



**The Actuarial Profession**

making financial sense of the future

GIRO conference and exhibition 2010  
Nathan Williams



# Periodic Payment Orders

12-15 October 2010

# Periodic Payment Orders (PPOs) - transferring risk



- **Living too long**
- **Poor investment returns**
- **Inflation**

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# **PPO v Ogden Lump sum**

**For individuals who've been seriously injured**

**Ogden - lump sum**

**PPO - smaller lump sum plus indexed  
regular payments for rest of life**

**Mostly motor but some Liability**

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# Ogden v PPO

**£3.5 million**

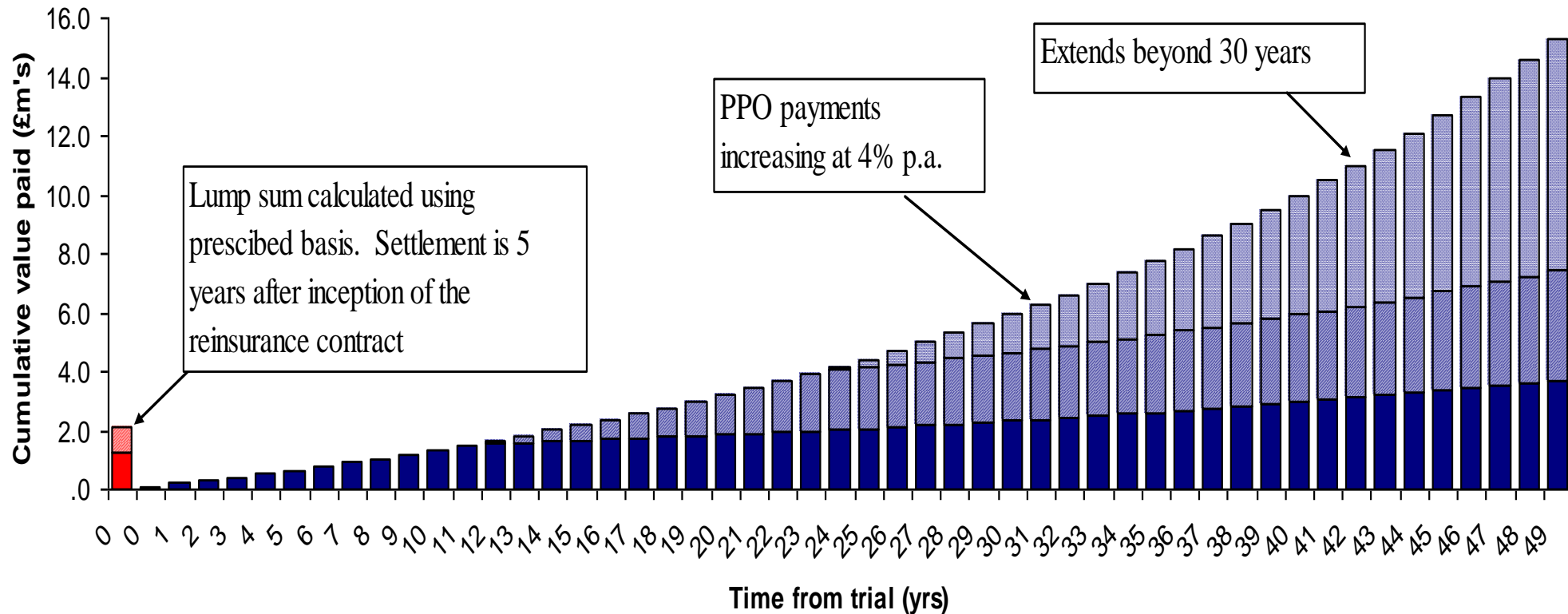
**versus**

**£1.5 million plus £75,000 pa indexed for life**

**for a 25 year old with 25% reduction in life expectancy**

# PPO - (Lots) more uncertainty

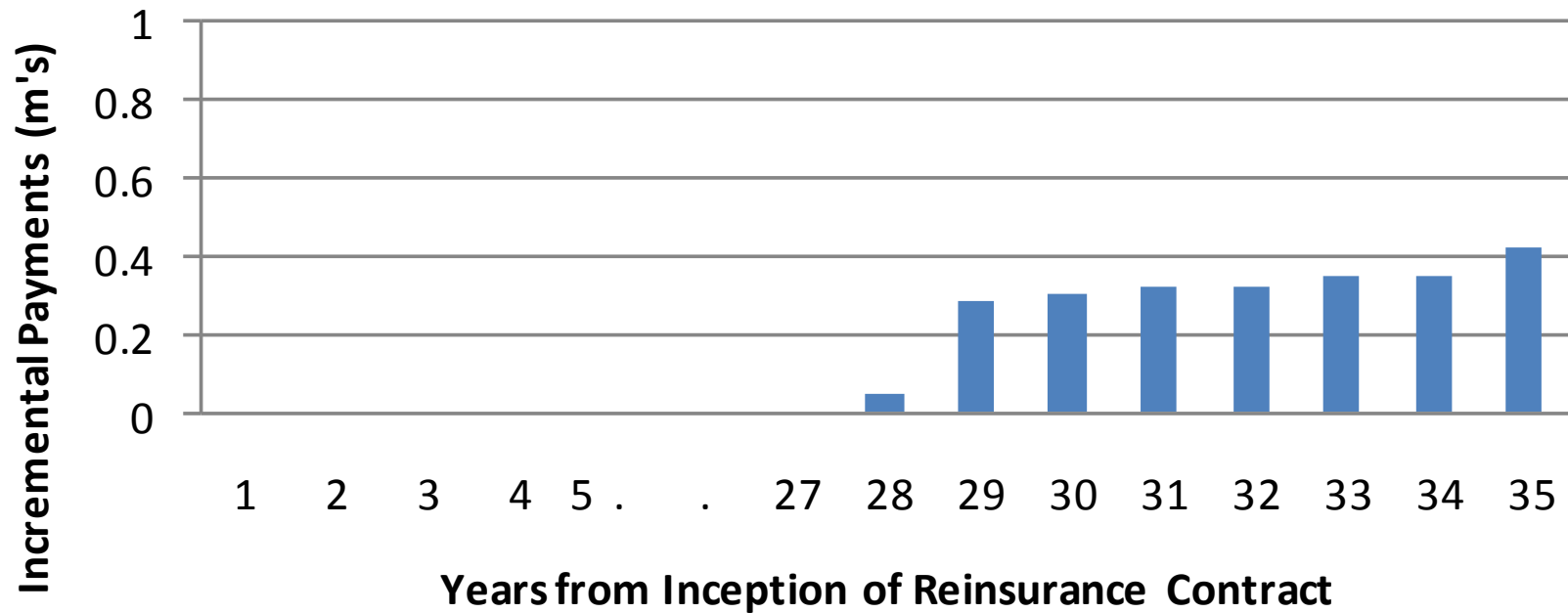
## Lump Sum and PPO (Un-discounted) comparison



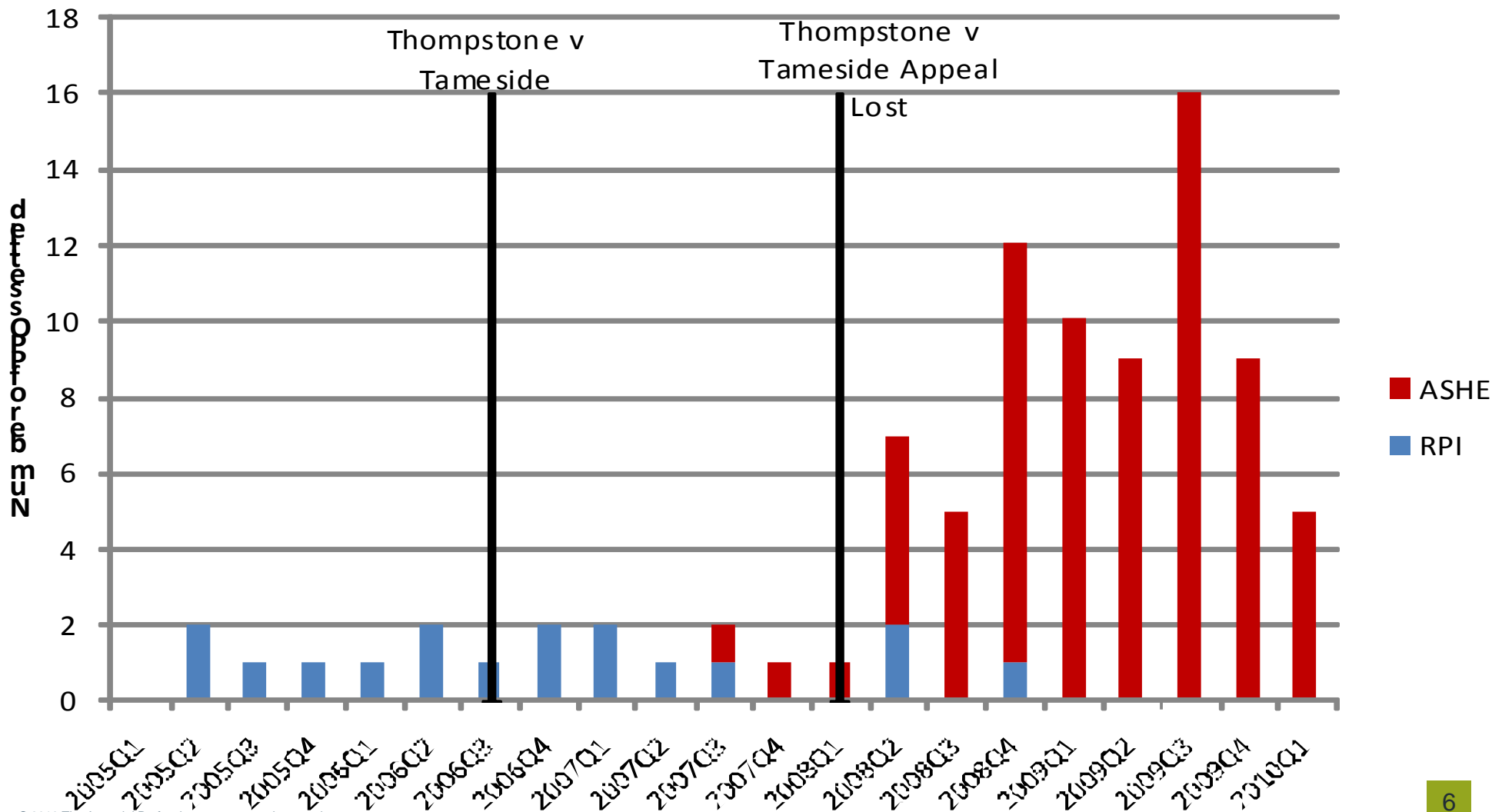
■ Retained 
 ■ Layer 1 
 ■ PPO: Retained 
 ■ PPO: £1m xs £1m 
 ■ PPO: £3m xs £2m

# PPO - Effect on reinsurers

## Distribution of £5m xs £5m Recoveries: Mean Term = 31.0yrs



# PPOs - Industry Experience



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# PPOs - current market statistics

- **Insurers** **Est 170 - 200**
- **MIB** **63 - May 2010**
- **NHS** **800 - March 2010**



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# PPOs - things to consider

- **Capital**
  - **Pricing**
  - **Reserving**
  - **Reinsurance**
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- **Operational Challenges**
  - **How to mitigate**

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# PPOs - effect on balance sheet

- **Insurer**
  - **21% increase in reserves**
  - **Mean term 2.2 to 4.5**
  - **Large 49% of liabilities (from 38%)**
  
- **Reinsurer**
  - **82% increase in reserves**
  - **Mean term 3.4 to 9.2**

Results of Working Party Projections

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# **PPO - Workshop**

**Find out more**

**Workshop session E4**

**4pm today**

**Conwy 1 & 2**

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# PPOs - the next asbestos ?

- **Similarities**
- **and Differences**

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# PPOs - they're definitely big and hairy

