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IFoA GIRO Conference 2024

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Introductions – Working Party Members

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Agenda

- Introduction
- Background to the Ogden Discount Rate
- Scotland and Northern Ireland review
- Working Party Survey results
- Updated view - England and Wales
- Pricing impacts
- Focus on Reinsurance
- Preparing for year end
- Conclusions

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Introduction

Mohammad Khan

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Background to the Ogden Discount Rate

Emma Leach

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Timelines for discount rate reviews

Scotland and Northern Ireland

Rate announced 26 September 2024

England and Wales

Government evidence gathering commenced — 2023

< 180 day statutory review formally began (5yrs after the prior rate concluded) — Jul 2024

Expiry of < 180 day review period i.e. latest date for new ODR(s) — 11 Jan 2025

Discount rate legislation

	England and Wales	Scotland and Northern Ireland
Who sets the rate	Justice Secretary	Government Actuary
Period of review	180 days	90 days
Date of new rate	< 11 Jan 2025	26 Sep 2024
Methodology	Discretion of Justice Secretary to decide	Government Actuary follows a set process
Relevant legislation	Civil Liability Act 2018	Scotland: • Damages (Investment Returns and Periodical Payments) (Scotland) Act 2019 • Damages (Review of Rate of Return) (Scotland) Regulations 2024 NI: • The Damages Act 1996 • The Damages (Process for Setting Rate of Return) Regulations (Northern Ireland) 2024

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Scotland and Northern Ireland review

Andrew Corner

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Summary of changes - Scotland and Northern Ireland

Notional investment portfolio returns

- Scotland: RPI+0.50% to CPI+3.50%
- Northern Ireland: RPI-0.25% to CPI+3.50%
- Reflects change in economic environment and expected performance of the notional portfolio.

Investment period

- Scotland: 30yr period to 43yr period
- Northern Ireland: Remains a 43yr period
- GAD's assumed investment returns over both a 30 and 43 year horizon were the same, hence no associated impact on the final return.

Taxation and expenses

- Scotland and Northern Ireland: 0.75% to 1.25%.
- Increase in the expected 'tax drag' faced by claimants driven by higher expected returns.
- Wider evidence of higher costs for investment advice.

Inflation

- Scotland and Northern Ireland: RPI to CPI+1.25%.
- Reflects switch to reliance on Average Weekly Earnings + a margin in pace of RPI.
- GAD considered historical AWE trends and reflected the reduction in margin of AWE over CPI since c.2008.

Update to Personal Injury Discount Rates for Scotland and NI

Government Actuary's advice to the Lord Chancellor

	Scotland (2019)	Northern Ireland (2022)	Scotland and Northern Ireland (2024)
Weighted return	RPI + 0.50%	RPI - 0.25%	CPI + 3.50%
Tax and Expenses	-0.75%	-0.75%	-1.25%
Return post Tax and Expenses	**RPI - 0.25%**	**RPI - 1.00%**	**CPI + 2.25%**
Inflation	- RPI	-RPI	- (CPI + 1.25%)
Real Return	**-0.25%**	**-1.00%**	**+ 1.00%**
Standard adjustment for further margin involved in relation to the rate of return	-0.50%	-0.50%	-0.50%
Personal Injury Discount Rate	**-0.75%**	**-1.50%**	**+0.50%**
Date of review	September 2019	March 2022	September 2024

Rise in expected return is the key driver of the rise in discount rate

Higher tax and expense adjustment, reflects an Increase in expected 'tax drag' with higher expected returns. As well as higher costs for investment advice.

Switch for Scotland and Northern Ireland with inflation set with reference to Average Weekly Earnings rather than RPI

FOCIS and APIL’s challenge

Industry bodies for the claimant lobby have raised a freedom of information request (FOI) to the Government Actuary.

The FOI sought additional evidence regarding the Government Actuary’s advice to Scotland and Northern Ireland on the long-term **differential between AWE (average weekly earning) and CPI**. Specifically on the basis that:

- GAD’s assumption is lower than OBR projections.
- There are perceived inconsistencies with prior England and Wales advice.
- Differences to 2022 GAD advice to the National Insurance Fund and more recent GAD advice to NHS and Teachers Pension Schemes which suggested a 1.8% differential between earnings growth and CPI.

Dear Government Actuary

Review and determination of the personal injury discount rate in Scotland and Northern Ireland

On behalf of the Forum of Complex Injury Solicitors (FOCIS), Association of Personal Injury Lawyers (APIL) and the injured claimants that our members represent, yesterday we made the attached Freedom of Information Act (FOI) request for documents and details relating to a single aspect of your identical reviews and determinations of the personal injury discount rate (PIDR) in Scotland and Northern Ireland on 24 September 2024.

Source: https://focis.org.uk/news

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Survey results

Ricky Childs

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Survey themes

Increased response rate since 2023 with a shift towards Larger Insurers and Reinsurers which could impact the year-on-year changes observed.

Very few respondents are using a different discount rate within their reserving and pricing compared to last year with almost all waiting for the MoJ announcement to update.

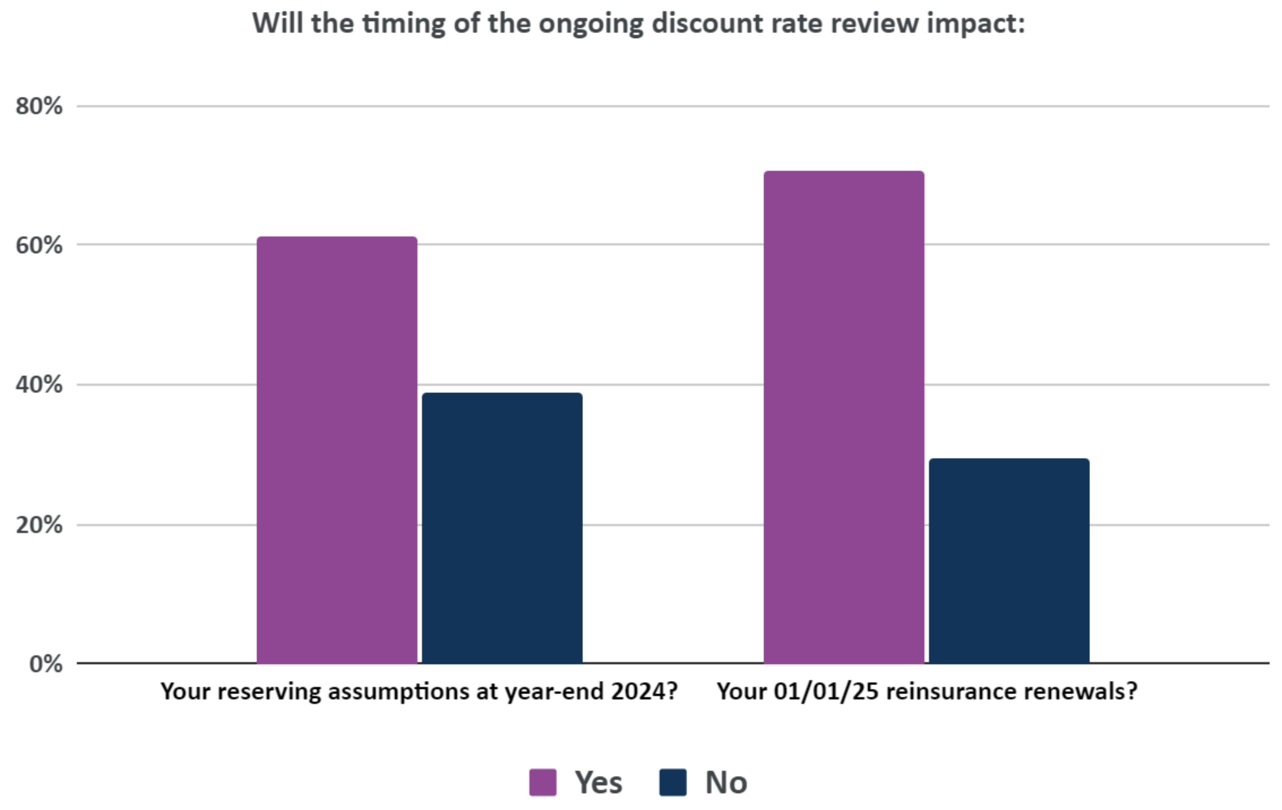
Some respondents feel claim settlements have been impacted by the ongoing MoJ review with most changing their strategy accordingly.

The timing of the MoJ's review is considered by a number of respondents to be poor owing to the proximity to year-end reporting.

There is some agreement with the previous MoJ review's methodology and assumptions but limited support for the prudency margin.

Respondents were unanimous on the upcoming review announcing a positive discount rate with nearly all respondents expecting a rate >=0.5%.

Limited changes in discount rate used since 2023 with most waiting for MoJ announcement



- Only 11% of respondents **are using a different Ogden discount rate in their reserving** than last year with none changing the rate used for pricing
- In all instances of a different rate being used the rate being used in 2024 is **higher** than in 2023
- Most respondents believe the ongoing review **will impact their 2024YE reserving assumptions** with an even greater majority believing that their **1/1 reinsurance renewals will be impacted**

Some changes in settlement activity driving strategic changes and administratively problematic timing of MoJ review

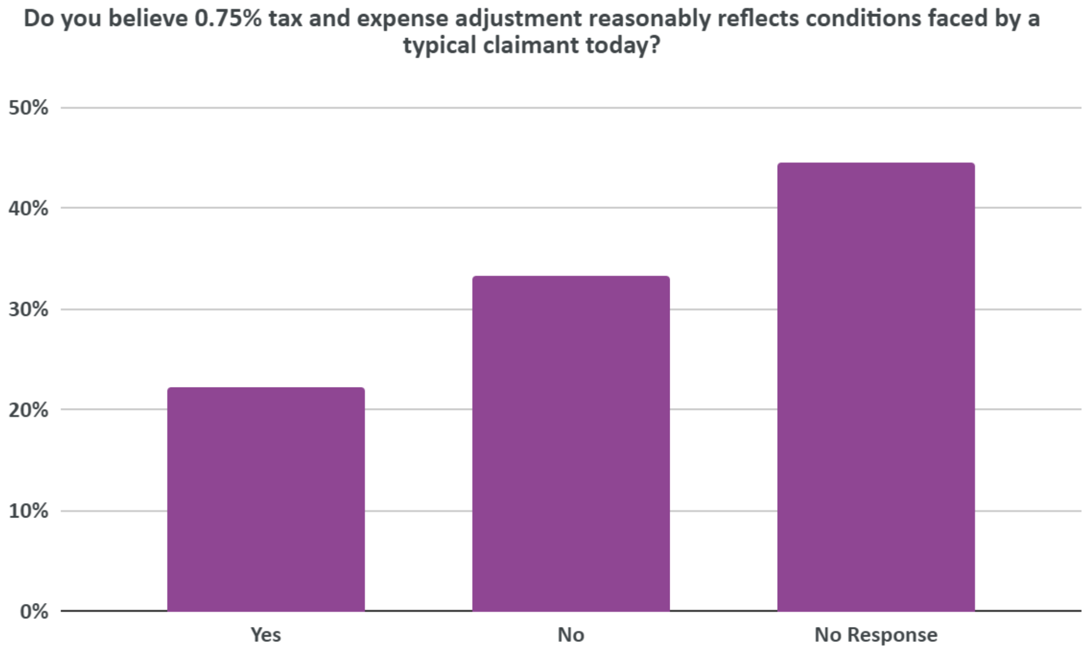
- Most respondents feel that they have **not observed recent changes in settlement activity** due to the ongoing ODR rate review.

- Those respondents who have observed changes (26%) are from a mixture of *Nature of Business* categories and the majority have changed their settlement strategy in response to the review.

- Respondents were invited to share any other issues and concerns; the key theme from those who responded was that the **timing of the review was problematic** due to the review's proximity to year-end reporting.

- Comments referenced:
  1. Uncertainty around central estimate reserving assumptions
  2. Auditors' allowance for an assumed new rate to be used pre-announcement
  3. A hope that some stability around future rate reviews is announced due to the long-tailed nature of reinsurance

Some agreement with the previous methodology and assumptions but limited support for prudency margin

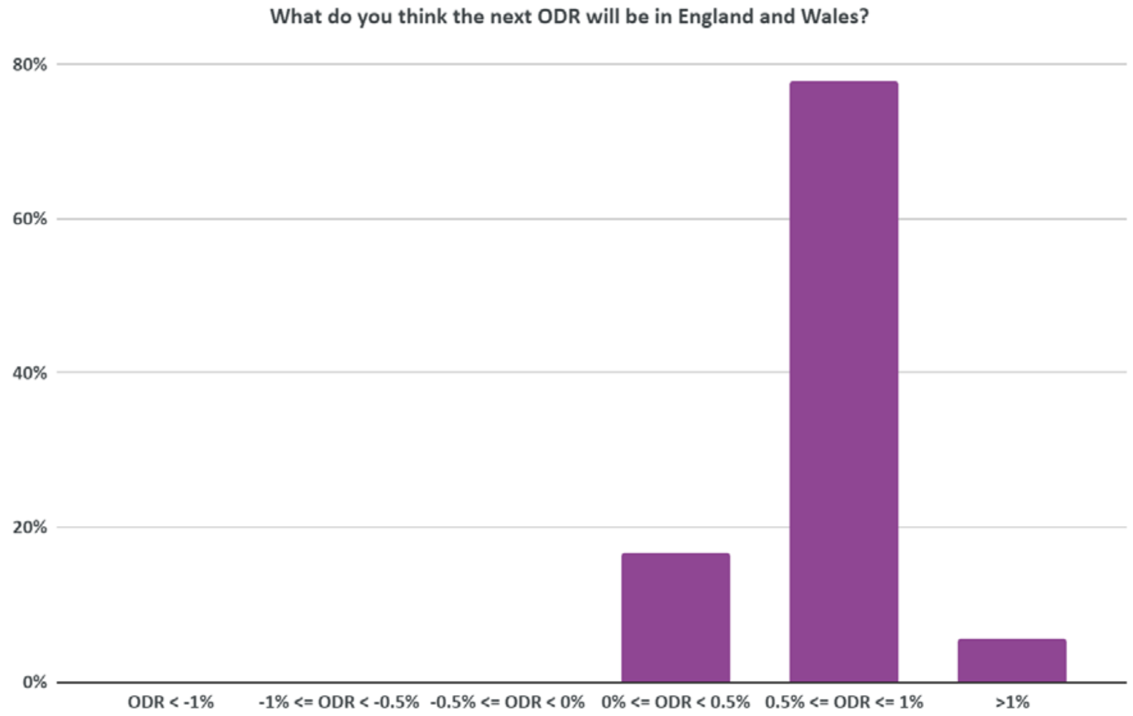


- Of those who responded to our question on tax and expense assumptions, **more than half** believed the 0.75% used previously is **not a fair reflection** of the current conditions
- Nearly half of the survey respondents had no response to this question which likely reflects a general lack of expertise in this area
- Comments on the prudency margin implied respondents do not believe it should form part of the methodology:

“It should be set such that the resulting Ogden discount rate neither over nor under compensates claimants”

“Should not be any explicit or implicit prudency margin…provides an advantage to one party at the expense of another.”

Unanimity on a revised single discount rate being positive; strong response for a rate between 0.5%-1%



- A clear expectation that the rate is going to move to being positive with a very strong feeling by respondents that the revised rate will be somewhere **between 0.5% and 1.0%**

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Updated view - England and Wales

Emma Leach

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Working Party Model

- We have considered the changes in parameters that could be seen if the same conclusions reached by GAD for Scotland and Northern Ireland were applied in England and Wales.

- Significant uncertainty remains within all of the below parameters. We suggest **+0.25% to +1.00%** as a reasonable outcome range considering the degree of uncertainty.

	GAD's conclusions (2019)	Example Ogden rate
Weighted return	4.00%	5.25% to 5.75%
Tax and Expenses	-0.75%	-1.25%
Return post Tax and Expenses	**3.25%**	**4.00% to 4.50%**
Inflation	-2.00%	-2.00%
Damage inflation	-1.00%	-1.00% to -1.25%
Real Return	**0.25%**	**0.75% to 1.50%**
Political adjustment for further margin involved in relation to the rate of return	-0.50%	-0.50%
Estimated PIDR	**-0.25%**	**0.25% to 1.00%**

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Pricing impacts

Emma Leach

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Impact of a PIDR change on premiums

- We estimate premiums will decrease by an average of £60 for drivers in Scotland and £90 for Northern Irish drivers following the latest increases to the respective discount rates

- For England and Wales, we estimated the below potential changes:

Increase in PIDR	+0.25% (to 0%)	+0.75% (to 0.50%)	+1.25% (to 1.00%)
20 year old	- £16	- £42	- £63
40 year old	- £4	- £9	- £14
60 year old	- £3	- £8	- £11

- We assumed that the reduction in large claim amounts due to a PIDR increase would be **passed on in full** to policyholders through lower premiums.

- We are aware of some insurer who have already allowed for Ogden changes within their pricing.

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Focus on Reinsurance

Amit Parmar

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Focus on Reinsurance

High impact on reinsurance

Expected loss to reinsurance treaties is sensitive to the ODR

Reinsurance slips and wordings need to be robust

PPO impact

Negotiated settlement

Negotiated settlement and process is difficult to measure

Process, data and settlement strategy is not often communicated

Divergence in reinsurers consideration

Some follow the news and participate actively

Others will wait and learn

Inertia around changing assumptions in models

Legacy decision making:

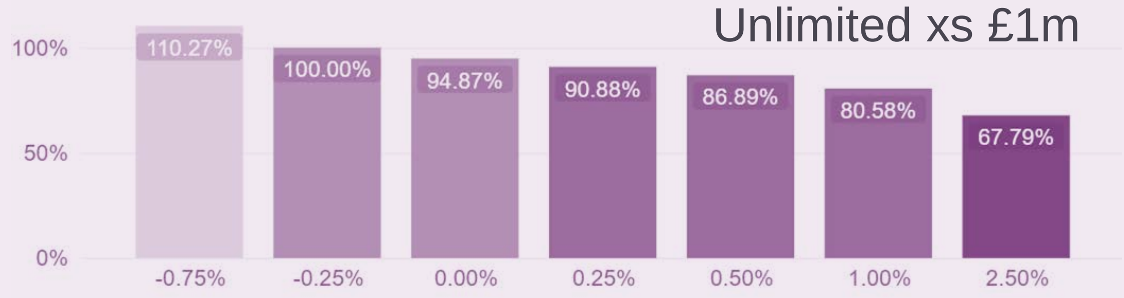
Difficult to change assumption given historical announcements

Wait and see approach

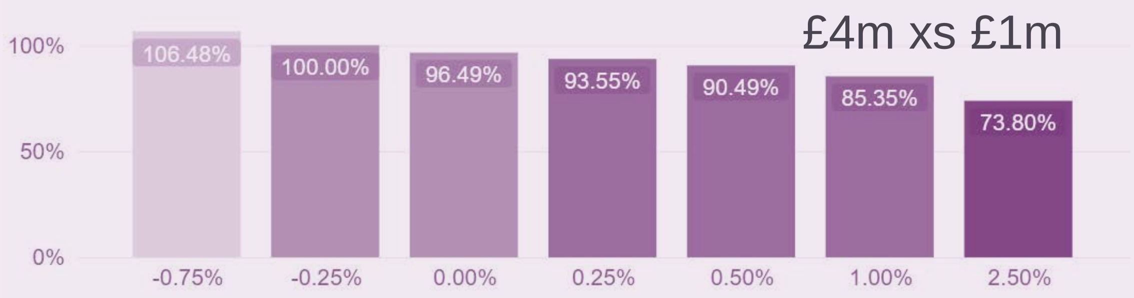
Reinsurance data needs more consideration

Impact on RI

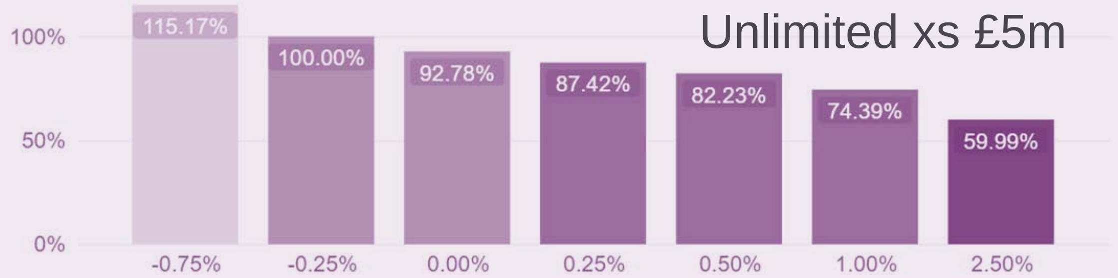
Change to the expected loss cost from -0.25% PIDR on a market portfolio



The change excess £1m is approximately 5% per quarter point change in the discount rate



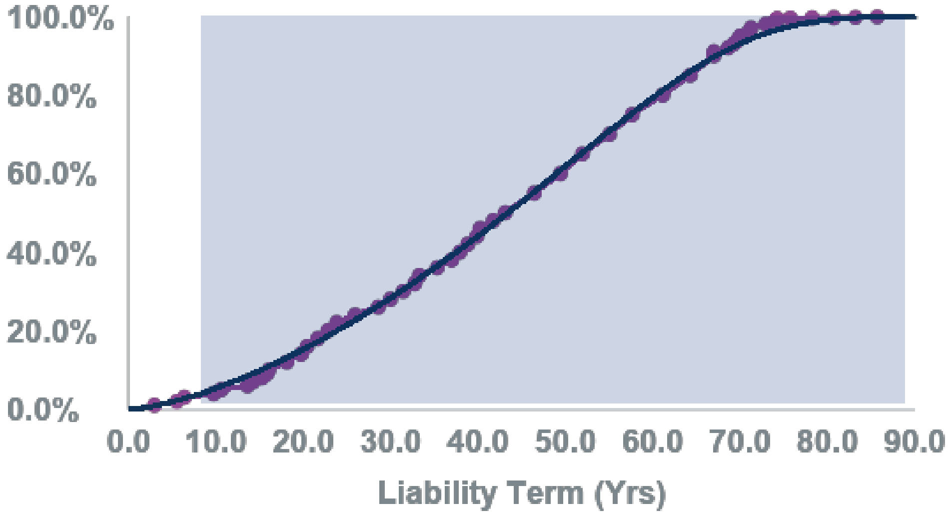
Small impact to the primary layers from change in ODR



Gearing effect to higher layers
Larger claims have higher future cost of care element to them (larger ‘Ogdenable’ proportion)

Dual Rate and Impact on Reinsurance

By term: Distribution of liabilities by term



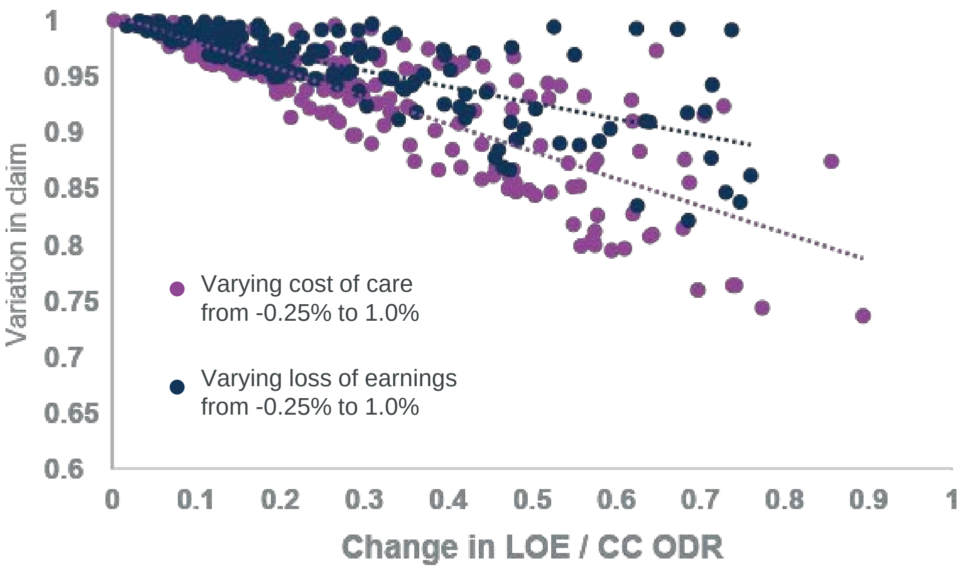
Equivalent multiple rates:

Short Term rate: -0.75%, Switching point: 15 years, Long term rate: 1.5%

Distribution of liabilities shows 90% of claims xs of £1m have terms greater than 15 years.

Reduction Unlimited xs £10m of 34%

By Heads of damage: Distribution of liabilities



Ireland: 1.5% for FLE and 1% for FCC

Future income can take more volatility than future cost of care

Will depend on the profile of the liabilities

Strategy for renewals (cedants and reinsurers)

Ogden Strategic Decision Framework

- Decision tree approach as new information emerges
- Agreed beforehand but can be dynamic
- Data driven and KPI focussed
- Understand dynamics of market supply and demand and environmental changes
- Allows for a nimble, forward looking strategy that evolves in response to emerging decisions

ODR Renegotiation | **Extension** | **Cancel and Replace** | **ODR Clause** | **Structured Layers**

Decision tree strategy - depending on outcomes from the timetable above

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Preparing for year end

Andrew Corner

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Ogden Working Party advice for YE24

Q3

- Be able to justify the rate used. We suggest a range 0% to +1%.
- Scotland and Northern Ireland reserves should be set using the current in force rate of +0.5%.
- Differences in approach for IFRS17 vs UK GAAP reporters will need to be considered.

Q4

- The latest date for a new discount rate is 11 January 2025 for England and Wales.
- Note that the total reserves must be set based on the new rate, representing the rate at which claims are expected to settle.

Sensitivity of discount rate change

(Re)Insurers should have **sensitivities** ready to update reserves. This will allow an efficient update to the ultimate reserves even if the discount rate change comes through in January. This is also required for Lloyd's SAO returns.

Potential methodology for an Ogden IBNR reserve sensitivity:

- Isolate the portion of injury reserves. A percentage factor to be applied to reduce total IBNR to an estimated set of injury claims above £250k.
- Isolate the portion of injury reserves exposed to a change in the Ogden discount rate. This assumption should be formed centrally based on the settled non-PPO Injury claim data by line of business (Motor, EL and PL).
- Calculate Ogden uplift amounts by line of business using the combined Ogden multiplier table. This can be derived for a range of Ogden discount rate scenarios, ranging at 0.25% graduations. This produces an estimate of the impact, when aggregated across all lines of business, for each Ogden discount rate scenario.
- Sensitivities should also consider second order impacts (e.g. PPO propensity changes).

Updating case estimates

An Ogden case reserve review is possible if the rate change comes through early enough. The key remains setting a reasonable ultimate reserve even where it is not feasible to update each case estimate.

- Consider the portion of the claim exposed to the Discount Rate – only future care costs / loss of earnings
- Consider open claims, form key assumptions (e.g. gender split, % of injury claims), break costs into care costs and loss of earning and apply scale factors from the Ogden tables.
- Consider a range of Ogden discount rate scenarios, ranging at 0.25% graduations.

Indicative:

Value Band	% subject to PIDR	% related Earnings	% related Care	% related Other
250K - 500K				
500K - 1M				
1M - 2.5M				
2.5M+				
Total				

% subject to PIDRs and further splits by value band

Value Band	EL	PL	Motor
250K - 500K			
500K - 1M			
1M - 2.5M			
2.5M+			
Total			

% subject to PIDRs by Line of Business

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Conclusions

Mohammad Khan

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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.