



RISK MANAGEMENT

Recommendation on actuarial interest rate for personal injury claims

The article discusses the impact of the actuarial interest rate, “Rekenrente” on bodily Injury claims.

The actuarial interest rate is not regulated in a mandatory way in the Netherlands. In 2017 *De Letselschade Raad (DLR, Council of Bodily Injury)* published a concept guideline. This is an advice on the actuarial interest rate and at least part of the insurers aligned the actuarial interest rate for their reserve calculations with these concept guidelines. However, certain cases are decided on by the regional court. As the guidelines are not mandatory, judges are free to deviate from these guidelines in their verdict. When there is a new verdict, which deviates from the guidelines, insurers will often behold the new verdict as a guideline for the actuarial interest rate. The *Verbond van Verzekeraars* aims to get to a regulation for *rekenrente*, together with DLR and other stakeholders, however this is yet to be published.

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In this article we consider the actuarial interest rate, which was the verdict from the court at The Hague (13 May 2020):

Term	0 to 5 years	6 to 20 years	> 20 years
Interest rate	0%	1.3%	2%
Inflation rate	1.5%	2%	2%
Actuarial interest rate	-1.5%	-0.7%	0%

Since June 2021 there is a recommendation from the LOVCK (Landelijk Overleg Vakinhoud Civiel en Kanton) and LOVCH (Landelijk Overleg Vakinhoud Civiel Hoven) on the actuarial interest rate for injury cases. This recommendation was in line with the verdict from the court at The Hague (13 May 2020) recently, March 2022, the LOVCK and LOVCH published a new recommendation in which the interest rates are lower for the 6 to 20 year term (0.5%) and more than 20 years term (1.5%).

The impact of the “new” actuarial interest rates on insurance liabilities will depend on which actuarial interest rate the insurer is currently applying. Assuming that insurers are now using positive (or non-negative) rates for their reserve calculations, the new court ruling will lead to an increase in their reserves. The height of the increase is not only dependent on the current situation, but also what situation the insurer will move to. Taking into account the new recommendation from the LOVCK and LOVCH, the reserve will increase even further compared to the verdict from the court office Den Haag (13 May 2020). As mentioned, this is not regulated in The Netherlands, that’s why (within certain bounds) the insurers are free to choose the actuarial interest rate they apply. When estimating the impact of this change, we expect the market to move towards the most recent verdict from the regional court. A change in actuarial interest rate has the following impacts:

- By design, it only impacts claims with future components. Therefore, for example it has no effect on “affectieschade”, as these claims are settled in lumpsum with fixed amounts.
- The 2017 concept guideline of DLR covers all injury calculations for which the date of the accident is on or after the day of publication of this guideline. Matters prior to the effective date of the guideline must be assessed and budgeted in accordance with the method used at the time of the accident. The parties are free to use the guideline in mutual consultation in cases where no damage calculation has yet been made.
- The 2020 court ruling implies that pending and future cases need to be revalued using the new rates.

- In practice, insurers will perform revaluations using the new rates on pending claims at the moment that recalculations are due anyway, for example every year on the anniversary of the claim, or when new information gives rise to it.

SIMILARITIES WITH UK MARKET

The *Rekenrente* (*Rekenrente* is used to refer to the Dutch actuarial interest rate used for discounting of injury claims) is somewhat comparable to the Ogden Tables used in the UK, which set out multipliers which enable the user to evaluate the Present Value of the future annual losses or expenses. These are used by actuaries, lawyers and others to calculate the lump sum compensation due in injury and fatal accident cases. In UK, for instance, the Ogden Tables are used for claim settlements.

Below we discuss some of the differences between the Ogden Tables and the *Rekenrente*:

- **The Ogden Tables are more detailed.**
The *Rekenrente* is used for discounting and makes only the distinction in duration, divided in three cohorts, 0–5 years, 6–20 years and more than 20 years. The Ogden Tables consist of 36 tables which are used to calculate the lump sum based on assumptions like future inflation, interest rates and life expectancy.
- **The Ogden Tables are regulated.**
As discussed in the previous section there is no mandatory regulation (as yet) around the *Rekenrente*. The current situation is that there are (bodily injury) cases which go to the regional court, which will make a judgement about the *Rekenrente*. The most recent verdict from a regional court is used as the most recent guideline around the *Rekenrente*.

The new Ogden Tables, the 8th edition, were published in July 2020. These replace the 7th edition Ogden Tables which were published in 2011. The assumptions have been revised in the new Ogden Tables, as well as the discount rate range. The discount rate is in range of -2.0% to 3.0%. This is similar to what is observed for the *Rekenrente*. For example, the recommendation from the LOVCK and LOVCH proposes lower rates compared to the concept of the DLR.

IMPACT OF THE CHANGE IN REKENRENTE ON TECHNICAL RESERVES

Due to the changes in the *Rekenrente*, adjustments will be required to the open bodily injury claims. This will lead to an impact on the claim triangles. Additionally, these changes will be in phases as the adjustments will be made at different time periods (one-off adjustments, adjustments on the claim anniversary, adjustments proposed by regional court).

Therefore, we expect this to have a significant impact on the claim triangles, thus making the actuarial analysis difficult due to changes in the claims pattern. The impact will vary per insurer depending on:

- Current actuarial interest rates used.
- Proportion of claims getting affected by the changes in the *Rekenrente*.
- Current actuarial methods employed for estimating IBNRs.

One way to deal with this impact is to keep all the adjustments out of the triangle. This approach requires good governance around tracking these adjustments to ensure they are correctly and appropriately adjusted in the claim triangles. In the analysis insurers should also estimate the additional burden on pure IBNRs as new claims will be booked based on the new actuarial interest rates, which will not be reflected by the adjusted triangles.

Insurers may also look at alternative models, e.g. GLM models. The GLM Method is more flexible than the DFM in that you can explicitly model the calendar dimension as well as the origin and development dimensions. Therefore, the calendar year impact can be studied separately to analyze the impact on claim patterns, thus allowing actuaries to make necessary adjustments to the models.

KEY LEARNINGS

We observe that due to the lack of regulation and clear guidelines around interest rate position, there is some level of heterogeneity in the market in terms of the choice of interest rate, though most insurers rely on the most recent verdict from regional courts (Den Haag, 13 May 2020) and the recommendation from the LOVCK and LOVCH. The current developments will result in an increase of the BI claim reserve. However, we observe the impact on the reserve positions to be staggered, as insurers already started adjusting the reserve in steps over past few years, but it will take some time before the full impact is absorbed, thus making the reserving analysis difficult.

For reserving analysis, it is crucial to get the views of the claim handlers, as this gives an even better understanding of what the impact will be of this constantly developing actuarial interest rate. The choice of suitable modelling methods varies by insurer depending on various parameters including currently employed actuarial interest rates and the proportion of bodily injury claims. ■