AIRB ANNUAL REVIEW
FOR THE YEAR 2014

Automobile Insurance Rate Board

Submission on behalf of Intact Financial Corporation

August 2014

INTRODUCTION

Intact Financial Corporation is a Canadian company protecting the assets of millions of customers across the country. With more Canadians relying on us for their peace of mind, we are also the largest provider of property and casualty insurance in the province of Alberta with over $1 billion in written premiums in 2013. We offer automobile, property and liability insurance to individuals and businesses through Intact Insurance, Novex Insurance and Grey Power Car and Home. We employ more than 1,400 people and support over 525,000 customers in Alberta through a vast network of 500 brokerages that are active in their respective communities. Automobile insurance is an important segment of our business, making up approximately 65% of our sales in the province.

SUMMARY OF EXPECTATIONS AND CONSIDERATIONS

In our submission, we will address the two topics outlined in the Board's Notice for this Annual Review:

- Loss trends, and
- Causes for increasing severity of bodily injury claims.

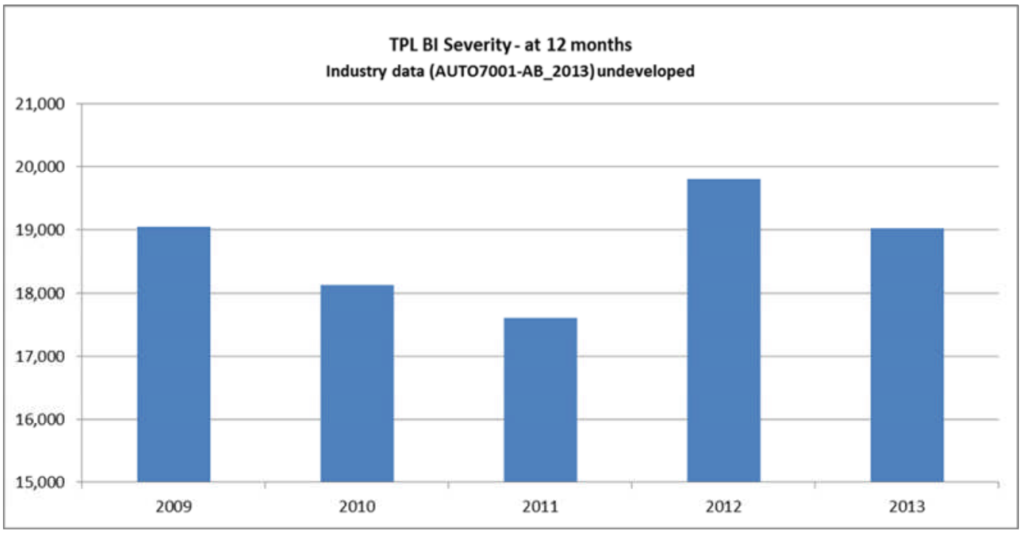
I. LOSS TRENDS

Intact has reviewed the Oliver Wyman report "Review of Industry Experience as of December 31, 2013". For most assumptions, we have observed similar trends within our internal data than what this report describes; however, we would like to comment on the sections "Third Party Liability Severity" and "Comprehensive Catastrophe Loading".

Third Party Liability – Bodily Injury Severity

In 2013, the average incurred cost per claim (severity), continued to show an increasing trend.

As evidenced by the industry data (see graph on next page), we notice that while there has been an improvement in 2013, the 2013 severity is still higher than the observed severity of 2010 and 2011.



To test whether the recent increase in severity was affecting all open claims, we looked at the industry's average paid and average incurred amount across increasing claims maturity (see chart below). We compared the development of the last two calendar years.

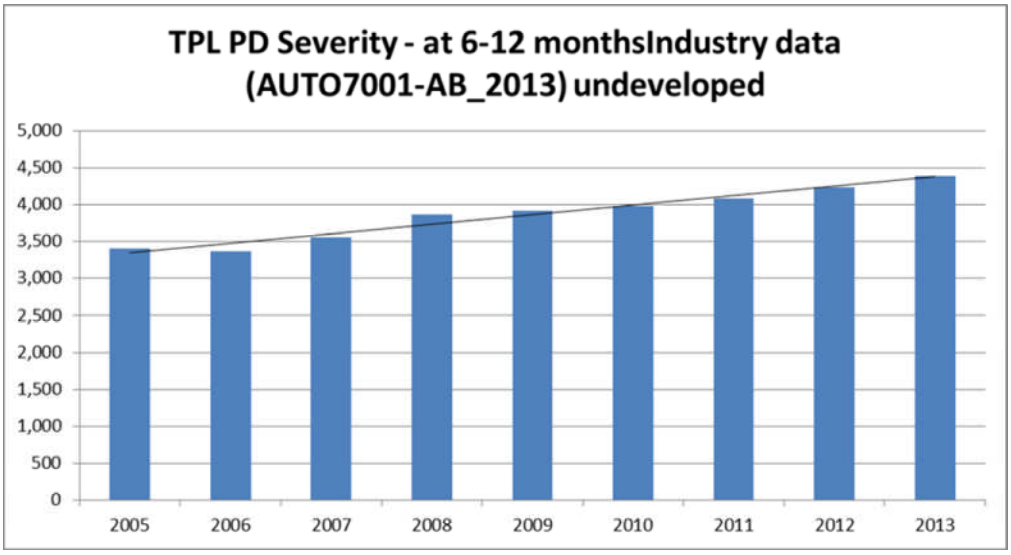
We see an increase across all maturities in average paid between 2011 and 2012, and all maturities except age 60 between 2012 and 2013. While some of the increase in incurred is explained by reserve strengthening, we are starting to see these reserves converting into real claims payment.

Calendar Year 2011 Development				Calendar Year 2012 Development				2012	2012
Maturity	Accident Year	Average Paid	Average Incurred	Maturity	Accident Year	Average Paid	Average Incurred	% Change paid	% Change Incurred
84	2005	22,760	27,568	84	2006	24,002	28,676	5%	4%
72	2006	20,542	27,351	72	2007	22,544	30,141	10%	10%
60	2007	17,808	27,942	60	2008	19,926	32,536	12%	16%
48	2008	14,034	28,645	48	2009	14,153	28,572	1%	0%
36	2009	9,016	23,661	36	2010	9,571	24,328	6%	3%
24	2010	4,927	20,578	24	2011	5,152	21,365	5%	4%
Calendar Year 2012 Development				**Calendar Year 2013 Development**				2013	2013
Maturity	Accident Year	Average Paid	Average Incurred	Maturity	Accident Year	Average Paid	Average Incurred	% Change Paid	% Change Incurred
84	2006	24,002	28,676	84	2007	26,120	31,411	9%	10%
72	2007	22,544	30,141	72	2008	25,932	34,604	15%	15%
60	2008	19,926	32,536	60	1009	19,414	32,143	-3%	-1%
48	2009	14,153	28,572	48	2010	15,215	28,888	7%	1%
36	2010	9,571	24,328	36	2011	10,495	26,169	10%	8%
24	2011	5,152	21,365	24	2012	5,765	24,130	12%	13%

Overall, our analysis shows Bodily Injury claims costs increasing, and we expect higher claims costs in the upcoming accident year for this coverage.

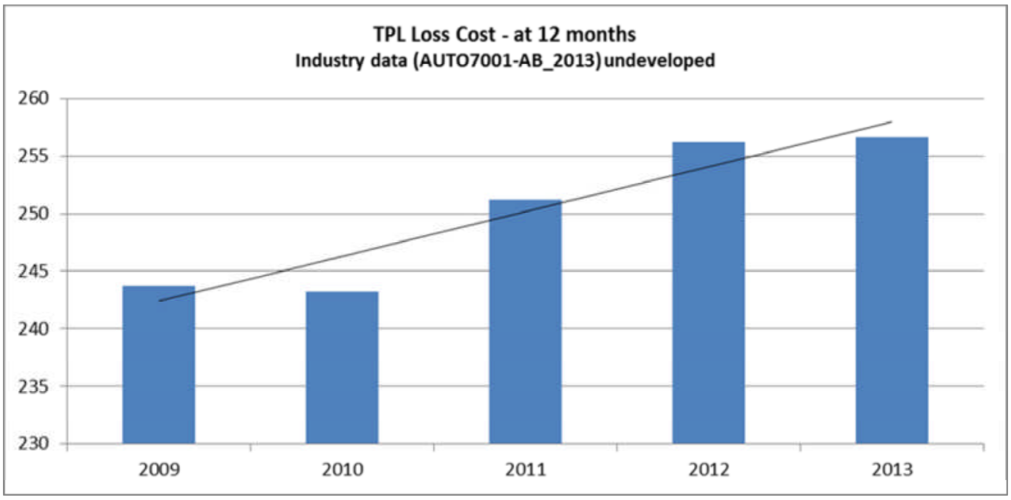
Third Party Liability – Property Damage Severity

TPL PD Severity shows a steadily increasing trend as evidenced by the industry data (see graph below).



Third Party Liability – Total Severity

TPL combined (BI and PD) loss cost shows an increasing trend since 2010 as evidenced by the industry data (see graph below).



* All industry data compiled from AIX All-Industry Loss Development Exhibit.

Overall, our analysis shows TPL claim costs increasing, and we expect a higher claims cost in the upcoming accident year.

Third Party Liability – Grid experience

When we compare mandatory coverage loss ratios between Grid rated business and non-Grid rated business using Intact's own data, we can observe that loss ratios for Grid rated business has been 20% worse than Non-Grid rated business on average from accident year 2009 to 2013. Properly adjusting Grid rates based on the Grid business loss ratio experience would remove pressure to increase Third Party Liability rates for non-Grid business in the coming year.

Reducing the number of risks that are capped by Grid rates would also increase competition in that portion of the market.

Comprehensive – Catastrophe provision

The 30% catastrophe provision proposed by Oliver Wyman seems low when compared to recent catastrophe experience. The frequency and severity of these weather related catastrophe events have increased in the last 5 years and, until proven otherwise, we should assume that this trend will continue. A catastrophe provision closer to 40% seems more appropriate for 2015.

II. CAUSES FOR INCREASING SEVERITY OF BODILY INJURY CLAIMS

The behaviours we highlighted in last year's submission following the Queen's Bench Sparrowhawk decision have continued in the past 12 months. We continue to experience an increased level of representation together with an evolving presentation of injuries by plaintiff counsel. Many plaintiff counsels are presenting arguments that chronic pain means that an injury is automatically non-minor in nature and therefore not subject to the cap. This is influencing the pursuit of general damage awards, in addition to other heads of damages, i.e. loss of future income, housekeeping, etc. This is adding pressure to not only the BI coverage, but also on the Accident Benefits coverage as plaintiff counsel builds their BI file. We are also seeing more claims involving TMJ. However, this is far outweighed by the chronic pain issue described above.

Continuing in the last 12 months is the presentation of psychological issues. This, combined with physical injuries and chronic pain, is leading plaintiff counsel to automatically pursue claims as non-minor. This is consistent with the "stacking" of physical and psychological issues that the industry is experiencing in Ontario.

The ongoing changing dynamics of bodily injury claims is adding not only indemnity pressure, but also additional claims handling expense costs as we continue to manage bodily injury claims relative to the original intent of the minor injury regulation.

The trends identified in the last few years have continued in 2013 and into 2014. We believe the Board should reflect these recent trends in this current annual review process.

CONCLUSION

As you embark on your review process, we would respectfully request that the Board:

- Consider that Third Party Liability claims costs in the province are trending upwards;
- Review Grid rates based on Grid rated risks experience;
- Reflect recent weather related events in the catastrophe provision.