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
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
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
Lump Sum and PPO (Un-discounted) comparison

Lump sum calculated using prescribed basis. Settlement is 5 years after inception of the reinsurance contract.

PPO payments increasing at 4% p.a.

Extends beyond 30 years

PPO - (Lots) more uncertainty
PPO - Effect on reinsurers

Distribution of £5m xs £5m Recoveries:
Mean Term = 31.0yrs
PPOs - Industry Experience

Thompstone v Tameside

Lost

Thompstone v Tameside Appeal

Number of PPOs settled

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PPOs - current market statistics

- Insurers: Est 170 - 200
- MIB: 63 - May 2010
- NHS: 800 - March 2010
PPOs - things to consider

• Capital
• Pricing
• Reserving
• Reinsurance

• Operational Challenges
• How to mitigate
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
PPO - Workshop

Find out more

Workshop session E4

4pm today

Conwy 1 & 2
PPOs - the next asbestos?

- Similarities

- and Differences
PPOs - they’re definitely big and hairy