TD Insurance

SUBMISSION TO THE

ALBERTA AUTOMOBILE INSURANCE RATE BOARD

PUBLIC HEARING
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PREAMBLE

With roots dating 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 third largest auto and home insurer in Canada, with more than 2 million policies, and more than $3 billion in written premiums as of June 2015. TDI employs more than 4,700 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 Primmum 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 is strongly committed to the Alberta market. TDI has offices in Calgary and Edmonton which employs more than 580 personnel dedicated to serving Albertans. TDI currently holds a 15.45% auto market share, with over 299,500 active automobile insurance policies representing over $507 million in written automobile premiums for 2014, this is over a 50% market share increase since 2003 (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 its consultation meeting to review Alberta industry loss experience for private passenger vehicles to establish industry benchmarks to be used in the review of insurers' PPV filings for basic and additional coverage.

Our submission will focus on the following issues:

- Loss trends
- Causes for increasing severity of bodily injury claims resulting from increased incidence of claims being settled outside the Minor Injury Cap
- Input on the provision for unallocated loss adjustment expense (ULAE) not be reflected in the trend rate analysis.

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. We would like to share some specific information on the the coverages making up Third Party Liability (TPL).The frequency and severity trends presented are based on a projection to ultimate of Accident Year 2014 and Accident Year 2015 seen as of April 30, 2015.

Summary of Frequency and Severity Changes of key coverages

Coverage	Frequency Change	Severity Change
TPL – Bodily Injury	+3.9%	+1.9%
TPL – Property Damage	+6.2%	+4.8%

Third Party Liability – Bodily Injury

- We have experienced a frequency increase of 3.9% from 2014 to 2015.
- We have experienced a severity increase of 1.9% from 2014 to 2015. See section II for a more detailed explanation of some of the drivers of the Bodily Injury severity trends.

Third Party Liability – Property Damage

- We have experienced a frequency increase of 6.2% from 2014 to 2015.
- We have experienced a severity increase of 4.8% from 2014 to 2015. This increase was similar to the one we observed from 2014 to 2013.

The Oliver Wyman report on the private passenger experience produced on June 29 2015 has proposed a change in the expected trend on BI from +2.0% on the future to +4.5% with a step change at the half year of 2011. We can confirm observing a step change in loss cost similar to the one mentioned in the report although not as large. Our own experience which only makes up a portion of the industry indicate a higher increase in loss cost since then, with the last year still over +5%. Driving this is also a slight increase in frequency since 2013.

It is possible the use of the step adjustement in 2011 masks part of the current higher trend in the emergence of claims. The trend would also be very dependent on the reduced ultimates in the latest review.

II. CAUSES FOR INCREASING SEVERITY OF BODILY INJURY CLAIMS RESULTING FROM INCREASED INCIDENCE OF CLAIMS BEING SETTLED OUTSIDE THE MINOR INJURY CAP

To help the board try to understand the change observed in BI severity, we present some statistics from our reported and closed claims over the past 4 years.

We note in our own data that while the year over year increase on average case incurred per reported claim at 18 month has been slowing, it is still at +5% in our 2014/ 2015 data. Our claims information indicate more claims setlling outside the minor injury cap and those settling outside the cap settling at higher amounts.

When looking at claims that are closing under the the minor injury cap amount each year, we note a slow migration of claims to higher settlement values every year.

Closed claims at 11 months	% under minor injury bracket
2010	68%
2011	66%
2012	66%
2013	62%
2014	62%

We also observe that more and more claims submitted to TDI open after 11 months and initially reserved just outside the minor injury cap amount are closing at higher amount at 18 as well as between 18 months and 30 months. We can also obeserve higher pending incurred amounts at 30 months for those still open.

We observed that the 2010 claims reserved just above the minor injury cap at 18 months had a 39% ratio of settlement within the minor injury cap at 30 months. This has decreased to 28% on the 2012 claims, the last year where the data as of 30 months is available.

This impacts the pending amounts as well. The average reserved amount in the range of [$12k-$100k] for example where the severity for claims still pending at 18 months has steadily increased from $26k in 2010 to $35k in 2014, the last year where 18 month data is availble.

There has been no change to TDI claim settlement or reserving processes during this time.

- **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;
    - The
    - 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.

We note as an example of new precedents emerging on the scope of the original cap the decision on "McLean v Parmar" on Feb. 23, 2015, a trial decision in favour of plaintiff soft tissue injury of 32 months duration, combined with a TMJ sprain with some PTSD symptoms and depression was worth $60,000 in general damages.

III. INPUT ON THE PROVISION FOR UNALLOCATED LOSS ADJUSTMENT EXPENSE (ULAE) NOT BE REFLECTED IN THE TREND RATE ANALYSIS.

The Unallocated Loss Adjustment Expenses (ULAE) provision is as much a part of the cost of settling claims as Allocated Loss Adjustment Expenses (ALAE). A large part of the balance between the two comes from individual company decisions and ability to internalize certain aspect of the claims adjustment process. Choice between the two often involve decisions about providing a more controlled experience for the customer as well as having the potential to deliver cost savings which contribute to premiums remaining at an affordable level.

The specialization of the insurer, market share, dispersion of their customer base, investment in sophisticated claims system all contribute to the ability of insurers to be able to internalize more claims. A quick review of industry figures reported to OSFI show that the more the insurer is involved in activities with similar claims process, the more the insurer is able and indeed willing to involve its own employees into additional aspects of the claims adjustment process, resulting in a progressively higher % of claims settlement activities making their way to ULAE instead of ALAE.

As insurers invest further in systems and gain market share, we should expect the % of ULAE to grow without necessarily changing the overall costs. Excluding ULAE from the trend calculation will interpret this shift as a reduction in trend when it is is only a shift between two approaches to claims settlement.

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 emerging claims trends that seem to negatively impact injury claims severity as well as the Alberta economy's and the impact of the labor market on both claims expenses and possible change in frequency. Therefore, when reviewing insurer’s rate filings, we recommend prudence in anticipating the long term trends and the impact on the consumer. Reasonable rate increases this year may prevent more significant increases in the next few years, which may have a serious and negative view on Albertans.