



SUBMISSION TO THE

**ALBERTA AUTOMOBILE INSURANCE
RATE BOARD**

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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, in Canada, with more than 2.1 million policies, and more than \$3 billion in written premiums as of June 2016. TDI employs more than 3,700 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 and currently holds a 15.46% auto market share, with over 300,000 active automobile insurance policies representing over \$521 million in written automobile premiums for 2015, 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:

- I.** Bodily Injury loss trends
 - a)** Current loss trends
 - b)** Causes for increasing severity of Bodily Injury claims resulting from increased incidence of claims being settled outside the Minor Injury Cap
 - c)** Expected future loss trends

- II.** Loss trends – Other coverages

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

LOSS TRENDS – BODILY INJURY

a. Current loss trends

Based on its own data, TDI would like to share some specific information on Bodily Injury coverage. The data referenced relates to losses from accident years 2007 to 2015 and reflects TDI's estimates for Bodily Injury trends as of January 2016.

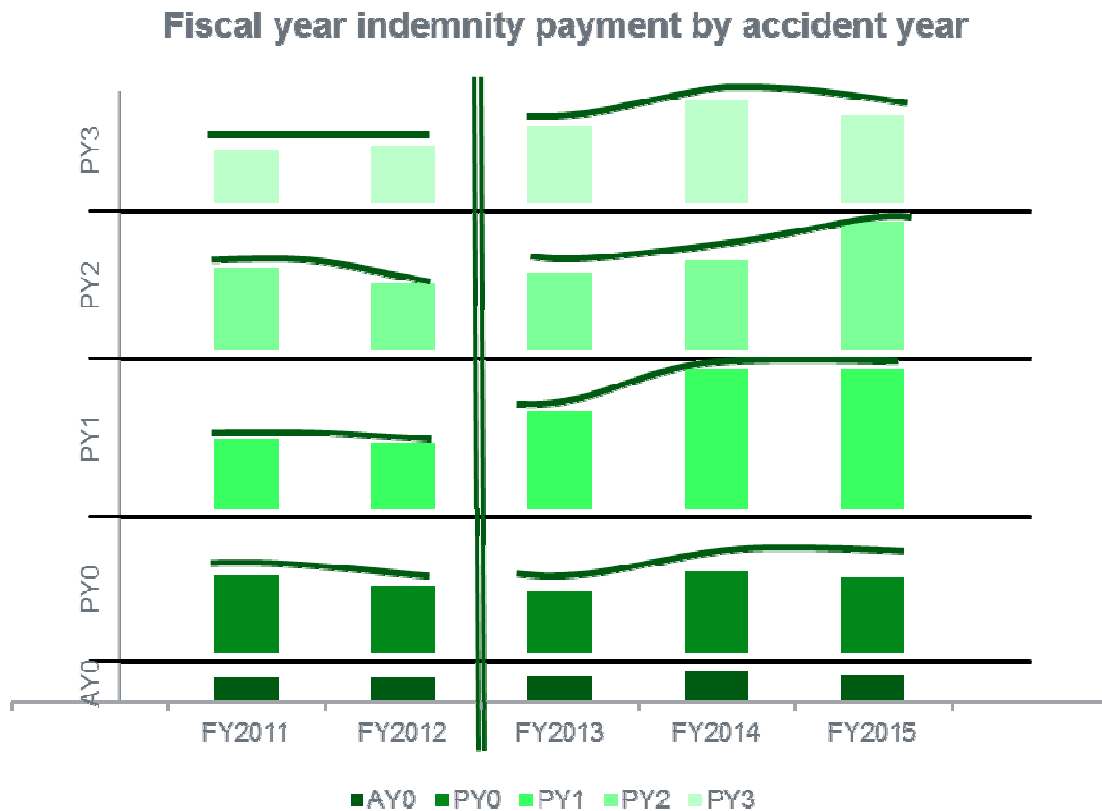
<i>Bodily Injury Prospective Loss Trends as of January 2016</i>		
<i>Trend</i>	<i>TD Insurance</i>	<i>Oliver Wyman</i>
Frequency	0.00%	0.00%
Severity	8.00%	7.00%
Loss Cost	8.00%	7.00%

The above table illustrates a flat frequency trend for Bodily Injury claims. However, both Oliver Wyman and TDI's own internal data analysis show an increase in claim severity trends.

b. Causes for increasing severity of Bodily Injury claims resulting from increased incidence of claims being settled outside the Minor Injury Cap

The increased severity of Bodily Injury claims and the erosion of the Minor Injury Cap are complex issues that are caused by a combination of factors.

The graph below shows indemnity amounts paid in a given fiscal year, for the current (AY 0) and prior (PY 0, 1, 2, 3) accident years, and illustrates a clear discontinuity between the pre- and post-2012 amounts.

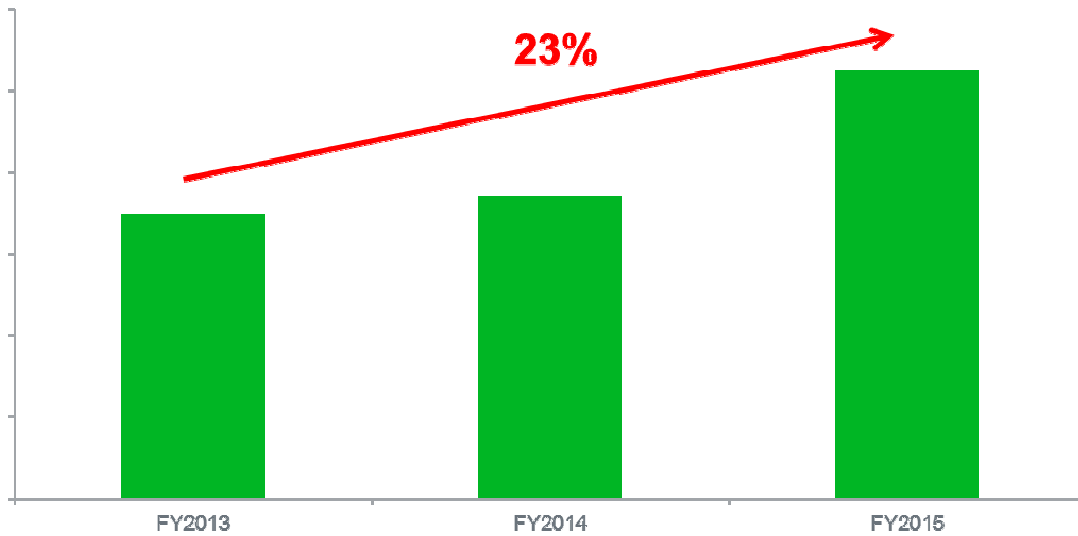


A strong upward trend in indemnity payments beginning in 2012 can be seen. This coincides with the Sparrowhawk v. Zapoltinsky ruling, which was issued in January 2012, whereby the judge's decision effectively narrowed the definition of "minor injuries" under the Minor Injury Regulation (MIR).

TD has also observed that the average incurred by claim is continuing to trend upwards, indicating that the increase observed in the indemnity payments above should continue into 2016 and beyond.

Furthermore, a greater portion of claims are being represented by a legal counsel, which can ultimately lead to an increase in claim litigation. Moreover, plaintiff's counsel are using strategies to avoid cap limitations, leading to an increase in psychological impairment and chronic pain (soft tissue injury) claims, which are not capped under the MIR. The increase in claim representation can clearly be seen from the graph below.

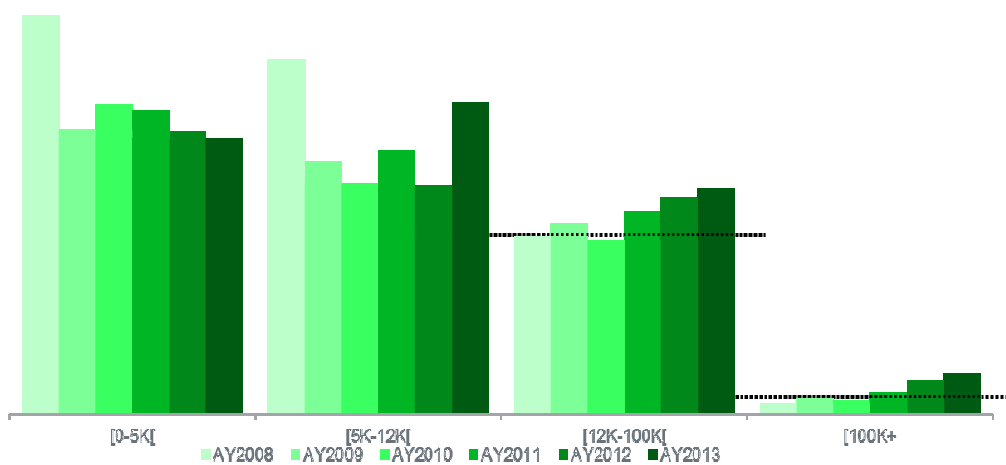
Number of New Claims with Legal Representation by Fiscal Year



Even though 2015 was an exceptionally high year, we do expect the 2016 fiscal year to end up with materially more new claims with legal representation than was seen in 2014.

The graph below demonstrates an increased occurrence of complex claims with significant indemnities (i.e. those over \$100,000), which is also affecting the Bodily Injury trend seen over the past few years.

Closed claim count by indemnity range between 24 and 36 months of development



c. Expected Future Loss Trends

Going forward, we expect the Bodily Injury loss trend to remain high as the causes identified above are expected to keep putting pressure on claim severity.

The increase in legal representation and counsel strategies to avoid cap limitations in particular are expected to be significant drivers of cost increases in the future. Moreover, the 'McLean v. Parmar' decision in favour of the plaintiff, held that certain Whiplash Associated Disorders (WAD) lasting more than three months can be classified as "chronic". This decision, while fairly recent, is expected to drive up costs in the future.

LOSS TRENDS – OTHER COVERAGES

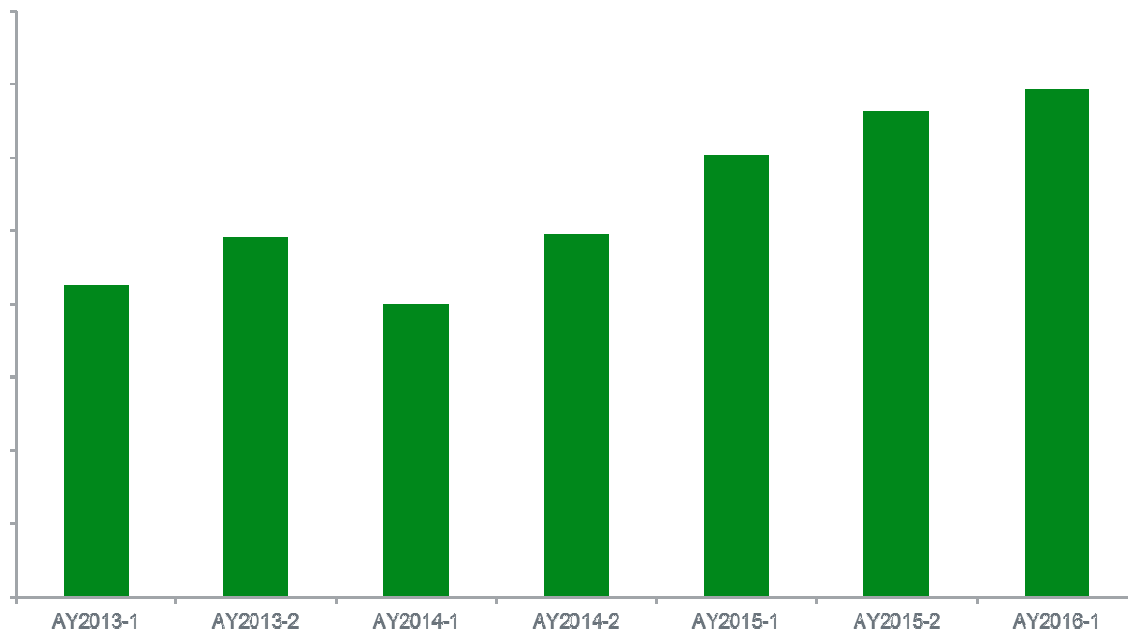
The table below presents TDI and Oliver Wyman's trends for the other coverages. TDI loss trends are based on developed losses from accident years 2007 to 2015 as of January 2016.

<i>Prospective Loss Trends as of January 2016</i>		
<i>Coverage</i>	<i>TD Insurance</i>	<i>Oliver Wyman</i>
Property Damage	4.50%	3.50%
Accident benefits	4.50%	2.00%
Collision	5.00%	4.00%
Comprehensive	2.00%	N/A

As can be seen above, both Oliver Wyman's industry analysis and TDI's internal data clearly show positive loss trends for all coverages.

Oliver Wyman mentions an increase in theft loss costs since 2013 (in particular 2015). TDI observes a sharp increase in the frequency of theft claims in our own data. This trend is continuing into 2016, which will put upward pressure on the comprehensive loss trends for the next years.

Theft claim frequency by accident half-year



CONCLUSION

In conclusion, TD Insurance agrees with Oliver Wyman's report that the prospective Bodily Injury loss trend is expected to be very high and that it is driven by a severity increase.

The increase in Bodily Injury claim costs has steadily trended upwards since the 2012 Sparrowhawk ruling. Increased prevalence of claim representation and the higher occurrence of very large losses are potential explanations of that phenomenon.

TDI also expects the high loss trend to persist as the "MacLean v. Parmar", which is a very plaintiff-friendly decision, is expected to lead to an increase in claim severity.

In addition, though trends are less severe for coverages other than Bodily Injury, they are still clearly positive, which will cause an increase in the loss costs.

Therefore, 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.