

OGDEN TABLE CHANGES BY ALAN CHANDLER, CHARTERED INSURER

www.alanchandler.co.uk

E mail alanchandler@uwclub.net

I have trained more than 1,000 individuals to become fully ACII qualified.

I can make passing Cii exams much easier for anyone at any level – please talk to me about how I can help you and your firm.

Alan Chandler, Chartered Insurer

- **I have trained more than 1,000 individuals to become ACII qualified**
- I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.
- I train to a pass rate of more than 96% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.
- I deliver the Allianz scholarship and academy programmes in both the UK and Ireland and I have been a Cii examiner.
- I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).



The Discount Rate (Ogden table change)

- The Discount rate essentially calibrates the level of discount to be applied to a personal injury settlement to reflect the level of return that an individual can reasonably expect to achieve through investment of their damages fund.
- The recent rate change was the first time this rate has changed since 2001.
- EACH PERSONAL INJURY CASE WILL BE INFLUENCED DIFFERENTLY BY THE DISCOUNT RATE.
- It supports the principle of indemnity which underpins the Civil Court system in the UK.
- The change in this rate will create the first truly hard market in the UK for over 10 years.

- It should be noted that the change in the discount rate will have a massive effect on large personal injury claims but little or no effect on small personal injury cases or property damage cases.
- Basically Insurers are going to have to completely re-rate for the high severity personal injury claims.
- The recent rate change does not currently apply to Northern Ireland whose devolved parliament will need to make their own decision, but it does now apply to Scotland.
- To fully understand how the discount rate works we need to understand both Special and General Damages.

Special Damages

- Capable of precise evaluation and sustained between date of accident and date of trial.

Includes:

- Loss of earnings
- Damage to clothing and other expenses.
- Cost of Care.
- Remember these are only up to date of trial

General Damages

Main Headings

1. Pain, suffering and loss of amenity
2. Handicap in labour market.
3. Loss of congenial (enjoyable) employment.
4. Future loss of earnings including pension earnings.
5. Future cost of care/specialist equipment.

4 and 5 are the big two and these are impacted by the discount rate.

General Damages for loss of future earnings and future cost care:

1. Calculated from date of trial.
2. Used where there is permanent or long-lasting disability, total or partial.

To calculate we use two things the multiplicand and the multiplier:

Multiplicand

Reflects difference between claimant's net annual income before and after date of injury.

e.g. June was earning £20,000 per annum before loss and can now only work 3 days a week due to her injury so multiplicand = £8,000.

Multiplier

- Number of years from date of trial until normal retirement for that occupation.
- A discount is then applied using Ogden tables to take into account Investment income on an up front lump sum.
- If there was no discount rate June would have got
- $£8,000 \times 20 = £160,000$
- If June was 40 at trial and her retirement age was 60 her net multiplier pre 20/03/17 would be 15.54 even though she had 20 years of potential loss of earnings.
- Old Discount rate used for Ogden was 2.5%
- In this case $£8,000 \times 15.54 = £124,320$.

A decision by this lady has changed all of this!!!



New rate effective from 20/03/17 is

— 0.75%

Yes Minus !

Implications:

- Cost the UK Insurance Industry over £7 Billion adjustment cost and in excess of £2 billion per annum thereafter
- Cost the tax payer £1 Billion (ouch) in increased claims against the NHS
- It will make Solicitors very wealthy hence the tweet “Is it too early to open the Moet !!!

Multiplier

- **Lets look at June case again but using the new Discount rate**
- If June was 40 at trial and her retirement age was 60 her net multiplier would have been 15.54 on the old rate even though she had 20 years of potential loss of earnings.
- Remember in this case it came to $£8,000 \times 15.54 = £124,320$.
- If there was no discount rate she would have got
- $8,000 \times 20 = £160,000$
- In the world post 20/03/17 we now load not discount. In June's case this would be 1.1625 loading
- So new Ogden would be $£160,000 \times 1.1625 = £186,000$
- Happy June, happy solicitors, unhappy Insurers!

Here's some examples of how the change of rate will change large case settlements:

Case One

Below Knee Amputation

23 years of age at date of settlement of claim

Settlement £1,093,809 using the old 2.5% rate including the Future loss element of £868,748

NEW — 0.75% rate applies to the same claim.

Total loss £2,297,169 as the future loss element has gone up to £2,072,108.

This is a 110% Increase!

Remember this is the same incident the only difference is the Lord Chancellor's decision

Case Two

Serious Brain injury to a person of 21 years of age at date of settlement.

At 2.5% rate

Claim would settle at £9,072,028 with a future loss element of £8,242,086.

At – 0.75% rate

Claim would settle at £20,020,103 with a future loss element of £19,193,161

This is an increase of 121%

Think about policy limits – EL, PL, Products are probably now all too low!

Case Three

Fatal accident on a Construction Site, the deceased was aged 55 with a teenage daughter.

At 2.5% rate

Claim would settle at £721,009 with a future loss element of £578,569

At – 0.75% rate

Claim would settle at £1,065,020 with a future loss element of £922,580

This is a 48% increase

So what about periodic payment orders will these help Insurers?

Solvency II says probably not!

In practice what does mean for the UK Insurance market?

- Rate increases of between 10% to 20%.

This will be IN ADDITION to the increases due to IPT!

- An average of £80 per policy for Motor Insurance – but this disguises the fact that it will hit the young and elderly disproportionately. Young driver premiums increasing by up to £1,000 over 70 premiums increasing by £300.
- Major solvency implications for Insurers
- Any risk which has high exposure to high severity personal injury claims will see significant rate rises.



So how can brokers deal with these large rate changes?

1. Educate customers – knowledge is King. Work out when is the optimum time to pre warn the customer. It is important to stress that Insurers will in all probability be losing money in 2017 despite the premium hikes. This is not large institutions making profits, this is a Government decision which means rates will HAVE to go up.
2. Be aware of the fact that very few risks will renew at level rates, if you achieve this clients need to know this will be an achievement.
3. Remember not all risks will be affected by the discount rate change. If a risk is mainly a property exposure then challenge any rate increase – don't let insurers apply crude rating tools – make them underwrite correctly.

But this can also be seen as a great opportunity for brokers.

The opportunities

1. Broker Commission will increase.
2. Many Cases will come to market – those that can explain professionally why the premium rates have increased could win many new clients.

THIS IS AN GREAT OPPORTUNITY FOR BROKERS TO DIFFERENTIATE THEMSELVES.