

European motor report summary

QBE Re has produced a detailed paper outlining the various models it applies to understand claims experience and to determine its pricing strategy in the European motor third-party liability (MTPL) market. The report presents key insights based on its 2022 models, with a particular focus on the impact of inflation - as well as considering the effect of the Covid-19 pandemic.

Based on its current forecasts for the impact of inflation, QBE Re offers its view on how reinsurers should be responding to what is currently - by a large margin - the most influential single variable affecting costs and pricing.

QBE Re has developed 15 models to help understand market developments - the result of ongoing collaboration between underwriters, actuaries, claims adjusters and other relevant professional disciplines. Between them, they provide a solid basis for assumptions about where the market is headed - and how reinsurers and reinsurance buyers can best respond to the challenges posed by an environment in which significant technical rate increases are expected to be required at the next renewal.

The report outlines some of the key models QBE Re applies to predict the yearly incurred claims amount for a given MTPL portfolio. It highlights how the technique of 'on-levelling' is used to predict the ultimate position for prior years and looks at trends in claims frequency across various European countries, noting huge variations between those countries - reflecting their different socio-economic, legal, and health and safety environments.

Noting that the time it takes for the ultimate cost of a claim to crystallise - reflecting often protracted legal proceedings and medical uncertainties - also varies

considerably from territory to territory, the report concludes that claimants are most quickly compensated in Spain, Italy, and the UK. In Italy, for example, bodily injury claims are typically 65% paid two years after an accident, whereas the corresponding figure for Belgium is just 3%. In Italy and Spain, claims are almost 100% paid after ten years, compared with around 60% in the Netherlands.

The report explains in detail how QBE Re models the impact of inflation. It includes graphs illustrating how inflation can have a very significant impact in an excess of loss reinsurance context where limits and deductibles are fixed, creating a very pronounced gearing effect.

The report's detailed examination of the lasting impact of the Covid-19 pandemic concludes that some predictions of decreased volumes of motor claims are likely to be unfounded, with recent data suggesting a Europe-wide return to pre-pandemic traffic levels. This trend is supported by the statistics showing the number of road traffic accidents quickly bounced back to pre-pandemic levels across most European countries in 2020 after the first lockdown.

The report's assessment of the likely impact of the current high-inflation environment on pricing indicates that this will be dramatic. It suggests that coping strategies open to reinsurance buyers could include adapting stability or indexation clauses or increasing retention levels to maintain a similar level of volatility in their portfolios.

The report concludes that the forthcoming renewal season will be challenging, and that reinsurers and (re) insureds will need to agree on the appropriate way to work together in a fair and transparent way to overcome the challenges they each face. At times like these, it is more important than ever for insurers and reinsurers to focus on building and maintaining mutually supportive, long-term partnerships.

Contact us to learn more.

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