



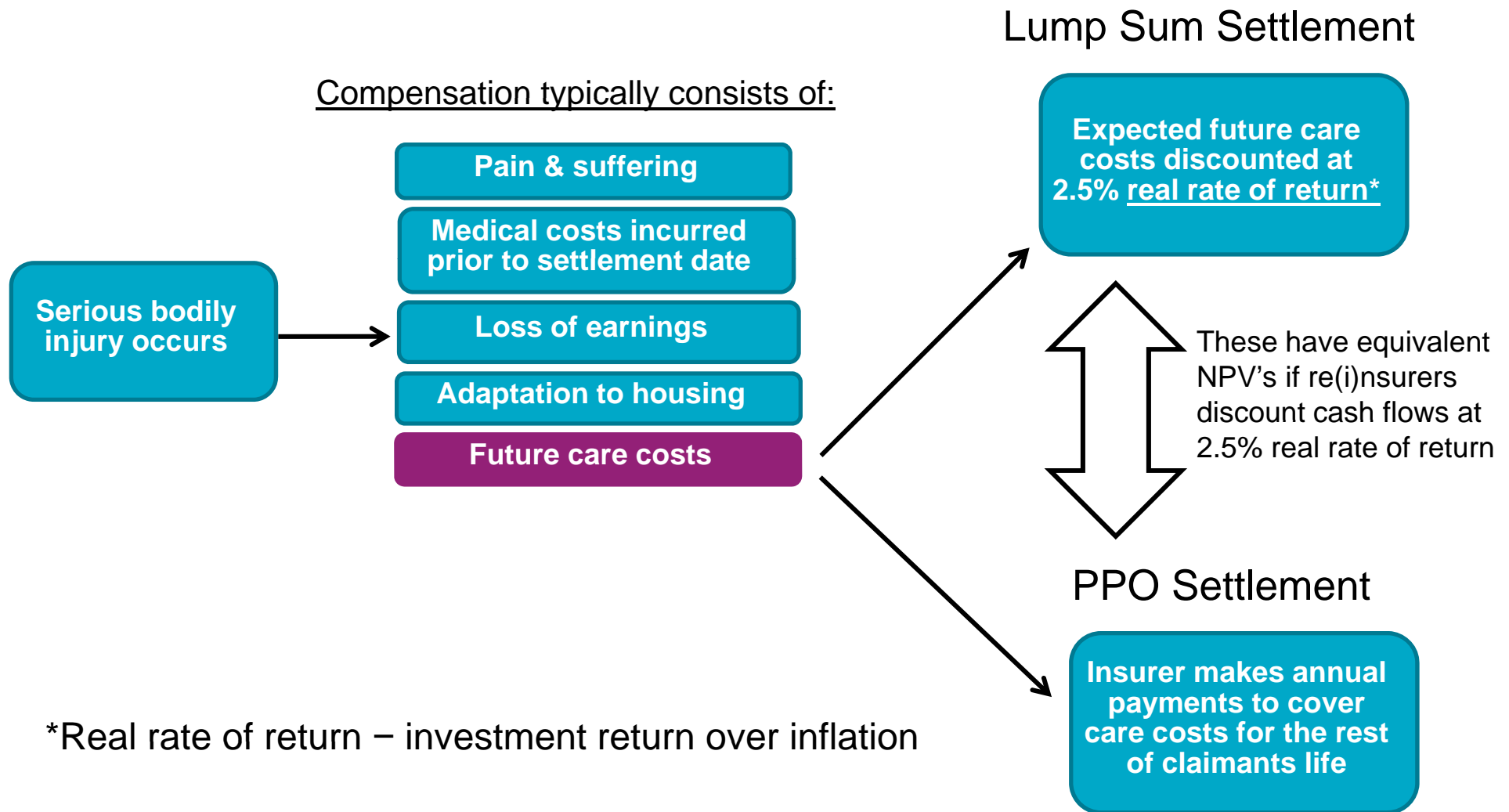
PERIODICAL PAYMENT ORDERS WHEN GI COMES TO LIFE

6th June 2013, Bermuda

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Bodily injury settlement process overview



*Real rate of return – investment return over inflation

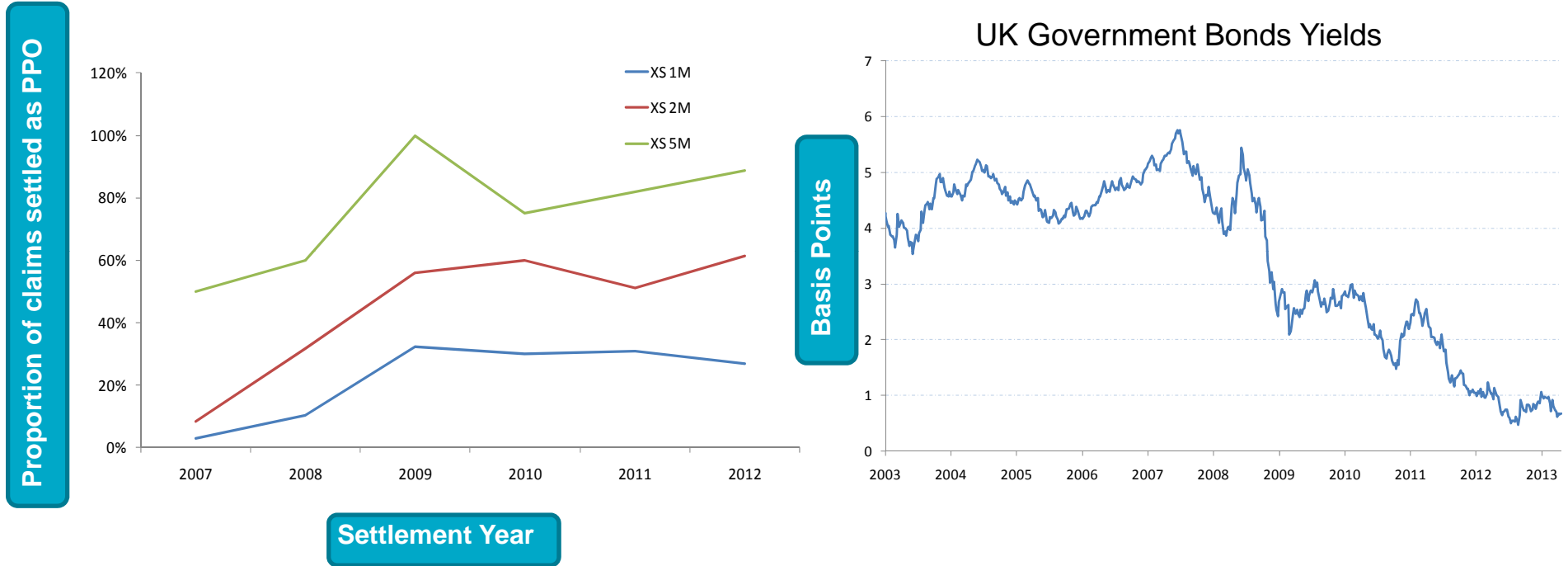
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Risks transferred in

- **PPOs transfer several risks to the (re)insurer that were previously borne by the claimant**
 - The challenge of achieving a 2.5% real rate of return (above inflation) – especially in a low or risk free environment
 - Inflationary risk
 - Asset mismatch risk
 - The risk that the claimant lives longer than expected (longevity risk)
 - Systemic risk which cannot be diversified away
 - The risk that a claimants care needs change (variation orders)
- **PPOs make sense from a moral/social perspective**

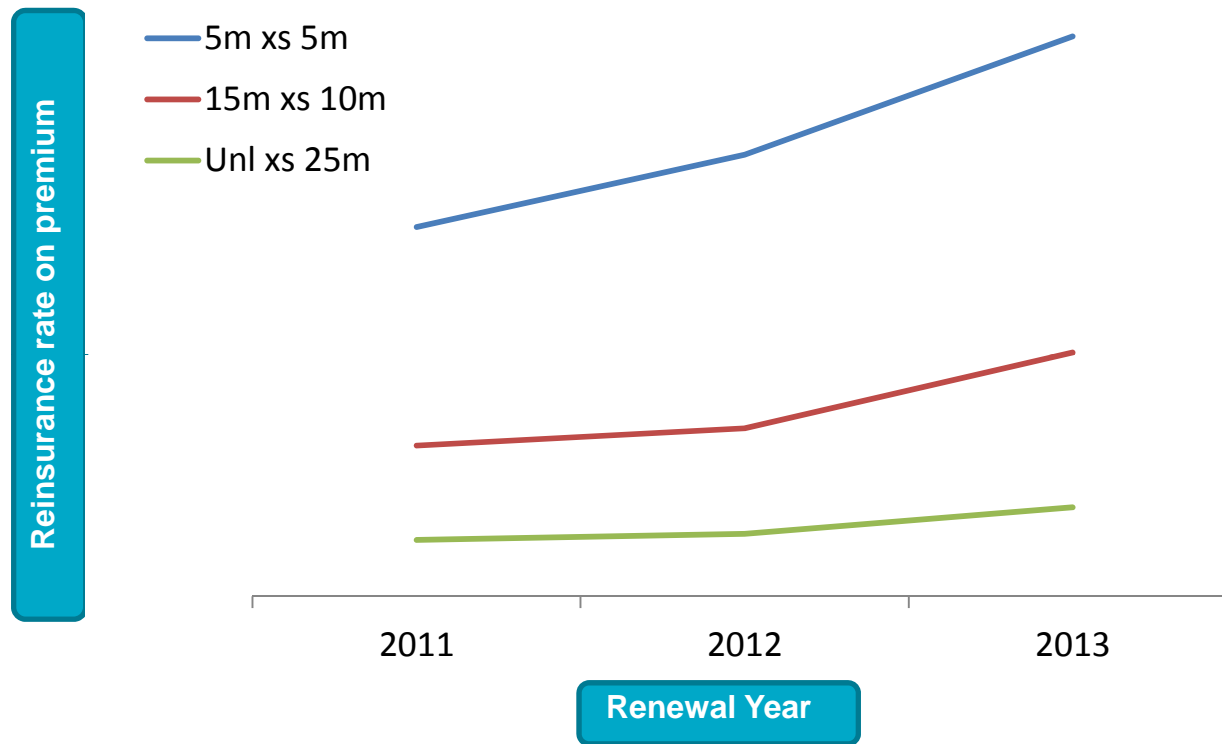
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PPO Propensity for different claim sizes



- **Marked increase in PPO settlements following 2008 financial crisis**
 - Probable correlation with bond yields which fell dramatically post crisis

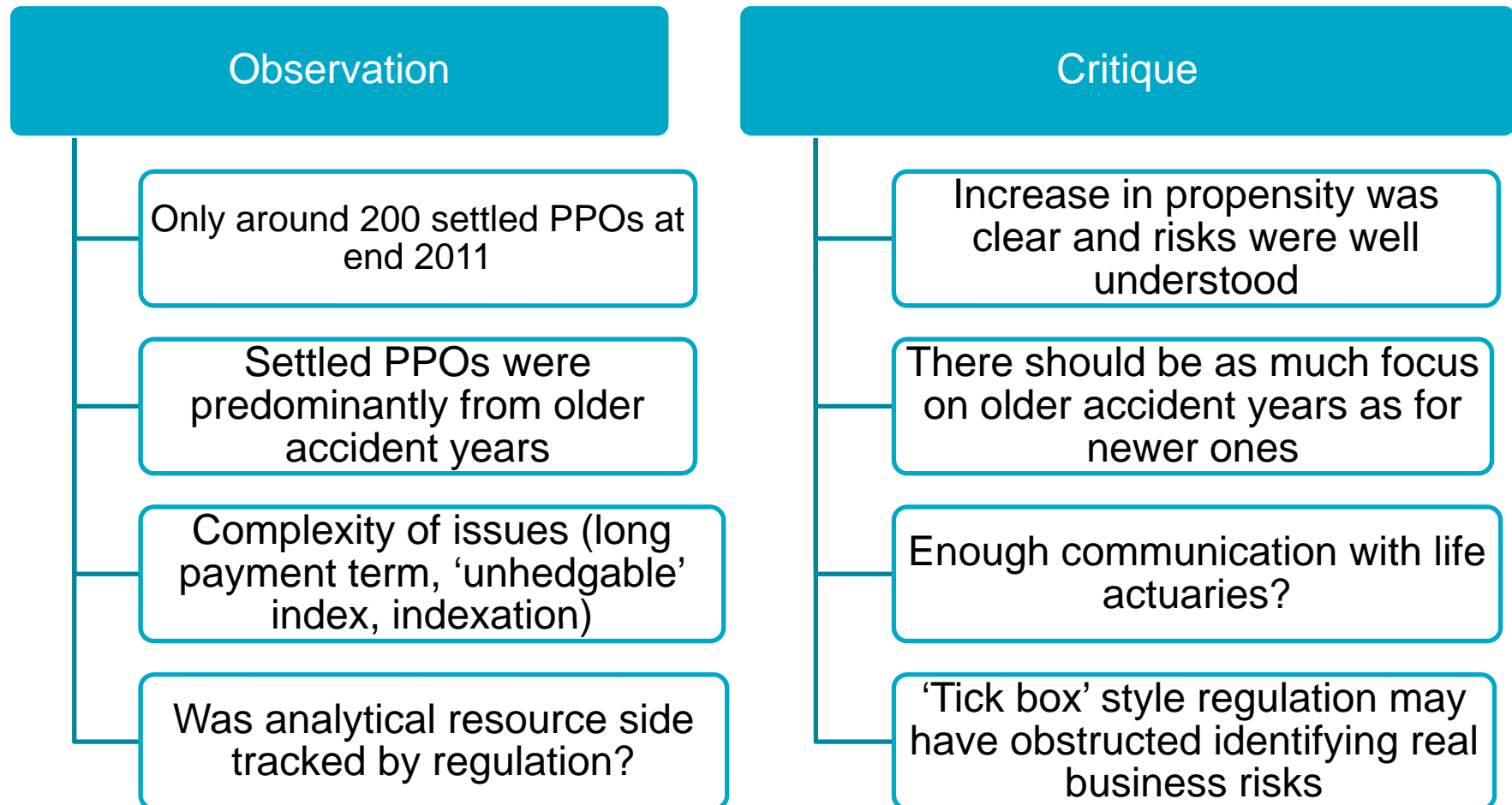
When GI comes to life Reinsurance rates



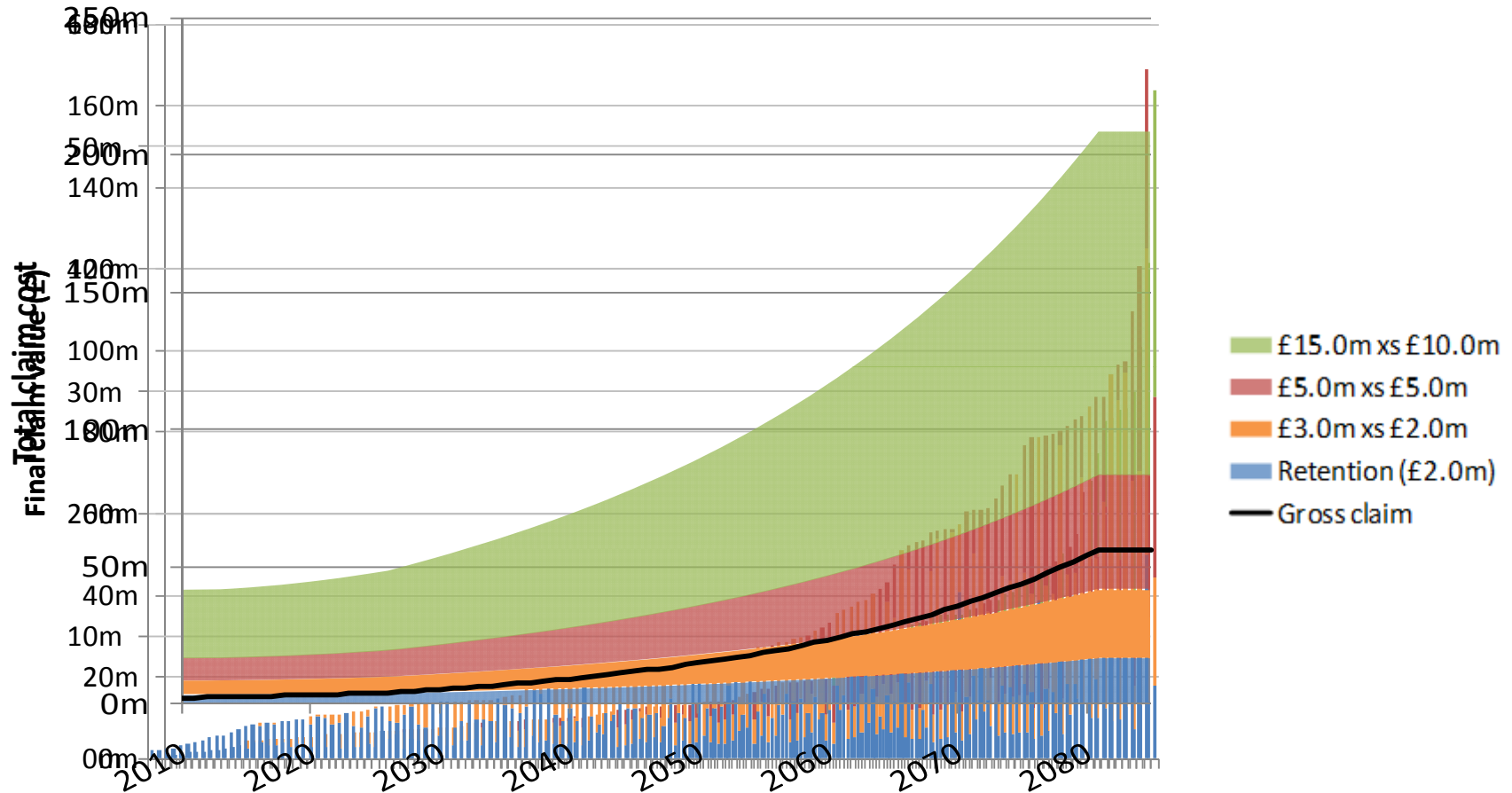
- **PPO related increases started at the 1st Jan 2012 renewal**
 - 5M xs 5M layer the focus in 2012
 - Lag effect as higher layers relatively flat in 2012 but increased in 2013

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Why did markets take so long to react?



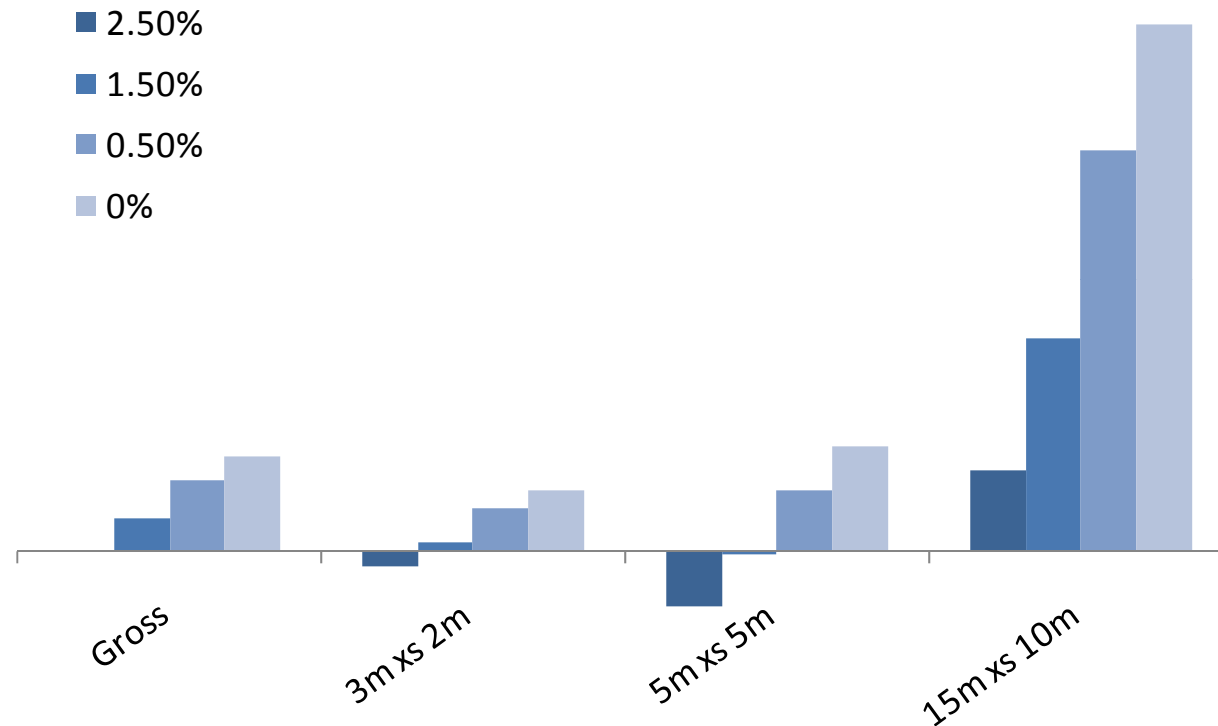
When GI comes to life Indexation



- Indexation can be significant
- Reinsurance recoveries can take a long time to be realised

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Impact on RI layers (PPO vs lump sum settlement at different discount rates)



- Economic cost is a function of discounting regime
- PPO effects leverage into higher layers

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Where are we now

- **Volatile reinsurance market**
 - Some reinsurers have exited the market
 - Other have restricted capacity or sought capitalisation
 - Reinsurance prices have fluctuated
- **Cedants unsure whether traditional XoL is the right product for them**
- **Companies trying to model the impact of PPOs**
 - Technical and operational challenges in incorporating PPOs into capital models
 - Tail scenarios for inflation from typical ESG are extreme especially when magnified over 80+ year durations
 - Appraisal of hedging solutions (reinsurance or other) dependent on assessing credit risk over very long durations for which there is no industry methodology

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European care regimes

- Significant differences in care regimes in Europe
- Approx. lump sum payable to 30 year old male, married with no children, brain injury requiring care but no ventilation

