



Institute
and Faculty
of Actuaries

GIRO40

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Treatment of Bodily Injury Claims in Society

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14 October 2013

Agenda

1. Where is the liability?
 2. Current treatment of Bodily Injury claims in:
 - Motor
 - Medical Malpractice
 - Employers Liability
 - Public Liability
 - Travel
 3. Is society in the UK 'equitable'?
 4. Some possible frameworks to deal with Bodily Injury in Society
 5. Some comparisons
 - Treatment of Bodily Injury in New Zealand
 - Genetic Disorders vs. Cerebral Palsy
 - Australia and USA
 6. Reserving Practice for Large Bodily Injury claims
 7. Observations on current PPO reserving approaches in the UK
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Where is there significant cost of care

Type of Bodily Injury	Significant Possibility cost > £1m	Employer Liability	Public Liability	Medical Malpractice (state / private care)	Motor / Vehicle	Travel
Brain Damage						
Para / Quadraplegia						
Broken Bones						
Loss of Limb						
Damage or loss of sense						
Animal Attack						
Whiplash						
Genetic Disorder						
Soft Tissue Injury						

Where is there significant cost of care

Type of Bodily Injury	Significant Possibility cost > £1m	Employer Liability	Public Liability	Medical Malpractice (state / private care)	Motor / Vehicle	Travel	Significant Likelihood
→ Brain Damage	YES						Possible
→ Para / Quadraplegia	YES						
Broken Bones	NO						Insignificant Likelihood
Loss of Limb	NO						
Damage or loss of sense	NO						
Animal Attack	YES						
Whiplash	NO						
→ Genetic Disorder	YES						
Soft Tissue Injury	NO						

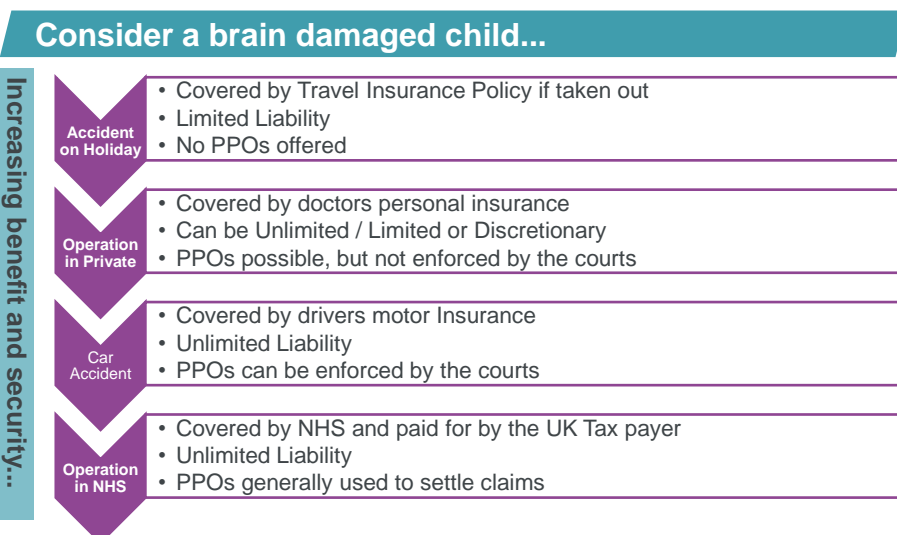
Third party motor cover in the UK

- Initially expected to be sharing a road dominated by horses.
- Road Traffic Act 1930 introduced most of the structure that exists today, including compulsory third party insurance without expectation of limits on liability, and the removal of the speed limits that applied to locomotives. A number of further Acts introduced the rest of the modern system, including speed limits (1934) and signage.
- Only other compulsory insurance covered by Employer Liability (Compulsory Insurance) Act 1969.
- 1988 Act consolidated and updated, but the insurance requirement was left broadly unchanged.
- Under pressure, the Government stated that it would only expect to change the unlimited liability requirement following failure of the vehicle insurance market.

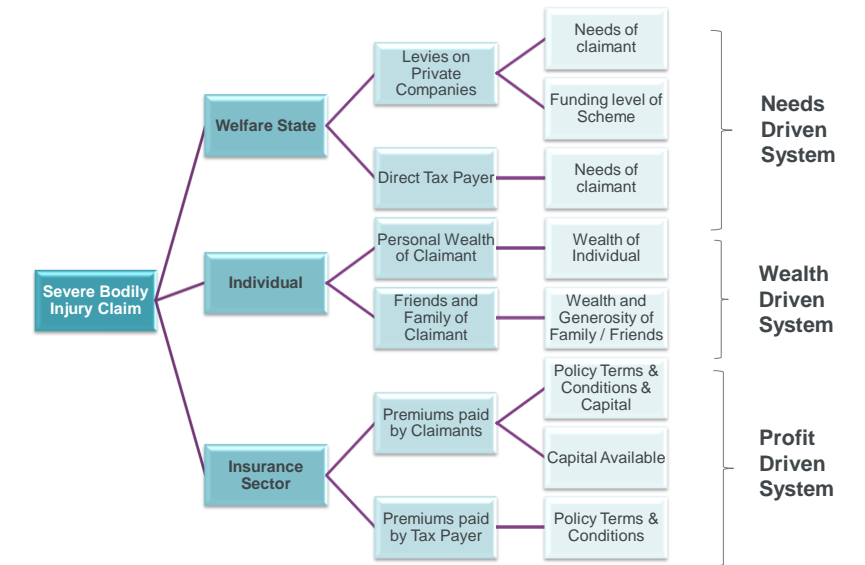
Paraplegia / Quadraplegia and Brain Damage in the UK

Travel	<ul style="list-style-type: none"> Limited Liability (often ~£1m) PPOs not granted
Medical Malpractice Private cover	<ul style="list-style-type: none"> Discretionary cover generally along with some limited liability in Lloyds Unlikely to be granted a PPO – discretionary providers do not typically grant PPOs
Employers Liability	<ul style="list-style-type: none"> Limited Liability PPO is a possibility but can not be granted by the courts and impacted by the limited liability
Public Liability	<ul style="list-style-type: none"> Limited Liability PPO is a possibility but can not be granted by the courts and impacted by the limited liability
Medical Malpractice State cover	<ul style="list-style-type: none"> Unlimited Liability Generally cover is provided through a PPO (style) arrangement
Motor	<ul style="list-style-type: none"> Unlimited Liability PPO can be granted by the courts

Is society in the UK 'equitable'?



Possible Frameworks to deal with Severe Bodily Injury in Society



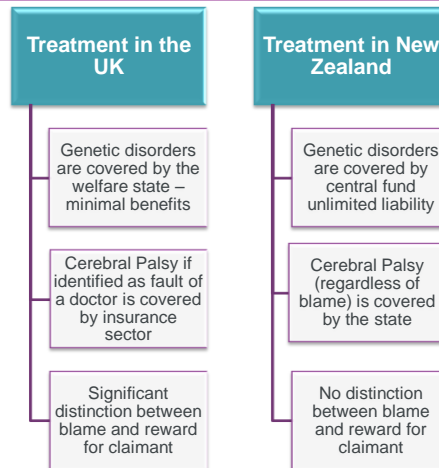
Some comparisons: Treatment of Bodily Injury in New Zealand

What is done in NZ?	<p>Provides cover for cost of care through the Accident Compensation Commission</p> <p>Commenced 1974, following Woodhouse Commission (Interestingly this includes visitors to NZ, not just NZ residents)</p>
How does it work?	<p>Provides 24/7 no-fault comprehensive injury cover</p> <p>Does not cover gradual onset/illness/aging</p> <p>Funding is through a variety of levies in different accounts i.e. motor/work/earners/non-earners/treatment</p>
Principles behind it?	<ul style="list-style-type: none"> - Responsibility - Entitlement - Rehabilitation - Compensation - Efficiency <p>Management approaches vary between 'social welfare' and 'insurance model'</p>

Key issue is balancing the affordability of the scheme...

Genetic Disorders & Cerebral Palsy – UK vs. New Zealand

The need between two individuals, one with a genetic disorder and another with a condition such as Cerebral Palsy is likely to be very similar (and not linked to the cause). However, the benefits can be different!



Treatment of Bodily Injury Claims in other Jurisdictions

Australia	United States
<ul style="list-style-type: none"> • Structure: varies by State – not a single scheme (changing with development of NIIS/NDIS) • Funding: Varies – mix of state (levies and taxes) and insurance capital • Structured Settlements: Mixed use of lump sum and annuities. State schemes tend towards 'annuities' with claimants having more choice/control of benefits received 	<ul style="list-style-type: none"> • Structure: All support is provided through the insurance sector. There are limits on liability in place dependent on particular insurance sector and policy wording (e.g. Personal motor may have \$300k cap, commercial \$1m-2m). • Funding: Payable from insurance sector and funded through premiums. Premiums either payable through individual or employer depending on nature of claim. • Structured Settlements: Common practice but not enforced by the courts.
Partly State Funded and Partly Insurance Sector	Funded entirely from Insurance Sector

Discussion

- Should the availability and quality of care vary if its your own fault or not?
- Should cover ever be limited for incidents involving minors?
- Is it the role of the insurance market or the state to provide unlimited cover?
- If other classes are not unlimited, should 3rd party motor be?



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.

Profit vs. Affordability

There is always a link between affordability and sustainability. Both state schemes and insurance companies require reserves to be true best estimates to understand either affordability and likely sustainability of business plans and profit		
<p>An insurer needs an offering to remain viable.</p> <p>Profit is required to service capital along with satisfy shareholders</p>	<p>Profit is not a driver in state schemes</p> <p>Key driver is often a funding ratio and sustainability of the scheme</p> <p>State based schemes also consider 'equity'</p>	<p>Are current reserving approaches for PPOs likely to provide the best view?</p>

Emerging observations on estimating potential PPOs

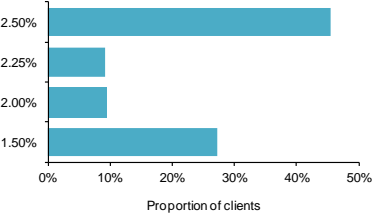
Approach	Example
Global adjustment	Uplift to underlying liability of x% to cover future emergence
Market experience applied to own portfolio	Market (TPWP) experience applied to own policy exposure
Market experience applied to existing large claims	Probability of PPO conversion applied based on current claim size and TPWP propensity statistics
Probabilistic approach	Top x claims (often 50) individually assessed for likelihood of conversion, and required uplift calculated

Reserving practice for large Bodily Injury Claims in the UK

Reserving practice varies heavily between different classes of business.

Motor currently using the most sophisticated reserving techniques for both lump sum payments and PPOs specifically.

Ogden discount rate assumed



PPO real discount rates used in industry: Motor

