



**Aviva Canada's Submission to the  
Alberta Insurance Rate Board  
2017 Annual Review**

**July 21, 2017**

## **Aviva Canada's Submission to the Alberta Insurance Rate Board**

Aviva Canada Inc. ("Aviva") thanks the AIRB for the opportunity to present at the 2017 Annual Review. Aviva last presented at the 2015 Annual Review. Since that time, we have continued to grow our market share in Alberta. We also concluded the purchase of the RBC General Insurance Company. Our customer base has increased to more than 3 million customers across Canada. We employ more than 4,000 employees across 27 locations. In Alberta, we insure 269,000 automobiles and have gross written premiums of over \$500 million.

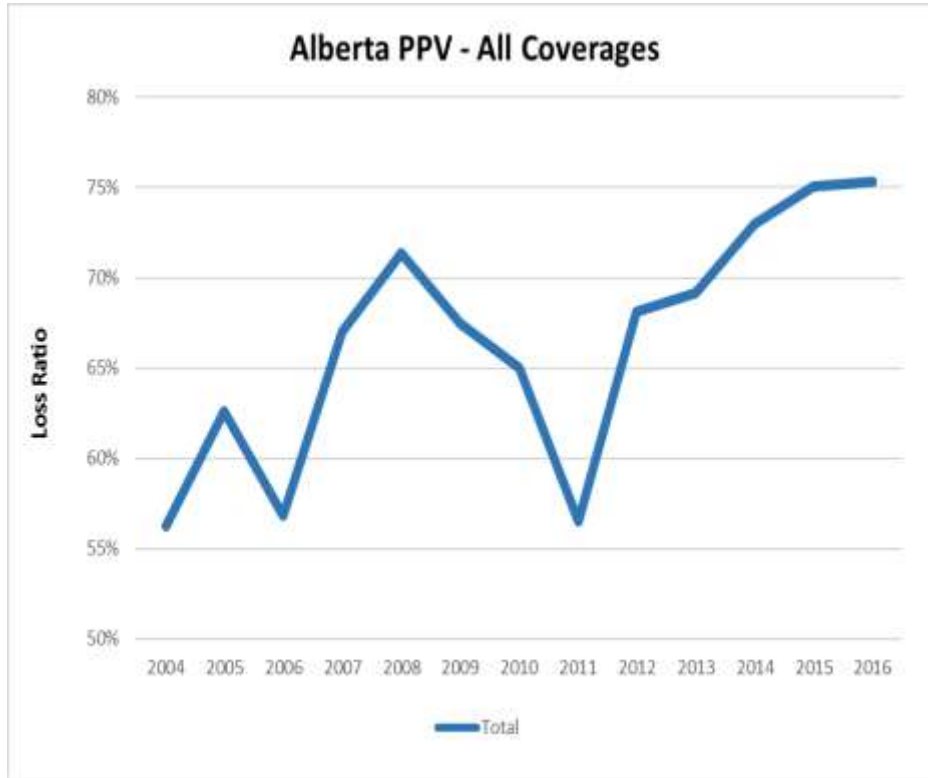
### **Aviva Continues to be concerned about Auto Insurance in Alberta**

In our 2015 presentation, Aviva expressed concern that auto insurance results would continue to deteriorate and premiums would increase unless the government made changes to the product. The government has commenced a review of its insurance regulations but has not yet made any changes. As a result, Aviva's auto insurance results have continued to deteriorate.

Aviva's estimated loss trends (excluding, RBC) are consistent with industry trends and the analysis done by both Dr. Ron Miller and Oliver Wyman. The deterioration in experience is largely driven by a deterioration in Bodily Injury ("BI") severity, which continues year over year. The causes of the deterioration are widely agreed upon and will be discussed later. Aviva also sees a small upwards trend in BI frequency that could be due to shifting mix of business. In addition, Aviva has experienced consistently increasing severity in Comprehensive coverage. This was also seen industry wide and agreed to by both Oliver Wyman and Dr. Ron Miller.

This consistent deterioration in results have led to significant increases in rates over the past two years. The AIRB accepted Aviva's recent rate filing and approved a 6% rate increase, effective November 2017. Thank you to the AIRB. The increase will help to close the gap in results. However, unless the government takes action and amends the product to stop rising BI severity, rates will continue to increase.

### Aviva's Loss Ratio- Alberta PPV



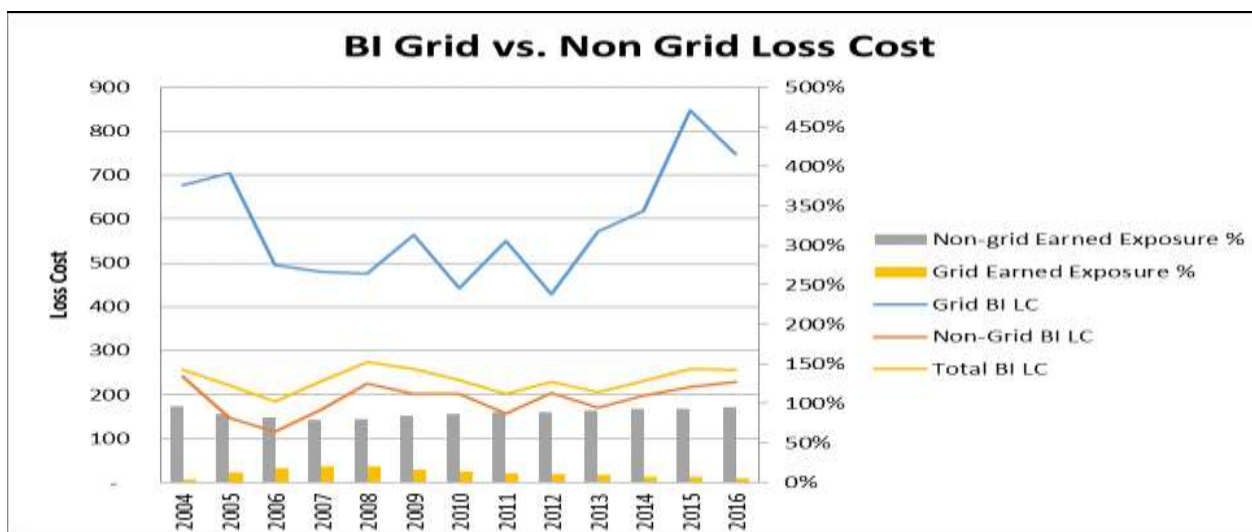
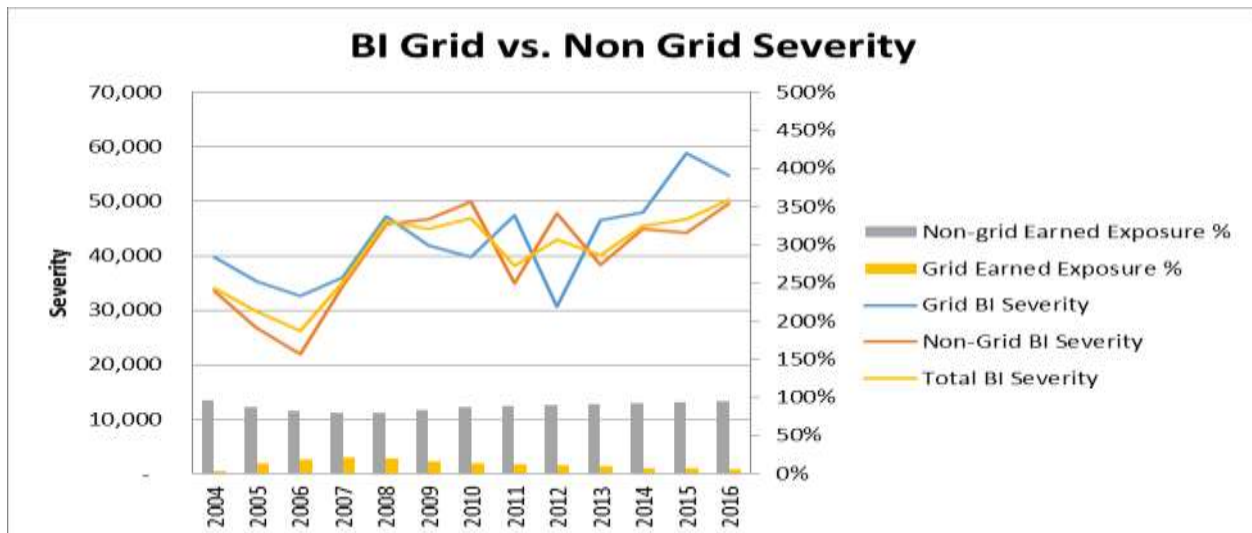
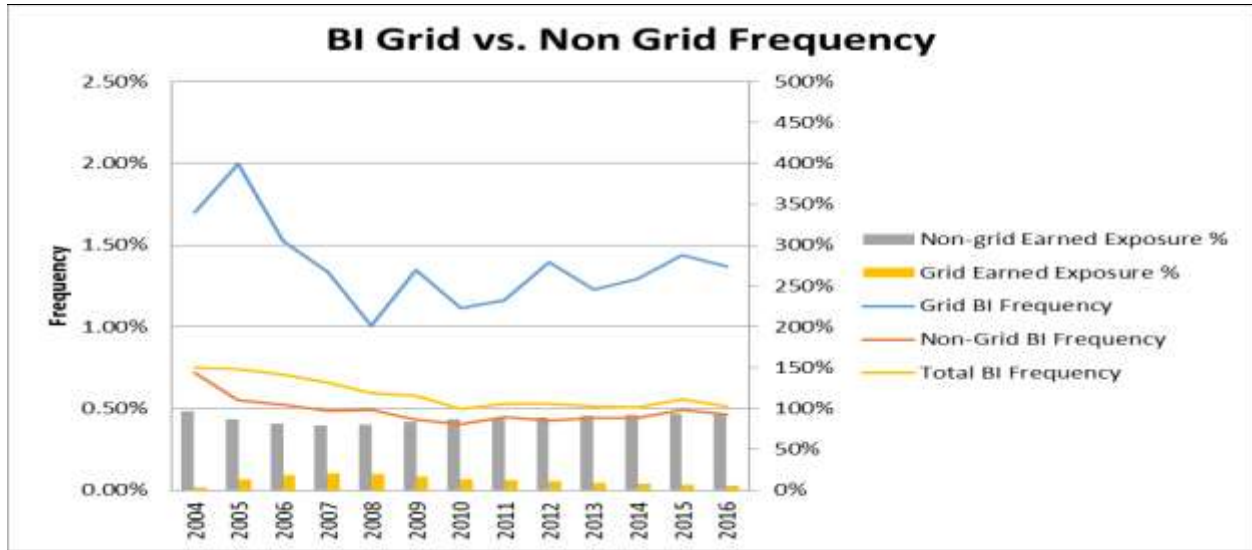
Aviva's overall loss ratio deteriorated by 18 points from 2011 to 2016, and our combined operating ratio deteriorated from 100% in 2012 to 108% in 2016.

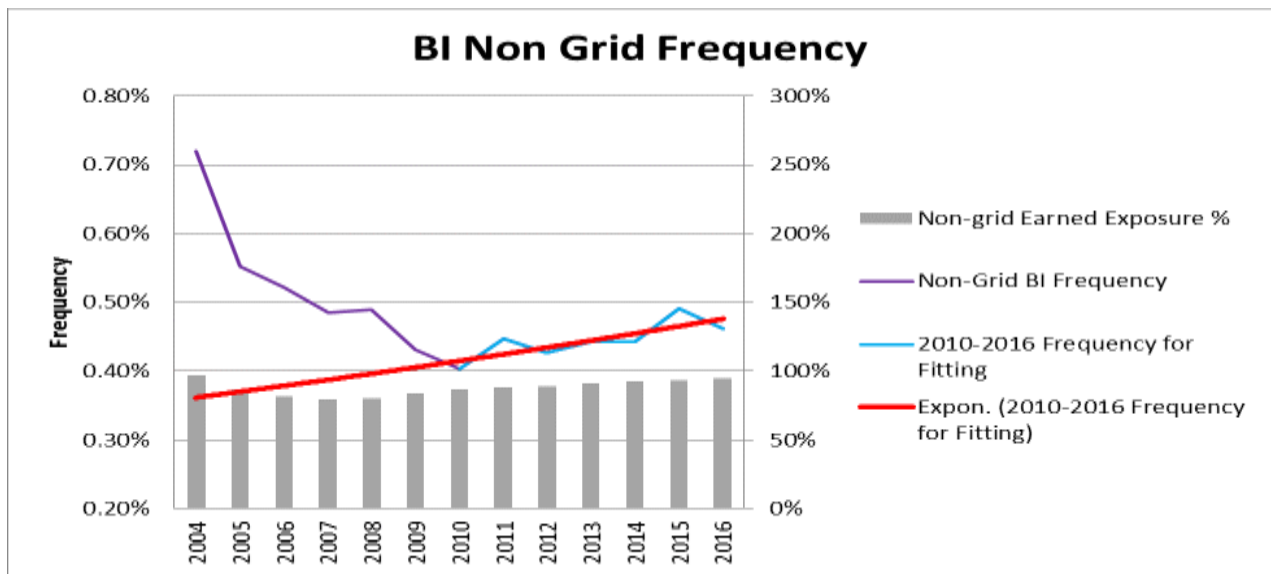
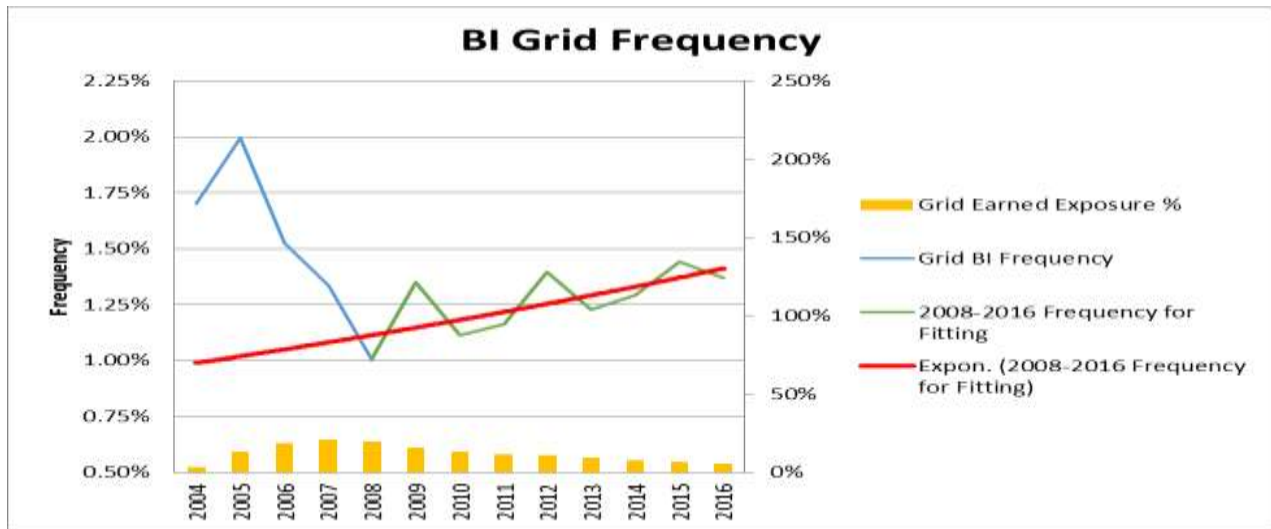
### Bodily Injury

The graphs below show the frequency, severity, and loss cost comparisons between Grid and Non- Grid risks for bodily injury based on year-end 2016 data. While there is volatility in experience over the years due to the volume of data and possibly due to weather and economic conditions, we have seen consistent deterioration in overall bodily injury frequency and severity since 2011.

Grid Bodily Injury frequency has shown steady increase since 2008, and Non-Grid Bodily Injury frequency has shown steady increase since 2010. The reduction in frequency in 2016 is likely due to volatility and should not be considered an indication of a new trend.

Both Grid and Non Grid Severity have increased significantly in recent years and will be discussed in further detail below.





Aviva agrees with Dr. Ron Miller and Oliver Wyman that we should expect BI loss costs to continue to increase over the next few years. The real cause for concern is the continual increases to severity. Severity will continue to increase until the Government amends the definition of Minor Injury.

### 2014 Bodily Injury Study

Similar to both Oliver Wyman and Dr. Ron Miller, Aviva has seen consistently unfavourable development on Bodily Injury.

Aviva conducted an internal claims review in 2014 in order to gain insight into the continuing unfavourable loss development seen in BI claims. Our study disclosed three main drivers:

- Increase in legal representation;
- Slippage in Minor Injury Claims due to the 2012 Sparrowhawk v Zapoltinsky decision;
- Increase in allegations of psychological, chronic pain and TMJ injuries.

With the results of the 2014 study, Aviva increased ultimate losses particularly for accident years 2012 through 2014 to reflect the additional uncertainty not yet fully seen in the loss development factors.

Since the incorporation of the study in 2014, Aviva's emergence exceeded our expectations but was smaller overall than what we saw at the time of the study. Ultimate losses increased for accident years 2014 and 2015. With our 2017Q2 analysis commencing, we have seen additional deterioration in the emergence.

#### Increase in Legal Representation

The rate of legal representation by plaintiff counsel has increased since the constitutional challenge in 2008. Prior to the constitutional challenge, less than 20% of BI claimants were represented by legal counsel. A high-water mark was reached in 2009 and 2010 with 33% and 41% of claimants represented, respectively. Subsequently, the incidence of legal representation has leveled off at 27%.

The increase in legal representation has a financial impact. Claims with legal representation cost two to three times more than unrepresented claims. In addition, insurers are exposed to plaintiff's costs and disbursements and will incur their own legal expenses. We expect this trend to continue.

#### Slippage in Minor Injury Settlements

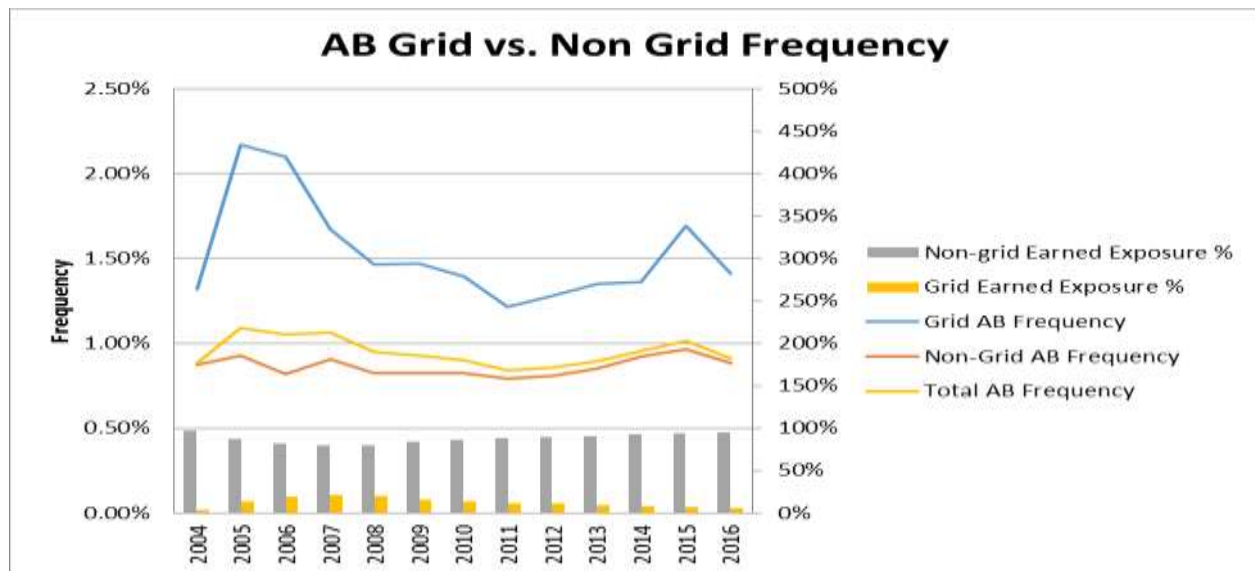
Aviva is resolving less claims within the Minor Injury cap since the *Sparrowhawk and McLean decisions*. The number of claims resolved within the Minor Injury Cap has dropped from 83% in 2005- 2007 to 77% in 2016. The slippage in Minor Injury Settlements has a direct correlation to the increase in BI severity. We expect this to continue until the Government addresses the Sparrowhawk and McLean decisions through legislative change.

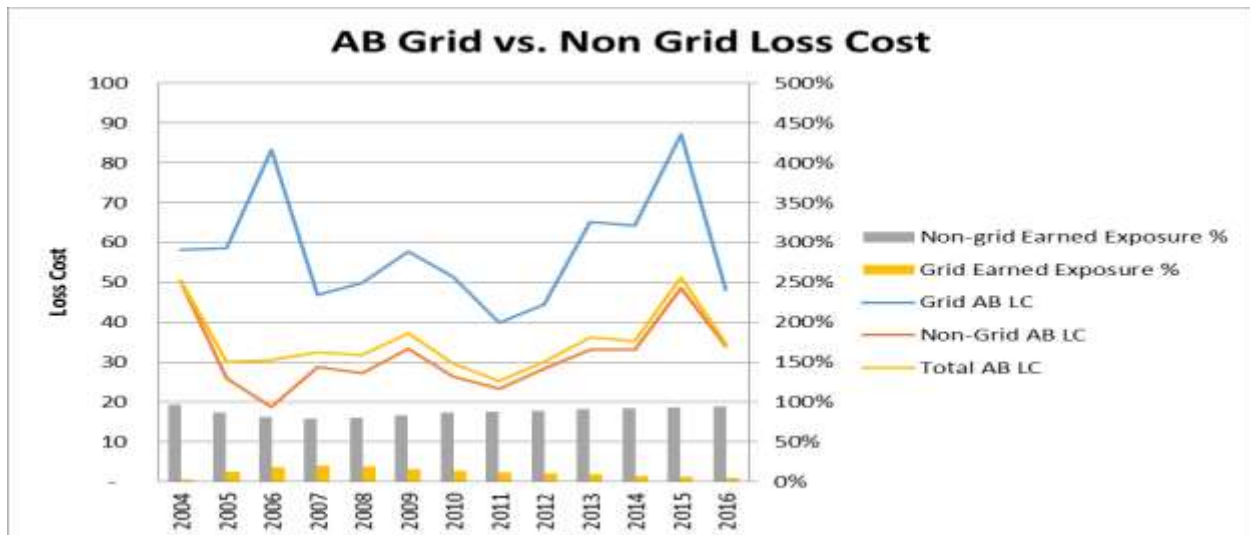
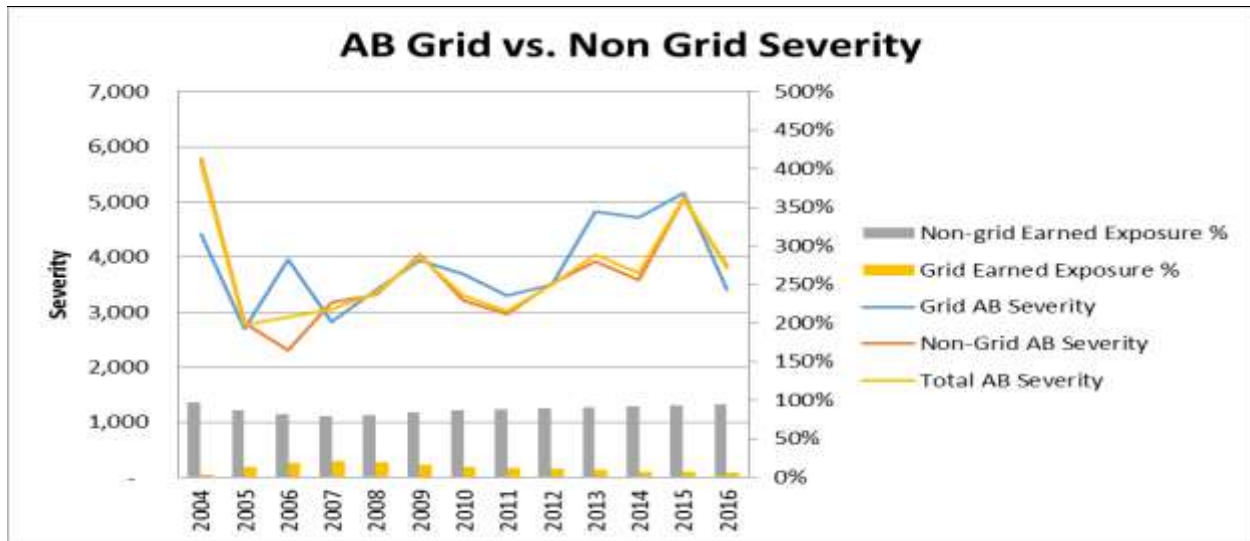
Increase in Allegations of Psychological Injury and Chronic Pain

Personal injury lawyers are using the Sparrowhawk and McLean decisions as roadmaps to escape from the Minor Injury Cap. There has been a significant increase in the allegation of psychological and chronic pain injuries subsequent to the Sparrowhawk and the McLean decision that broadened the definition of chronic pain. These allegations appear in 94% of our claims where there is legal representation. Prior to the Sparrowhawk decision in 2012, we saw these allegations in 40% of represented claims. The current rate of allegations greatly exceeds the incidence of these injuries in the general population and suggests that these allegations are being made for the purpose of escaping the Minor Injury cap

**Accident Benefits**

The graphs below show the frequency, severity, and loss cost comparisons between Grid and Non- Grid risks for accident benefits based on year-end 2016 data.



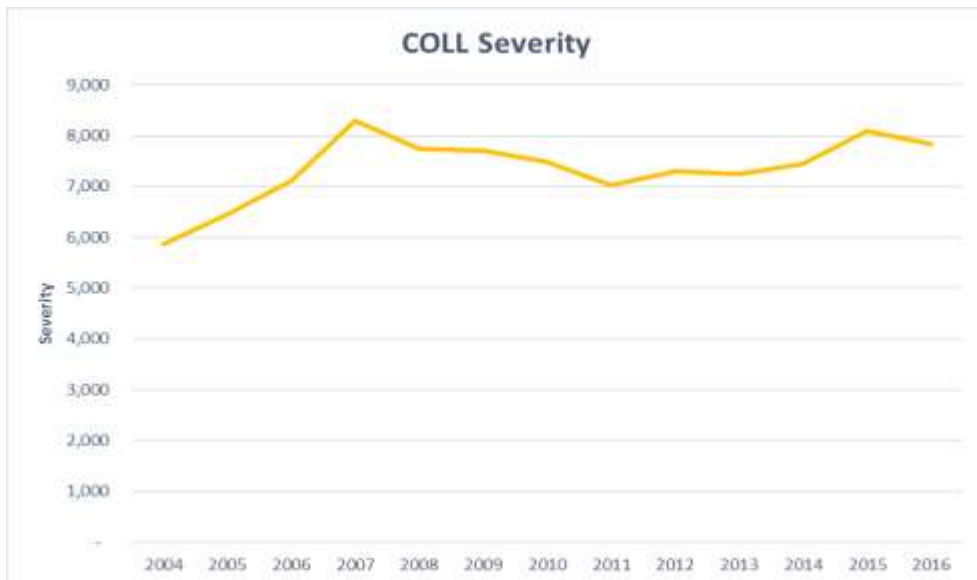
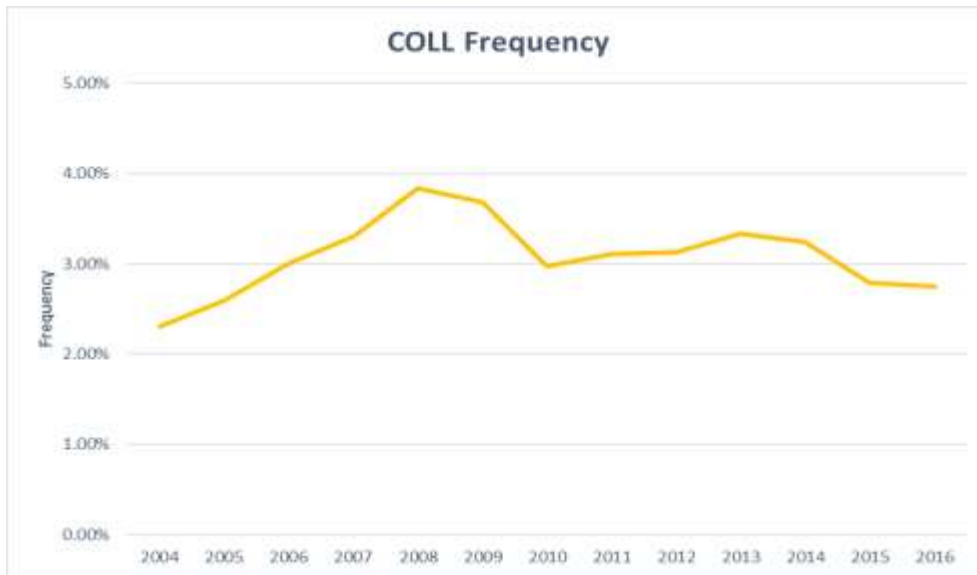


Accident benefits experienced a sharp increase in frequency and severity for accident year 2015, and then a decline in accident year 2016. Aviva's Accident Benefits data is thin and given the immaturity of accident years 2015 and 2016, we believe this pattern is driven by data volatility. We will be watching this line of business closely as our Claims team has seen an increase in legal representation on AB claims and the appearance of some Ontario clinics in Alberta.



## Collision

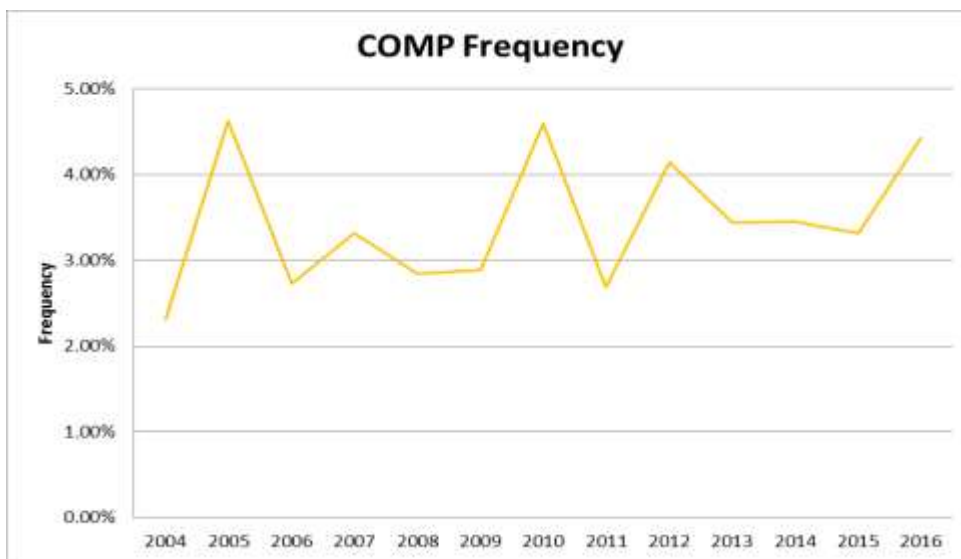
The graphs below show Collision frequency, severity and loss costs. Aviva experienced a slight decrease in frequency in accident years 2015 and continued into 2016. However, Aviva did not see the same decrease in severity in 2016 that Oliver Wyman has noted in the industry data. Any reduction in loss cost could be due to the milder weather in 2015 and 2016. We should not see this decline as something that will continue as a new long-term trend. Aviva has seen a spike in severity even after consideration of seasonality, continuing well into our 2017Q2 data.

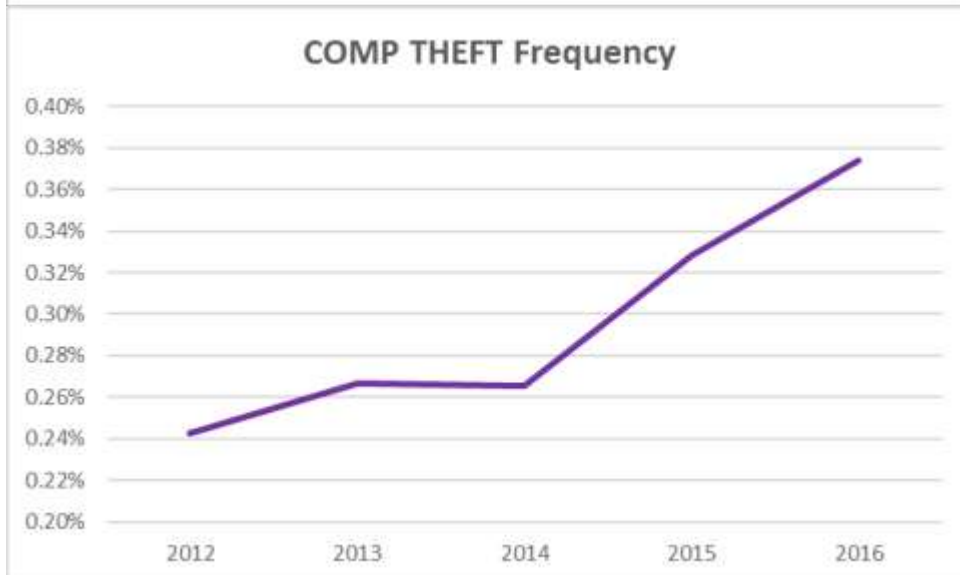
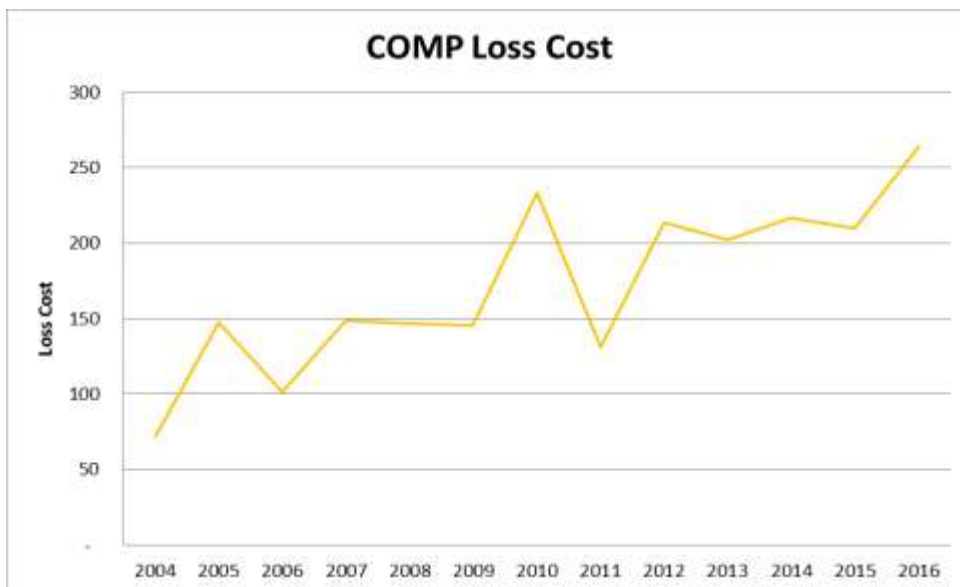
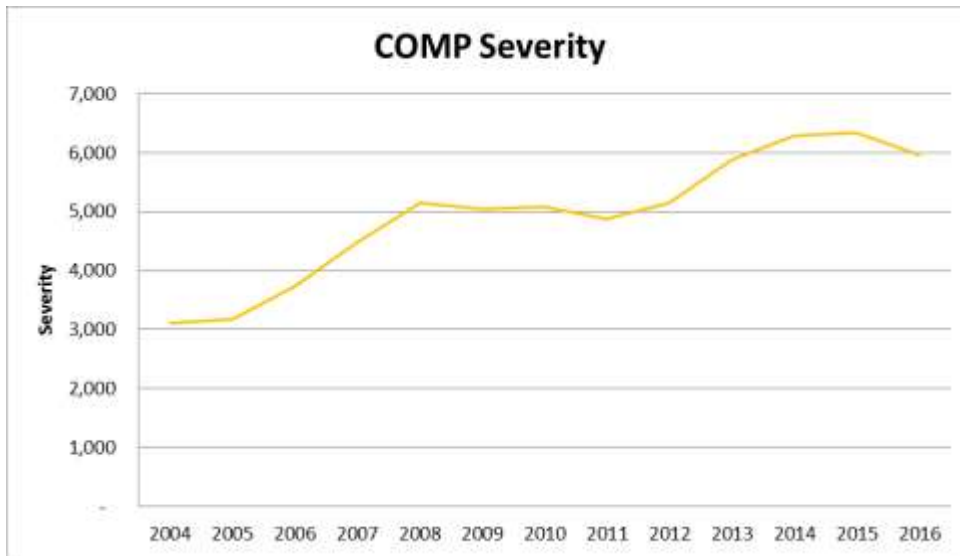




## Comprehensive

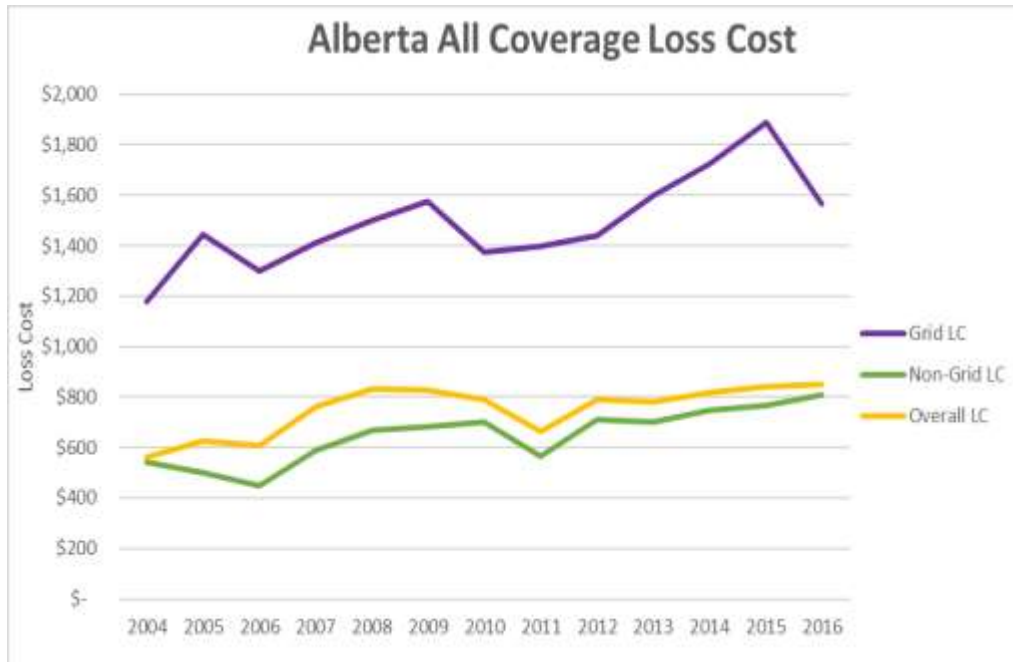
Comprehensive loss cost has been trending upward since 2011. We expect this trend will continue. We have also noticed that Theft claims frequency has experienced a significant increase since 2012, as shown in graph below. Theft claims frequency increased by 54.1% from 2012 to 2016. There was also an increase in referrals to our Anti-Fraud department to investigate a number of these thefts. All the above will continue to add pressure on the rates.





## The Grid

Aviva agrees with Dr. Ron Miller that Grid Loss Costs are higher than Non-Grid Loss costs. This is clear in the Bodily Injury and Accident Benefits graphs shown earlier. A grid rate increase is even more important this year because costs are increasing and expected to further increase. The increase should at least cover the trends agreed to in this hearing.



### Aviva Grid Risks

	2011	2012	2013	2014	2015	2016
Grid Distribution	11.2%	10.1%	8.0%	7.3%	5.9%	4.8%

Since 2011, the proportion of our book that is grid rated has been declining. In the last two years, Market rates have increased more than historically and as mentioned above are expected to continue to increase to keep up with trends. Grid rates must increase, otherwise the gap between Grid and Market will decline and the proportion of grid-rated vehicles will grow.

### Incorporating weather and economic conditions in trend analysis

Aviva agrees with Dr. Ron Miller that incorporating these variables into trend analysis will be difficult. Including these variables will increase uncertainty and volatility in the model without adding value

## **CAT Provision**

Aviva agrees with Ron Miler that a 5 year average is more responsive given the changing climate patterns and the increasing frequency and severity of CAT losses.

## **Health Levy**

Aviva agrees with Dr. Ron Miller that an increase over the 2017 levy for filings made in 2018 is reasonable, considering the historical increases and the significant magnitude of recent increases, especially since many of the policies impacted by the 2018 filings will be effective into 2019.

## **Investment Income**

Aviva believes that Oliver Wyman's approach to investment income is reasonable. That being said, and as with all other assumptions, the likely return is company specific and will depend on the composition of each company's portfolio. The AIRB should consider this in upcoming filings.

**Aviva thanks the AIRB for the opportunity to participate in the 2017 Annual Review.**

