Insurance Update from Towergate Insurance Brokers

Brokers urge government to act without delay over Ogden reforms

UK insurance brokers have called on the Government to act quickly to implement changes to the system which sees courts determine how much insurers should pay out to claimants in cases of life-changing injury.

The clarion call follows a welcome change of direction from the Ministry of Justice in September under the direction of newly installed Lord Chancellor David Lidington.

The delayed decision, which had been expected some weeks earlier, relates to the Ogden discount rate. When claimants with severe injuries accept lump sum compensation payments, the actual amount they receive is adjusted according to the interest they can expect to earn by investing it.

The rate is linked, by law, to returns on supposedly low risk investments - in practice index-linked Government bonds, known as gilts.

In the first change since 2001, this rate was controversially slashed by then Lord Chancellor Liz Truss by 3.25 percentage points to minus 0.75 percent, effective from 20 March 2017. Truss said she calculated the new rate on the basis of a three-year average of real returns on gilts.

The Government's revised proposal, announced on 7 September, is instead to introduce a discount rate that assumes claimants will take "low" rather than "very low" risks in investing their lump sum. If applied today, this could result in a rate of between 0% and 1%, the Government said.

The proposal still needs to be approved by parliament and the timing of implementation is therefore uncertain.

However, brokers have urged the Government to act as soon as possible to implement the changes.

British Insurance Brokers' Association (BIBA) executive director, Graeme Trudgill said the trade body "now calls for a speedy timeframe for implementation of these proposals to end the uncertainty for customers brought about by the significant under insurance risk and increase to premiums that February's discount rate change caused".

"The insurance industry was united in its approach to Government, and in its desire to achieve a fair balance of compensation for injured parties as well as reversing the unintended consequences of the change," he added.

The Government also plans to review the discount rate every three years, meaning future changes to the rate should be more predictable and insurers are less likely to have to make big step changes to reserves.

The reduction in lump sum payments under the new proposal could also encourage more claimants to opt for a Periodical Payment Order (PPO), where the insurer makes regular payments.

The announcement matters hugely because, as matters stand, in order to accommodate the change in the Ogden discount rate, insurers need to increase insurance premiums to help cover the costs, particularly in the areas most affected by personal injury claims costs.

As such, businesses are experiencing increases in premiums not only for motor insurance, but also for public liability, employers' liability, and commercial combined policies.

The Association of British Insurers (ABI) has also welcomed the proposal, describing the rate as "fairer for claimants, customers and taxpayers alike".

Huw Evans, director general of the ABI, said if implemented, it will help relieve some of the cost pressure on motor and liability insurance.

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