Ogden: New approach to practical challenges / genuine uncertainty / data issues

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Before we begin…

Something fun
Before we begin…

Which individual gave their name to the Ogden tables?

Michael Ogden  Hilda Ogden
Before we begin…

Before the rate was changed to -0.75% in 2017, in what year was the Ogden discount rate last changed?

- 1996
- 2001
Before we begin...

How many other countries use a negative Ogden equivalent discount rate?

1 or more countries  No countries
What would the Ogden discount rate be if you used yield information from the point of the Brexit vote onwards?

Lower

Higher
According to the latest confused.com car insurance price index, by how much have premiums fallen over the past year:

- 10%
- 2%
**Ogden… the story so far**

- **27 February 2017:** MoJ announces the discount rate will be set at -0.75%  
- **20 March 2017:** New discount rate comes into force  
- **7 September 2017:** Government announces it will introduce new legislation  
- **30 November 2017:** Justice Select Committee provides responses to the draft legislation  
- **23 March 2018:** Announcement of the Civil Liability Bill at the House of Lords  
- **24 April 2018:** Second reading of the Civil Liability Bill at the House of Lords  
- **10 May 2018:** Committee stage regarding the Civil Liability Bill – line by line examination of the Bill
Key uncertainties

- Investment conditions in the future?
- Civil liability bill timeline?
- Will the bill pass?
- Will Scotland and Northern Ireland follow suit?
Current basis for Ogden rate calculation

Average Yield on Index Linked Gilts

06 June 2018
Proposed basis for future Ogden rate calculation
Looking forwards

There are a number of different areas that firms need to consider both from a short-term and long-term perspective, in key areas, as displayed below.

- Reserving
- Reinsurance
- Capital
- Other areas
Reserving

- Many insurers have adjusted their case estimates to be based on a discount rate of -0.75%.
- This resulted in an increase to the incurred leading diagonal during Q1/Q2 2017.
- Traditional actuarial techniques can be distorted because they do not properly allow for an increase in incurred claims.
- If the outstanding claims have all been restated at -0.75% continuing to use the same development factors in the chain ladder method can potentially distort the level of IBNR actually required.
Possible approaches

- A variety of approaches to this issue have been used across the market.

- The more sophisticated approaches involve performing separate projections for known claims and IBNR.

- Intermediate approaches involve restating or adjusting the triangles in order to remove the distortion caused by the Ogden discount rate change and using similar methods as previously used, possibly with a further top-down adjustment to include an Ogden loading.

- In the least sophisticated approaches, cruder or no adjustments are made to the development patterns, and it is assumed that the development pre and post the Ogden rate change is the same. Further top-down adjustments are then made.
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