

Ogden Rate Changes - What does this mean for your business?



Changes to the Ogden Discount Rate are potentially one of the most significant events facing the insurance industry in some time and they will have an effect on your insurance premiums.

Are you ready?

What is Ogden?

The 'Ogden' tables help actuaries, lawyers and others calculate the lump sum compensation due in personal injury and fatal accident cases. When injury victims accept compensation payments, the actual amount they receive is adjusted, according to the interest they can expect to earn on the payment from investment. This adjustment amount is set by the Ogden Discount Rate.

Why 'Ogden' tables?

The full, and official, name of the tables is Actuarial Tables with explanatory notes for use in Personal Injury and Fatal Accident Cases but the unofficial name became common parlance following the Civil Evidence Act 1995, where this shorthand name was used as a subheading – Sir Michael Ogden QC having been the chairman of the Working Party.

What has changed?

On 27 February 2017 The Lord Chancellor announced her decision to change the discount rate from +2.5% to -0.75%. This is the first time it has been changed since 2001 and the change was effective from Monday 20 March 2017. A negative discount has been applied because the settlement awarded by the courts is expected to reduce in value, not increase, when invested.

Why the reduction?

With the Bank of England interest rate being at a record low of .25%, investment returns have been diminished for some time and a review of the rate was long overdue. The principal driver for setting the Ogden rate are the yields available on Government bonds and gilts.

What is the impact on claim amounts?



Figure 1 - AXA's response to Ogden Rate Changes

The precise impact will vary from claim to claim but, in principle, the more severe the injury and the longer the period of time that earnings are lost and care is required, the greater the impact of this change has on the settlement amount.

Does it apply to the whole of the UK?

Northern Ireland and Scotland will be considering their own position but are expected to follow the rest of the UK.

- The Lord Chancellor has conceded that the change could have "profound financial consequences".
- The total effect on UK insurer balance sheets is calculated at circa **£4.9 billion** in increased reserves.
- The impact on the UK's largest payer of compensation, the NHS, has been widely reported to be in the region of **£1 Billion**.

There are lots of numbers being quoted but most often the impact is measured in **billions**. What is clear is that the awards paid by the courts for severely injured claimants will rise substantially and insurance companies now need to look at how they achieve adequate premium funding to pay for it.

What does this mean for your business?

Insurers will be looking to increase premiums on motor and liability insurance policies, and this will increase the importance of having an experienced broker to manage your insurance portfolio and the risks that your business is exposed to.

Businesses that are risk management focused and can demonstrate the measures that are in place to control workplace accidents will be in a much stronger position to mitigate the impact of these increases.

How can we help?

Our role is to help you through this process and make sure that you are identifying and managing the wider risks within your business – we do not just provide an insurance policy.

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