

2015 INDUSTRY REVIEW – PRELIMINARY PRESENTATION TO THE AIRB

August 18, 2015

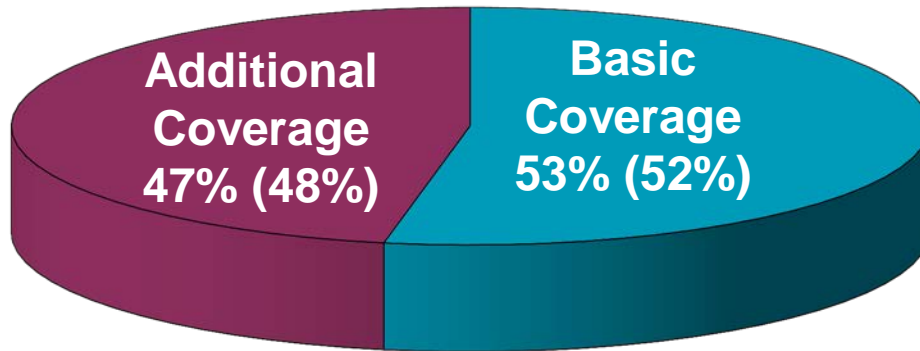
Ted Zubulake

Background - General

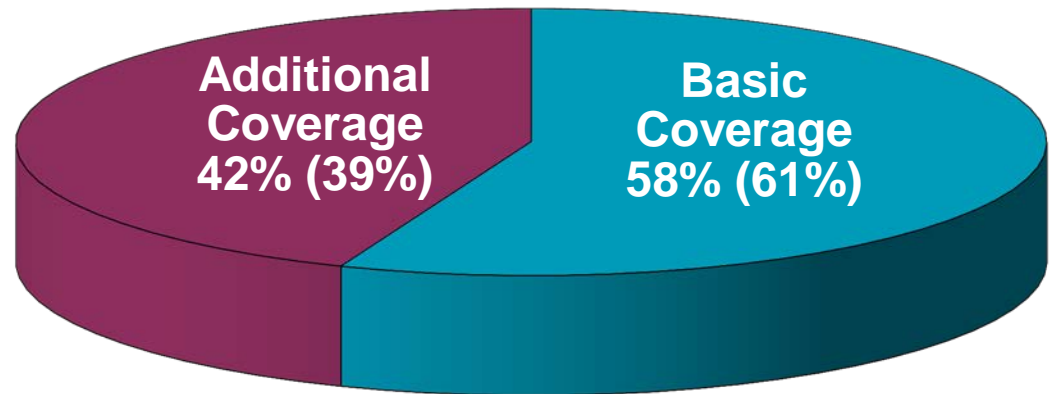
- The Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. A component of that review is to analyze Industry experience and develop benchmarks for rate filings.
- The benchmarks are for use in rate filings, measuring Industry performance, and for calculating the rate level needs of the Grid.

Breakdown of Basic and Additional Coverages

2014 - Written Premium

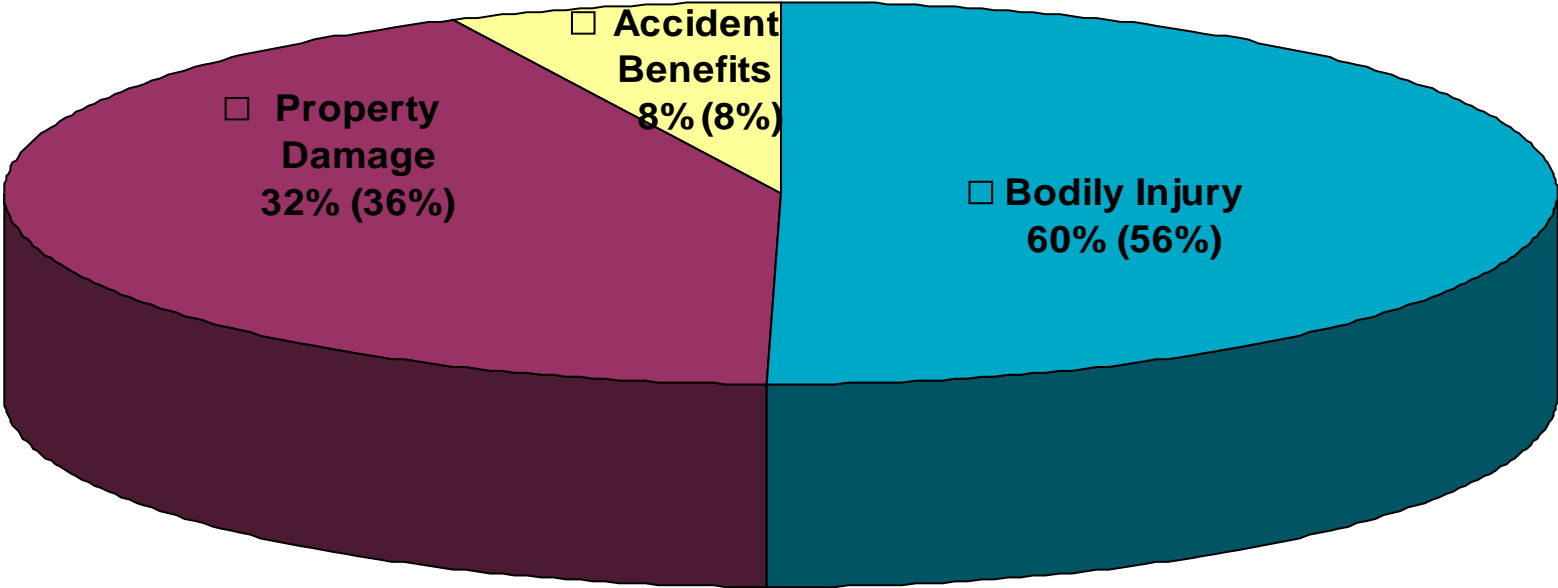


2014 - Claim Costs



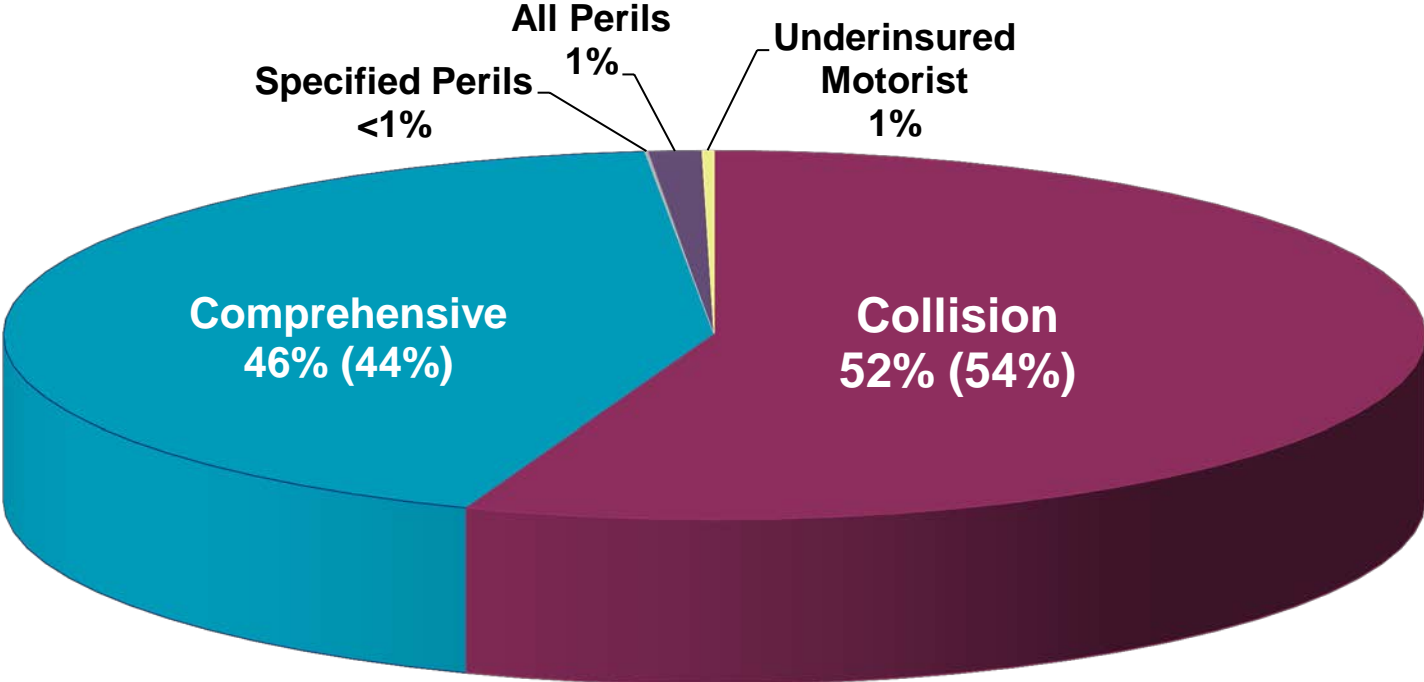
Breakdown of Basic Coverage Claim Costs

Province of Alberta 2014 - Estimated Claim Costs



Breakdown of Additional Coverage Claim Costs

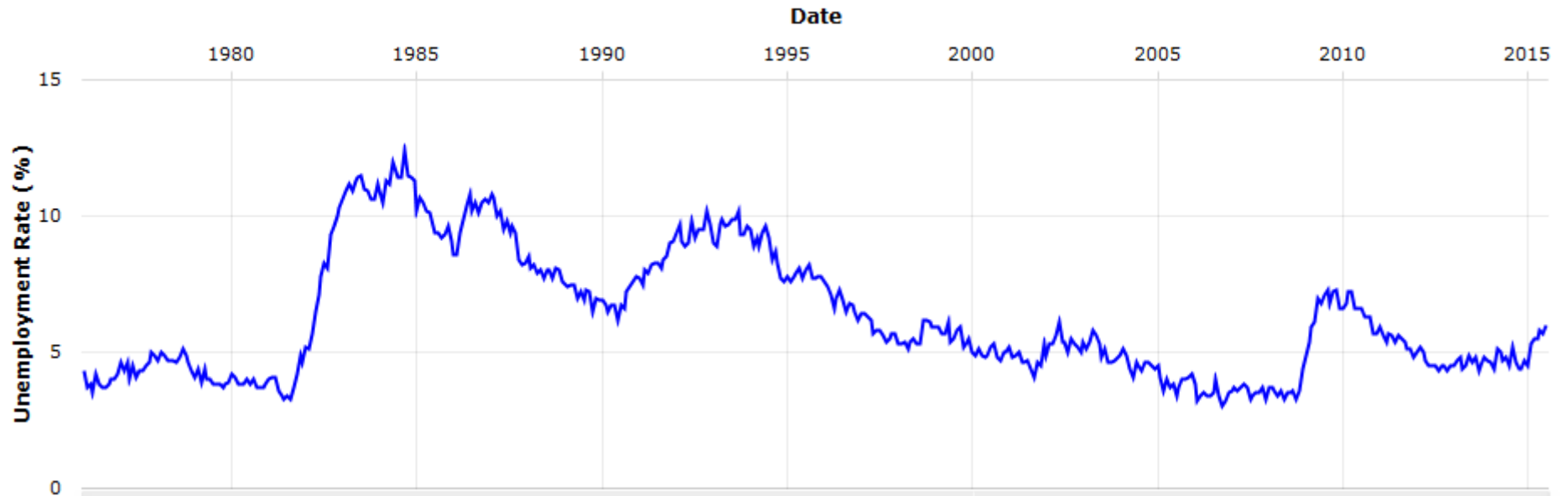
Province of Alberta 2014 – Estimated Claim Costs



Change in Economic Conditions

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Alberta Unemployment Rate	4.6% (July)	4.5% (July)	4.5% (July)	6.0% (July)
Alberta CPI (Total)	126.9 (June)	129.8 (June)	132.3 (June)	134.5 (June)
Alberta CPI (ex. Energy)	124.1 (June)	126.1 (June)	129.5 (June)	132.8 (June)
Alberta Gasoline Prices	\$1.15 (Aug)	\$1.14 (Aug)	\$1.15 (Aug)	\$1.09 (July)
Natural Gas Prices (\$/GJ)	\$3.39 (May)	\$1.58 (May)	\$4.21 (May)	\$2.33 (May)
3 Year Canada Benchmark Bond Rates	1.00% (July)	1.27% (July)	1.14% (July)	0.45% (July)
# Insured Cars	2.40 million	2.49 million	2.55 million	NA
Population	3.87 million	4.03 million	4.15 million	NA

Alberta Unemployment Rate



Historical Investment Rates

Government of Canada Benchmark Bond Yields -- 3 Year



Industry Benchmarks

- Loss Development Factors
- Loss Trend Rates
- ULAE Provision
- Catastrophe Loading
- Investment Rate
- Health Cost Recovery
- Operating Expenses
- Profit

Definition – Ultimate Claim Amount

- “**Ultimate Claim Amount**” is comprised of:

Claim Payments (the claim amounts paid by insurers)

+

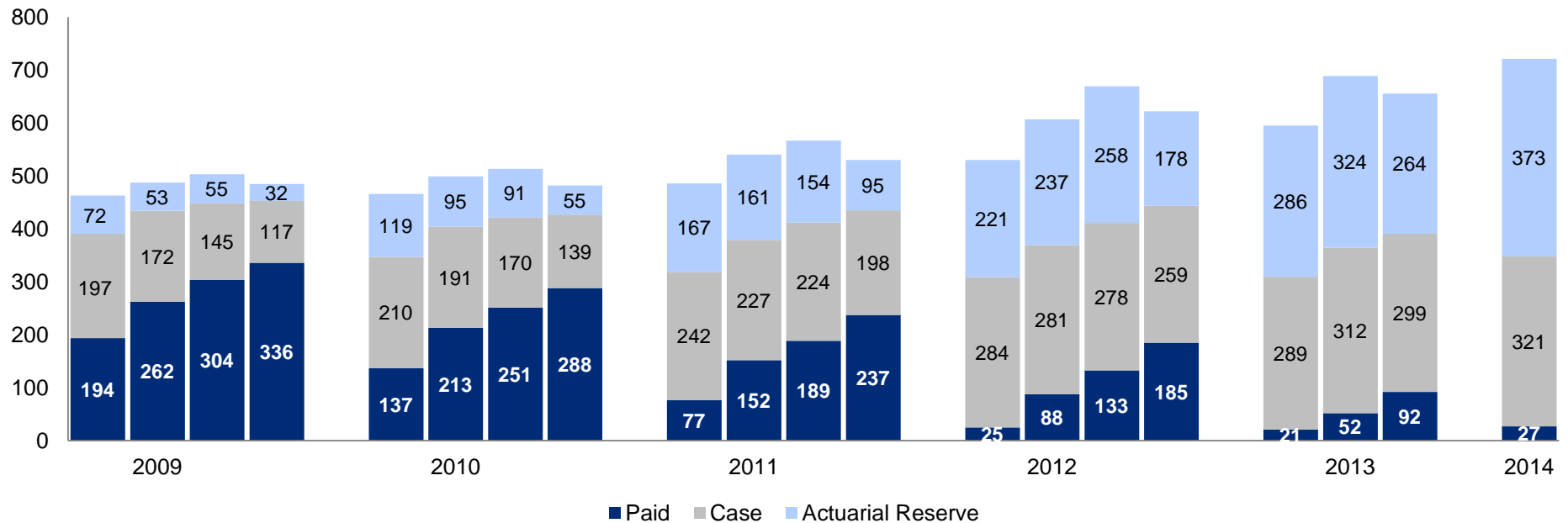
Case Reserves (the reserves carried by insurers on individual claims)

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“Actuarial” Reserves (to account for unreported claims and deficiencies that may exist in the case reserves)

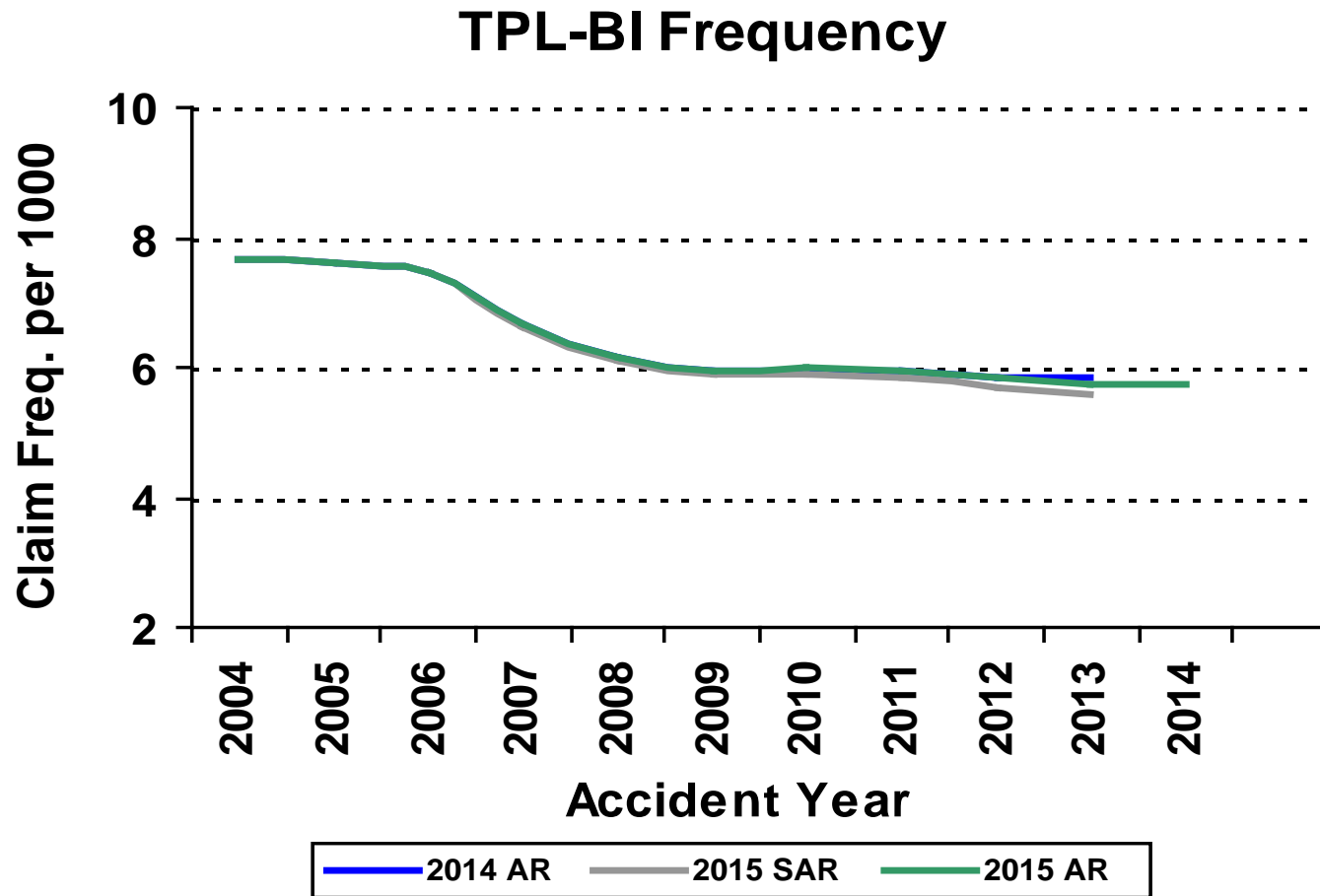
Change in Bodily Injury Estimated Ultimate Claim Amount By Accident Year

2013 IWA vs 2014 AR vs 2015 SAR vs 2015 AR (\$ millions)

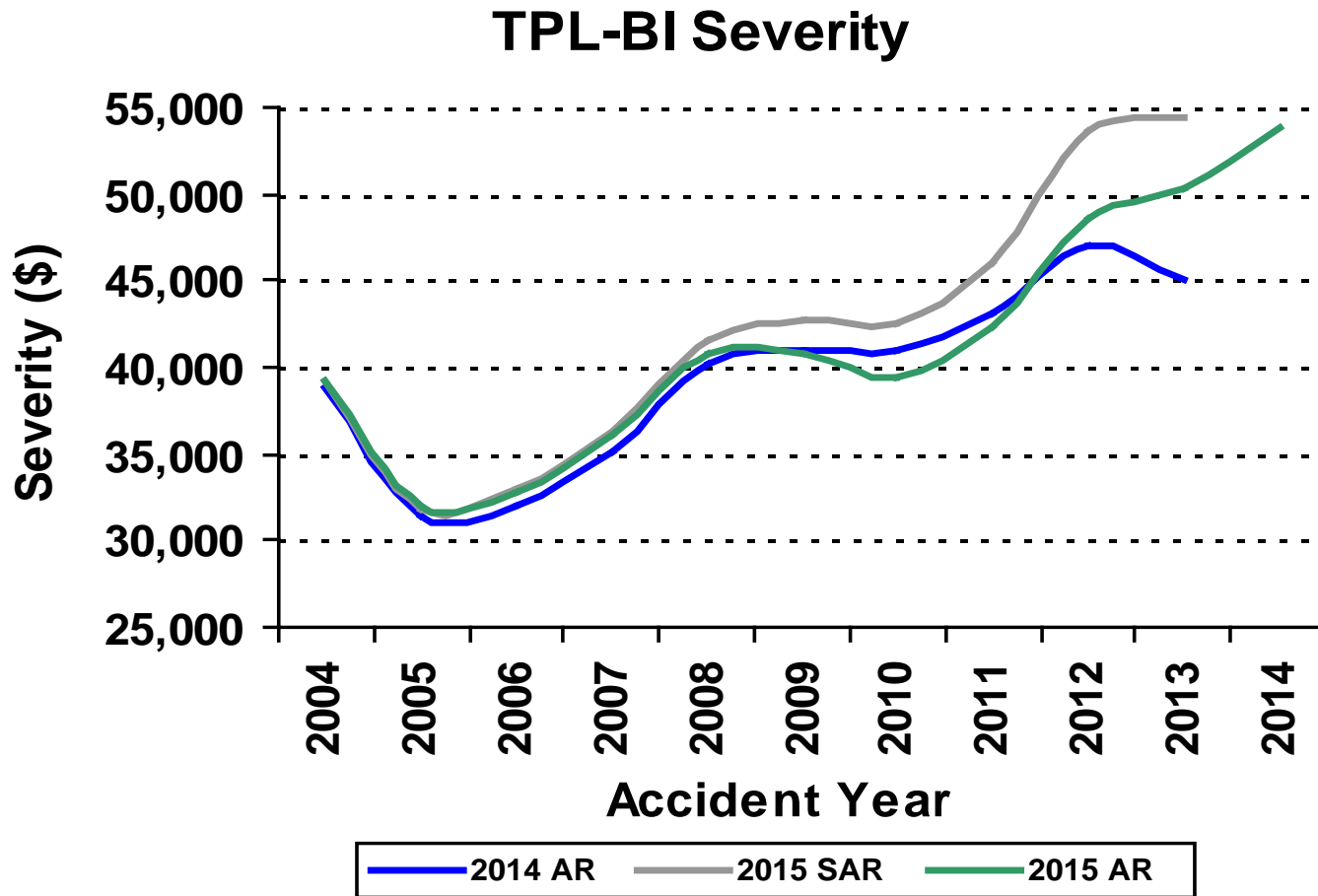


Trends

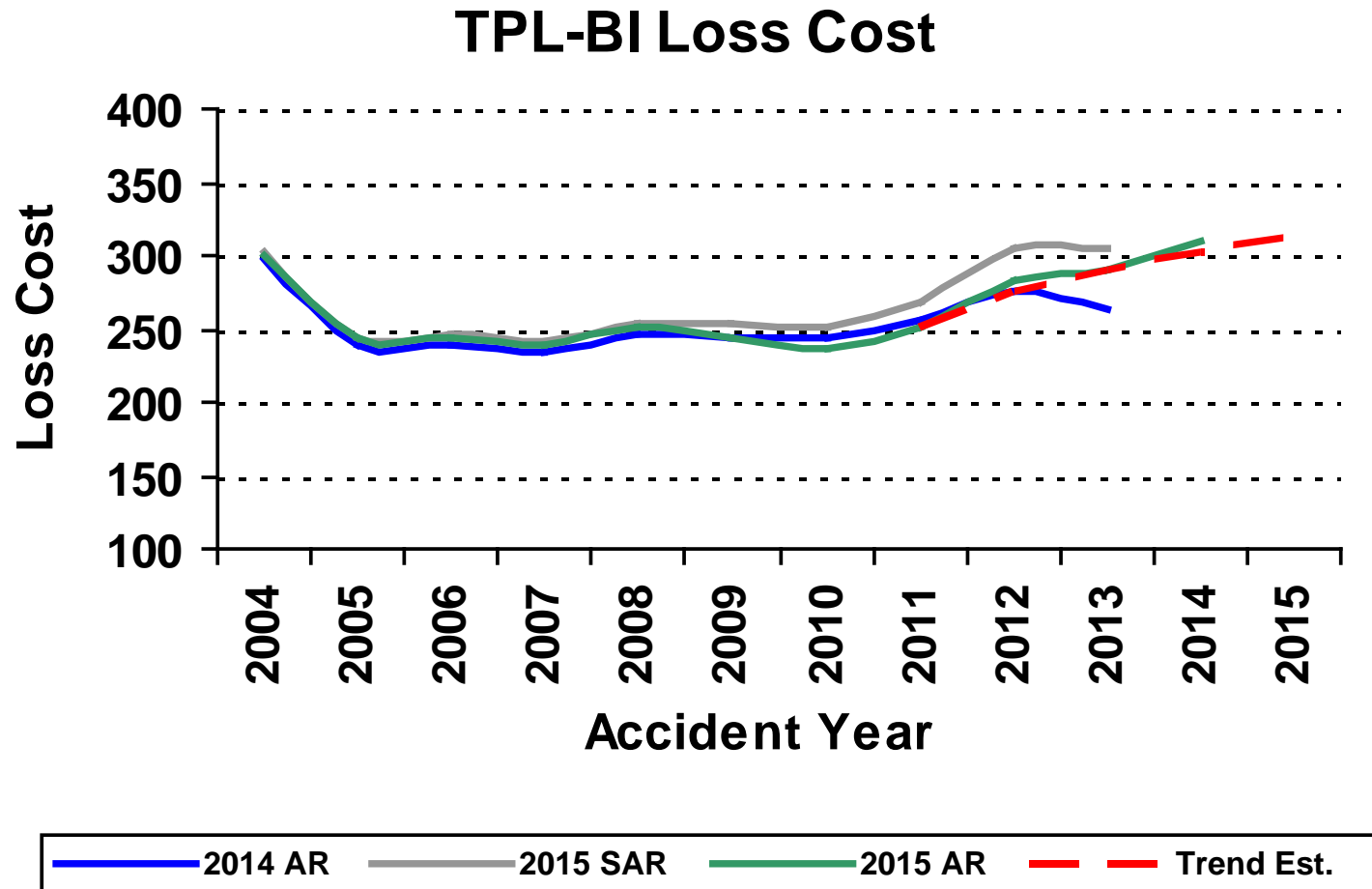
Alberta: Bodily Injury Frequency



Alberta: Bodily Injury Severity



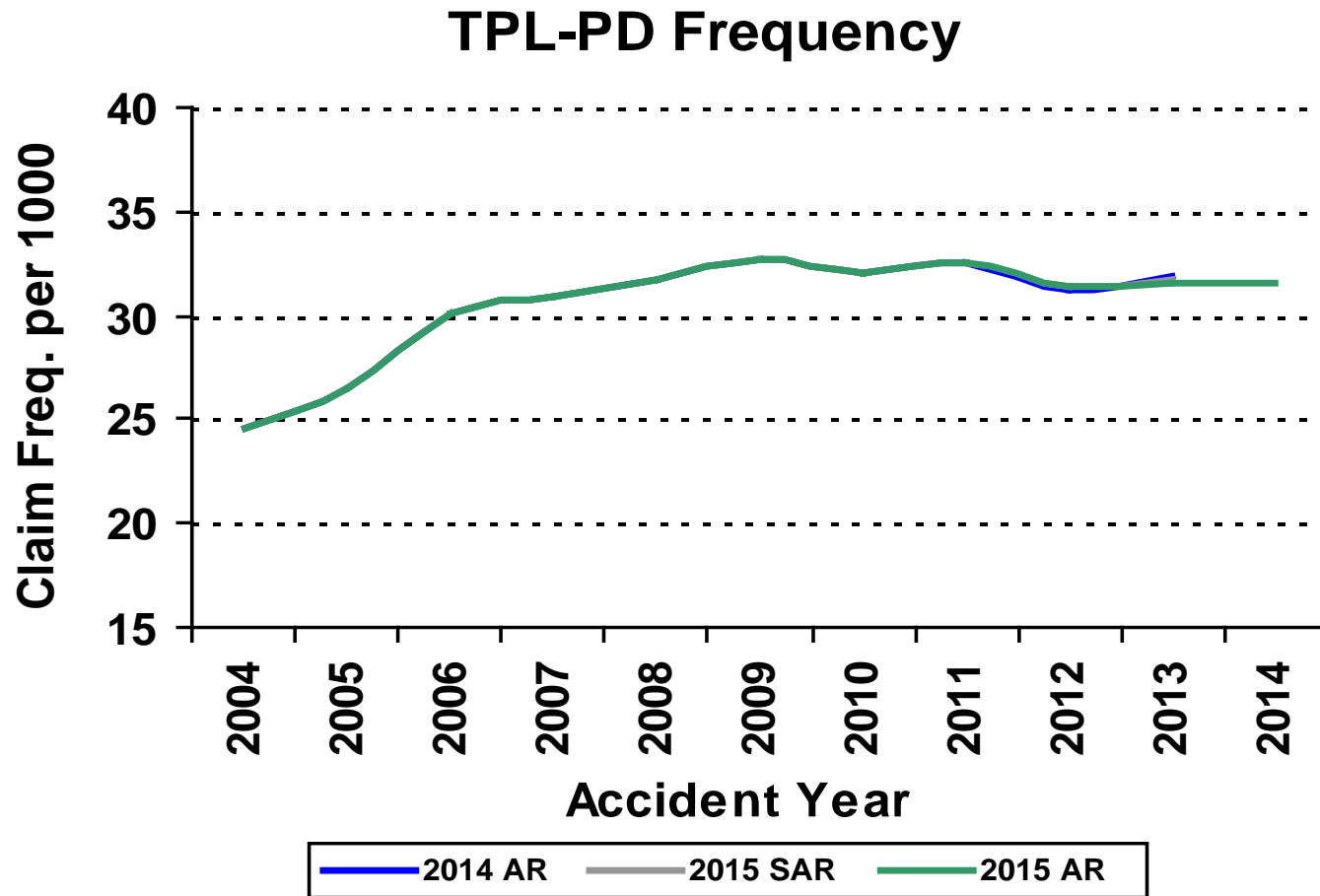
Alberta: Bodily Injury Loss Cost



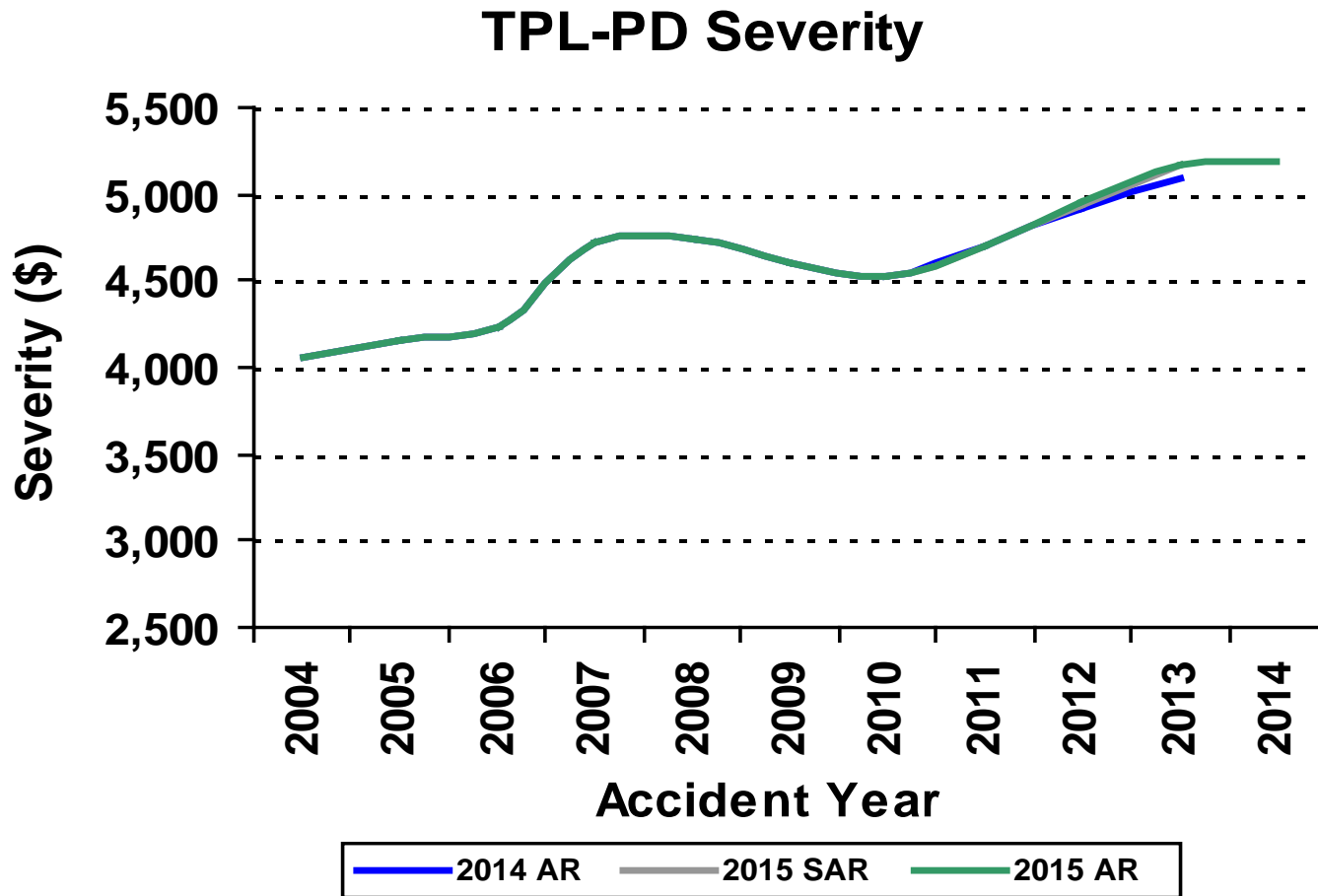
• 2015 SAR Benchmark Trend: +2.0%

2015 AR Selected Trend: +4.5%

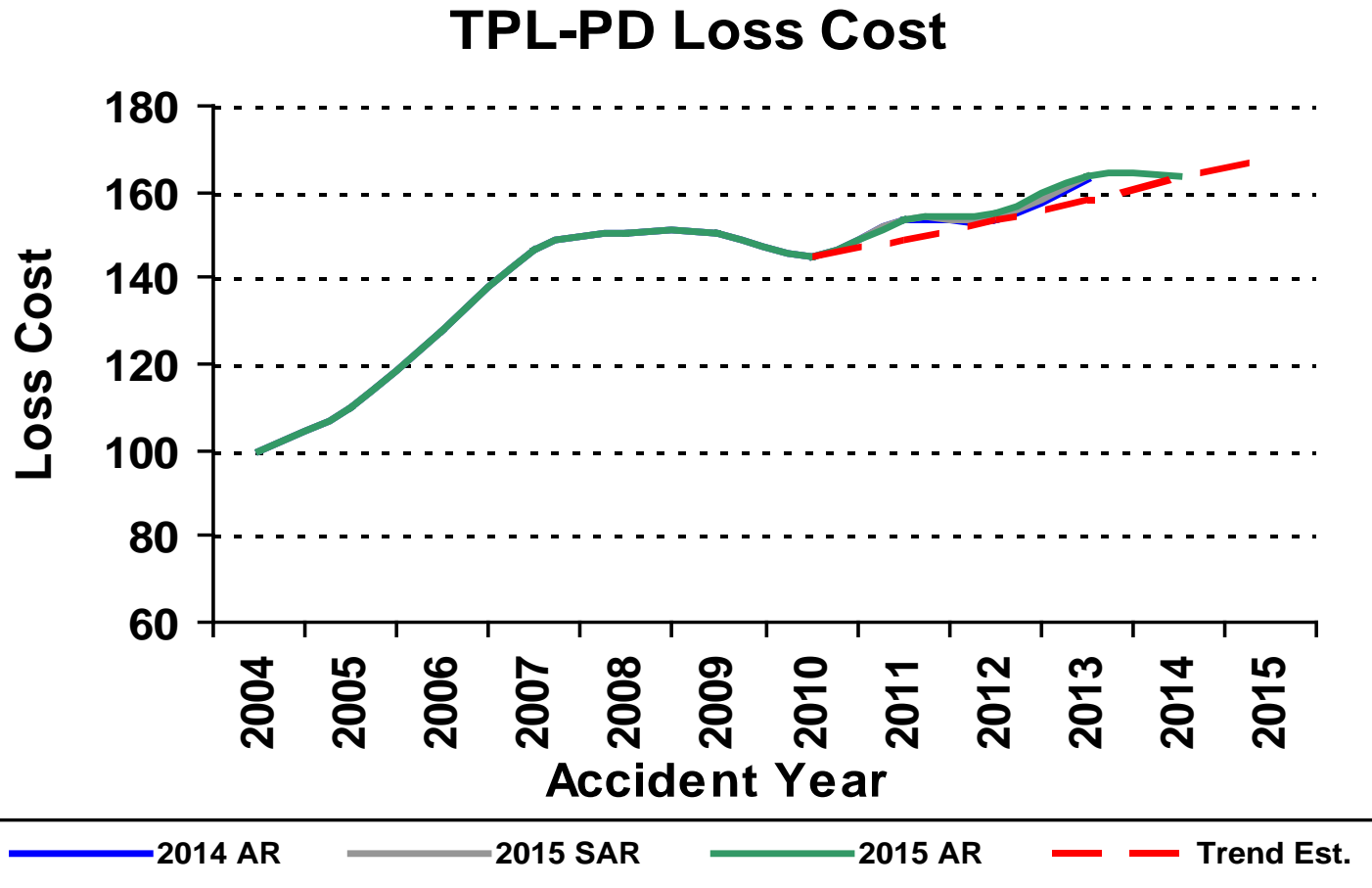
Alberta: Property Damage Frequency



Alberta: Property Damage Severity



Alberta: Property Damage Loss Cost

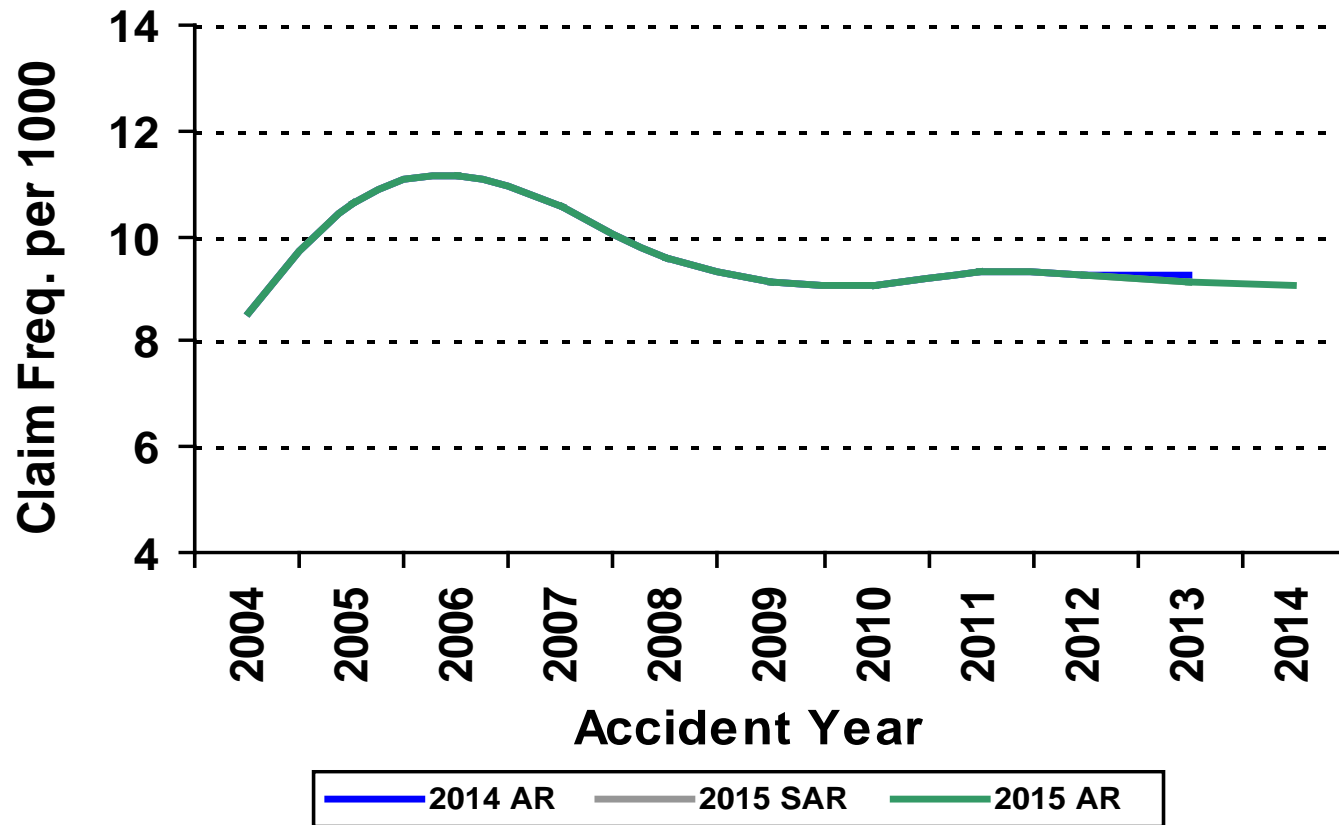


• 2015 SAR Benchmark Trend: +3.0%

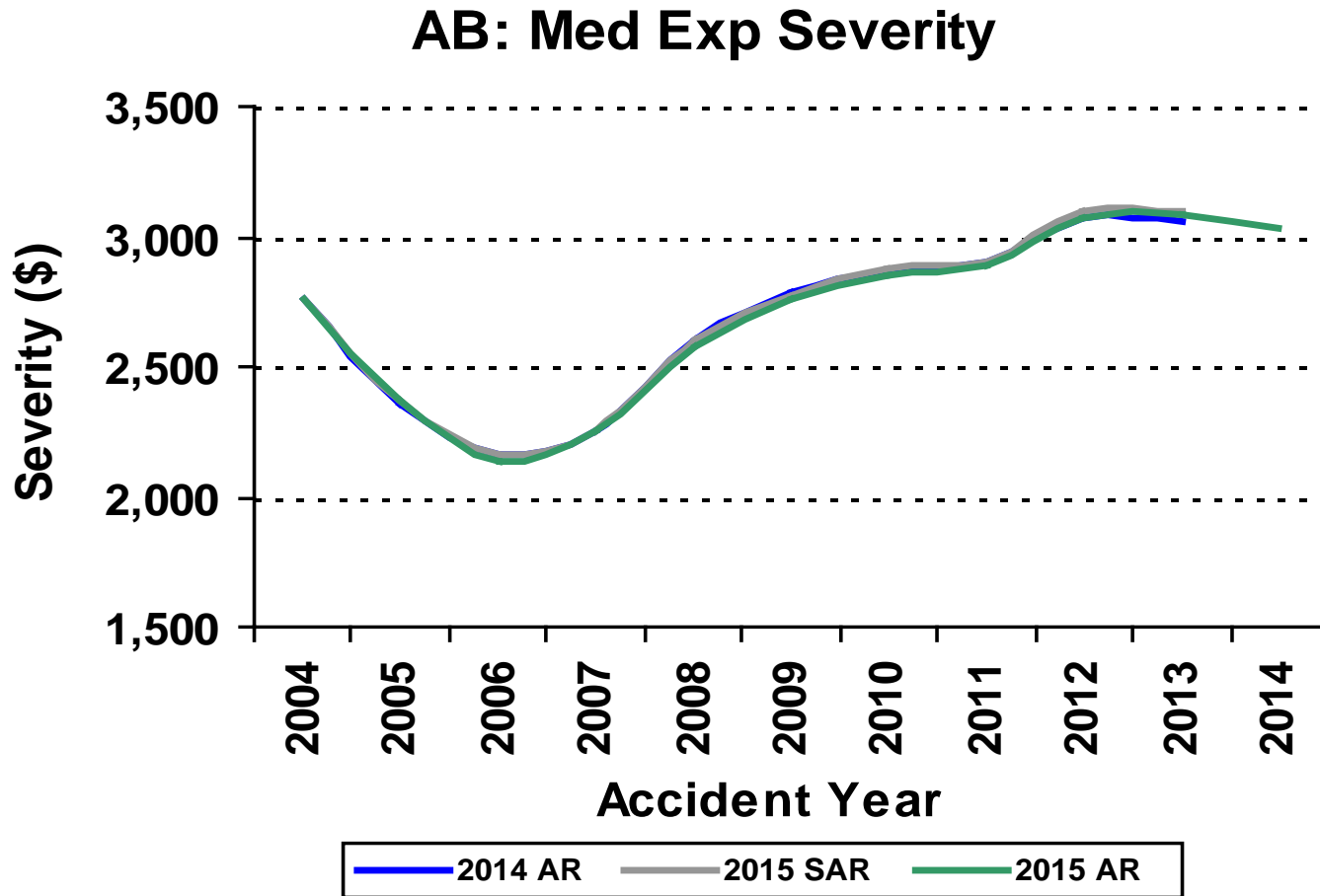
2015 AR Selected Trend: +3.0%

Alberta: Medical Expenses Frequency

AB: Med Exp Frequency

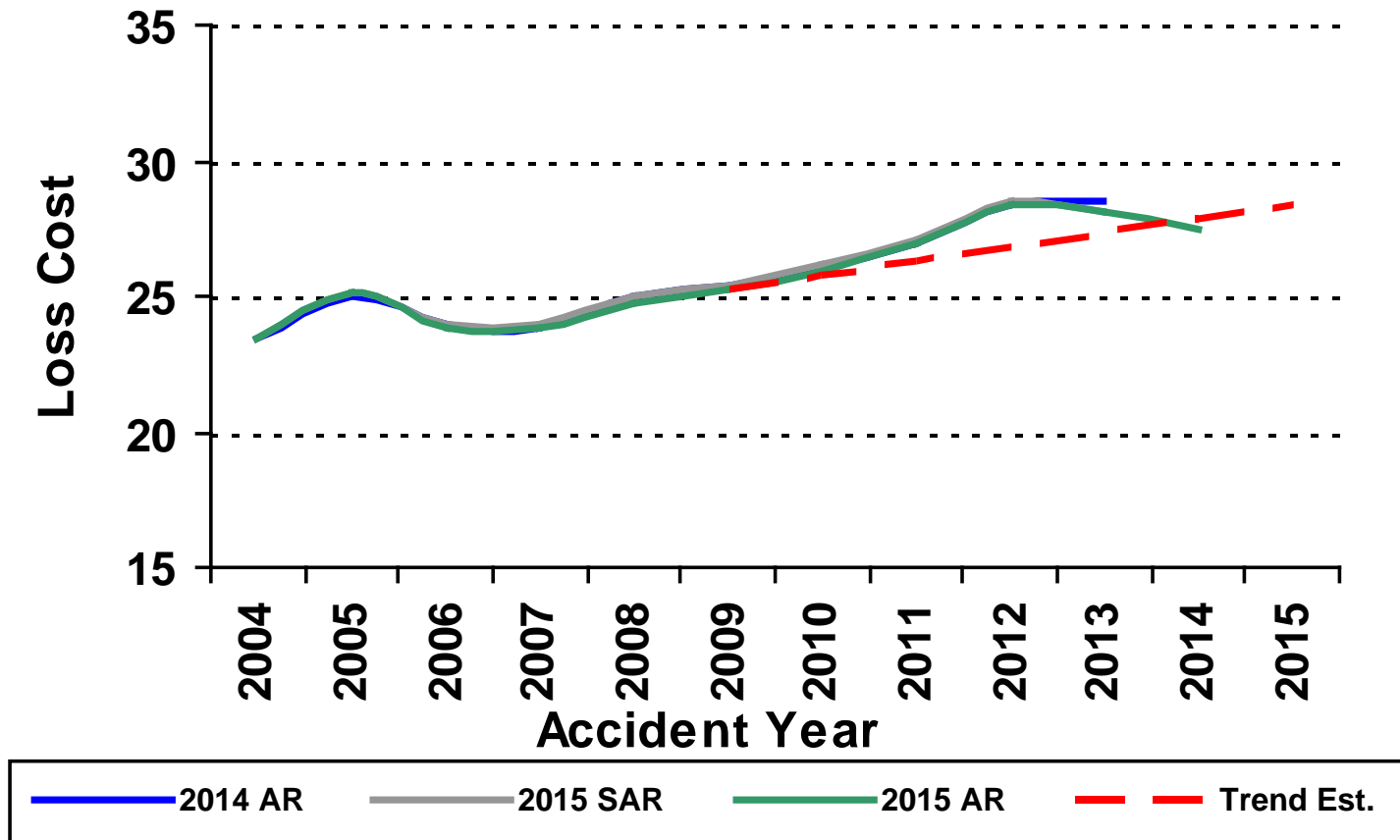


Alberta: Medical Expenses Severity



Alberta: Medical Expenses Loss Cost

AB: Med Exp Loss Cost

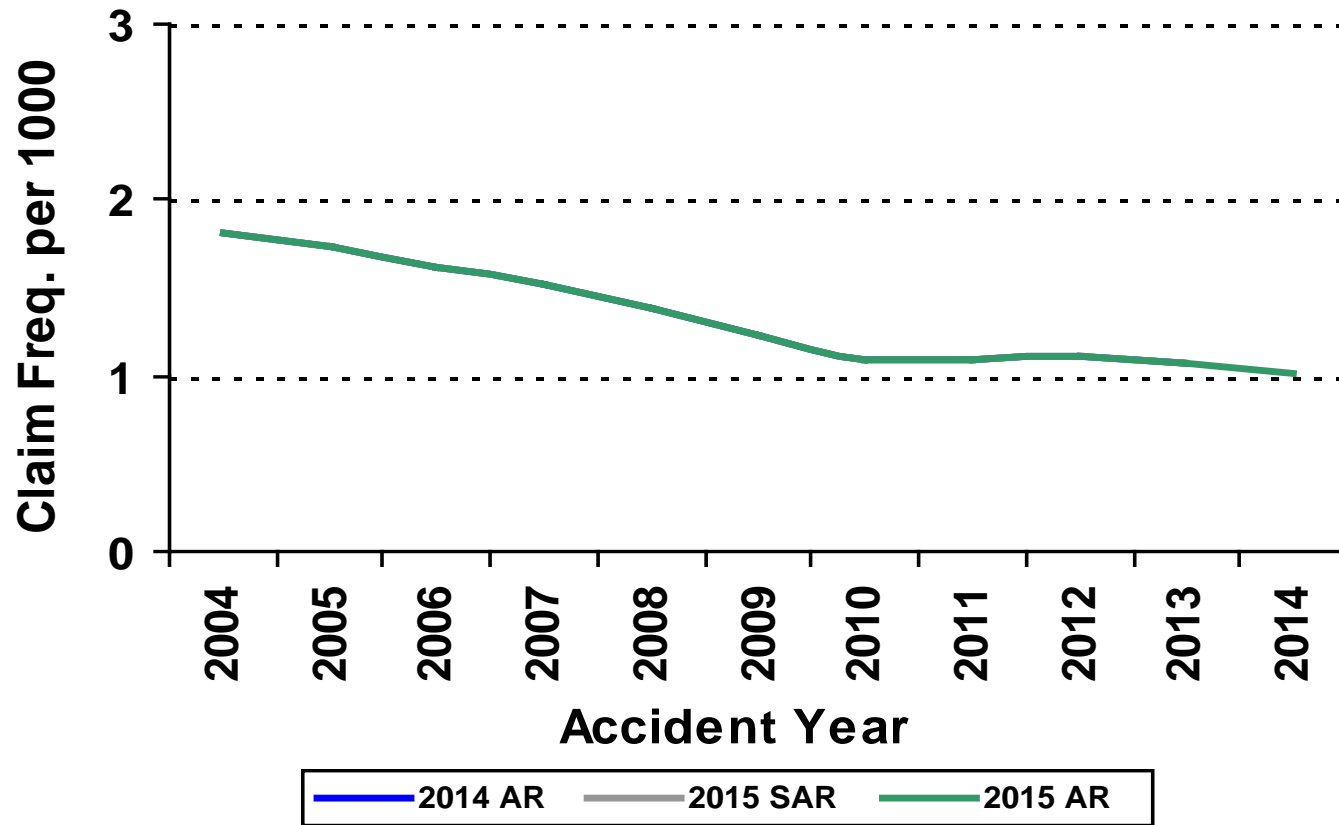


• 2015 SAR Benchmark Trend: +2.5%

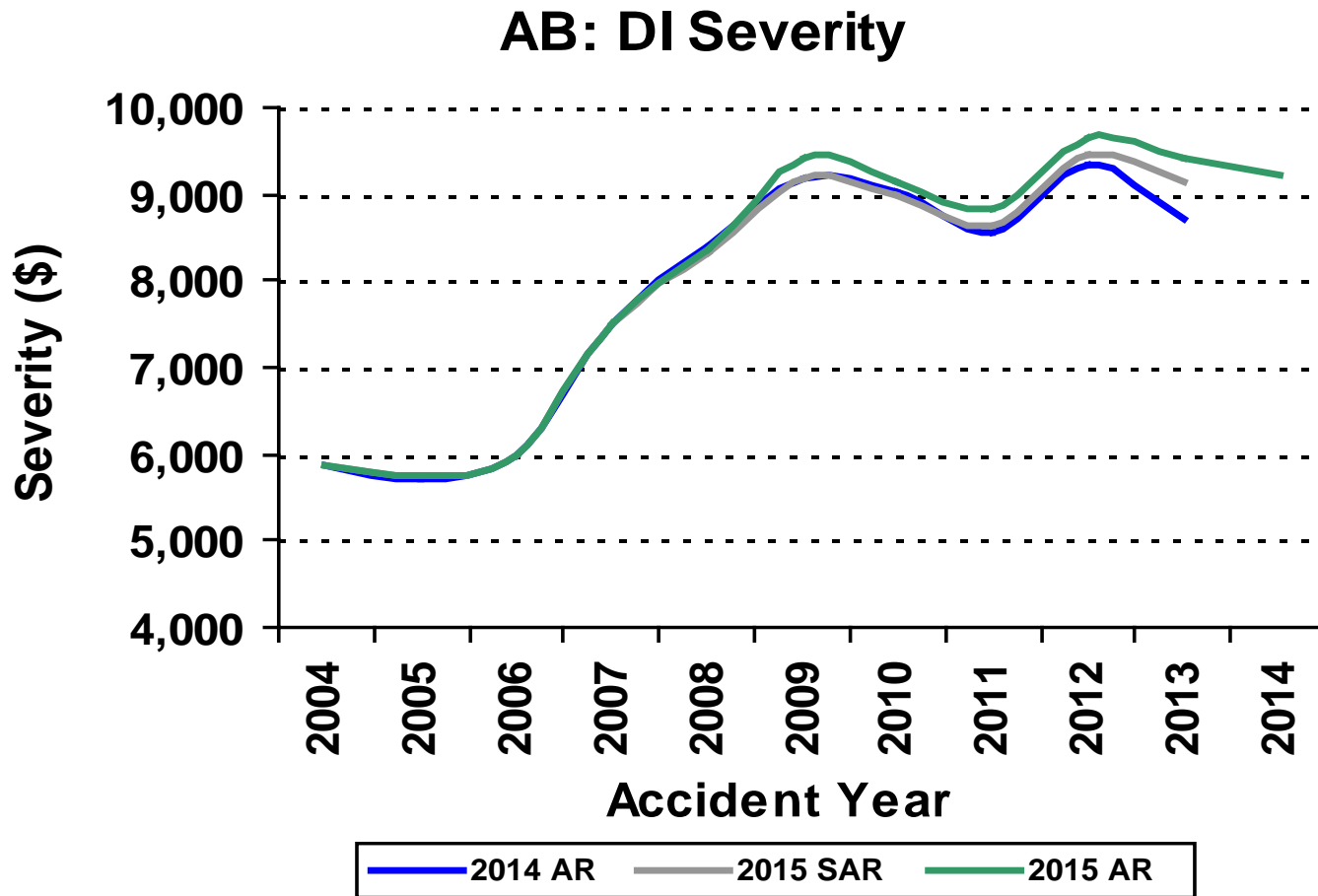
2015 AR Selected Trend: +2.0%

Alberta: Disability Income Frequency

AB: DI Frequency

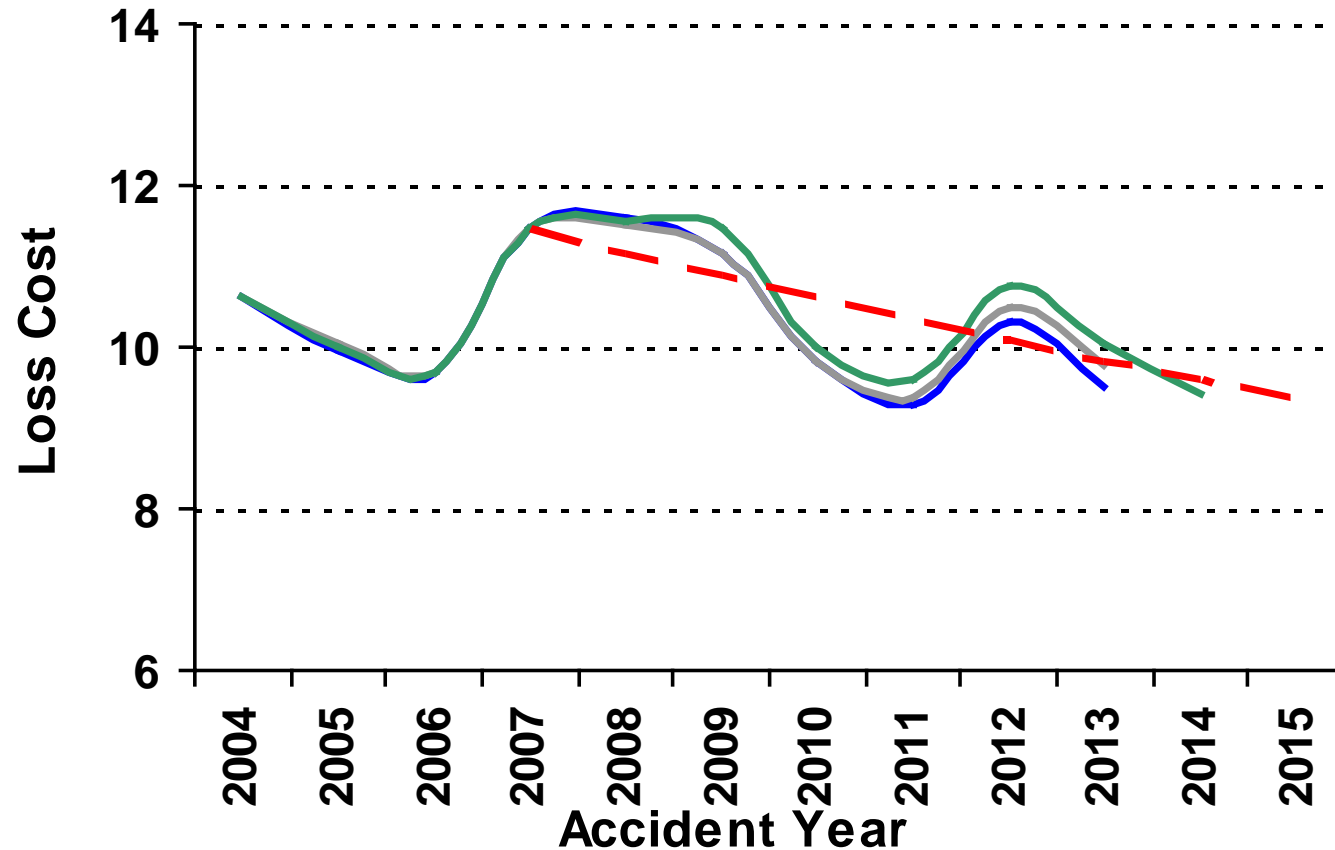


Alberta: Disability Income Severity



Alberta: Disability Income Loss Cost

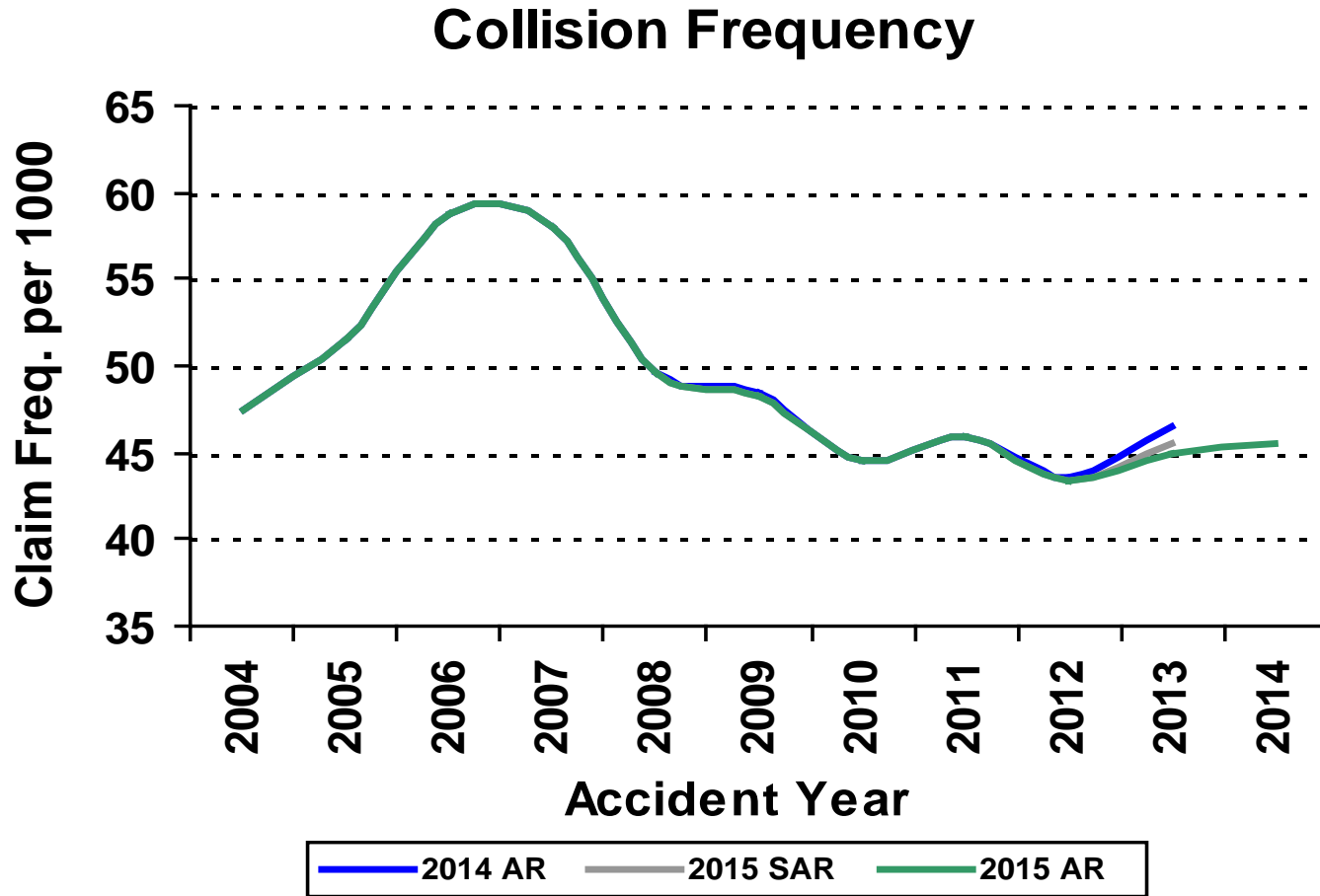
AB: DI Loss Cost



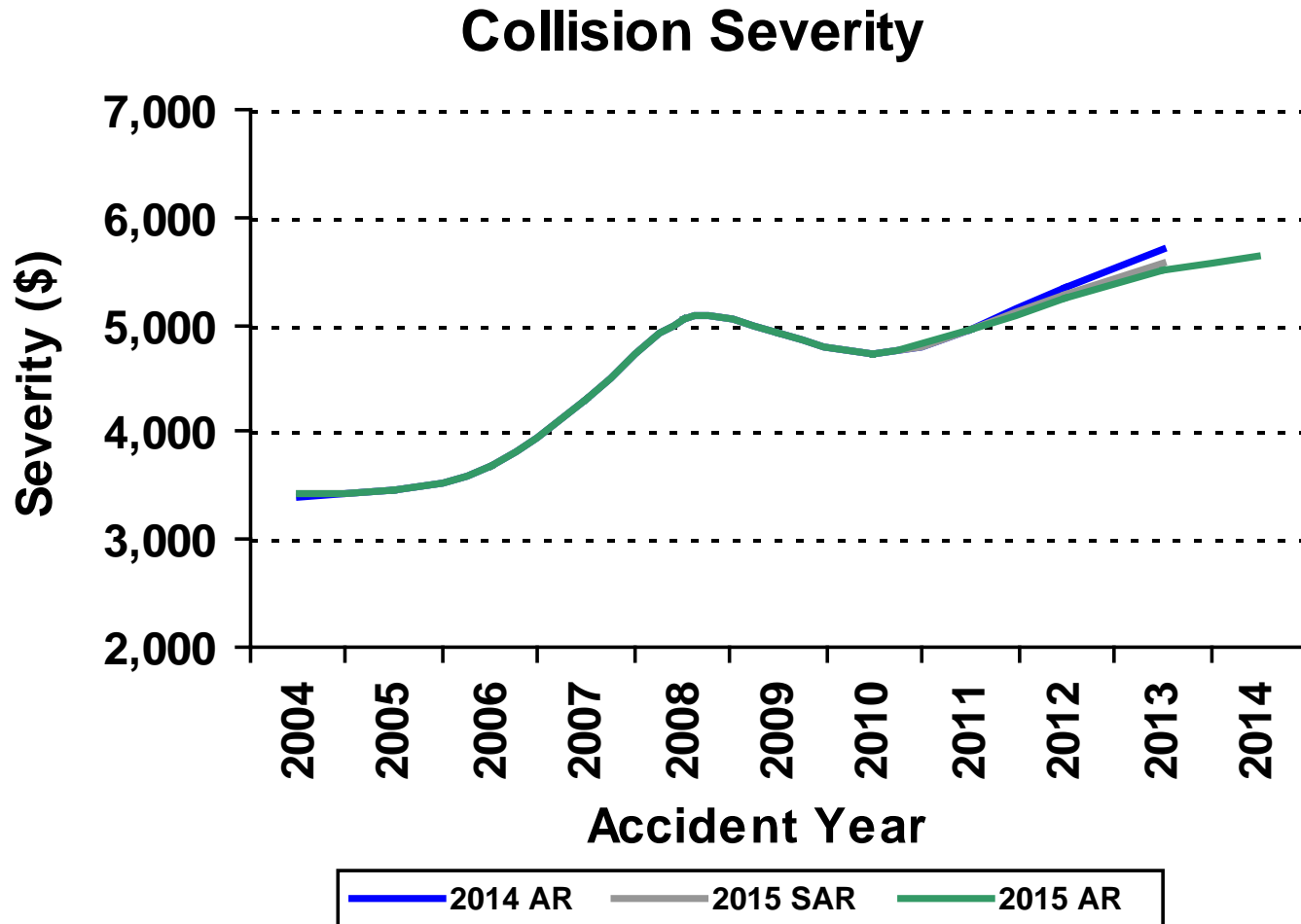
• 2015 SAR Benchmark Trend: -2.0%

2015 AR Selected Trend: -2.5%

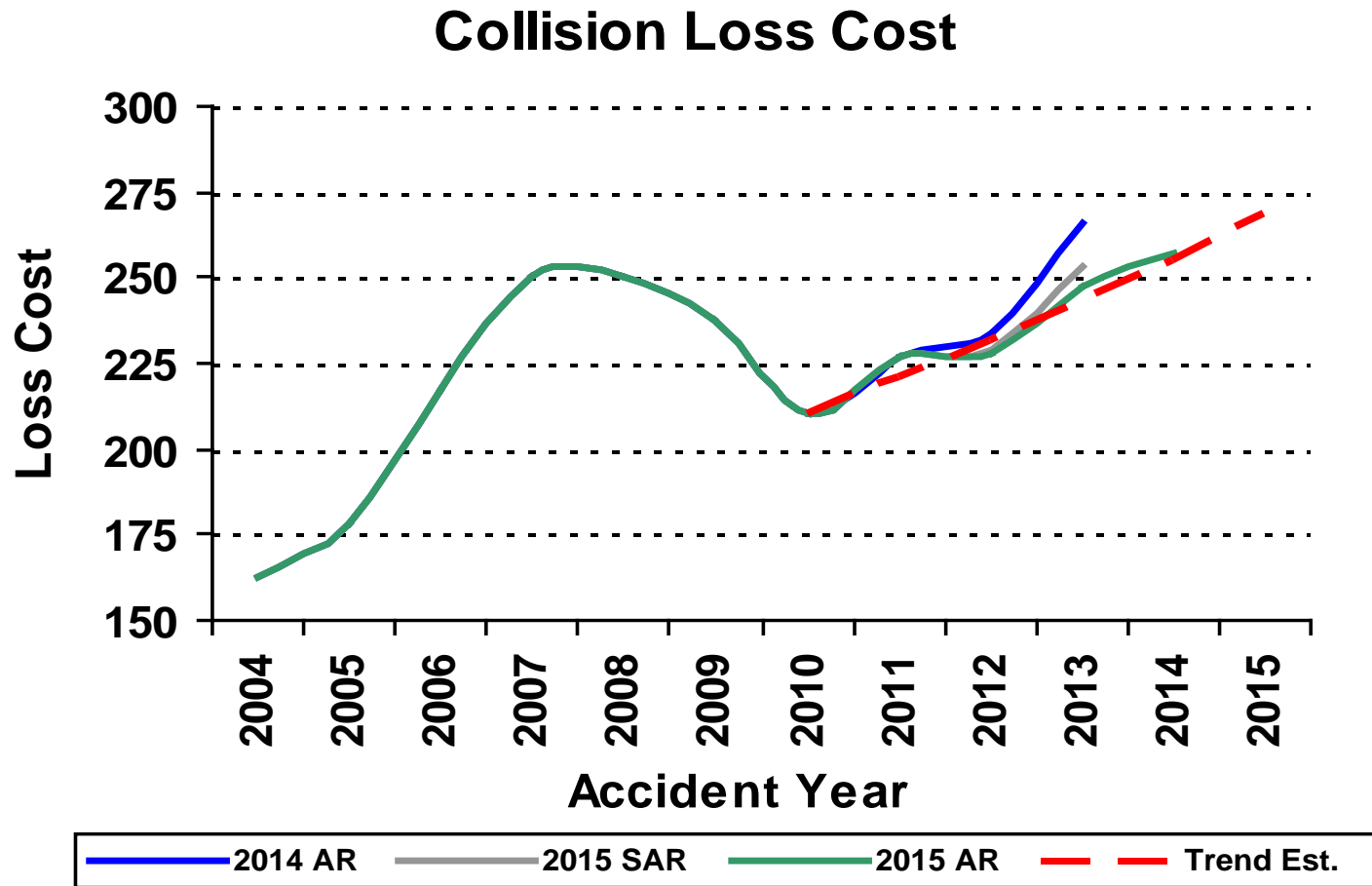
Alberta: Collision Frequency



Alberta: Collision Severity



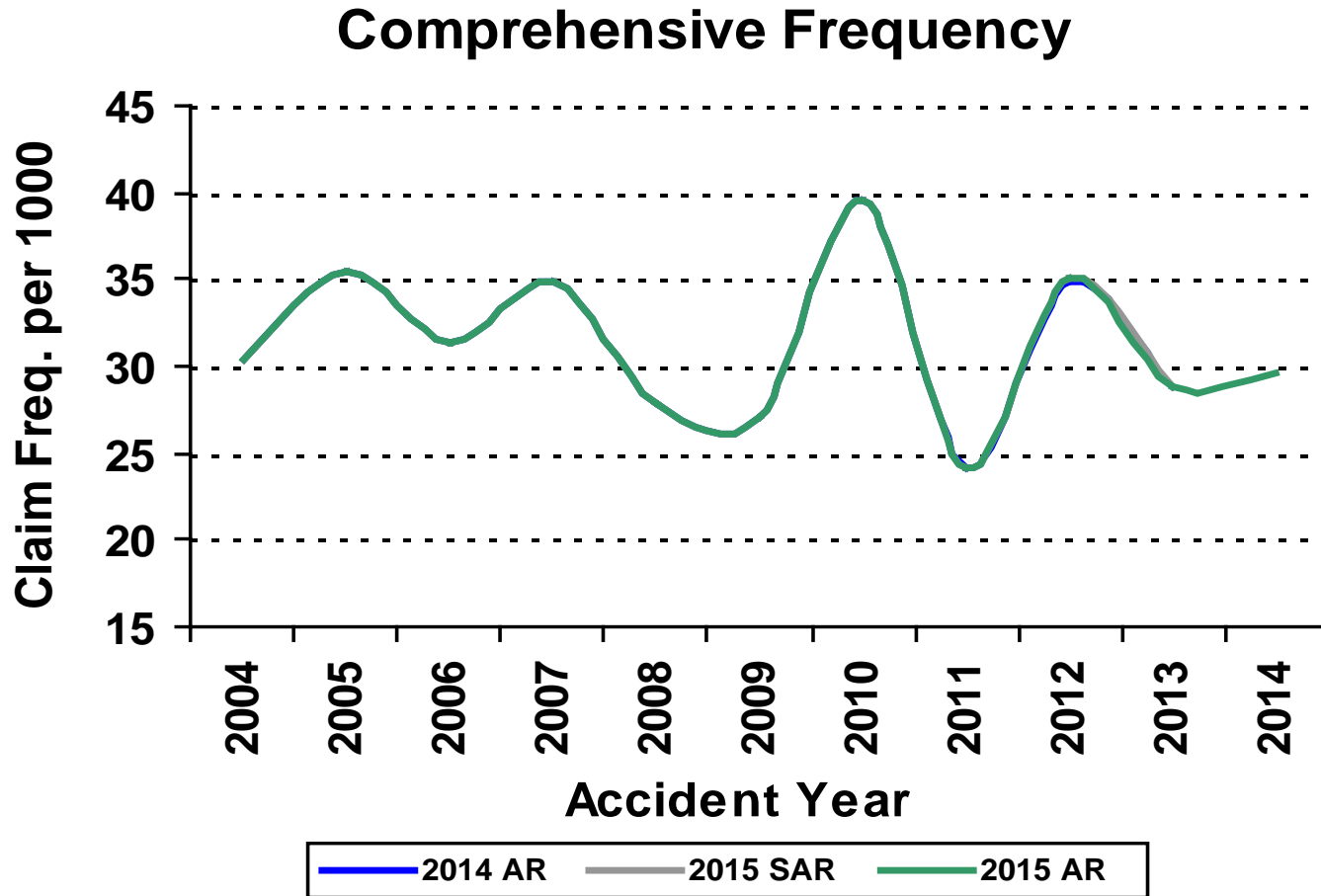
Alberta: Collision Loss Cost



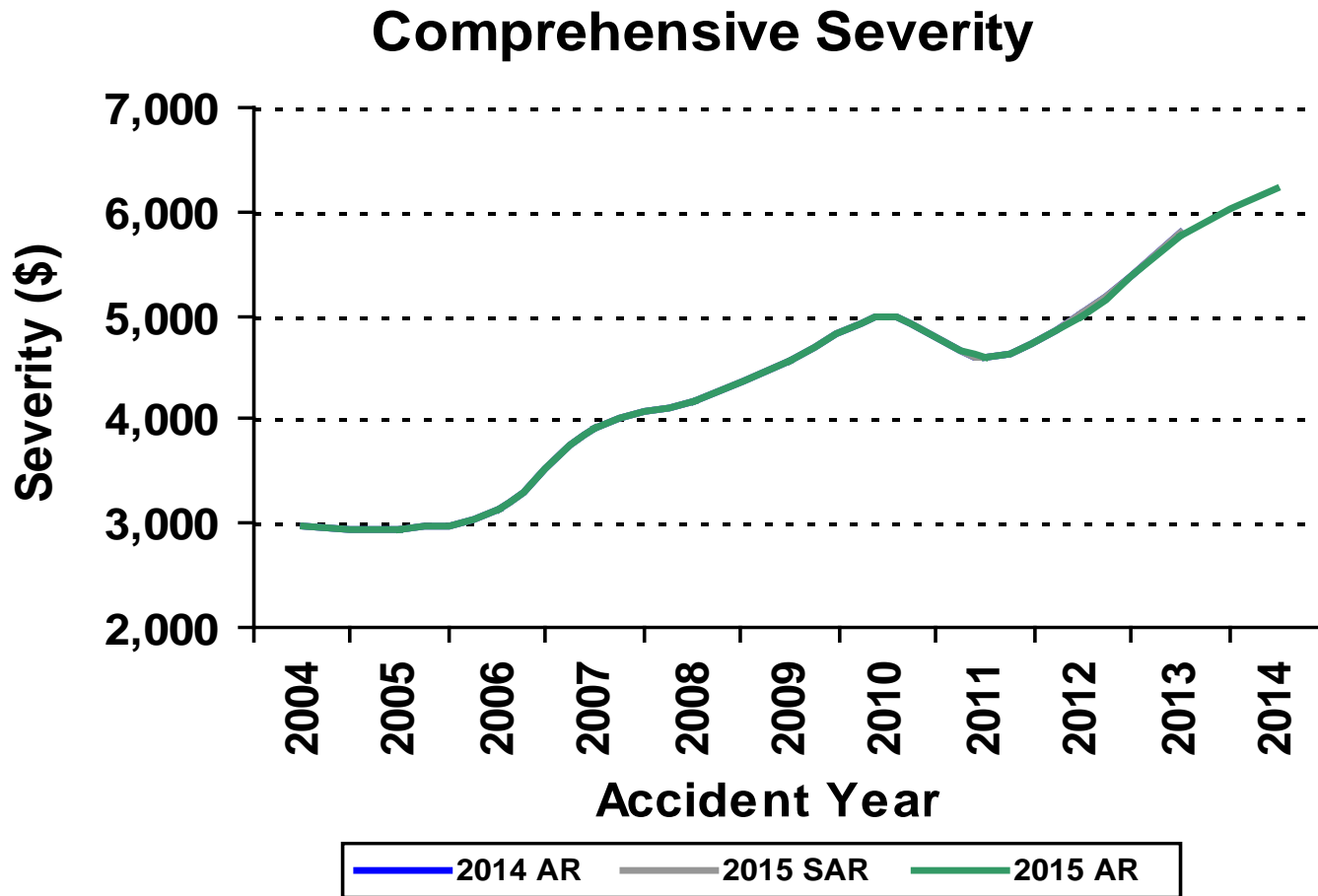
• 2015 SAR Benchmark Trend: +3.0%

2015 AR Selected Trend: +5.0%

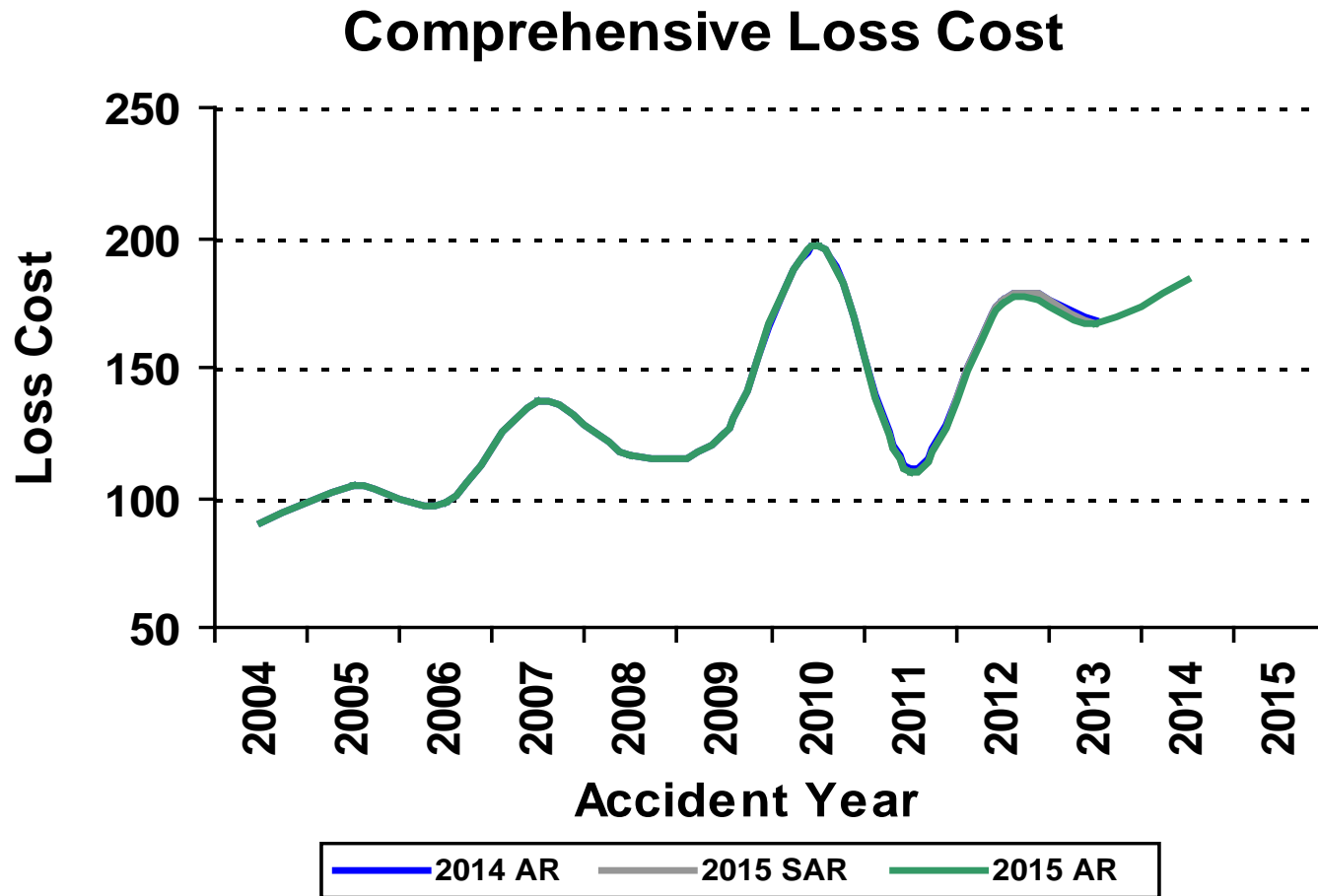
Alberta: Comprehensive Frequency



Alberta: Comprehensive Severity



Alberta: Comprehensive Loss Cost



• 2015 SAR Benchmark Trend: +1.0%

2015 OW Selected Trend: +1.0%

Summary of Loss Trend Selections

	2015 SAR	2015 AR
Bodily Injury	+2.0%*	+4.5%**
Property Damage	+3.0%	+3.0%
AB - Medical	+2.5%	+2.0%
AB - Disability	-2.0%	-2.5%
AB-Total	+1.0%	+1.0%
Collision	+3.0%	+5.0%
Comprehensive	+1.0%	+1.0%

* With level change factor of 1.21 at 2011.2

** With level change factor of 1.10 at 2011.2

Industry Benchmarks

Comments

IBC

- Notes the sharp increase in BI claims costs since 2010 (three times greater than the rate of inflation) with much of the increase occurring between 2010 and 2012. Reports that in the second half of 2011 insurers began seeing a greater proportion of BI claims presenting ancillary conditions such as TMD, and that the Sparrowhawk decision (January 2012) solidified this approach. Dr. Miller's trend rates are similar to those of OW, and with the exception of DI the insurers IBC consulted find OW's estimates to be reasonable benchmarks. As respects DI, due to the downturn in the economy the expectation is that DI claim costs will trend at a rate higher than OW's trend.
- Dr. Miller finds a BI level change of +11.3% (severity +16%, frequency -4%) more reasonable than OW's +10% (severity only); some insurers believe +20% is more appropriate.
- Favors the traditional approach of combining indemnity and allocated loss adjustment expense.
- Favors including ULAE in the trend calculations.

Industry Benchmarks

Comments

TD Insurance

- Has experienced a BI frequency increase of 3.9% and severity increase of 1.9% from 2014 to 2015; and a PD frequency increase of 6.2% and severity increase of 4.8% from 2014 to 2015. Reports that more BI claims are settling outside the minor injury cap and at higher amounts. Contributing to the increased BI claim costs: Sparrowhawk decision; new heads of damage being presented (e.g., housekeeping); new plaintiff strategies to avoid caps (e.g., use of psychological experts to increase the non-cap aspects of claims, characterizing claims as chronic wherever possible); increase in pre-judgment interest awards and general damage awards; and higher costs for plaintiff counsel. Also cites “McLean v Parmer” trial decision (February 2015) in favour of plaintiff (soft tissue injury of 32 months duration, combined with TMJ sprain with some PTSD symptoms and depression – for \$60,000 in general damages).
- Favors including ULAE in the trend calculations.

Industry Benchmarks

Comments

Aviva

- Finds OW trends reasonable, but believes there is a high degree of uncertainty with the BI claim cost estimates and trends. Notes that OW trends do not reflect impact of the McLean decision (which Aviva believes will lead to more chronic pain claims and more litigation). Attributes the rise in BI claim costs to the erosion of the cap and, like TD, finds the percentage of BI claims settling within the cap to be declining. Attributes the erosion of the cap to the Sparrowhawk decision (an increase in TMJ claims); an increase in the rate of legal representation (now at about 27%); an increase in the percent of psychological sequelae claims (now at 23%), which are not subject to the cap; and that represented claims cost two to three times more than unrepresented claims. Like TD, Aviva says plaintiff counsel are building up BI claims to prove they are special damage claims and hence not subject to the cap, and cites higher plaintiff legal costs.
- Favors including ULAE in the trend calculations.

Industry Benchmarks

Comments

Desjardins

- Observes trends similar to those noted by OW and finds the +10% BI level adjustment reasonable, but adds that the cost of BI claims continues to be the key uncertainty.
- Favors including ULAE in the trend calculations.

Industry Benchmarks

Comments

Co-operators

- Is experiencing a rise in BI severity for claims within and outside the cap (frequency flat). Sees the McLean decision as leading to more chronic injury claims unless the decision is overturned. Also experiencing an increase in physical damage claims due to: demands for increases in repair labour rates, an unregulated towing & storage industry, and the affinity for more expensive pickup trucks. Also cites a sharp increase in auto thefts (tripled since 2012) and fire losses.
- Favors including ULAE in the trend calculations.

Industry Benchmarks

Comments

FA

- Takes issue with the manner in which OW arrives at its trend selections and the documentation of its analysis.
- Based on an examination of Industry indemnity (only) claim cost experience, selected the following trends:

	FA Selections	OW Selections
Bodily Injury	+4.5% (+/-1.1%)*	+4.5%**
Property Damage	+2.3% (+/-1.2%)	+3.0%
Accident Benefits	-0.1% (+/-1.6%)	+1.0%
Collision	+2.1% (+/-4.1%)	+5.0%
Comprehensive	+4.3% (+/-3.7%)	+1.0%
Underinsured Motorist	+4.5% (+/-1.1%)	+4.5%

Industry Benchmarks

Comments

FA (continued)

- Recommends that indemnity and allocated loss adjustment expense trends should be analyzed separately.
- Recommends that ULAE not be included with indemnity and/or allocated loss adjustment expense data when measuring trends.

Industry Benchmarks

Comments

ACTLA

- States that no data has been publicly produced to confirm an increased incidence of claims being settled outside the cap, or what is driving the increase in BI severity (and the impact of non-capped injuries; and that no industry data has been produced showing how capped claims are defined, or the breakdown in claim costs between capped and non-capped claims and by head of damage.

Industry Benchmarks

- **ULAE Provision** - The published GISA ULAE provision for accident year 2014 is 9.3% (the accident year 2014 benchmark ULAE provision was 9.9% for the 2015 SAR). We recommend 9.3% be set as the Benchmark ULAE provision for accident year 2014.

Industry Benchmarks

- **Catastrophe Loading** – The Comprehensive coverage (in particular) claim experience is affected by the occurrence or non-occurrence of “weather-related events,” e.g., windstorms, hail, flooding, etc. Since catastrophes cannot be predicted, it is generally accepted actuarial practice to remove the actual claim costs arising from catastrophes and including a provision for the average level of catastrophic losses that would be expected to occur in a given year. As the 2014 catastrophe report is not yet available, we have tentatively applied the current catastrophe loading benchmark of 40%.

Comments

IBC: Finds most recent five years to be more reflective of future catastrophe claims.

Desjardins: Agrees with IBC.

Industry Benchmarks

- **Investment Income Rate** – The 2015 SAR Benchmark was 1.1% based on the Government of Alberta’s 3Q 2014 forecast of short and long term bond yields. The Government of Alberta has now released its second 1Q 2015 budget updated forecast. The Government’s first 1Q 2015 budget updated forecast resulted to an average investment rate of 1.5%. The second 1Q 2015 budget updated forecast results in an average investment rate of 1.1%.

	3 Month Yield	10 Year Yield
2016	.55% (.95%)	2.3% (2.65%)
2017	1.40%(1.60%)	3.10% (3.40%)

Comments

IBC: Finds OW’s investment rate of 1.5% to be too high given current investment yields and economic conditions. (We note that the recommended rate has been lowered to 1.1%).

Industry Benchmarks

- **Health Cost Recovery** – The 2015 assessment was \$120 million (plus a “catch-up,” which equated to 6.44% of the TPL written premium. No decision has yet been announced on the 2016 assessment. We have tentatively recommended the same provision (6.44% of TPL premium).

Comments

IBC: States that the Auditor General’s comments about the health levy suggest there increases of \$15 million or more in future years will be the norm, and so recommends that insurers be permitted to anticipate a higher levy in their rate filings.

Industry Benchmarks

- **Operating Expenses (Benchmark)** - The 2014 GISA Automobile Insurance Financial Information Report has not yet been released. We have tentatively applied the 2013 expense provisions: 24.2%, the same as the 2015 SAR benchmark.

Comments

IBC: Believes the absolute amounts (as opposed to the weighted average amounts), which total 24.7%, are more appropriate. Notes that the previous Government was going to increase the premium tax from 3% to 4% in 2016, and that the new Government has yet to state its intention.

Industry Benchmarks

Expense Category	2015 SAR Benchmark	2014 GISA Report
Standard Commission	10.4%	NA
Contingent Commission	1.1%	NA
Total Commission	11.5%	NA
Premium & Fire Taxes	2.8%	NA
Other Acquisition Expenses	3.3%	NA
General Expenses	6.5%	NA
Total Expenses	24.2%	NA

