

Response to Discount Rate Reduction for Personal Injury Damages

This briefing has been compiled to provide you with insights into the Lord Chancellor's announcement of a reduction in the discount rate, what the news means for you and/or your business and how we can support actions to mitigate the financial impacts of this outcome.

What is the Personal Injury Discount Rate?

When assessing the lump sum awards for personal injury claimants, account is taken of the net rate of return (discount rate) the claimant might expect to receive from a reasonably prudent investment of lump sum compensation.

What are the changes?

On 15 July 2019, the Lord Chancellor announced that the new Personal Injury Discount Rate will be set at minus 0.25%, following a consultation process and as set out within the Civil Liability Act 2018. The Discount Rate was 2.5% for many years but was reduced to minus 0.75% in March 2017, resulting in a significant financial impact for serious injury cases. While the difference in % may be considered reasonably small, the impact to what is ultimately paid out to the injured person can be quite considerable. The revised rate of minus 0.25% will be effective for claims settled from 5 August 2019.

Impact on Commercial Policyholders

The below table shows how the discount rate influences incurred claims costs based on examples of projected annual loss of profit.

	£10K pa loss of profit for fixed period of 10 years	£25K pa lost income to age 65 from age 30 (male)	£100K pa care for life from age 30 (female)
-0.75%	£103,860	£880,652	£7,695,000
-0.25%	£101,300	£805,577	£6,503,000
0.0%	£100,000	£771,225	£6,002,000
0.5%	£97,500	£708,662	£5,152,000
1.0%	£95,200	£652,925	£4,465,000
2.5%	£88,600	£519,610	£3,068,000

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Although the impact of the new rate is not as severe as the previous minus 0.75% rate, it will still have an adverse effect on rates and claims severity in the insurance industry, with many insurers expecting the new rate to have been higher. In anticipation of the change to the framework, and the rate review, most insurers have projected their ultimate claims reserves and pricing aligned to a discount rate of between 0% to plus 1%, rather than minus 0.75%. This has kept premiums lower for clients. However, this also means that although the movement in the official discount rate is positive and moves compensation payments closer to an expected level of 'fair compensation', it is not as high as most insurers had predicted and outside of the range being used for pricing models.

This means that the new rate, combined with increasing severity of claims in the motor industry, could have an adverse impact on insurance premiums.

As QBE prepares for the changes the new rate will bring, we will continue to put our customers first. We remain committed to fair and long-term pricing stability whilst recognising we will need to adjust our pricing requirements to reflect the new discount rate as well as providing client focused solutions. We are committed to paying fair compensation for injured persons whilst supporting our clients in reducing accident frequency and severity through effective risk management initiatives.

Market leading risk solutions

QBE's technical expertise and strategic risk management services have established us as a market leader in the Motor and Casualty sectors and we are committed to a partnership to provide a customer-focused service in this field.

QBE's Risk Solutions experts and our network of specialist risk management partners help customers reduce their accident frequency and cost of claims by working with them to address the causes of losses within their business operations. Having access to this expertise is something that we believe offers a sensible and practical way of helping businesses make their operations more resilient and profitable. Our customers have very different requirements and it is our deep industry knowledge and experience that enables us to work with them to develop solutions that fit their needs and their business objectives. By working to help reduce work place accidents and keeping our customers' employees and the public safe saves businesses millions of pounds each year.

This provides benefits for all clients, including those with high levels of self-insurance as this support can help reduce the number and severity of claims within their chosen deductibles. It is important, therefore, to adopt a strategic approach that delivers solutions throughout the total cost of the risk value chain.

Should you have any queries about the new Discount Rate, please do not hesitate to contact your local QBE underwriting team.

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