



# Presentation to the Alberta Insurance Rate Board

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August 19<sup>th</sup>, 2014



# Agenda



- TD Insurance Overview
- TD Insurance & TD Bank Group
- Loss Trends
- Frequency and Severity Changes
- Impact of Economic Climate on Claims Costs
- Comments on Oliver Wyman (“OW”) Report
- Conclusion



# TD Insurance - Overview



- TD Insurance (“TDI”) is a member of TD Bank Group (“TDBG”), the second largest financial service organization in Canada.
- Largest direct response insurer and second largest auto and home insurer in Canada.
- National leader in group insurance



# TD Insurance – Overview



- TDI offices in Calgary and Edmonton employ more than 590 personnel dedicated to serving Albertans.
- Second largest auto insurer in Alberta with over 296,000 active automobile insurance policies and over \$507 million in written premiums for 2013.
- Currently holds a 15.82% market share in Alberta auto, an increase of 56% in the last 10 years.
- TDBG employs more than 4,600 people and maintains 280 branches in Alberta.
- TDI and TDBG are involved in the community and have donated more than \$2.6 million to not-for-profit organizations in Alberta.



# TDI is part of the TD Bank Group



## TD is...

- The 6<sup>th</sup> largest bank in North America by branches
- Focused on delivering legendary customer service to its 22 million customers in four key businesses, including insurance
- Employing more than 38,000 people in Ontario and over 86,000 worldwide
- Known for delivering strong financial results while effectively managing risk
- The “safest bank” in North America according to Global Finance Magazine\*



# Loss Trends



- Objective is to provide the Board with the latest trends available from our internal data.
- Factual data using the most recent information (as of April 2014).
- Loss data for the most recent period (November 2013 to April 2014) is compared to the prior full-year period (November 2012 to October 2013), removing any bias due to seasonality.
- No change in internal claims processes throughout that period.



# Loss Trends



<b>Summary of Frequency and Severity changes Nov 2013 to April 2014</b>		
<b>Coverage</b>	<b>Frequency Change</b>	<b>Severity Change</b>
TPL – Bodily Injury	+0.6%	+3.4%
TPL – Property Damage	+0.9%	+4.9%
Accident Benefits	+0.6%	+5.7%



# Frequency Changes

- The impact of the climate in recent years and should be considered when selecting the trends for all coverages.
- There may be an emergence of claims in subsequent years, considering potential development occurring from the severe winters of recent years.
  - Claims frequency has a direct link to record snowfall amounts in recent years.







# Severity Changes

- TPL – Bodily Injury: Severity increase of 3.4%, which may be partially explained by the following:
  - The ‘Sparrowhawk’ decision, which specifically held that certain types of injuries (i.e. TMJD) are not included in the minor injury cap;
  - New heads of damage being presented (i.e. housekeeping) that were not present before;
  - More plaintiffs’ counsel are developing strategies to avoid cap limitations, including building claims up by increased use of psychological experts to increase the non-cap aspects of claims, as well as characterizing claims as chronic where possible.
  - An increase in pre-judgment interest awards, General Damage awards, and Cost/Disbursements for Plaintiff Counsel;
  - While these costs are not directly related to third party claims experience, the increasing severity of Accident Benefits claims affects the number of Bodily Injury claims that may exceed the minor injury cap.



# Severity Changes



- TPL – Property Damage: Severity increase of 4.9%, which may be partially explained by the following;
  - Alberta is expected to have one of the strongest economies among the provinces in the coming years.
  - We can expect inflationary pressure on the average body shop labor rates.
  - Escalating labor and material costs will lead to an increase in claim severity trends.
  
- Accident Benefits: Severity increase of 5.7%, we have identified the following trends, which may lead to increased severity in recent years:
  - Increase of the Massage and Chiropractor treatment costs;
  - Increase of TMJD claims under AB coverage.
  - Increase of referral for psychological evaluation or treatment.
  - There is uncertainty as to the extent that they will continue to impact Accident Benefits severity.



# Impact of Economic Climate on Claims Costs



- Alberta is expected to once again have one of the strongest economies among the provinces;
- Alberta is among the provinces with the highest employment rates in Canada;
  - With lower unemployment rates, we should also observe an increase in health and repair costs.
  - We have also observed an increase in wages in recent years
- Alberta's strong labor market suggests that claims costs will continue to rise.
  - We can expect inflationary pressure on the average body shop labor rates.
  - Escalating labor and material costs will lead to an increase in claim severity trends.



# Comments on Oliver Wyman Report



- Overall, the assumptions made seem reasonable;
- We support the fact that the future loss costs trends are positive for the all coverages:

Coverage	Trends
TPL - BI	+2.5%
TPL – PD	+2.0%
AB – Total (weighted average)	+1.5%
Collision	+2.5%
Comprehensive	+1.0%

- However, the uncertainty in the estimated loss costs and trends, suggest prudence in anticipating long term trends



# Comments on Oliver Wyman Report



- “OW” report indicates that there is variability in the loss cost trends depending on the years used to make the selection. These fluctuate from:
  - TPL – BI : 1.1% to 3.9%
  - TPL – PD : 1.0% to 2.9%
  - Collision : 0.9% to 4.2%
  - Comprehensive : heavily dependent on occurrence of catastrophes
  
- “OW” has revised upward its estimates of TPL-BI ultimate loss costs again this year as displayed in *Ultimate Loss Costs, Frequencies and Severities*;
  - It is difficult to adjust historical data for past decisions rendered and changes in severity estimates since last year;
  - It was noted that there is considerable uncertainty surrounding the 2013 accident year costs estimates
  - Therefore, we believe a more conservative past and future trend for severity (and therefore loss cost) would be appropriate.



# Conclusion



- TDI supports a balanced approach to changes in premium levels for automobile insurance. A gradual approach to rate increases would be easier on the consumer and would align with public policy goal of keeping auto insurance broadly available and affordable.
- It is important to consider the soundness of the Alberta economy and the impact of a strong labor market and vigorous economic growth on the increase of expenses and the increase of the claims severity trends.
- Additional rate increases are required to keep rates aligned with the continuing increase in claims costs and labor expenses.
- When reviewing insurer's rate filings, we recommend prudence in anticipating the long term trends and the impact on the consumer. A reasonable rate increase this year may prevent more significant increases in the next few years, which may have a serious and negative view on Albertans.





THANK YOU!

