



Institute  
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# Current Issues in General Insurance

2 May 2013





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# PPOs – an increasing challenge

Sarah MacDonnell, Towers Watson

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ponsorship  
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Shaping the future  
Networking  
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Learned society  
Opportunity  
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Journals  
Support

## PPOs – an increasing challenge

- What do you need to know?
- How is the market adapting?
- Hot topics



## PPOs – what do you need to know?

Fundamentally changing UK motor insurance as we know it  
– implications for liability and medical malpractice too



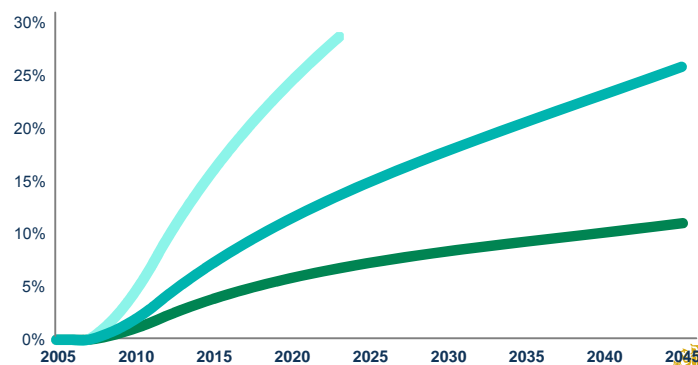
## PPOs – what do you need to know?

### Periodic Payment Orders (structured settlements)



## PPOs – what do you need to know?

### *Extremely uncertain*



PPO reserves (settled PPOs only) as a proportion of UK motor market reserves



## New areas of risk for GI practitioners

Interest rate

Inflation

Mortality

Credit

Asset matching



## Impacts on all areas of the business

Reserving

Capital

Pricing

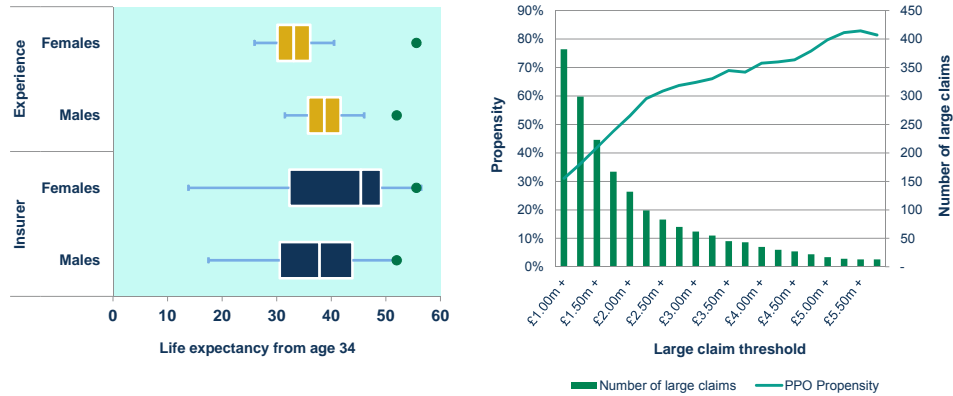
Investment  
Strategy

Administration



## How is the market adapting?

### Fourth year of industry survey



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## How is the market adapting?

### Lack of consistency across the market

- assumptions
- methodologies
- pace of change

## How is the market adapting?

### Stochastic model - an invaluable tool

- understand, communicate and quantify the risks
- important to embed decision makers in the process
  - view to be taken on a number of inputs
- industry slow to adopt



## Hot topics

Reinsurance

Discount rate consultations

Long Term Guarantees (LTG) package

Investment



## Reinsurance

### Impact is much greater for reinsurers

- Interesting renewal season
  - Exits from the market
    - and some entrances
  - Uncertainty makes pricing extremely difficult
  - Capitalisation clauses
    - but on what terms?
- Those with embedded stochastic models at a distinct advantage



## Ogden discount rate

### Review of rate

- Announced November 2010

### Consultation 1:

#### How to set the rate?

- Closed August 2012

### Consultation 2:

#### Legal framework/More PPOs?

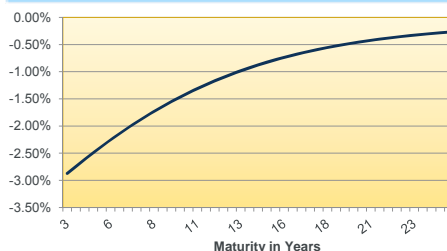
- Closing 7 May 2013



## LTG package

- Solvency II
  - Debate raging in the life industry for some time
  - One of the principal reasons behind SII delays
- Risk-free discount rate

Bank of England real yield curve as at March 2013



## LTG package

### Mitigation options do exist

- Matching adjustment
  - ‘based’ on the return on assets actually backing the liabilities
  - assets must be ring fenced
  - availability of matching assets?

Complicated

Onerous





## LTG package

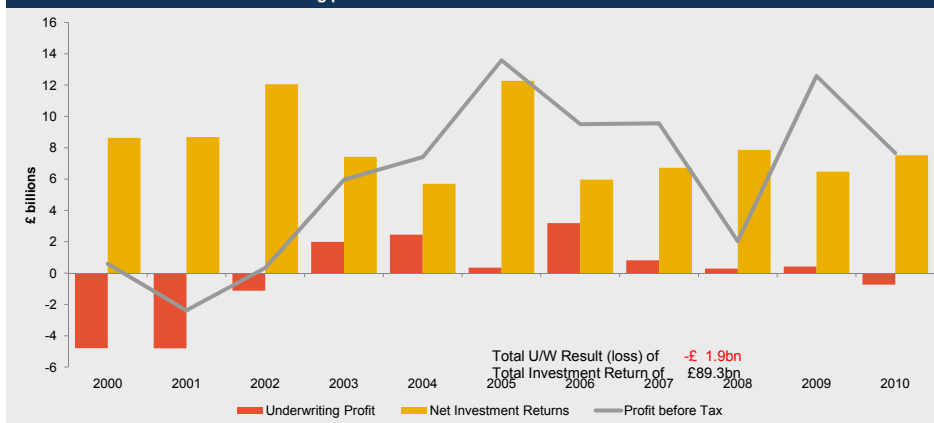
### General Insurance Industry *needs* to be represented in the debate

- Take part in the LTG Assessment
- Participate in the LTGA exercise but not within the demanding timescales
- Understand the issues and start planning now



## Investment

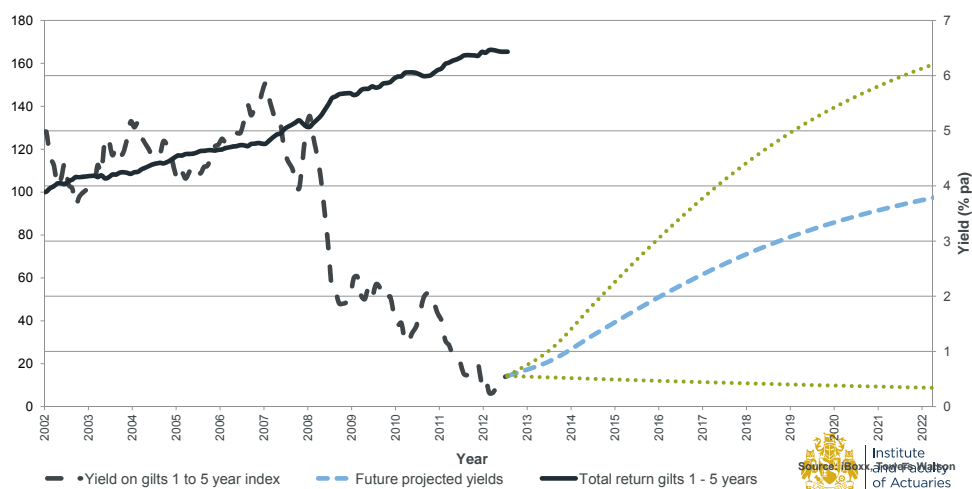
Net investment income and Underwriting profit for UK market



Source: FSA Returns / Towers Watson



## Investment - Returns 'cliff'



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## Questions

## Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



30 April 2013

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