



Institute  
and Faculty  
of Actuaries

# Periodical Payment Orders Working Party Update

## Industry Survey

by the Periodical Payment Orders Working Party

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22 July 2020



# Industry Survey

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## Contents

Introduction.....	5
Executive summary .....	7
Highlights of the 2019 quantitative industry survey .....	9
Highlights of the 2019 qualitative industry survey.....	45
Civil Liability Bill and Ogden Discount Rate.....	49
Impact of the change in the Ogden discount rate .....	53
Appendix A Glossary of terms .....	57
Appendix B Standardisation for PPO propensity statistics .....	59
Appendix C Definitions of large claims, and incremental and cumulative thresholds .....	63
Appendix D Standardisation for differing Ogden discount rates.....	65
Appendix E Summary statistics for all PPO claims .....	67
Appendix F Number of PPO claim settlements .....	73
Appendix G Propensity of Motor (non-MIB) PPO claims .....	79
Appendix H Propensity of Liability PPO claims .....	97
Appendix I Accident year triangles for Motor (non-MIB) non-PPO and PPO claims ....	107
Appendix J General characteristics of Motor (non-MIB) PPO claims.....	111
Appendix K General characteristics of Liability claims .....	133
Appendix L General characteristics of Motor (MIB) PPO claims.....	141
Appendix M Indexation of PPO claims .....	147
Appendix N Payment components for PPO claims .....	153
Appendix O Special features of Motor (non-MIB) PPO claims and other statistics.....	165
Appendix P IFoA PPO Working Party injury type and care regime categorisation.....	169
Appendix Q Nature of injury .....	177
Appendix R Mortality of PPO claimants.....	185
Appendix S Reserves for Motor (non-MIB) PPO claims .....	195
Appendix T Detail around the responses to the 2019 qualitative industry survey .....	211
Appendix U List of exhibits .....	231
Appendix V Acknowledgements .....	251



# Introduction

## Release

The Institute and Faculty of Actuaries' ("IFoA") Periodical Payment Orders ("PPO") Working Party 2019 industry survey consists of a quantitative industry survey, the data for which was taken as at 31 December 2018, and a qualitative industry survey, the responses for which were collected between January 2019 and April 2019 inclusive.

This release of the IFoA PPO Working Party 2019 industry survey supersedes any prior publication.

Similar studies have been published by the IFoA PPO Working Party annually since 2010.

Each year, the participants in the quantitative industry survey have changed, and, each year, the analysis uses a new, full historic snapshot from each of the participating companies. Likewise, each year, the participants in the qualitative industry survey have changed.

The data between surveys will therefore not be directly comparable, as a different mix of companies will have participated in each successive survey. Changes in claims classification by insurers can also lead to differences in results between successive surveys.

## Participants

The data we have received for the quantitative industry survey comprises 482 Motor PPO claims and 39 Liability PPO claims (521 PPO claims in total). We also received data for 180 PPO claims from the Motor Insurers' Bureau (MIB).

The insurers surveyed account for around 75% of the Prudential Regulation Authority ("PRA") regulated market (based on 2018 gross premium volumes) for Motor, including Personal and Commercial insurance, Comprehensive and Non-Comprehensive covers. In addition, there are further companies which contribute to the survey but do not appear in the 2018 PRA returns.

For the qualitative industry survey, 14 insurers and 5 reinsurers were interviewed between January 2019 and April 2019 inclusive.

We are very grateful to all the participants, without whom the industry survey would not be possible.

The following companies are happy to be acknowledged for their participation in the quantitative industry survey (though please note that this list does not include all participants):

- Admiral
- Allianz
- Aviva
- Covéa Insurance
- DLG
- Motor Insurers' Bureau
- RSA
- Tesco Underwriting

The following companies are happy to be acknowledged for their participation in the qualitative industry survey (though please note that this list does not include all participants):

- Admiral
- Ageas Insurance
- Allianz
- Aviva
- AXA
- Co-Op Insurance
- Covéa Insurance
- DLG
- Liberty Specialty Markets
- NFU Mutual
- RSA
- Swiss Re
- Tesco Underwriting

## Contact

If you have any questions regarding the industry survey, including requests for information or statistics from the data that are not published within this document, please contact Sharon Cumberbatch at the IFoA ([Sharon.Cumberbatch@actuaries.org.uk](mailto:Sharon.Cumberbatch@actuaries.org.uk)) in the first instance, who will put you in contact with the IFoA PPO Working Party. Alternatively please contact Peter Towers, Chair of the IFoA PPO Working Party at the time of publication ([IFoA\\_PPO\\_WP\\_Chair@outlook.com](mailto:IFoA_PPO_WP_Chair@outlook.com)).

## Notes

The material contained in this report and any oral representation of it by the IFoA PPO Working Party is explicitly outside the scope of Technical Actuarial Standard (“TAS”) 100 and TAS 200, as issued by the Financial Reporting Council (“FRC”).

This report complies with “APS X2: Review of Actuarial Work”, as issued by the IFoA, in that the work documented in this report has been subject to a peer review by an appropriately qualified actuary who was otherwise not involved in the analysis undertaken.

This report supports the research effort of the IFoA PPO Working Party and is not written advice directed at the particular facts and circumstances of any given situation and / or data.

The views and opinions expressed in this report are those held by the authors (the members of the IFoA PPO Working Party) individually and do not represent the views and opinions of their employers or the IFoA. Although the authors have used their best efforts, no warranty is given about the accuracy of the information and no liability can be accepted for anybody relying on the accuracy of the information or following the recommendations in this report.

## Executive summary

### Introduction

In this report, the IFoA PPO Working Party 2019 industry survey, we provide an update on the numbers and sizes of claims settling as PPO claims, PPO propensities, claims inflation and claimant mortality experience, together with claims handling information such as delays to settlement, claimant life expectancies and injury classifications.

We consider the reserving of PPO claims from both a qualitative and quantitative perspective and examine the effect of varying assumptions around the rate of return used for assessing the amount of damages in respect of future loss in personal injury cases.

The headline results for the IFoA PPO Working Party 2019 industry survey are:

### PPO propensity (quantitative survey)

- Standardised Motor PPO propensity for claims exceeding £1m has increased from 9.3% in settlement year 2017 to 10.2% in settlement year 2018.
- Standardised Liability PPO propensity has increased from 0% in settlement year 2017 to 3.7% in settlement year 2018.
- Given the low number of PPOs and volatility in propensity, it is not possible to comment on whether this is anything other than a normal level of volatility.

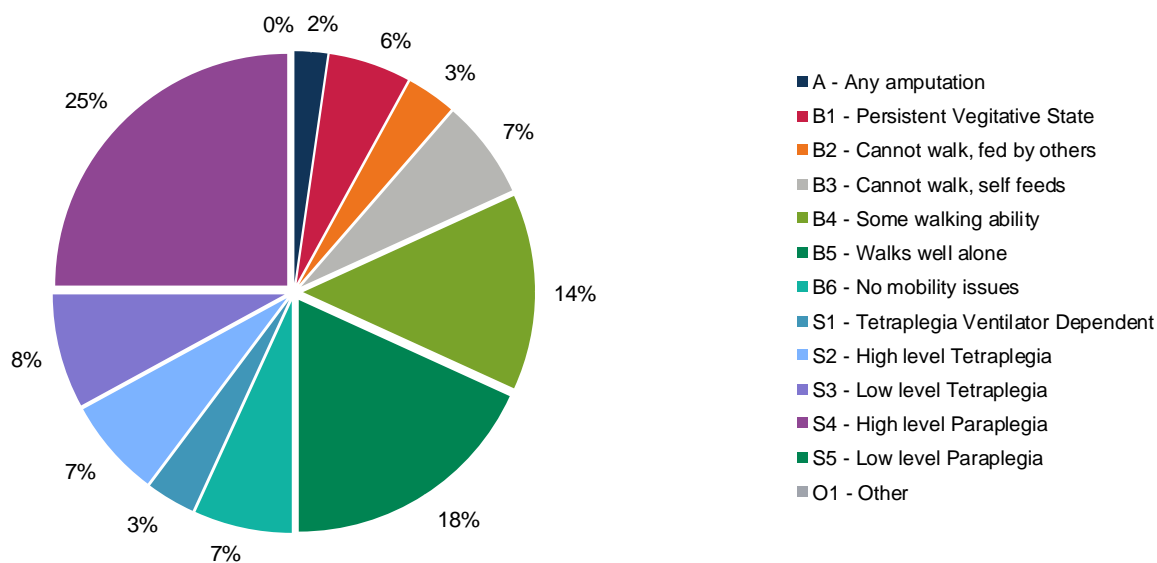
### Reserving for PPO claims (qualitative survey)

- The level of concern about PPO claims has broadly remained at the same level as the previous year, for participating insurers and reinsurers.
- Reserving for Settled PPO claims; 73% of participating insurers and 80% of participating reinsurers use a probabilistic approach to mortality in reserving for settled PPO claims. The remainder are using an annuity certain approach.
- Reserving for future PPO claims; most participating insurers considering future pure IBNR PPO claims within the methods used for future PPO claims on existing large claims. Only a few insurers reserve for future pure IBNR PPO claims explicitly. All participating reinsurers established their own reserves for future PPO claims.
- Participating Insurers most commonly used a real discount rate of 0% per annum in GAAP and IFRS reporting. The range was between -1.0% per annum and +1.5% per annum. Participating Reinsurers used a range between -0.5% and 0% per annum. When compared with our previous survey there has been no significant shift in real discount rates used by insurers.

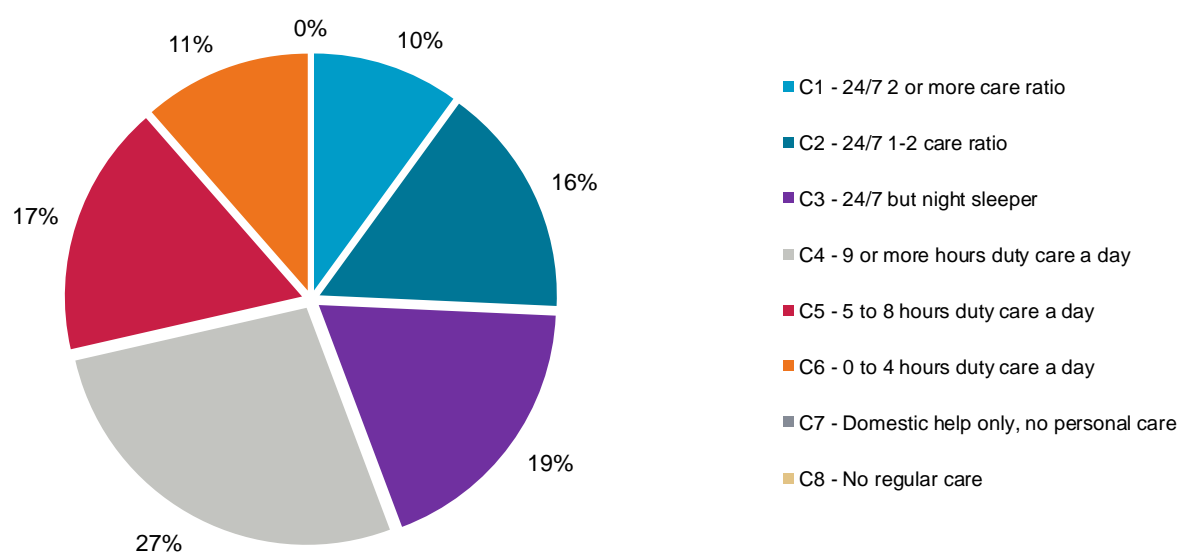
### Injury type and care regime categorisation (quantitative survey)

In 2014 the IFoA PPO Working Party devised a categorisation of PPO injury types and care regimes, in collaboration with a number of claims professionals. The intention of this categorisation is for it to be UK standard practice, used by all insurers and reinsurers.

This information is used to provide more in-depth analysis of how the characteristics of PPO claims are affected by the type of injury sustained by the claimant and the type of care they receive:



*Figure 1: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*



*Figure 2: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation*

Only 19% of the Motor PPO claims and 5% of the Liability PPO claims we received for the 2019 quantitative industry survey had this categorisation attached. ***We urge insurers to use this categorisation, and to provide this information to the IFoA PPO Working Party to enable us to better help the market to understand trends and uncertainties relating to PPO claims.***



## Highlights of the 2019 quantitative industry survey

In this section, we provide some of the key highlights of the 2019 quantitative industry survey, the data for which was taken as at 31 December 2018. We provide more detailed results of the analysis carried out as part of the quantitative industry survey in Appendices B to R to this report.

The insurers surveyed account for around 75% of the PRA-regulated market (based on 2018 gross premium volumes) for Motor, including Personal and Commercial insurance, Comprehensive and Non-Comprehensive covers. In addition, there are further companies which contribute to the survey but do not appear in the 2018 PRA returns.

The insurers which have agreed to be acknowledged for their participation in this survey are listed in the Introduction to this report, although please note that the list does not include all participants.

## PPO propensity and other summary statistics on general characteristics of PPO claims

In Appendix E to this report, we provide summary statistics for all of the PPO claims in the 2019 quantitative survey, for a number of characteristics, both cumulative across all settlement years and also separately for the pre-2018 settlement years and the 2018 settlement year alone.

For example, Figure 3 shows that, for Motor (non-MIB) PPO claims, the average age of the claimant at settlement is 34.3 years, with an average delay of 6.4 years between the accident date and settlement date, an average future life expectancy at settlement date of 43.1 years which represents an average reduction in life expectancy of 14.1 years, and with an average settlement of £1.95 million lump sum and £93.2 thousand annual PPO payment. (See the notes in Appendix E for further detail on the interpretation of these statistics, in particular for the payment components.)

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.3	27.9	17.0	1.0	482
Delay until settlement	6.4	5.6	3.4	1.6	482
Future life expectancy at settlement	43.1	45.9	18.3	-0.4	474
Life expectancy reduction	14.1	12.0	11.5	1.6	459
Annual PPO payment (£)	93,238	65,000	82,276	2.0	482
Lump sum (£)	1,945,981	1,745,140	1,284,751	2.0	480
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.2	27.9	17.0	1.0	472
Delay until settlement	6.4	5.6	3.4	1.6	472
Future life expectancy at settlement	43.3	46.1	18.3	-0.4	464
Life expectancy reduction	14.0	11.9	11.3	1.6	449
Annual PPO payment (£)	91,046	64,375	77,127	1.6	472
Lump sum (£)	1,897,462	1,700,000	1,180,492	1.5	470
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	39.3	30.0	18.5	0.5	10
Delay until settlement	5.2	4.9	2.3	1.0	10
Future life expectancy at settlement	33.4	31.9	15.0	0.1	10
Life expectancy reduction	18.9	13.5	15.3	1.4	10
Annual PPO payment (£)	196,733	130,210	185,934	1.5	10
Lump sum (£)	4,226,403	3,564,417	2,901,673	1.4	10

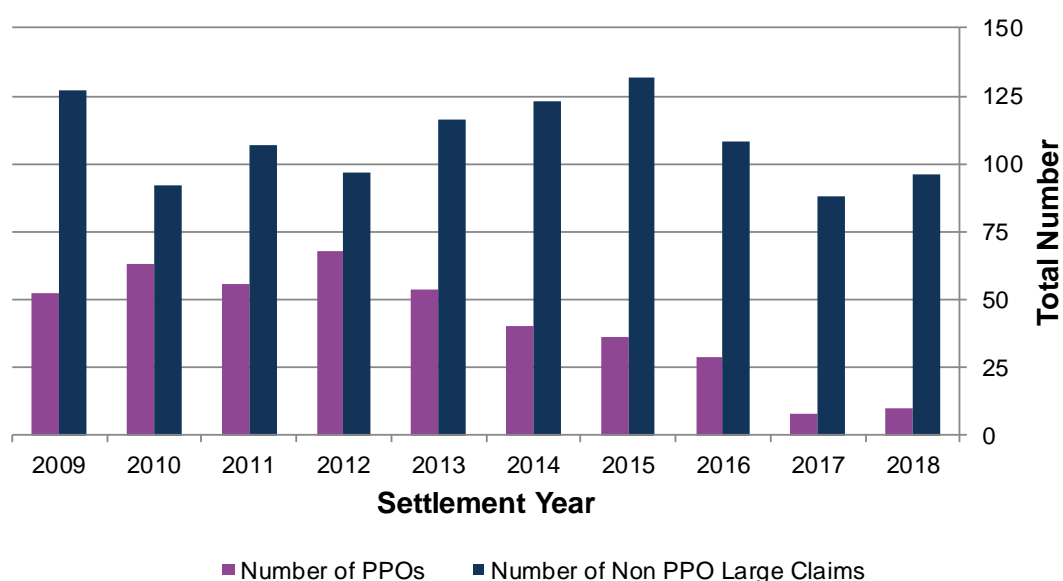
*Figure 3: Summary statistics for Motor (non-MIB) PPO claims*



## Number of PPO claims

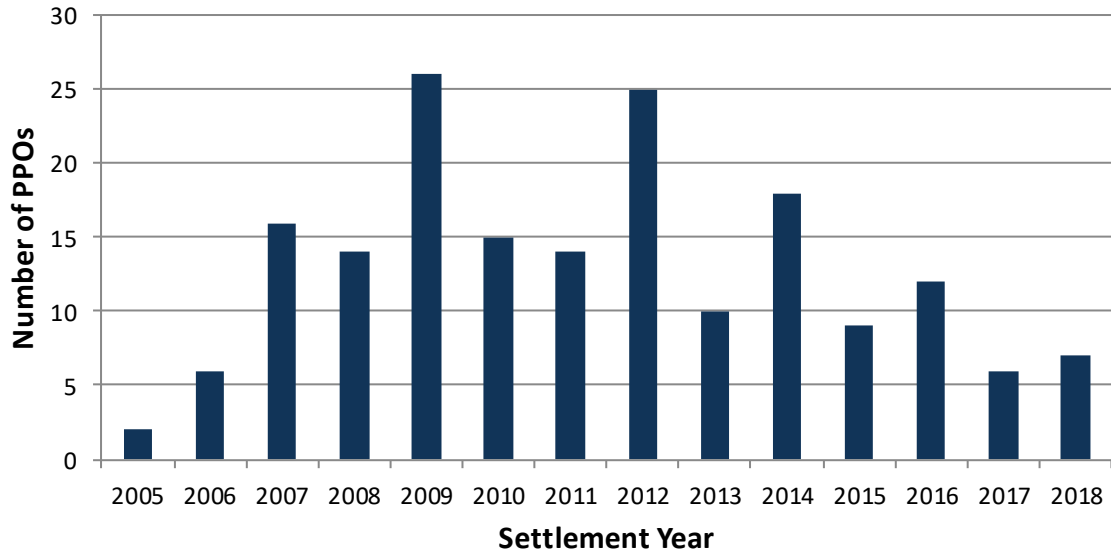
The key headline figure is the propensity of an injury claim to settle as a PPO claim. Unless stated otherwise, the PPO propensity statistics discussed in this report are defined as the number of PPO claims as a proportion of large claims. The definition of a large claim is a claim that is greater than £1 million in 2011 terms, indexed at 7% per annum. (See the notes in Appendix C to this report for further detail on the definition of large claims.)

Figure 4 shows the number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year. Since 2012 the number of claims settling as a PPO claim has been decreasing, with an 85.3% reduction in claims settling as a PPO in 2018 compared with 2012. There has been 25.0% increase since the 2017 year, however this only represents a small number of additional claims. The number of large claims settling as a lump sum claim (i.e. a non-PPO claim) has also exhibited a less obvious trend over the same period, with a 1.0% decrease since 2012. The number of large claims settling as a lump sum in 2018 exhibits an increase compared with 2017, in this case a 9.1% increase. It is worth noting that the 2017 numbers will have been heavily impacted by the change in the Ogden discount rate during 2017, and the below figure has not been adjusted to compensate for this.



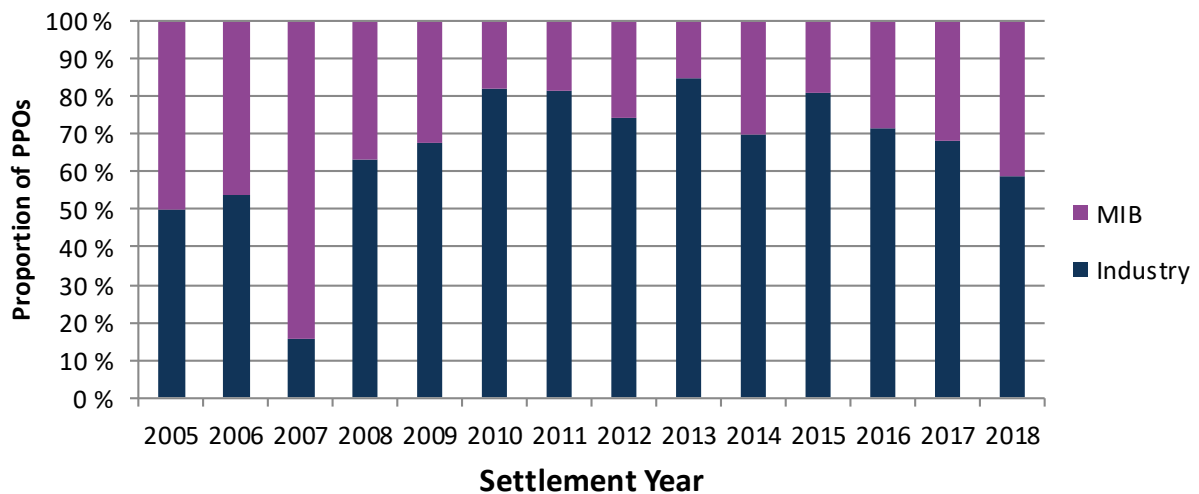
*Figure 4: Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year*

Figure 4 shows the number of Motor (MIB) PPO claims, by settlement year. The number of claims settling as a PPO claim in 2018 has increased relative to that observed for 2017, although the number of claims settling as a PPO claim since 2006 has been quite variable from year to year. Again, the 2017 and 2018 settlement year numbers will have been affected by the Ogden discount rate change.



*Figure 5: Number of Motor (MIB) PPO claims, by settlement year*

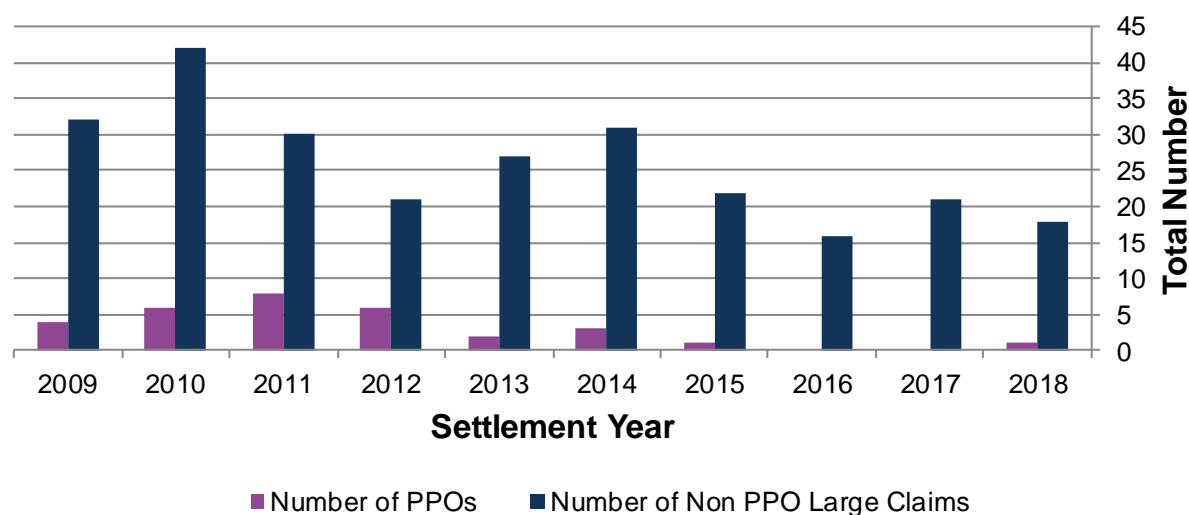
Figure 5 shows the proportion of Motor claims settling as a PPO claim that are settled by the MIB. Considering the period where PPO settlements have been more widespread, say settlement years 2009 and post (i.e. following the Court of Appeal upholding the ruling in the Thompstone vs Tameside and Glossop Acute Services NHS Trust court case – see Appendix M to this report for further details), the MIB has settled 24.1% of all Motor PPO claims collected in the survey.



*Figure 6: Proportion of PPO claims, by settlement year – MIB and the rest of the industry*

Figure 6 shows the number of Liability claims settling as a PPO claim, by settlement year. 2018 exhibits an increase compared with the more recent 2016 and 2017 years where there were no Liability claims settling as a PPO. However, when compared with the 2015 and prior years there is a reduction seen. With such low numbers of claims it is not possible to comment on whether the 1 observed PPO settling in 2018 is anything other than volatility. However, the average number of

claims settling as a PPO claim in settlement years 2013-2018 is 70.8% lower than the average number of claims settling as a PPO claim in settlement years 2009-2012. The standardised Liability PPO propensity is 3.7% compared with 0% in 2017 (5.3% on a non-standardised basis). As with the Motor figures, the 2017 and 2018 years are subject to a different Ogden discount rate, which has not been adjusted for.



*Figure 7: Number of Liability PPO claims and Liability non-PPO large claims underlying the PPO propensity statistics, by settlement year*

Appendix F contains further information on the number of PPO claims, including Liability and MIB Motor, splits by Private and Commercial Motor, and splits by comprehensive and non-comprehensive cover.

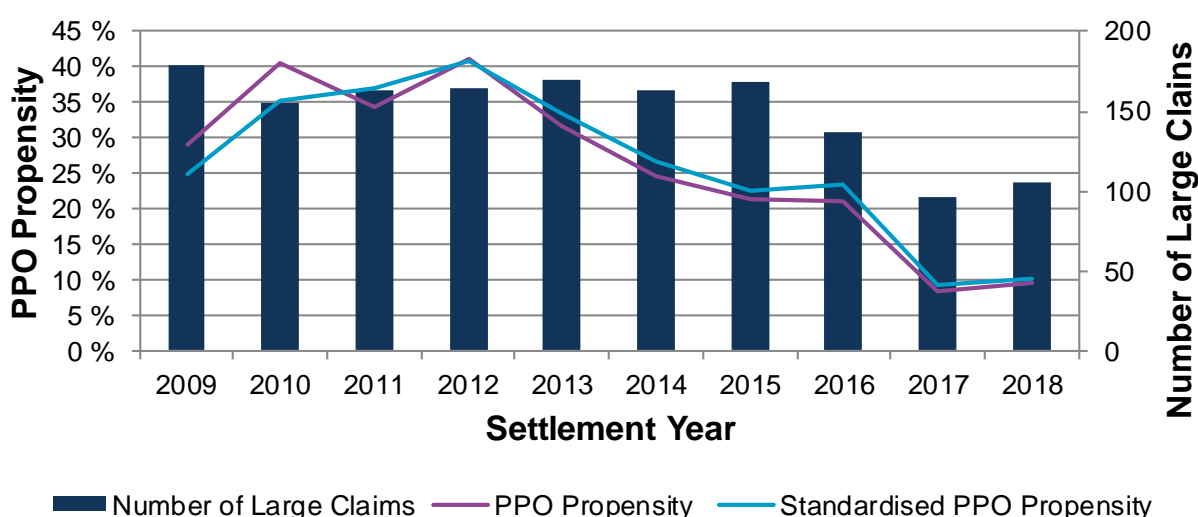


## PPO Propensity by Year

In our statistics looking at the change in PPO propensity by settlement year, we have therefore considered a standardised PPO propensity which adjusts for (or removes) the volatility in the PPO propensity arising from differences in the mix of large claims by amount between years. In Appendix B to this report, we explain the standardisation basis for Motor (non-MIB) claims and for Liability claims.

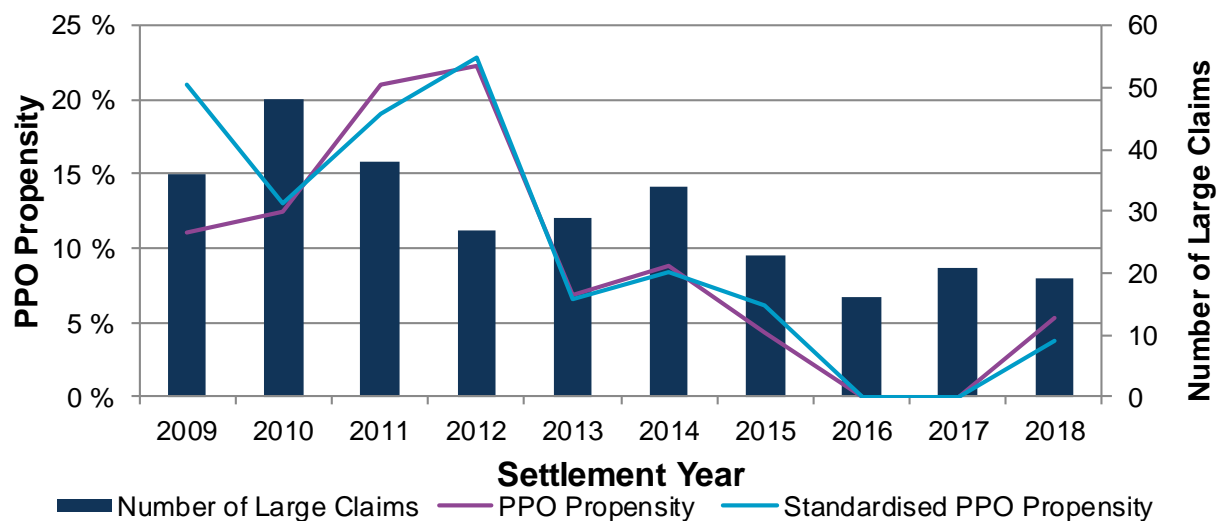
The data collected from the MIB does not include non-PPO large claims, and so we are not able to produce PPO propensity statistics or standardised PPO propensity statistics for MIB claims.

Figure 8 shows the Motor (non-MIB) PPO propensity and the standardised Motor (non-MIB) PPO propensity, by settlement year. The standardised Motor (non-MIB) PPO propensity has increased from 9.2% in settlement year 2017 to 10.2% in settlement year 2018 (an increase from 8.3% to 9.4% on a non-standardised basis). The weighted average standardised Motor (non-MIB) PPO propensity was 27.8% (27.7% on a non-standardised basis). The 2017 and 2018 settlement years numbers in the below chart will have been affected by the Ogden discount rate change in 2017, there has been no adjustment made for this.



*Figure 8: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year*

Figure 9 shows the Liability PPO propensity, by settlement year. The number of Liability claims settling as a PPO claim in 2018 exhibits an increase compared with the more recent 2016 and 2017 years where there were no Liability claims settling as a PPO. However, when compared with the 2015 and prior years there is a reduction seen. With such low numbers of claims it is not possible to comment on whether the 1 observed PPO settling in 2018 is anything other than volatility. However, the average number of claims settling as a PPO claim in settlement years 2013-2018 is 70.8% lower than the average number of claims settling as a PPO claim in settlement years 2009-2012. The standardised Liability PPO propensity is 3.7% compared with 0% in 2017 (5.3% on a non-standardised basis). As with the Motor figures, the 2017 and 2018 years are subject to a different Ogden discount rate, which has not been adjusted for.



*Figure 9: Liability PPO propensity and standardised Liability PPO propensity, by settlement year*

Further information relating to PPO Propensity by Year is provided in Appendix G (Motor) and Appendix H (Liability).

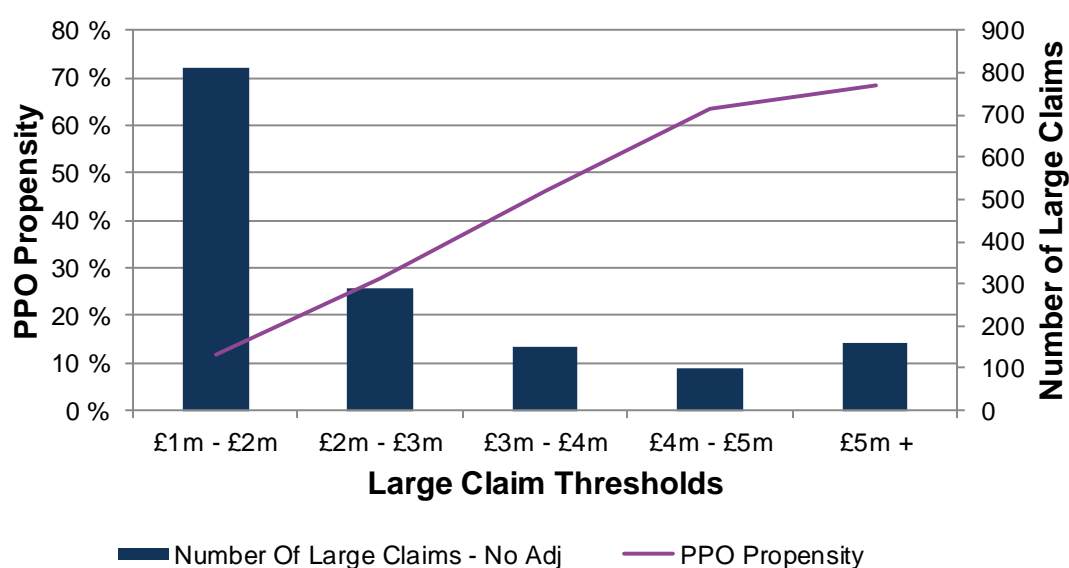


## PPO Propensity by Claim Size

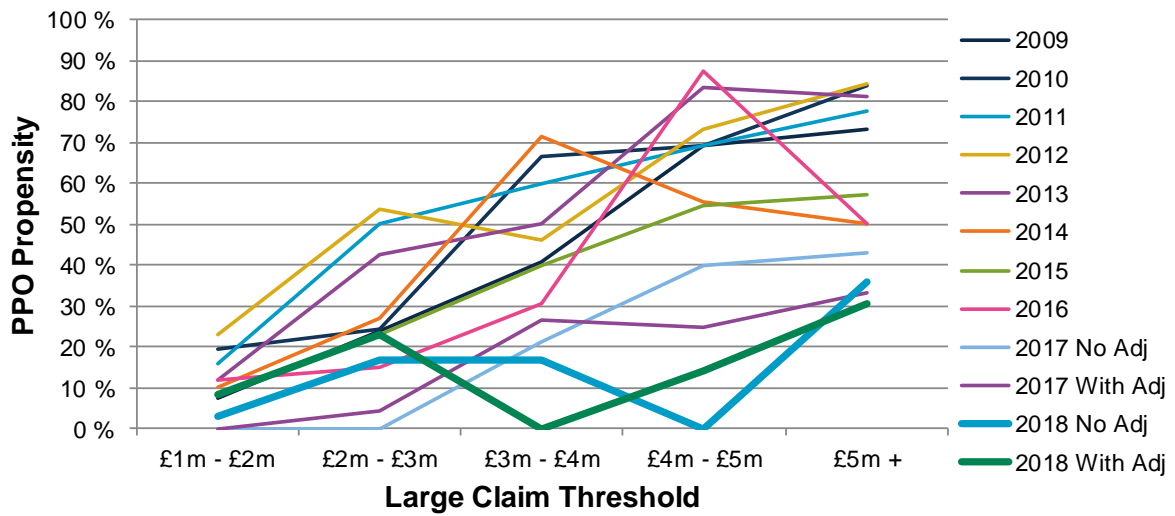
The data collected for the quantitative industry survey clearly shows that the likelihood of a claim settling as a PPO varies with the size of the claim, with larger claims being more likely to have settled as a PPO (see Figure 10).

In a number of the analyses summarised in this report, we consider claims in various claim size bands. As for the definition of large claims, in each case, the claim size thresholds are also defined in 2011 terms, indexed at 7% per annum. A claim falls in a given band if it is greater than or equal to the lower bound of the band, but less than the upper bound of the band (where there is an upper bound). For PPO claims, the claim size band is determined by their Ogden equivalent value using a real discount rate of 2.5% per annum if it settled prior to 20 March 2017 and 0.5% if it settled after this point in time. The non-PPO large claims are taken at whichever discount rate they settled at without adjustment. (See the notes in Appendix C to this report for further detail on the definition of large claims, and also for an explanation of the distinction between incremental threshold and cumulative threshold.)

Figure 10 shows how the Motor (non-MIB) PPO propensity varies by claim size band, and Figure 8 shows this trend by settlement year.

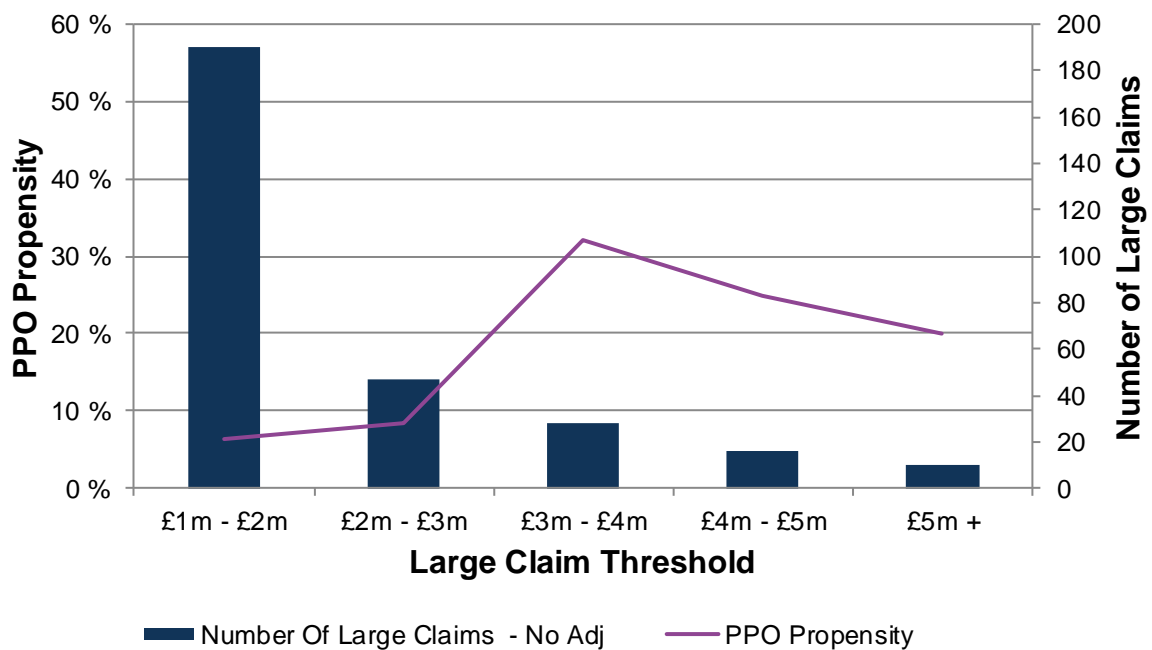


**Figure 10: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009**

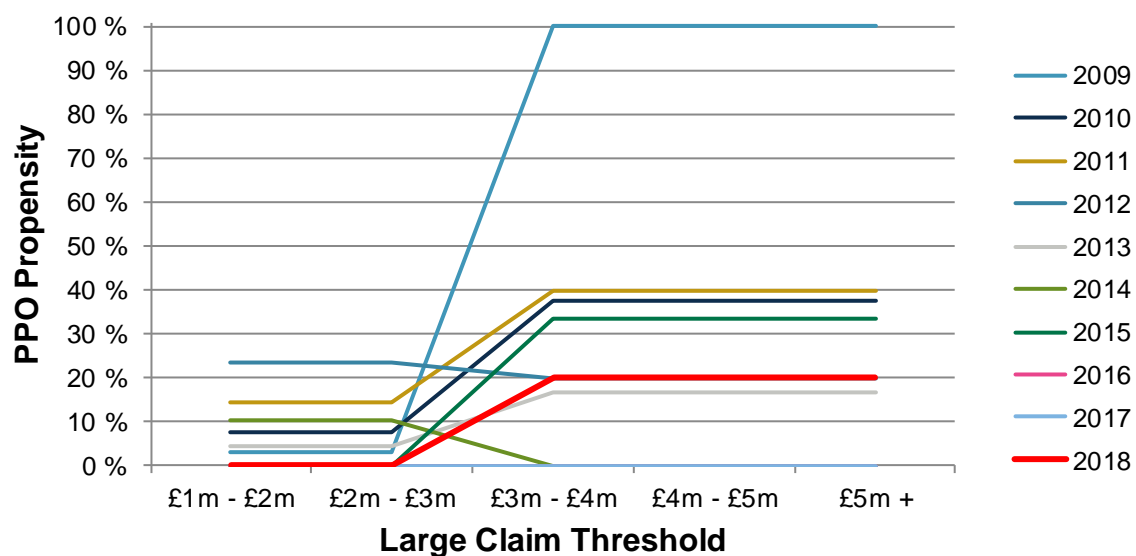


*Figure 11: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009*

The equivalent graphs for Liability PPO claims are shown in Figure 12 and Figure 13. (Note that, in Figure 13, the claim size bands have been grouped in order to reduce the volatility and to emphasise the underlying trend.)



*Figure 12: Liability PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009*



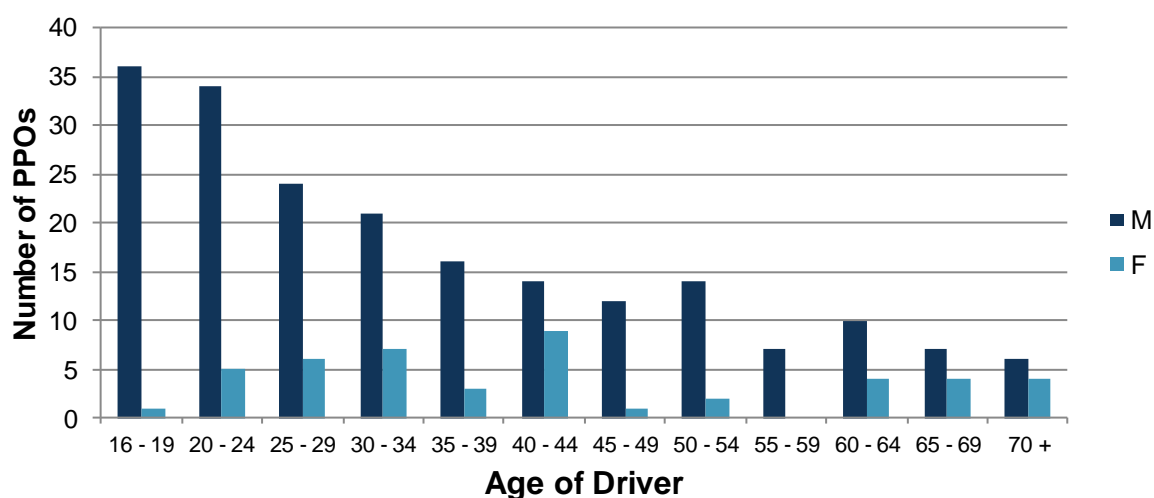
*Figure 13: Liability PPO propensity, by grouped (£1m-£3m, £3m+) incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009*

Further information relating to PPO Propensity by Claims Size is provided in Appendix G (Motor) and Appendix H (Liability).

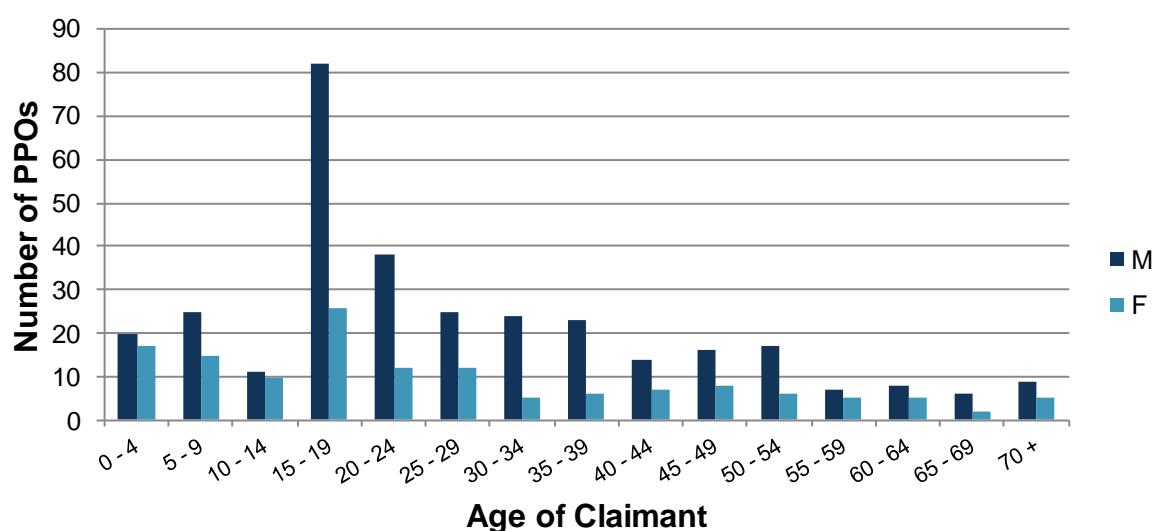


## PPO Characteristics

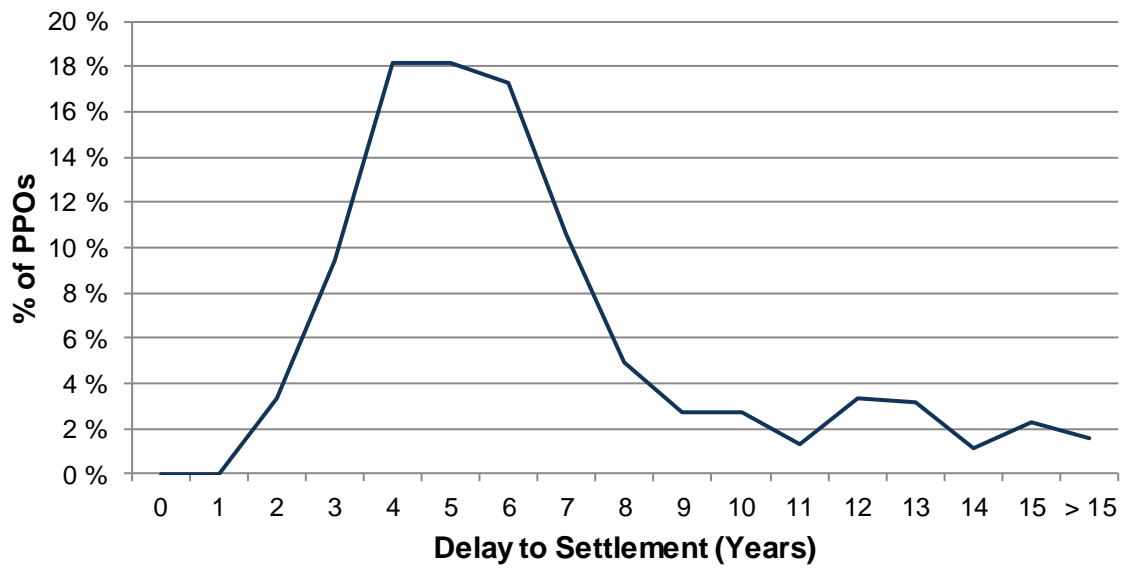
We provide a large number of further summary statistics and analysis of the number, propensity and general characteristics of the Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims in the 2018 quantitative survey in Appendices F to S to this report. Examples for Motor (non-MIB) PPO claims include the number of PPO claims by age of driver at accident date and by gender of driver (Figure 14), the number of PPO claims by age of claimant at accident date and by gender of claimant (Figure 15), the delay between the accident date and settlement date (Figure 16 and Figure 17) and the future life expectancy of the claimant at settlement (Figure 18 and Figure 19).



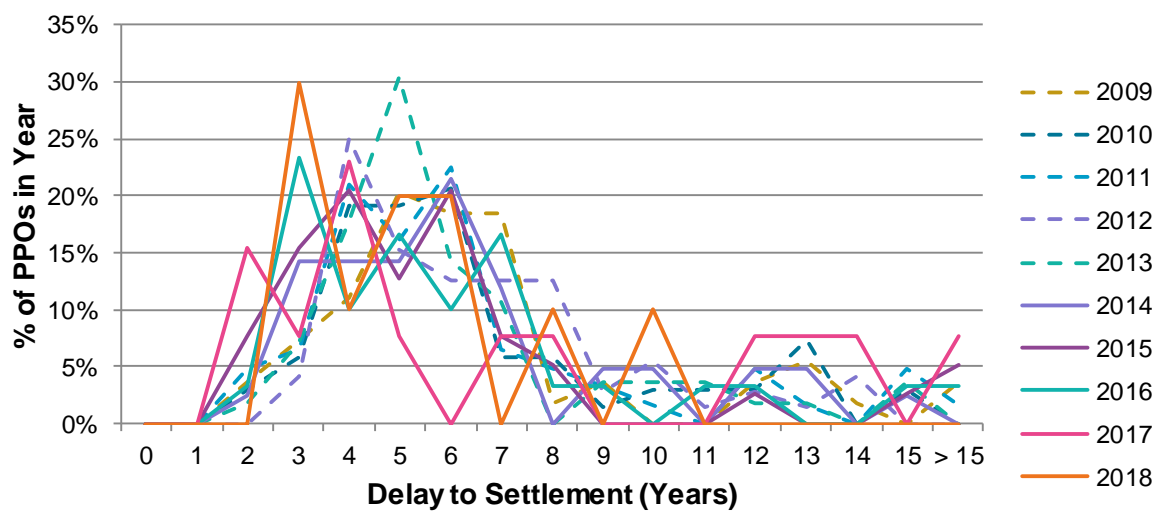
*Figure 14: Number of Motor (non-MIB) PPO claims, by age of driver at accident date and by gender of driver*



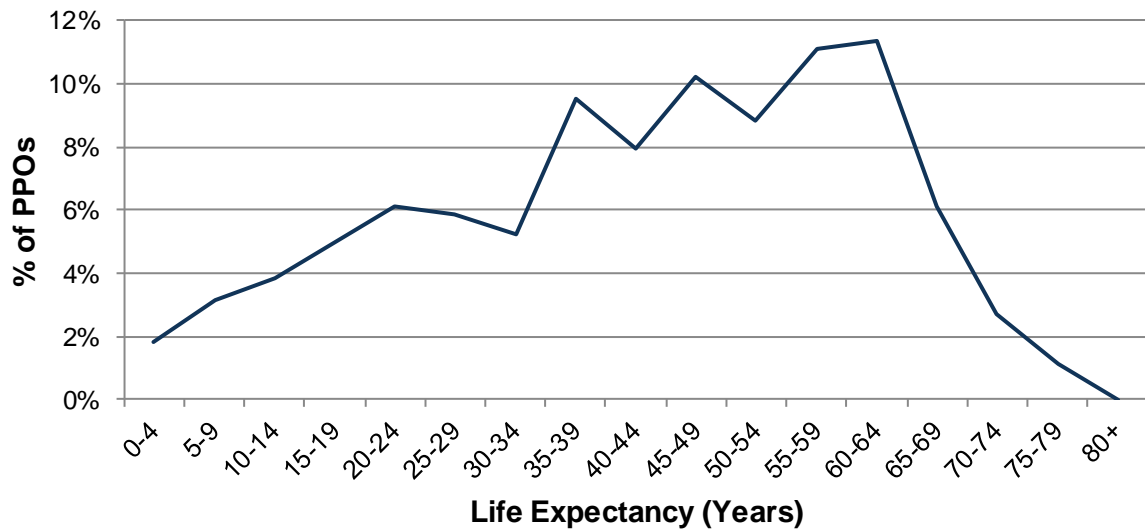
*Figure 15: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by gender of claimant*



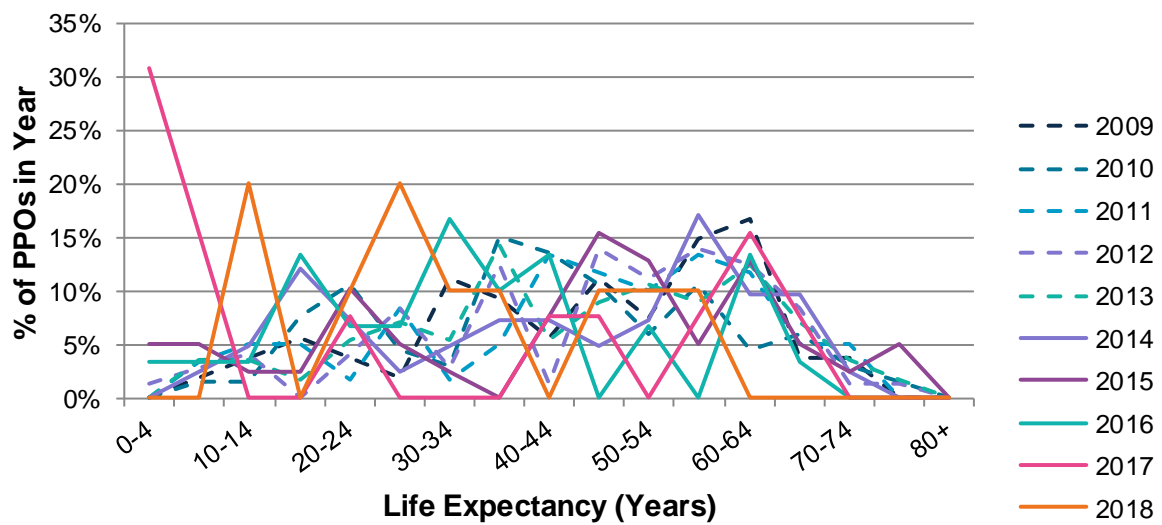
*Figure 16: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, for claims settled since 2009*



*Figure 17: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009*



*Figure 18: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for claims settled since 2009*



*Figure 19: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009*





## PPO Development Patterns

Finally, in Appendix I to this report, we provide triangles of non-PPO large claims, PPO claims and PPO propensity rates for non-MIB Motor claims, which take into account the accident year of a claim as well as its time to settlement. Figure 20 is an example. We have also provided graphs showing the accident year cumulative development of the number of non-MIB Motor PPO claims. It is clear from the data for the older accident years that we can expect some further development of the number of PPO claim settlements, even for these older accident years, although the extent of this development is difficult to quantify.

	Years to Settlement																		
Accident Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0	0	0	0	0	0	0	0	7	16	29	34	39	41	42	45	46	47	47
2001	0	0	0	0	0	0	0	3	7	8	9	10	10	11	11	12	12	12	
2002	0	0	0	0	0	0	3	9	12	14	18	21	24	24	24	24	24		
2003	0	0	0	0	0	3	12	16	18	23	25	26	27	27	28	28			
2004	0	0	0	0	3	14	25	31	39	40	41	41	42	43	43				
2005	0	0	0	2	9	22	33	39	42	43	43	44	44	44					
2006	0	0	1	6	20	27	38	43	44	44	44	44	44						
2007	0	0	1	4	18	27	34	41	43	44	44	44							
2008	0	0	1	7	21	33	39	43	44	45	46								
2009	0	0	2	6	19	26	32	36	36	36									
2010	0	0	1	6	11	18	22	23	24										
2011	0	0	1	5	12	16	16	16											
2012	0	0	2	4	8	9	11												
2013	0	0	4	11	12	14													
2014	0	0	0	1	2														
2015	0	0	0	3															
2016	0	0	0																
2017	0	0																	
2018	0																		

*Figure 20: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims*

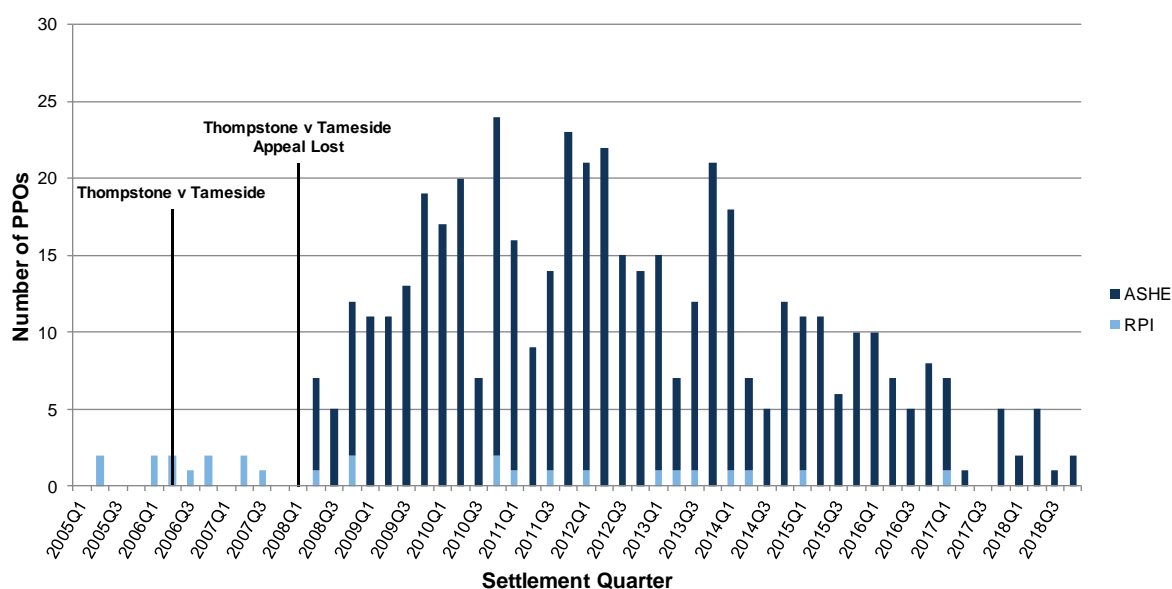


## Indexation of PPO claims

We provide a number of summary statistics for Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims in relation to the index used to inflate PPO claim regular payments.

The index used to inflate PPO claim regular payments was originally automatically linked to the Retail Prices Index (“RPI”).

However, in 2006, a court case was brought in the form of *Thompstone vs Tameside and Glossop Acute Services NHS Trust* which questioned this assumption and suggested that the payments for future cost of care would be better linked to wage inflation. The court agreed and the annual inflation increase was linked to the Annual Survey of Hours and Earnings (“ASHE”). The case was appealed and a number of other cases were put on hold pending the outcome. In 2008, the Court of Appeal upheld the ruling that an index other than RPI can be chosen if thought more appropriate. Since then the majority of PPO claims have had inflation linked to ASHE, as can be seen in Figure 21.

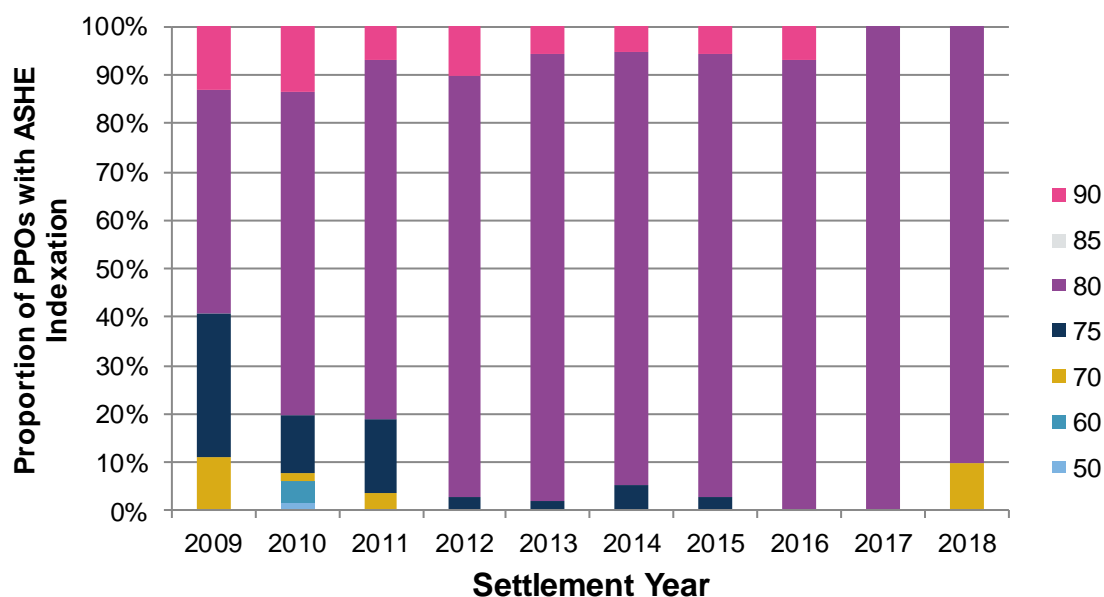


**Figure 21: Number of Motor (non-MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments**

ASHE is produced by the Office for National Statistics (“ONS”) every November, based on data as at April. It covers a wide range of occupations, though the vast majority of PPO claims so far have, in respect of care costs, been linked to sub-category 6115, relating to care assistants and home carers.

Within a particular job category, the ASHE earnings inflation measures are further split into percentiles. A PPO claim will have the annual inflation linked to a specific percentile, for example to those whose earnings are in the top 10% of earners in the category (i.e. the 90<sup>th</sup> percentile).

Figure 22 shows that, where the applicable index for the primary head of damage is ASHE, the overwhelming majority of Motor (non-MIB) PPO claims for recent settlements are linked to the 80<sup>th</sup> percentile.

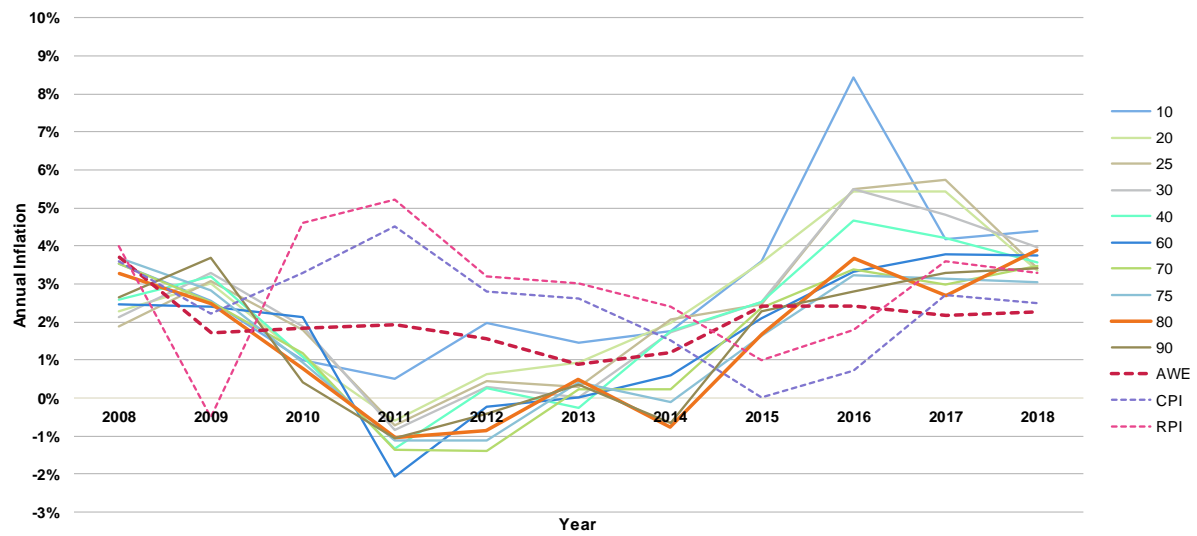


*Figure 22: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (non-MIB) PPO claims linked to specific percentiles, by settlement year*

Figures 23 and 24 shows the annual inflation in ASHE 6115 by specific percentile. Of note is that, while annual inflation has been low or even negative for some of the percentiles (including the 80<sup>th</sup> percentile), the latest shows a significant uptick in annual inflation, particularly at the lower percentiles.

Year	6115 - Care Assistants and Home Carers Inflation Statistics by Percentile									
	10	20	25	30	40	60	70	75	80	90
2008	3.54%	2.44%	2.04%	2.29%	2.71%	2.59%	3.64%	3.80%	3.27%	2.64%
2009	2.56%	2.86%	2.93%	3.13%	3.06%	2.28%	2.41%	2.72%	2.47%	3.68%
2010	1.00%	1.08%	1.80%	1.88%	1.08%	2.11%	1.18%	0.92%	0.77%	0.41%
2011	0.50%	-0.61%	-0.74%	-0.85%	-1.33%	-2.07%	-1.38%	-1.11%	-1.05%	-1.07%
2012	1.97%	0.61%	0.44%	0.29%	0.27%	-0.23%	-1.39%	-1.12%	-0.87%	-0.42%
2013	1.45%	0.92%	0.29%	0.00%	-0.27%	0.00%	0.22%	0.41%	0.49%	0.33%
2014	1.75%	1.97%	2.06%	1.71%	1.76%	0.59%	0.22%	-0.10%	-0.78%	-0.67%
2015	3.59%	3.56%	2.45%	2.53%	2.52%	2.11%	2.38%	1.65%	1.67%	2.26%
2016	8.43%	5.44%	5.49%	5.48%	4.66%	3.32%	3.28%	3.04%	3.56%	2.38%
2017	4.17%	5.43%	5.73%	4.81%	4.21%	3.77%	2.97%	3.14%	2.70%	3.28%
2018	4.40%	3.35%	3.40%	3.97%	3.56%	3.74%	3.48%	3.05%	3.89%	3.41%

*Figure 23: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)*



*Figure 24: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year), compared with Average Weekly Earnings, CPI and RPI*

Further information on the Indexation of PPOs is provided in Appendix M to this report.



## Payment components for PPO claims

We referred previously to summary statistics, including Liability and MIB Motor, and splits by Private and Commercial Motor.

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.3	27.9	17.0	1.0	482
Delay until settlement	6.4	5.6	3.4	1.6	482
Future life expectancy at settlement	43.1	45.9	18.3	-0.4	474
Life expectancy reduction	14.1	12.0	11.5	1.6	459
Annual PPO payment (£)	93,238	65,000	82,276	2.0	482
Lump sum (£)	1,945,981	1,745,140	1,284,751	2.0	480
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.2	27.9	17.0	1.0	472
Delay until settlement	6.4	5.6	3.4	1.6	472
Future life expectancy at settlement	43.3	46.1	18.3	-0.4	464
Life expectancy reduction	14.0	11.9	11.3	1.6	449
Annual PPO payment (£)	91,046	64,375	77,127	1.6	472
Lump sum (£)	1,897,462	1,700,000	1,180,492	1.5	470
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	39.3	30.0	18.5	0.5	10
Delay until settlement	5.2	4.9	2.3	1.0	10
Future life expectancy at settlement	33.4	31.9	15.0	0.1	10
Life expectancy reduction	18.9	13.5	15.3	1.4	10
Annual PPO payment (£)	196,733	130,210	185,934	1.5	10
Lump sum (£)	4,226,403	3,564,417	2,901,673	1.4	10

*Figure 25: Summary statistics for Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	43.7	45.8	17.4	-0.2	39
Delay until settlement	7.1	4.9	7.5	4.6	39
Future life expectancy at settlement	32.3	27.4	17.4	0.9	38
Life expectancy reduction	15.8	13.2	13.8	2.1	38
Annual PPO payment (£)	71,108	50,000	65,286	1.7	39
Lump sum (£)	1,336,842	1,185,000	894,341	0.5	39

*Figure 26: Summary statistics for Liability PPO claims*

These summary statistics indicate that:

- For Motor (non-MIB) claims settling as a PPO claim in 2018, the average lump sum payment was £4.23 million and the average initial annual PPO payment (summed across all heads of damage) was £196.7 thousand. Across all settlement years, the equivalent figures were £1.95 million and £93.2 thousand respectively (although note that these figures are in nominal terms and have not been adjusted for inflation, the average settlement date being June 2012).
- For Liability claims settling as a PPO claim, there is only 1 claim present in the 2018 year cohort, and so to protect anonymity summary statistics have not been produced separately for the 2018 settlement year alone. Across all settlement years, the average lump sum payment was £1.34 million and the average initial annual PPO payment (summed across all heads of damage) was £71.1 thousand (although note that these figures are in nominal terms and have not been adjusted for inflation, the average settlement date being July 2011).
- For Motor (MIB) claims settling as a PPO claim in 2018, the average lump sum payment was £1.43 million and the average initial annual PPO payment (summed across all heads of damage) was £34.4 thousand. Across all settlement years, the equivalent figures were £1.25 million and £60.6 thousand respectively (although note that these figures are in nominal terms and have not been adjusted for inflation, the average settlement date being November 2011).

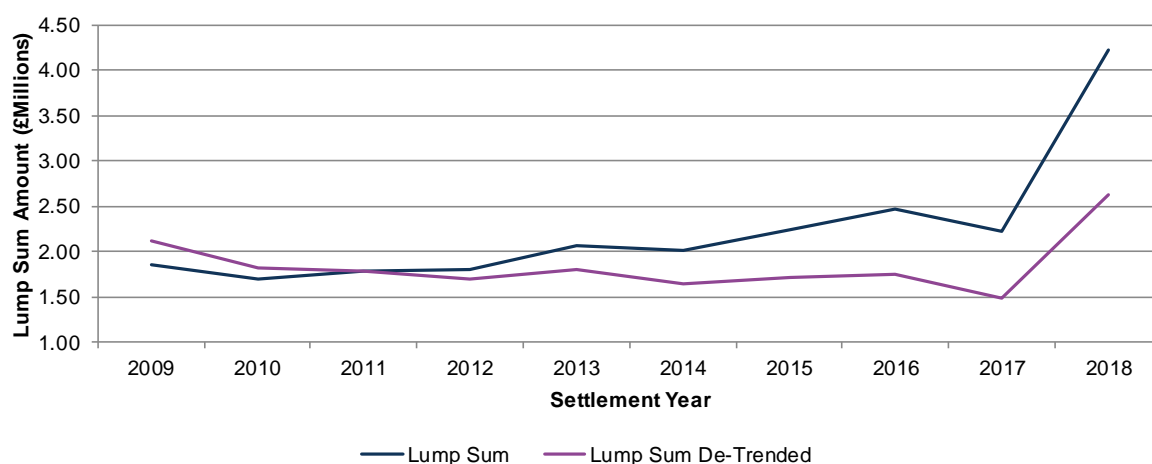
Appendix E contains further summary statistics tables, including Liability and MIB Motor, and splits by Private and Commercial Motor.

We provide a number of further summary statistics for the lump sum element of PPO claims and for the initial regular payment amount of PPO claims, separately for Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims.

For the purposes of comparison, we also provide some of the equivalent summary statistics for Motor (non-MIB) non-PPO claims, and it is interesting to note that, while the average size of the lump sum element of Motor (non-MIB) claims has been increasing for both PPO claims and non-PPO claims, when stripping out the effect of inflation, the average size of the lump sum element of Motor (non-MIB) PPO claims has been relatively flat whereas the average size of Motor (non-MIB) non-PPO claims has fallen markedly (see Figure 27 and Figure 28).

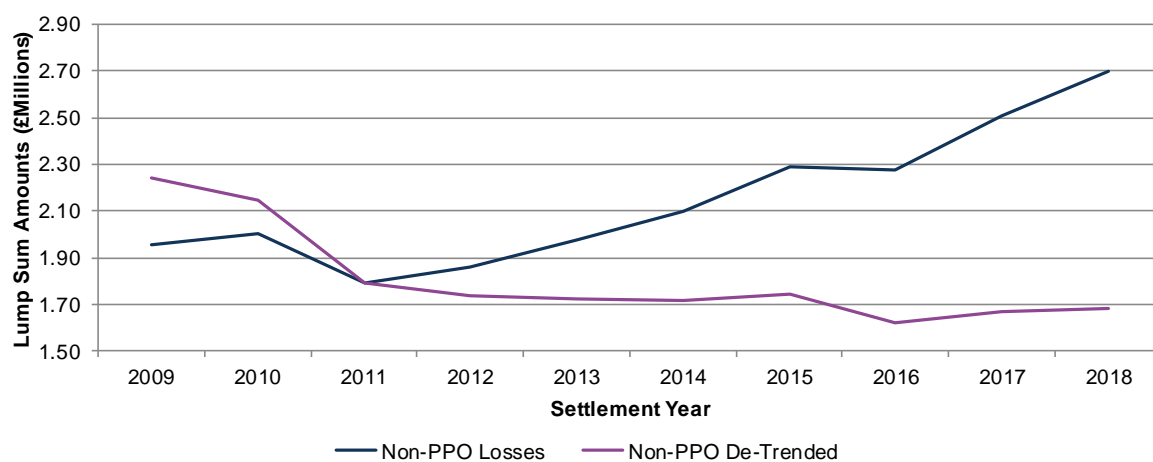
The lump sum element of non-PPO claims includes compensation for future care costs, whereas the lump sum element of PPO claims does not, as these are included in the annual payments. There are therefore potentially two conclusions that can be drawn from the trends in Figure 24 and Figure 25:

- The lump sum amounts (before stripping out the effect of inflation at 7% per annum) are similar for both Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO claims. This is consistent with PPOs being awarded in larger cases.
- The marked fall in the average size of Motor (non-MIB) non-PPO claims (after stripping out the effect of inflation at 7% per annum) suggests that the inflation on the cost of care element (and also on the loss of earnings element) assumed within the lump sum settlement may be lower than 7% per annum. This is supported by the annual inflation in ASHE 6115 statistics shown in Figure 24.



*Figure 27: Average size of the lump sum element of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*





*Figure 28: Average size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*

Further information on Payment Components of PPOs is provided in Appendix N.



## Special features of Motor (non-MIB) PPO claims and other statistics

We provide a number of summary statistics in relation to stepped payments, variation orders and indemnity / reverse indemnity guarantees for Motor (non-MIB) PPO claims, together with a small number of other statistics for these PPO claims. Definitions for these special features are provided in Appendix N to this report.

Figure 29 shows the proportion of Motor (non-MIB) PPO claims with special features.

Feature	Proportion of PPOs	Number of Responses
<b>Stepped Payments</b>	28%	482
<b>Variation Orders</b>	18%	467
<b>Indemnity Guarantees</b>	6%	301
<b>Reverse Indemnity Guarantees</b>	8%	241
<b>Contributory Negligence</b>	23%	216

*Figure 29: Proportion of Motor (non-MIB) PPO claims with special features, together with the number of Motor (non-MIB) PPO claims in the survey with responses received on those special features*

In terms of injury type:

- 22% of Motor (non-MIB) PPO claims relating to brain injury have a stepped payment.
- 49% of Motor (non-MIB) PPO claims relating to spinal injury have a stepped payment.

This compares with a general Motor (non-MIB) PPO claim population average of 28%, as shown in Figure 26.

Again in terms of injury type:

- 13% of Motor (non-MIB) PPO claims relating to brain injury have a variation order.
- 37% of Motor (non-MIB) PPO claims relating to spinal injury have a variation order.

This compares with a general Motor (non-MIB) PPO claim population average of 18%, as shown in Figure 26.

Further information on Special Features is provided in Appendix O.



## Injury type and care regime categorisation

### Introduction

The IFoA PPO Working Party, with the help of a number of claims professionals, devised a categorisation of PPO injury types and care regimes, with the intention of this categorisation becoming UK standard practice, to be used by all insurers and reinsurers. This categorisation was presented as part of the output of the IFoA PPO Working Party in 2014 and is reproduced in Appendix P to this report.

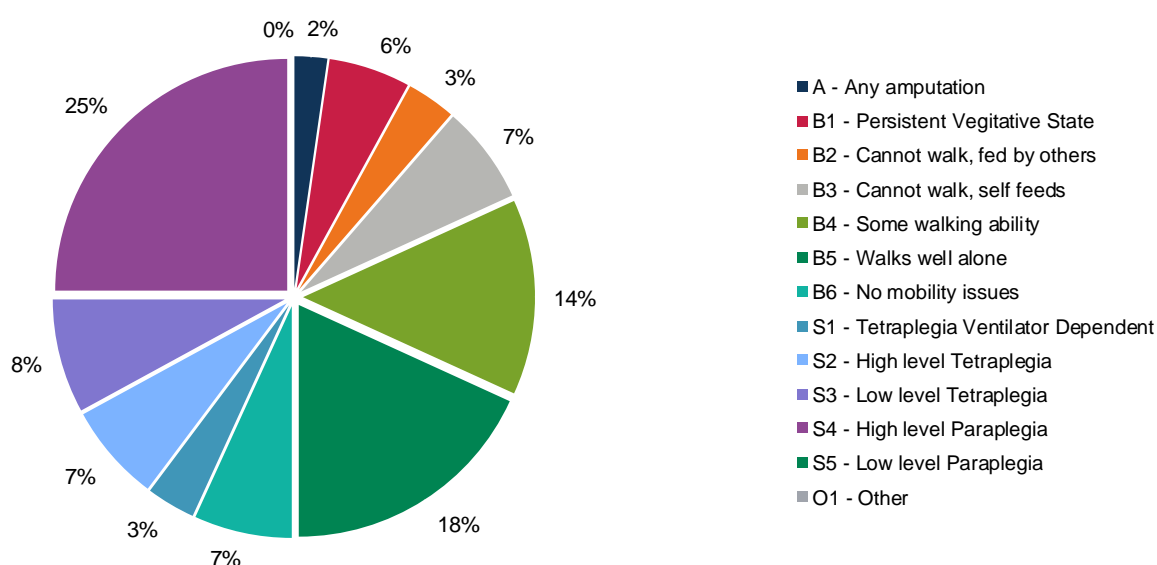
19% of the Motor (non-MIB) PPO claims and 5% of the Liability PPO claims we received for the 2019 quantitative industry survey, had this categorisation attached.

Using this categorisation, we are able to provide more in-depth analysis of how the characteristics of PPO claims are affected by the type of injury sustained by the claimant and the type of care they receive. We have restricted this analysis to the Motor (non-MIB) PPO claims only.

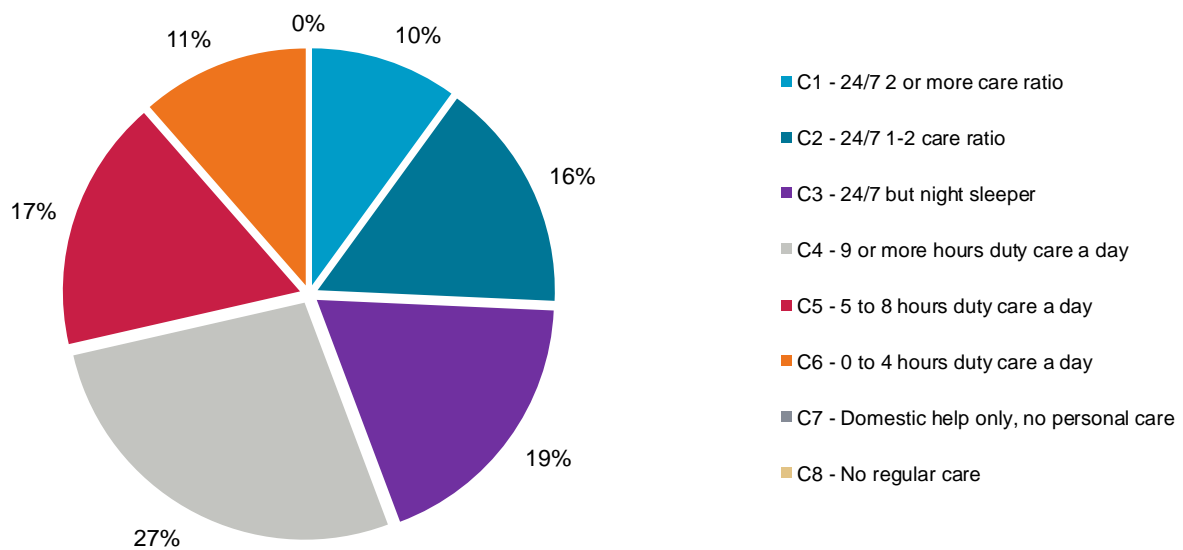
We note, however, that the summary statistics provided here and in Appendix P to this report are based on only a small subset of data, and this is likely to have contributed to the volatility in experience in the summary statistics provided.

### Summary Statistics

Figure 30 shows the distribution of Motor (non-MIB) PPO claims by injury type categorisation and Figure 31 shows the distribution of Motor (non-MIB) PPO claims by care regime categorisation.



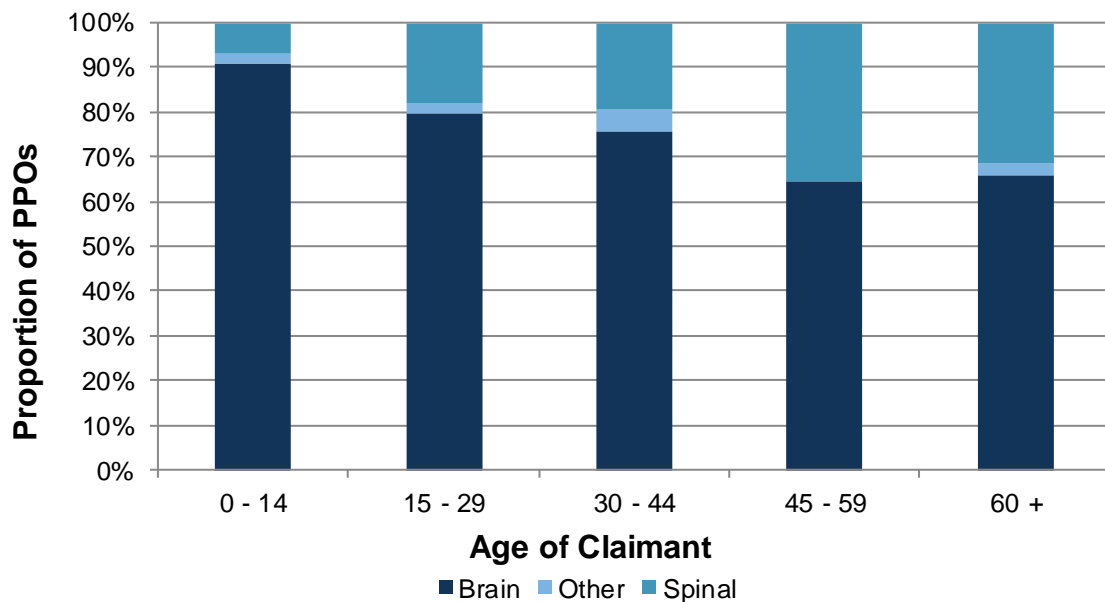
*Figure 30: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*



*Figure 31: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation*

We provide a number of summary statistics in relation to the nature of injury for PPO claims.

We note that 78% of Motor (non-MIB) PPO claims involve brain injury as the primary injury type, with that proportion varying significantly by the age of claimant as shown in Figure 32.



*Figure 32: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury*

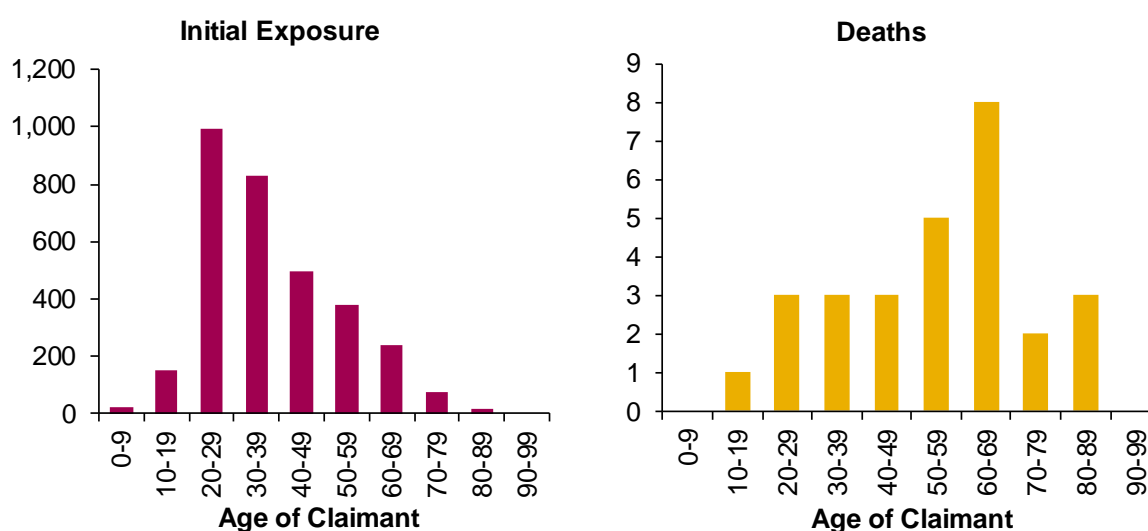
Further information relating to these Summary Statistics is provided in Appendices P and Q.

## Mortality of PPO claimants

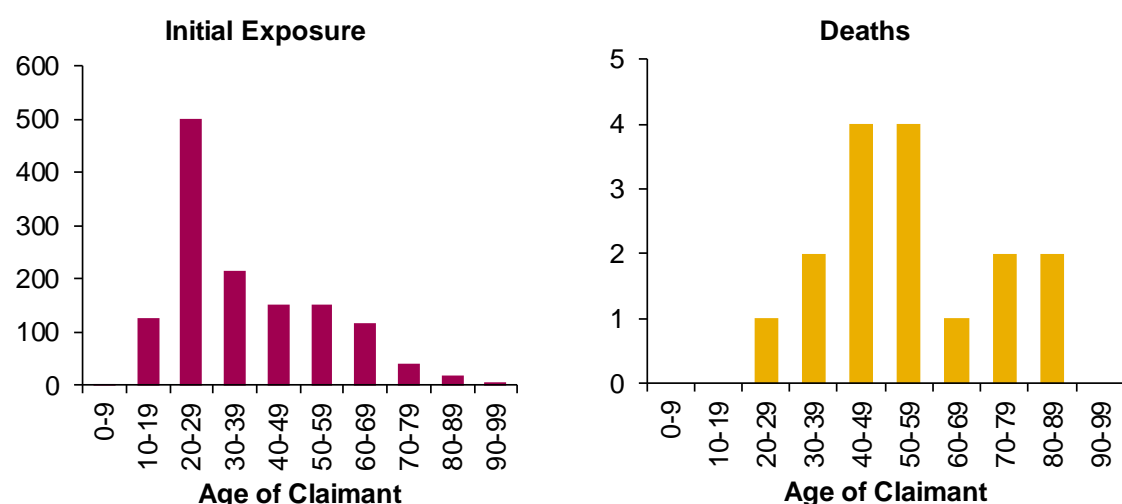
We provide a number of summary statistics in relation to the mortality of PPO claimants.

To increase the sample size, we have considered all PPO claims in this analysis, i.e. Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims combined. We note, however, that there remains very limited data on which to base any firm conclusions. We also note that there is an inherent bias in any such analysis, in that we will not observe people living much longer than expectations for a very long time to come, which is more likely to overstate mortality than to understate mortality. Furthermore, a number of simplifying assumptions have been made in the underlying analysis, as discussed in Appendix R to this report. We therefore stress caution in using the results of the analysis presented here and in Appendix R to this report.

Figure 33 and Figure 34 show the “initial exposure” and number of deaths by age group for male and female claimants respectively, the “initial exposure” being a measure of the total number of years of exposure for PPO claims in the quantitative industry survey, taken as the number of years from settlement date to 31 December 2018 or date of death if applicable.

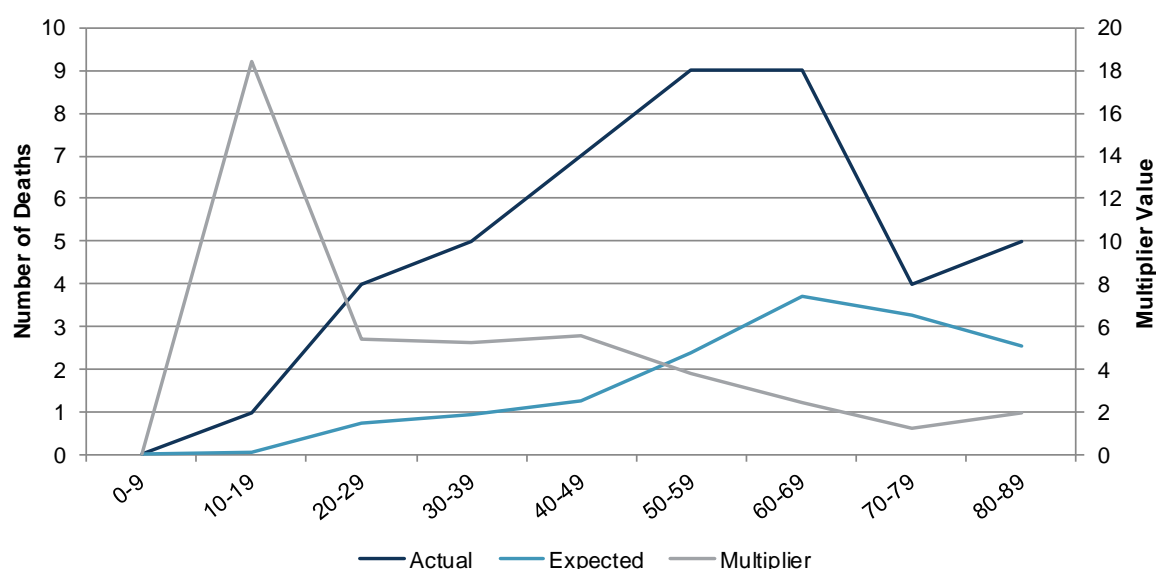


*Figure 33: Number of years of exposure for PPO claims and number of deaths, for male PPO claimants, by age of claimant at settlement date*



*Figure 34: Number of years of exposure for PPO claims and number of deaths, for female PPO claimants, by age of claimant at settlement date*

Figure 35 shows the observed (i.e. actual) number of deaths by claimant age band (at settlement date) against those that would have been expected for the survey sample using unimpaired mortality rates based on the ONS mortality rates (its most recent forecast projections, as detailed in Appendix R to this report).



*Figure 35: Actual number of PPO claimant deaths, expected number of PPO claimant deaths assuming unimpaired mortality, and the multiplier (actual / expected), by age of claimant at settlement date*

We would expect the life expectancy of PPO claimants to be impaired given the serious nature of injuries which give rise to a PPO award. Figure 35 attempts to measure the extent of this impairment by comparing the actual deaths observed in our data with the number that would be expected using unimpaired mortality rates. In total there have been 44 observed deaths since settlement, against an expected number of 16.2 deaths assuming unimpaired mortality, representing a multiplier of 2.7 (for male and female PPO claimants combined). This result is statistically significant. When analysed by



type of injury Brain has multiplier of 2.4, Spinal has a multiplier of 2.1 with Other injuries showing a multiplier of 1.1. We note, once again, the inherent bias in this analysis (and other analyses in Appendix R to this report), in that we will not observe people living much longer than expectations for a very long time to come, which is more likely to overstate mortality than to understate mortality. Of the PPO claimants who have died, all of these have died earlier than the life expectancy assumed at the time of settlement of the claim.

Further information relating to Mortality is provided in Appendix R.



## Reserves for Motor (non-MIB) PPO claims

We provide a number of summary statistics in relation to the size of reserves for Motor (non-MIB) PPO claims.

In order to consider the size of reserves on a consistent basis, we have estimated the total cost and outstanding reserve for each of the Motor (non-MIB) PPO claims in the quantitative industry survey on a cashflow basis. Given the approximations and assumptions inherent in the underlying analysis, the results here and in Appendix S to this report should be treated with caution.

Figure 36 compares our estimate of outstanding reserves for Motor (non-MIB) PPO claims (i.e. PPO claims in payment), as at 31 December 2018, using discount rate assumptions ranging from -2% per annum to +2.5% per annum, to an estimate at the prevailing Ogden discount rate as at 31 December 2018 of -0.75% per annum.

Real Discount Rate	Total Cost Multiple
-2.00%	1.24
-1.00%	1.04
-0.75%	1.00
-0.25%	0.93
0.00%	0.90
1.00%	0.80
2.00%	0.73
2.50%	0.70

*Figure 36: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the reserve estimated at a -0.75% per annum real discount rate*

Further information relating to Reserves is provided in Appendix S.



## Highlights of the 2019 qualitative industry survey

In this section, we provide some of the key highlights of the responses to the 2019 qualitative industry survey. We provide more detail around the responses to the qualitative industry survey in Appendix T to this report.

14 insurers and 5 reinsurers were interviewed for the qualitative industry survey, the responses having been collected between January 2019 and April 2019 inclusive. The companies which have agreed to be acknowledged for their participation in this survey are listed in the Introduction to this report, although please note that the list does not include all participants.

It is worth noting that, very occasionally, some of the survey questions were unanswered by some participants. This was occasionally through choice, but more commonly as the interviewee did not know the answer or could not readily obtain the information.

### Level of concern about PPO claims

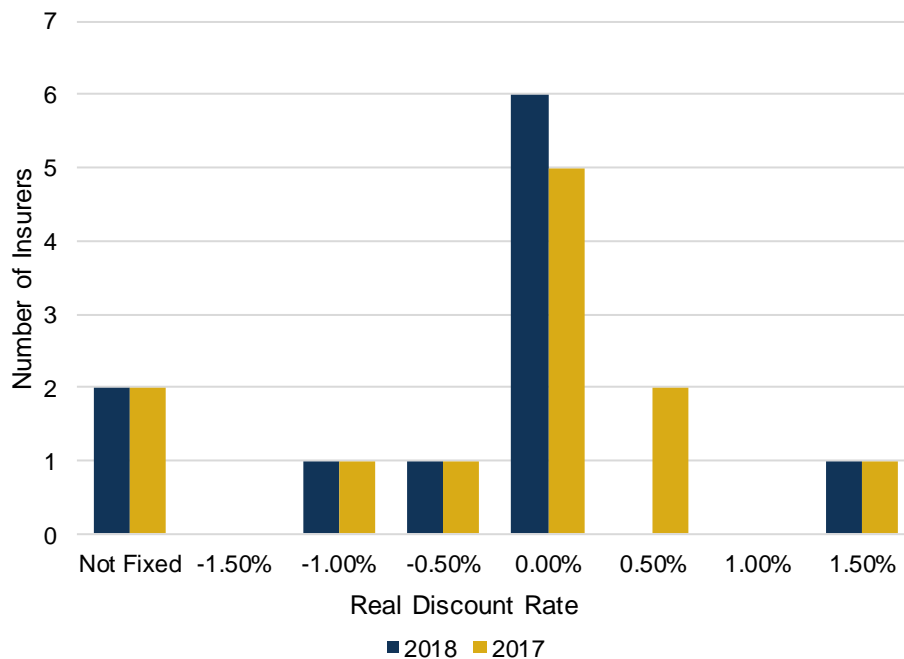
For both participating insurers and reinsurers, the level of concern about PPO claims has, for the most part, remained at the same level since the previous year. This is also the case for the Boards of the participating insurers and reinsurers.

### Reserving for PPO claims

73% of participating insurers and 80% of participating reinsurers use a probabilistic approach to mortality in reserving for settled PPO claims with the remainder using an annuity certain approach. A wider variety of approaches are used for reserving for future PPO claims, with most participating insurers considering future pure IBNR PPO claims within the methods used for future PPO claims on existing large claims, and only a small number reserving for future pure IBNR PPO claims explicitly. All participating reinsurers established their own reserves for future PPO claims.

In valuing PPO claims for reserving purposes, all participating insurers discounted their PPO cashflows. For future PPO claims, 54% of participating insurers discount to valuation date with the remainder discounting to future expected settlement date.

For participating insurers, the range of real discount rates (considering both the inflation of payments and discounting in respect of investment returns) for reporting under current UK Generally Accepted Accounting Principles (“GAAP”) / International Financial Reporting Standards (“IFRS”) was between -1.0% per annum and +1.5% per annum, with the most commonly used real discount rate being 0% per annum. The range and distribution of real discount rates used by insurers has remained broadly the same since our previous survey. Figure 37 shows the distribution of real discount rates used by insurers, compared with last year.



*Figure 37: Real discount rate used by insurers in 2018 compared with those used in 2017*

For participating reinsurers, the range of real discount rates used was between -0.5% per annum and 0% per annum, with three participating reinsurers not discounting at all due to US GAAP reporting requirements.

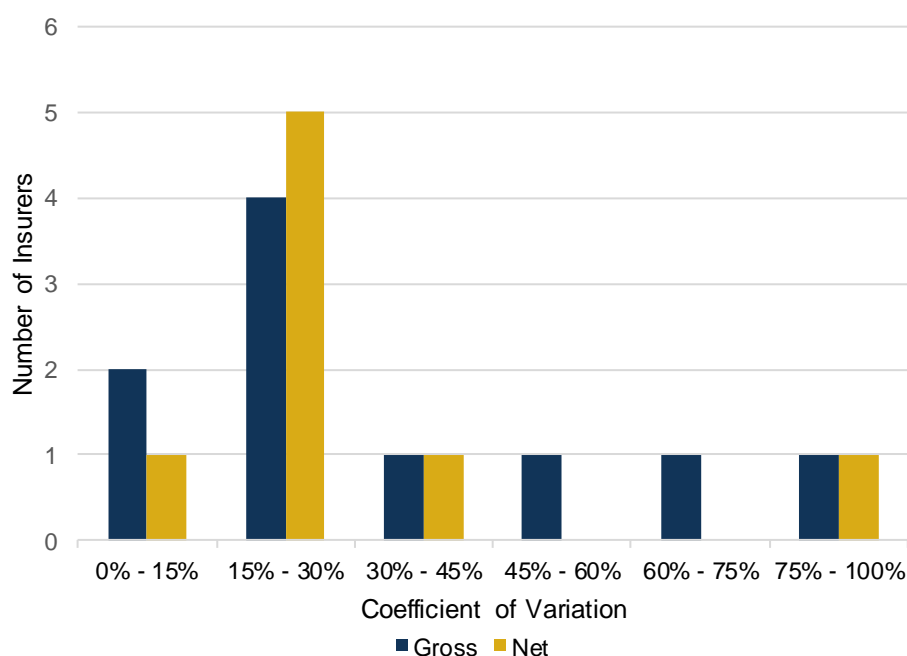
For those participating insurers using a fixed assumption, the range of ASHE inflation rates used was between +2.0% per annum and +4.0% per annum, with no change in the distribution compared with last year. For those participating insurers using a fixed assumption, the range of investment returns used was between +2.5% per annum and +5.0% per annum, with the distribution shifting slightly upwards compared with last year.

Under Solvency II, as the investment return assumption is prescribed by the European Insurance and Occupational Pensions Authority (“EIOPA”), it is the choice of the ASHE (or payment) inflation rate that will determine the real discount rate used. Around half of participating insurers used the same ASHE inflation rate assumption for Solvency II as they assume in their UK GAAP / IFRS accounts, with three insurers maintaining a 0% per annum real discount rate by setting the ASHE assumption to equal the EIOPA investment return assumption. Of the other approaches used by participating insurers, responses included using RPI and using market-implied risk-free yields.

Only four participating insurers allowed for variation orders or indemnity / reverse indemnity guarantees coming into force when reserving for PPOs. None of the reinsurers considered variation orders, and one considered indemnity / reverse indemnity guarantees when reserving. This finding is unsurprising, given that very few variation orders or indemnity / reverse indemnity guarantees have been triggered to date.

Most participating insurers did not include a bad debt provision for PPO claims under current UK GAAP / IFRS but did include a bad debt provision under Solvency II.

All participating insurers and all but one of the participating reinsurers estimate reserve uncertainty for PPOs either stochastically or through scenario testing. For those participants able to provide an estimate, the majority of net of reinsurance coefficients of variation for settled PPOs were between 15% and 30%. Figure 38 shows the distribution of gross and net coefficient of variation used for settled PPOs by number of participants.



*Figure 38: Coefficient of variation used for settled PPOs, gross and net of reinsurance*

In terms of risk margin, for those participating insurers that calculated (or could estimate) a PPO risk margin, the (approximate) risk margin as a proportion of best estimate ranged between 5% and 65%.

## Treatment of PPO claims within capital modelling

The majority of participating insurers and reinsurers used an internal model or partial internal model to allow for PPO claims in the Solvency Capital Requirement (“SCR”) calculation, with the remainder using the Standard Formula.

Of those participating insurers and reinsurers using an internal model or a partial internal model, the majority had an explicit stochastic PPO model.

In terms of the allowance for PPO claims under Pillar I (which considers the 1/200 level over a one year time horizon) and for the Own Risk and Solvency Assessment (“ORSA”) under Pillar II (which considers the volatility of the run off to ultimate), all participating insurers and reinsurers for which this work has been finalised for PPO claims noted a lower capital requirement for Pillar I vs Pillar II: three said that the one year measure of risk was between 25% and 50% of the ultimate measure of risk; three said the one year measure was between 50% and 75% of the ultimate measure; and two said there was no difference.

One insurer said that they had different bases for evaluating economic and regulatory capital: this insurer used the standard formula for PPOs in evaluating their SCR but used an internal model for PPOs in evaluating their economic capital.

### **Treatment of PPO claims within pricing**

All participating insurers allow for the cost of PPO claims within their pricing, although around 77% only do so implicitly. Likewise, all participating insurers allow for the cost of capital for PPO claims when pricing, albeit only implicitly in around 62% of cases. 80% of participating reinsurers explicitly allow for PPO claims in the pricing of their contracts.

### **The impact of PPO claims on reinsurance purchase and availability**

One participating insurer had explicitly changed their reinsurance programme as a result of PPO claims. In contrast, four out of five of participating reinsurers had changed their reinsurance offerings as a result of PPO claims.

Of those participating reinsurers continuing to write Motor Excess of Loss (“XoL”) business, around 40% had either a strong preference for or a requirement for capitalisation clauses. However less than a third of participating insurers had a capitalisation clause on their reinsurance contracts.

### **Alternative risk transfer for PPO claims**

Of the participating insurers, all respondents would consider transferring the risk associated with PPO claims if the right option arose. The most significant hurdles in constructing a transaction were a prohibitively high price of such risk transfer solutions, and the lack of a solution that matched to ASHE inflation.

### **Investment strategy in relation to PPO exposures**

About 62% of the participating insurers had changed their investment strategy as a result of PPO claims, with four of these changes coming in the last year. None of the participating reinsurers had changed their investment strategy as a result of PPOs. Two participating insurers review their asset / liability matching position regularly, adapting for PPO claims implicitly but without explicitly changing investment strategy as such. Only two participating insurers held ring-fenced assets specifically for PPO liabilities, although a number of other insurers held long duration assets to cover all longer-term liabilities. None of the participating reinsurer held assets specifically to match PPO liabilities.



## Civil Liability Bill and Ogden Discount Rate

The Government announced, under the “Civil Liability Bill”, its proposals concerning whiplash claims and the Ogden discount rate in England and Wales.

The Civil Liability Bill was introduced to the House of Lords on 20 March 2018, with the key elements of the proposals in relation to whiplash claims (Part 1 of the Bill) appearing to be broadly similar to those set out under the previous Prisons and Courts Bill. These are:

- The introduction of a fixed tariff system for general damages on injury duration between 0 and 24 months for Road Traffic Act (“RTA”) whiplash-related claims.
- The raising of the small track claim limit for Personal Injury claims from £1,000 to £2,000 for all Personal Injury claims, and from £1,000 to £5,000 for RTA claims.
- The requirement for medical reports for every RTA whiplash-related claim.

The key elements of the proposals in relation to the Ogden discount rate (Part 2 of the Bill) are:

- Changing the legal framework under which the discount rate is set, in particular setting it with reference to an investment strategy with a higher expected return than assumed under the current framework to reflect how claimants invest their compensation in practice.
- Specifying that the discount rate should be set at least every three years with the Lord Chancellor retaining discretion to set the discount rate within three years if necessary, with the first review initiated within 90 days of the legislation coming into force and requiring completion within 140 days.
- Setting up an expert panel for the Lord Chancellor to consult on the issues to consider in setting the discount rate.

The Civil Liability Bill received its Third Reading in the House of Lords on 27 June 2018 and was introduced to the House of Commons on 28 June 2018 with a number of amendments (such as the first review of the discount rate to take place without the expert panel, and subsequent reviews to be carried out within a maximum of five years rather than three years). The Second Reading in the House of Commons took place on 4 September 2018; the Public Bill Committee Stage took place on 11 September 2018; and was followed by the Report Stage and Third Reading on 23 October 2018. The House of Lords agreed to the House of Commons’ amendments on 20 November 2018, and the Civil Liability Bill received Royal Assent on 20 December 2018.

In anticipation of Royal Assent and in preparation for the first review of the Ogden discount rate under the new legislation, the Government opened a consultation “Setting the Personal Injury Discount Rate: A Call for Evidence” (opened 6 December 2018; due to close on 30 January 2019), in which it was seeking up-to-date data and information on a wide range of topics relevant to the setting of the discount rate under the provisions of the Civil Liability Bill, including investments available to claimants, investment advice provided to claimants, investments made by claimants and model investment portfolios.

Although implementation of Part 1 of the Civil Liability Bill has been delayed to perhaps April 2021 in order to allow testing of the various systems including IT systems, implementation of Part 2 of the Bill has followed an independent timetable and a revised Ogden discount rate of -0.25% was announced on 15 July 2019, effective for claims settling after 5 August 2019.

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.

The accompanying Financial Memorandum indicated that the proposed discount rate under the Damages (Investment Returns and Periodical Payments) (Scotland) Bill would currently (i.e. at the time of publication) be around -0.25% per annum.

### Ogden Tables Impact of the change from 2.5% to -0.75% per annum

The reduction in the discount rate from 2.5% per annum to -0.75% per annum in 2017 has a significant impact on the value of individual claim settlements.

Figure 39 and Figure 40 illustrate the percentage increases in the whole of life and loss of earnings multipliers by age at trial and gender, taken from the Ogden tables.

Age at Date of Trial	Males			Females		
	2.50% Real Yield (1)	-0.75% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)	2.50% Real Yield (1)	-0.75% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)
5	34.90	118.67	240%	35.47	125.20	253%
10	34.08	108.31	218%	34.75	114.70	230%
20	32.10	88.96	177%	32.97	94.99	188%
30	29.60	71.43	141%	30.68	76.95	151%
40	26.52	55.66	110%	27.76	60.52	118%
50	22.69	41.44	83%	24.14	45.71	89%
60	18.30	29.19	60%	19.83	32.68	65%

*Figure 39: Multipliers for pecuniary loss for life from the Ogden tables (males Table 1 and females Table 2) assuming no impairment, for discount rates of 2.5% per annum and -0.75% per annum*

Age at Date of Trial	Males			Females		
	2.50% Real Yield (1)	-0.75% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)	2.50% Real Yield (1)	-0.75% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)
20	26.64	52.02	95%	26.88	52.71	96%
30	22.84	38.71	69%	23.09	39.27	70%
40	18.09	26.52	47%	18.30	26.88	47%
50	12.11	15.29	26%	12.26	15.50	26%
60	4.60	4.98	8%	4.64	5.02	8%

*Figure 40: Multipliers for loss of earnings to pension age 65 from the Ogden tables (males Table 9 and females Table 10) assuming no impairment, for discount rates of 2.5% per annum and -0.75% per annum*

Following the Lord Chancellor's announcement on 27 February 2017, a claim was settled on a PPO basis with damages totalling £28 million based on predicted life expectancy, reported to be the highest settlement that has been approved in respect of a personal injury claim. The lump sum element of the PPO claim was revised from an initial agreed figure of £4.9 million in January 2017 to a revised figure of £9.1 million in March 2017.

In terms of industry impact, estimates have varied considerably, but figures of £4 billion to £6 billion one-off reserve charges for insurers and reinsurers have been discussed in the insurance press. Insurance premiums increased soon after, with Motor Comprehensive premiums increasing by 8.4% in the second quarter of 2017 (largely attributable to the reduction in the discount rate and an increase in Insurance Premium Tax) and by 18.5% in the year to 30 June 2017, according to the Confused.com Car Insurance Price Index in association with Willis Towers Watson. At the 1 January 2018 reinsurance renewal, rate increases of around 75% were seen for primary layers below £5m and around 50% for layers above £10m.

A big unknown at this stage is the likely impact on PPO propensity. Will insurers and reinsurers now prefer a PPO to a lump sum? Will lump sums now be seen as relatively more attractive than PPOs for claimants? This is discussed further in a later section of this report. The Government has asked the Civil Justice Council to consider what barriers may exist to increase the uptake of PPOs.

## Ogden Tables Impact of the change from -0.75% to -0.25% per annum

The increase in the discount rate from -0.75% per annum to -0.25% per annum in 2019 will again have a significant impact on the value of individual claim settlements.

Figure 41 and Figure 42 illustrate the percentage increases (in this case decreases) in the whole of life and loss of earnings multipliers by age at trial and gender, taken from the Ogden tables.

Age at Date of Trial	Males			Females		
	-0.75% Real Yield (1)	-0.25% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)	-0.75% Real Yield (1)	-0.25% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)
5	118.67	93.73	-21%	125.21	98.11	-22%
10	108.32	86.89	-20%	114.70	91.28	-20%
20	88.96	73.56	-17%	94.99	77.93	-18%
30	71.43	60.83	-15%	76.95	65.03	-15%
40	55.66	48.76	-12%	60.52	52.64	-13%
50	41.44	37.30	-10%	45.71	40.88	-11%
60	29.19	26.95	-8%	32.68	30.00	-8%

**Figure 41: Multipliers for pecuniary loss for life from the Ogden tables (males Table 1 and females Table 2) assuming no impairment, for discount rates of -0.75% per annum and -0.25% per annum**

Age at Date of Trial	Males			Females		
	-0.75% Real Yield (1)	-0.25% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)	-0.75% Real Yield (1)	-0.25% Real Yield (2)	Percentage Increase ( (2) - (1) ) / (1)
20	52.02	46.34	-11%	52.71	46.91	-11%
30	38.71	35.41	-9%	39.27	35.90	-9%
40	26.52	24.89	-6%	26.88	25.23	-6%
50	15.29	14.73	-4%	15.50	14.92	-4%
60	4.98	4.92	-1%	5.02	4.96	-1%

**Figure 42: Multipliers for loss of earnings to pension age 65 from the Ogden tables (males Table 9 and females Table 10) assuming no impairment, for discount rates of -0.75% per annum and -0.25% per annum**



## Impact of the change in the Ogden discount rate

### Qualitative indications

As part of the 2019 qualitative survey the IFoA PPO Working Party asked questions specifically in relation to the change in the Ogden discount rate to -0.75% per annum.

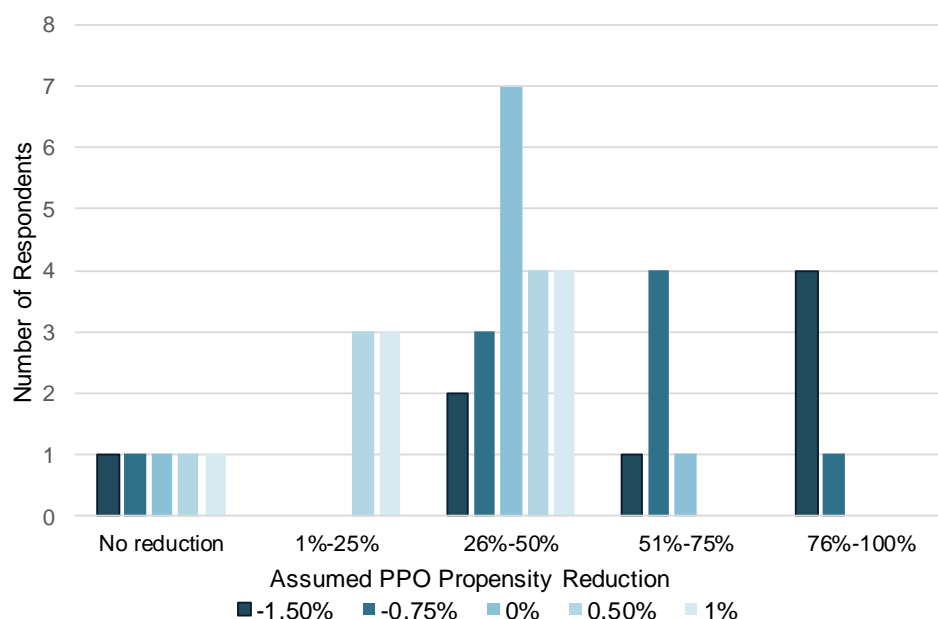
In this section, we provide some of the key highlights of the responses to these questions. We provide more detail around the other questions asked in the qualitative survey in Appendix T of this report.

Only three of the participating insurers (out of the thirteen that responded) valued non-PPO claims within the Actuarial Best Estimate reserves on an Ogden -0.75% per annum basis (i.e. the prevailing discount rate).

Of the ten participating insurers that valued non-PPO claims within the Actuarial Best Estimate reserves on a different basis, eight did so at 0% per annum, one at +0.25% and the other at +0.50% per annum.

Participating insurers were asked what percentage change in PPO propensity they had assumed as part of their Actuarial Best Estimate calculations. 13 participants responded to this question, with a wide range of responses from no reduction to a 100% reduction, with the majority of participants assuming a 50% reduction.

Participating insurers were asked what their previous assumed reductions in PPO propensity would have been, from scenario analyses, had the Ogden discount rate fallen to between 1.0% and -1.5% per annum. Generally, the lower the discount rate, the larger the percentage decrease in PPO propensity participating insurers expected. However, some participating insurers expected the same reduction in propensity in all scenarios and others expected no change at all. 9 participants responded to this question. Figure 43 shows the distribution of assumed PPO propensity reduction by Ogden discount rate.



**Figure 43: Assumed PPO propensity reduction by Ogden discount rate**

In terms of additional reserve margins for further reductions in the Ogden discount rate, this was often as part of a general margin, with few participants now holding an explicit margin for this.

Participating insurers were asked if they had seen any changes in the speed of settlement of claims or in claimant / lawyer behaviour.

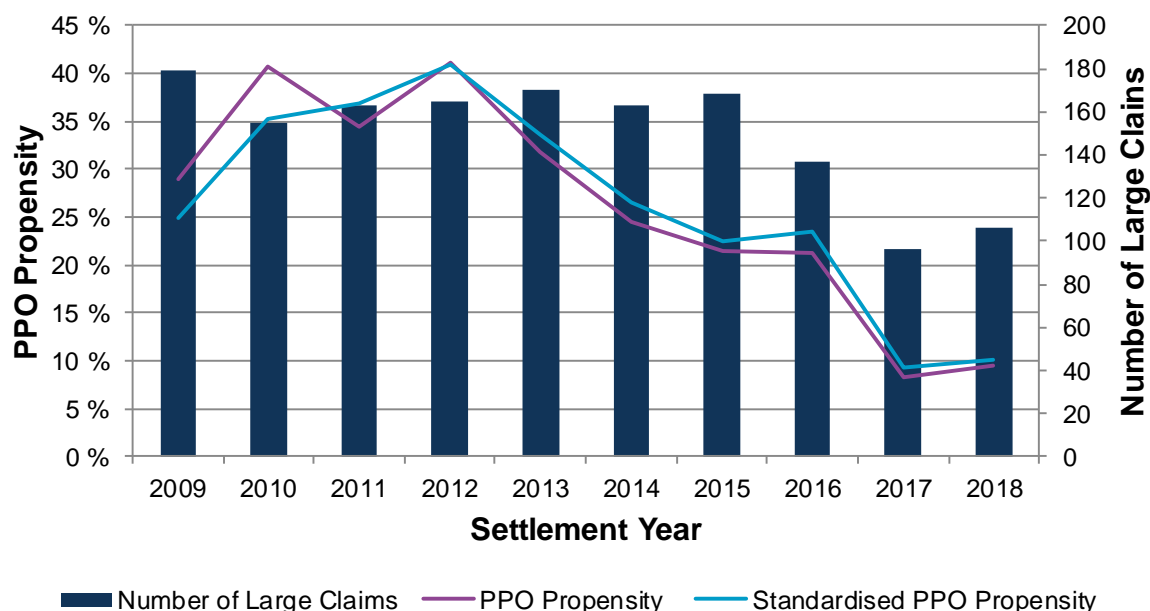
The majority of insurers said that they had noticed a slowing down of claim settlements, particularly in the period running up to the rate change announcement on 27 February 2017. Others said they had seen no difference. Most insurers noted that settlement speeds have started to pick up with no large backlog of open claims.

Some respondents noted that they had succeeded in settling large claims at rates higher than -0.75% per annum since the Ogden discount rate change (i.e. at 0% per annum to +2.5% per annum).

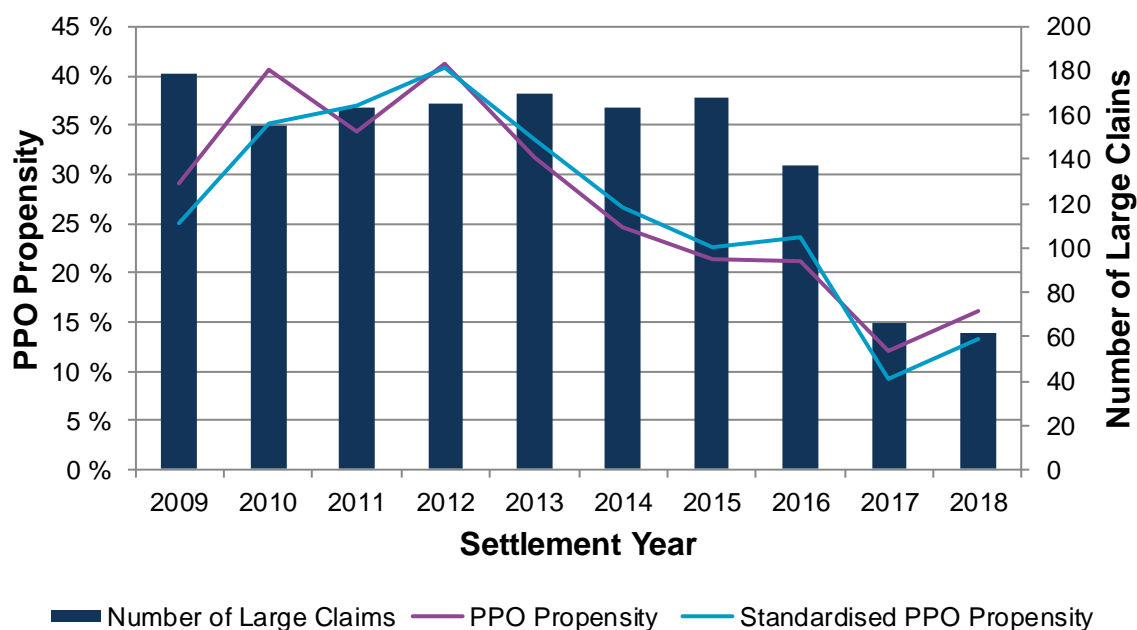
## Quantitative indications

As part of our analysis on the 2018 year-end data we have captured the initial change to PPO propensity following the reduction in the Ogden discount rate in March 2017.

Below shows the impact of this Ogden Adjustment on PPO Propensity. Details on methodology are provided in Appendix C.



*Figure 44: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, without an Ogden adjustment*



*Figure 45: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, with an Ogden adjustment*

The charts above show some interesting developments following the change in the Ogden discount rate. Before considering the actual PPO propensity, the number of large claims, represented by the bars, has stayed at a similar level compared with the 2017 settlement year, which is a large reduction compared with the 2016 and prior settlement years, even on a no Ogden adjustment basis. This is surprising as we would expect there to now be more large claims above £1 million. This could be a result of claimant and claimant lawyer behaviour, slowing down settlement rates. Questions regarding settlement rates were asked as part of the qualitative survey, documented in Appendix T.

In terms of the PPO propensity, on an unadjusted for Ogden basis, both standardised and raw PPO propensity has increased since 2017. The standardised Motor (non-MIB) PPO propensity has increased from 9.3% in settlement year 2017 to 10.2% in settlement year 2018 (an increase from 8.3% to 9.4% on a non-standardised basis). This represents a PPO increase of 9% on a standardised basis and 13% on a non-standardised basis. The weighted average standardised Motor (non-MIB) PPO propensity was 27.8% (27.7% on a non-standardised basis).

In terms of the PPO propensity, on an adjusted for Ogden basis, both standardised and raw PPO propensity has risen. The standardised Motor (non-MIB) PPO propensity has increased from 9.2% in settlement year 2017 to 13.3% in settlement year 2018 (an increase from 12.1% to 16.1% on a non-standardised basis). This represents a PPO increase of 45% on a standardised basis and 33% on a non-standardised basis. The weighted average standardised Motor (non-MIB) PPO propensity was 29.1% (28.8% on a non-standardised basis).



## Appendix A

## Glossary of terms

ASHE	Annual Survey of Hours and Earnings
AWE	Average Weekly Earnings
Capitalisation clause	A clause which allows (or even compels) a reinsurer to settle an individual PPO liability as a lump sum with an insurer, on a pre-agreed basis, once such an award has been made / agreed
EIOPA	European Insurance and Occupational Pensions Authority
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
IFoA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
ILG(s)	Index-linked gilt(s)
Moj	Ministry of Justice
Ogden tables	Government Actuary's Department's "Actuarial Tables with explanatory notes for use in Personal Injury and Fatal Accident Cases" published by The Stationery Office
ONS	Office for National Statistics
ORSA	Own Risk and Solvency Assessment
PPO(s)	Periodical Payment Order(s)
PRA	Prudential Regulation Authority
RPI	Retail Prices Index
RTA	Road Traffic Act
SCR	Solvency Capital Requirement (under the Solvency II regime)
TAS	Technical Actuarial Standard
XoL	Excess of Loss (reinsurance programme)



## Appendix B      Standardisation for PPO propensity statistics

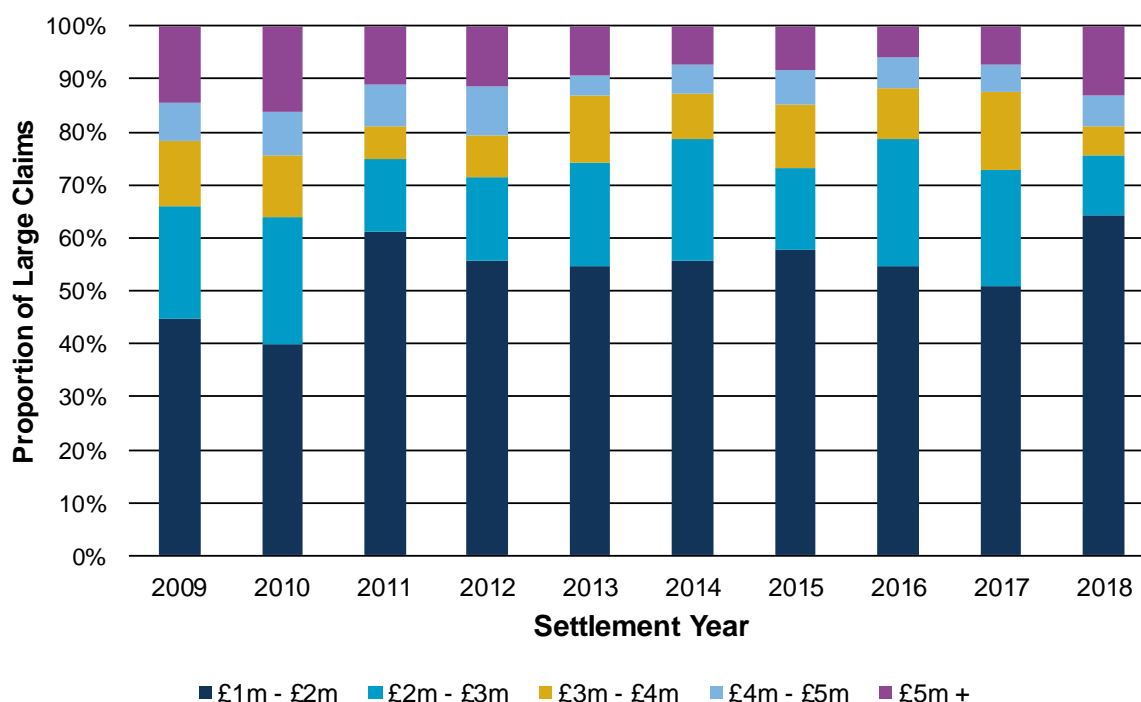
The data collected for the quantitative industry survey clearly shows that the likelihood of a claim settling as a PPO varies with the size of the claim, with larger claims being more likely to have settled as a PPO (see Figure G.18 and Figure H.8, for example).

In our statistics looking at the change in PPO propensity by settlement year, we have therefore considered a standardised PPO propensity which adjusts for (or removes) the volatility in the PPO propensity arising from differences in the mix of large claims by amount between years.

In this appendix, we explain the standardisation basis for Motor (non-MIB) claims and for Liability claims. The data collected from the MIB does not include non-PPO large claims, and so we are not able to produce PPO propensity statistics or standardised PPO propensity statistics for MIB claims.

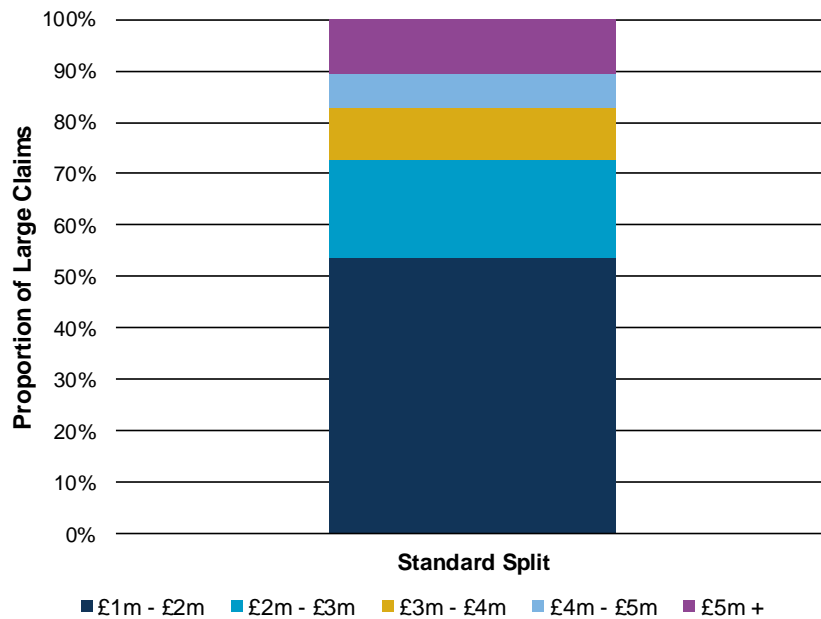
### B.1 Standardisation for Motor (non-MIB) claims

Figure B.1 shows the proportion of Motor (non-MIB) large claims in each claim size band, for each settlement year. The claim size thresholds are defined in 2011 terms, indexed at 7% per annum.



*Figure B.1: Proportion of Motor (non-MIB) large claims in each claim size band, by settlement year*

Averaging across settlement years 2009 to 2018 gives the proportion of large claims in each claim size band shown in Figure B.2, and this is the large claim distribution that underlies the standardised Motor (non-MIB) PPO propensity figures discussed in this report.

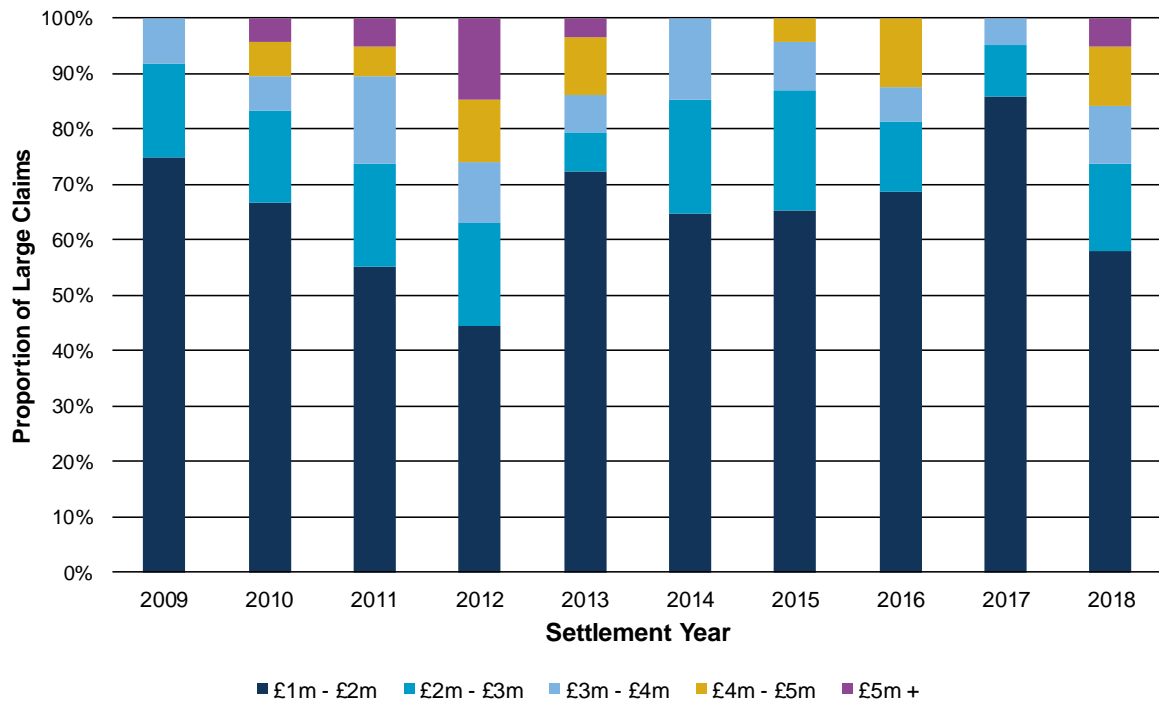


*Figure B.2: Proportion of Motor (non-MIB) large claims in each claim size band, averaged across settlement years 2009 to 2018 inclusive, used for standardisation*

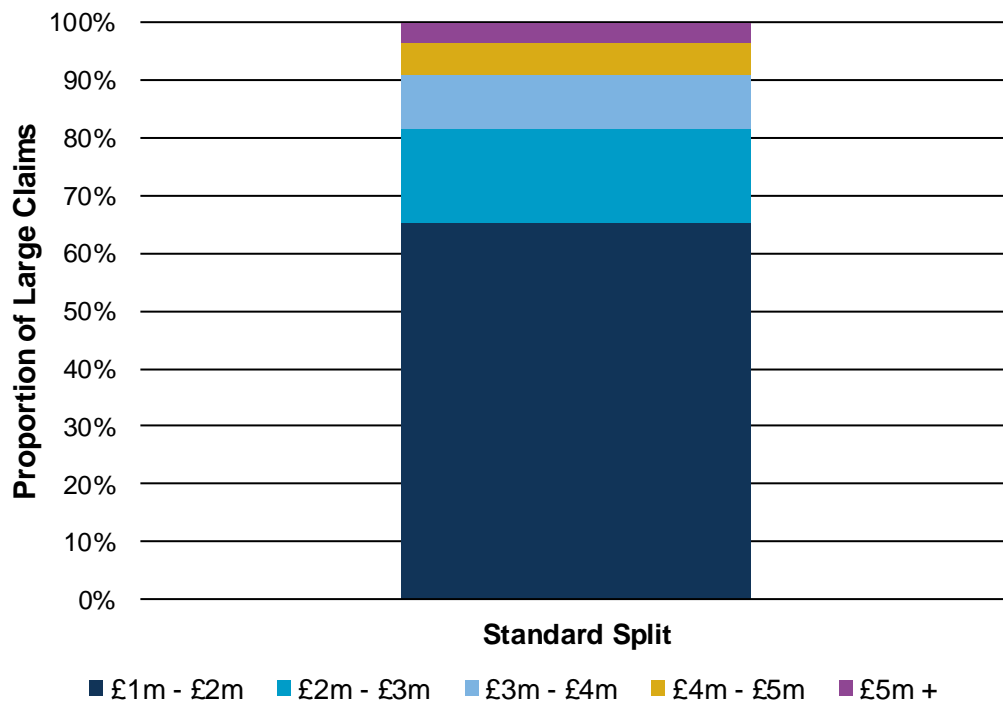
The standardised Motor (non-MIB) PPO propensity for a given year is estimated by combining the Motor (non-MIB) PPO propensities for each claim size band for that settlement year, as shown in Figure G.19, with the proportion of large claims in each claim size band shown in Figure B.2.

## B.2 Standardisation for Liability claims

Figure B.3 shows the proportion of Liability large claims in each claim size band, for each settlement year. The claim size thresholds are defined in 2011 terms, indexed at 7% per annum. Averaging across settlement years 2009 to 2018 (for consistency with the Motor analysis) gives the proportion of large claims in each claim size band shown in Figure B.4, and this is the large claim distribution that underlies the standardised Liability PPO propensity figures discussed in this report. The standardised Liability propensity for a given year is estimated by combining the Liability PPO propensities for each claim size band for that settlement year, as shown in Figure H.10, with the proportion of large claims in each claim size band shown in Figure B.4.



*Figure B.3: Proportion of Liability large claims in each claim size band, by settlement year*



*Figure B.4: Proportion of Liability large claims in each claim size band, averaged across settlement years 2009 to 2018 inclusive, used for standardisation*



## **Appendix C      Definitions of large claims, and incremental and cumulative thresholds**

### **C.1 Large claims**

The PPO propensity statistics discussed in this report are defined as the number of PPO claims as a proportion of large claims.

The definition of a large claim is a claim that is greater than £1 million in 2011 terms, indexed at 7% per annum. So, if considering settlement year, a claim settling in 2008 is deemed large if it is greater than £816,298 ( $£1,000,000 \times 1.07^{-3}$ ), and a claim settling in 2018 is deemed large if it is greater than £1,605,781 ( $£1,000,000 \times 1.07^7$ ).

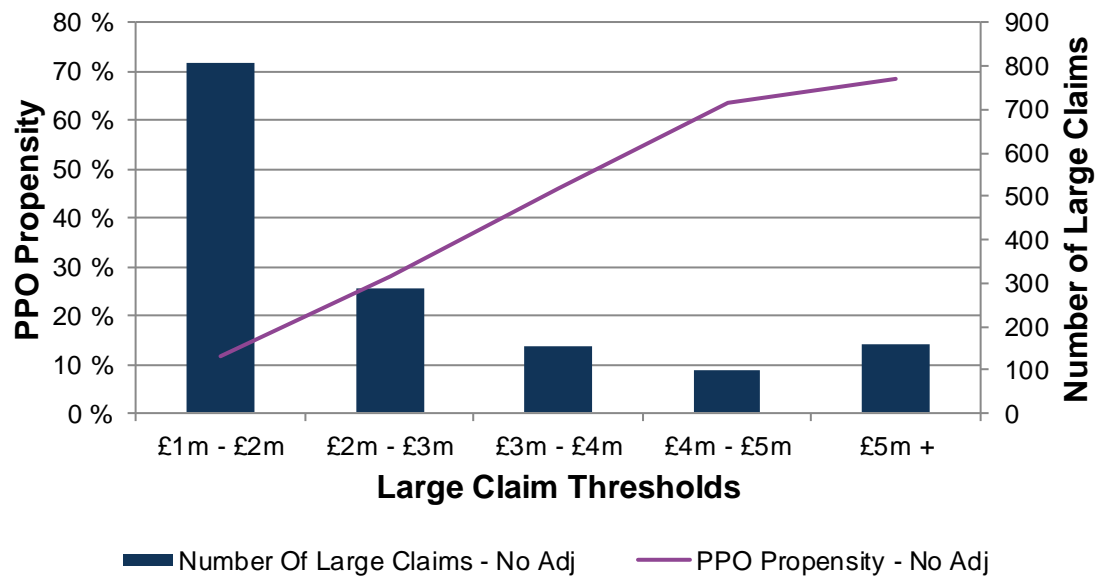
In a number of the analyses summarised in this report, we consider claims in various claim size bands. In each case, the claim size thresholds are also defined in 2011 terms, indexed at 7% per annum. A claim falls in a given band if it is greater than or equal to the lower bound of the band, but less than the upper bound of the band (where there is an upper bound). For PPO claims, the claim size is determined using a real discount rate of 2.5% per annum.

### **C.2 Incremental threshold and cumulative threshold**

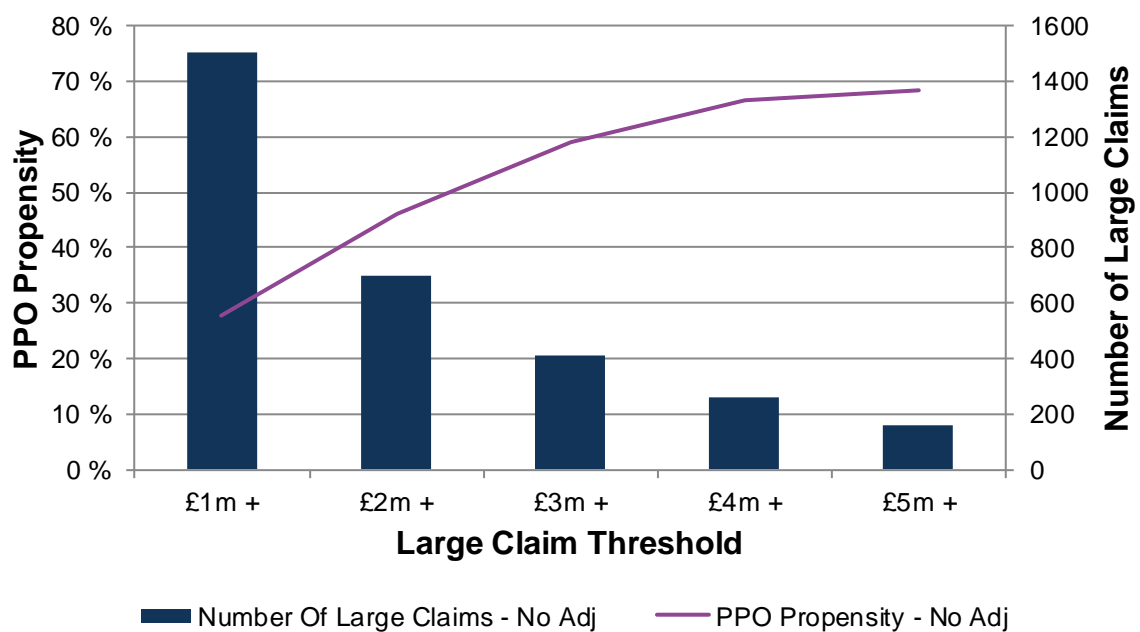
A number of the analyses are described as using incremental thresholds and cumulative thresholds.

In an incremental threshold analysis, a claim will only fall in a single claim size band. In a cumulative threshold analysis, a claim may fall in multiple claim size bands.

For example, considering the two Motor (non-MIB) PPO propensity figures below, a £3.25 million claim (in 2011 terms) will fall in the £3m-£4m band in Figure C.1, and it will fall in each of the £1m+, £1.5m+, £2m+, £2.5m+ and £3m+ bands in Figure C.2.



*Figure C.1: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009*



*Figure C.2: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009*



## Appendix D      Standardisation for differing Ogden discount rates

The data collected for the analysis in this report includes two different Ogden Discount Rate environments. This affects the valuation of the large non-PPO claims and also how we value the Ogden equivalent value for PPOs within our analysis.

By way of example, during the period post 20 March 2017 we would expect there to be more large claims above £1 million as the discount rate used to value them has decreased significantly. We might expect this to affect PPO Propensity as less significant injuries which would have a lower chance of becoming a PPO are now valued above a million and are captured in our analysis.

As part of our analysis, therefore, we have provided results on a basis consistent with all claims being values at a 2.5% Ogden Discount Rate. This basis has been used only for the Motor large claims due to the lack of PPOs in the 2017 settlement year for Liability large claims. In order to revalue the large claims post 20 March 2017 we have used the claimant's characteristics, the discount rate used when settling the claim and the Ogden table multipliers.

In terms of the value taken in our analysis for PPOs, we have used the Ogden equivalent value to best match the large claims basis at that point in time. The Ogden equivalent PPO value discount rate for claims post 20 March 2017 of 0.5% is based on the results of our market research for the qualitative survey. The table below shows the rates we have used for our unadjusted and adjusted basis.

Pre/Post Ogden discount rate change March 2017	Ogden equivalent PPO value discount rate	Large Claim discount rate
Pre	2.5%	2.5%
Post - unadjusted	0.5%	Rate used in settlement
Post - adjusted	2.5%	2.5%

*Figure D.1: Discount rates used for propensity analysis*

When a “raw” PPO propensity is mentioned we are referencing the unadjusted, unstandardised figure.



## Appendix E Summary statistics for all PPO claims

In this appendix, we provide summary statistics for all of the PPO claims in the quantitative industry survey, for the following characteristics:

- Age of claimant at settlement (years)
- Delay from accident date until settlement date (years)
- Future life expectancy at settlement date (years)
- Life expectancy reduction (years)
- Initial annual PPO payment (summed across all heads of damage) (£ nominal)
- Lump sum payment (£ nominal).

The figures are shown cumulative across all settlement years, and also separately for the pre-2018 settlement years and the 2018 settlement year alone.

Where only a single claim is available in a given cohort (i.e. a sample size of 1), summary statistics are not provided for reasons of data protection, e.g. Figure E.5.

The figures have not been adjusted for inflation and so may under-estimate the size profile of future PPO claims. It is worth noting that the average settlement date of a PPO claim contained within the quantitative industry survey is as follows:

- The average settlement date of a non-MIB Motor PPO claim is June 2012.
- The average settlement date of a MIB Motor PPO claim is November 2011.
- The average settlement date of a Liability PPO claim is July 2011.

### E.1 Motor (non-MIB) PPO claims

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.3	27.9	17.0	1.0	482
Delay until settlement	6.4	5.6	3.4	1.6	482
Future life expectancy at settlement	43.1	45.9	18.3	-0.4	474
Life expectancy reduction	14.1	12.0	11.5	1.6	459
Annual PPO payment (£)	93,238	65,000	82,276	2.0	482
Lump sum (£)	1,945,981	1,745,140	1,284,751	2.0	480
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.2	27.9	17.0	1.0	472
Delay until settlement	6.4	5.6	3.4	1.6	472
Future life expectancy at settlement	43.3	46.1	18.3	-0.4	464
Life expectancy reduction	14.0	11.9	11.3	1.6	449
Annual PPO payment (£)	91,046	64,375	77,127	1.6	472
Lump sum (£)	1,897,462	1,700,000	1,180,492	1.5	470
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	39.3	30.0	18.5	0.5	10
Delay until settlement	5.2	4.9	2.3	1.0	10
Future life expectancy at settlement	33.4	31.9	15.0	0.1	10
Life expectancy reduction	18.9	13.5	15.3	1.4	10
Annual PPO payment (£)	196,733	130,210	185,934	1.5	10
Lump sum (£)	4,226,403	3,564,417	2,901,673	1.4	10

Figure E.1: Summary statistics for Motor (non-MIB) PPO claims

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	33.2	26.2	16.6	1.0	371
Delay until settlement	6.4	5.5	3.3	1.7	371
Future life expectancy at settlement	43.8	46.3	17.6	-0.4	367
Life expectancy reduction	14.4	12.5	11.7	1.6	353
Annual PPO payment (£)	92,127	61,600	84,006	2.1	371
Lump sum (£)	1,972,088	1,727,419	1,320,044	2.2	370
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	33.1	26.2	16.5	1.1	364
Delay until settlement	6.4	5.5	3.3	1.7	364
Future life expectancy at settlement	44.0	46.7	17.6	-0.4	360
Life expectancy reduction	14.3	12.5	11.5	1.6	346
Annual PPO payment (£)	88,965	60,000	77,211	1.7	364
Lump sum (£)	1,913,467	1,700,000	1,187,336	1.6	363
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	38.9	32.9	17.7	0.2	7
Delay until settlement	5.6	5.0	2.5	0.9	7
Future life expectancy at settlement	30.3	29.5	10.4	-0.2	7
Life expectancy reduction	22.3	17.0	17.1	0.9	7
Annual PPO payment (£)	256,547	280,420	190,987	1.2	7
Lump sum (£)	5,012,009	3,950,000	3,094,936	1.0	7

*Figure E.2: Summary statistics for Private Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	37.9	32.4	18.0	0.9	111
Delay until settlement	6.6	5.6	3.6	1.3	111
Future life expectancy at settlement	40.9	45.0	20.3	-0.3	107
Life expectancy reduction	12.9	11.1	10.5	1.1	106
Annual PPO payment (£)	96,953	75,000	76,088	1.2	111
Lump sum (£)	1,858,170	1,818,459	1,153,842	1.2	110
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	37.9	32.8	17.9	0.9	108
Delay until settlement	6.6	5.7	3.6	1.2	108
Future life expectancy at settlement	40.9	44.2	20.3	-0.2	104
Life expectancy reduction	12.9	11.1	10.7	1.1	103
Annual PPO payment (£)	98,058	75,000	76,427	1.2	108
Lump sum (£)	1,843,166	1,814,496	1,155,319	1.3	107
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	40.0	25.9	20.1	1.7	3
Delay until settlement	4.4	4.7	1.3	-1.0	3
Future life expectancy at settlement	40.7	51.0	20.5	-1.5	3
Life expectancy reduction	11.2	12.3	3.4	-1.2	3
Annual PPO payment (£)	57,167	24,000	47,969	1.7	3
Lump sum (£)	2,393,323	2,168,968	956,707	0.8	3

*Figure E.3: Summary statistics for Commercial Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.7	29.1	17.5	0.9	246
Delay until settlement	6.1	5.3	3.1	1.7	246
Future life expectancy at settlement	41.6	42.8	18.1	-0.3	245
Life expectancy reduction	14.7	13.2	11.8	1.7	238
Annual PPO payment (£)	97,966	69,979	90,735	2.1	246
Lump sum (£)	1,897,441	1,679,023	1,244,346	1.7	246
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.6	28.8	17.5	0.9	240
Delay until settlement	6.2	5.3	3.1	1.7	240
Future life expectancy at settlement	41.8	42.9	18.2	-0.3	239
Life expectancy reduction	14.7	13.2	11.7	1.7	232
Annual PPO payment (£)	94,221	66,500	82,544	1.7	240
Lump sum (£)	1,844,204	1,615,000	1,166,769	1.6	240
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	40.9	42.6	18.4	-0.1	6
Delay until settlement	4.9	4.6	1.8	1.0	6
Future life expectancy at settlement	33.3	31.9	8.0	0.5	6
Life expectancy reduction	17.3	14.5	12.9	1.5	6
Annual PPO payment (£)	247,742	207,920	204,970	1.4	6
Lump sum (£)	4,026,919	3,708,917	2,093,384	1.0	6

*Figure E.4: Summary statistics for Private Comprehensive Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	27.8	23.7	11.6	1.3	55
Delay until settlement	7.8	6.4	3.9	1.2	55
Future life expectancy at settlement	49.3	53.3	14.7	-0.7	54
Life expectancy reduction	15.1	12.0	13.4	1.6	47
Annual PPO payment (£)	74,594	60,000	50,998	1.0	55
Lump sum (£)	1,748,011	1,625,000	847,422	0.4	55

*Figure E.5: Summary statistics for Private Non-Comprehensive Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	32.9	26.7	16.4	1.1	378
Delay until settlement	6.9	5.9	3.5	1.5	378
Future life expectancy at settlement	45.2	48.8	18.2	-0.5	373
Life expectancy reduction	13.2	10.4	11.9	1.8	361
Annual PPO payment (£)	87,673	60,800	72,978	1.7	378
Lump sum (£)	1,816,958	1,600,000	1,194,691	2.3	377
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	32.8	26.7	16.4	1.1	373
Delay until settlement	6.9	5.9	3.5	1.5	373
Future life expectancy at settlement	45.4	49.0	18.2	-0.5	368
Life expectancy reduction	13.2	10.4	11.8	1.8	356
Annual PPO payment (£)	87,264	60,000	72,387	1.7	373
Lump sum (£)	1,789,208	1,600,000	1,102,227	1.5	372
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	41.5	32.9	16.3	0.7	5
Delay until settlement	5.4	5.0	2.6	1.4	5
Future life expectancy at settlement	32.4	29.5	15.9	0.7	5
Life expectancy reduction	17.3	6.6	18.0	1.9	5
Annual PPO payment (£)	118,159	90,000	103,869	1.5	5
Lump sum (£)	3,881,545	1,850,000	3,592,872	2.0	5

*Figure E.6: Summary statistics for Brain injury Motor (non-MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	39.7	35.0	17.8	0.5	92
Delay until settlement	4.4	4.1	2.0	2.1	92
Future life expectancy at settlement	35.0	37.1	14.9	-0.2	89
Life expectancy reduction	17.4	16.3	7.8	0.5	86
Annual PPO payment (£)	119,847	86,768	107,312	1.9	92
Lump sum (£)	2,532,369	2,193,894	1,481,313	1.5	91
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	39.9	36.1	17.7	0.5	87
Delay until settlement	4.4	4.1	2.0	2.2	87
Future life expectancy at settlement	35.0	37.2	14.9	-0.2	84
Life expectancy reduction	17.2	16.4	7.4	0.2	81
Annual PPO payment (£)	110,913	85,000	89,805	1.2	87
Lump sum (£)	2,413,829	2,150,119	1,360,670	1.4	86
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	37.0	25.9	20.2	0.7	5
Delay until settlement	5.1	4.7	1.9	0.7	5
Future life expectancy at settlement	34.4	34.4	13.9	-0.5	5
Life expectancy reduction	20.6	14.6	11.7	1.9	5
Annual PPO payment (£)	275,306	280,420	214,491	1.0	5
Lump sum (£)	4,571,260	3,950,000	1,921,672	0.9	5

*Figure E.7: Summary statistics for Spinal injury Motor (non-MIB) PPO claims*

## E.2 Liability PPO claims

For Figure E.8, there is only one claim present in the 2018 settlement year cohort, and so summary statistics are not provided separately for the pre-2018 settlement years and the 2018 settlement year alone. Likewise, summary statistics are not provided separately for Figure E.9 and Figure E.10.

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	43.7	45.8	17.4	-0.2	39
Delay until settlement	7.1	4.9	7.5	4.6	39
Future life expectancy at settlement	32.3	27.4	17.4	0.9	38
Life expectancy reduction	15.8	13.2	13.8	2.1	38
Annual PPO payment (£)	71,108	50,000	65,286	1.7	39
Lump sum (£)	1,336,842	1,185,000	894,341	0.5	39

*Figure E.8: Summary statistics for Liability PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	42.9	45.8	17.8	-0.2	33
Delay until settlement	6.3	4.9	3.5	1.9	33
Future life expectancy at settlement	33.4	27.4	18.4	0.7	32
Life expectancy reduction	15.6	11.9	14.6	2.2	32
Annual PPO payment (£)	73,414	50,000	69,744	1.6	33
Lump sum (£)	1,343,943	1,153,750	946,427	0.5	33

*Figure E.9: Summary statistics for Brain injury Liability PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	47.4	47.1	13.8	0.0	4
Delay until settlement	4.3	4.4	0.4	-1.1	4
Future life expectancy at settlement	25.3	24.4	7.6	0.5	4
Life expectancy reduction	18.8	16.7	7.5	1.0	4
Annual PPO payment (£)	72,983	74,547	22,082	-0.4	4
Lump sum (£)	1,323,750	1,292,500	198,160	0.6	4

*Figure E.10: Summary statistics for Spinal injury Liability PPO claims*

### E.3 Motor (MIB) PPO claims

For Figure E.13, there are no claims present in the 2018 settlement year cohort, and so summary statistics are not provided separately for the pre-2018 settlement years and the 2018 settlement year alone.

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.3	30.2	13.0	0.6	180
Delay until settlement	7.4	6.9	3.3	1.3	180
Future life expectancy at settlement	42.8	44.0	16.6	-0.3	180
Life expectancy reduction	13.8	11.7	10.9	1.3	180
Annual PPO payment (£)	60,644	42,703	59,457	2.5	180
Lump sum (£)	1,246,823	1,000,000	832,797	2.2	180
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.3	30.2	13.1	0.5	173
Delay until settlement	7.4	6.7	3.4	1.3	173
Future life expectancy at settlement	42.4	44.0	16.7	-0.3	173
Life expectancy reduction	14.1	12.1	10.9	1.2	173
Annual PPO payment (£)	61,706	42,750	60,252	2.5	173
Lump sum (£)	1,239,510	1,000,000	833,062	2.3	173
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	34.1	29.8	9.5	1.2	7
Delay until settlement	7.4	7.4			7
Future life expectancy at settlement	51.9	52.0	9.9	-0.9	7
Life expectancy reduction	4.9	4.7	4.2	1.0	7
Annual PPO payment (£)	34,393	29,500	21,603	0.1	7
Lump sum (£)	1,427,574	1,400,000	805,372	1.1	7

*Figure E.11: Summary statistics for Motor (MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	32.6	28.3	12.5	0.8	136
Delay until settlement	7.5	7.0	3.4	1.3	136
Future life expectancy at settlement	44.2	46.0	16.8	-0.4	136
Life expectancy reduction	14.0	11.6	11.7	1.3	136
Annual PPO payment (£)	67,264	45,000	62,472	2.5	136
Lump sum (£)	1,246,949	980,915	885,614	2.4	136
Pre 2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	32.6	28.3	12.6	0.8	130
Delay until settlement	7.5	6.9	3.4	1.3	130
Future life expectancy at settlement	43.9	46.0	16.9	-0.4	130
Life expectancy reduction	14.4	11.8	11.7	1.2	130
Annual PPO payment (£)	68,632	45,000	63,393	2.4	130
Lump sum (£)	1,235,323	952,063	885,530	2.5	130
2018	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	33.8	28.6	10.2	1.3	6
Delay until settlement	7.4	7.4			6
Future life expectancy at settlement	52.0	55.0	10.7	-0.9	6
Life expectancy reduction	5.0	4.7	4.5	1.0	6
Annual PPO payment (£)	37,625	42,250	21,710	-0.3	6
Lump sum (£)	1,498,836	1,450,000	849,223	0.9	6

*Figure E.12: Summary statistics for Brain injury Motor (MIB) PPO claims*

All	Mean	Median	Standard Deviation	Skewness	Sample Size
Age at settlement	36.8	35.7	14.8	0.4	16
Delay until settlement	8.6	8.0	4.3	0.7	16
Future life expectancy at settlement	38.4	40.0	14.2	0.1	16
Life expectancy reduction	15.6	15.7	5.1	-0.5	16
Annual PPO payment (£)	51,219	34,750	49,793	2.8	16
Lump sum (£)	1,611,360	1,635,000	595,318	0.2	16

*Figure E.13: Summary statistics for Spinal injury Motor (MIB) PPO claims*

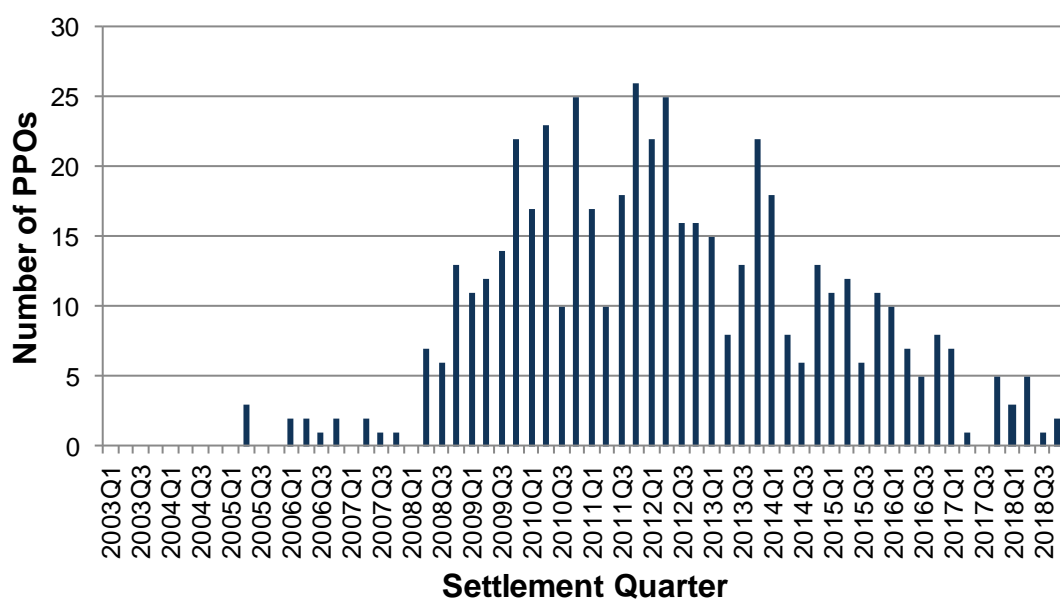




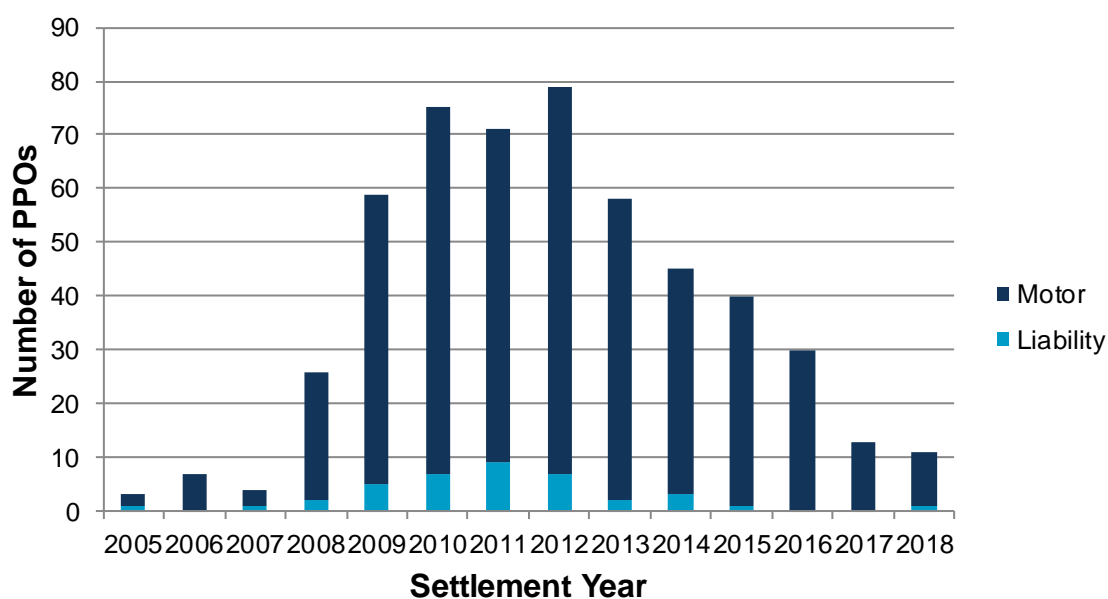
## Appendix F      Number of PPO claim settlements

In this appendix, we provide summary statistics for the number of PPO claims in the quantitative industry survey, by settlement quarter and by settlement year.

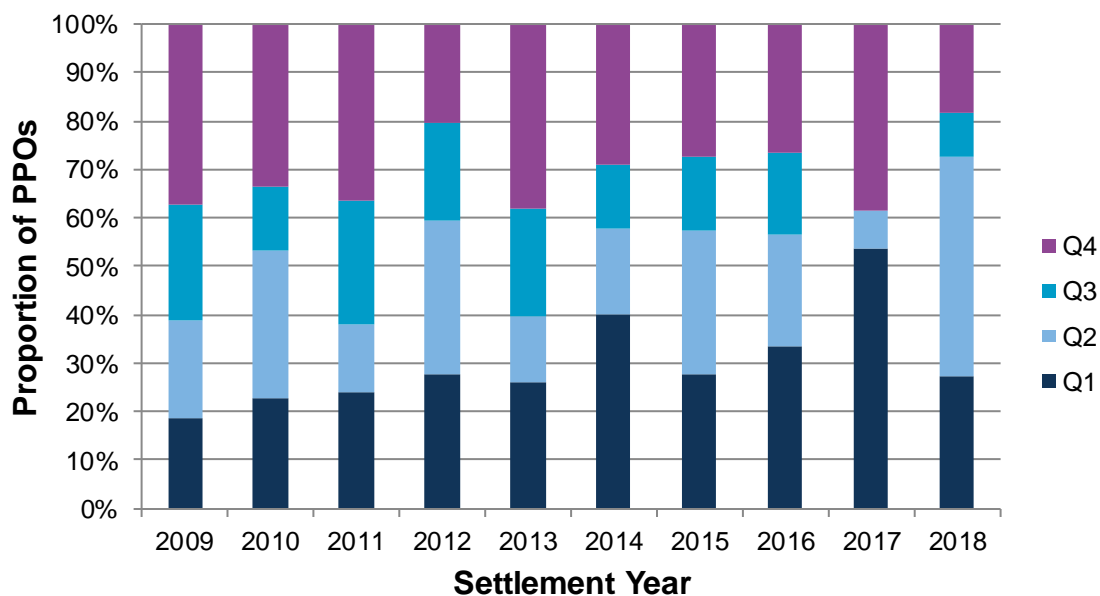
### F.1 Motor (non-MIB) PPO claims and Liability PPO claims combined



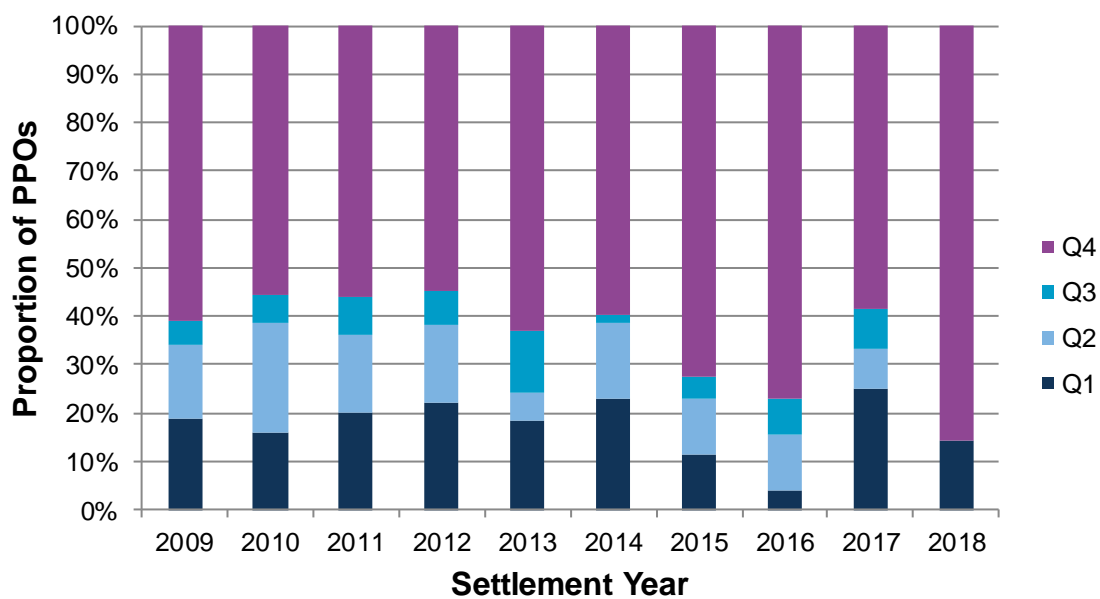
*Figure F.1: Number of (non-MIB) PPO claims, by settlement quarter*



*Figure F.2: Number of (non-MIB) PPO claims, by settlement year – Motor and Liability*

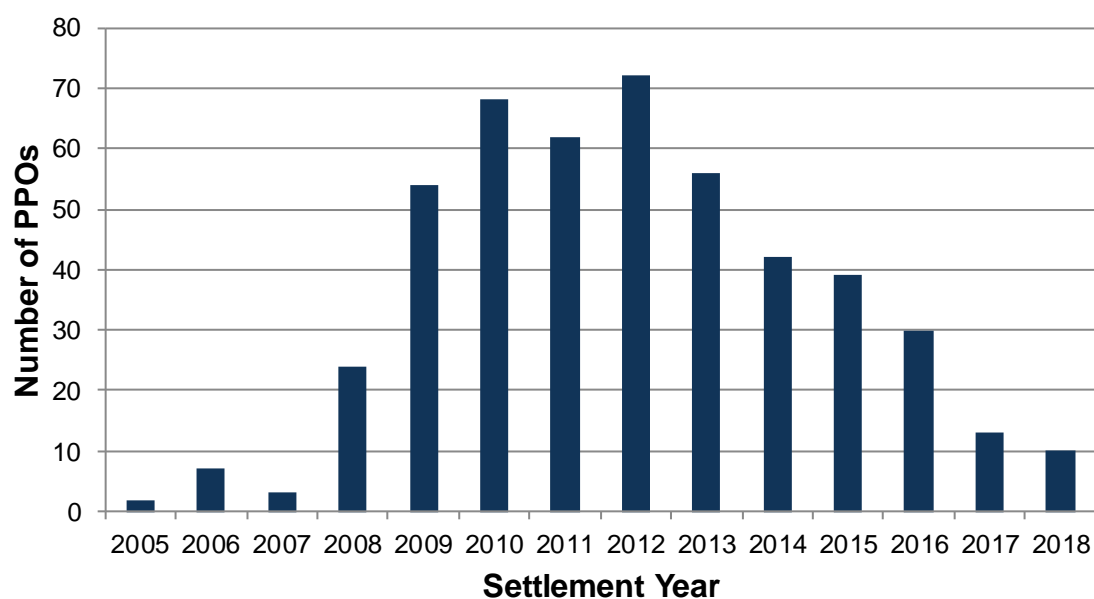


*Figure F.3: Proportion of (non-MIB) PPO claims that settle in each quarter, by settlement year*

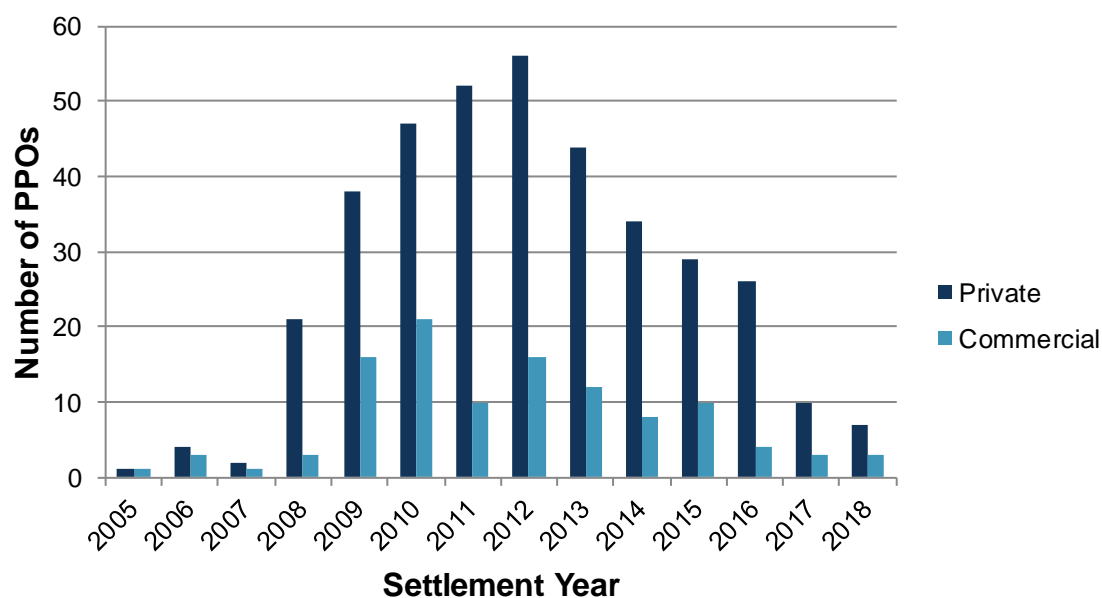


*Figure F.4: Proportion of (non-MIB) PPO claims that are paid (i.e. start) in each quarter, by settlement year*

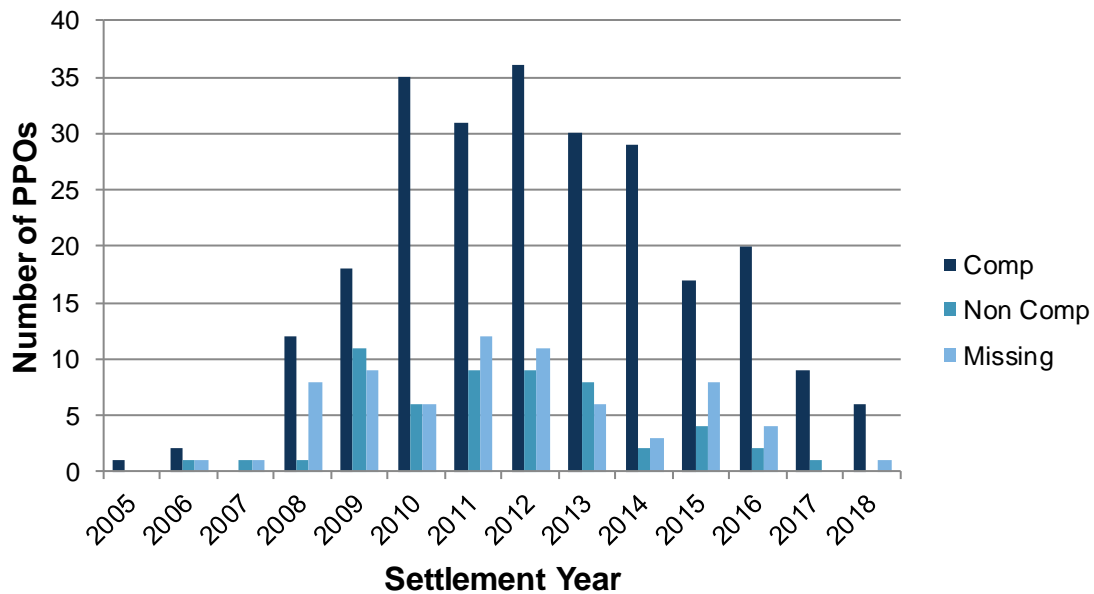
## F.2 Motor (non-MIB) PPO claims



*Figure F.5: Number of Motor (non-MIB) PPO claims, by settlement year*

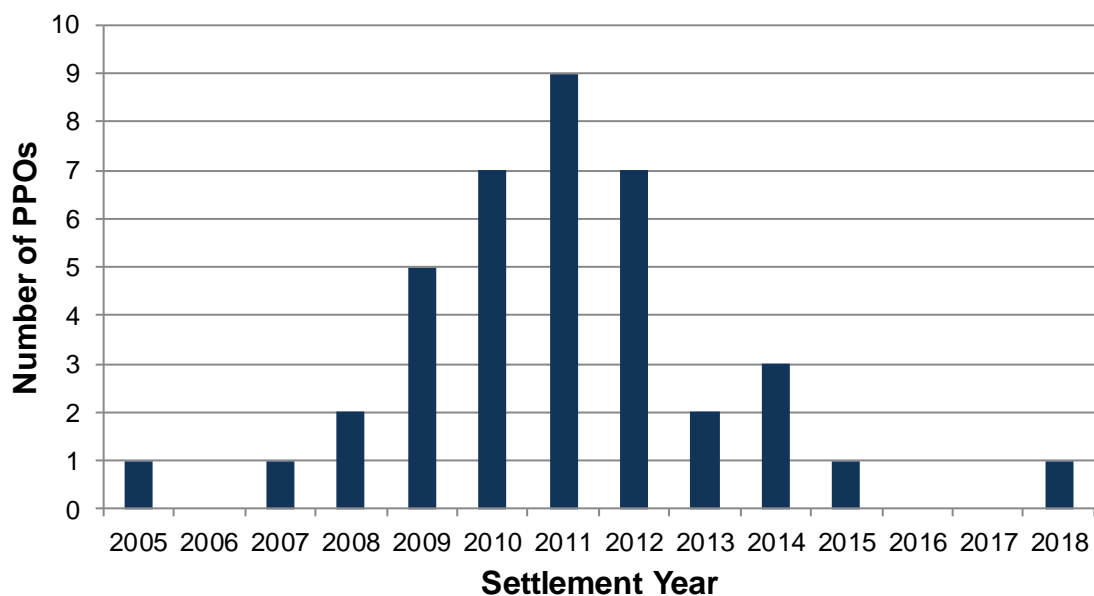


*Figure F.6: Number of Motor (non-MIB) PPO claims, for Private and Commercial Motor, by settlement year*



*Figure F.7: Number of Motor (non-MIB) PPO claims, for Private Motor, by settlement year and by cover type*

### F.3 Liability PPO claims



*Figure F.8: Number of Liability PPO claims, by settlement year*

## F.4 Motor (MIB) PPO claims

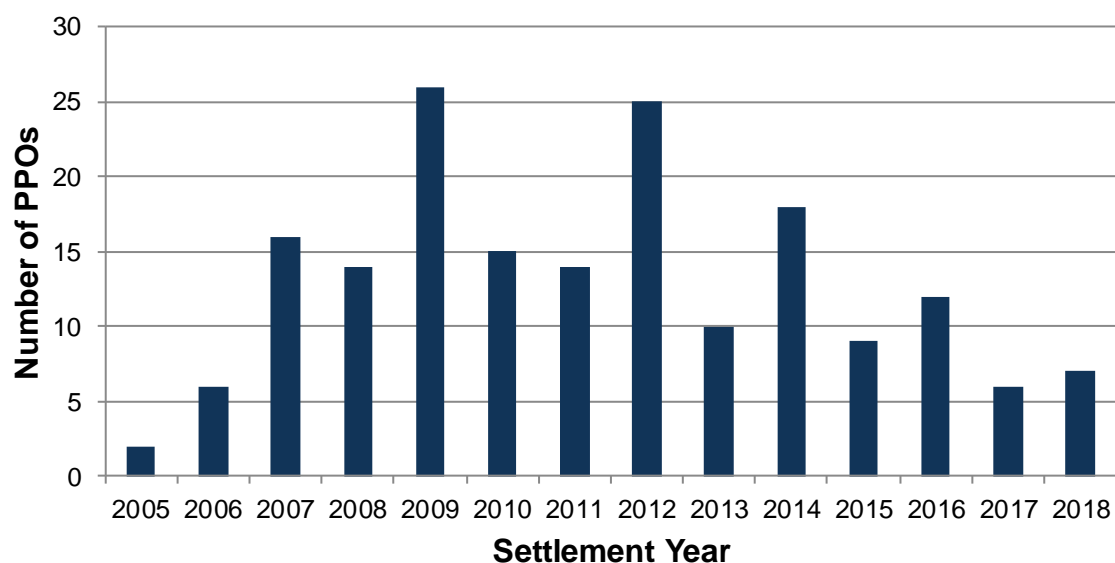


Figure F.9: Number of Motor (MIB) PPO claims, by settlement year

## F.5 Motor (MIB) PPO claims versus the rest of the industry (i.e. Motor (non-MIB)) PPO claims

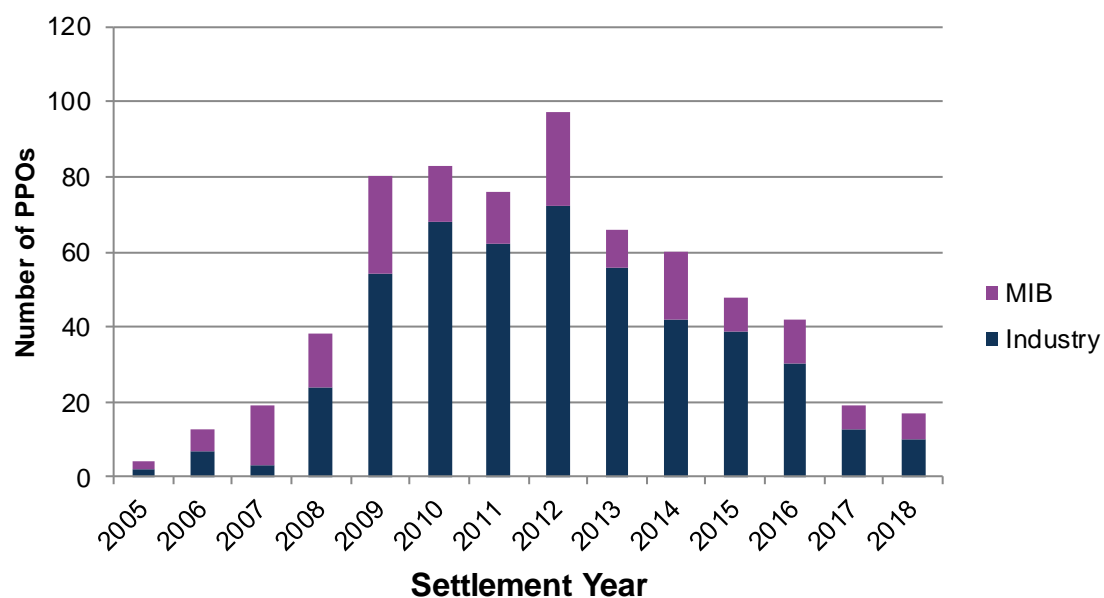


Figure F.10: Number of PPO claims, by settlement year – MIB and the rest of the industry

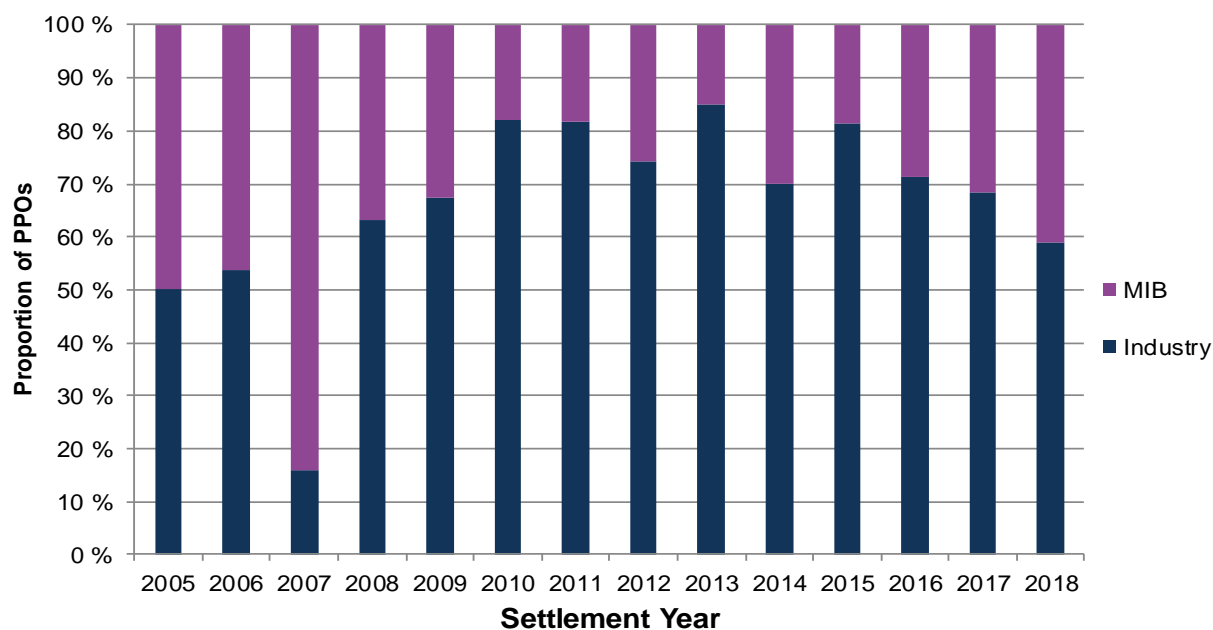


Figure F.11: Proportion of PPO claims, by settlement year – MIB and the rest of the industry

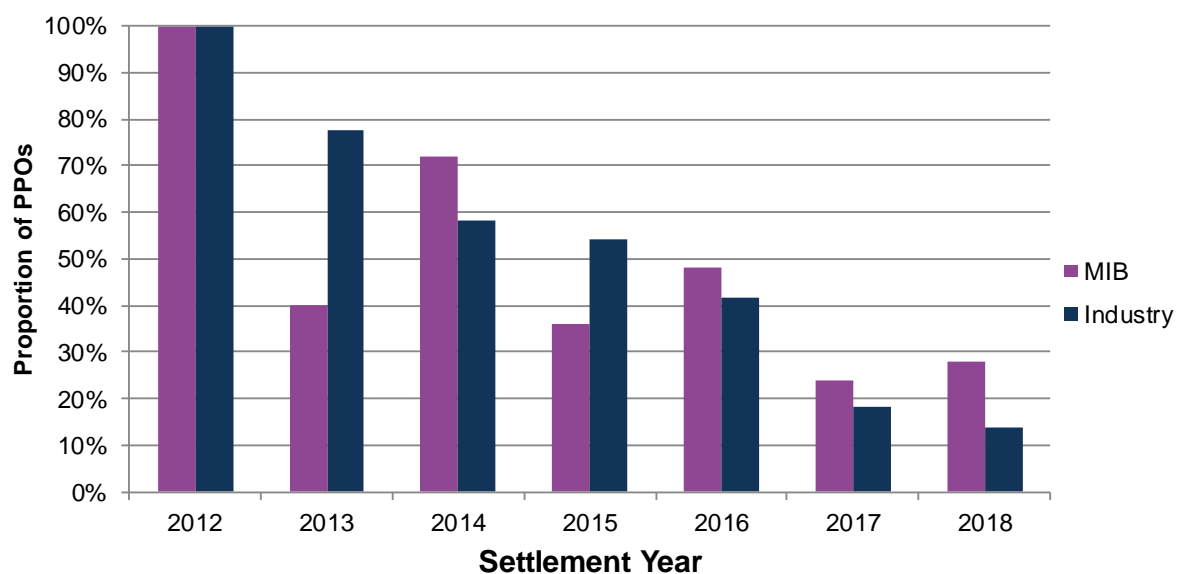


Figure F.12: Relative level of PPO claims compared with 2012 – MIB and the rest of the industry

## Appendix G Propensity of Motor (non-MIB) PPO claims

In this appendix, we provide summary statistics for the propensity of Motor (non-MIB) PPO claims by:

- Settlement year
- Accident year
- Insurer
- Cover type and class of business
- Incremental large claim threshold band (two different sets of bandings)
- Cumulative large claim threshold band (two different sets of bandings)
- Type of injury
- Claimant characteristics (age at accident and gender)
- Driver characteristics (age at accident and gender).

Unless otherwise specified, the propensity is expressed as the number of PPO claims as a proportion of the number of large claims.

The raw PPO propensity for settlement year 2008 (at 16.1% using the above definition) is considerably lower than that for subsequent years (at a weighted average of 27.7% for 2009-2018 inclusive), and so the data underlying the summary statistics within this appendix have been restricted to settlement years 2009 and post to reduce the potential for distortion.

See Appendix C for the definition of a large claim, and an explanation of the incremental threshold analysis and the cumulative threshold analysis. See Appendix B for an explanation of the standardisation basis for claim size used for Motor (non-MIB) claims. See Appendix D for an explanation of the standardisation basis for Ogden discount rate used.

Within this section we have produced analysis with an “Ogden Adjustment”. The reason for doing this is so that we can effectively look at data in a consistent 2.5% Ogden discount rate world. To do this we have taken the Ogden tables and used the information provided by insurers to extract the relevant multipliers by discount rate, age and gender. We can then rebase data attributed to large claims and PPOs settling after 20 March 2017 back to a 2.5% Ogden discount rate world.

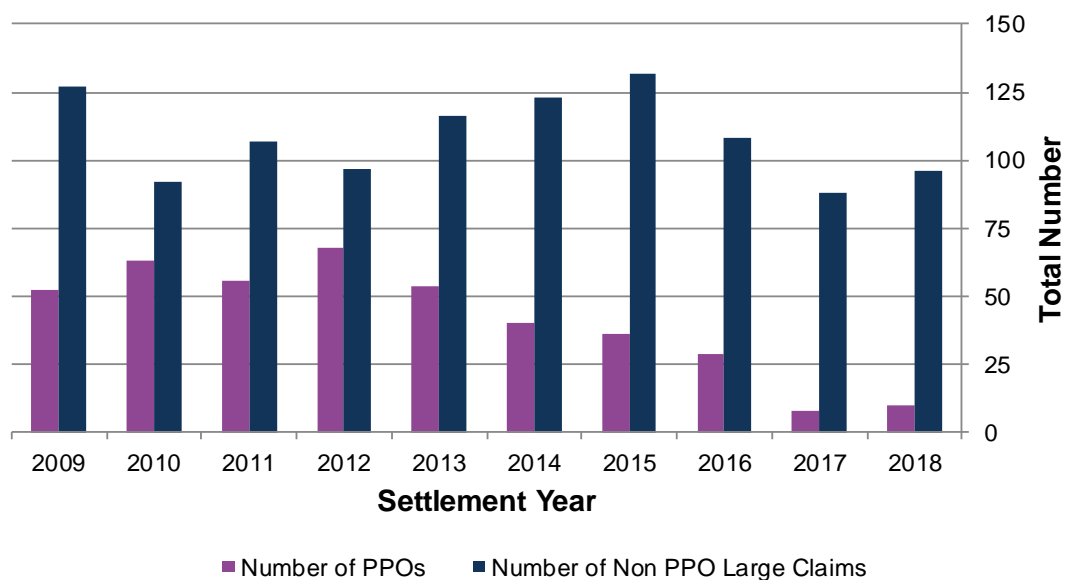
The table below articulates what discount rates we have assumed for what settlement periods. Note that we assume large claims have settled as a discount rate of 0.5% on average since the change in Ogden discount rate.

Pre/Post Ogden discount rate change March 2017	Ogden equivalent PPO value discount rate	Large Claim discount rate
Pre	2.5%	2.5%
Post - unadjusted	0.5%	Rate used in settlement
Post - adjusted	2.5%	2.5%

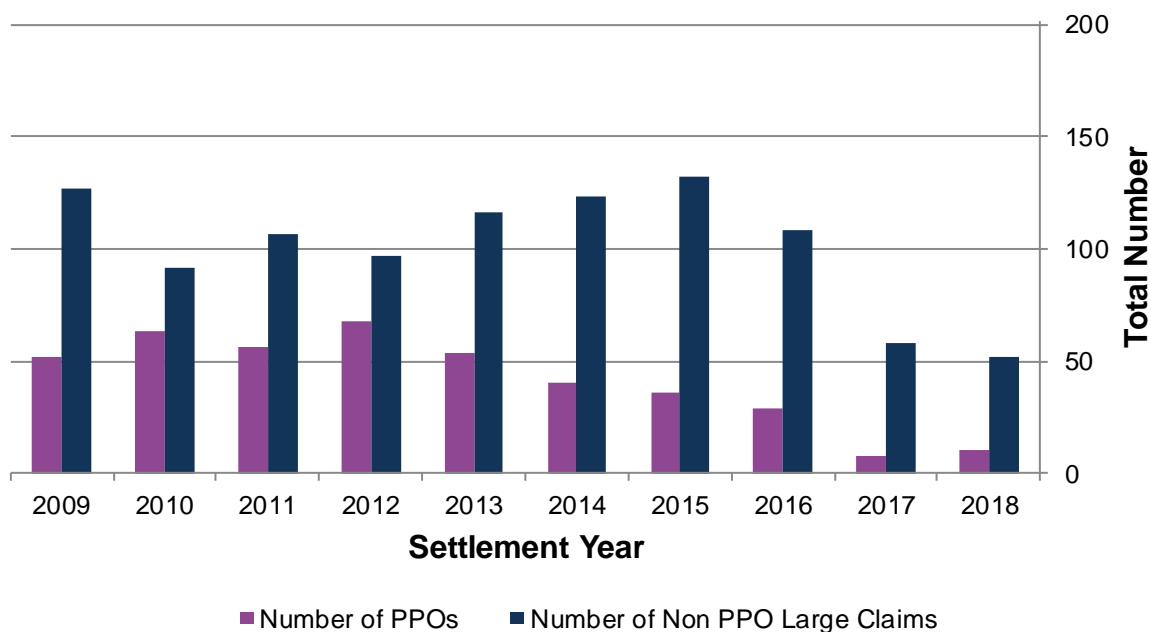
The reason why we believe it is important to analyse the data with this adjustment is to separate the effect of the change in the mix of claimants, owing to more large claims settling above £1 million, on

PPO propensity from any behavioral changes. You may, for instance, expect to have more less severe claims settling at above £1 million, which would be less likely to settle as a PPO, since 20 March 2017. The concept is explored further below.

## G.1 Propensity by settlement year

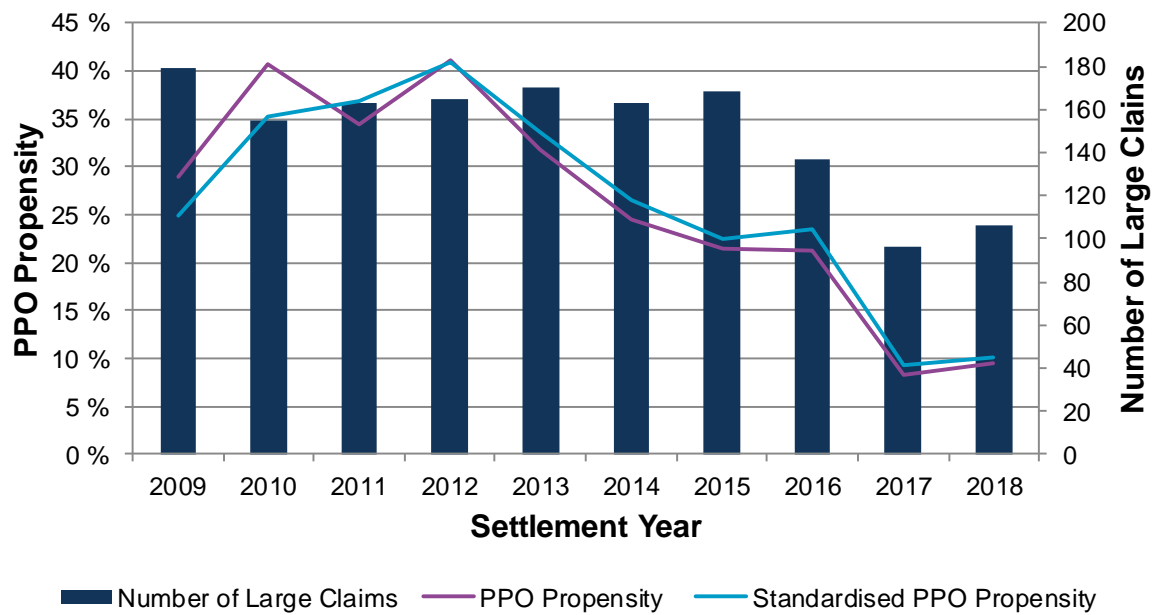


*Figure G.1: Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year, without an Ogden adjustment*

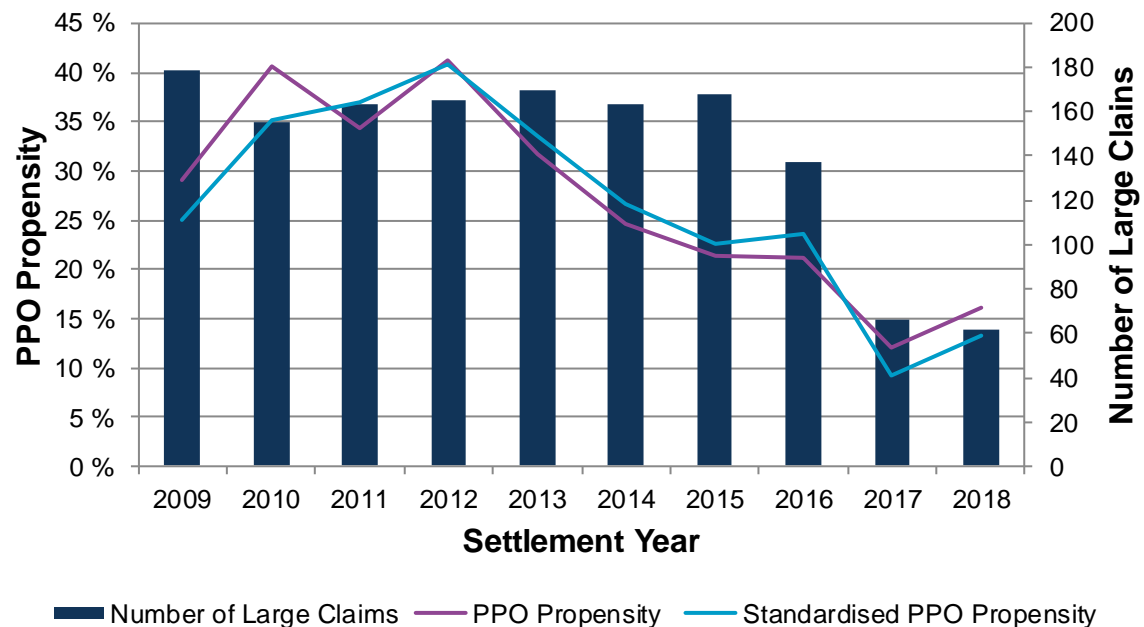


*Figure G.2: Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year, with an Ogden adjustment*





*Figure G.3: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, without an Ogden adjustment*



*Figure G.4: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, with an Ogden adjustment*

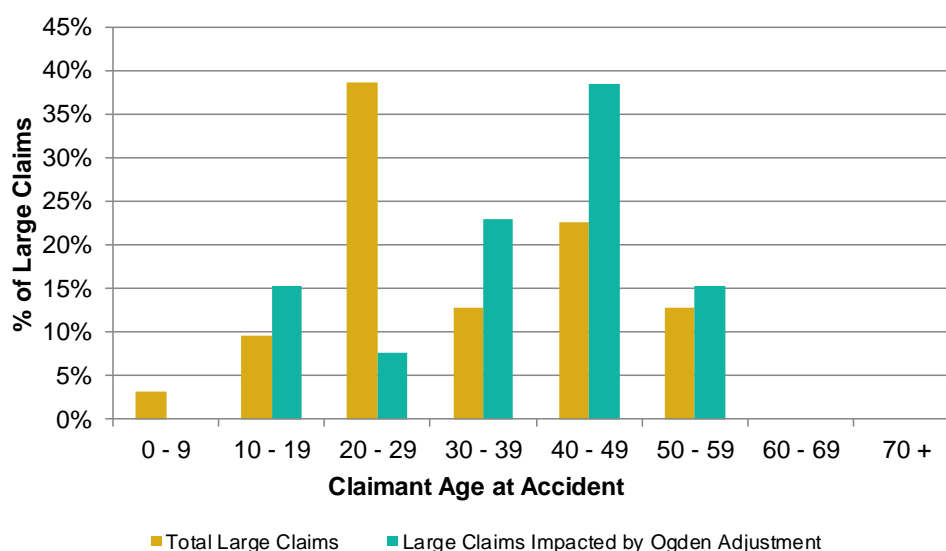
The charts above show some interesting developments following the change in the Ogden discount rate. Before considering the actual PPO propensity, the number of large claims, represented by the bars, has stayed at a similar level compared with the 2017 settlement year, which is a large reduction compared with the 2016 and prior settlement years, even on a no Ogden adjustment basis. This is surprising as we would expect there to now be more large claims above £1 million. This could be a result of claimant and claimant lawyer behaviour, slowing down settlement rates.

Questions regarding settlement rates were asked as part of the qualitative survey, documented in Appendix T.

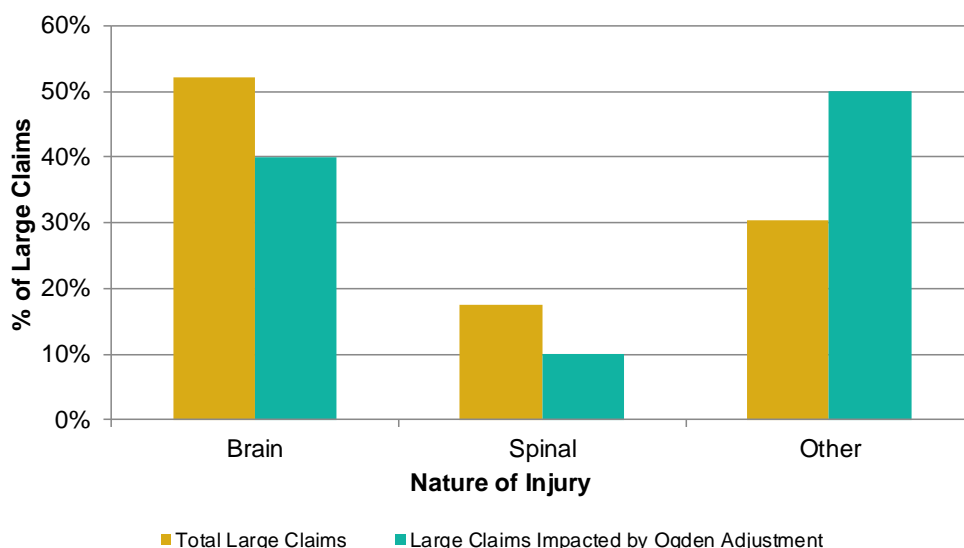
In terms of the PPO propensity, on an unadjusted for Ogden basis, both standardised and raw PPO propensity has increased since 2017. The standardised Motor (non-MIB) PPO propensity has increased from 9.3% in settlement year 2017 to 10.2% in settlement year 2018 (an increase from 8.3% to 9.4% on a non-standardised basis). This represents a PPO increase of 9% on a standardised basis and 13% on a non-standardised basis. The weighted average standardised Motor (non-MIB) PPO propensity was 27.8% (27.7% on a non-standardised basis).

In terms of the PPO propensity, on an adjusted for Ogden basis, both standardised and raw PPO propensity has risen. The standardised Motor (non-MIB) PPO propensity has increased from 9.2% in settlement year 2017 to 13.3% in settlement year 2018 (an increase from 12.1% to 16.1% on a non-standardised basis). This represents a PPO increase of 45% on a standardised basis and 33% on a non-standardised basis. The weighted average standardised Motor (non-MIB) PPO propensity was 29.1% (28.8% on a non-standardised basis).

When adjusting the large claims basis to be on a consistent 2.5% Ogden basis, there is a 41.5% reduction in number of large claims which are greater than £1 million. This drives an increase in the PPO propensity when comparing the Ogden adjusted propensity with the non-Ogden adjusted propensity. This reduction in large claims suggests that a high proportion of the large claims settling in 2018 are of a smaller total value and so become less than £1 million when rebased on a 2.5% basis. We would expect claims of a smaller total value to be in respect of less severe injuries and be for older claimants. Figures G.5 and G.6 show the split of total large claims vs those large claims which were less than £1 million when rebased on a 2.5% Ogden basis for the 2018 settlement year by age of claimant and nature of injury respectively.



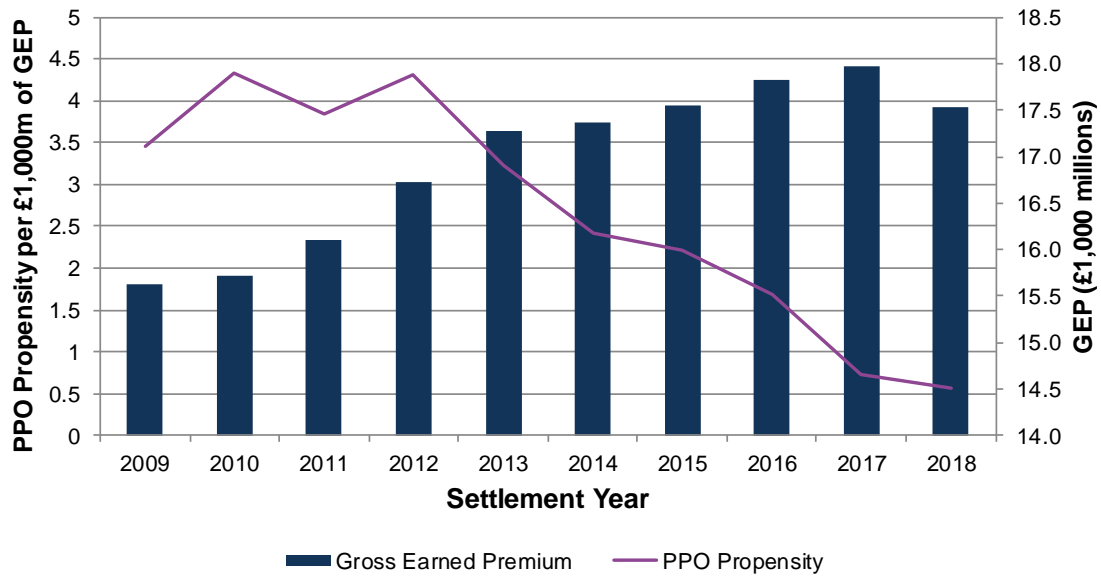
**Figure G.5: Total large claims compared with claims that became less than £1 million on an Ogden 2.5% basis, for the 2018 settlement year, by claimant age at accident**



**Figure G.6: Total large claims compared with claims that became less than £1 million on an Ogden 2.5% basis, for the 2018 settlement year, by nature of injury**

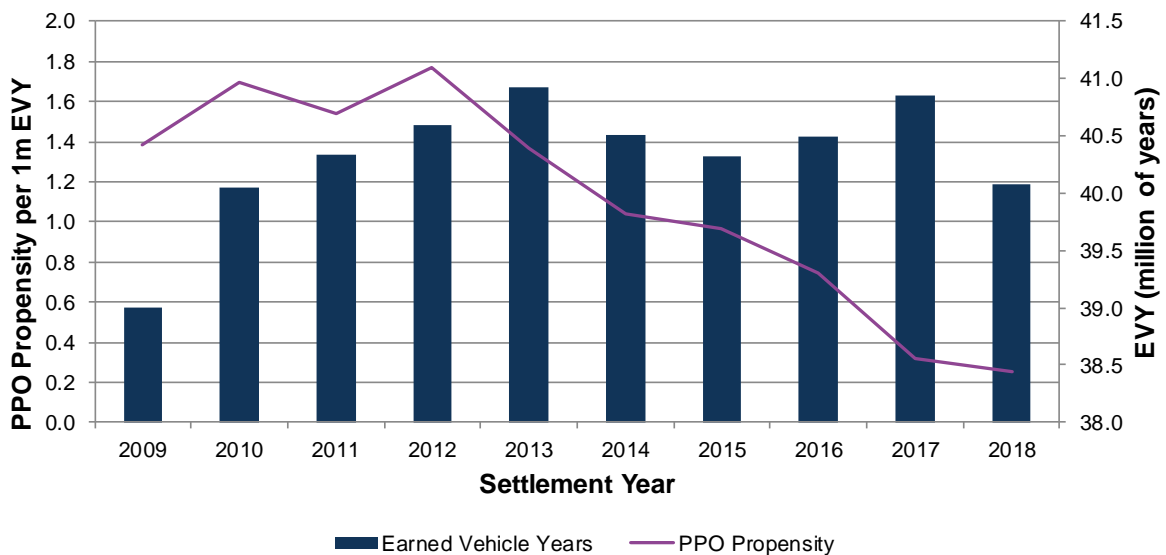
Figure G.5 and G.6 above shows that claims which were above £1 million when no Ogden adjustment was made, but less than £1 million when Ogden adjusted, have a higher claimant age in general than that of the total large claims. The proportion of claims where the primary nature of injury was Other rather than Brain or Spinal is also higher for these claims, suggesting that these claims are of a lower severity. The characteristics of these claims therefore seems to be more of those which exhibit a lower PPO propensity and so we would expect the PPO propensity to increase when removing them by making the Ogden adjustment. The increase of 9% in PPO propensity on a standardised basis, with no Ogden adjustment may be distorted by the mix of large claims and hence understates the true number. The 45% increase in PPO propensity on an Ogden adjusted, standardised basis may therefore be more reflective of the increase driven by behavioural changes. Note that this is a small subset of data and so is subject to significant volatility.

Figure G.7 uses a different measure of PPO propensity, expressing the number of PPO claims as a proportion of the average gross earned premium. The number of PPO claims settled in a given year is divided by an average gross earned premium based on the premium earned over a six year period starting seven years earlier (i.e. the number of PPO claims settled in 2012 is divided by the average annual amount of gross premium earned during the period 2006 to 2011 inclusive). These PPO propensity figures include all PPO claims and not just those over £1 million and are in terms of the number of PPO claims per £1,000 million of gross earned premium.



*Figure G.7: Motor (non-MIB) PPO propensity, expressed as the number of PPO claims as a proportion of the average gross earned premium, by settlement year*

Figure G.8 also uses a different measure of PPO propensity, expressing the number of PPO claims as a proportion of the average earned vehicle years. The number of PPO claims settled in a given year is divided by an average earned vehicle years based on the vehicle years earned over a six year period starting seven years earlier (i.e. the number of PPO claims settled in 2012 is divided by the average annual vehicle years earned during the period 2006 to 2011 inclusive). These PPO propensity figures include all PPO claims and not just those over £1 million and are in terms of the number of PPO claims per million earned vehicle years.



*Figure G.8: Motor (non-MIB) PPO propensity, expressed as the number of PPO claims as a proportion of the average earned vehicle years, by settlement year*

## G.2 Propensity by accident year

The following charts show our propensity analysis by accident year. Before looking at this analysis it is worth noting that we are likely to see distortions when looking at settled PPOs on an accident year period basis. The analysis does not capture the IBNER and IBNR elements for the most recent accident years. This is particularly important as the average delay from accident to settlement is around 6 years for large claims.

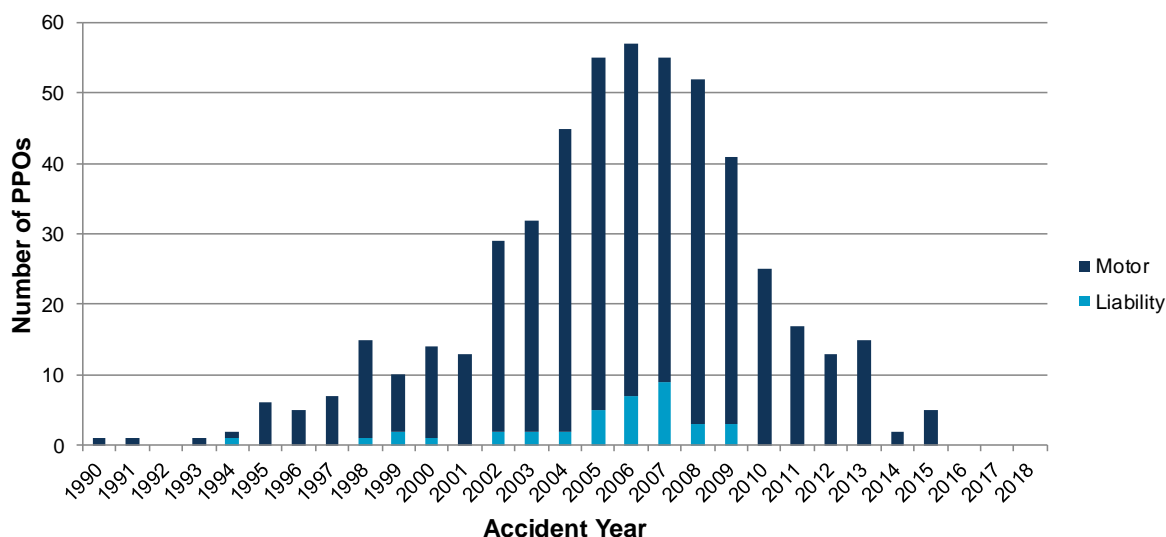


Figure G.9: Number of (non-MIB) PPO claims, by accident year – Motor and Liability

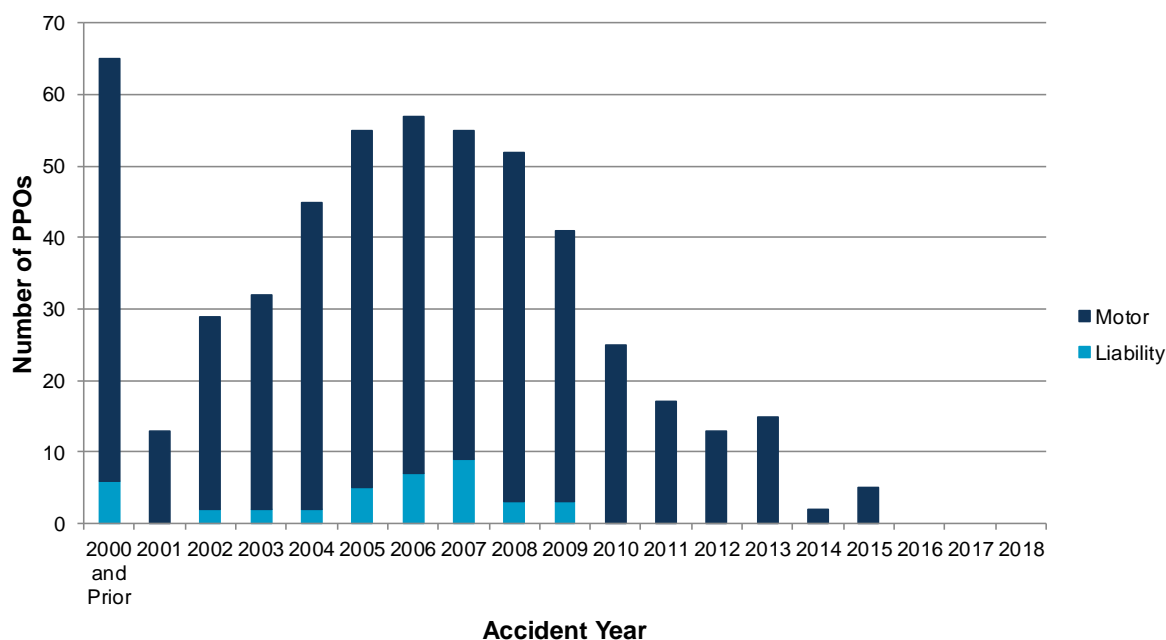
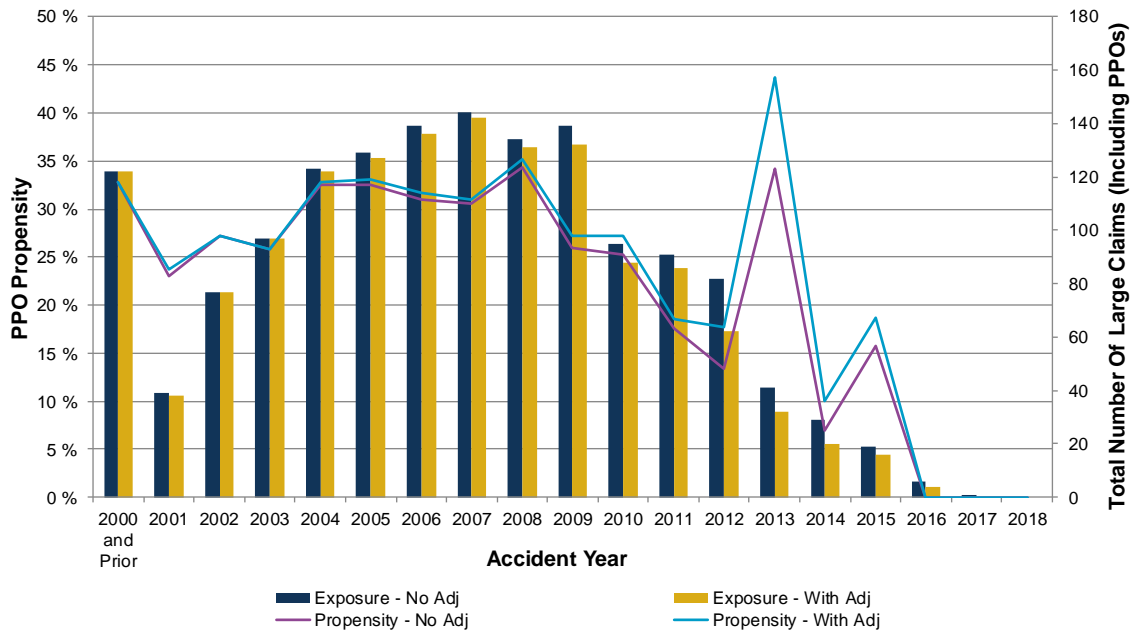
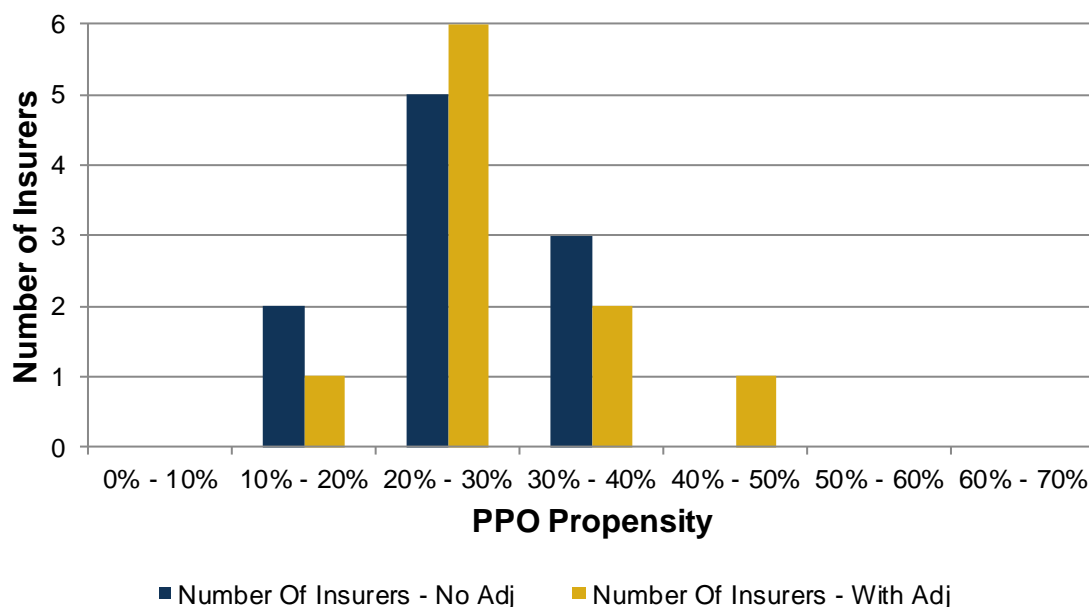


Figure G.10: Number of (non-MIB) PPO claims, by accident year – Motor and Liability

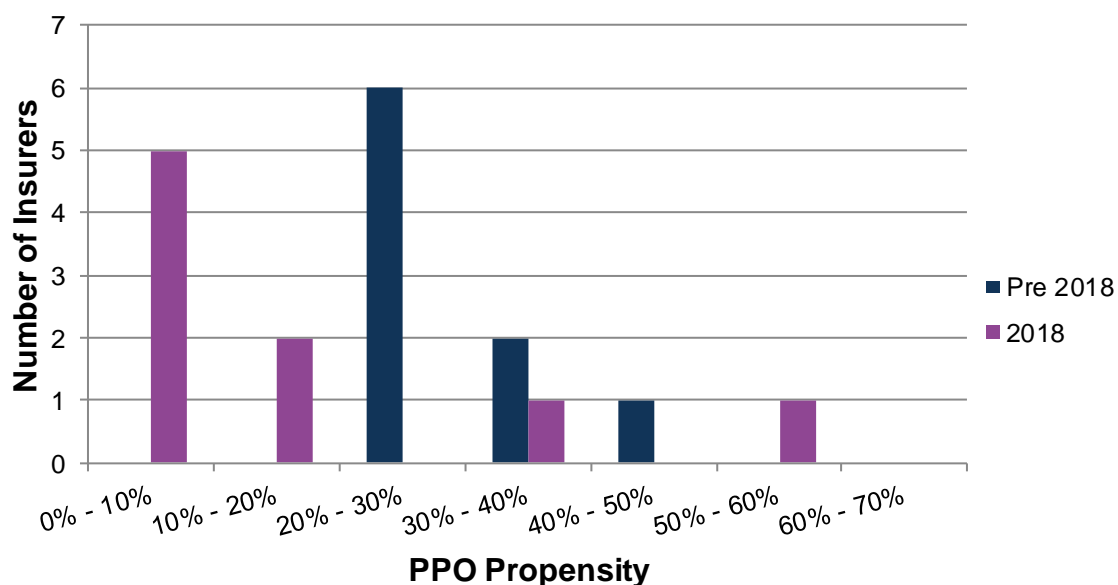


*Figure G.11: Motor (non-MIB) PPO propensity, by accident year, with and without Ogden adjustment*

### G.3 Propensity by insurer

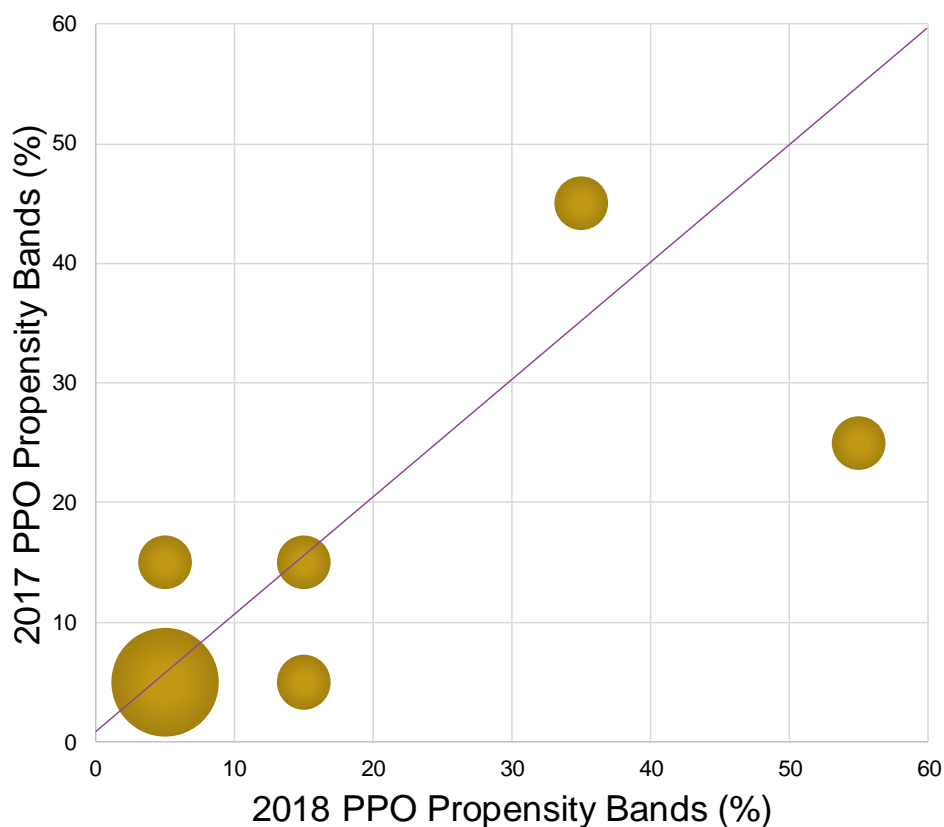


*Figure G.12: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, for claims settled since 2009, with and without an Ogden adjustment*



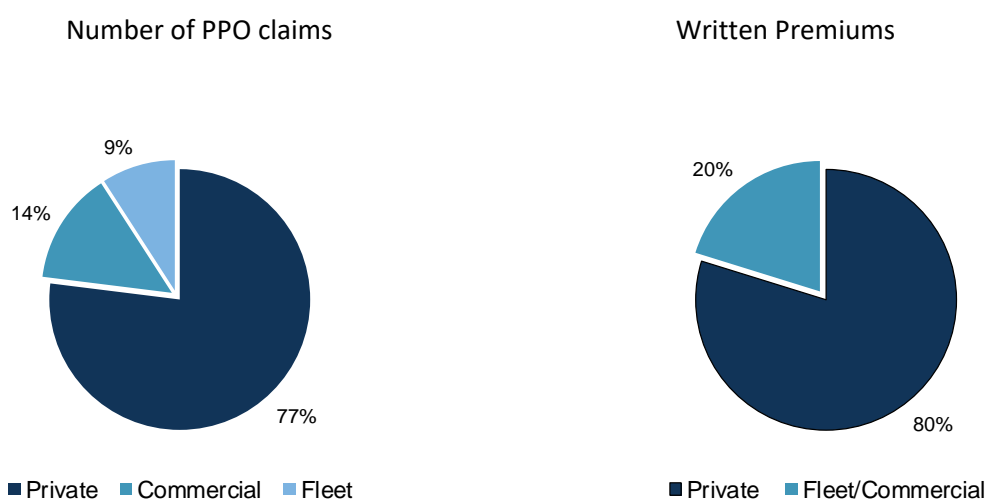
*Figure G.13: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, separately for claims settled between 2009 and 2017 and claims settled in 2018, no Ogden adjustment*

In Figure G.14, the size of the bubble (the area) represents the number of insurers in a given propensity band.



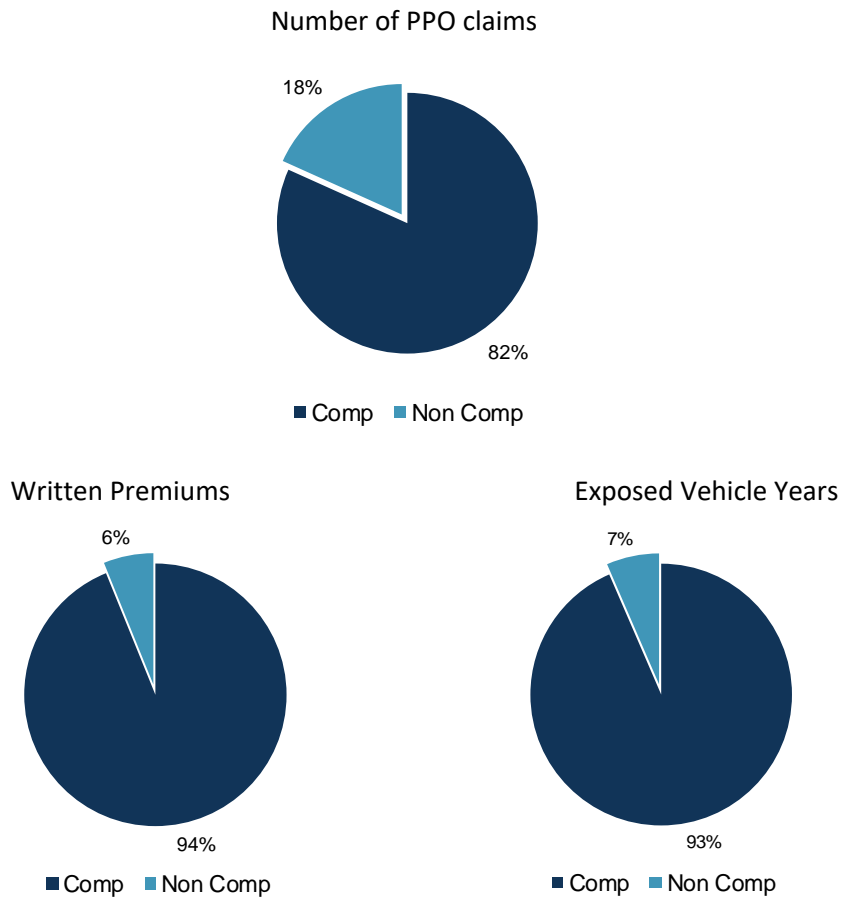
*Figure G.14: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, comparing the PPO propensity of claim settlements in 2017 with those in 2018*

#### G.4 Propensity by cover type and class of business

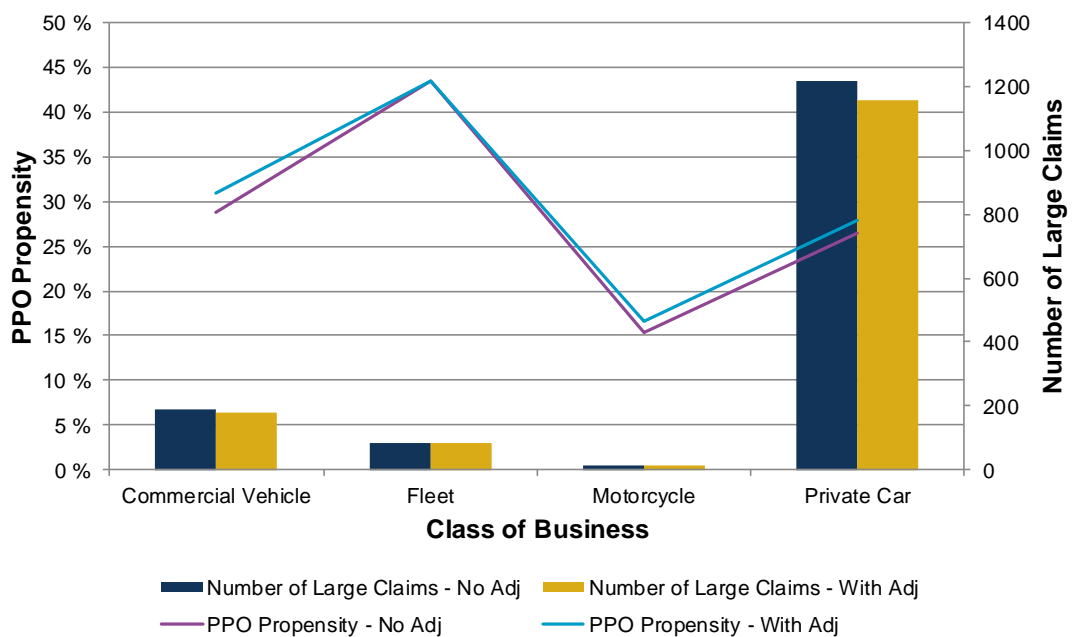


*Figure G.15: Private / Commercial split of the number of Motor (non-MIB) PPO claims and Motor written premiums*

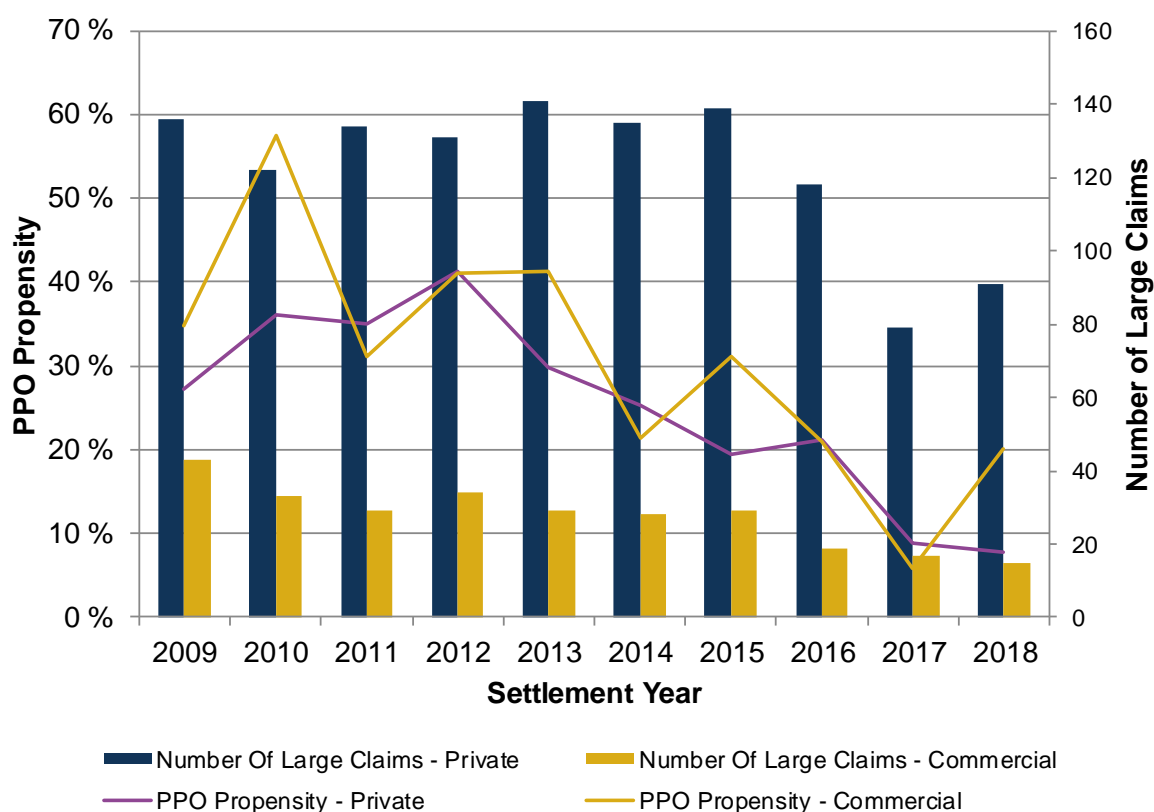




*Figure G.16: Private Motor Comprehensive/ Non-Comprehensive split of the number of Motor (non-MIB) PPO claims, Motor written premiums and Motor vehicle years exposed*

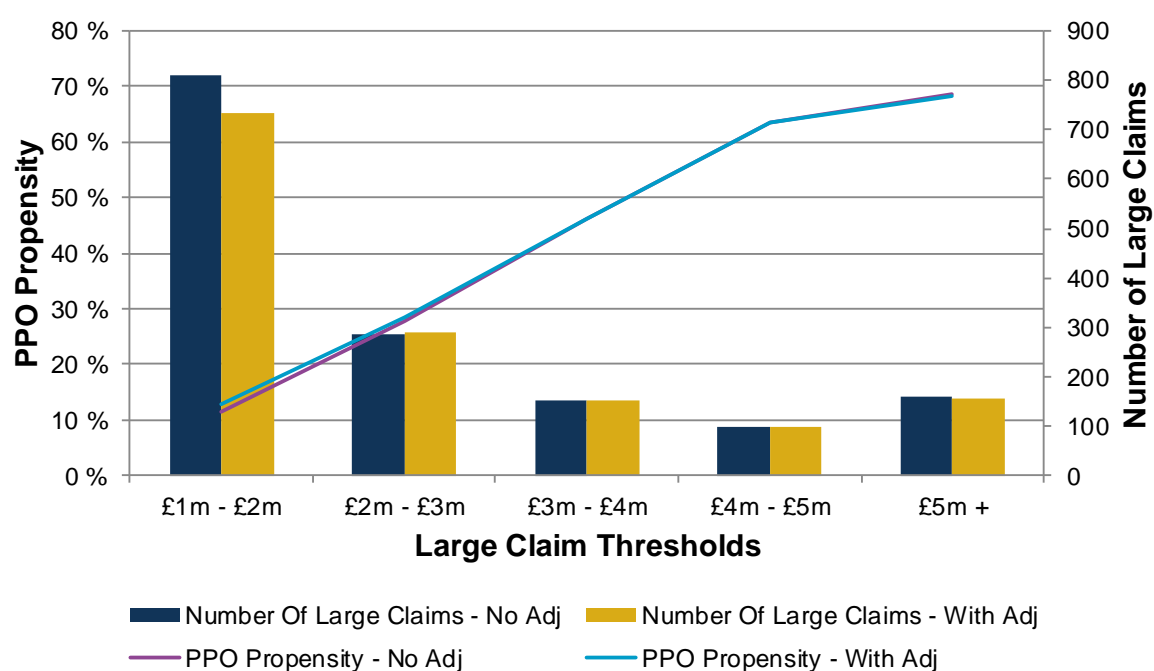


*Figure G.17: Motor (non-MIB) PPO propensity, by class of business, for claims settled since 2009, with and without Ogden adjustment*

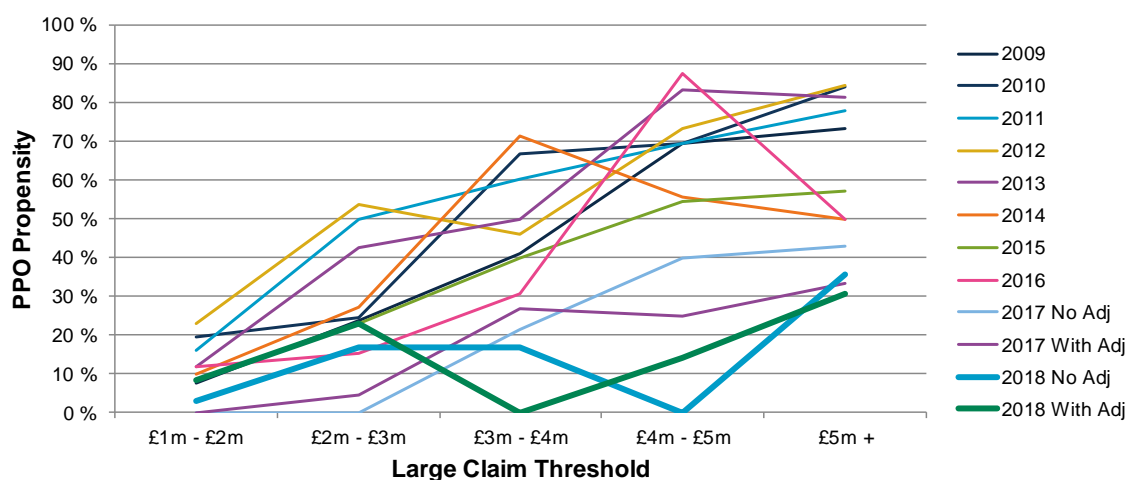


*Figure G.18: Motor (non-MIB) PPO propensity, for Private and Commercial Motor, by settlement year, without Ogden adjustment*

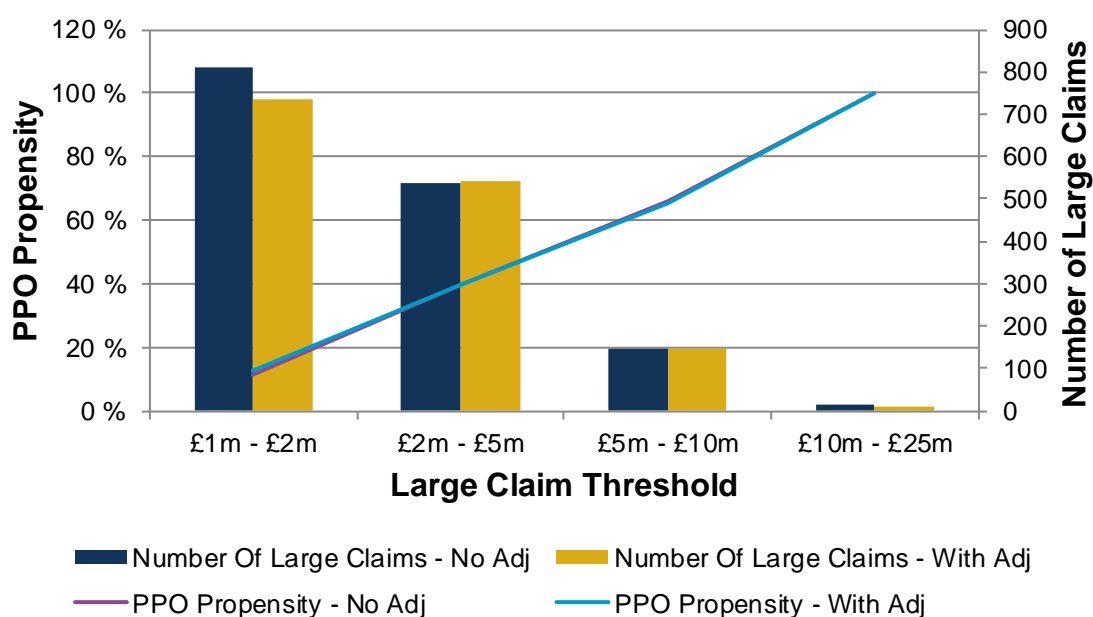
## G.5 Propensity by incremental large claim threshold band



**Figure G.19: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment**

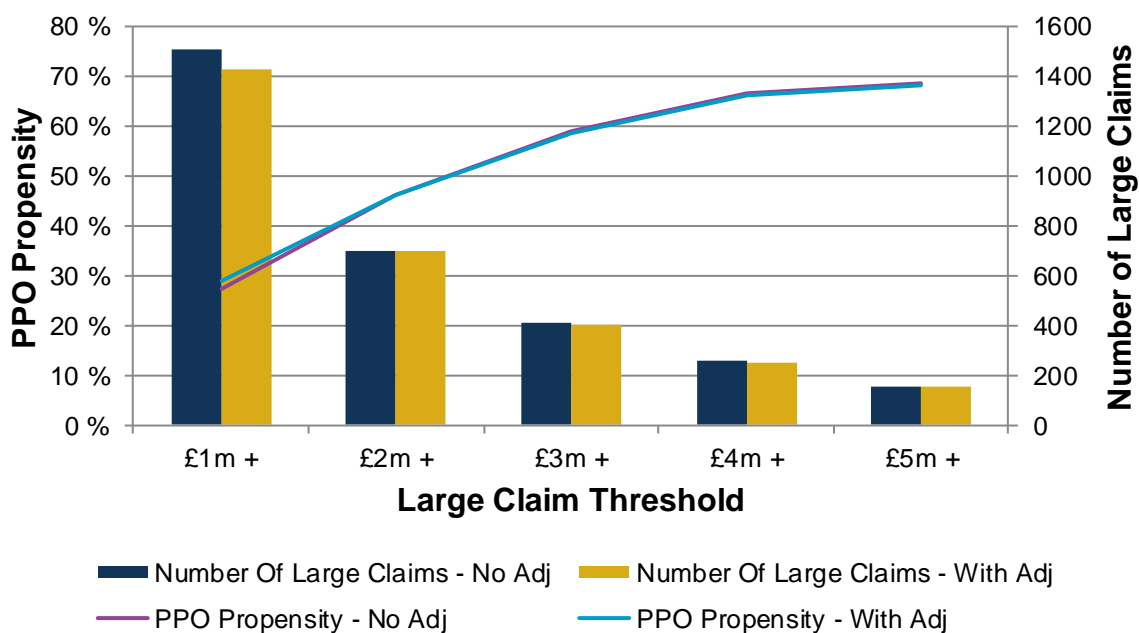


**Figure G.20: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009, with and without Ogden adjustment**

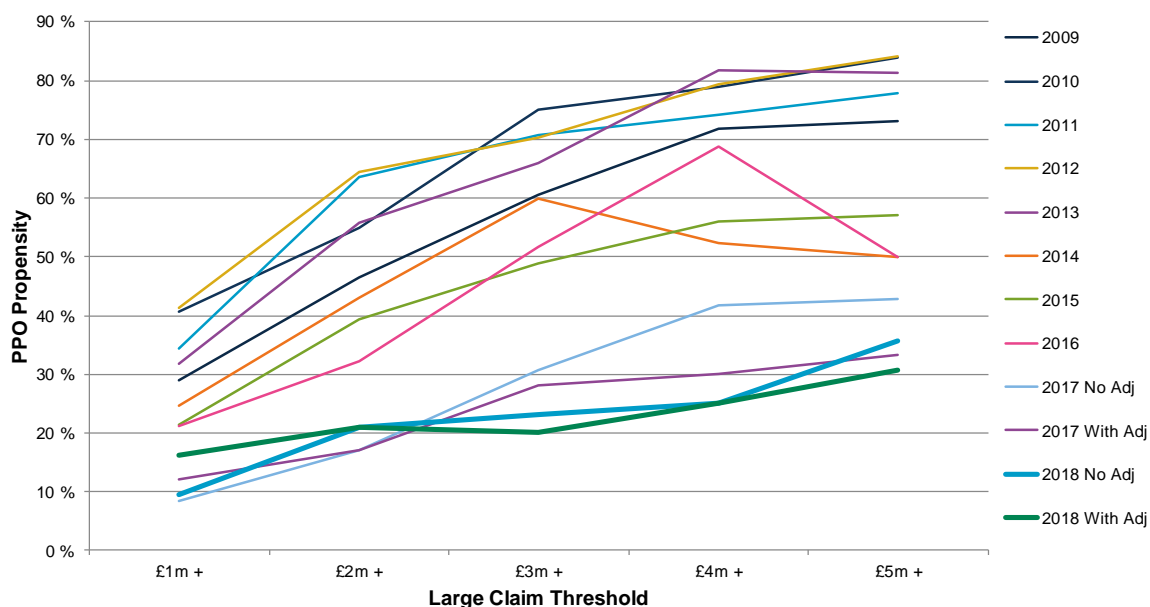


**Figure G.21: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment**

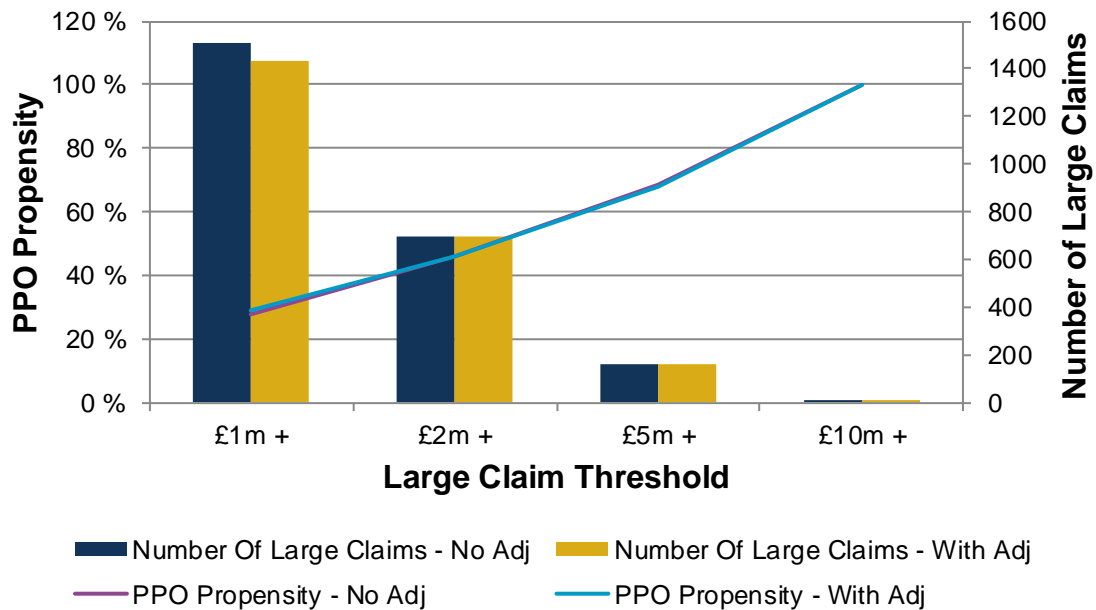
## G.6 Propensity by cumulative large claim threshold band



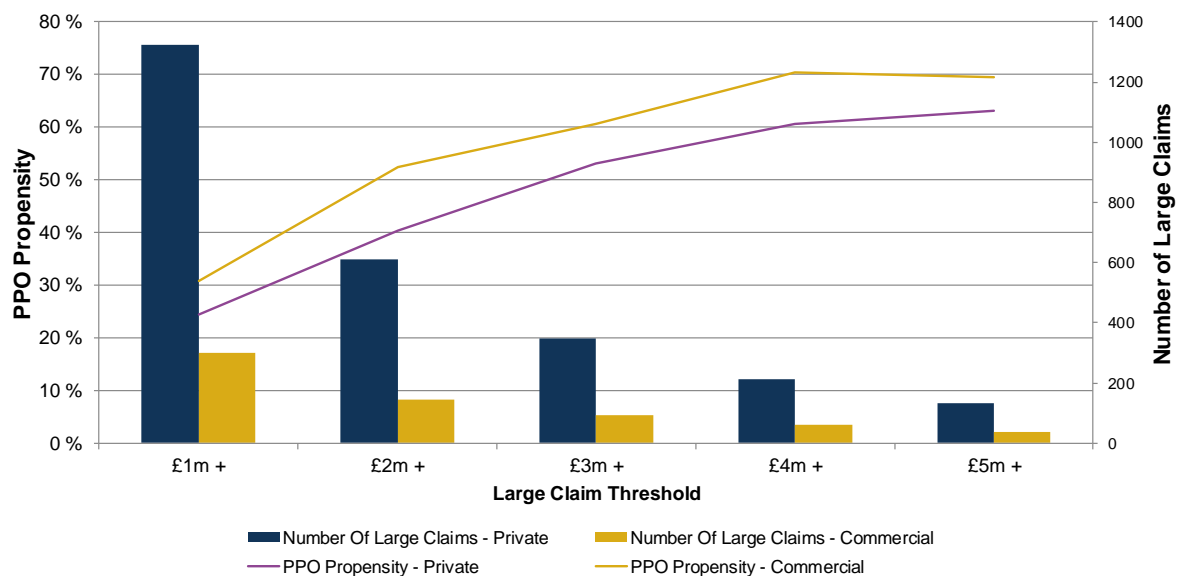
*Figure G.22: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment*



*Figure G.23: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009, with and without Ogden adjustment*



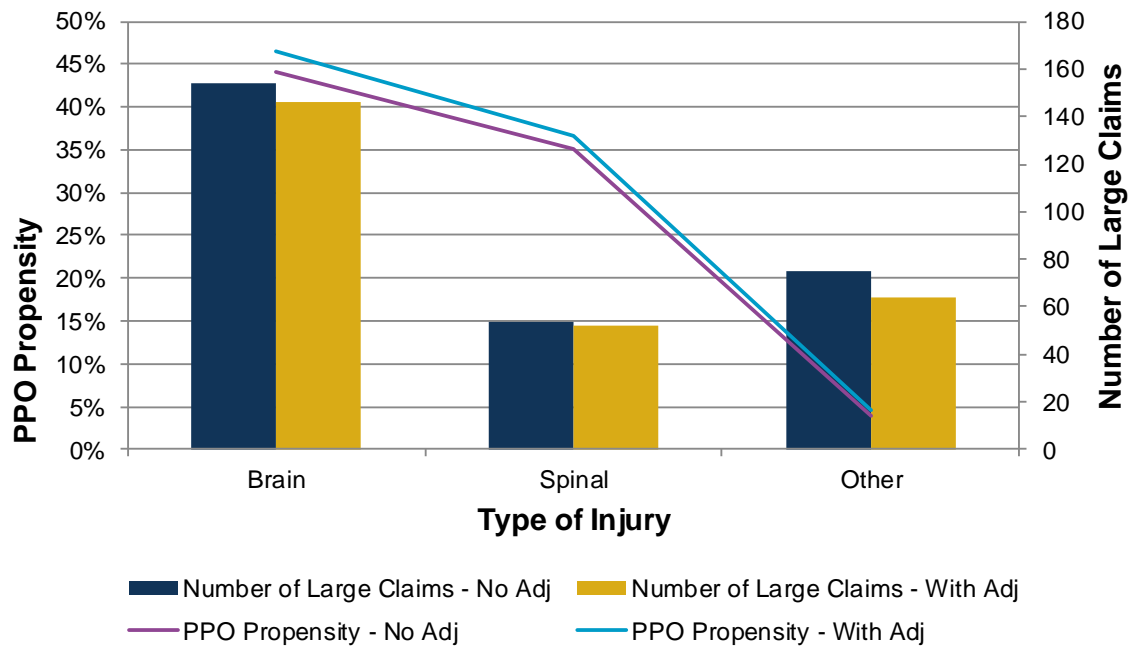
*Figure G.24: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment*



*Figure G.25: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for Private and Commercial Motor, for claims settled since 2009, without Ogden adjustment*

## G.7 Propensity by type of injury

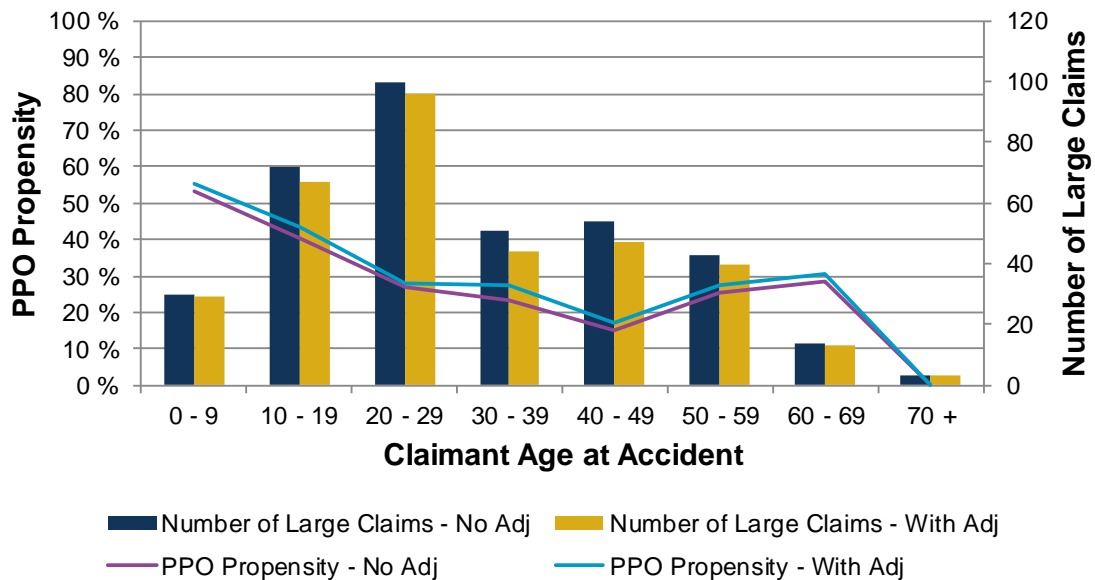
Figure G.26 uses data from those insurers that provided the nature of injury for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (283 large claims in total).



*Figure G.26: Motor (non-MIB) PPO propensity, by type of injury, for claims settled since 2009, with and without Ogden adjustment*

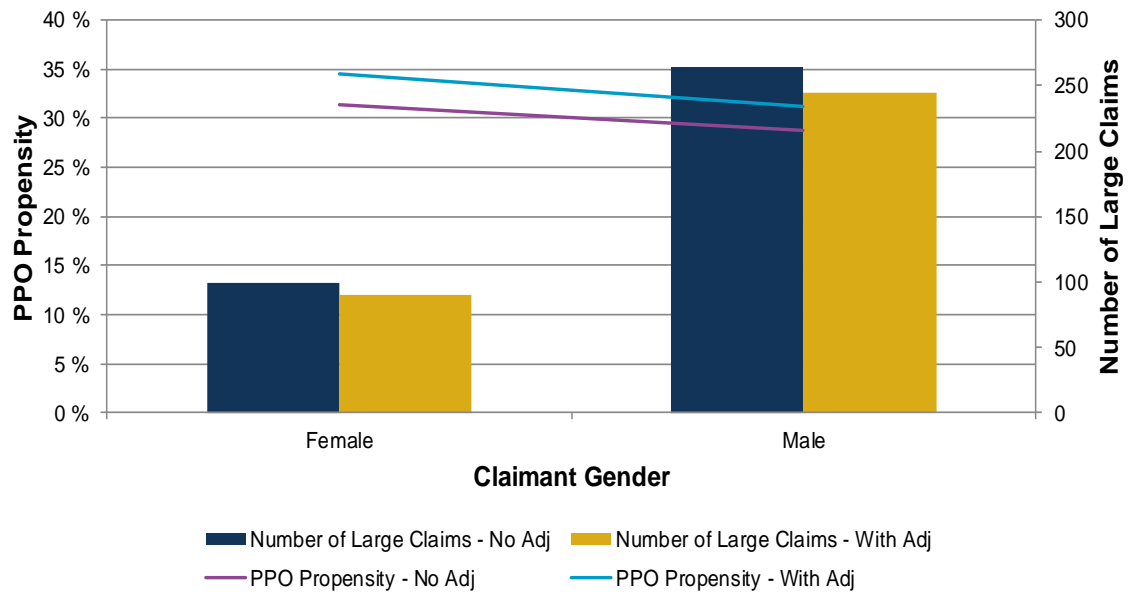
## G.8 Propensity by claimant characteristics

Figure G.27 uses data from those insurers that provided the claimant age at accident for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (367 large claims in total).



*Figure G.27: Motor (non-MIB) PPO propensity, by claimant age at accident, for claims settled since 2009, with and without Ogden adjustment*

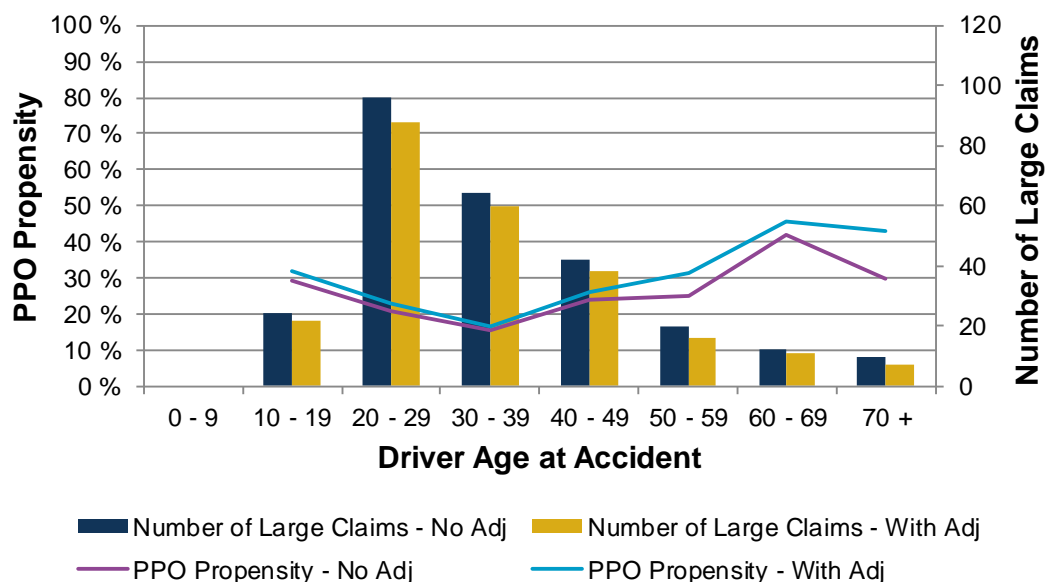
Figure G.28 uses data from those insurers that provided the claimant gender for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (363 large claims in total).



*Figure G.28: Motor (non-MIB) PPO propensity, by claimant gender, for claims settled since 2009, with and without Ogden adjustment*

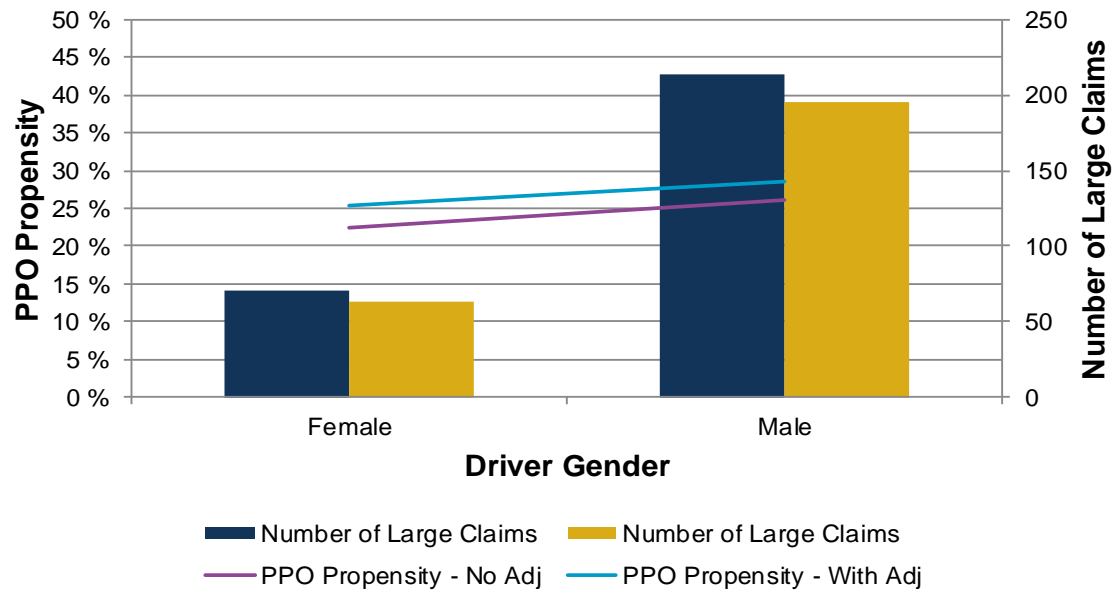
## G.9 Propensity by driver characteristics

Figure G.29 uses data from those insurers that provided the age of driver at accident for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (268 large claims in total).



*Figure G.29: Motor (non-MIB) PPO propensity, by age of driver at accident, for claims settled since 2009, with and without adjustment*

Figure G.30 uses data from those insurers that provided the gender of the driver for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (285 large claims in total).



*Figure G.30: Motor (non-MIB) PPO propensity, by driver gender, for claims settled since 2009, with and without adjustment*



## Appendix H      Propensity of Liability PPO claims

In this appendix, we provide summary statistics for the propensity of Liability PPO claims by:

- Settlement year
- Insurer
- Class of business
- Incremental large claim threshold band
- Cumulative large claim threshold band
- Type of injury
- Claimant characteristics (age at accident and gender).

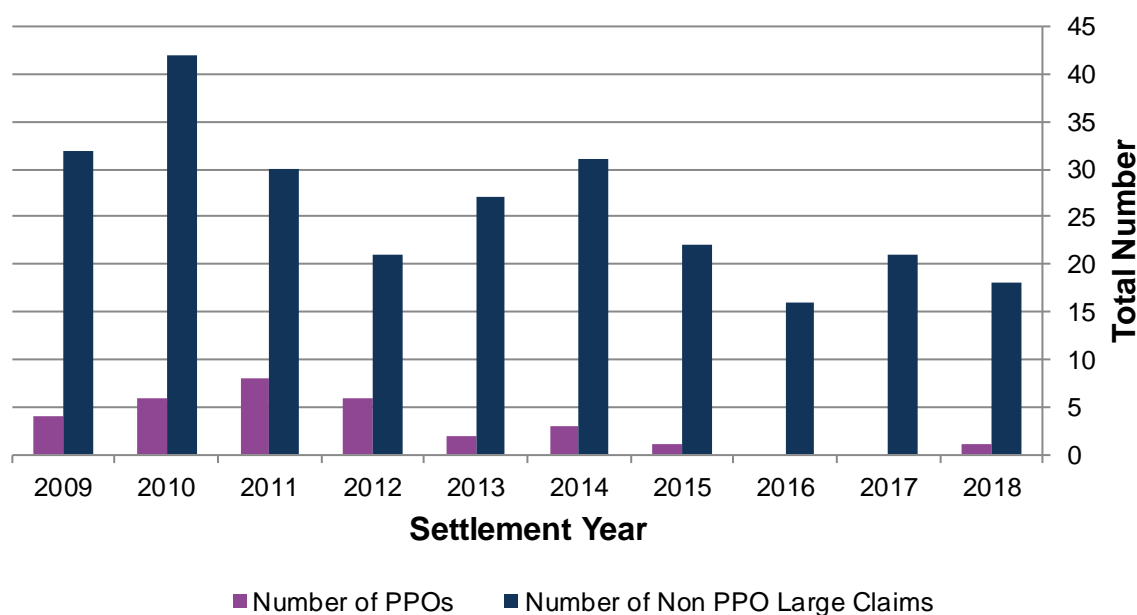
Unless otherwise specified, the propensity is expressed as the number of PPO claims as a proportion of the number of large claims.

The raw PPO propensity for settlement year 2008 (at 0.0% using the above definition) is considerably lower than that for subsequent years (at a weighted average of 10.7% for 2009-2018 inclusive), and so the data underlying the summary statistics within this appendix have been restricted to settlement years 2009 and post to reduce the potential for distortion.

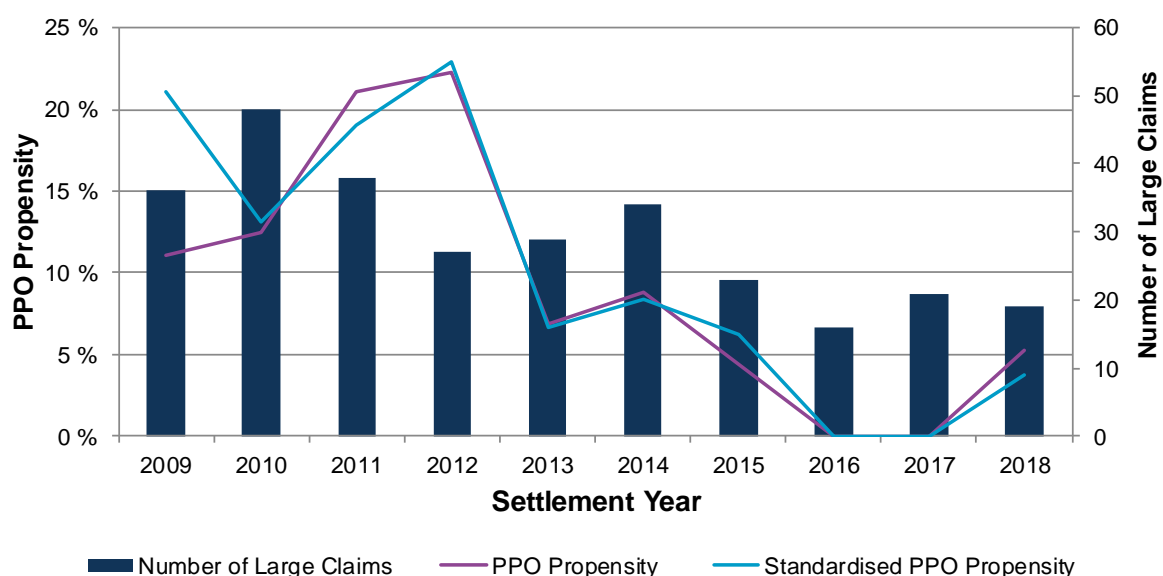
See Appendix C for the definition of a large claim, and an explanation of the incremental threshold analysis and the cumulative threshold analysis. See Appendix B for an explanation of the standardisation basis or claim size used for Liability claims. See Appendix D for an explanation of the standardisation basis for Ogden discount rate.

The number of Liability claims settled in each year, and also the number of Liability PPO claims, in the data we have received for the quantitative industry survey is small, especially when considered relative to the equivalent Motor claims data received. The small number of Liability claims is likely to have contributed to the volatility in experience in the summary statistics provided in this appendix.

## H.1 Propensity by settlement year

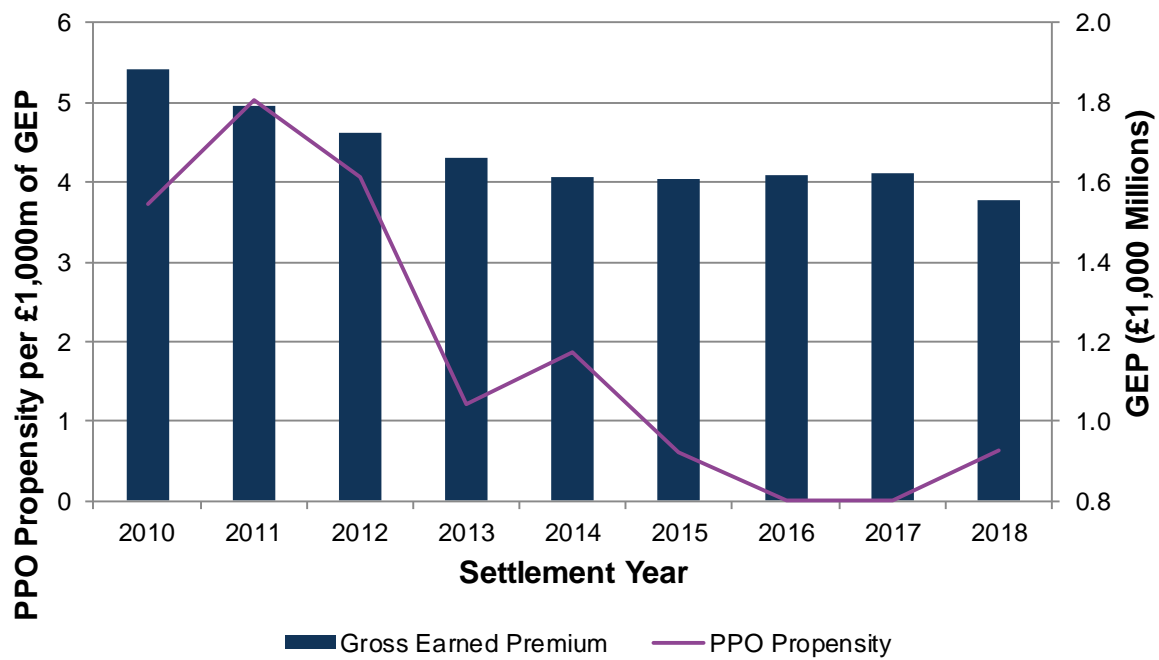


*Figure H.1: Number of Liability PPO claims and Liability non-PPO large claims underlying the PPO propensity statistics, by settlement year*



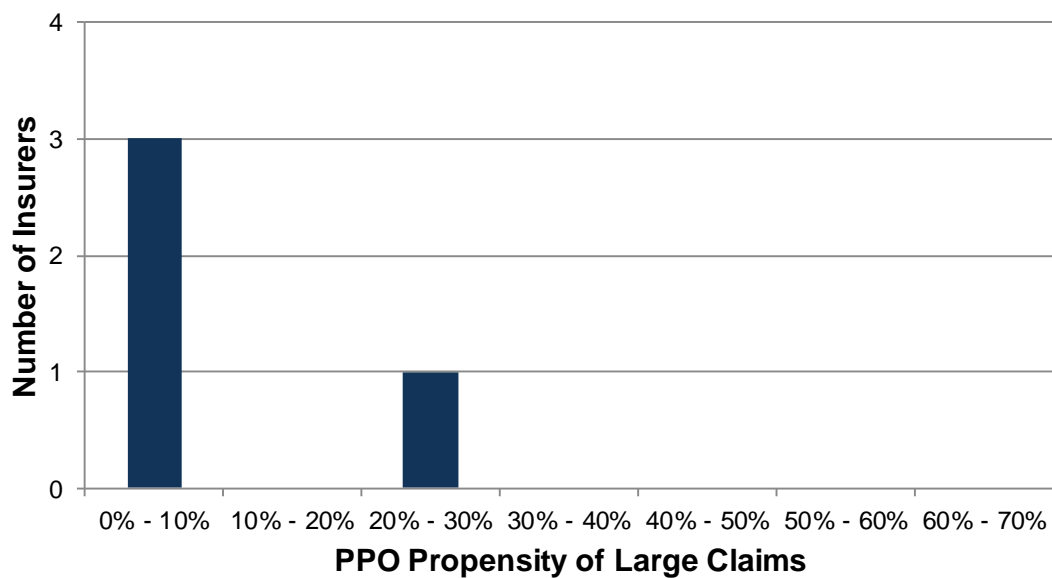
*Figure H.2: Liability PPO propensity and standardised Liability PPO propensity, by settlement year*

Figure H.3 uses a different measure of PPO propensity, expressing the number of PPO claims as a proportion of the average gross earned premium. The number of PPO claims settled in a given year is divided by an average gross earned premium based on the premium earned over a six year period starting seven years earlier (i.e. the number of PPO claims settled in 2012 is divided by the average annual amount of gross premium earned during the period 2006 to 2011 inclusive). These PPO propensity figures include all PPO claims and not just those over £1 million and are in terms of the number of PPO claims per £1,000 million of gross earned premium.

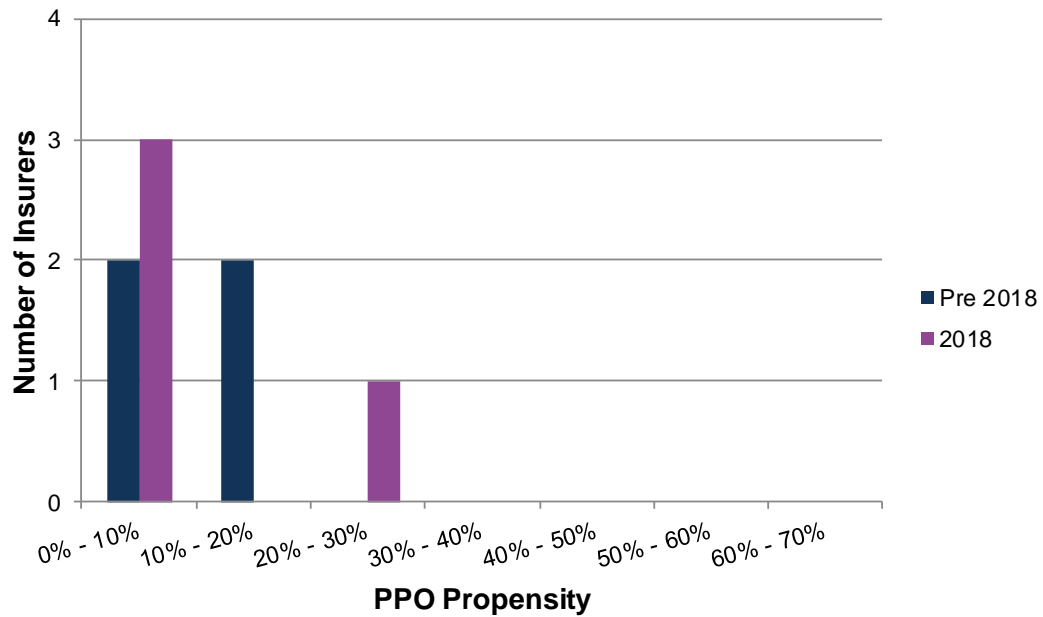


*Figure H.3: Liability PPO propensity, expressed as the number of PPO claims as a proportion of the average gross earned premium, by settlement year*

## H.2 Propensity by insurer



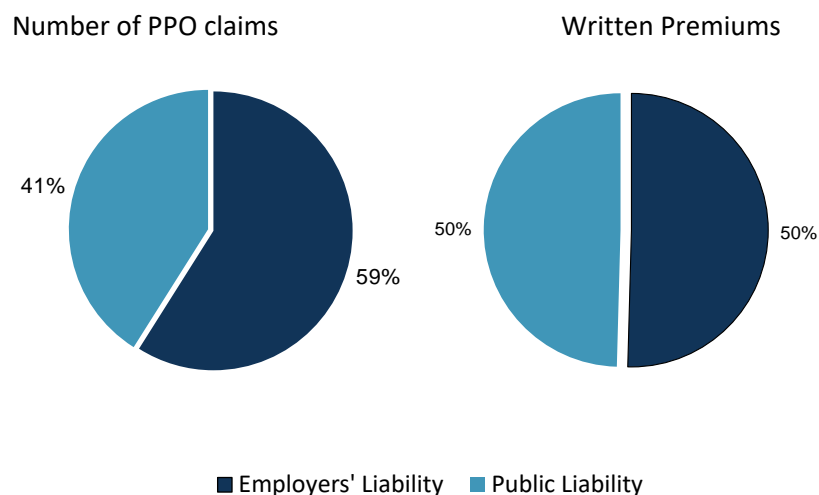
*Figure H.4: Distribution of Liability PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, for claims settled since 2009*



*Figure H.5: Distribution of Liability PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, separately for claims settled between 2009 and 2017 and claims settled in 2018*

An equivalent to Figure G.14 for Motor (non-MIB) PPO propensity has not been included in this appendix for Liability claims, as there were no Liability claims settled as PPO claims in 2017 in the data provided.

### H.3 Propensity by class of business



*Figure H.6: Employers' Liability / Public Liability split of the number of Liability PPO claims and Liability written premiums*

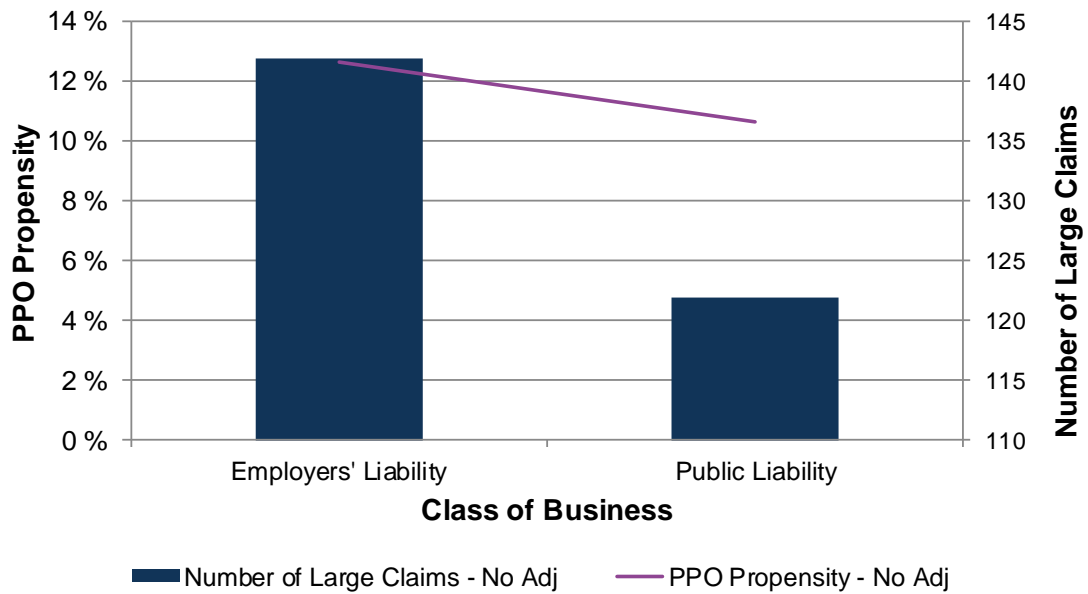


Figure H.7: Liability PPO propensity, by class of business, for claims settled since 2009

#### H.4 Propensity by incremental large claim threshold band

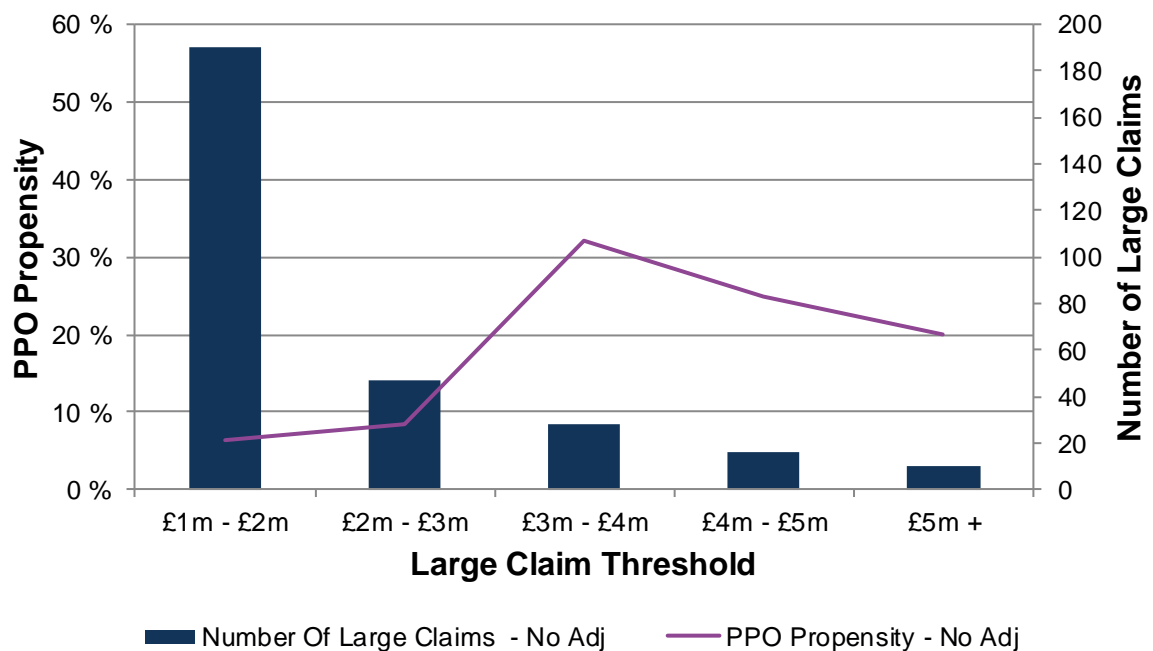
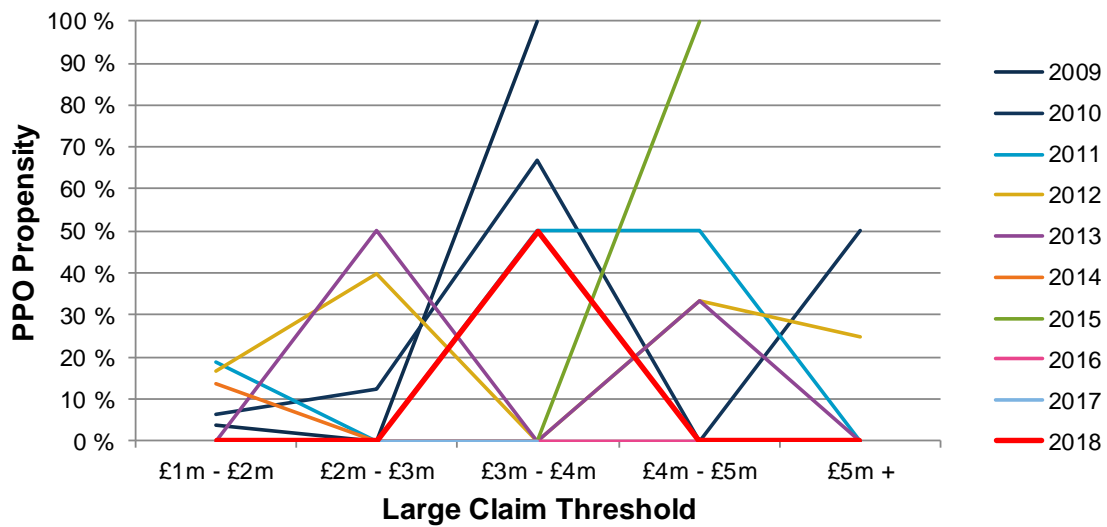
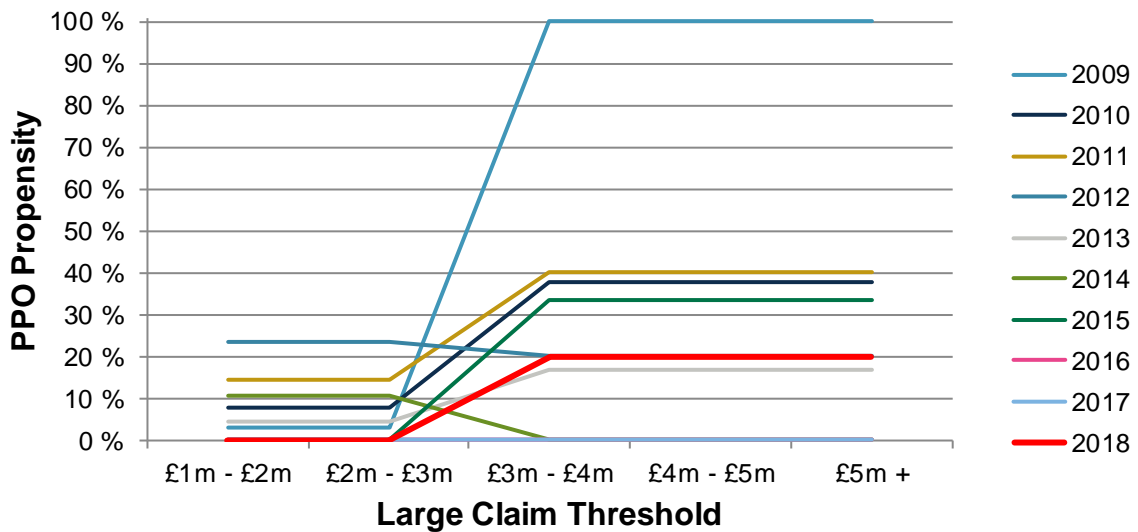


Figure H.8: Liability PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009



*Figure H.9: Liability PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009*



*Figure H.10: Liability PPO propensity, by grouped (£1m-£3m, £3m+) incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009*

## H.5 Propensity by cumulative large claim threshold band

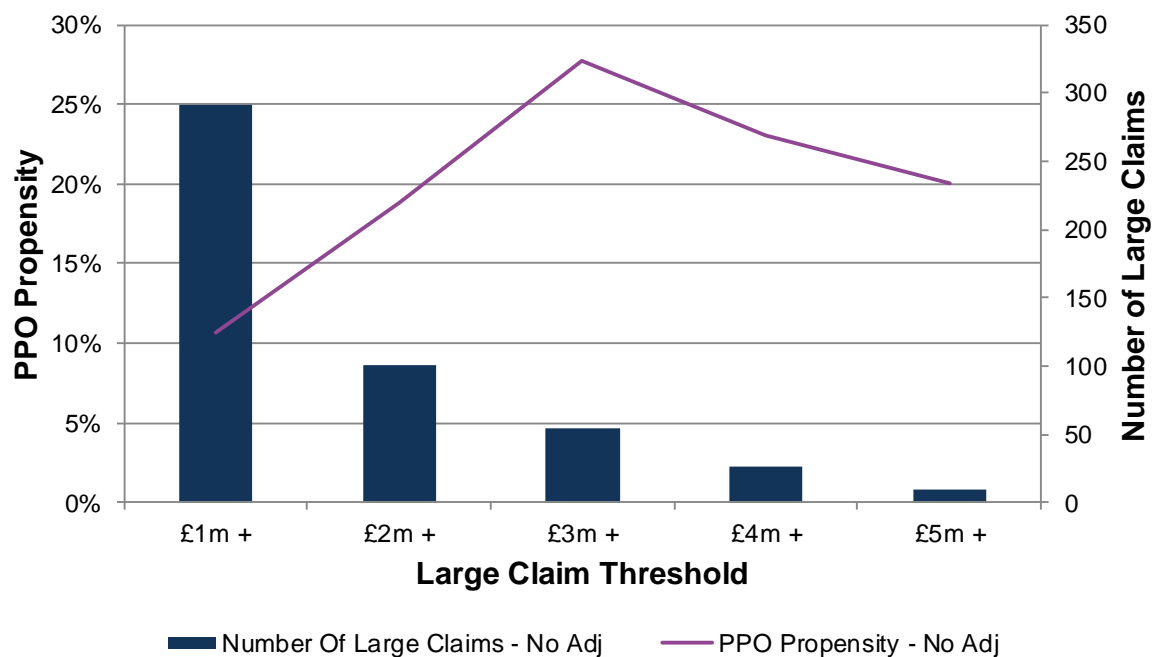


Figure H.11: Liability PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009

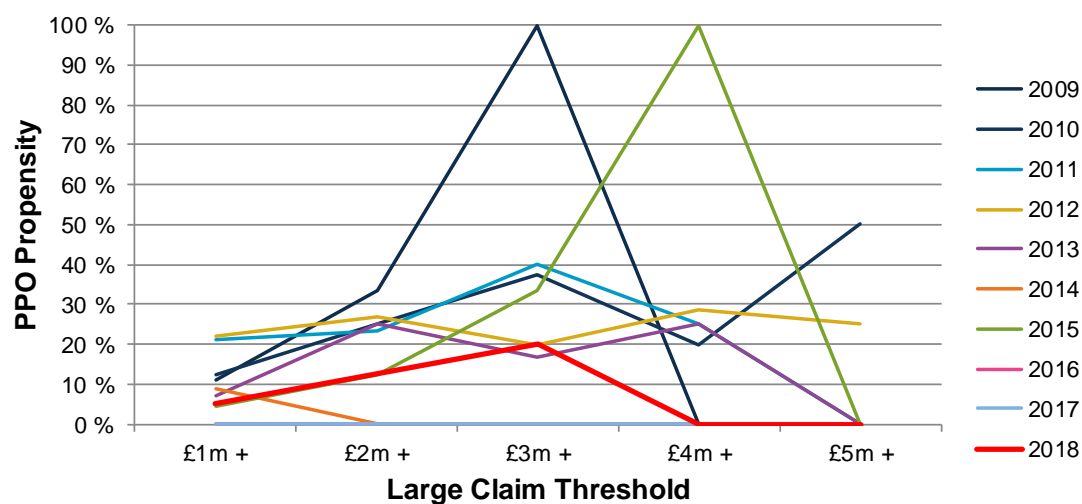
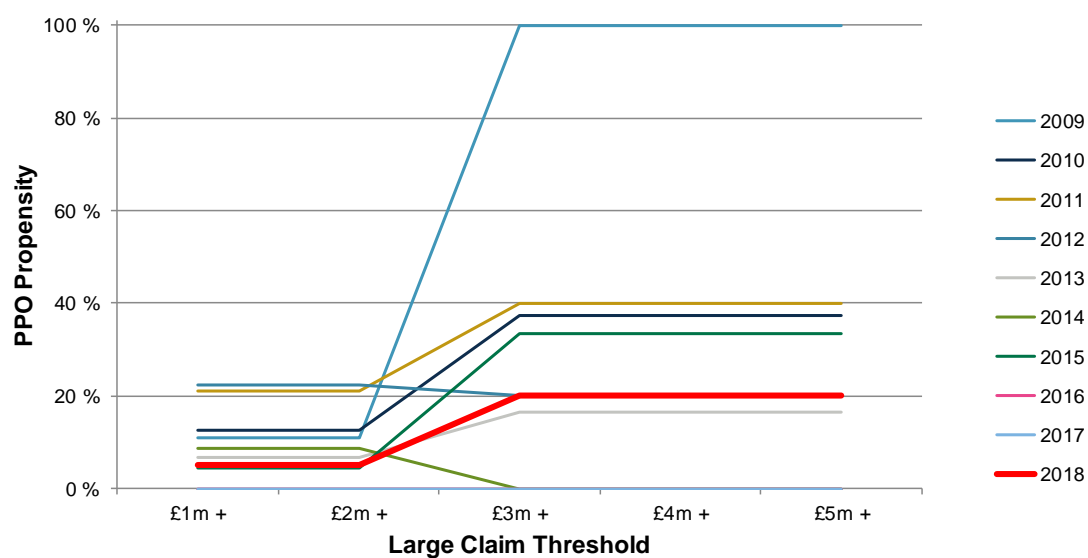


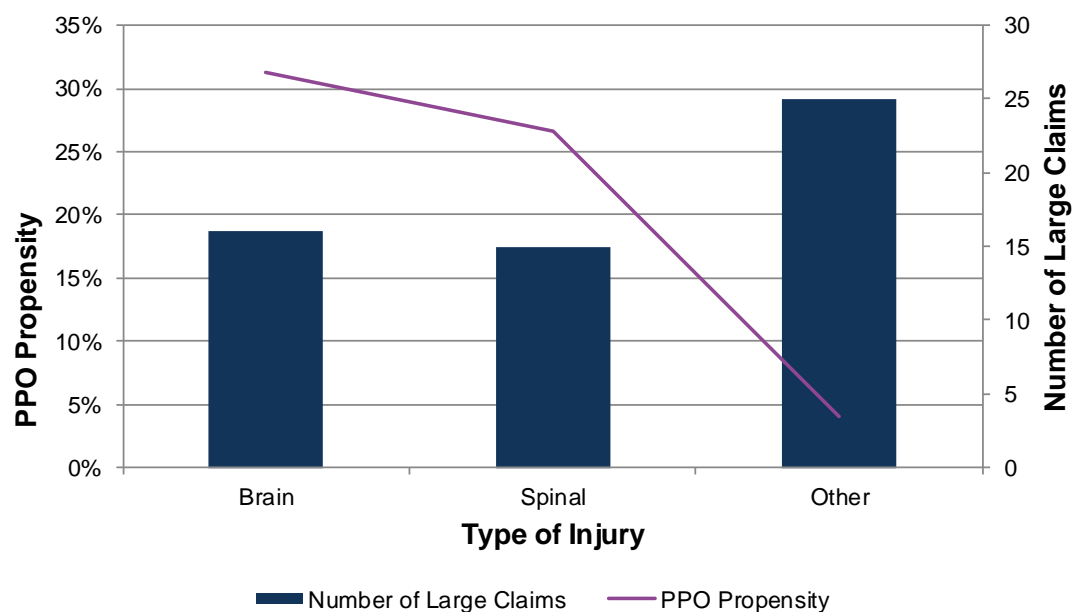
Figure H.12: Liability PPO propensity, by cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009



*Figure H.13: Liability PPO propensity, by grouped (£1m+ to £2m+, £3m+ to £5m+) cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009*

## H.6 Propensity by type of injury

Figure G.14 uses data from those insurers that provided the nature of injury for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (56 large claims in total).

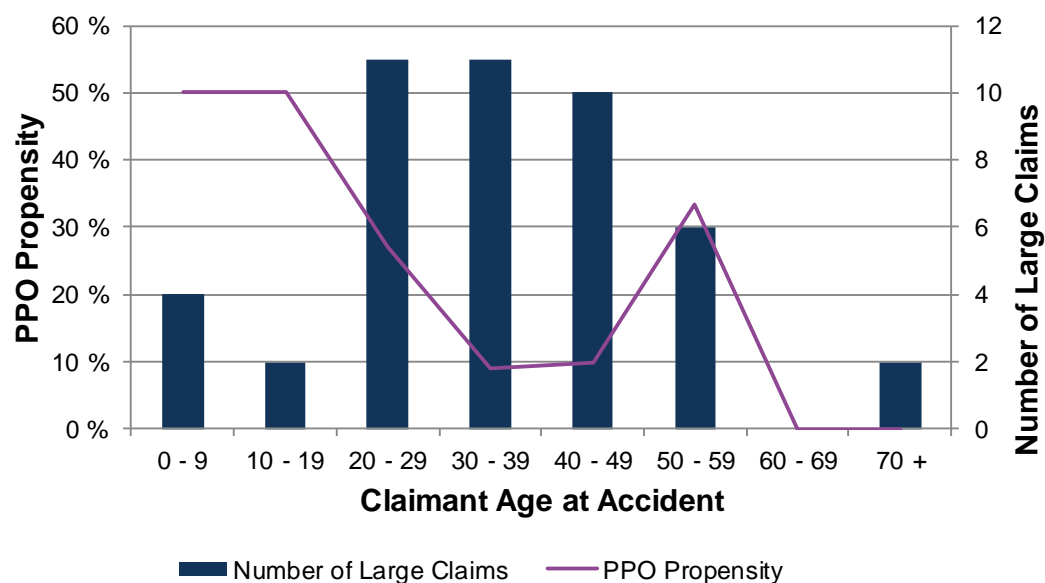


*Figure H.14: Liability propensity, by type of injury, for claims settled since 2009*



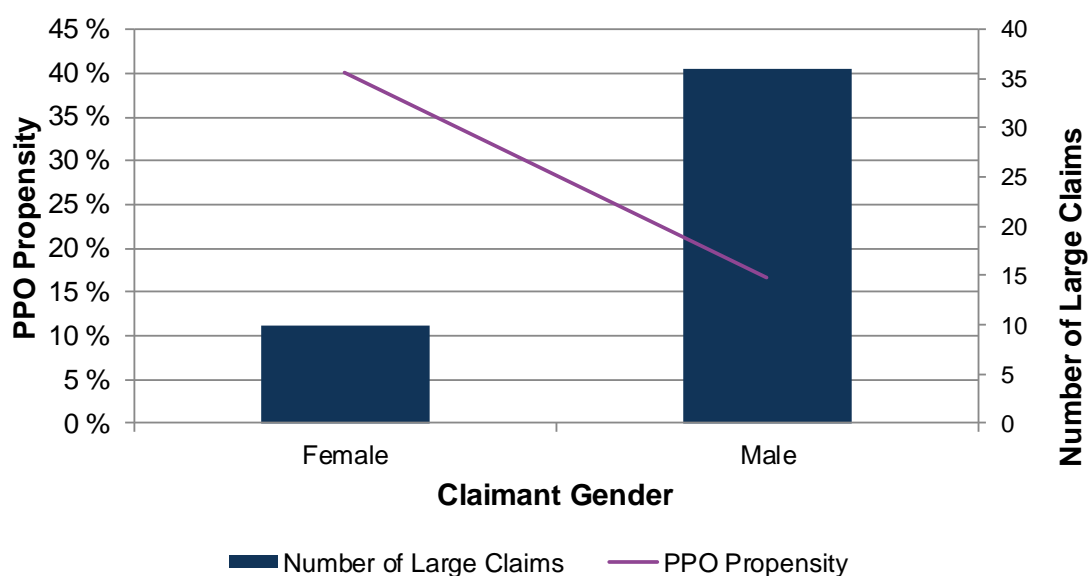
## H.7 Propensity by claimant characteristics

Figure H.15 uses data from those insurers that provided the claimant age at accident for their non-PPO large claims as well as for their PPO claims. This is only a very small subset of data, as can be seen from the right vertical axis (46 large claims in total).



*Figure H.15: Liability PPO propensity, by claimant age at accident, for claims settled since 2009*

Figure G.16 uses data from those insurers that provided the claimant gender for their non-PPO large claims as well as for their PPO claims. This is only a small subset of data, as can be seen from the right vertical axis (46 large claims in total).



*Figure H.16: Liability PPO propensity, by claimant gender, for claims settled since 2009*



## Appendix I      Accident year triangles for Motor (non-MIB) non-PPO and PPO claims

In this appendix, we provide triangles of non-PPO large claims, PPO claims and PPO propensity rates for non-MIB Motor claims, which take into account the accident year of a claim as well as its time to settlement.

As we have only collected data on large claims settled since 2008, the top left hand side of each triangle is incomplete. The cells shaded in blue in the cumulative triangles should therefore be treated with caution, as these are missing settlements prior to 2008.

We have also provided graphs showing the accident year cumulative development of the number of non-MIB Motor PPO claims, separately for the years for which PPO settlements were less commonplace (i.e. prior to 2008) and for the years for which PPO settlements have been more widespread (i.e. 2008 and post). It is clear from the data for the older accident years that we can expect some further development of the number of PPO claim settlements, even for these older years, although the extent of this development is difficult to quantify.

We have combined accident years prior to 2001, and the oldest accident year included is 1987.

### I.1 Incremental triangles

	Years to Settlement																		
Accident Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0	0	0	0	0	0	0	0	36	27	17	13	10	1	2	4	4	3	1
2001	0	0	0	0	0	0	0	11	9	6	3	5	4	0	0	1	0	2	
2002	0	0	0	0	0	0	23	17	12	12	2	6	3	3	1	0	0		
2003	0	0	0	0	0	19	22	16	15	5	6	5	1	1	0	1			
2004	0	0	0	0	14	24	14	15	6	13	6	1	1	1	2				
2005	0	0	0	7	15	12	21	13	8	7	4	2	2	3					
2006	0	0	4	7	9	14	15	18	15	7	4	5	2						
2007	0	1	3	3	9	17	29	20	8	7	1	3							
2008	0	0	2	5	13	12	25	17	5	5	4								
2009	3	1	0	7	14	18	30	11	12	6									
2010	0	0	1	3	9	27	19	5	7										
2011	0	1	1	9	20	22	13	9											
2012	2	1	3	7	22	20	15												
2013	0	1	1	4	10	9													
2014	0	1	2	7	17														
2015	1	2	3	9															
2016	0	1	5																
2017	0	1																	
2018	0																		

*Figure I.1: Triangle showing the accident year incremental development of the number of Motor (non-MIB) non-PPO large claims*

	Years to Settlement																		
Accident Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0	0	0	0	0	0	0	0	7	9	13	5	5	2	1	3	1	1	0
2001	0	0	0	0	0	0	0	3	4	1	1	1	0	1	0	1	0	0	
2002	0	0	0	0	0	0	3	6	3	2	4	3	3	0	0	0	0		
2003	0	0	0	0	0	3	9	4	2	5	2	1	1	0	1	0			
2004	0	0	0	0	3	11	11	6	8	1	1	0	1	1	0				
2005	0	0	0	2	7	13	11	6	3	1	0	1	0	0					
2006	0	0	1	5	14	7	11	5	1	0	0	0	0						
2007	0	0	1	3	14	9	7	7	2	1	0	0							
2008	0	0	1	6	14	12	6	4	1	1	1								
2009	0	0	2	4	13	7	6	4	0	0									
2010	0	0	1	5	5	7	4	1	1										
2011	0	0	1	4	7	4	0	0											
2012	0	0	2	2	4	1	2												
2013	0	0	4	7	1	2													
2014	0	0	0	1	1														
2015	0	0	0	3															
2016	0	0	0																
2017	0	0																	
2018	0																		

*Figure I.2: Triangle showing the accident year incremental development of the number of Motor (non-MIB) PPO claims*

	Years to Settlement																		
Accident Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0%	0%	0%	0%	0%	0%	0%	0%	16%	25%	43%	28%	33%	67%	33%	43%	20%	25%	0%
2001	0%	0%	0%	0%	0%	0%	0%	21%	31%	14%	25%	17%	0%	100%	0%	50%	0%	0%	
2002	0%	0%	0%	0%	0%	0%	12%	26%	20%	14%	67%	33%	50%	0%	0%	0%	0%		
2003	0%	0%	0%	0%	0%	14%	29%	20%	12%	50%	25%	17%	50%	0%	100%	0%			
2004	0%	0%	0%	0%	18%	31%	44%	29%	57%	7%	14%	0%	50%	50%	0%				
2005	0%	0%	0%	22%	32%	52%	34%	32%	27%	13%	0%	33%	0%	0%					
2006	0%	0%	20%	42%	61%	33%	42%	22%	6%	0%	0%	0%	0%						
2007	0%	0%	25%	50%	61%	35%	19%	26%	20%	13%	0%	0%							
2008	0%	0%	33%	55%	52%	50%	19%	19%	17%	17%	20%								
2009	0%	0%	100%	36%	48%	28%	17%	27%	0%	0%									
2010	0%	0%	50%	63%	36%	21%	17%	17%	13%										
2011	0%	0%	50%	31%	26%	15%	0%	0%											
2012	0%	0%	40%	22%	15%	5%	12%												
2013	0%	0%	80%	64%	9%	18%													
2014	0%	0%	0%	13%	6%														
2015	0%	0%	0%	25%															
2016	0%	0%	0%																
2017	0%	0%																	
2018	0%																		

*Figure I.3: Triangle showing the incremental accident year Motor (non-MIB) PPO propensity rates*

## I.2 Cumulative triangles

Accident Year	Years to Settlement																		
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0	0	0	0	0	0	0	0	36	63	80	93	103	104	106	110	114	117	118
2001	0	0	0	0	0	0	0	11	20	26	29	34	38	38	38	39	39	41	
2002	0	0	0	0	0	0	23	40	52	64	66	72	75	78	79	79	79		
2003	0	0	0	0	0	19	41	57	72	77	83	88	89	90	90	91			
2004	0	0	0	0	14	38	52	67	73	86	92	93	94	95	97				
2005	0	0	0	7	22	34	55	68	76	83	87	89	91	94					
2006	0	0	4	11	20	34	49	67	82	89	93	98	100						
2007	0	1	4	7	16	33	62	82	90	97	98	101							
2008	0	0	2	7	20	32	57	74	79	84	88								
2009	3	4	4	11	25	43	73	84	96	102									
2010	0	0	1	4	13	40	59	64	71										
2011	0	1	2	11	31	53	66	75											
2012	2	3	6	13	35	55	70												
2013	0	1	2	6	16	25													
2014	0	1	3	10	27														
2015	1	3	6	15															
2016	0	1	6																
2017	0	1																	
2018	0																		

*Figure I.4: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) non-PPO large claims*

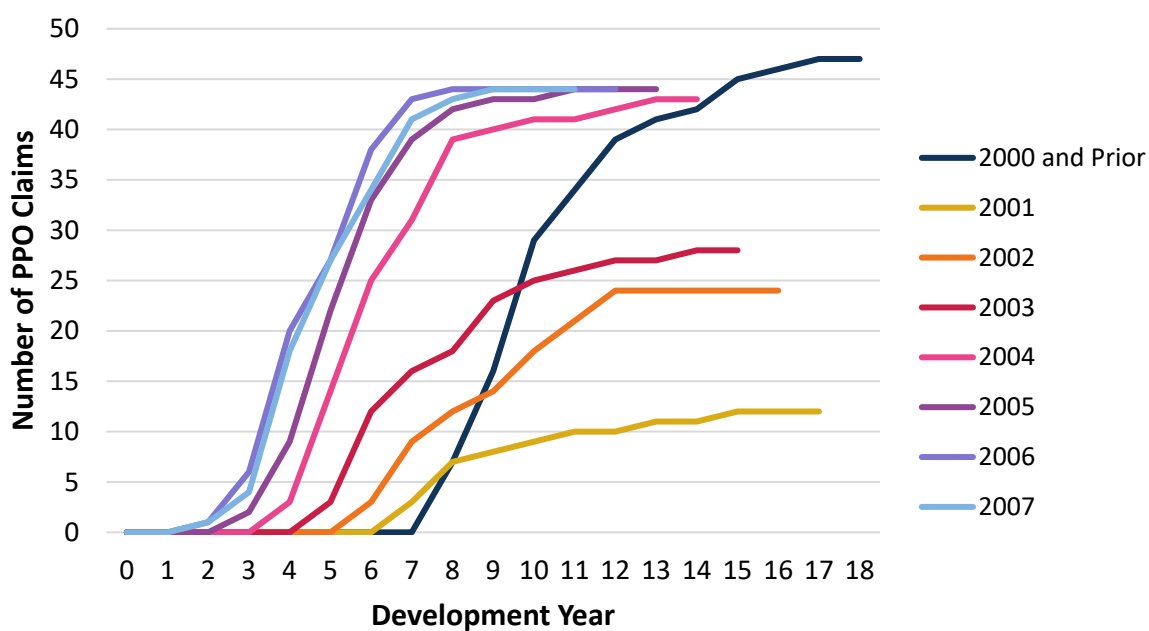
	Years to Settlement																		
Accident Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0	0	0	0	0	0	0	0	7	16	29	34	39	41	42	45	46	47	47
2001	0	0	0	0	0	0	0	3	7	8	9	10	10	11	11	12	12	12	
2002	0	0	0	0	0	0	3	9	12	14	18	21	24	24	24	24	24		
2003	0	0	0	0	0	3	12	16	18	23	25	26	27	27	28	28			
2004	0	0	0	0	3	14	25	31	39	40	41	41	42	43	43				
2005	0	0	0	2	9	22	33	39	42	43	43	44	44	44					
2006	0	0	1	6	20	27	38	43	44	44	44	44	44						
2007	0	0	1	4	18	27	34	41	43	44	44	44							
2008	0	0	1	7	21	33	39	43	44	45	46								
2009	0	0	2	6	19	26	32	36	36										
2010	0	0	1	6	11	18	22	23	24										
2011	0	0	1	5	12	16	16	16											
2012	0	0	2	4	8	9	11												
2013	0	0	4	11	12	14													
2014	0	0	0	1	2														
2015	0	0	0	3															
2016	0	0	0																
2017	0	0																	
2018	0																		

*Figure I.5: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims*

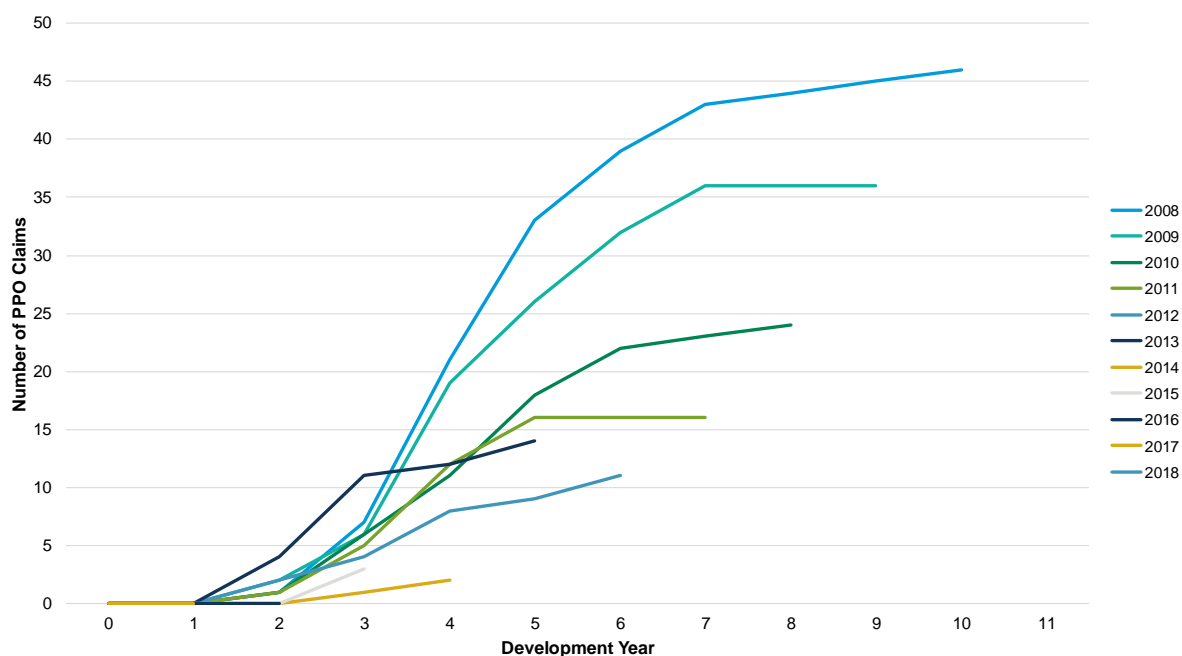
Accident Year	Years to Settlement																		
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2000 and prior	0%	0%	0%	0%	0%	0%	0%	0%	16%	20%	27%	27%	27%	28%	28%	29%	29%	29%	28%
2001	0%	0%	0%	0%	0%	0%	0%	21%	26%	24%	24%	23%	21%	22%	22%	24%	24%	23%	
2002	0%	0%	0%	0%	0%	0%	12%	18%	19%	18%	21%	23%	24%	24%	23%	23%	23%		
2003	0%	0%	0%	0%	0%	14%	23%	22%	20%	23%	23%	23%	23%	23%	24%	24%			
2004	0%	0%	0%	0%	18%	27%	32%	32%	35%	32%	31%	31%	31%	31%	31%				
2005	0%	0%	0%	22%	29%	39%	38%	36%	36%	34%	33%	33%	33%	32%					
2006	0%	0%	20%	35%	50%	44%	44%	39%	35%	33%	32%	31%	31%						
2007	0%	0%	20%	36%	53%	45%	35%	33%	32%	31%	31%	30%							
2008	0%	0%	33%	50%	51%	51%	41%	37%	36%	35%	34%								
2009	0%	0%	33%	35%	43%	38%	30%	30%	27%	26%									
2010	0%	0%	50%	60%	46%	31%	27%	26%	25%										
2011	0%	0%	33%	31%	28%	23%	20%	18%											
2012	0%	0%	25%	24%	19%	14%	14%												
2013	0%	0%	67%	65%	43%	36%													
2014	0%	0%	0%	9%	7%														
2015	0%	0%	0%	17%															
2016	0%	0%	0%																
2017	0%	0%																	
2018	0%																		

*Figure I.6: Triangle showing the accident year cumulative Motor (non-MIB) PPO propensity rates*

### I.3 Cumulative development graphs



*Figure I.7: Graph showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims – years for which PPO settlements were less commonplace*



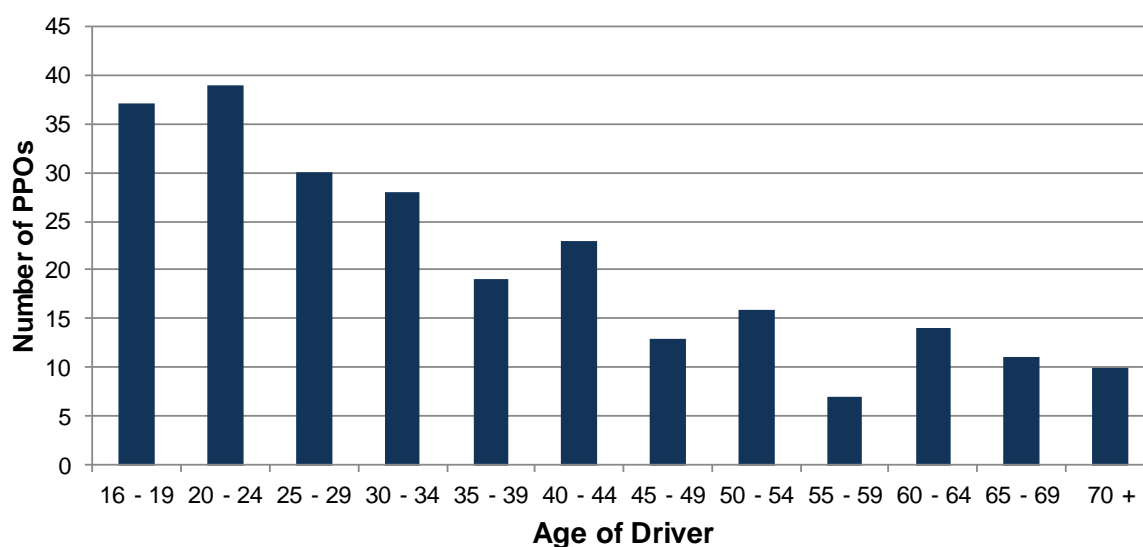
*Figure I.8: Graph showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims – years for which PPO settlements have been more widespread*

## Appendix J      General characteristics of Motor (non-MIB) PPO claims

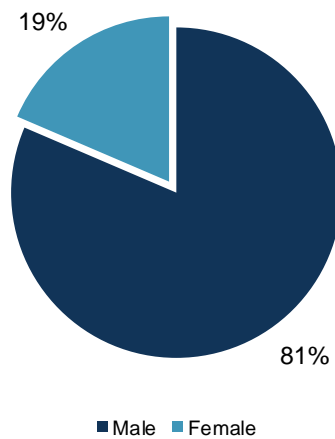
In this appendix, we provide summary statistics for Motor (non-MIB) PPO claims by the following characteristics:

- Age of driver at accident date and gender of driver (including class of business and cover type)
- Age of claimant at accident date and gender of claimant (including class of business and cover type)
- Age of claimant at settlement date and gender of claimant
- Age of driver and age of claimant at accident date
- Delay to settlement
- Life expectancy of claimant at settlement date
- Reduction in life expectancy of the claimant.

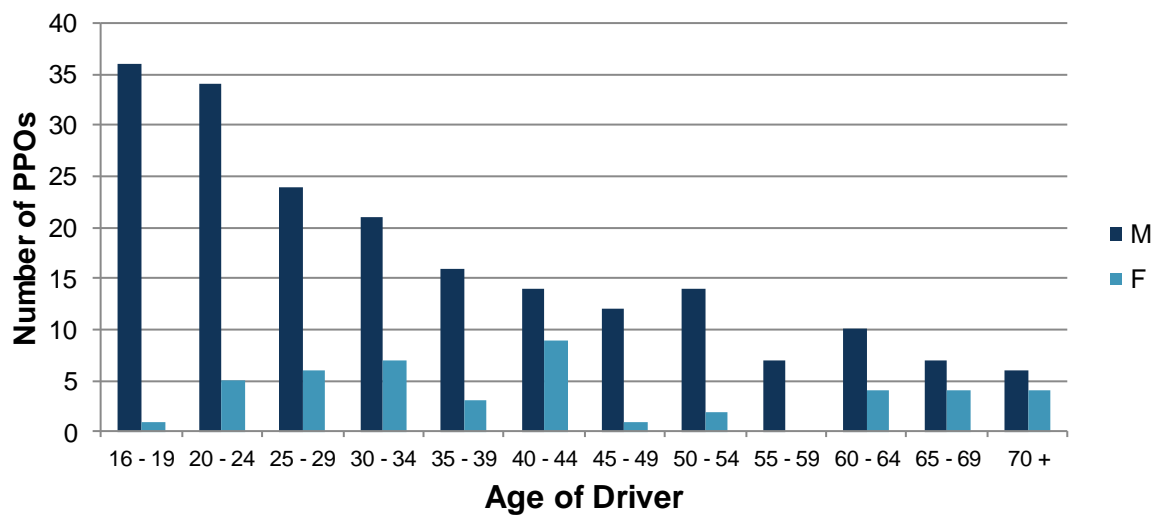
### J.1 Age of driver at accident date and gender of driver



*Figure J.1: Number of Motor (non-MIB) PPO claims, by age of driver at accident date*

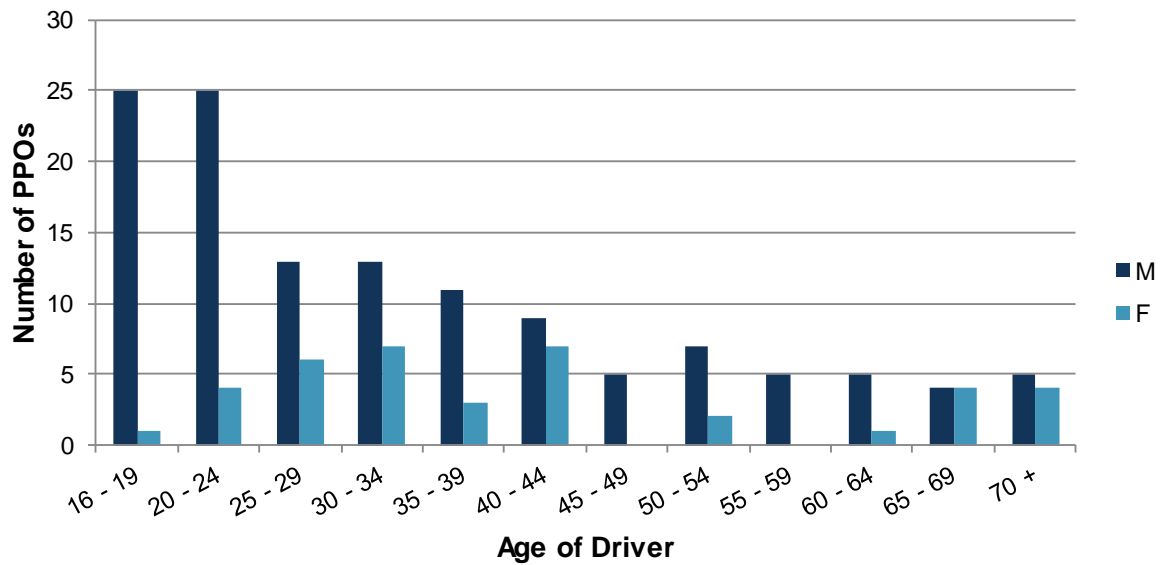


*Figure J.2: Split of the number of Motor (non-MIB) PPO claims, by gender of driver*

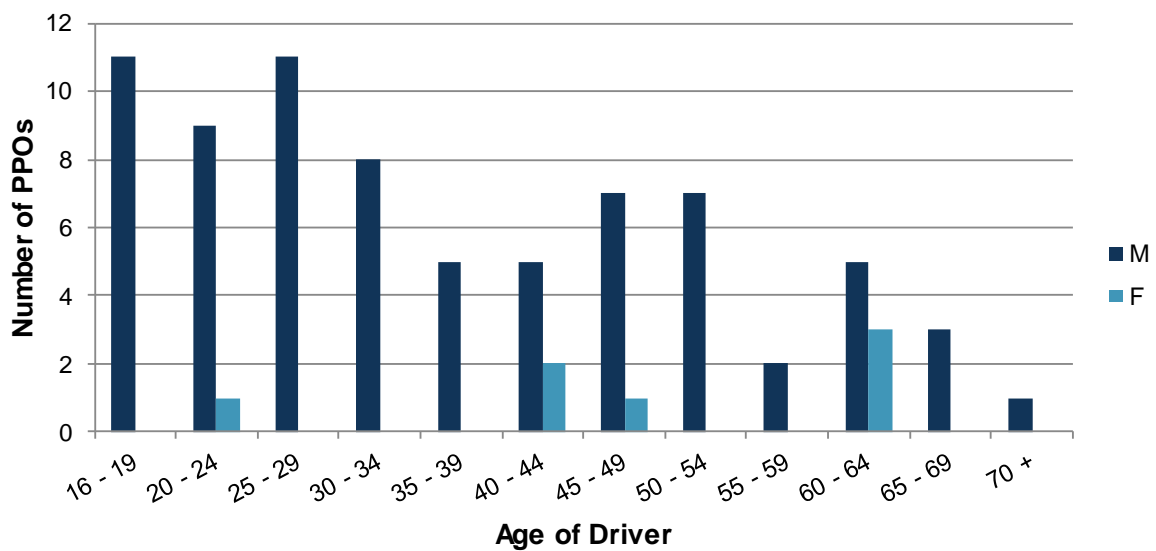


*Figure J.3: Number of Motor (non-MIB) PPO claims, by age of driver at accident date and by gender of driver*

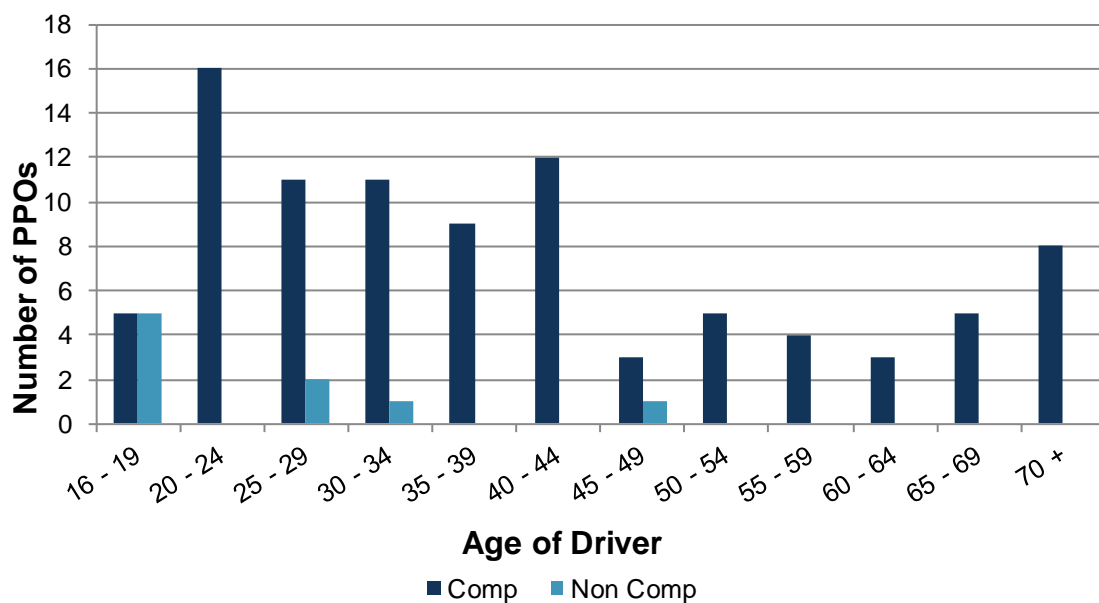




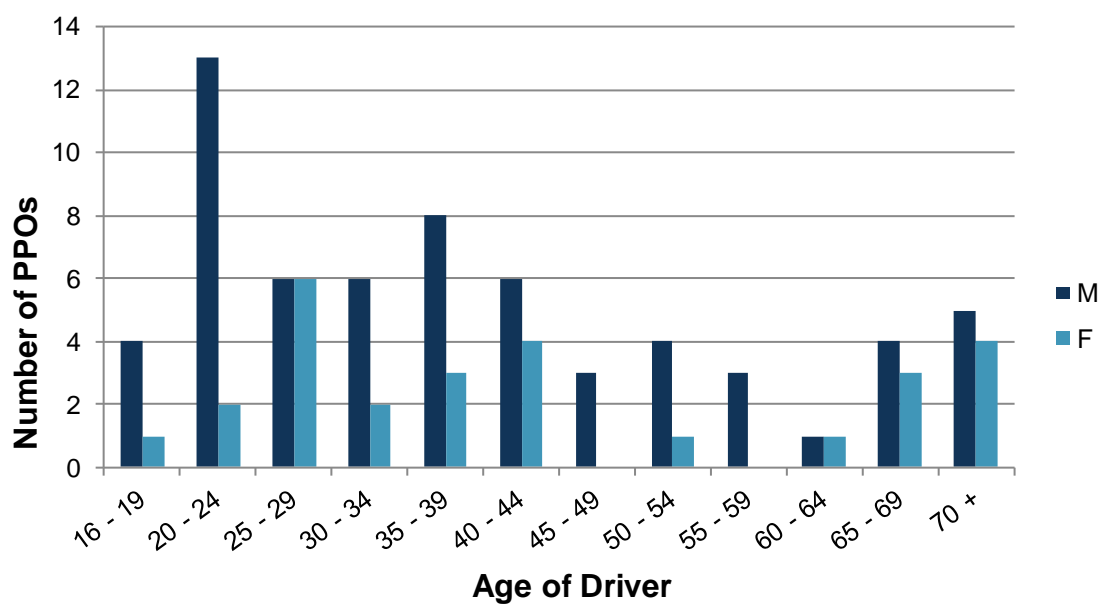
*Figure J.4: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of driver at accident date and by gender of driver*



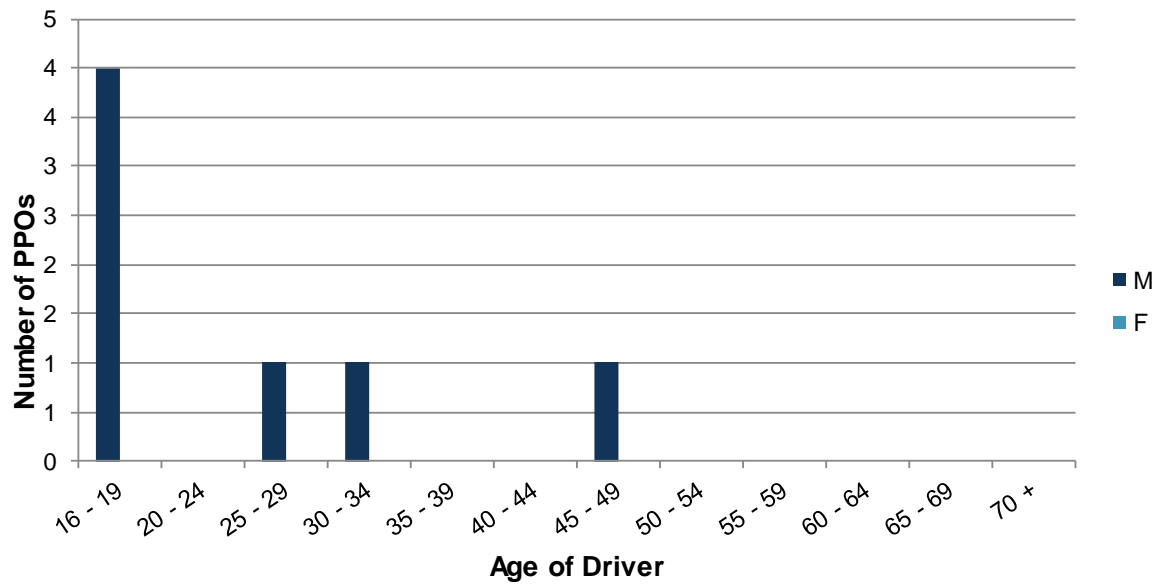
*Figure J.5: Number of Motor (non-MIB) PPO claims, for Commercial Motor, by age of driver at accident date and by gender of driver*



*Figure J.6: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of driver at accident date and by cover type*

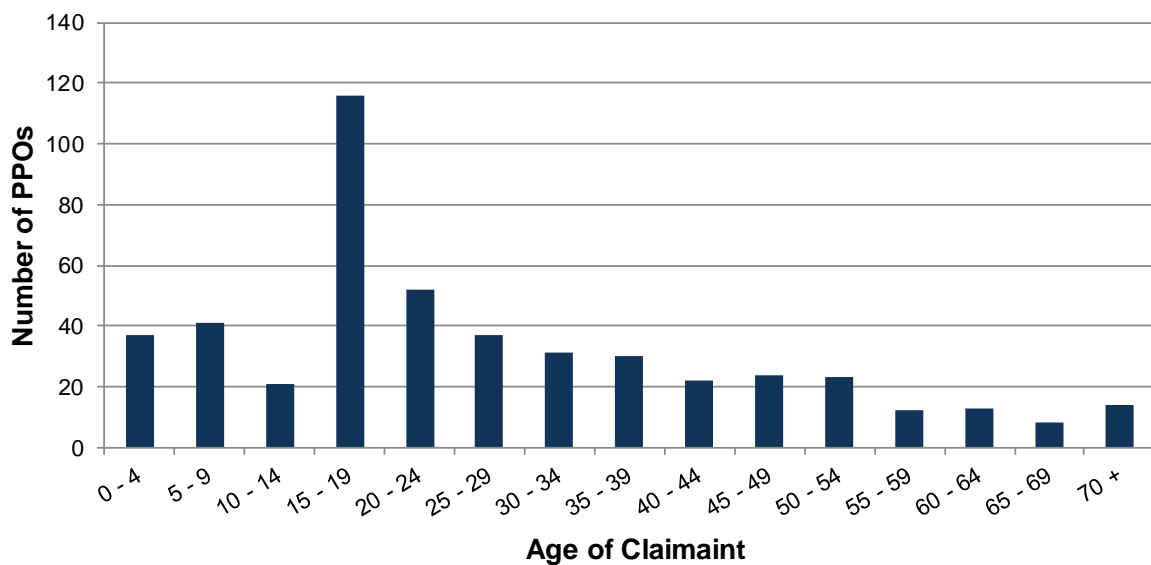


*Figure J.7: Number of Motor (non-MIB) PPO claims, for Private Motor Comprehensive, by age of driver at accident date and by gender of driver*

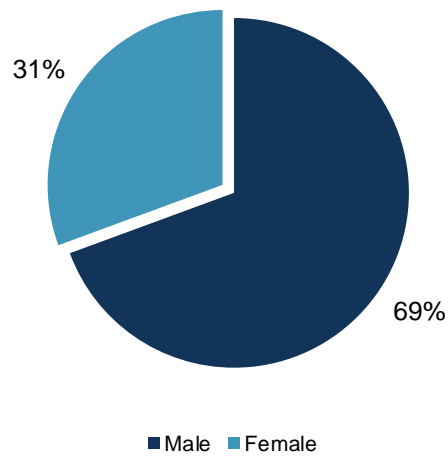


*Figure J.8: Number of Motor (non-MIB) PPO claims, for Private Motor Non-Comprehensive, by age of driver at accident date and by gender of driver*

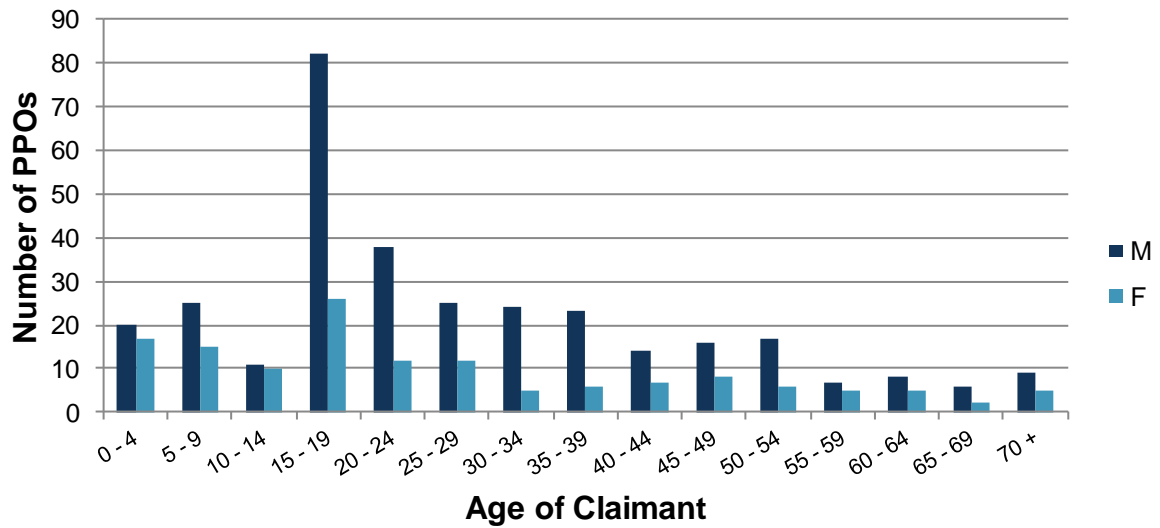
## J.2 Age of claimant at accident date and gender of claimant



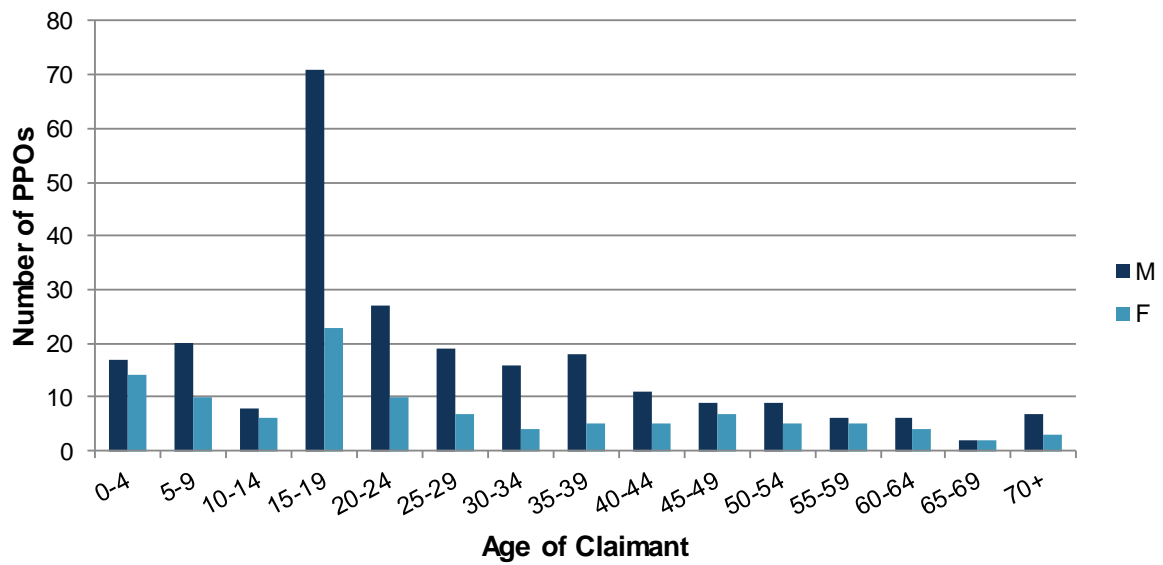
*Figure J.9: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date*



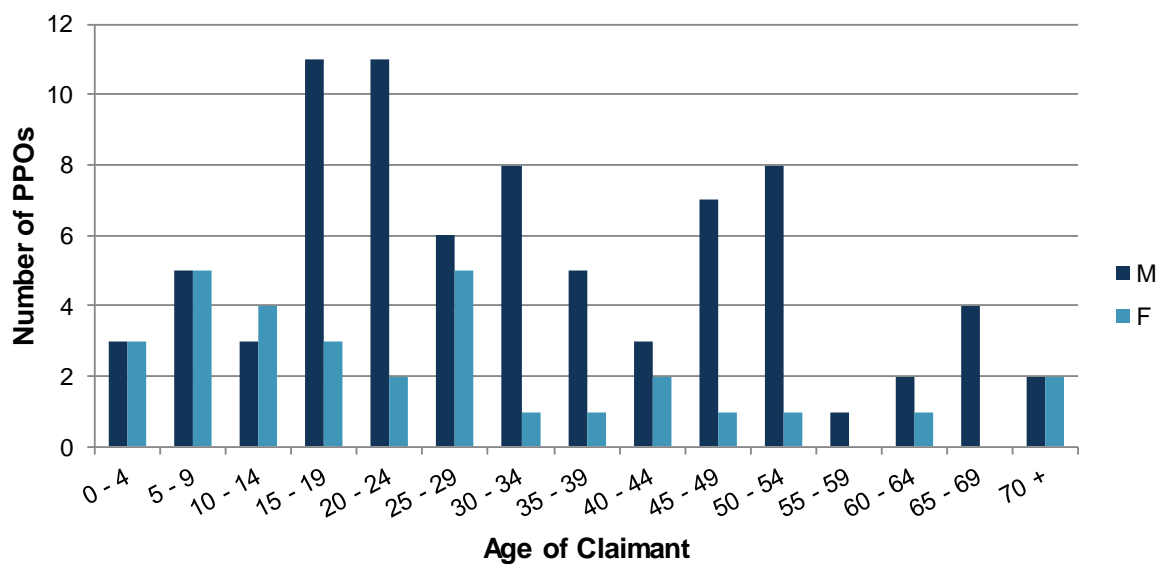
*Figure J.10: Split of the number of Motor (non-MIB) PPO claims, by gender of claimant*



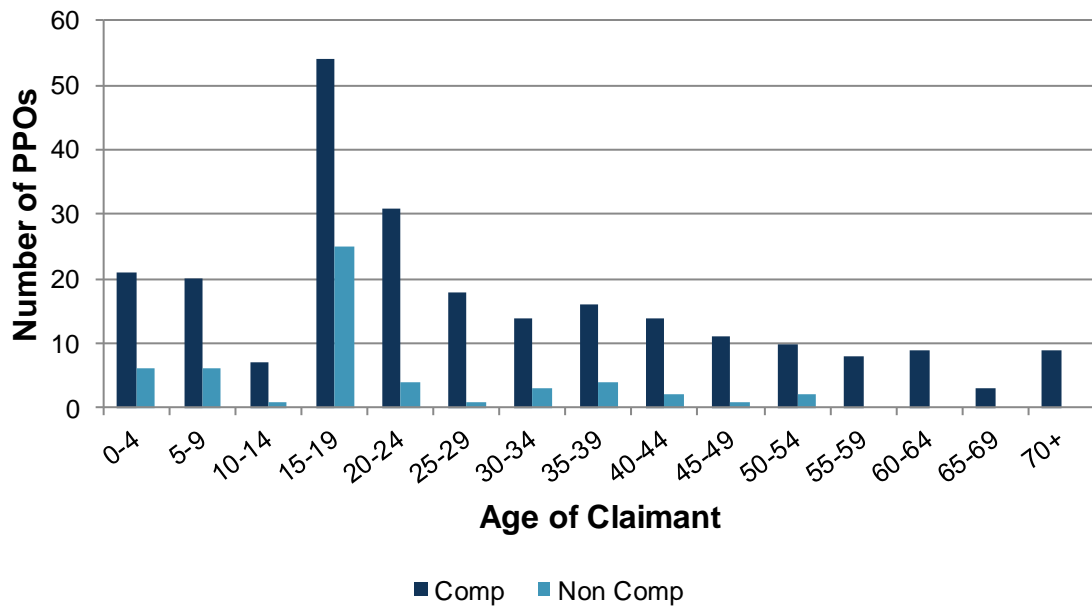
*Figure J.11: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by gender of claimant*



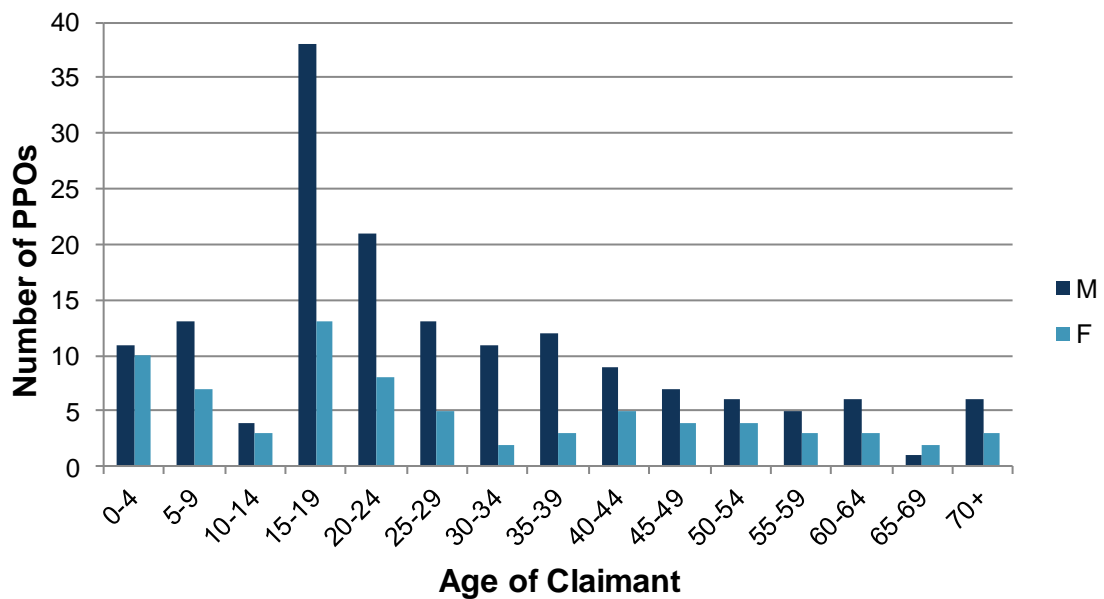
*Figure J.12: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of claimant at accident date and by gender of claimant*



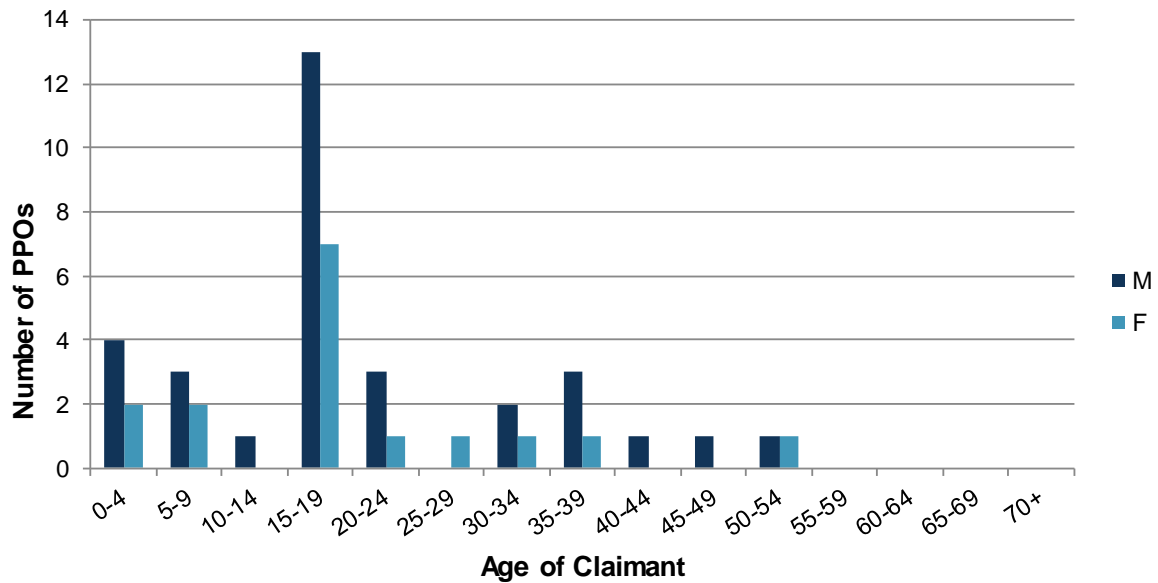
*Figure J.13: Number of Motor (non-MIB) PPO claims, for Commercial Motor, by age of claimant at accident date and by gender of claimant*



*Figure J.14: Number of Motor (non-MIB) PPO claims, for Private Motor Comprehensive, by age of claimant at accident date and by cover type*

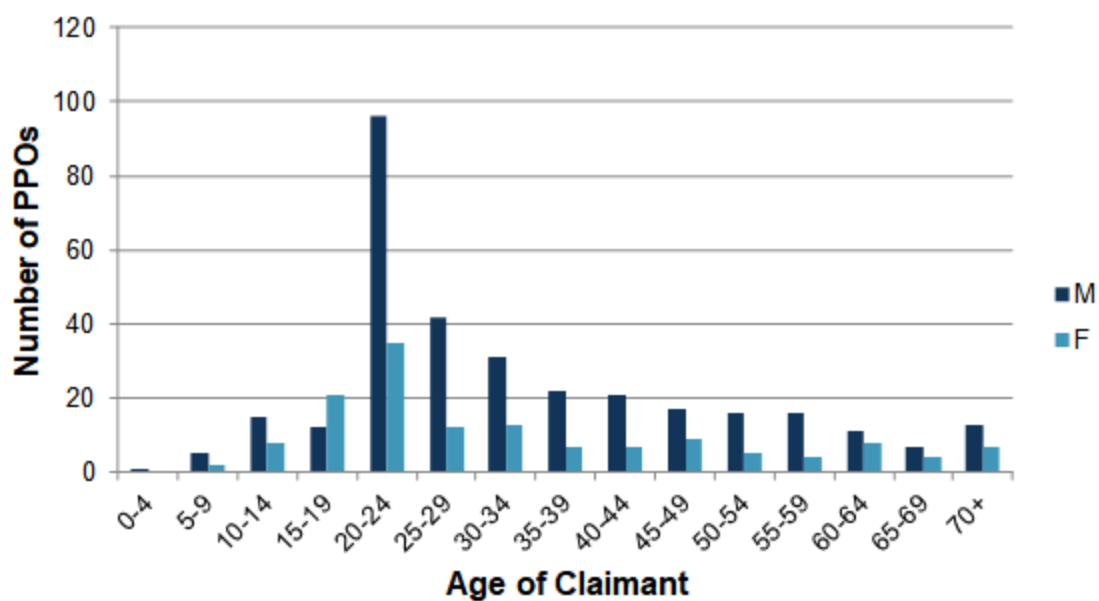


*Figure J.15: Number of Motor (non-MIB) PPO claims, for Private Motor Comprehensive, by age of claimant at accident date and by gender of claimant*



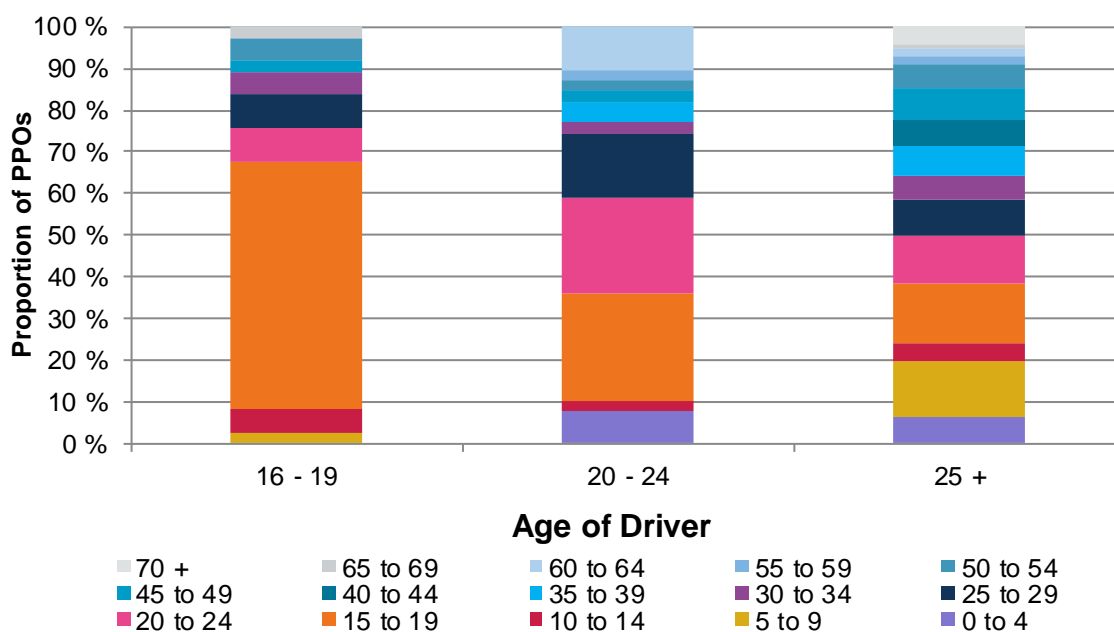
*Figure J.16: Number of Motor (non-MIB) PPO claims, for Private Motor Non-Comprehensive, by age of claimant at accident date and by gender of claimant*

### J.3 Age of claimant at settlement date and gender of claimant

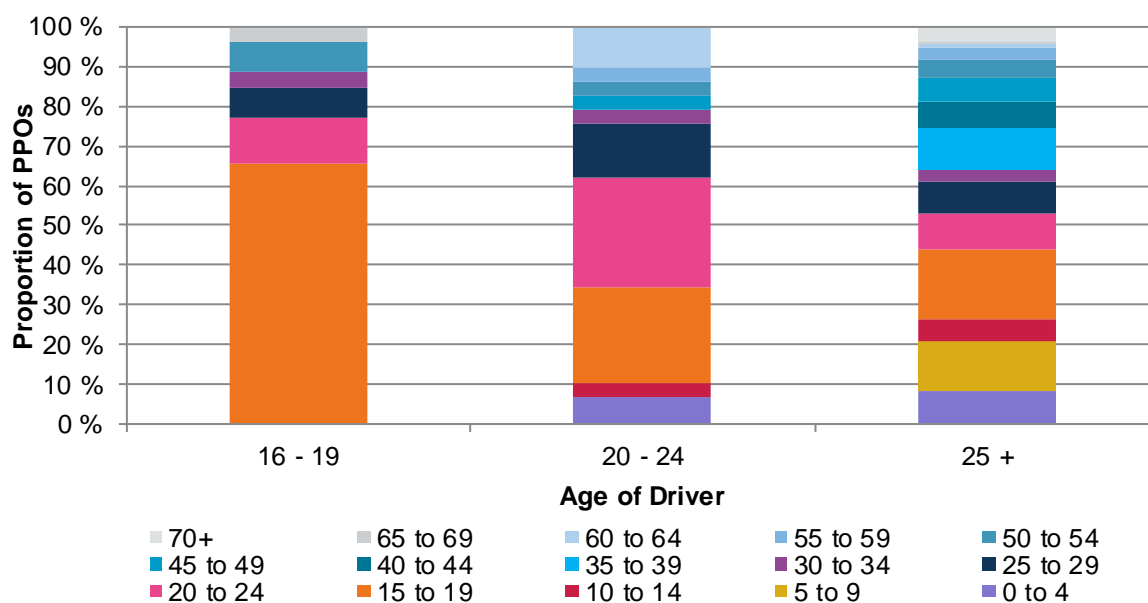


*Figure J.17: Number of Motor (non-MIB) PPO claims, by age of claimant at settlement date and by gender of claimant*

## J.4 Age of driver and age of claimant at accident date

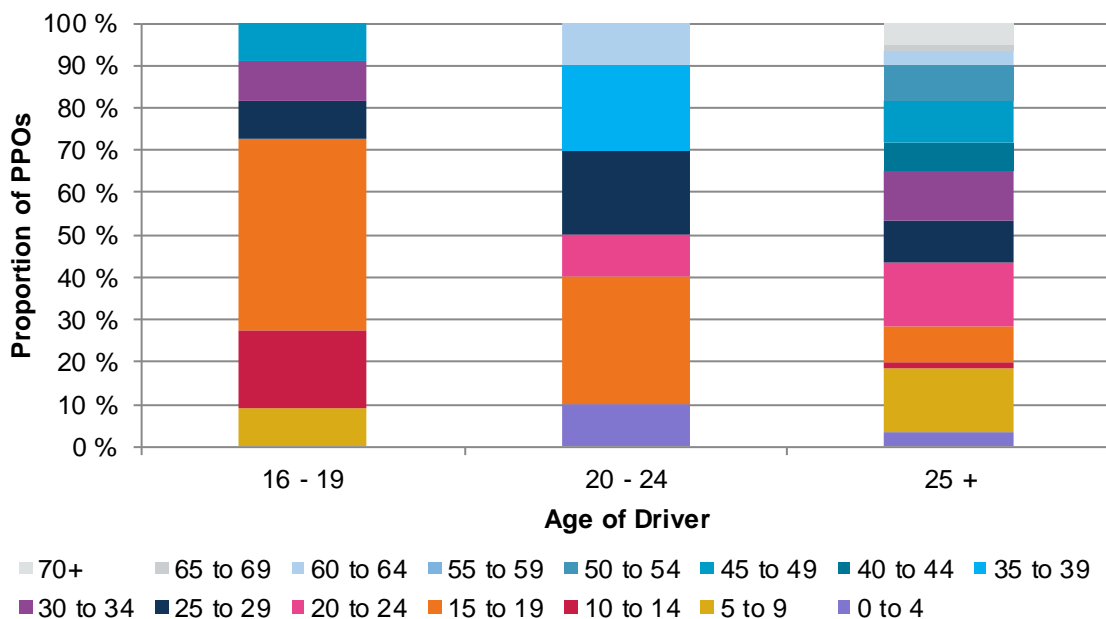


*Figure J.18: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by age of driver at accident date*



*Figure J.19: Proportion of Motor (non-MIB) PPO claims, for Private Motor, by age of claimant at accident date and by age of driver at accident date*

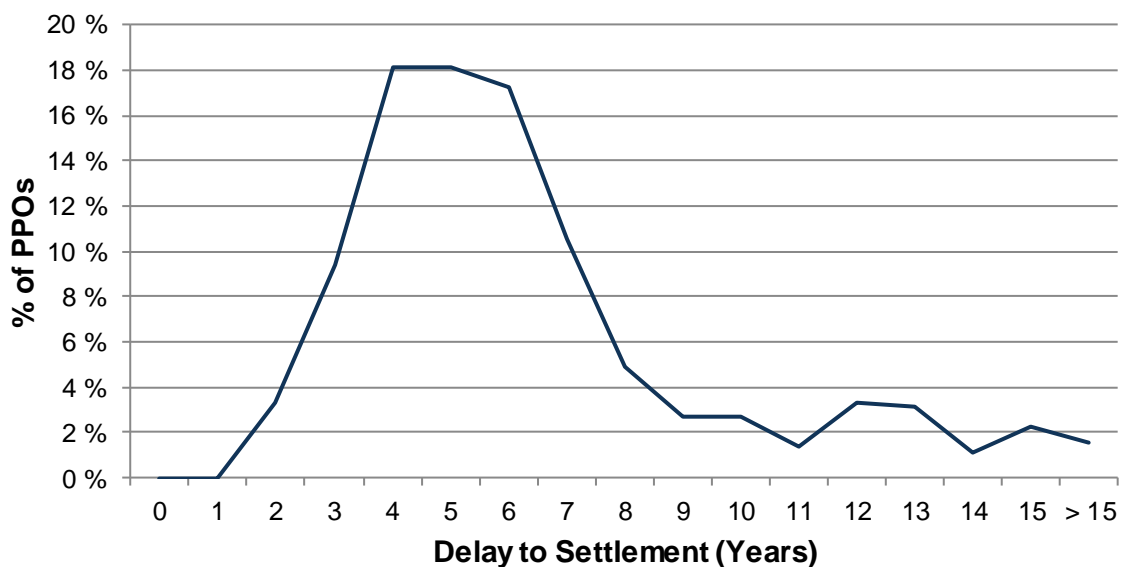




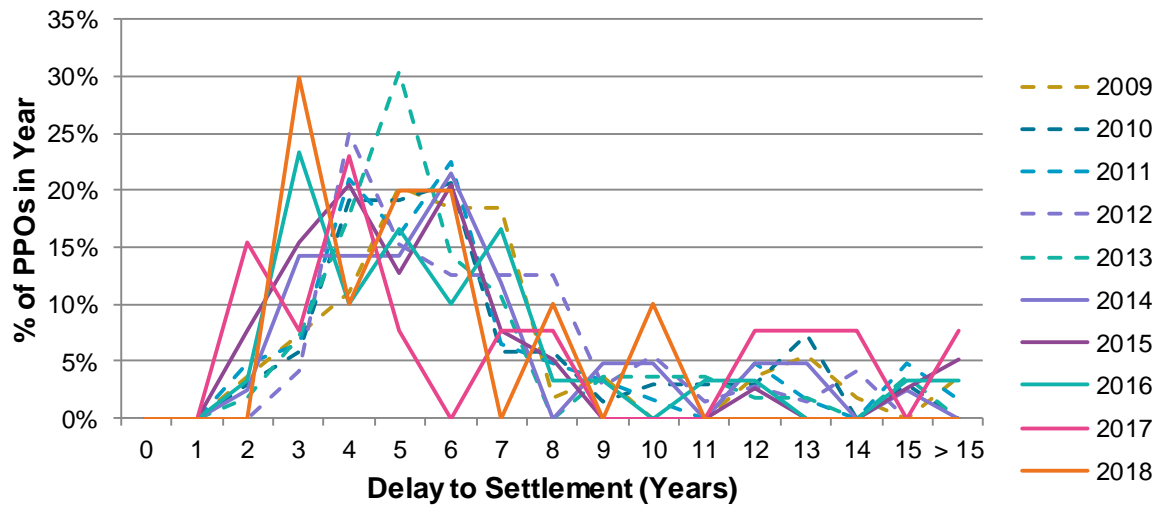
*Figure J.20: Proportion of Motor (non-MIB) PPO claims, for Commercial Motor, by age of claimant at accident date and by age of driver at accident date*

## J.5 Delay to settlement

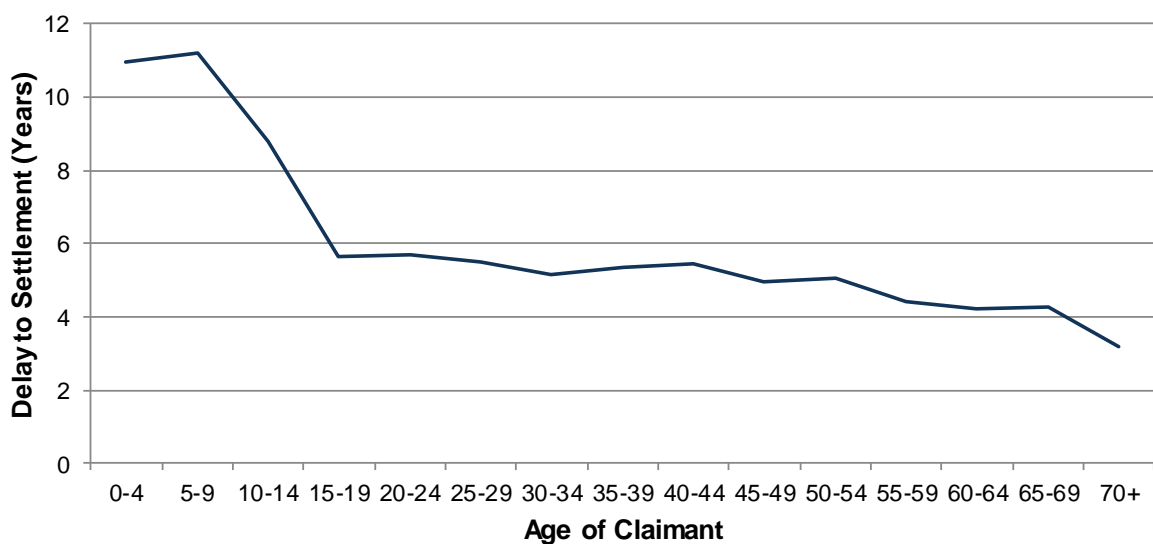
The delay to settlement is calculated as the time elapsed between the accident date and PPO settlement date, rounded to the nearest whole year.



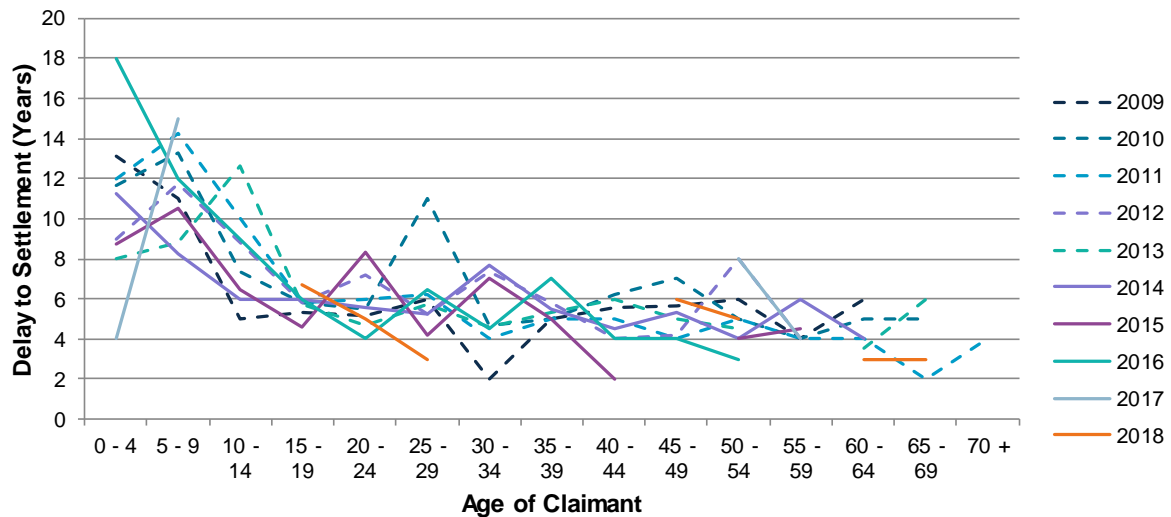
*Figure J.21: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, for claims settled since 2009*



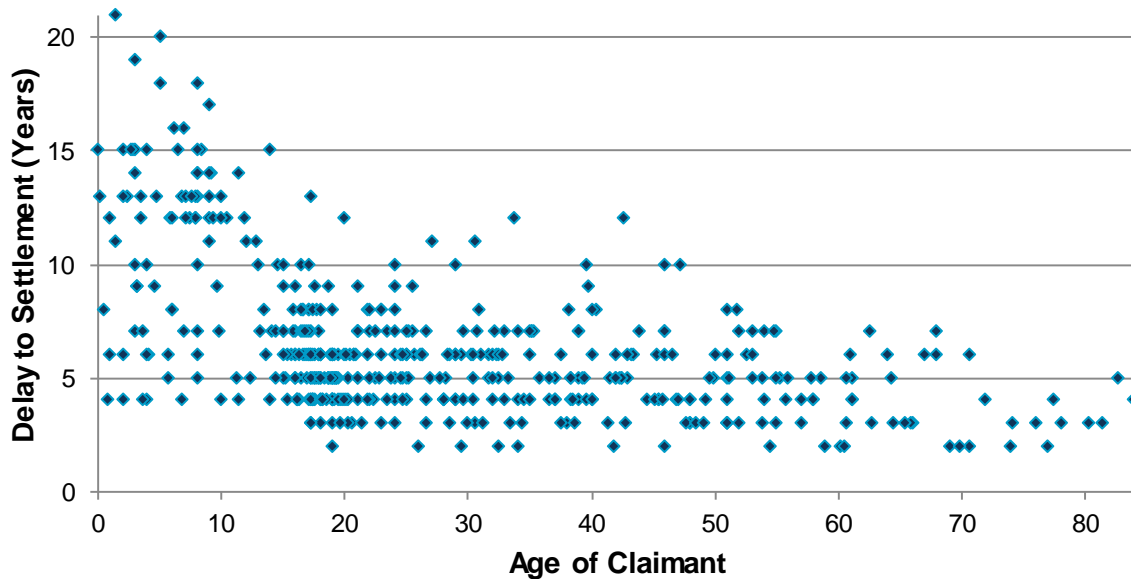
*Figure J.22: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009*



*Figure J.23: Average delay to settlement for Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009*



*Figure J.24: Average delay to settlement for Motor (non-MIB) PPO claims, by age of claimant at accident date, by settlement year, for claims settled since 2009*

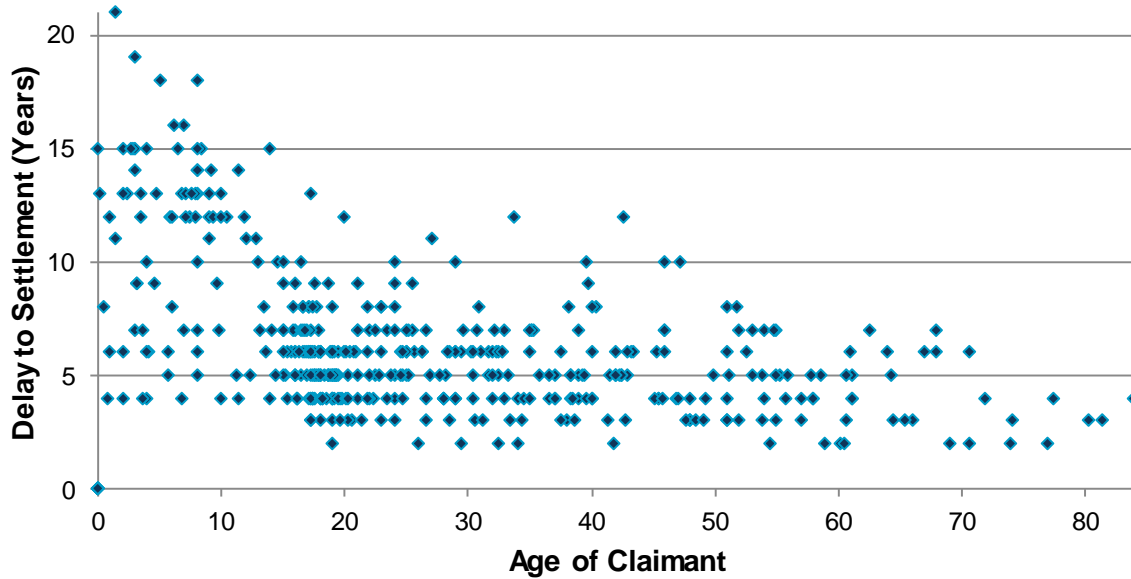


*Figure J.25: Scatter graph of the delay to settlement for Motor (non-MIB) PPO claims and the age of claimant at accident date*

For the scatter graph in Figure J.25, the correlation coefficients are:

- Pearson correlation coefficient: -0.50
- Spearman correlation coefficient: -0.51

The coefficients represent the strength and direction of the correlation between the two variables, ranging between -1.00 and +1.00. A larger absolute value represents a stronger relationship in the data, the sign indicating the direction.



*Figure J.26: Scatter graph of the delay to settlement for Motor (non-MIB) PPO claims and the age of claimant at accident date, for claims settled since 2009*

For the scatter graph in Figure J.26, the correlation coefficients are:

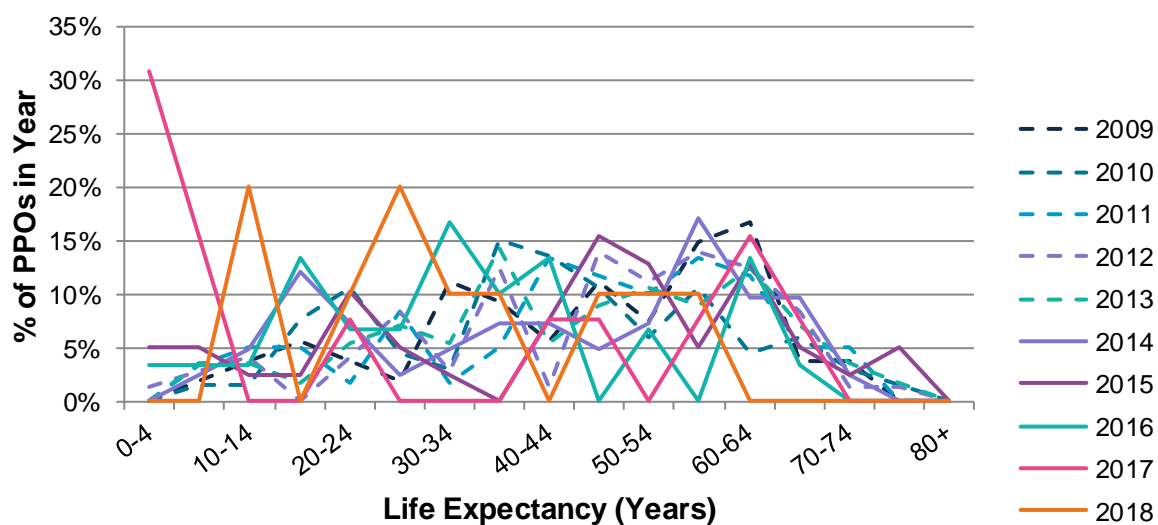
- Pearson correlation coefficient: -0.40
- Spearman correlation coefficient: -0.40

## J.6 Life expectancy of claimant at settlement date

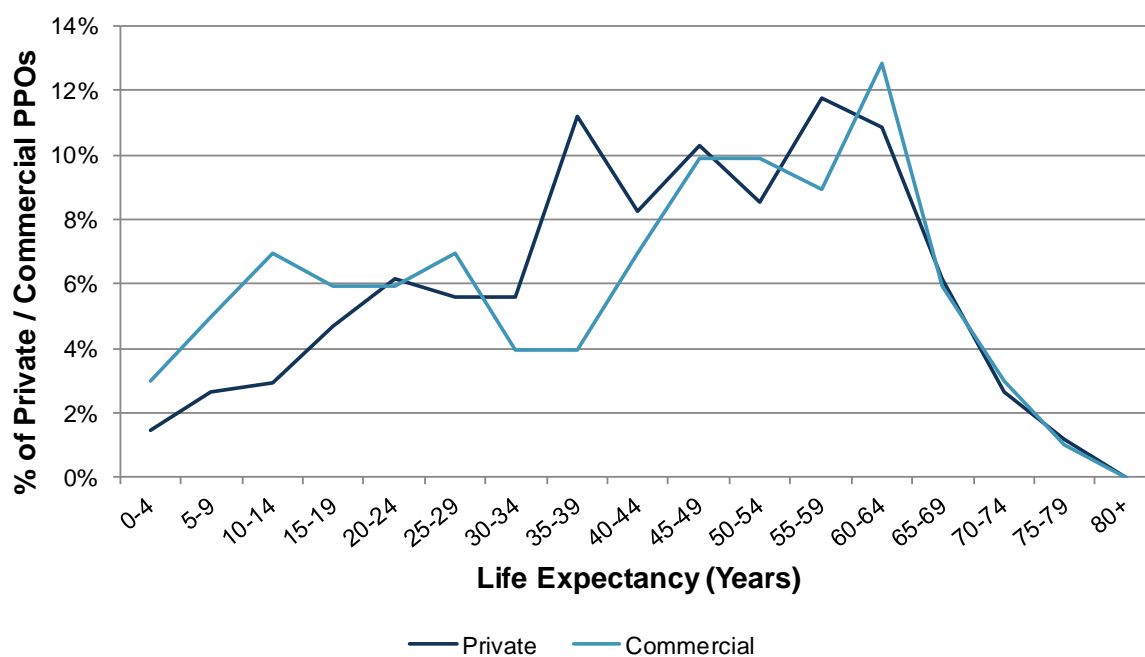
The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.



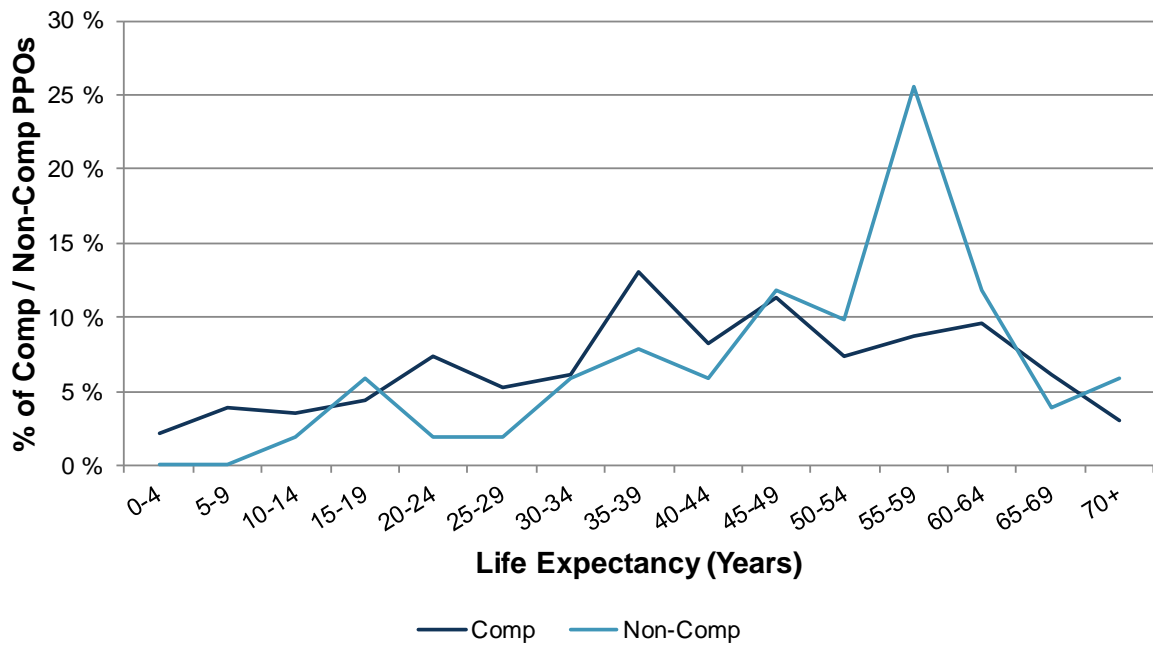
*Figure J.27: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for claims settled since 2009*



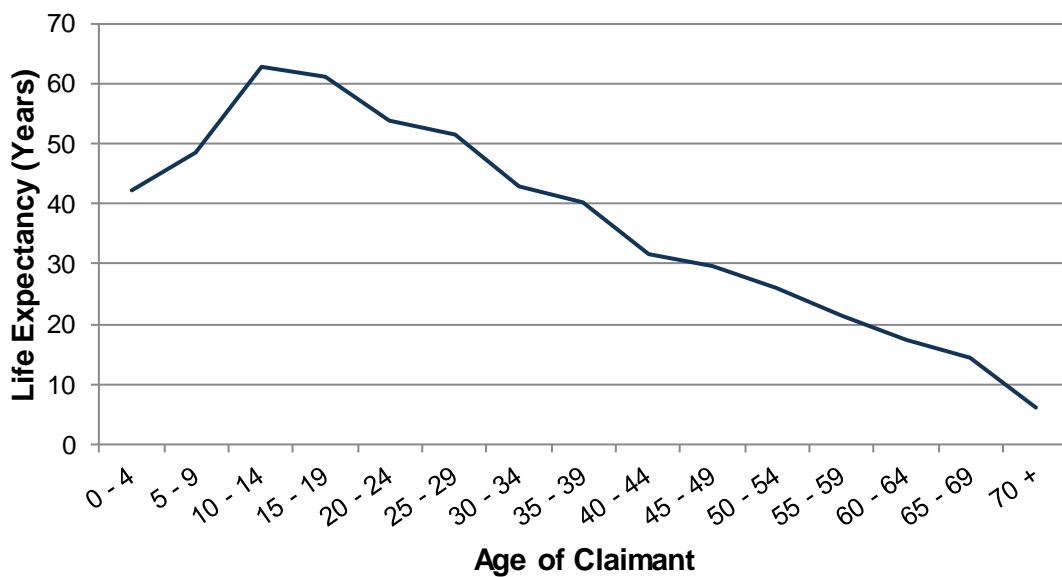
*Figure J.28: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009*



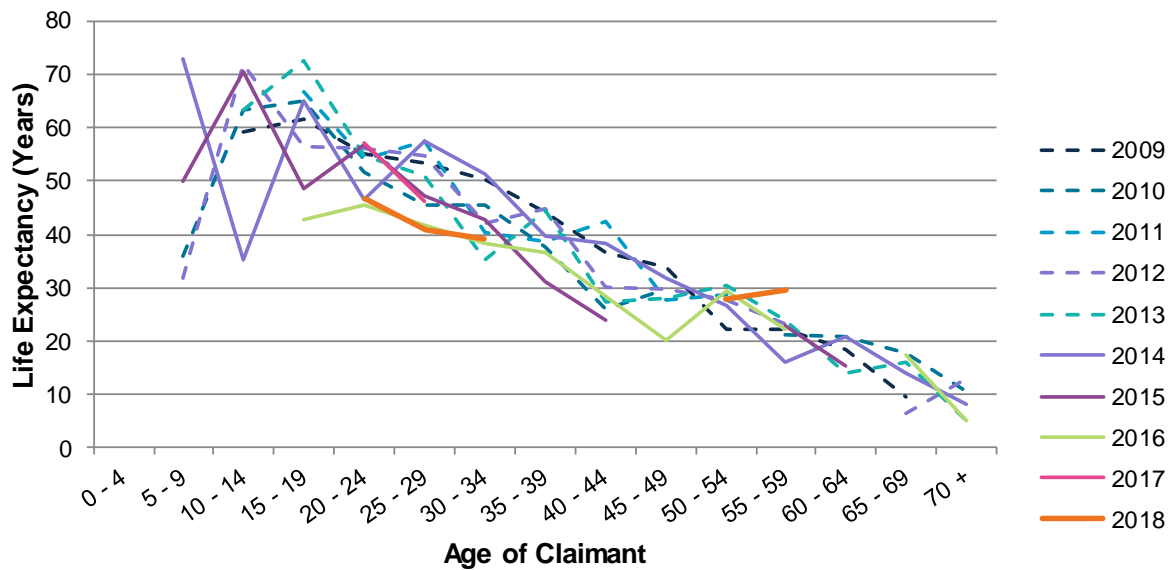
*Figure J.29: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for Private and Commercial Motor, for claims settled since 2009*



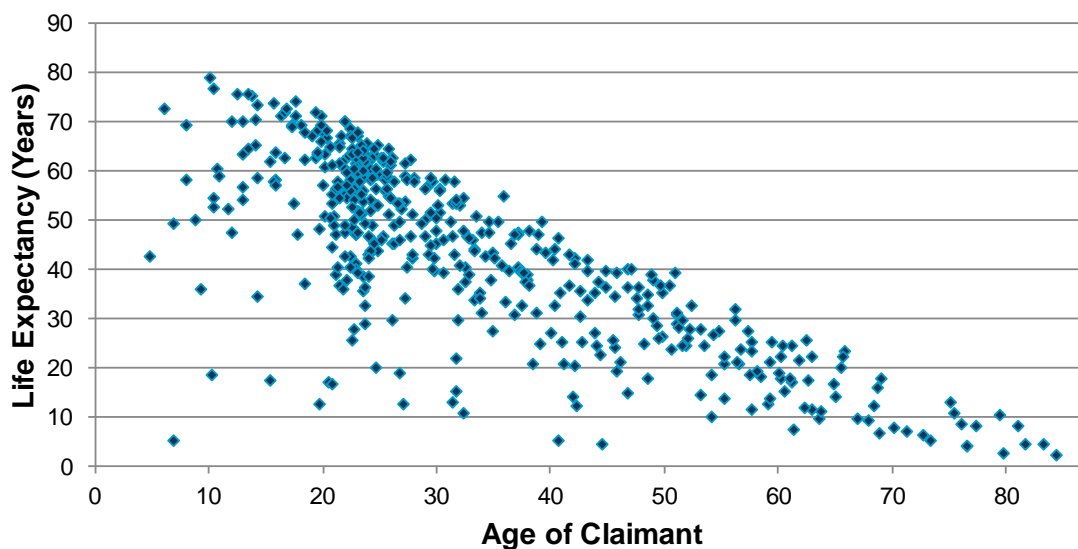
*Figure J.30: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for Private Motor, by cover type, for claims settled since 2009*



*Figure J.31: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date, for claims settled since 2009*



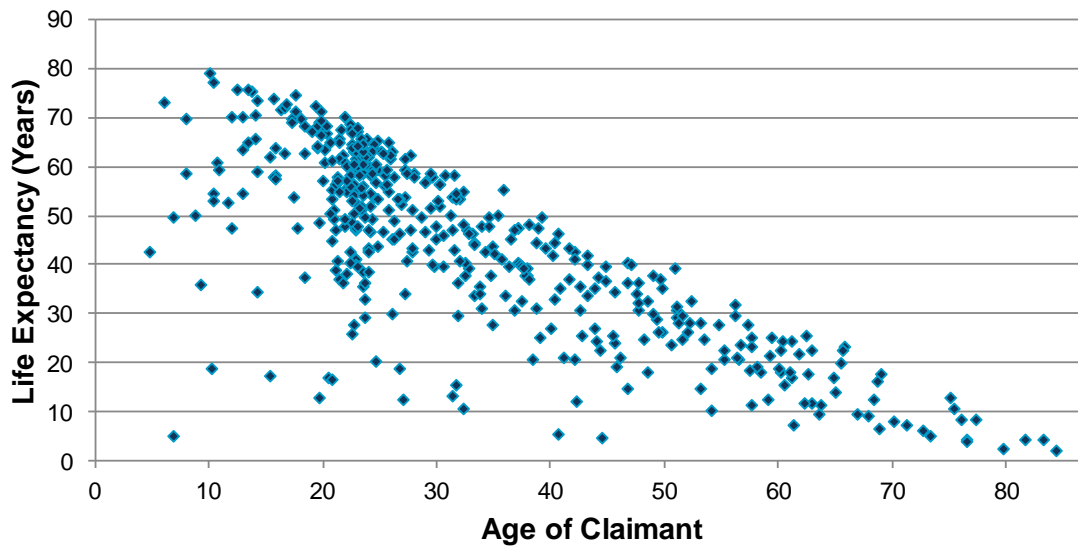
*Figure J.32: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date, by settlement year, for claims settled since 2009*



*Figure J.33: Scatter graph of the life expectancy of claimant at settlement date for Motor (non-MIB) PPO claims and the age of claimant at settlement date*

For the scatter graph in Figure J.33, the correlation coefficients are:

- Pearson correlation coefficient: -0.80
- Spearman correlation coefficient: -0.76



*Figure J.34: Scatter graph of the life expectancy of claimant at settlement date for Motor (non-MIB) PPO claims and the age of claimant at settlement date, for claims settled since 2009*

For the scatter graph in Figure J.34, the correlation coefficients are:

- Pearson correlation coefficient: -0.79
- Spearman correlation coefficient: -0.76

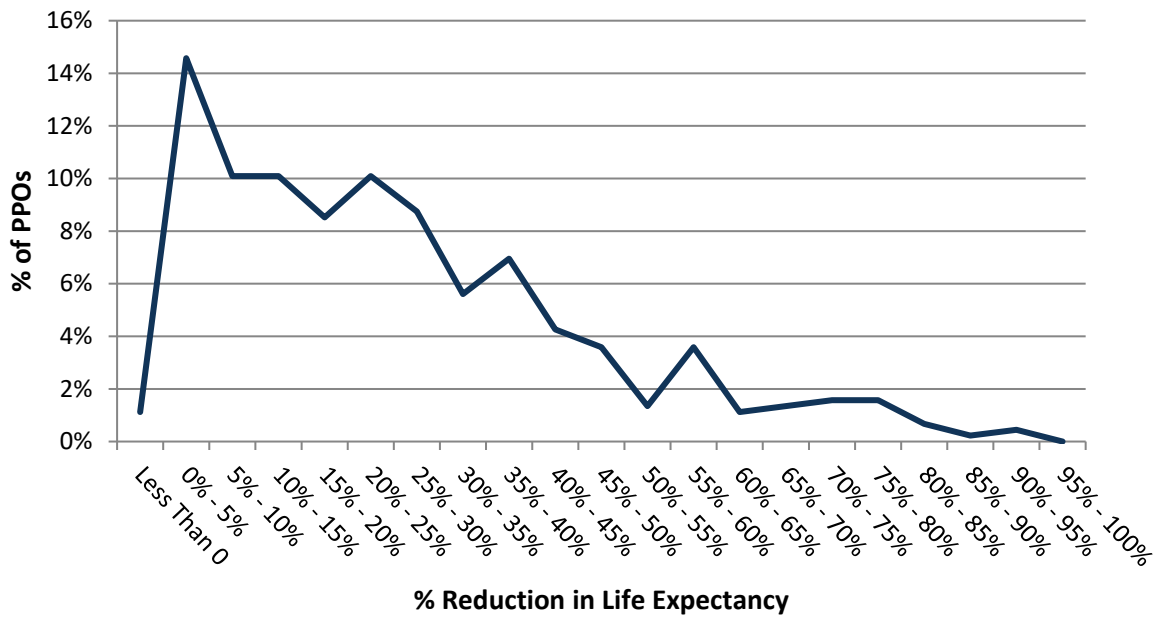
## J.7 Reduction in life expectancy of the claimant

The percentage reduction in life expectancy is defined as:

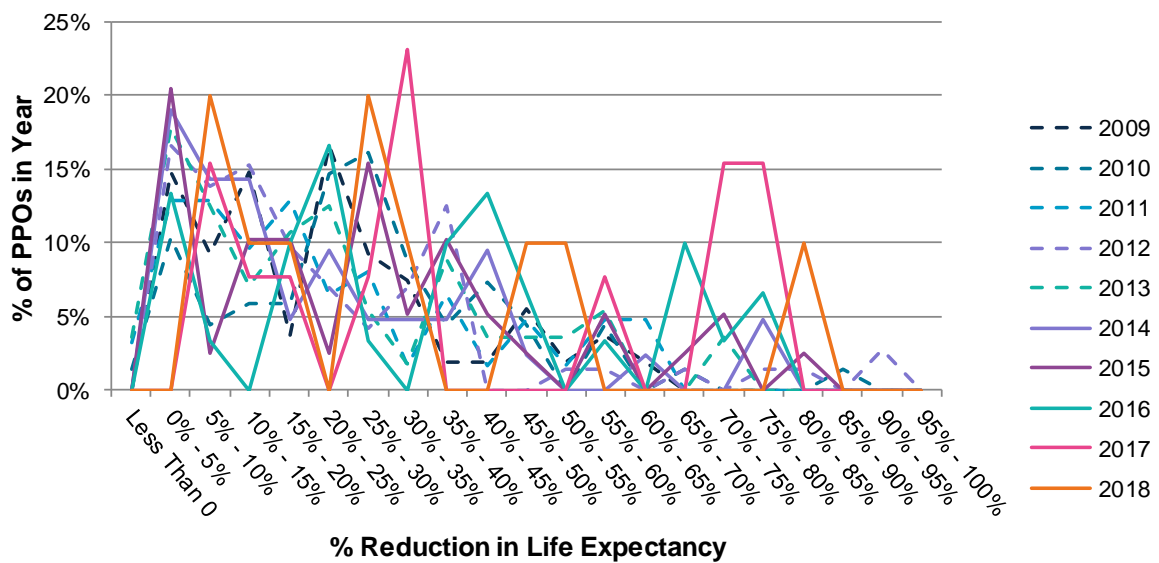
$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)

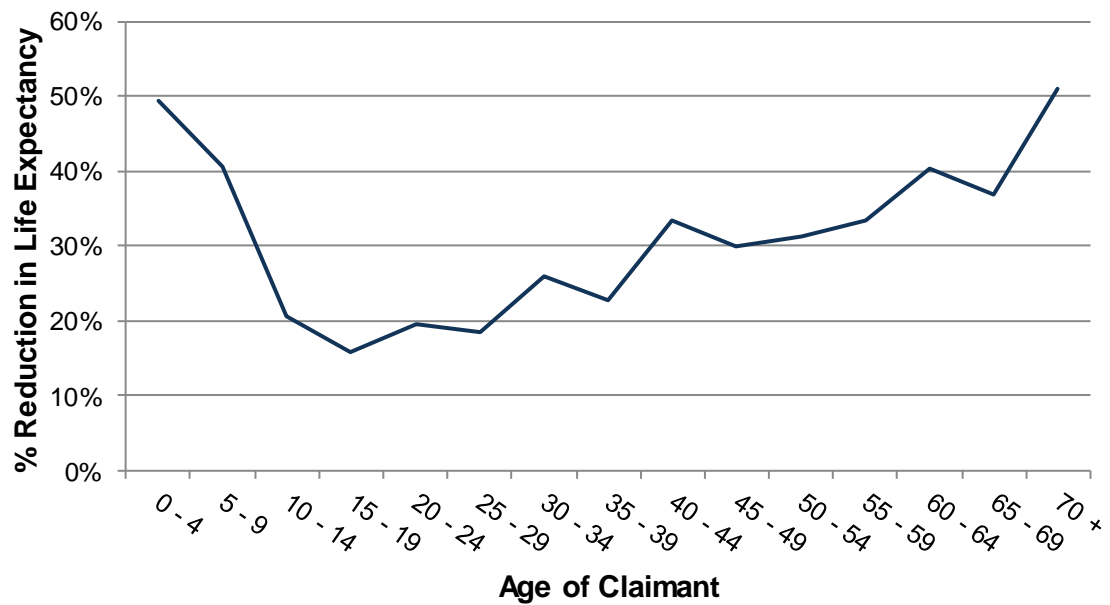




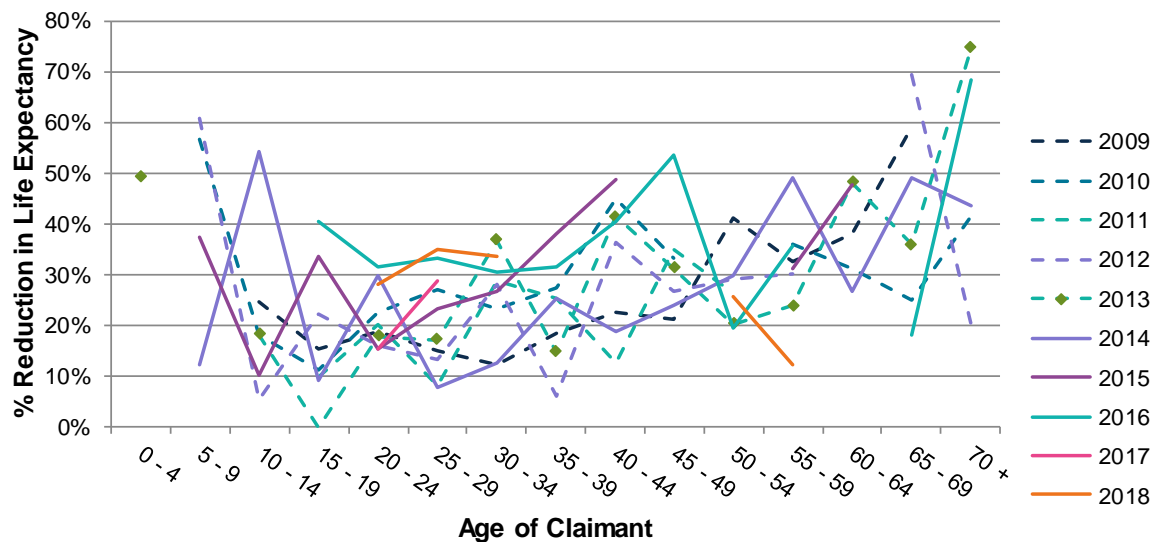
*Figure J.35: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, for claims settled since 2009*



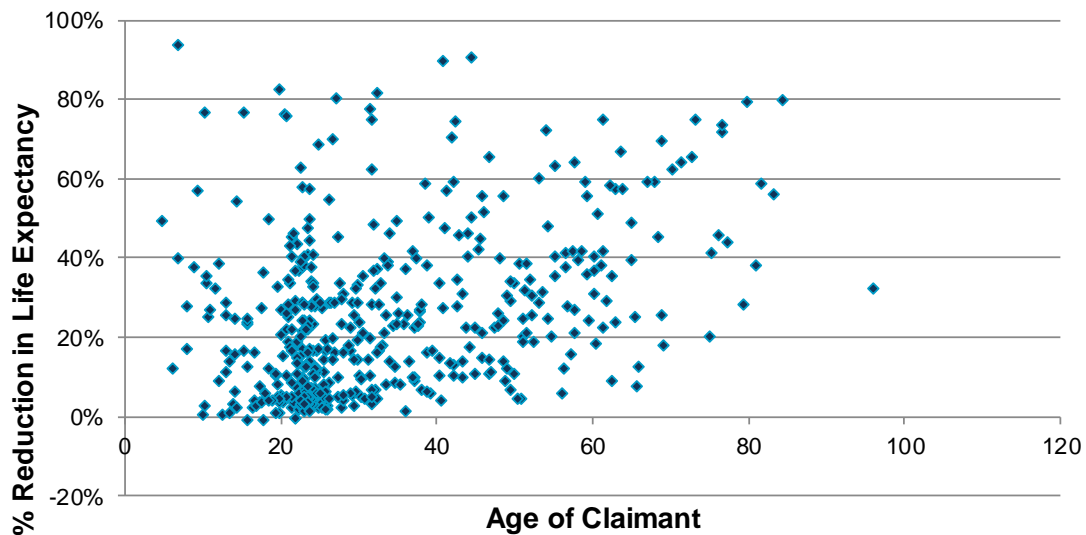
*Figure J.36: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009*



*Figure J.37: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009*



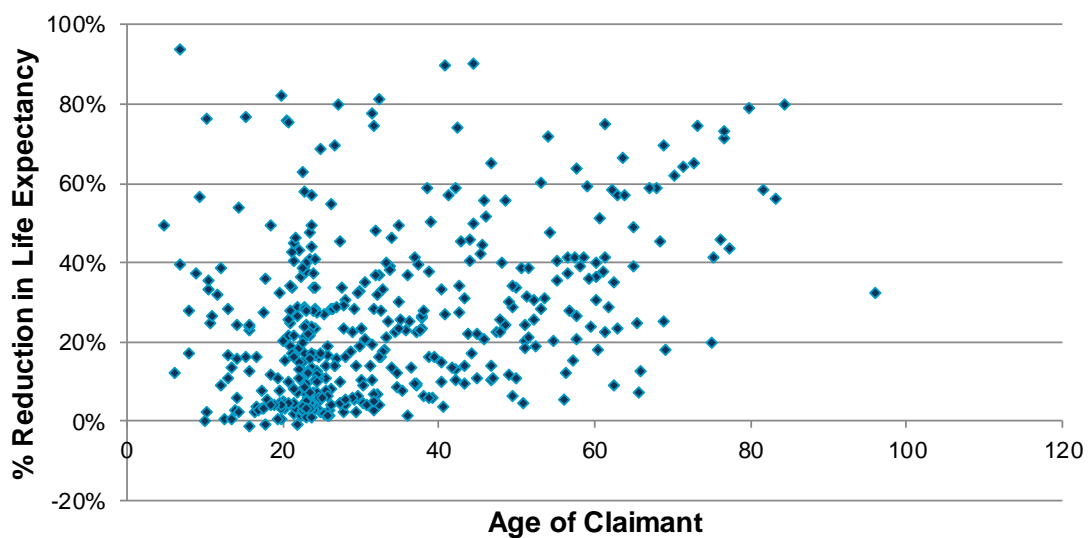
*Figure J.38: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by age of claimant at accident date, by settlement year, for claims settled since 2009*



*Figure J.39: Scatter graph of the percentage reduction in life expectancy of a claimant at settlement date, for Motor (non-MIB) PPO claims, and the age of claimant at settlement date*

For the scatter graph in Figure J.39, the correlation coefficients are:

- Pearson correlation coefficient: 0.34
- Spearman correlation coefficient: 0.35



*Figure J.40: Scatter graph of the percentage reduction in life expectancy of a claimant at settlement date, for Motor (non-MIB) PPO claims, and the age of claimant at settlement date, for claims settled since 2009*

For the scatter graph in Figure J.40, the correlation coefficients are:

- Pearson correlation coefficient: 0.34
- Spearman correlation coefficient: 0.35



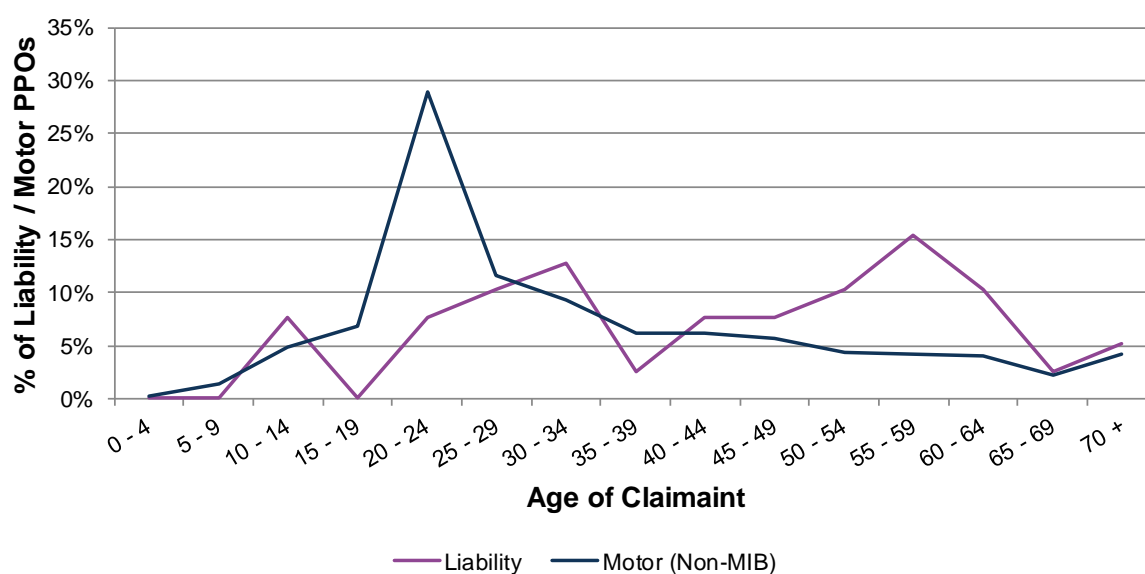
## Appendix K General characteristics of Liability claims

In this appendix, we provide summary statistics for Liability PPO claims by the following characteristics:

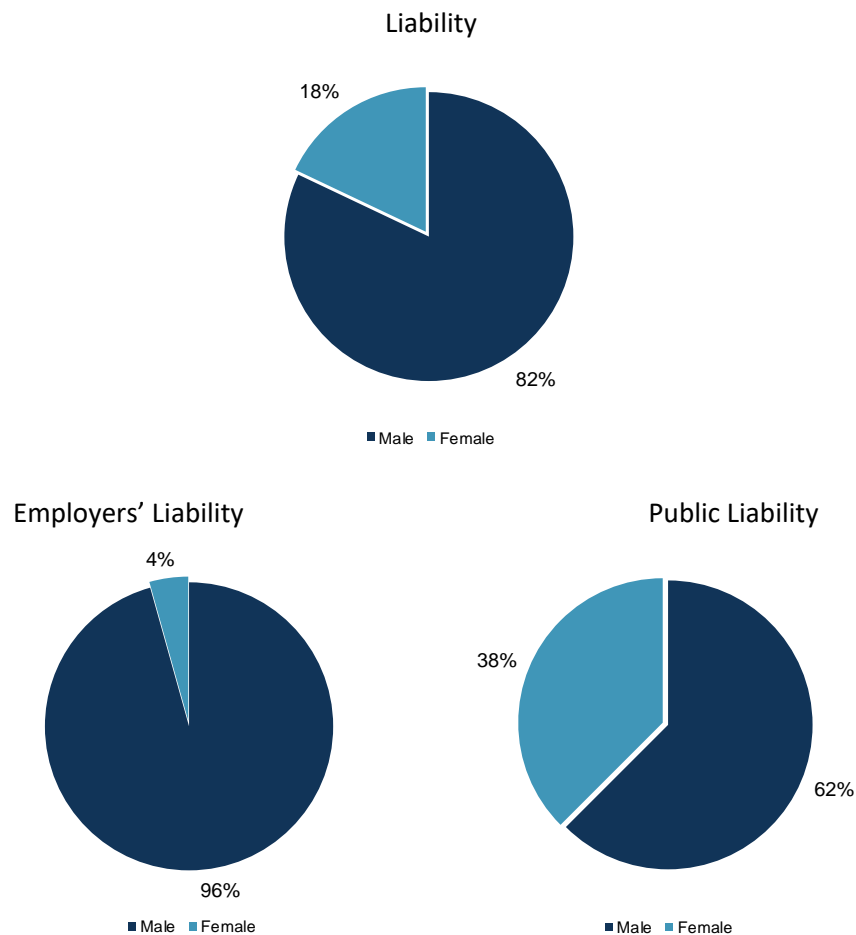
- Age of claimant at accident date and gender of claimant (including class of business)
- Age of claimant at settlement date and gender of claimant
- Delay to settlement
- Life expectancy of claimant at settlement date
- Reduction in life expectancy of the claimant.

For ease of comparison between the summary statistics, a number of the figures in this appendix summarise the data for both Liability PPO claims and Motor (non-MIB) PPO claims.

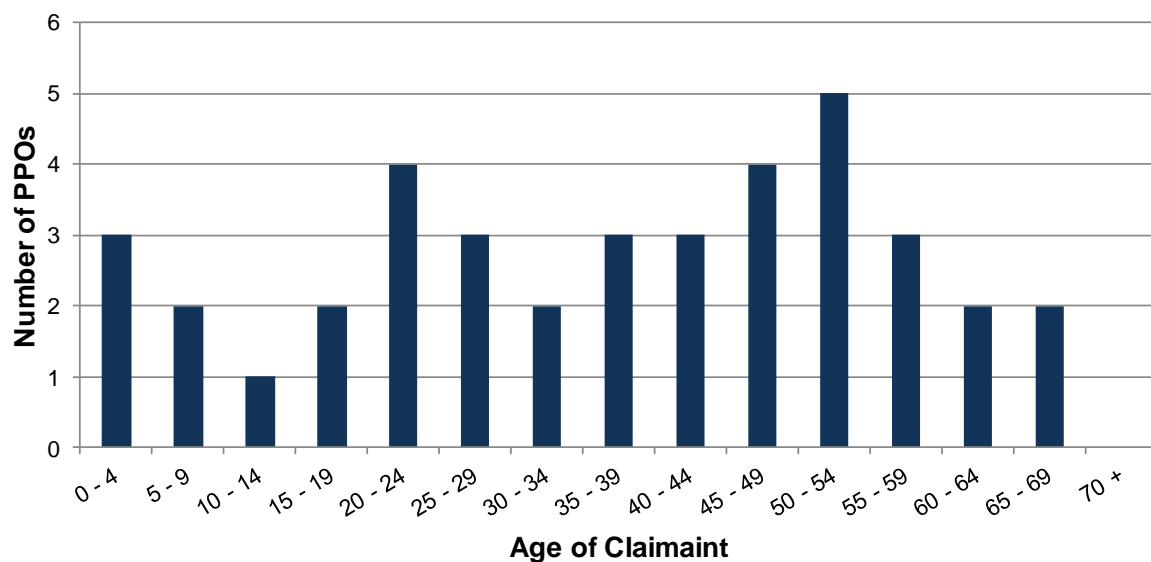
### K.1 Age of claimant at accident date and gender of claimant



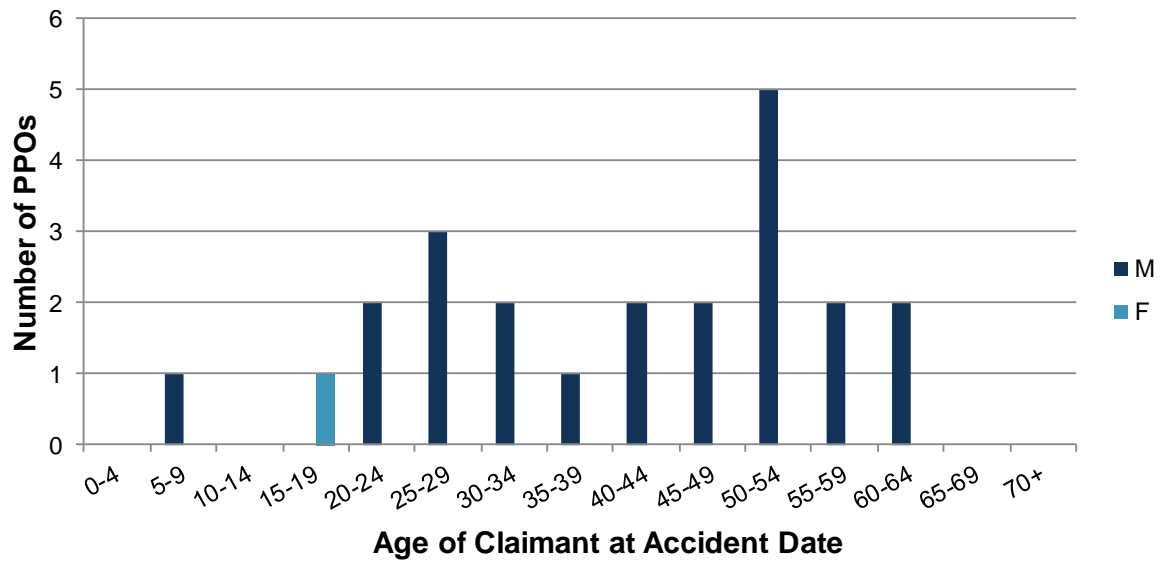
*Figure K.1: Distribution of the number of Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date*



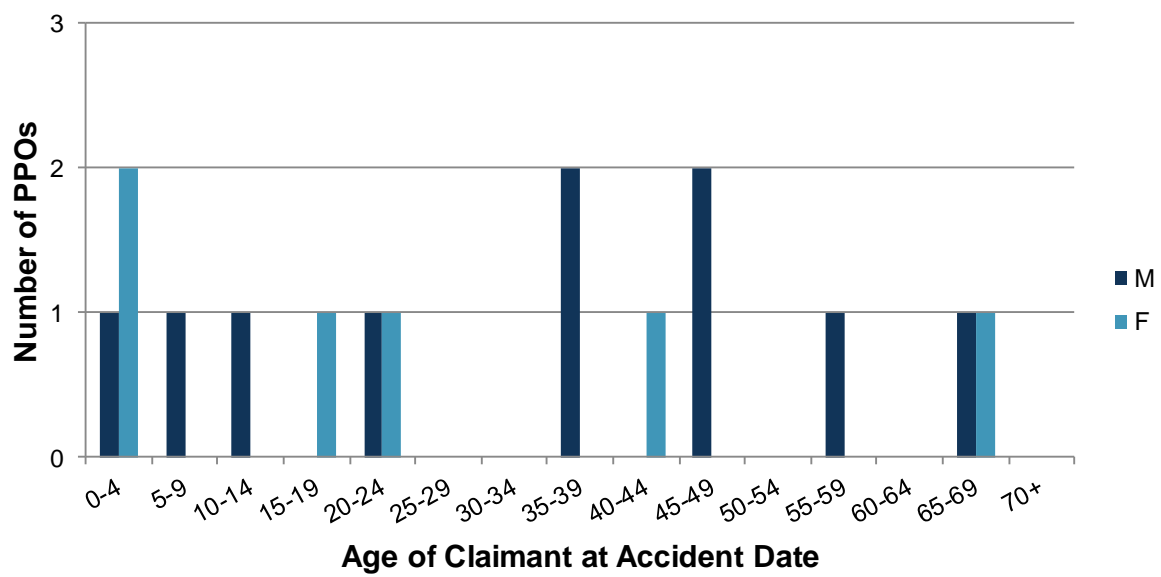
*Figure K.2: Split of the number of Liability PPO claims, by gender of claimant*



*Figure K.3: Number of Liability PPO claims, by age of claimant at accident date*

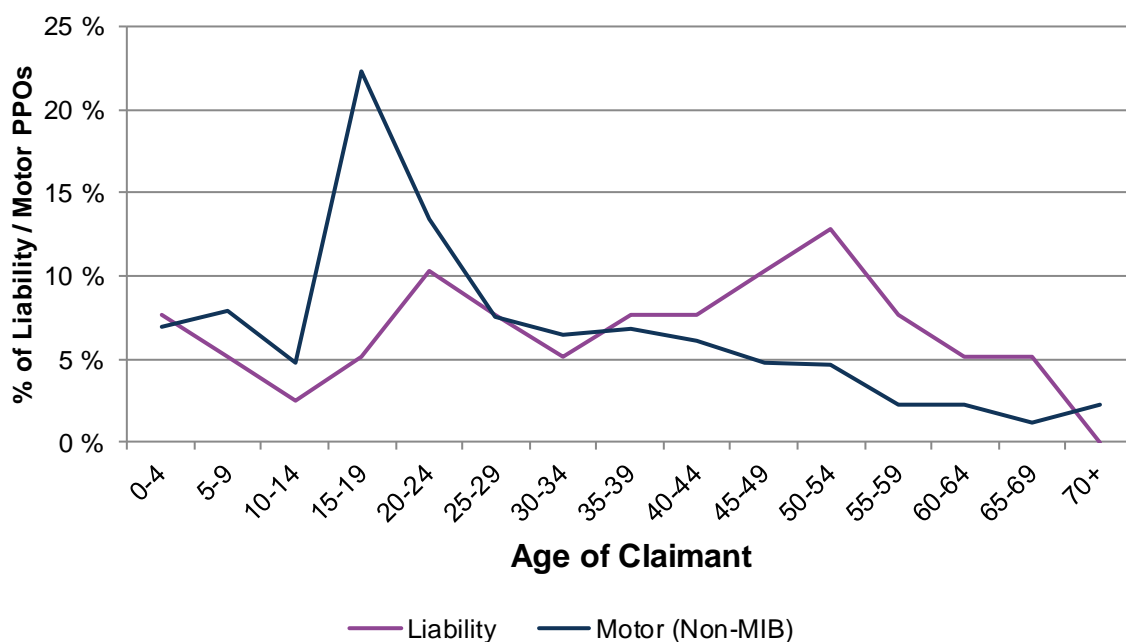


*Figure K.4: Number of Liability PPO claims, for Employers' Liability, by age of claimant at accident date and by gender of claimant*

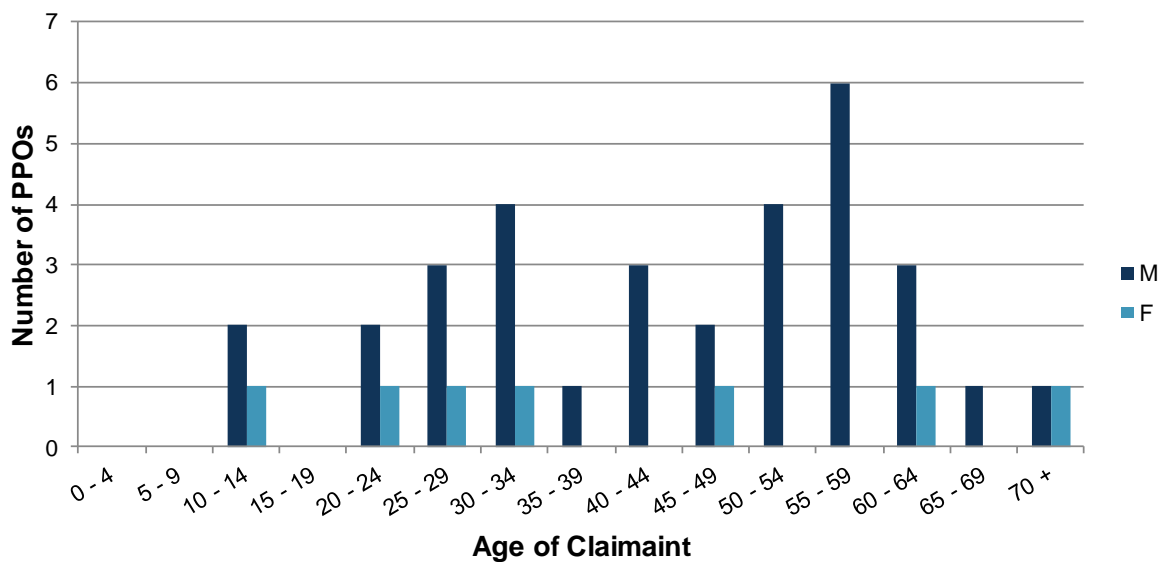


*Figure K.5: Number of Liability PPO claims, for Public Liability, by age of claimant at accident date and by gender of claimant*

## K.2 Age of claimant at settlement date and gender of claimant



*Figure K.6: Distribution of the number of Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date*

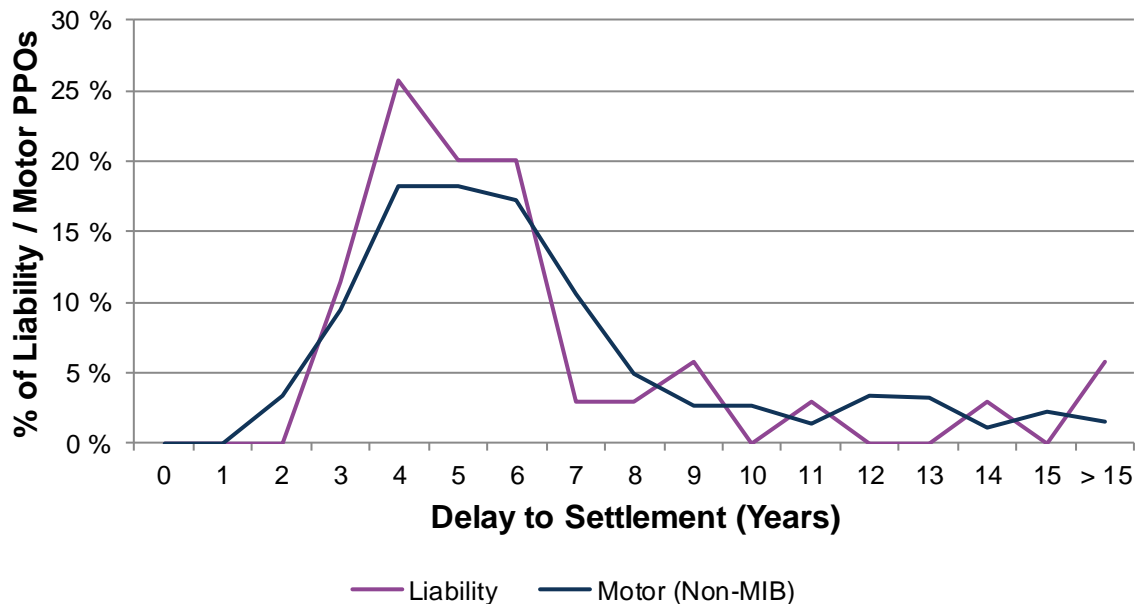


*Figure K.7: Number of Liability PPO claims, by age of claimant at settlement date and by gender of claimant*

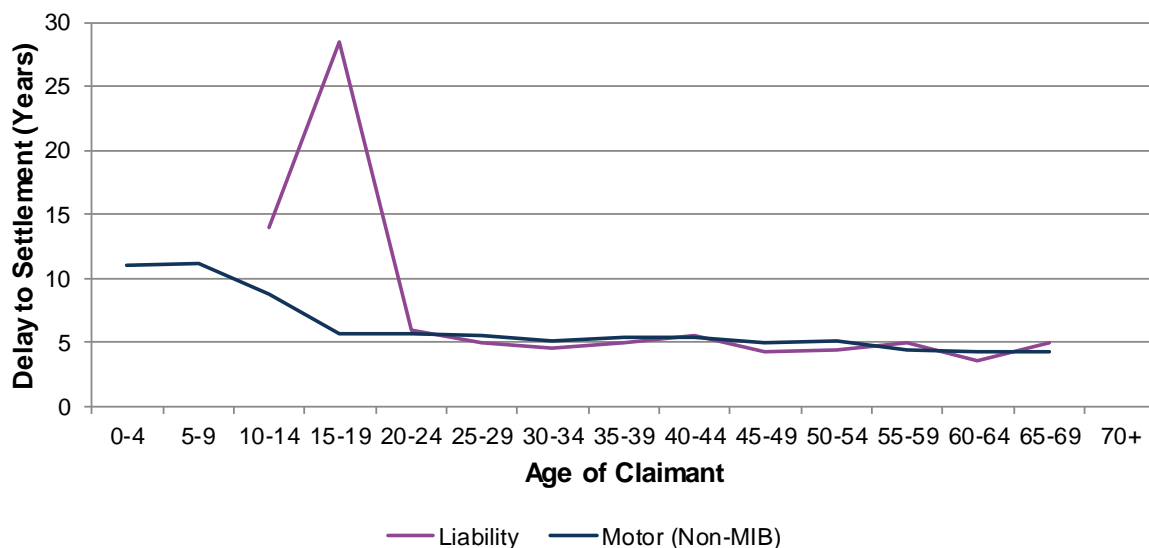


### K.3 Delay to settlement

The delay to settlement is calculated as the time elapsed between the accident date and PPO settlement date, rounded to the nearest whole year.



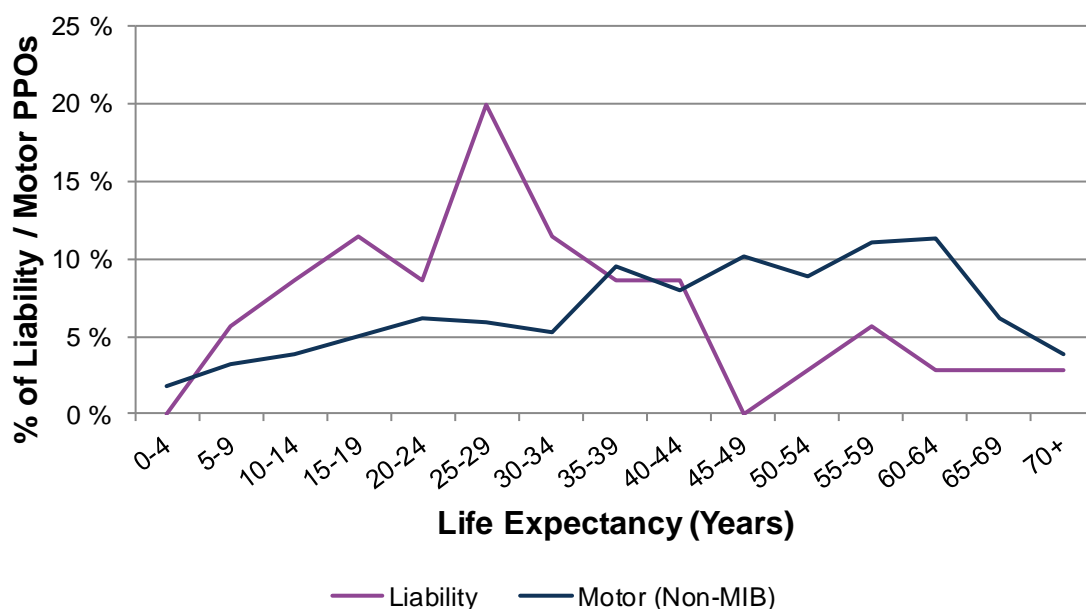
*Figure K.8: Distribution of the delay to settlement for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*



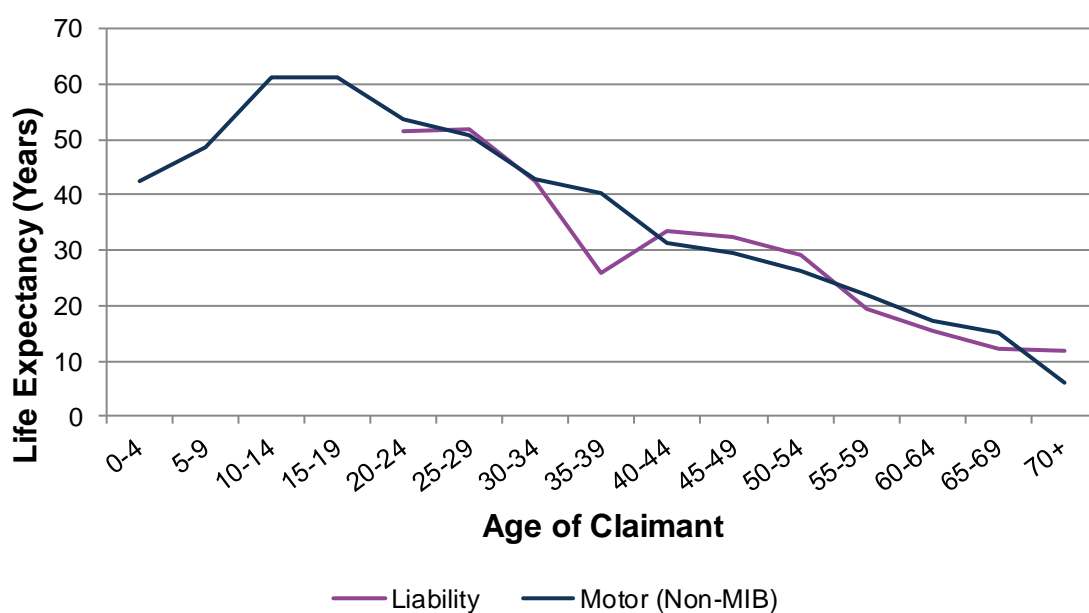
*Figure K.9: Distribution of the delay to settlement for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009*

## K.4 Life expectancy of claimant at settlement date

The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.



*Figure K.10: Distribution of the life expectancy of claimant at settlement date, for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*



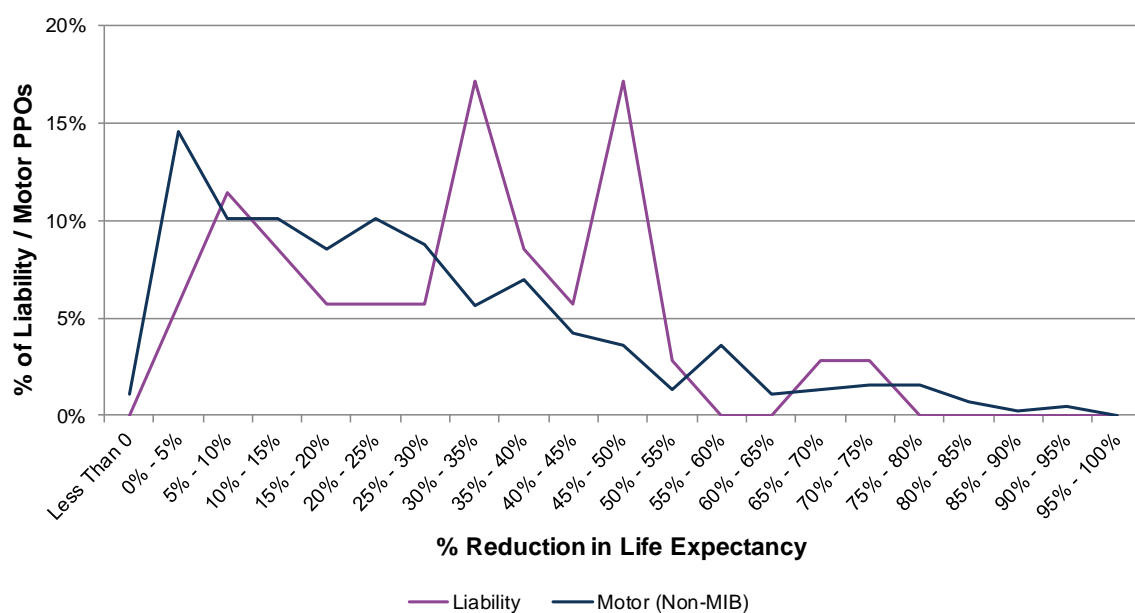
*Figure K.11: Distribution of the life expectancy of claimant at settlement date, for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date, for claims settled since 2009*

## K.5 Reduction in life expectancy of the claimant

The percentage reduction in life expectancy is defined as:

$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)



**Figure K.12: Distribution of the percentage reduction in life expectancy of a claimant, for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009**



*Figure K.13: Distribution of the percentage reduction in life expectancy of a claimant, for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009*

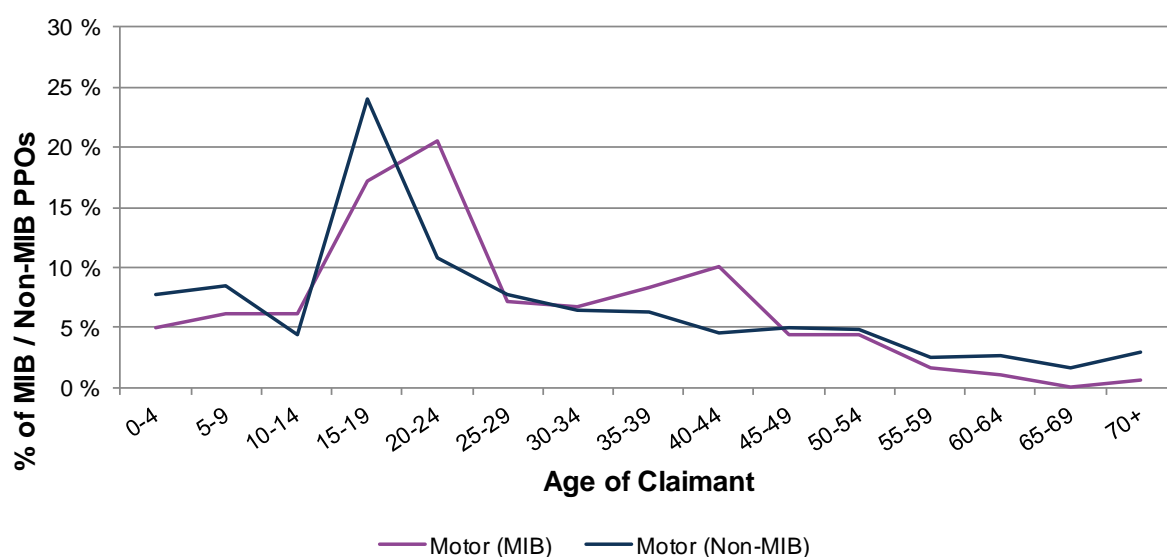
## Appendix L General characteristics of Motor (MIB) PPO claims

In this appendix, we provide summary statistics for Motor (MIB) PPO claims by the following characteristics:

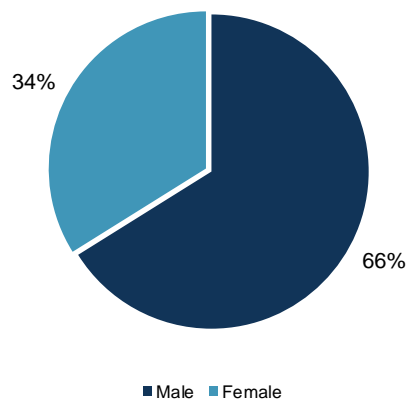
- Age of claimant at accident date and gender of claimant (including class of business and cover type)
- Age of claimant at settlement date and gender of claimant
- Delay to settlement
- Life expectancy of claimant at settlement date
- Reduction in life expectancy of the claimant.

For ease of comparison between the summary statistics, a number of the figures in this appendix summarise the data for both Motor (MIB) PPO claims and Motor (non-MIB) PPO claims.

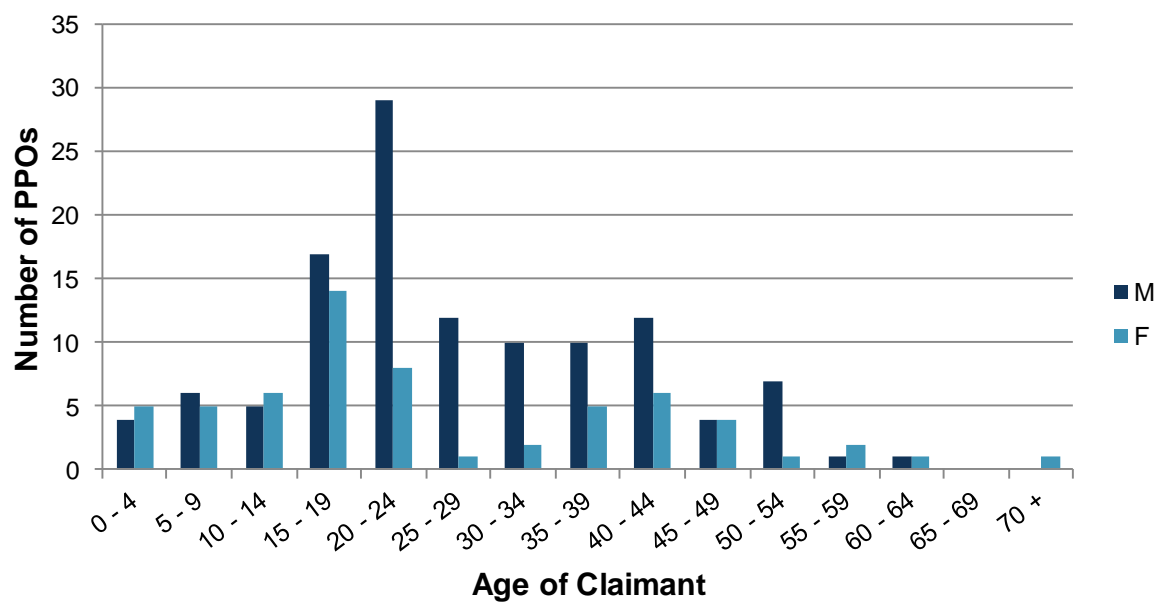
### L.1 Age of claimant at accident date and gender of claimant



*Figure L.1: Distribution of the number of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date*

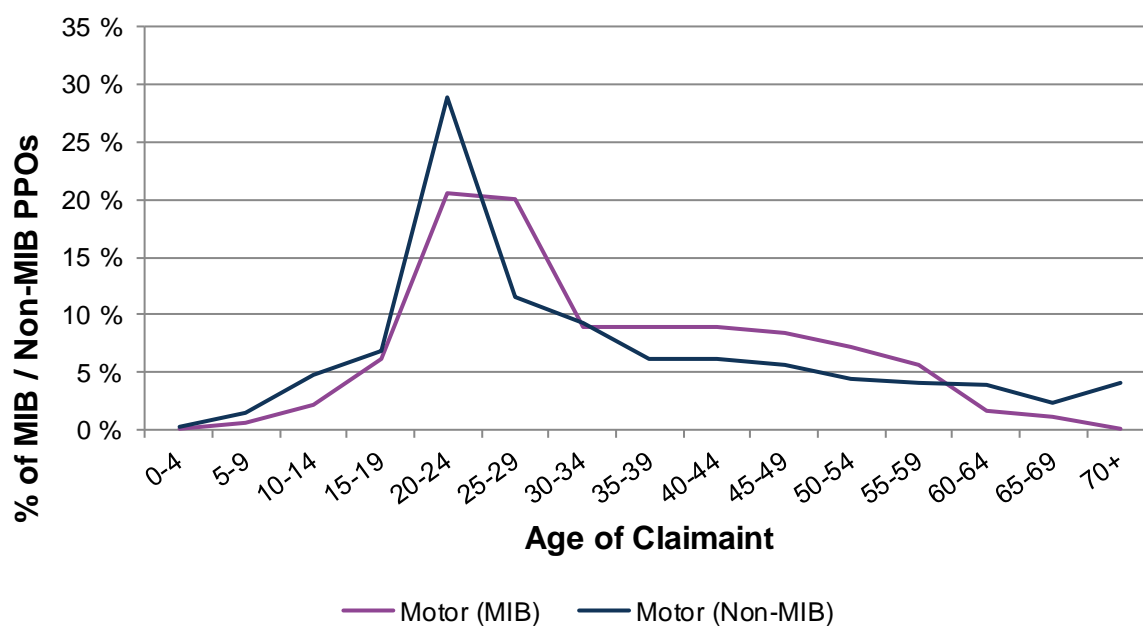


*Figure L.2: Split of the number of Motor (MIB) PPO claims, by gender of claimant*

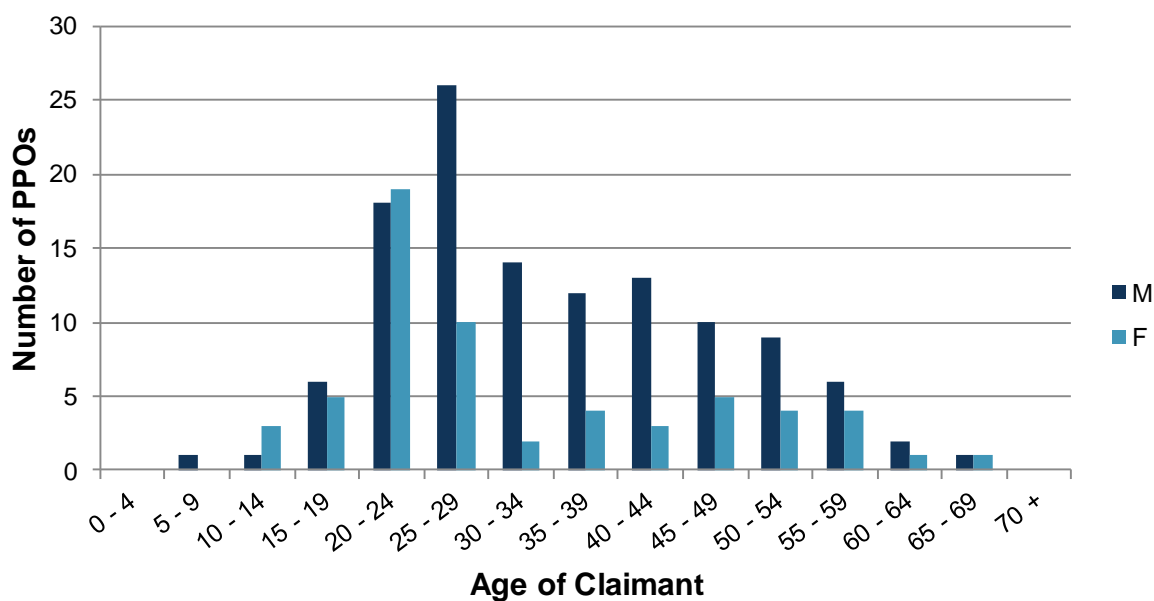


*Figure L.3: Number of Motor (MIB) PPO claims, by age of claimant at accident date and by gender of claimant*

## L.2 Age of claimant at settlement date and gender of claimant



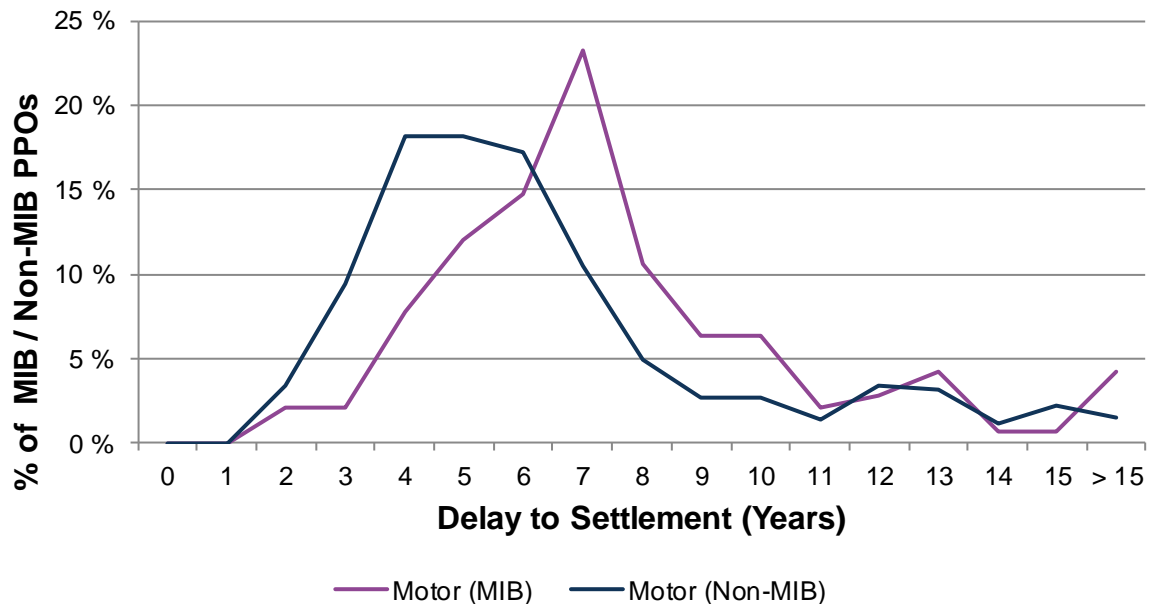
*Figure L.4: Distribution of the number of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date*



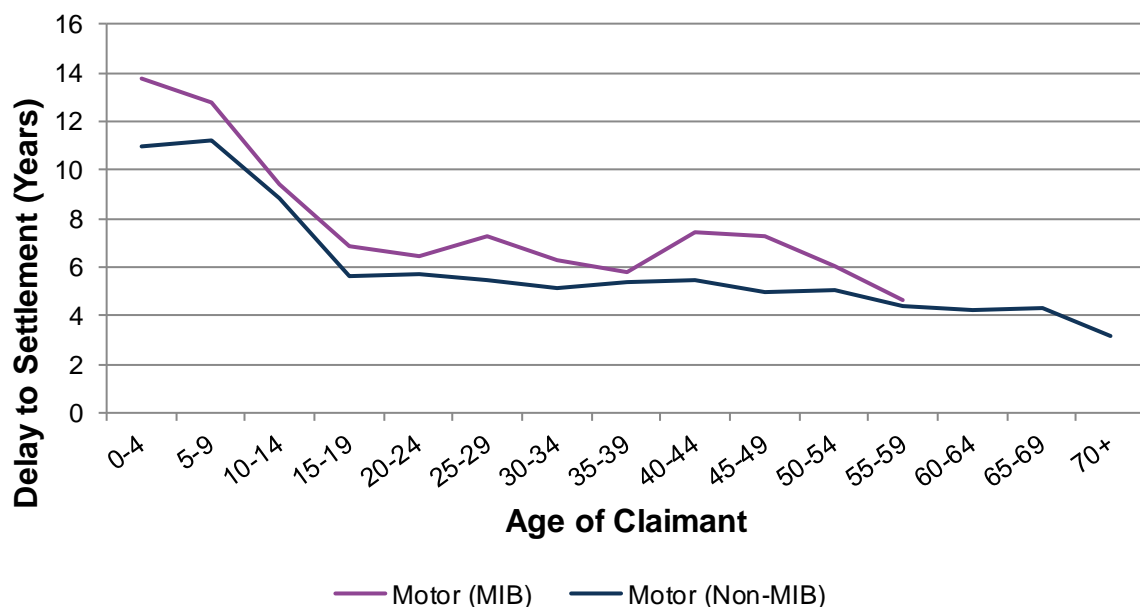
*Figure L.5: Number of Motor (MIB) PPO claims, by age of claimant at settlement date and by gender of claimant*

### L.3 Delay to settlement

The delay to settlement is calculated as the time elapsed between the accident date and PPO settlement date, rounded to the nearest whole year.



*Figure L.6: Distribution of the delay to settlement for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*

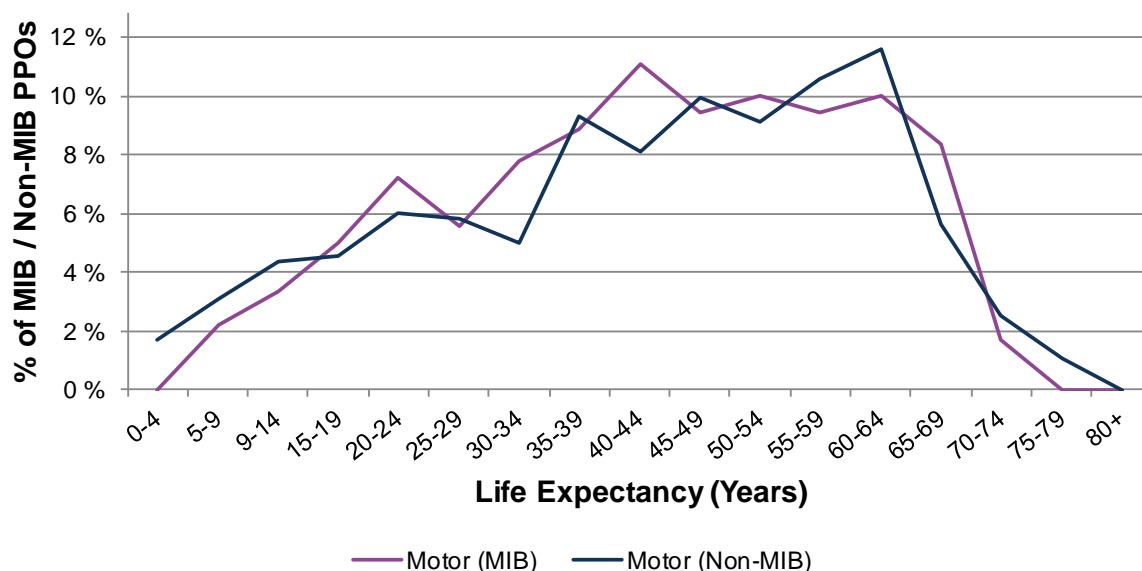


*Figure L.7: Distribution of the delay to settlement for Motor (non-MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009*

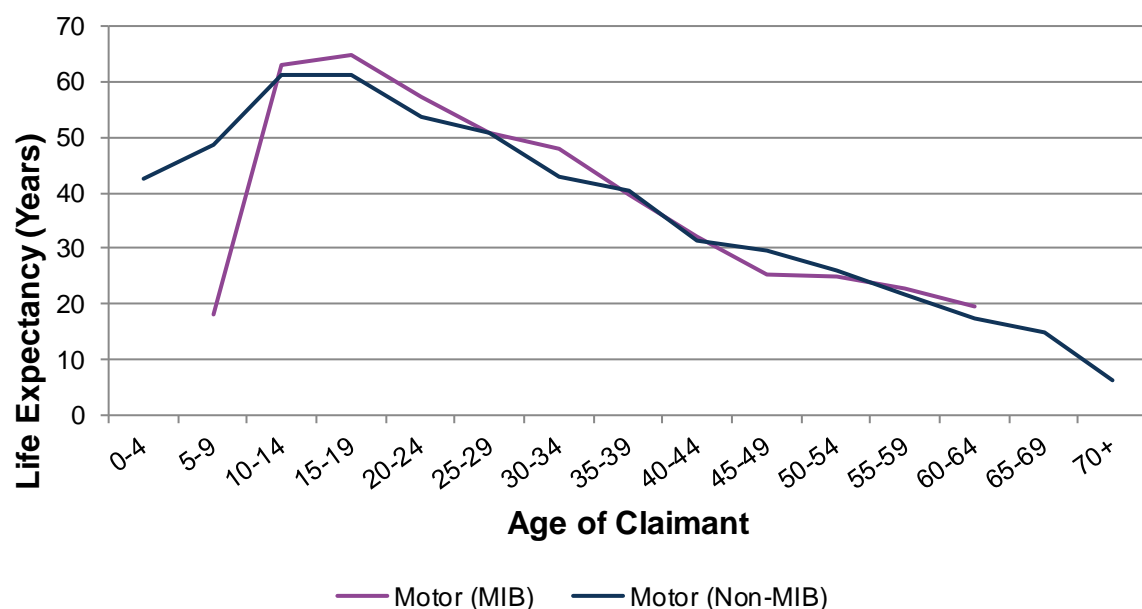


## L.4 Life expectancy of claimant at settlement date

The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.



*Figure L.8: Distribution of the life expectancy of claimant at settlement date, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*



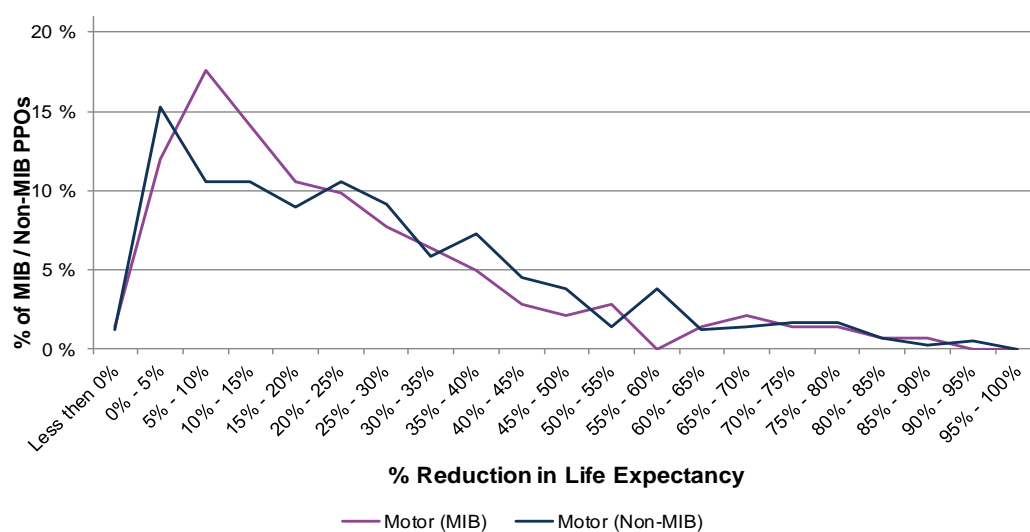
*Figure L.9: Distribution of the life expectancy of claimant at settlement date, by age of claimant at settlement date, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*

## L.5 Reduction in life expectancy of the claimant

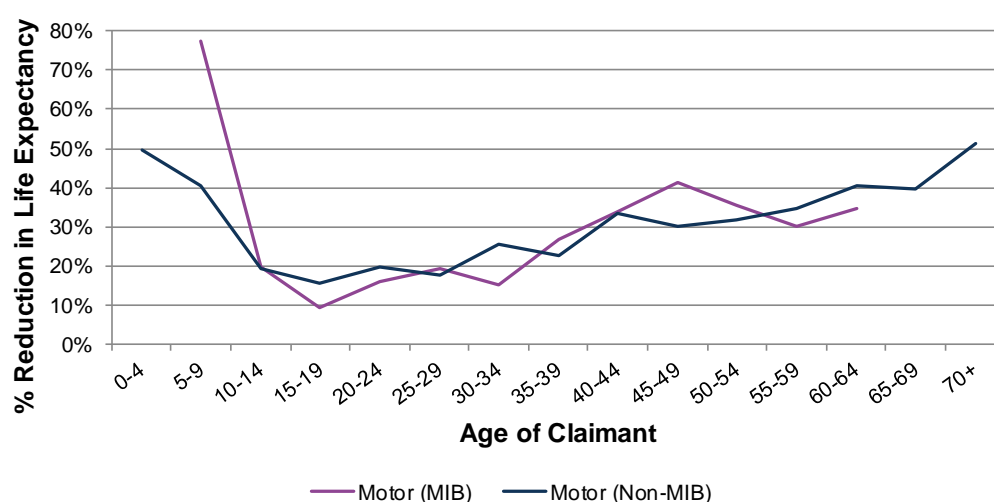
The percentage reduction in life expectancy is defined as:

$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)



**Figure L.10: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009**



**Figure L.11: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009**

## Appendix M      Indexation of PPO claims

The index used to inflate PPO claim regular payments was originally automatically linked to the Retail Prices Index (“RPI”).

However, in 2006, a court case was brought in the form of *Thompstone vs Tameside and Glossop Acute Services NHS Trust* which questioned this assumption and suggested that the payments for future cost of care would be better linked to wage inflation. The court agreed and the annual inflation increase was linked to the Annual Survey of Hours and Earnings (“ASHE”). The case was appealed and a number of other cases were put on hold pending the outcome. In 2008, the Court of Appeal upheld the ruling that an index other than RPI can be chosen if thought more appropriate. Since then the majority of PPO claims have had inflation linked to ASHE.

ASHE is produced by the Office for National Statistics (“ONS”) every November, based on data as at April. It covers a wide range of occupations, though the vast majority of PPO claims so far have, in respect of care costs, been linked to sub-category 6115, relating to care assistants and home carers.

Within a particular job category, the ASHE earnings inflation measures are further split into percentiles. A PPO claim will have the annual inflation linked to a specific percentile, for example to those whose earnings are in the top 10% of earners in the category (i.e. the 90<sup>th</sup> percentile). There are potential distortions which can impact ASHE, for example a reduction in a certain percentile (showing as negative ASHE inflation in a given year) could have been driven by a large influx of cheap labour, as opposed to a reduction in actual wages.

In this appendix, we provide summary statistics for Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims by the following characteristics:

- The index applicable for the primary head of damage of the regular payments
- The head of damage and applicable index for the regular payment streams
- The specific percentiles, where the applicable index for the primary head of damage is ASHE.

In this appendix, we also provide summary statistics for the annual inflation in ASHE 6115 by specific percentile.

### M.1 Introductory notes on the summary statistics shown

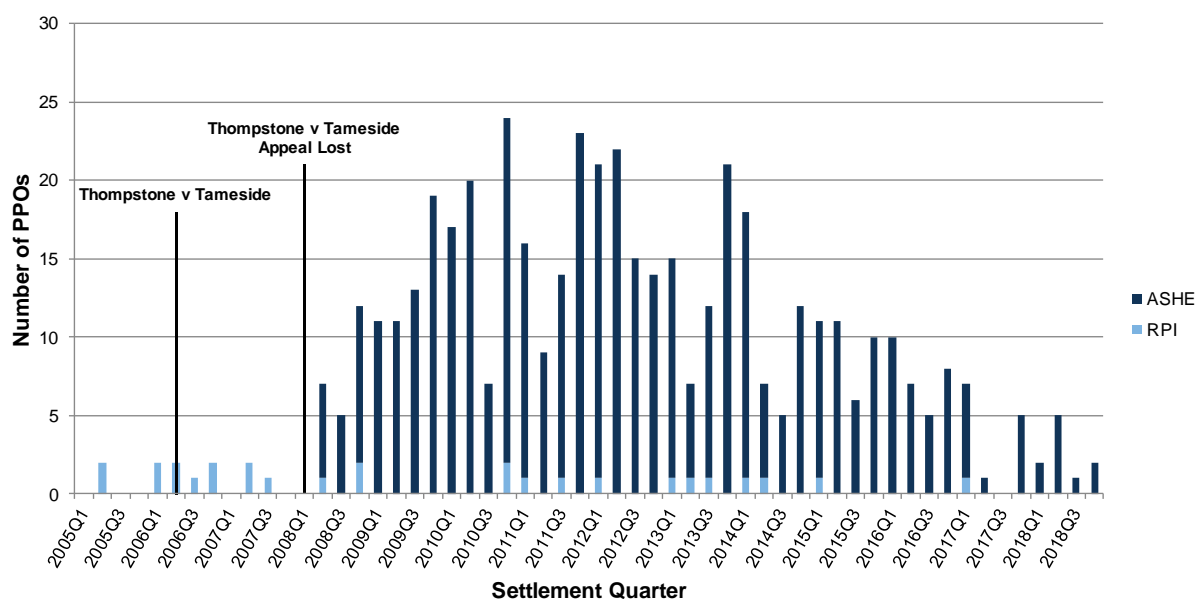
PPO claims can have different elements included within the regular stream of payments, for example they can include both a Loss of Earnings and a Cost of Care head of damage. These different elements can be linked to different indices.

Figure M.1, Figure L.4 and Figure L.7 show the index applicable for the primary head of damage of the regular payment, where the primary head of damage has been defined as the one for which the associated regular payment amount is the largest.

Figure M.2, Figure L.5 and Figure L.8 show the index applicable for each head of damage payment stream.

Where the applicable index for the primary head of damage is ASHE, Figure L.3, Figure L.6 and Figure M.9 show the proportion of PPO claims linked to specific percentiles, for each settlement year.

## M.2 Motor (non-MIB) PPO claims



*Figure M.1: Number of Motor (non-MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments*

	ASHE 6115	ASHE Other	RPI	Not Indexed	Other	Total
Care and Case Management	351	7	33	17	8	416
Loss of Earnings	7	8	16	13	7	51
N/A or Missing	7	8	7	7	7	36
<b>Total</b>	<b>365</b>	<b>23</b>	<b>56</b>	<b>37</b>	<b>22</b>	<b>503</b>

*Figure M.2: Number of Motor (non-MIB) PPO claim regular payment streams, by head of damage and applicable index*

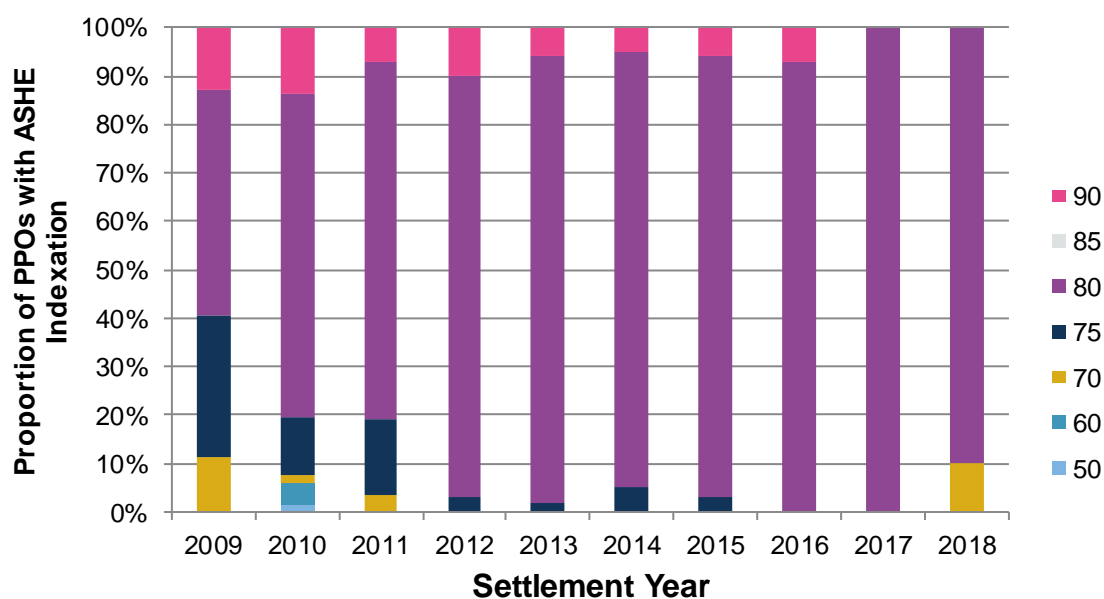


Figure M.3: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (non-MIB) PPO claims linked to specific percentiles, by settlement year

### M.3 Liability PPO claims

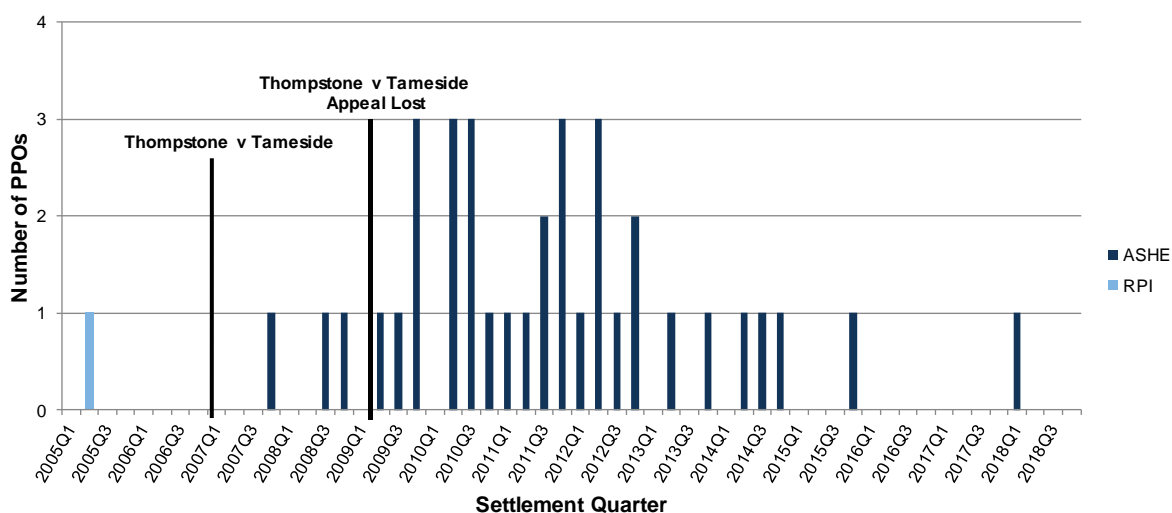


Figure M.4: Number of Liability PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments

	ASHE 6115	ASHE Other	RPI	Not Indexed	Other	Total
Care and Case Management	36	1	1	0	0	38
Loss of Earnings	0	0	0	0	0	0
N/A or Missing	0	0	0	0	0	0
Total	36	1	1	0	0	38

Figure M.5: Number of Liability PPO claim regular payment streams, by head of damage and applicable index

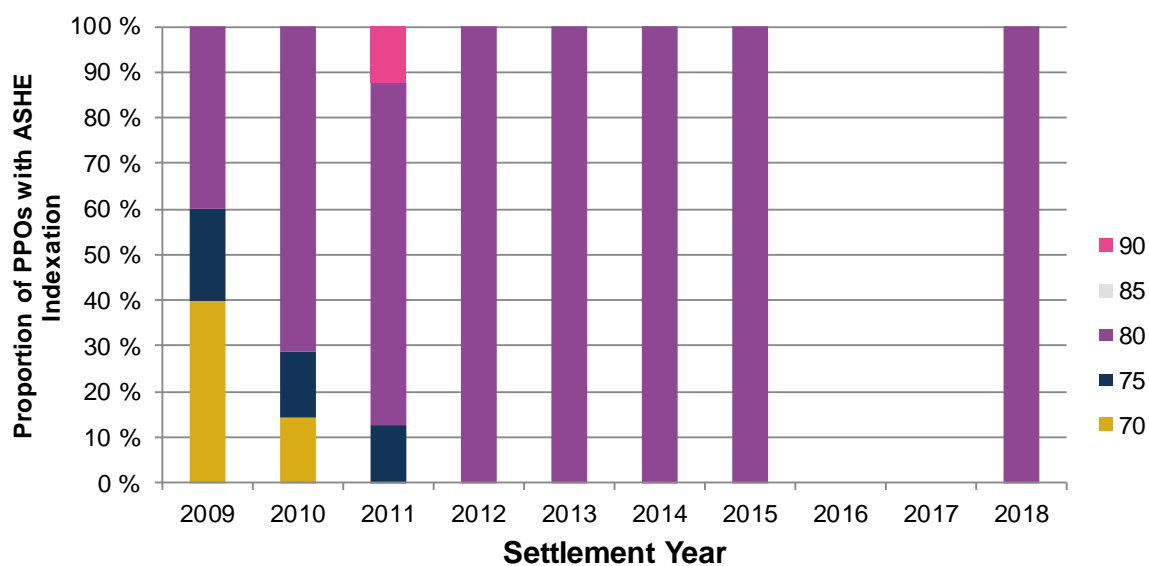


Figure M.6: Where the applicable index for the primary head of damage is ASHE, the proportion of Liability PPO claims linked to specific percentiles, by settlement year

#### M.4 Motor (MIB) PPO claims

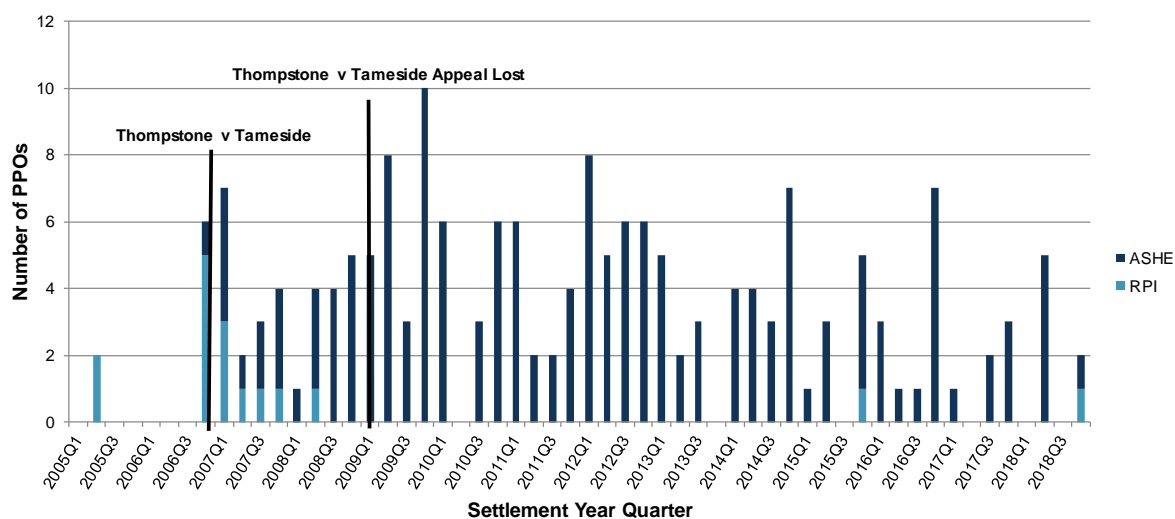
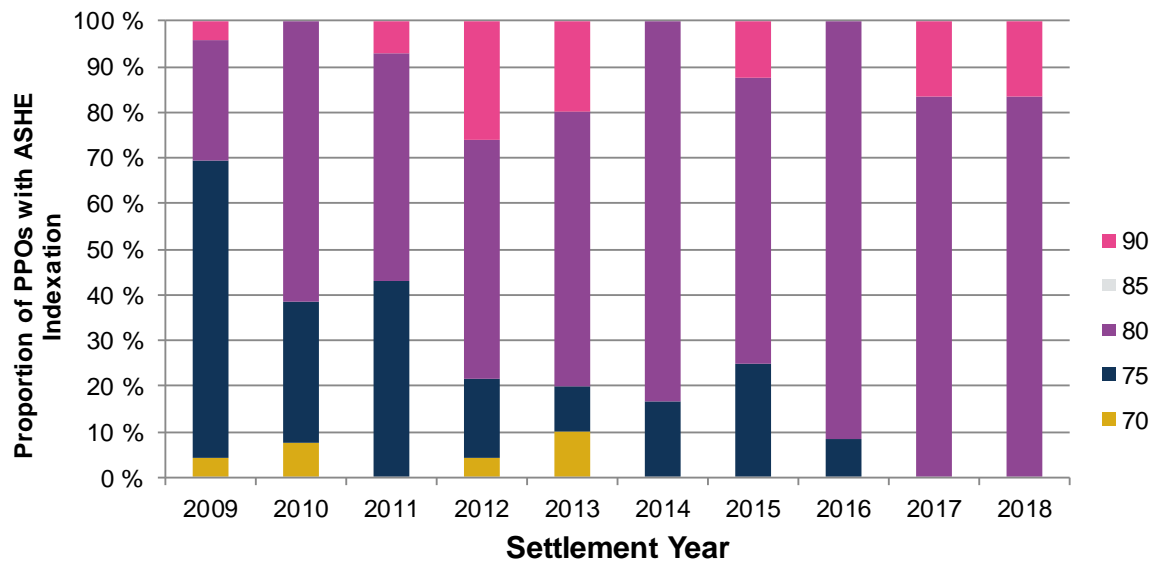


Figure M.7: Number of Motor (MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments

	ASHE 6115	ASHE Other	RPI	Not Indexed	Other	Total
Care and Case Management	0	0	0	0	0	0
Loss of Earnings	0	0	0	0	0	0
N/A or Missing	164	0	16	0	0	180
<b>Total</b>	<b>164</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>180</b>

Figure M.8: Number of Motor (MIB) PPO claim regular payment streams, by head of damage and applicable index



*Figure M.9: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (MIB) PPO claims linked to specific percentiles, by settlement year*

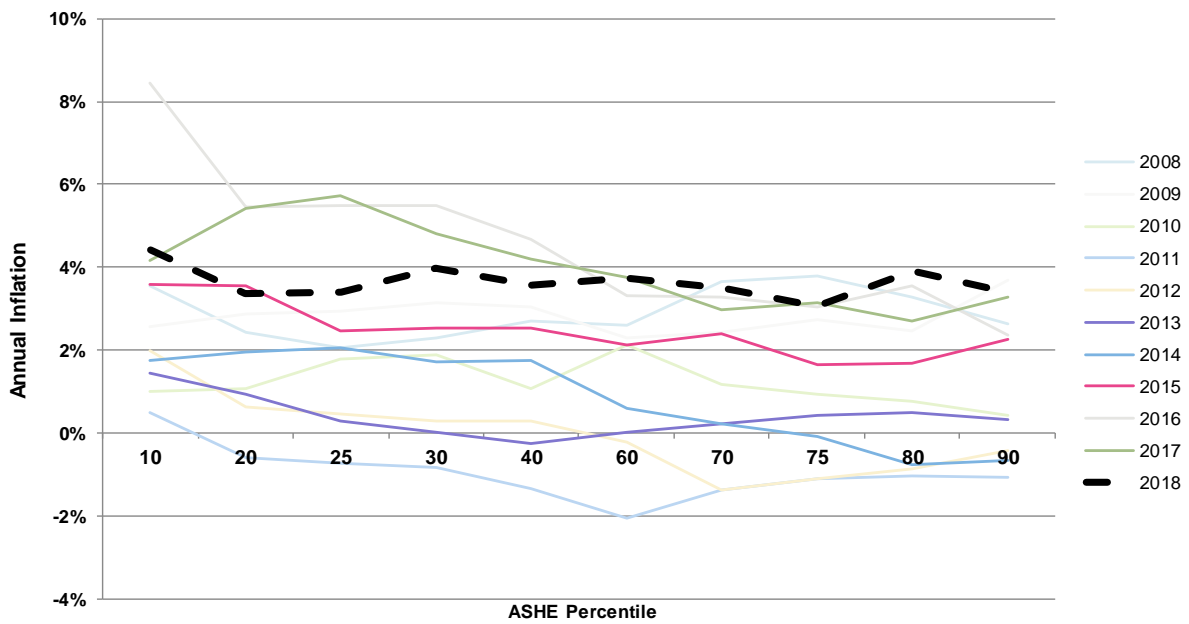
## M.5 ASHE

Implemented in the 2011 survey, ASHE code 6115 (“Care Assistants and Home Carers”) has been split into two new codes: code 6145 (“Care Workers and Home Carers”) and code 6146 (“Senior Care Workers”). Even though the ONS has stated that it will continue to publish figures for code 6115, albeit separately to the main tables, “for the foreseeable future”, there is an additional complication since the basis of the ASHE code 6115 figures has changed, and so a slight adjustment is required to be made to the figures for 2011 onwards (details are available within the ONS download of ASHE Table 26 which corresponds to SOC 6145 and 6146).

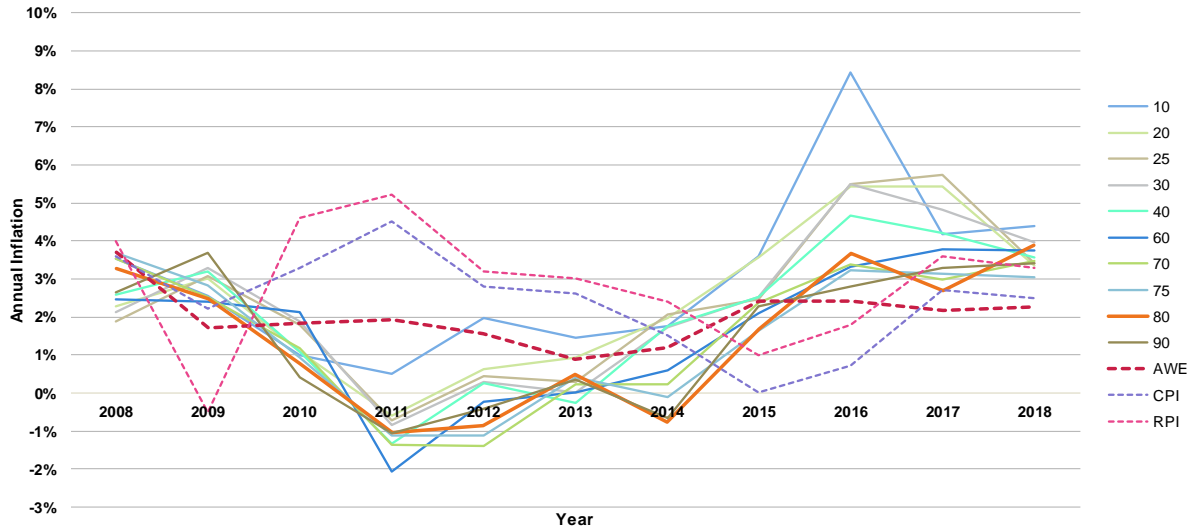
Figure M.10 and Figure M.11 show the annual inflation in ASHE 6115 by specific percentile. These figures are taken from Table 26.5a (Table 14.5a for 2011 and prior), which relates to hourly gross pay. Figure M.12 compares this annual inflation with that observed for Average Weekly Earnings (“AWE”), taken from the “Not Seasonally Adjusted - Index Figures Excluding Bonuses, Including Arrears” section of the “EARN02: Average Weekly Earnings by Sector” ONS publication.

Year	6115 - Care Assistants and Home Carers Inflation Statistics by Percentile									
	10	20	25	30	40	60	70	75	80	90
2008	3.54%	2.44%	2.04%	2.29%	2.71%	2.59%	3.64%	3.80%	3.27%	2.64%
2009	2.56%	2.86%	2.93%	3.13%	3.06%	2.28%	2.41%	2.72%	2.47%	3.68%
2010	1.00%	1.08%	1.80%	1.88%	1.08%	2.11%	1.18%	0.92%	0.77%	0.41%
2011	0.50%	-0.61%	-0.74%	-0.85%	-1.33%	-2.07%	-1.38%	-1.11%	-1.05%	-1.07%
2012	1.97%	0.61%	0.44%	0.29%	0.27%	-0.23%	-1.39%	-1.12%	-0.87%	-0.42%
2013	1.45%	0.92%	0.29%	0.00%	-0.27%	0.00%	0.22%	0.41%	0.49%	0.33%
2014	1.75%	1.97%	2.06%	1.71%	1.76%	0.59%	0.22%	-0.10%	-0.78%	-0.67%
2015	3.59%	3.56%	2.45%	2.53%	2.52%	2.11%	2.38%	1.65%	1.67%	2.26%
2016	8.43%	5.44%	5.49%	5.48%	4.66%	3.32%	3.28%	3.04%	3.56%	2.38%
2017	4.17%	5.43%	5.73%	4.81%	4.21%	3.77%	2.97%	3.14%	2.70%	3.28%
2018	4.40%	3.35%	3.40%	3.97%	3.56%	3.74%	3.48%	3.05%	3.89%	3.41%

*Figure M.10: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)*



*Figure M.11: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)*



*Figure M.12: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year), compared with Average Weekly Earnings, CPI and RPI*



## Appendix N      Payment components for PPO claims

In this appendix, we provide summary statistics for the lump sum element of PPO claims and for the initial regular payment amount of PPO claims, separately for Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims.

The lump sum element in these summary statistics excludes the first regular payment amount for the PPO claim. Unless otherwise stated, all the lump sum amounts are in nominal terms, i.e. at the time of settlement.

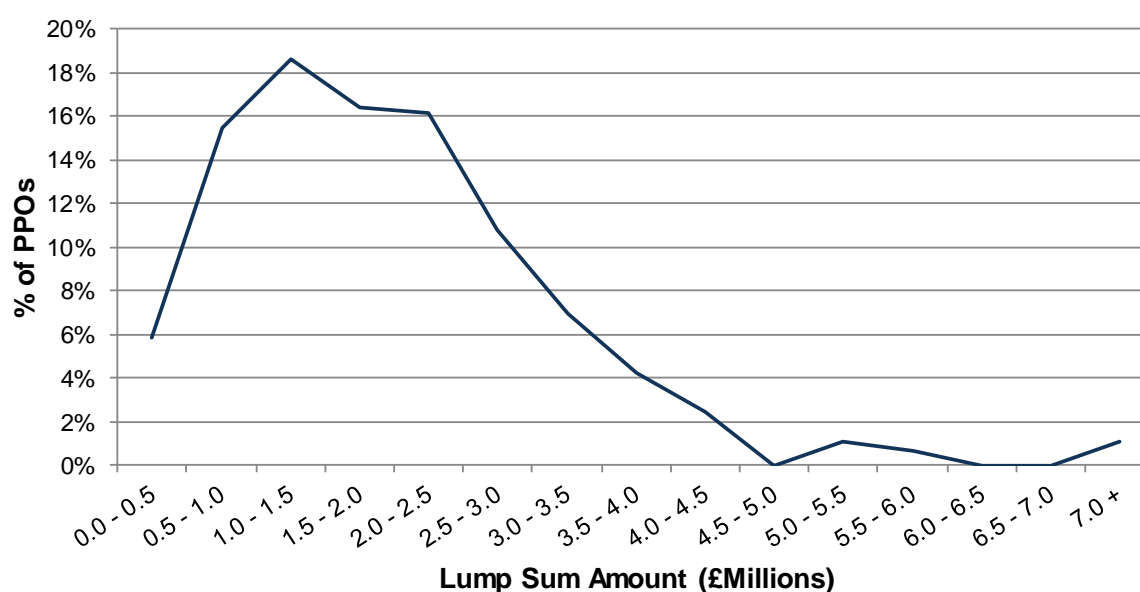
For the initial regular payment amount of PPO claims, in cases where one claimant is awarded more than one series of payments (corresponding to different heads of damage), the initial PPO amount is the sum of the payments for all heads of damage. Once again, unless otherwise stated, the initial PPO amounts are in nominal terms, i.e. at the time of settlement, and are before any stepped payments kick in.

We provide summary statistics for the following:

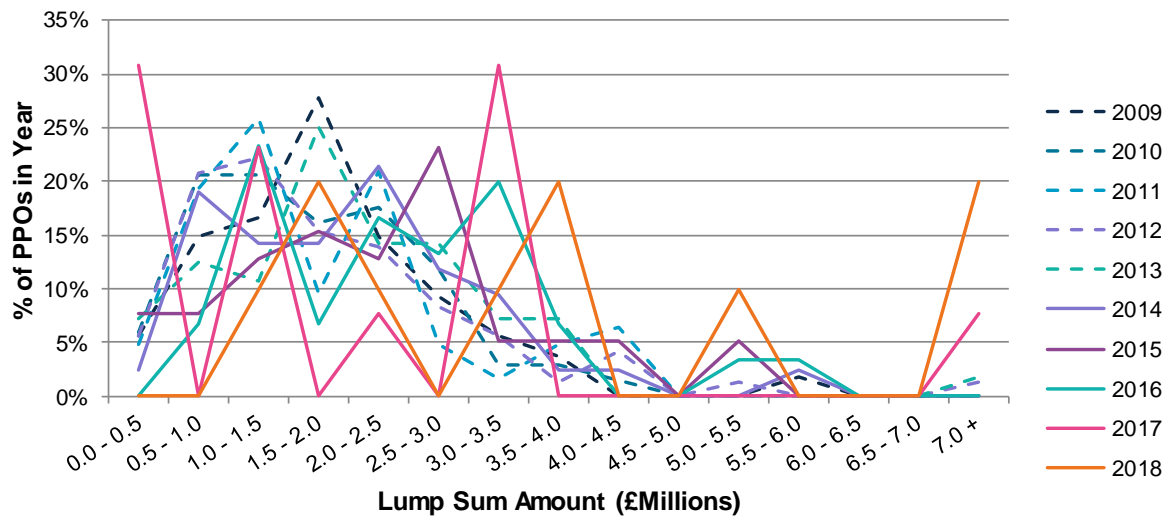
- Distribution of payment components
- Nominal payment components and payment components with inflation removed – Motor (non-MIB) PPO claims only
- Payment components correlations – Motor (non-MIB) PPO claims only.

For the purposes of comparison, we also provide some of the equivalent summary statistics for Motor (non-MIB) non-PPO claims.

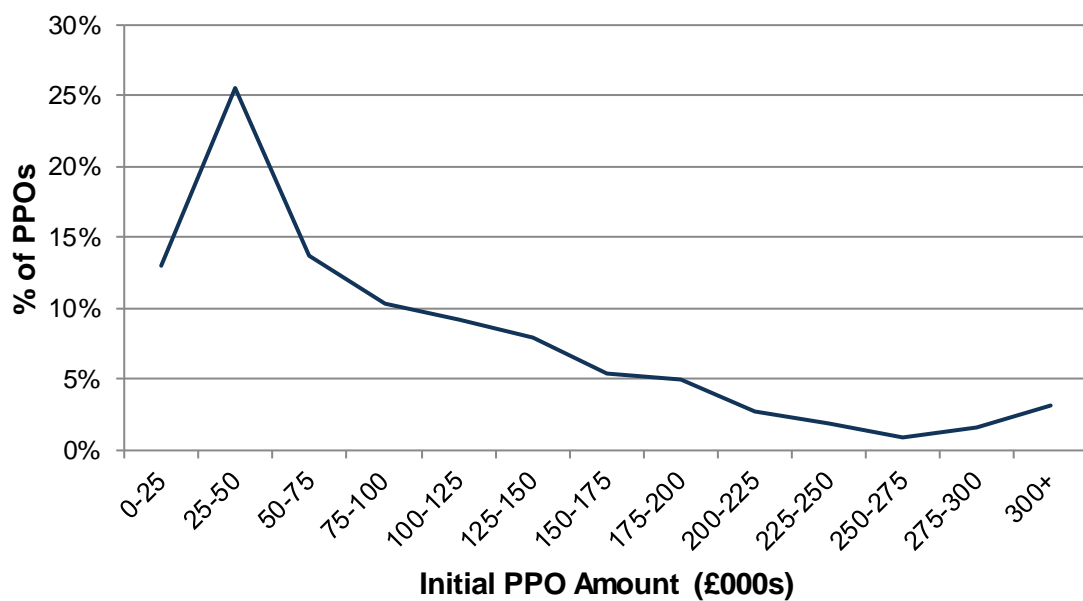
### N.1 Motor (non-MIB) PPO claims – distribution of payment components



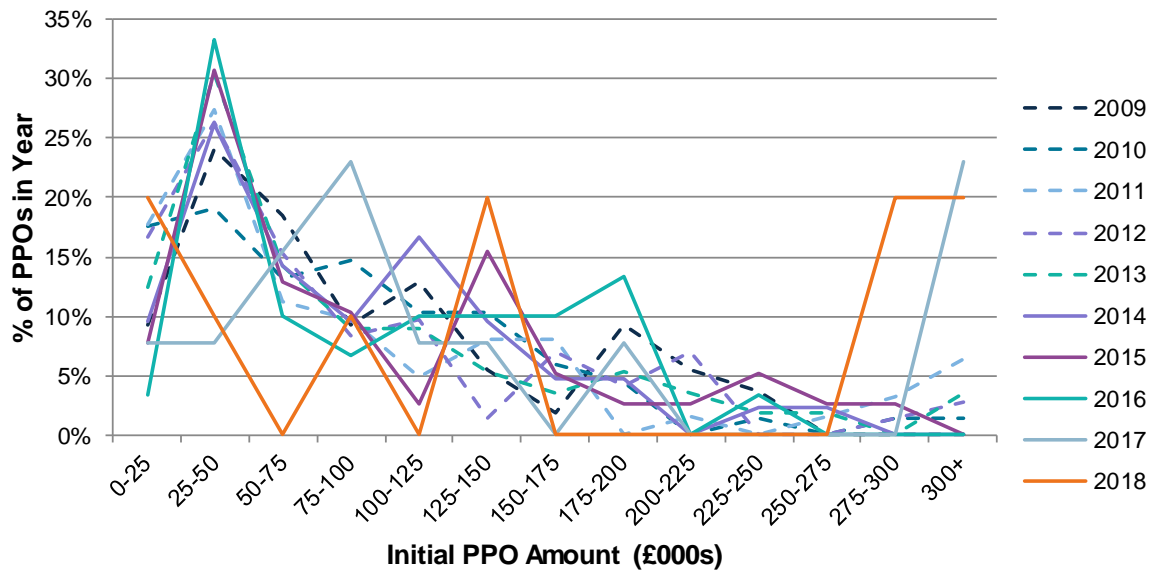
*Figure N.1: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, for claims settled since 2009*



*Figure N.2: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, by settlement year*

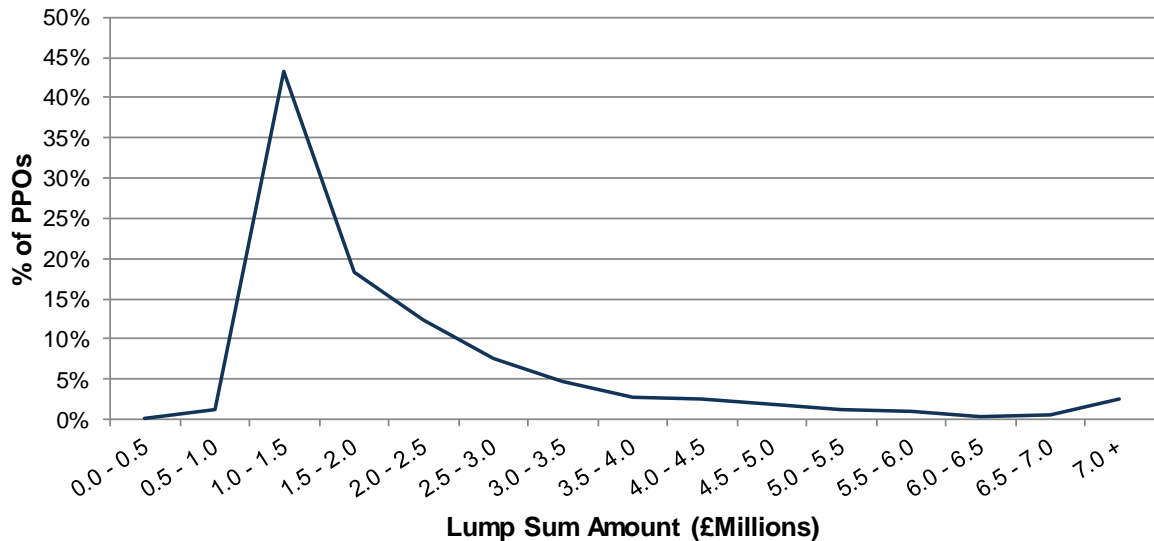


*Figure N.3: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009*

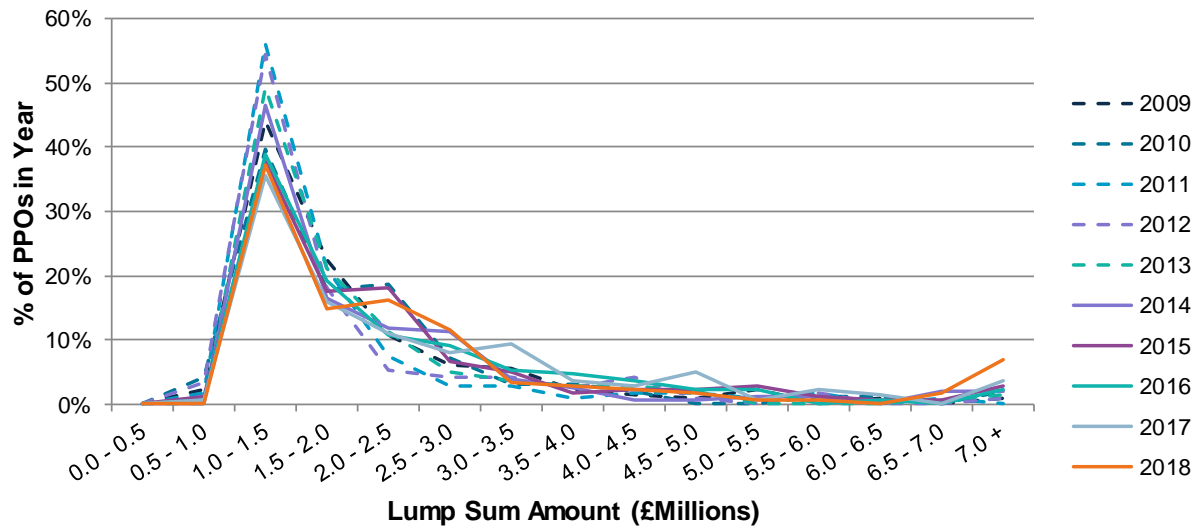


*Figure N.4: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, by settlement year*

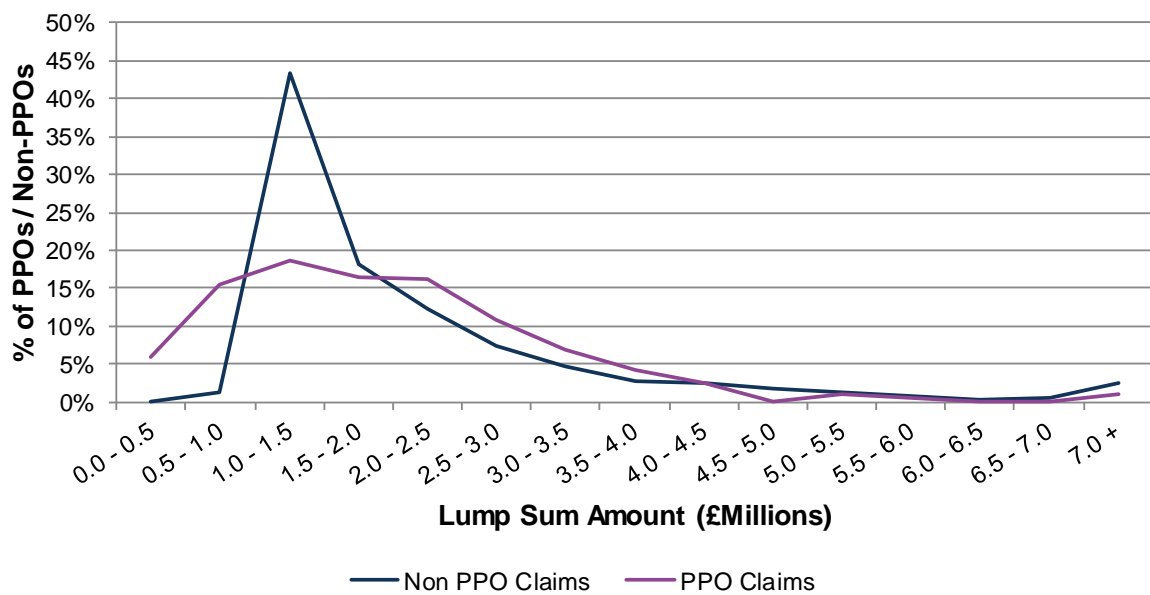
## N.2 Motor (non-MIB) non-PPO claims – distribution of payment components



*Figure N.5: Distribution of the size of Motor (non-MIB) non-PPO claims, for claims settled since 2009*

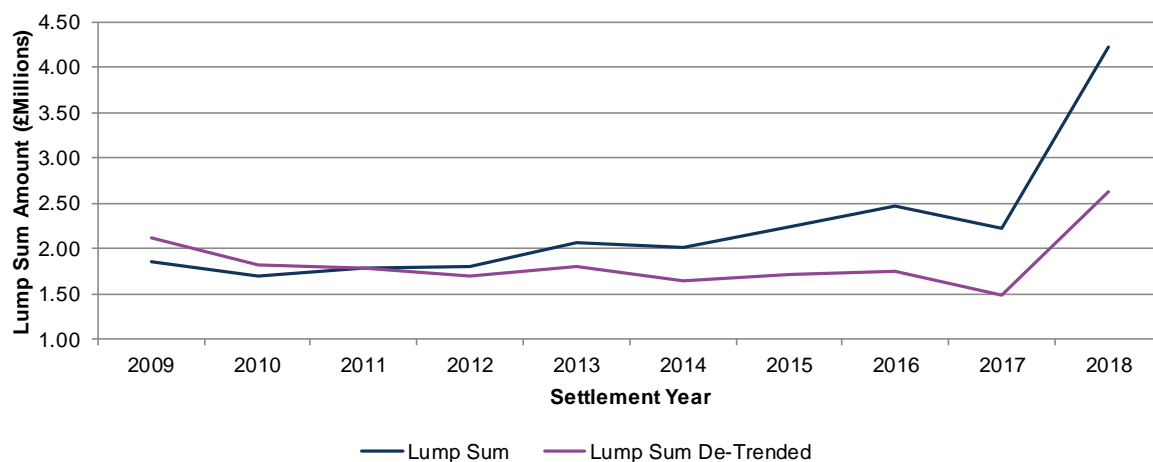


*Figure N.6: Distribution of the size of Motor (non-MIB) non-PPO claims, by settlement year*

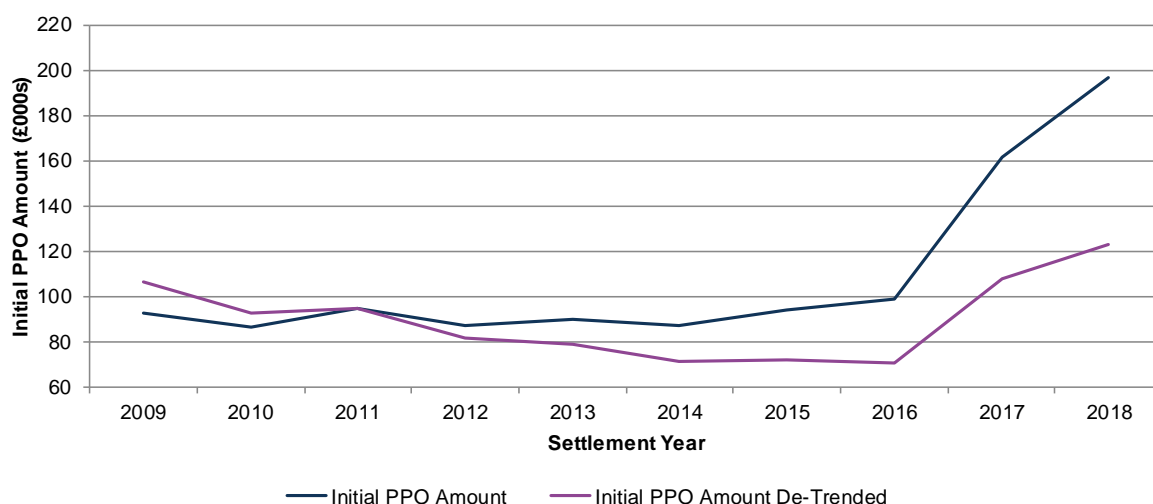


*Figure N.7: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims and the size of Motor (non-MIB) non-PPO claims, for claims settled since 2009*

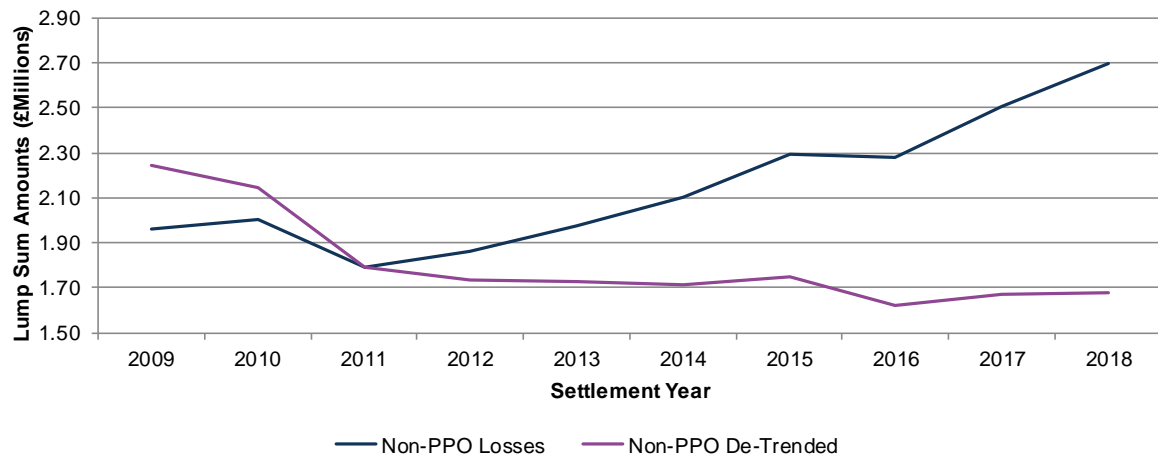
### N.3 Motor (non-MIB) PPO claims and non-PPO claims – nominal payment components and payment components with inflation removed



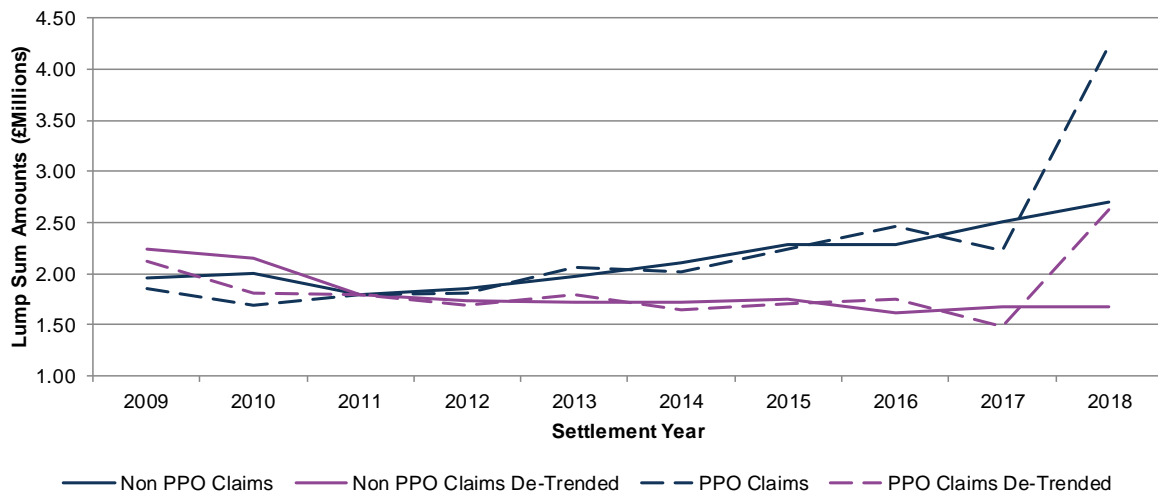
*Figure N.8: Average size of the lump sum element of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*



*Figure N.9: Average size of the initial regular payment amount of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*

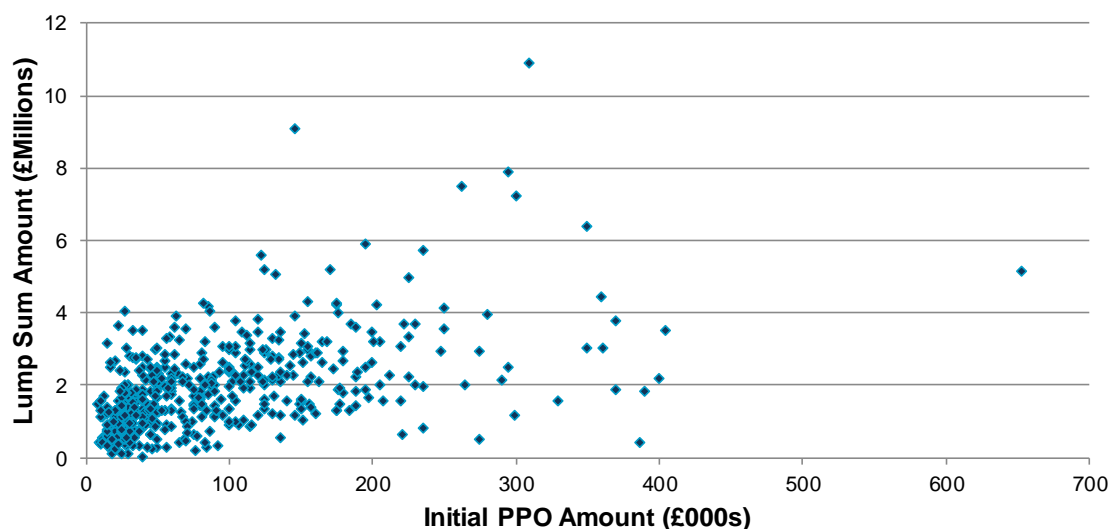


*Figure N.10: Average size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*



*Figure N.11: Average size of the lump sum element of Motor (non-MIB) PPO claims and the size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year*

## N.4 Motor (non-MIB) PPO claims – payment components correlations

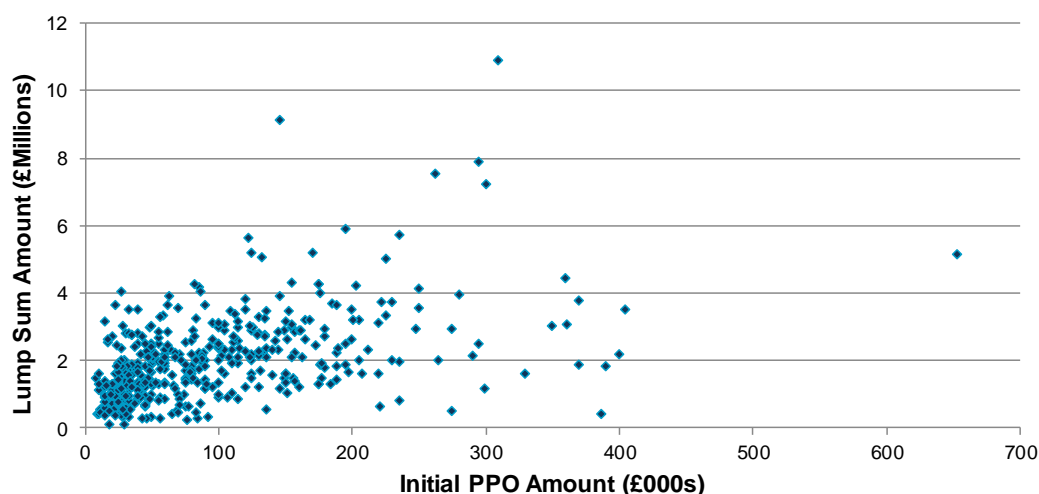


*Figure N.12: Scatter graph of the lump sum element and the initial regular payment amount of Motor (non-MIB) PPO claims*

For the scatter graph in Figure N.12, the correlation coefficients are:

- Pearson correlation coefficient: 0.50
- Spearman correlation coefficient: 0.53

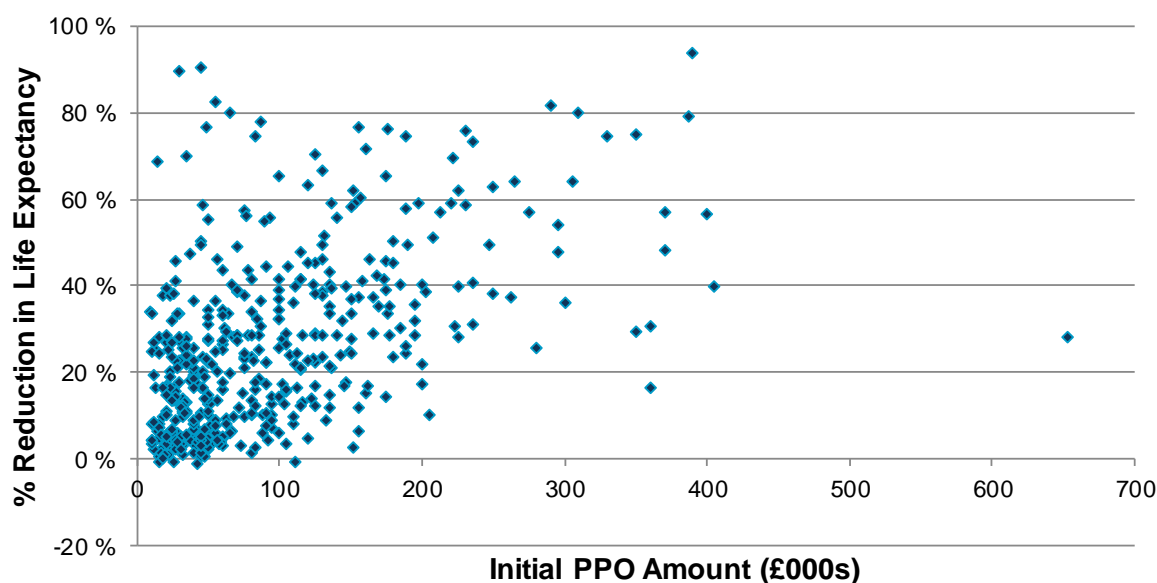
The coefficients represent the strength and direction of the correlation between the two variables, ranging between -1.00 and +1.00. A larger absolute value represents a stronger relationship in the data, the sign indicating the direction.



*Figure N.13: Scatter graph of the lump sum element and the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009*

For the scatter graph in Figure N.13, the correlation coefficients are:

- Pearson correlation coefficient: 0.49
- Spearman correlation coefficient: 0.53



*Figure N.14: Scatter graph of the percentage reduction in life expectancy of a claimant and the initial regular payment amount of Motor (non-MIB) PPO claims*

For the scatter graph in Figure N.14, the correlation coefficients are:

- Pearson correlation coefficient: 0.52
- Spearman correlation coefficient: 0.55

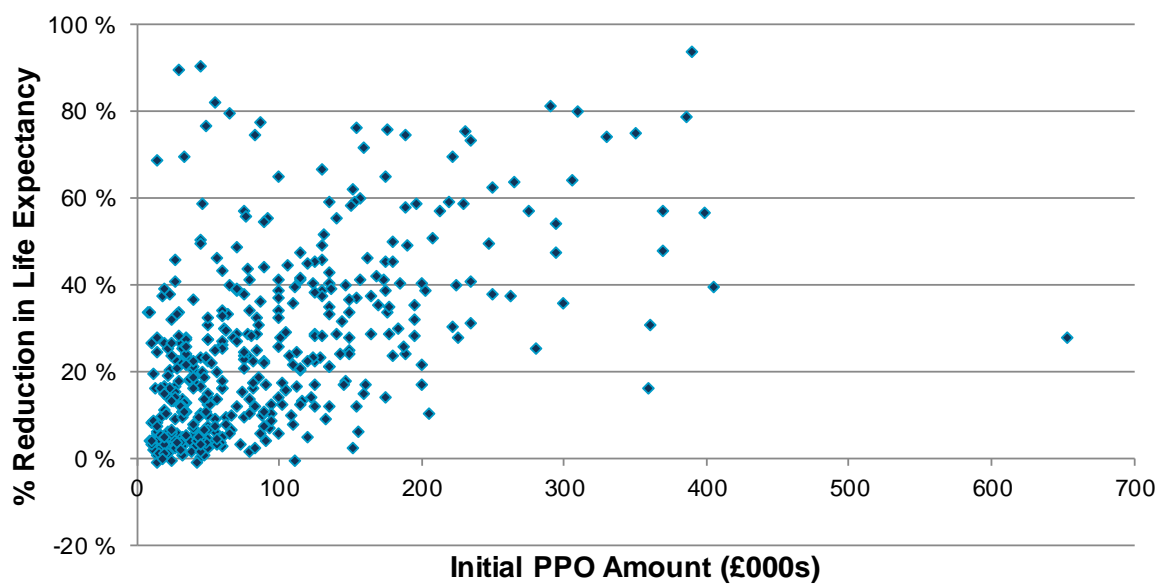
The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.

The percentage reduction in life expectancy is defined as:

$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)



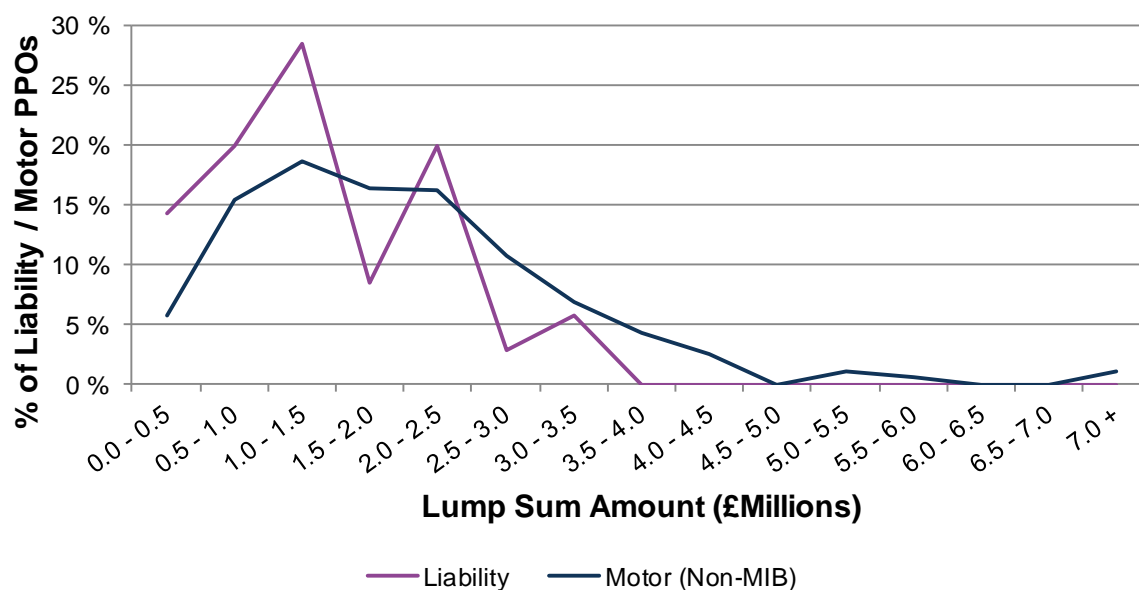


*Figure N.15: Scatter graph of the percentage reduction in life expectancy of a claimant and the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009*

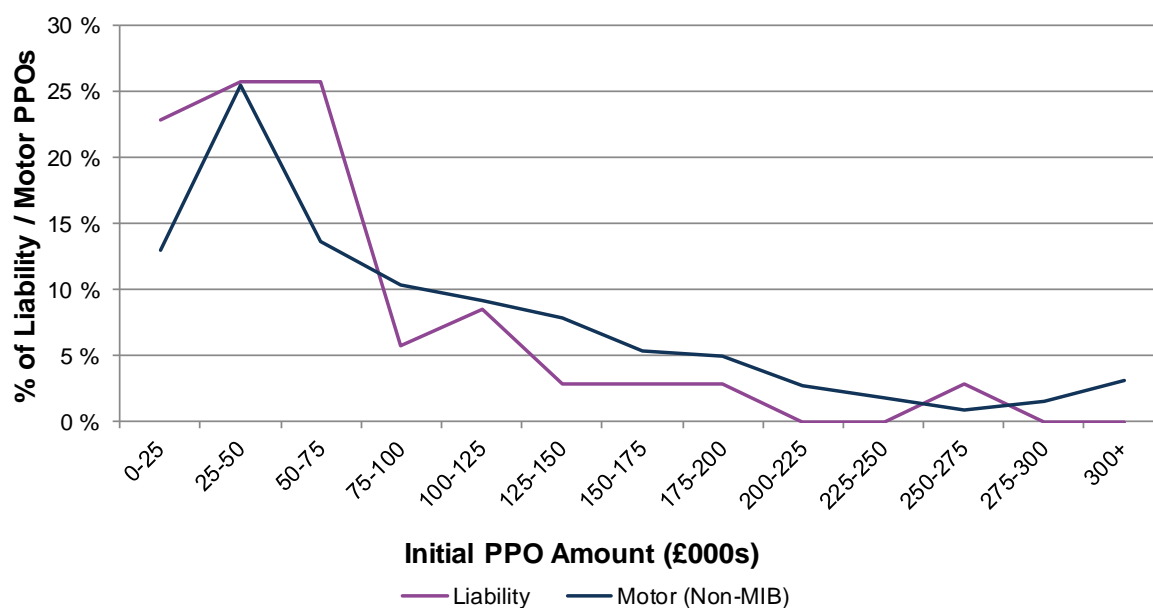
For the scatter graph in Figure N.15, the correlation coefficients are:

- Pearson correlation coefficient: 0.53
- Spearman correlation coefficient: 0.56

## N.5 Liability PPO claims – distribution of payment components

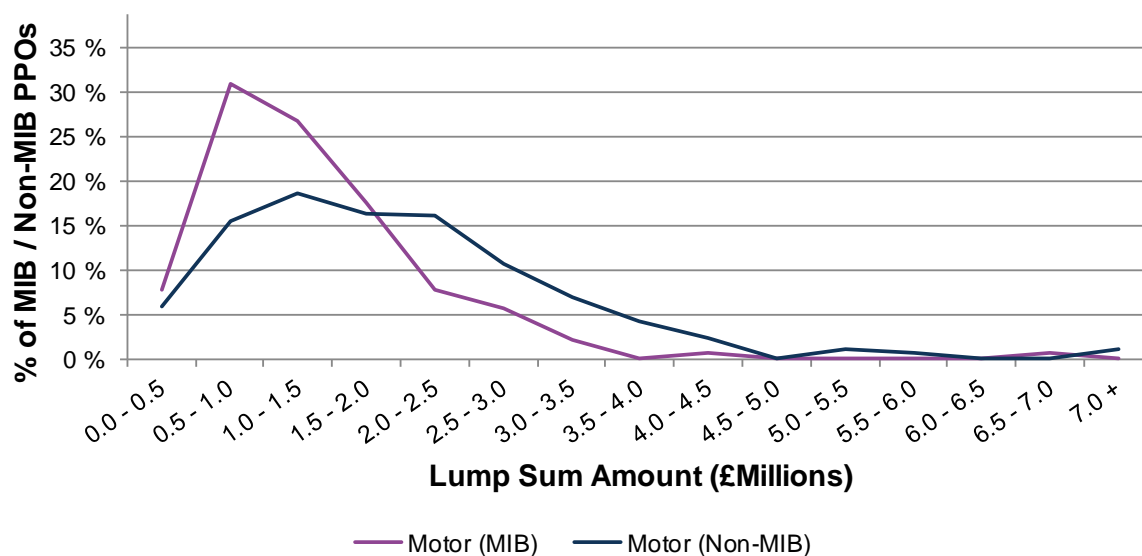


*Figure N.16: Distribution of the size of the lump sum element of Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*

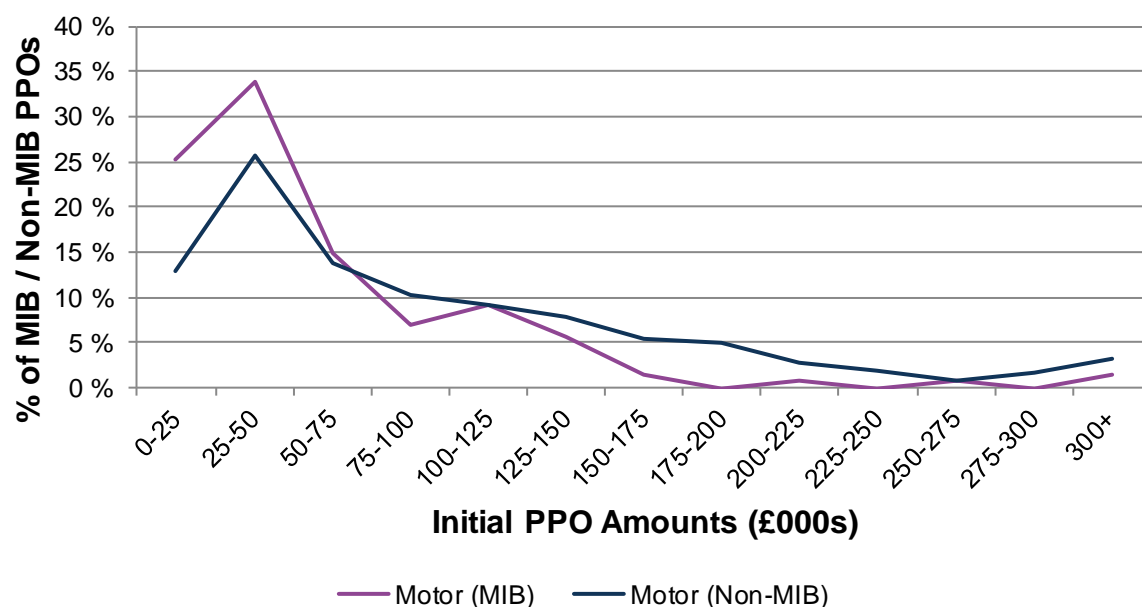


*Figure N.17: Distribution of the initial regular payment amount of Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*

## N.6 Motor (MIB) PPO claims – distribution of payment components



*Figure N.18: Distribution of the size of the lump sum element of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*



*Figure N.19: Distribution of the initial regular payment amount of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009*



## **Appendix O      Special features of Motor (non-MIB) PPO claims and other statistics**

In this appendix, we provide summary statistics on stepped payments, variation orders and indemnity / reverse indemnity guarantees for Motor (non-MIB) PPO claims, together with a small number of other statistics for these PPO claims.

### **0.1 Definitions**

#### **Stepped payments**

A PPO claim with stepped payments is one where there is a provision for step changes in the regular payment amount to be made. These step changes will apply at fixed points in time, to situations where a specific change in circumstance has already been foreseen at the time of settlement. For example, there could be a stepped payment for a one-off increase in payments to be made to a claimant whose parents are the primary carers: this would allow for a time when the parents are no longer able to deliver the same standard of care and additional care costs will therefore be incurred.

While the majority of step changes tend to be increases, it should be noted that the step change could be either upward or downward.

#### **Variation orders**

A variation order is an allowance for a change in the regular payment amount, usually triggered by a certain event. An example would be the claimant developing additional symptoms in the future, as a result of the original accident.

Variation orders only specify the conditions of the trigger event at the time of settlement and do not specify the amounts that the regular payments will change to.

#### **Indemnity / reverse indemnity guarantees**

An indemnity guarantee is a guarantee given by the insurer to pay additional costs in circumstances such as where services provided by the local council are reduced or withdrawn in the future.

A reverse indemnity guarantee covers the opposite situation. For example, where the insurer is able to reduce the size of the annual payments as public provision of care is given to the claimant.

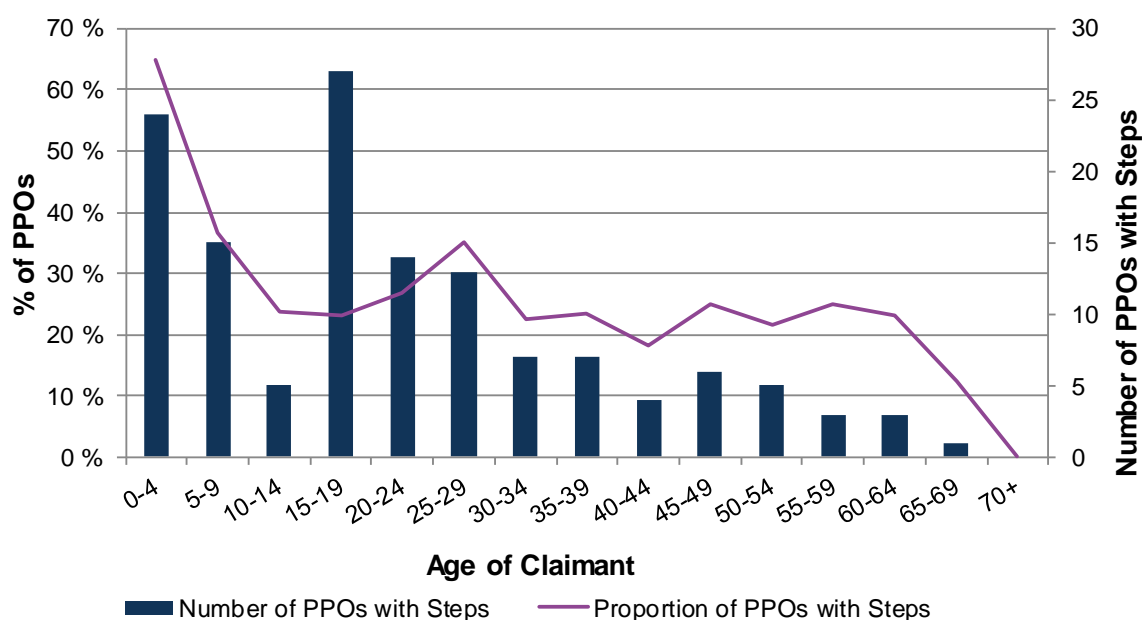
## 0.2 Proportion of Motor (non-MIB) PPO claims with special features

Figure O.1 shows the proportion of Motor (non-MIB) PPO claims with special features, together with the number of responses received on each special feature. To provide context for the credibility of these summary statistics, there are 482 Motor (non-MIB) PPO claims in the quantitative industry survey.

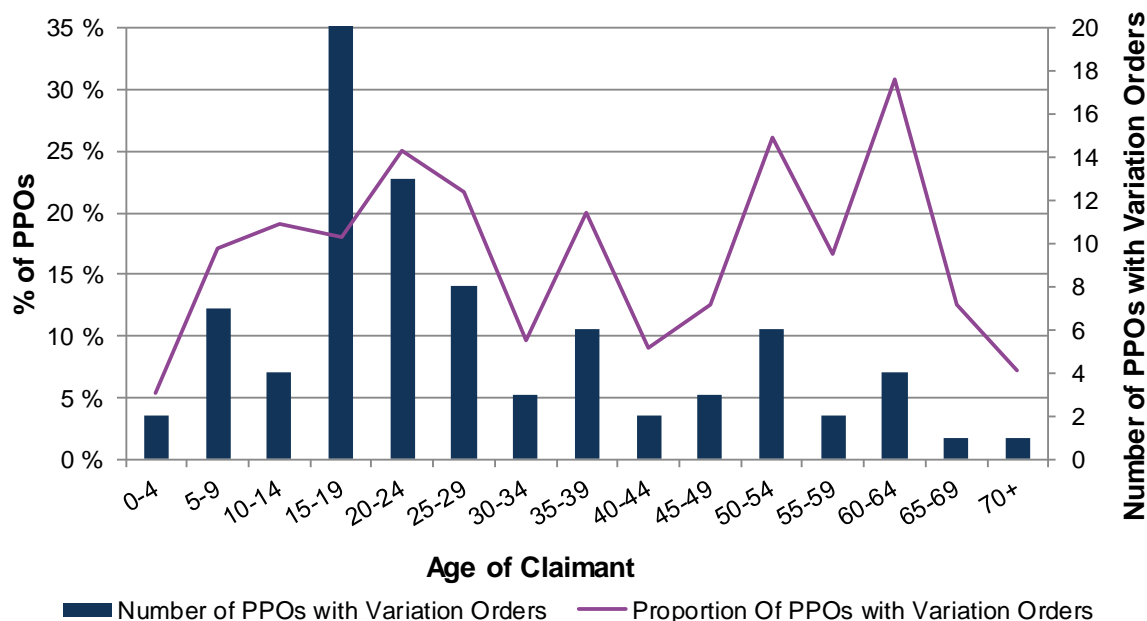
Feature	Proportion of PPOs	Number of Responses
Stepped Payments	28%	482
Variation Orders	18%	467
Indemnity Guarantees	6%	301
Reverse Indemnity Guarantees	8%	241
Contributory Negligence	23%	216

*Figure O.1: Proportion of Motor (non-MIB) PPO claims with special features, together with the number of Motor (non-MIB) PPO claims in the survey with responses received on those special features*

## 0.3 Stepped payments and variation orders by age of claimant at settlement



*Figure O.2: Number and proportion of Motor (non-MIB) PPO claims with stepped payment agreements, by age of claimant at accident date*



*Figure O.3: Number and proportion of Motor (non-MIB) PPO claims with variation order agreements, by age of claimant at accident date*

## 0.4 Stepped payments and variation orders by injury type

In terms of injury type:

- 22% of Motor (non-MIB) PPO claims relating to brain injury have a stepped payment.
- 49% of Motor (non-MIB) PPO claims relating to spinal injury have a stepped payment.

This compares with a general Motor (non-MIB) PPO claim population average of 28%, as shown in Figure O.1.

Again in terms of injury type:

- 13% of Motor (non-MIB) PPO claims relating to brain injury have a variation order.
- 37% of Motor (non-MIB) PPO claims relating to spinal injury have a variation order.

This compares with a general Motor (non-MIB) PPO claim population average of 18%, as shown in Figure O.1.

## 0.5 Other statistics

In terms of payment frequency:

- 81% of Motor (non-MIB) PPO claims are paid annually.
- 14% of Motor (non-MIB) PPO claims are paid quarterly.
- The remainder (5%) of Motor (non-MIB) PPO claims are paid monthly, bi-monthly, 4-weekly or bi-annually.

In terms of number of claimants:

- 98% of Motor (non-MIB) PPO claims have one PPO claimant.
- 2% of Motor (non-MIB) PPO claims have two PPO claimants.
- The remainder (<0.5%) of Motor (non-MIB) PPO claims did not have this information available.

In terms of the driving force behind the decision for a claim to be settled as a PPO, for Motor (non-MIB) PPO claims:

- In 77% of cases, it was solely the claimant.
- In 22% of cases, it was a mutual decision between claimant and defendant.
- In 1% of cases, it was the court.



## **Appendix P      IFoA PPO Working Party injury type and care regime categorisation**

The IFoA PPO Working Party, with the help of a number of claims professionals, devised a categorisation of PPO injury types and care regimes, with the intention of this categorisation becoming UK standard practice, to be used by all insurers and reinsurers.

This categorisation was first presented as part of the output of the IFoA PPO Working Party in 2014.

19% of the Motor (non-MIB) PPO claims we received for the 2019 quantitative industry survey, the data for which was taken as at 31 December 2018, had this categorisation attached. Additionally, 5% of the Liability PPO claims we received for the 2019 quantitative industry survey also had this categorisation attached. The equivalent proportions for the 2018 quantitative industry survey (as at 31 December 2017) were 20% and 20% respectively.

As a consequence, for this survey, we continue to be able to provide more in-depth analysis of how the characteristics of PPO claims are affected by the type of injury sustained by the claimant and the type of care they receive. We have restricted this analysis to the Motor (non-MIB) PPO claims only.

In this appendix, we reproduce the IFoA PPO Working Party injury type and care regime categorisation, and we provide the following summary statistics for Motor (non-MIB) PPO claims:

- Distribution of PPO claims by injury type categorisation
- Distribution of PPO claims by care regime categorisation
- PPO claim payment components by categorisation
- Life expectancy of the claimant at settlement date by categorisation
- Reduction in life expectancy of the claimant by categorisation.

The summary statistics provided in this appendix are based on only a small subset of data (as noted above, only 19% of the 482 Motor (non-MIB) claims received had the categorisation attached). The small number of claims is likely to have contributed to the volatility in experience in the summary statistics provided in this appendix.

We encourage insurers and reinsurers to use this categorisation – the more PPO claims have this categorisation attached, the more in-depth analysis the IFoA PPO Working Party will be able to provide and the less volatility there will be in the experience summarised.

We also encourage insurers and reinsurers to apply this coding to all large claims. This additional information will give further insight at an industry level into the drivers of the changes in PPO propensity.

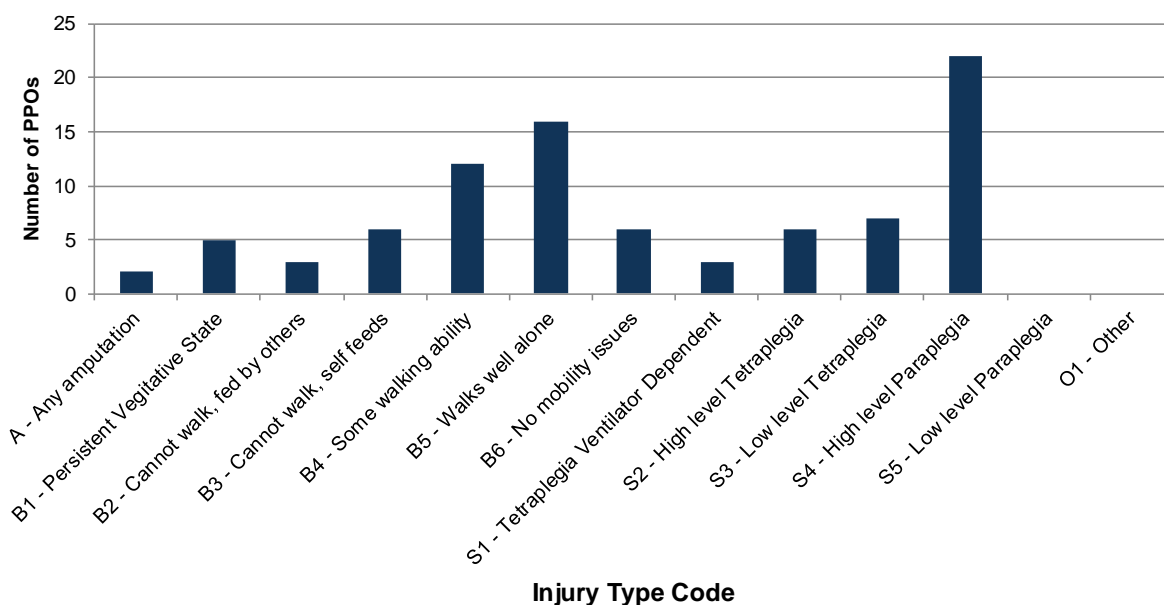
## P.1 Injury type and care regime categorisation

Figure P.1 summarises the IFoA PPO Working Party injury type and care regime categorisation.

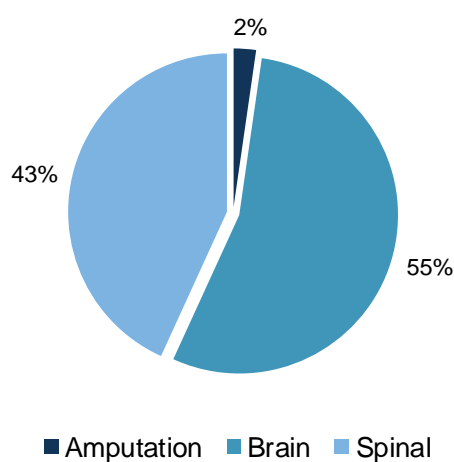
Injury type	Code	Category	Description
<b>Brain</b>	B1	PVS	Permanent Vegetative State – No purposeful motor or cognitive function. Requires a feeding tube.
	B2	Cannot walk - Fed by others	Does not feed self, must be fed completely (either orally or by a feeding tube)
	B3	Cannot walk - Self feeds	Can feed self with fingers or utensils, with assistance and/or spillage
	B4	Some walking ability	Walks with support, or unsteadily alone at least 10 feet but does not balance well
	B5	Walks well alone	for at least 20 feet, and balances well
	B6	No mobility issues	
<b>Spinal</b>	S1	Tetraplegia Ventilator Dependent	C1-C3
	S2	High level Tetraplegia	C4-C5
	S3	Low level tetraplegia	C6-C7
	S4	High level Paraplegia	Thoracic T1-T12
	S5	Low level paraplegia	Lumbar
<b>Spinal 2</b>	Complete/ incomplete flag	Complete or incomplete selected	
<b>Amputation</b>	A1	Double upper limb	Double upper limb amputation (or loss of use), including bilateral brachial plexus injuries etc
	A2	Leg - above knee	
	A3	Leg - below knee	
	A4	Other Amputation	
<b>Other</b>	O1		
Care regime	Code	Category	Description
	C1	24/7 2 or more care ratio	24 hour care needing two or more carers for all that time
	C2	24/7 1-2 care ratio	24 hour care needing one to two carers for all that time
	C3	24/7 but night sleeper	24 hour care with at least one carer but carers can sleep at night
	C4	9 or more hours duty care a day	
	C5	5 to 8 hours duty care a day	
	C6	0 to 4 hours duty care a day	
	C7	Domestic help only, no personal care	
	C8	No regular care	

*Figure P.1: IFoA PPO Working Party injury type and care regime categorisation*

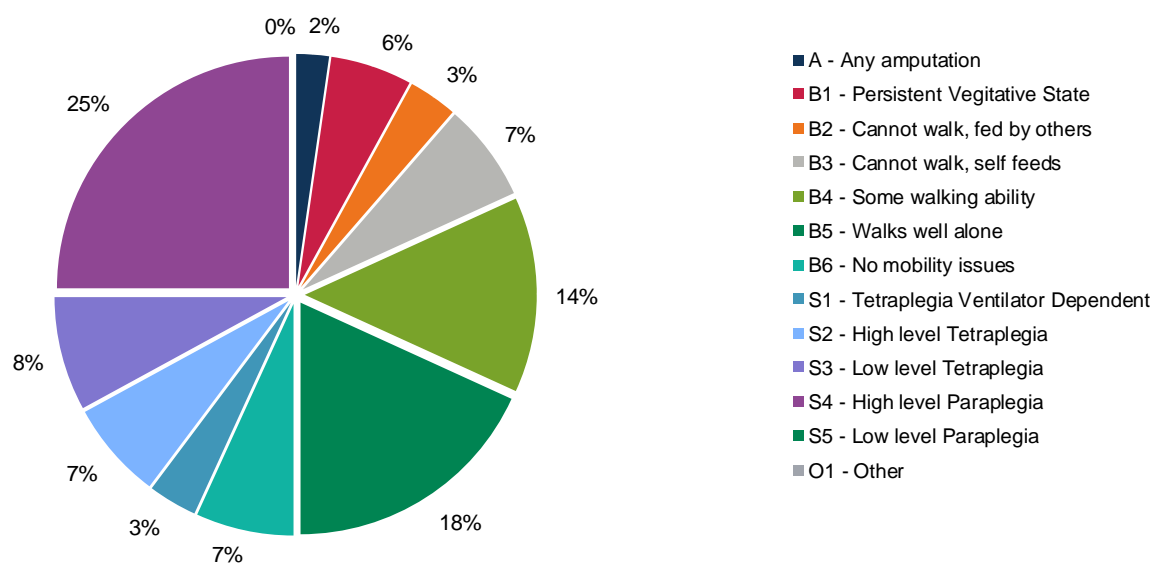
## P.2 Distribution of PPO claims by injury type categorisation



*Figure P.2: Number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*

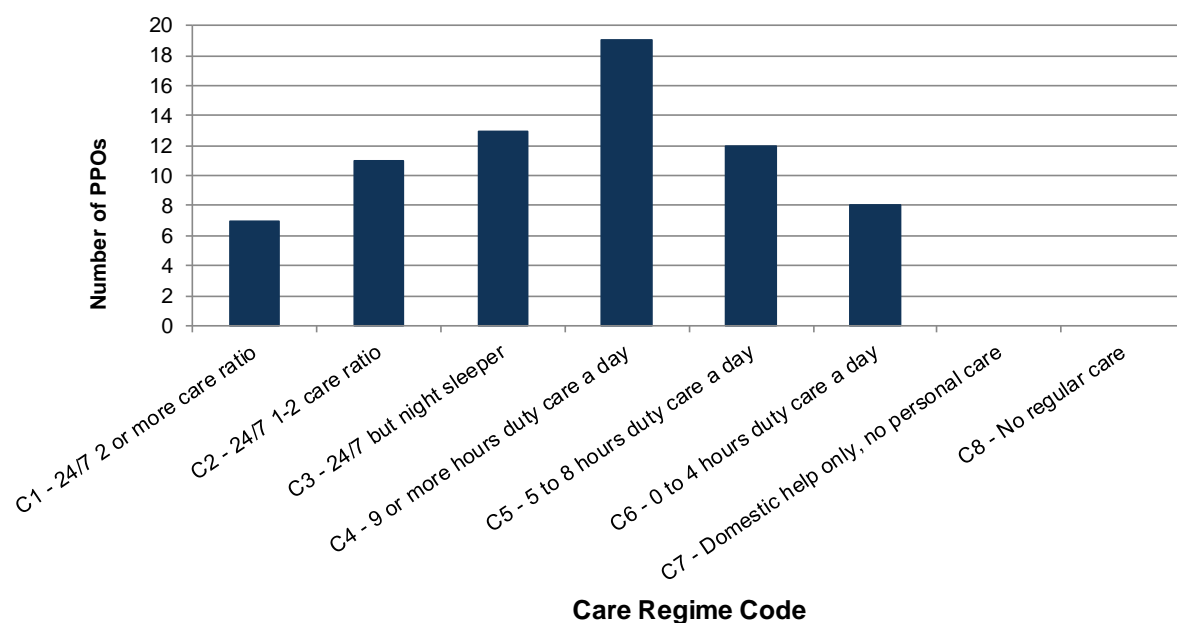


*Figure P.3: High-level split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*

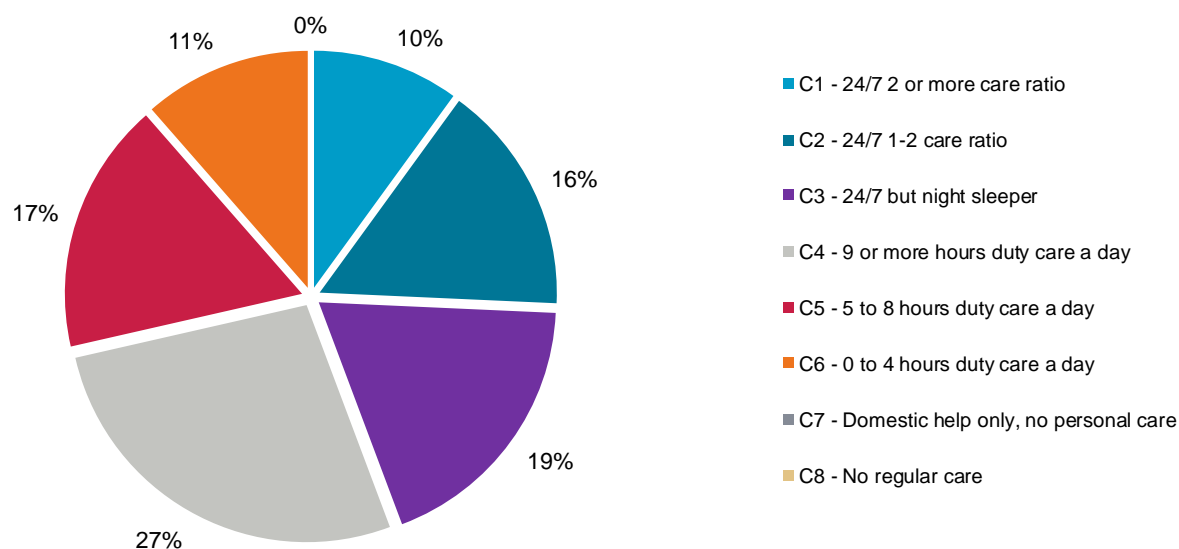


*Figure P.4: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*

### P.3 Distribution of PPO claims by care regime categorisation

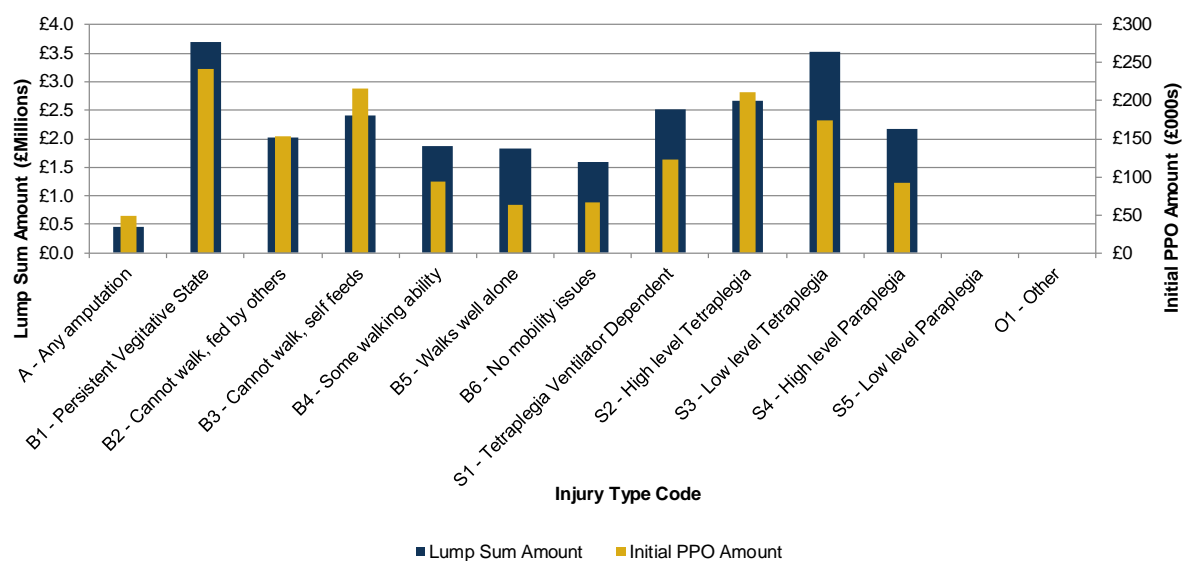


*Figure P.5: Number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation*

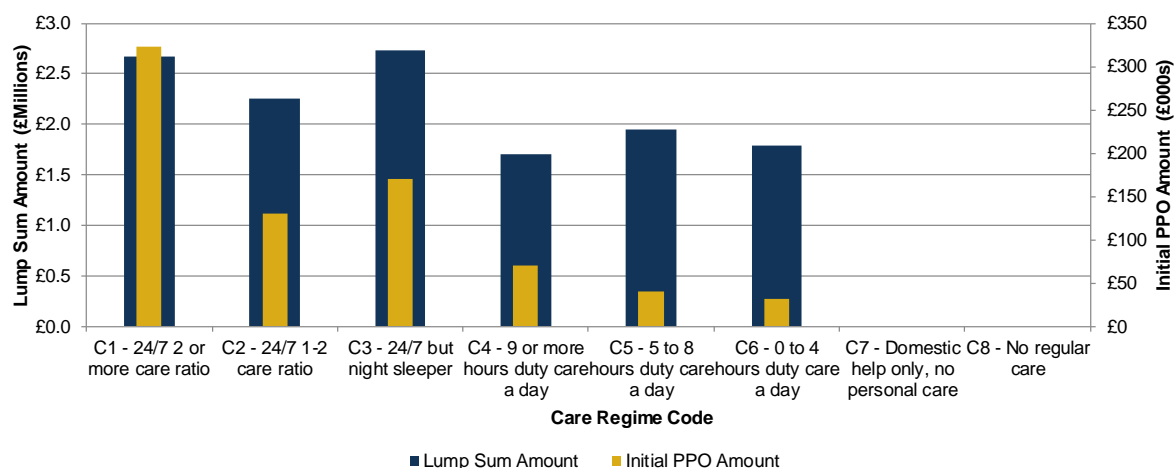


*Figure P.6: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation*

## P.4 PPO claim payment components by categorisation



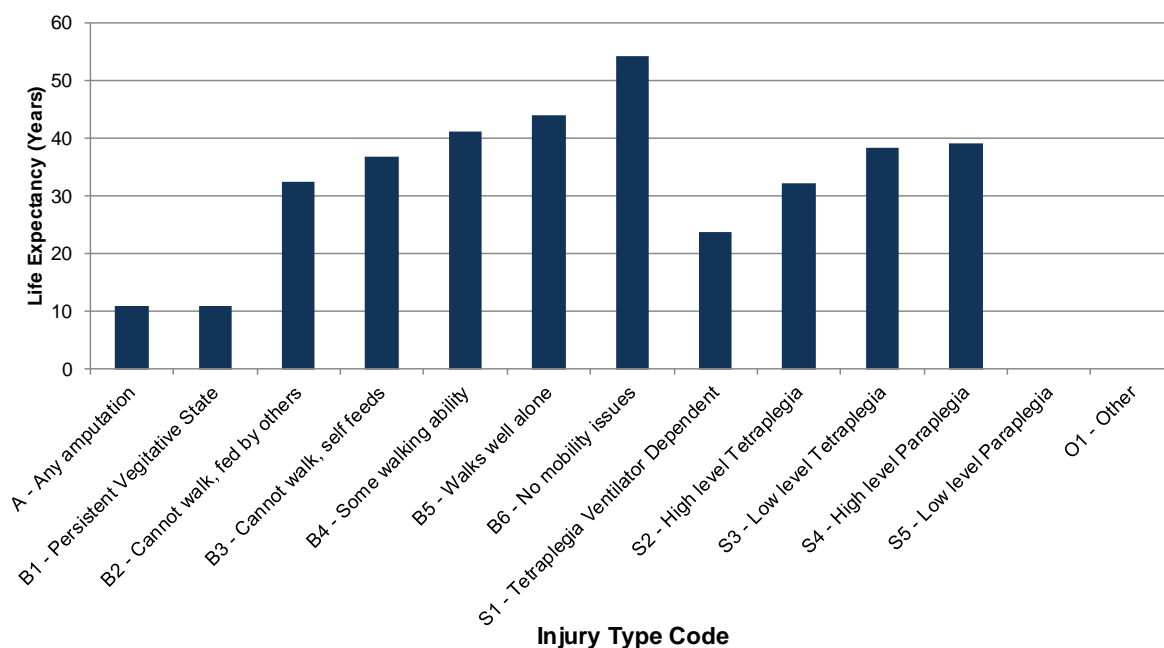
*Figure P.7: Average lump sum amount and initial PPO amount (annual payment) for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation*



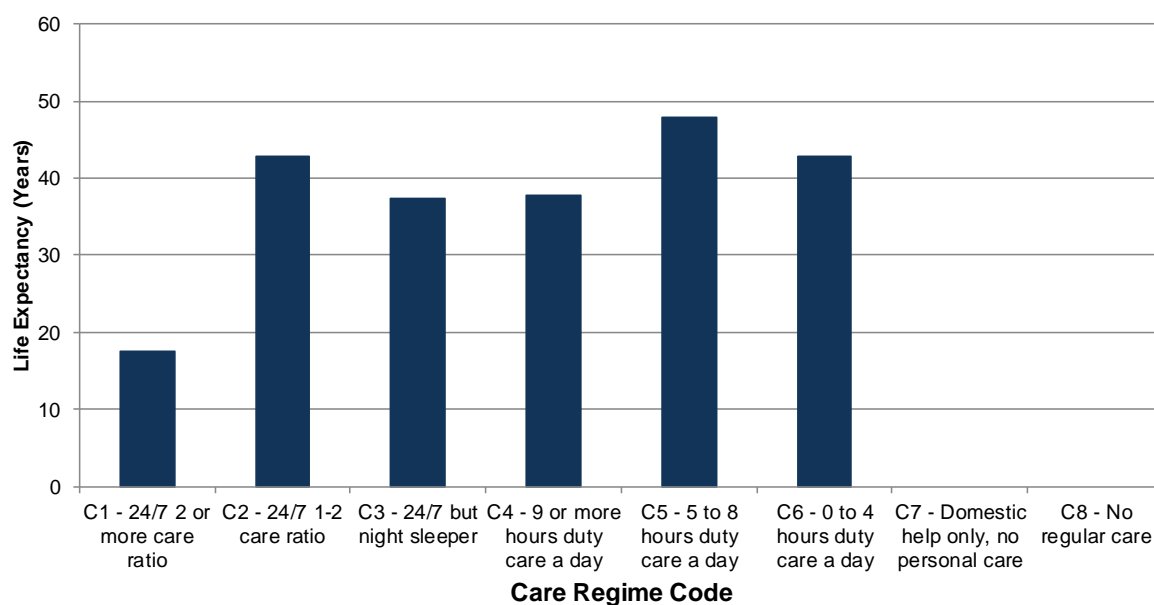
*Figure P.8: Average lump sum amount and initial PPO amount (annual payment) for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation*

## P.5 Life expectancy of the claimant at settlement date by categorisation

The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.



**Figure P.9: Life expectancy of the claimant at settlement date for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation**



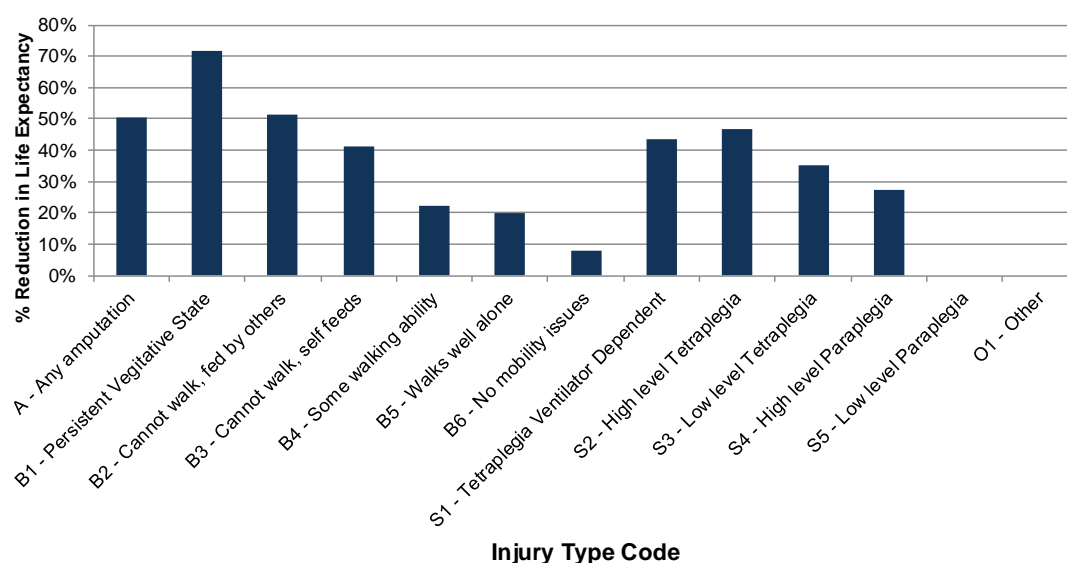
**Figure P.10: Life expectancy of the claimant at settlement date for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation**

## P.6 Reduction in life expectancy of the claimant by categorisation

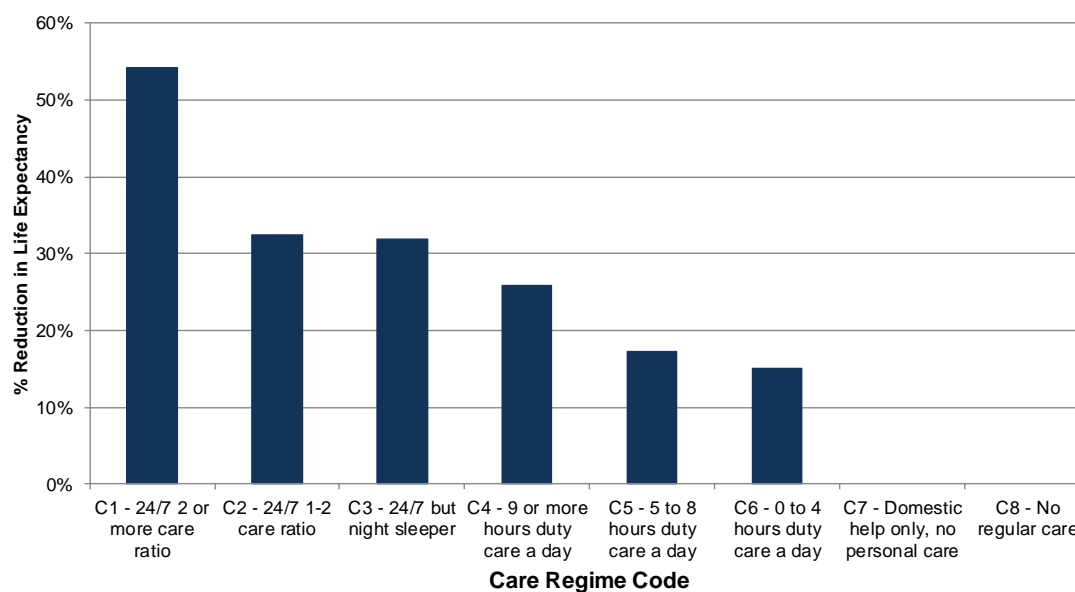
The percentage reduction in life expectancy is defined as:

$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)



**Figure P.11: Percentage reduction in life expectancy of a claimant for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation**



**Figure P.12: Percentage reduction in life expectancy of a claimant for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation**



## Appendix Q      Nature of injury

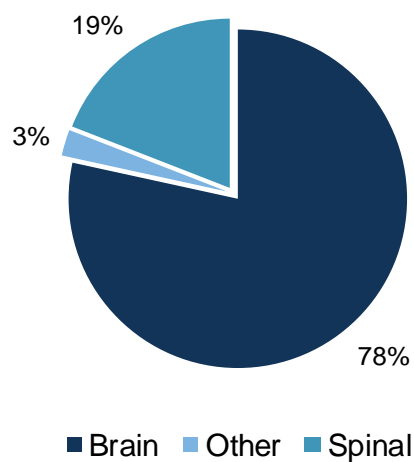
In this appendix, we provide high-level summary statistics on the nature of injury for Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims.

Where claimants suffered multiple injuries, the summary statistics represent the primary injury.

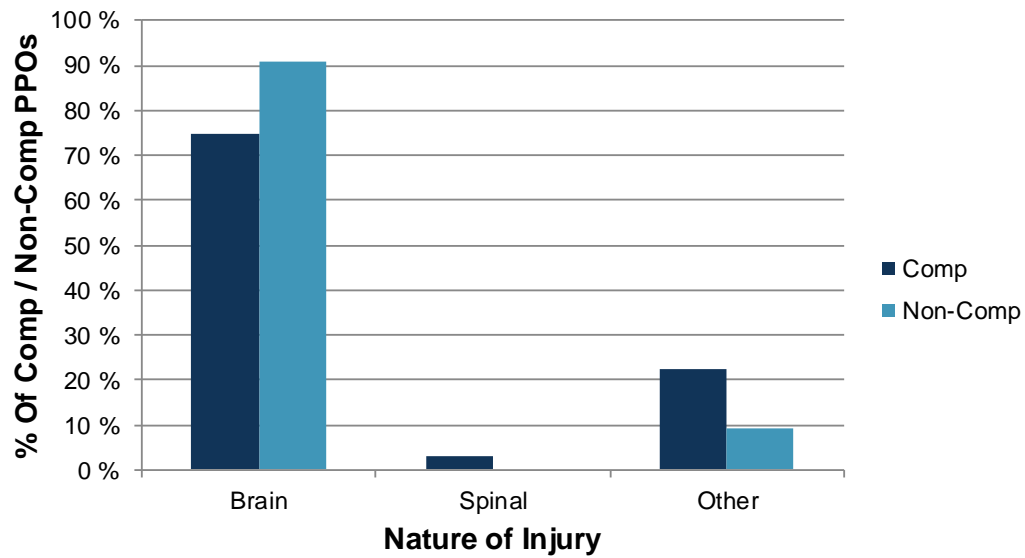
We also provide summary statistics on the nature of injury for Motor (non-MIB) PPO claims by the following characteristics:

- Age of claimant at accident date
- Delay to settlement
- Life expectancy of claimant at settlement date
- Reduction in life expectancy of the claimant
- Payment components.

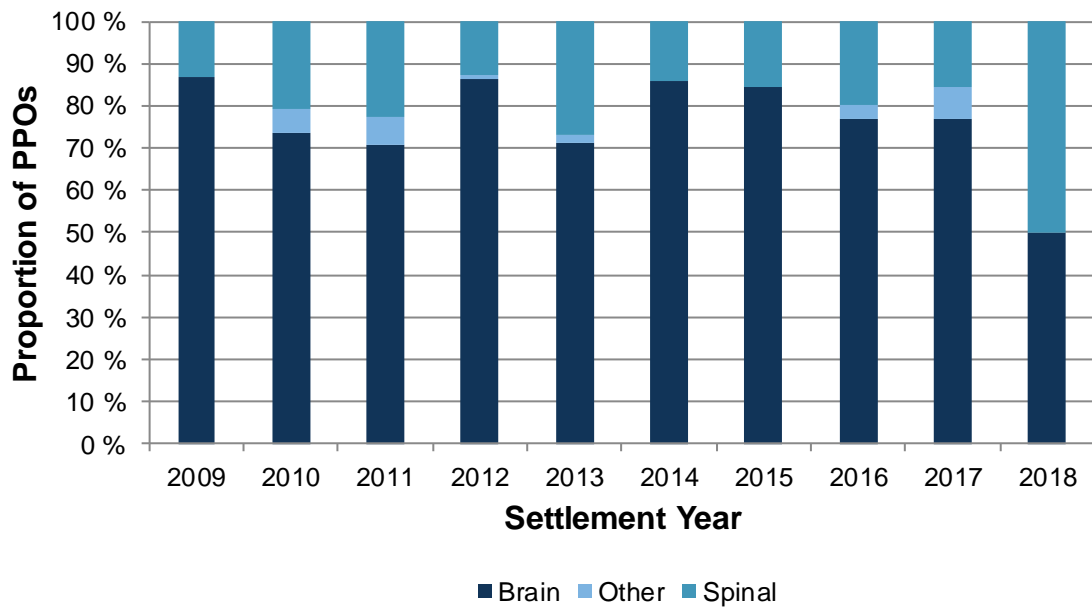
### Q.1 Motor (non-MIB) PPO claims – nature of injury



*Figure Q.1: Split of the number of Motor (non-MIB) PPO claims, by nature of injury*

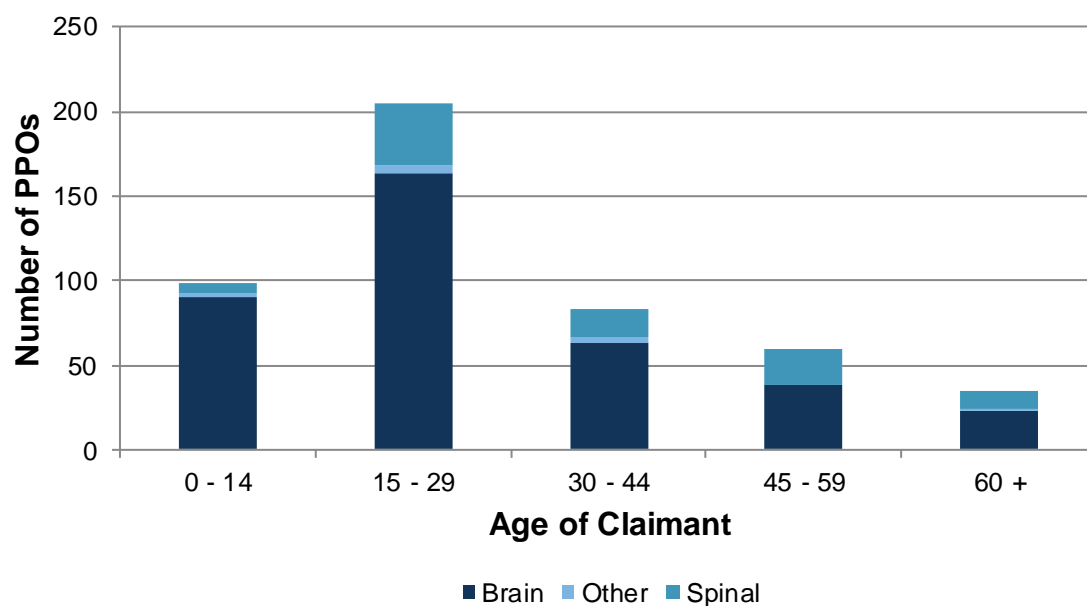


*Figure Q.2: Distribution of Motor (non-MIB) PPO claims, for Private Motor, by nature of injury and by cover type*

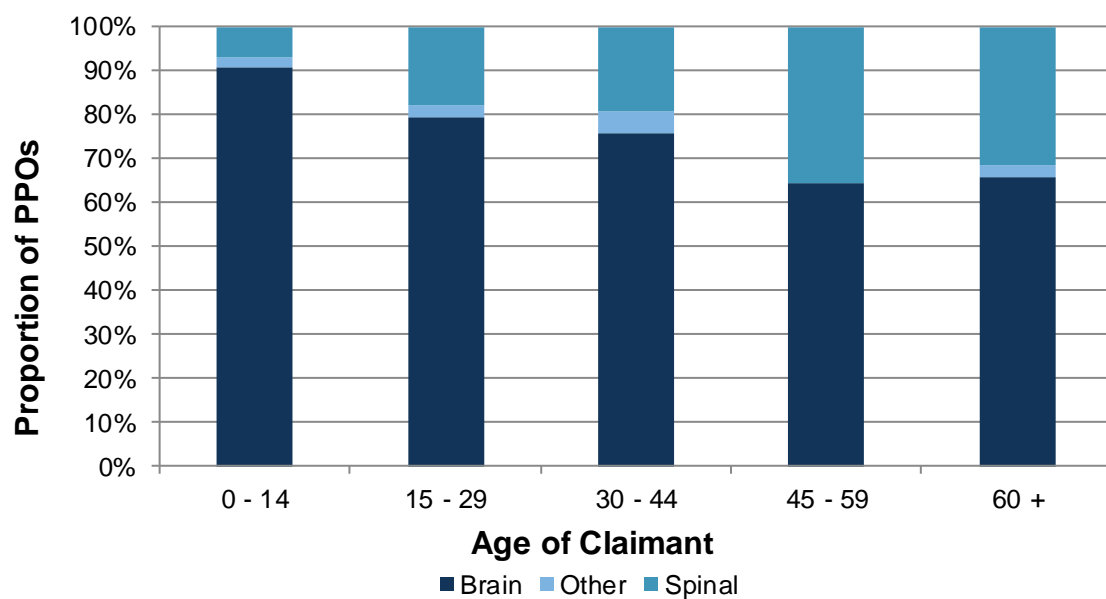


*Figure Q.3: Proportion of Motor (non-MIB) PPO claims, by settlement year and by nature of injury*

## Q.2 Motor (non-MIB) PPO claims – age of claimant at accident date



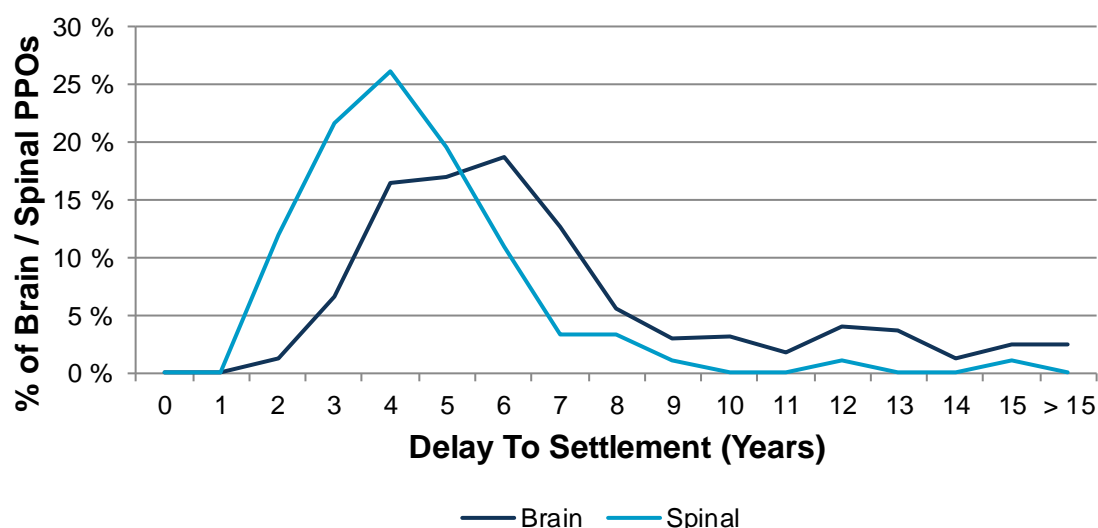
*Figure Q.4: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury*



*Figure Q.5: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury*

### Q.3 Motor (non-MIB) PPO claims – delay to settlement

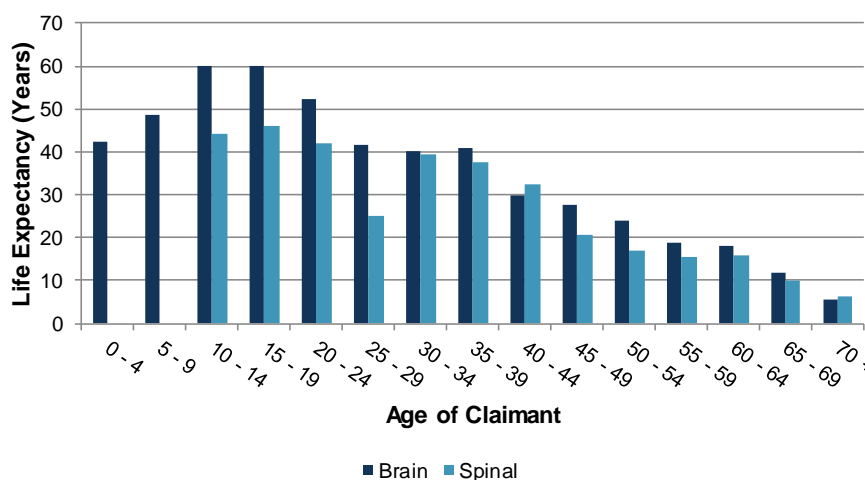
The delay to settlement is calculated as the time elapsed between the accident date and PPO settlement date, rounded to the nearest whole year.



*Figure Q.6: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by nature of injury*

### Q.4 Motor (non-MIB) PPO claims – life expectancy of claimant at settlement date

The term “life expectancy” in this document is defined as the future life expectancy at the time of settlement, as per the quantitative industry survey responses. It is not clear whether the data collected represents the claimant experts’ views, the defendant experts’ views, internal views, or a combination of these.



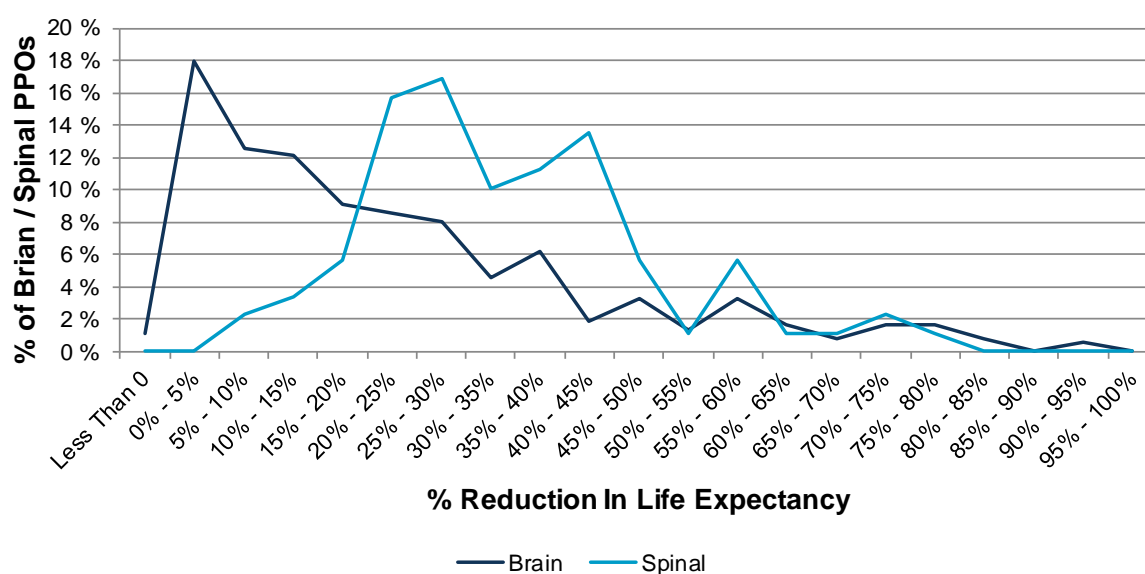
*Figure Q.7: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date and by nature of injury*

## Q.5 Motor (non-MIB) PPO claims – reduction in life expectancy of the claimant

The percentage reduction in life expectancy is defined as:

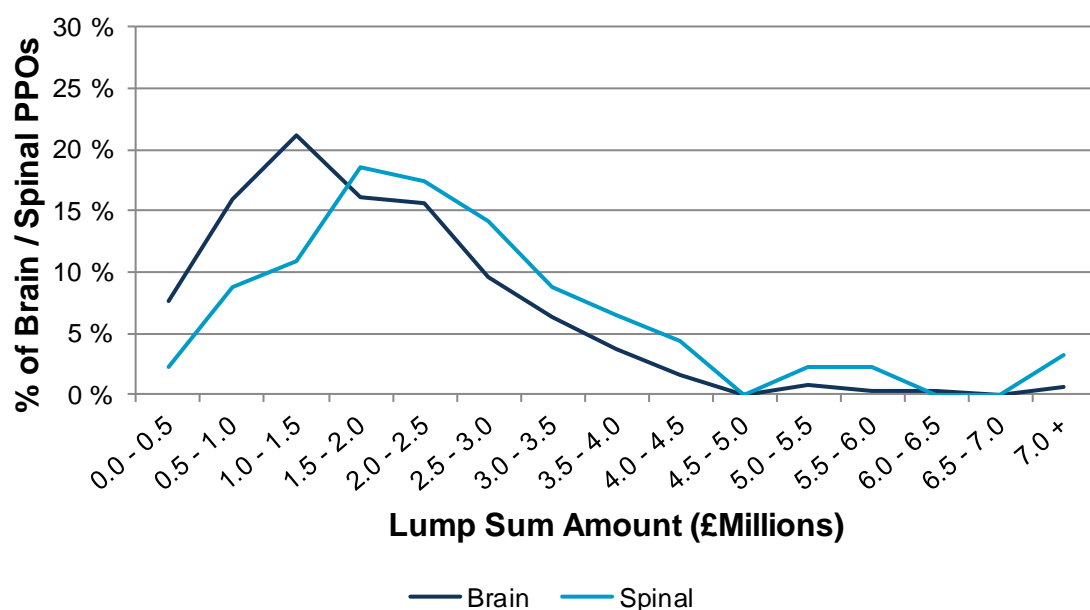
$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where the unimpaired life expectancy is taken from the 2018 ONS United Kingdom mortality tables, and all life expectancies are quoted as at the date of settlement. (Negative percentage reductions in life expectancy may therefore occur if insurers are using more recent (or different) mortality tables.)

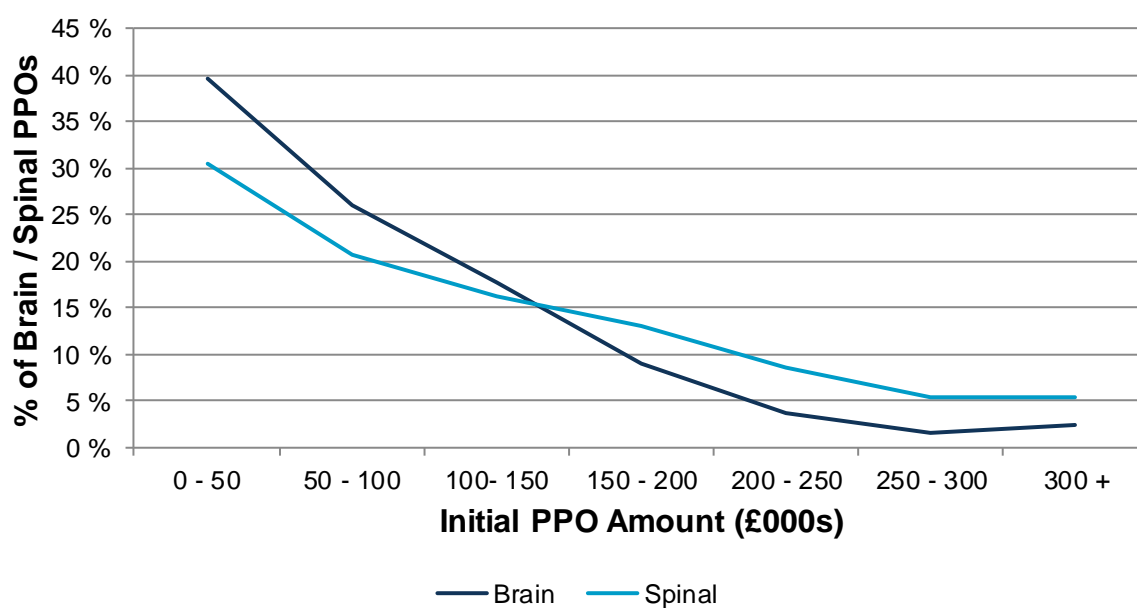


**Figure Q.8: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by nature of injury**

## Q.6 Motor (non-MIB) PPO claims – payment components

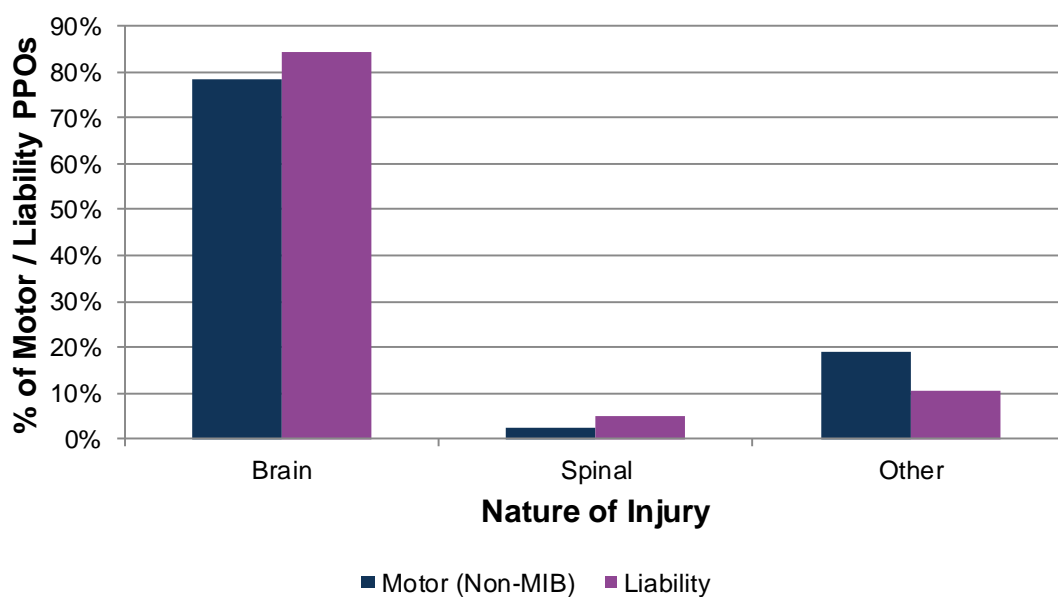


*Figure Q.9: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, by nature of injury*



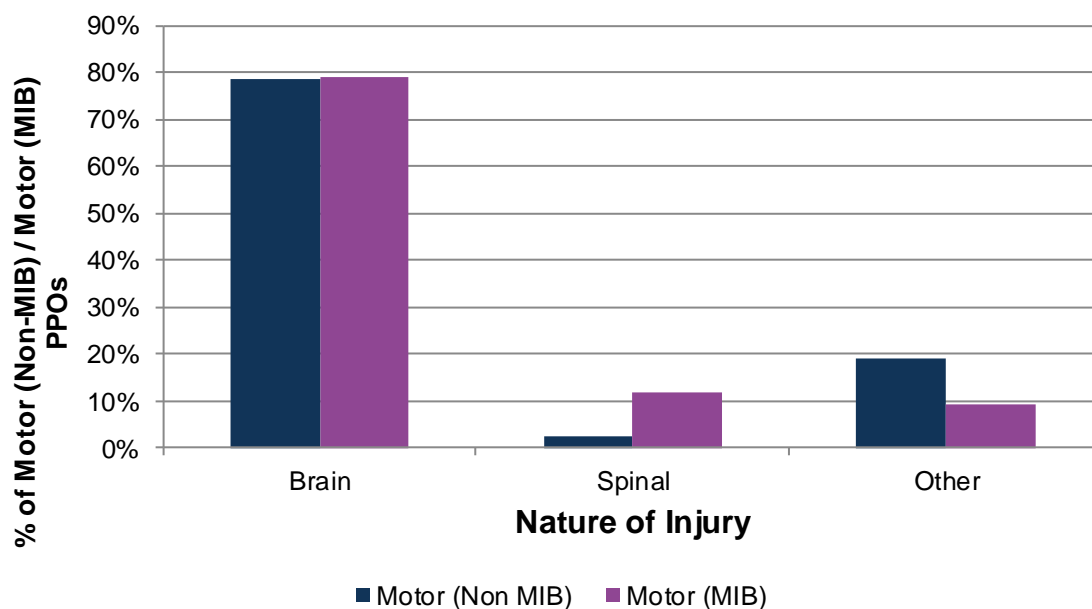
*Figure Q.10: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, by nature of injury*

## Q.7 Liability PPO claims – nature of injury



*Figure Q.11: Distribution of Motor (non-MIB) PPO claims and Liability PPO claims, by nature of injury*

## Q.8 Motor (MIB) PPO claims – nature of injury



*Figure Q.12: Distribution of Motor (non-MIB) PPO claims and Motor (MIB) PPO claims, by nature of injury*





## Appendix R      Mortality of PPO claimants

In this appendix, we provide the following summary statistics in relation to the mortality of PPO claimants:

- Number of deaths for PPO claimants
- Actual versus expected number of deaths
- Comparison of PPO claimant mortality rates assumed by insurers to those for unimpaired lives
- PPO claimant mortality multipliers and the equivalent reduction in life expectancy figures
- PPO claimant life expectancy, experience analysis and assumed
- Assumed PPO claimant life expectancy / reduction in life expectancy by insurer.

To increase the sample size, we have considered all PPO claims in this analysis, i.e. Motor (non-MIB) PPO claims, Liability PPO claims and Motor (MIB) PPO claims combined.

We note, however, that there remains very limited data on which to base any firm conclusions.

We also note that there is an inherent bias in any such analysis, in that we will not observe people living much longer than expectations for a very long time to come, which is more likely to overstate mortality than to understate mortality.

We therefore stress caution in using the results of the analysis presented in this appendix.

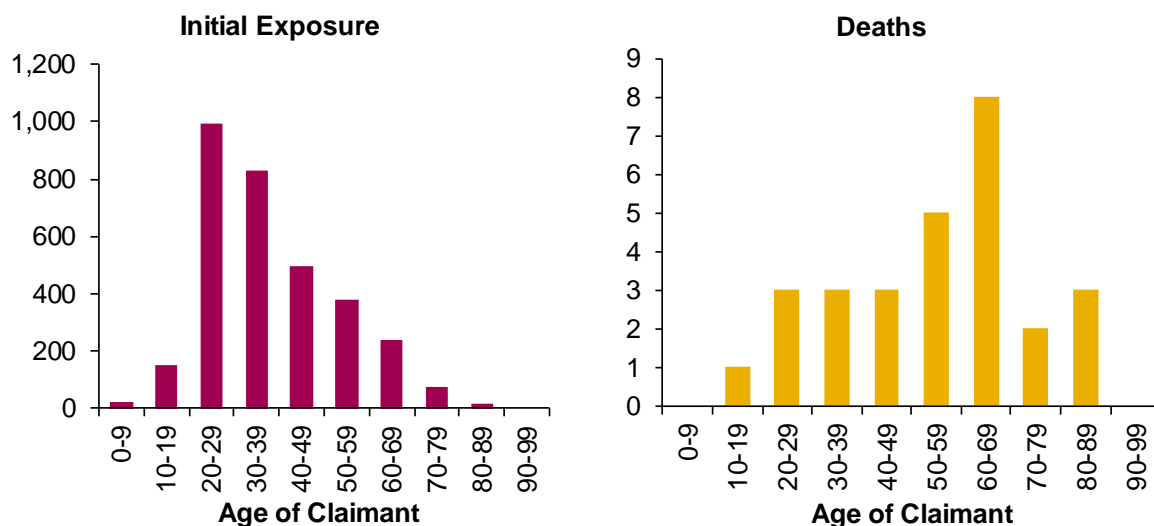
In considering unimpaired mortality within the analysis in this appendix, we have used the most recent two-way ONS forecast projections (National Life Tables, United Kingdom 2018) rather than the ONS mortality rates that underlie the Ogden tables (seventh edition).

### R.1 Number of deaths for PPO claimants

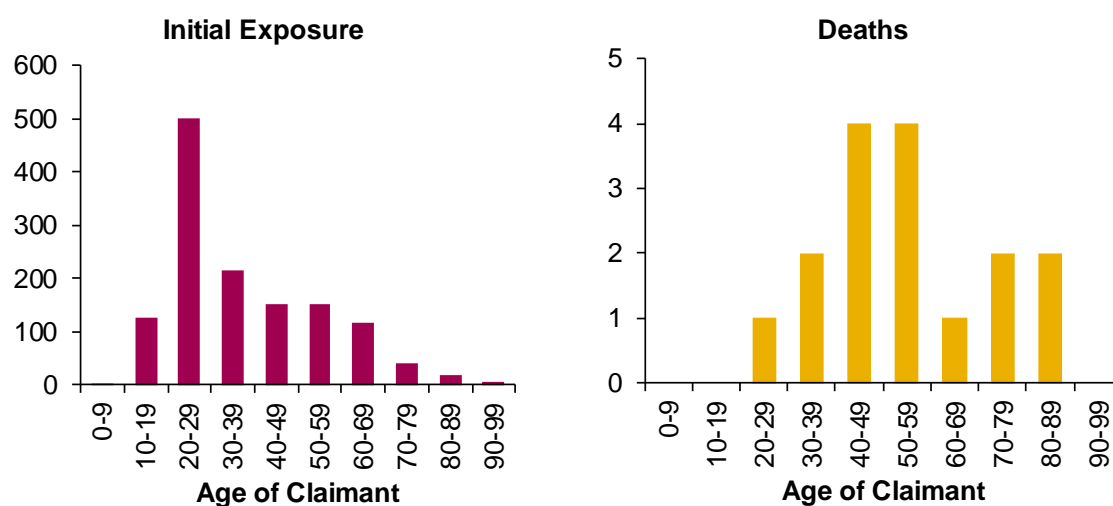
Figures R.1 and R.2 show the “initial exposure” and number of deaths by age group for male and female claimants respectively.

The “initial exposure” is a measure of the total number of years of exposure for PPO claims in the quantitative industry survey, taken as the number of years from settlement date to 31 December 2018 or date of death if applicable.

The “initial exposure” has been taken from the settlement date of the PPO, as we only receive data for claimants who survive to settlement of the claim, and do not receive information on claimants who die before a settlement.



*Figure R.1: Number of years of exposure for PPO claims and number of deaths, for male PPO claimants, by age of claimant at settlement date*



*Figure R.2: Number of years of exposure for PPO claims and number of deaths, for female PPO claimants, by age of claimant at settlement date*

Figure R.3 shows the number of PPO claims where the claimant has died by:

- The number of years since settlement date that the claimant died.
- The number of years between accident date and settlement date.
- The number of years between the accident date and death.

(Note that this data includes one death prior to settlement.)

Number of years	Years since settlement	Delay to settlement	Years since accident
0	3	0	0
1	6	0	0
2	7	2	0
3	8	7	2
4	3	5	1
5	6	9	1
>5	11	21	40
<b>Total</b>	<b>44</b>	<b>44</b>	<b>44</b>

*Figure R.3: Number of deaths for PPO claimants, by various measures of the number of years*

## R.2 Actual versus expected number of deaths

Given the serious nature of injuries which give rise to a PPO award, we would expect the life expectancy of PPO claimants to be impaired. The analysis set out below aims to test this hypothesis and to give an indication of the extent to which these lives are impaired.

We have calculated the multiplicative adjustment to the ONS mortality rates (its most recent forecast projections, as described above), for individuals in the quantitative industry survey, which would be required to produce the number of deaths observed over the period.

We have assumed that the ratio of actual to expected death rates fits to a Poisson distribution, parameterised based on the actual exposed to risk (the “initial exposure”, as described above) and the mortality rates from the ONS tables. By using this method we have produced confidence levels around the median result.

The analysis is subject to a number of significant simplifications and assumptions, for example:

- We have assumed that the cohort is homogeneous in terms of life expectancy. We know that is very unlikely to be the case, as some claimants are likely to have a very different prognosis to others as a result of their particular injuries (without taking into account differences in lifestyles). For example, those with serious brain injury will be likely to have lower life expectancies, often significantly so, than those with moderate brain injury.
- We have assumed that it is appropriate to apply a single multiplier to the  $q_x$ s (the probability of an individual aged exactly  $x$  years will die within the next year). In fact, we do not know the shape of the mortality curve for these impaired lives; indeed the shape may well be different for different injury types. One particular impact of this may be that it is not appropriate to apply the same multiplier as derived from observing the data at this relatively early stage of the experience to future mortality rates, the reason being that, for these kinds of injuries, mortality (relative to unimpaired mortality rates) is often higher in the early years after the accident.

In addition, the analysis was conducted on a small sample of claims over a short time period (2005 to 2018), and as such cannot be considered to be particularly credible. Therefore, there is some uncertainty surrounding the results – one additional or one fewer death would have a material

impact on these figures. (Similar analyses that pension funds may conduct are likely to have significantly narrower confidence intervals as pension funds typically have much greater sample sizes.)

Figure R.4 shows the output of the analysis. The median result suggests that:

- PPO claimants are likely to have a higher mortality rate than the general population as defined by the ONS mortality rates (its most recent forecast projections, as described above), at least initially.
- The mortality rate for male PPO claimants is 2.6 times that of the general population (compared with 3.2 times in last year's industry survey).
  - When split by nature of injury, Brain has a multiplier of 2.4, Spinal has a multiplier of 1.7 with Other injuries showing a multiplier of 5.0.
- The mortality rate for female PPO claimants is 3.0 times that of the general population (compared with 3.7 times in last year's industry survey).
  - When split by nature of injury, Brain has a multiplier of 2.5, Spinal has a multiplier of 2.9 with no observed Other deaths within the data.
- When the results are shown by gender of PPO claimant and nature of injury, the volume of data in each cohort is very small and so these results should be treated with particular caution.

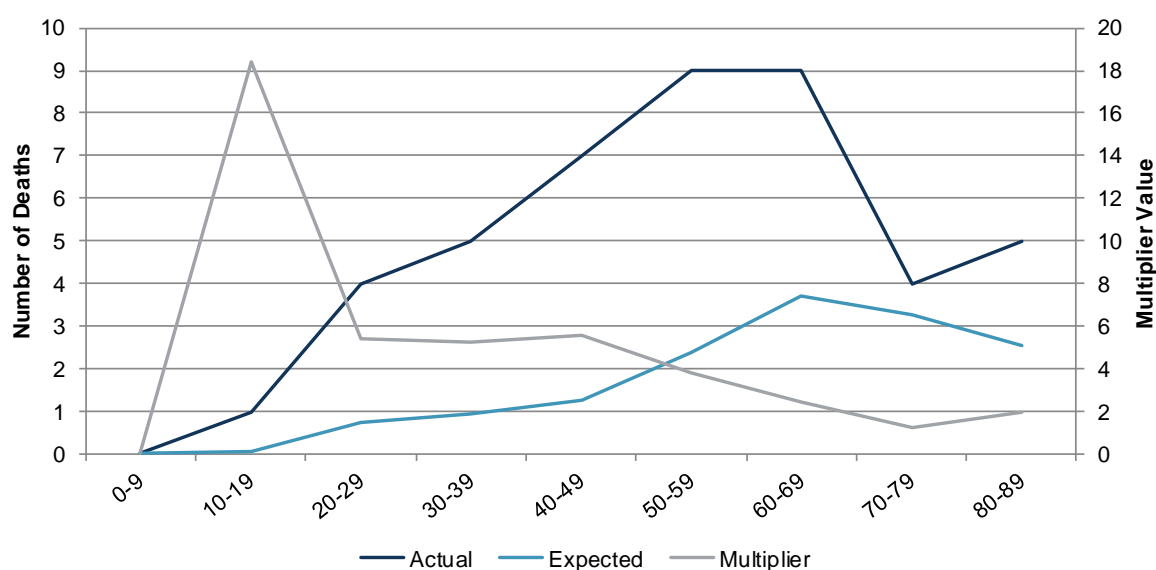
The model has output confidence intervals around the median figures, although it should be noted that we would expect the actual confidence intervals to be even broader than those shown in Figure R.4 due to elements of model error as described above.

Percentiles	Male	Female
5th	352%	452%
25th	293%	354%
<b>50th</b>	<b>258%</b>	<b>299%</b>
75th	227%	253%
90th	203%	217%
95th	189%	198%

*Figure R.4: Median and percentile values for the required adjustment to ONS mortality rates which would be required to produce the number of PPO claimant deaths observed over the period*

Figure R.5 shows the observed (i.e. actual) number of deaths by claimant age band (at settlement date) against those that would have been expected for the survey sample using unimpaired mortality rates based on the ONS mortality rates (its most recent forecast projections, as described above).

In total there have been 44 observed deaths since settlement, against an expected number of 16.2 deaths assuming unimpaired mortality, representing a multiplier of 2.7 (for male and female PPO claimants combined). This result is statistically significant.



*Figure R.5: Actual number of PPO claimant deaths, expected number of PPO claimant deaths assuming unimpaired mortality, and the multiplier (actual / expected), by age of claimant at settlement date*

We encourage readers to place a limited degree of reliance on these estimates and to reference other indicators and data sources to support any assumptions they are using for their own purposes. To reiterate; we advise readers to treat these results with caution due to:

- The small sample size.
- The simplifying assumptions which have been made in the model (homogeneity of underlying mortality in the cohort and the appropriateness of a single multiplier).
- The mortality experience only being considered for those individuals who survive beyond the period it takes for their PPO claim to settle.

### R.3 Comparison of PPO claimant mortality rates assumed by insurers to those for unimpaired lives

By assuming that the shape of the mortality curve is the same for unimpaired and impaired lives, we have converted the impaired life expectancies provided by insurers in the survey to be expressed as a mortality multiplier relative to the ONS mortality rates (its most recent forecast projections, as described above). A value of 100% is representative of life expectancy (or mortality rate) equal to that for an unimpaired life (according to the ONS mortality rates).

These results consider the range of estimates for individual claimants and hence the range of percentiles is considerably wider than the previous analysis.

Figure R.6 shows the output of the analysis. The median result suggests that:

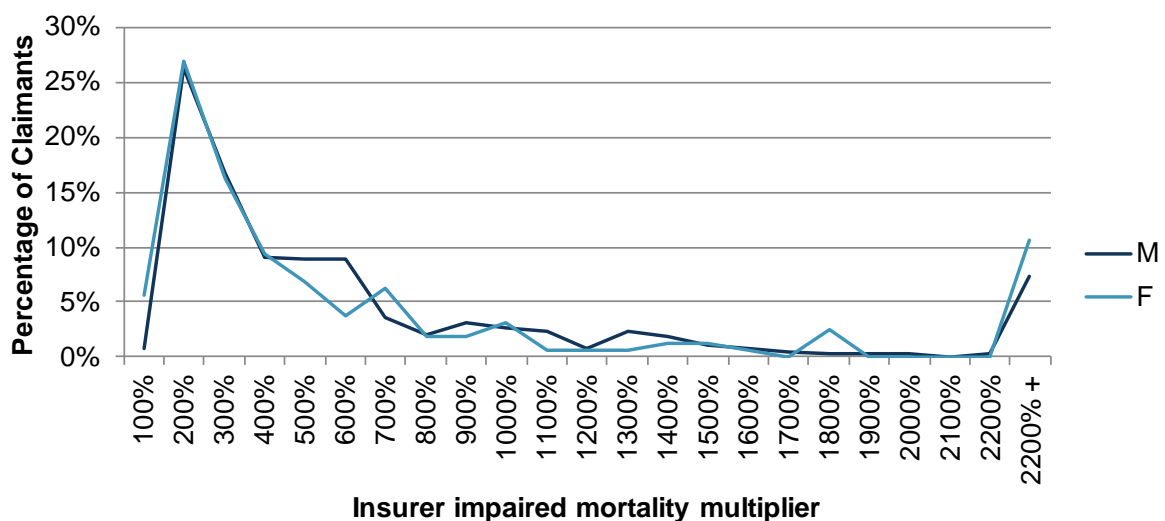
- Insurers assume that PPO claimants are likely to have a higher mortality rate than the general population as defined by the ONS mortality rates (its most recent forecast projections, as described above).

- Insurers assume that the mortality rate for male PPO claimants is 3.4 times that of the general population (compared with 3.7 times in last year's industry survey).
- Insurers assume that the mortality rate for female PPO claimants is 3.0 times that of the general population (compared with 3.1 times in last year's industry survey).
- Insurers' assumptions around increased mortality for PPO claimants are higher than the observed increased mortality for PPO claimants for the 50<sup>th</sup> percentile and higher percentiles, and lower than the observed increased mortality for lower percentiles, as summarised in Figure R.4.

Percentiles	Male	Female
5th	3992%	6013%
25th	693%	667%
<b>50th</b>	<b>343%</b>	<b>296%</b>
75th	184%	151%
90th	137%	119%
95th	122%	104%

*Figure R.6: Median and percentile values for the required adjustment to ONS mortality rates which would be required to match insurers' expectations of PPO claimant mortality*

Figure R.7 shows the distribution of these mortality multipliers. It should be noted that this distribution is highly skewed, with, for example, over 7% of male PPO claimants and 10% of female PPO claimants having assumed mortality rates of more than 22 times the unimpaired rate.



*Figure R.7: Distribution of insurers' mortality multipliers (insurers' expectations of PPO claimant mortality relative to unimpaired lives), by gender of claimant*

## R.4 PPO claimant mortality multipliers and the equivalent reduction in life expectancy figures

Figure R.8 tabulates how the above mortality multipliers translate to the percentage reduction in life expectancy measure for sample male and female lives aged 20, 40, and 60 years in 2010.

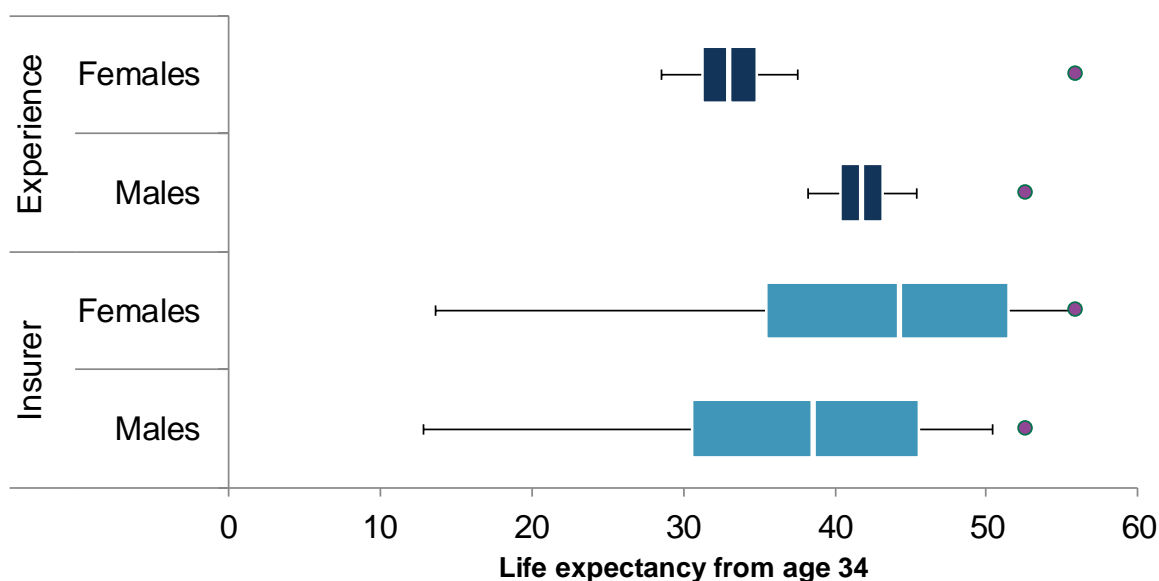
Multiplier	Male			Female		
	20	Age 40	60	20	Age 40	60
<b>200%</b>	12%	17%	25%	11%	15%	22%
<b>300%</b>	20%	26%	39%	17%	23%	34%
<b>400%</b>	25%	33%	47%	21%	29%	42%
<b>500%</b>	29%	38%	54%	25%	34%	48%
<b>750%</b>	37%	47%	64%	31%	42%	58%
<b>1000%</b>	42%	54%	71%	36%	48%	65%
<b>1500%</b>	50%	62%	79%	43%	56%	73%
<b>2000%</b>	55%	67%	83%	48%	62%	78%

*Figure R.8: Percentage reduction in life expectancy for sample lives implied by the PPO claimant mortality multipliers*

## R.5 PPO claimant life expectancy, experience analysis and assumed

The results from the mortality analysis can also be expressed in terms of future life expectancy (in years). This is summarised in Figure R.9:

- The purple dots show the ONS unimpaired life expectancy for a 34 year old male (52.7 years) and a 34 year old female (56.0 years).
- The dark blue bars and stalks show the 5<sup>th</sup> to 25<sup>th</sup> (stalk), 25<sup>th</sup> to 50<sup>th</sup> (bar), 50<sup>th</sup> to 75<sup>th</sup> (bar) and 75<sup>th</sup> to 95<sup>th</sup> (stalk) percentiles of the experience analysis (i.e. based on the analysis of the number of deaths in the industry survey). This applies the mortality multipliers in Figure R.4 to a 34 year old claimant.
- The light blue bars and stalks show the 5<sup>th</sup> to 25<sup>th</sup> (stalk), 25<sup>th</sup> to 50<sup>th</sup> (bar), 50<sup>th</sup> to 75<sup>th</sup> (bar) and 75<sup>th</sup> to 95<sup>th</sup> (stalk) percentiles of the insurer analysis (i.e. based on the insurer assumptions of life expectancy in the industry survey). This applies the mortality multipliers in Figure R.6 to a 34 year old claimant.



*Figure R.9: Comparison of PPO claimant life expectancy: unimpaired lives, experience analysis and insurer assumptions*

Figure R.9 shows the much larger ranges of values around the insurer assumptions of life expectancy in the market compared to the experience analysis. This is to be expected due to the lack of homogeneity in the underlying mortality of PPO claimants and also the inconsistent approaches taken to estimating the mortality on a case by case basis (in the case of the insurers) and by estimating the mortality on the entire cohort of PPO claims (experience analysis).

It is also worth reiterating that our analysis assumes it is appropriate to apply a single multiplier to the  $q_x$ s. However it is not unreasonable to presume that for brain and spinal injuries, mortality will be higher in the early years after the injury has occurred. Consequently, as the analysis in most cases only covers an early stage of development since the accidents occurred, these results may be overstated. However, there is an average delay before settlement for these claims of six years, which would mitigate this effect to some extent.

## R.6 Assumed PPO claimant life expectancy / reduction in life expectancy by insurer

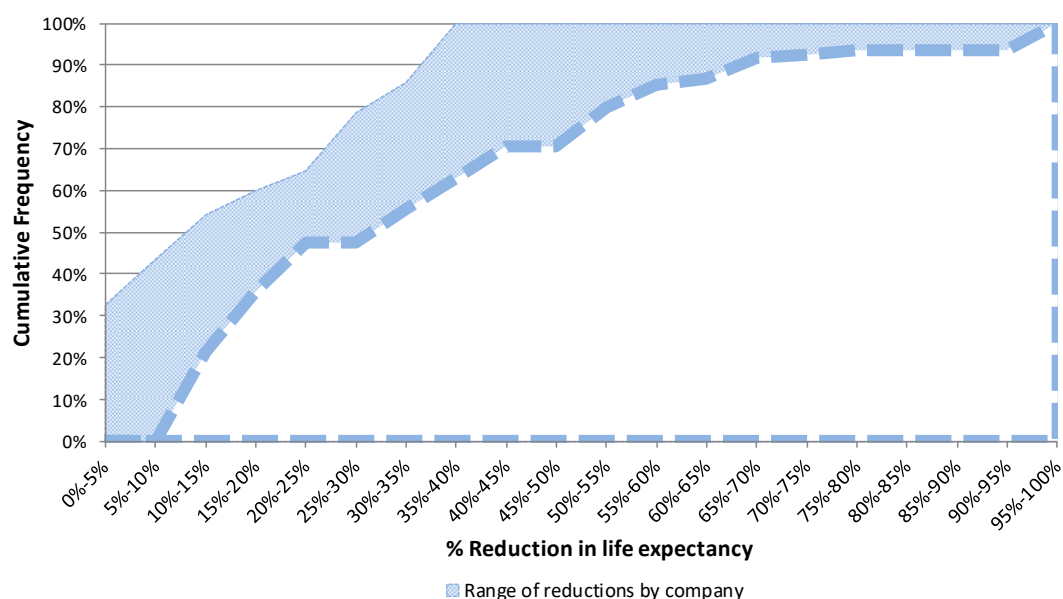
Figure R.10 shows the cumulative distribution of the percentage reduction in life expectancy assumed by each insurer. A couple of insurers have been excluded for data reasons, and the data is presented as a range across those insurers included in the analysis.

As elsewhere in this report, the percentage reduction in life expectancy is defined as:

$$\frac{\text{unimpaired life expectancy} - \text{life expectancy as provided by participants}}{\text{unimpaired life expectancy}}$$

where all life expectancies are quoted as at the date of settlement.





**Figure R.10: Cumulative distribution of the percentage reduction in life expectancy assumed by different insurers**

It can be seen that there are significant differences in the life expectancy distributions from insurer to insurer. Some of the observed difference could be explained by differences in the nature of the claimants to each insurer because, as discussed above, individual claimants exhibit large differences in their impairment. Additionally, the relatively small sample size of PPO claims, and the accompanying volatility, could cause significant differences to be observed across insurers.



## Appendix S      Reserves for Motor (non-MIB) PPO claims

In this appendix, we provide the following summary statistics in relation to the size of reserves for Motor (non-MIB) PPO claims:

- Impact of real discount rate assumption on reserves for PPO claims and total cost of PPO claims
- Comparison of total cost of PPO claims to insurers' Ogden-equivalent lump sum estimate
- Comparison of reserves for PPO claims to insurers' estimates of reserves
- Lump sum element of PPO claims as a proportion of total cost of PPO claims
- Reserves for PPO claims by class of business
- Reserves for PPO claims by nature of injury
- Scatter plots of reserves for PPO claims against a number of factors.

In order to consider the size of reserves on a consistent basis, we have estimated the total cost and outstanding reserve for each of the Motor (non-MIB) PPO claims in the quantitative industry survey on a cashflow basis, using the same methodology and assumptions for all claims (including stochastic mortality). However, the parameters used (such as life expectancy from settlement) were taken from individual participating insurer estimates.

We have estimated the total cost and outstanding reserve for each of the Motor (non-MIB) PPO claims using discount rate assumptions ranging from -2% per annum to +2.5% per annum, discounting to 31 December 2018.

In deriving these estimates, we have made no allowance for some factors that will affect the size of a claim, such as variation orders and indemnity / reverse indemnity guarantees. We have, however, allowed for factors such as stepped payments, where that information has been provided.

The estimates in this appendix are shown gross of reinsurance.

### S.1 Impact of real discount rate assumption on reserves for PPO claims and total cost of PPO claims

Figure S.1 compares our estimate of outstanding reserves for Motor (non-MIB) PPO claims (i.e. PPO claims in payment), as at 31 December 2017, using discount rate assumptions ranging from -2% per annum to +2% per annum, to an estimate at the prevailing Ogden discount rate of +2.5% per annum.

Figure S.2 shows the same information for the total cost of PPO claims (from ground up), as at 31 December 2018.

Figure S.3 shows the same information for the total cost of PPO claims, as at the PPO settlement date.

Real Discount Rate	Reserve Multiple
-2.00%	1.41
-1.00%	1.07
-0.75%	1.00
-0.25%	0.88
0.00%	0.83
1.00%	0.66
2.00%	0.54
2.50%	0.49

*Figure S.1: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the reserve estimated at a +2.5% per annum real discount rate*

Real Discount Rate	Total Cost Multiple
-2.00%	1.24
-1.00%	1.04
-0.75%	1.00
-0.25%	0.93
0.00%	0.90
1.00%	0.80
2.00%	0.73
2.50%	0.70

*Figure S.2: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the total cost estimated at a +2.5% per annum real discount rate*

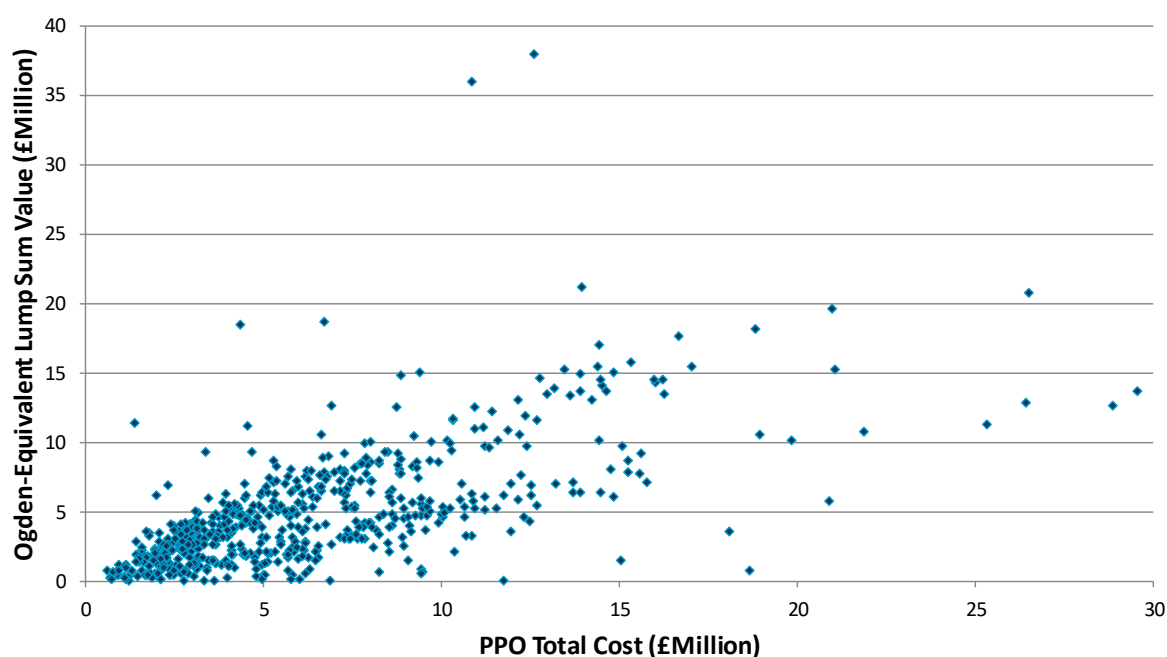
Real Discount Rate	Total Cost Multiple
-2.00%	1.24
-1.00%	1.04
-0.75%	1.00
-0.25%	0.93
0.00%	0.90
1.00%	0.80
2.00%	0.73
2.50%	0.70

*Figure S.3: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the total cost estimated at a +2.5% per annum real discount rate*

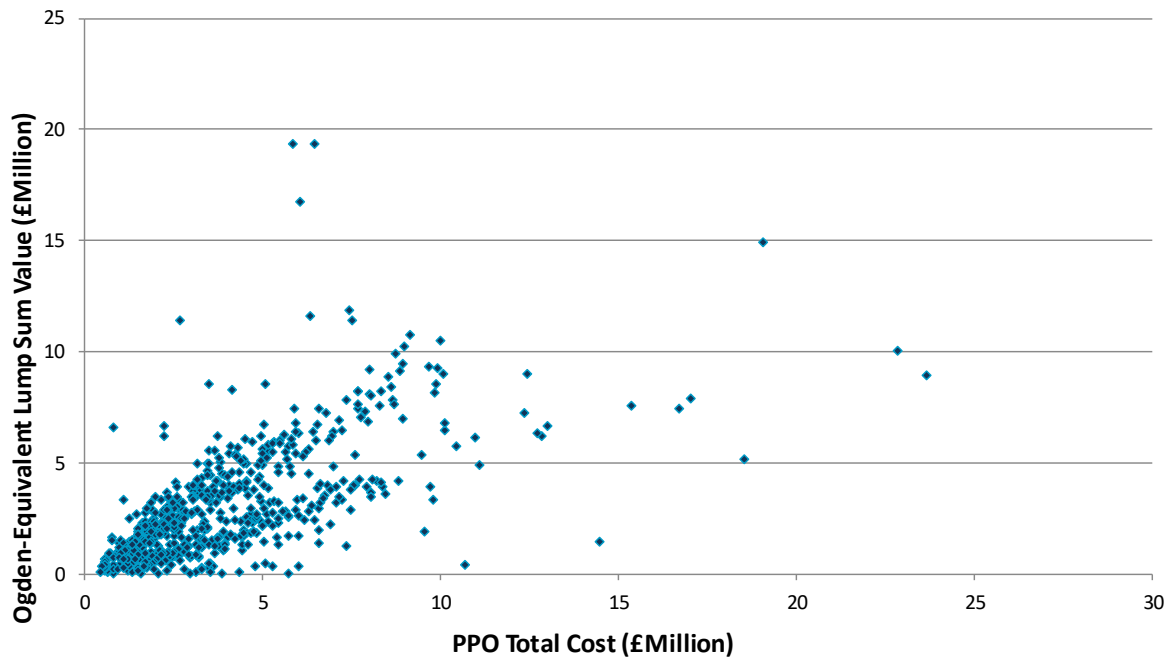
## S.2 Comparison of total cost of PPO claims to insurers' Ogden-equivalent lump sum estimate

Figures S.4 to S.7 compare our estimate of the total cost of Motor (non-MIB) PPO claims (i.e. PPO claims in payment) (from ground up) to the estimated cost if they were to settle as a lump sum (under a +2.5% per annum Ogden real discount rate). The Ogden-equivalent lump sum estimates were provided by the participating insurers.

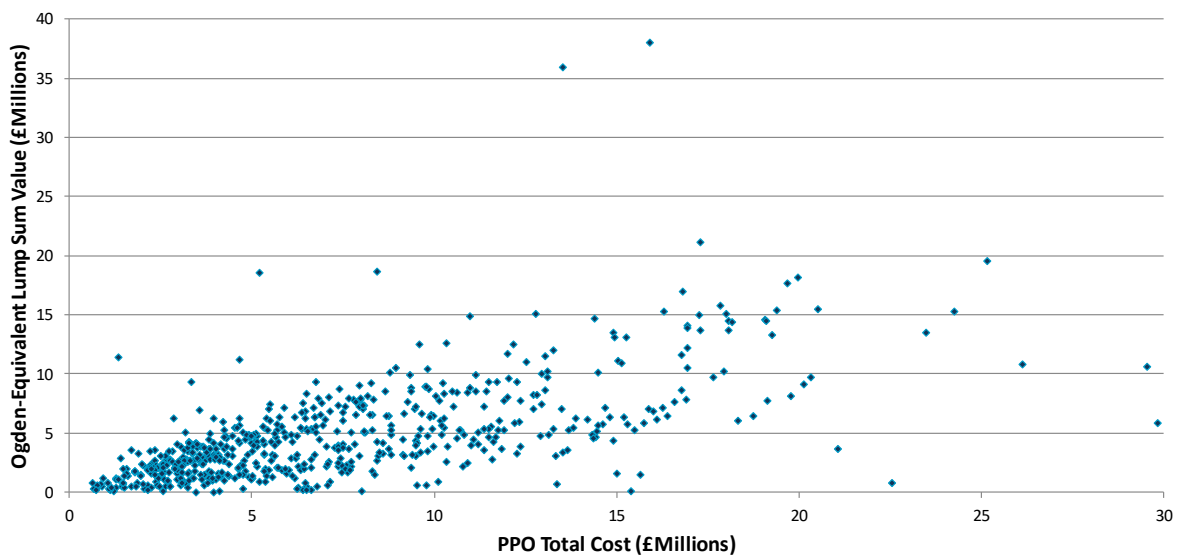
- Figure S.4 shows this comparison at a real discount rate of +2% per annum for valuing the PPO claims, as at 31 December 2018.
- Figure S.5 shows this comparison at a real discount rate of +2% per annum for valuing the PPO claims, as at settlement date.
- Figure S.6 shows this comparison at a real discount rate of 0% per annum for valuing the PPO claims, as at 31 December 2018.
- Figure S.7 shows this comparison at a real discount rate of 0% per annum for valuing the PPO claims, as at settlement date.



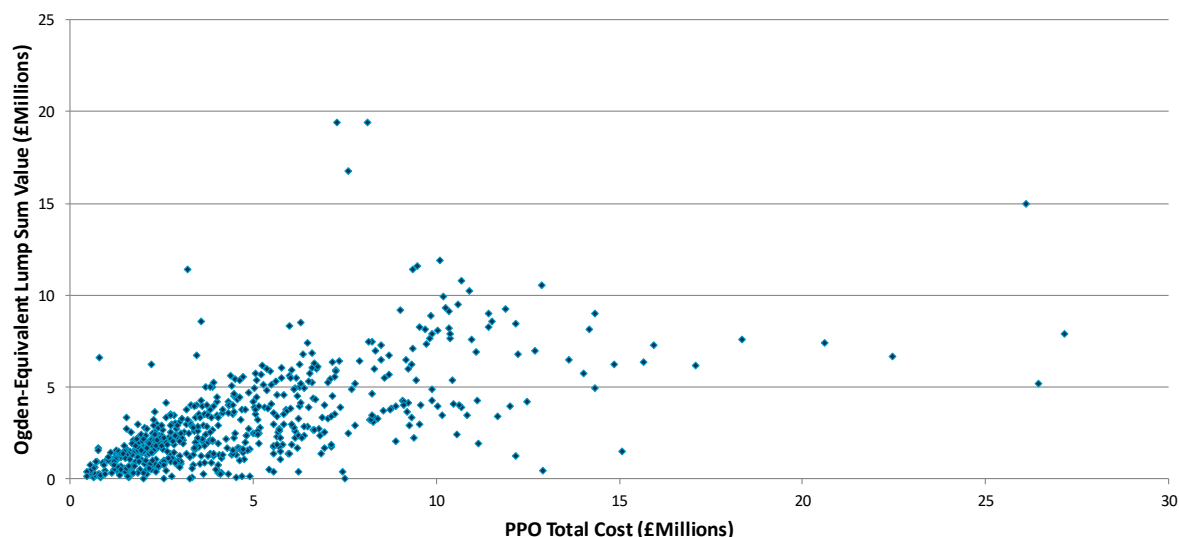
*Figure S.4: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers*



*Figure S.5: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers*



*Figure S.6: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers*

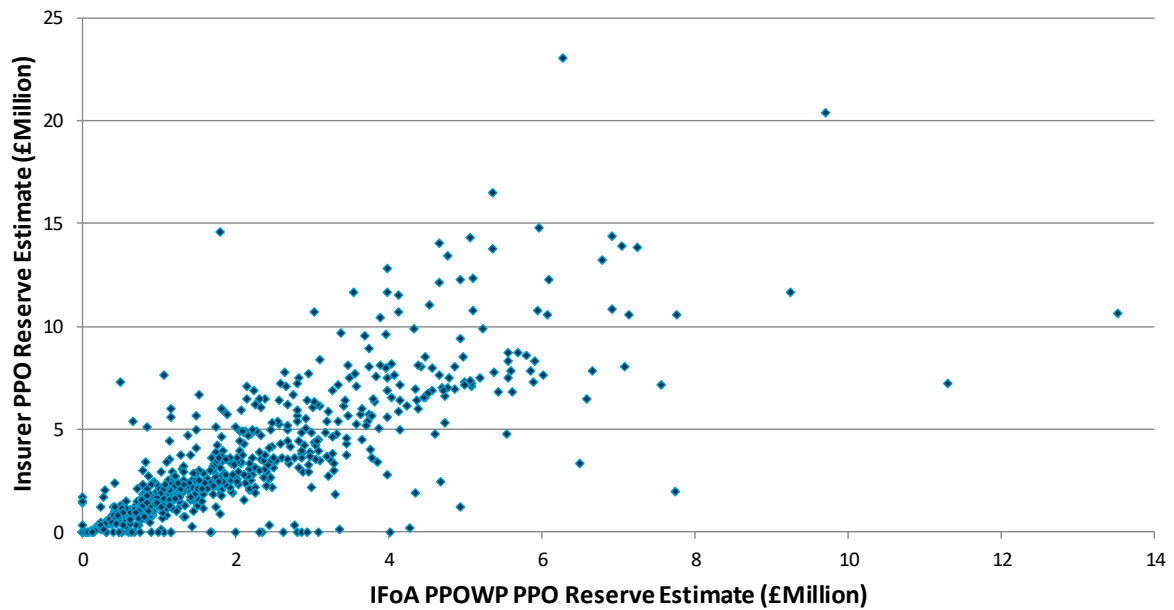


*Figure S.7: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers*

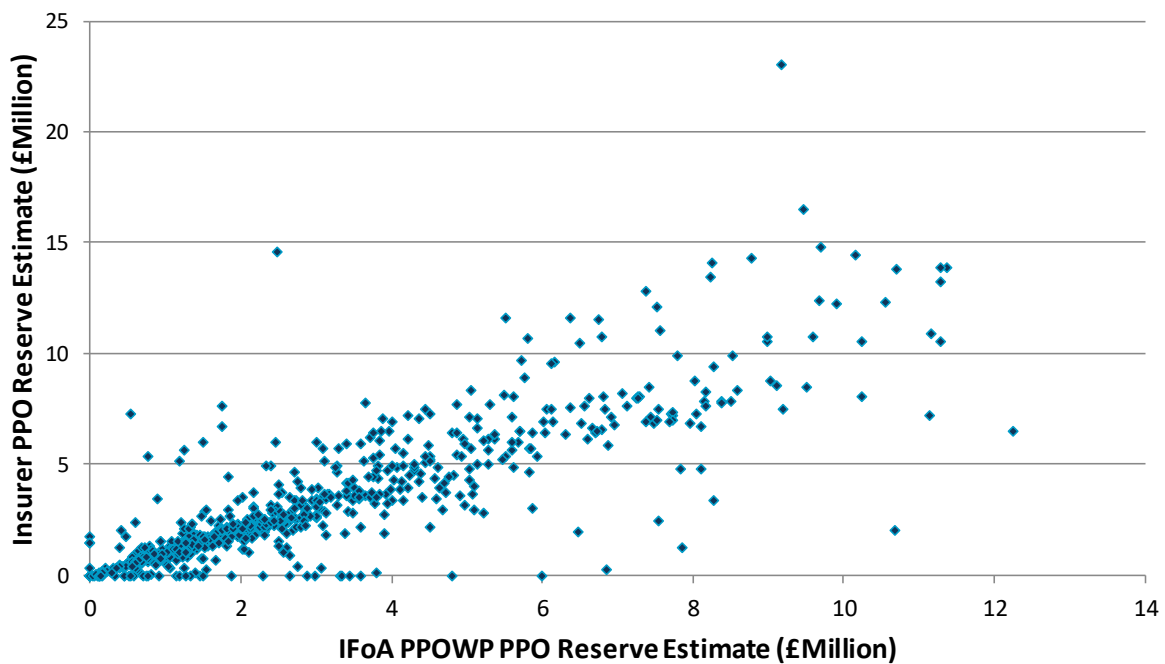
### S.3 Comparison of reserves for PPO claims to insurers' estimates of reserves

Figures S.8 and S.9 compare our estimate of outstanding reserves for Motor (non-MIB) PPO claims (i.e. PPO claims in payment), as at 31 December 2018 to the reserve estimates provided by the participating insurers.

- Figure S.8 shows this comparison at a real discount rate of +2% per annum for valuing the PPO claims within our estimate.
- Figure S.9 shows this comparison at a real discount rate of 0% per annum for valuing the PPO claims within our estimate.



*Figure S.8: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the reserve estimates of participating insurers*



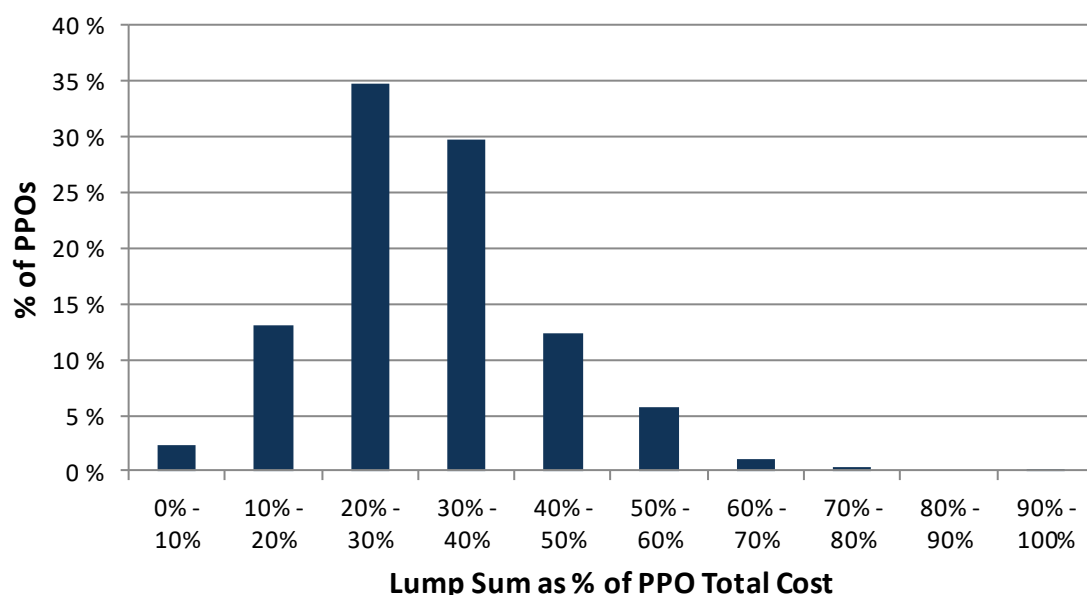
*Figure S.9: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the reserve estimates of participating insurers*



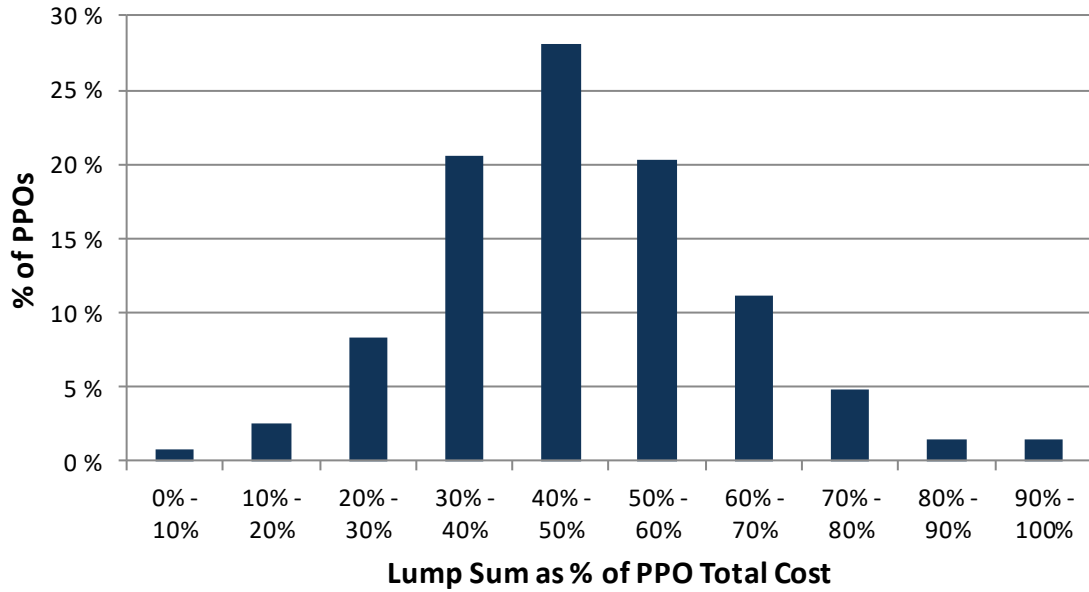
## S.4 Lump sum element of PPO claims as a proportion of total cost of PPO claims

Figures S.10 to S.13 show the lump sum element of PPO claims as a proportion of our estimate of the total cost of Motor (non-MIB) PPO claims (i.e. PPO claims in payment) (from ground up).

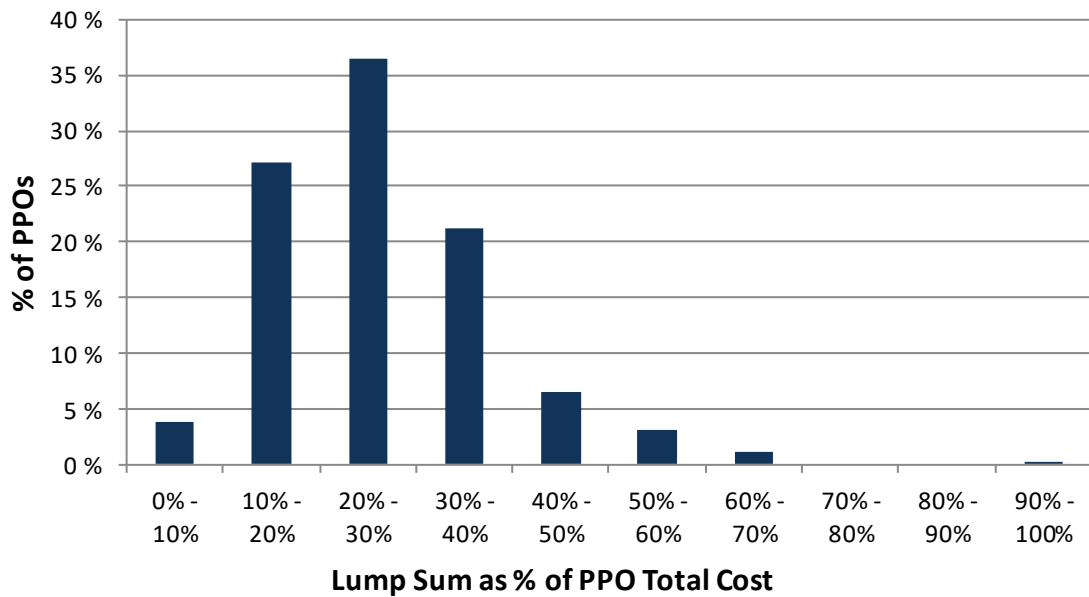
- Figure S.10 shows this comparison at a real discount rate of +2% per annum for valuing the PPO claims, as at 31 December 2018.
- Figure S.11 shows this comparison at a real discount rate of +2% per annum for valuing the PPO claims, as at settlement date.
- Figure S.12 shows this comparison at a real discount rate of 0% per annum for valuing the PPO claims, as at 31 December 2018.
- Figure S.13 shows this comparison at a real discount rate of 0% per annum for valuing the PPO claims, as at settlement date.



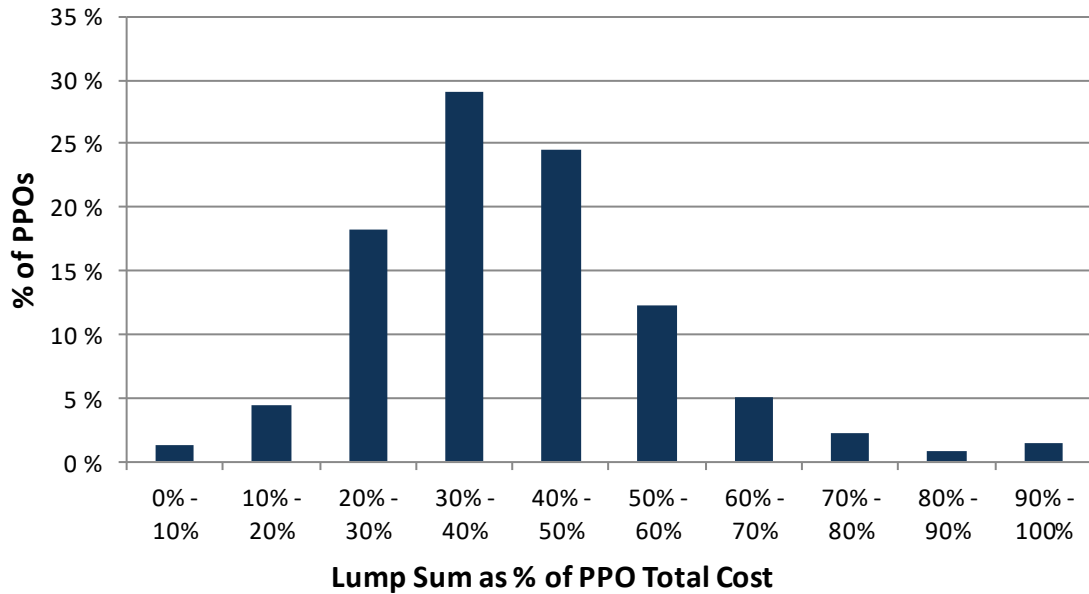
*Figure S.10: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party*



*Figure S.11: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party*



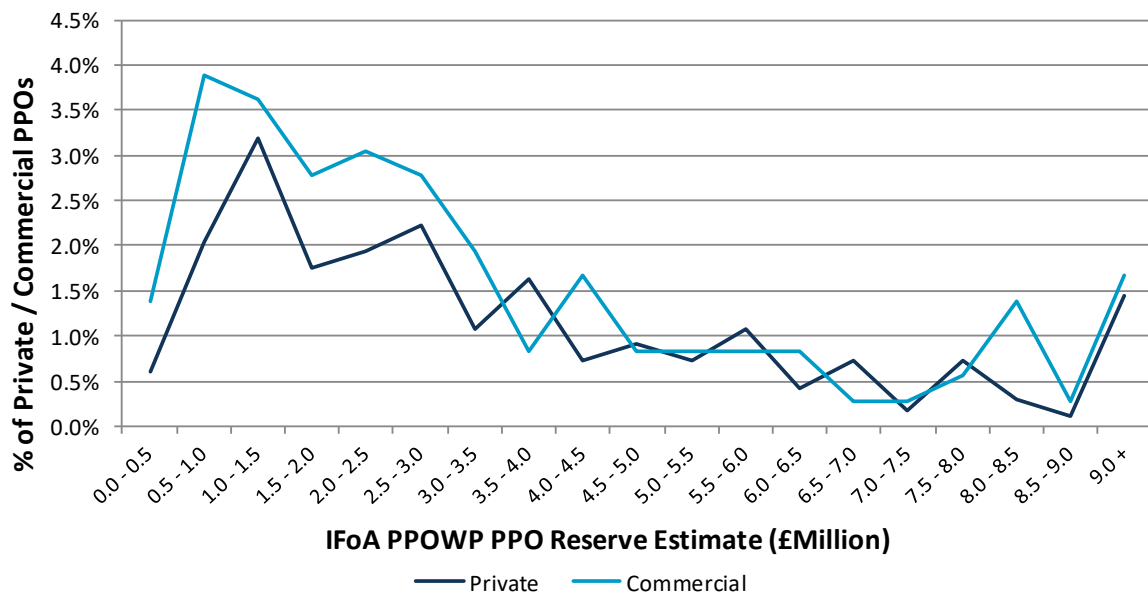
*Figure S.12: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party*



*Figure S.13: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party*

## S.5 Reserves for PPO claims by class of business

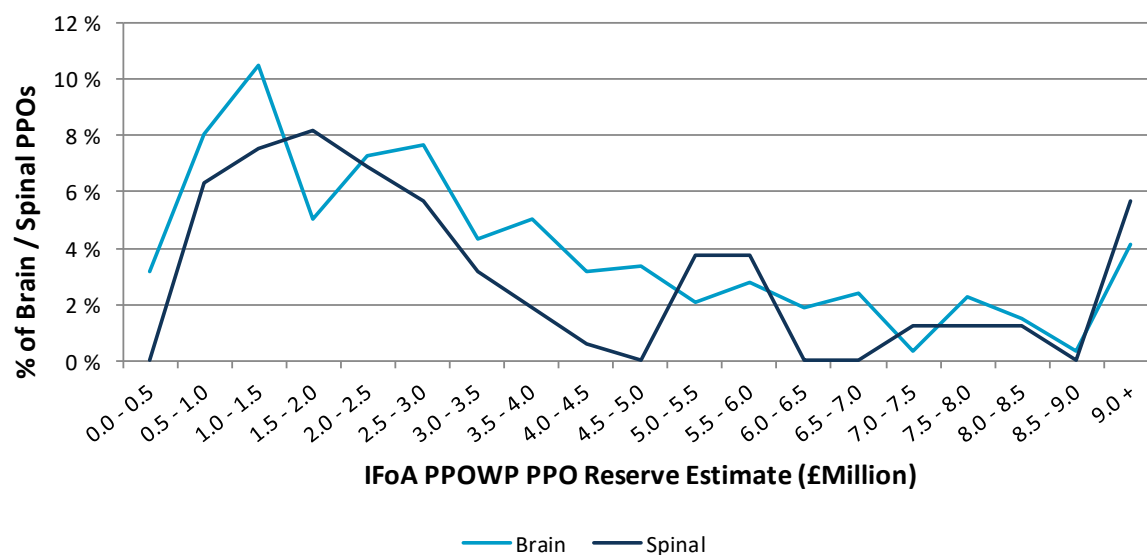
Figure S.14 shows the distribution of our estimate of outstanding reserves for Motor (non-MIB) PPO claims (i.e. PPO claims in payment) at a real discount rate of 0% per annum for valuing the PPO claims, as at 31 December 2018, by class of business.



*Figure S.14: Distribution of the reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, by class of business*

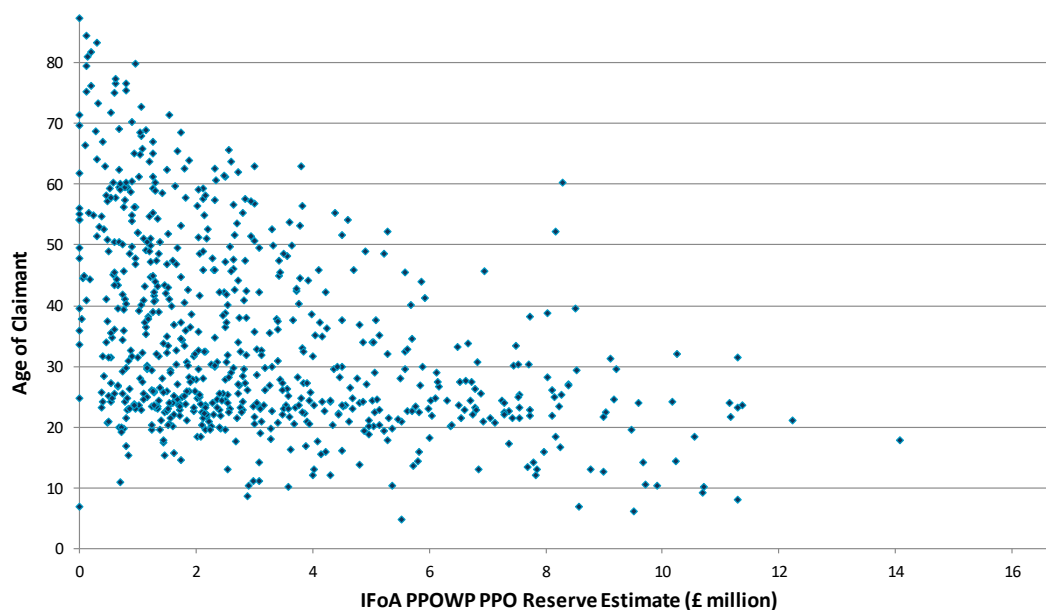
## S.6 Reserves for PPO claims by nature of injury

Figure S.15 shows the distribution of our estimate of outstanding reserves for Motor (non-MIB) PPO claims (i.e. PPO claims in payment) at a real discount rate of 0% per annum for valuing the PPO claims, as at 31 December 2018, by the nature of injury.

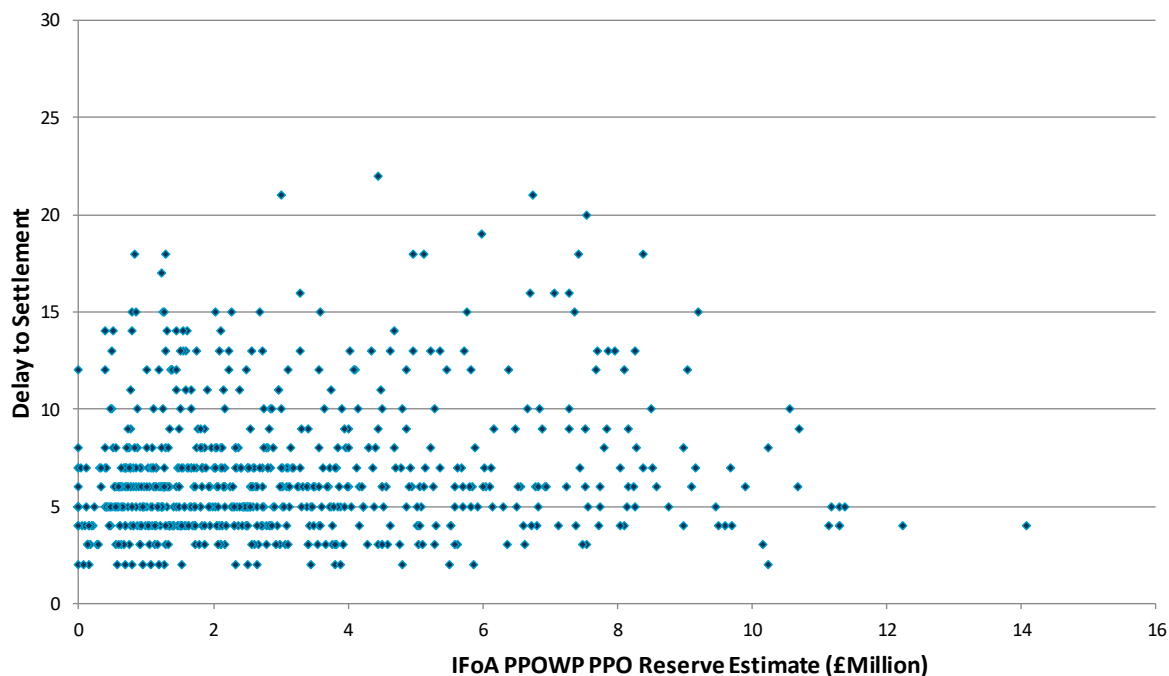


*Figure S.15: Distribution of the reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, by nature of injury*

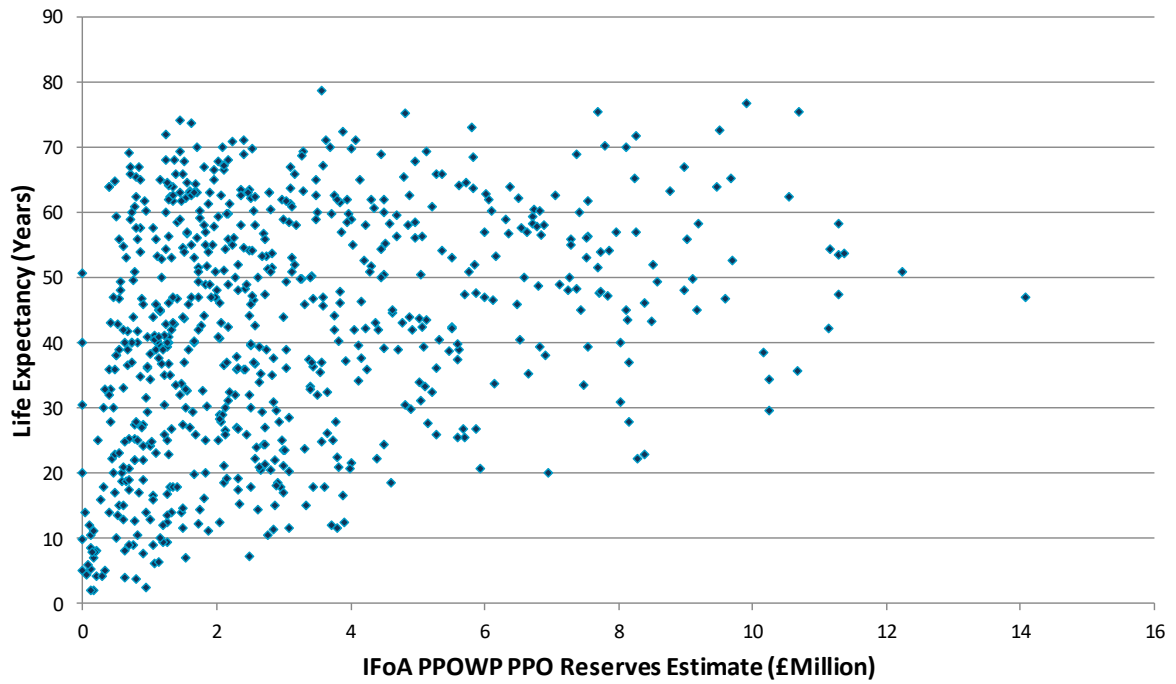
## S.7 Scatter plots of reserves for PPO claims against a number of factors



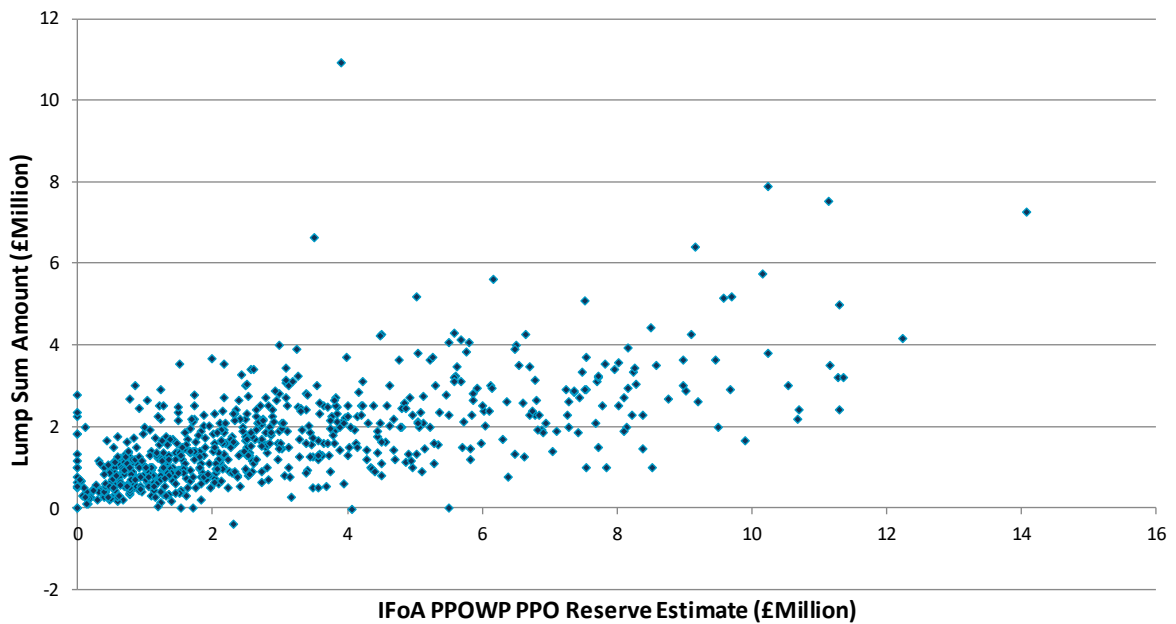
*Figure S.16: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the age of claimant at settlement date*



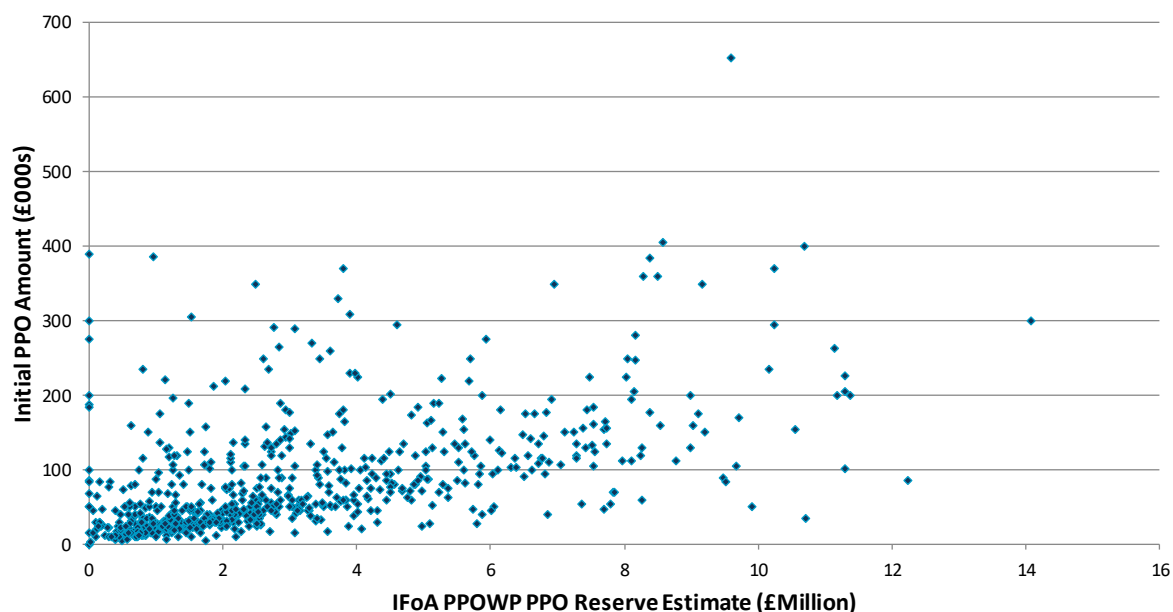
*Figure S.17: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the delay to settlement*



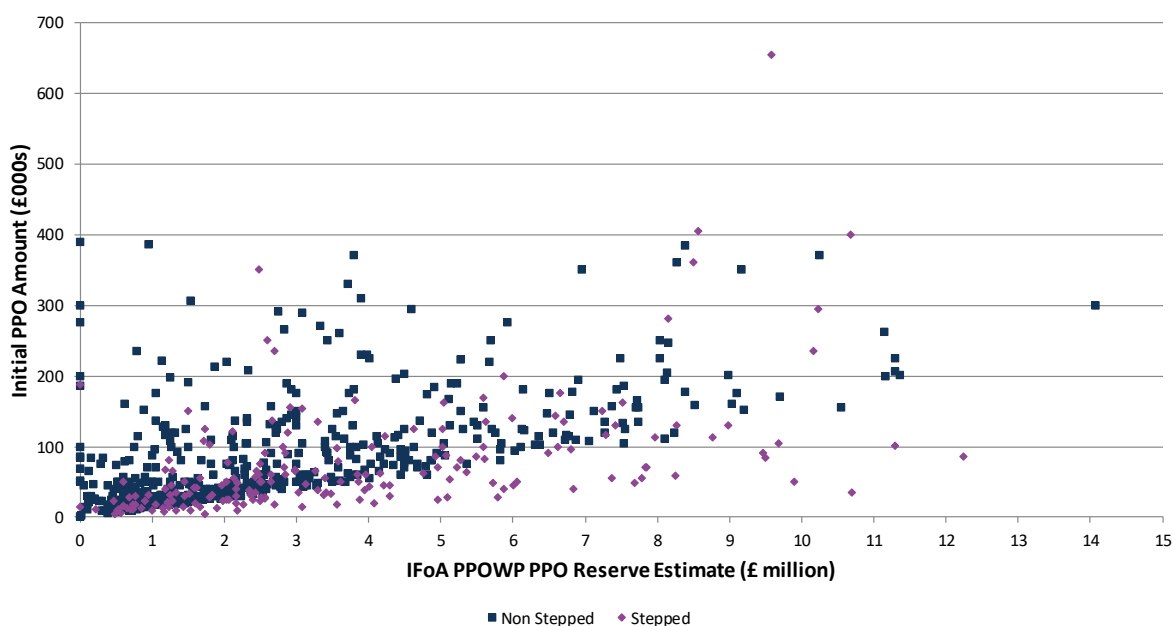
*Figure S.18: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the life expectancy of the claimant at settlement date*



*Figure S.19: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the lump sum element of the PPO claim*



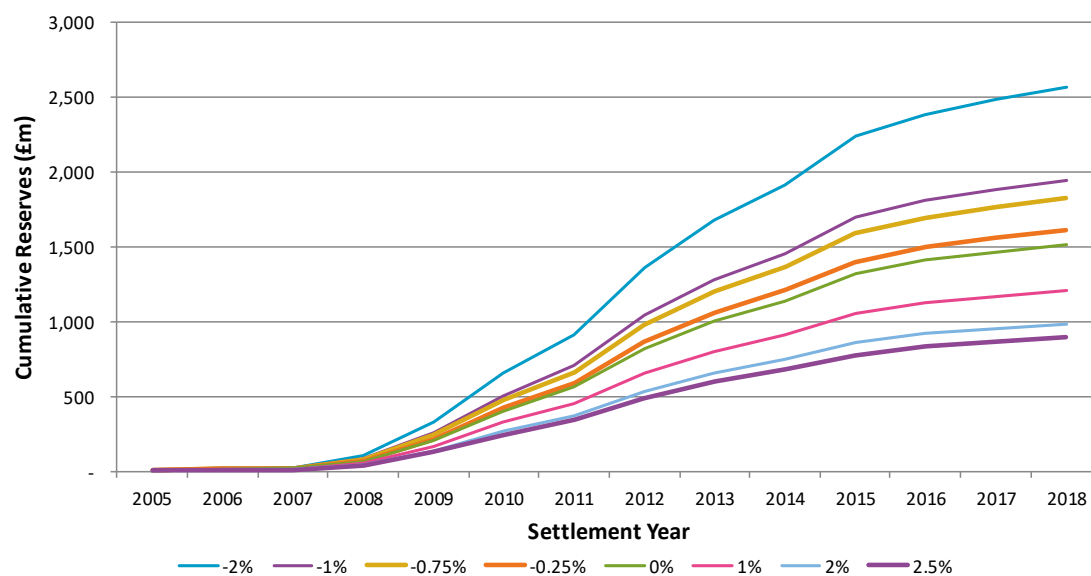
*Figure S.20: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the initial regular payment amount of the PPO claim*



*Figure S.21: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the initial regular payment amount of the PPO claim, by whether the PPO claim has stepped payments*

## S.8 Development of PPO reserves over time

Figure S.22 shows the cumulative development by settlement year of the total Motor (non-MIB) PPO reserve across all participating insurers, shown at real discount rates ranging from -2.0% to +2.5%.

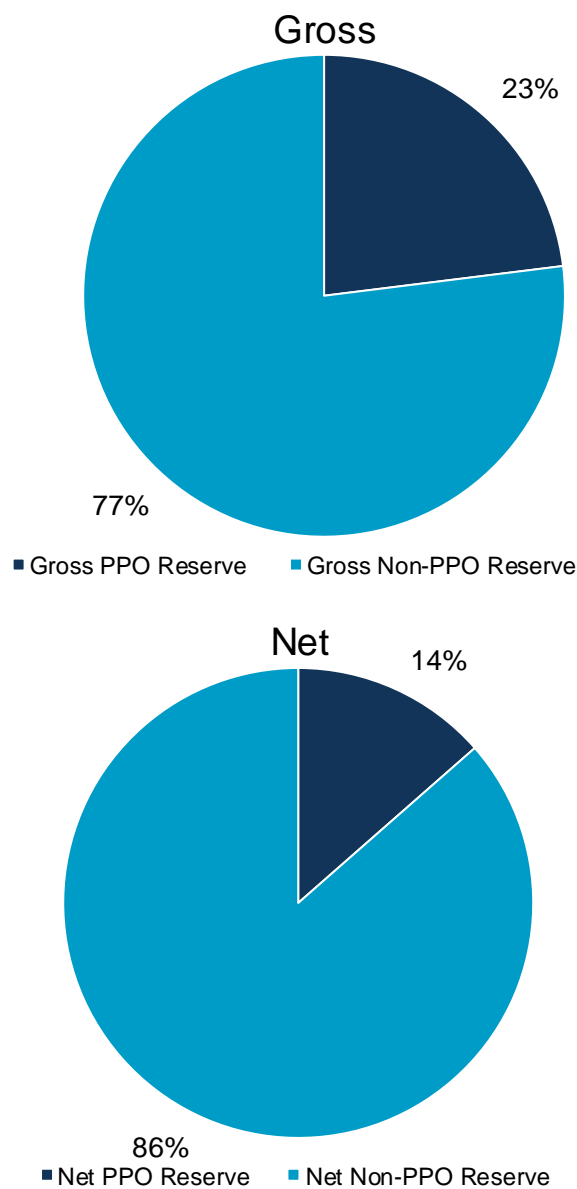


*Figure S.22: Cumulative development of Motor (non-MIB) PPO reserve, split by real discount rate*



## S.9 PPO impact on Solvency II technical provisions

Figure S.23 shows the proportion of total motor Solvency II technical provisions which is in respect of PPO claims. The responses range from 8% to 31% on a gross of reinsurance basis, and from 1% to 37% on a net of reinsurance basis.



*Figure S.23: PPO Proportion of motor Solvency II technical provisions, gross and net of reinsurance*



## Appendix T      Detail around the responses to the 2019 qualitative industry survey

In this appendix, we provide more detail around the responses to the 2019 qualitative industry survey.

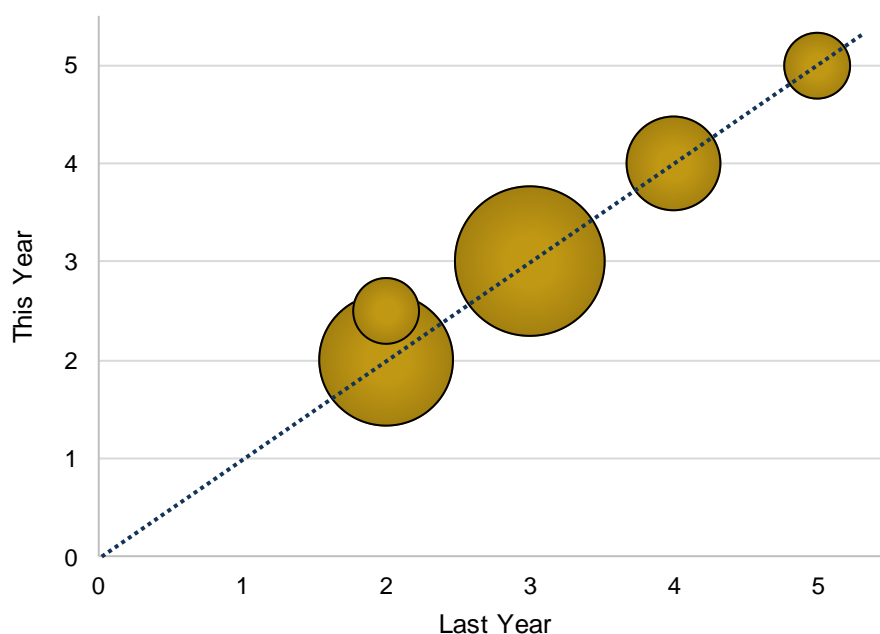
13 insurers and 5 reinsurers were interviewed for the qualitative industry survey, the responses having been collected between January 2019 and April 2019 inclusive. The companies which have agreed to be acknowledged for their participation in this survey are listed in the Introduction to this report, although please note that the list does not include all participants.

It is worth noting that, very occasionally, some of the survey questions were unanswered by some participants. This was occasionally through choice, but more commonly as the interviewee did not know the answer or could not readily obtain the information.

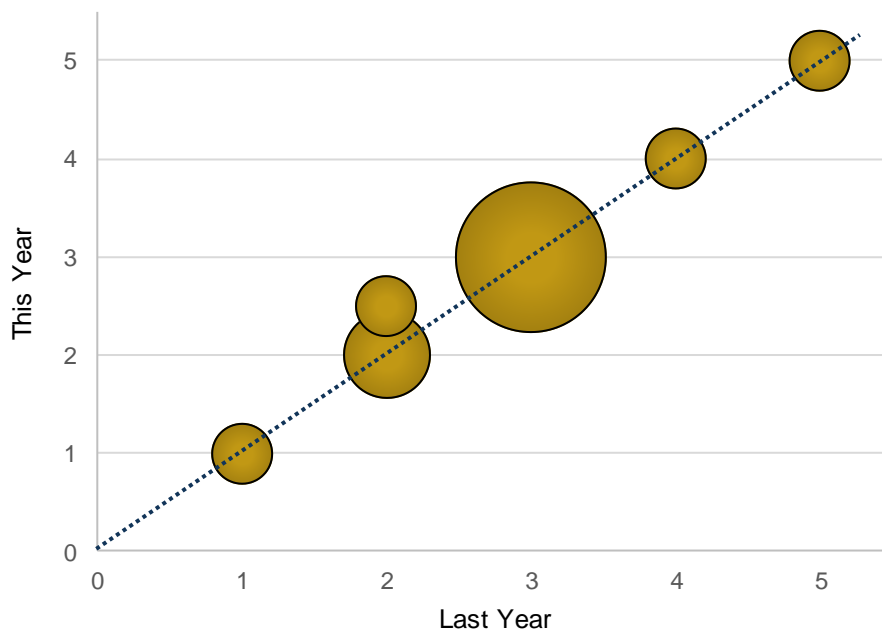
### T.1 Level of concern about PPO claims

We asked how concerned companies and their Boards were about PPO claims on a scale of 1 to 5, with 5 being the most concerned.

Figure T.1 shows the responses for participating insurers last year (as at winter 2017-2018) and this year (as at winter 2018-2019), with the size of the bubble (the area) representing the number of insurers that gave a particular response. Figure T.2 shows the same metric but for the Boards of participating insurers. The average level of concern for insurers was 3.0, and 2.8 for their Boards.



*Figure T.1: Level of concern about PPO claims for participating insurers, as at winter 2017-2018 (last year) and as at winter 2018-2019 (this year) (scale of 1 to 5, with 5 being most concerned)*



*Figure T.2: Level of concern about PPO claims for participating insurers' Boards, as at winter 2017-2018 (last year) and as at winter 2018-2019 (this year) (scale of 1 to 5, with 5 being most concerned)*

The overall level of concern for participating reinsurers had not changed between last year and this year. There was one reduction by one point for Reinsurers. The average level of concern for reinsurers was 3.8, and 3.8 for their Boards.

For the majority of participating insurers and reinsurers (16 out of 18), the level of concern about PPO claims had not changed across the year. Reasons given for this included high uncertainty with regard to the Ogden discount rate and market PPO propensity continuing to fall; offset by some concerns around investment and return on assets.

One participant reported an increase in the level of concern about PPO claims. The reason for this being due to the uncertainty around PPO propensity due to the Ogden discount rate.

The remaining participant reported a decrease in the level of concern about PPO claims, the reason given being a PPO propensity has reduced since the Ogden discount rate change.

The majority of participating insurers and reinsurers (16 out of 18) reported their Boards having the same level concern this year as last year. The reasons given included the number of PPOs within the portfolio being small and so less concerning than other issues; offset by uncertainty around the Ogden discount rate and the impact of this on PPO propensity and greater understanding of the capital implications of PPOs and the volatility impact of PPOs on the balance sheet from a Solvency II perspective.

One of the insurers/reinsurers reported their Boards having an increased level of concern compared with last year. The reasons given included uncertainty around PPO propensity due to the Ogden discount rate.

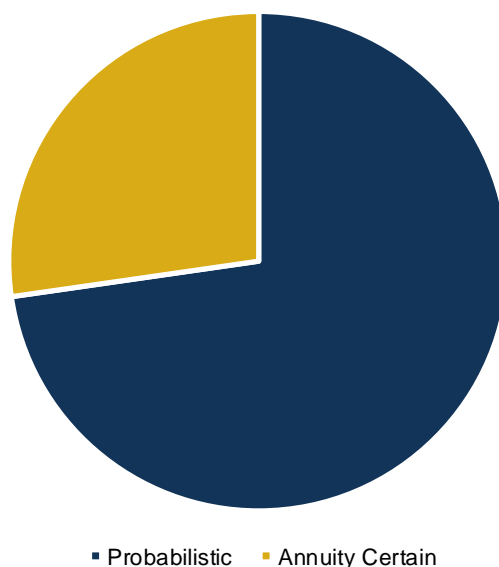
The remaining participant reported their Boards having a decreased level of concern compared with last year, attributing this to the Ogden discount rate reduction and subsequent fall in PPO propensity.

## T.2 Reserving for PPO claims

We asked a number of questions about the reserving of settled PPO claims and future PPO claims, and the economic assumptions used to value PPO claims. We also asked about the treatment of variation orders and indemnity / reverse indemnity guarantees, bad debt provisions and the discount rate used for non-PPO reserves.

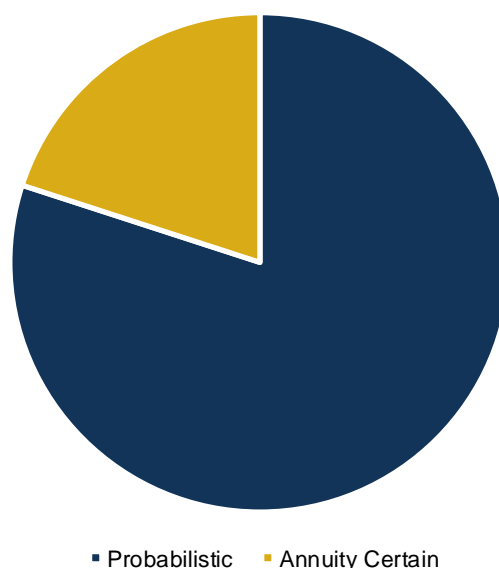
### Reserving for settled PPO claims

Figure T.3 shows the reserving approach to mortality used by participating insurers for settled PPO claims: 8 out of 11 insurers used a probabilistic approach and 3 used an annuity certain method.



*Figure T.3: Reserving approach for settled PPO claims for participating insurers, as at winter 2018-2019*

Figure T.4 shows the reserving approach to mortality used by participating reinsurers for settled PPO claims: 4 out of 5 reinsurers used a probabilistic approach and 1 used an annuity certain method.



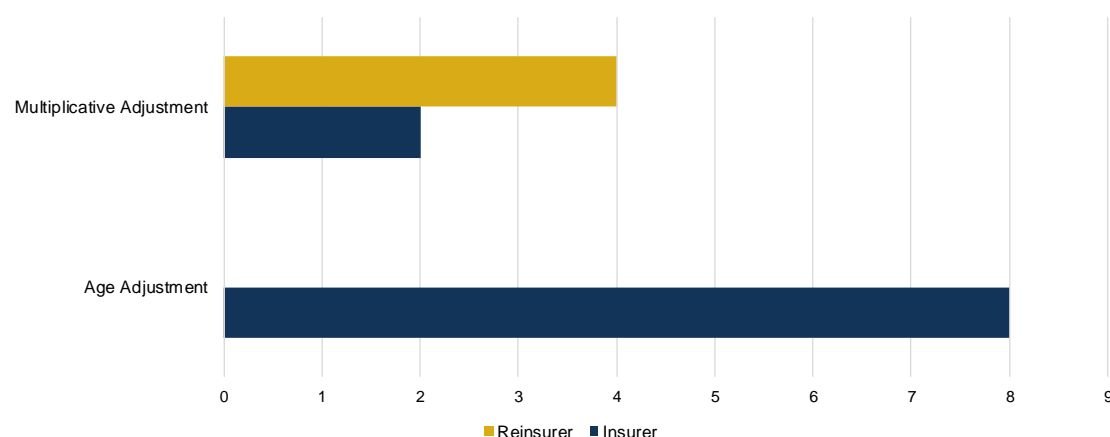
*Figure T.4: Reserving approach for settled PPO claims for participating reinsurers, as at winter 2018-2019*

The majority of those asked based their life expectancy on an average between their own medical expert's view and the view from the claimant's team.

In terms of the life expectancy assumption, the majority used medical expert opinions, but there were mixed responses on whether this allowed for any longevity improvements over the claimants' lifetime.

All those insurers and reinsurers taking a probabilistic reserving approach used either the Ogden tables (seventh edition) or a more recently updated publication of the ONS table series which underlies the Ogden tables (seventh edition).

In order to scale these standard life tables to correspond to claimants' impaired life expectancy, eight insurers used an aging adjustment (where they considered the claimant had the mortality experience of someone "y"-years older than them) and two insurers and four reinsurers used a multiplicative adjustment (where they assumed that the claimant had a mortality experience "z" times more than the life tables suggest). Figure S.5 summarises these responses.



*Figure T.5: Approach to scaling life tables for participating insurers and reinsurers, as at winter 2018-2019*

### Identification of future PPO claims (currently large open claims and pure IBNR)

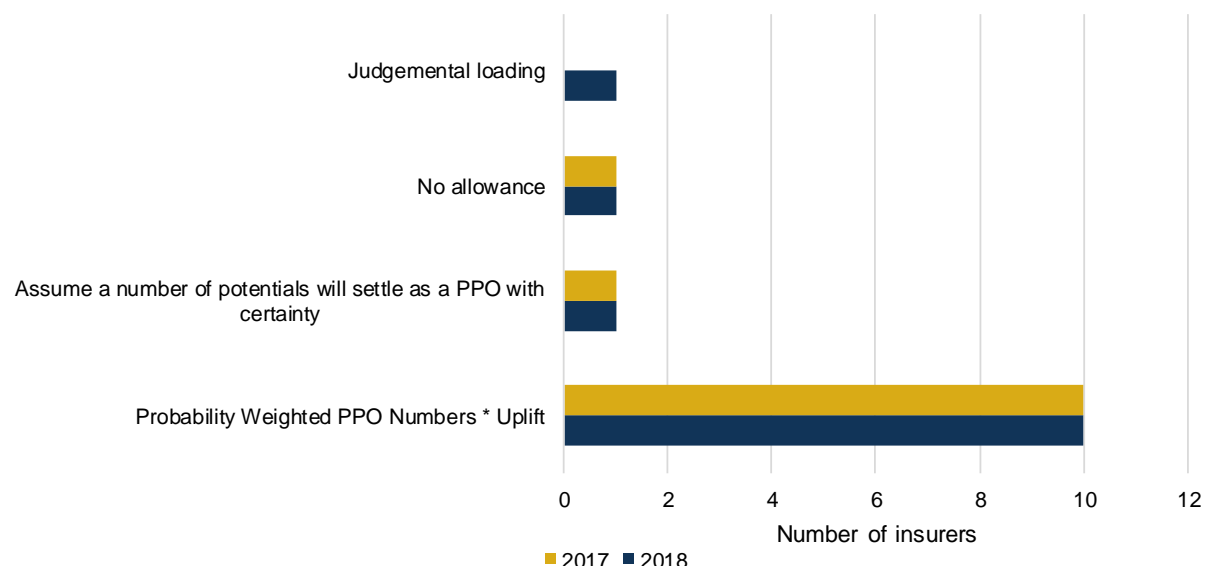
All 12 participating insurers and all but one participating reinsurers said that they monitored open large claims and assessed the possibility of them settling as a PPO rather than a traditional large claim settlement. In the majority of cases this was done by the claims team. In one case, the insurer considered the likely number of IBNR PPO claims in aggregate (by considering propensity by size band benchmarks) alongside views on individual large claims.

The majority of the participating insurers monitored the accuracy of past predictions, however only three out of five participating reinsurers did. There were mixed experiences in terms of whether predictions had been too light or too prudent, although on the whole past predictions appear to have been fairly accurate.

In terms of identifying potential PPO claims, not all participants monitored all claims: some participants only looked at a certain number by injury outstanding estimate; others only looked at open claims above £1 million; and others did analyse every claim separately. The most common approach was to split claims into bands by large claim threshold and to assign probabilities of settling as a PPO to each of these bands. Some insurers used a formal scoring matrix or mechanism to systematically determine the probability of a claim settling as a PPO based on a number of its features, whereas others used subjective views based on the claim characteristics. Frequent indicators used included injury type (particularly mental capacity), age, annual care cost and the share of contributory negligence, as well as information on how the settlement process was progressing.

### Reserving for future PPO claims (currently large open claims)

Figure T.6 shows the reserving approach used by participating insurers for future PPO claims in relation to claims that have already been identified as large claims: although a variety of approaches are used, these have reduced in number compared with last year.



*Figure T.6: Reserving approach for future PPO claims on existing large claims for participating insurers, as at winter 2017-2018 (2017) and as at winter 2018-2019 (2018)*

Ten insurers used a probability weighting of the claims identified as having potential to settle as a PPO. All of these used a method that probability-weighted the potential PPO costs derived from a cashflow projection of each identified large claim.

One insurer made an assumption about which potentials would settle as a PPO and valued these as if they had 100% probability of settling as a PPO. This insurer assumed all identified potentials would settle as a PPO, with the prudent margin accounting for the pure IBNR element of the PPO reserves.

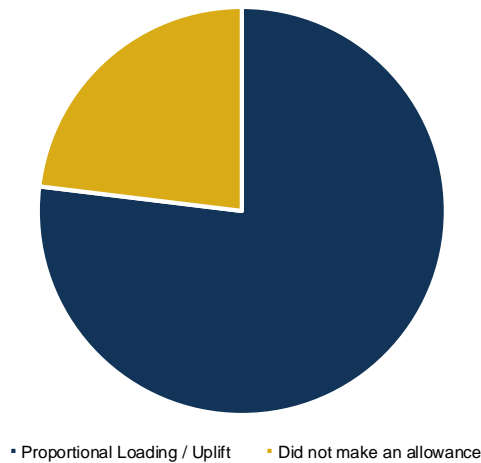
One insurer made no allowance for potential PPOs. This insurer has experienced a net discount rate of 0% on settled PPOs so is expecting a release of reserves on settlement.

### Reserving for future PPO claims (pure IBNR)

Most of the participating insurers reserved for future pure IBNR PPO claims within the reserving approaches discussed above and shown in Figure T.6.

For the remaining participating insurers, Figure T.7 shows the reserving approach used for future pure IBNR PPO claims: the majority of those insurers considering pure IBNR added a proportional loading to the PPO reserves.



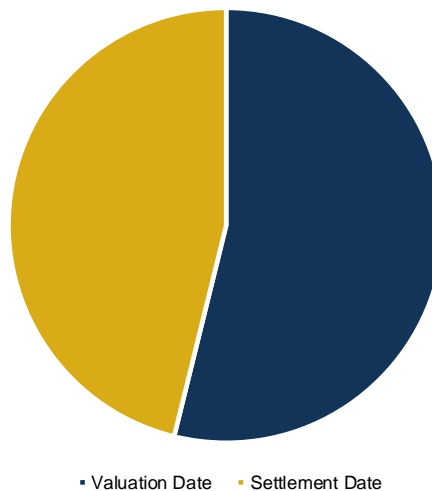


**Figure T.7: Reserving approach for future IBNR PPO claims for participating insurers, as at winter 2018-2019**

All of the participating reinsurers established their own reserves for future PPO claims, using frequency-severity methods or frequency-severity uplift methods.

#### Discounting future PPO claims – to which date

Figure T.8 shows the date to which participating insurers discount future PPO claims: over half of participating insurers (7) discount future PPO claims to valuation date with the remainder of respondents (6) discounting to future expected settlement date.

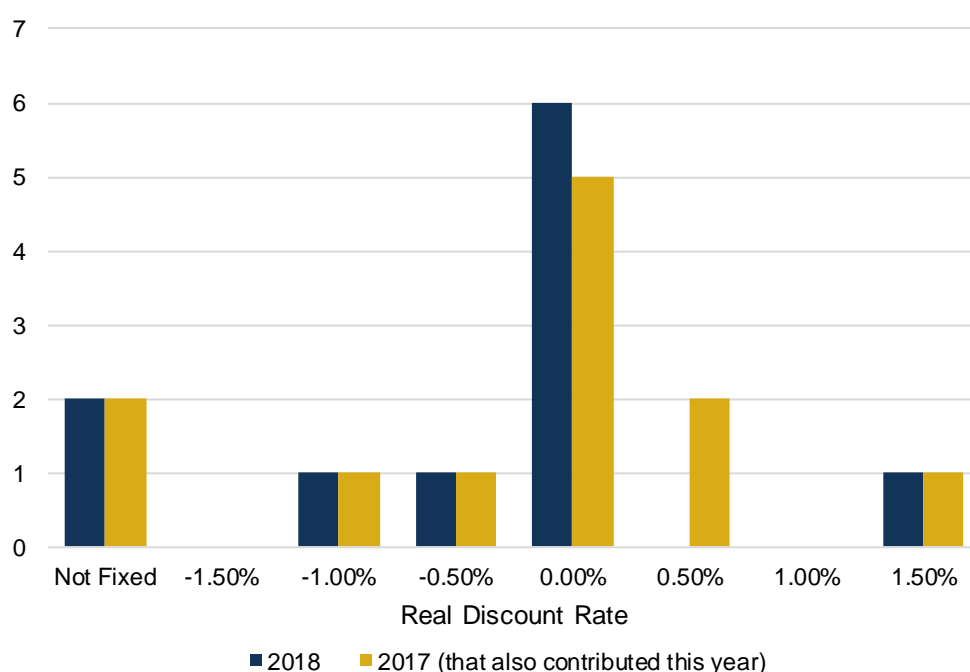


**Figure T.8: Date to which participating insurers discount future PPO claims, as at winter 2018-2019**

## Discounting PPO claims – real discount rate and underlying economic assumptions for reporting under current UK GAAP / IFRS

In valuing PPO claims for reserving purposes, all participating insurers discounted their PPO cashflows. However, the real discount rate (considering both the inflation of payments and discounting in respect of investment returns) has continued to vary significantly by insurer. This is not unexpected, as the real discount rate is a function of two components, both of which will vary by insurer: there are likely to be differences in proportions of PPO claims linked to various indices and differences in investment strategies.

Figure T.9 shows the real discount rates used by participating insurers rounded to the nearest 0.5%, both this year (winter 2018-2019, displayed as 2018) and last year (winter 2017-2018, displayed as 2017). For those using a fixed real discount rate, the most commonly used real discount rate was 0% per annum, with one insurers using a slightly positive real discount rate, and four insurers using a slightly negative real discount rate. The range of real discount rates used was between -1.0% per annum and +1.5% per annum. There has been no significant shift in real discount rates when compared to last year.

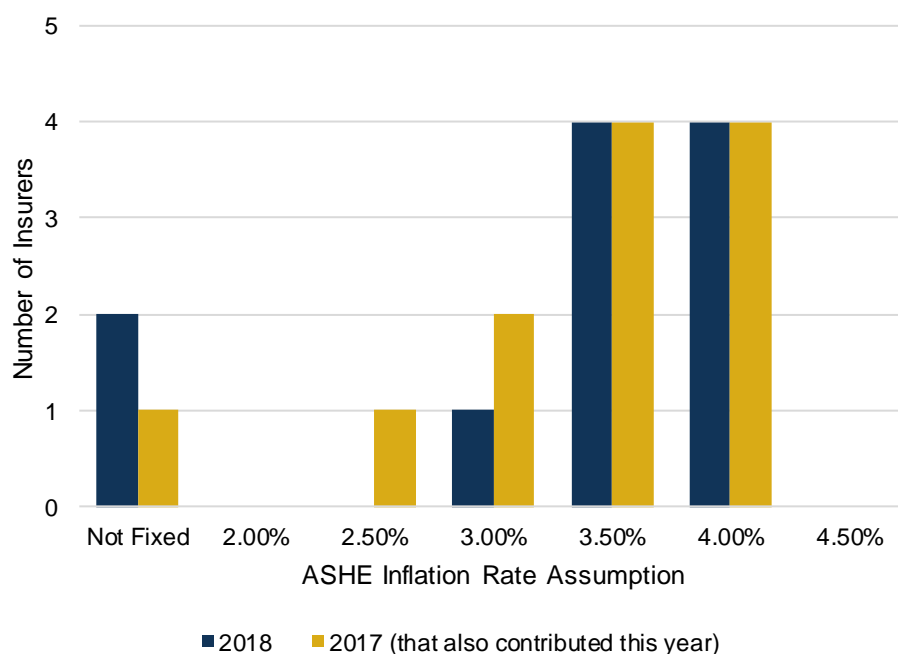


*Figure T.9: Real discount rate used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019*

For participating reinsurers, the range of real discount rates used was between -1% per annum and 0% per annum, with three participating reinsurers not discounting at all due to US GAAP reporting requirements.

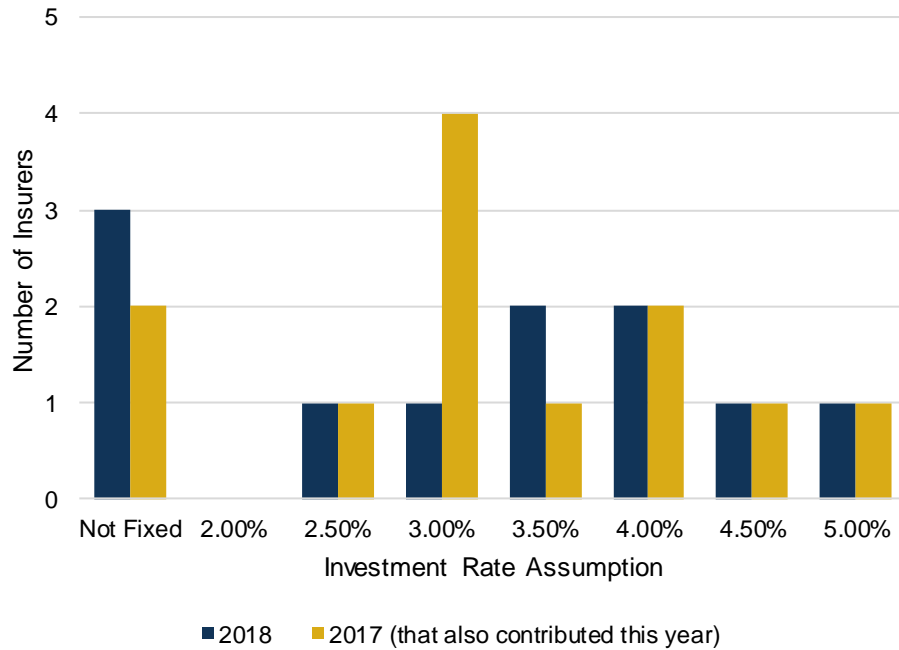
Most participating insurers stated that they set their ASHE inflation assumption and investment return assumption explicitly, but then check that the implied resulting real discount rate was appropriate.

Figure T.10 shows the ASHE (or payment) inflation rate assumption underlying the real discount rates used by participating insurers, both this year (winter 2018-2019, displayed as 2018) and last year (winter 2017-2018, displayed as 2017). For those using a fixed assumption, the range of ASHE inflation rates used was between +2.5% per annum and +4.0% per annum, with the distribution remaining broadly the same compared with last year. In setting this assumption, most participating insurers relied on published research and past ASHE data.



**Figure T.10: ASHE inflation rate used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019**

Figure T.11 shows the investment return assumption underlying the real discount rates used by participating insurers, both this year (winter 2018-2019, displayed as 2018) and last year (winter 2017-2018, displayed as 2017). For those using a fixed assumption, the range of investment returns used was between +2.5% per annum and +5.0% per annum, with the distribution perhaps shifting upwards compared with last year. In setting this assumption, participating insurers made reference to a rate in line with the yields on actual assets held, expected long term returns, group policies, a risk-free rate, and gilts, although many insurers relied on the assumption that expected investment returns will equal ASHE (or payment) inflation in the long term.

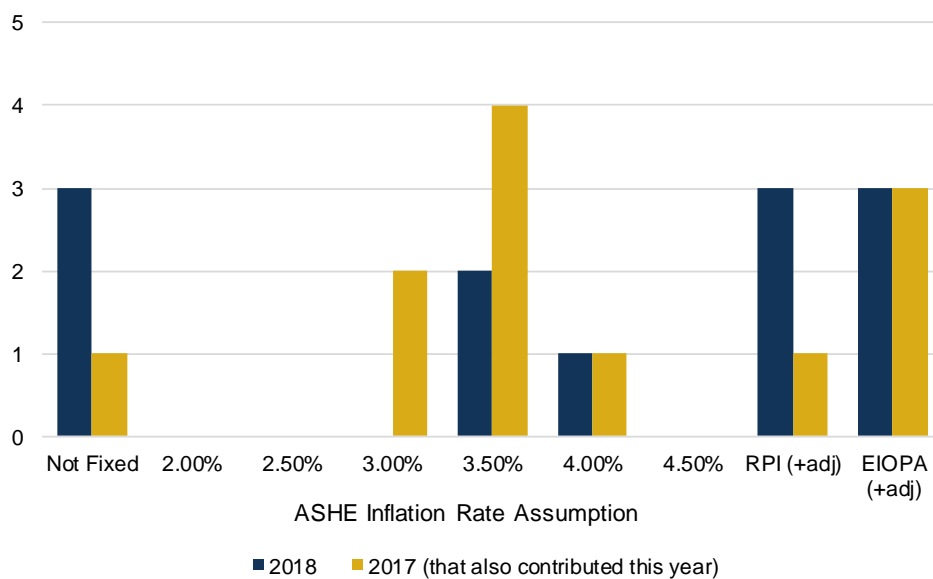


*Figure T.11: Investment return used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019*

#### Discounting PPO claims – reporting under current Solvency II

Under Solvency II, as the investment return assumption is prescribed by EIOPA, it is the choice of the ASHE (or payment) inflation rate that will determine the real discount rate used.

Figure T.12 shows the ASHE (or payment) inflation rate assumption underlying the real discount rates used by participating insurers under Solvency II, both this year (winter 2018-2019, displayed as 2018) and last year (winter 2017-2018, displayed as 2017).



*Figure T.12: ASHE inflation rate used by participating insurers to value PPO claims under Solvency II, as at winter 2017-2018 and as at winter 2018-2019*

Around half of participating insurers used the same ASHE inflation rate assumption for Solvency II as they assume in their UK GAAP / IFRS accounts, with three insurers maintaining a 0% per annum real discount rate by setting the ASHE assumption to equal the EIOPA investment return assumption. Of the other approaches used by participating insurers, responses included using RPI and using market-implied risk-free yields.

None of the participating insurers had any transitional arrangements in place.

Most of the participating insurers that responded had considered using a matching adjustment or volatility adjustor, although only five of them had actually implemented a volatility adjustor.

None of the participating reinsurers used a matching adjustment or volatility adjustor.

### **Variation orders, indemnity guarantees and reverse indemnity guarantees**

Around half of participating insurers did not consider making an allowance within their reserves for the impact of variation orders or indemnity / reverse indemnity guarantees coming into force, and instead valued PPO claims based on the current payment schedule alone.

Of the remaining half, four participating insurers allowed for variation orders or indemnity / reverse indemnity guarantees coming into force after considering them.

None of the reinsurers considered variation orders, and one considered indemnity / reverse indemnity guarantees.

This finding is unsurprising, given that very few variation orders or indemnity / reverse indemnity guarantees have been triggered to date.

### **Bad debt**

Most participating insurers and reinsurers did not include a bad debt provision for PPO claims under current UK GAAP / IFRS (only 2 out of 13 participating insurers and none of the participating reinsurers did include a provision), with all participating insurers including a bad debt provision under Solvency II.

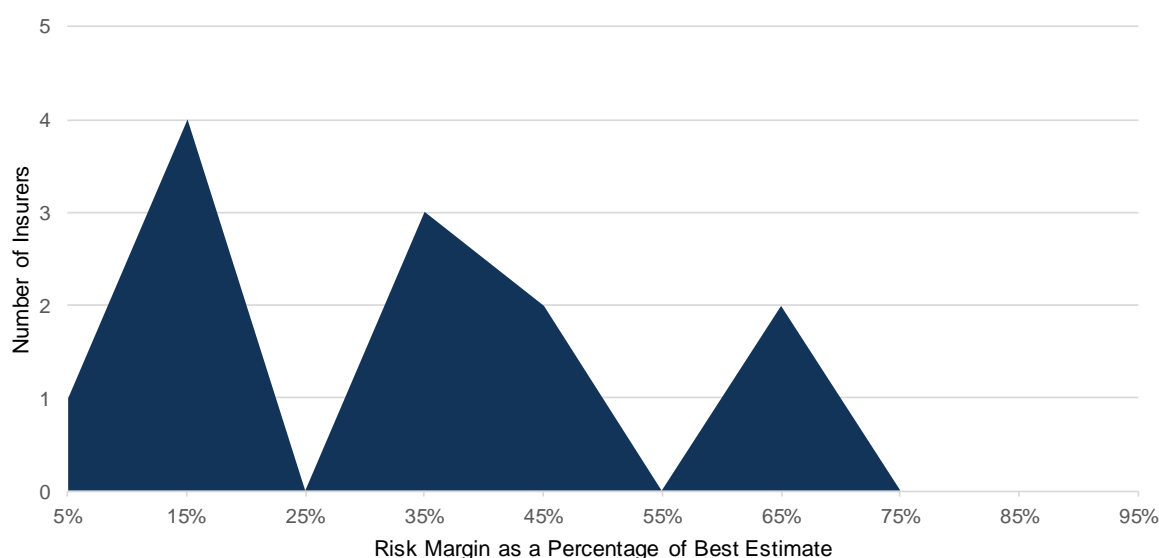
### **Reserve uncertainty**

All participating insurers and reinsurers estimate reserve uncertainty for PPOs either stochastically or through scenario testing.

For those participants able to provide an estimate, the coefficient of variation on a gross of reinsurance basis ranged from 12% to 100%, depending on whether it was settled PPOs, potential PPOs or pure IBNR PPOs being considered. When considering just settled PPOs, the majority of the gross of reinsurance coefficients of variation provided were between 20% and 35%.

## PPO risk margin

For those participating insurers that calculated (or could estimate) a PPO risk margin, the distribution of the (approximate) risk margin as a proportion of best estimate is shown in Figure T.13, with responses ranging between 5% and 65%.



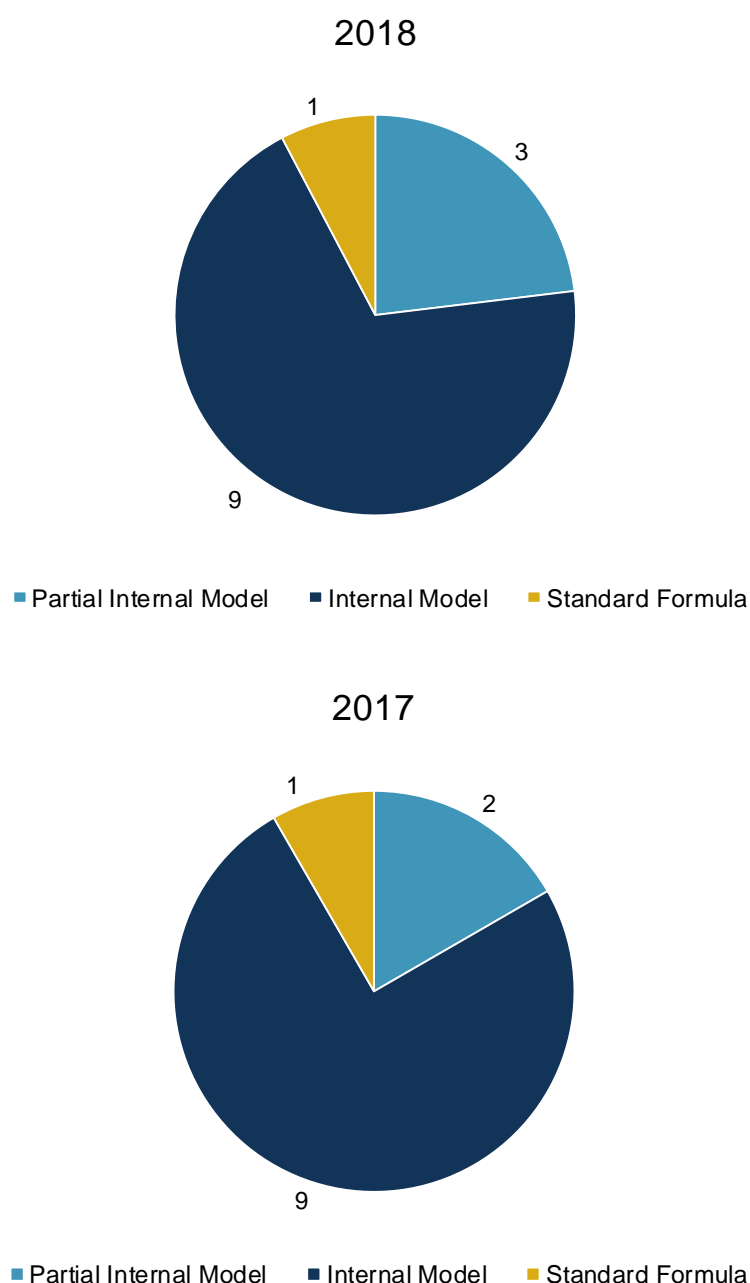
*Figure T.13: Approximate risk margin as a proportion of best estimate for PPO claims as estimated by participating insurers, as at winter 2018-2019*

## T.3 Treatment of PPO claims within capital modelling

We asked how companies treat PPO claims in the SCR, and about any observed differences between the Pillar I and Pillar III capital requirements for PPO claims.

### Treatment of PPO claims in the SCR

Figure T.14 shows the approaches used by participating insurers and reinsurers to allow for PPO claims in the SCR calculation, both this year (winter 2018-2019, displayed as 2018) and last year (winter 2017-2018 displayed as 2017): the majority of participating insurers and reinsurers used an internal model or partial internal model to allow for PPO claims in the SCR calculation (twelve out of thirteen participating insurers and all five participating reinsurers).



*Figure T.14: Approaches used by participating insurers and reinsurers to allow for PPO claims in the SCR calculation, as at winter 2017-2018 and as at winter 2018-2019*

#### Stochastic model for PPO claims

Of those participating insurers using an internal model or partial internal model, around half had an explicit stochastic PPO model, although how these models calculated the capital uplift required for PPO claims and fed into the overall models varied greatly – the PPO models generally allowed for uncertainty in mortality, life expectancy, nominal discount rate, the number of large claims, reinsurance recoveries, payment escalation and PPO propensity. Of those participating insurers that did not have a separate PPO model, PPO claims were allowed for implicitly, for example within Motor third party liability underwriting and reserve risks.

Of those participating reinsurers using an internal model or partial internal model, none had an explicit stochastic PPO model.

### **Differences between Pillar I and Pillar III**

In terms of the allowance for PPO claims under Pillar I (which considers the 1/200 level over a one year time horizon) and for the ORSA under Pillar II (which considers the volatility of the run off to ultimate), almost all participating insurers and reinsurers for which this work has been finalised for PPO claims noted a lower capital requirement for Pillar I vs Pillar II: three said that the one year measure of risk was between 25% and 50% of the ultimate measure of risk; three said the one year measure was between 50% and 75%; and two said there was no difference.

One participating insurer said that they had different bases for evaluating economic and regulatory capital. This insurer used the standard formula for PPOs in evaluating their SCR but used an internal model for PPOs in evaluating their economic capital.

## **T.4 Treatment of PPO claims within pricing**

We asked how companies allowed for PPO claims in the pricing of contracts, and whether the impact of the cost of capital was taken into account when pricing.

While all participating insurers allow for the cost of PPO claims within their pricing, only three of the thirteen participating insurers apply an explicit load or margin to their prices to cover the cost of PPO claims. The remaining ten participating insurers allow for PPO claims within a large loss component, and therefore PPO claims are included in their prices implicitly. For those with an explicit allowance, the methodologies utilised include:

- A frequency / severity method to produce a projected pay-out and reported loss pattern.
- An uplift to lump sum settlements applied to the loss ratio pricing load.

Five of the participating insurers explicitly allow for the cost of capital for PPO claims when pricing, with eight saying it was an implicit assumption. None of the participating insurers make no allowance for the cost of capital for PPO claims when pricing.

For the participating reinsurers, four out of the five reinsurers explicitly allow for PPO claims in the pricing of their contracts.



## T.5 The impact of PPO claims on reinsurance purchase and availability

We asked a number of questions about the reinsurance programmes purchased by participating insurers and offered by participating reinsurers, specifically in the context of PPO-related issues.

### Reinsurance in the market

Figure T.15 shows the starting retention on the excess of loss reinsurance programmes purchased by participating insurers for Motor business: the retained risk ranges from £1 million to over £10 million. Only one participating insurer had explicitly changed their reinsurance programme as a result of PPO claims, with one commenting that they had reduced their starting retention over the last three years to actively reduce their exposure to PPOs.



*Figure T.15: Starting retention on excess of loss reinsurance programmes purchased by participating insurers, as at winter 2017-2018*

### Allowing for the cost of capital

Most participating insurers (11 out of 13) considered the impact of the cost of capital due to PPO claims when purchasing reinsurance, albeit less than half of these did so explicitly for PPO claims.

### Reinsurance availability and capitalisation clauses

Of the five participating reinsurers:

- The reinsurance offerings for all had changed as a result of PPO claims: one ceased writing uncapped UK and Ireland Motor XoL business; one reduced their participation in high Motor XoL layers significantly.
- Two reinsurers insisted on capitalisation clauses while one used them on a case-by-case basis.

- One reinsurer said that the majority of its PPO business was written through capitalisation clauses.
- All reinsurers insisted upon an indexation clause in their reinsurance contracts.

The reasons given by the participating reinsurers for offering / requiring capitalisation clauses included:

- Internal requirements resulting in having to account for PPO claims on an undiscounted basis, thereby impacting the profit and loss account.
- At request of the cedant.
- To reduce the capital issues that are associated with PPOs.

To date, three of the participating reinsurers have reached the point of capitalisation on one (or more) of their PPO claims.

From the perspective of the participating insurers, only 4 out of 13 insurers had a capitalisation clause on their reinsurance contracts. Where capitalisation clauses were present, these were only on a proportion of the portfolio, and in some instances the presence of these clauses varied by layer. Of those participating insurers without a capitalisation clause, the clear majority stated that they were keen to avoid them.

## **T.6 Alternative risk transfer for PPO claims**

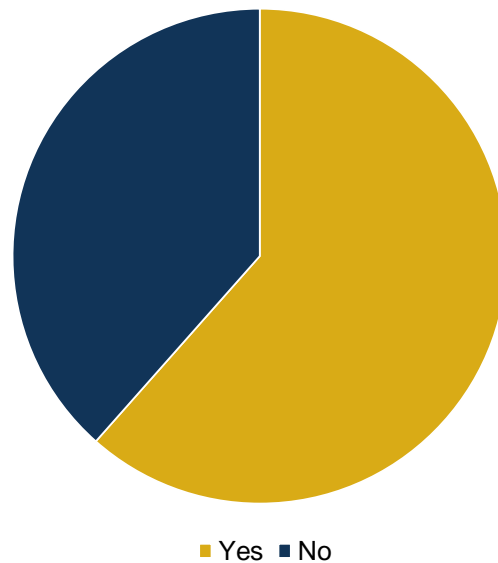
We asked whether companies would consider transferring the risk associated with PPO claims, and the hurdles they may have encountered.

Of the participating insurers, all respondents would consider transferring the risk associated with PPO claims if the right option arose. The most significant hurdles in constructing a transaction were a prohibitively high price of such risk transfer solutions, and the lack of a solution that matched to ASHE inflation. Of the participating insurers that had a view on the risk transfer market, most thought that it was growing or had the potential to grow.

## **T.7 Investment strategy in relation to PPO exposures**

We asked companies whether their investment strategies had changed as a result of PPO claims, whether they have any assets ring-fenced for PPO claims, and what their biggest investment issues related to PPO claims were.

Figure T.16 shows the proportion of participating insurers for which the investment strategy had changed as a result of PPO claims: 8 of the 13 participating insurers had changed their investment strategy as a result of PPO claims, with four of these changes coming in the last year. Two participating insurers review their asset / liability matching position regularly, adapting for PPO claims implicitly but without explicitly changing investment strategy as such. None of the participating reinsurers had changed their investment strategy.



*Figure T.16: Whether the investment strategy had changed as a result of PPO claims for participating insurers, as at winter 2018-2019*

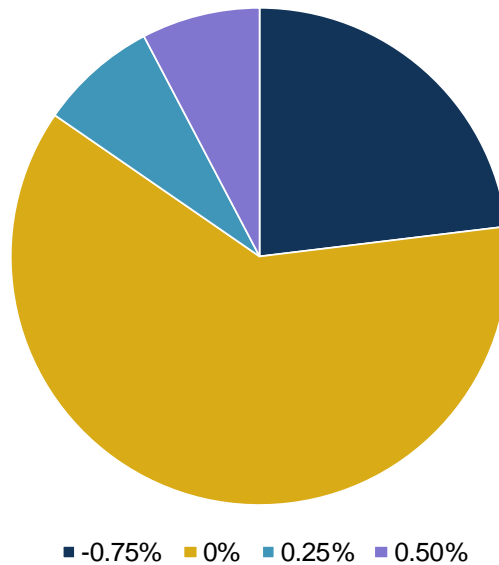
Only two participating insurers held ring-fenced assets specifically for PPO liabilities, although a number of other insurers held long duration assets to cover all longer-term liabilities. None of the participating reinsurers held assets specifically to match PPO liabilities.

Among the investment issues highlighted by participating insurers and reinsurers were finding assets to match the long durations associated with PPO claims and finding assets that track a similar index to ASHE.

## **T.8 Discounting non-PPO claims – discount rate assumed within the Actuarial Best Estimate**

Only three of the participating insurers (out of the twelve that responded) valued non-PPO claims within the Actuarial Best Estimate reserves on an Ogden -0.75% per annum basis (i.e. the prevailing discount rate).

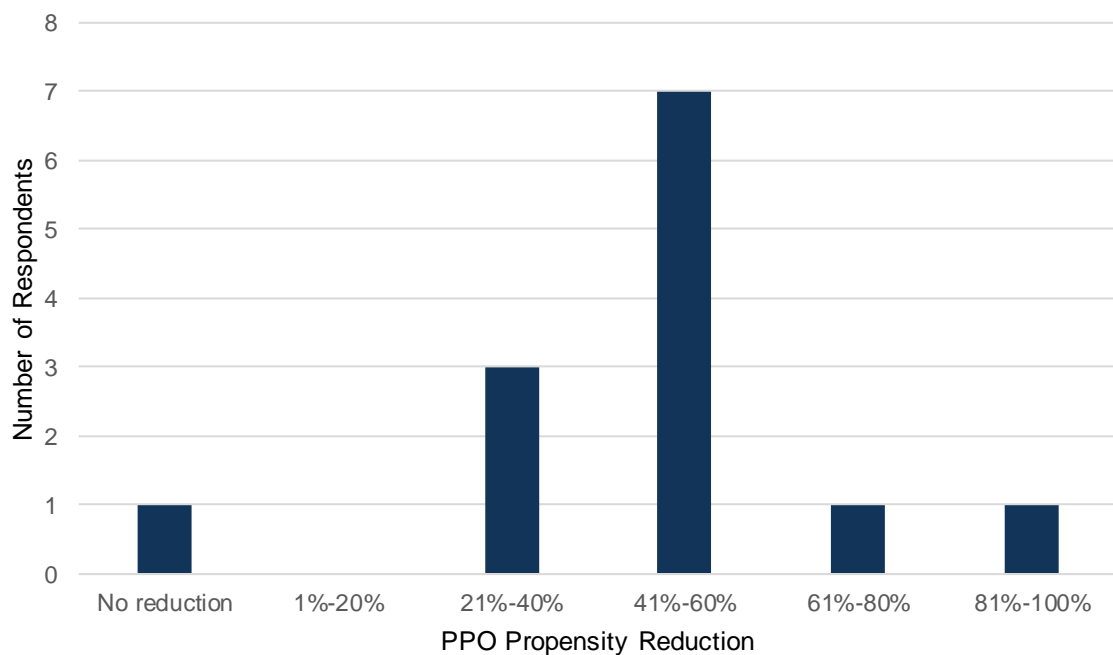
Of the ten participating insurers that valued non-PPO claims within the Actuarial Best Estimate reserves on a different basis, eight did so at 0% per annum, one at +0.25% and the other at +0.50% per annum.



*Figure T.17: Discount rate assumed within the Actuarial Best Estimate for non-PPO claims by participating insurers, as at winter 2018-19*

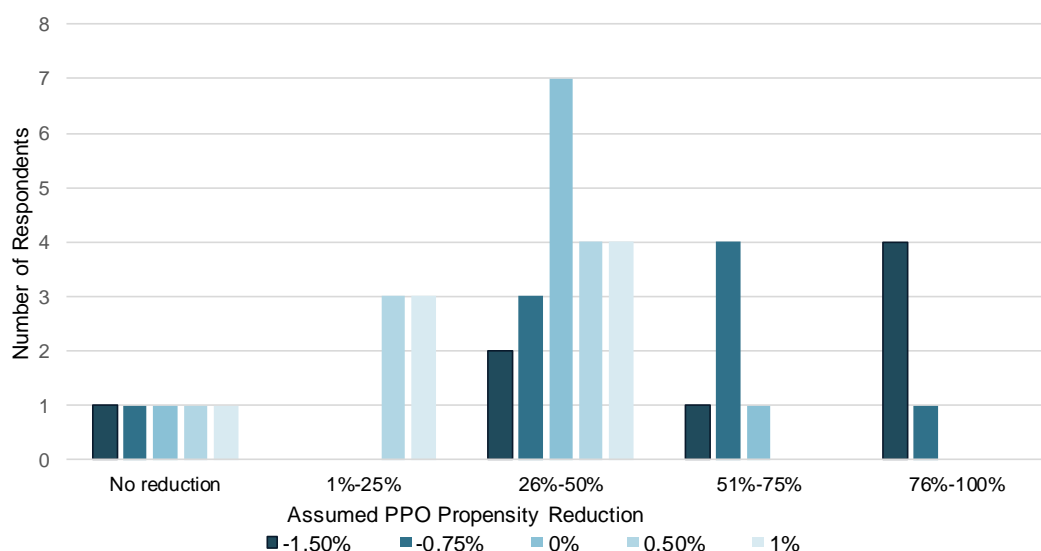
## T.9 PPO propensity – reduction assumed within the Actuarial Best Estimate and scenario tests

Participating insurers were asked what percentage change in PPO propensity they had assumed as part of their Actuarial Best Estimate calculations. 13 participants responded to this question, with a wide range of responses from no reduction to a 100% reduction. The results are shown in Figure T.18.



*Figure T.18: Reduction in PPO propensity assumed within the Actuarial Best Estimate by participating insurers, as winter 2018-2019*

Participating insurers were asked what their previous assumed reductions in PPO propensity would have been, from scenario analyses, had the Ogden discount rate fallen to between 1.0% and -1.5% per annum. Generally, the lower the discount rate, the larger the percentage decrease in PPO propensity participating insurers expected. However, some participating insurers expected the same reduction in propensity in all scenarios and others expected no change at all. 9 participants responded to this question, the results of which are shown in Figure T.19.



*Figure T.19: Reduction in PPO propensity assumed for different discount rate scenarios by participating insurers, as at winter 2018-2019*

## T.10 Reserve margins for further reductions in the Ogden discount rate

In terms of additional reserve margins for further reductions in the Ogden discount rate, this was often as part of a general margin, with few participants now holding an explicit margin for this.

## T.11 Claims experience

Participating insurers were asked if they had seen any changes in the speed of settlement of claims or in claimant / lawyer behaviour.

The majority of insurers said that they had noticed a slowing down of claim settlements, particularly in the period running up to the rate change announcement on 27 February 2017. Others said they had seen no difference. Most insurers noted that settlement speeds have started to pick up with no large backlog of open claims.

Some respondents noted that they had succeeded in settling large claims at rates higher than -0.75% per annum since the Ogden discount rate change (i.e. at 0% per annum to +2.5% per annum).



## Appendix U      List of exhibits

### Highlights of the 2019 quantitative industry survey

- Figure 1: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation
- Figure 2: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation
- Figure 3: Summary statistics for all Motor (non-MIB) PPO claims
- Figure 4: Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims, by settlement year
- Figure 5: Number of Motor (MIB) PPO claims, by settlement year
- Figure 6: Proportion of PPO claims, by settlement year – MIB and the rest of the industry
- Figure 7: Number of Liability PPO claims and Liability non-PPO large claims underlying the PPO propensity statistics, by settlement year
- Figure 8: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year
- Figure 9: Liability PPO propensity and standardised Liability PPO propensity, by settlement year
- Figure 10: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009, with no adjustment for Ogden
- Figure 11: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure 12: Liability PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009
- Figure 13: Liability PPO propensity, by grouped (£1m-£3m, £3m+) incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure 14: Number of Motor (non-MIB) PPO claims, by age of driver at accident date and by gender of driver
- Figure 15: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by gender of claimant
- Figure 16: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure 17: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009

- Figure 18: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure 19: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009
- Figure 20: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims
- Figure 21: Number of Motor (non-MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments
- Figure 22: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (non-MIB) PPO claims linked to specific percentiles, by settlement year
- Figure 23: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)
- Figure 24: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year), compared with Average Weekly Earnings, CPI and RPI
- Figure 25: Summary statistics for Motor (non-MIB) PPO claims
- Figure 26: Summary statistics for Liability PPO claims
- Figure 27: Average size of the lump sum element of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure 28: Average size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure 29: Proportion of Motor (non-MIB) PPO claims with special features, together with the number of Motor (non-MIB) PPO claims in the survey with responses received on those special features
- Figure 30: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation
- Figure 31: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation
- Figure 32: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury
- Figure 33: Number of years of exposure for PPO claims and number of deaths, for male PPO claimants, by age of claimant at settlement date
- Figure 34: Number of years of exposure for PPO claims and number of deaths, for female PPO claimants, by age of claimant at settlement date



- Figure 35: Actual number of PPO claimant deaths, expected number of PPO claimant deaths assuming unimpaired mortality, and the multiplier (actual / expected), by age of claimant at settlement date
- Figure 36: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the reserve estimated at a -0.75% per annum real discount rate

### **Highlights of the 2019 qualitative industry survey**

- Figure 37: Real discount rate used by insurers in 2018 compared with those used in 2017
- Figure 38: Coefficient of variation used for settled PPOs, gross and net of reinsurance

### **Civil Liability Bill and Ogden Discount Rate**

- Figure 39: Multipliers for pecuniary loss for life from the Ogden tables (males Table 1 and females Table 2) assuming no impairment, for discount rates of 2.5% per annum and -0.75% per annum
- Figure 40: Multipliers for loss of earnings to pension age 65 from the Ogden tables (males Table 9 and females Table 10) assuming no impairment, for discount rates of 2.5% per annum and -0.75% per annum
- Figure 41: Multipliers for pecuniary loss for life from the Ogden tables (males Table 1 and females Table 2) assuming no impairment, for discount rates of -0.75% per annum and -0.25% per annum
- Figure 42: Multipliers for loss of earnings to pension age 65 from the Ogden tables (males Table 9 and females Table 10) assuming no impairment, for discount rates of -0.75% per annum and -0.25% per annum

### **Impact of the change in the Ogden discount rate**

- Figure 43: Assumed PPO propensity reduction by Ogden discount rate
- Figure 44: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, without an Ogden adjustment
- Figure 45: Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, with an Ogden adjustment

### **Appendix B Standardisation for PPO propensity statistics**

- Figure B.1: Proportion of Motor (non-MIB) large claims in each claim size band, by settlement year

Figure B.2: Proportion of Motor (non-MIB) large claims in each claim size band, averaged across settlement years 2009 to 2018 inclusive, used for standardisation

Figure B.3: Proportion of Liability large claims in each claim size band, by settlement year

Figure B.4: Proportion of Liability large claims in each claim size band, averaged across settlement years 2009 to 2018 inclusive, used for standardisation

## **Appendix C Definitions of large claims, and incremental and cumulative thresholds**

Figure C.1: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009

Figure C.2: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009

## **Appendix D Summary statistics for all PPO claims**

Figure D.1: Discount rates used for propensity analysis

## **Appendix E Summary statistics for all PPO claim**

Figure E.1: Summary statistics for Motor (non-MIB) PPO claims

Figure E.2: Summary statistics for Private Motor (non-MIB) PPO claims

Figure E.3: Summary statistics for Commercial Motor (non-MIB) PPO claims

Figure E.4: Summary statistics for Private Comprehensive Motor (non-MIB) PPO claims

Figure E.5: Summary statistics for Private Non-Comprehensive Motor (non-MIB) PPO claims

Figure E.6: Summary statistics for Brain injury Motor (non-MIB) PPO claims

Figure E.7: Summary statistics for Spinal injury Motor (non-MIB) PPO claims

Figure E.8: Summary statistics for Liability PPO claims

Figure E.9: Summary statistics for Brain injury Liability PPO claims

Figure E.10: Summary statistics for Spinal injury Liability PPO claims

Figure E.11: Summary statistics for Motor (MIB) PPO claims

Figure E.12: Summary statistics for Brain injury Motor (MIB) PPO claims

Figure E.13: Summary statistics for Spinal injury Motor (MIB) PPO claims

## **Appendix F      Number of PPO claim settlements**

- Figure F.1:      Number of (non-MIB) PPO claims, by settlement quarter
- Figure F.2:      Number of (non-MIB) PPO claims, by settlement year – Motor and Liability
- Figure F.3:      Proportion of (non-MIB) PPO claims that settle in each quarter, by settlement year
- Figure F.4:      Proportion of (non-MIB) PPO claims that are paid (i.F. start) in each quarter, by settlement year
- Figure F.5:      Number of Motor (non-MIB) PPO claims, by settlement year
- Figure F.6:      Number of Motor (non-MIB) PPO claims, for Private and Commercial Motor, by settlement year
- Figure F.7:      Number of Motor (non-MIB) PPO claims, for Private Motor, by settlement year and by cover type
- Figure F.8:      Number of Liability PPO claims, by settlement year
- Figure F.9:      Number of Motor (MIB) PPO claims, by settlement year
- Figure F.10:      Number of PPO claims, by settlement year – MIB and the rest of the industry
- Figure F.11:      Proportion of PPO claims, by settlement year – MIB and the rest of the industry
- Figure F.12:      Relative level of PPO claims compared with 2012 – MIB and the rest of the industry

## **Appendix G      Propensity of Motor (non-MIB) PPO claims**

- Figure G.1:      Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year, without an Ogden adjustment
- Figure G.2:      Number of Motor (non-MIB) PPO claims and Motor (non-MIB) non-PPO large claims underlying the PPO propensity statistics, by settlement year, with an Ogden adjustment
- Figure G.3:      Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, without an Ogden adjustment
- Figure G.4:      Motor (non-MIB) PPO propensity and standardised Motor (non-MIB) PPO propensity, by settlement year, with an Ogden adjustment
- Figure G.5:      Total large claims compared with claims that became less than £1 million on an Ogden 2.5% basis, for the 2018 settlement year, by claimant age at accident
- Figure G.6:      Total large claims compared with claims that became less than £1 million on an Ogden 2.5% basis, for the 2018 settlement year, by nature of injury

- Figure G.7: Motor (non-MIB) PPO propensity, expressed as the number of PPO claims as a proportion of the average gross earned premium, by settlement year
- Figure G.8: Motor (non-MIB) PPO propensity, expressed as the number of PPO claims as a proportion of the average earned vehicle years, by settlement year
- Figure G.9: Number of (non-MIB) PPO claims, by accident year – Motor and Liability
- Figure G.10: Number of (non-MIB) PPO claims, by accident year – Motor and Liability
- Figure G.11: Motor (non-MIB) PPO propensity, by accident year, with and without Ogden adjustment
- Figure G.12: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, for claims settled since 2009, with and without an Ogden adjustment
- Figure G.13: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, separately for claims settled between 2009 and 2017 and claims settled in 2018, no Ogden adjustment
- Figure G.14: Distribution of Motor (non-MIB) PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, comparing the PPO propensity of claim settlements in 2017 with those in 2018
- Figure G.15: Private / Commercial split of the number of Motor (non-MIB) PPO claims and Motor written premiums
- Figure G.16: Private Motor Comprehensive/ Non-Comprehensive split of the number of Motor (non-MIB) PPO claims, Motor written premiums and Motor vehicle years exposed
- Figure G.17: Motor (non-MIB) PPO propensity, by class of business, for claims settled since 2009, with and without Ogden adjustment
- Figure G.18: Motor (non-MIB) PPO propensity, for Private and Commercial Motor, by settlement year, without Ogden adjustment
- Figure G.19: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment
- Figure G.20: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009, with and without Ogden adjustment
- Figure G.21: Motor (non-MIB) PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment
- Figure G.22: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment

- Figure G.23: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009, with and without Ogden adjustment
- Figure G.24: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009, with and without Ogden adjustment
- Figure G.25: Motor (non-MIB) PPO propensity, by cumulative large claim threshold band (2011 terms), for Private and Commercial Motor, for claims settled since 2009, without Ogden adjustment
- Figure G.26: Motor (non-MIB) PPO propensity, by type of injury, for claims settled since 2009, with and without Ogden adjustment
- Figure G.27: Motor (non-MIB) PPO propensity, by claimant age at accident, for claims settled since 2009, with and without Ogden adjustment
- Figure G.28: Motor (non-MIB) PPO propensity, by claimant gender, for claims settled since 2009, with and without Ogden adjustment
- Figure G.29: Motor (non-MIB) PPO propensity, by age of driver at accident, for claims settled since 2009, with and without adjustment
- Figure G.30: Motor (non-MIB) PPO propensity, by driver gender, for claims settled since 2009, with and without adjustment

## **Appendix H Propensity of Liability PPO claims**

- Figure H.1: Number of Liability PPO claims and Liability non-PPO large claims underlying the PPO propensity statistics, by settlement year
- Figure H.2: Liability PPO propensity and standardised Liability PPO propensity, by settlement year
- Figure H.3: Liability PPO propensity, expressed as the number of PPO claims as a proportion of the average gross earned premium, by settlement year
- Figure H.4: Distribution of Liability PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, for claims settled since 2009
- Figure H.5: Distribution of Liability PPO propensity for insurers that have settled at least 25 large claims (including PPO claims) in the last five years, separately for claims settled between 2009 and 2017 and claims settled in 2018
- Figure H.6: Employers' Liability / Public Liability split of the number of Liability PPO claims and Liability written premiums
- Figure H.7: Liability PPO propensity, by class of business, for claims settled since 2009

- Figure H.8: Liability PPO propensity, by incremental large claim threshold band (2011 terms), for claims settled since 2009
- Figure H.9: Liability PPO propensity, by incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure H.10: Liability PPO propensity, by grouped (£1m-£3m, £3m+) incremental large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure H.11: Liability PPO propensity, by cumulative large claim threshold band (2011 terms), for claims settled since 2009
- Figure H.12: Liability PPO propensity, by cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure H.13: Liability PPO propensity, by grouped (£1m+ to £2m+, £3m+ to £5m+) cumulative large claim threshold band (2011 terms), and by settlement year, for claims settled since 2009
- Figure H.14: Liability propensity, by type of injury, for claims settled since 2009
- Figure H.15: Liability PPO propensity, by claimant age at accident, for claims settled since 2009
- Figure H.16: Liability PPO propensity, by claimant gender, for claims settled since 2009

## **Appendix I      Accident year triangles for Motor (non-MIB) non-PPO and PPO claims**

- Figure I.1: Triangle showing the accident year incremental development of the number of Motor (non-MIB) non-PPO large claims
- Figure I.2: Triangle showing the accident year incremental development of the number of Motor (non-MIB) PPO claims
- Figure I.3: Triangle showing the incremental accident year Motor (non-MIB) PPO propensity rates
- Figure I.4: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) non-PPO large claims
- Figure I.5: Triangle showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims
- Figure I.6: Triangle showing the accident year cumulative Motor (non-MIB) PPO propensity rates
- Figure I.7: Graph showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims – years for which PPO settlements were less commonplace

Figure I.8: Graph showing the accident year cumulative development of the number of Motor (non-MIB) PPO claims – years for which PPO settlements have been more widespread

## **Appendix J General characteristics of Motor (non-MIB) PPO claims**

Figure J.1: Number of Motor (non-MIB) PPO claims, by age of driver at accident date

Figure J.2: Split of the number of Motor (non-MIB) PPO claims, by gender of driver

Figure J.3: Number of Motor (non-MIB) PPO claims, by age of driver at accident date and by gender of driver

Figure J.4: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of driver at accident date and by gender of driver

Figure J.5: Number of Motor (non-MIB) PPO claims, for Commercial Motor, by age of driver at accident date and by gender of driver

Figure J.6: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of driver at accident date and by cover type

Figure J.7: Number of Motor (non-MIB) PPO claims, for Private Motor Comprehensive, by age of driver at accident date and by gender of driver

Figure J.8: Number of Motor (non-MIB) PPO claims, for Private Motor Non-Comprehensive, by age of driver at accident date and by gender of driver

Figure J.9: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date

Figure J.10: Split of the number of Motor (non-MIB) PPO claims, by gender of claimant

Figure J.11: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by gender of claimant

Figure J.12: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of claimant at accident date and by gender of claimant

Figure J.13: Number of Motor (non-MIB) PPO claims, for Commercial Motor, by age of claimant at accident date and by gender of claimant

Figure J.14: Number of Motor (non-MIB) PPO claims, for Private Motor, by age of claimant at accident date and by cover type

Figure J.15: Number of Motor (non-MIB) PPO claims, for Private Motor Comprehensive, by age of claimant at accident date and by gender of claimant

Figure J.16: Number of Motor (non-MIB) PPO claims, for Private Motor Non-Comprehensive, by age of claimant at accident date and by gender of claimant

- Figure J.17: Number of Motor (non-MIB) PPO claims, by age of claimant at settlement date and by gender of claimant
- Figure J.18: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by age of driver at accident date
- Figure J.19: Proportion of Motor (non-MIB) PPO claims, for Private Motor, by age of claimant at accident date and by age of driver at accident date
- Figure J.20: Proportion of Motor (non-MIB) PPO claims, for Commercial Motor, by age of claimant at accident date and by age of driver at accident date
- Figure J.21: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure J.22: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009
- Figure J.23: Average delay to settlement for Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009
- Figure J.24: Average delay to settlement for Motor (non-MIB) PPO claims, by age of claimant at accident date, by settlement year, for claims settled since 2009
- Figure J.25: Scatter graph of the delay to settlement for Motor (non-MIB) PPO claims and the age of claimant at accident date
- Figure J.26: Scatter graph of the delay to settlement for Motor (non-MIB) PPO claims and the age of claimant at accident date, for claims settled since 2009
- Figure J.27: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure J.28: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009
- Figure J.29: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for Private and Commercial Motor, for claims settled since 2009
- Figure J.30: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, for Private Motor, by cover type, for claims settled since 2009
- Figure J.31: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date, for claims settled since 2009
- Figure J.32: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date, by settlement year, for claims settled since 2009
- Figure J.33: Scatter graph of the life expectancy of claimant at settlement date for Motor (non-MIB) PPO claims and the age of claimant at settlement date



- Figure J.34: Scatter graph of the life expectancy of claimant at settlement date for Motor (non-MIB) PPO claims and the age of claimant at settlement date, for claims settled since 2009
- Figure J.35: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure J.36: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by settlement year, for claims settled since 2009
- Figure J.37: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009
- Figure J.38: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by age of claimant at accident date, by settlement year, for claims settled since 2009
- Figure J.39: Scatter graph of the percentage reduction in life expectancy of a claimant at settlement date, for Motor (non-MIB) PPO claims, and the age of claimant at settlement date
- Figure J.40: Scatter graph of the percentage reduction in life expectancy of a claimant at settlement date, for Motor (non-MIB) PPO claims, and the age of claimant at settlement date, for claims settled since 2009

## **Appendix K      General characteristics of Liability claims**

- Figure K.1: Distribution of the number of Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date
- Figure K.2: Split of the number of Liability PPO claims, by gender of claimant
- Figure K.3: Number of Liability PPO claims, by age of claimant at accident date
- Figure K.4: Number of Liability PPO claims, for Employers' Liability, by age of claimant at accident date and by gender of claimant
- Figure K.5: Number of Liability PPO claims, for Public Liability, by age of claimant at accident date and by gender of claimant
- Figure K.6: Distribution of the number of Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date
- Figure K.7: Number of Liability PPO claims, by age of claimant at settlement date and by gender of claimant
- Figure K.8: Distribution of the delay to settlement for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009

- Figure K.9: Distribution of the delay to settlement for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009
- Figure K.10: Distribution of the life expectancy of claimant at settlement date, for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure K.11: Distribution of the life expectancy of claimant at settlement date, for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date, for claims settled since 2009
- Figure K.12: Distribution of the percentage reduction in life expectancy of a claimant, for Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure K.13: Distribution of the percentage reduction in life expectancy of a claimant, for Liability PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009

## **Appendix L      General characteristics of Motor (MIB) PPO claims**

- Figure L.1: Distribution of the number of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date
- Figure L.2: Split of the number of Motor (MIB) PPO claims, by gender of claimant
- Figure L.3: Number of Motor (MIB) PPO claims, by age of claimant at accident date and by gender of claimant
- Figure L.4: Distribution of the number of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date
- Figure L.5: Number of Motor (MIB) PPO claims, by age of claimant at settlement date and by gender of claimant
- Figure L.6: Distribution of the delay to settlement for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure L.7: Distribution of the delay to settlement for Motor (non-MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009
- Figure L.8: Distribution of the life expectancy of claimant at settlement date, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure L.9: Distribution of the life expectancy of claimant at settlement date, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at settlement date, for claims settled since 2009
- Figure L.10: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009

Figure L.11: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, by age of claimant at accident date, for claims settled since 2009

## **Appendix M Indexation of PPO claims**

Figure M.1: Number of Motor (non-MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments

Figure M.2: Number of Motor (non-MIB) PPO claim regular payment streams, by head of damage and applicable index

Figure M.3: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (non-MIB) PPO claims linked to specific percentiles, by settlement year

Figure M.4: Number of Liability PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments

Figure M.5: Number of Liability PPO claim regular payment streams, by head of damage and applicable index

Figure M.6: Where the applicable index for the primary head of damage is ASHE, the proportion of Liability PPO claims linked to specific percentiles, by settlement year

Figure M.7: Number of Motor (MIB) PPO claims, by settlement quarter and by the index applicable for the primary head of damage of the regular payments

Figure M.8: Number of Motor (MIB) PPO claim regular payment streams, by head of damage and applicable index

Figure M.9: Where the applicable index for the primary head of damage is ASHE, the proportion of Motor (MIB) PPO claims linked to specific percentiles, by settlement year

Figure M.10: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)

Figure M.11: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year)

Figure M.12: Annual Inflation in ASHE 6115, by specific percentile and by year (as at April of that year), compared with Average Weekly Earnings, CPI and RPI

## **Appendix N Payment components for PPO claims**

Figure N.1: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, for claims settled since 2009

- Figure N.2: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, by settlement year
- Figure N.3: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure N.4: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, by settlement year
- Figure N.5: Distribution of the size of Motor (non-MIB) non-PPO claims, for claims settled since 2009
- Figure N.6: Distribution of the size of Motor (non-MIB) non-PPO claims, by settlement year
- Figure N.7: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims and the size of Motor (non-MIB) non-PPO claims, for claims settled since 2009
- Figure N.8: Average size of the lump sum element of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure N.9: Average size of the initial regular payment amount of Motor (non-MIB) PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure N.10: Average size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure N.11: Average size of the lump sum element of Motor (non-MIB) PPO claims and the size of Motor (non-MIB) non-PPO claims, nominal and with inflation removed (assuming inflation of 7% per annum), by settlement year
- Figure N.12: Scatter graph of the lump sum element and the initial regular payment amount of Motor (non-MIB) PPO claims
- Figure N.13: Scatter graph of the lump sum element and the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure N.14: Scatter graph of the percentage reduction in life expectancy of a claimant and the initial regular payment amount of Motor (non-MIB) PPO claims
- Figure N.15: Scatter graph of the percentage reduction in life expectancy of a claimant and the initial regular payment amount of Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure N.16: Distribution of the size of the lump sum element of Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure N.17: Distribution of the initial regular payment amount of Liability PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009
- Figure N.18: Distribution of the size of the lump sum element of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009

Figure N.19: Distribution of the initial regular payment amount of Motor (MIB) PPO claims and Motor (non-MIB) PPO claims, for claims settled since 2009

## **Appendix O Special features of Motor (non-MIB) PPO claims and other statistics**

Figure O.1: Proportion of Motor (non-MIB) PPO claims with special features, together with the number of Motor (non-MIB) PPO claims in the survey with responses received on those special features

Figure O.2: Number and proportion of Motor (non-MIB) PPO claims with stepped payment agreements, by age of claimant at accident date

Figure O.3: Number and proportion of Motor (non-MIB) PPO claims with variation order agreements, by age of claimant at accident date

## **Appendix P IFoA PPO Working Party injury type and care regime categorisation**

Figure P.1: IFoA PPO Working Party injury type and care regime categorisation

Figure P.2: Number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.3: High-level split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.4: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.5: Number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation

Figure P.6: Detailed split of the number of Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation

Figure P.7: Average lump sum amount and initial PPO amount (annual payment) for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.8: Average lump sum amount and initial PPO amount (annual payment) for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation

Figure P.9: Life expectancy of the claimant at settlement date for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.10: Life expectancy of the claimant at settlement date for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation

Figure P.11: Percentage reduction in life expectancy of a claimant for Motor (non-MIB) PPO claims, by IFoA PPO Working Party injury type categorisation

Figure P.12: Percentage reduction in life expectancy of a claimant for Motor (non-MIB) PPO claims, by IFoA PPO Working Party care regime categorisation

## **Appendix Q Nature of injury**

Figure Q.1: Split of the number of Motor (non-MIB) PPO claims, by nature of injury

Figure Q.2: Distribution of Motor (non-MIB) PPO claims, for Private Motor, by nature of injury and by cover type

Figure Q.3: Proportion of Motor (non-MIB) PPO claims, by settlement year and by nature of injury

Figure Q.4: Number of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury

Figure Q.5: Proportion of Motor (non-MIB) PPO claims, by age of claimant at accident date and by nature of injury

Figure Q.6: Distribution of the delay to settlement for Motor (non-MIB) PPO claims, by nature of injury

Figure Q.7: Distribution of the life expectancy of claimant at settlement date, for Motor (non-MIB) PPO claims, by age of claimant at settlement date and by nature of injury

Figure Q.8: Distribution of the percentage reduction in life expectancy of a claimant, for Motor (non-MIB) PPO claims, by nature of injury

Figure Q.9: Distribution of the size of the lump sum element of Motor (non-MIB) PPO claims, by nature of injury

Figure Q.10: Distribution of the initial regular payment amount of Motor (non-MIB) PPO claims, by nature of injury

Figure Q.11: Distribution of Motor (non-MIB) PPO claims and Liability PPO claims, by nature of injury

Figure Q.12: Distribution of Motor (non-MIB) PPO claims and Motor (MIB) PPO claims, by nature of injury

## **Appendix R Mortality of PPO claimants**

Figure R.1: Number of years of exposure for PPO claims and number of deaths, for male PPO claimants, by age of claimant at settlement date

Figure R.2: Number of years of exposure for PPO claims and number of deaths, for female PPO claimants, by age of claimant at settlement date

- Figure R.3: Number of deaths for PPO claimants, by various measures of the number of years
- Figure R.4: Median and percentile values for the required adjustment to ONS mortality rates which would be required to produce the number of PPO claimant deaths observed over the period
- Figure R.5: Actual number of PPO claimant deaths, expected number of PPO claimant deaths assuming unimpaired mortality, and the multiplier (actual / expected), by age of claimant at settlement date
- Figure R.6: Median and percentile values for the required adjustment to ONS mortality rates which would be required to match insurers' expectations of PPO claimant mortality
- Figure R.7: Distribution of insurers' mortality multipliers (insurers' expectations of PPO claimant mortality relative to unimpaired lives), by gender of claimant
- Figure R.8: Percentage reduction in life expectancy for sample lives implied by the PPO claimant mortality multipliers
- Figure R.9: Comparison of PPO claimant life expectancy: unimpaired lives, experience analysis and insurer assumptions
- Figure R.10: Cumulative distribution of the percentage reduction in life expectancy assumed by different insurers

## **Appendix S Reserves for Motor (non-MIB) PPO claims**

- Figure S.1: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the reserve estimated at a +2.5% per annum real discount rate
- Figure S.2: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the total cost estimated at a +2.5% per annum real discount rate
- Figure S.3: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at various real discount rates, estimated by the IFoA PPO Working Party, expressed as a multiple of the total cost estimated at a +2.5% per annum real discount rate
- Figure S.4: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers
- Figure S.5: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers

- Figure S.6: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers
- Figure S.7: Total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the Ogden-equivalent lump sum value, estimated by participating insurers
- Figure S.8: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the reserve estimates of participating insurers
- Figure S.9: Reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, compared to the reserve estimates of participating insurers
- Figure S.10: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party
- Figure S.11: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a +2% per annum real discount rate, estimated by the IFoA PPO Working Party
- Figure S.12: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party
- Figure S.13: Distribution of the (nominal) lump sum element of PPO claims as a proportion of the total cost (from ground up) for Motor (non-MIB) PPO claims, as at settlement date, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party
- Figure S.14: Distribution of the reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, by class of business
- Figure S.15: Distribution of the reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, by nature of injury
- Figure S.16: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the age of claimant at settlement date



- Figure S.17: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the delay to settlement
- Figure S.18: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the life expectancy of the claimant at settlement date
- Figure S.19: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the lump sum element of the PPO claim
- Figure S.20: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the initial regular payment amount of the PPO claim
- Figure S.21: Scatter plot of reserves for Motor (non-MIB) PPO claims, as at 31 December 2018, at a 0% per annum real discount rate, estimated by the IFoA PPO Working Party, against the initial regular payment amount of the PPO claim, by whether the PPO claim has stepped payments
- Figure S.22: Cumulative development of Motor (non-MIB) PPO reserve, split by real discount rate
- Figure S.23: PPO Proportion of motor Solvency II technical provisions, gross and net of reinsurance

## **Appendix T     Detail around the responses to the 2019 qualitative industry survey**

- Figure T.1: Level of concern about PPO claims for participating insurers, as at winter 2017-2018 (last year) and as at winter 2018-2019 (this year) (scale of 1 to 5, with 5 being most concerned)
- Figure T.2: Level of concern about PPO claims for participating insurers' Boards, as at winter 2017-2018 (last year) and as at winter 2018-2019 (this year) (scale of 1 to 5, with 5 being most concerned)
- Figure T.3: Reserving approach for settled PPO claims for participating insurers, as at winter 2018-2019
- Figure T.4: Reserving approach for settled PPO claims for participating reinsurers, as at winter 2018-2019
- Figure T.5: Approach to scaling life tables for participating insurers and reinsurers, as at winter 2018-2019
- Figure T.6: Reserving approach for future PPO claims on existing large claims for participating insurers, as at winter 2017-2018 (2017) and as at winter 2018-2019 (2018)

- Figure T.7: Reserving approach for future IBNR PPO claims for participating insurers, as at winter 2018-2019
- Figure T.8: Date to which participating insurers discount future PPO claims, as at winter 2018-2019
- Figure T.9: Real discount rate used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019
- Figure T.10: ASHE inflation rate used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019
- Figure T.11: Investment return used by participating insurers to value PPO claims under current UK GAAP / IFRS, as at winter 2017-2018 and as at winter 2018-2019
- Figure T.12: ASHE inflation rate used by participating insurers to value PPO claims under Solvency II, as at winter 2017-2018 and as at winter 2018-2019
- Figure T.13: Approximate risk margin as a proportion of best estimate for PPO claims as estimated by participating insurers, as at winter 2018-2019
- Figure T.14: Approaches used by participating insurers and reinsurers to allow for PPO claims in the SCR calculation, as at winter 2017-2018 and as at winter 2018-2019
- Figure T.15: Starting retention on excess of loss reinsurance programmes purchased by participating insurers, as at winter 2018-2019
- Figure T.16: Whether the investment strategy had changed as a result of PPO claims for participating insurers, as at winter 2018-2019
- Figure T.17: Discount rate assumed within the Actuarial Best Estimate for non-PPO claims by participating insurers, as at winter 2018-2019
- Figure T.18: Reduction in PPO propensity assumed within the Actuarial Best Estimate by participating insurers, as at winter 2018-2019
- Figure T.19: Reduction in PPO propensity assumed for different discount rate scenarios by participating insurers, as at winter 2018-2019

## Appendix V      Acknowledgements

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