



**Aviva Canada's Submission to the
Alberta Insurance Rate Board
2018 Annual Review**

July 24, 2018

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Aviva Canada Inc. (“Aviva”) thanks the AIRB for the opportunity to present at the 2018 Annual Review. Alberta has always been an important market for Aviva. In the last several years, Aviva has grown its Alberta business through organic growth and the acquisition of the RBC General Insurance Company. Aviva’s gross written premiums in Alberta have increased from \$198.8M in 2015 to \$282.2M in 2017. Auto insurance is a large part of our Alberta business and Aviva now insures over 167,000 private passenger vehicles in Alberta. However, the auto insurance market in Alberta is in a crisis and action is needed now. The Ministerial Order that limits rate increases to 5% is having a disastrous impact on Aviva’s auto insurance business and the industry as a whole. Status quo is not sustainable. Action is needed now in order to improve and preserve the Alberta auto insurance market.

Current State – Crisis

The problems with Alberta auto insurance have been building for years. When we presented to the AIRB in 2015, we expressed concern that auto insurance results would continue to deteriorate and premiums would increase unless the government undertook product reform to reduce costs. We are now in the second half of 2018, and despite the Government’s review of its insurance regulations, no meaningful product reform has been undertaken. As a result, costs have continued to increase as predicted by Oliver Wyman and Dr. Ron Miller. The Ministerial Order imposed in November 2018 limits rate increases to 5%, which is well below what is needed for rate adequacy. The artificial suppression of rates coupled with the lack of product reform and the Take-All-Comers rule will lead to a crisis.

The industry has not been profitable for years. Underwriting losses will increase as a result of the Ministerial Order. The following graph illustrates the Personal Auto Industry Loss ratios and implied Combined Operating Ratios (COR) for the period of 2014 to 2018.

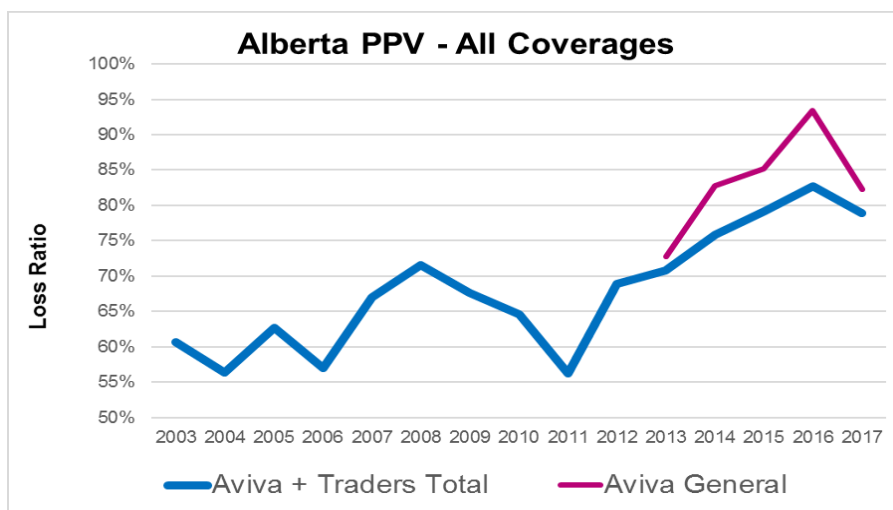
Table 1- Alberta Personal Auto Loss Ratio and Combined Operating Ratio

	2014	2015	2016	2017
Personal Auto Industry Loss Ratios	84	82	93	89
Distribution Ratio ¹	26	26	26	26
Combined Operating Ratio (COR)	110	108	119	115

Aviva’s own results are equally bad as illustrated in this Graph below:

¹ Aviva’s estimate not actual.

Aviva's Loss Ratio



- The overall loss ratio² for Aviva Insurance and Traders (our broker business) deteriorated by 23 points from 2011 to 2017. Aviva General's overall loss ratio deteriorated by 10 points from 2013 to 2017.
- The Combined Operating Ratio (COR)³ for Aviva Insurance and Traders deteriorated from 89% in 2011 to 112% in 2017. Aviva General's COR deteriorated from 100% in 2013 to 109% in 2017.
- Aviva's YTD 2018 COR is 172.5% for Aviva General and 130.6% for Aviva Insurance and Traders.
- Aviva projects that the 2019 COR will be 136.8% for Aviva General and 106.9% for Aviva Insurance and Traders.
- Aviva projects that it will lose \$40M in 2019 and \$130M on a cumulative basis (2019-2012). However, the industry as a whole will lose close to \$400- \$500M per year.
- Artificially suppressing rates harms consumers in the long run. We estimate that the Aviva General policies are underpriced by close to \$700 while Aviva Insurance and Traders are underpriced by \$165. These are significant increases for consumers. In the meantime, the Government has done nothing to take costs out of the system – industry has been advocating for cost-reducing reforms for several years and the government has made a couple of minor

² Accident Year Loss Ratio

³ Accident Year Combined Operating Ratio

tweaks this year. We are told further reform will take years. The costs will continue to compound.

The current situation is not sustainable. The magnitude of underwriting loss will, if it has not already, impact the solvency of insurers. The Take-All-Comers rule means that insurers will write more underpriced business. There is no way to turn off the tap. At some point, the only option for some insurers will be withdrawal and this will affect the availability of insurance. The rate cap needs to be removed NOW, and not when it fits the political agenda of the Government. The Government needs to introduce meaningful reform that will reduce claims costs. Premiums will come down once costs are reduced. However, until reforms are enacted, insurers should be allowed to properly price their products.

Loss Trends and Rate Increases

A breakdown of loss ratios by coverage shows that Bodily Injury (Liability) continues to drive the industry's overall worsening results. Accident benefit loss ratios have also deteriorated but accident benefits is still a small coverage accounting for only \$60 of premium.

Industry Loss Ratio Breakdown by Coverage

Coverage	2014	2015	2016	2017
Liability (Bodily Injury)	96	94	101	95
Accident Benefits	82	96	104	129
Other/ Physical Damage	71	68	82	76
Total Loss Ratio	84	82	93	89

Aviva's estimated loss trends are consistent but slightly higher than Oliver Wyman's for Bodily Injury, Physical Damage, Third Party Liability and Comprehensive. Aviva is of the opinion that Ron Miller's trends are too low for Bodily Injury and Accident Benefits. Aviva's loss trends are significantly higher than both Oliver Wyman's and Ron Miller's trends for Accident Benefits.

Over the past several years, Aviva has recognized the increasing loss trends and has taken regular rate increases. However, Aviva has not been able to take rate increases quickly enough to keep up with escalating costs. The cumulative approved rate changes over the past five years are +22.2% for Aviva Insurance, +15.4% for Traders and +18.2% for Aviva General. The shortfall between the cumulative loss trend and the cumulative approved rate over the past five years is 5% for Aviva Insurance, 12% for Traders and 9% for Aviva General. This is equivalent to \$23M as of July 2019 on an annual basis and a

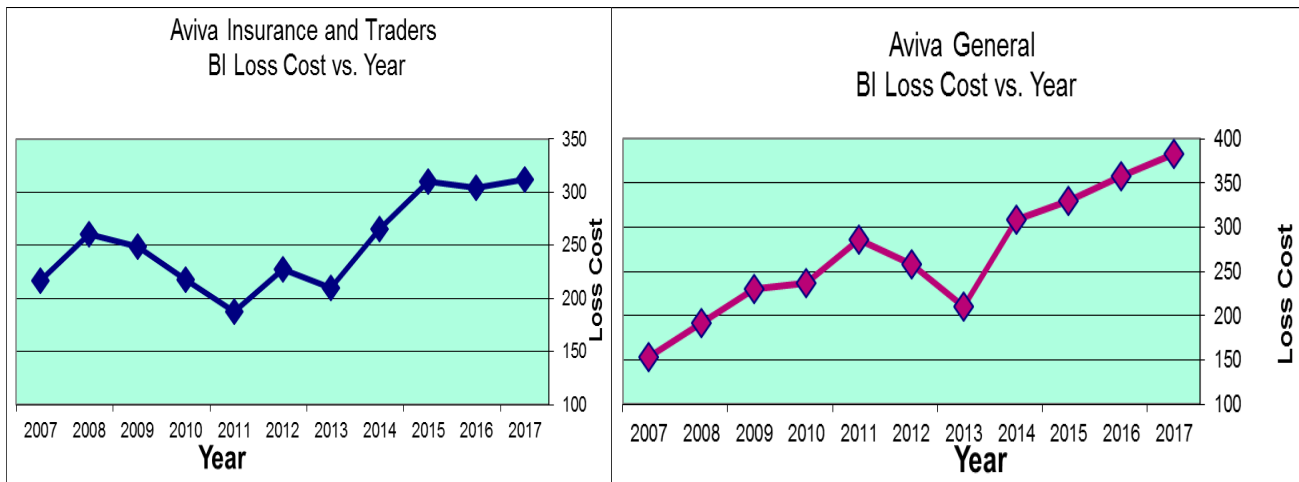
total of \$130M on a cumulative basis. The shortfall will continue to exacerbate if the rate cap remains in place and no reforms are introduced.

Bodily Injury

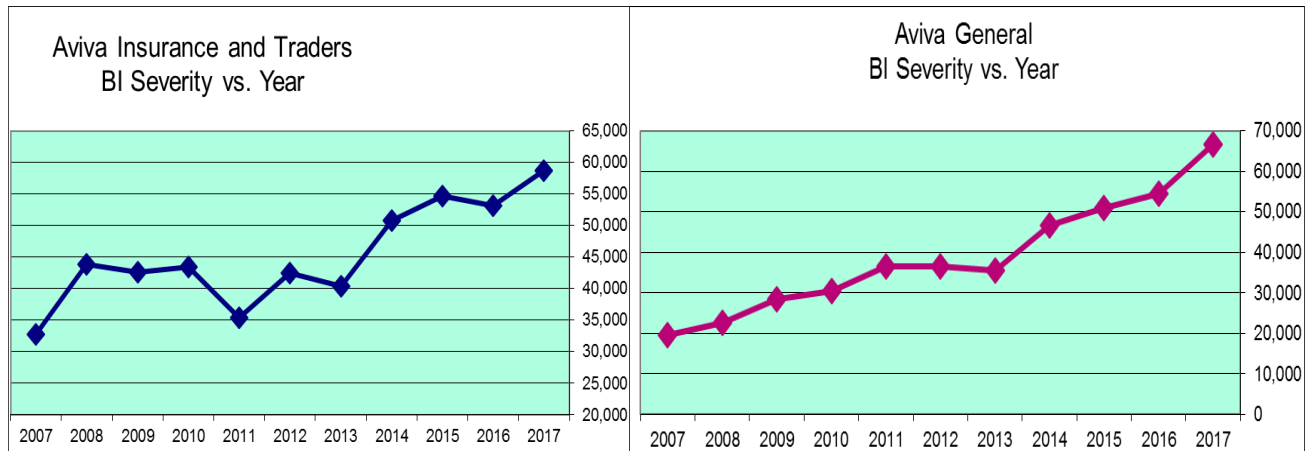
The graphs below show the loss costs, severity, and frequency results for our broker business (Aviva Insurance and Traders) and our direct business (Aviva General).

Loss Costs

Bodily Injury loss costs have increased significantly from 2011 to 2017. Loss costs increased by 66.3% for Aviva Insurance/ Traders and 33.5% for Aviva General. The increase in loss costs is driven by severity.

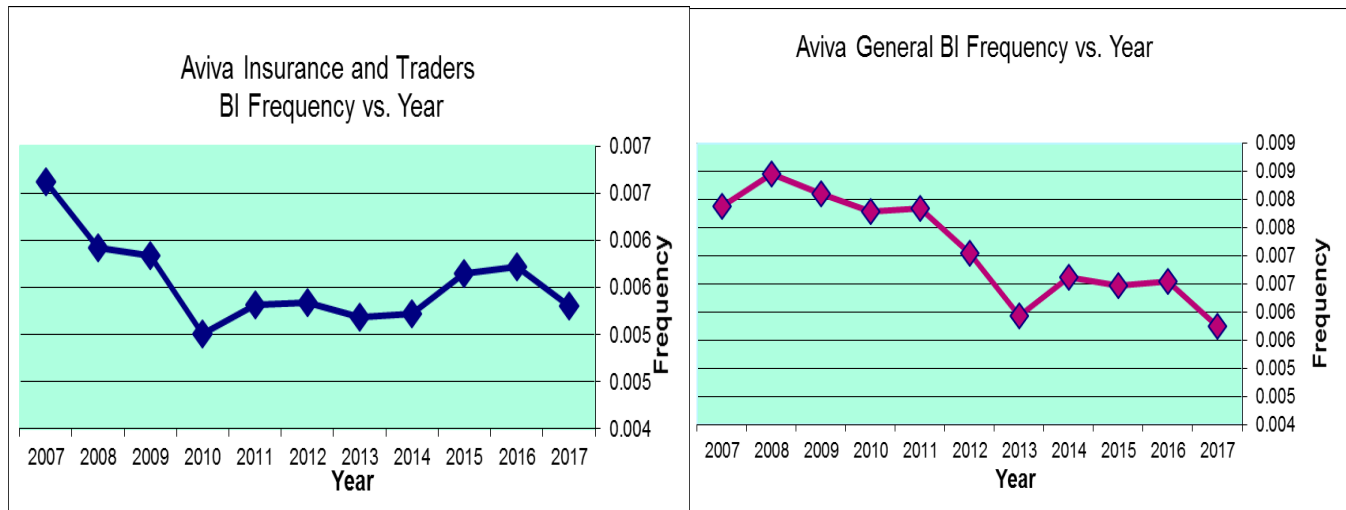


Severity



Rapid increases in BI severity are seen for both Aviva Insurance/ Traders and Aviva General. From 2011 to 2017, BI severity increased by 66.4% for Aviva Insurance/ Traders and 82.3% for Aviva General. BI cost drivers are discussed below.

Frequency



Aviva Insurance and Traders had sharp decreases in frequency between 2007 to 2010. From 2010 to 2016, frequency increased. It is too early to know whether the drop in 2017 will continue. Aviva General’s frequency has been trending downwards.

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			

In several different forums, we have been asked about reserving practices. Aviva's reserving practices comply with industry best practices. Alberta auto problems are not caused by reserving issues such as over-reserving. As can be seen below, Aviva's actual claims emergence exceeded our actuarial expectations for all of calendar year 2017 and 2018. We continue to see deterioration in the emergence in our 2018 Q2 analysis. Over-reserving is not the problem.

Actual Claims Emergence Relative to Expectations

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)

Bodily Injury Cost Drivers

Aviva conducted claims reviews in 2014 and January 2018 to understand the causes of unfavourable reserve development in BI claims. Three cost drivers were identified:

- Change in injury mix
- Decrease in the number of minor injury settlements
- Increase in legal representation

Change in Injury Mix

In the most recent claims review in 2018, Aviva reviewed 284 claims. All of these claims were initially classified as Minor Injury but 25% were re-classified at some point. The type of injury determines

whether the claim is a Minor Injury claim. There are more claims being presented that clearly are outside the definition of Minor Injury. The following lists the type and frequency of injuries:

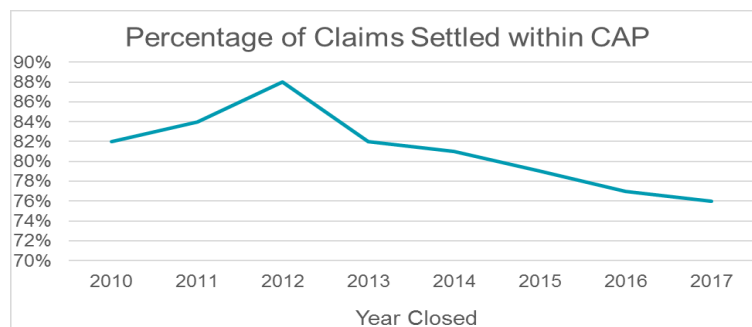
Distribution of Claims (by Injury Type) Removed for Minor Injury

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%

During our 2014 claims review, we noted increased allegations of chronic pain, TMJ injuries and psychological complaints. In 2018, post-concussion syndrome and headaches were a reoccurring theme in treating doctor reports while TMJ complaints remained constant. It should be noted that these are not significant injuries. Most of these claimants missed very little time from work. The average settlement of the re-classified claims was \$36,000. This is approximately \$30,000 higher than the average settlement of a Minor Injury claim.

Decrease in Minor Injury Settlements

Aviva’s experience with the Minor Injury cap is illustrated in the graph below. Despite the deterioration, Aviva still settled 76% of bodily injury claims within the Minor Injury cap. A reduction of 1% equates to additional claims costs of approximately \$900,000.



Increase in Legal Representation

Aviva discussed the issue of legal representation in detail at the 2017 Hearing. We will not go into a detailed discussion other than to note that legal representation continues to trend upwards. We now see legal representation in Accident Benefit claims and this is new for Alberta. Legal representation should be considered a “lead indicator” of costs. There can be no question that the average settlement of a claim with legal representation is higher than the same claim with no representation. Increased legal representation means that we will see more claims settling at a higher value.

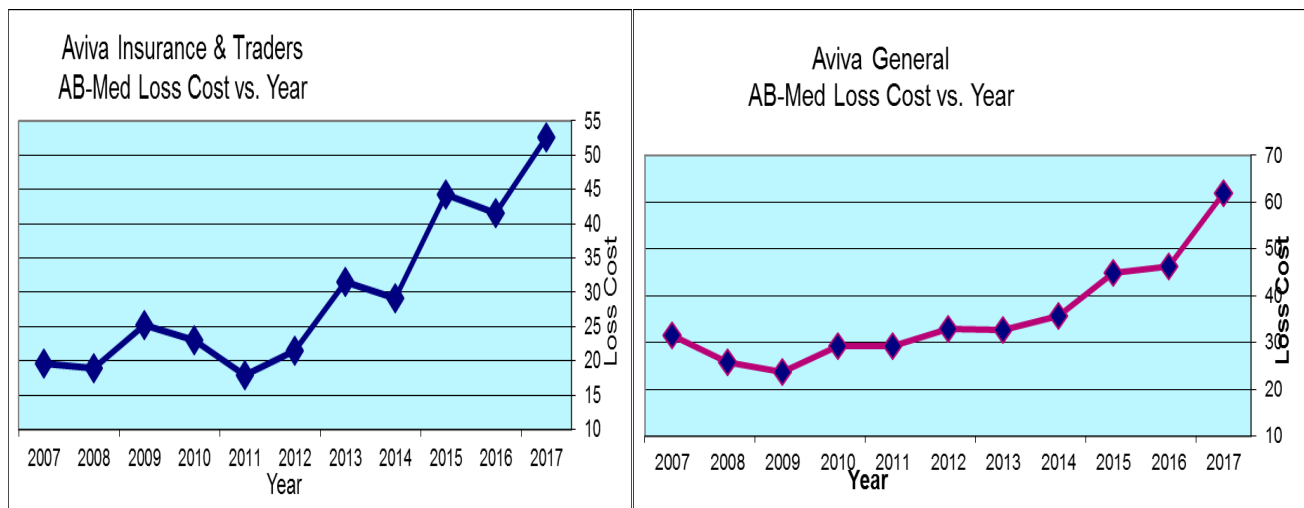
Impact of Minor Injury Regulation Change

The Government recently revised the definition of Minor Injury. The Government choose to clarify the existing Minor Injury definition rather than expand it. The savings that will be generated by the change will be similarly modest. Aviva estimates that the change will improve Aviva General’s indications by 2% and Aviva Insurance/ Trader’s indications by 1%.

Accident Benefits

The graphs below show Accident Benefit Medical Rehab loss costs, severity and frequency for Aviva Insurance/ Traders and Aviva General. The loss costs from disability income coverage are not a significant factor.

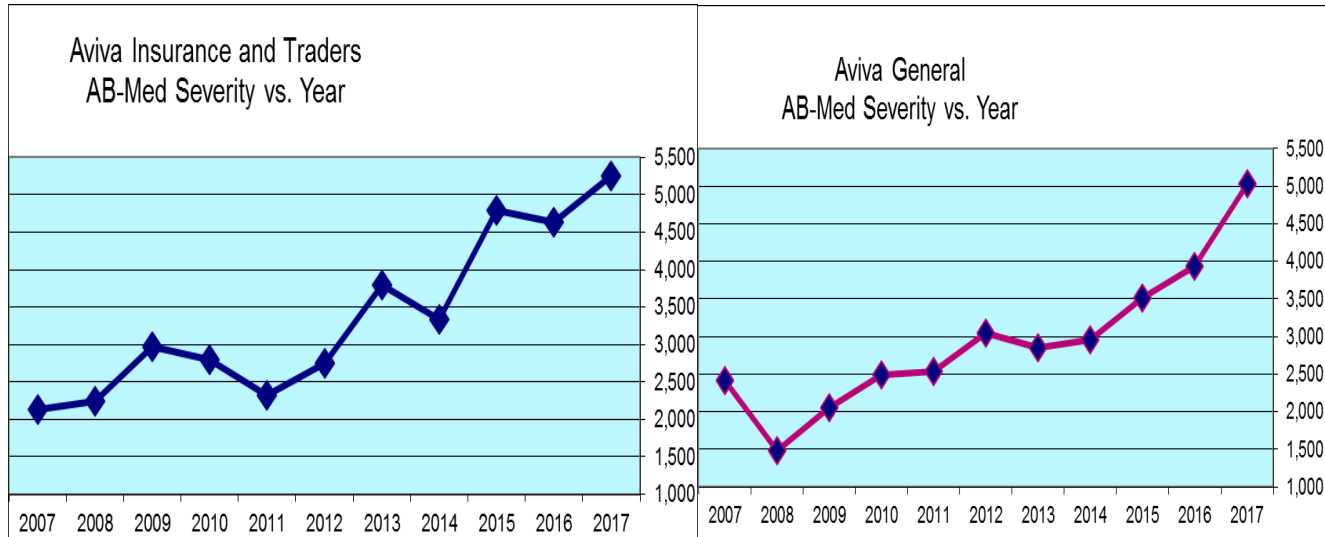
Loss Costs



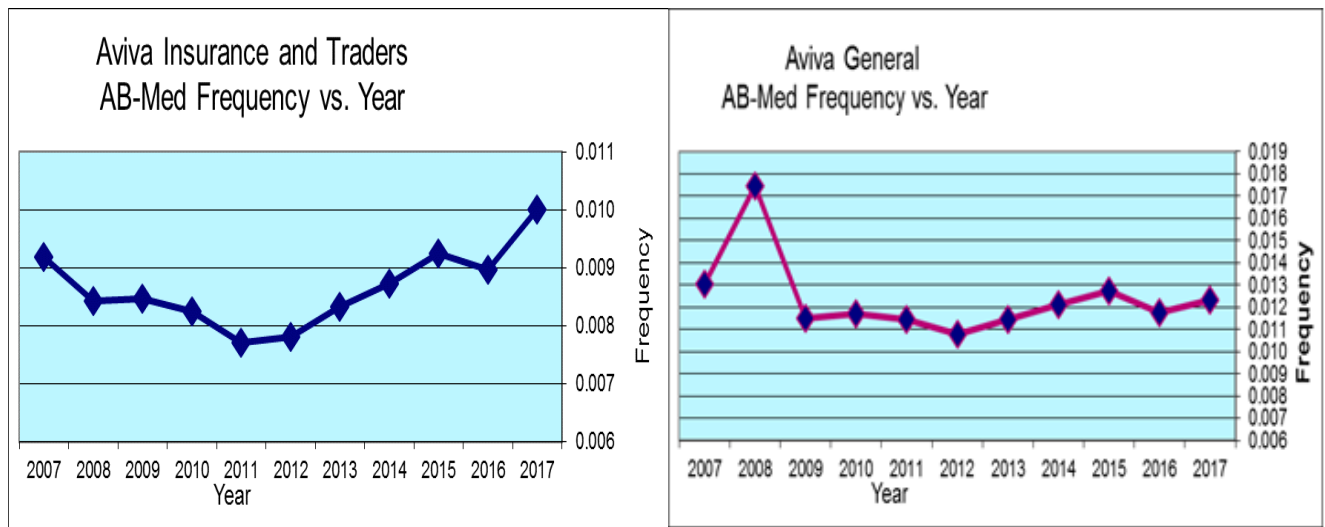
Loss costs are increasing sharply in both Aviva Insurance/ Traders and Aviva General. The increase is driven mainly by severity. From 2011 to 2017, the loss costs increased by 193.2% for Aviva/Traders and 112.3% for Aviva General. The impact on overall loss costs would be much greater if Accident Benefits were a bigger coverage.

Severity

Severity trends have increased steadily since 2008 for all Aviva companies and are increasing at a very sharp rate since 2014. From 2011 to 2017, severity increased by 125.9% for Aviva/Traders, and 97.9% for Aviva General



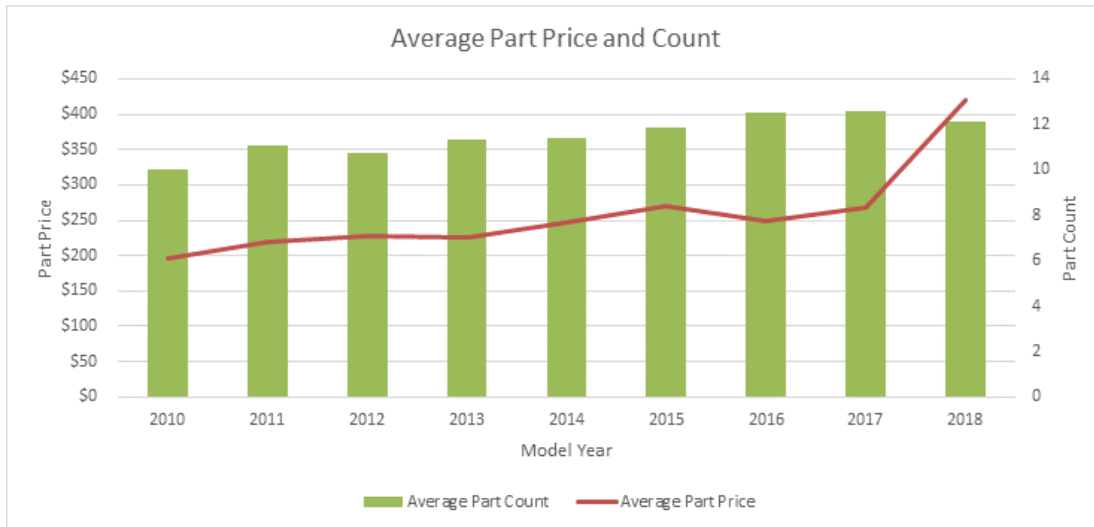
Frequency



Aviva companies have seen increasing trend in Med Rehab frequency for the period of 2012 to 2015. While there was a dip in 2016, the frequency trend has increased in the last year.

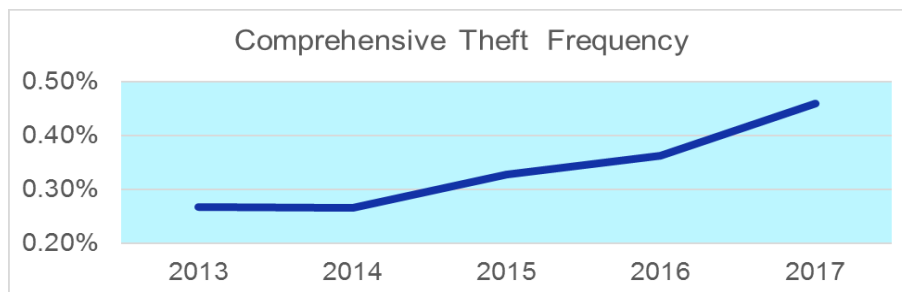
Collision

The following chart depicts repair costs and shows that the number of parts repaired/ replaced and the cost per part are both increasing.



Comprehensive/ Theft

Theft is an increasingly frequent cause of comprehensive claims. Theft claims frequency has increased by 73.3% since 2014 for Aviva Insurance and Traders



Fraud

Fraud is one of the reasons for the increase in theft claims. Since 2017, Aviva has identified 272 cases of potential fraud in Alberta. These are broken down as follows: 51% claim fraud, 48% policy fraud and 1% other. Suspicious vehicles thefts are seen in 36% of the identified claim fraud. Additionally, 18% of all policy fraud identification emanates from a vehicle theft claim, whether suspicious or not. For

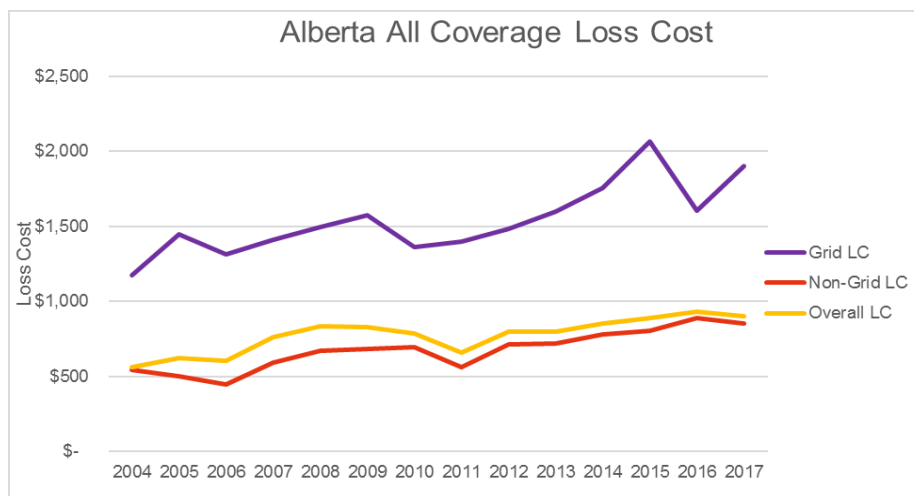
comparison purposes, these figures in Ontario are 23% and 11% respectively. The relatively higher proportion of vehicle thefts is consistent with anecdotal trends observed since the downturn of the Alberta economy. Aviva has completed 255 investigations since the beginning of 2017 with a combined claim benefit opportunity of \$5.9M and severed business (prevention) benefit of \$1.3M.

In November 2017, Aviva released its first annual fraud report “Crash, Cash and Backlash- Auto Insurance Fraud in Canada”.⁴ As part of the report, Aviva conducted extensive consumer polling. The following survey results of Albertans may interest the Board:

- 75% respondents feel auto repair shops are inflating vehicle repairs
- 65% feel tow truck drivers regularly receive ‘kickback’ payments for towing vehicles to specific auto repair shops
- 15% know someone who has submitted a fraudulent auto insurance claim regarding the value of stolen contents
- 22% know someone who has claimed fraudulent personal injuries from an auto accident
- 50% of respondents believe that 25% of all auto insurance claims are fraudulent
- 79% believe that fraudulent insurance claims are the reason that their premiums have increased
- 73% believe that more needs to be done to reduce auto insurance fraud

The Grid

Grid loss costs continue to be higher than non-Grid loss costs. The rate increase for 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.



⁴ See www.avivacanada.com/fight-fraud

Conclusion

We must again emphasize the seriousness of the issues facing the auto insurance industry in Alberta. The industry is in crisis. If there is no action, there is a risk that insurers will withdraw and an availability crisis will ensue. That would be a very bad thing for Alberta drivers.

There is a way out of the crisis. In the short term, the rate cap must be eliminated and insurers must be allowed to file for rate increases in order to achieve rate adequacy. If this does not happen, there is a real risk that insurers will withdraw from the Alberta auto insurance market. This would be a bad thing for Alberta drivers.

Longer term, product reform is needed to stabilize and then reduce costs. There are many ways to improve the existing product and offer more choice and innovation to consumers. This would be a good thing for Alberta drivers.

Lastly, the system needs to be re-balanced to promote greater fairness. Alberta's rules, and in particular the Grid, lead to a large amount of cross-subsidization of poor drivers at the expense of good drivers. The system is not working as intended. Rates need to more accurately reflect risks. Good drivers deserve to be treated more fairly. This would be a good thing for Alberta drivers.

Aviva thanks the Board for the opportunity to make this submission and to present at the Annual Hearing.