



Institute
and Faculty
of Actuaries

Health Care and Associated Professions (Indemnity Arrangements) Order 2013

Department of Health

Consultation Response

17 May 2013

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Mr Mike Lewis
Professional Standards
2N12 Quarry House
Quarry Hill
LEEDS
LS2 7UE

17 May 2013

Dear Mr Lewis

Health Care and Associated Professions (Indemnity Arrangements) Order 2013

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation. The response has been prepared by members of the IFoA who work in general insurance.

The IFoA does not wish to comment on the specific recommendations set out in the consultation document but wishes to highlight that professional indemnity cover will often be used to fund the settlement of personal injury claims. These claims can either be settled as a lump sum cash amount or as a Periodical Payment Order (PPO), whereby elements of cost pertaining to future care are paid as an annuity. Our comments below relate to any decision on limits of indemnity of any professional indemnity cover and how these limits may be exhausted where PPOs are awarded.

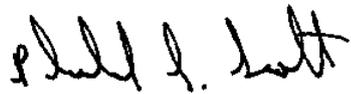
We note that there is no suggestion of a specific liability limit. It should be borne in mind that a Periodical Payment Order claim settlement for a seriously injured claimant can attain a very high value in nominal terms. For Motor insurance, where there is no liability limit, the IFoA PPO Working Party 2012 Survey found that, on average, a lump sum of £1.8m was awarded, with an average £78,000 per annum PPO payment over an average life expectancy of 40 years. It should be noted that average figures such as these mask the underlying wide range of PPOs that exist – for example, a third of all PPOs in the Survey had life expectancies exceeding 50 years. Allowing for even moderate indexation for wage inflation, a high nominal value is easily reached.

This is particularly true where the claimant is a child with a long life expectancy. For example, a £2m lump settlement, plus a £150,000 per year care package subject to indexation at 3% over an 80 year future life, would equate to £50m in nominal terms. In this example introducing a limit of indemnity would have a very significant impact on the claimant:

- A £5m limit of indemnity would be exhausted after 16 years;
- A £10m limit of indemnity would be exhausted after 33 years; and
- A £20m limit of indemnity would be exhausted after 52 years.

If you have any questions about our response, you should contact Philip Daggart (0131 2401319, Philip.Daggart@actuaries.org.uk) in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Philip Scott". The signature is written in a cursive style with some stylized flourishes.

Philip Scott
President
Institute and Faculty of Actuaries