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PPOs – A new dawn?

Presented by Chris Francis and Paige Yallop, WTW

Agenda

Introduction



- What data are we looking at? How is the current analysis progressing?

Propensity



- The headlines from the most recent quantitative propensity analysis.

COVID-19



- Thoughts on the impact of COVID-19 on PPOs.

Going Forward



- What's next? How are we updating our analysis?

Questions

Comments



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Introduction

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Introduction

- Data taken as at 31 December 2020
 - The current batch of data does not cover as many insurers as previously (6 as opposed to 10).
 - We are working towards increasing participation in future years.
 - If you have previously contributed but not in recent years, or have never contributed but are able to, we encourage you to get in contact to help us present more credible and data-rich analysis.
 - The data presented comes from contributors making up around 50% of the PRA regulated UK Motor market.
 - Please do not compare results to previous analysis.



Introduction

- Thank you to all our participants!
- Please keep contributing and using our Injury and Care Categorisations.
 - 65% of contributors are using these categorisations, which are being used on around 25% of claims.



Introduction

- Caveat: Please note that the graphs presented in this pack are subject to further change.



- Given the low number of participants and hence large claims within the analysis, there is a high degree of uncertainty within the figures presented which should be considered when interpreting these results.
- None of the following analyses contain MIB PPOs or non-PPO large claims, unless explicitly stated.





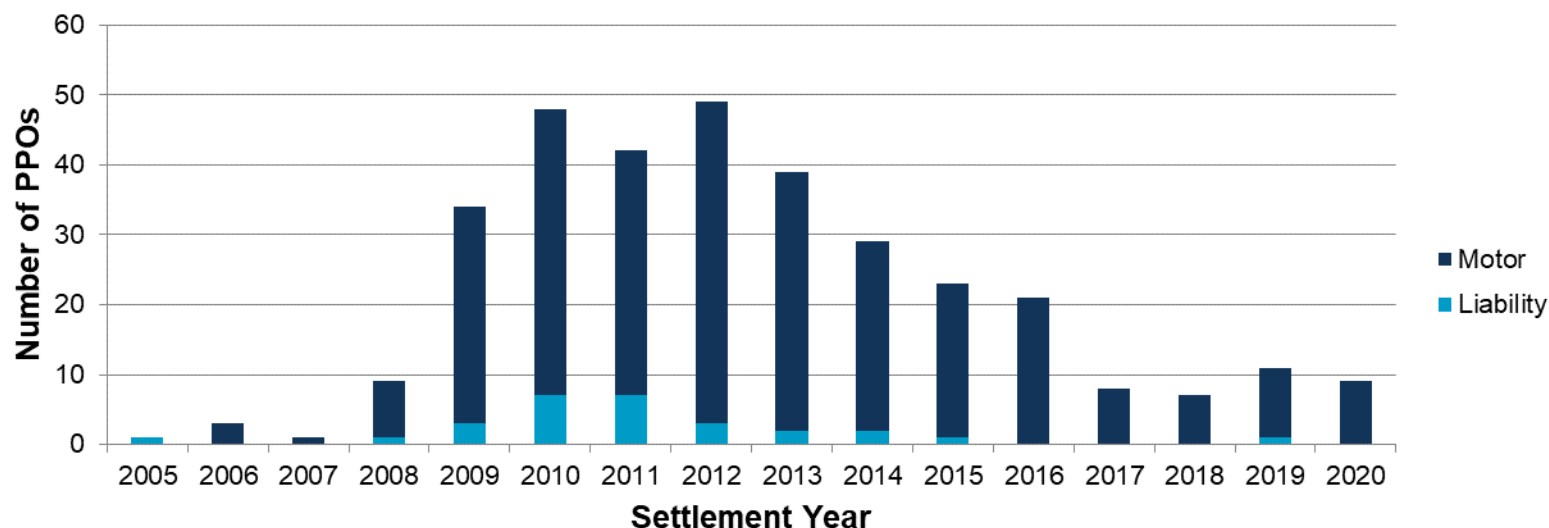
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PPO Propensity

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Number of PPOs

Number of PPOs by Settlement Year



- The number of PPOs settling remains at a low level compared to 2016 and prior.
 - The number of PPOs settling in 2020 has reduced by 79% from levels seen in years 2009-2013.
 - The number of PPOs settling in 2020 has reduced by 63% from 2014-2016 levels.
 - The number of PPOs settling in 2020 has increased by 20% from levels seen in years 2017-2018.
 - The number of PPOs settling in 2020 has decreased by 18% from the level seen in 2019.
 - Few Liability PPOs since 2015.



PPO Propensity Analysis

- Please note that all of the following propensity graphs involve Motor large claims from 2009 onwards ONLY, unless otherwise stated.
- Large claims have been included in these graphs if they were > £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, as explained in the following slides.

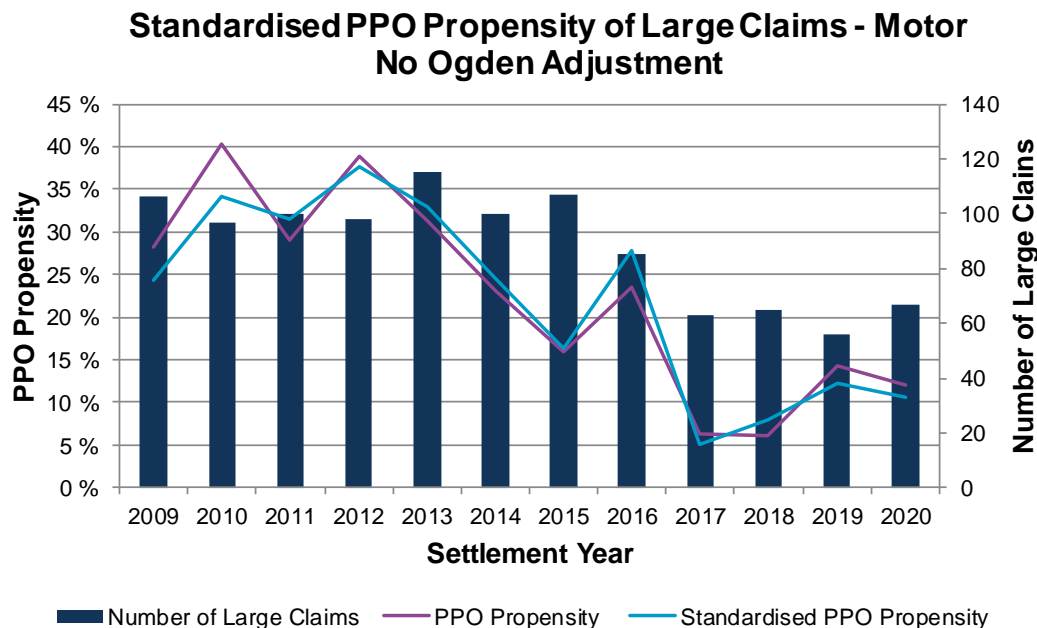


PPO Propensity Bases

- Akin to our more recent surveys, we present PPO propensity on a raw basis as well as a standardised basis.
- We standardise the propensity by taking into account the mix in the size of claims experience in each year.
 - This produces a PPO propensity with no bias due to the volatility in the size of large claims by year.
 - Information on how this is done can be found in the appendix of this presentation or in last year's GIRO presentation.



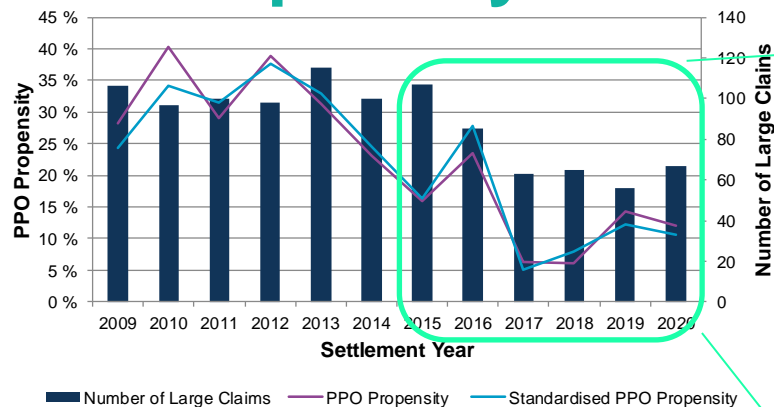
PPO Propensity – Without Ogden Adjustment



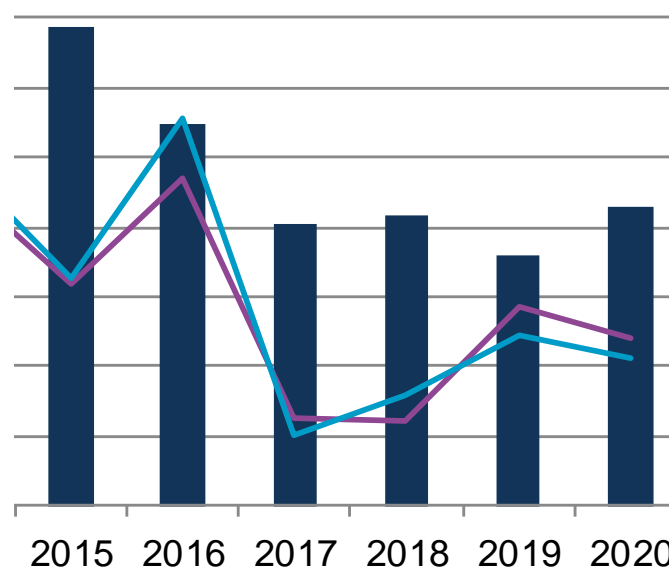
- Motor PPO propensity for the 2020 settlement year remains at a broadly similar level to 2019: the standardised propensity has reduced by 12% and the raw version has reduced by 16%.
- A small increase in the number of large claims settling above £1 million compared to 2019, with 2020 exhibiting a similar number of large claims to 2017 and 2018.
- However the number of large claims settling is still a lot lower than seen in 2016 and prior. We would expect more large claims to settle above £1 million now compared with 2016 and prior (pre Ogden change), so the lower levels post-2016 suggest a backlog.



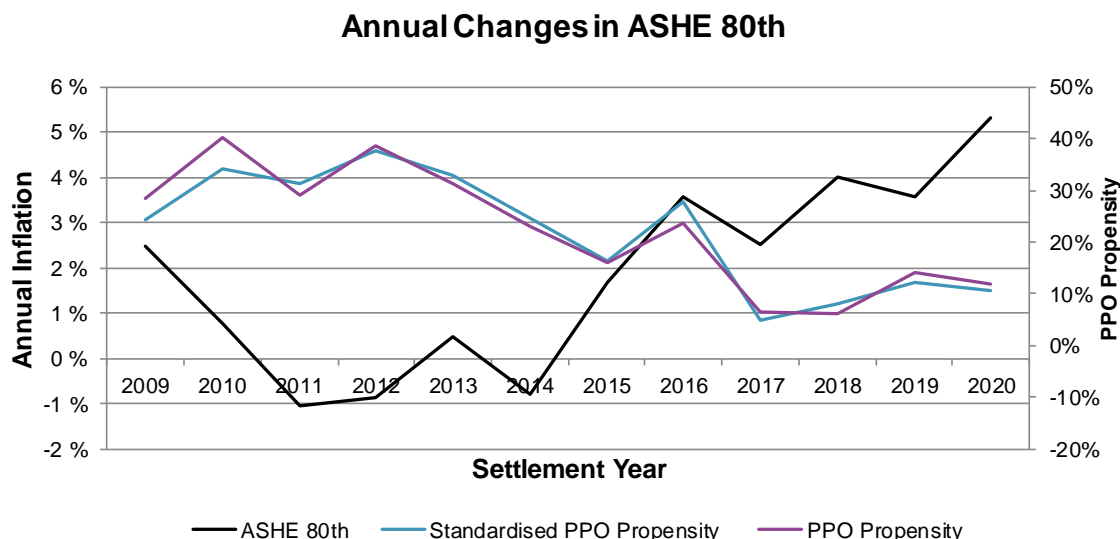
PPO Propensity – Without Ogden Adjustment



- Clearly there is a step in 2017 when the Ogden discount rate changed from 2.5% to -0.75%.
- In 2019 when the Ogden rate changed from -0.75% to -0.25% there is also a smaller upward step change.
- The standardised line (blue), which eliminates variation owing to the mix in the size, has increased by around 5% since the Ogden-driven step change in 2017.



PPO Propensity – ASHE Index



- Between 2010 and 2014 the growth in the 80th percentile of the Annual Survey of Hours and Earnings (ASHE) 6115 index was < 1% and negative for 3 out of 5 of those years.
- Between 2014 and 2016 the change in the index increased to a positive rate and remained broadly flat at an average of 3.4% between 2016 and 2019 with some year-on-year fluctuations.
- The ASHE index maintaining a positive rate will make PPOs more financially attractive and could be a contributing factor to the increasing trend in PPO propensity since the 2017 settlement year.
- The ASHE index sits at 5.3% for the 2020 year, which could reflect an increased demand for public and private healthcare amid the COVID-19 pandemic.



PPO Propensity – summary so far

In summary, there are various influences and factors to consider when explaining movements in PPO propensity. A changing Ogden discount rate means it is difficult to determine the strength of each of these factors.

The next few slides look to address the monetary Ogden impact so that we can assess the prevalence of other, non-Ogden related, trends.

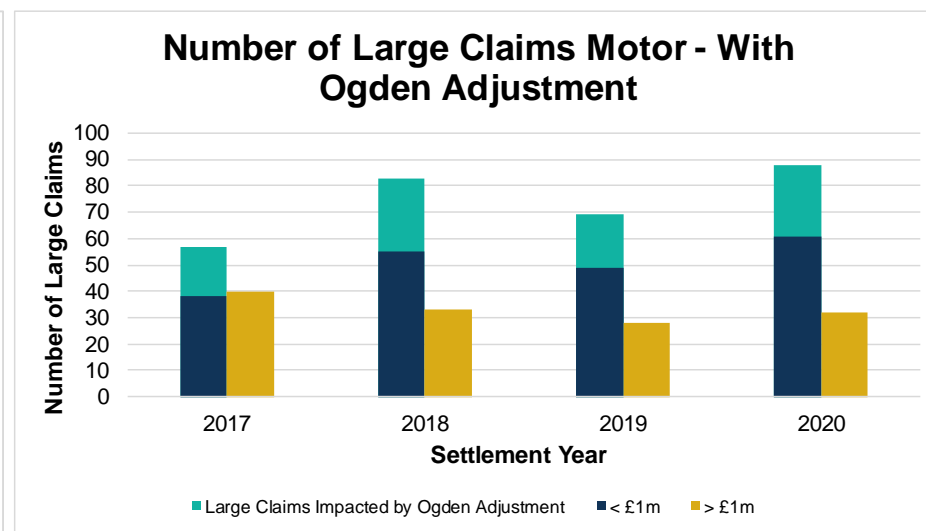
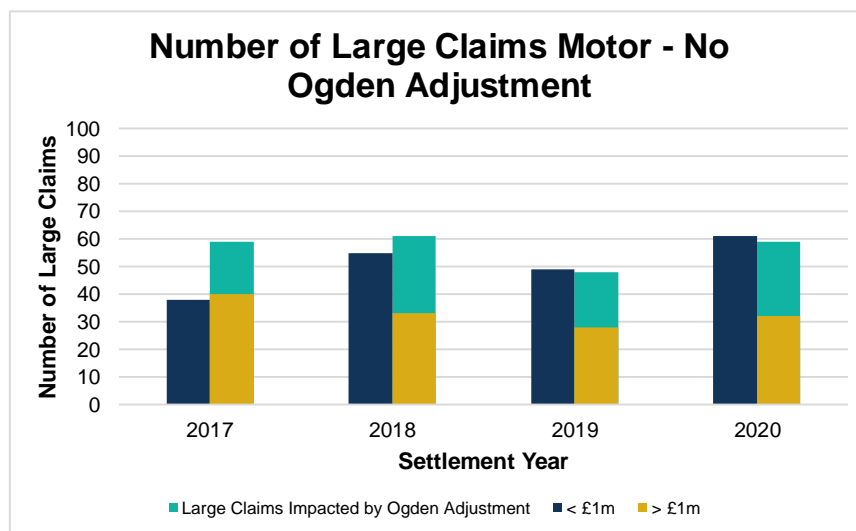


PPO Propensity Bases

- We now present the analysis with and without an adjustment for the change in Ogden discount rate.
 - We have calculated the adjustments
 - We have used the insurer provided values for
 - Estimated discount rate
 - Claimant details (age, impairment, gender, etc)
 - Financial amounts (lump sum, annual cost of care, etc)
 - Thus we have extracted the relevant multipliers by discount rate, age and gender and used these to adjust the settlement amount

| Time period / adjusted or not | Ogden equivalent PPO value discount rate | Large Claim discount rate |
|---------------------------------------|--|---------------------------|
| Pre March 2017 | 2.5% | 2.5% |
| March 2017 – August 2019 (unadjusted) | 0.5% | Rate used in settlement |
| Post August 2019 (unadjusted) | -0.25% | Rate used in settlement |
| Post March 2017 (adjusted) | 2.5% | 2.5% |

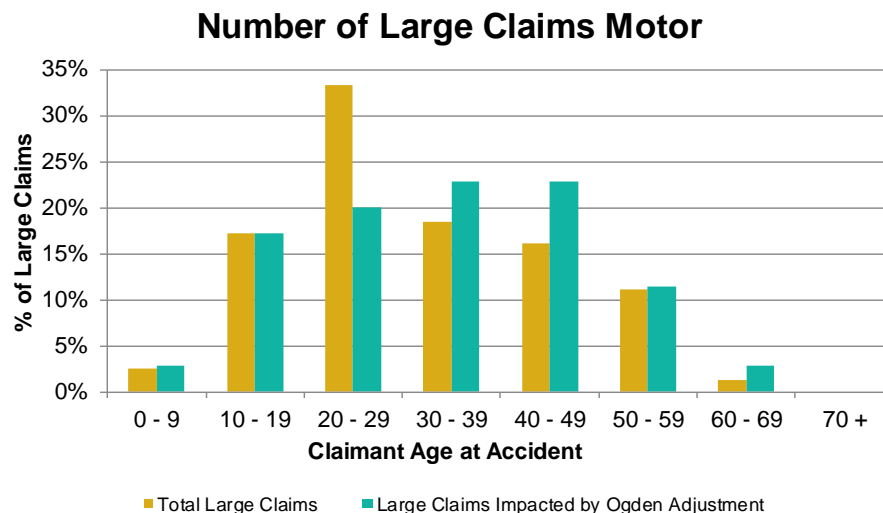
Number of Large Claims – Ogden Adjustment



- Large claims have been included in our analysis if they are > £1 million in 2011 money terms.
- When adjusting the large claims to be on a consistent 2.5% basis, the number within the analysis decreases.
- This is driven by large claims of a smaller total value being included in the analysis in a - 0.25% discount world. We would expect these claims to be in respect of:
 - Less severe injuries
 - Older age of claimant



Number of Large Claims – Ogden Adjustment



- The chart above illustrates the split of the total large claims for the 2017-2020 settlement years vs the large claims which fell beneath the threshold after the Ogden adjustment.
- In general, these claims which became non-large after the Ogden adjustment have a higher claimant age than the total large claims.
- As these claims tend to exhibit a lower PPO propensity, we would expect the overall propensity to increase for the 2017-2020 years, when making the Ogden adjustment.
- Please note that this is a small subset of data, so subject to volatility.

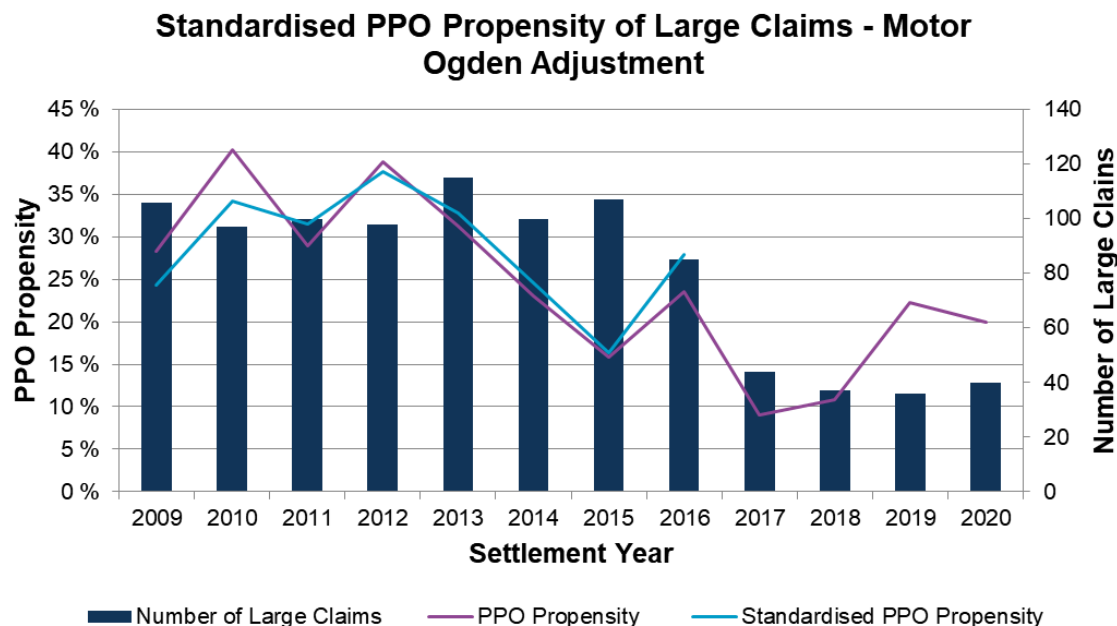


Number of Large Claims – Ogden Adjustment

- What does this mean?
- We expect the Ogden adjusted propensity to be unaffected by the “mix of business” shift that occurs in our unadjusted propensity charts in the 2017-2020 years
- This means we can better compare PPO propensity to previous years



PPO Propensity – With Ogden Adjustment

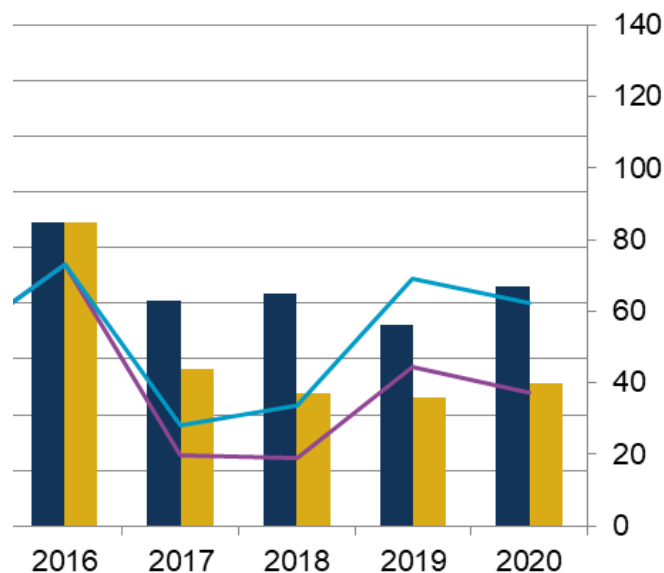
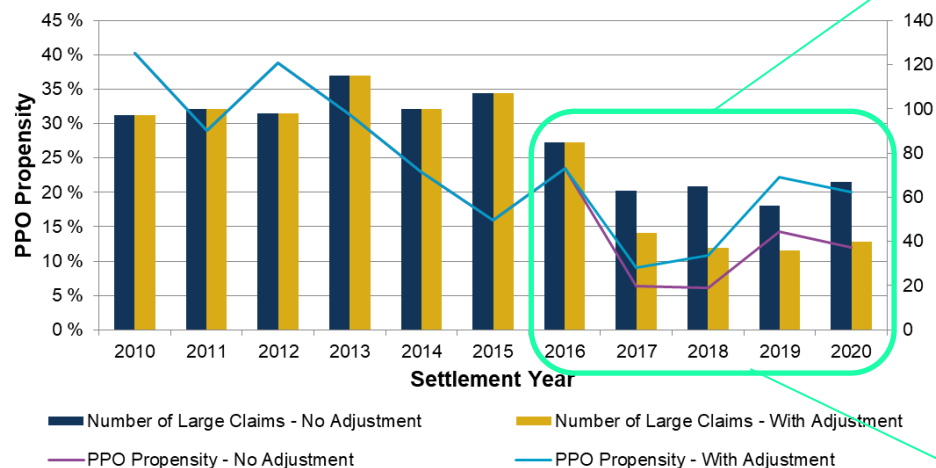


- This graph aims to show the propensity with the pure monetary effect of the Ogden discount rate change taken away, everything on a 2.5% Ogden rate level.
- The raw propensity has decreased by slightly since the 2019 settlement year, although is still at a higher level than 2017-18 and looks to be more consistent with the 2014-16 propensity.
 - This decrease on an Ogden adjusted basis represents a true decrease in the PPO propensity compared with the 2019 settlement year.
- A small increase in large claims settling above £1 million in 2020, however still at a much lower level than pre-2016.



Comparison of Charts

Raw PPO Propensity of Large Claims - Motor



- The Ogden adjustment makes a material difference to the raw PPO propensity, with the Ogden adjusted propensity sitting around 6% points higher than unadjusted.
- For the 2019 and 2020 years this difference is greater, with the Ogden adjusted propensity sitting around 8% points higher than unadjusted, compared to around 4% for the 2017 and 2018 years.
- This may suggest that in the current Ogden rate period the main driver of the reduction in propensity is the impact of more claims now been considered large, whereas in the -0.75% Ogden rate period there were additional behavioral impacts (such as lump sums being more financially attractive to claimants).

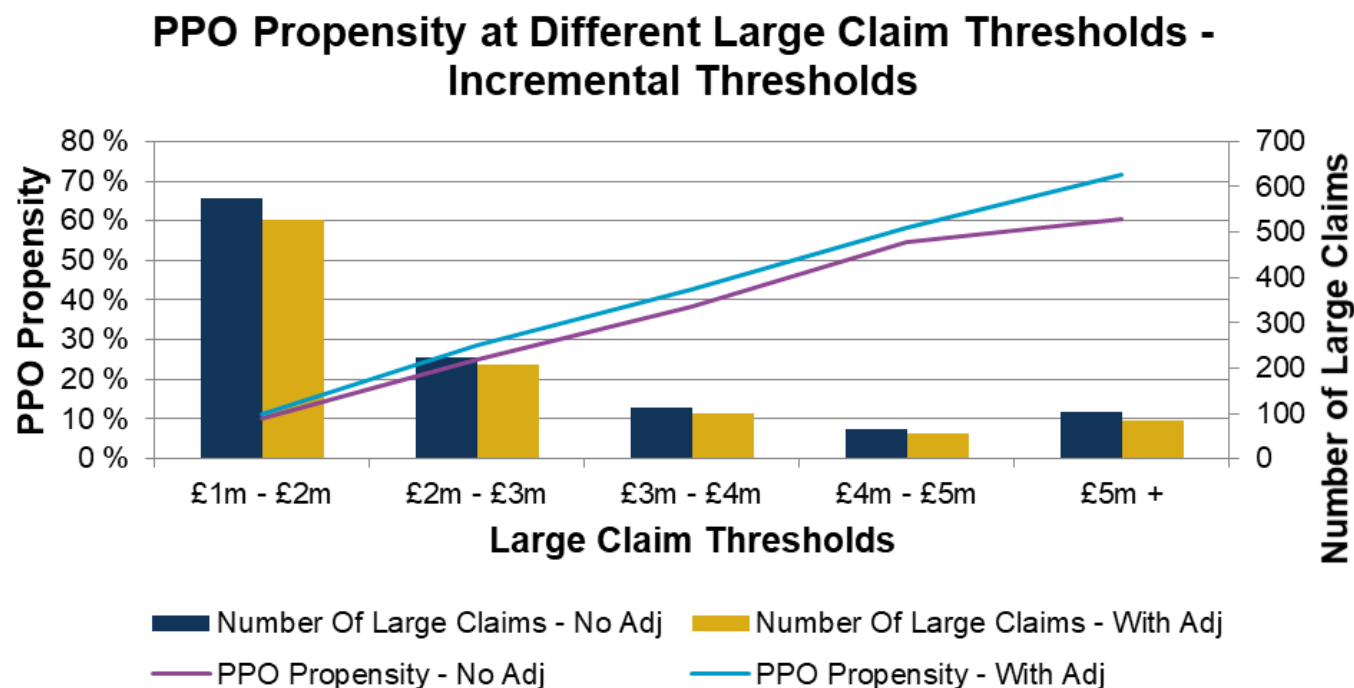


PPO Propensity Continued

- We now present other PPO Propensity analysis on an un-standardised basis.



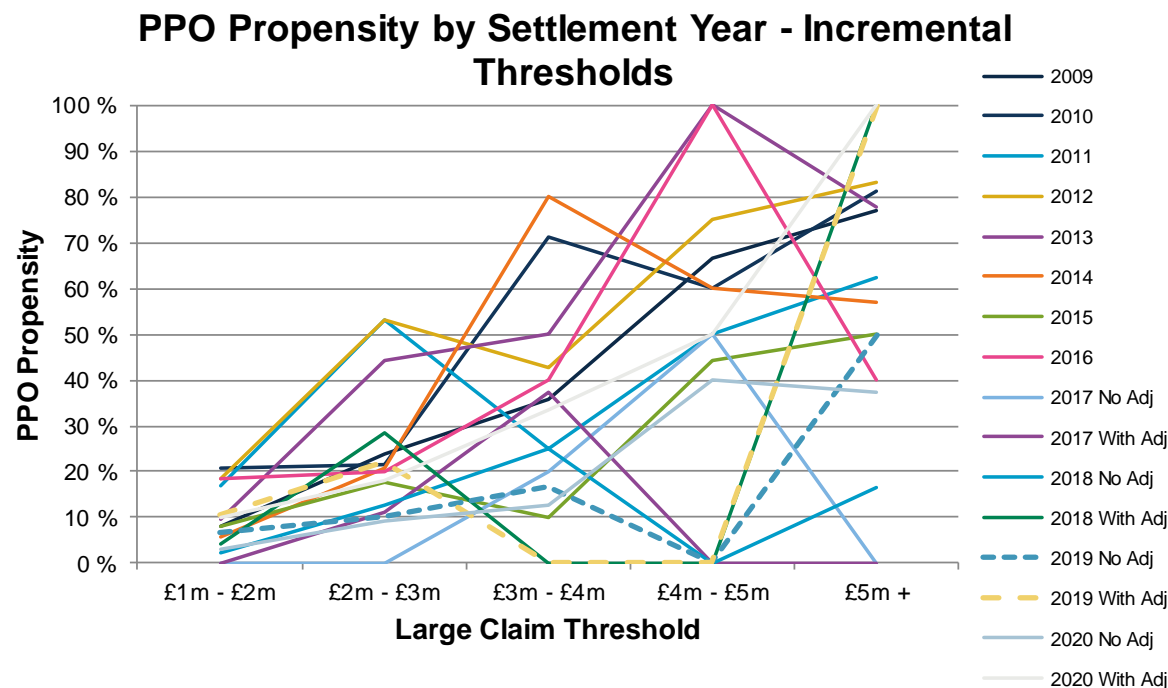
PPO Propensity by Large Claim Threshold



- PPO propensity increases steadily as large claim threshold.



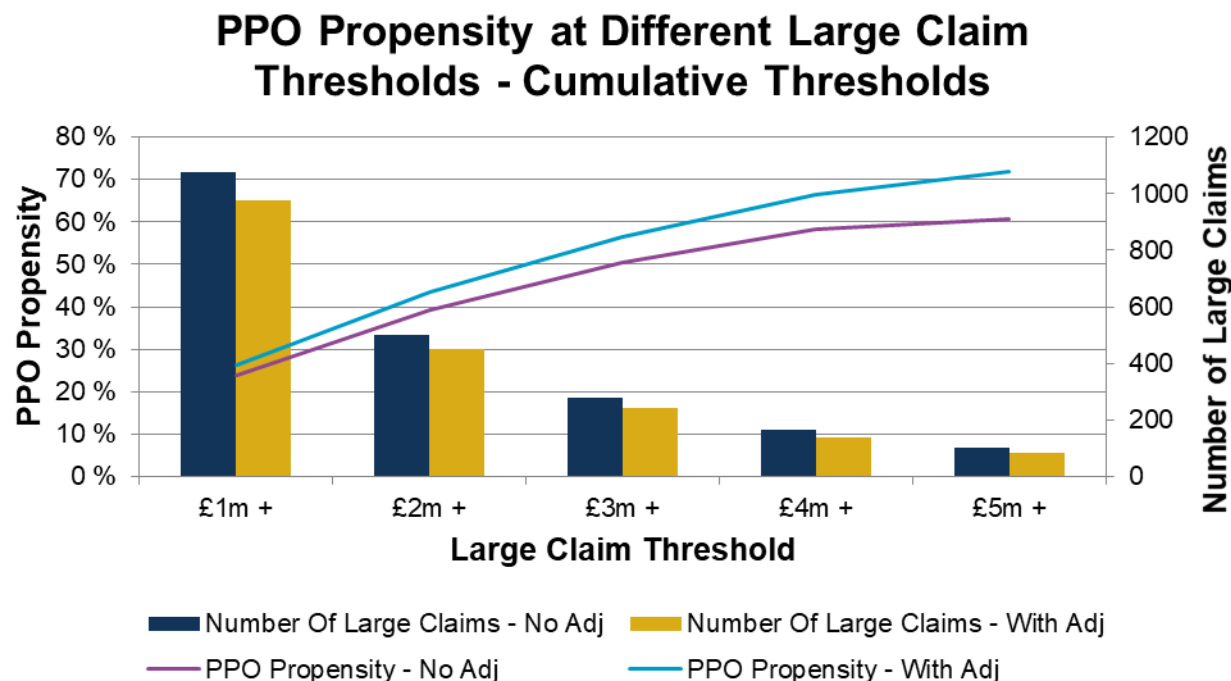
PPO Propensity by Large Claim Threshold



- 2020 sits roughly central compared to the rest of the settlement years in terms of Ogden-adjusted propensity.
- Very little data in the higher large claim threshold, so subject to volatility.



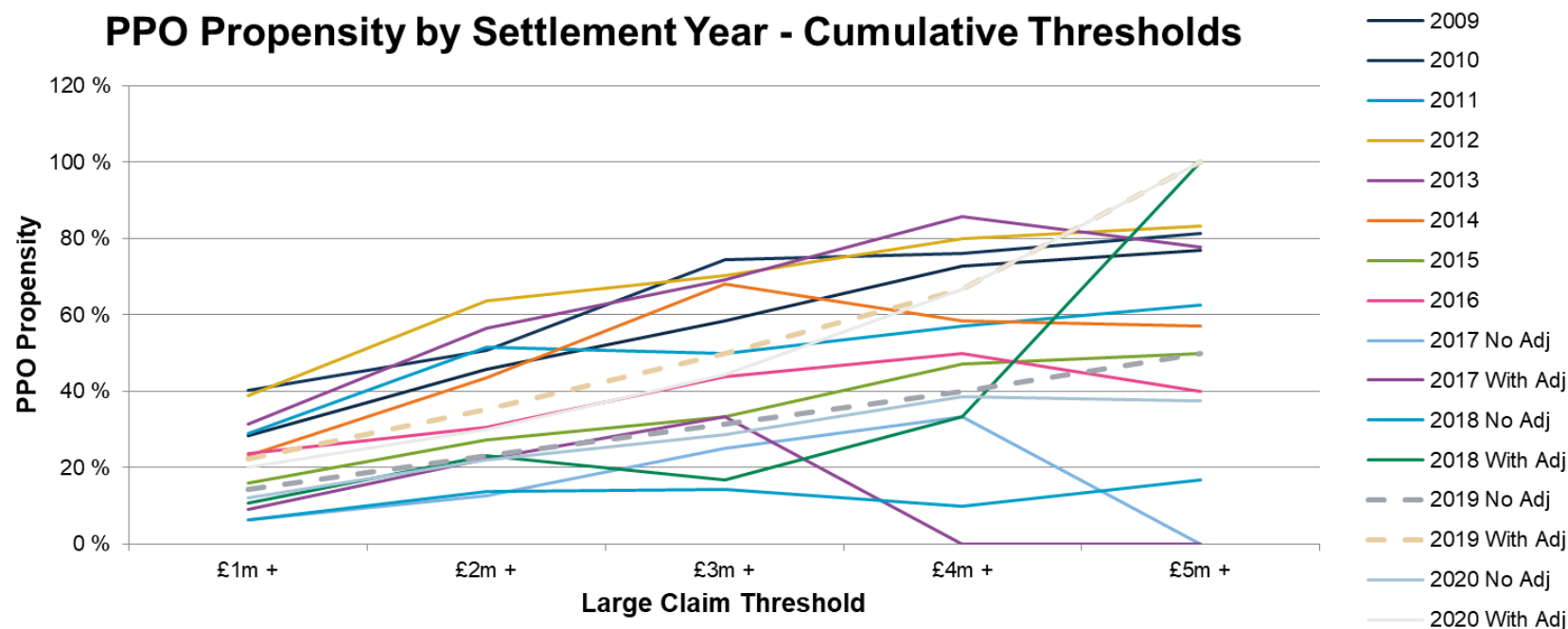
PPO Propensity by Large Claim Threshold



- PPO propensity increases to 61% for all those claims > £5 million.



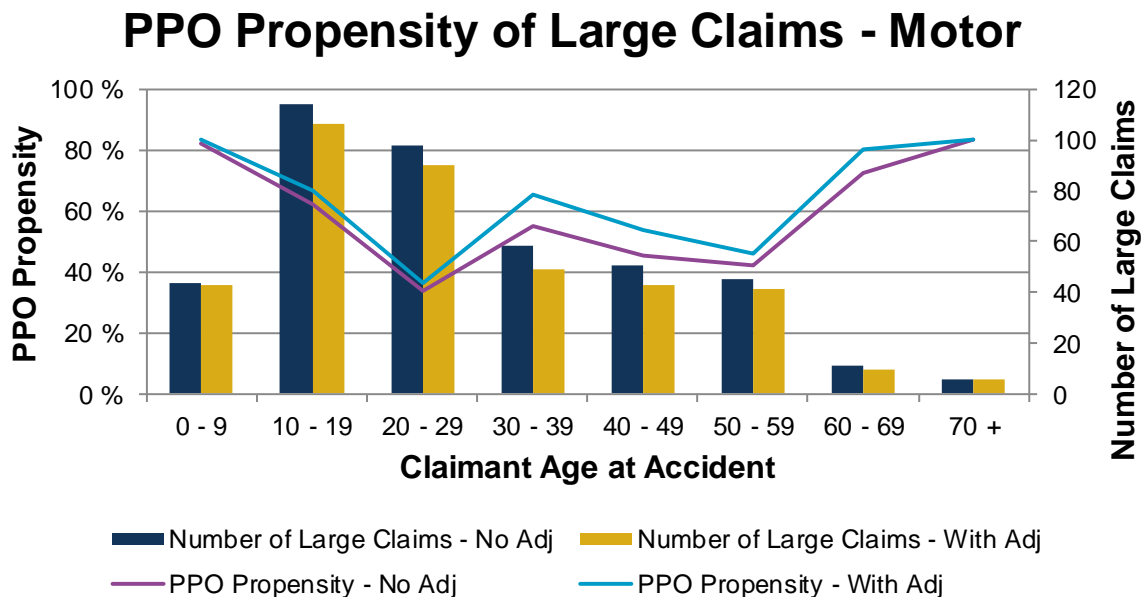
PPO Propensity by Large Claim Threshold



- The PPO propensity is lowest for 2017 and 2018 in the lower claim amount bands.
 - Once again the upwards trends is consistent.



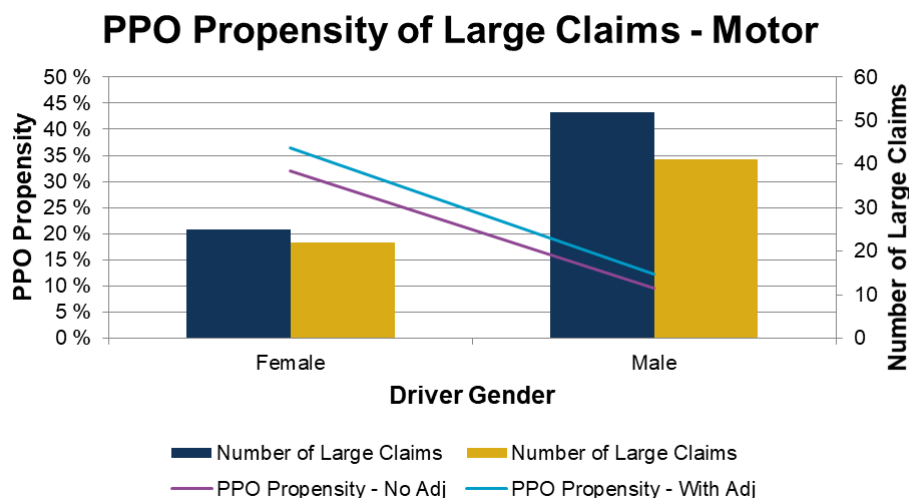
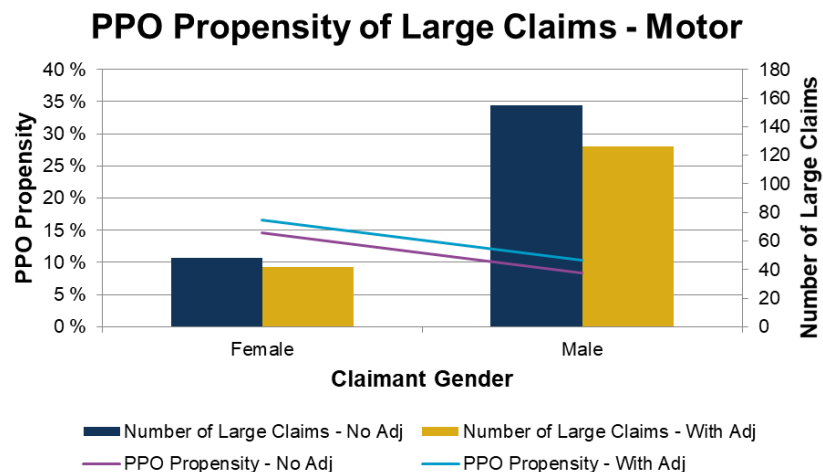
PPO Propensity by Age



- Produced using data from insurers for which we had claimant age at accident for non-PPO large claims.
 - Is only a small subset of data, as can be seen from the right vertical axis.
- PPO propensity decreases as claimant age increases until age 29, and then increases slightly for middle-aged claimants.
 - Potentially an increase at ages 60+ but very limited data.



PPO Propensity by Gender

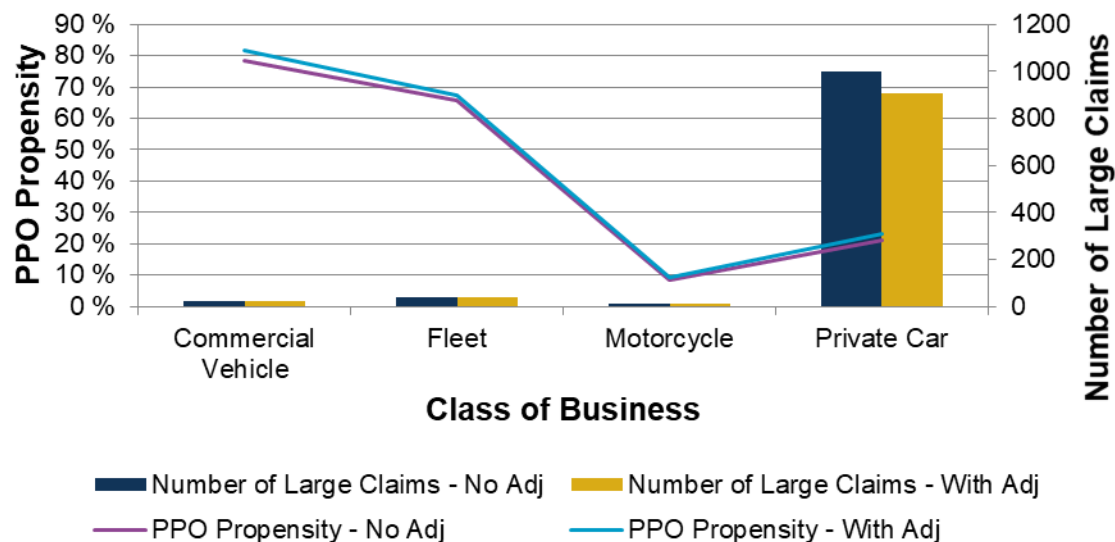


- Propensity is very similar for Male and Female claimants.
- Propensity appears to be higher for Female drivers than Male drivers, although it is difficult to draw any firm conclusions due to lack of data.



PPO Propensity by Class of Business

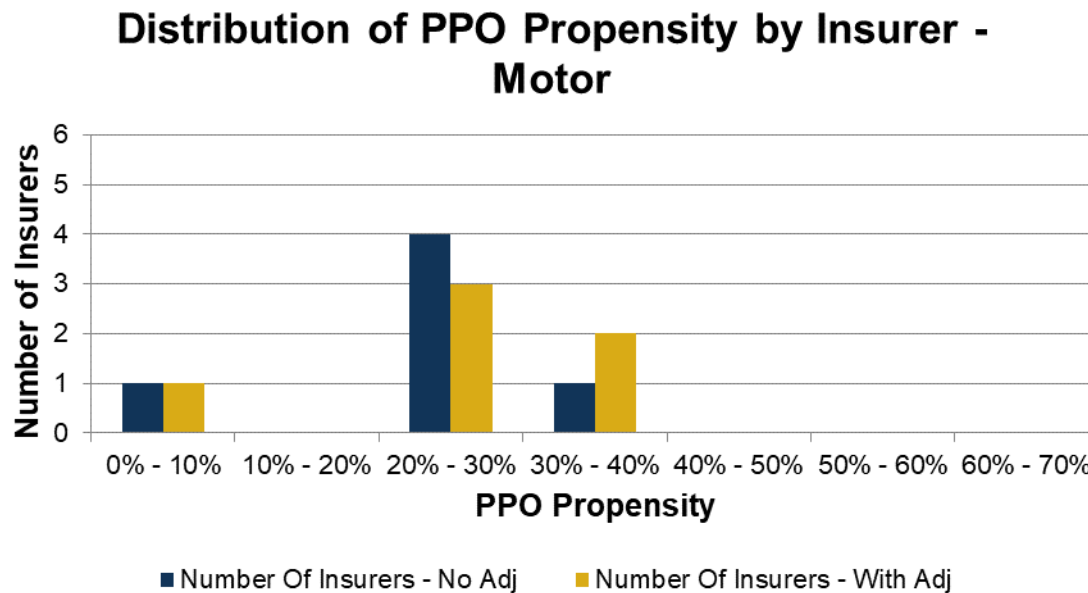
PPO Propensity of Large Claims - Motor



- Fleet and Commercial Vehicle business have a very high PPO propensity compared to other classes of business, although not much data.
- Motorcycle business exhibits the lowest PPO propensity.
 - Very limited data for motorcycles.



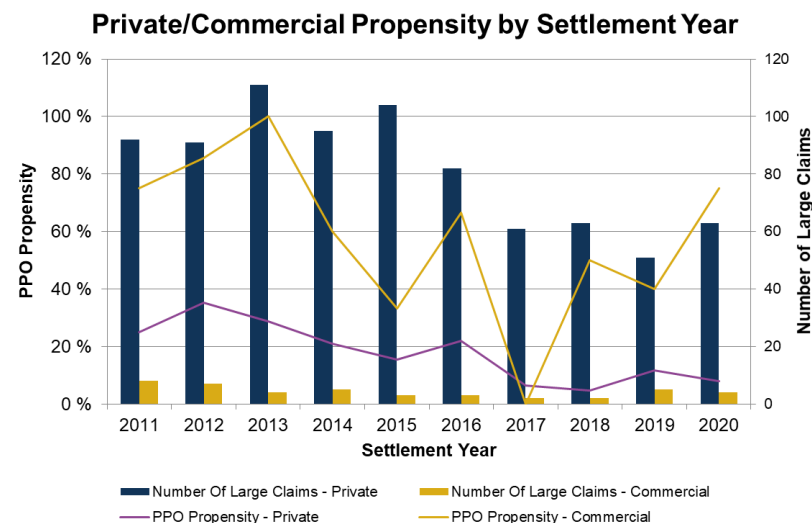
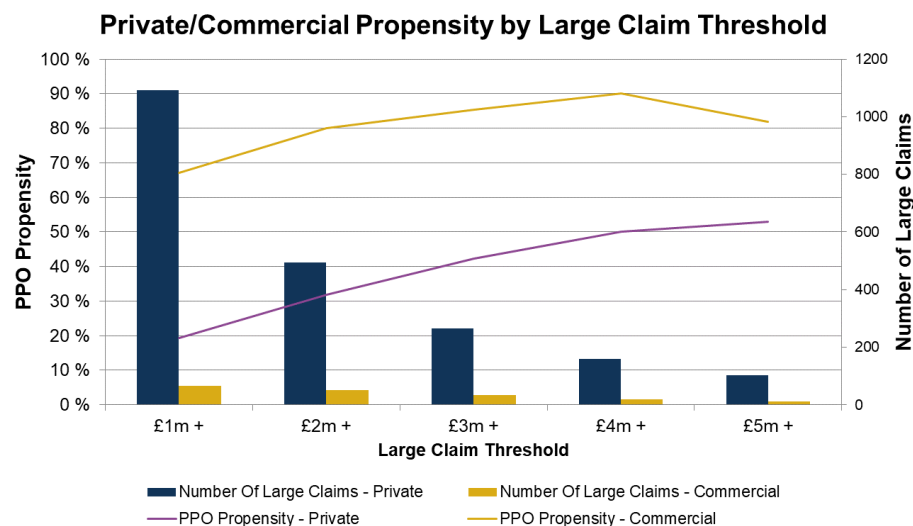
Distribution of PPO Propensity



- The majority of insurers exhibit PPO propensity between 20% and 40%.

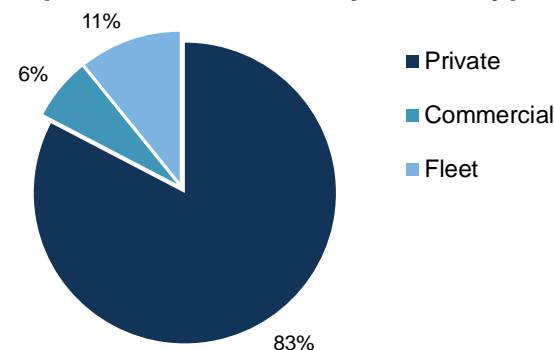


Private vs Commercial – No Ogden Adjustment

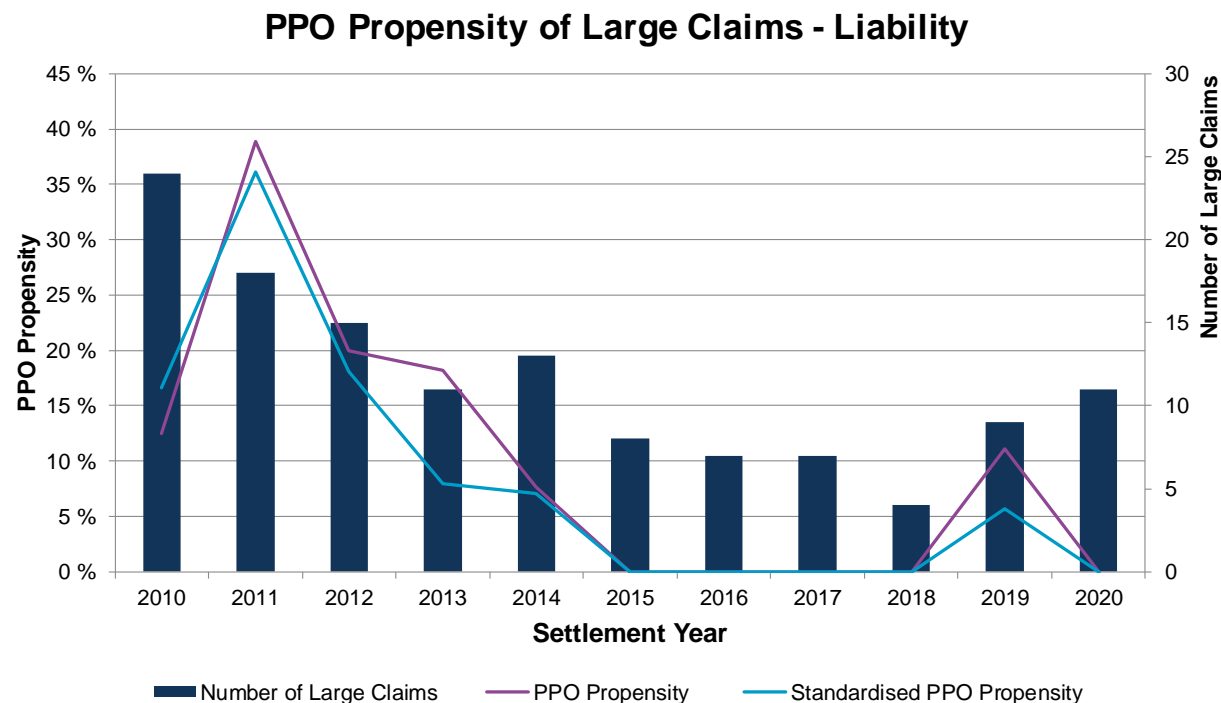


- In general, claimants on Commercial policies have a higher chance of their claim settling as a PPO compared to claimants on Private policies.
- This result is subject to considerable uncertainty due to the low volumes of large claims on Commercial policies.

Split Of Motor PPOs by Cover Type



Liability PPO Propensity – No Ogden Adjustment



- We have very limited data relating to Liability PPOs.
- We have seen just one Liability claim settle as a PPO since 2015, and this was in the 2019 settlement year.





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COVID-19

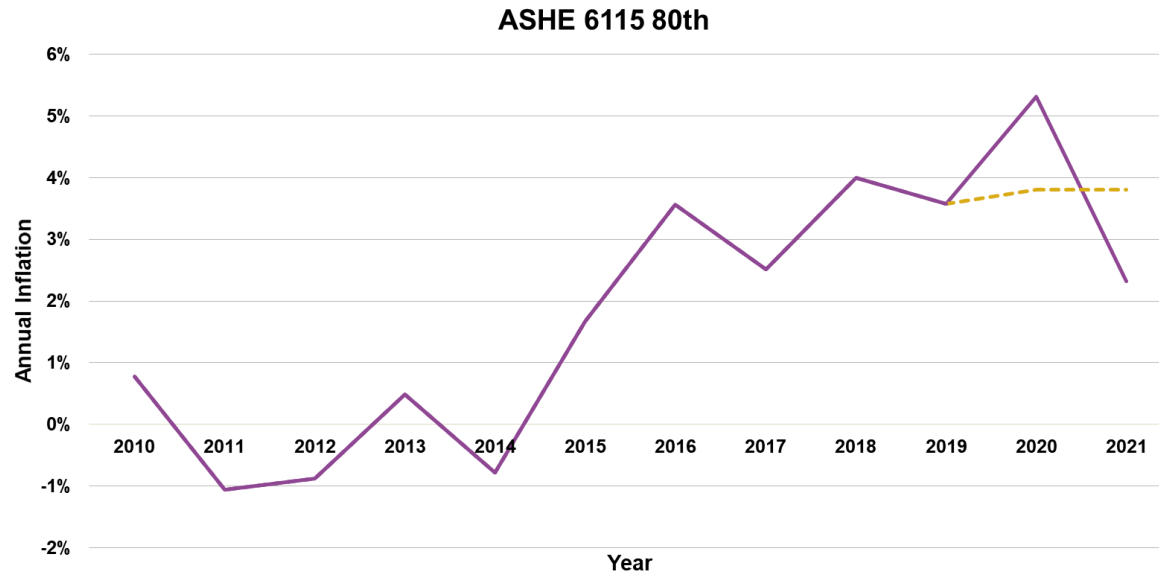
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COVID-19

- The impact of the coronavirus pandemic (COVID-19) on PPOs is still an area of uncertainty.
- We previously hypothesised some potential impacts of COVID-19 on PPOs:
 - An increase in care costs due to increased demand for public and private healthcare
 - Court closures – potentially leading to delays in settlements and a back-log of open large claims seen
 - An increase in the levels of claimant mortality in the 2020+ calendar years due to excess deaths seen as a result of COVID-19
 - Economic impacts – affecting investment returns and inflation indices used within the valuation of PPOs.

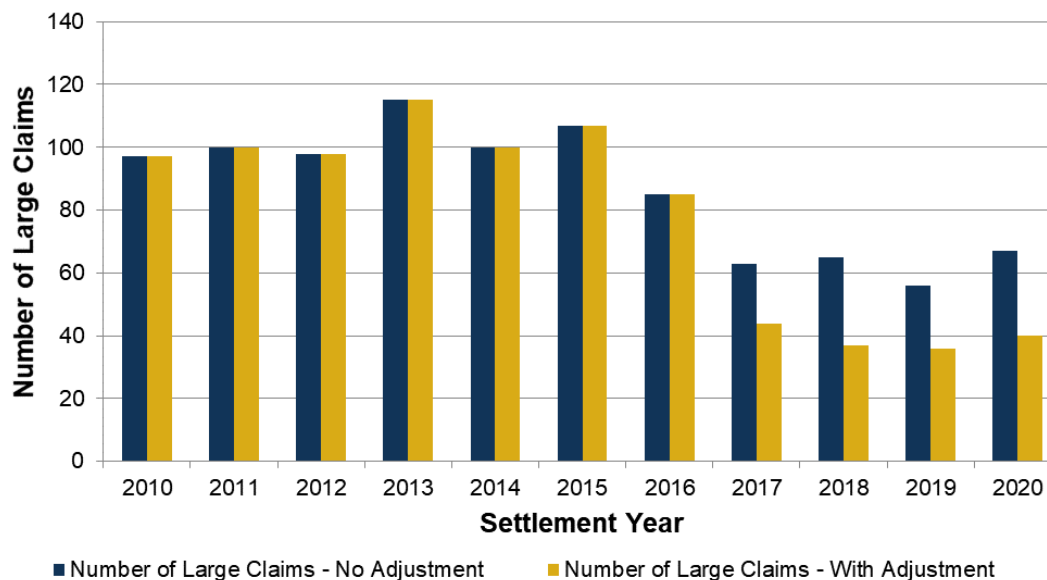


Impact on care costs



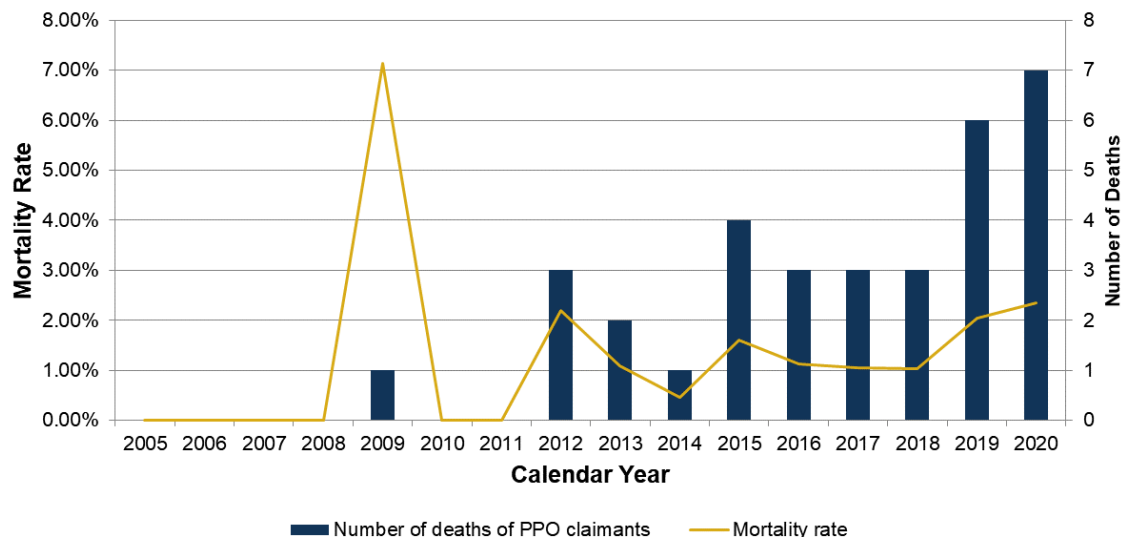
- In 2020 the 80th percentile of the Annual Survey of Hours and Earnings (ASHE) 6115 index grew by 5.3%, compared to the ~3.5% average increase that had been seen in the preceding four years.
- This is likely driven by the short-term demand spike for public and private healthcare as a result of COVID-19.
- However, it is likely that this was a one-off spike, with the recently published 2021 value of 2.3% bringing the two-year average increase in the ASHE index to 3.8% per annum (gold dashed line), consistent with the 2018/2019 levels.

Impact on settlements



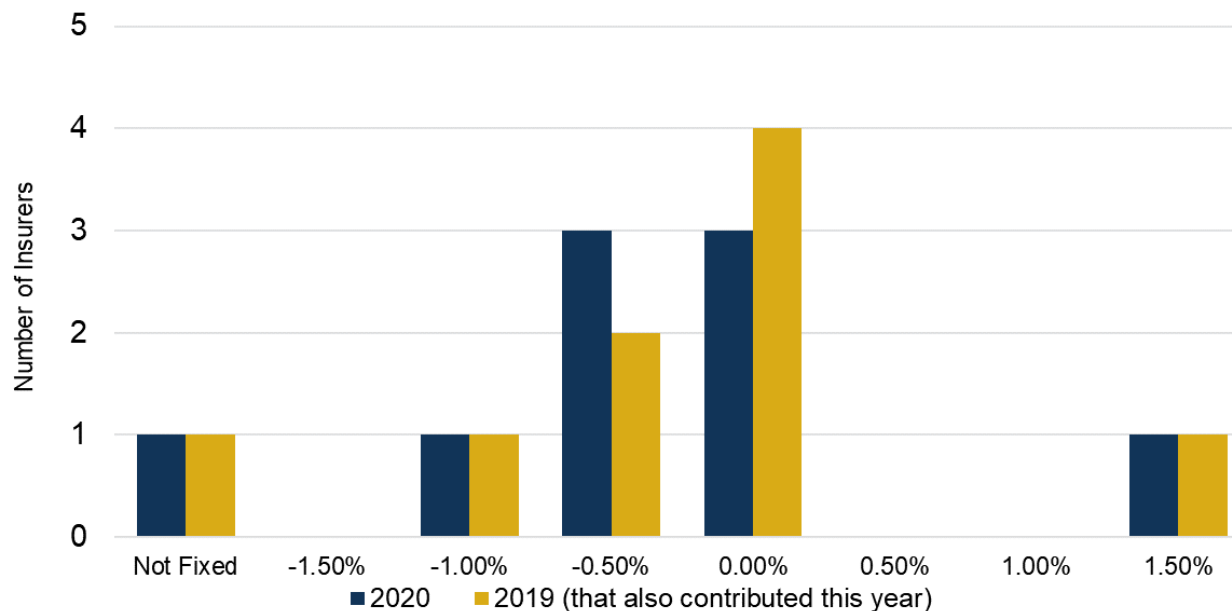
- As previously highlighted the level of large claims settling in 2020 is consistent with the 2017-2019 settlement years which is at a significantly lower level than the 2016 and prior years.
- Whilst this alone would not suggest that court closures and delays due to COVID-19 have had an impact on the level of large claims settling, it may be present and offset by other factors such as:
 - the unwinding of an Ogden related back-log
 - an increase in the level of out of court settlements due to delays and financial pressures

Impact on mortality



- Looking at the number of deaths of PPO claimants by calendar year we can see an increase in 2020 compared with 2019.
- However, given the number of PPO claimants alive will increase each year as more PPOs settle, we would expect an overall increasing trend.
- Looking at the number of deaths as a proportion of the number of claimants alive at the start of each year we still see an increase, albeit to a lesser degree.
- These numbers are very low and subject to volatility so little can conclusively be drawn regarding the PPO mortality impact from COVID-19.

Economic impacts



- The results of our 2020 year-end qualitative survey do not suggest a material change in the real discount rate assumptions used for the valuation of PPOs by insurers.





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Going Forward

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What's Next?

- 2020 Industry Survey Report (based on data as at 31 December 2019):
 - Published.
- 2021 Industry Survey Report (based on data as at 31 December 2020):
 - To be completed early 2022.
- Qualitative Survey interviews and questionnaires to be carried out around the turn of the year – look out for an email!
- Any ideas for new graphs or content please let us know!
 - Email Chris.Francis@WillisTowersWatson.com
 - Email ifoa_ppo_wp_chair@outlook.com



Questions

Comments

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Appendix A

Civil Liability Bill

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Civil Liability Bill – England and Wales

- Following a consultation process and as set out within the Civil Liability Act 2018 a revised Ogden discount rate for England and Wales of -0.25% was announced on 15 July 2019, effective for claims settling after 5 August 2019.
- The possibility of a dual discount rate was considered however the Lord Chancellor decided that the evidence was not strong enough to justify a decision to adopt dual rates in this recent rate-setting cycle.



Civil Liability Bill – England and Wales

- The Lord Chancellor alluded to a future consultation covering various approaches for dual discount rates, and possible impacts of them. The approaches include:
 - Method 1: The discount rate used simply depends on the total period of damages being met. In this instance, if the total period stretched beyond the switching point, then all damages would be discounted at the long-term rate. Otherwise all the damages would be discounted at the short-term rate.
 - Method 2: All cashflows prior to the switching point could be discounted at the short term PI discount rate and all cashflows after the switching point could be discounted at the long-term rate.
 - Method 3: All periods before the switching point could be discounted at the short-term PI discount rate and any cashflows beyond this discounted further at the long-term rate, for each year after the switching point.
- The table below illustrates the different methods for a claimant with a 15-year award vs a claimant with a 16-year award where the switching point is set to 15-years.

| Method | Claimant with 15-year award | Claimant with 16-year award | |
|----------|-----------------------------|-----------------------------|---|
| | First 15 years | First 15 years | 16 th year |
| Method 1 | Short-term rate | Long-term rate | Long-term rate |
| Method 2 | Short-term rate | Short-term rate | Long-term rate |
| Method 3 | Short-term rate | Short-term rate | Short-term rate for 15 years Long-term rate for 1 year |



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Civil Liability Bill – Scotland

- In April 2019, the Scottish Government’s “Damages (Investment Returns and Periodical Payments) (Scotland) Bill” passed its final stage in Scottish parliament, with some notable differences to the Civil Liability Bill including:
 - The discount rate being assessed by the Government Actuary for each review.
 - The discount rate being set by reference to a notional investment portfolio constructed on the basis of portfolios described as cautious.
- In October 2019 it was announced that the discount rate would remain unchanged at -0.75% meaning that claimants in Scotland will receive higher compensation payments than in England and Wales.



Civil Liability Bill – Jersey

- In January 2019 the States of Jersey concluded their review of the discount rate with the unanimous approval of the Draft Damages (Jersey) Law.
- The Draft Law provides for the setting of a new two-tiered (dual) discount rate, and also creating a statutory power to award damages by way of a Periodical Payment Order to cover future care costs and lost earnings.
- The discount rates provided by the approved Draft Law are as follows:
 - +0.5% - where the lump sum is to cover a period of up to 20 years
 - +1.8% - where the damages will cover a period of more than 20 years (applicable to the whole of the award, not just the costs arising after the first 20 years). (Method 1 on prior slide)





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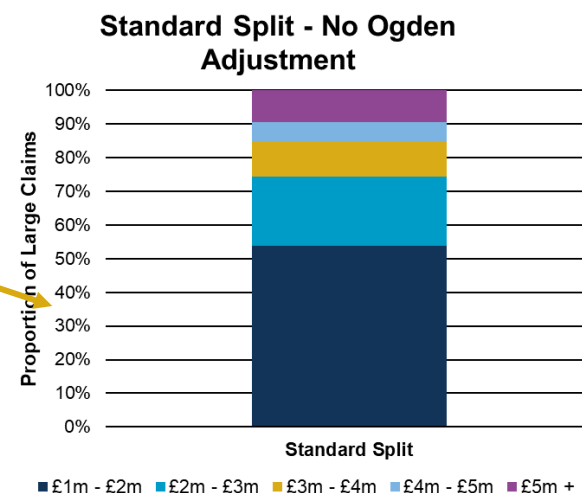
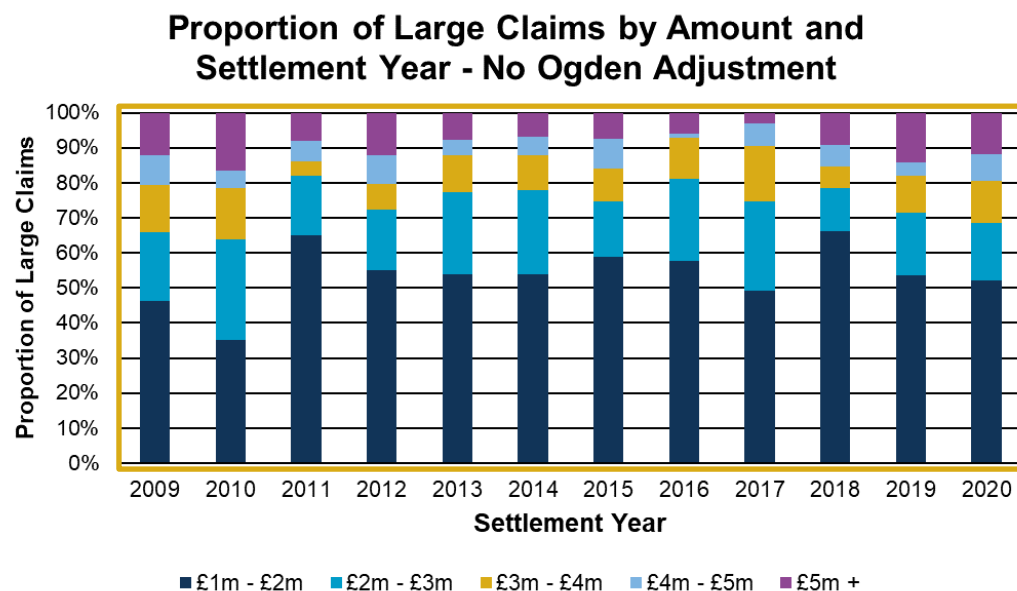
Appendix B

Standardised PPO Propensity

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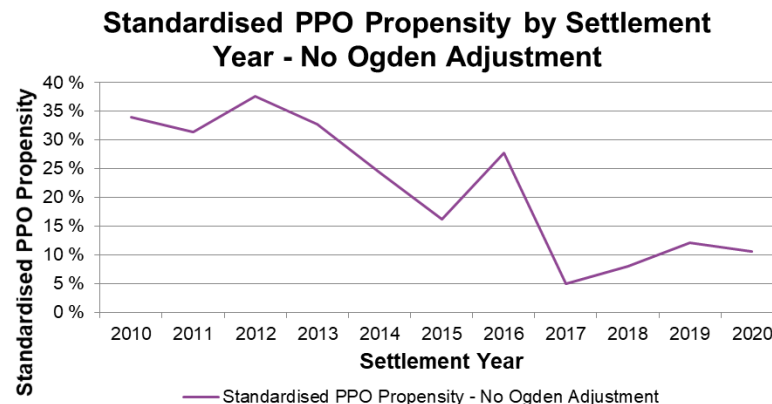
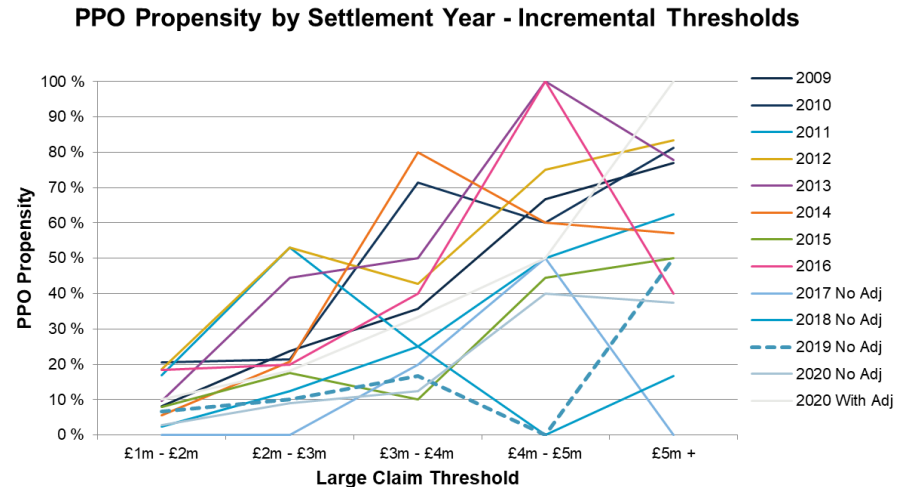
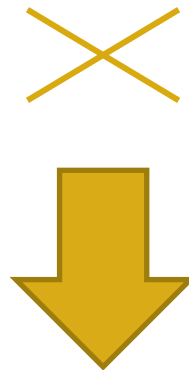
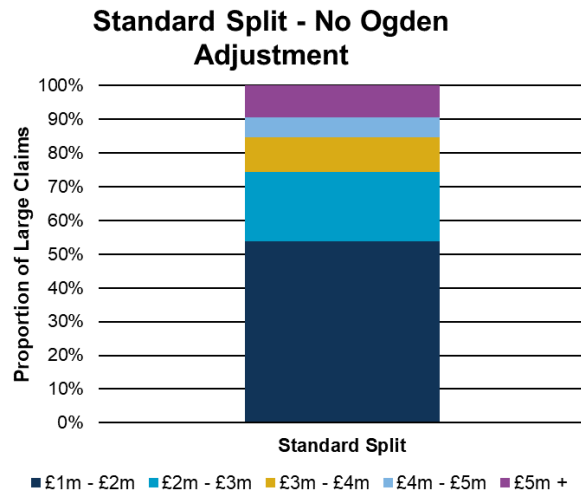
Standardised Propensity

- By taking the propensities by settlement year and multiplying by a standard mix of claim size, it is possible to create a standardised propensity graph.
 - We only take data from settlement year 2009 onwards as the PPO propensity is very different in older years.
- The data in the graph below is used to come up with a “standard” split of PPOs by amount across the settlement years since 2009.



Standardised Propensity

- This standard split is then used in conjunction with PPO propensity split by claim size threshold and settlement year to arrive at standardised propensity.



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