Personal Injuries Compensation

AXA's Response to Discount Rate Changes

Discount Rate Change Q&As for Real Estate brokers

What is the Discount Rate and how does it work?

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.

When a claimant is awarded a settlement for injury this may be discounted by the level of interest or investment return that the settlement may accrue during the lifetime of the claimant.

This Discount Rate is linked to low risk investments such as Index Linked Gilts. The reforms have amended the discount rate from +2.5% to -0.75%.

The examples below highlight the financial impact of the change.

	Settlement before	Settlement after
An 18 year old with a spinal cord injury	£7.6m	£19.3m
A 30 year old with a brain injury	£2.24m	£6.14m
A 55 year old with a joint amputation	£1.4m	£2.05m

What impact does it have on Insurers?

The changes in the Discount Rate greatly increases the amount Insurers will have to pay in compensation for personal injury claims.

The changes will affect both future injury claims (estimated to cost the industry £1.2bn per year) and those currently incurred by Insurers (estimated to cost the industry £7bn).

How does the Discount Rate change affect Real Estate?

Real Estate is a Property dominant specialism and consequently is less affected than other areas such as Employers' Liability and Motor.

However, existing Property Owners Liability (POL) reserves and modelling of future exposures will be impacted by the change in the Discount Rate as injury compensation costs rise.

Exposures with a greater propensity for large injury loss will be the most affected and consequently, the POL excess of loss market is likely to see the greatest impact.