



# UNDERSTANDING THE IMPACT OF OGDEN DISCOUNT RATE

MAY 2017



# BACKGROUND AND PURPOSE OF DISCOUNT RATE

- + What has happened
- + Implications on claims settlements
- + Examples of claims impacted
- + Pricing implications
- + The future.

**TO PLACE THE INJURED PARTY IN THE SAME FINANCIAL POSITION THEY WOULD HAVE ENJOYED IF INJURY HAD NOT OCCURRED**

⊕ Net present value and investment returns.



**1984**

Sir Michael Ogden published set of tables

**1996**

Damages Act – Lord Chancellor has the decision

**2001**

Lord Chancellor sets rate at 2.5%

**2017**

Lord Chancellor reviews rate to -0.75%

Prior to 1984  
inconsistent  
approach

**1995**

Civil Evidence Act

**1998**

Wells v. Wells


**2013**

Government  
review



## IMPACTS

- ⊕ Impacts injury only
- ⊕ Impacts compensation for future losses/costs (incl. care)
- ⊕ Does not impact losses that have already occurred e.g.
  - Earnings up to settlement date
  - Treatment
  - Pain and suffering
  - Smith v. Manchester
- ⊕ Impacts all outstanding and future claims.

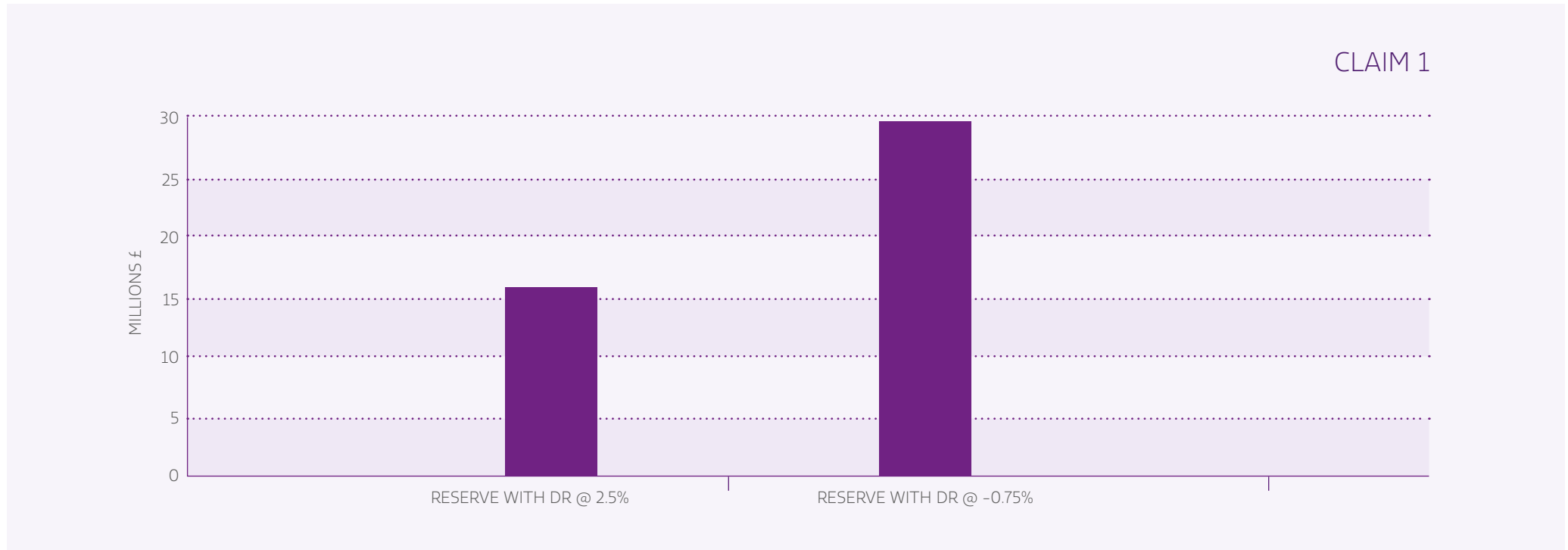


**IMPACT IS GREATEST  
ON SERIOUS INJURY  
CLAIMS FOR THE  
RELATIVELY YOUNG  
WITH LITTLE OR  
NO IMPACT ON LIFE  
EXPECTANCY**

+ £5bn hit to the insurance industry.

# DISCOUNT RATE IMPACT

## CLAIMS EXAMPLE

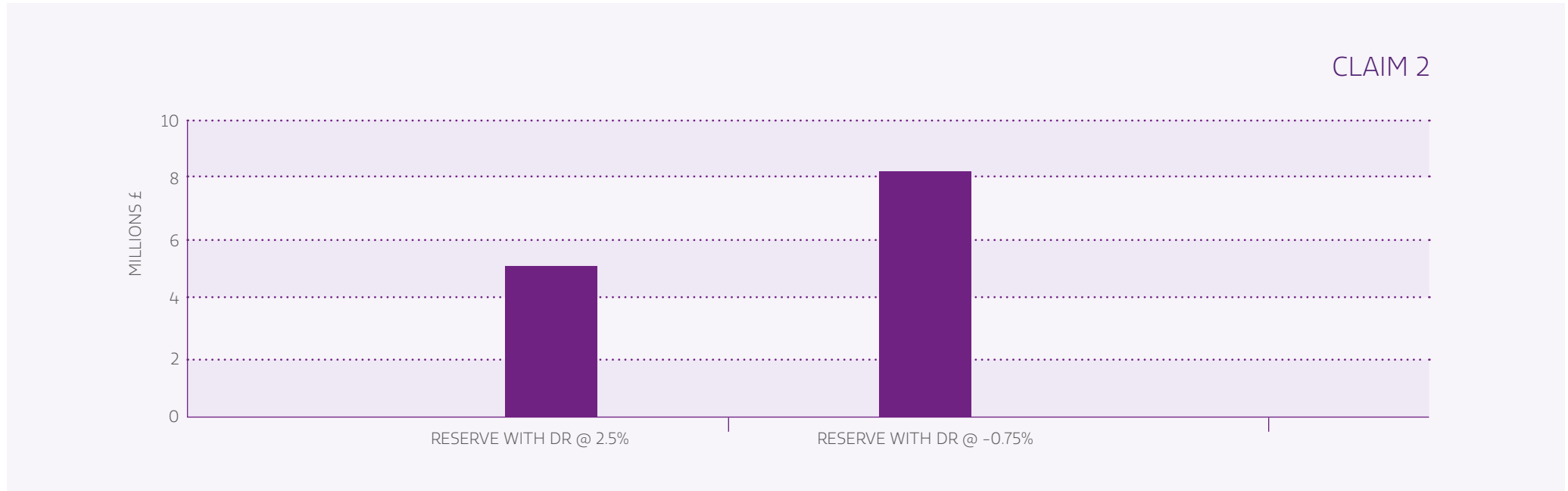


Example of a 21-year-old male with life expectancy to age 87, with 24-hour care of £135k per annum required.  
Loss of earnings to age 70.

- + Life multiplier @ 2.5% = 31.87 but @ -0.75% = 87.14
- + Earnings multiplier @ 2.5% = 27.71 but @ -0.75% = 56.95
- + Future care @ 2.5% = £4.3m but @ -0.75% = £11.7m (172% increase)
- + Reserve @ 2.5% = £15.1m but @ -0.75% = £29.3m (94% increase).

# DISCOUNT RATE IMPACT

## CLAIMS EXAMPLE



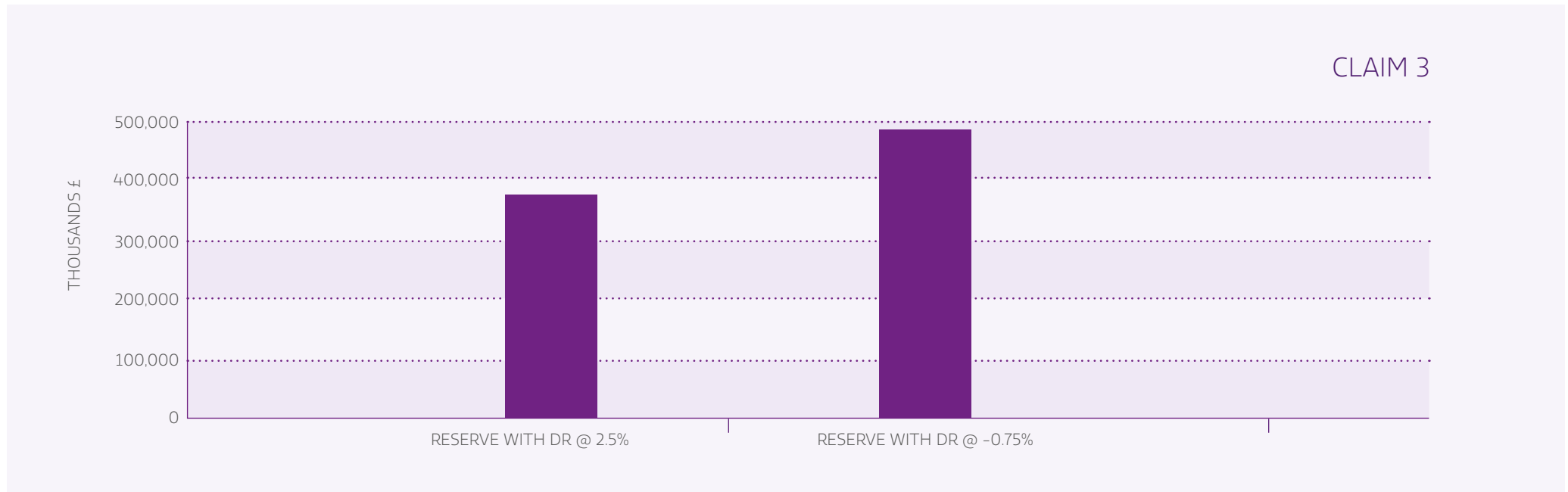
Example of a 31-year-old female with life expectancy to age 90, impaired by nature of injuries (paraplegia). Allowed reduction of 10 years.

- + Life multiplier @ 2.5% = 27.43 but @ -0.75% = 58.97
- + Reserve @ 2.5% = £5.2m but @ -0.75% = £8.1m (56% increase).



# DISCOUNT RATE IMPACT

## CLAIMS EXAMPLE

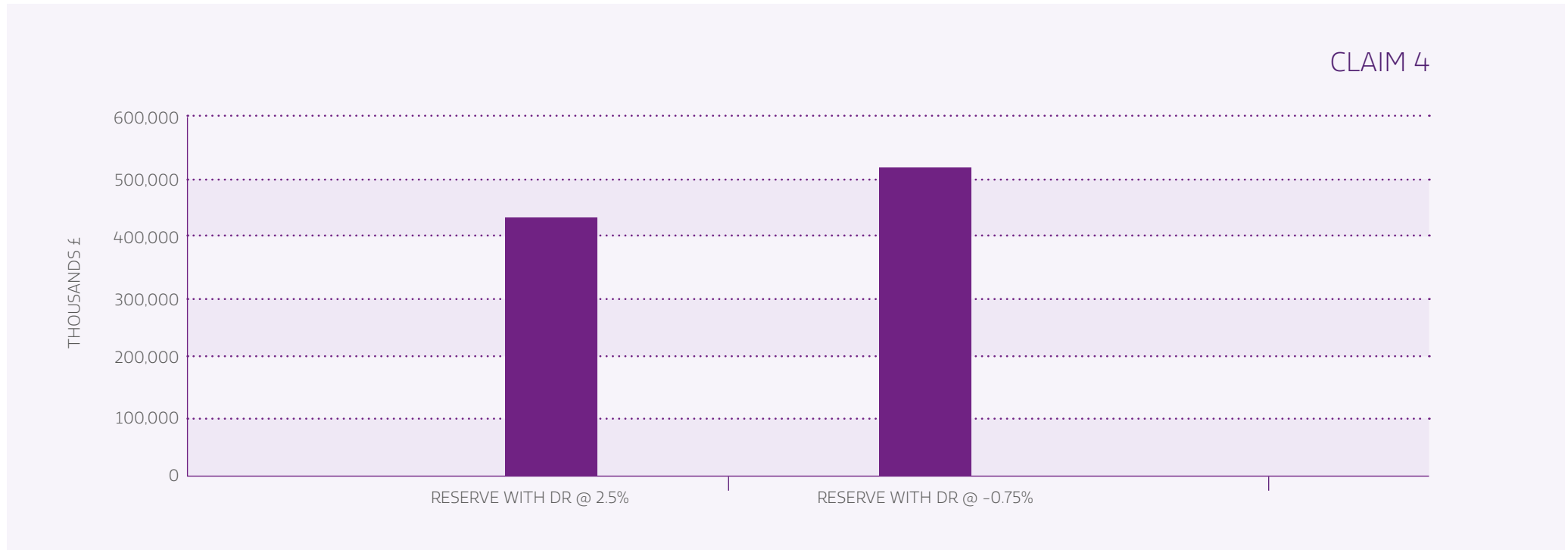


Example of a 57-year-old female with fractured hip, leg and wrist and assumed normal retirement age of 65, but not returning to work. Small element of care required.

- + Life multiplier @ 2.5% = 21.21 but @ -0.75% = 36.43
- + Earnings multiplier @ 2.5% = 7.13 but @ -0.75% = 8.09
- + Reserve @ 2.5% = £375,905 but @ -0.75% = £481,203 (28% increase).

# DISCOUNT RATE IMPACT

## CLAIMS EXAMPLE



Example of a 39-year-old male with neck, back and head injuries with a normal retirement age of 65. Assuming returning to work but with reduced earnings capability.

- + Earnings multiplier @ 2.5% = 18.62 but @ -0.75% = 27.69
- + Reserve @ 2.5% = £428,118 but @ -0.75% = £514,810 (20% increase).



## OTHER CLAIM ISSUES

- + Accommodation
- + Interim payments
- + Periodical payment orders.



## PRICING IMPLICATIONS

- + Impacts Motor, Liability (EL/PL), Packages
- + Prices need to go up to reflect the change
- + Our initial views are for Motor plus 10%, Liability 6/7%, Packages lower
- + Reinsurance prices will rise significantly.

# IMPACTS ON LIMITS OF INDEMNITY – WHAT IS ADEQUATE?

+ Impacts excess layer pricing.



## FUTURE

- + Consultation process commenced
- + Finishes 11th May
- + Lord Chancellor's role?
- + Parliamentary time
- + NHS cost.



THANK YOU