



**Aviva's Submission to the AIRB 2019
Annual Hearing**

July 25, 2019

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Aviva Canada Inc. ("Aviva") thanks the AIRB for the opportunity to present at the 2019 Annual Hearing.

Auto insurance in Alberta continues to be very challenging. The 5% rate cap imposed by Ministerial Order has artificially suppressed rates at a time when claims costs continue to rise in part due to the failure of the previous government to undertake any meaningful reform. The industry needs to return to adequate rates and we would suggest that work needs to begin in earnest to deliver a less expensive product to the drivers of Alberta.

The Impact of the Ministerial Order

The 5% rate cap imposed by Ministerial Order has had a disastrous impact on the industry and especially Aviva. The industry's Combined Operating Ratio ("COR") has been well over 100% for the last 5 years. The industry COR at the end of 2018 was 111% meaning that for every \$1 of premium, \$1.11 was paid out. Aviva estimates that the industry has lost over \$2 billion from 2014 to 2018.

Industry COR and Underwriting Loss

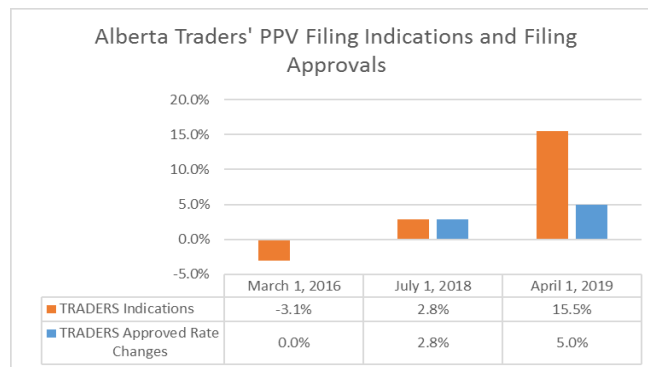
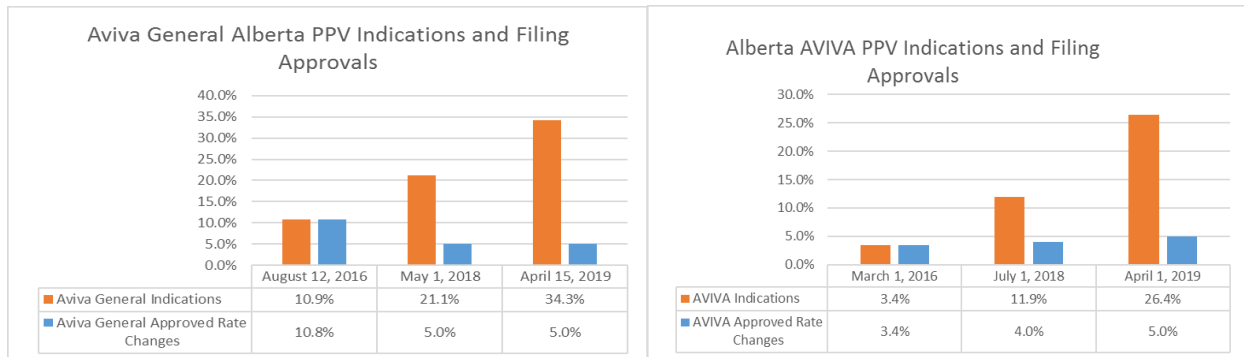
	2014	2015	2016	2017	2018
Personal Auto Industry Loss Ratios	84	82	93	88	85
Distribution Ratio	26	26	26	26	26
Combined Operating Ratio (COR)	110	108	119	114	111
Personal Auto Industry earned premium (\$m)	2,980	3,146	3,241	3,340	3,536
Estimated Industry Underwriting Loss (\$m)	-295	-261	-616	-458	-393

The rate cap has been especially harmful to insurers like Aviva, whose rates were not adequate when the Ministerial Order was imposed. The premium gap that existed then has been made even worse as a result of claims loss trends. In addition, the Adverse Contractual Regulation forced insurers to continue to sell policies at rates that were grossly underpriced. Aviva's overall loss ratio deteriorated by 16 points from 2012 to 2018. Aviva finished 2018 with an overall COR of 122.8%. The COR for the individual legal entities was:

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

While the AIRB has recognized the need for rate increases, rate approvals have not kept up with indications because of the rate cap. 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. The graphs below illustrate the difference between the approved rate and indication.

Comparison of Indications and Rate Approvals



This situation is not sustainable. The residual indications are high. Aviva companies need rate to get to adequacy.

Loss Trends

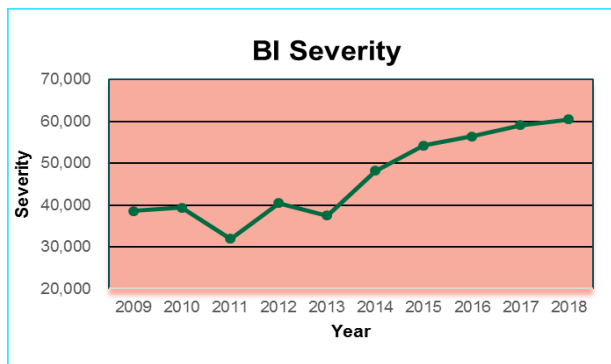
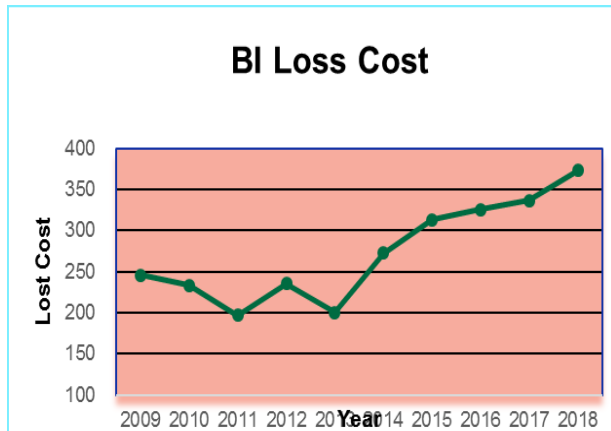
The Table below compares Ron Miller's and Oliver Wyman's loss trends. Aviva's trends are comparable to Oliver Wyman's and Ron Miller's selections except Aviva expects a higher future trend for BI and AB, but a lower future trend for Collision and Comprehensive.

Ron Miller vs. Oliver Wyman's 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%

Bodily Injury

Bodily Injury (“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. From 2011 to 2018, severity increased by almost 200%. As will be discussed, there are several things driving the severity increase:

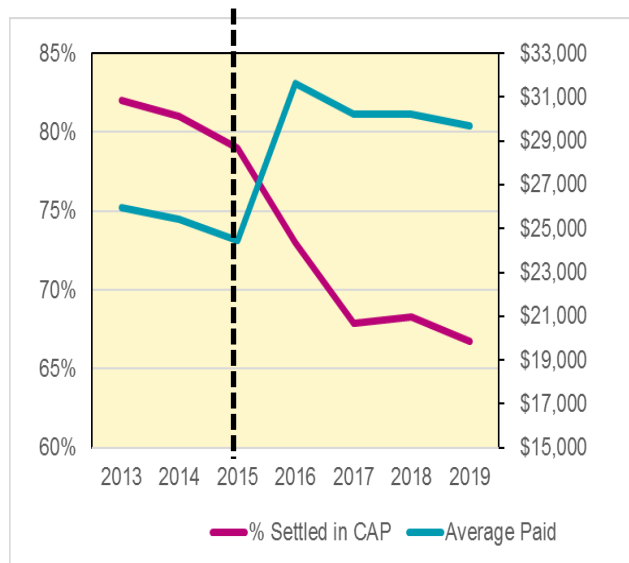


- Continuing erosion of Minor Injury Claims- The percentage of claims settling in the Minor Injury cap continues to decrease. Subsequent to the *McLean v. Parmar* decision, we are seeing more sprains, strains and WADS with pain complaints that last longer than six months.
- Large increase in psych claims and concussions- We continue to see more and more claims with psychological injuries and concussions. These are not included in the Minor Injury definition.
- Duration of Injuries is increasing- Injuries durations are increasing.
- Accident Benefit claim is used to build up the BI claim- We see similar trends in Accident Benefit claims.

Minor Injury Cap Erosion

In 2015, the Alberta Queen’s Bench released its decision in *McLean v. Parmar*. The Court ruled that any pain lasting longer than 6 months is not a Minor Injury. In 2013, 82% of our claims closed within the Minor Injury Cap. Since the McLean decision, our Minor Injury settlements have been steadily eroding. In 2018, our Minor Injury settlements dropped to 67%. More and more claims have complaints of pain lasting longer than 6 months. The deterioration of Minor Injury settlements adds costs. As less claims settle in Minor Injury, the average amount of settlements have increased. Payouts for pain and suffering have gone up by 40% since 2012 compared to a CPI increase of 9.9%. Every 1% decrease in Minor Injury settlements adds \$910,000 in costs.

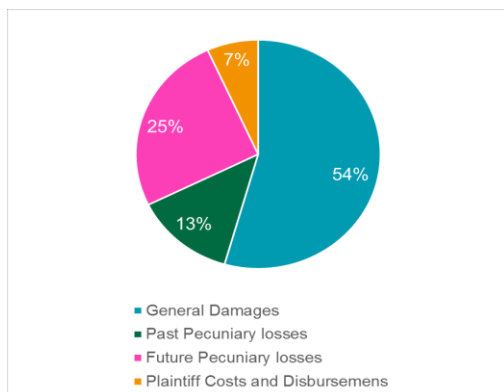
McLean Decision



Closed Claim Study

Aviva would like to give a “sneak peek” of our results of the Closed Claim Study.

Pain and Suffering Awards Drive Claim Costs



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%. Controlling pain & suffering awards will help control claims costs and premiums

Injuries are Lasting Longer

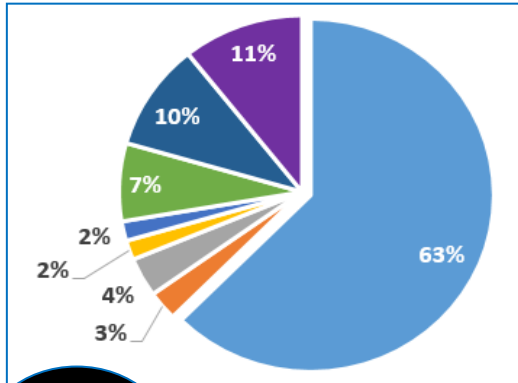
We compared the composition of injuries using closed claim study results from 2010, 2012 and 2017. The change from 2010 to 2017 is noteworthy. Catastrophic injuries have always accounted for a small percentage of total injuries. However, the number of catastrophic injuries have dropped by 50%. This is not surprising since technology is making cars safer. However, what is surprising is the change in the composition of less serious injuries and the fact that less serious injuries appear to have a longer duration. In turn, this leads to a decrease in the percentage of claims settled within the Minor Injury cap.

Sprains, strains and WADS account for 68-73% of total injuries. However, in the 2017 closed claim study, sprains, strains and WADs with no impairment only accounted for 42% of all injuries. This is a significant drop from 2010 and 2012 when sprains, strains and WADs with no impairment represented 68% of all claims. In 2017, 24% of sprains, strains and WADs experienced symptoms and pain lasting longer than 6 months. This would qualify them for the exception to the Minor Injury cap in the McLean case.

There has also been a very dramatic increase in psychological injuries and concussions. Psychological injuries represented 7% of total injuries in 2010 and 6% of injuries in 2012. In 2017, psychological injuries increased to 15% of total. Concussions increased from 2% in 2010 to 20% of total in 2017. This may be due to a general increase in awareness of concussions. However, it is noteworthy that these injuries are captured by the Minor Injury definition.

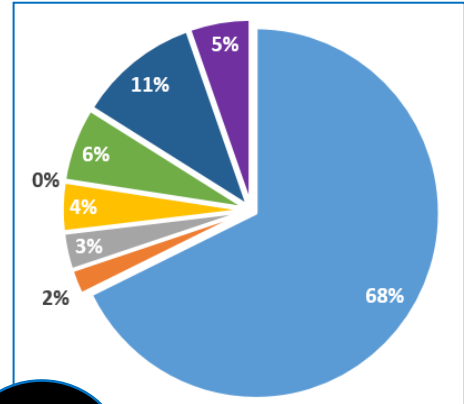
The graphs below provide a more detailed view:

2010



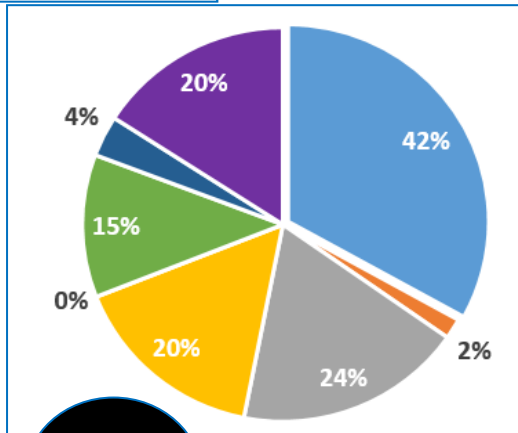
72%
Settled in
MIR

2012

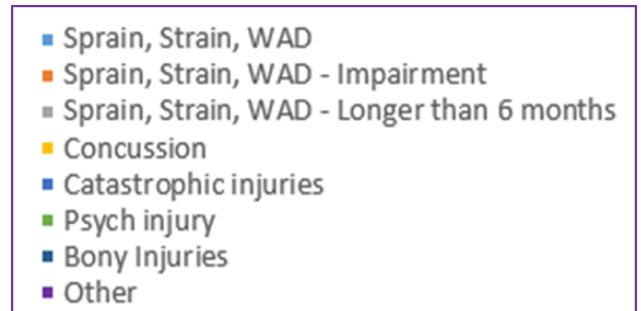


77%
Settled in
MIR

2017



67%
Settled in
MIR



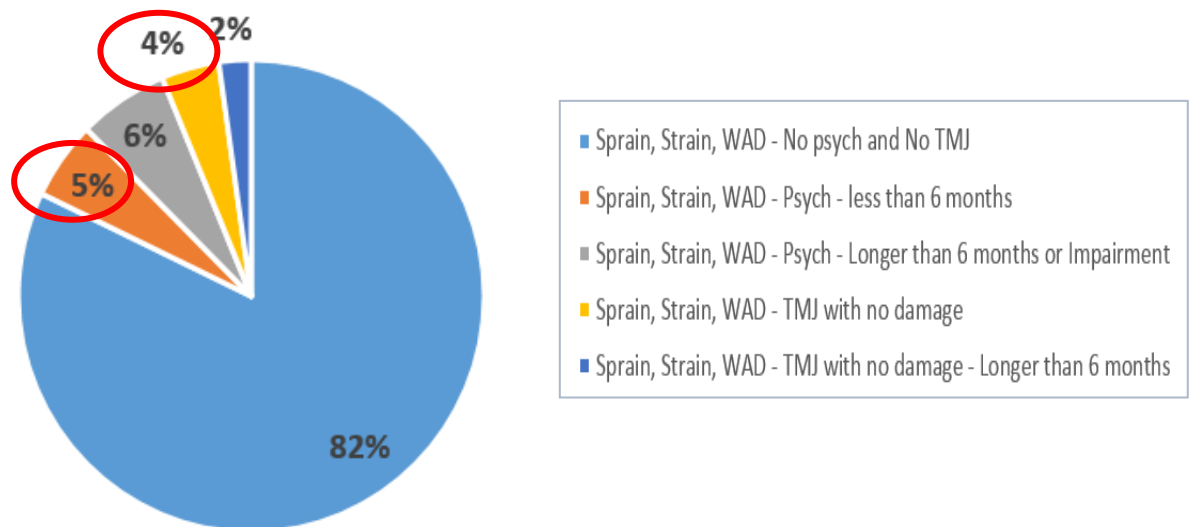
Impact of June 1, 2018 Amendments

The June 1, 2018 amendment clarified the Minor Injury definition to include:

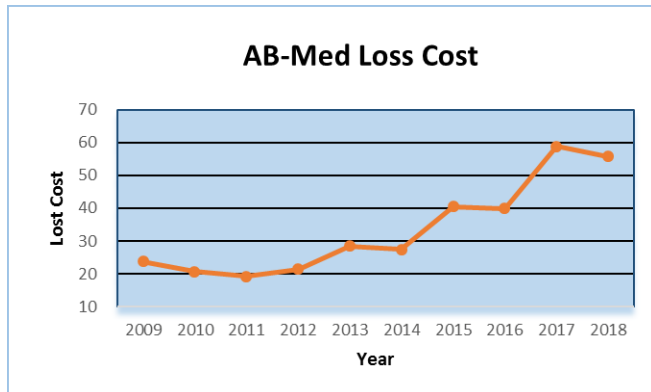
- Physical or psychological symptoms that arise and resolve with a sprain, strain or WAD injury and
- TMJ unless there is damage to the bone, teeth or cartilage.

It is too early to see impact of the amendments but Aviva predicts that there will be limited value. Our projections are based on the closed claim study. Looking at the distribution of injuries in the 2017 closed claim study, we believe that only an additional 5% of the sprain, strains and WAD injuries would fall within Minor Injury. These are claims that had accompanying psychological injuries but they 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. In total, only an additional 4% of all Bodily Injury claims will fall within Minor Injury as a result of the June 2018 amendments. This assumes that there will be no change in behavior and the current composition of claims will not change to adjust to these amendments.

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



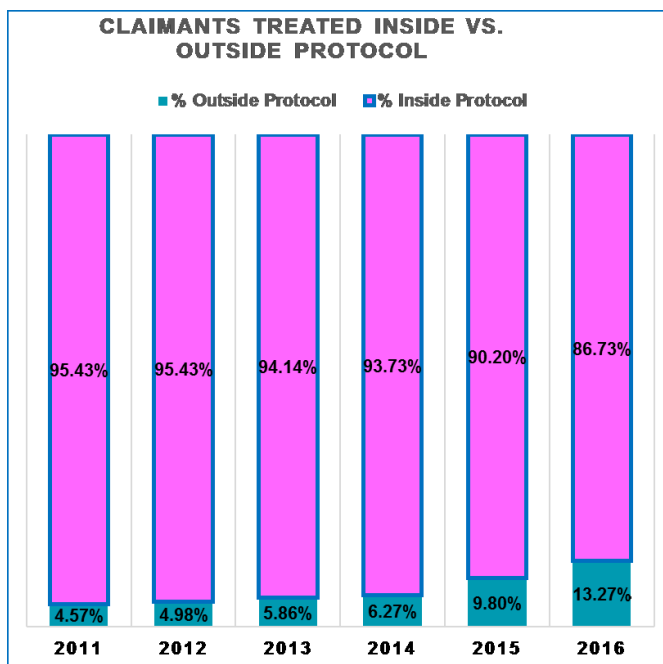
Accident Benefits



In the Accident Benefits coverage, loss trends are also increasing. From 2011 to 2018, loss costs increased by 189%. Fortunately, this is a small coverage line which accounts for \$80 of premium so the loss cost increase has not had a significant impact on premiums. The increase in loss costs is driven primarily by increasing severity. Less claims are closing within the Treatment Protocol. More treatment is being provided and more claims are accessing the \$50,000 medical-rehab coverage limit. We

are also seeing an increase in legal representation. We believe that the Accident Benefit file is being used to build up arguments to take injuries out of the Minor Injury definition.

The next graph illustrate the shift in claims treated inside the Protocol versus outside the Protocol. The percentage of claims treated outside protocol has tripled in 6 years, going from 4.57% in 2011 to 13.27% in 2016. These claims are accessing a bigger portion of the \$50k limits. The increase in legal representation is also noteworthy. A total of 22.9% of open claims have legal representation yet we have very few disputes. It is Aviva's opinion that the Accident Benefit claim is being used by many claimants to support and build up the Bodily Injury claim.



The loss costs and severity for disability income is also increasing but not as sharply as medical. From 2011 to 2017, disability income severity increased by 27%. The disparity in the rate of increase between medical and disability income suggests that there may be overtreatment.

A Warning about Injury Claims

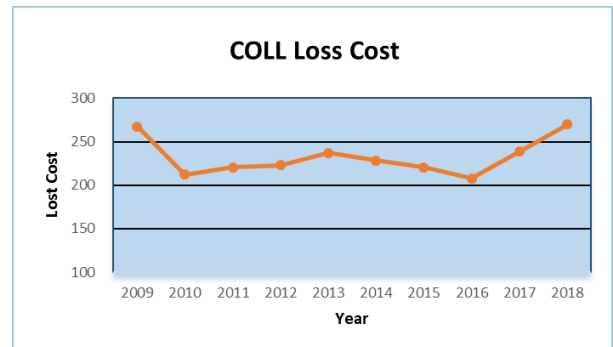
The costs associated with injury claims continue to increase at a pace well above inflation and quicker than premium increases. The number of serious injuries is not increasing. In fact, catastrophic injuries have decreased in our book of business by 50% for 2010. However, less serious injuries are becoming more expensive. More treatment is being incurred in respect of these injuries. We are seeing the emergence of more psychological claims and concussions

which tend to be more difficult to disprove. We expect that these trends will continue unless there is significant product change.

Physical Damage Coverages

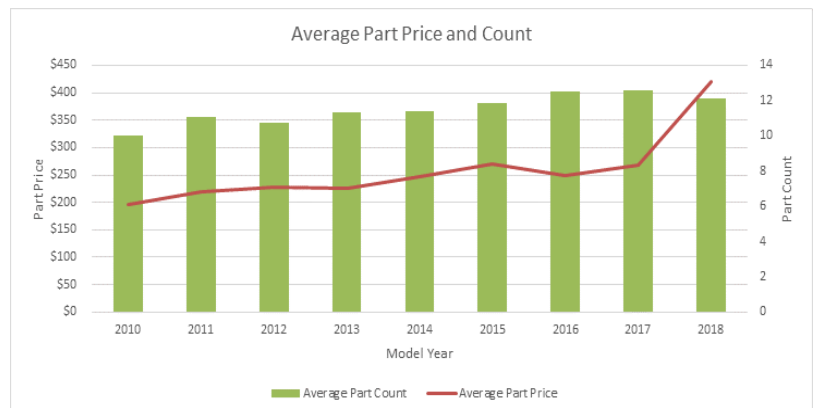
Collision

Loss trends in collision continue to increase. There has been a 30% increase from 2016 to 2018. This is driven primarily by frequency.



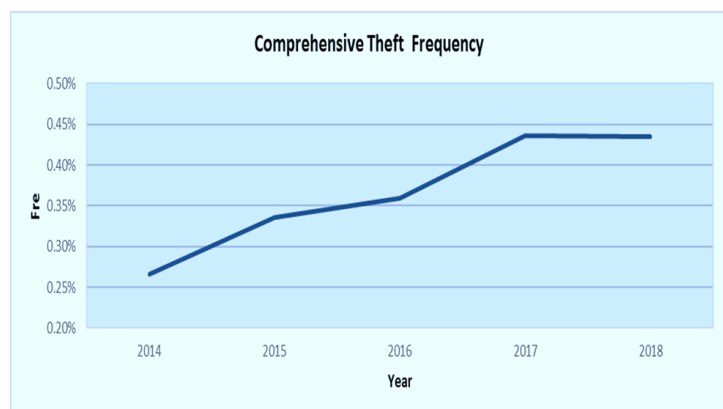
Physical Damage

Repair costs continue to drive up physical damage loss costs. As illustrated by the chart to the right, the number of parts repaired/ replaced and the cost per part continue to increase. This drives up the overall cost of repairs.

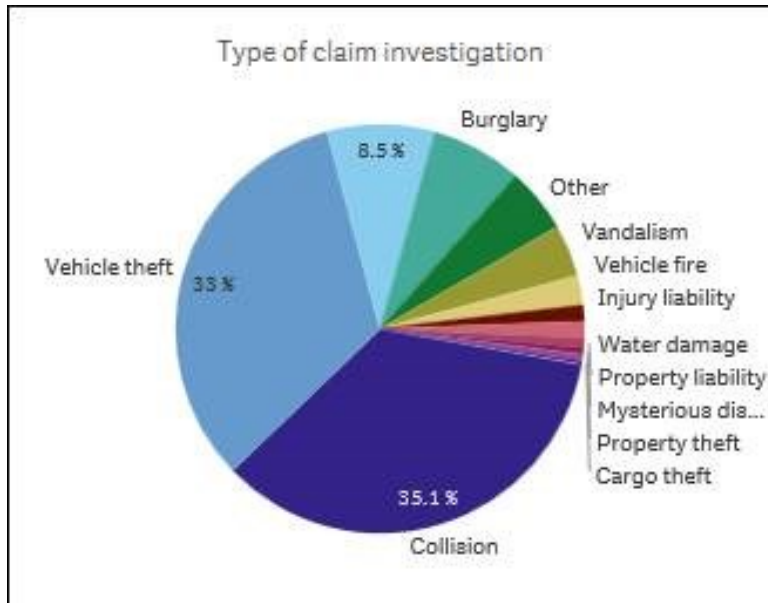


Comprehensive Theft Claims

Theft is an increasingly frequent cause of comprehensive claims. Frequency in the comprehensive theft coverage line has stabilized but it is still well above the 2014-2016 level. Theft claims frequency have increased by 64% since 2014 (Aviva Insurance/ Traders only). Many of these thefts involve fraud.



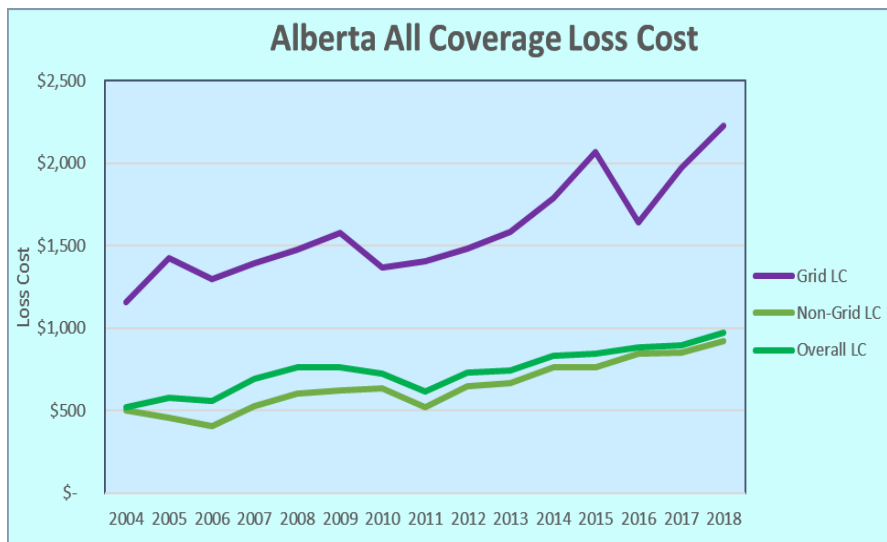
Fraud



Since 2017, Aviva has identified 765 cases of potential fraud in Alberta. Of these, 56.5% involve claim fraud and a subset of 38.2% involve vehicle theft. Policy fraud accounted for 42.6% of total fraud and of these, 24.7% involved vehicle theft. Alberta continues to have a higher proportion of vehicle theft than Ontario.

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. We reiterate our call to reform the Grid.



Conclusion

The 5% rate cap imposed by the Ministerial Order 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 Oliver Wyman and Ron Miller while Comprehensive and Collision will be at a lower rate. The June 1, 2018 Minor Injury definition clarification is insufficient and will not materially impact these trends. The June 1, 2018 clarification will have limited impact and Aviva expects any benefit to be short lived. Accident Benefit 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). Comprehensive reforms are needed to reverse these trends.

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.

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