



Automobile Insurance Rate Board

2019 Annual Review

Johanne Desloges, VP Casualty Claims

Fanny Paz- Prizant, VP Personal Lines

Mark Rouleau, SVP Western Region

Agenda

- Aviva's Auto Insurance Results in Alberta
- Trends
- Bodily Injury
- Accident Benefits
- Physical Damage
- The Grid

Aviva's Auto Insurance Results in Alberta



The Disastrous Impact of the Rate Cap

Combined Operating Ratio and Underwriting Loss

	2014	2015	2016	2017	2018
Personal Auto Industry Loss Ratios	84	82	93	88	85
Distribution Ratio	26	26	26	26	26
Combined Operating Ratio (COR)	110	108	119	114	111
Personal Auto Industry earned premium (\$m)	2,980	3,146	3,241	3,340	3,536
Estimated Industry Underwriting Loss (\$m)	-295	-261	-616	-458	-393

Aviva projects that the industry has lost **\$2.023 billion**
from 2014 to 2018

Source: MSA

Note:

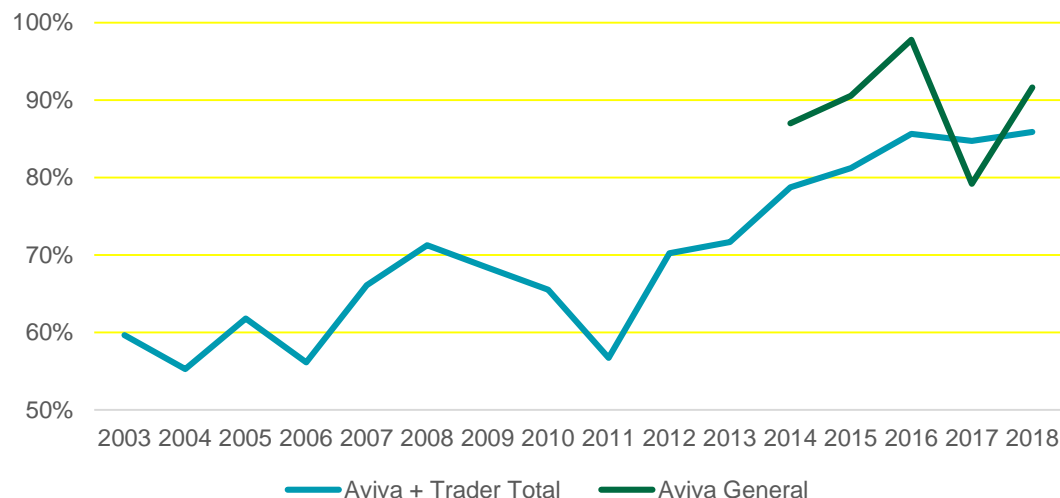
Industry loss ratios based on competitor data for Alberta personal auto available in MSA

Loss ratios are calculated based on direct figures in P&C return schedules 67.10 to 67.30 (does not include reinsurance), weighted by earned premium

Distribution ratio is an Aviva estimate

Aviva's Auto Insurance Results

Alberta PPV Loss Ratio



Combined Operating Ratio

The 2018 year end COR for the Aviva group of companies is 122.8%

- Aviva Insurance 122.6%
- S&Y 129.9%
- Traders 118.0%
- Aviva General 129.5%

This is not sustainable

Loss Ratio Deterioration

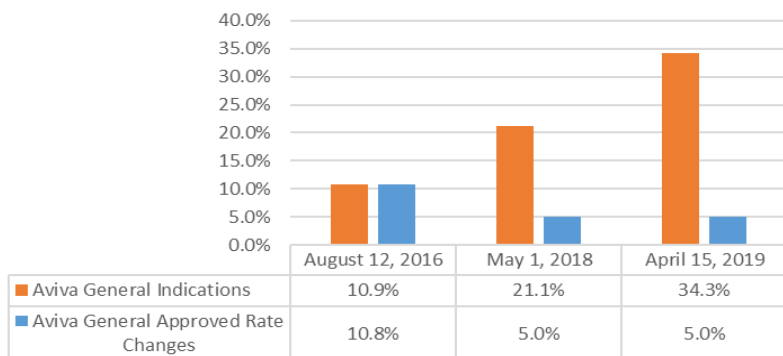
- Aviva's overall loss ratio deteriorated by 16 points from 2012 to 2018

Rate Approvals are not Keeping up with Indications

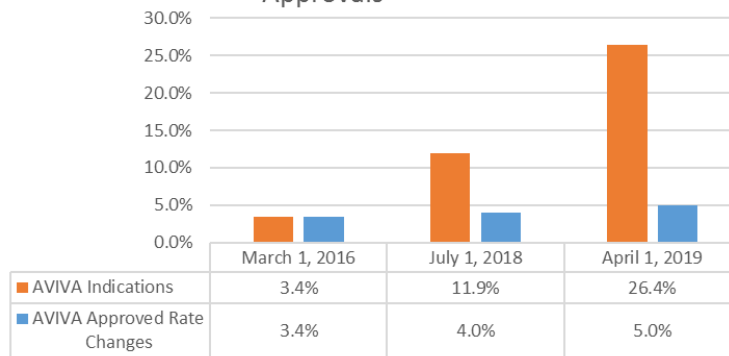
AIRB has recognized the need for rate increases

- The difference between the approved rate and the indication in our last filing is 29 points for Aviva General, 21 points for Aviva Insurance and 10 points for Traders

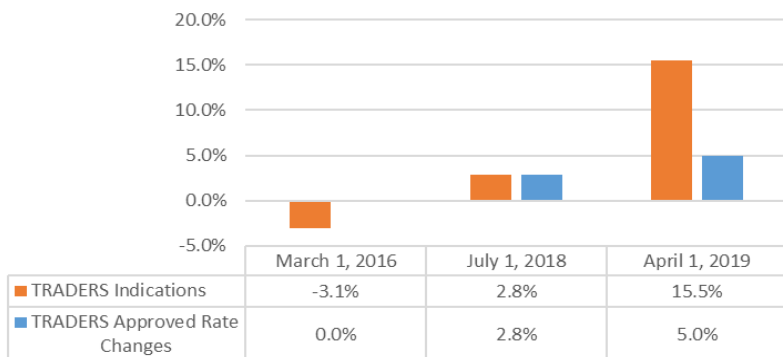
Aviva General Alberta PPV Indications and Filing Approvals



Alberta AVIVA PPV Indications and Filing Approvals

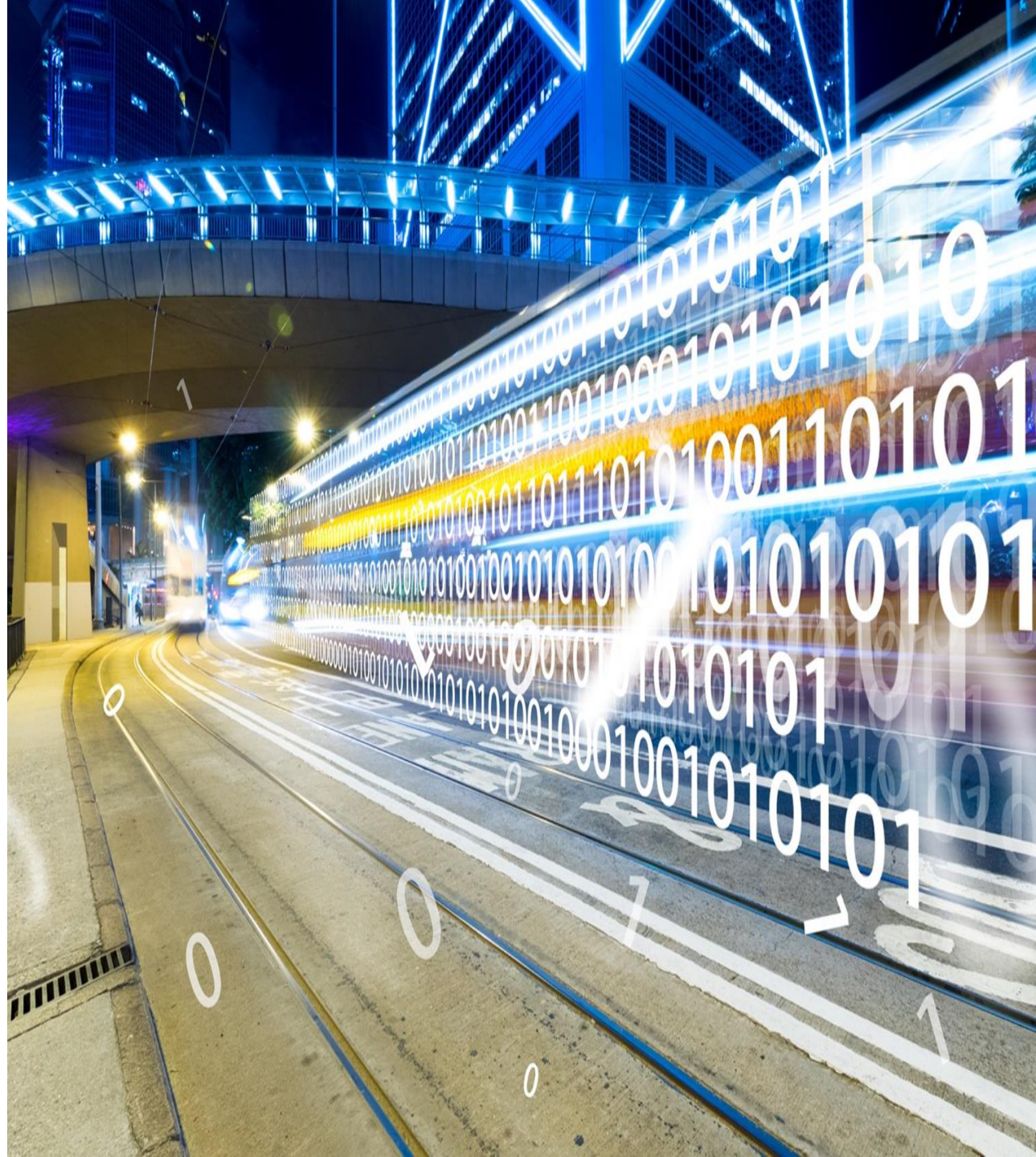


Alberta Traders' PPV Filing Indications and Filing Approvals



- The residual indications are high. Aviva companies need rate to get to adequacy.

Loss Trends



Loss Trends

Coverage	Past Trend				Future Trend			
	Dr. Ron Miller	Oliver Wyman			Dr. Ron Miller	Oliver Wyman		
	Loss Cost	Freq	Sev	Loss Cost	Loss Cost	Freq	Sev	Loss Cost
BI	6.60%	0.00%	8.50%	8.50%	6.60%		8% to 9.5%	7.50%
PD	2.07%			2.00%	2.07%			2.00%
AB	11.32%	0.50%	0.00%	0.50%	11.32%	0.50%	9.00%	9.50%
COLL	2.40%	0.00%	2.50%	2.50%	2.40%	0.00%	2.50%	2.50%
COMP	6.63%			5.00%	6.63%			8.50%

Aviva's view of trends

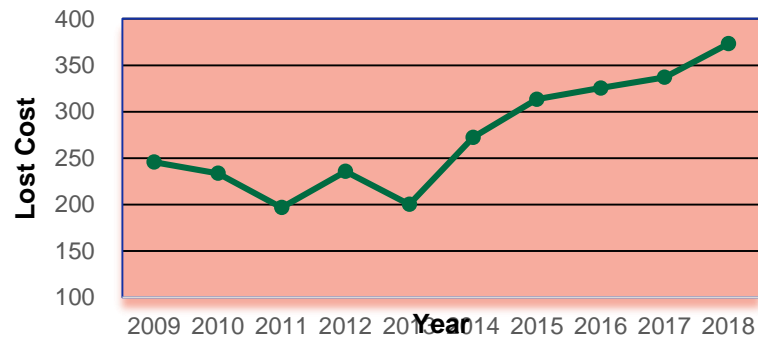
- Aviva's trends are comparable to Oliver Wyman's and Ron Miller's selections with some differences:
 - Aviva expects a higher future trend for BI and AB, but a lower future trend for Collision and Comp

Bodily Injury



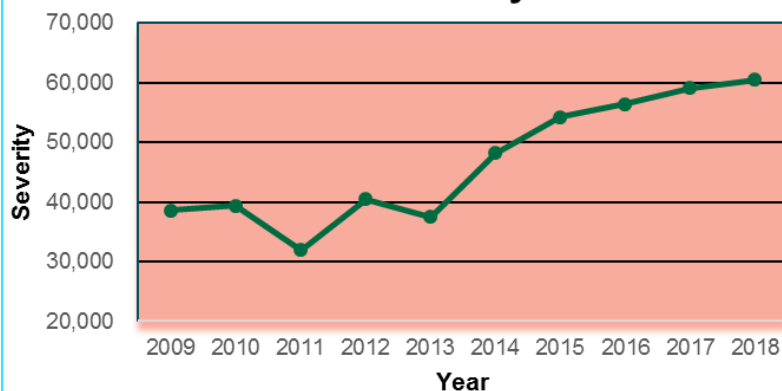
Bodily Injury Loss Cost Trends

BI Loss Cost



- BI loss costs continue to increase at high rates and outpace our ability to take rate increases
- From 2011 to 2018, BI loss costs increased by 90%. These Increases are mainly driven by increasing severity:
 - Less claims settling in Minor Injury cap due to pain complaints >6 months
 - Large increase in psych claims and concussions
 - Injury durations increasing
 - Same trend seen in AB and AB claim is being used to build up BI claim

BI Severity



Actual Claims Emergence Relative to Expectations

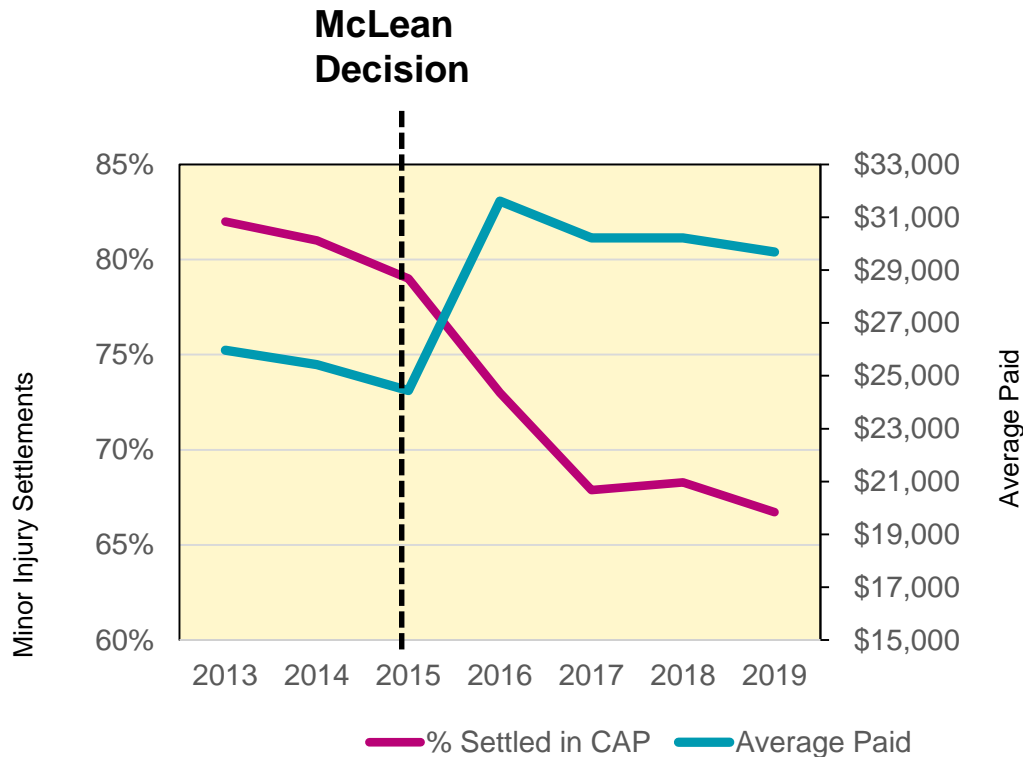
Aviva's actual claims emergence exceeded our expectation for last 6 valuation quarters from 2017 Q4 to 2019 Q1.

Acc HY	At 2019 Q1	At 2018 Q4	At 2018 Q3	At 2018 Q2	At 2018 Q1	At 2017 Q4
2012-1	-71	-66	-5	301	-57	-13
2012-2	975	-9	-234	-53	-223	-162
2013-1	377	482	150	-67	-197	914
2013-2	450	411	334	-342	-32	294
2014-1	-455	-320	35	645	302	1440
2014-2	192	680	511	921	998	1792
2015-1	350	614	718	950	-8	348
2015-2	-413	-584	-351	1566	359	708
2016-1	716	668	98	1027	-584	1568
2016-2	1007	890	-982	320	-382	-388
2017-1	-1265	-526	-979	822	-210	793
2017-2	-1372	-773	-43	-759	4065	-349
2018-1	-168	-275	1071			
2018-2	2088	1023				
Total	2,410	2,214	322	5,333	4,031	6,946

* Figures are in (000's)

For example, for accident quarter 2016-1, in four out of six quarters we see unfavourable emergence, and one quarter had favourable emergence. Difference between expected and actual is almost \$3.5M

Minor Injury Cap Continues to Erode



McLean v. Parmar (2015) Alberta Queen's Bench

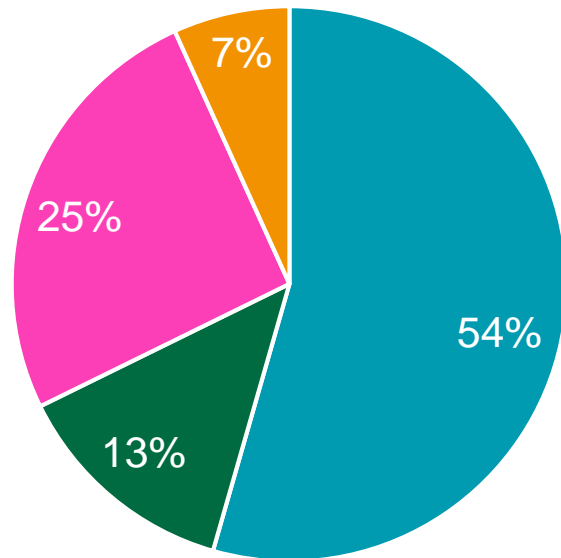
This is an important decision. The Judge ruled that any pain lasting longer than 3 to 6 months is not a minor injury. Not surprisingly, more claims now have complaints of pain lasting longer than 6 months.

- Minor Injury settlements have dropped from a high of 82% in 2013 to 67% in 2018 resulting in a 21% increase in average settlement following the McLean decision
- Every 1% of erosion adds approx. \$910,000 to indemnity costs
- Payouts for pain and suffering have increased by 40% since 2012 as compared to a CPI increase of 9.9%

Sneak Peek into the Closed Claim Study

Pain & Suffering Awards Drive Claims Costs

Distribution of BI Compensation to Claimants

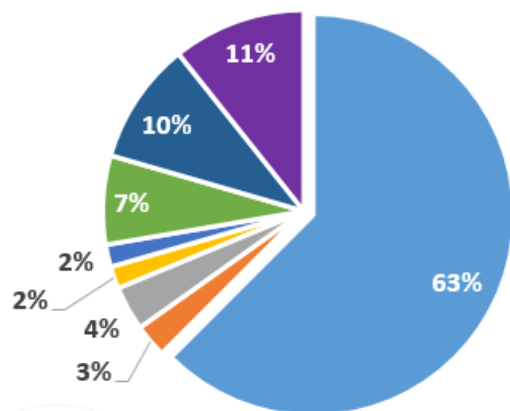


- General Damages
- Past Pecuniary losses
- Future Pecuniary losses
- Plaintiff Costs and Disbursements

- Approximately 1% of drivers attract a BI claim
- Payments for pain and suffering account for the largest share of bodily injury payouts at 54%, followed by future pecuniary losses at 25%
- The CAP amount is now at \$5,202
- Controlling pain & suffering awards will help control claims costs and premiums

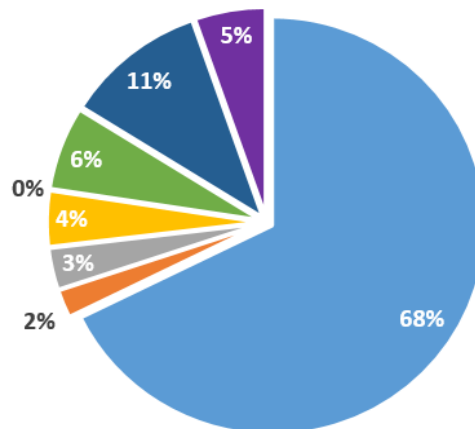
Injuries are Lasting Longer

2010



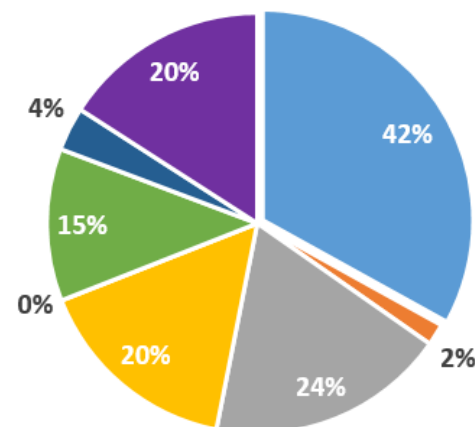
72%
Settled
in MIR

2012



77%
Settled
in MIR

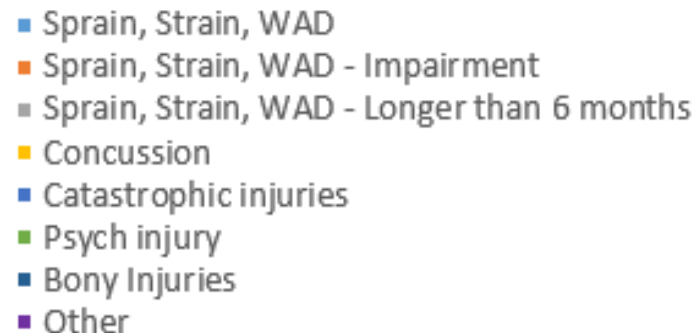
2017



67%
Settled
in MIR

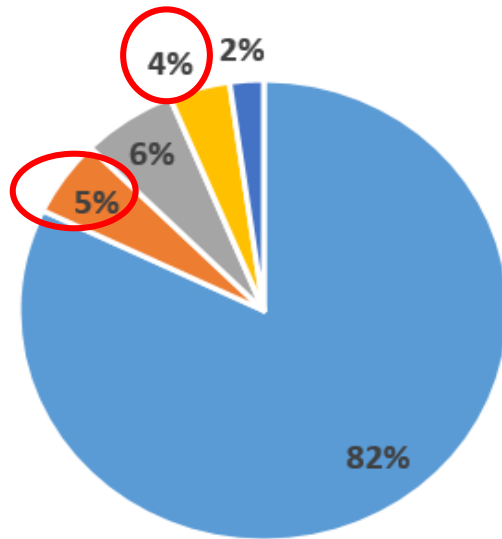
The change from 2012 to 2017 is dramatic

- Catastrophic injuries have dropped by more than 50%
- Sprains and strains still make up 68% of total but simple sprains with no impairment have decreased from 68% to 42% of total (-38%)
- Sprains, strains lasting longer than 6 months have increased by 700%
- Psych injuries have increased by 150%
- Concussion injuries have increased by 500%



Impact of June 1, 2018 Amendments

Sprains, strains and WADs account for 68% of all injuries. These breakdown as follows:



- Sprain, Strain, WAD - No psych and No TMJ
- Sprain, Strain, WAD - Psych - less than 6 months
- Sprain, Strain, WAD - Psych - Longer than 6 months or Impairment
- Sprain, Strain, WAD - TMJ with no damage
- Sprain, Strain, WAD - TMJ with no damage - Longer than 6 months

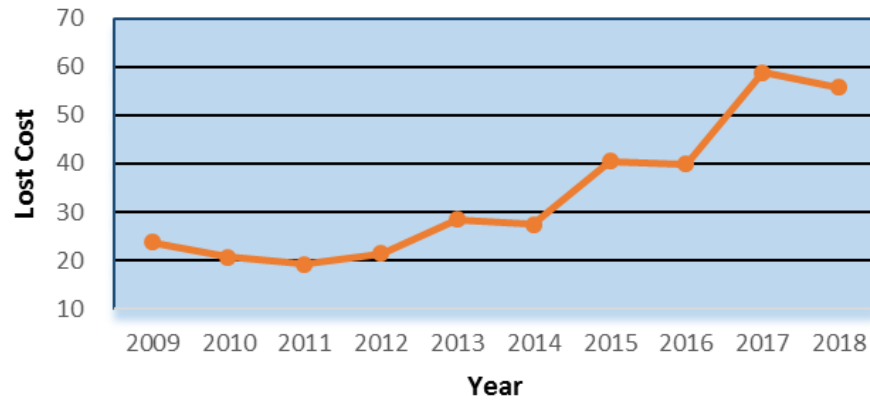
- The June 1, 2018 amendment clarified the Minor Injury definition to include
 - Physical or psychological symptoms that arise and resolve with a sprain, strain or WAD injury
 - TMJ unless there is damage to the bone, teeth or cartilage
- Too early to see impact of the amendments but Aviva predicts there is limited value
- Aviva's projections based on closed claim study:
 - Only an additional 5% of the sprain, strains and WAD injuries would fall within Minor Injury because the psych injuries resolved within 6 months with no resulting impairment
 - An additional 4% of TMJ injuries would be captured as Minor Injury because there is no damage to the teeth or cartilage.
 - As such, only an additional 4% of all BI claims will fall within the MIR as a result of the June 2018 amendments.

Accident Benefits

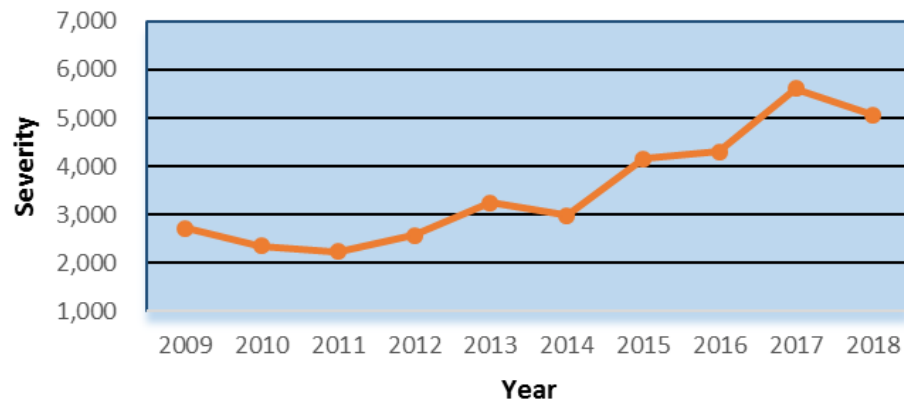


Medical Rehab Loss Cost Trends

AB-Med Loss Cost



AB-Med Severity

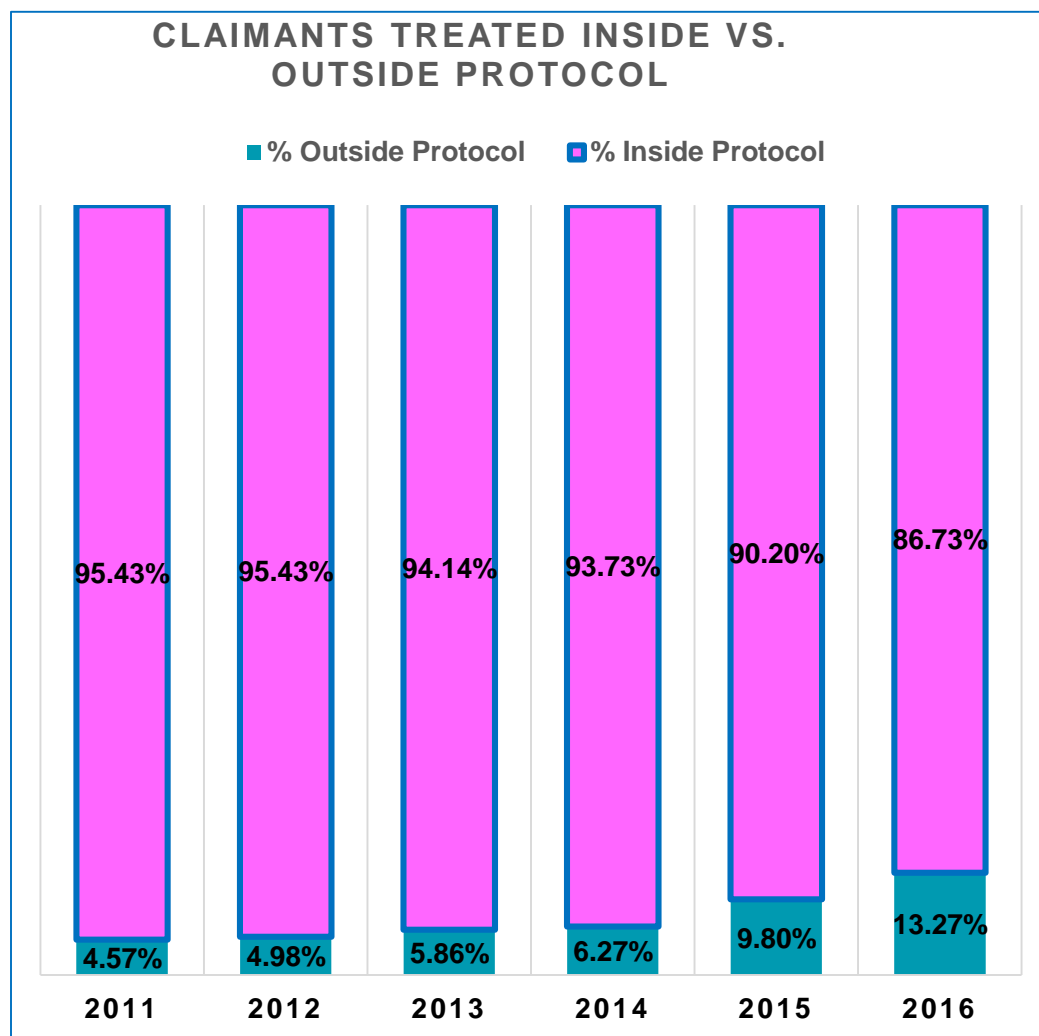


- Increasing trends in Loss costs driven mainly by increasing severity
 - Less claims are closing with treatment only in the Protocol
 - More treatment is being provided
 - We believe that AB claims are used to build up tort claim
- From 2011 to 2018, the loss costs increased by 189%
- This is a small coverage line which accounts for \$80 of premium.

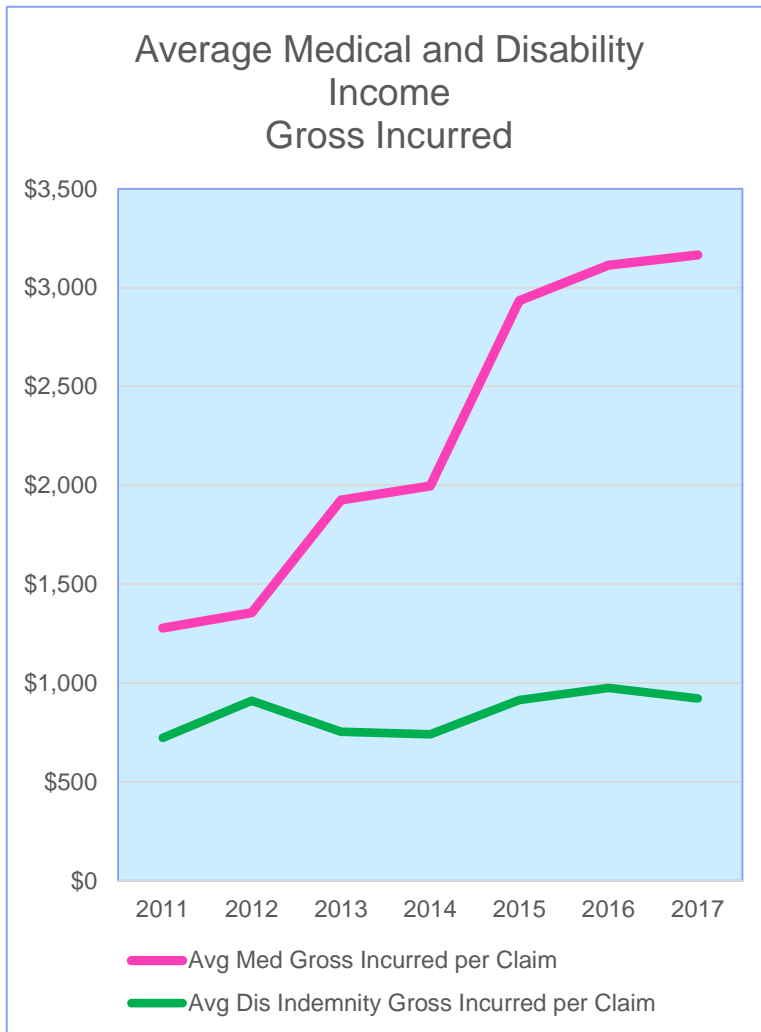
Increasing Amount of Treatment

Medical- rehab severity is increasing due to:

- More claims treated outside of Protocol
- The percentage of claims treated outside protocol has tripled in 6 years:
 - 4.57% in 2011 to 13.27% in 2016
- These claims are accessing a bigger portion of the \$50k limits.
- There is legal representation seen in AB claims
 - 22.9% of open claims have legal representation
- We believe AB claims are being used to build the tort claim



Increasing Severity in Medical and Disability Income



- Gross incurred is increasing in both Medical and Disability Income
- Impact of more “outside protocol” claims is resulting in increasing severity
- Disability income severity is also increasing but not as sharply
 - 27% increase from 2011 to 2017
 - Economy is likely a factor
- The sharp increase in medical vs disability income suggests there may be over-treatment

Injury Claims- Lots of Warning Signs



- Injury claims are becoming more expensive
- Catastrophic injuries have decreased by 50%
 - This is positive and expected given the increased safety features in cars

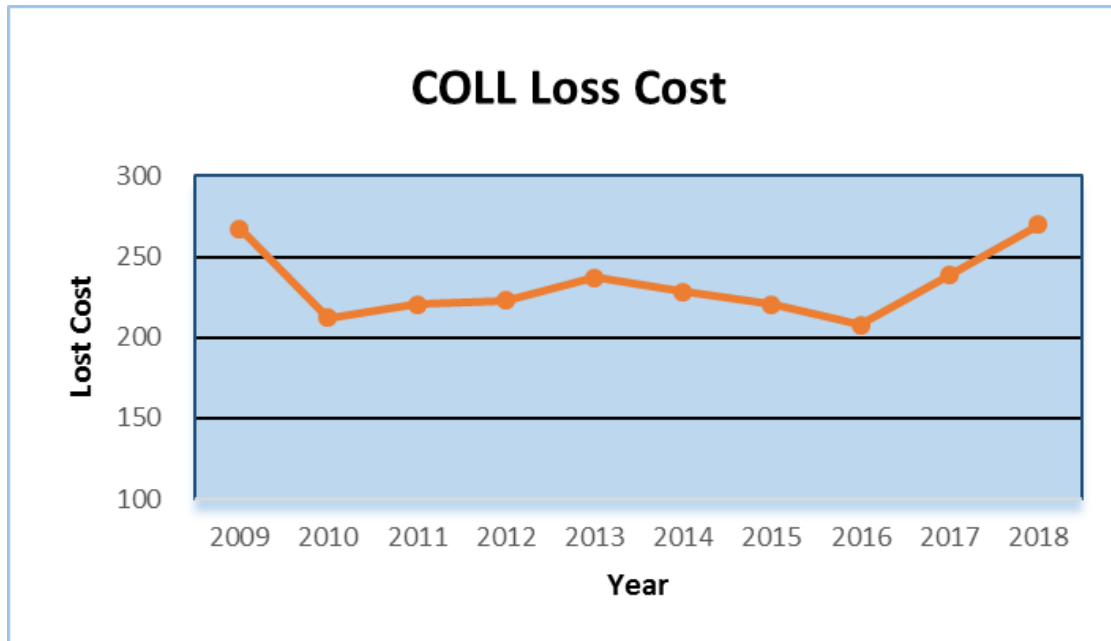
BUT

- BI severity and med-rehab severity is increasing
- Higher incidence of psychological claims, concussions
- Higher legal representation in accident benefit claims
- We should expect the high trends to continue until there is significant product change

Physical Damage Coverages



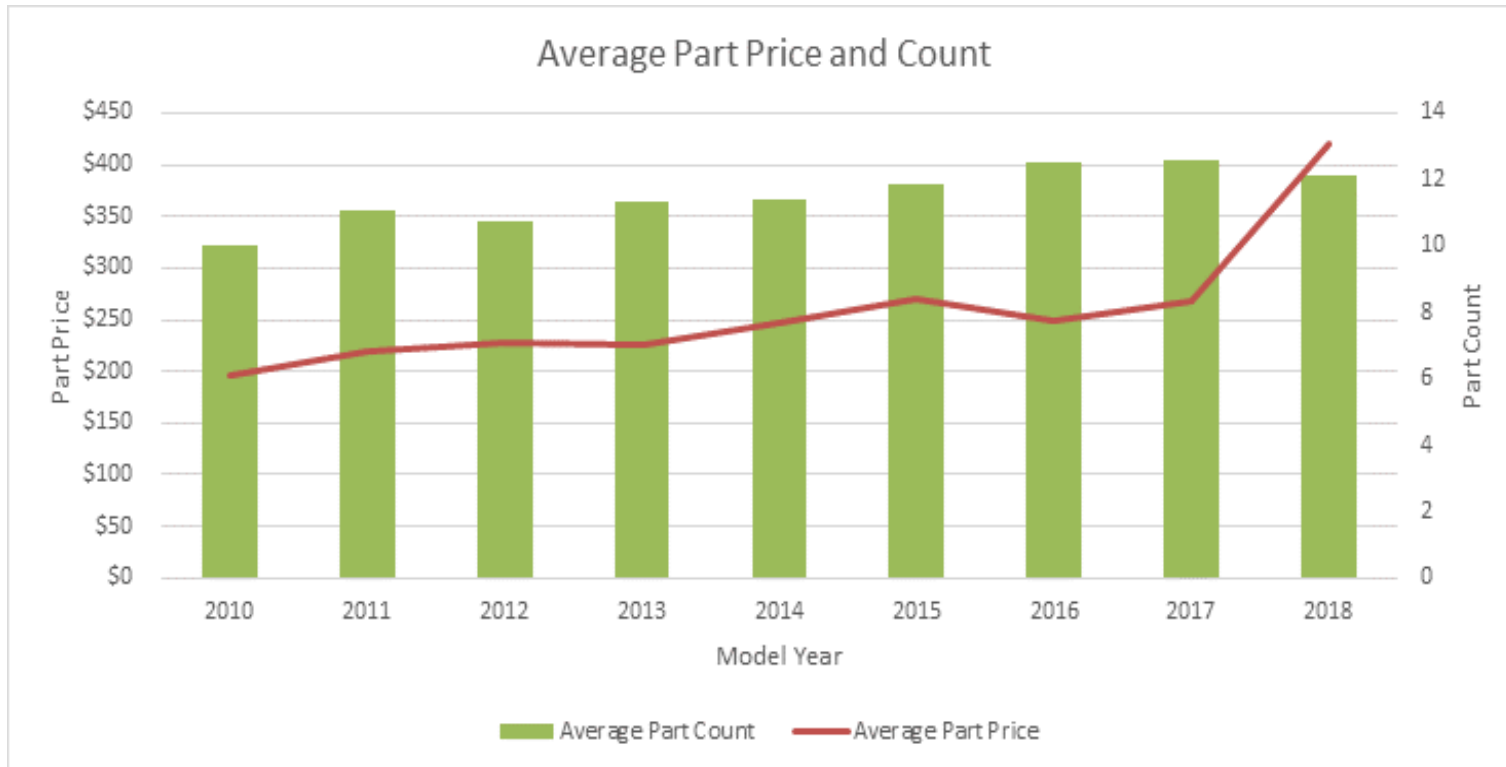
Collision – Loss Cost Trends



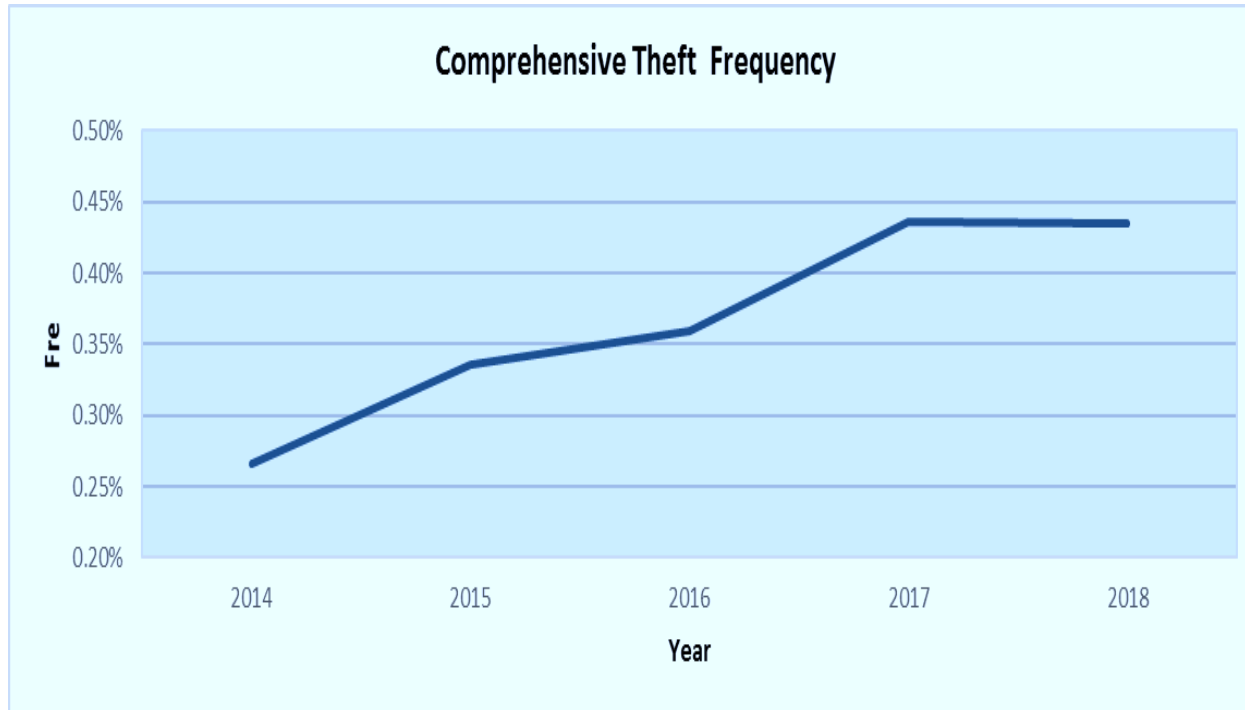
- Increasing trends in Loss costs since 2016 driven mainly by frequency
- From 2016 to 2018, the loss costs increased by 30%

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



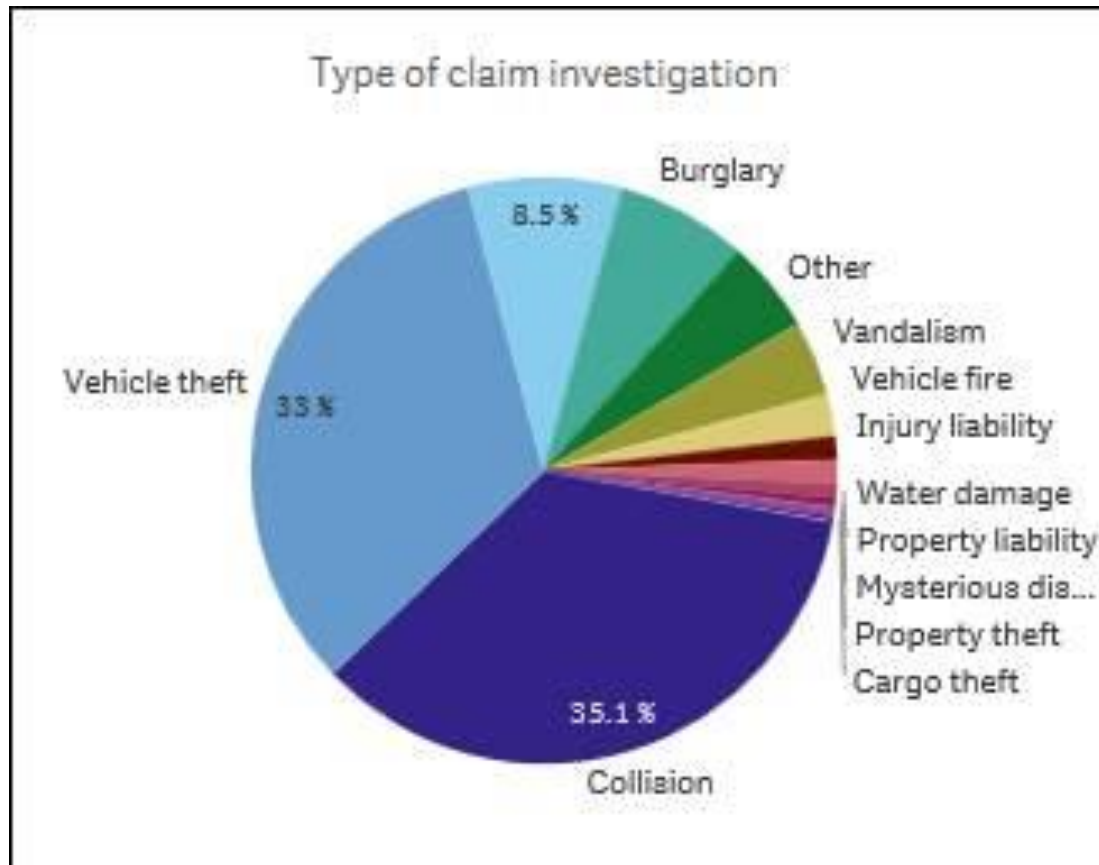
Comprehensive Theft Claims



Theft Claims

- Theft is an increasingly frequent cause of comp claims
- The result in 2018 has stabilized, but is still well above the 2014-2016 level
- Theft claims frequency has increased by 64% since 2014 (Aviva/Traders only)
- Aviva believes that many of these claims involve fraud

Fraud



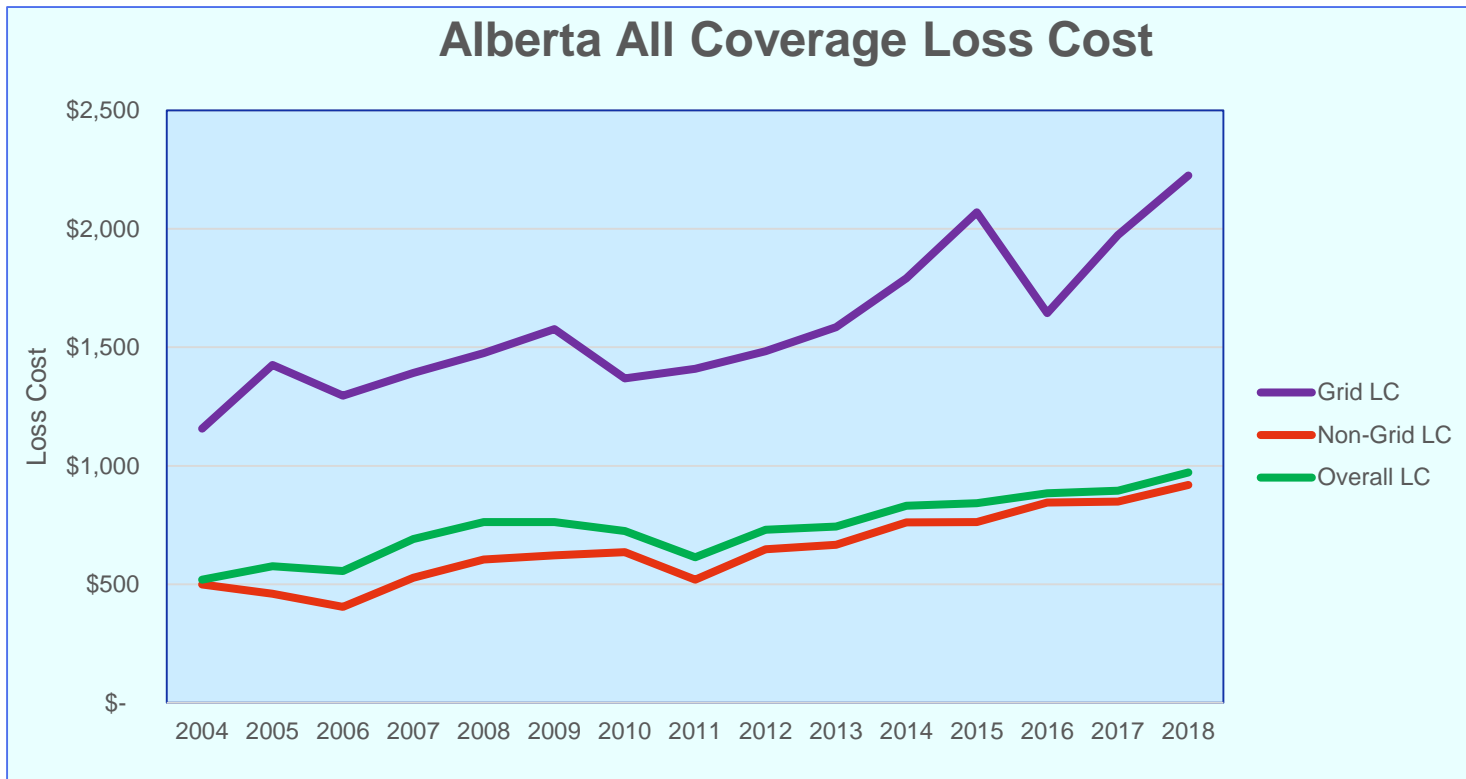
Since 2017, Aviva has identified 765 cases of potential fraud in Alberta

- 56.5% involve claim fraud and of these 38.2% involve vehicle theft
- 42.6% involve policy fraud and of these 24.7% involve vehicle theft
- 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 Ministerial Order that imposed a 5% rate cap has significantly impaired Aviva
- The rate approvals (including the 5% rate approvals) have not allowed Aviva to keep up with the escalating injury and physical damage costs
- Aviva needs rate increases that close the gap on rate deficiency and underwriting losses
- We expect that the injury coverages will increase at a higher rate than OW and Ron Miller while Comprehensive and Collision will be at a lower rate:
 - The June 1, 2018 Minor Injury definition clarification will have limited impact and Aviva expects any benefit to be short lived.
 - AB loss cost trends are high especially for medical and it appears as though the AB claim is being used to build up the Bodily Injury claim (similar to Ontario)
- The Grid acts as another barrier to insurers charging appropriate market rates. Grid loss costs continue to be higher than non-Grid. The Grid increase should cover the trends agreed to in this Hearing.



Thank you

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