



## **Ogden Discount Rate** Impact on Insurers





## Introduction – Ogden Discount Rate

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- February 27<sup>th</sup> 2017 - Discount Rate changed from 2.5% to -0.75%.
- First review of discount rate in 16 years.
- Discount given on lump sum personal injury payments to reflect future investment income.
- Based on Index-linked Gilts.
- Impact on Industry estimated at between £2bn-£5.8bn.

**Claims**

**Reinsurance**

**Pricing**

**What's next?**

**Claims**

## Impact on Insurers

- Aviva - £385m.
- Ageas - £140m.
- Direct Line - £230m.
- Esure - £1m.
- 18% of UK net written motor premium.

## Impact on Claims

- Allianz claim - £3.8m claim now £5.1m after change in discount rate.
- 21 Year old male - £9,072,028 claim for nursing care & future loss of earnings under old rate.
- 21 Year old male – £20,023,103 claim under new rate.

## Life Expectancy

- 10 years old at trial – 218% increase.
- 30 years old at trial – 141% increase.
- 50 years old at trial – 58% increase.

## Other Claims costs

- Rising AD costs.
- Brexit – weaker pound.
- Technology in vehicles.
- Whiplash reforms.

**Claims**

**Reinsurance**

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**What's next?**



Reinsurance



## Reinsurance

- Insurers take out reinsurance to offset risk against large claims.
- Discount rate will mean increased costs to reinsurers due to severity of claims.

## Contracts

- Policies sold in 'layers'.
- E.g. Excess of £1m - £3m of individual claim.
- £3m-£5m of individual claim.
- Stop loss arrangements.

## Changes

- PwC are predicting increases expected at higher rate based on layer.
- £3m-£5m layer – expected to increase 50%-70%.
- £10m+ layer – 300%-400% increases.

## Impact

- Insurers will see impact from increased costs under lower limits.
- Reinsurers will see increase in costs for claims with highest reserves.
- This will increase reinsurance prices.
- Potential for reduction in reinsurance capacity?  
Impact on the MGA market?

**Claims**

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**What's next?**



**Pricing**

## Impact

- Increased claims costs & reinsurance costs will result in a need for additional premium.
- Pricing on a segmented bases to areas susceptible to large claims.
- Base Rate increases – premiums of many pay for losses of few.

## COR

Costs	Pre-Ogden	Post-Ogden
Non-Large Claims Costs	50%	50%
Expenses	10%	10%
Large Losses	20%	30%
Commission	10%	10%
Reinsurance	5%	8%
<b>COR</b>	<b>95%</b>	<b>108%</b>

## Market Turbulence

- How to price is not prescribed.
- Different insurers will have different exposure and price accordingly. This may create a shift in market share.
- Core ages likely to become more competitive.
- Impact on retention.
- Turbulence in market may put strain on expense bases.

## Impact on Customer

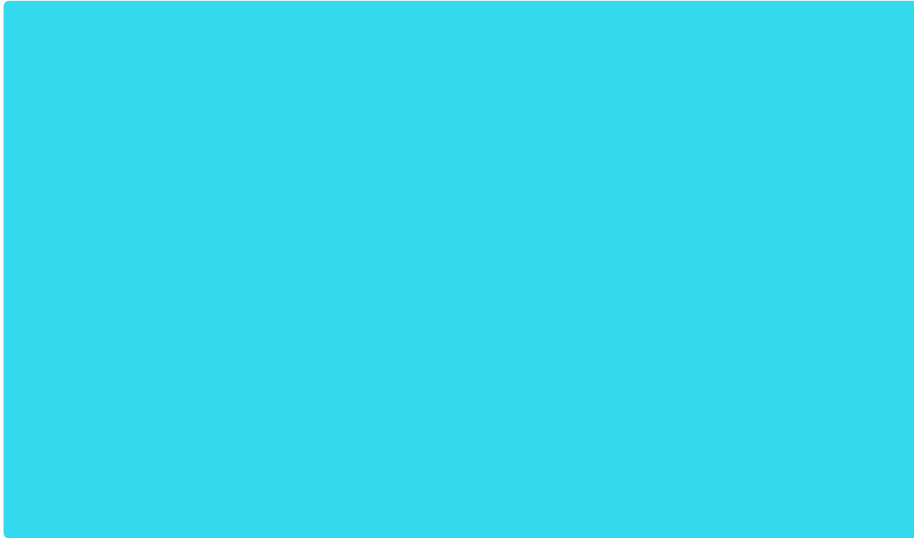
- Younger drivers and older drivers likely to see increased premiums.
- Renewal premiums increase despite tenure/increased NCD.
- Whiplash reforms – not likely to offset Ogden increases.

**Claims**

**Reinsurance**

**Pricing**

**What's next?**



**What's next?**

## Review announced

- The government have now announced that a reform will take place to change the discount rate.
- This will be occurring in 2018.
- Many are estimating that this will become law towards Q3.

## What to expect

- The announcement suggested a rate of between 0% and 1%.
- Will assume claimants will invest in a portfolio that involves 'low risk' investments rather than 'very low risk' investments.
- Will be set by an 'independent expert panel' which will be chaired by the Government Actuary and reviewed every 3 years.

## Uncertainty

- The government will need to find time to progress this within parliament, particularly with Brexit ongoing.
- Attached to a bill – potential for this to not be approved.
- First review will begin 90 days after bill is set.
- Still a lack of clarity over how claimants actually invest.

## Positives?

- This could help reduce rising motor insurance premiums.
- LV have publically stated they will pass on 100% of savings to customer.
- Premiums have already reduced in Q3. Willis Towers Watson believe this is reaction.
- Reinsurance premiums now only predicted to increase 5%-15% according to PwC.