



Institute
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IFoA GIRO Conference 2024

18–20 November, ICC, Birmingham



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PPO Working Party

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IFoA GIRO Conference 2024

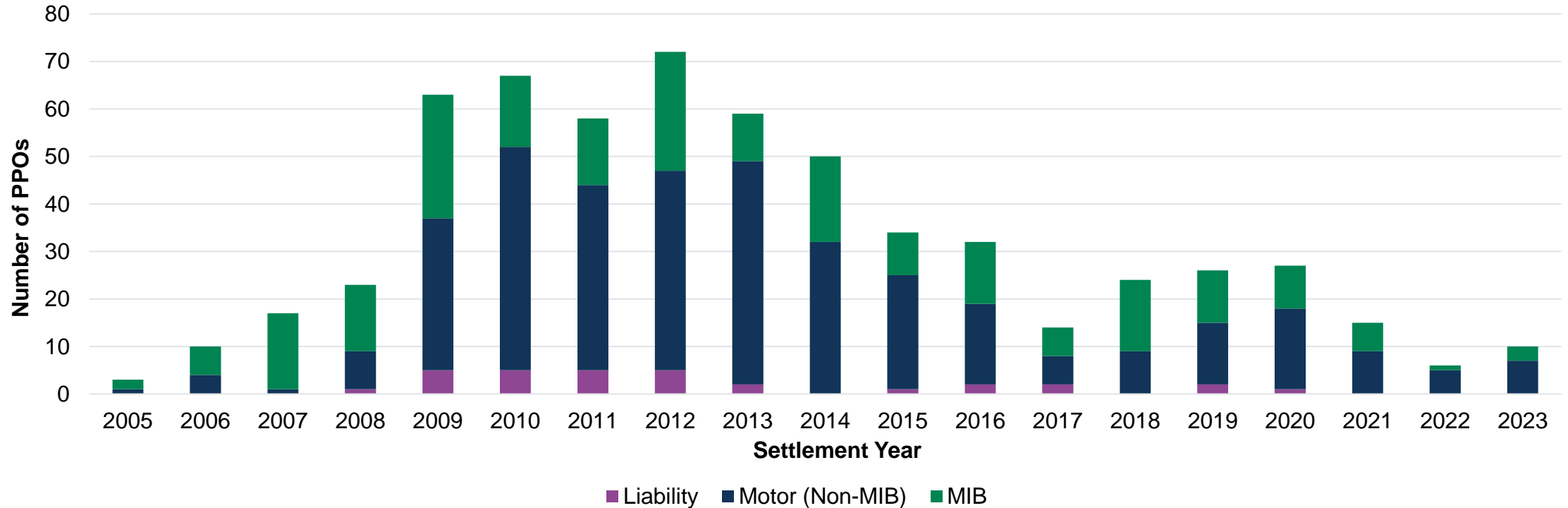
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 - New IUA PPO Capitalisation Clause for reinsurance
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Quantitative Analysis

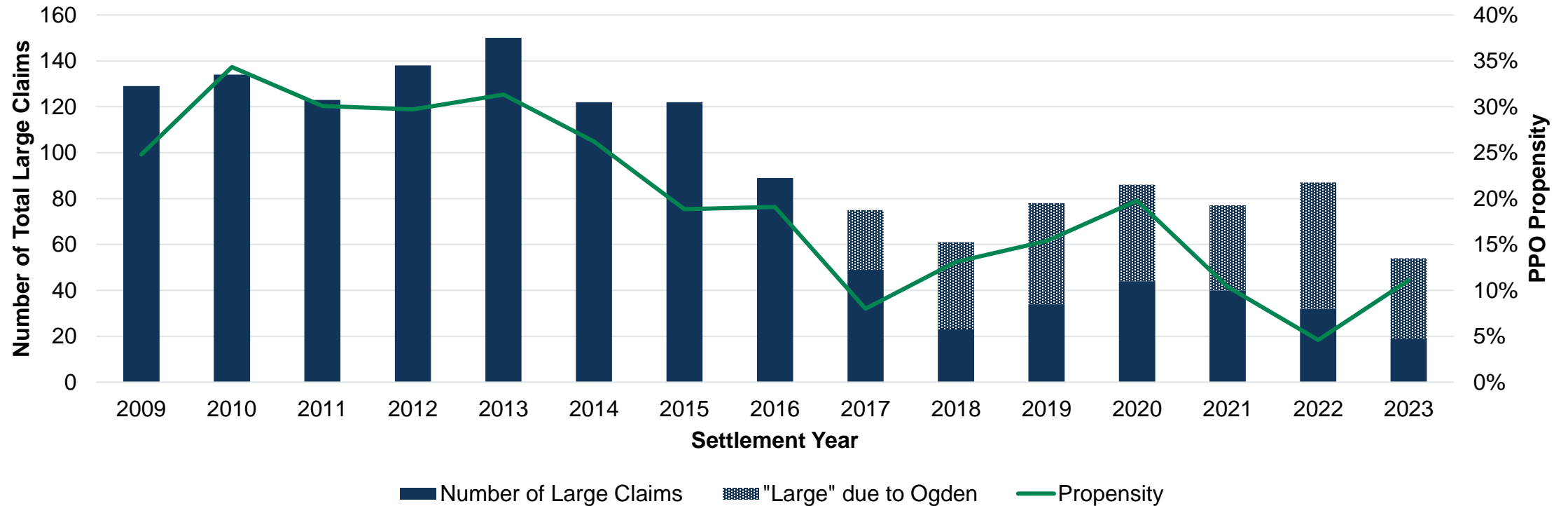
- Data taken as at 31 December 2023
 - 9 participants (including MIB) with combined earned premium of £7 billion for accident year 2023.
 - The participants aren't consistent between surveys so please do not compare results to previous years' analysis.
- None of the following results contain Liability PPOs, MIB PPOs or non-PPO large claims, unless explicitly stated.
- Definition for large claims presented is > £1 million in 2011, using a 7% inflation rate. For PPOs, we have used the equivalent Ogden value as if the claim had settled as a non-PPO.
- We have presented our results on various bases, similar to recent surveys.
 - 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>

Number of PPOs



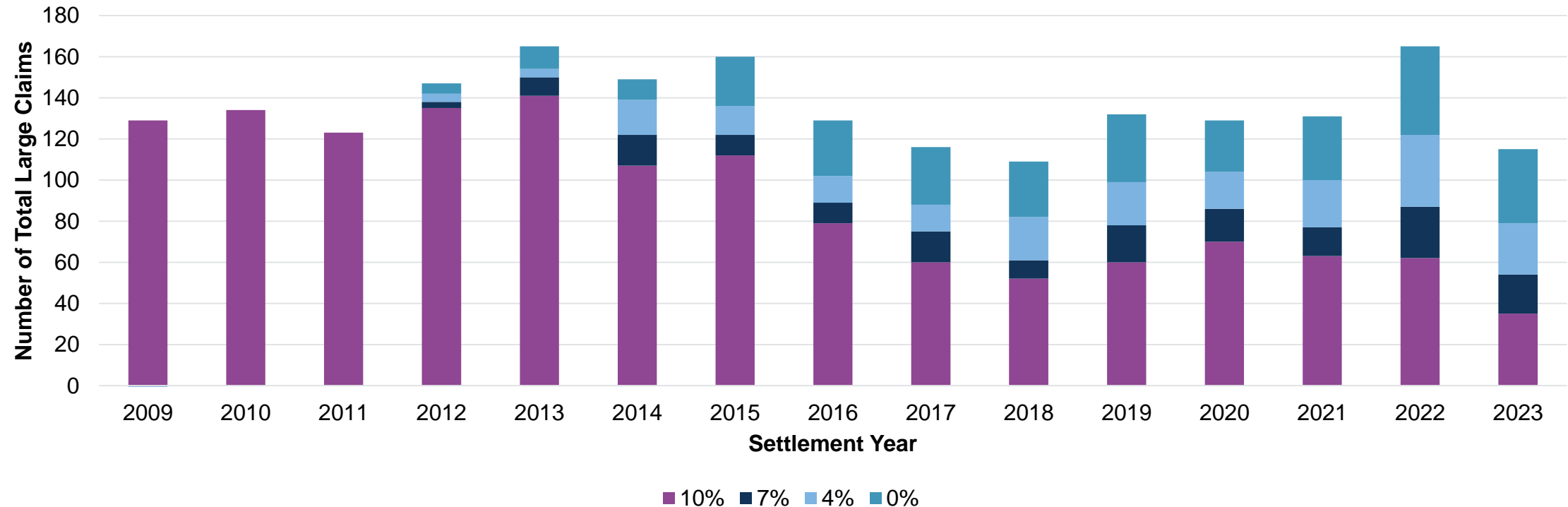
- Number of non-MIB PPOs settling remains at a lower level compared to 2016 and prior.
- Reduction in number of MIB PPOs since 2018, with only 10 PPO settlements in 2021-2023 compared with an average of 15 per year in 2011-2018.
- Few Liability PPOs since 2014.

PPO Propensity



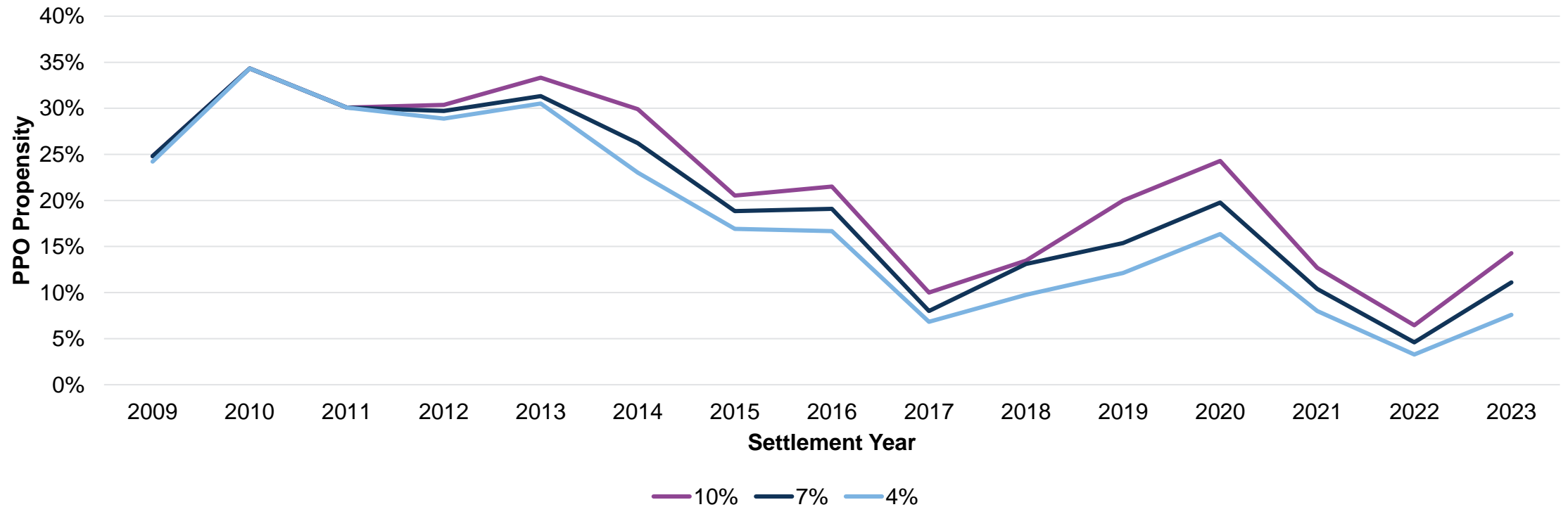
- Reduction in number of large claims settling since 2015.
- Ogden Discount Rate (“ODR”) changes in 2017 and 2019 increasing the number of “large” claims.
- Propensity remains at a lower level, with 12% average in -0.25% ODR environment (2019-2023).

Total Number of Large Claims - Index Scenarios



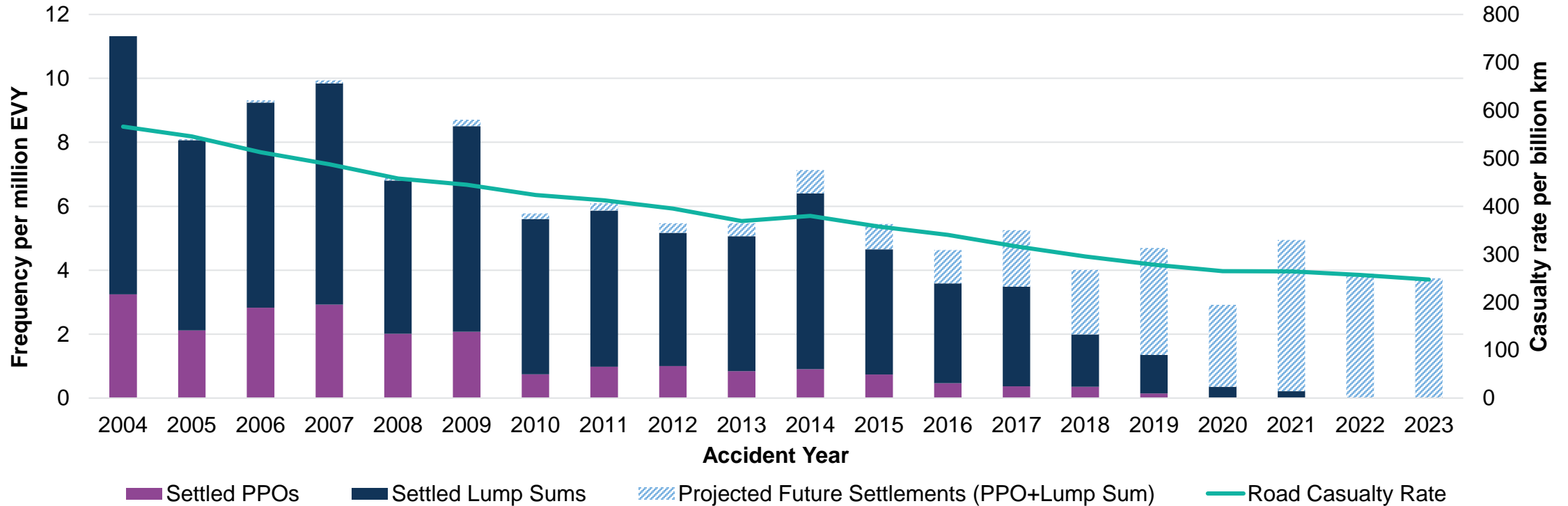
- Total number of large claims defined as > £1 million in 2011, under varying inflation rate indices.
- Reducing trend, even when no index applied.
- Larger reductions seen around years impacted by changes in the ODR, with potential settlement speed impacts.

PPO Propensity – Index Scenarios



- Reducing propensity trend, under all index scenarios.
- -0.25% ODR environment (2019-2023) average ranging from 9% to 16%.

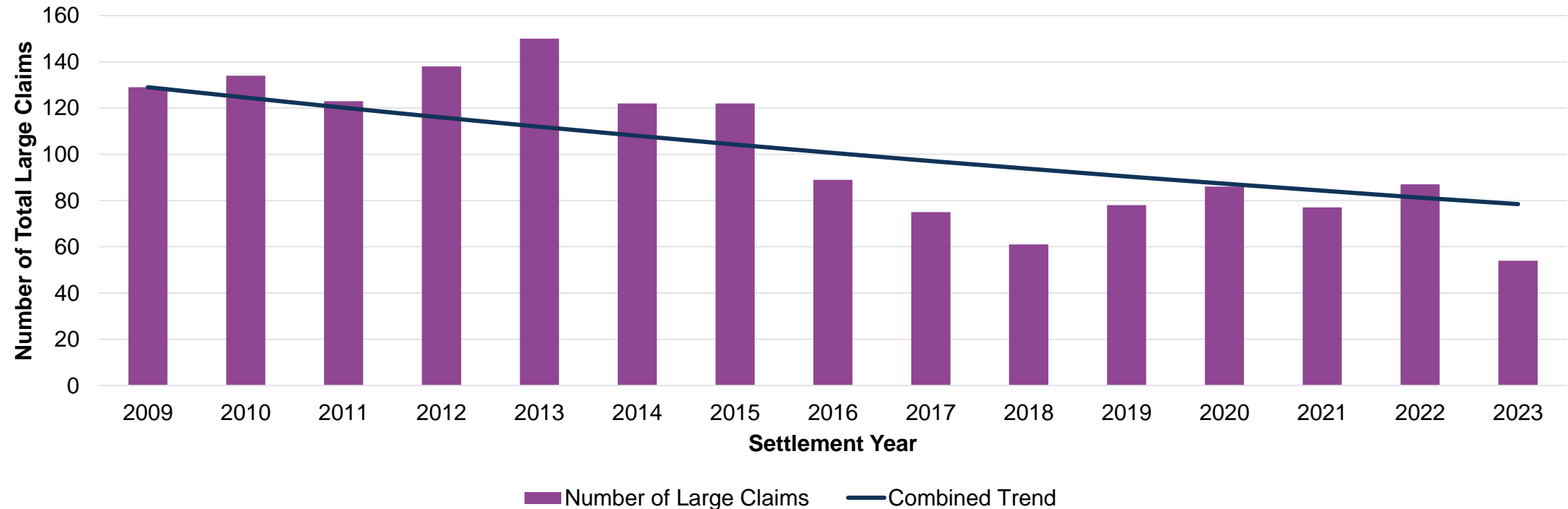
Total Number of Large Claims – Accident Year



- Future settlements estimated using standard triangular projection methods.
- Frequency (per million earned vehicle years) of total large claims reducing over time, consistent with trends seen in road casualty rate (per billion kilometres).
- Average frequency reduction of 5% per year.

Source: RAS0102: Reported road casualty rates (all casualties, all road users) per billion kilometres, Great Britain, from 1979

Total Number of Large Claims – Settlement Year

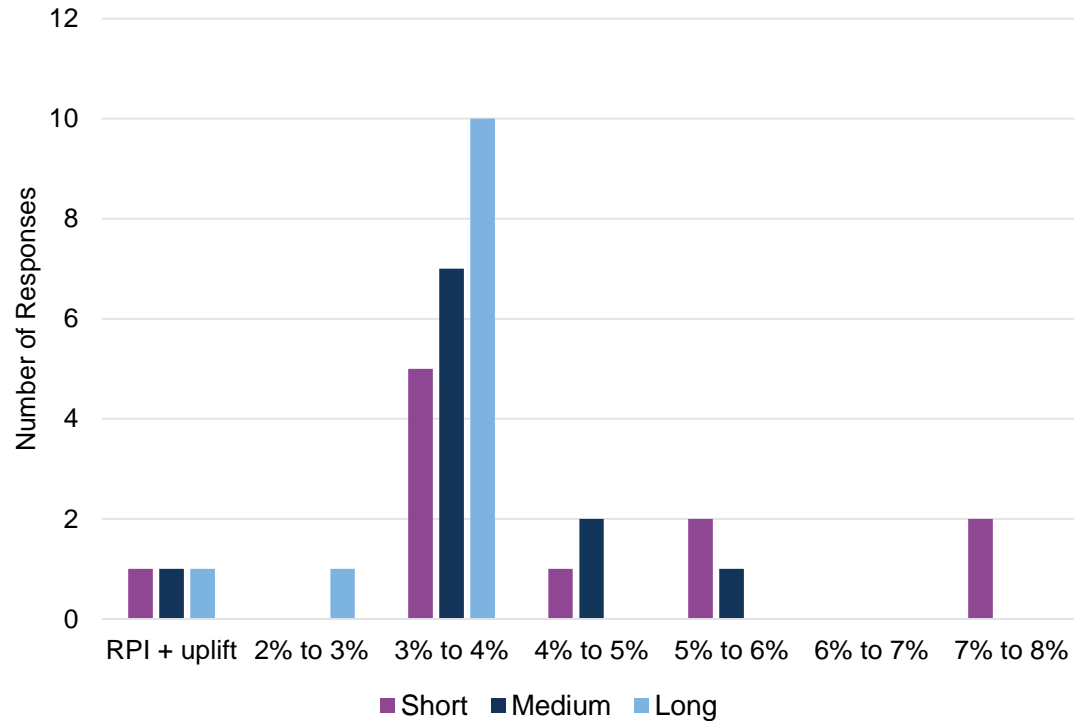


- Combining frequency trend with +2% exposure trend gives -3% expected trend in claim numbers.
- Actual number of settlements somewhat tracks this, with deviations seen on ODR impacted years.

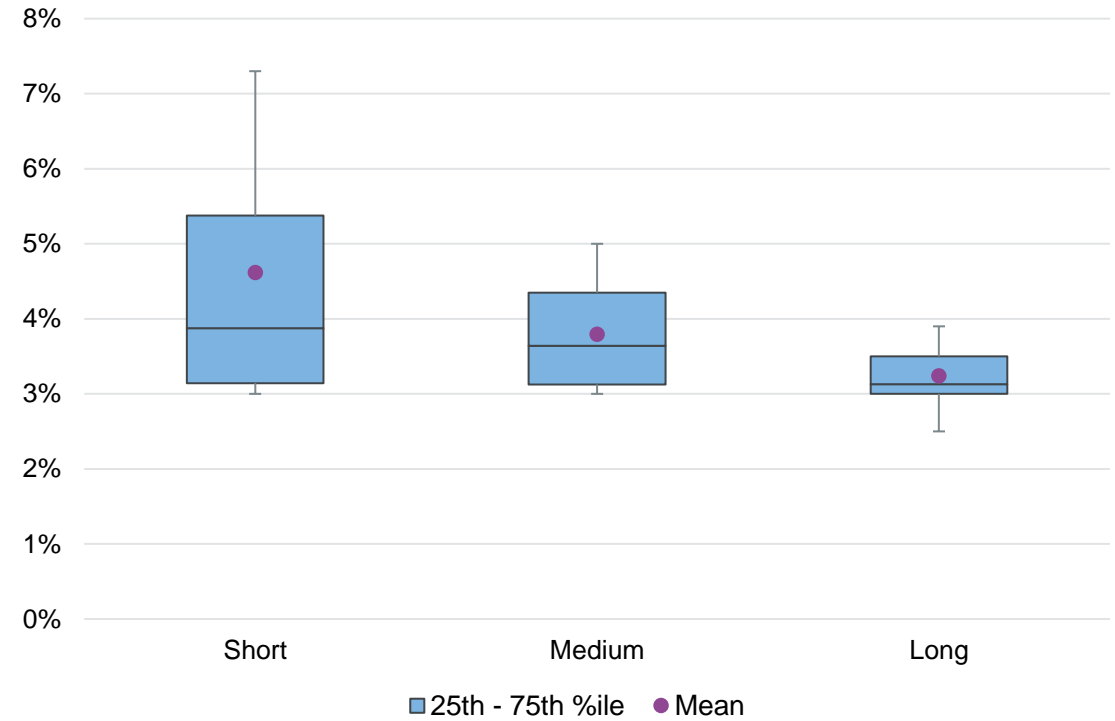
Inflation Survey Results

- As part of our annual qualitative survey responses were collected on participants inflation views and assumptions.
- 5 contributors responded.
- During Q3 2022 a fuller ASHE survey was completed by 13 participants (11 insurers and 2 reinsurers) focusing on some ASHE specific questions.

Views on ASHE

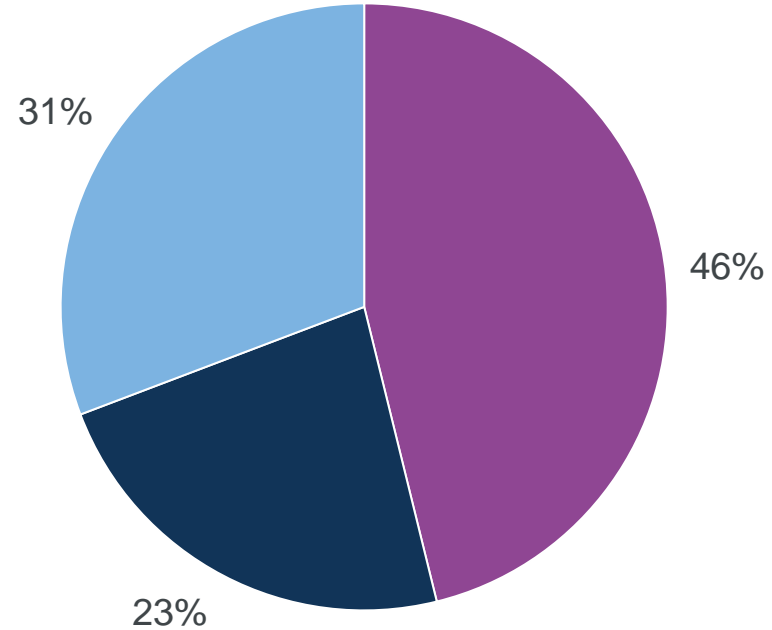


- In 2022, most respondents assumed a 3-4% ASHE regardless of term.
 - Some higher levels assumed in the short-medium term
 - Long term view converging to c.3.5%



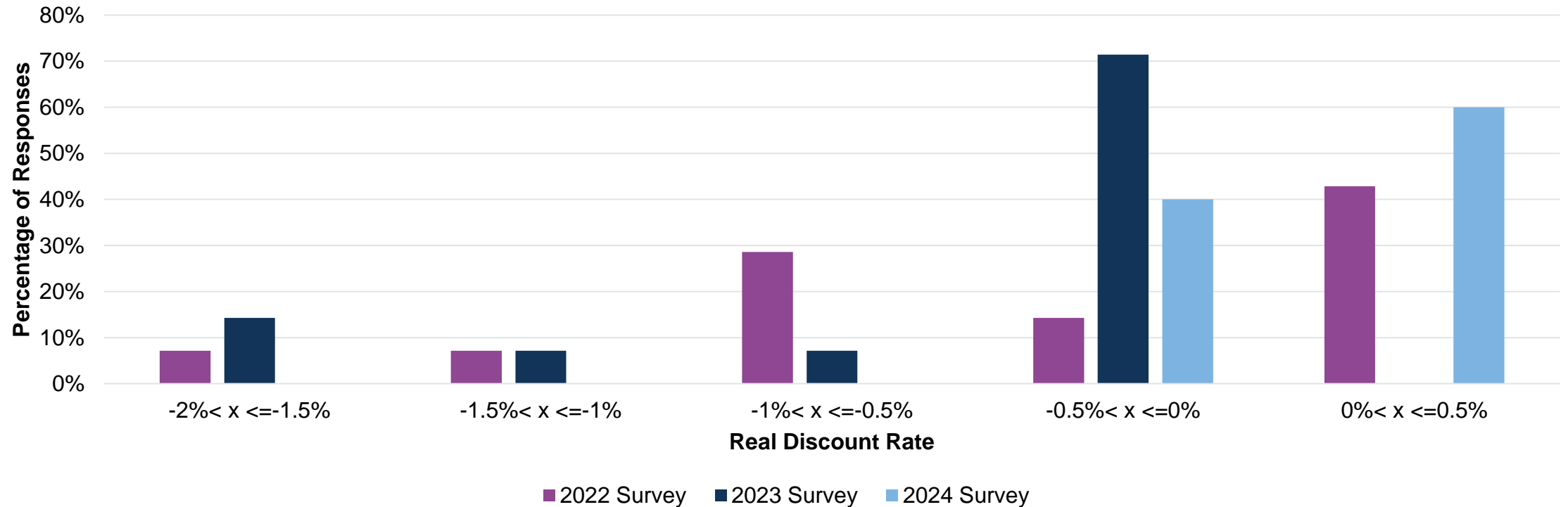
- In 2024 a less detailed question was asked in our qualitative survey. The average long term ASHE assumption was 3 - 3.5%.

Approach to setting ASHE assumption



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

PPO Real Rate of Return Assumptions



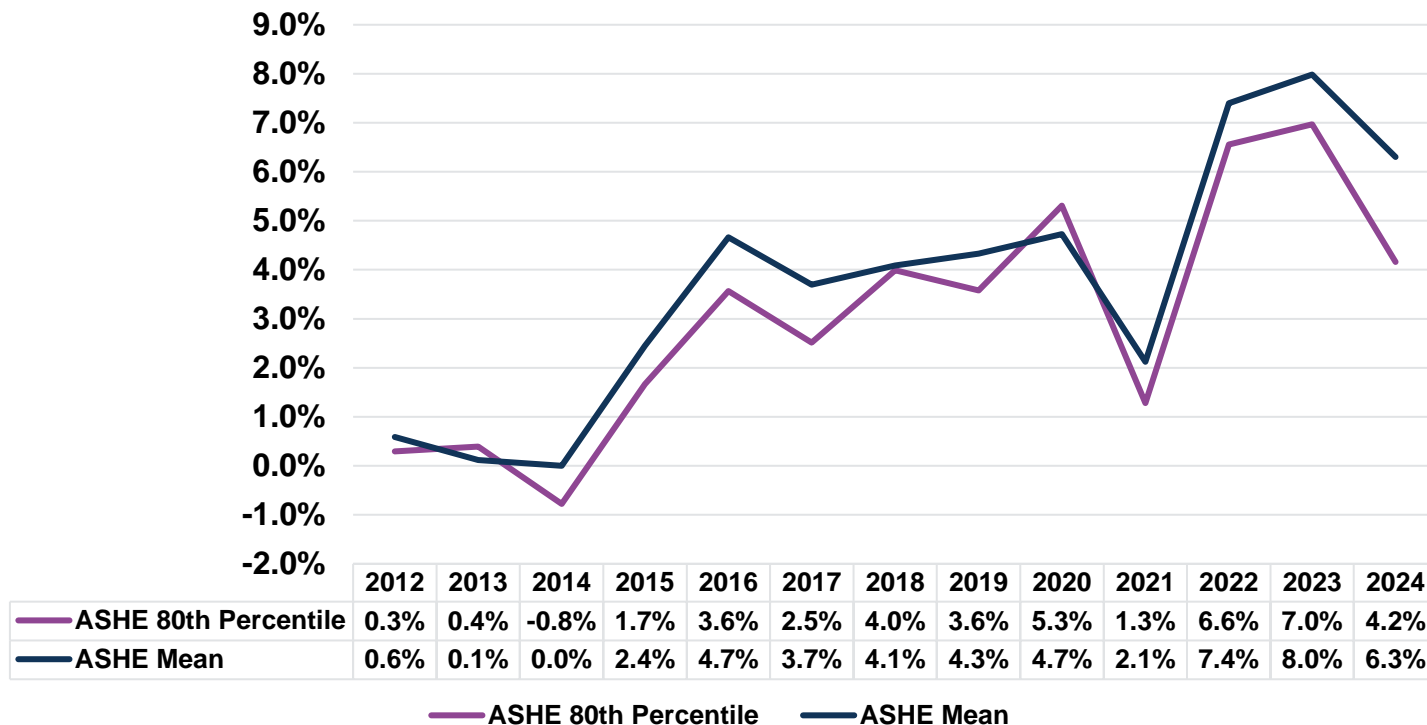
- An approximate equivalent flat rate has been used where respondents are using a non-fixed rate.
- 2024 survey, all respondents using a real discount rate between -0.5% and +0.5%.
- Increase since 2022 and 2023 surveys.

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



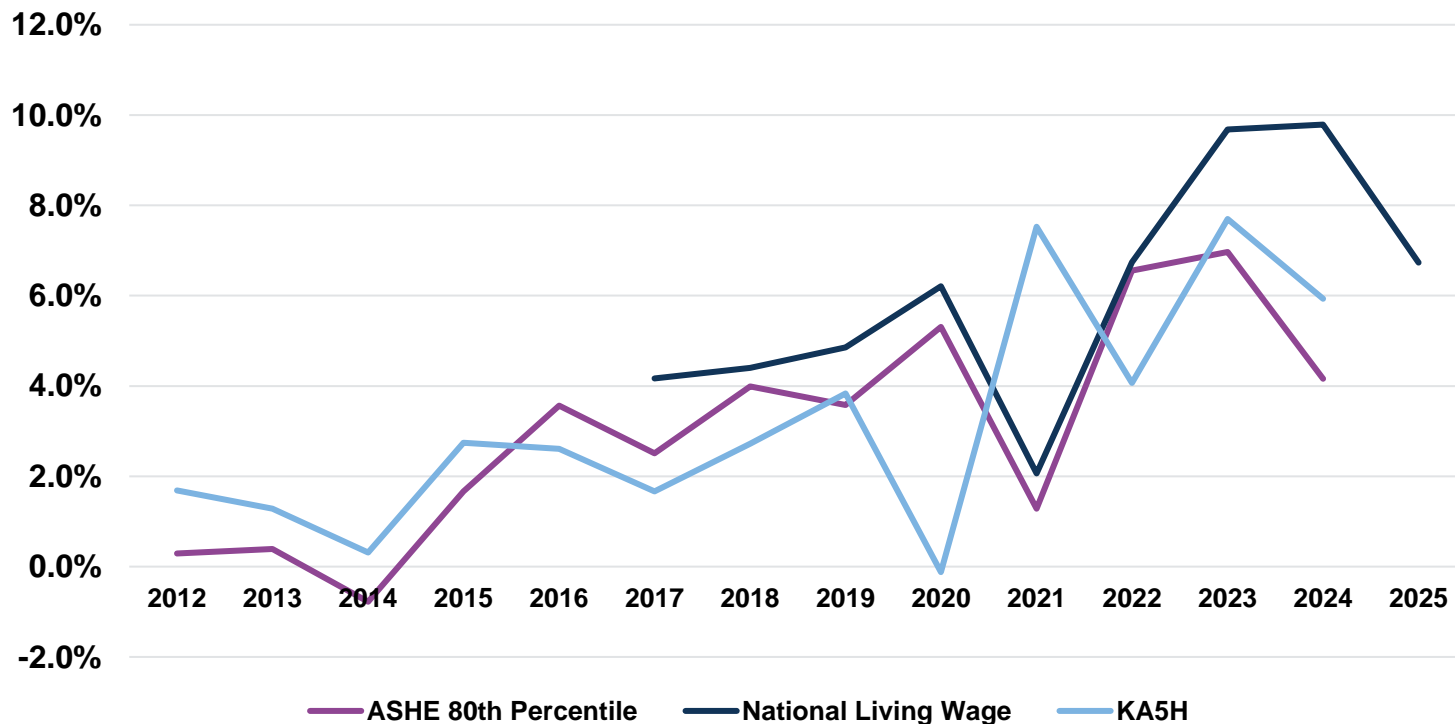
- Exhibit shows percentage annual change in ASHE 6115 since 2012
- Data filters applied:
 - Working Pattern: All
 - Sex: All
 - Hourly Pay Gross
- 2024 ASHE 6115 figures are:
 - 80th percentile: +4.2%
 - Mean: +6.3%

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



ASHE vs. Wage Indices

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 2024/25, compared to ASHE 6115 80th percentile.
- 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.
- NLW will increase by 6.7% on 1st April 2025, to £12.21 for workers aged 21 and over.

ASHE: ONS [Earnings and hours worked, care workers: ASHE Table 26 - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/earnings/working-pattern/all/sex/all/hours-and-earnings/hourly-pay-gross)
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/average-weekly-earnings-by-sector)
National Living Wage: <https://www.gov.uk/national-minimum-wage-rates>

New IUA Capitalisation Clause and Calculator

Improved clause, with minor clarifications

Per Claimant Capitalisation Clause

- If in relation to any reinsured claim, the Reinsured is ordered or agrees to make Periodical Payments to a Claimant and no annuity has been purchased to fund the Periodical Payments, a Capitalised Lump Sum shall be calculated in accordance with the provisions of this Clause.
- The Capitalised Lump Sum in respect of the Claimant as agreed between the Reinsured and the Reinsurer, or as determined in accordance with Paragraph 6 of this Clause, shall be deemed to represent the sum actually paid by the Reinsured in respect of the Periodical Payments.
- The effective date on which the Capitalised Lump Sum shall be calculated shall be the Capitalisation Date. The Capitalisation Date shall also be the date of payment for the purposes of the *(Response e.g. index clause / stability clause)* which forms part of this Agreement.
- The calculation of the Capitalised Lump Sum shall incorporate the following components:
 - the Annualised Amount(s) at the Capitalisation Date of the Periodical Payments ordered or agreed;
 - if the Periodical Payments are to be made for the rest of the Claimant's life, life expectancy of the Claimant, expressed in number of years of life remaining at the Capitalisation Date, based on the estimate of the Reinsured's medical expert, or the agreed joint expert, using all available medical evidence disclosed during settlement of the claim. If the Reinsured has received estimates from more than one expert then a simple average of their estimates will be used. If any of the experts used by the Reinsured has stated a range, then the mid-point of that range shall be used to calculate the average. If a medical expert has made estimates of life expectancy at more than one point in time, it is the latest estimate that shall be used. If no expert evidence as to life expectancy is available, then the Reinsurer reserves the right to obtain an expert report *(j.0506c.f)* estimate life expectancy for the purposes of this calculation;
 - if the Periodical Payments are to be made for a finite period, either the period between the Capitalisation Date and the intended date of the final Periodical Payment, or the life expectancy as calculated in Paragraph 4.2, whichever is the shorter;
 - an allowance for future investment income and future inflation to be calculated by applying a discount rate of *(j.0506d)* per annum to the Annualised Amount(s);
 - the latest available Model Per Claimant Capitalisation Calculator published by the International Underwriting Association at the inception date of this Agreement, or a similar model if mutually agreed by the Reinsured and Reinsurer.
- The Reinsured and the Reinsurer shall agree on the Capitalised Lump Sum within six months of the Capitalisation Date, unless an extension to this period is expressly agreed by both parties.
- In the event that the Reinsured and the Reinsurer are unable to agree on the Capitalised Lump Sum within six months of the Capitalisation Date, or such longer period as determined in accordance with Paragraphs 5 or 6 of this Clause, the parties shall seek to resolve their differences by mediation. The mediation shall be conducted in accordance with the rules of the Centre for Effective Dispute Resolution ("CEDR"). The Reinsured and the Reinsurer shall seek to agree the identity of the mediator and in default of agreement being reached within fourteen days either party may apply in writing to CEDR to make an appointment. The mediation shall take place within sixty days of the mediator having been appointed. The fees and expenses of the mediator shall be paid in equal shares by the parties (so that the Reinsured shall bear 50% and the Reinsurer or Reinsurers collectively who participate in the mediation shall bear 50%). The parties shall bear their own expenses of the mediation.

Easier to use Calculator with better documentation

Model Per Claimant Capitalisation Calculator

Claim Details	
Claimant Name	
Reinsurer Name	
Capitalisation Date	
Annualised Amount	
Life Expectancy (Years)	
Discount Rate (%)	
Calculation Method	
Optional: Estimate	
Date that life expectancy is based on	
Exact age	
Normal life expectancy	
Reduction factor	

New User Guide for the Calculator

IUA Model Per Claimant Capitalisation Calculator (Version 2024)

User Guide

15 May 2024

New Worked Example for the Calculator

Worked Example of Using the Model Per Claimant Capitalisation Calculator (2024 Version)

Overview
This worked example is for the Per Claimant Capitalisation Clause IUA 02-037.

Key features of IUA 02-037:
- Capitalisation Date means the date the Periodical Payment Order is first stamped by the Court.
Life expectancy of the Claimant:
- based on the estimate of the Reinsured's medical expert
- If the Reinsured has received estimates from more than one expert then a simple average of their estimates will be used
- If a medical expert has made estimates of life expectancy at more than one point in time, it is the latest estimate that shall be used

PPO Details	
Date PPO agreed	04/04/2023
Date Court Stamped PPO	08/04/2023
Lump sum amount	2,000,000 to be paid 1/5/2023
Pro rata Payment for period 4.4.2023 to 14.12.2023	34,932 to be paid 1/5/2023
Annual PPO from	Annual Amount
15/12/2023	50,000
15/12/2033	75,000
15/12/2043	90,000 Annually for rest of life

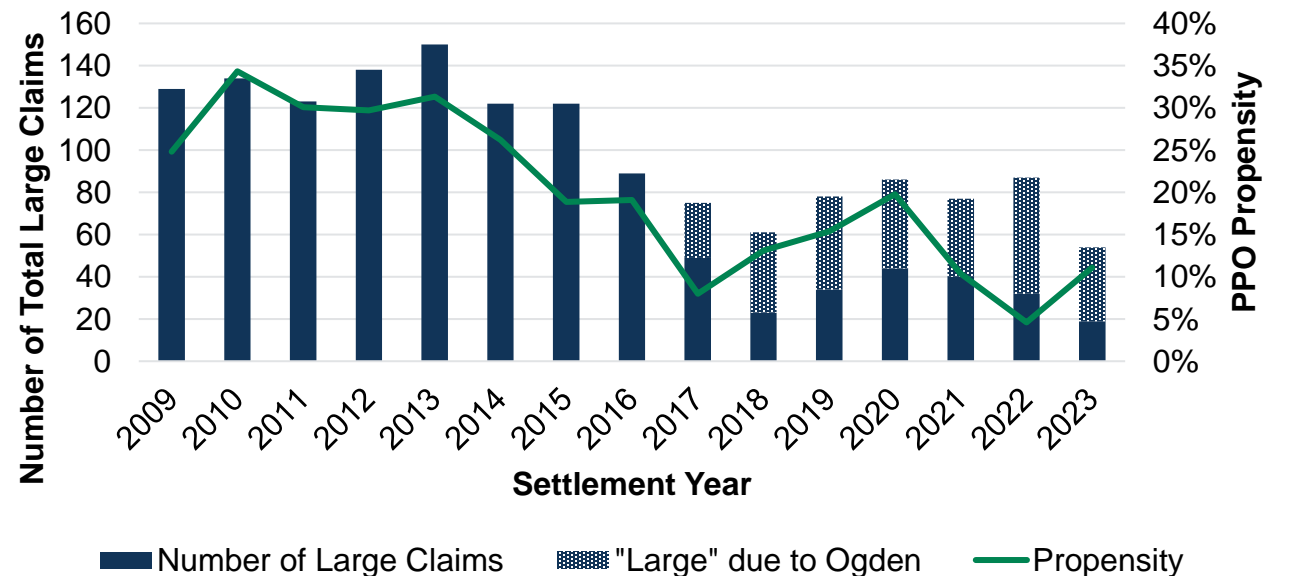
On death pro rata return of annual payment, less costs already committed to (like salaries of care staff)



Ogden and PPO's

$$PPO \text{ Propensity} = \frac{\text{Number of PPO's}}{\text{Number of PPO's} + \text{Number of Lump Sums}}$$

- **Mechanical Effect:** Ogden changes the Number of Lump Sums that are above the “Large” threshold
- **Behavioural Effect?** A claimant being offered a higher/lower lump sum due to Ogden may be more/less likely to accept a Lump Sum vs. a PPO



Conclusions

- PPO Propensity remains relatively low at 11% in 2023
- PPO Real Rate of Return assumptions have increased slightly, typically 0% to +0.5%
- ASHE 80th Percentile +4.2%
- New IUA Capitalisation Clause and Calculator have been released
- Next Ogden is soon to be announced, and this is likely to have a knock-on impact to PPO Propensity

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.