AIRB ANNUAL REVIEW FOR THE YEAR 2015

Automobile Insurance Rate Board

Submission on behalf of Intact Financial Corporation

August 2015

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 2014. We offer automobile, property and liability insurance to individuals and businesses through Intact Insurance, Novex Insurance and belair. 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:

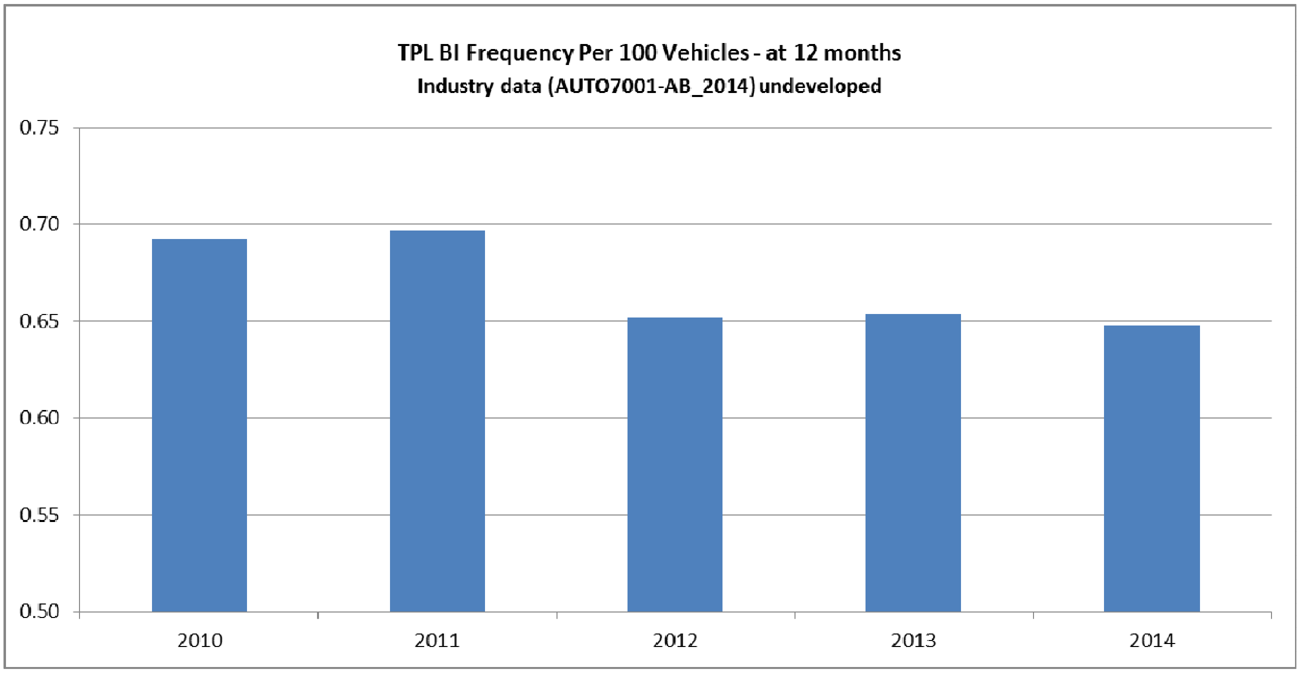
- Loss trends and,
- Causes for increasing severity of bodily injury claims resulting from increased incidence of claims being settled outside the Minor Injury Cap.

I. LOSS TRENDS

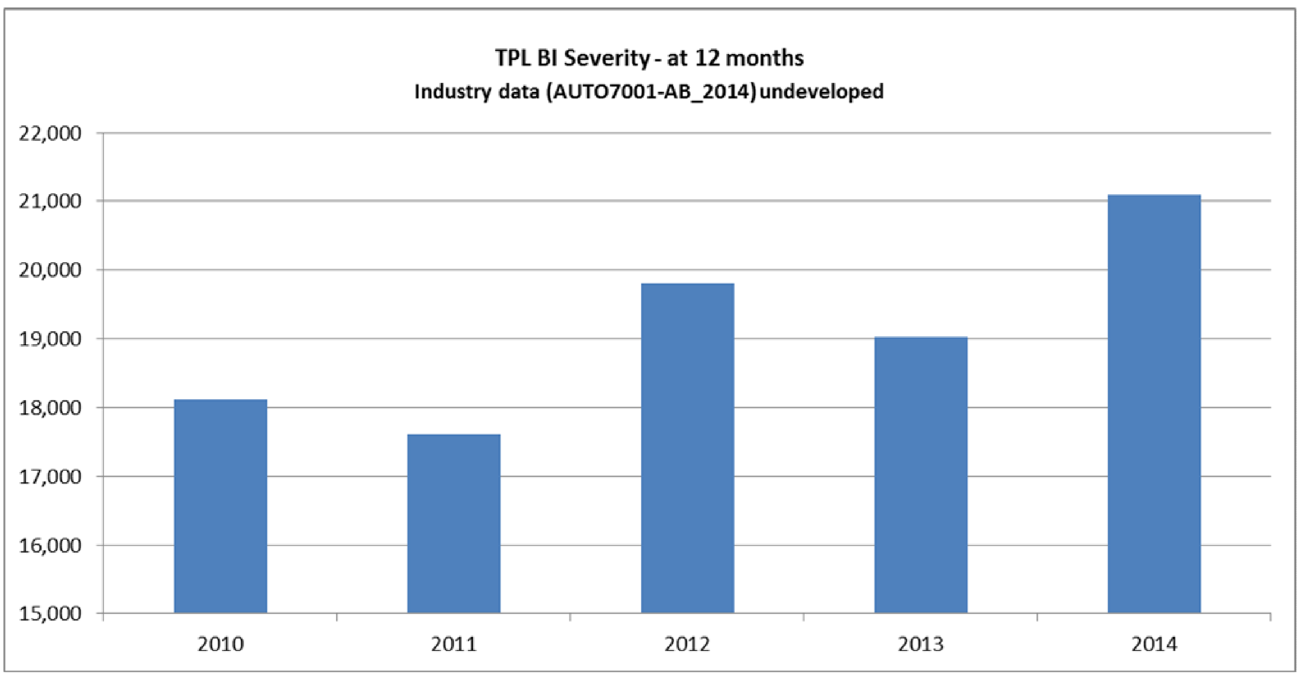
Intact has reviewed the Oliver Wyman report "Review of Industry Experience as of December 31, 2014". For most assumptions, we have observed similar trends within our internal data than what this report describes; however, we would like to comment on the sections "Third Party Liability Severity" and "Comprehensive Catastrophe Loading".

Third Party Liability (TPL) – Bodily Injury (BI)

As evidenced by the industry data (see graph on next page), the downward trend in TPL BI frequency ended in 2012 and has been relatively stable in 2013 and 2014.



In 2014, the industry average incurred cost per claim (severity), continued to show an increasing trend (see graph below). This escalating trend in severity began in 2011.



To test whether the 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 claims of the same maturity for calendar years 2011 to 2014.

We see a significant increase across all maturities in average paid between 2011 and 2014. While some of the increase in incurred is explained by reserve strengthening, we see these reserves converting into increased claims payments.

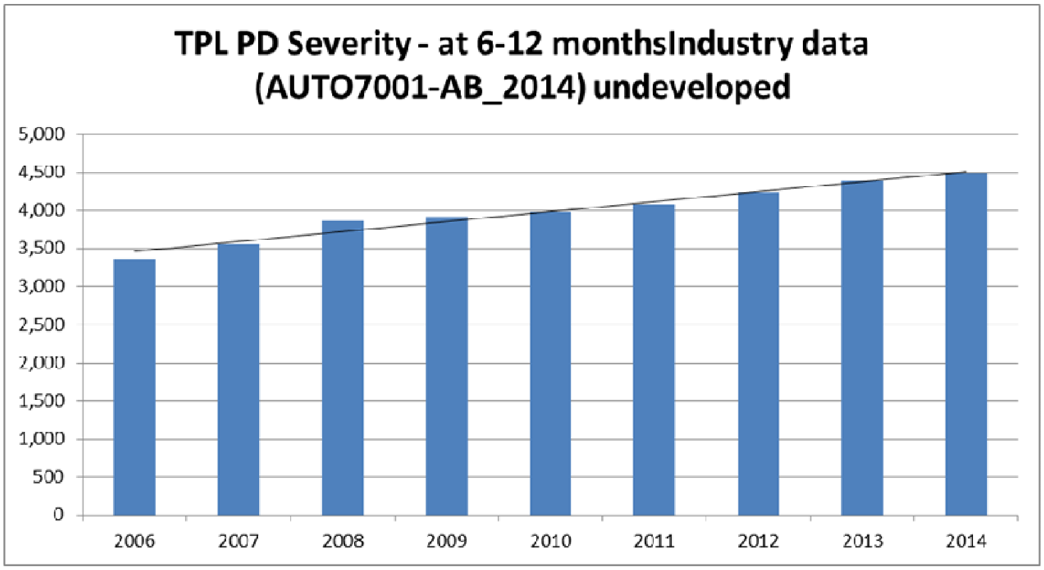
Average Paid by Calendar Year and Maturity					
Maturity	2011	2012	2013	2014	Annual Change
84	22,760	24,002	26,120	30,443	10.2%
72	20,542	22,544	25,932	25,137	7.0%
60	17,808	19,926	19,414	20,828	5.4%
48	14,034	14,153	15,215	16,603	5.8%
36	9,016	9,571	10,495	12,523	11.6%
24	4,927	5,152	5,765	5,874	6.0%
12	1,393	1,586	1,279	1,657	6.0%

Average Incurred by Calendar Year and Maturity					
Maturity	2011	2012	2013	2014	Annual Change
84	27,568	28,676	31,411	35,877	9.2%
72	27,351	30,141	34,604	33,867	7.4%
60	27,942	32,536	32,143	30,844	3.3%
48	28,645	28,572	28,888	30,444	2.1%
36	23,661	24,328	26,169	30,026	8.3%
24	20,578	21,365	24,130	24,979	6.7%
12	17,598	19,799	19,018	21,096	6.2%

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

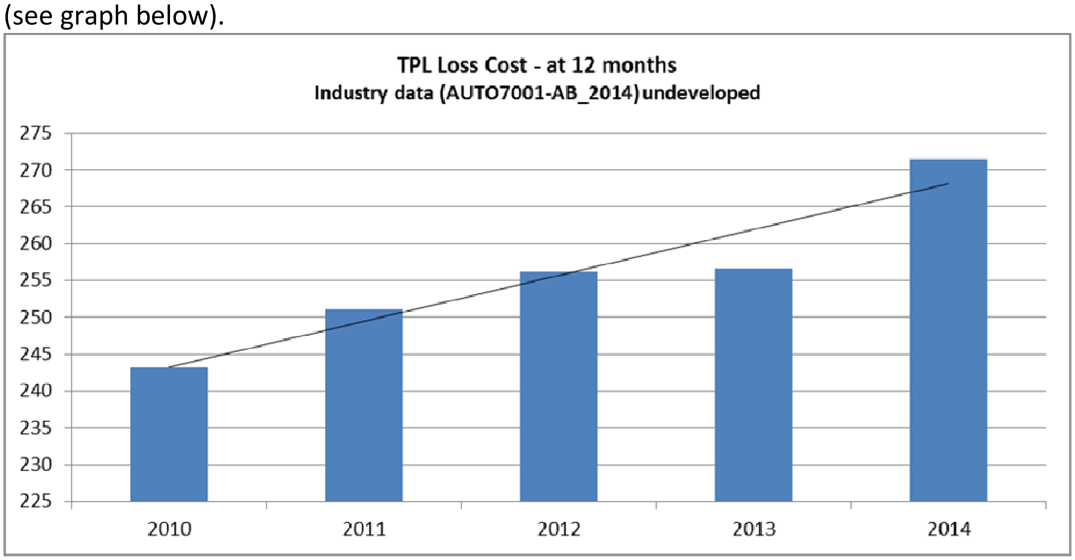
Third Party Liability – Property Damage Severity

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



Third Party Liability – Total Loss Cost

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 claims costs increasing, and we expect higher claims costs in the upcoming accident year.

Third Party Liability – Grid experience
When we compare mandatory coverage loss ratios between Grid pool business and non-Grid pool 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 2010 to 2014. Properly adjusting Grid rates based on the their own 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 40% catastrophe provision proposed by Oliver Wyman is low when compared to recent catastrophe experience. The frequency and severity of these weather related catastrophe events have increased in recent years and, until proven otherwise, we should assume that this trend will continue. The 5 year average of 54% from the previous Oliver Wyman analysis seems more appropriate.

II. CAUSES FOR INCREASING SEVERITY OF BODILY INJURY CLAIMS

In last year's submission, we indicated we saw a number of behaviours present themselves following the Queen's Bench Sparrowhawk decision; those behaviours remain consistent over the past 12 months. A continuation of increasing levels of representation together with an evolving presentation of injuries by plaintiff counsel, i.e arguments that chronic pain means that an injury is automatically non-minor in nature and therefore not subject to the cap, continues to influence the pursuit of general damage awards in addition to other heads of damages, i.e. loss of future income, housekeeping, etc. This adds pressure to not only BI coverage, but also on coverage for Accident Benefits as plaintiff counsel builds their BI file. This chronic pain issue also far outweighs the experience of claims involving TMJ which also continues to increase.

We also continue to see the presentation of psychological issues. Combined with physical injuries and chronic pain, these are leading plaintiff counsel to quickly pursue claims as non-minor. This "stacking" of physical and psychological issues resembles the situation 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, 2014 and into 2015. We believe the Board should reflect these 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 risk experience; and
- Reflect recent weather related events in the catastrophe provision.