



## RISK ALERT

**Change to the discount rate for settling personal injury lump sum awards**

### KEY MESSAGE

**Members should be aware of the announcement by the Lord Chancellor about concluding the review of the Ogden discount rate and publishing the result. This change will affect most members working in General Insurance.**

#### What are Risk Alerts?

A series of email alerts drawing members' attention to specific issues where the IFOA asks members to think carefully about the consequences of actions they are taking.

The information in the Risk Alert is non mandatory guidance which we publish to protect the public interest.

#### This Alert is relevant for the following members

All members working in General Insurance transacting business within the UK regulatory environment.

#### Subject matter

Personal injury lump sum awards – potential reduction in the discount rate.

The Damages Act 1996 specifies that the return to be expected from the investment of certain lump sum awards shall take into account such rate of return as may from time to time be prescribed. This is known as the Ogden discount rate.

It has been announced that there will be a decision in February 2017 by the Lord Chancellor on reviewing the Ogden discount rate. This will have an impact on both claimants and insurance firms.

Whilst the main focus is likely to be on claims arising from motor business, other classes of business that have exposure to liability claims will be affected. This Risk Alert does not consider the impact on claimants but, rather, identifies specific responsibilities within firms where actuaries will have significant involvement.

## **Considerations for actuaries**

This will affect members in a number of ways including the following:

- (a) Actuaries who participate in the reserve setting process should be considering how the Lord Chancellor's announcement impacts their calculations and decisions, both in the run up to and then following the announcement of any revised rate;
- (b) Actuaries involved in pricing decisions should reflect upon how the potential increased cost of claims (both retrospective and future) may affect those decisions;
- (c) Actuaries involved in capital management should reflect upon how any change to future claims payments will alter existing capital management projections and arrangements;
- (d) Actuaries involved in assessing or purchasing reinsurance should be considering how the Lord Chancellor's announcement impacts reinsurance arrangements and how they might respond; and
- (e) There should be clear communication of the outcome of these considerations and reflections to relevant stakeholders including drawing attention to the uncertainty.

## **Professional Obligations**

Members are reminded of their obligations under the Actuaries' Code, Actuarial Profession Standards (APSs) and the Technical Actuarial Standards (TASs).

### **Further information and support**

Actuaries who have specific professional questions or concerns should contact the Professional Support Service.

On 7<sup>th</sup> February 2017 there is a GI Forum at Staple Inn on the Review of the Ogden Discount Rate. More information and details about booking are available on the IFOA [website](#).