Dear all,

Thanks for following up with me with your supplementary question on the personal injury discount rate. (Apologies again for not being available for your earlier oral evidence session).

I shared the question with the relevant set of (our) Committee members, and they have drafted the following response, which I've reviewed.

I hope (your) Committee find it helpful.

Question: In the view of IFoA, what is the material difference between a mixed portfolio of low risk investments and a risk free rate of return?

Response: "*The IFoA is clear that the needs of injured parties should be at the centre of any compensation paid. We believe this can be supported through 100% compensation (but neither more nor less), and that the claimant should be regarded as being very risk averse. Furthermore, the way in which the claimant uses the compensation is not relevant to its determination.*

Consistent with your view in responses to previous consultations (from a range of stakeholders), the setting of the discount rate is a matching exercise and this would naturally lead to a market consistent risk-free rate of return. A market-consistent approach does not take into account the actual assets held, but relies on market information at the date of the transaction to determine the discount rate.

The key difference between the mixed portfolio of low risk investments in the representative portfolios used to derive the recommended discount rates and the risk free rate of return is that the mixed portfolio includes not insignificant exposure to equity and hedge fund investment, and this increases this risk to the investors (i.e. claimants) and thus diverges from the principle of a risk-free investor."

Regards
Steven

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