



# UNDERSTANDING THE IMPACT OF OGDEN DISCOUNT RATE

## THE OGDEN DISCOUNT RATE: WHAT IS IT?

The Ogden Discount Rate is used by our Courts when calculating compensation in **personal injury cases**.

Compensation awards are designed to put the claimant in the same financial position had they not been injured. The award is based on future losses which are likely to consist mainly of loss of earnings and cost of care.

Designed to ensure claimants are not under or over-compensated, the courts apply a calculation called the Discount Rate. This adjusts the personal injury damage award to take into account the return expected over time when a compensation lump sum is invested. This rate is set at a level to reflect the return available, on the lowest risk investments, typically index-linked gilts (the value of which has been falling since the financial crash in 2008).

## THE OGDEN DISCOUNT RATE CHANGE: THE GOVERNMENT'S ANNOUNCEMENT

On Monday 27th February, it was announced by the Lord Chancellor that the Ogden discount rate would be **reduced from 2.5% to -0.75% with effect from 20th March**, setting a new rate applicable under the Damages Act 1996.

These changes are industry-wide, affecting **claims costs across all lines of business that could be affected by claims for bodily injury, such as private and commercial Motor, Employers', Public/Products Liability and Package policies which incorporate Liability cover**.

With the exception of Guernsey (which already had a legal precedent for a lower discount rate) this applies to **all UK jurisdictions**.

## HOW DOES IT INFLUENCE INSURANCE PREMIUMS?

The change in rate will significantly increase settlement payments made in personal injury claims incorporating loss of earnings and/or care. This is demonstrated in the simplified examples in this table:

AGE CATEGORY AND INJURY	2.5% DISCOUNT RATE PREVAILING	-0.75% DISCOUNT RATE FROM 20/03/17	% INCREASE
<b>Scenario A</b> <b>Serious head injury</b> Male, 21 years old, life expectancy to 87. Requires 24-hour care.	£15,100,000	£29,300,000	94%
<b>Scenario B</b> <b>Paraplegic</b> Female, 31 years old, life expectancy reduced by accident to 80.	£5,200,000	£8,100,000	56%
<b>Scenario C</b> <b>Fractured hip, leg and wrist</b> Female, 57 years old. Retirement at 65 but not returning to work due to accident, small element of care.	£375,000	£481,000	28%
<b>Scenario D</b> <b>Neck, back and head injuries</b> Male, 29 years old. Retirement at 65, will return to work but reduced earnings capability.	£428,000	£515,000	20%

## RSA AND OGDEN DISCOUNT RATE CHANGE: OUR INITIAL VIEW

Given the scale of some of these increases on larger claims, we have implemented changes to our various rating engines/ prices which will impact new business and renewals. Our initial view is that premiums will need to increase by 10% on Motor and 6/7% on Liability to reflect this increased cost. This incorporates an assumption of increased reinsurance treaty cost.

As we re-reserve, our own claims and reinsurers' stance becomes clearer. We will continue to review our pricing assumptions.

## PERSONAL INJURY DISCOUNT RATE: HOW SHOULD IT BE SET IN THE FUTURE?

On 30th March, the Government launched an open consultation, as part of the review of the framework under which the personal injury discount rate is set. The paper considers possibilities for how, when and by whom the discount rate should be set. The consultation period closes on 11th May 2017. We, along with other interested parties e.g. ABI, will be fully contributing to this process.

To further discuss the impact of this change, or any other aspects of insurance, please contact your RSA representative.