



SUBMISSION TO THE

ALBERTA AUTOMOBILE INSURANCE  
RATE BOARD

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## **PREAMBLE**

With roots going back to 1949 TD Insurance (“TDI”) is a member of TD Bank Group (“TDBG”), the second largest financial service organization in Canada. TDI offers a wide range of insurance products, including credit protection, life, health, travel, home and automobile.

TDI is the largest direct response insurer, and the second largest auto and home insurer in Canada, with more than 2.1 million policies and more than \$2.9 billion in written premiums as of February 2014. TDI employs more than 4,500 people across Canada, with offices in Alberta, Ontario, Québec, Nova Scotia and New Brunswick.

Our home and auto insurance products are underwritten by wholly owned insurance companies: Security National Insurance Company, TD General Insurance Company, TD Home and Auto Insurance Company, and Primum Insurance Company.

The TDI business model is direct response, meaning service is provided directly to clients, without using third-party intermediaries. As a result of our position as the largest direct response insurer in Canada, no one talks to more Canadians about automobile insurance than we do. The processes and technology that we use allows us to provide quality service in a timely and efficient manner.

TDI and TDBG are strongly committed to the Alberta market. TDI offices in Calgary and Edmonton employ more than 593 personnel dedicated to serving Albertans. TDBG employs more than 4,600 people and maintains 280 branches in Alberta. TDI is the second largest auto insurer in Alberta with 296,204 active automobile insurance policies and over \$507 million in written automobile premiums for 2013. Our market share increased from 13.95% in 2008 to 15.82% in 2013 (for private passenger)

TDI conducts its business across a variety of jurisdictions and we are pleased to draw upon our expertise and share our experience in operating with a variety of models. We are committed to working with the government to maintain a healthy auto insurance environment that is efficient, affordable, cost effective and sustainable at meeting the needs of Albertans.

## **INTRODUCTION**

TDI appreciates the opportunity to present comments and recommendations to the Alberta Automobile Insurance Rate Board ("The Board") as it undertakes the annual review of the premium level for basic automobile insurance coverage.

Our submission will focus on the following issues:

- Loss Trends
- Causes for Increasing Severity of Bodily Injury Claims

TDI is pleased to assist the Board in the decisions it has to make for Alberta drivers.

## I. LOSS TRENDS

It is our understanding that the Board is especially interested in obtaining additional information about the latest loss trends.

The frequency and severity trends are based on a projection to ultimate of Accident Year 2013 and Accident Year 2014. We are comparing the full Accident Year 2013 with a projected full Accident Year 2014 based on the first six months of 2014.

The data used for our estimation of the projected ultimate's are as of April 30, 2014.

### Summary of Frequency and Severity Changes

(November 2013-to-April 2014 Annualized relative to November 2012-to-October 2013)

<u>Coverage</u>	<u>Frequency Change</u>	<u>Severity Change</u>
TPL – Bodily Injury	+0.6%	+3.4%
TPL – Property Damage	+0.9%	+4.9%
Accident Benefits	+0.6%	+5.7%

### Third Party Liability – Bodily Injury

- We have experienced a frequency increase of 0.6% from 2013 to 2014.
- We have experienced a severity increase of 3.4% from 2013 to 2014.
  - See section II for a more detailed explanation of the Bodily Injury severity trends.

### Third Party Liability – Property Damage

- We have experienced a frequency increase of 0.9% from 2013 to 2014.
- We have experienced a severity increase of 4.9% from 2013 to 2014. This increase may be partially explained by the increase of labor rates.

### Accident Benefits

- We have experienced a frequency increase of 0.6% from 2013 to 2014.
- We have experienced a severity increase of 5.7% from 2013 to 2014.
  - In previous years, we identified some trends that were susceptible to increase AB severity in the coming years:
    - Increase in massage and chiropractor treatment costs.
    - Increase of temporomandibular joint disorder (“TMJD”) claims under the Accident Benefits coverage.
    - Increase of referral for a psychological evaluation or treatment.

We can confirm that these trends have materialized and contribute to the observed increase in Accident Benefits severity from 2013 to 2014. There is also uncertainty as to the extent that they will continue to impact Accident Benefits severity.

## **II. CAUSES FOR INCREASING SEVERITY OF BODILY INJURY CLAIMS**

As shown in Section I of this document, an increase in the severity of Bodily Injury has been observed in the past year. We now examine some of the factors that could potentially be contributing to the increase.

- Increase in Severity of Paid Losses
  - From 2013 (Nov 2012 to October 2013) to 2014 (Nov 2013 to April 2014), we observe:
    - 39% increase in severity of paid losses
    - 22% increase in severity of paid losses >3 years old
- Increase in Loss Adjustment Expenses
  - From 2013 (Nov 2012 to October 2013) to 2014 (Nov 2013 to April 2014), we observe:
    - 51% increase in Loss Adjustment Expense (per closed claim)
    - 23% increase in Loss Adjustment Expense (per closed claim) >3 years old

The figures above are on a fiscal basis in that they monitor claims and expenses that were actually paid out – 2014 is negatively impacted by one large settlement paid in 2014 on a claim dating prior to 2012. Even excluding this loss, these figures would still show a significant increase.

- Main Factors Contributing to Increasing Bodily Injury Claims Costs
  - 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.

Furthermore, as mentioned in Section I, Accident Benefits claims severity was strongly negatively impacted by an

- Increase in massage and chiropractor treatment costs,
- Increase in TMJD claims under the Accident Benefits coverage,
- Increase of referral for psychological evaluation or treatment.

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.

It is strongly suspected that these elements will continue to apply upward pressure on Bodily Injury trends in future years.

- Impact of the Economic Climate

Alberta is expected to once again have one of the strongest economies among the provinces over the next several years. Economic growth in Real GDP in Alberta is forecast at 3.5% in 2014 (Canada 2.2%) and 3.2% in 2015 (Canada 2.6%).

<b>3.2% in 2015 (Real GDP). ALBERTA - TD ECONOMICS' FORECASTS (as at July 2014)</b>					
Annual average per cent change unless noted					
	2011	2012	2013	2014F	2015F
Real GDP	5.2	3.8	3.8	3.5	3.2
Nominal GDP	10.3	4.6	6.3	6.9	4.8
Employment	3.8	2.7	2.9	2.9	1.9
Unemployment rate (%)	5.5	4.6	4.6	4.4	4.2
Consumer Price Index	2.4	1.1	1.4	2.5	2.2
Retail trade	6.8	7.0	6.9	8.5	5.0
Housing starts	-6.7	30.4	8.2	6.7	-14.5
Existing home sales	8.1	12.3	9.5	10.1	0.3
Avg. existing home price	10.2	-7.9	4.8	4.5	1.0

Alberta is among the provinces with the highest employment rates and the lowest unemployment rates in Canada. The province has been attracting an increasing number of migrants, propelling population growth.

Alberta's strong labor market, suggests that labor costs will continue to rise. With lower unemployment rates, we should also observe an increase in health and repair costs. These market conditions will not only apply an upward pressure on Bodily Injury, but on Accident Benefits and Property Damage as well.

In the last 5 years the increase in CPI has not been significant. However, during that time, the increase has been greater, especially for health care related services.

Alberta CPI (% change)	2009	2010	2011	2012	2013
All-Items CPI	0%	1%	2%	1%	1%
Health Care	6%	8%	2%	2%	0%
Health Care Services	9%	15%	4%	4%	4%

We also observe an upward pressure on wages paid in the province. As such, the average weekly earnings (AWE) in the province have progressed at a greater pace than the provincial CPI.

Alberta (% change)	2011	2012	2013
All-items CPI	2%	1%	1%
Average Weekly Earnings	4%	4%	4%

Our data relative to legal expenses abide in the same direction, showing an 8.5% increase in average legal expenses for internal legal staff. This figure increases to 22.0% when looking at average legal expenses for external counsel.

### III. CONCLUSION

In closing, we believe the Board should take into consideration a number of factors affecting claims costs when reviewing individual company filings in the coming year. These include 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 costs. Furthermore, emerging claims trends could negatively impact claims severity. Therefore, 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.