



Institute
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of Actuaries

PPOs – 10 years in... but a long way to go

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The PPO Working Party

GIRO 2015, Liverpool

Please Note:
Includes 2014 year-end survey interim results
- To be updated in full GIRO report

04 December 2015



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Periodical Payment Orders

04 December 2015

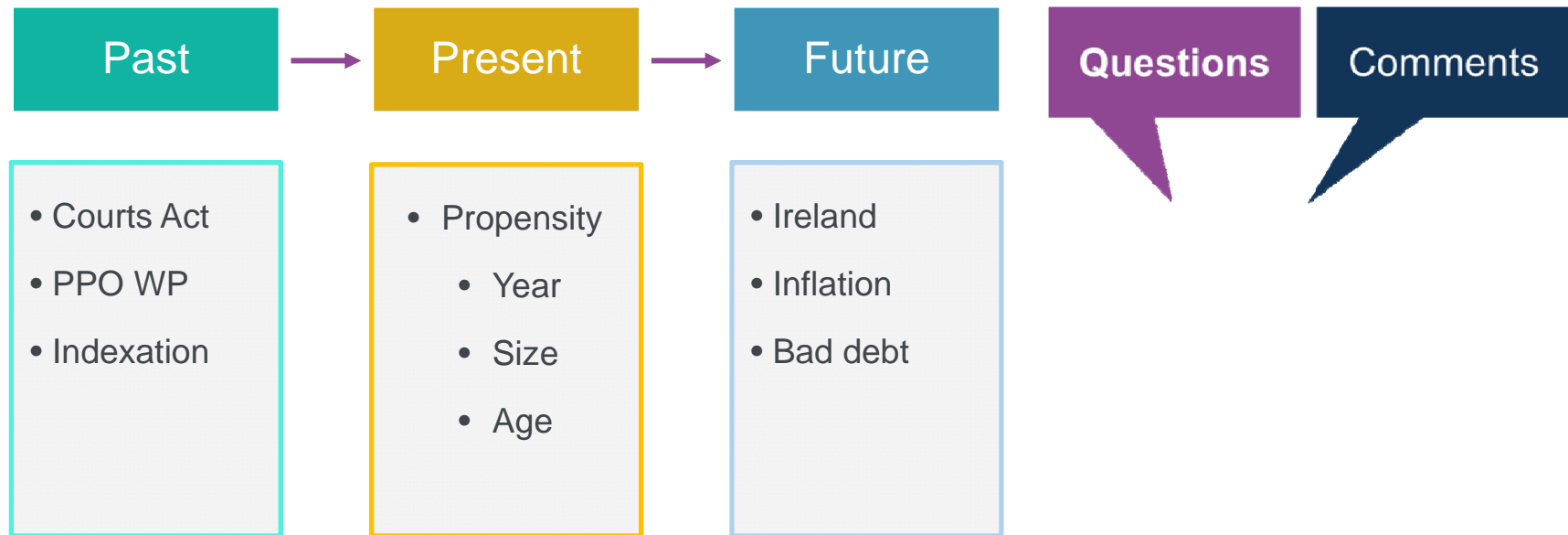


ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

WARNING/CAVEAT

- THESE RESULTS ARE AS PRESENTED AT GIRO
- NOT ALL OF THE DATA HAS BEEN RECEIVED
- THE FINAL PAPER WILL HAVE DIFFERENT RESULTS
- WE DO NOT ANTICIPATE THE MESSAGE TO CHANGE
- SOME OF THE NUMBERS CLEARLY WILL
- BUT HOPEFULLY NOT TO A MATERIAL DEGREE

Agenda



PAST

PRESENT

FUTURE



PPOs : How did we get here?

Past

- Courts Act
- The Working Party
- Indexation



Where it all began...



- Structured Settlements from 1989
- PPOs introduced Courts Act 2003 on 1 April 2005
- Transferred risks from claimant to insurer
 - The risk of running out of money
 - The risk of paying more money
- Created difficulties for insurers and reinsurers
 - Administration, modelling, IT systems, training, claims handling, reinsurance application, time horizon, accounting, ...

Where we began...



The Actuarial Profession
making financial sense of the future

GIRO 2010
Nathan Williams, Antony Cloughton, Karl Murphy



PPOs – be afraid, be very afraid

14 October 2010

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First GIRO
presentation
October 2010

What have we done?

- Summarised key issues and features of PPOs
- Reported on hot topics and developments
- Annual quantitative and qualitative surveys
 - Insurers and Reinsurers
- Mortality studies
- etc..

Look out for Index paper to be published early next year.



How have PPOs have developed?

Number Of PPOs By Settlement Quarter



2005

2008

2011

Courts Act 2003

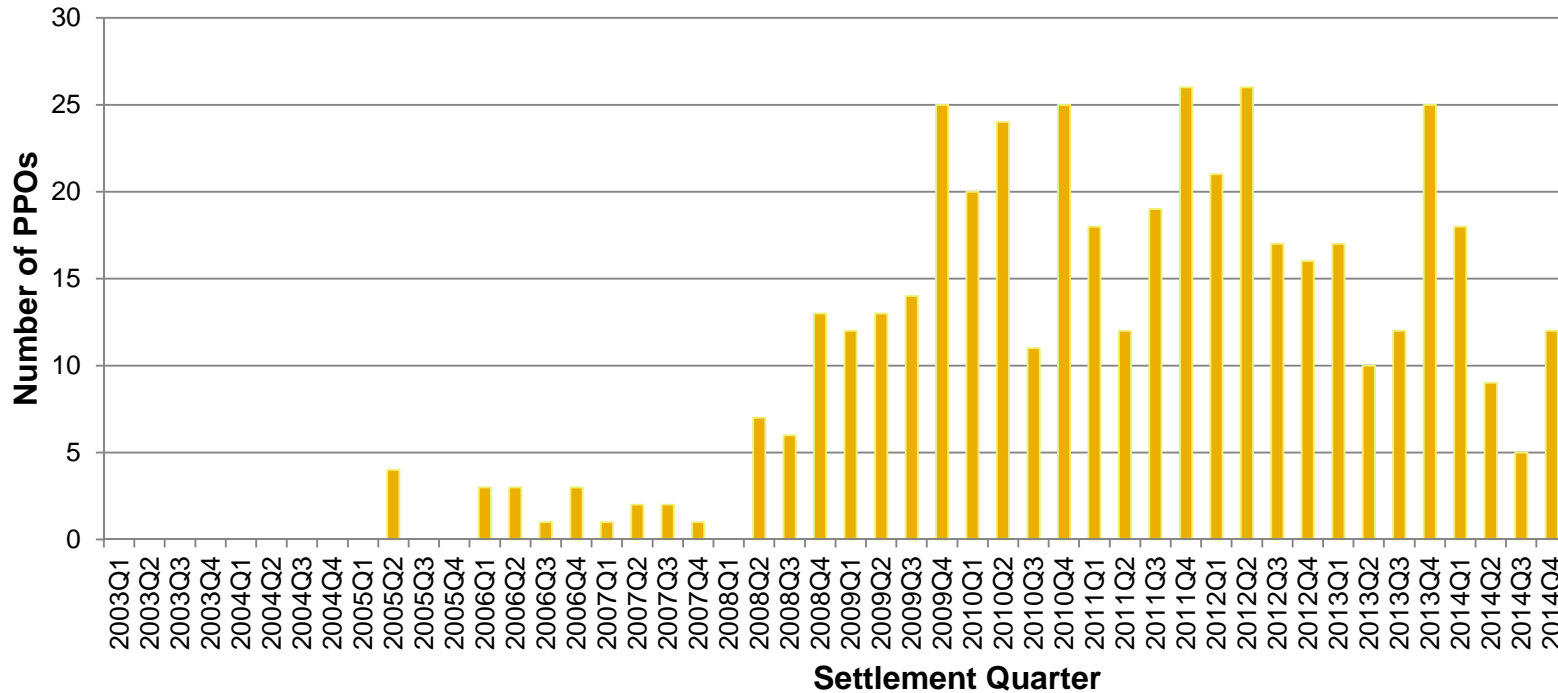
- Thompstone vs Tameside
- Stockmarket crash

ASHE 6145 and 6146

- LoE indexation
- Indices from overseas

How have insurers/reinsurers responded?

Number Of PPOs By Settlement Quarter



Increasing sophistication of modelling

PPOs : What is happening now?

Past

- Courts Act
- The Working Party
- Indexation

Present

- Propensity
 - Year
 - Size
 - Age



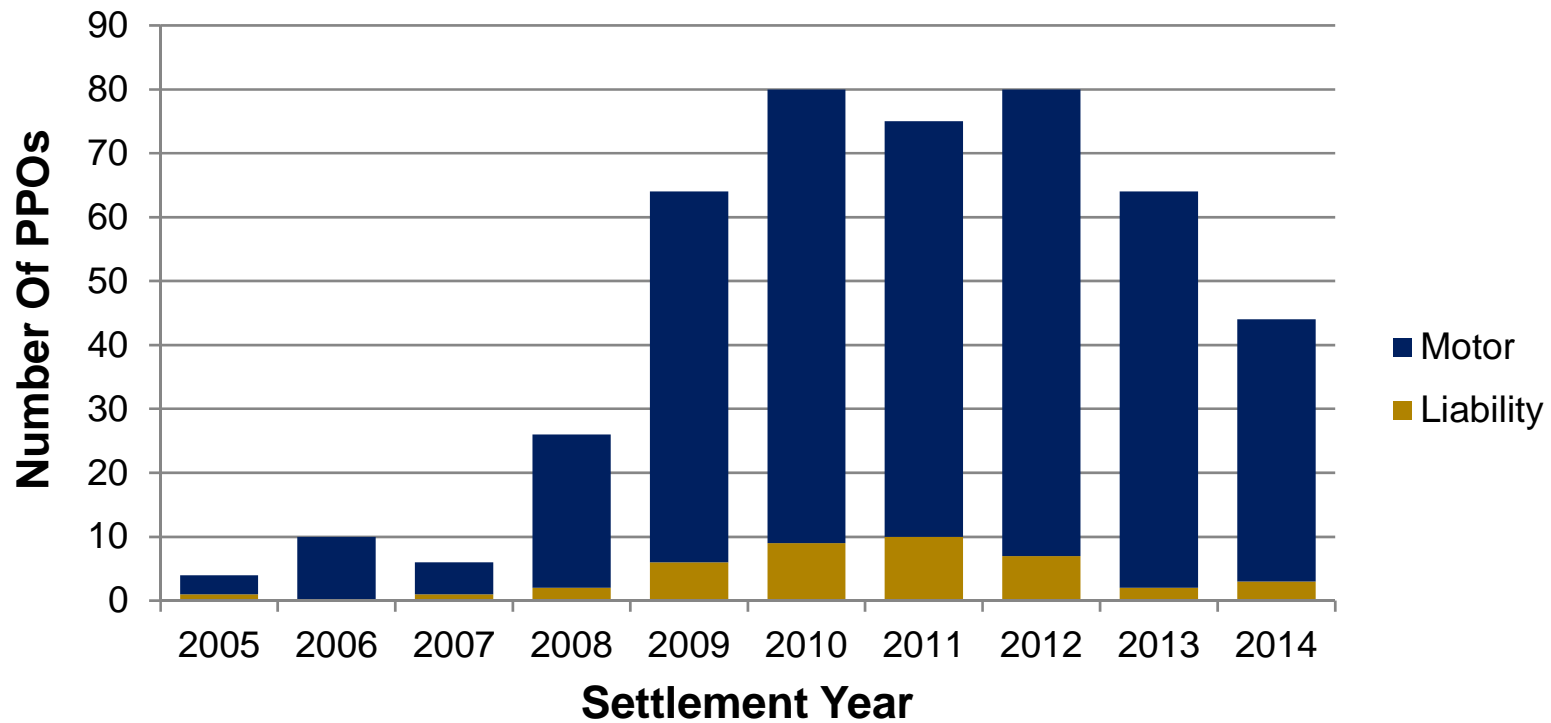
PPO Working Party survey 2014

- Survey taken as at 31 December 2014
 - Insurers surveyed cover >90% of PRA regulated market
- Interim results included in this presentation
 - Still awaiting further data
 - So **results will change**



Number of PPOs – as at 2014

Number Of PPOs By Settlement Year

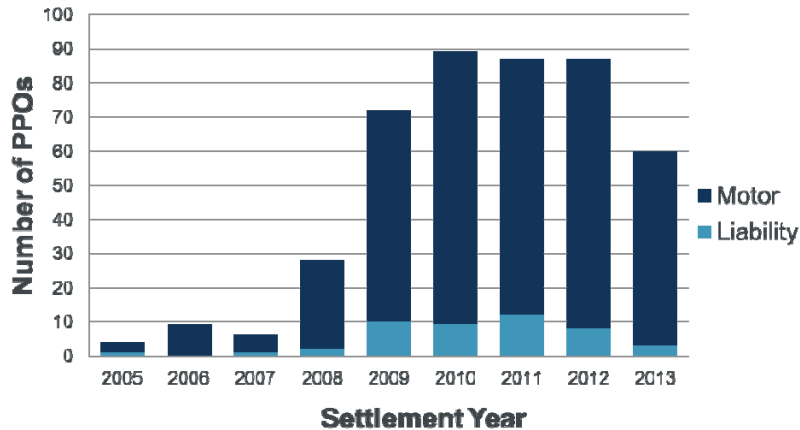


- Number of Motor PPO settlements in 2014 are 66% of those in 2013.

What happened in 2013?

Number of PPOs by Settlement Year

PAST

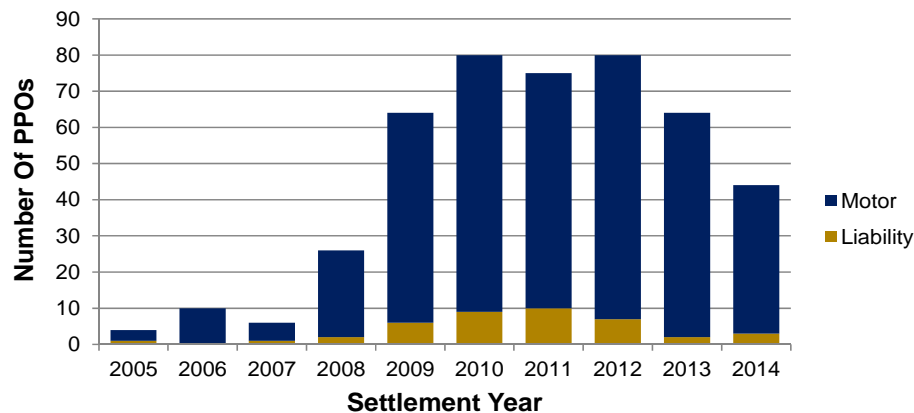


- Number of total PPO settlements 32% lower in 2013 compared to 2012.

What are we saying happened in 2014?

Number Of PPOs By Settlement Year

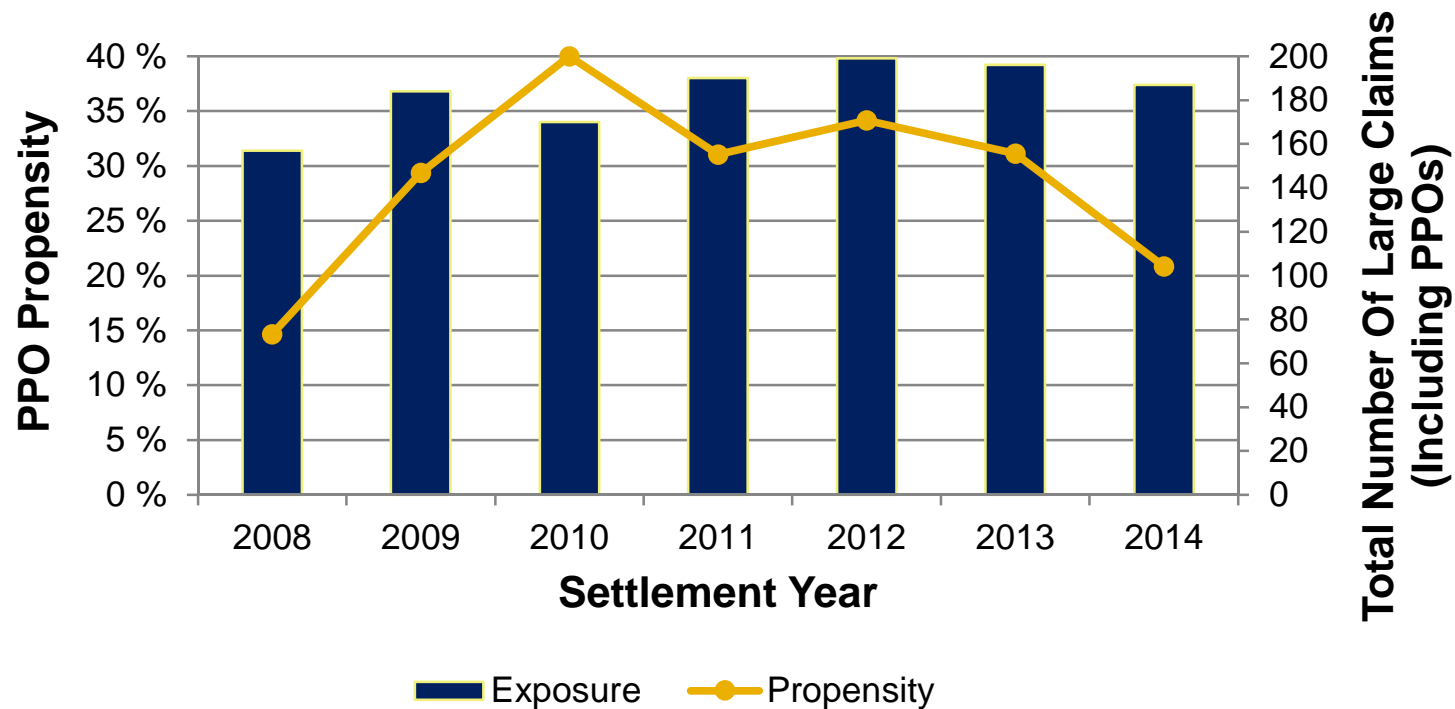
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- Number of total PPO settlements 20% lower in 2013 compared to 2012.
- Number of total PPO settlements in 2014 are 31% lower compared to 2013.

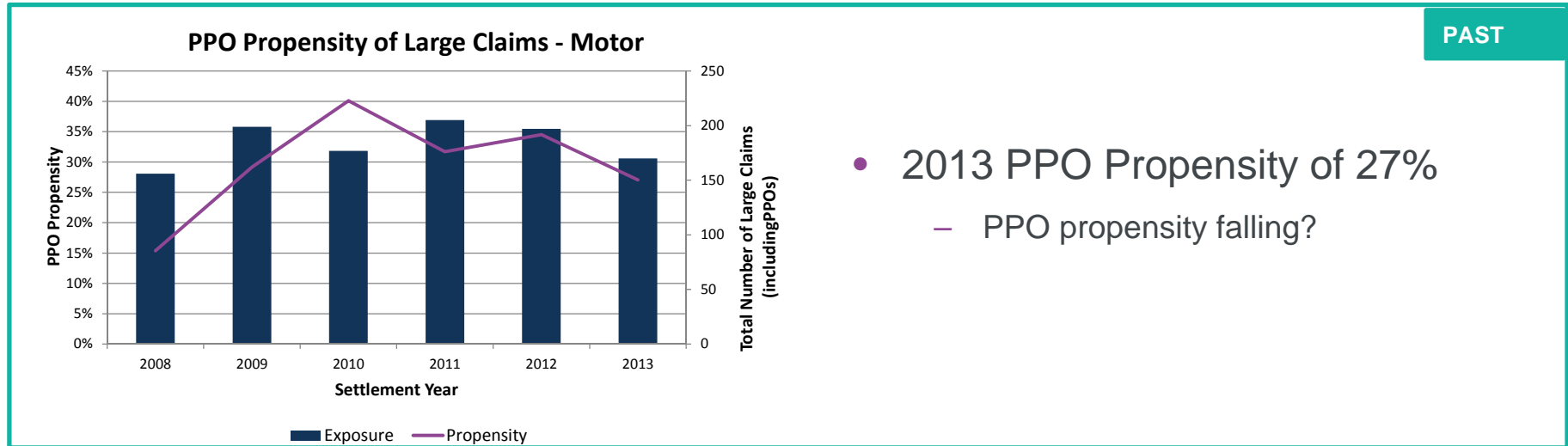
PPO Propensity – as at 2014

PPO Propensity Of Large Claims - Motor

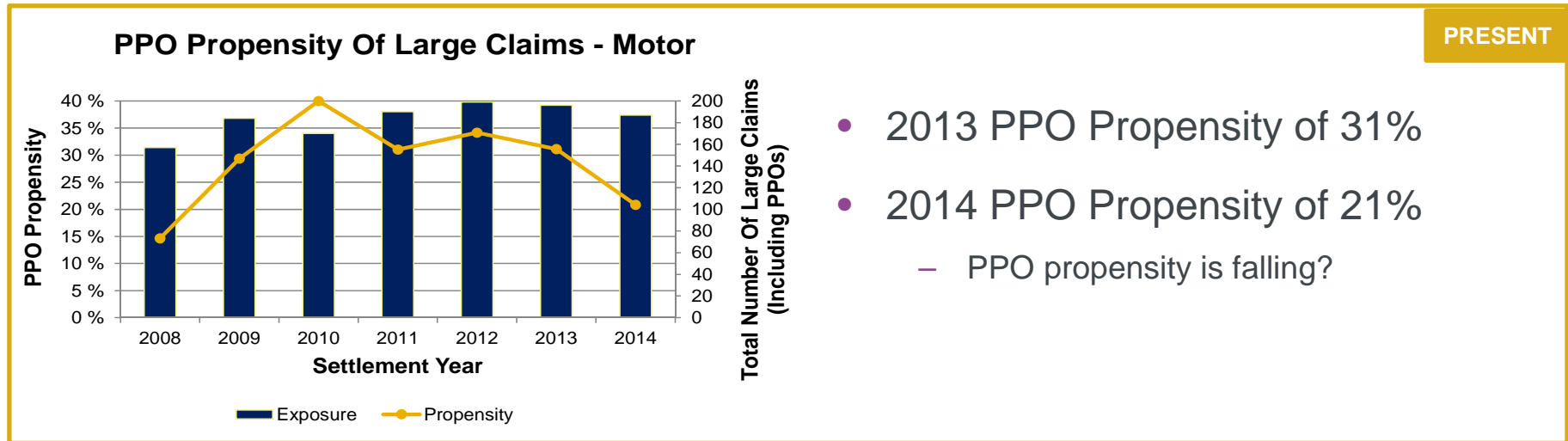


- Motor PPO propensity averages 33% from 2009 to 2013.
- Motor PPO propensity in 2014 is 21%.

What happened in 2013?



What are we saying happened in 2014?



PPO propensity fall

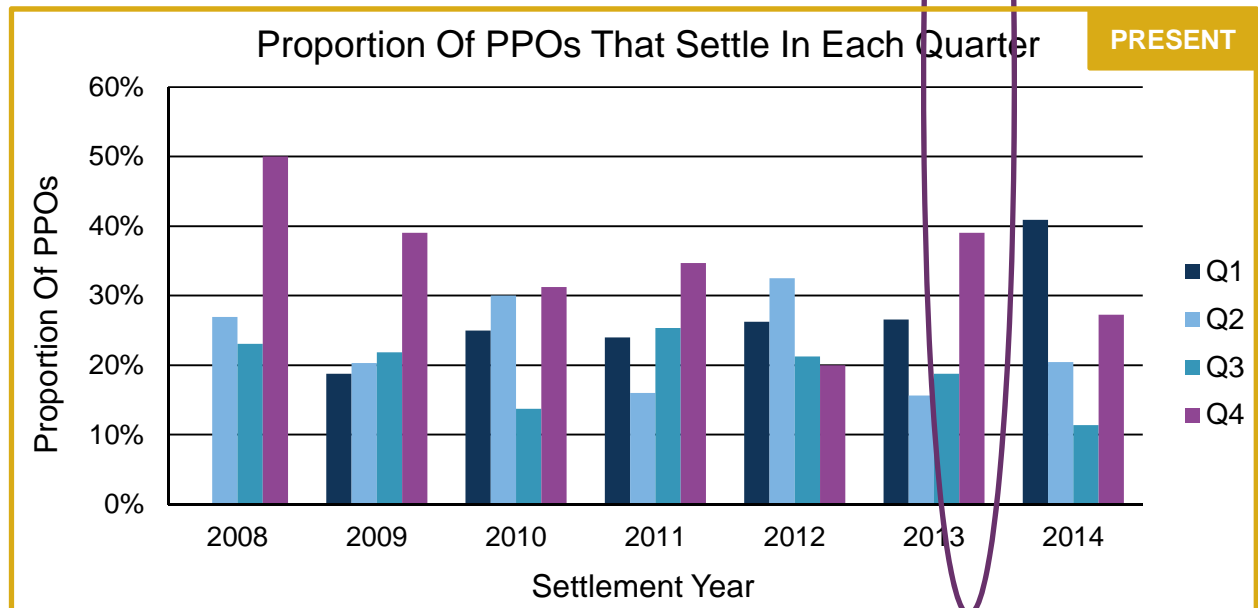
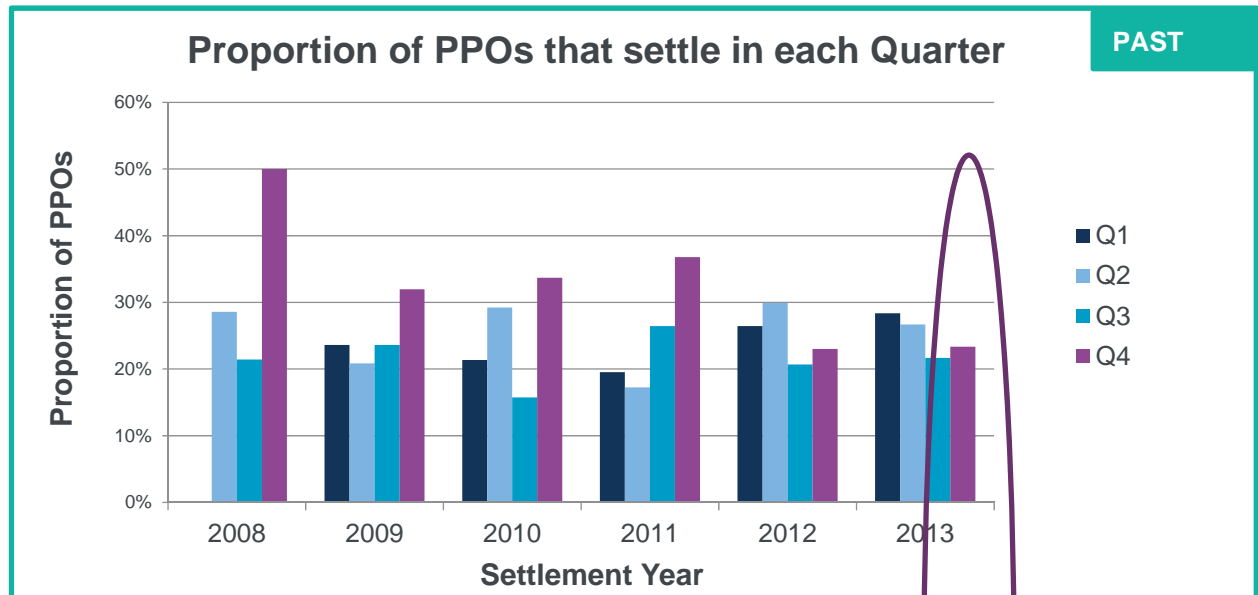
Potential explanations last time

GIRO2014

- Data collection issue (late recording of PPOs)
- Volatility not trend
- Ogden
- Old stock clearance
- Insurer claims management behaviour
- Claimant appetite

Late reporting

- In 2013 we didn't think the reporting of claims was an issue.
- Different contributors, but can see we were missing some Q4 PPOs.
- Looks like should be less of an issue in 2014.

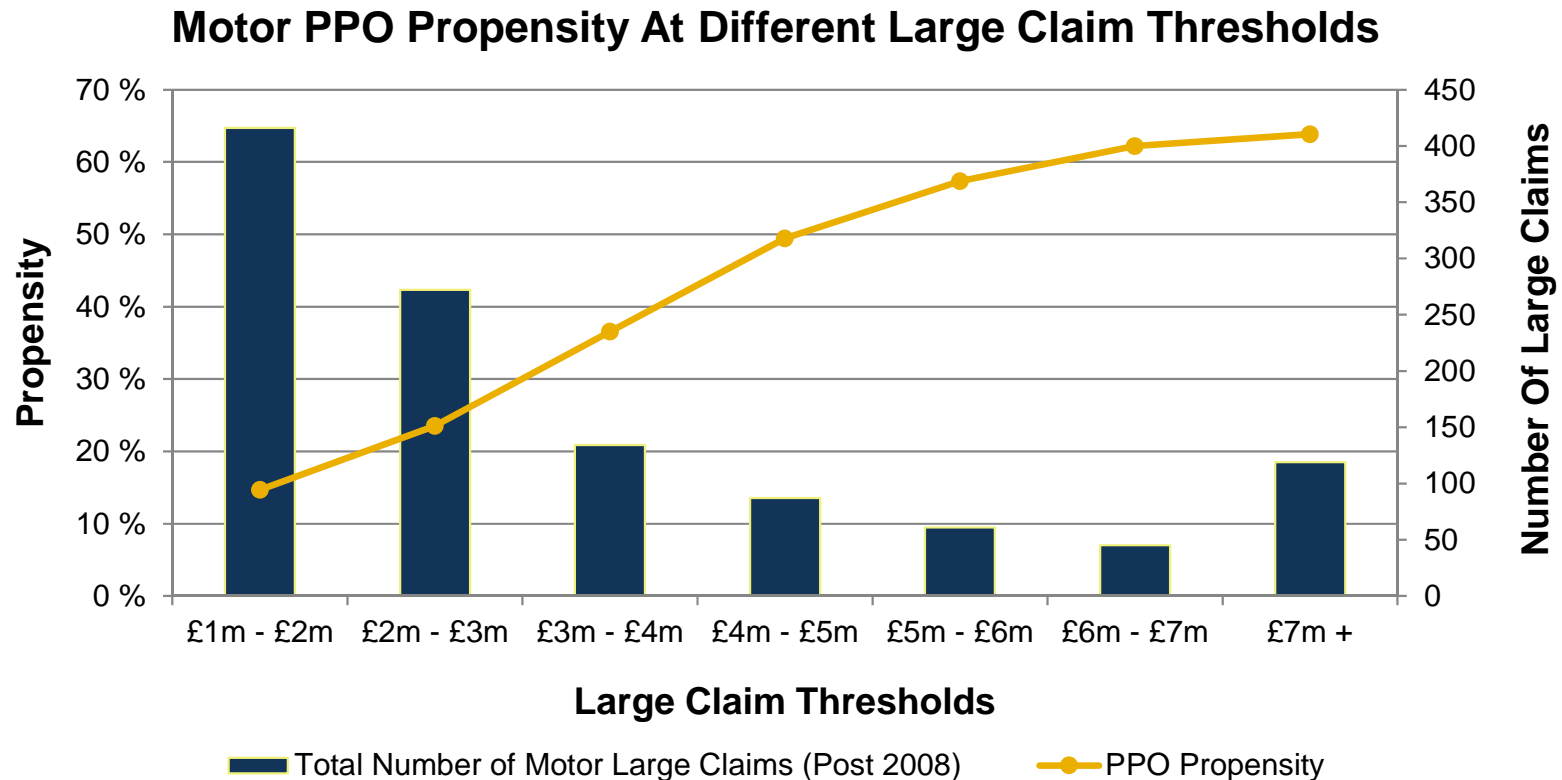


PPO propensity fall

Potential explanations this time

- Data collection issue (late recording of PPOs)
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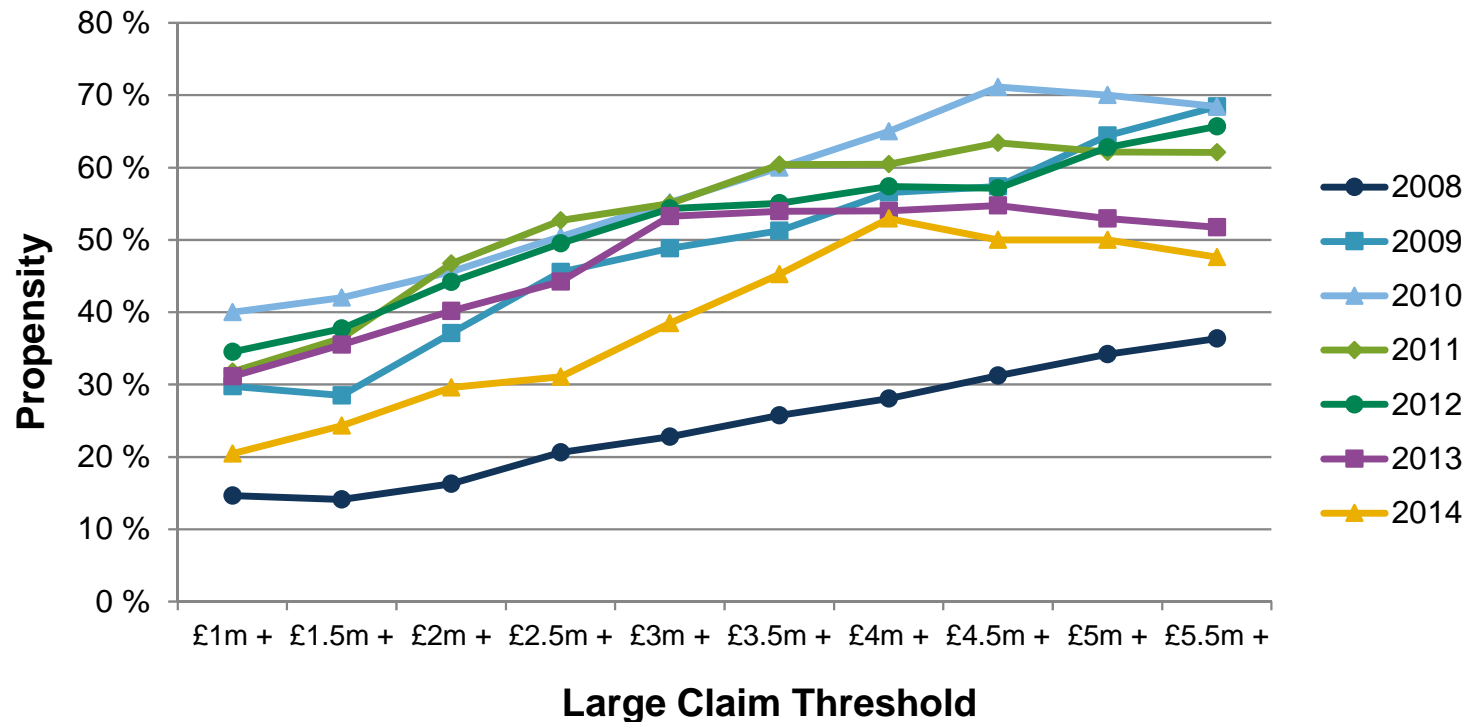
PPO Propensity by size – as at 2014



- All settlement years from 2008 onwards
- Smooth increase in propensity by size of large claim

PPO Propensity by size & year – as at 2014

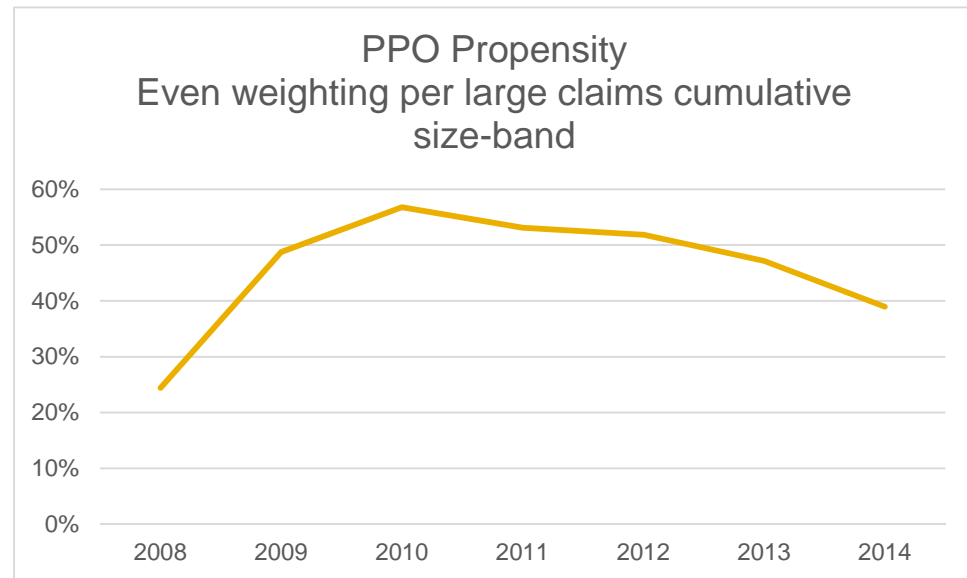
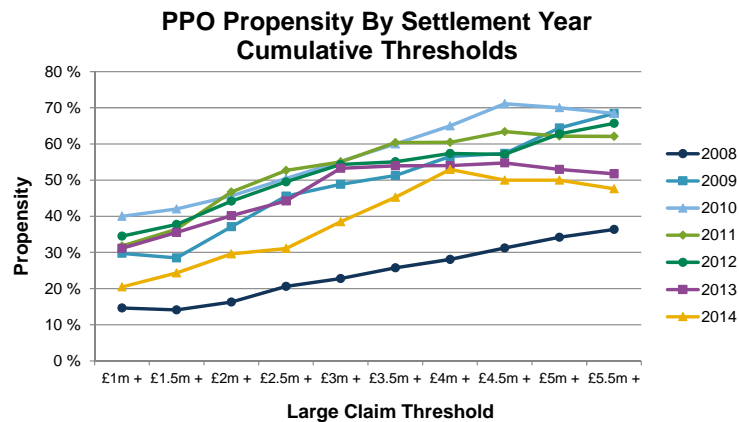
PPO Propensity By Settlement Year
Cumulative Thresholds



- 2014 settlement year PPO propensity has dropped across all size bands
 - Ranges from 20% to around 50% by cumulative size band

PPO Propensity – as at 2014

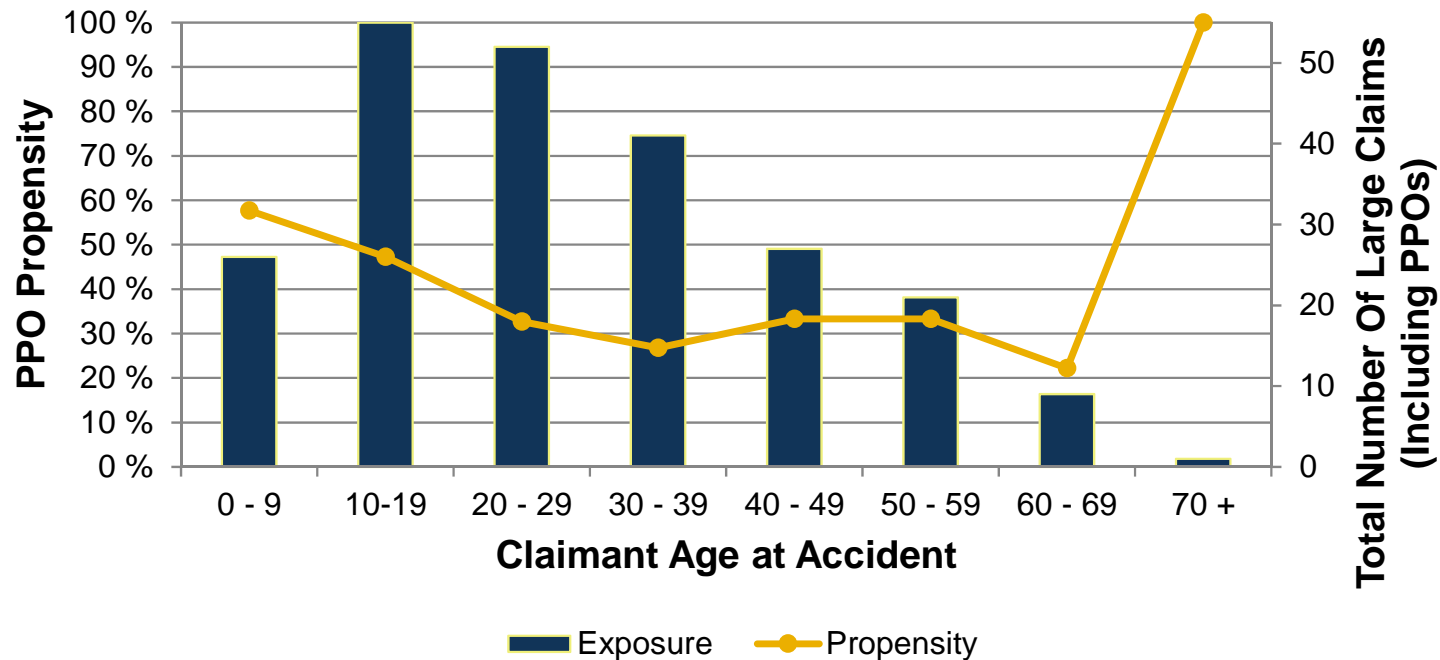
Averaged cumulative propensity by year



- Taking the average is equivalent to a weighted PPO propensity assuming the same distribution of claim sizes in each settlement year.
- By this metric, PPO propensity has been reducing from a height in 2010.

PPO Propensity by age – as at 2014

Motor PPO Propensity Of Large Claims - by claimant age



- Motor PPOs more common for youngest claimants than lump sum.
- Limited exposure, but possibly also higher for older claimants too.

PPOs : What will happen in the future?

Past

- Courts Act
- The Working Party (WP)
- Indexation

Present

- Propensity
 - Year
 - Size
 - Age

Future

- Ireland
- Inflation
- Credit Risk
- WP



Ireland

- 2 Material changes
 1. Discount Rate for Lump Sums
 - Russell v HSE set discount rate for future care at 1% (v 3 %)
 - Further changes expected
 2. PPOs
 - Draft Civil Liability (Amendment Bill 2015) published
 - Allows for PPOs
 - Going through due process

Ireland – Discount Rate

17 December 2014 and prior

- All large bodily injury losses settled on a 3% discount rate

18 December 2014

- In Russell v HSE, Justice Cross set a discount rate at 1% (SCA case)
- For 20 Year old – 60% increase in this head of damage
- Future
 - Case will be appealed
 - Expected any time
 - Affects PPO propensity (?)

PPOs in Ireland

- 27th May 2015 – Draft Civil Liability (Amendment Bill 2015) published
- Seeks to establish PPOs in Ireland
- Key features
 - Catastrophic injuries only (needs definition)
 - Stepped payments allowed, variability orders not allowed
 - Inflation linked to HICP initially (UK RPI initially)
 - Inflation to be set every five years by the minister for justice (finance)
 - NTMA have proposed issuing bonds – Implications for matching adjustment.
 - Requires security of payment to be considered
 - EU/Irish insurers security confirmed by proposed extension of ICF
 - Judges will be able to award against the wishes of claimants

PPOs in Ireland

- Indexation – from the draft amendment

“Such regulations shall have the aim of ensuring that the indexation used to calculate annual changes in the costs arising for plaintiffs adequately measures such changes in costs, having regard to the changes that have occurred in the index and in such costs over the previous 5 year period. “

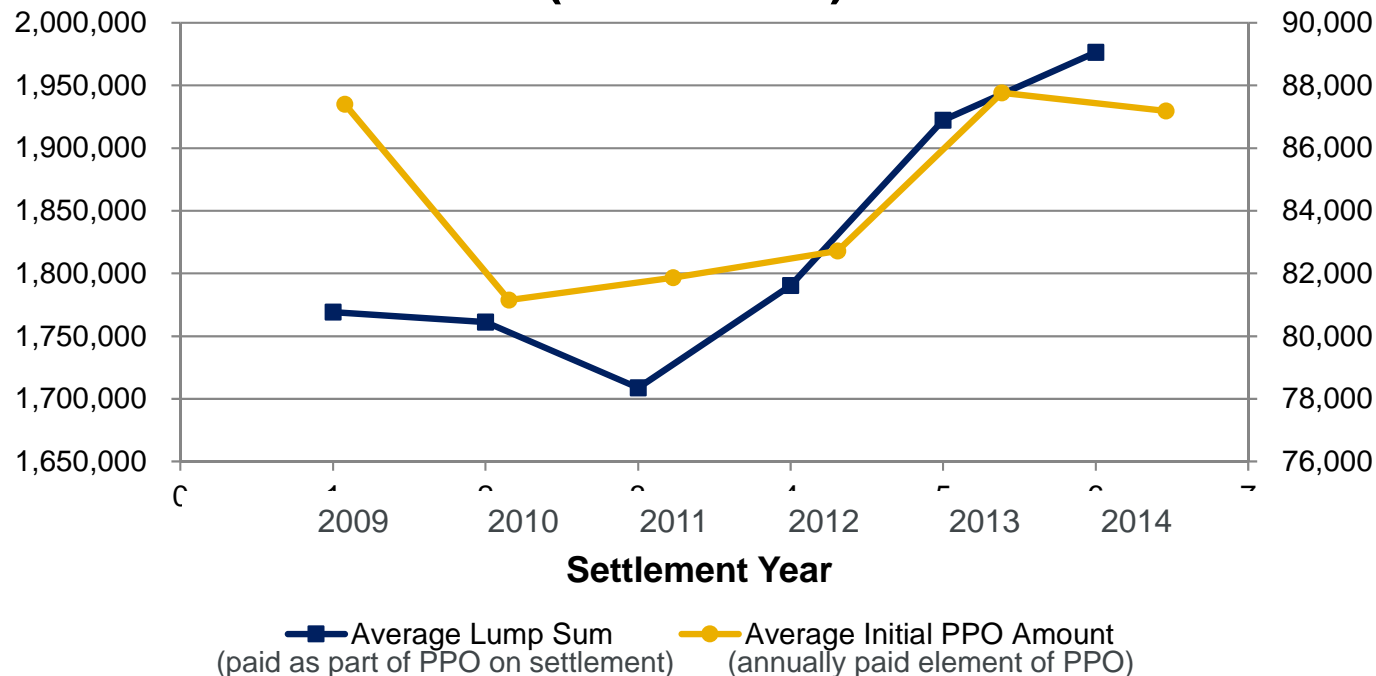
“The aim would be to ensure that the index being applied correctly measured the change in costs for plaintiffs, “

PPOs in Ireland

- Next steps
 - Needs ratification through parliamentary channels
 - Now passing to Joint Committee on Justice, Defence and Equality for pre-legislative scrutiny
 - There is an election coming
 - Opposition more inclined towards social justice?
- Key Insurer Valuation Considerations
 - Discount Rate
 - When
 - Indexation
 - How many? / Which ones?

PPO Inflation – severity (pre-settlement)

**Average PPO amounts by settlement year
(unindexed)**

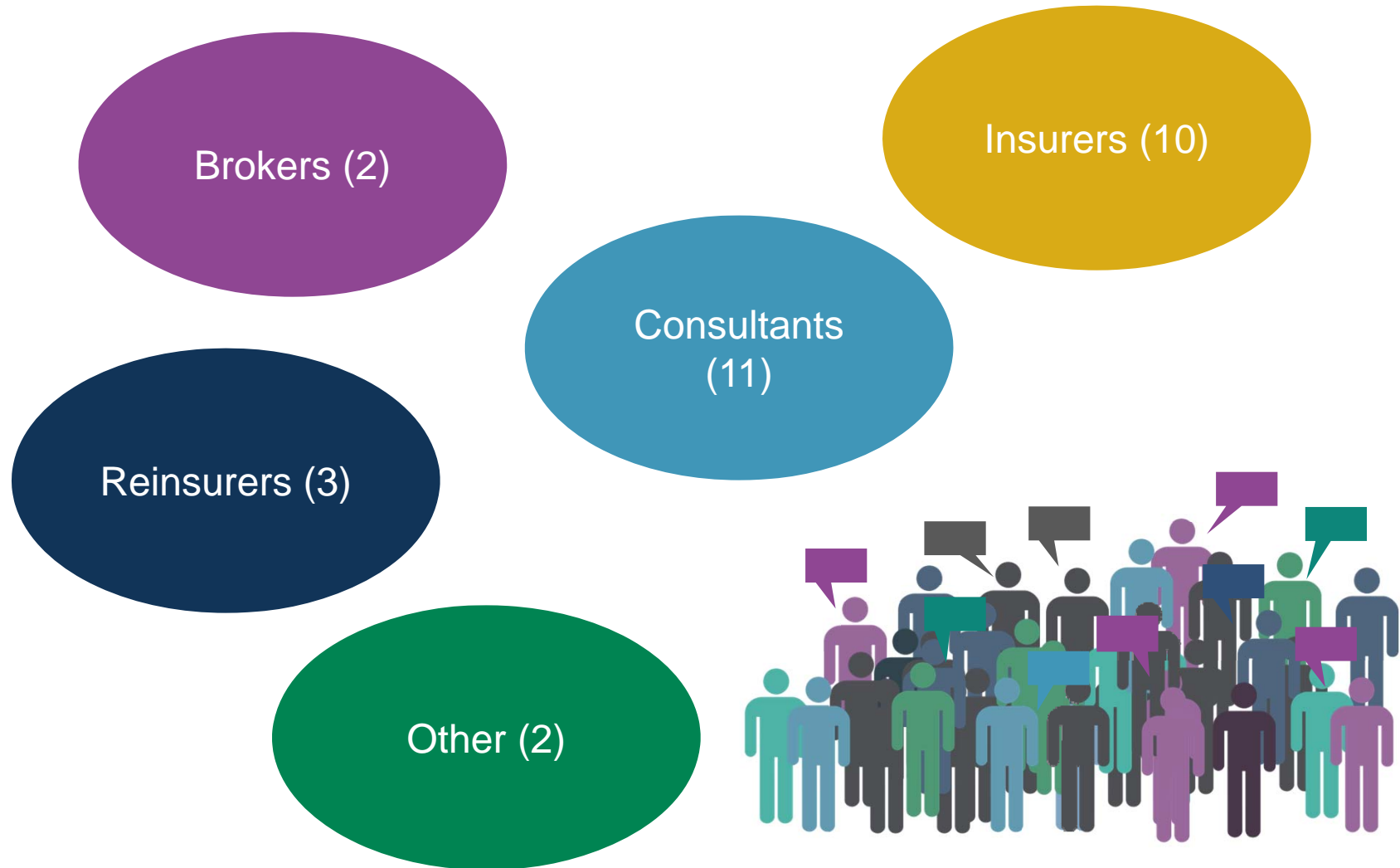


- Average inflation over the last five years in Lump Sum amounts is 2%.
- Average inflation over the last five years in Initial Annual Payments is 0%.
 - 2% over the last four years (ignoring 2009)

PPO Reinsurance Credit Risk

- When we surveyed direct insurers last year, few were holding a RIBD provision that considered PPOs.
- Will any reinsurers fail on PPOs?
 - If not, what will their willingness to pay be?
- Capitalised market has emerged
 - But traditional market still exists
- Insurers should be pricing into reinsurance purchase decisions
 - Uncertain costs due to extrapolation of default curves over 50 years into the future

Who are we?



What are we doing?

- Survey continuation
- Mortality
- Information paper
- Market solutions
- Reinsurance pricing
- Capital
- Index paper
- Ireland? Discount rate?



Conclusion



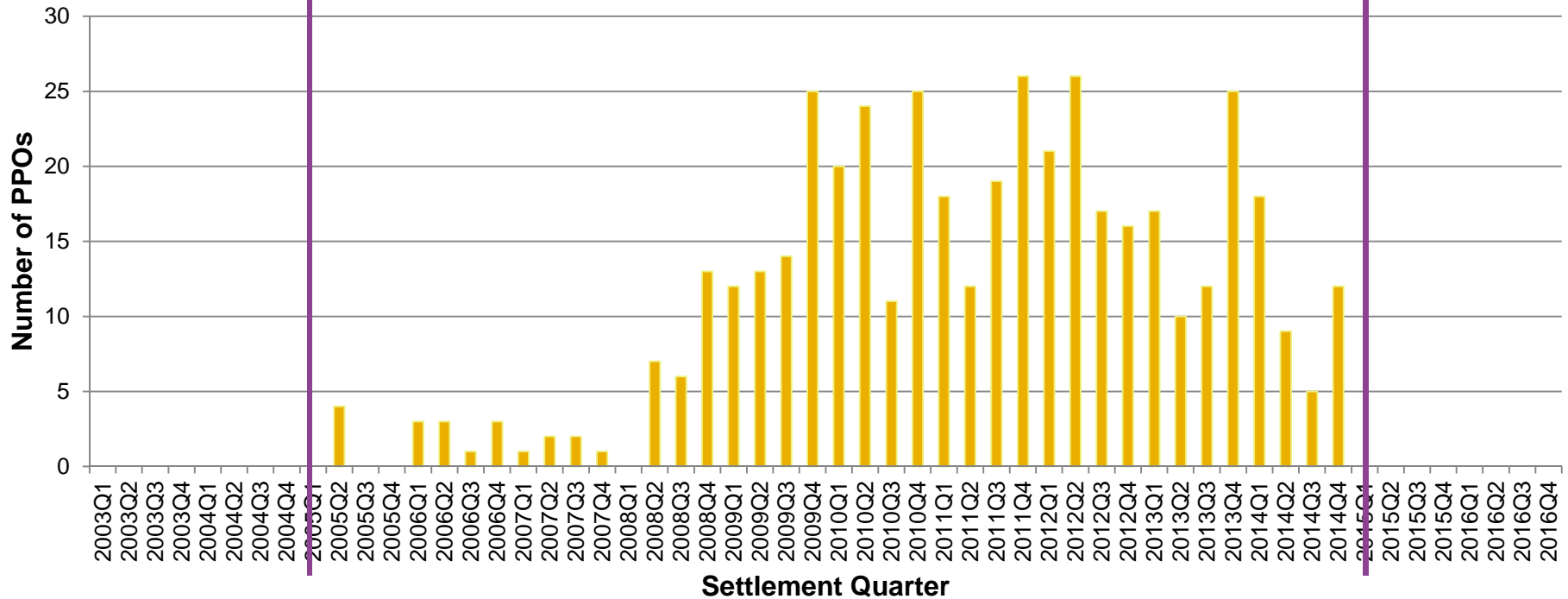
PAST

PRESENT

FUTURE

Conclusion

Number Of PPOs By Settlement Quarter



2005

10 years in...

Courts Act 2003

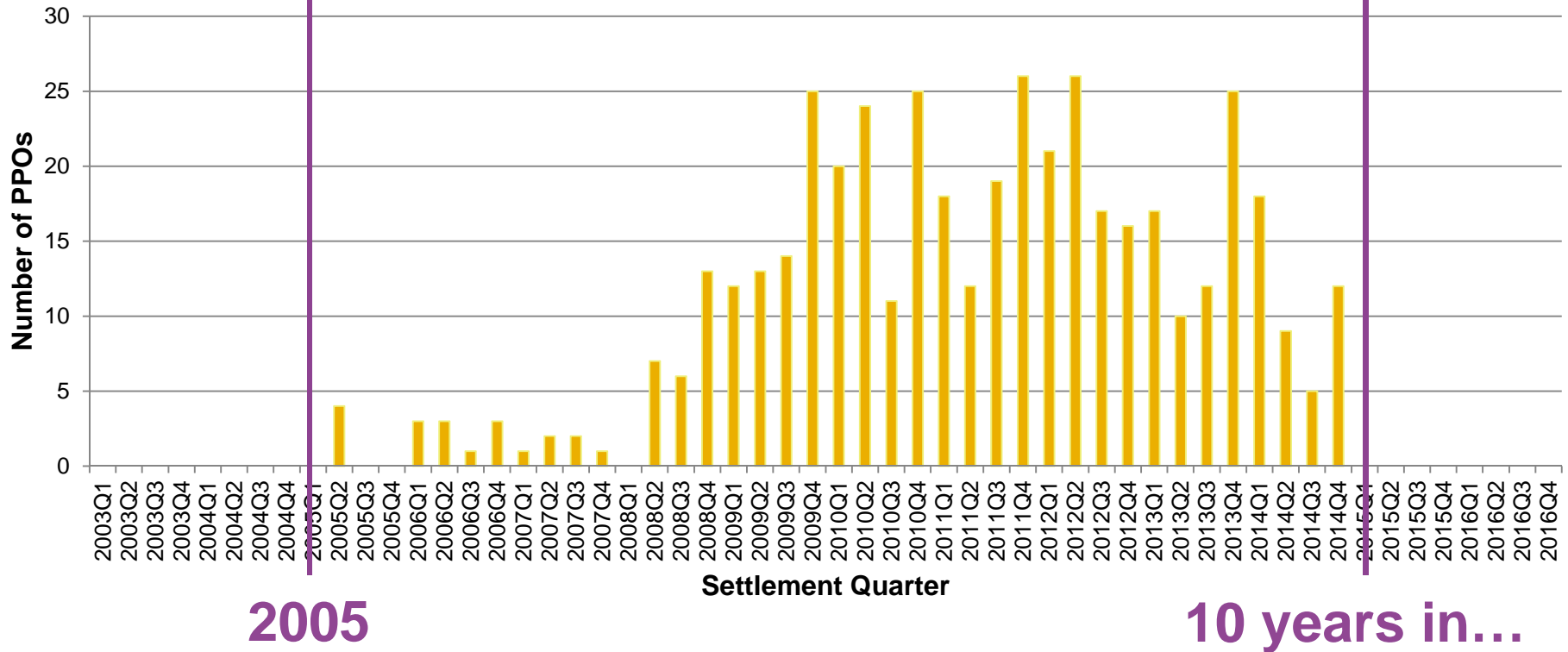
Increase in PPO uptake

Increase in sophistication of modelling

Drop in PPO propensity

Conclusion

Number Of PPOs By Settlement Quarter



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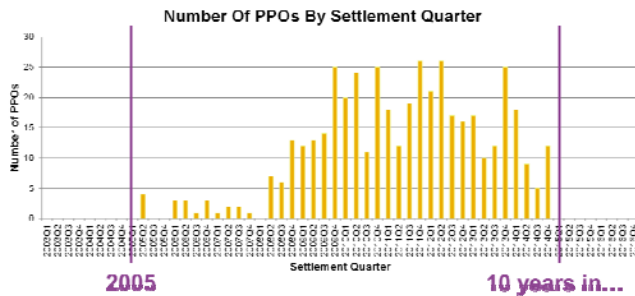
Conclusion

Are we still afraid?

Impact of any Ogden real discount rate change

Impact of Solvency II

Make up an increasing proportion of reserves



...but a long way to go

Will a reinsurer ever fail and default on PPO liabilities?

Will PPO claimants live longer than expected?

Will a steady state of PPOs ever arrive?

Questions

Comments

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Questions



Comments

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