



## AIRB ANNUAL REVIEW

### **Automobile Insurance Rate Board**

Submission on behalf of Intact Financial Corporation

July 2016

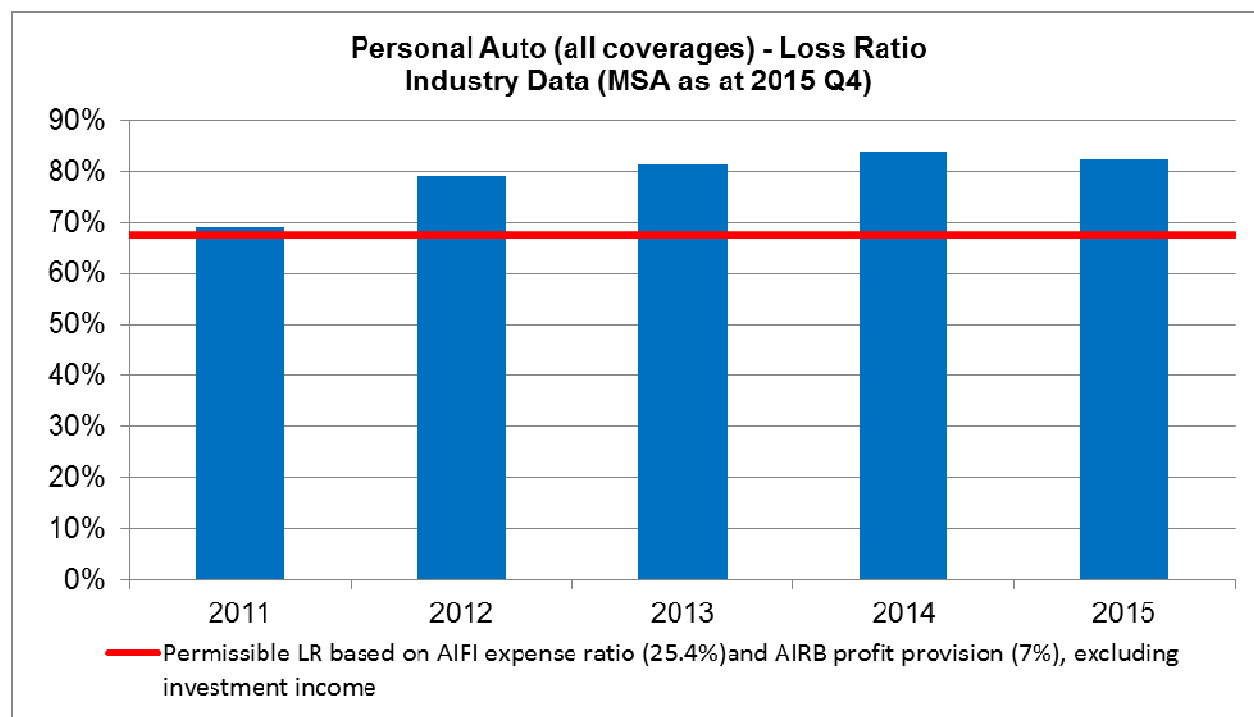
## INTRODUCTION

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 2015. We offer automobile, property and liability insurance to individuals and businesses through Intact Insurance, Novex Insurance and belairdirect. We employ more than 1,400 people and support over 525,000 customers in Alberta both direct and 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.

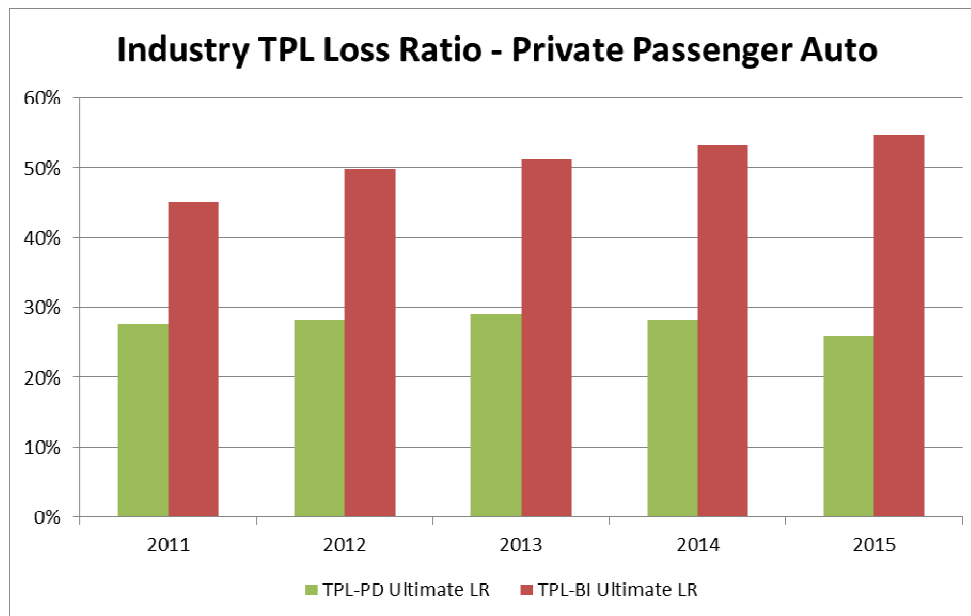
## SUMMARY OF EXPECTATIONS AND CONSIDERATIONS

We have reviewed the latest IBC submission and support their findings and recommendations. As we mentioned in our recent semi-annual review submission, Intact would like to reiterate that a reform of the Minor Injury Regulation is important to ensure an affordable and sustainable auto insurance product in Alberta.

There continues to be a high level of rate inadequacy in Alberta continuing through to 2015 results. The industry loss ratio for 2015 was 81%. Combining this 81% loss ratio with profit and expense ratios of 7% and 25.4% respectively, in a low interest rate environment, implies a current premium deficiency of around 19% (or \$213 per vehicle on average) for a vehicle with both basic and optional coverage. As a result, Albertans could face double digit premium increases in the coming years.



Oliver Wyman's selection for TPL-BI loss trend has been trending upwards over the past few reviews and is now at +7.0%. The future trends selected by Oliver Wyman for all coverage would add an extra 4.5% per year (or \$50 per vehicle on average). As evidenced by the graph below the main driver of the deteriorating personal automobile results over the past several years is TPL-BI. The TPL-BI loss ratios have shown continued deterioration.



Source: Incurred losses at Dec. 31, 2015 from the GISA '2015-2 Loss Development Exhibit' were developed using the cumulative loss development factor selections in GISA's '2015-2 Incurred Loss Development Factor Report'.

We continue to believe that it is imperative that legislative reform is undertaken in order to reverse the BI trend and prevent this scenario from being realized.

In our submission, we will focus our commentary on the following topics:

- Loss trends,
- Catastrophe load, 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

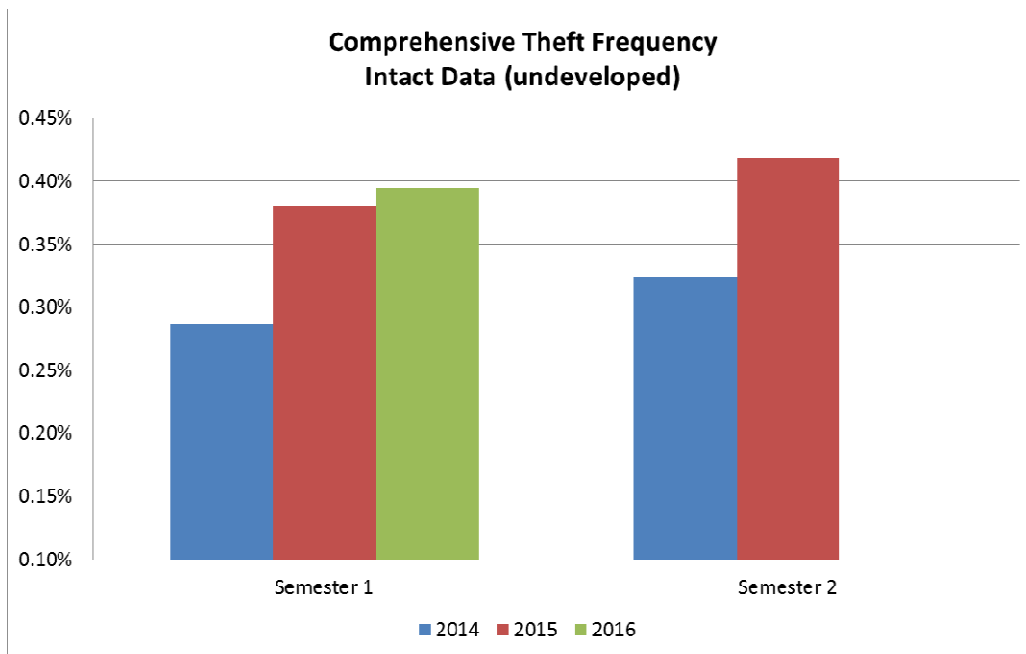
Intact has reviewed the Oliver Wyman report "Annual Review of Industry Experience as of December 31, 2015". For most assumptions, we have observed similar trends within our internal data with what this report describes; however, as mentioned in the previous section, we feel that the high TPL loss trend is unsustainable.

We would like to comment on the section “Comprehensive Loss Cost Trend”.

### Comprehensive – Theft

As recognized by Oliver Wyman, the industry loss cost for Comprehensive - Theft has increased significantly since the end of 2014. This is mainly driven by a large increase in frequency, though severity is increasing as well.

The industry experience is reflective of Intact’s own internal experience. Intact’s internal claims data in recent years shows continued deterioration in 2016 for the Theft component of Comprehensive.



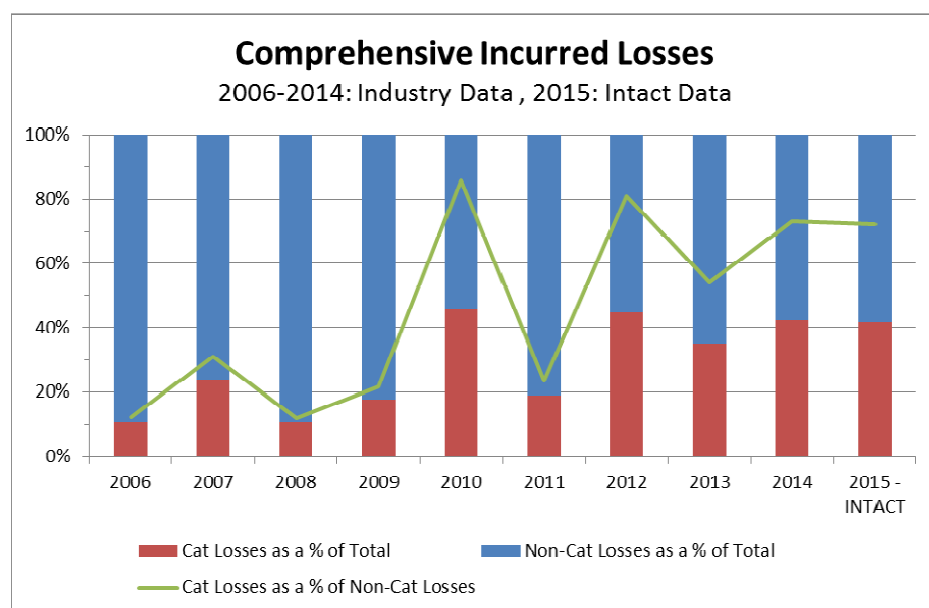
The increase in theft claims is likely associated with the economic downturn Alberta is currently experiencing. We expect this trend to continue until the Alberta economy recovers. We recommend that Oliver Wyman takes this deteriorating trend into account while setting loss trends. We believe a trend of 2% for comprehensive is appropriate.

## II. Comprehensive Catastrophe Provision

We maintain that the 45% catastrophe provision adopted as a benchmark by the AIRB is low when compared to recent catastrophe experience. The frequency and severity of these weather related catastrophic events have increased in recent years (including in 2015) and, until proven otherwise, we should assume that this trend will continue. 2016 is trending towards being another high catastrophe year as we have already seen a major event in Fort McMurray, in addition to smaller hail events.

The 55% catastrophe provision proposed by Oliver Wyman is more appropriate than the current selection, but we continue to suggest that the IBC selection of 65% is more in line with recent experience both internally at Intact and in the industry.

The following graph shows the increasing proportion of industry comprehensive losses caused by catastrophes, supplemented by Intact data for 2015.



### III. Causes for increasing severity of bodily injury claims

The behaviours we highlighted in our last submission following the Court of Queen’s Bench Sparrowhawk decision have continued in recent months. We continue to experience an evolving presentation of injuries by plaintiff counsel. Whenever possible, plaintiff counsels are presenting their client’s injuries as non-soft tissue and/or chronic in nature, which means that the claim is not submitted to the cap.

Since 2012, we have observed around a 20% increase in the occurrence of bodily injury claims presented with chronic pain, head injuries (concussions, headaches, etc.) and/or psychological issues like post-traumatic stress disorder. We are also seeing more claims involving temporomandibular joint dysfunction (TMD) but chronic pain is often the overriding issue. With the recent Court of Queen’s Bench decision in McLean v Parmar, it is clear now that those injuries were not intended to be submitted to the cap, whether they are presented alone or together. In addition, if the symptoms of the injury/injuries are lasting more than six months, they may be deemed chronic and are also not submitted 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 strategy is also impacting the resolution of claims by keeping files open longer, an issue that is aggravated by an overly generous pre judgment interest rate environment. We will comment on the pre judgment interest issue later in the submission. This is

adding pressure to not only BI coverage, but also the Accident Benefits coverage as plaintiff counsels build their BI file.

The inefficiency of the current Certified Examiner (CE) process is adding uncertainty to the settlement process creating upward pressure on the bodily injury trends. The MIR provides that when parties disagree on whether an injury is minor or not, they can require the injured party to be examined by a CE chosen from the list supplied by the College of Physicians. If the parties cannot agree on the choice of CE then the choice is made by the Superintendent's office. According to the MIR, the opinion of the CE is prima facie evidence that the injury is or is not minor. In other terms, it is supposed to be sufficient evidence unless rebutted. When the MIR was introduced, this process was expected to be used by insurers to settle more claims more quickly and effectively. With this tool, an insurer was supposed to know quickly if the claimant had a minor injury or not and settle accordingly. However, in the last few years, we have seen a significant erosion of the value of this process. The main reason for this is the timing of the examination and nature of injuries presented, as discussed earlier. Certified examinations usually take place in the months following the accident. With more allegations of chronic pain affecting claimants over a long period of time, the relevance of these examinations is greatly diminished. If a claimant can prove that he/she has continued experiencing pain and/or other symptoms for months or years after the examination, either by producing a medical expertise and/or medical records, the courts will tend to conclude that the opinion of the CE is rebutted and the injury is not minor. This is often by way of subjective self-reporting of continued pain.

Pre-judgement interest awards are another source cost pressure for bodily injury claims. The pre-judgement interest rate of 4% is much higher than the cost of money which increases claims costs and provides an incentive to keep files open longer. In the current interest rate environment, we estimate reducing the pre-judgement interest would produce a savings on bodily injury claims costs of around 6.0%.

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.

Intact will actively participate in the upcoming Regulations review and we will present additional supporting arguments for changes to regulations in our submission to the Superintendent of Insurance by the end of August.

## **CONCLUSION**

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

- Support legislative reform to reverse the high BI loss trend that is currently at +7.0% based on Oliver Wyman's latest analysis;
- Adopt a Comprehensive loss trend benchmark of +2% to reflect that Comprehensive claims costs are increasing due to the downturn in the Alberta economy; and,
- Reflect recent weather related events by adopting the 65% catastrophe provision proposed in the IBC submission.

