



Allstate[®]
You're in good hands.

2018 AIRB Annual Review of Automobile Insurance Loss Experience

Written Submission on behalf of Allstate Canada



July 24, 2018

Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

On behalf of the Allstate Canada Group of Companies (ACG), which includes Allstate Insurance Company of Canada and Pembridge Insurance Company, please accept the following submission for consideration and review for the Alberta Automobile Insurance Rate Board's (AIRB) 2018 Annual Review of Loss Experience.

ACG is a multi-channel producer and distributor of home and auto insurance products, which are accessible through our community-based agents, our broker representatives, and our Customer Contact Centre.

Allstate Insurance Company of Canada has 219 staff in 16 offices across Alberta, with \$152 million in Direct Written Premium in 2017. Pembridge Insurance has over 40 broker partners, in 115 locations, with Direct Written Premium of \$29 million in 2017.

ACG appreciates the opportunity to participate in this review by the AIRB and to be able to share its perspective on the important issues facing the auto insurance industry. We continue to believe that the best outcome for Albertans is an environment that fosters a healthy, competitive automobile insurance market, where companies are incented to innovate and actively compete for customers' business. The trends and cost pressures, which have developed in Alberta, combined with lack of meaningful reform and the imposed rate cap, have resulted in concern for the health of the province's auto insurance market. There is no question product and rate regulation reforms are needed to ensure an affordable, accessible, stable, and fair insurance system in Alberta. This action cannot wait any longer, without meaningful reforms costs will continue to escalate to the detriment of consumers and the competitive landscape throughout the province.

SUMMARY OF RECOMMENDATIONS

- **Government should engage with the industry to work towards substantive reforms to address cost pressures through product and regulation reform.**
- **Eliminate the Ministerial Order imposing the 5% rate cap**
- **Remove gender as a rating factor**
- **Support stronger consumer education and penalties as it relates to distracted driving and driving under the influence of Cannabis**
- **Allow for distracted driving offences to be ratable in grid pricing**

LOSS DEVELOPMENT & LOSS TRENDS

Bodily Injury

We find the past/future trend selection of +8.5%/7.5% to be reasonable and representative of the escalating cost pressure for Alberta Bodily Injury claims.

The most significant and sudden shift in the trend occurs for claims with incurred amounts less than \$20,000. This claim value is a proxy for claims expected to settle within the MIR for non-pecuniary damages. Analysis reveals that claims expected to resolve for under \$6,000 have remained relatively stable over the past 6 years at 12 months of development, however the distribution of claims expected to settle between \$6,001-\$20,000 has declined by 38.7%.¹ Overall we expect that 13% fewer claims will resolve within the MIR in AY 2017 than in 2012. This shift of claims outside of MIR is also observed on claims at 24 months of development.

We've found recent court decisions have materially changed the types of claims that can be settled within the MIR. The Court of Queen's Bench Sparrowhawk and McLean v. Parmar decisions have effectively resulted in a narrowed scope of the Minor Injury Regulation causing cost to rise. Specifically, if an injury spans more than 90 days, a condition otherwise classified as minor may be deemed chronic and fall outside the minor injury cap. Since these precedent setting decisions, plaintiff counsel is more frequently presenting cases of multiple and/or chronic injuries such as chronic pain and psychological conditions (ex. post-traumatic stress disorder) and seeking large general damage awards. Furthermore, other heads of damage such as past future loss of income/loss of capacity claims, past and future housekeeping claims, future cost of care,

¹ Auto Bodily Injury Incurred Distribution at 12 months of development.

and special damage claims are now commonplace, adding an increased pressure on severity.

As injury claims are becoming more lucrative, represented claims are far more common with the rep rate at 24 months post loss being 46.7% higher in Accident Year 2015 and 2016 than in 2012. Represented claims rarely settle within the MIR and are significantly more costly to adjust, leading to escalating severities. The clarifying change to the MIR that took effect for claims occurring June 1, 2018 is welcomed, however we don't expect it to materially change the loss cost trends in the province for Bodily Injury, since it doesn't address the precedent set around time span of injury.

Oliver Wyman's finding of adverse loss development in the more recent Accident Years is consistent with our experience. This development is partly attributed to a shift in case reserving practices that reflect more realistic forecasting of outcomes based on claim specific factors including early legal representation. Although we expect an offset in the later development periods, the adverse development cannot be entirely attributed to case reserving practices. We have also observed an increasing trend for Bodily Injury severities on closed with amount claims at 12, 24, and 36 months of development. Severity on closed with amount claims at 24 months of development is up 33% since 2012. This demonstrates that the adverse development is not just driven by internal reserving practices.

In order to address the increasing cost of the automobile product in Alberta we urge the government to take steps to accelerate product reforms that will result in meaningful reductions in costs that will ensure a sustainable and affordable product for Albertans.

Medical Expense

It is our view that the increase in Medical Expense beginning in 2015 is a change in severity.

In response to the changing presentation of injury claims and the involvement of plaintiff counsel, additional medical evidence is required to effectively adjust injury claims. The increased prevalence of soft tissue complaints, as well as late onset TMD and psychological conditions, necessitates the collection of expert medical opinions in order to ensure the proposed treatment plans are both reasonable and necessary. Although gathering medical evidence is costly, it provides important insights that support effective and efficient treatment and solutions. The need to gather medical evidence at this increased rate is expected to continue.

Theft Claims

ACG noted an increase in the frequency of Total Theft in 2015, spiking 29% over 2014 and subsequently stabilizing into a more moderate but increasing trend. We believe this 2015 change in frequency was a reflection of the changing economic conditions in the province. Although the economic outlook is improving we see no indication of a declining trend in theft frequency.

IMPACT OF MIR REGULATION AMENDMENT

The full impact of the clarifying change to the MIR which came into effect for claims occurring on or after June 1, 2018 will not be known until the new definition has been tested in court. This is unlikely to occur before 2020. That said, based on our initial analysis, we do not believe there will be any material cost savings as a result of the clarification. We strongly recommend that government and industry work together to implement necessary adjustments to the MIR to clearly include, "*clinically associated sequelae*." We would also suggest government engage with industry stakeholders on other reform proposals to improve the auto insurance system and drive better outcomes for Albertans.

IMPACT OF MINISTERIAL ORDER

There is no question that the ministerial order issued this past year capping rate increases at 5% has negatively affected Alberta PPV auto insurers. In 2017, according to MSA companies representing 98.7% of the market had combined ratios in excess of 100%. We anticipate combined ratios will deteriorate further as loss costs escalate in an unsustainable manner, outpacing the maximum permissible rate. This causes concerns about market health and stability of the industry. The Ministerial Order is only masking rate inadequacy, not addressing the root causes of the cost pressures.

In the absence of substantive measures to stabilize the cost of the automobile product, coupled with ongoing political interference with rating within an all comers markets may lead to unintended consequences in the near term. This may include:

- Contraction in the competitive market if fewer broker contracts are available or companies withdraw from Alberta rather than face exorbitant underwriting

losses. Any contraction of the insurance market in Alberta is not in the best interest of Alberta drivers.

- Reduced investment in Alberta. This may include reduced investment in employment of Albertans and paid commissions that support the financial wellbeing of residents in the province, reduction in marketing and investments in product enhancements that would bring value to Alberta consumers.

The rate cap is not a long-term solution and as previously stated and we strongly content that industry and government need to move forward with a substantive package of reforms to address escalating cost pressures.

IMPACT OF GENDER X

ACG supports the decision of the government to allow the use of gender X on government documents. We believe this ensures fair, ethical and equitable treatment of people with trans and non-binary gender identity. The policy also respects the privacy of those individuals who prefer not to disclose gender on documentation.

Our goal at the end of the day is to treat each consumer with respect and dignity. We wish to recognize and serve our customers respectfully of how they choose to identify themselves consistent with the strength, experience, and care they expect from Allstate.

ACG recommends individual companies notify AIRB through simplified filings how they will rate gender X. Alternatively the Superintendent of Insurance should consider requiring industry to remove gender as a rating variable all together. It is our view that with the introduction of gender X as an option of identification, the predictive nature of gender as used to date will deteriorate overtime. There are other more predictive rating factors that would be more commensurate with achieving the right rate for the right risk.

IMPACT OF LEGALIZING RECREATIONAL CANNABIS

While cannabis will become legal in Canada on October 17th, 2018, there is uncertainty around how it will affect the automobile insurance industry. The recreational use of cannabis is likely to impact auto insurance policies in a variety of ways.

Auto insurance policies include provisions that exclude coverage for accidental loss or damage caused by drivers under the influence of intoxicating substances. Presumably, these provisions will apply to impairment by cannabis. Other provisions in auto insurance policies exclude entitlement to benefits such as income replacement for those convicted of a criminal offence involving the operation of a vehicle.

While the public is aware that alcohol-impairment is dangerous, the same understanding of cannabis impairment is not as well-known or understood. With legalization of recreational cannabis, use of the substance might increase, with corresponding increases to risk of harm due to cannabis-impaired driving and other impaired behaviors.

Like distracted driving, the legalization of cannabis is yet another environmental factor that will impact collision frequencies and perhaps severity. It is important that government and industry work together to educate drivers of the dangers of these behaviors and have appropriate deterrents in place. Correlated to that, we recommend that distracted driving offences be a ratable factor in grid pricing.

Issues around cannabis detection, conviction, and public awareness will remain for the foreseeable future, and have the potential to add to an already uncertain claims environment for auto insurers.

We thank the AIRB for this opportunity to provide input for the annual review. We look forward to further dialogue to ensure a fair, stable and affordable auto insurance system in Alberta.