

# The Ogden Rate

## What is the Ogden Rate?

The Discount Rate, also known as the Ogden Rate, forms part of the calculation to determine the level of award in respect of cases involving serious injury.

Claim settlements for injury are made up of a number of key components:

- compensation for pain and suffering
- future loss of earnings
- future cost of care
- 'other' financial support, either towards activities that cannot be performed as a result of the injury (i.e. driving, caring for dependents etc.) or the provision of additional support, such as prosthetics etc.
- legal and professional fees.

When assessing future loss of earnings, the courts multiply the amount they consider the claimant will lose each year by factors such as their age and their projected mortality rate. Similar factors are applied to the amount required for future cost of care.

As a result, an allowance is made by the courts in respect of future losses to reflect the fact that the claimant will be able to invest the lump sum awarded and earn interest on that investment over a period of time. The settlement is therefore 'discounted' by the amount of interest the claimant can expect to earn over that period. It is this adjustment which is known as the Discount Rate and that is subject to the recently announced changes.

The Discount Rate is linked to returns on low risk investments, typically Index-Linked Gilts.

### What Has Changed?

The Discount Rate has changed from 2.5% to -0.75%. This means that, rather than any lump sum award being discounted to allow for a 2.5% investment return, the indemnity settlement will be increased, reflecting a decision that over the long term there is predicted to be a negative return on investment.

The effect of this change will be to increase the value of claims for future financial loss. The change is most significant for younger claimants, for whom the settlement needs to cover the greatest length of time.

To give an example, the award made to a 27 year old female with a serious life-changing injury will move from £6.5m under the old Discount Rate to approximately £14m under the new one.

This will apply to all claims settled in England and Wales on or after the 20 March 2017, regardless of when the loss was incurred or notified.

### What is the impact of this change?

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 on the settlement amount.

Example claimant	Settlement before	Settlement after
30 year old plasterer with a traumatic brain injury	£2.24m	£6.14m
18 year old male claimant with spinal cord injury	£7.6m	£19.3m
55 year old male who sustained a below joint amputation	£1.4m	£2.05m

The overall cost for the insurance industry across all current claims that are impacted is estimated to be £7bn. The estimated ongoing annual cost thereafter for the insurance industry is around £1.2bn per annum.

It follows that large claims, over £100k and particularly over £1m, are the ones affected by this change, where future losses form a significant component of the overall claim reserve.

### What action will insurers take?

We will be reviewing the estimates on outstanding motor and liability claims that are impacted and adjust them accordingly. This will lead to some significant estimate increases on some outstanding case reserves. Decisions on liability remain unaffected.

The substantial increase in claims costs affects multiple lines of business which attract claims for bodily injury, including Motor, Public/Products Liability and Employers' Liability. Given the scale of this change, insurers will be applying price increases.

The impact of pricing amendments will depend on a range of factors, including the activities undertaken by the insured, their claims history and their exposure to severe injury losses.

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