



**THE AUTUMN STATEMENT:
A PAIN IN
THE NECK
FOR PERSONAL INJURY**

DEBRIEF: THE AUTUMN STATEMENT 2015

During the Autumn Statement, the Government announced its intention to clamp down on whiplash claims. Two wide-reaching reforms were proposed:

1. Removal of right to compensation for minor whiplash claims
2. Increase of small claims threshold from <£1k claims to <£5k claims

The likely impact is that the majority of lower value claims will disappear altogether. In addition, lower value claims that do remain will be served by the Small Claims Court, where legal fees are not recoverable against the losing party.

**“THE GOVERNMENT IS DETERMINED TO CRACK DOWN ON THE FRAUD AND CLAIMS CULTURE IN MOTOR INSURANCE”
— GEORGE OSBORNE**

1. The Government continues to place significant pressure on insurance claims

The Government is determined to crack down on the ‘compensation culture’ in motor insurance, despite access to justice arguments.

The recent Autumn Statement has focused on whiplash compensation – controversially proposing the removal of any right to compensation for minor whiplash claims. This has the potential to be an industry game-changer: whiplash accounts for the majority of motor personal injury cases.

OC&C believe the Autumn Statement could remove c.70% of claims volume, and c.30% of value in terms of legal fees associated with claims if implemented in full.

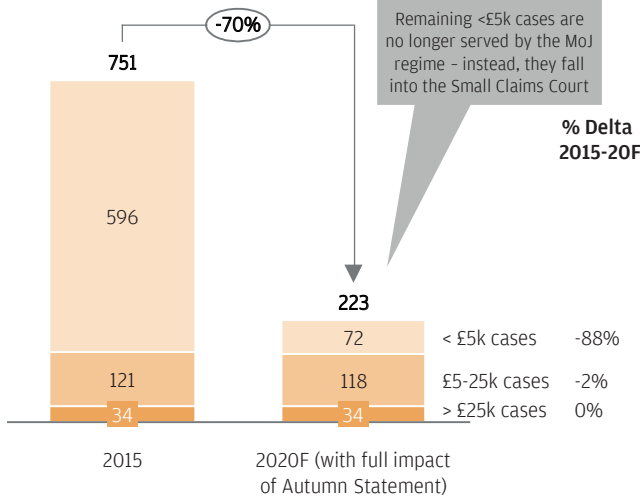
The argument for the changes suggest motorists should be saving c.£50-60 on average on their motor insurance.

However, this comes with a cost to the industry. The reforms will have a severe impact on personal injury law firms, and exert indirect pressure on other participants in the value chain who receive income from related activities. Insurance brokers and claim management firms handling not-at-fault claims will also be under pressure. As a result there is a fundamental need to reassess the strategy of many firms.

MARKET IMPACT ON RTA PERSONAL INJURY

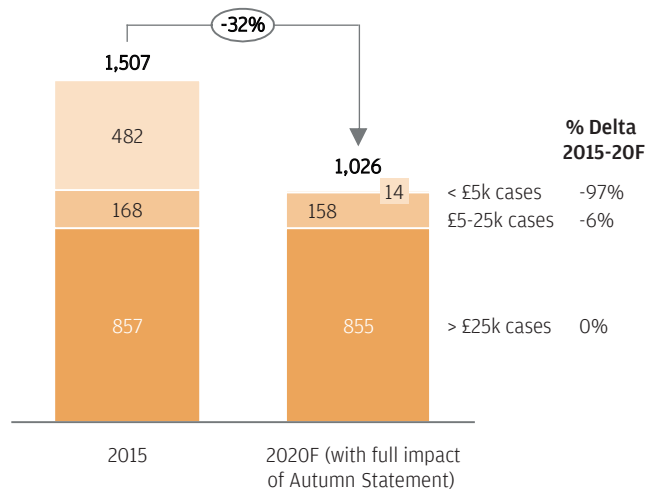
RTA Claim Volume, 2015 vs 2020F

Thousand Claims



RTA Legal Fees, 2015 vs 2020F

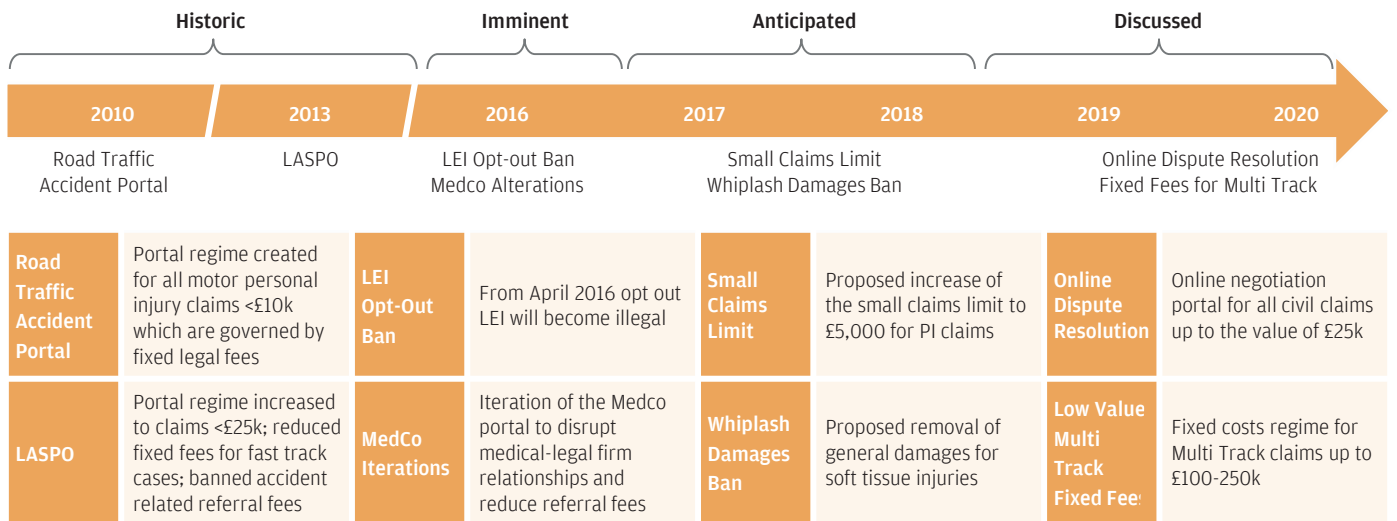
£m



2. The appetite for reform does not appear likely to stop anytime soon - creating planning uncertainty and a number of complications

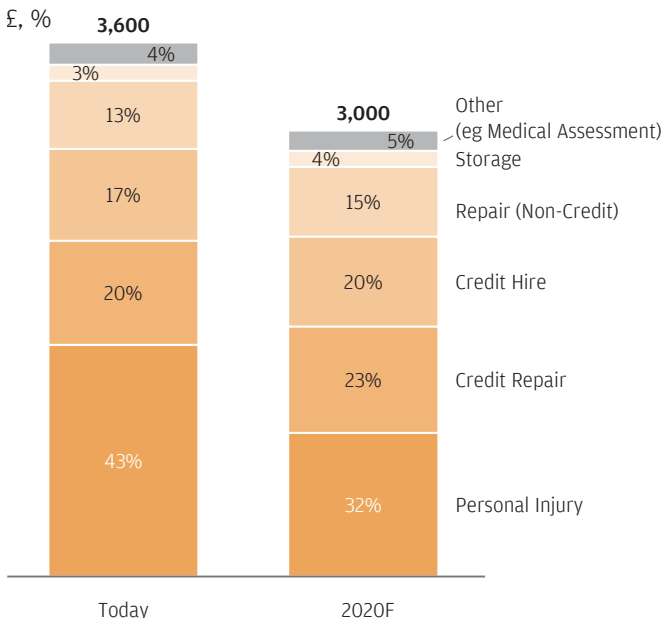
The Autumn Statement is the most recent reform in an on-going movement for intervention. With no real end in sight, there is the possibility that extending the fixed fee regime to even higher value claims (an area previously shielded from reform) could be the next item on the agenda.

OVERVIEW OF REGULATIONS - HISTORIC AND FUTURE



DRIVERS OF CLAIM VALUE AGAINST AT FAULT INSURER

Not-at-Fault Cost per Claim, 2015-20F



The continuing state of flux in the market is likely to create a number of complications, not least the need to plan for various scenarios given unremitting uncertainty. If implemented as it stands post consultation, the approach will have succeeded in reducing the largest element of RTA claims cost today - compensation for personal injury. It is therefore possible for the focus of future action to be re-deployed to other elements, such as credit repair and credit hire.

Moreover, as the cost of serving claims decreases for insurers, savings of £50-60 per policy are expected to be passed onto consumers. It will be interesting to see how this manifests in practice given the overall underwriting and investment returns in the industry.

3. Businesses should take action now to adapt and help safeguard against future regulation

Given the vague, but potentially far-reaching, Autumn Statement announcements, businesses will be asking many questions. Whilst there is some time whilst the consultation takes place and back-books provide income during run off, plans need to be put in place now. The Government anticipates that the changes will be implemented in April or October 2017.

The solutions will vary by company depending on their starting point and areas of competitive advantage. OC&C believe there are a number of potential courses of action for each industry participant.

A. FOR LAW / PERSONAL INJURY FIRMS

The need to adapt is particularly critical for personal injury firms where claims volumes will be severely impacted. There are a number of potential strategies including

- a. **Focus on high value claims:** Migrate your case mix over time to high value claims, whilst slowly running down the tail. This rationalisation will require a significant downsizing of teams serving low-value cases, in addition to creating safeguards to protect existing high-value casework and associated relationships
- b. **Transform into a high volume consumer law platform:** Create a high-volume consumer law platform which spans multiple areas (including personal injury). This needs to be automated and flexible enough to react to market and regulatory changes as required and moving focus between products over time
- c. **Exit and find another party to pursue one of the above strategies!**

B. ACCIDENT MANAGEMENT COMPANIES

Marketing fees and other income streams from personal injury law firms are likely to significantly diminish - impacting a key revenue stream for accident management firms. Whilst these businesses are not as exposed as law firms, there will still be an income gap to fill.

- a. **Reduce focus on Personal Injury:** Re-evaluate your channels to market and mix of work to become less reliant on PI as a revenue stream
- b. **Rebalance income from the 'supply' side to the B2B and / or B2C 'customer' side:** Build better consumer-friendly claims solutions with improved service, tracking and technology, focusing on a more traditional BPO model and associated commercial structures
- c. **Leverage 'assistance skills' into other areas in Automotive and / or beyond:** Recognise the inherent skills in your business to find new areas to deploy these capabilities (eg travel assistance)

C. FOR INSURANCE BROKERS

Not only could insurance brokers lose some non-at fault income, they are also likely to suffer from reduced commissions as a result of falling premiums.

- a. **Go back to basics:** Add value in motor insurance search and price discovery
- b. **Focus on claims experience:** Price instability is likely to result in higher customer churn. Help drive renewals (and new customer acquisition) by improving your claims experience
- c. **Sell a German-style LEI product:** Some customers will still want legal assistance, even for small claims

“WHILE THE GOVERNMENT’S ANNOUNCEMENT WAS UNEXPECTED, THE COMPANY BELIEVES THAT THE SCALE AND DIVERSITY OF THE SLATER GORDON SOLUTIONS BUSINESS IN THE UK POSITIONS IT WELL TO DEAL WITH THE POTENTIAL IMPACT OF ANY FUTURE LEGISLATIVE CHANGE”
— SLATER & GORDON, NOV 2015



About OC&C

OC&C is a global Strategy Consulting firm with over 500 consultants and 14 offices worldwide.

OC&C work for a number of different participants in the insurance market, and in particular the claims value chain across various personal and commercial line risks. We specialise in industries facing major strategic change, and in supporting investors into these industries.

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