



Automobile Insurance Rate Board 2018 Annual Review



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Agenda

- Current State – Impact of Rate Cap
- Indications
- Bodily Injury
- Accident Benefits
- Collision and Comprehensive- Theft
- The Grid
- Miscellaneous issues

Aviva's auto insurance results in Alberta



Current State- auto insurance in crisis

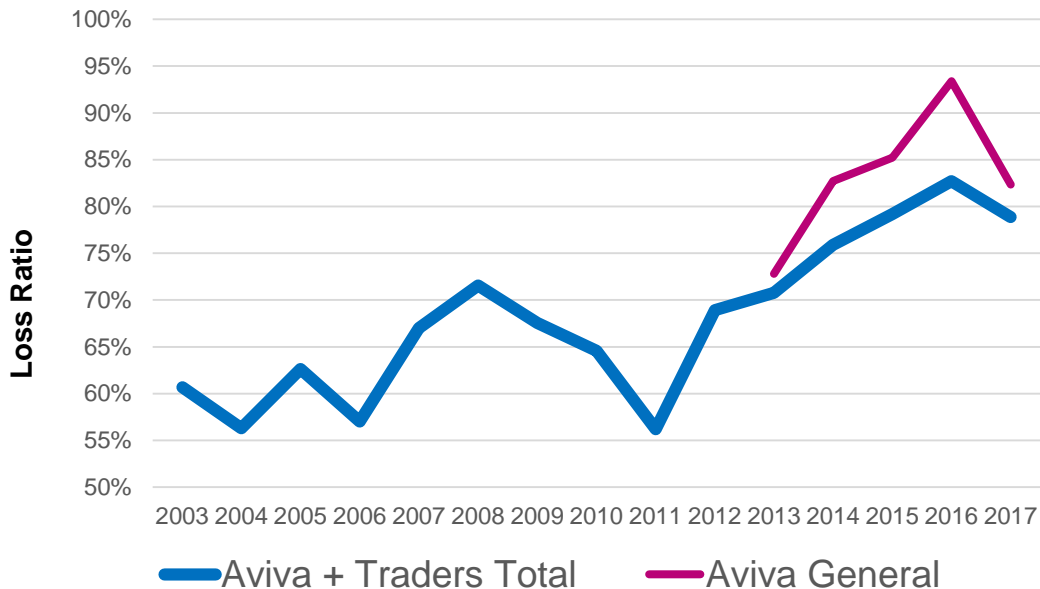
Personal Auto Loss Ratio and Combined Operating Ratio

	2014	2015	2016	2017
Personal Auto Industry Loss Ratios	84	82	93	89
Distribution Ratio	26	26	26	26
Combined Operating Ratio (COR)	110	108	119	115

Aviva projects that the industry will lose between **\$400 and \$500 million/ year** in 2018 and following if rate cap remains

Aviva's Auto Insurance Results

Aviva's loss ratio – Alberta PPV



Loss Ratio Deterioration

- Aviva's overall loss ratio deteriorated by 23 points from 2011 to 2017
- Aviva General's overall loss ratios deteriorated by 10 points from 2013 to 2017

Combined Operating Ratio (COR)

- Aviva's COR deteriorated from 89% in 2011 to 112% in 2017.
- Aviva General's COR deteriorated from 100% in 2013 to 109% in 2017
- YTD 2018 COR - 172.5% for Aviva General and 130.6% for Aviva/ Traders.
- Projected 2019 COR- 136.8% for Aviva General and 106.9% for Aviva/ Traders

These underwriting losses will impact solvency and jeopardize ongoing investment in Alberta

Rate Increases

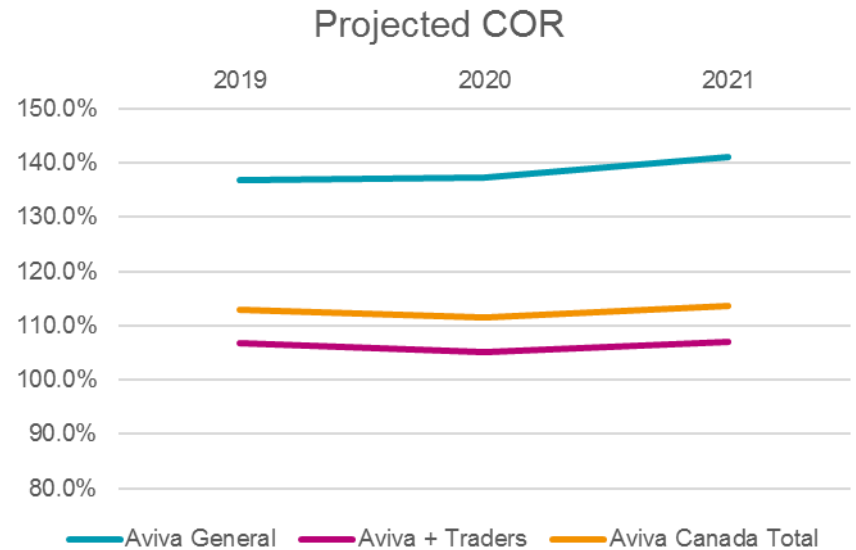
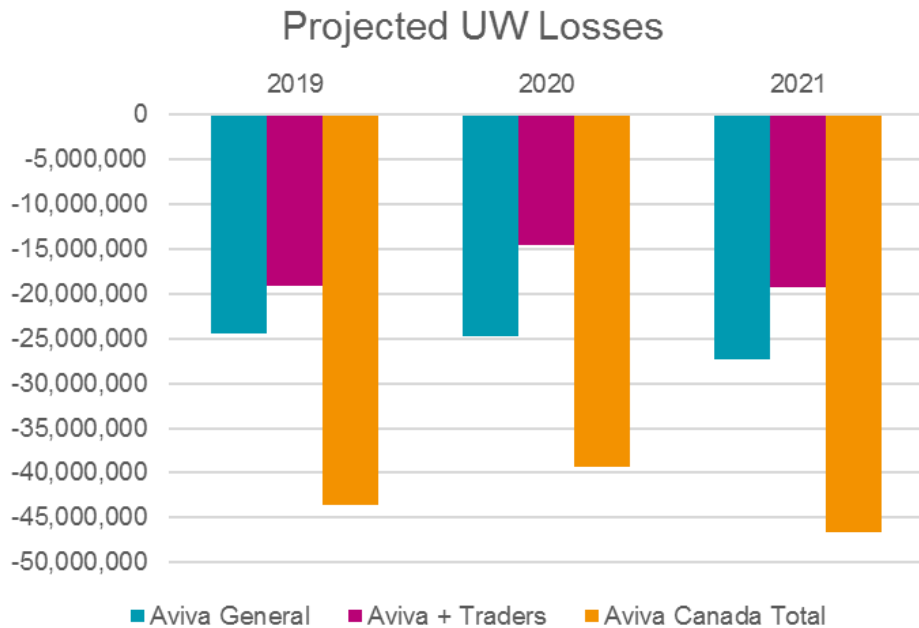
- AIRB has recognized the need for rate increases
- Aviva has been filing for increases at regular intervals but rate filings were paused for Aviva General during conversion of the RBC book of business to Aviva
- Cumulative approved rate changes over the past 5 years:
 - Aviva Insurance +22.2% (13.4% increase since March 2016)
 - Traders +12.0%
 - Aviva General +18.2% (15.0% increase since March 2016)

Failure to take rate increases is not the problem. Problem is rate increases can't keep up with claims inflation.

Impact of Ministerial Orders- Scenario 1: 5% Rate Cap

Assumptions

- This scenario assumes that the rate cap is renewed at +5% in Nov 2018.
- For Aviva companies, we assume that the additional 5% increase will be effective as of April 1, 2019



Premium deficiency approximately \$700 for Aviva General and \$165 for Aviva/ Traders

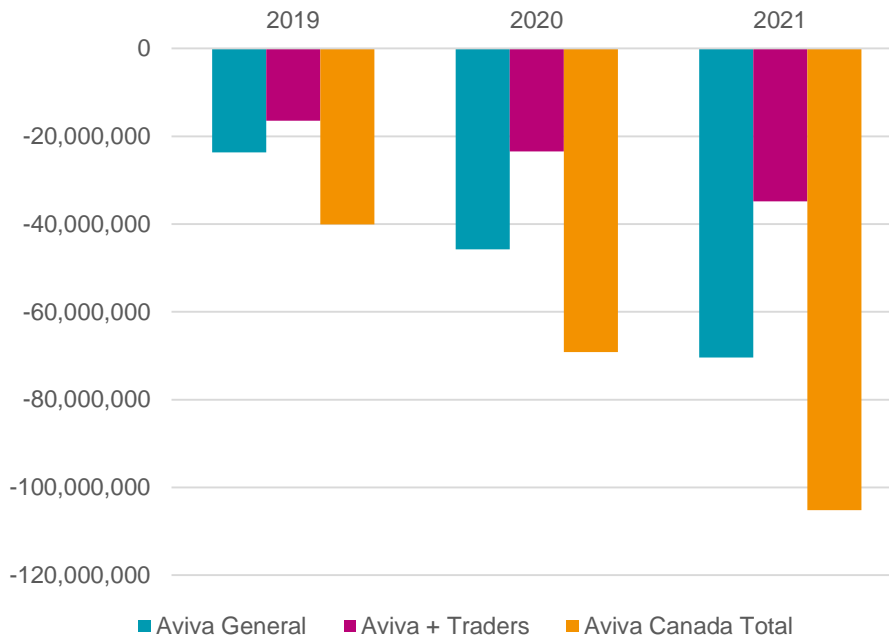
Aviva projects that it will lose \$40M in 2019 and \$130M from 2019-2021

Impact of Ministerial Order- Scenario 2: 9% Rate Cap

Assumptions

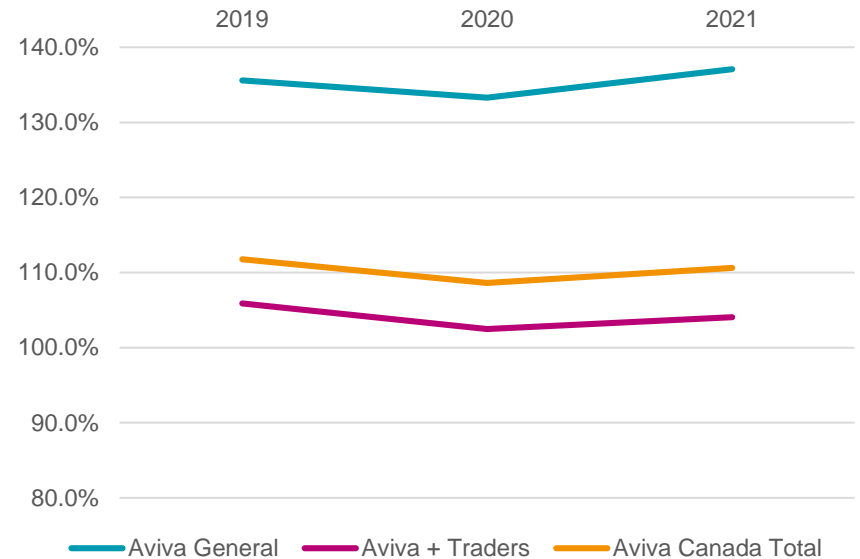
- This scenario assumes that the rate cap is renewed and increased to +9%.
- We assume an effective date of April 1, 2019

Projected UW Losses (Cumulative)



Premium deficiency approximately \$700 for Aviva General and \$151 for Aviva/ Traders

Projected COR



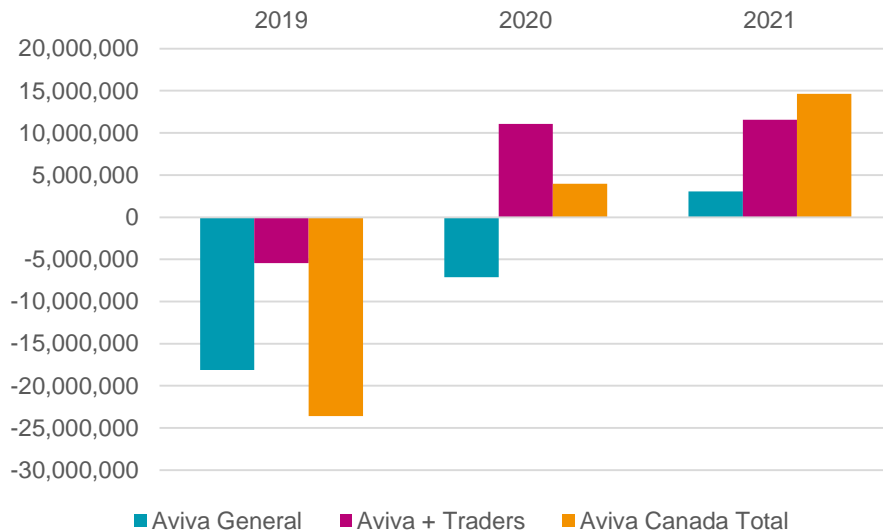
Aviva projects that it will lose \$23.6M in 2019 and \$105M from 2019-2021

Impact of Ministerial Order- Scenario 3: No Rate Cap

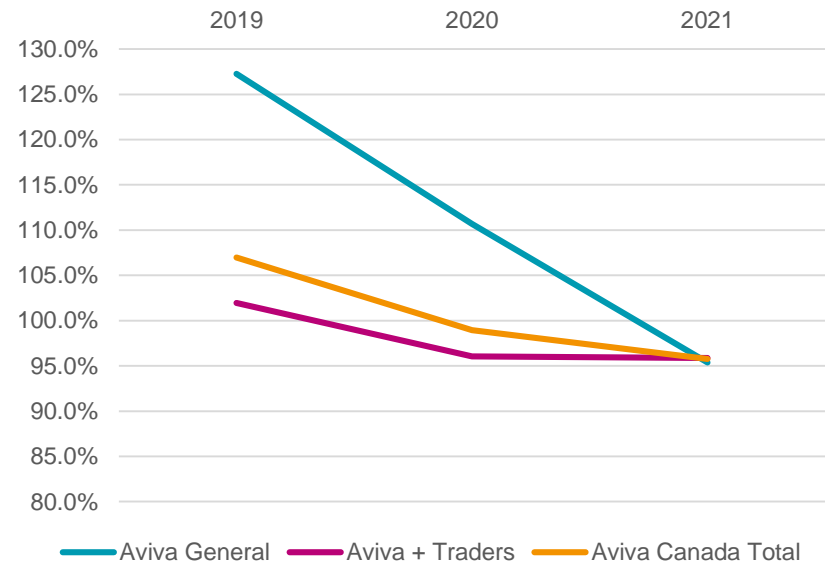
Assumptions:

- Rate cap is removed in November 2018 and insurers can file for necessary rate increases to return to reasonable profitability levels
- Even in this scenario, it will be 2021 until all Aviva legal entities are profitable again. There is no immediate solution even if the rate cap is removed. Product reform that reduces claims costs would help to speed up the path to productivity.

Projected UW Losses



Projected COR



Premium deficiency will be eliminated in 2021

Aviva projects it will lose \$18M in 2019 and \$25.3M from 2019-2021

Indications



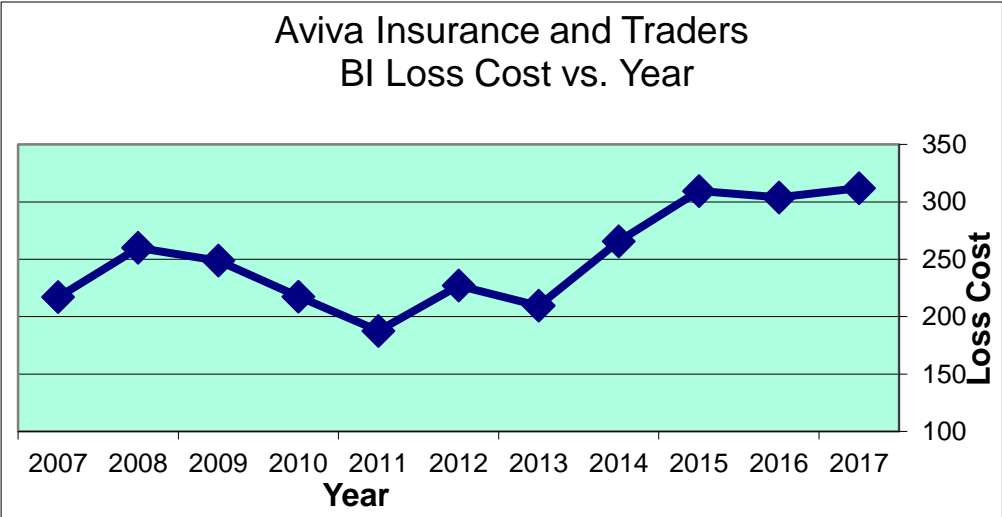
Indications

- Aviva's indications are higher than OW and much higher than Ron Miller for BI, AB and E44 coverages
- Aviva's indications for the other coverages are in line with OW and Ron Miller

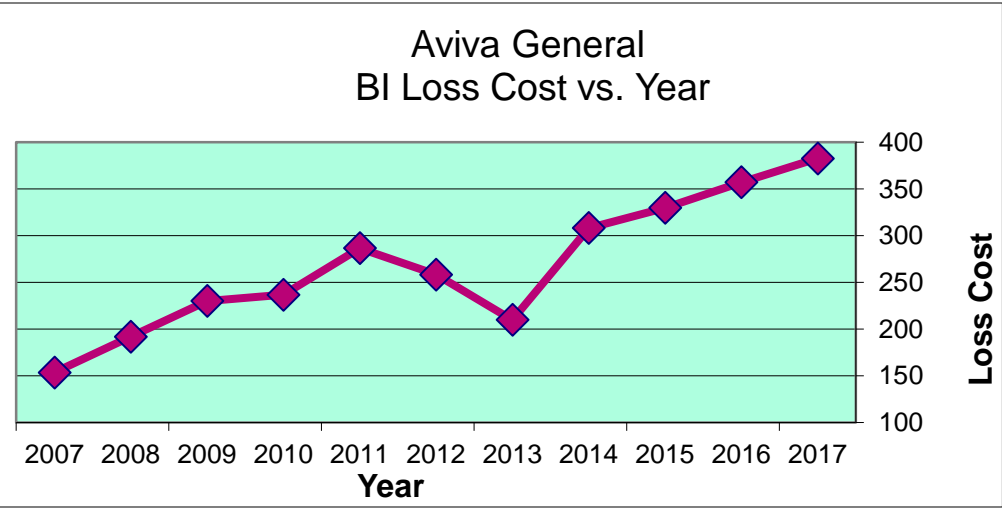
Bodily Injury



Bodily Injury Loss Cost Trends

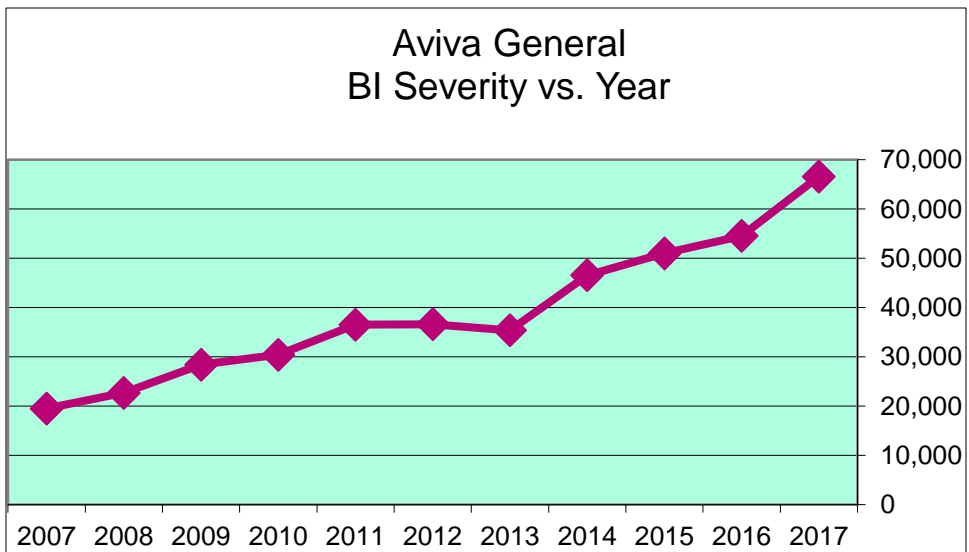
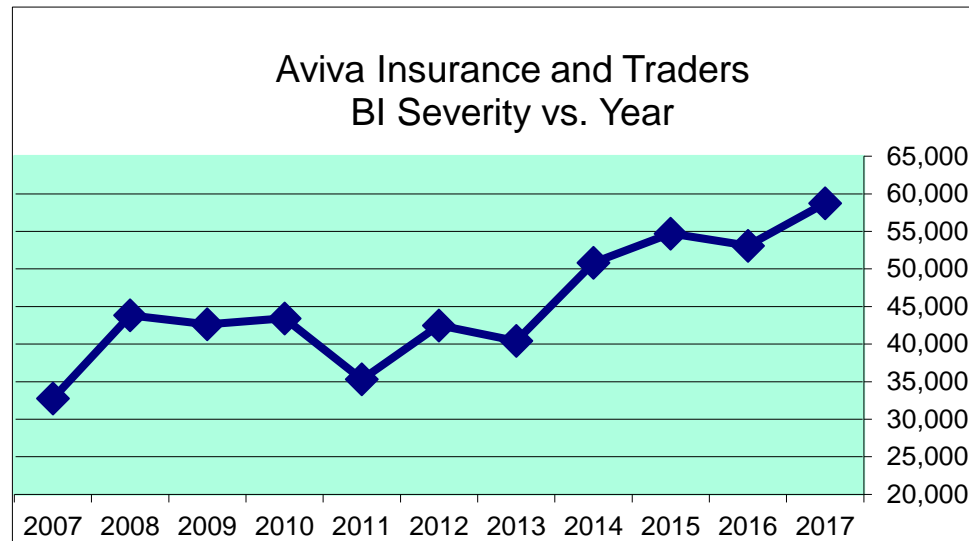


- Significant increase in BI loss costs from 2011 to 2017
 - 66.3% for Aviva Insurance and Traders
 - 33.5% for Aviva General



- Increases in loss costs trends are driven mainly by increasing severity

Bodily Injury Severity Trends



- Rapid increases in BI severity seen for both Aviva Insurance/ Traders and Aviva General
- From 2011 to 2017, BI severity increased by 66.4% for Aviva/Traders and 82.3% for Aviva General
- Rapid increases outpaced our ability to take rate increases

Bodily Injury Loss Development

- Aviva continues to see prior year adverse loss development for Bodily Injury. This is consistent with Oliver Wyman's findings, except that Aviva sees **more** deterioration starting from accident year 2014

Oliver Wyman

Accident HY	Reported	Selected	Prior	Diff	% PYD
2010.1	192,275	196,384	197,414	(1,030)	-0.5%
2010.2	270,097	276,740	277,295	(555)	-0.2%
2011.1	218,373	225,741	229,010	(3,269)	-1.4%
2011.2	285,975	297,946	298,583	(637)	-0.2%
2012.1	266,852	281,095	279,532	1,563	0.6%
2012.2	314,267	337,358	336,417	941	0.3%
2013.1	281,920	309,337	300,325	9,012	2.9%
2013.2	348,764	395,971	397,687	(1,716)	-0.4%
2014.1	286,887	341,915	337,356	4,559	1.3%
2014.2	373,200	468,901	464,499	4,402	0.9%
2015.1	309,781	422,072	413,858	8,214	1.9%
2015.2	360,012	540,159	513,817	26,342	4.9%
2016.1	275,066	472,029	445,938	26,091	5.5%
2016.2	300,285	593,487	520,686	72,801	12.3%
2017.1	229,080	518,411	447,854	70,557	13.6%
2017.2	202,682	566,635			

Aviva

Accident HY	Reported	Selected	Prior	Diff	%PYD
2010.1	7,478	7,516	7,458	58	0.8%
2010.2	11,207	11,303	11,644	(341)	-3.0%
2011.1	6,147	6,259	6,579	(319)	-5.1%
2011.2	10,055	10,279	10,402	(124)	-1.2%
2012.1	9,963	10,335	10,277	57	0.6%
2012.2	15,158	16,098	15,929	169	1.0%
2013.1	12,676	13,746	12,927	819	6.0%
2013.2	11,352	12,785	12,479	306	2.4%
2014.1	14,759	17,510	14,994	2,517	14.4%
2014.2	21,845	23,210	22,993	217	0.9%
2015.1	16,556	23,167	21,178	1,989	8.6%
2015.2	19,517	27,065	24,173	2,892	10.7%
2016.1	16,536	25,600	23,395	2,205	8.6%
2016.2	12,746	29,291	24,337	4,955	16.9%
2017.1	13,958	29,855	25,122	4,733	15.9%
2017.2	16,551	33,786			

* An important note to consider when comparing Aviva vs industry loss development is that adjustments have been made for known changes in case reserving practices and impact of court decisions. The industry data is a compilation of all companies and would therefore not be able to apply these adjustments at the aggregate level.

Actual Claims Emergence Relative to Expectations

- Aviva's actual claims emergence exceeded our expectation for all of calendar year 2017 and 2018.
- We are continuing to see deterioration in the emergence in our 2018 Q2 analysis.

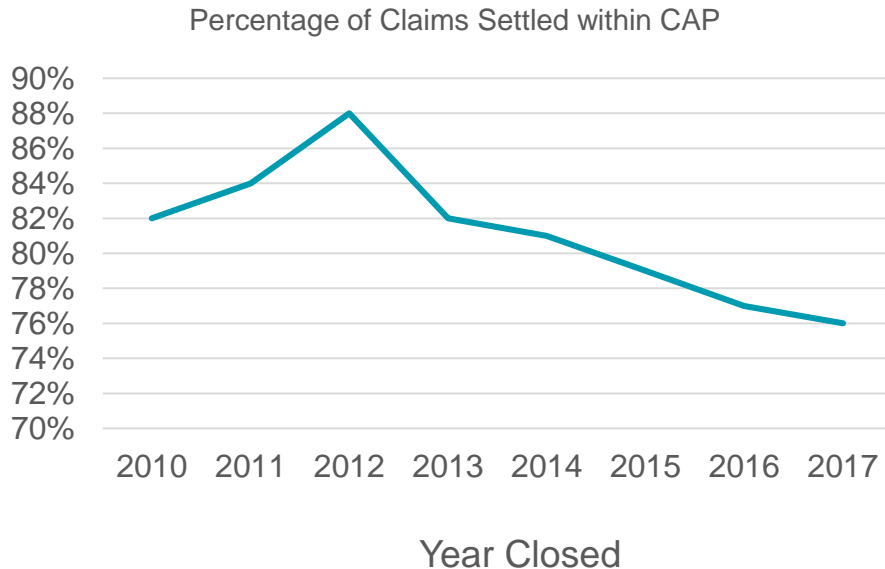
Acc HY	At 2018 Q1	At 2017 Q4	At 2017 Q3	At 2017 Q2	At 2017 Q1	At 2016 Q4
2011-1	-34	10	-264	17	33	132
2011-2	-64	3	29	-458	-52	-41
2012-1	-57	-13	182	-84	-49	-200
2012-2	-223	-162	455	797	-147	-195
2013-1	-197	914	-82	-56	20	-59
2013-2	-32	294	29	-114	403	-91
2014-1	302	1,440	473	812	-296	590
2014-2	998	1,792	727	786	660	1,333
2015-1	-8	348	-80	95	-609	344
2015-2	359	708	1,682	219	-124	-225
2016-1	-584	1,568	561	690	749	-438
2016-2	-382	-388	-179	316	1,099	-652
2017-1	-210	793	363			
2017-2	4,065	-349				
Total	3,933	6,960	3,896	3,021	1,687	496

* Figures are in (000's)

BI Cost Drivers

Decrease in Minor Injury Settlements

- From 2005-2007, Aviva resolved 83% of its total claims within the minor injury cap
- This rate has dropped and as of 2017, 76% of Aviva's claims are resolved within the minor injury cap
- 1% reduction in Minor Injury settlements equals additional claims costs of \$920,000

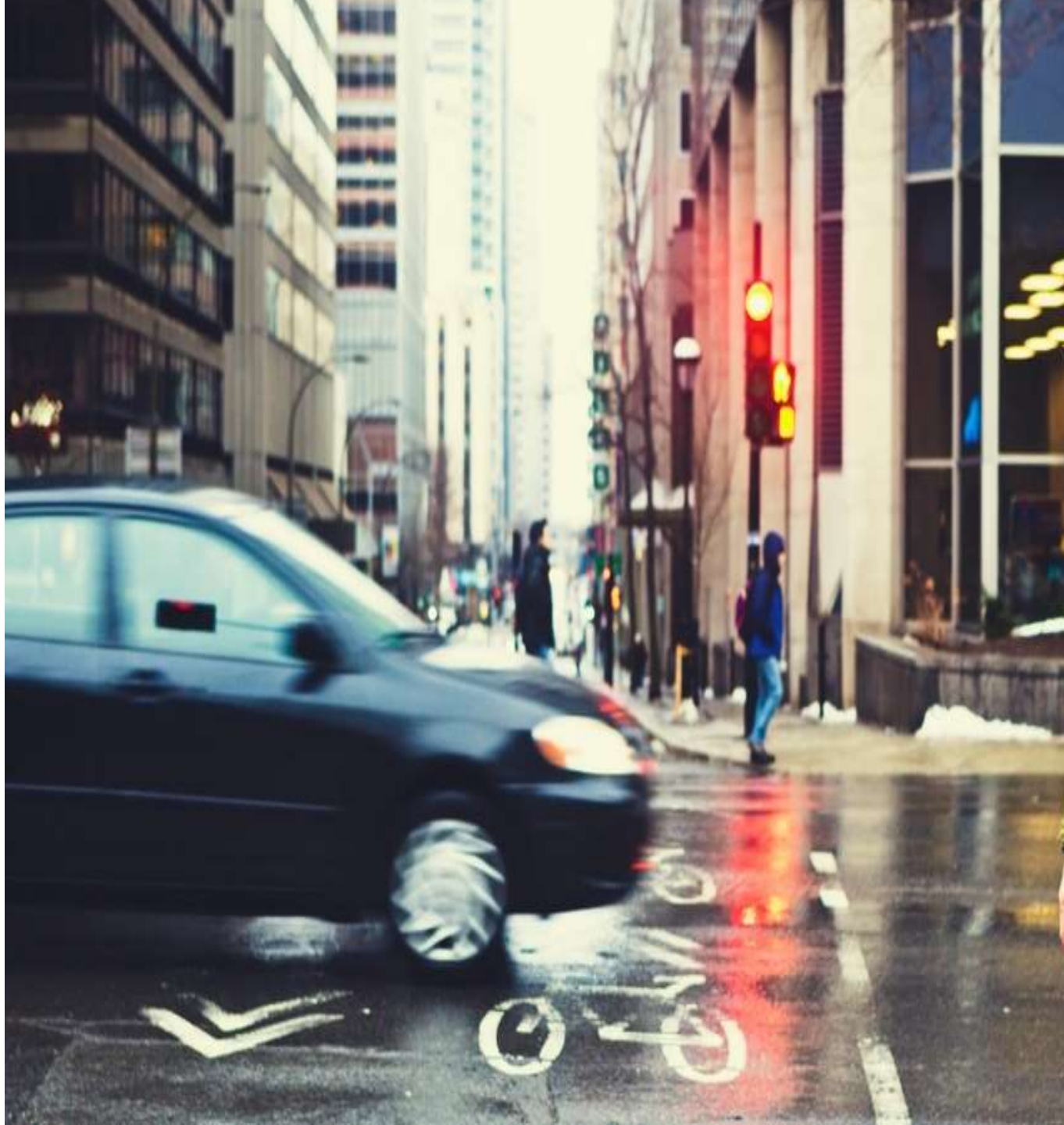


Change in Distribution of Injuries

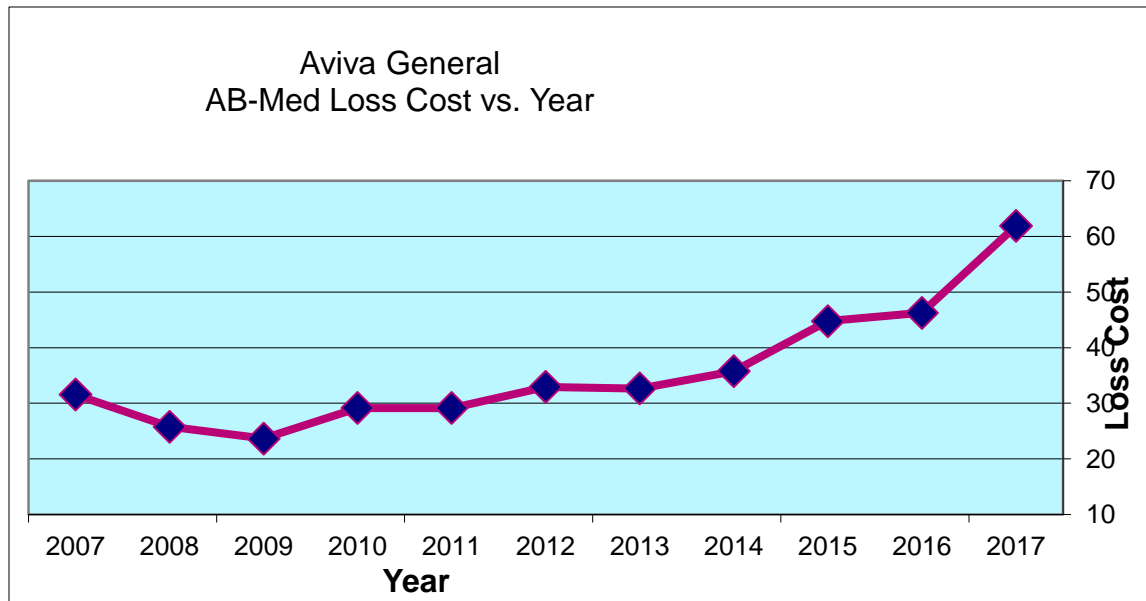
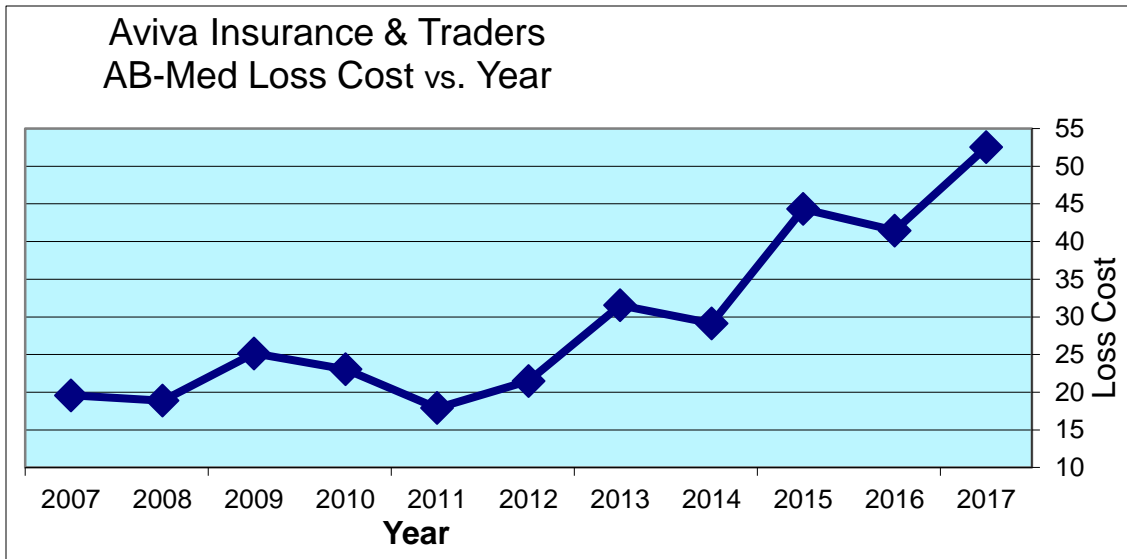
- Aviva has seen a change in injury types.
- Chart below sets out injuries that were not considered Minor Injury and the frequency of occurrence
- These were not significant injuries. Most had little time off work and average settlement was \$36,000.
- Revised minor injury definition will not have a significant impact because of injury type.

Injury	% of Total Removals	% of Minor Injury Claims
TMJ	16.6%	4%
TMJ/ Psych	16.6%	4%
Chronic Pain	23%	5.6%
Psych	16.6%	4%
Concussion	10%	2%
Orthopaedic	10%	2%
Other	6.6%	1%

Accident Benefits

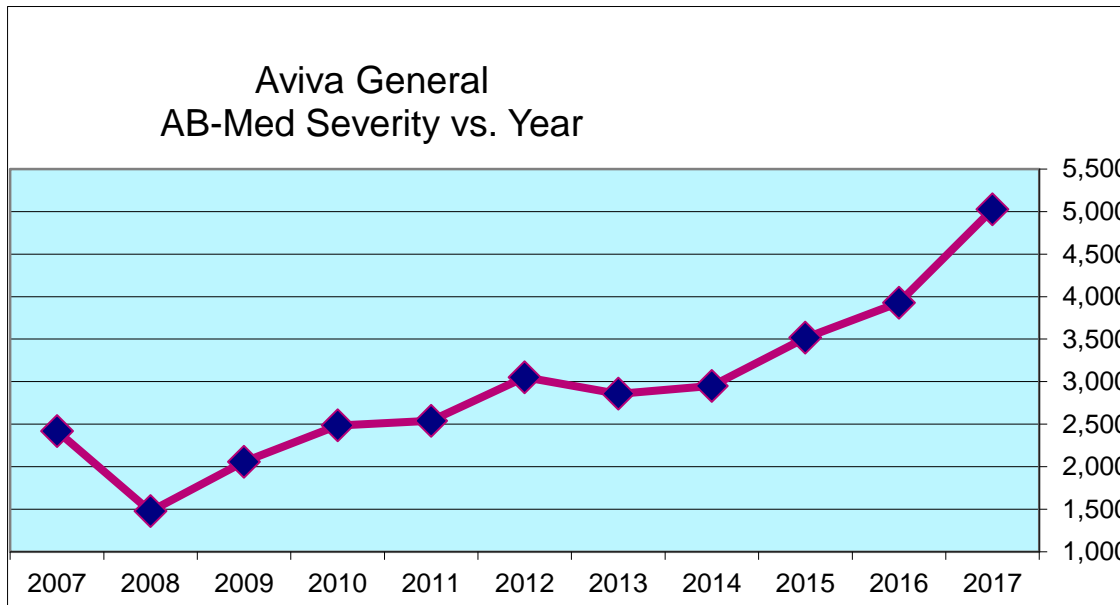
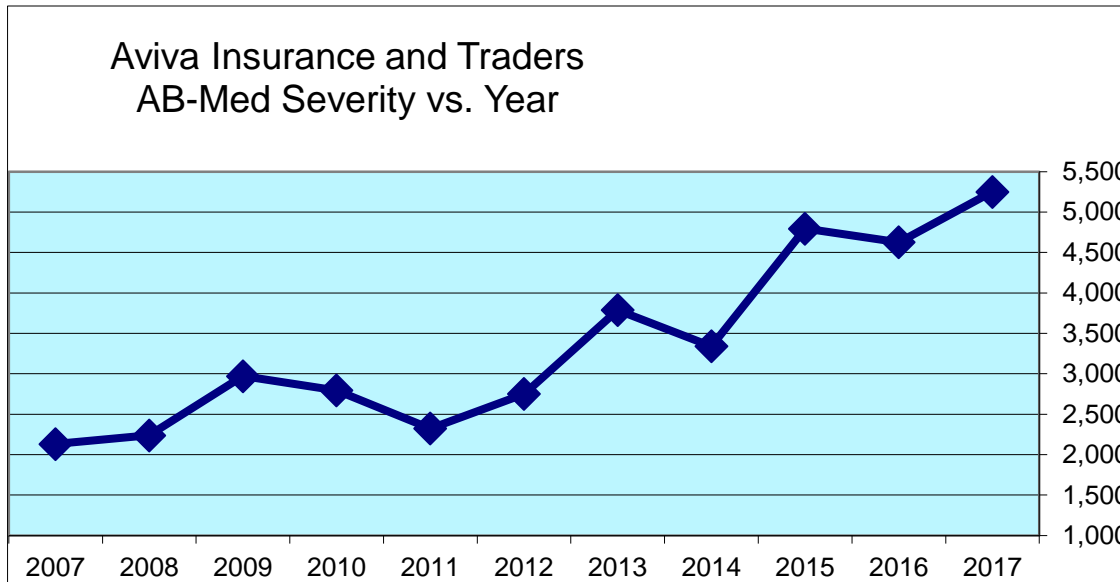


Accident Benefit – Medical Rehab Loss Cost Trends



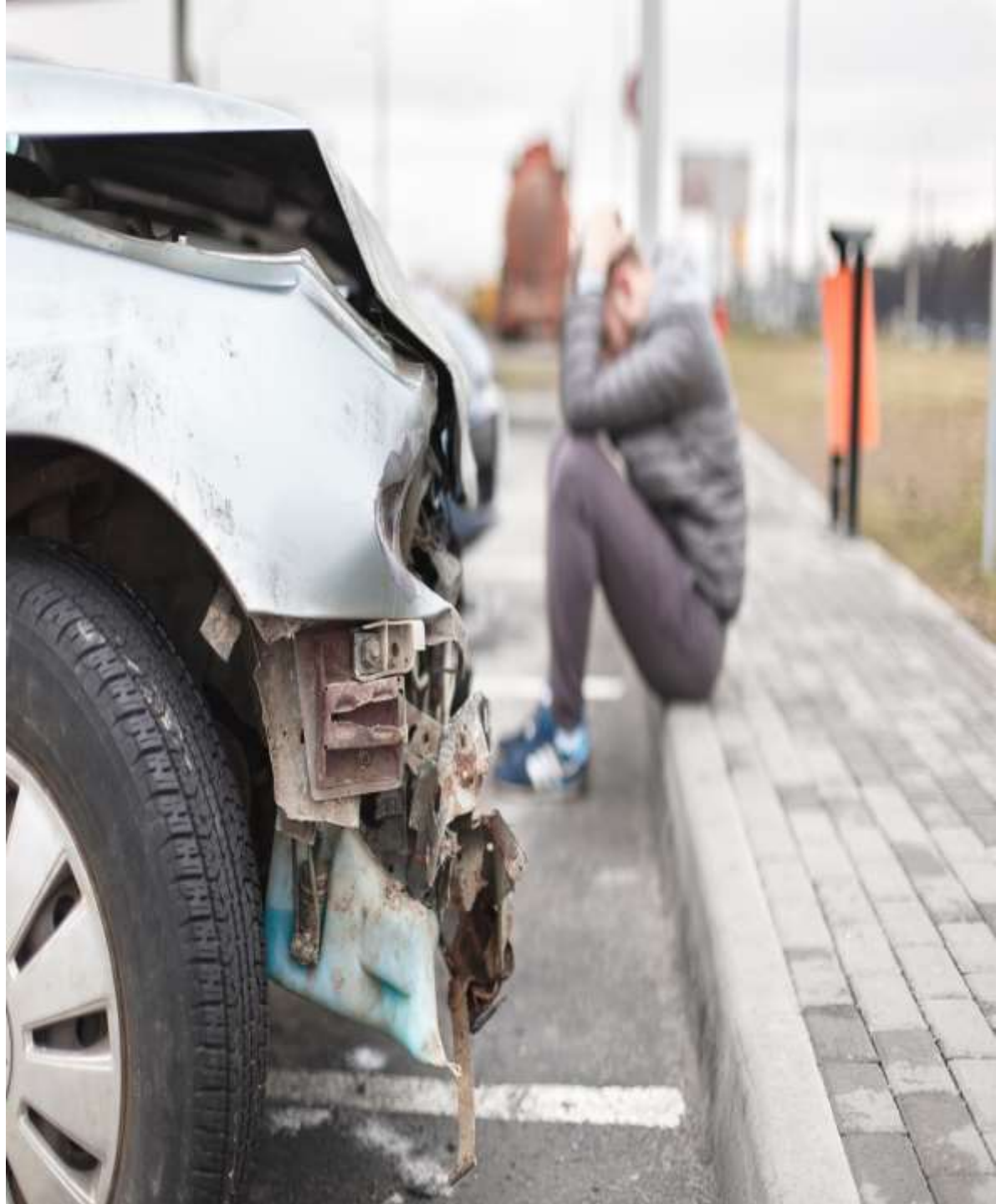
- Increasing trends in Loss costs driven mainly by increasing severity
- From 2011 to 2017, the loss costs increased by 193.2% for Aviva/Traders and 112.3% for Aviva General.
- This is a small coverage line which accounts for \$60 of premium.

Accident Benefit – Medical Rehab Severity Trends

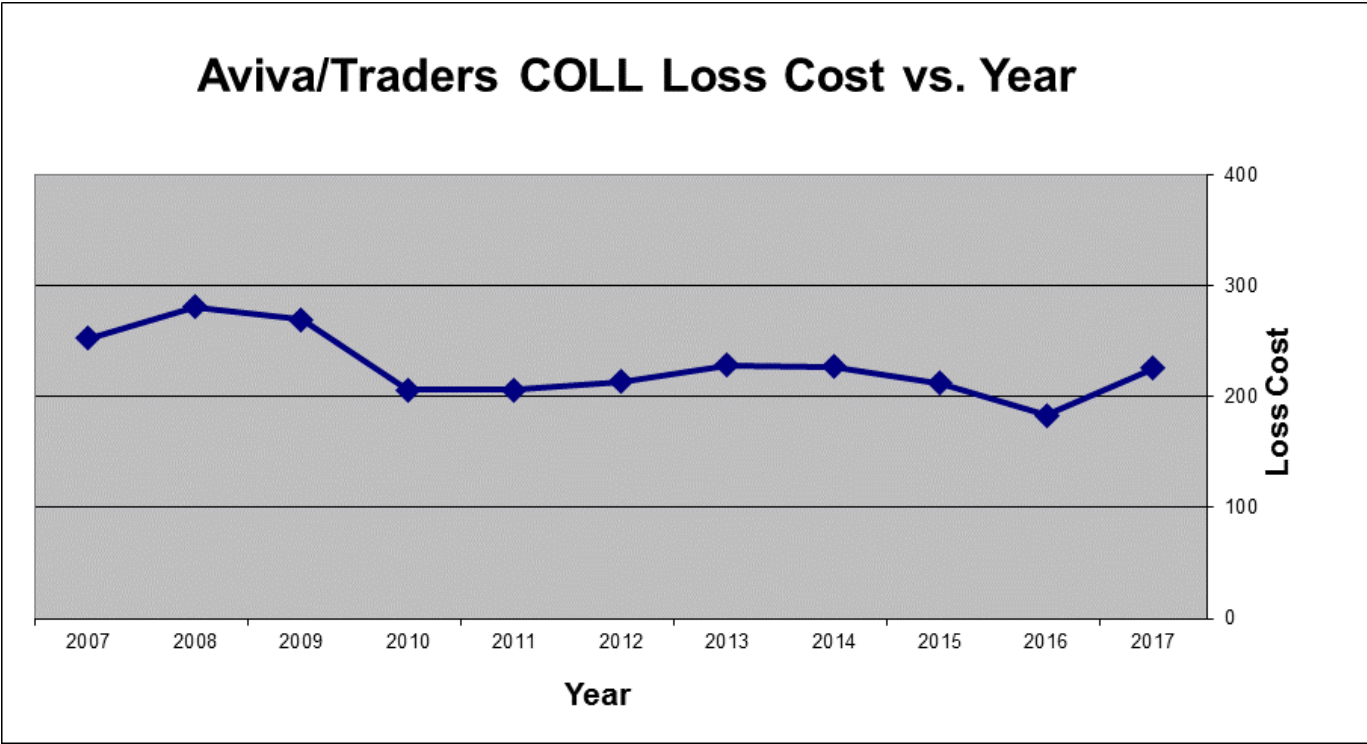


- Severity trends has increased steadily since 2008 for all Aviva companies, and is increasing at a very sharp rate since 2014.
- From 2011 to 2017, the severity increased by 125.9% for Aviva/Traders, and 97.9% for Aviva General
- Severity increasing due to:
 - Increase in number of claims treated outside of Protocol. These are accessing a bigger portion of the \$50k limits.
 - Increased legal representation in AB claims- is AB being used to build BI claim?
- No way to measure overall effectiveness of Alberta's medical rehab treatments.

Physical damage
and
Comprehensive
Theft claims



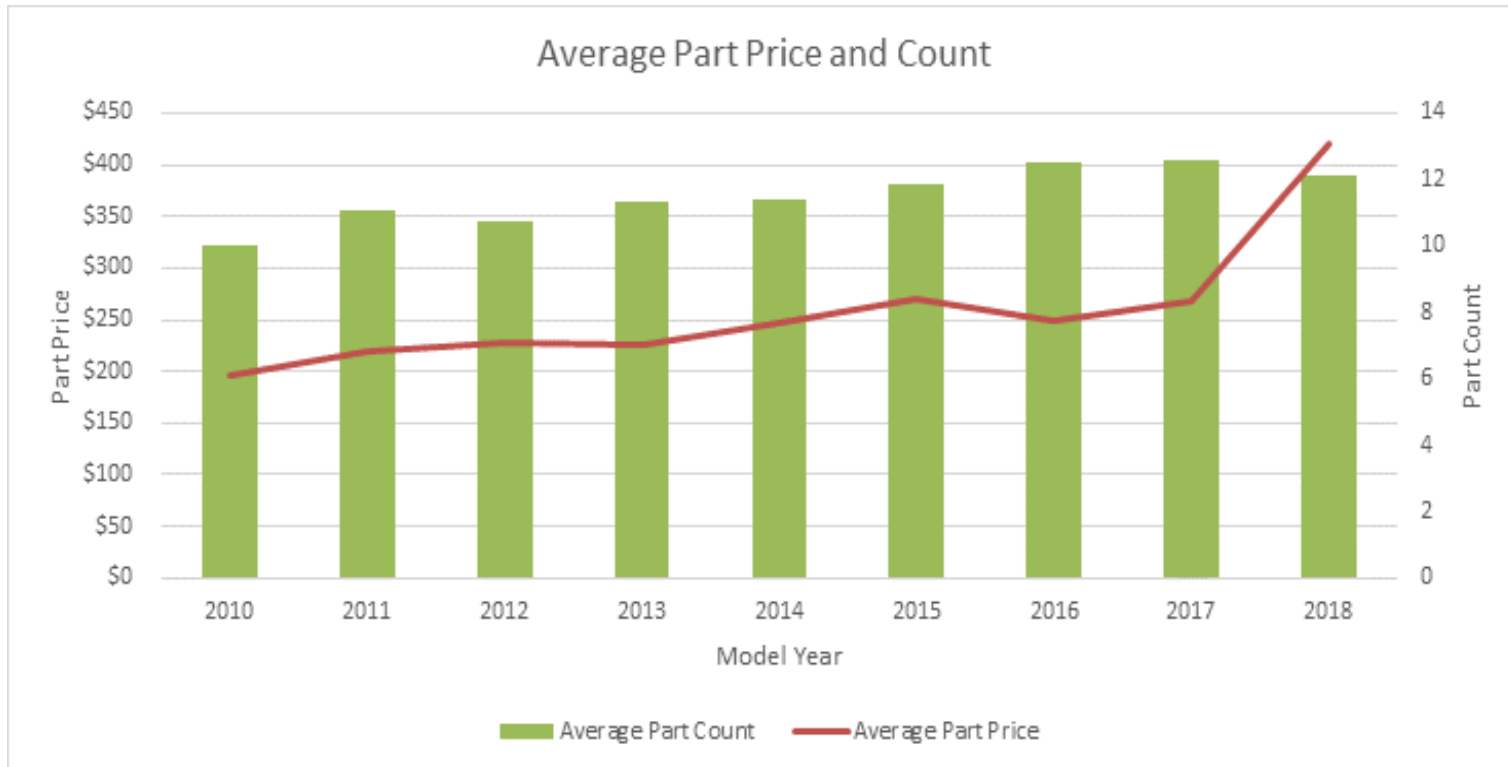
Collision



- Aviva’s loss costs for collision have been relatively stable
- This is driven by frequency as repair and replacement costs have increased

Physical Damage- Repair Costs are Increasing

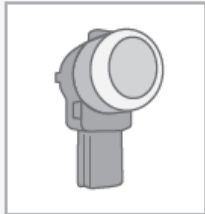
- The following chart depicts repair costs by number of parts repaired/replace and cost per part
- Increase in physical damage costs is driven by increases in the number of parts repaired/ replaced and the cost per part



Cost of Parts of Redesigned Vehicles

Collision Avoidance, Park Assist, and Adaptive Cruise Control Components.

Small devices, high costs



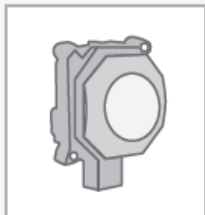
Typical Park Assist Sensor

Average Cost: \$170—\$199
Up to 6 per front bumper
Up to 4 per rear bumper



Front View Camera

Average Cost: \$500—\$900
1 per front grill area
1 in rear bumper area



Front Wave Radar Sensor

Average Cost: \$600—\$900
1 per front grill
or bumper area

Impact of modern collision avoidance systems (radar, laser and camera):

- Avoidance systems are becoming more prolific and components more readily available
- Avoidance systems are being added to luxury cars and now also to many of the latest mass-market vehicles, across multiple price points and styles.
- This means that collision avoidance systems, and the parts and labor needed to repair them, are present throughout the entire repair industry.

Cost of Parts of Redesigned Vehicles

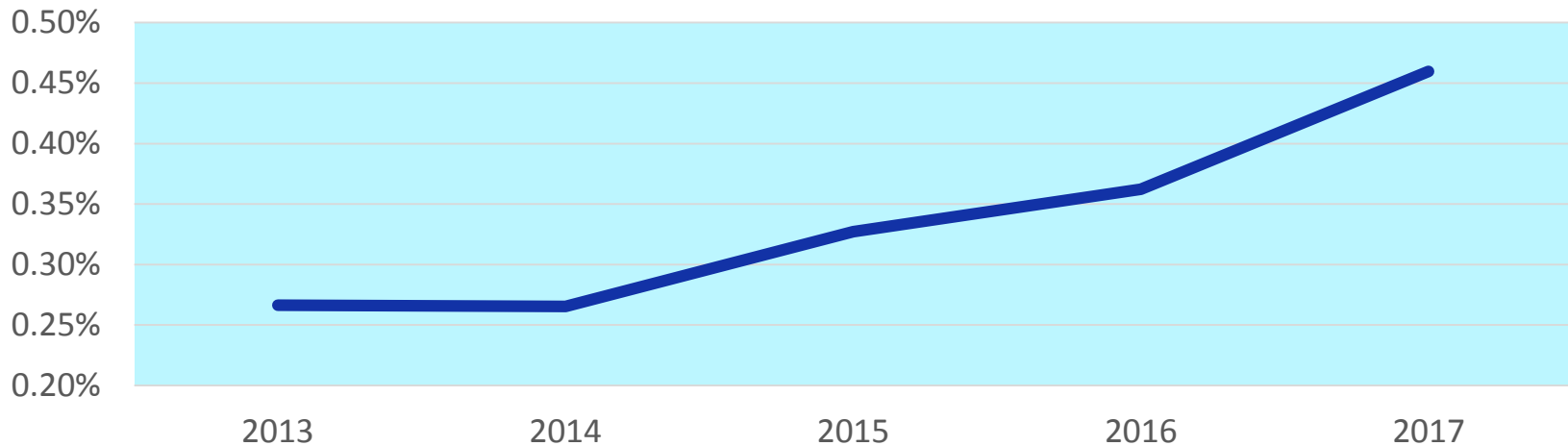
Vehicles			Latest Generation		Prior Generation		% Change from Prior Generation	
Year	Make	Model	Front	Rear	Front	Rear	Front	Rear
2017	Audi	A4	\$6,129	\$4,228	\$4,982	\$3,321	23%	27%
2017	Buick	LaCrosse	\$6,293	\$4,360	\$5,960	\$4,671	6%	-7%
2017	Chevrolet	Cruze	\$3,725	\$3,150	\$2,559	\$3,379	46%	-7%
2017	Ford	Escape	\$5,135	\$3,096	\$3,195	\$2,499	61%	24%
2017	Honda	Civic	\$2,655	\$1,662	\$2,878	\$1,777	-8%	-6%
2017	Mazda	MX 5	\$4,104	\$2,316	\$3,294	\$2,696	25%	-14%
2017	Mercedes	E Class	\$11,757	\$6,201	\$15,247	\$5,378	-23%	15%
2016	Chevrolet	Camaro	\$4,115	\$4,427	\$2,470	\$2,999	67%	48%
2016	Chevrolet	Malibu	\$5,420	\$4,561	\$4,357	\$4,510	24%	1%
2016	Chevrolet	Volt	\$4,103	\$3,641	\$4,655	\$3,339	-12%	9%
2016	Hyundai	Elantra	\$4,552	\$3,131	\$4,637	\$2,864	-2%	9%
2016	Lexus	RX 350	\$12,533	\$4,216	\$6,271	\$5,144	100%	-18%
2016	Mini Cooper	Clubman	\$3,979	\$3,437	\$3,792	\$2,732	5%	26%
2016	Nissan	Maxima	\$6,752	\$2,426	\$2,915	\$2,039	132%	19%
2016	Toyota	Prius	\$7,628	\$3,452	\$3,736	\$1,969	104%	75%
Totals			\$88,880	\$54,304	\$70,947	\$49,316	25%	10%
Total Combined			\$143,184		\$120,263		19%	

Adoption of technology on newly redesigned vehicles is having a pronounced impact on their repair costs- Approx. 20% increase

Reference: Mitchell Estimating, September 2017 Data

Comprehensive Theft Claims

Comprehensive Theft Frequency



Theft Claims

- Theft is an increasingly frequent cause of comp claims
- Theft claims frequency has increased by 73.3% since 2014 (Aviva/Traders only)
- Aviva believes that many of these claims involve fraud

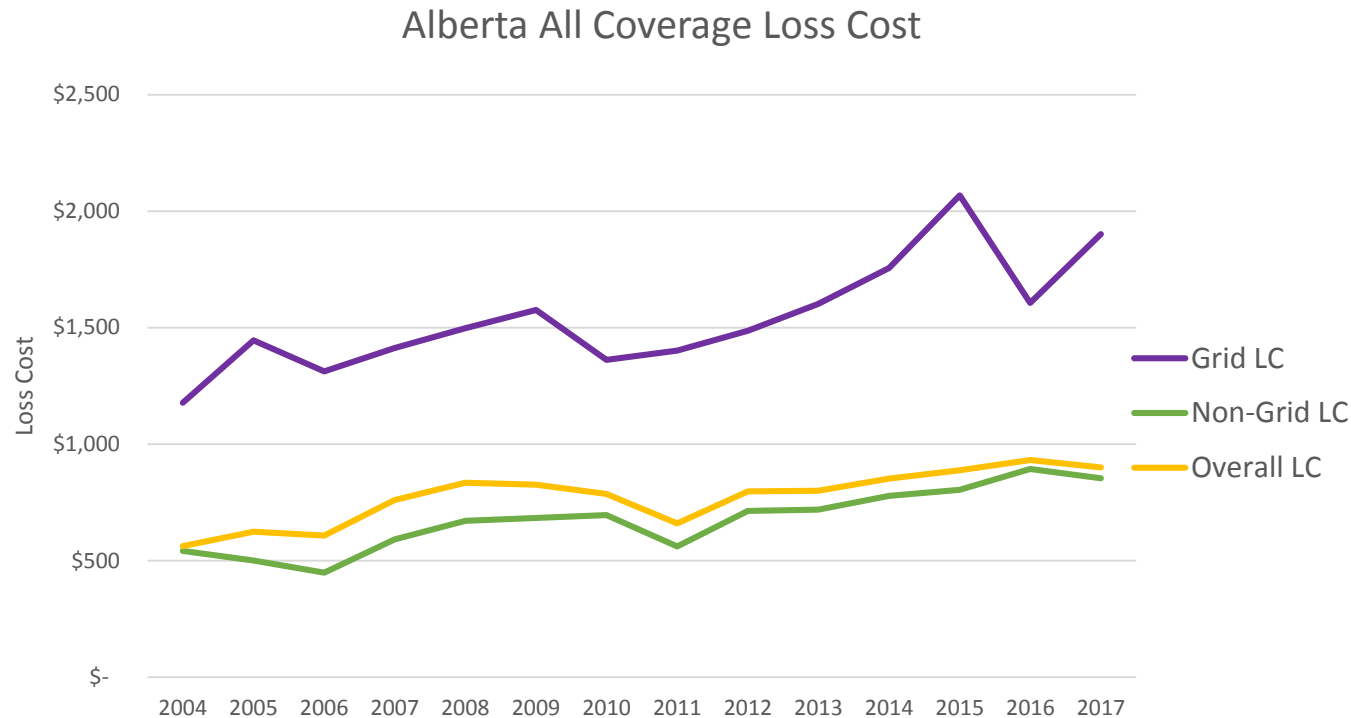
Fraud

- Since 2017, Aviva has identified 272 cases of potential fraud in Alberta
 - 51% involve claim fraud and 36% of these involve suspicious vehicle thefts
 - 48% policy fraud and 18% of identified policy fraud involve a vehicle theft claim (whether suspicious or not)
- Aviva sees a higher proportion of vehicle theft in Alberta than in Ontario

The Grid



The Grid



- Grid loss costs continue to be higher than non-Grid loss costs
- The increase in Grid should at least cover the trends agreed to in this hearing
- The Grid is not functioning as intended. It protects poor drivers at the expense of all drivers. There is a large degree of cross-subsidization which hurts good drivers. It is time to reform the Grid

Conclusion

The Auto Insurance Market in Alberta is in a *Crisis*

- Profitability risk - Insurers are not profitable
- Availability risk- The rate cap and Take All Comers Rule puts significant pressure on solvency. There is a risk of capital leaving the province.
- Affordability risk- The current product is underpriced and consumers face premium increases.

This is not sustainable

Government *Action* is Needed:

- Remove the rate cap- allow insurers to price their products to reflect underlying costs
- Reduce claims costs through product reform
- Reform the Grid to stop cross-subsidization



Thank you

Insurance – Home | Auto | Leisure & Lifestyle | Business | Surety