



Institute
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PPO Working Party

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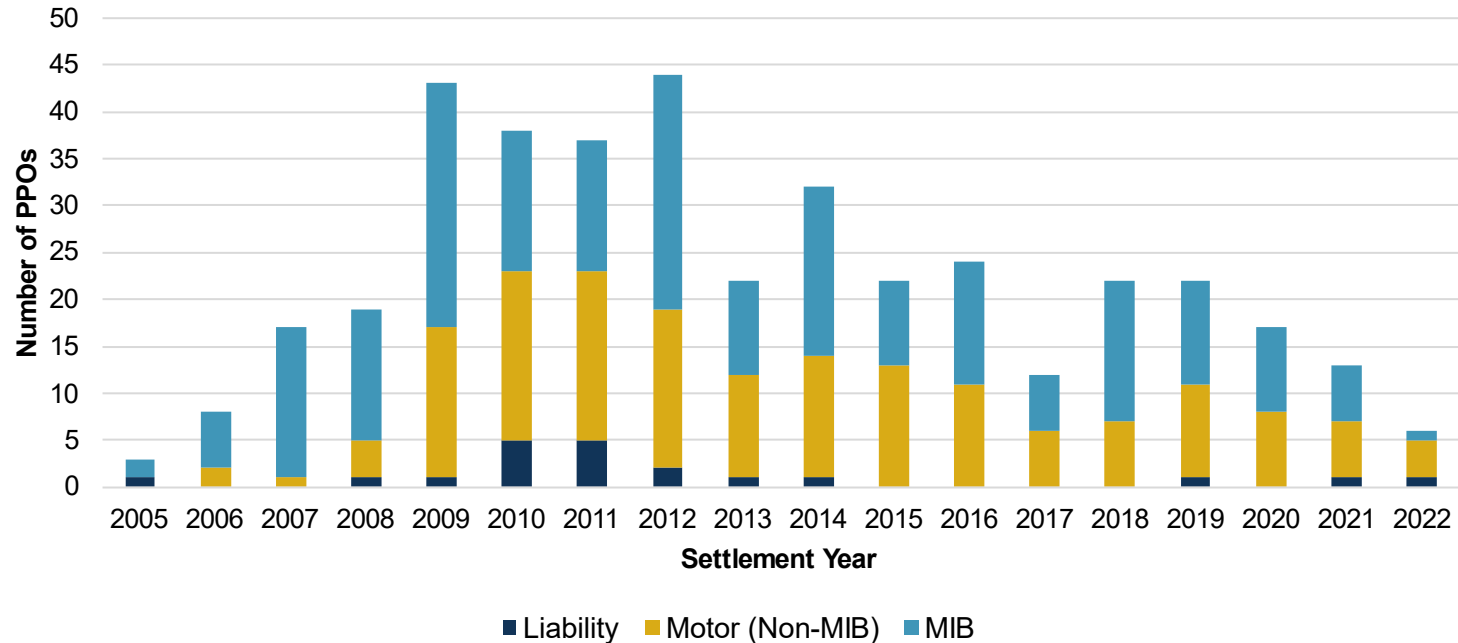


Quantitative Analysis

- Data taken as at 31 December 2022
- 7 participants (including MIB) representing approximately 50% of the PRA regulated UK Motor market.
- Last year we received data from 12 participants representing 75% of the market.
 - Please note that if we receive further contributions then the graphs presented are subject to further change for our annual report.
 - As participants aren't consistent between surveys, results are not comparable to previous years.
 - **Please get in touch with us and contribute if your company hasn't already.**



Number of PPOs



- 2022 saw further reduction in PPO's as a settlement route, and the lowest number since 2005.
- Numbers are small and hence volatile.
- The number of MIB PPOs settling has been reducing since 2018, with only 1 PPO settlement during 2022 compared with an average of 15 per year in 2011-2016.
- Few Liability PPOs in our dataset but results not inconsistent with Motor.

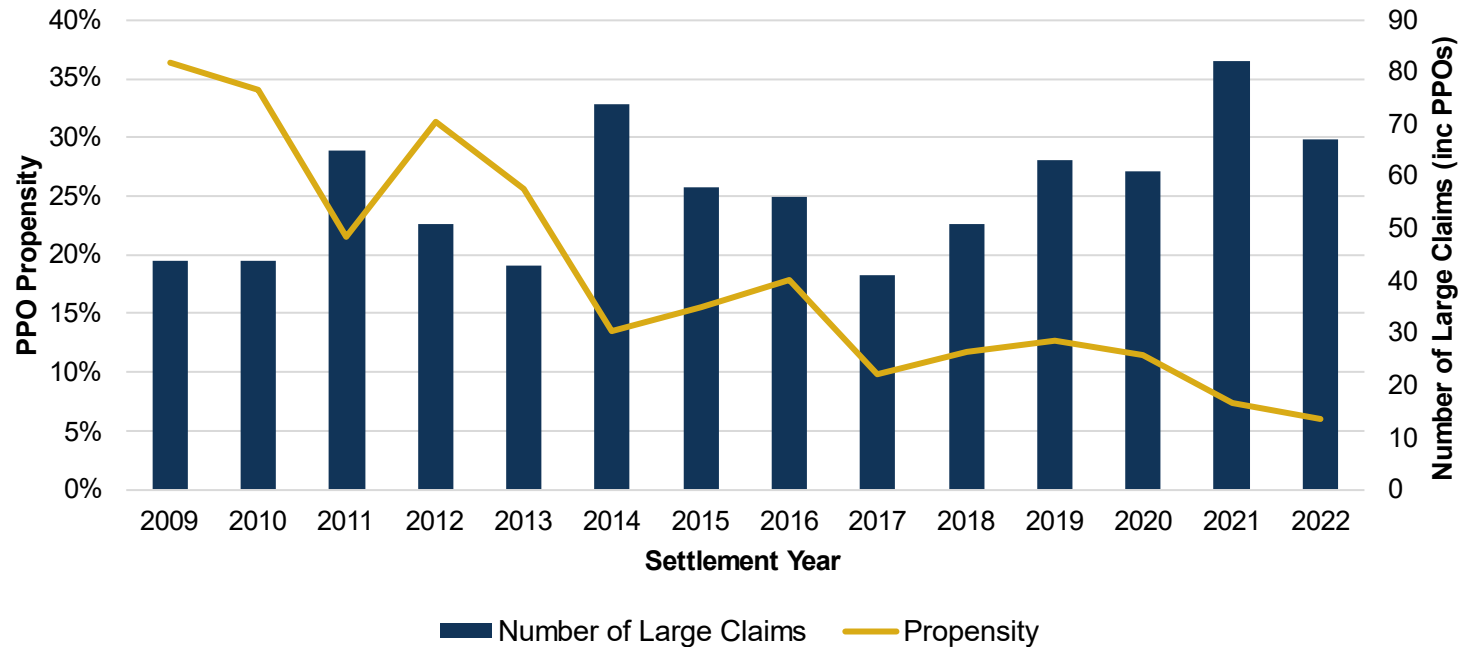


PPO Propensity Analysis

- Please note that all of the following propensity graphs involve Motor insurer large claims from 2009 onwards only, i.e. exclude Liability PPOs and MIB PPOs.
- Large claims have been included in these graphs if they were > £1 million in 2011, using a 7% inflation rate.
- PPO lump sum valuations are based on the equivalent Ogden value of the expected cash flows.
- In our full report we will also present an Ogden-adjusted basis, revaluing lump sums back to 2.5%
 - Information on the adjustments can be found in the appendix of our industry report:
<https://www.actuaries.org.uk/practice-areas/general-insurance/research-working-parties/periodical-payment-orders-ppos>



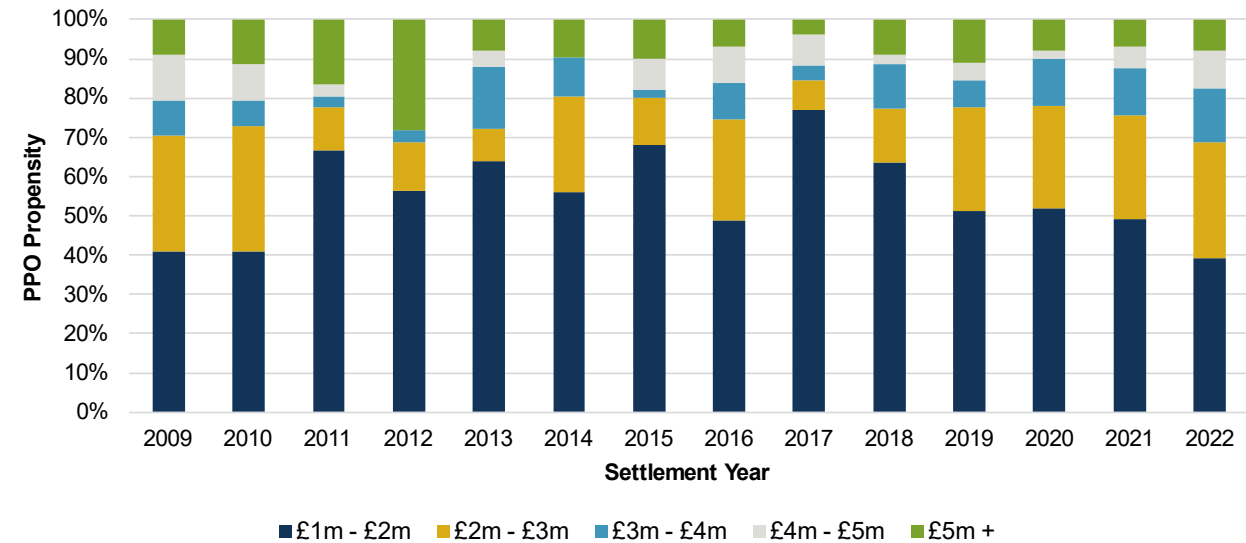
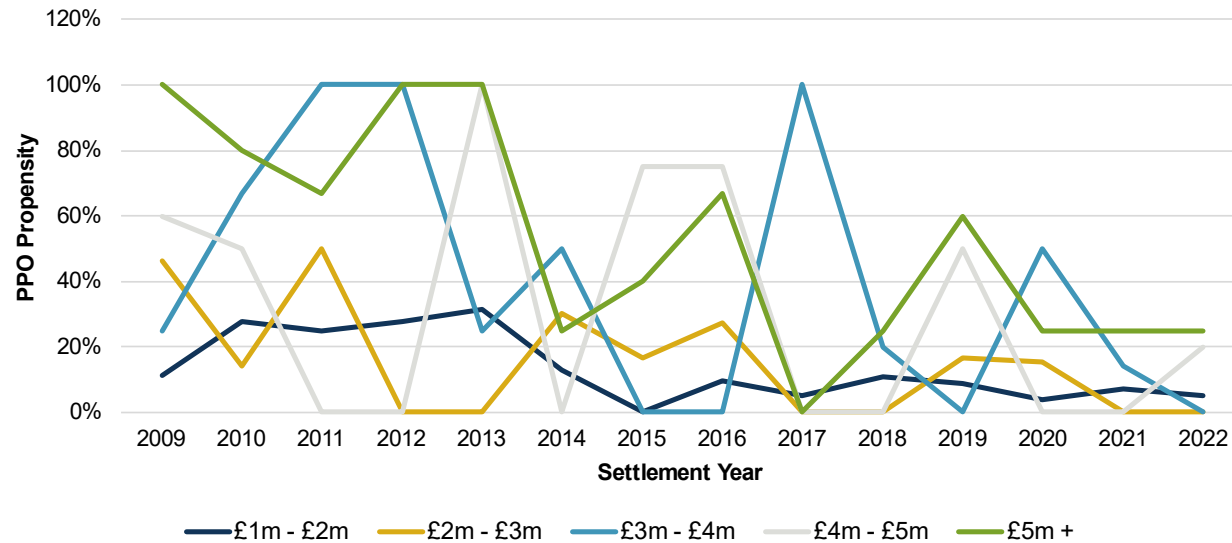
PPO Propensity - Raw



- Reduction in number of large claims settling compared with 2021
- Propensity is still at a lower level, with a decreasing trend seen since 2019



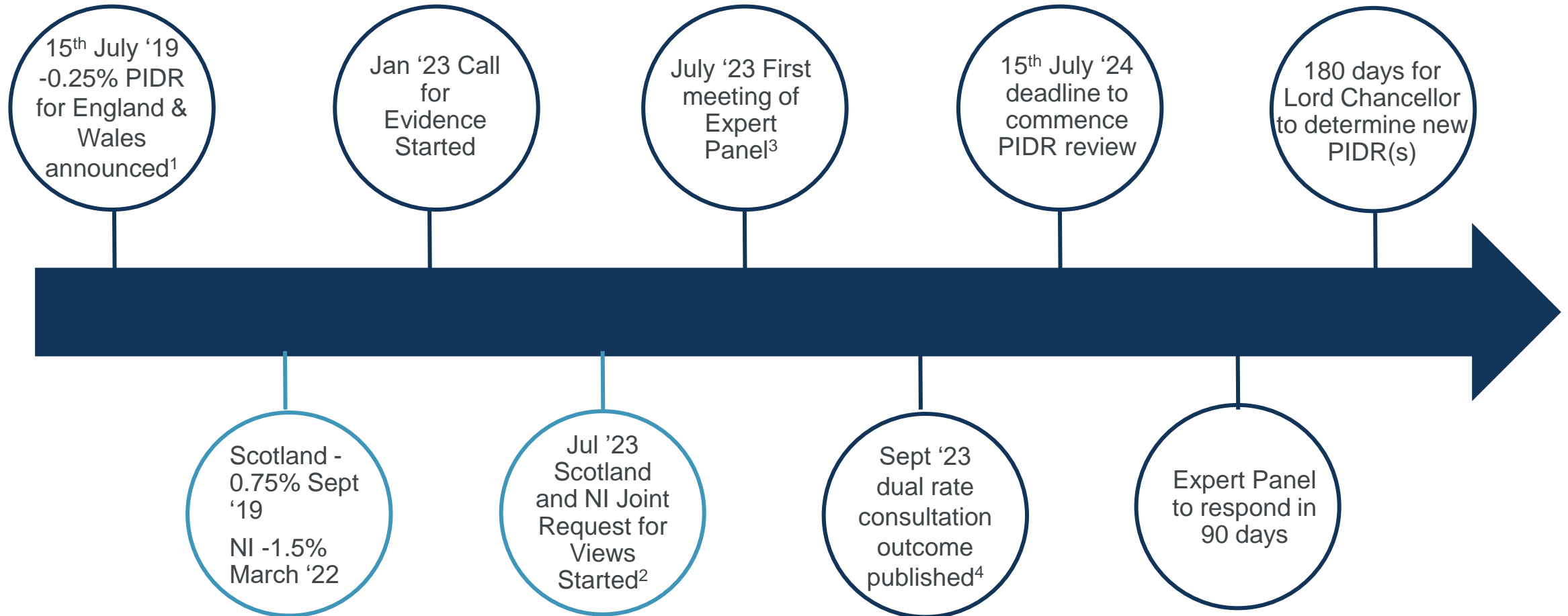
PPO Propensity - Raw



- Similar trends when looking at propensity by claim size although results are volatile.
- Size (and hence severity) of a claim is a key factor impacting propensity, with changes in the mix of claims by settlement year potentially distorting overall propensity figures, however the claim mix in recent settlement years is broadly consistent.

Dual/Multi Personal Injury Discount Rate - Call For Evidence

Timeline



¹ <https://www.gov.uk/government/calls-for-evidence/setting-the-personal-injury-discount-rate-call-for-evidence#full-publication-update-history>

² <https://www.gov.scot/publications/personal-injury-discount-rate-request-for-views/>

³ Personal Injury Discount Rate - GOV.UK (www.gov.uk)

⁴ Personal Injury Discount Rate: Exploring the option of a dual/multiple rate - GOV.UK (www.gov.uk)

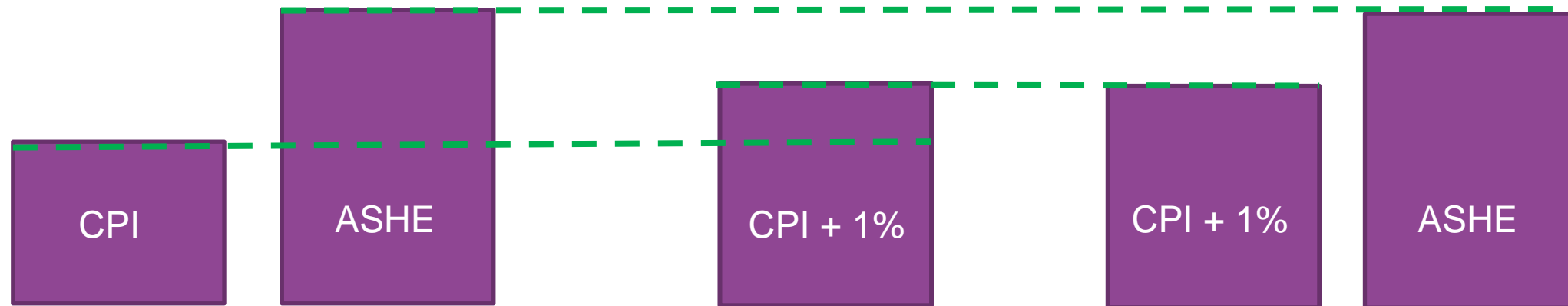


Dual/Multi Ogden Discount Rate - Call For Evidence

PPO Questions – Context provided by the Government

Within the Call for Evidence the Government asked two questions relating to PPOs. Before the questions are asked the Government provides around two pages of context, essentially explaining that:

- They are considering gathering more data on the practice of the use of PPOs and whether agreeing a PPO could be made quicker/simpler.
- They want to explore whether a claim that settles with both a PPO element and a lump sum element leads to overcompensation.



Cost of care is usually assumed to increase with ASHE, whilst Loss of earnings is assumed to increase with CPI. ASHE usually assumed to be higher than CPI.

The PIDR approximates an inflation rate between CPI and ASHE, by using CPI + 1%

When a claim has a PPO settlement for cost of care, and a lump sum using the PIDR for loss of earnings, government interested in whether there is over-compensation



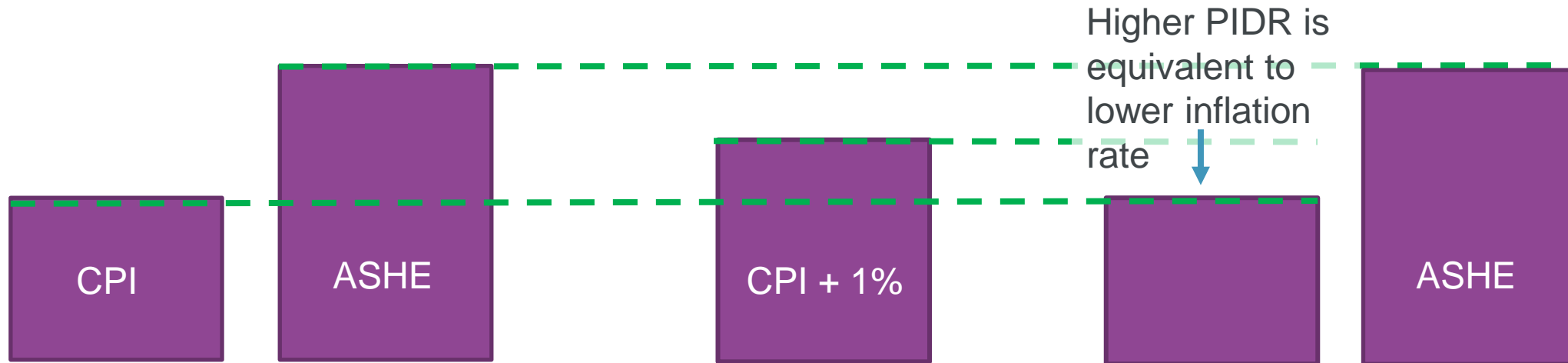
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Dual/Multi Ogden Discount Rate - Call For Evidence

PPO Questions

Q.21 The Government remains interested in exploring the use of PPOs in relation to high value personal injury settlements. We would therefore welcome any submissions, data and/or evidence stakeholders may have in relation to the effective use of PPOs.

Q 22: Do you agree that using a higher PIDR to calculate the real rate of return in settlements which include a PPO element would result in a more appropriate way to adjust nominal investment returns for future inflation?



Dual/Multi Ogden Discount Rate - Call For Evidence

Working Party Response

Q.21 The Government remains interested in exploring the use of PPOs in relation to high value personal injury settlements. We would therefore welcome any submissions, data and/or evidence stakeholders may have in relation to the effective use of PPOs.

- PPOs are an excellent mechanism for uncertain longevity and investment, but are based on assumptions.
- Assumptions are made upon settlement in respect of various elements, in particular the regular payment amounts, inflation index used and forecast changes in the level of the regular payment due to changes in the severity of injury or claimant circumstances.
- The PPO WP provided evidence, in the form of charts of explanations, of the link between the PIDR and PPO propensity.

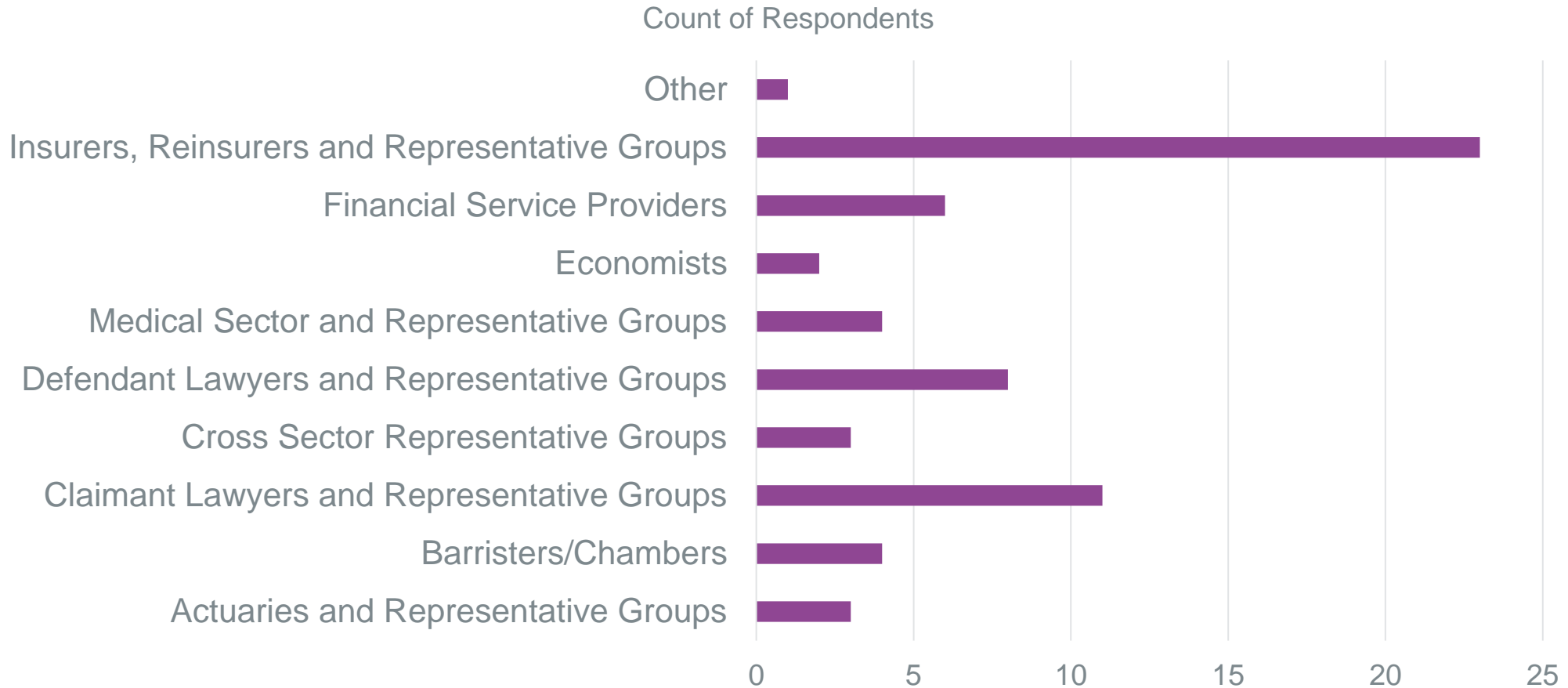
Q 22: Do you agree that using a higher PIDR to calculate the real rate of return in settlements which include a PPO element would result in a more appropriate way to adjust nominal investment returns for future inflation?

- Settlements including a PPO element would provide additional cashflow security and thus potentially allow claimants to adopt more investment risk (justifying use of higher PIDR) for any lump sum component.
- In practice, there are likely to be a number of other factors that determine how claimants actually invest such as their own risk appetite.
- In addition, the extra complexity this would introduce would arguably outweigh any potential benefit.



Dual/Multi Ogden Discount Rate - Call For Evidence

Who else responded?



Dual/Multi Ogden Discount Rate - Call For Evidence

Overview of responses on the effective use of PPOs

Benefits of PPOs

- PPOs more likely to achieve full compensation.
- PPOs remove risks posed by life expectancy, inflation, investment risk and tax (for claimants)
- PPOs preferred by many claimants
- Government should encourage greater up take and use of PPOs

Practical concerns

- Unavailability of excess loss reinsurance
- Admin cost of PPOs are high (for insurers)
- Reserving for an earnings-indexed annual payment is an issue.

Claimant Choice

- Lump sums allow for clean break with defendant.
- Claimants don't always want PPOs

Drivers away from PPOs

- Claimants reluctant to reject Part 36 offers even if they would prefer a PPO, as if they did not better the offer they may face a high costs order
- Lump sums take account of contributory negligence



Dual/Multi Ogden Discount Rate - Call For Evidence

Should a higher PIDR be used when there is a PPO element?

NO

- A higher differential PIDR could discourage use of PPOs (Barristers, Claimant Lawyers)
- It not desirable to set the PIDR in a way that encourages the use of PPOs (Insurer)
- No, the PPO element deals with long-term more stable HoL but would leave short-term HoL which are susceptible to short-run volatility (Barristers);
- No, fairest way would be to have different rates for different HoL (Claimant Lawyers);
- No, it would create additional complexity and reduce demand for PPOs further (Defendant Lawyers, Insurers);
- There should be no barrier to PPOs (Financial).
- For a duration-based approach or a single rate, the argument is not self-evident and could also complicate the settlement process and deter claimants from seeking PPOs (Actuary);

YES

- Yes, however, there is a potential risk of 'double counting' which could lead to over-compensation (Defendant Lawyers);
- Yes, in our view, a higher rate for settlements which include a PPO element would reduce the risk of over-compensation (Medical);
- Yes, a PPO removes a significant proportion of any investment risk from the claimant and places it on to the compensator but more data on investments is needed to better understand the proposal (Insurer);
- The issue would not arise using a HoL approach (Actuary)
- Claimants have incentives to game the current single rate system by taking earnings-based heads of loss as a PPO and prices-bases HoL as a lump sum (Economists)



Dual/Multi Ogden Discount Rate - Call For Evidence

What does the Call for Evidence mean for PPOs?

- It's clear the Government are thinking about the effectiveness of PPOs. We may see more developments in this area:
 - *"The Government has previously considered gathering data on issues relating to the current law and practice around the use of PPOs and whether the process of agreeing a PPO could be made quicker/simpler. This is something officials will likely discuss with the Civil Justice Council moving forward"*
 - *"In addition, further work in this area is being considered by the Ministry of Justice itself, including possibly looking at the guidance available to claimants on whether to choose a PPO or a lump sum."*
- Views from multiple respondents that PPOs are under utilised. Will we see a push for this to change?
- There was no clear consensus for or against a dual/multi rate and the form it could take. We could see a move away from a single PIDR, but it's unclear what impact that would have on PPO propensity.
- More support for the PIDR not differing where a claim has a PPO element?
- Push for changes on Part 36 of the Civil Procedure Rules. Claimants are reluctant to reject Part 36 offers even if they would prefer a PPO, as if they did not better the offer they may face a high costs order. Reform could increase PPO propensity.
- Multiple responses seem to show a misunderstanding of the potential forms of dual/multi rates and the relationships between PIDR and PPOs. Even the experts are confused!



Introduction to ASHE

- Annual Survey for Hours and Earnings (ASHE) is an annual publication by the Office for National Statistics (ONS) which provides a employee's measure of earnings.
- Published on 1st November this year, based on data as at 5th April.
- The survey is based on employer responses for a 1% sample of employee jobs, using HM Revenue and Customs' PAYE records.
- ASHE 6115 80th percentile is most relevant to PPOs. This is the 80th percentile of responses from the subset of the survey that relates to care workers.
 - ASHE is most typically used for PPO indexation since 2006 Thompstone vs Tameside Glossop Acute Services NHS Trust.
 - Previously RPI was typically used to index the annual payments of structured settlements.



Latest ASHE

ASHE 80th percentile and Mean



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
ASHE 80th Percentile (%pa)	0.3%	0.4%	-0.8%	1.7%	3.6%	2.5%	4.0%	3.6%	5.3%	1.3%	6.6%	7.0%
ASHE Mean	0.6%	0.1%	0.0%	2.4%	4.7%	3.7%	4.1%	4.3%	4.7%	2.1%	7.6%	7.8%

ASHE 80th Percentile (%pa) ASHE Mean

- Exhibit shows percentage annual change in ASHE 6115 since 2012
- Data filters applied:
 - Working Pattern: All
 - Sex: All
 - Hourly Pay Gross
- 2022 ASHE 6115 figures are:
 - 80th percentile: +7.0%
 - Mean: +7.8%

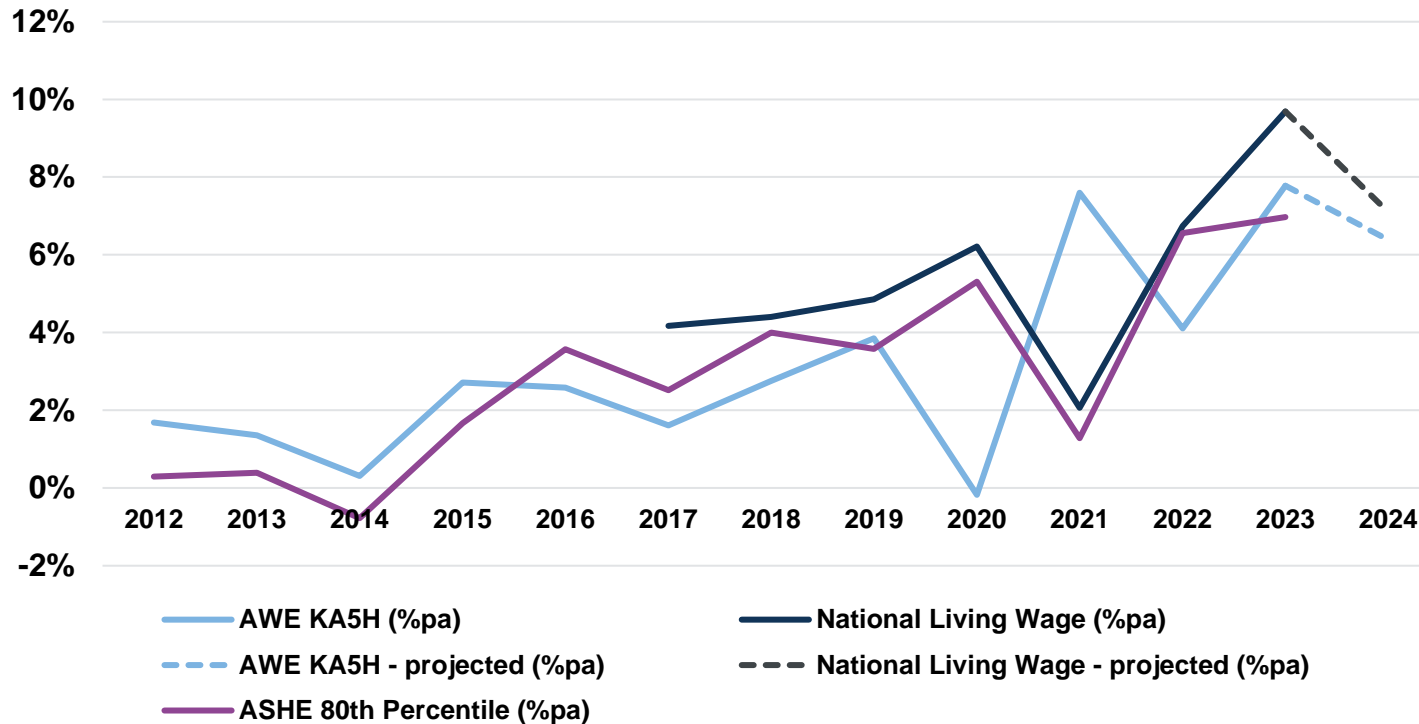
Source: ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/earnings-and-hours-worked-care-workers-ashe-table-26)
 Data filters applied: Working Pattern (All), Sex (All), Hours and Earnings (Hourly Pay Gross), Statistics – Mean, and 80th Percentile



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Historic comparison to related measures

ASHE 80th percentile vs general wage inflation (KA5H)



- The chart shows general wage inflation (KA5H) and the National Living Wage (NLW) as at April of each year to 2023, compared to ASHE 6115 80th percentile.
- Projections are then shown for 2024:
 - KA5H based on data April 2023 – August 2023
 - NLW as reported by the government
- As well as general economic factors, ASHE is influenced by competing wages in other sectors, as well as the introduction of the National Living Wage in 2016.

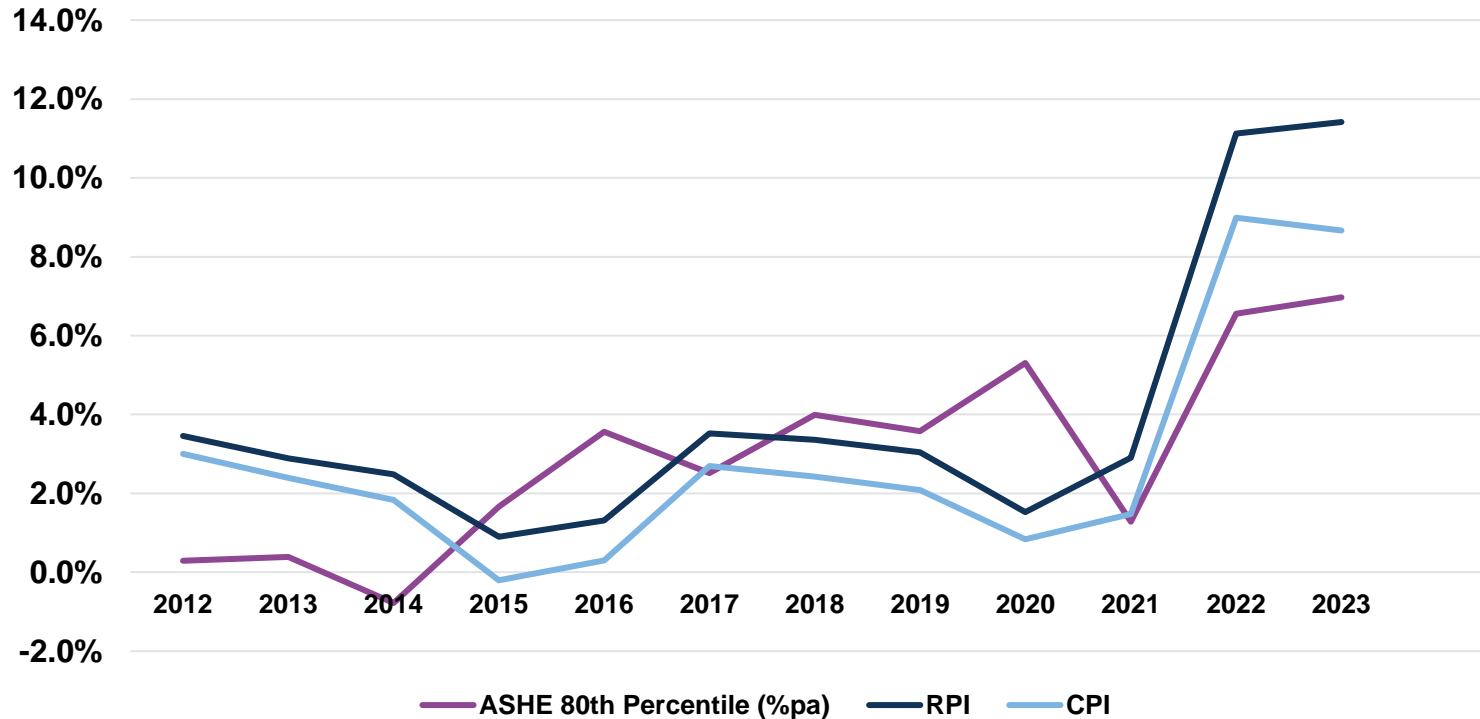
ASHE: ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employment-and-hours-worked) Working Pattern (All), Sex (All), Hours and Earnings (Hourly Pay Gross), Statistics – 80th Percentile
 AWE KA5H: [EARN02: Average weekly earnings by sector - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/earnings)
 National Living Wage: [National Living Wage Increase boosts pay of low-paid workers - GOV.UK \(www.gov.uk\)](https://www.gov.uk/national-living-wage)



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Historic comparison to related measures

ASHE 80th percentile vs RPI, CPI and GDP



- Prior to 2015, ASHE remained suppressed below CPI for a number of years following the 2008 financial crisis
- In 2015-2019, ASHE exceeded CPI by approximately 2% p.a. on average
- In 2020-2021, impacted by Furlough
- 2022-2023, ASHE was below CPI again

ASHE: ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](#) Working Pattern (All), Sex (All), Hours and Earnings (Hourly Pay Gross), Statistics – 80th Percentile
RPI: [RPI All Items Index: Jan 1987=100 - Office for National Statistics \(ons.gov.uk\)](#)
CPI: [CPI ANNUAL RATE 00: ALL ITEMS 2015=100 - Office for National Statistics \(ons.gov.uk\)](#)



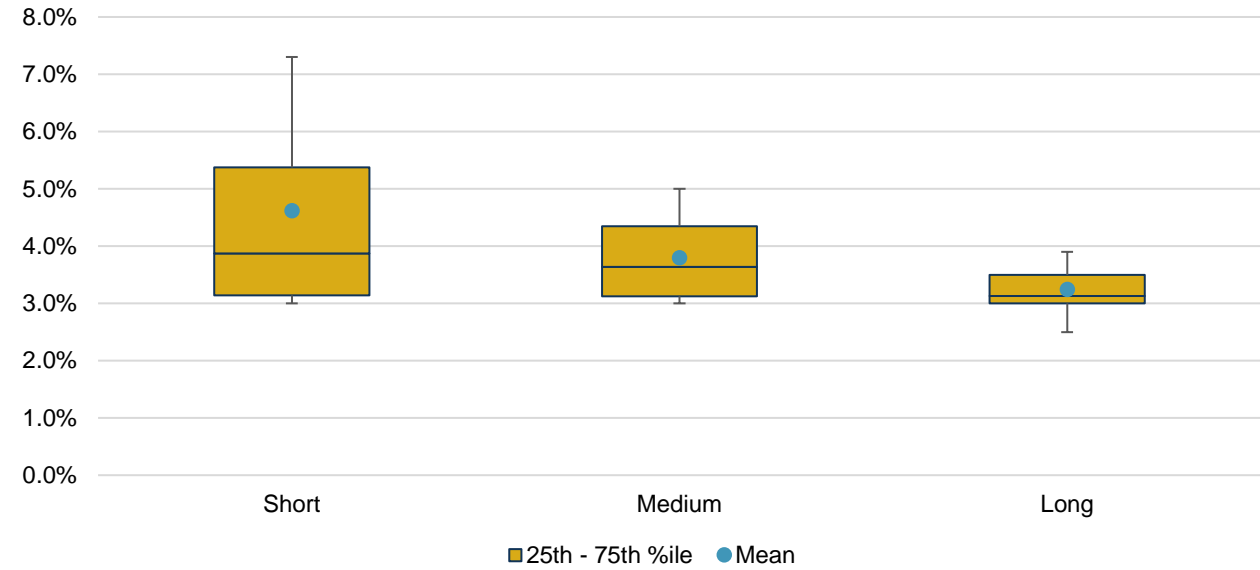
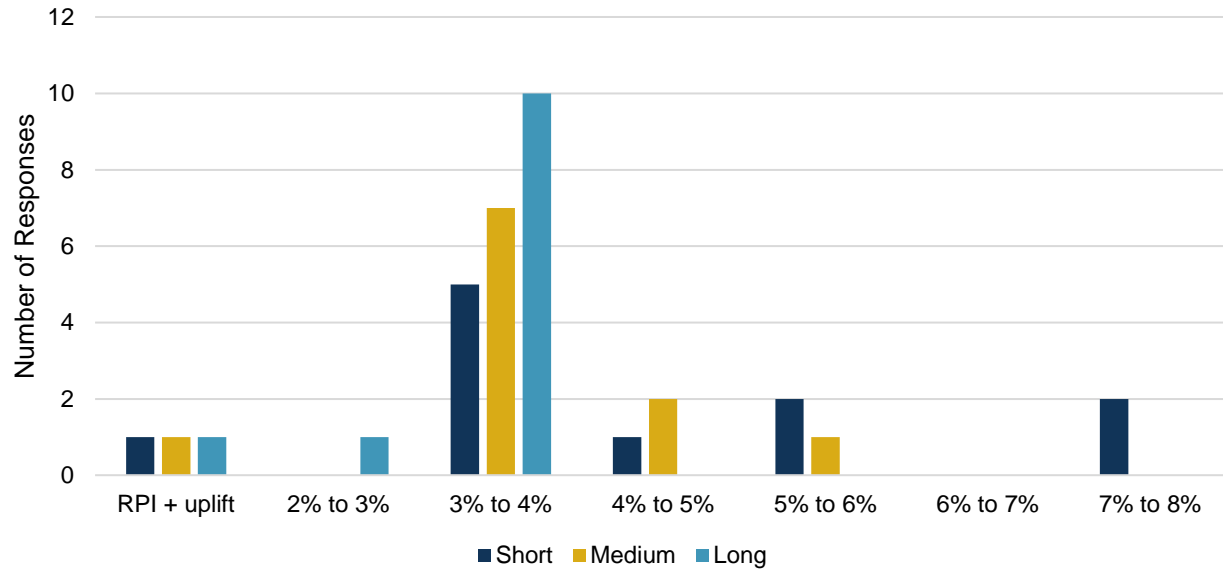
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Inflation Survey Results

- As part of our annual qualitative survey (completed between January and April this year) responses were collected on participants inflation views and assumptions.
- 14 contributors responded (9 insurers and 5 reinsurers).
- In addition, during Q3 2022 an additional ASHE survey was completed by 13 participants (11 insurers and 2 reinsurers) focusing on some ASHE specific questions.



Views on ASHE

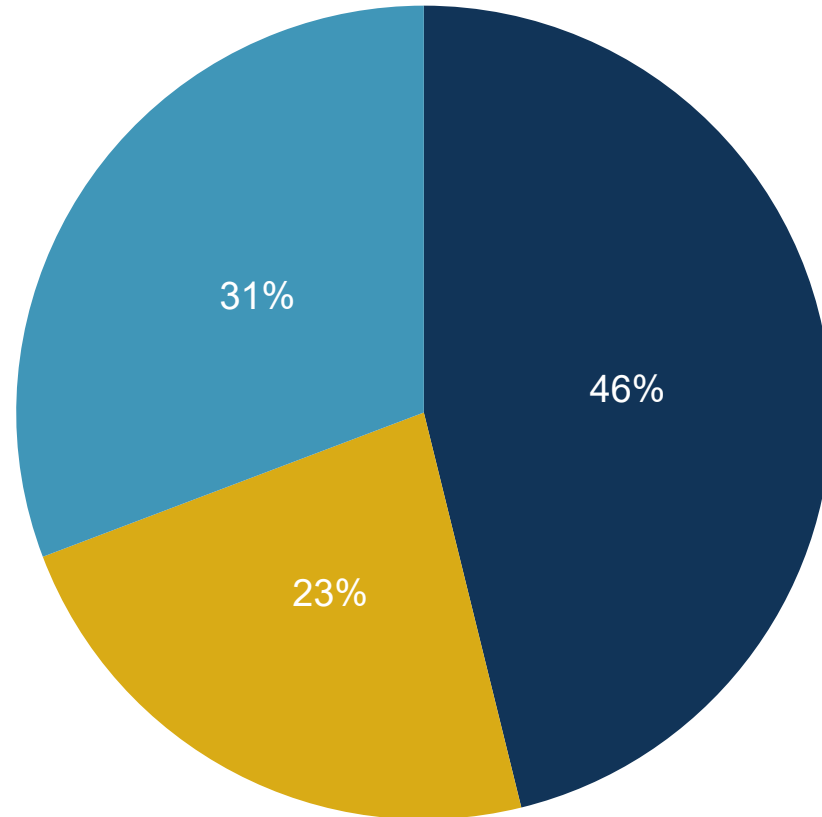


- In 2022, most participants assumed a 3-4% ASHE regardless of term:
 - Some higher levels assumed short-medium term
 - Long term view converging to c.3.5%

- In 2023 a less detailed question was asked in our qualitative survey. The average long term ASHE assumption was 3.5%.



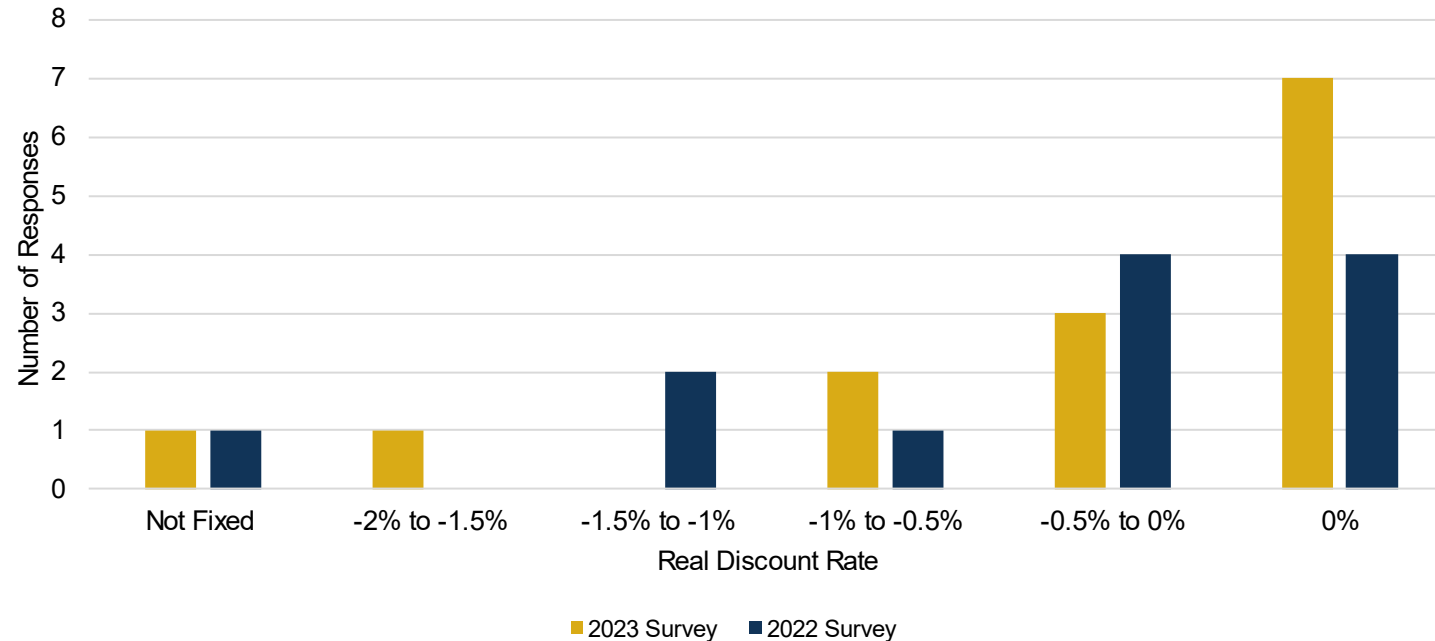
Approach to setting assumption



- RPI / CPI + adjustment
- Other economic index + adjustment
- Trend analysis of ASHE index



PPO Real Rate of Return Assumptions



- 2023 survey, most respondents using 0% or slightly below.
- This is an increase since 2022 survey, when respondents were using -0.5% as often as 0%.



Conclusion

- PPO propensity slightly reduced in 2022
- Ogden Call for Evidence
 - Clear Government is interested in PPOs
 - Developments in the Ogden Discount Rate are uncertain, but may have an impact on PPO propensity
 - By this time next year, we will be able to see the expert panels review to the Chancellor, or may have a new Ogden rate already
- ASHE 80th percentile for 2023 is 7.0%



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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Thank you

