



Aviva's Submission

**AIRB 2020 Annual Hearing
July 29,2020**

Aviva's Submission to the AIRB 2020 Annual Hearing

Aviva Canada Inc. ("Aviva") thanks the AIRB for the opportunity to comment on Oliver Wyman's preliminary report on automobile insurance trends. We regret that we are not able to present at the Open Meeting this year. We will limit our comments to BI and AB loss cost trends, the Grid and the impact of Covid-19.

Industry Results

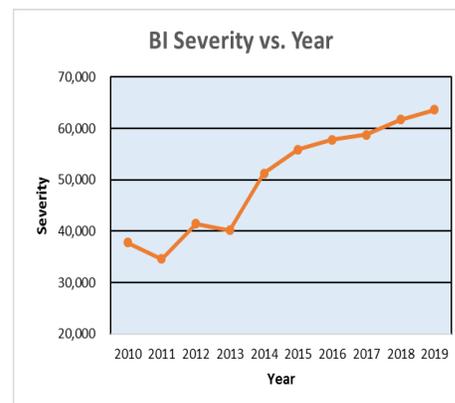
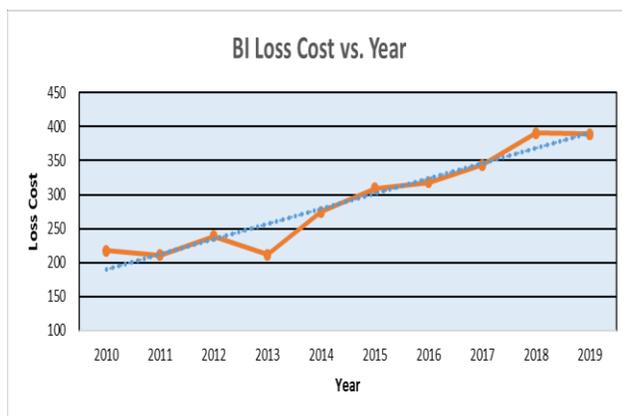
The expiry of the Ministerial Order and the rate increases approved by the AIRB have helped the industry reduce its losses. Aviva is grateful for the support that it has received from the AIRB. However, neither Aviva nor the industry are at a breakeven point. Aviva estimates that the industry 2019 COR was 110%, meaning that the industry paid out \$1.10 for every \$1 of premium collected. Aviva projects that the industry lost \$391M in 2019 and \$2 billion from 2015 to 2019. The trends and cost drivers have not changed from last year and until reforms reduce costs, premiums will need to increase.

Loss Cost Trends

Aviva believes that Oliver Wyman's trends are reasonable although Aviva's own trends are higher for Bodily Injury ("BI") and Accident Benefits ("AB").

Bodily Injury Loss Costs

Aviva's BI loss costs continue to increase at a high rate. From 2011 to 2019, BI loss costs have increased by 85%. The increase in loss costs is primarily driven by severity, which has been rising since 2014.

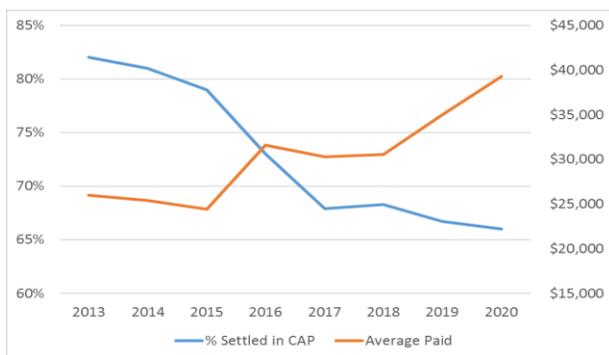


We continue to see many of the same issues that we have flagged in prior submissions to AIRB, notably:

- Minor Injury erosion resulting in a lower percentage of claims settling as Minor Injuries;
- Increase in legal representation;
- Increase in average payout for pain and suffering;
- More allegations of psychological impairment, minor concussions and chronic pain; and
- Higher number of claims for valuable services.

Minor Injury Erosion

The 1985 court decision of McLean v. Parmar marked the start of Minor Injury settlement erosion for Aviva. In that case, the Court held that any pain lasting longer than 6 months is not a



Minor Injury. The number of claimants complaining of pain for more than 6 months rose sharply. In 2013, Aviva closed 82% of its claims as Minor Injuries but this number declined to 66% in 2019. The average payout for pain and suffering for Aviva claims is now \$21,835, an increase of 7% over prior year.

Legal Representation

The legal representation rate has increased from 33% in 2012 to 43% in 2020. There is a commensurate increase in litigation. We now have statements of claims issued in 28% of our Bodily Injury claims compared to only 10% of claims 4 years ago. This has resulted in higher litigation related costs.

Changing Injuries and Claims

We continue to see a change in the types of alleged injuries. We have experienced a 70% increase in the frequency of psychological injuries (depression, anxiety, etc) since 2014. In 20% to 25% of these cases, the impairments are not serious enough to warrant any compensation for future damages or past replacement services. We are also receiving more claims for concussion and post-concussive syndrome. These injuries doubled between 2014 and 2018. 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.

We are also experiencing an increase in the number of claims for loss of valuable services. Approximately 50% of claims had a payout for loss of valuable services compared to only 33% in 2014. This is a direct result of case law, which sets a very low evidentiary threshold for proving loss of valuable services, despite the minor nature of the injuries.

Impact of June 1, 2018 Amendments

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

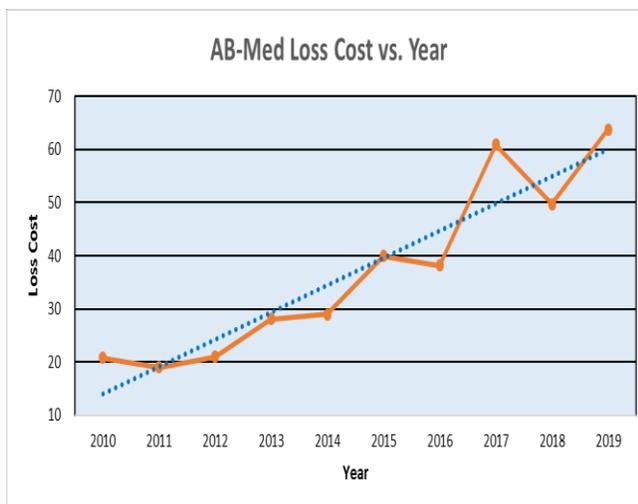
- Physical or psychological symptoms that arise and resolve with a sprain, strain or WAD injury and
- TMJ unless there is damage to the bone, teeth or cartilage.

It is still too early to see the impact of these amendments but Aviva continues to believe that these changes will be of limited value. Last year, we shared our opinion 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 assumed that there will be no change in behavior and the current composition of claims will not change to adjust to these amendments. We are not sure that this assumption will hold given the increasing frequency of psychological symptoms that we continue to see.

Accident Benefits

Accident Benefits loss cost trends are also increasing. The increase in loss costs is driven by escalating Medical/Rehab severity. From 2011 to 2019, Medical Rehab loss costs have increased by 236%.

The number of claimants receiving treatment in excess of the Treatment Protocol is driving the increase in loss costs. going up.



The percentage of claimants treated outside of the Treatment Protocol has increased from 4.57% in 2011 to 17% in 2018. The average amount of medical treatment has increased from \$1,278 in 2011 to \$4,450 in 2019. More treatment is provided and more claims are accessing the \$50,000 medical-rehab coverage limit.

Our Independent Medical Examiners report an increase in psychological symptoms and chronic pain. As a result, we are completing more psychological independent examinations. They also note more vision therapy for concussion claimants and an increase in driver anxiety programs.

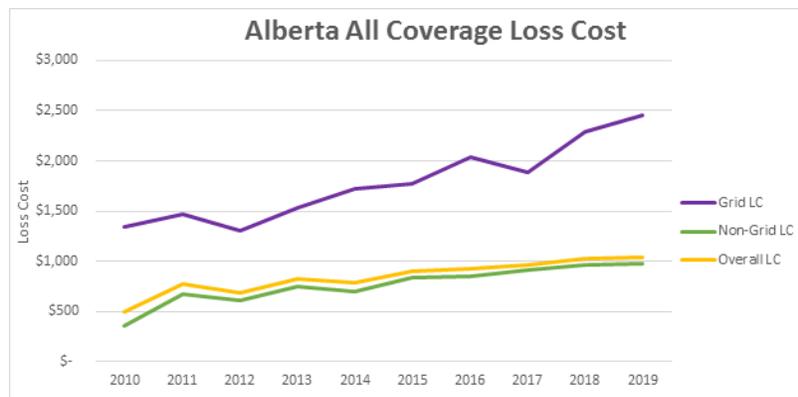
These symptoms will drive a surge in claimants treated outside of the Treatment Protocols. Interestingly, 97% of the claimants receiving treatment outside the Treatment Protocol are not at fault for the accident.

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

During the Covid-19 pandemic, the clinics in our Preferred Provider Network adapted and offered virtual care. We had good take up of virtual care in Alberta- better than in Ontario. Early results show good uptake and outcomes. Claimants rated their satisfaction at 8/10.

The Grid

Grid loss costs continue to be higher than non-Grid loss costs. Aviva's Grid loss cost for compulsory coverages is higher than market for recent years. Aviva experience shows that the Grid loss cost for compulsory coverages increased by 122% from 2011 to 2019, 12% from 2018 to 2019. We suggest that AIRB consider a 15% increase to the Grid premium increase in order to cover the loss cost trend and reduce the current rate adequacy gap. Aviva continues to advocate that 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 that hurts good drivers. We reiterate our call to reform the Grid.



Impact of Covid-19

We have seen a decline in driving frequency and claim frequency as a result of the Covid-19 pandemic. In order to address the decline in claim frequency, we provided consumers with a number of relief actions. However, we are concerned that the decreased frequency will be offset by increased severity due to late reported claims and the inability to access treatment prior to the economy opening up.

While driving frequency and claim frequency have now picked up, it is too early to comment on the longer term impact of Covid-19. However, as the economy re-opens, mobility reports for Edmonton and Calgary suggest that the use of transit is significantly down and more people are driving compared to the pre-COVID months. This could lead to an increase in frequency. We will continue to monitor.

Conclusion

Industry trends continue to increase and this drive up costs. The industry is still not rate adequate. Premiums will need to increase in the absence of reforms that reduce costs. We encourage the Government to continue looking at product reform to address the trends. The current product is too expensive and not working for the majority of drivers who do not make a claim.

Aviva thanks the AIRB for the opportunity to make this submission.
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