Personal Injury Claimants' Accommodation Losses – An Actuarial Perspective

If an individual suffers injuries that give rise to special lifetime-long accommodation needs how much should they be paid in compensation for those accommodation losses?

This is a different problem from compensating them for normal living costs (because their injuries prevent them from earning a living) and different from ongoing care costs. The principle in those cases is to award a suitable lump sum that can be invested to provide an income. The income is then available to be spent to cover the costs and in later years the capital may also be run down. The award must be sufficient to compensate for future inflation in the costs.

Accommodation is an entirely different matter. The essential financial characteristic of accommodation is that somebody has to tie up capital in property for a very long time. That may be a wealthy investor, or a financial institution, or a landlord (who in turn may rely on a financial institution for funding). By definition, the capital required cannot be used in another way to earn a return for its owner for the lifetime of the occupier of the accommodation. Instead the capital provides the benefits of accommodation to the occupier for their lifetime, but after that the capital becomes available again to its owner.

The actuarial challenge is to determine the cost to the capital provider of providing the capital, taking into account the financial risks involved, for the period for which it is required. In economic terms the cost to the capital provider is the benefit of accommodation provided to the injured person so if we determine one we have determined the other.

The actuarial model has to cater for potentially many decades into the future. To be a fair method of calculating compensation it must take into account what market data is available. Congruent, an actuarial consultancy specialising in matters of financial risk, was commissioned to investigate this issue but found no published examples of models or methodology to tackle the issue.

Accordingly, Congruent has itself developed an approach and a mathematical model and used it to produce results. The market data used are the proxy instruments that represent interest rates, inflation and credit spreads and these are inputs to the model. The model uses forecast longevity of the claimant based on medical evidence but applies techniques to allow for variability in the actual future lifetime. The model employs Monte-Carlo simulation techniques to determine the risk to capital based on the survival of the claimant.

It is said that "the proof of the pudding is in the eating"! Congruent is pleased to say that the results of this detailed analytical approach are within the range that other professionals in the area consider reasonable (even if they have not done the detailed mathematics themselves).

Lawyers and the courts, when asked to agree compensation for accommodation losses, need the confidence of knowing how figures suggested for compensation were arrived at. Congruent's model is now available.