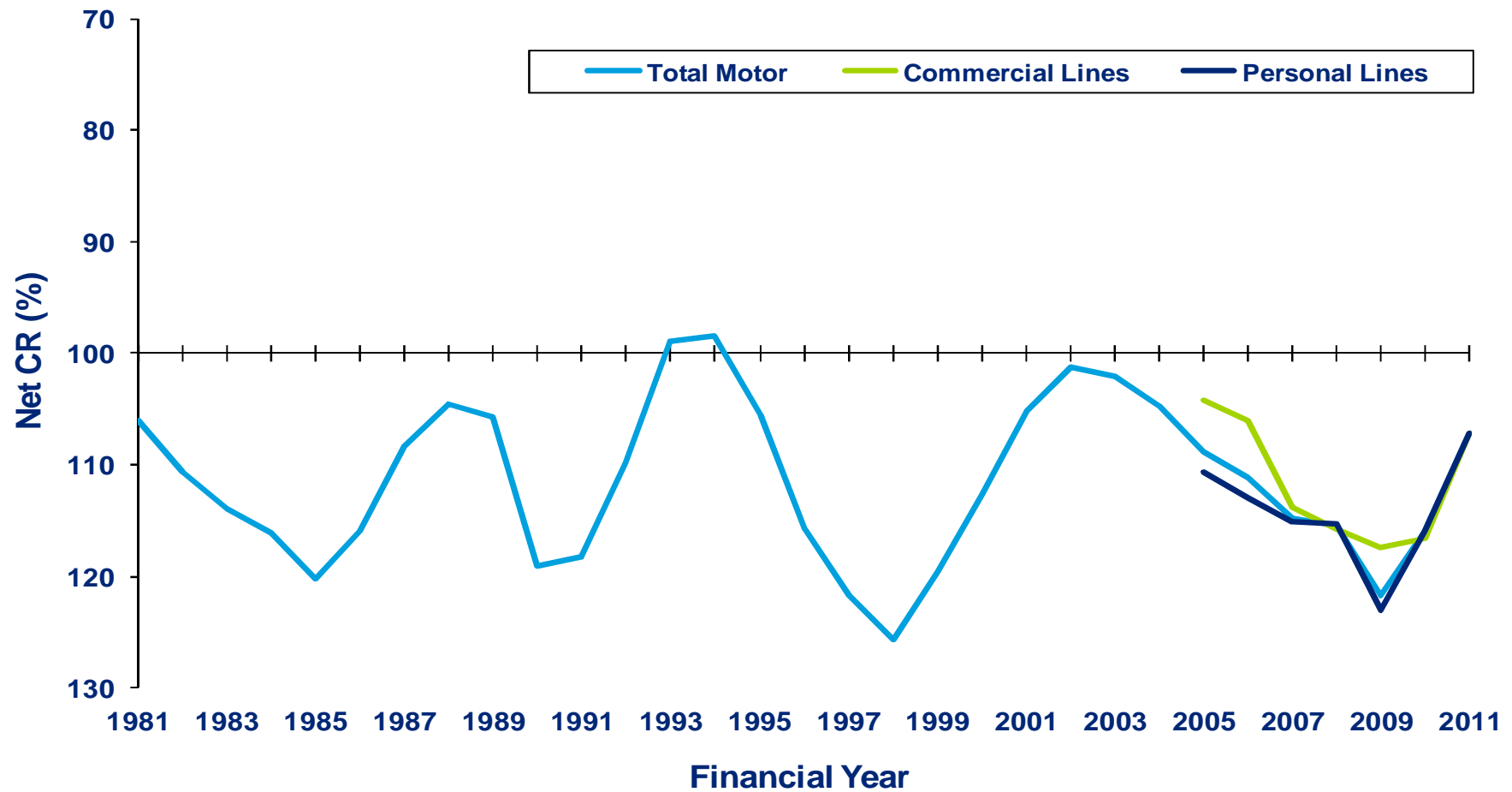
Reserve Releases



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

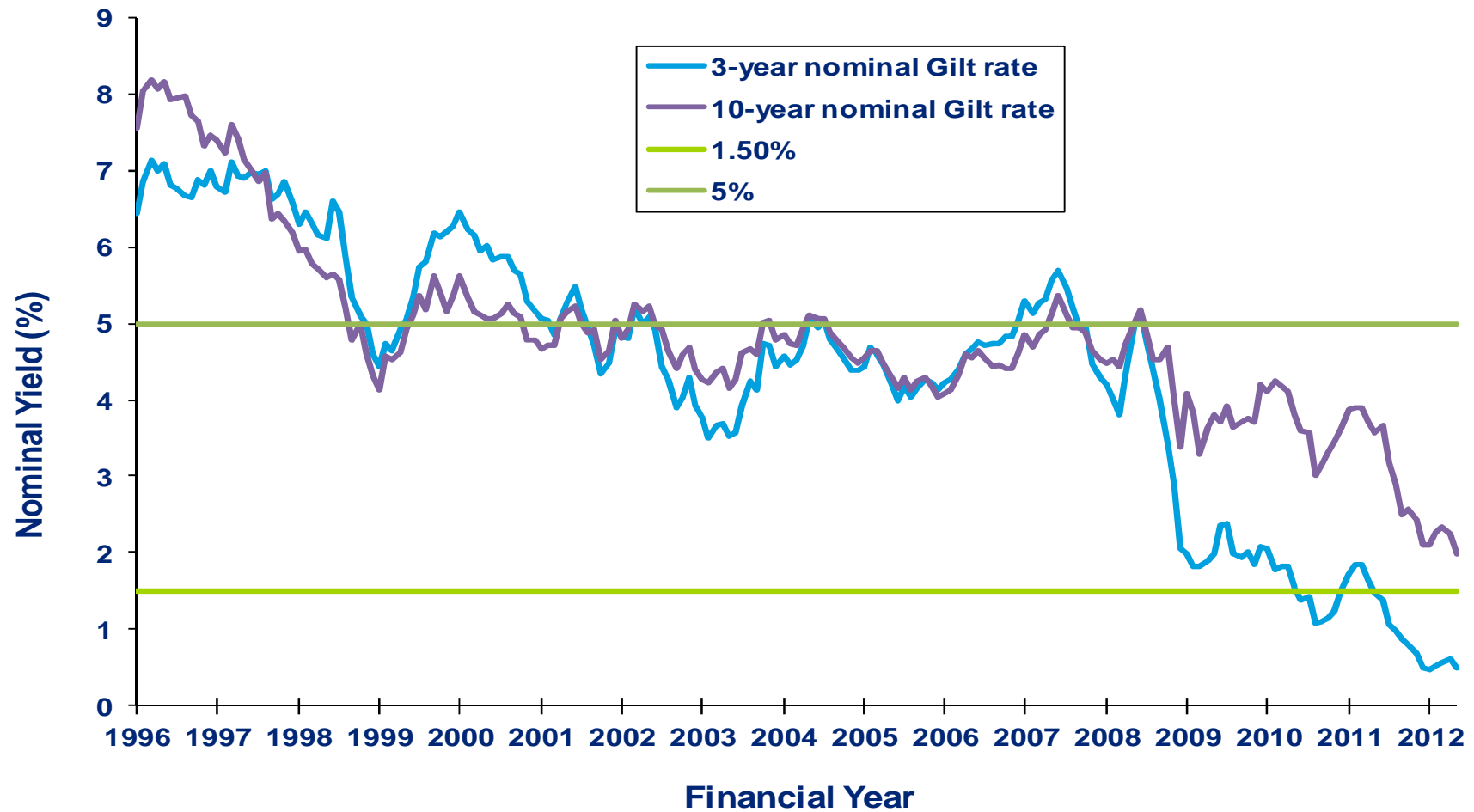
“Pure” Net Combined Ratio



Source: Deloitte Analytics based on AM Best data

UK Motor Market 2011

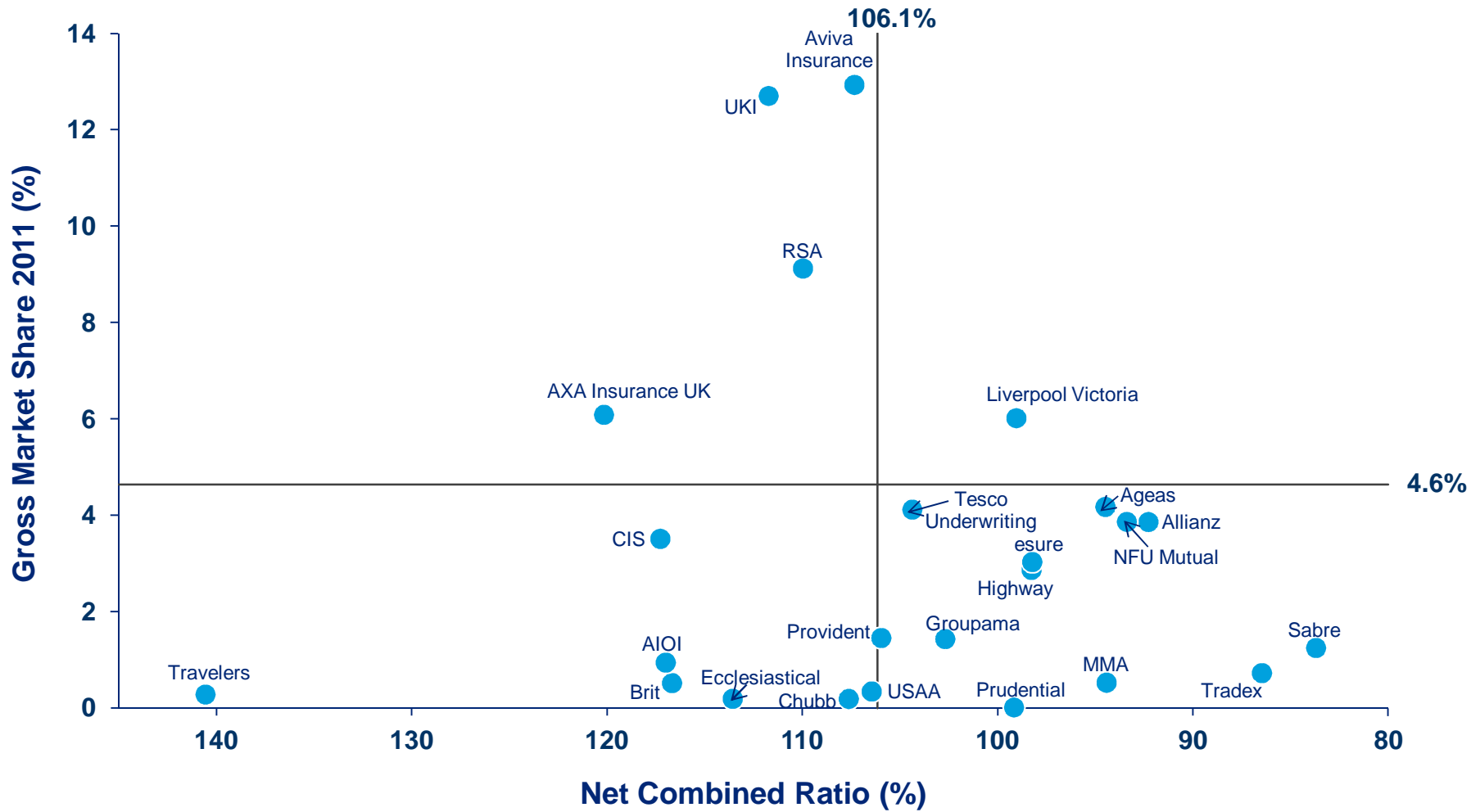
Gilt Rates



Source: Bank of England

Benchmarking of Individual Insurers – UK

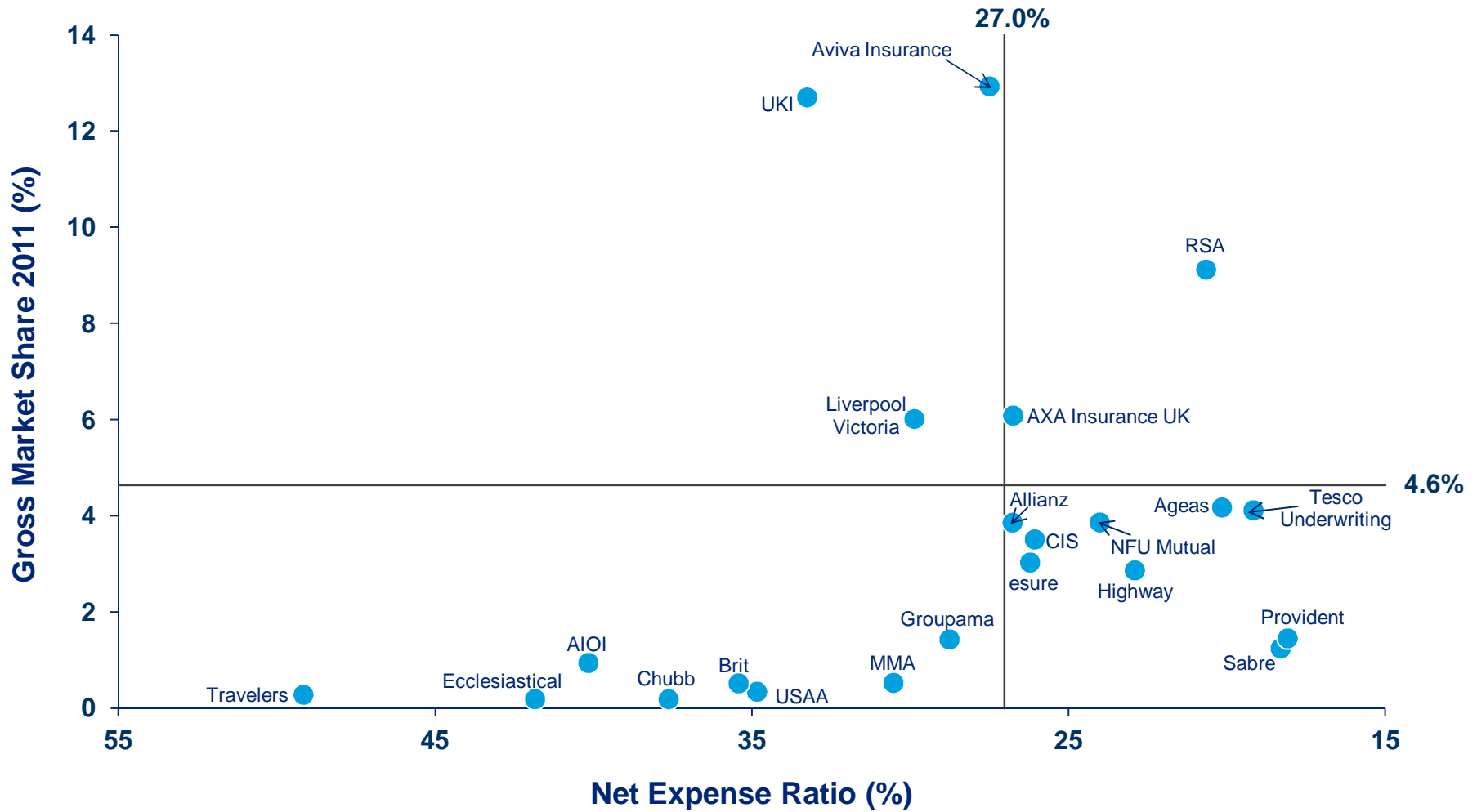
Total Market Overview 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

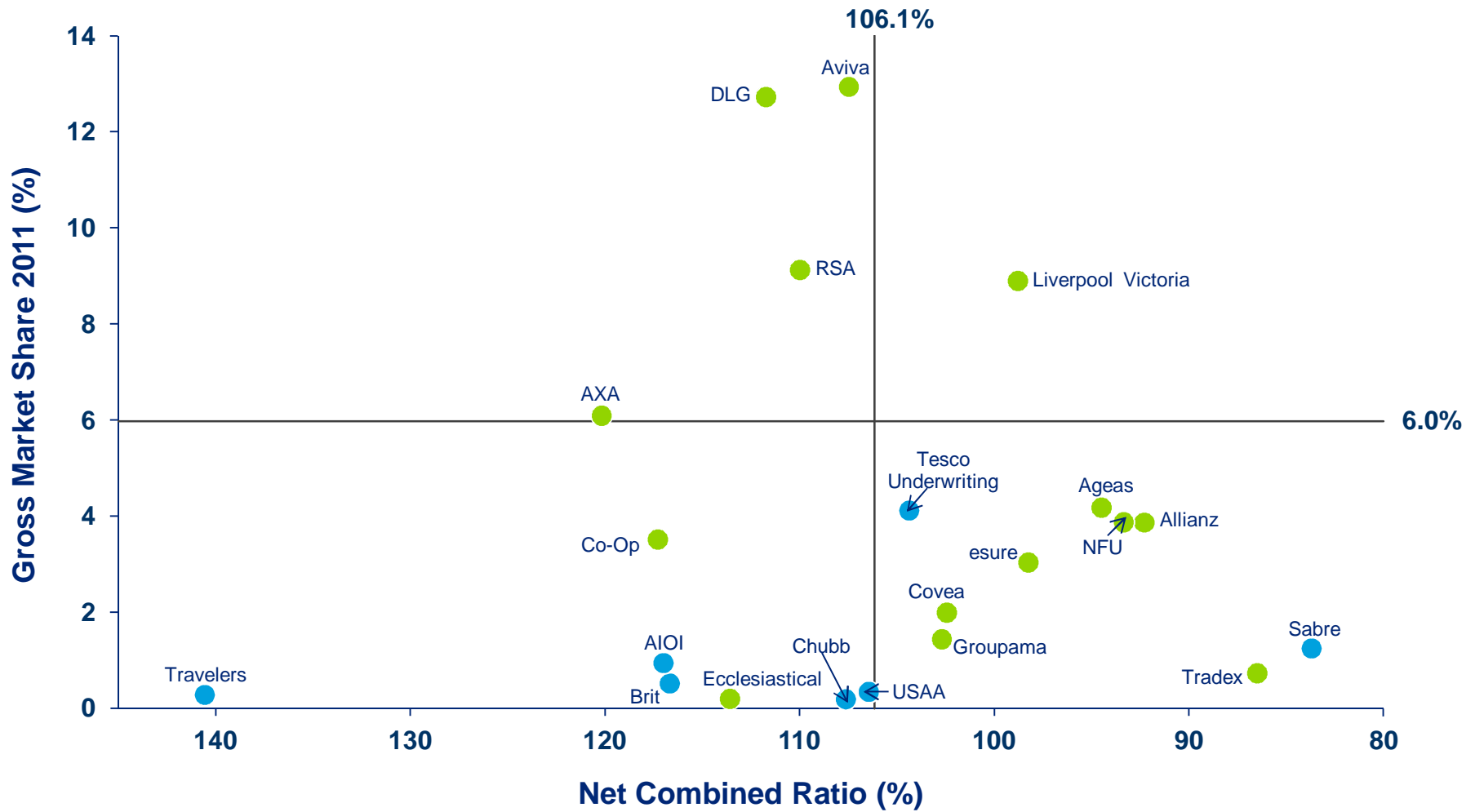
Total Market Expense Ratios 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

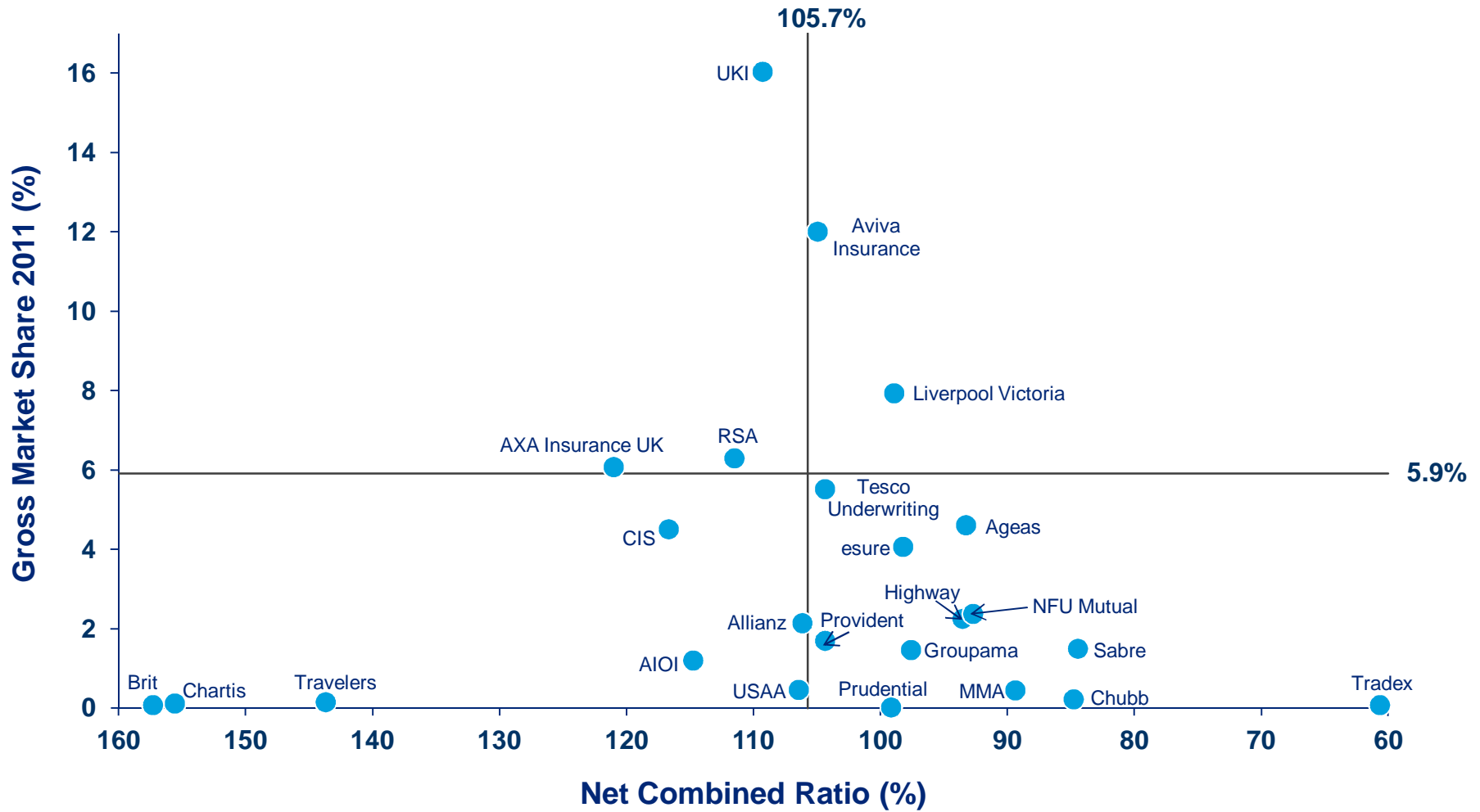
Combined Group Market Overview 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

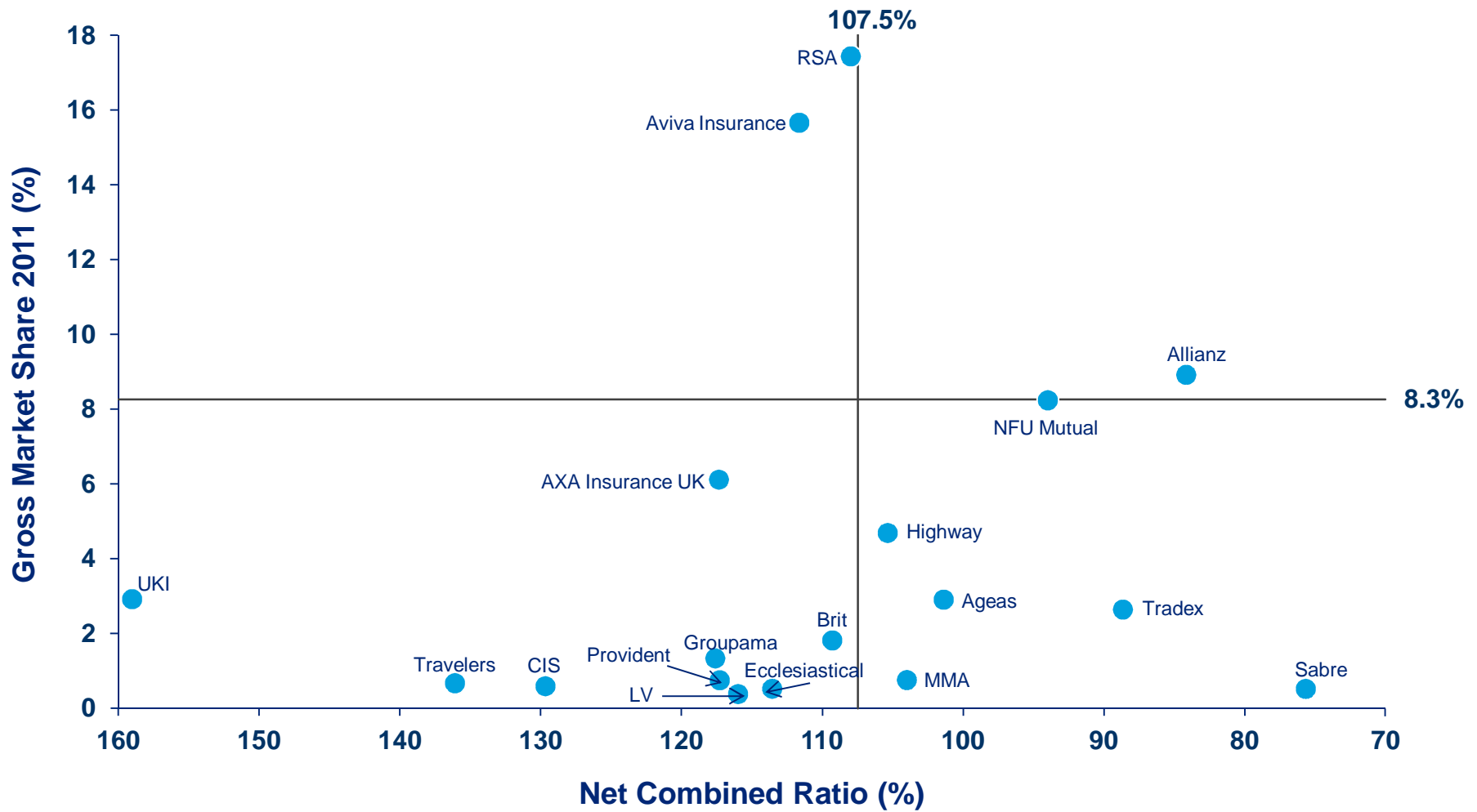
Personal Lines Overview 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

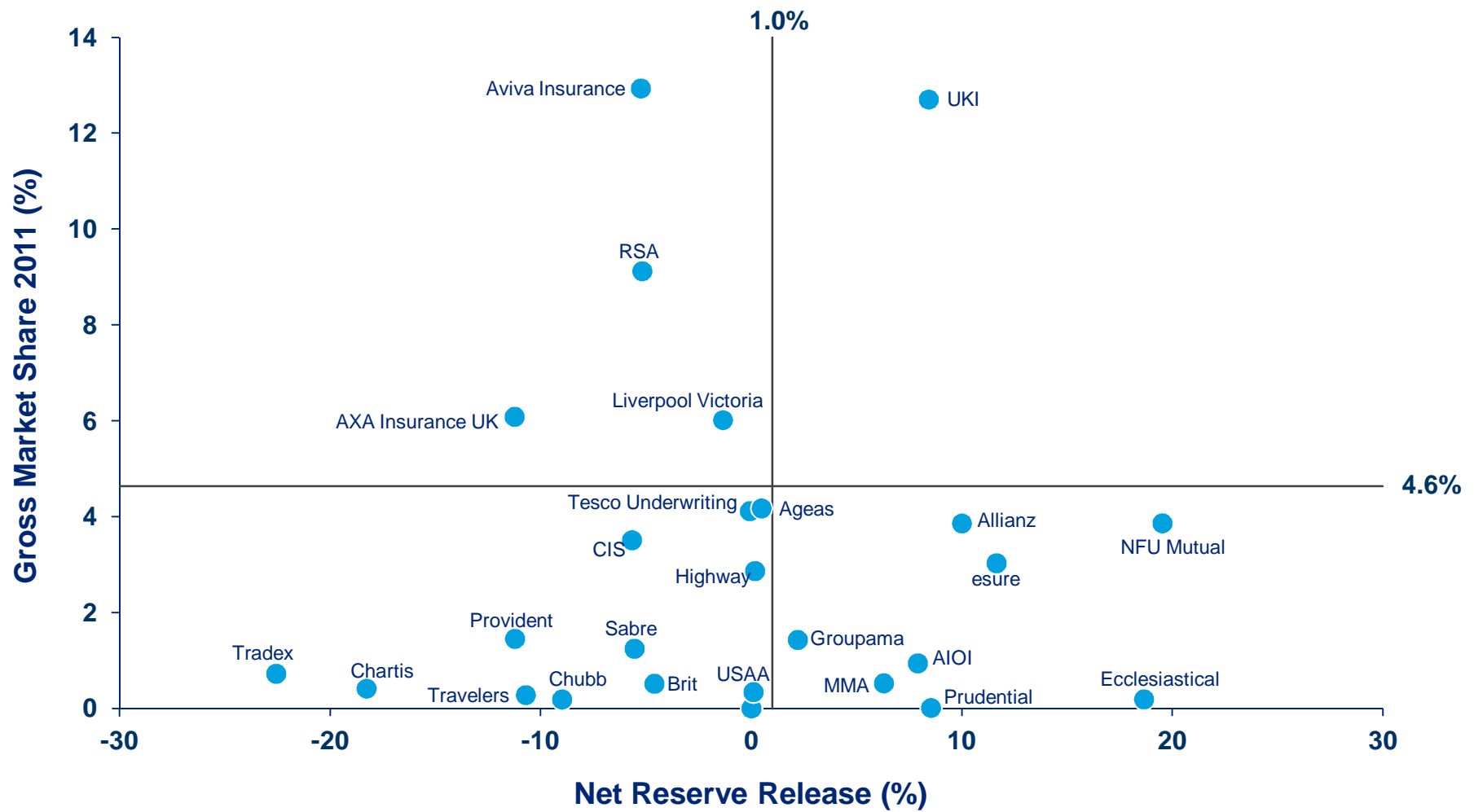
Commercial Lines Overview 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

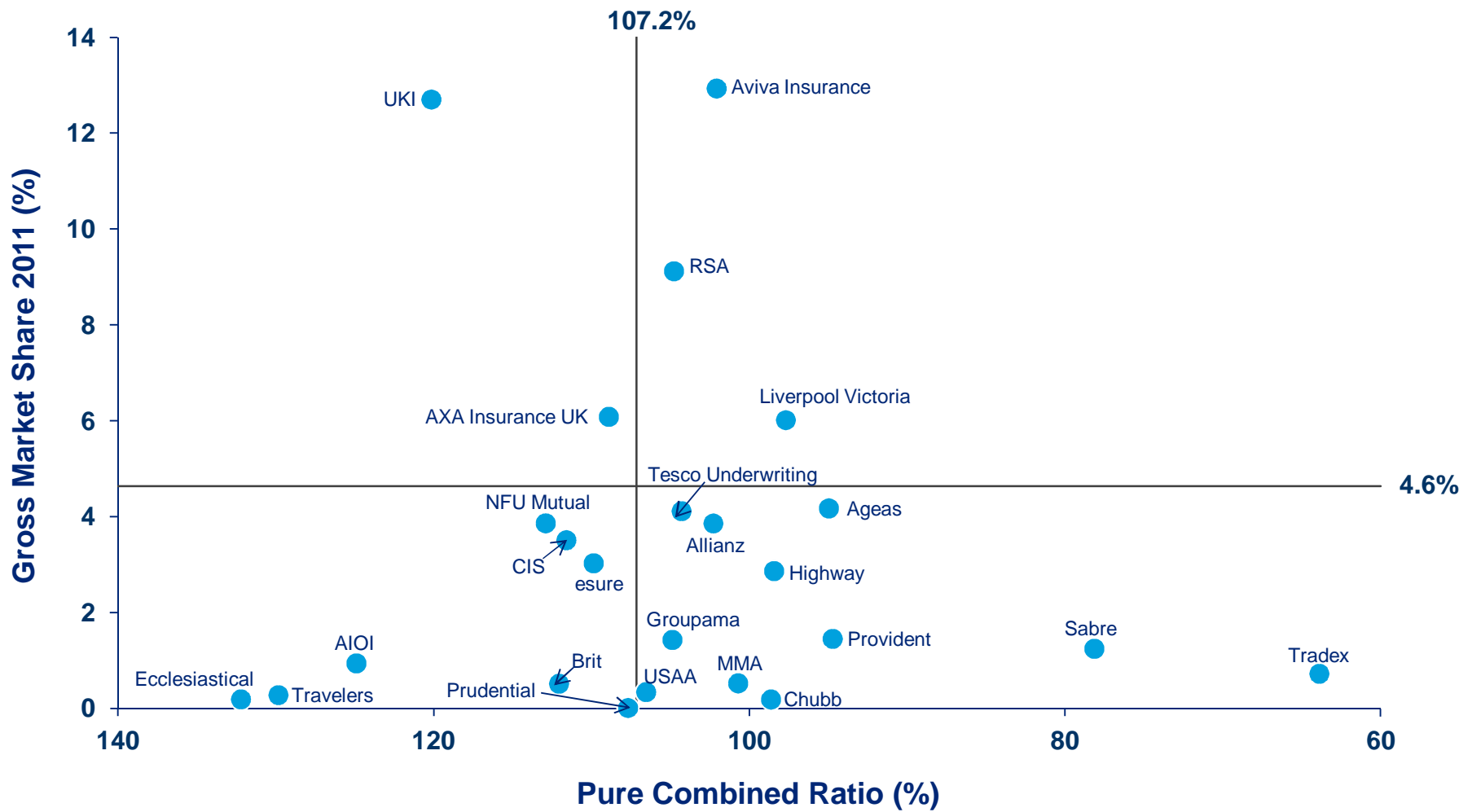
Total Market Overview 2011 – Reserve Release



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – UK

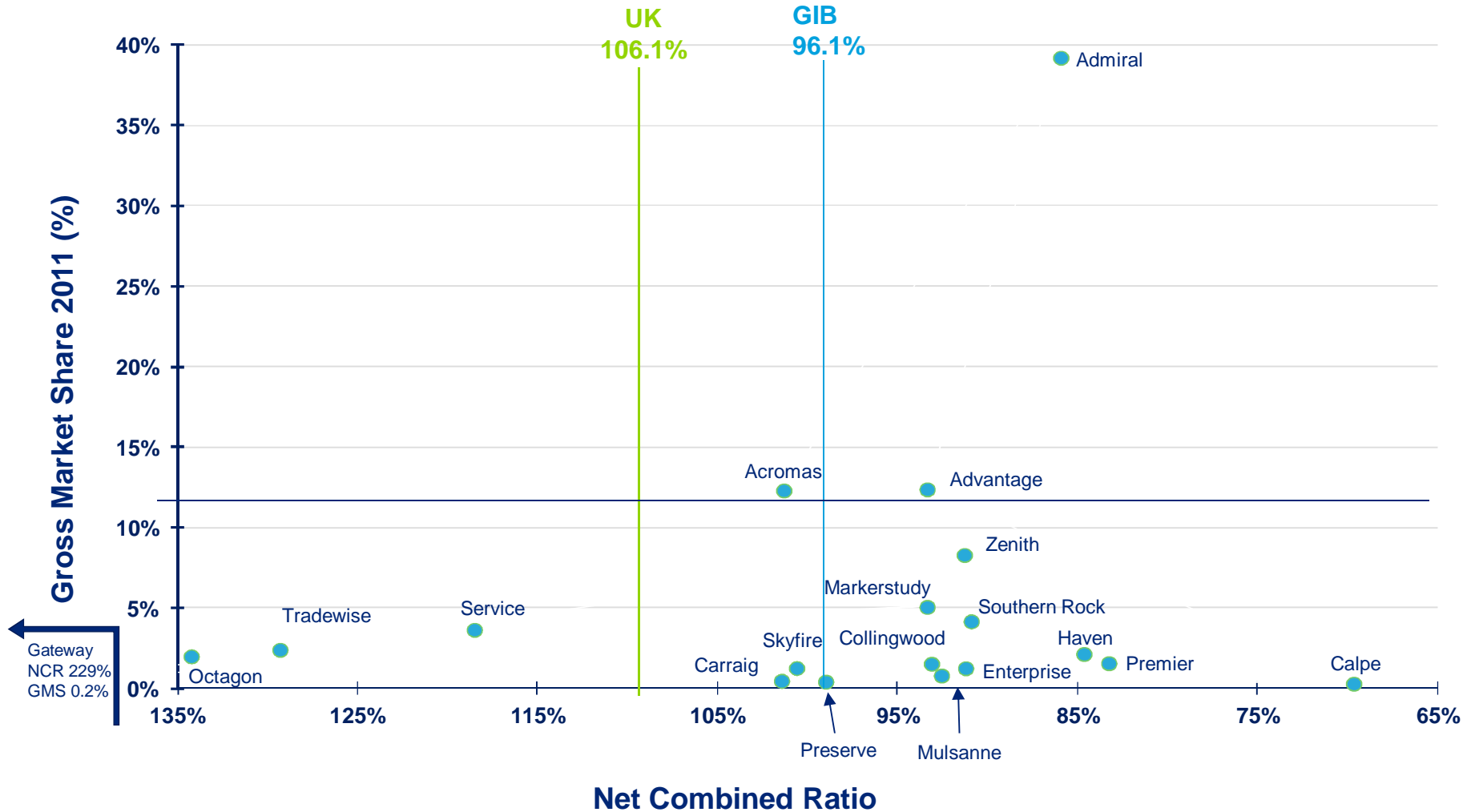
“Pure” Net Combined Ratio 2011



Source: Deloitte Analytics based on AM Best data

Benchmarking of Individual Insurers – Gibraltar

Total Gibraltar Market Overview 2011



Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

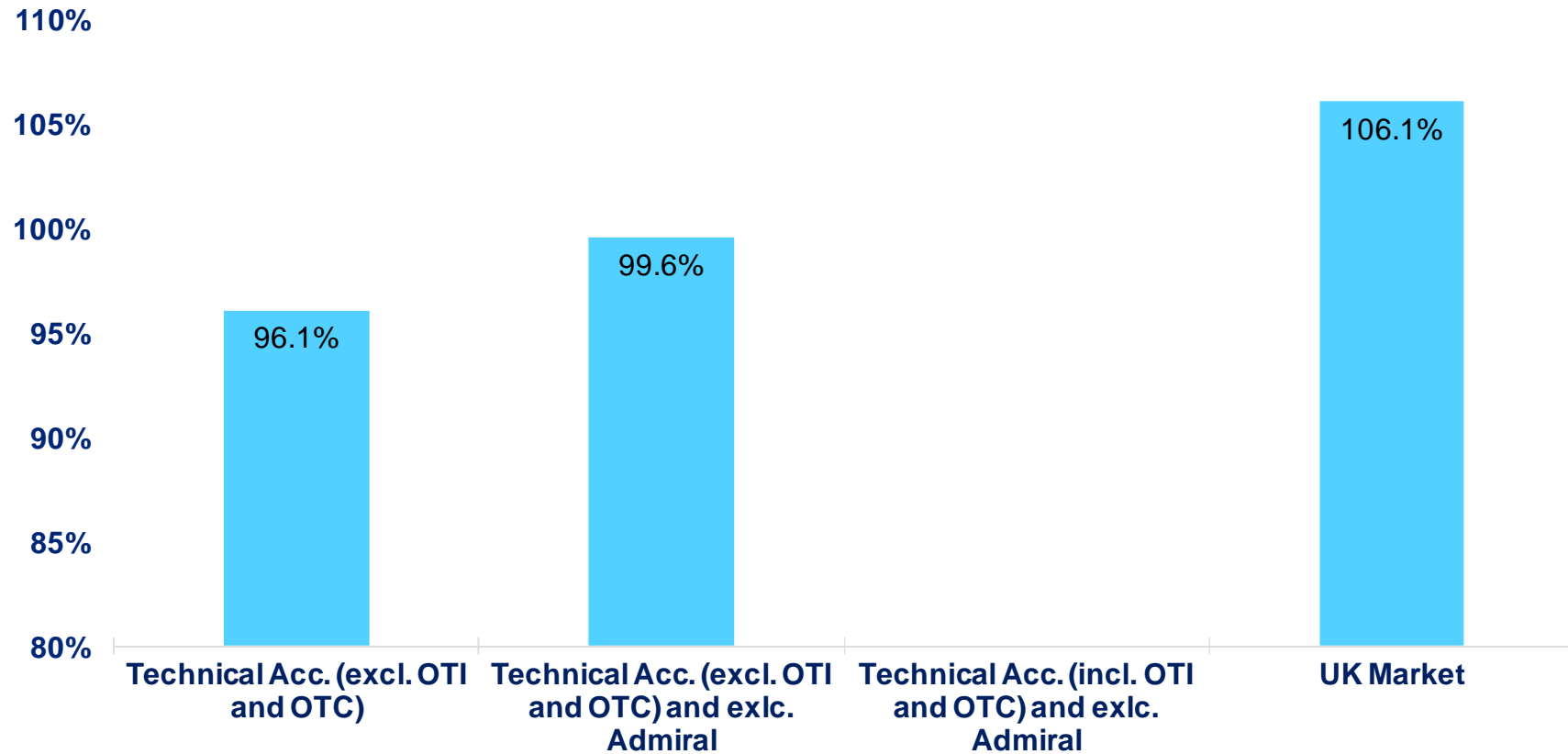
Analysis of Market Ratio



Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

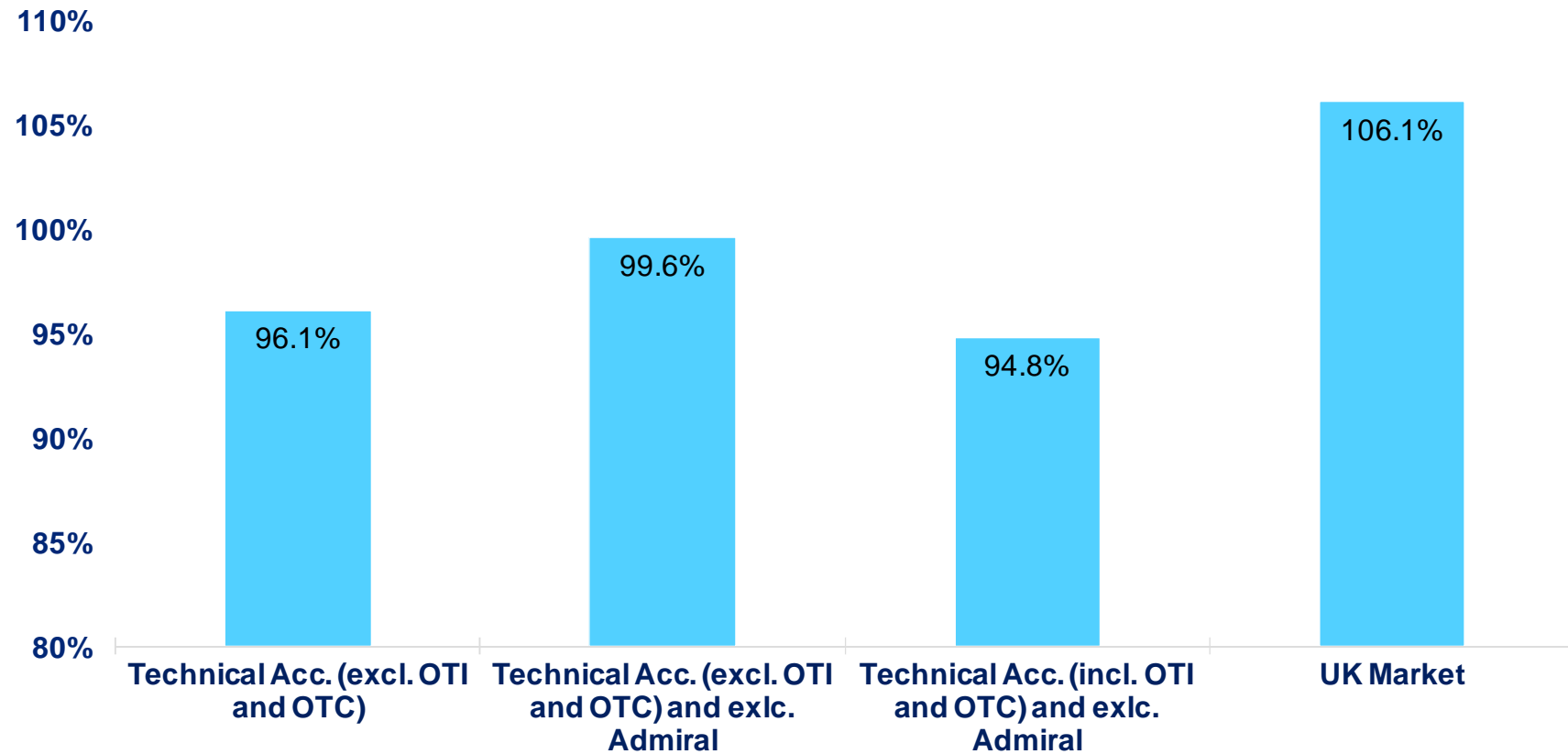
Analysis of Market Ratio



Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

Analysis of Market Ratio

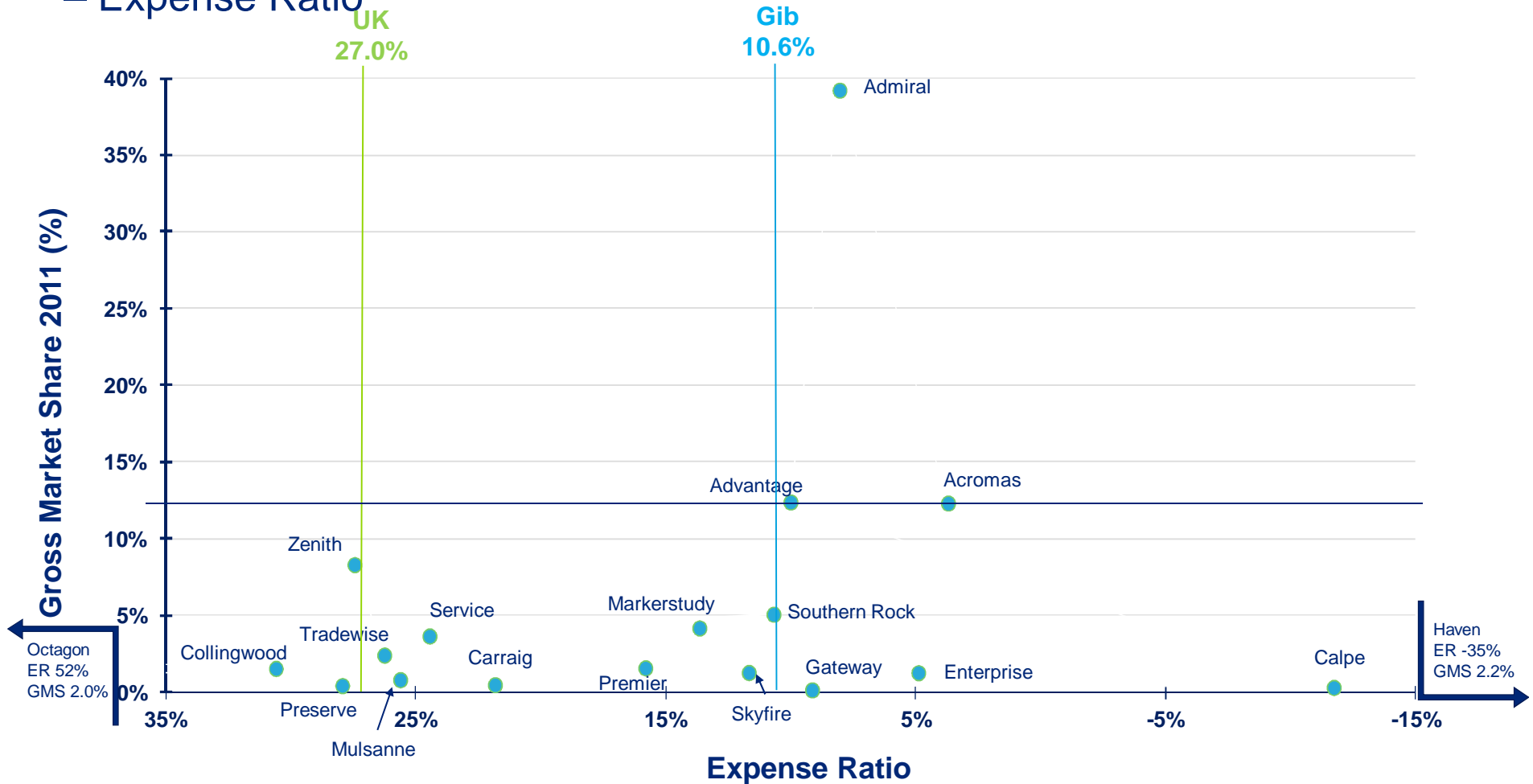


Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

Gibraltar Insurers 2011

– Expense Ratio

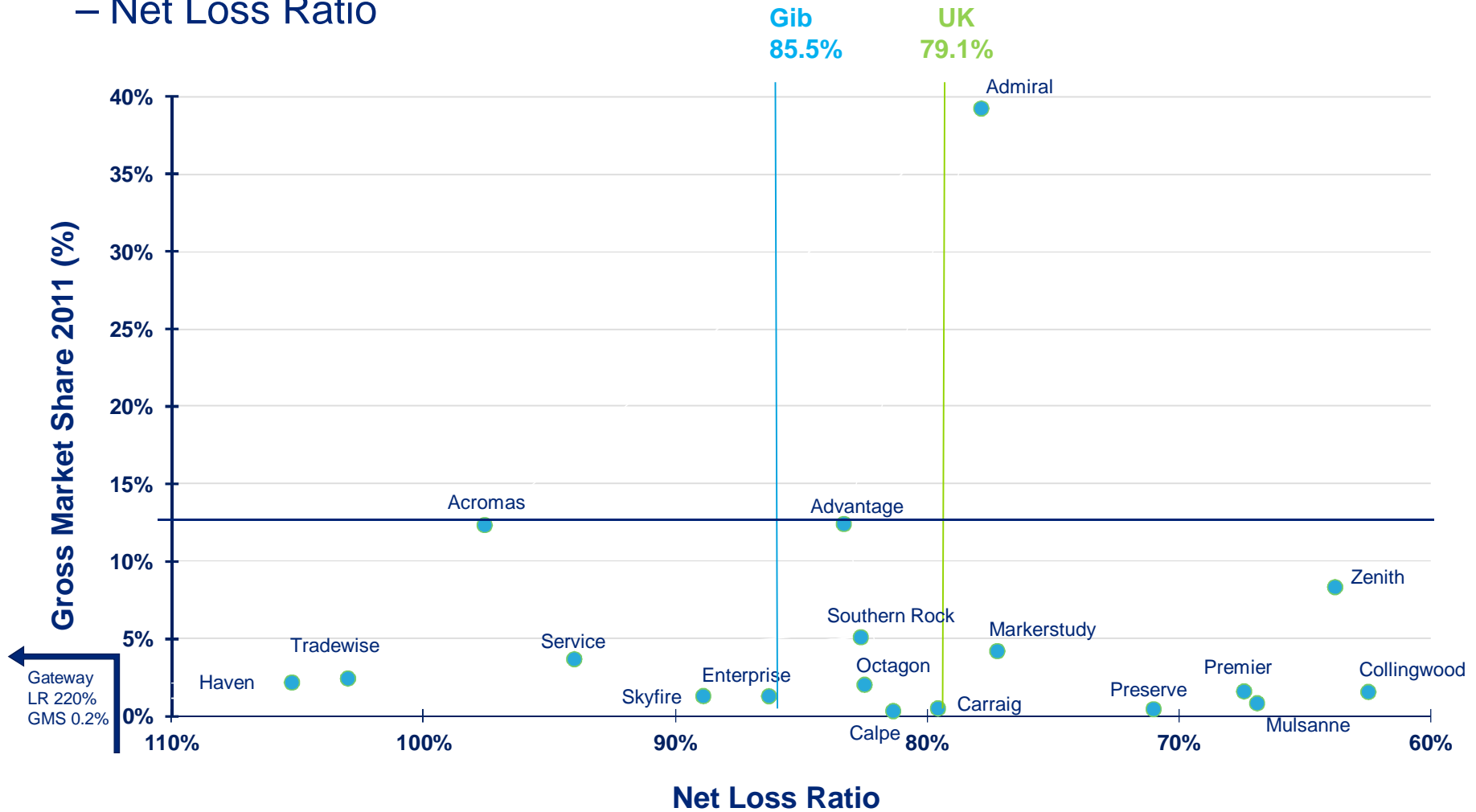


Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

Gibraltar Insurers 2011

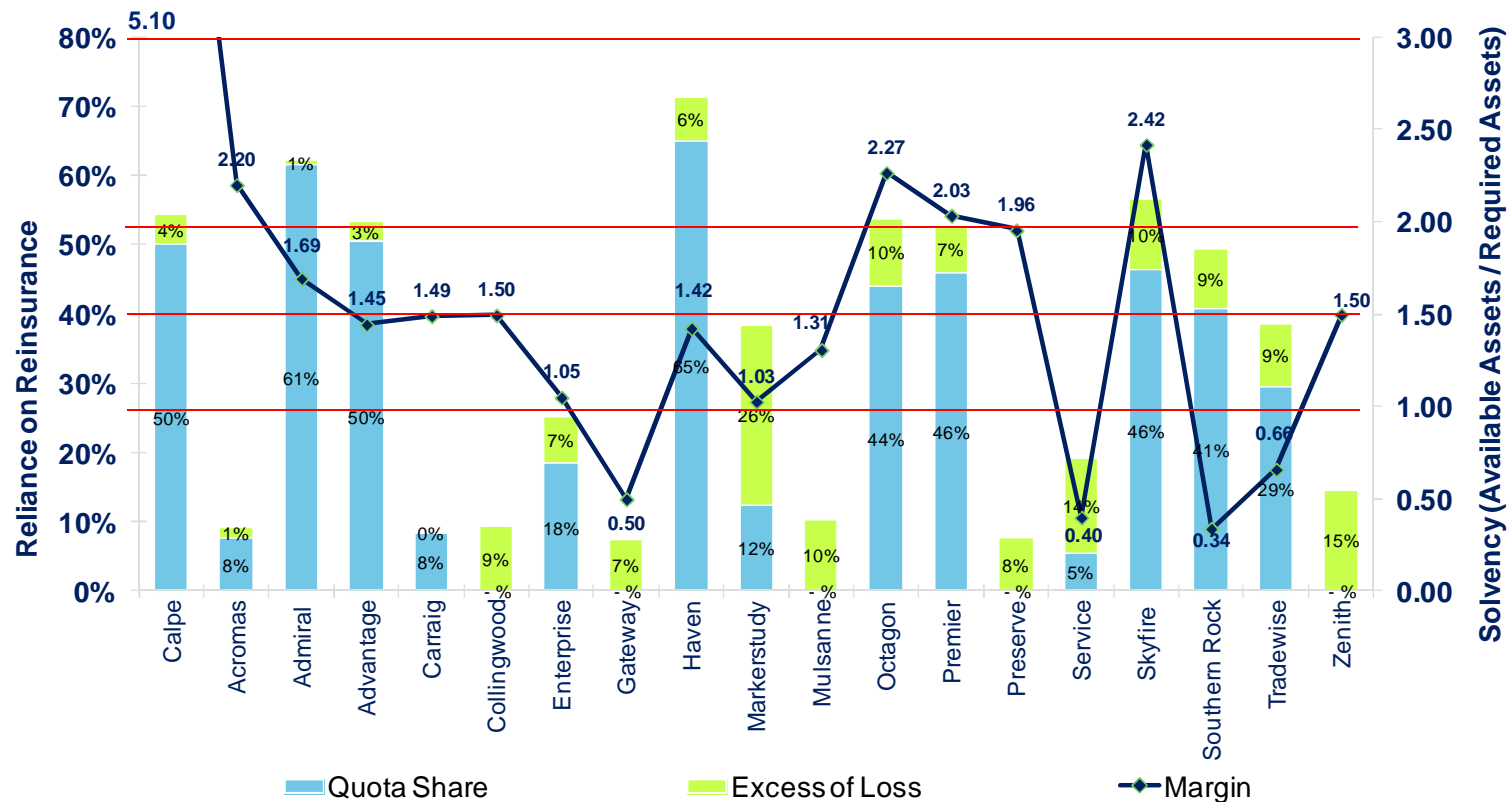
– Net Loss Ratio



Source: GFSC Reports, Company Accounts, Deloitte Interpretation

Benchmarking of Individual Insurers – Gibraltar

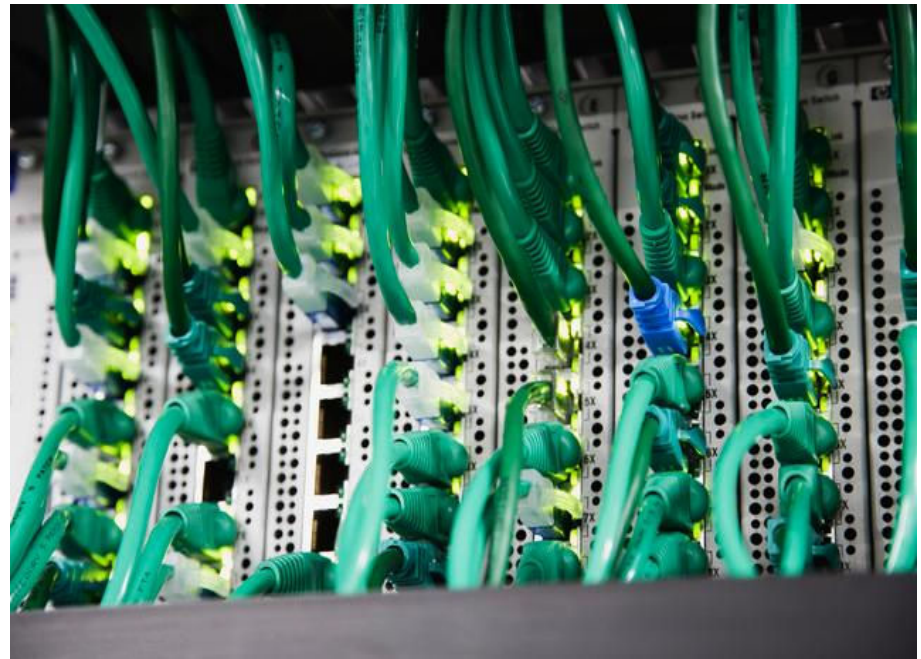
Gibraltar Insurers 2011 Solvency Margin & Reliance on Reinsurance



Source: GFSC Reports, Company Accounts, Deloitte Interpretation – as at 31/12/11, some data estimated to allocate reinsurance to Quota Share and Excess of Loss.

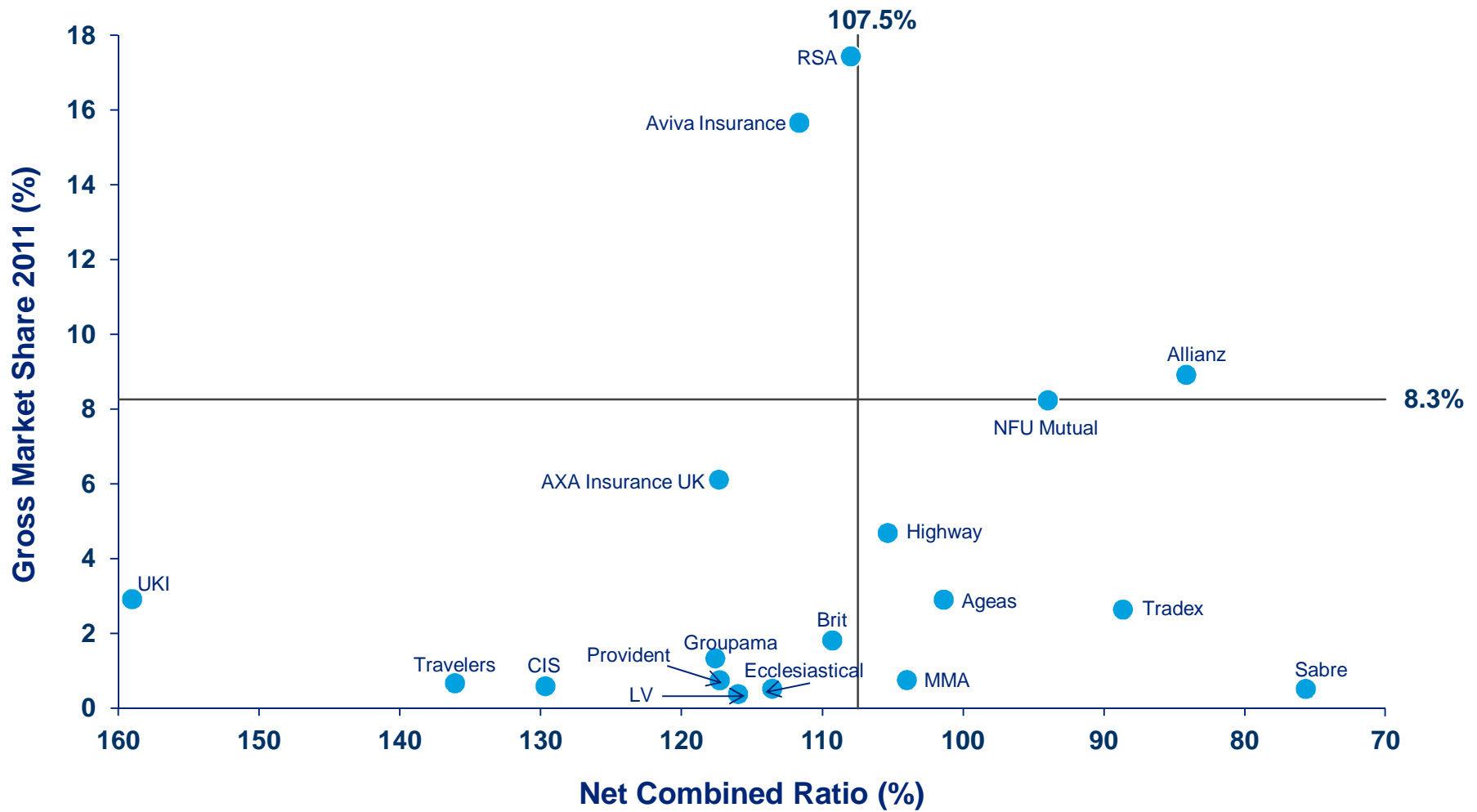
Note: Subsequent to 31 December 2011 both Service Motor and Tradewise received capital injections from their shareholders to restore their solvency position above the Required Minimum Margin (RMM). During 2012 Southern Rock completed a capital restoration plan as approved by the GFSC. Under the conditions of the restoration plan Southern Rock achieved solvency of 107% as at 31.12.2011 and now trades with solvency in excess of 125% of the RMM. Gateway subsequently undertook a Part VII Transfer shifting its business to a related company in the UK.

Commercial Lines Motor is Changing



Benchmarking of Individual Insurers - UK & Gibraltar

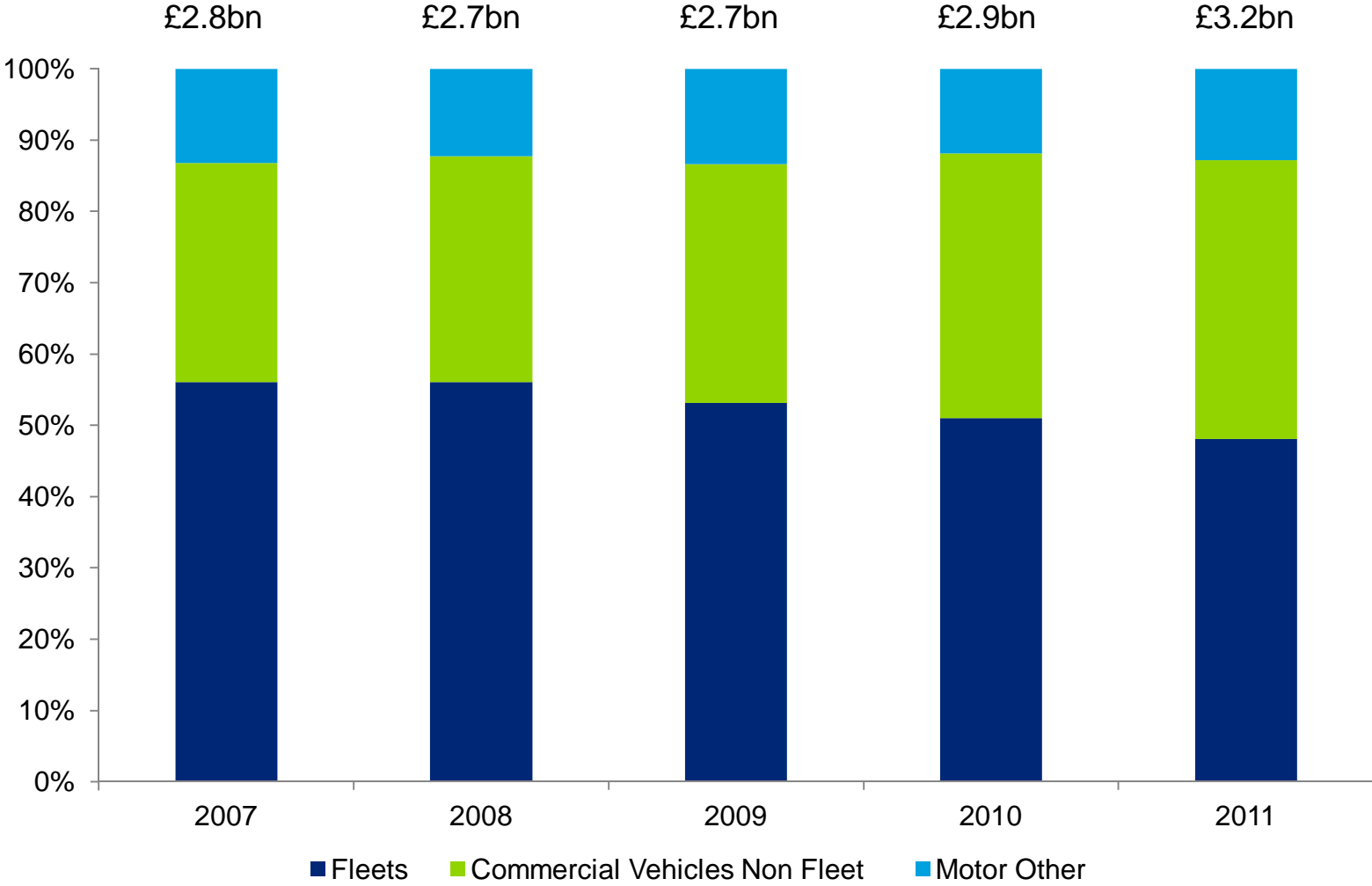
Commercial Lines Overview 2011



Source: Deloitte Analytics based on AM Best data

Components of commercial motor

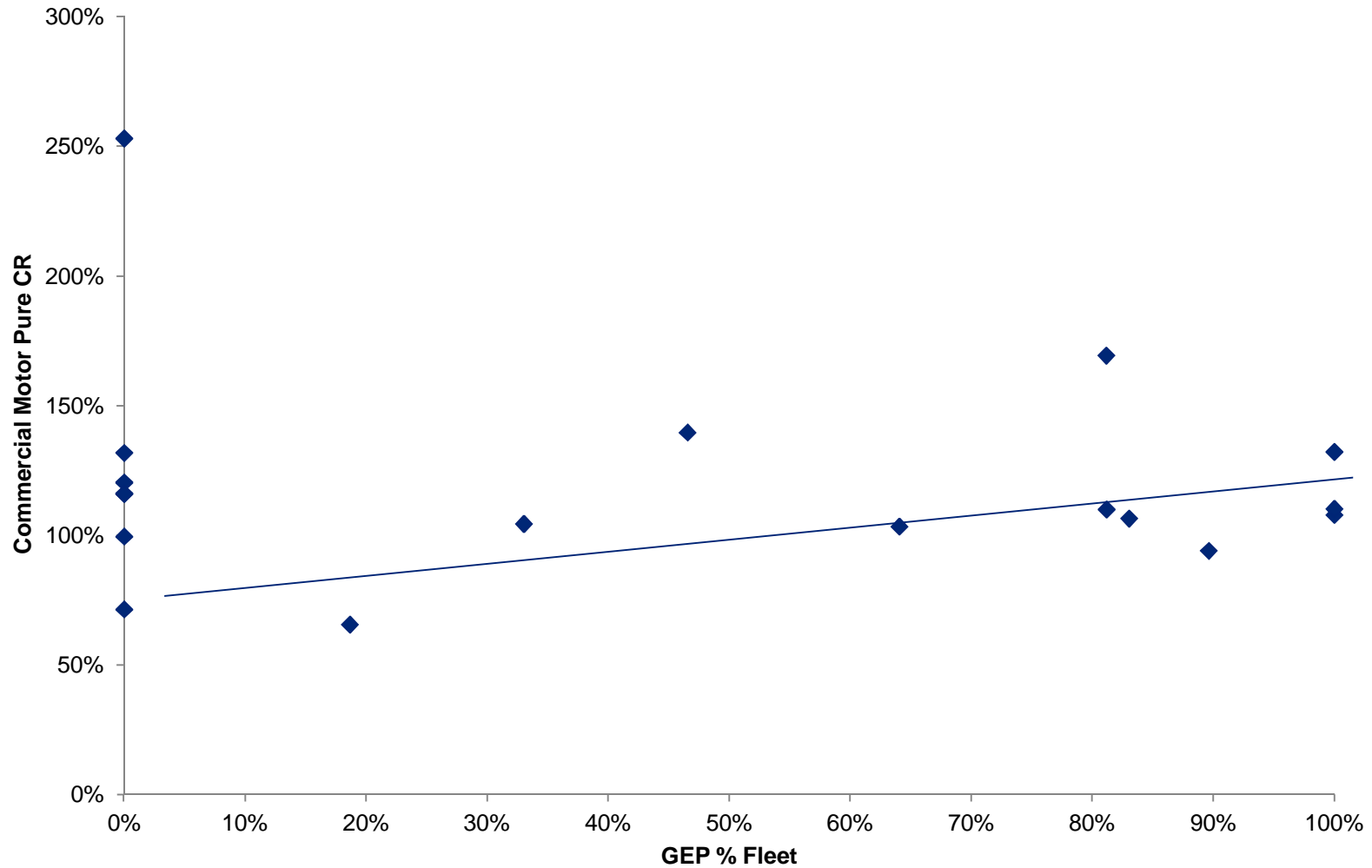
Fleet and non fleet CV comprise the bulk of commercial motor



Source: ABI

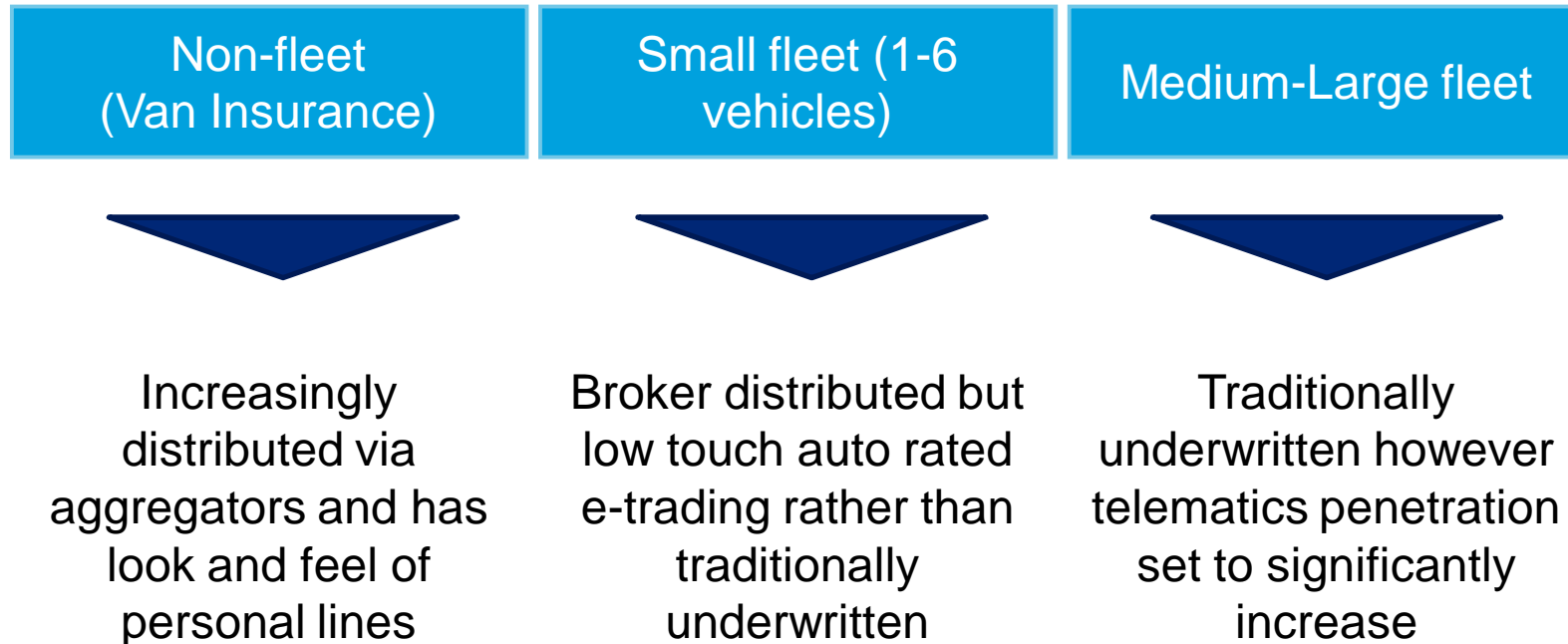
Fleet versus Non-Fleet

In 2011 fleet COR performance appeared to be worse than non-fleet



Drivers of change

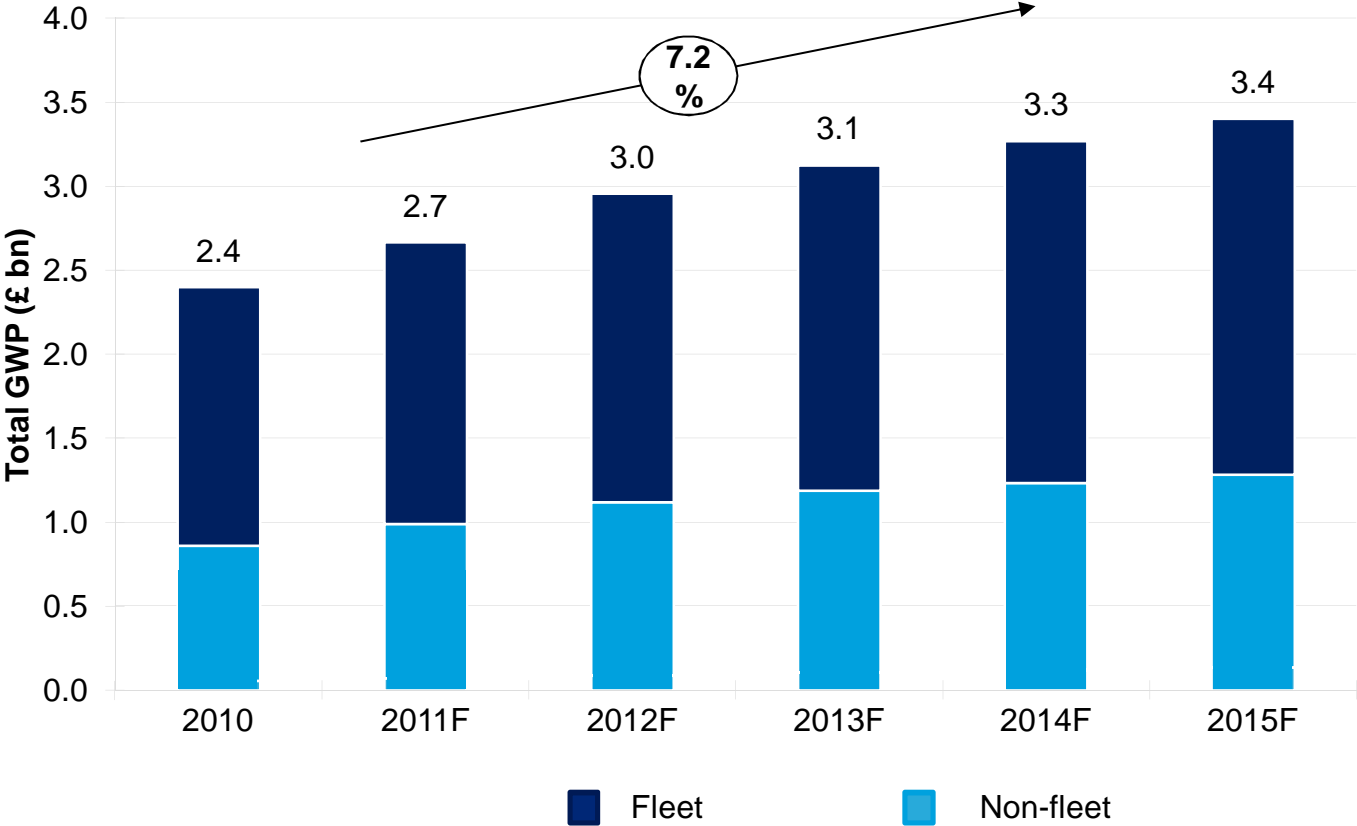
Changes in technology and distribution will impact parts of the commercial vehicle market in different ways potentially driving differential performance in future



Van insurance

UK non-fleet van insurance is a significant part of commercial motor

Estimated Total Van market size (GWP) 2010-2015



Source: Datamonitor, Deloitte analytics

Van insurance

Business models in operation in the van insurance market fall broadly in to three categories - internet based, direct insurers and high street presence

Internet based (broker)


- Mainly trades online and has presence on search engines, aggregators and print media

Direct insurer

- Distribution direct from the insurer to the customer, strong brand strength

High street presence

- Has a physical presence on the high street through a network of branches which means proximity to the customer

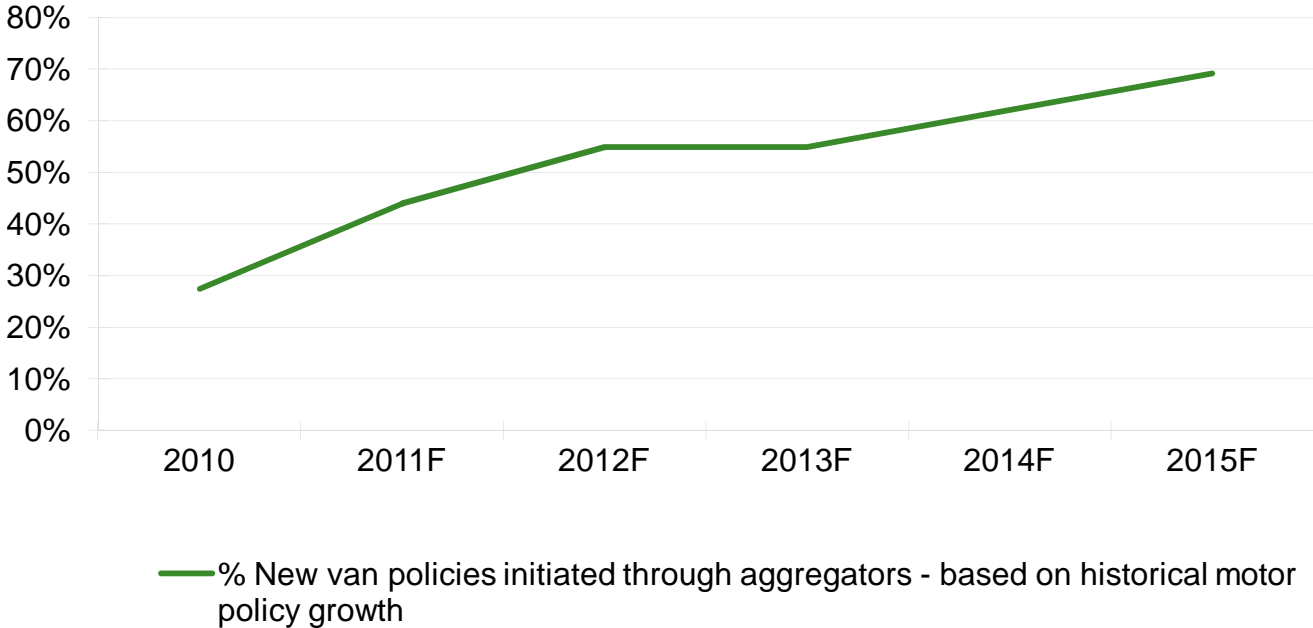


Both increasingly using aggregators to source van business

Aggregators

Currently aggregators distribute c.25% of new business van insurance. This is expected to grow quickly as aggregators focus on promoting the product

Van aggregator distribution trend



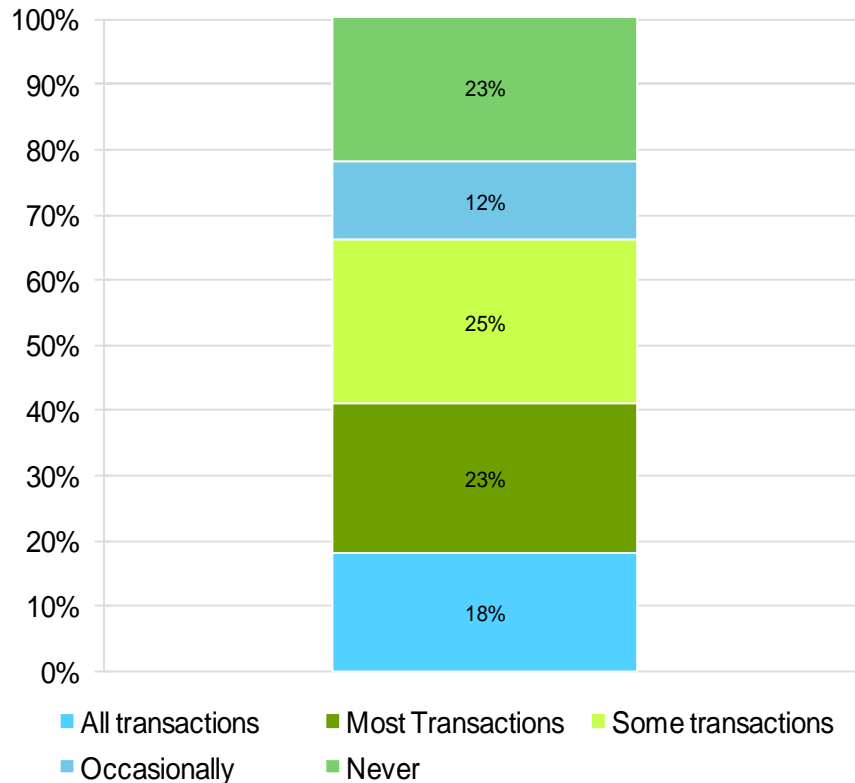
- Of all the SMEs, micro enterprises are most likely to arrange commercial motor insurance online with 16.7% already doing so and c.40% would consider it.

Source: Datamonitor, Deloitte analytics

E-trading

Small fleet e-trading is growing with a significant number of new products coming to market

How frequently do you use broker electronic trading systems for commercial lines?



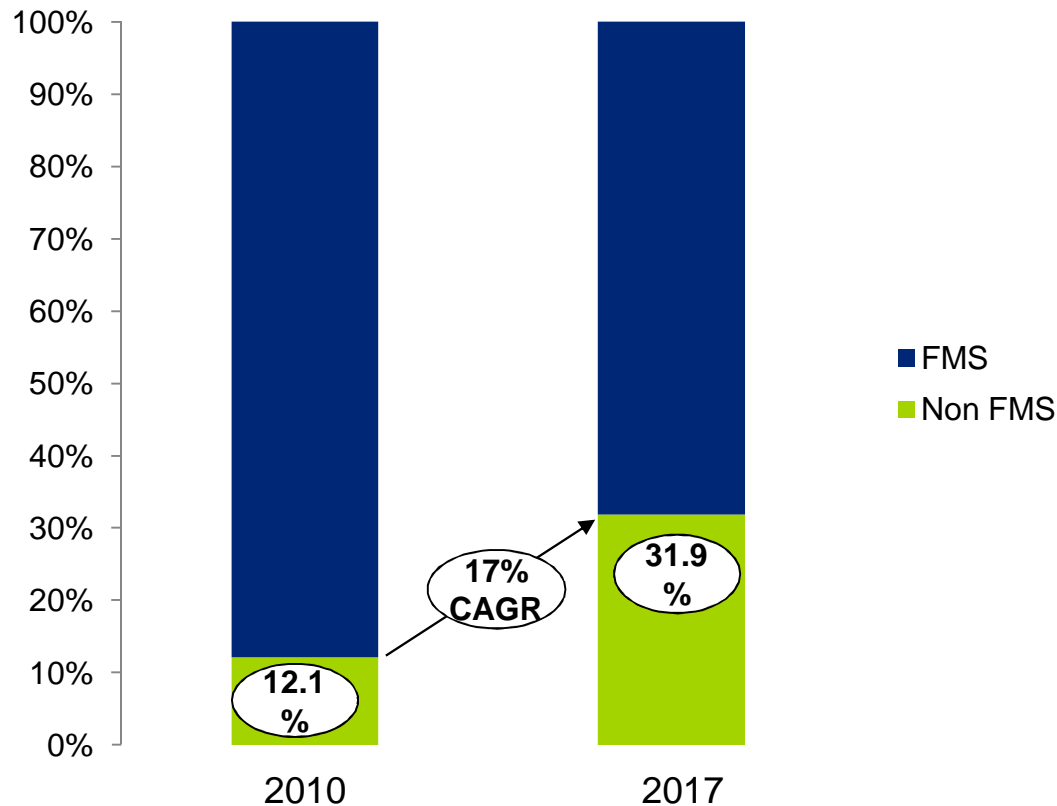
Source: Datamonitor's UK broker survey 2011

- 77% of brokers recently surveyed by Datamonitor have used an e-trading platform to place business.
- Small fleet products are one of a range of commercial lines products that are seen as attractive to e-trade.
- We expect significant growth in e-trading during the next 3-5 years driven by broker, system provider and insurer adoption.
- Price transparency and competition are likely to be heightened by this trend.

Telematics

Significant growth during the next 5 years driving an improved ability to control losses and manage fleet performance

Medium and heavy CV, FMS installed base - Europe

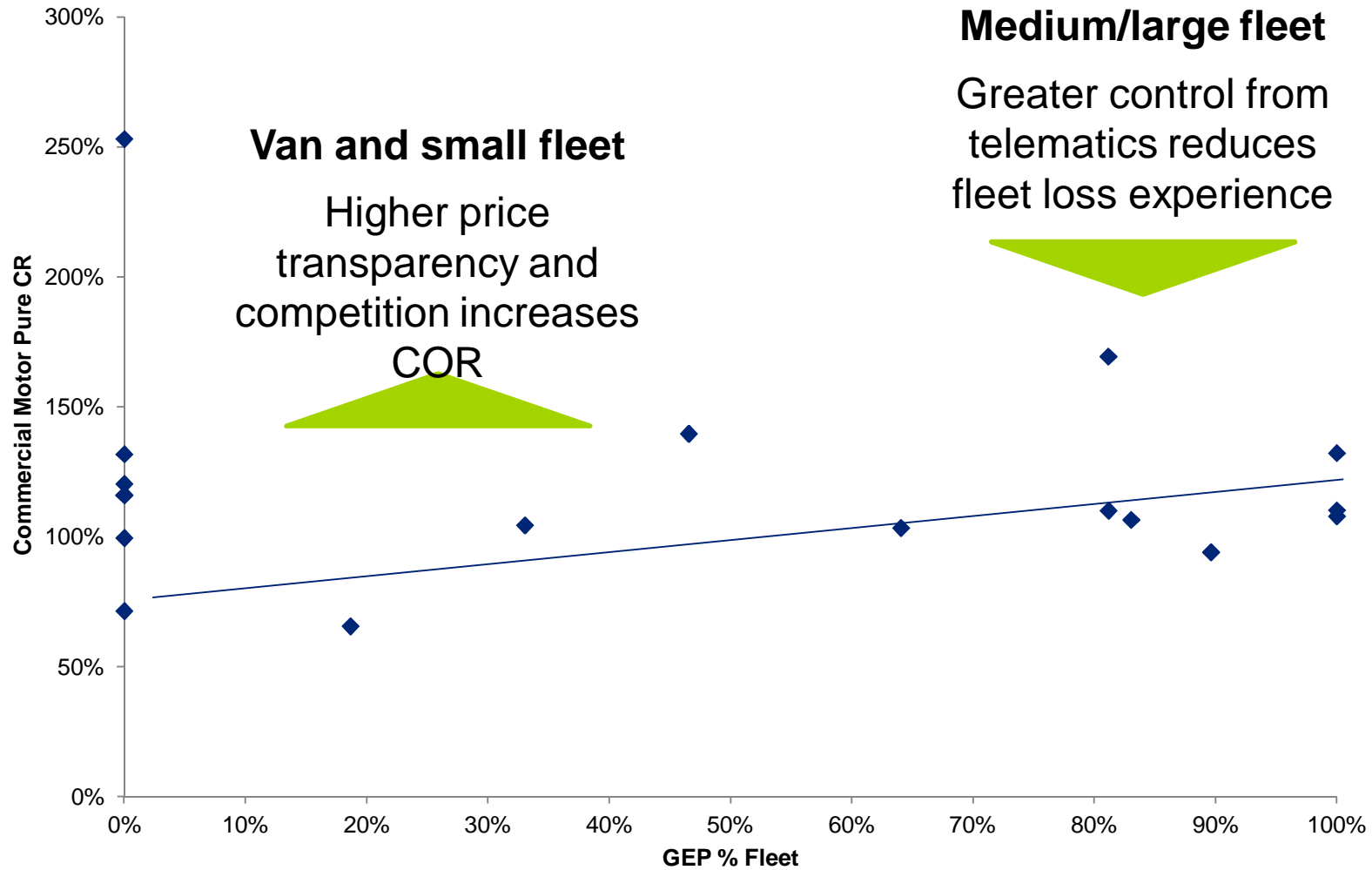


Source: Frost and Sullivan

- Growth in Fleet Management Software (Telematics) penetration is anticipated to be high during the next 5 years.
- Efficiency benefits but also enhances ability to monitor and control driving performance and claims.
- Potential to improve claims performance.

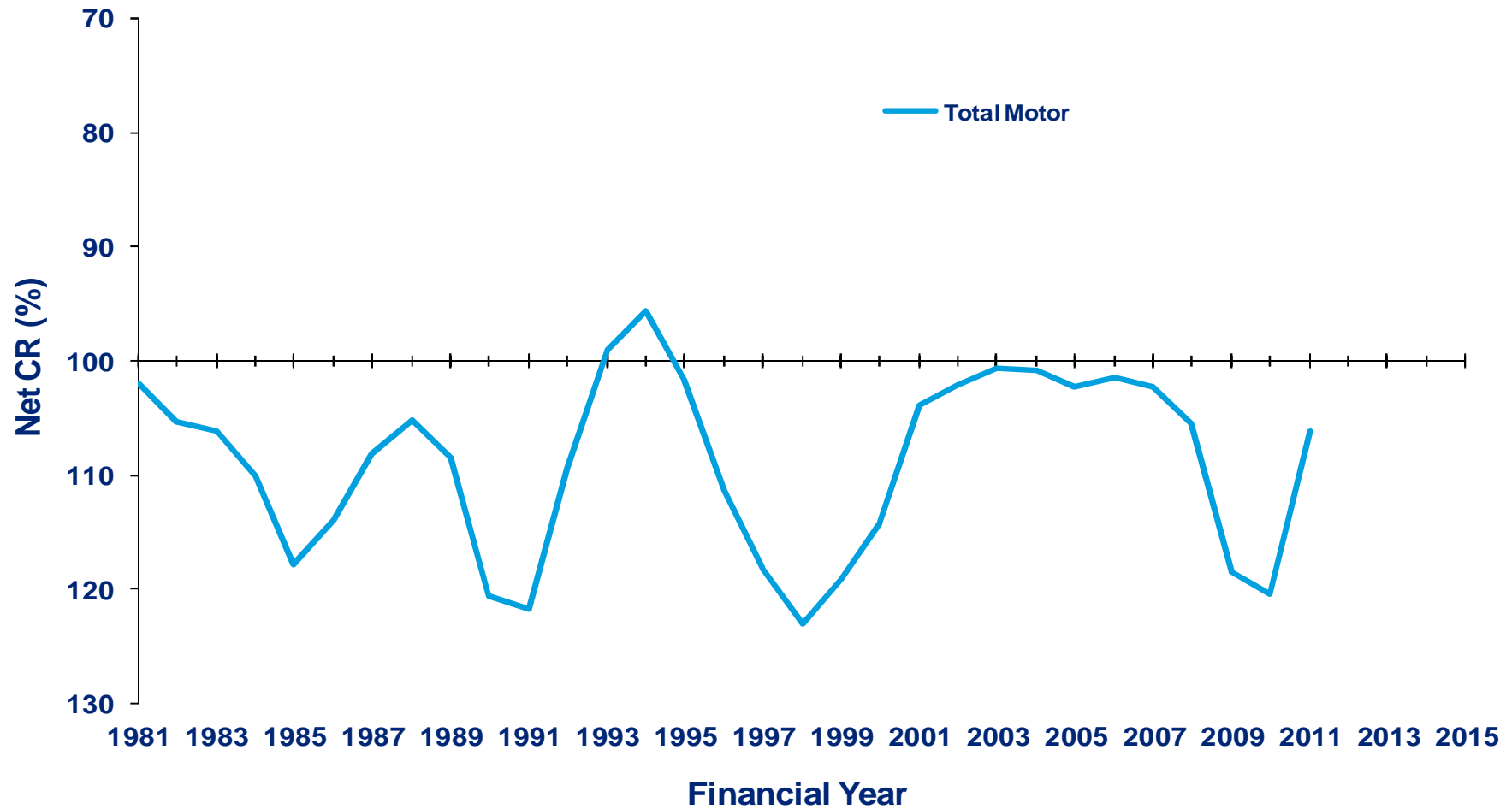
Implications

Medium term structural changes suggest a potential reversal of the 2011 COR experience



Future Profitability

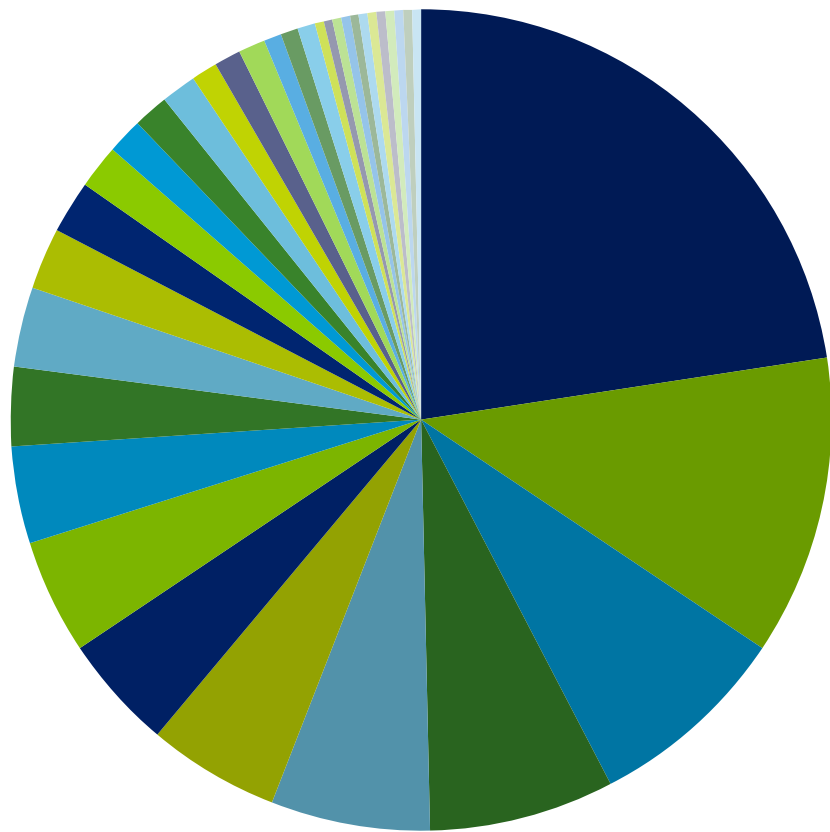
Forecast Net Combined Ratios – Where are we?



Source: Deloitte Analytics based on AM Best data

Future Profitability

Survey Responses – Biggest Issues



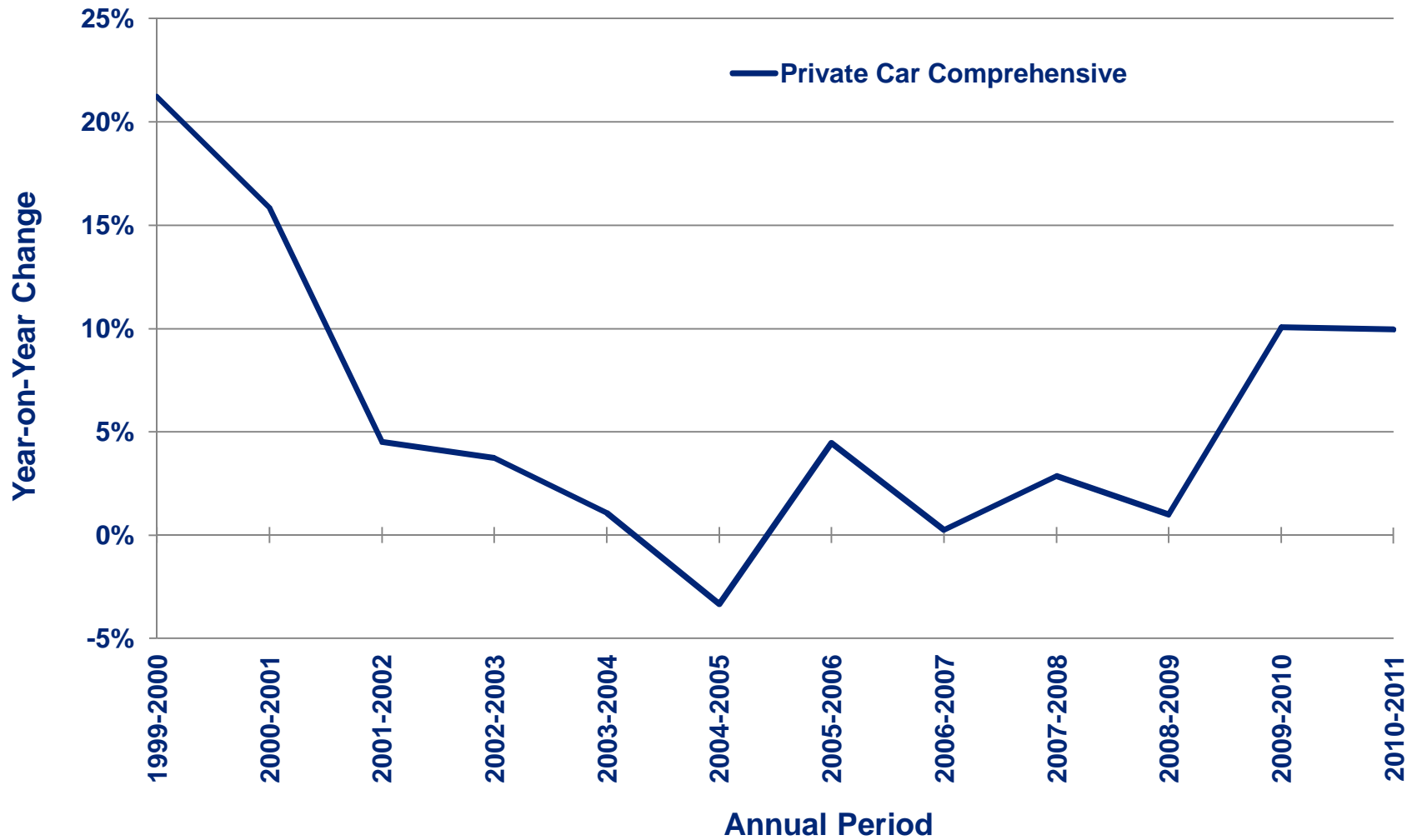
Biggest Issues



- Fraud
- Bodily Injury Claim
- PPOs
- Claim Inflation
- Claim Farming
- Rating Factor Outlaw/Gender Issues/ECJ
- Profit
- Pricing
- Regulation
- Claim Costs
- Whiplash
- Inadequate Rate
- Competition
- Solvency II
- Public Perception
- Data Management
- Internal Efficiency/Costs
- Compensation Culture
- Discount Rate
- Legal Costs
- OFT Investigations
- Telematics
- Business Volume
- Underwriting Discipline
- Skimming and TPPI Severity
- MOJ benefits
- Micro - segmentation
- Fixed Fee Cap
- Sustainability
- Changing Claims Environment
- Underwriting Cycle
- Incompetency
- Misrepresentation/Aggregators
- Affordability
- Adequate Reserve

Future Profitability

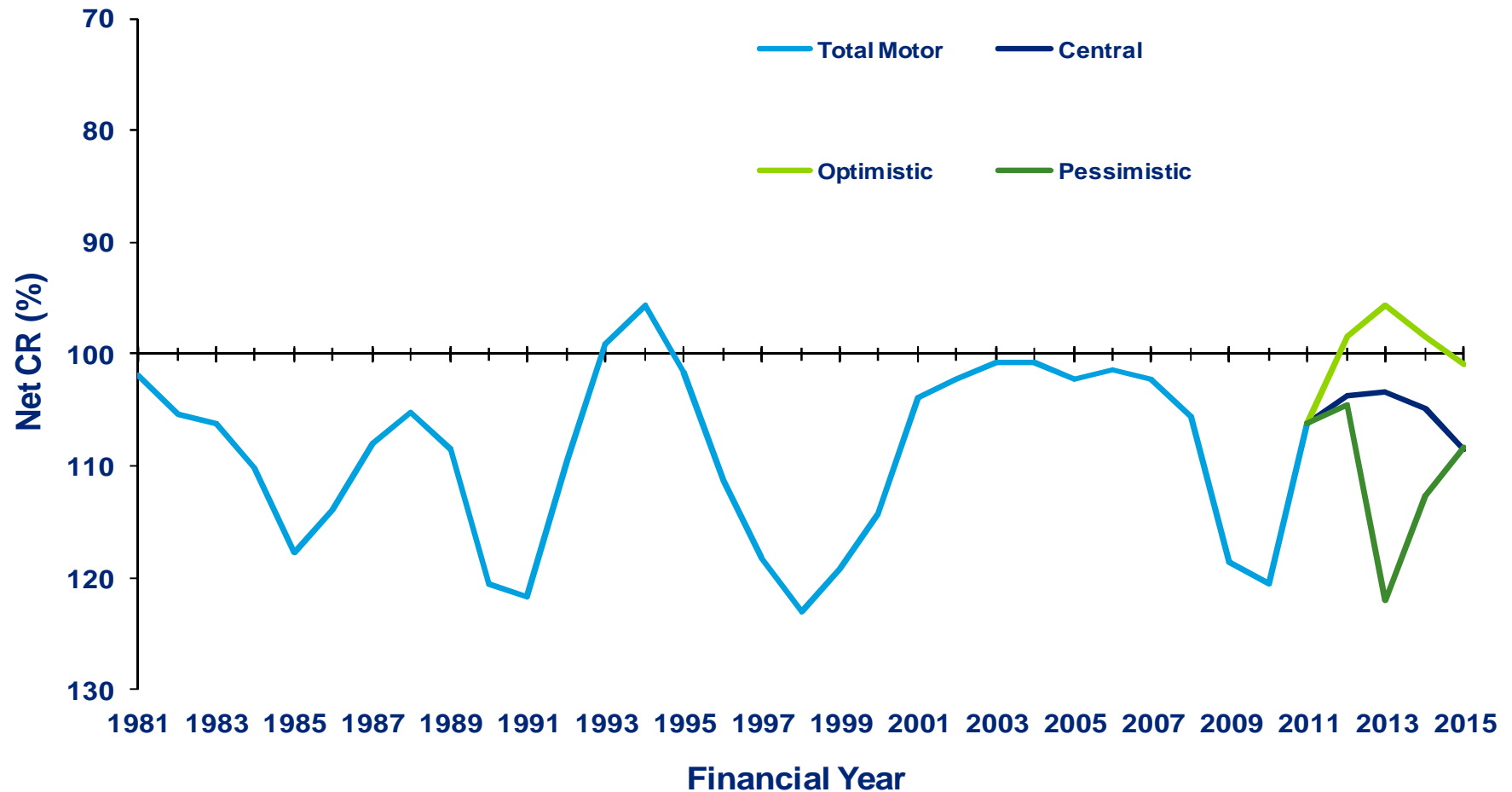
Gross Written Premium Year-on-Year Change



Source: Deloitte Analytics based on AM Best data

Future Profitability

Forecast Net Combined Ratios – What happens next?



Source: Deloitte Analytics based on AM Best data

Competition Commission review

Overview

- A result of the OFT market review first initiated in September 2011
- OFT key concerns:
 - Competition appears to have not been working effectively in the private motor insurance market
 - Drivers responsible for an accident ('at-fault' drivers) appear to have little control over the way repairs and replacement vehicles are provided to the 'not-at-fault' driver
 - The insurers of at-fault drivers appear to have little control over the bills they pay and this may be leading to higher costs for them and ultimately higher premiums for motorists
- Competition Commission have 2 years to report
- If it finds that the features of the market are harming competition, it has powers to impose remedies to address the situation

Questions



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2012 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited