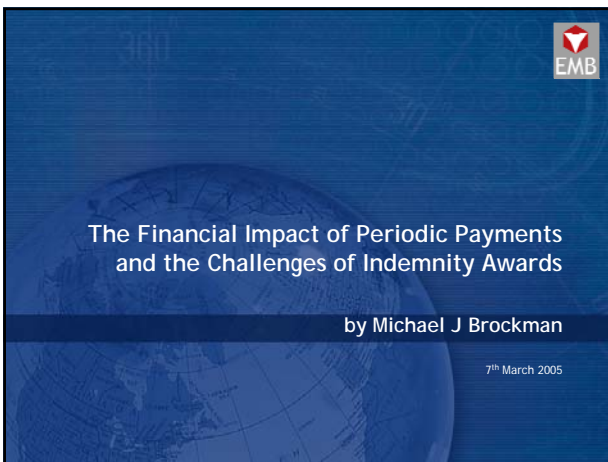


From Lump Sums to Periodic Payments and Beyond

Institute of Actuaries, Staple Inn Hall, London

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The Financial Impact of Periodic Payments and the Challenges of Indemnity Awards

by Michael J Brockman

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Introduction

- General Background
- Financial Environment of General Insurers
- Controlling Risk Through Reinsurance
- The Effect on Claim Costs
- Indemnity Awards
- Conclusions and Recommendations

General Background



- My involvement in Personal Injury claims
 - Motor Insurance, Liability Insurance
 - Pricing, Reserving, Capital, Reinsurance, Bad Debt
- The Lord Chancellors Department Consultation paper on damages
- Periodic payments better meets claimants needs
- Practical and financial issues will be faced

Financial Environment of General Insurers



- General Insurers hold undiscounted reserves
- Assets cannot be ring-fenced
- PP claimants will have no extra security
- GI Insurers not experienced in mortality risk - there is no tailored annuity market
- Bad Debt provisions - arises mainly from reinsurance

Controlling Risk Through Reinsurance



- Excess of Loss Reinsurance - controls risk
- Reinsurance important for market dynamics
- The Motor Market needs to be a competitive and innovative market
- Current threat to unlimited cover
- Reinsurers already reacting to mitigate their risk to periodic payments

The Effect on Claim Costs



- Impact of Periodic Payments uncertain
 - Size and frequency of claims affected
 - Changes in settlement behaviour
 - Impact of reviewability
 - Indexation of payments
- Likely to increase claims costs
 - 5% Increase in Personal Injury Costs
 - 2% Increase in Motor Premiums
 - Retrospective impact on existing open claims
- Reinsurers will be particularly affected
- Initially higher administrative costs

Indemnity Awards



- Matches care programme with needs of claimant
- Liabilities to General Insurers will be unknown and open-ended
- Care cost inflation
 - Improvements in medical science
 - Improvements in impaired life mortality
 - Care cost controls
- Danger of mushrooming liabilities
 - Impact of retrospective legislation
- These issues would need to be addressed

Conclusions and Recommendations



- Discounting of these liabilities must be allowed
- Funds backing Periodic Payment liabilities should be ring-fenced
- Reviewability terms need to be clearly defined and go both ways
- Annuity markets must respond and develop appropriate products at fair prices
- Opportunities arise for claims management companies
- A market mutual fund could pool risks and provide a degree of finality and with greater security for claimants
- The wider impact of new and retrospective legislation needs to be carefully thought through before the legislation takes affect
