



GOVERNMENT ANNOUNCEMENT: PERSONAL INJURY DISCOUNT RATE CHANGES

The Justice Department has announced changes to the personal injury discount rates within the Ogden tables; the new rate becomes effective from 20th March 2017. The discount rate is a percentage reduction applied to lump sum compensation awards to allow for the estimated return on investment of this sum over the future loss period.

What's changing?

Applicable to lump sum bodily injury compensation awards, the discount rate is a framework for calculating compensation awards for long-term loss.

Having been set at 2.5% in 2001, the rate will move to minus 0.75%. Whilst at first glance this may appear a modest percentage movement, the impact on claim payments will be significant.

Example 1

A 30 year old earning £25,000 per annum is seriously injured in a road accident and unable to resume work with long-term care at £75,000 per year.

On the basis of the current discount rate of 2.5% the loss of earnings and care claim would amount to £2,791,000.

The move to a discount rate of minus 0.75% increases the claim to £6,325,000, an increase of 127%.

Example 2

A 20 year old is injured at work and pursues a claim against his employer. His claim includes continued loss of earnings of £25,000 per annum until retirement age at 65. On the basis of the 2.5% discount rate, this would equate to a loss of earnings claim of £639,750. However, on the basis of the new minus 0.75% discount rate, the resulting loss of earnings claim is £1,200,375 resulting in an additional payment of £560,625.



Who will be affected

The change relates to any claim settlements post 20th March 2017; as a result of which insurers are making significant increases to their current claims reserves.

The Association of British Insurers estimates the total cost to be as much as £7bn. Insurers are announcing substantial increases to their claims reserves directly resulting from this change.

The Treasury have announced that the impact to the NHS is likely to be an increase of £1bn in medical negligence claims.

This will impact policyholders with an increase in claims reserves under Motor, Public and Employers Liability. This will inevitably lead to increased premiums, however it's too early say what the scale of increase will be across the industry.

What next

Whilst the new rate will come into effect from 20th March 2017, it is possible it may not be in place for long.

The insurance industry, through the ABI, continues to lobby government who have approved an urgent review, involving consultation with interested parties before Easter 2017 to identify whether there is a better and fairer framework for establishing the discount rates.

This increasing pressure on claims costs further highlights the need to engage in active risk management in reducing the number of claims and the cost – an active profile will provide you with an edge in the insurance market.

Christies will continue to monitor the situation and will keep you informed of developments. We are available to identify how best mitigate this issue and to ensure the best possible solution is achieved. If you have any concerns, you are welcome to contact us.

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For more information contact

T: 0207 444 0040

E: enquiries@christieinsurance.com

W: www.christieinsurance.com

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