AIRB SEMI-ANNUAL REVIEW

Automobile Insurance Rate Board

Submission on behalf of Intact Financial Corporation

March 2018

INTRODUCTION

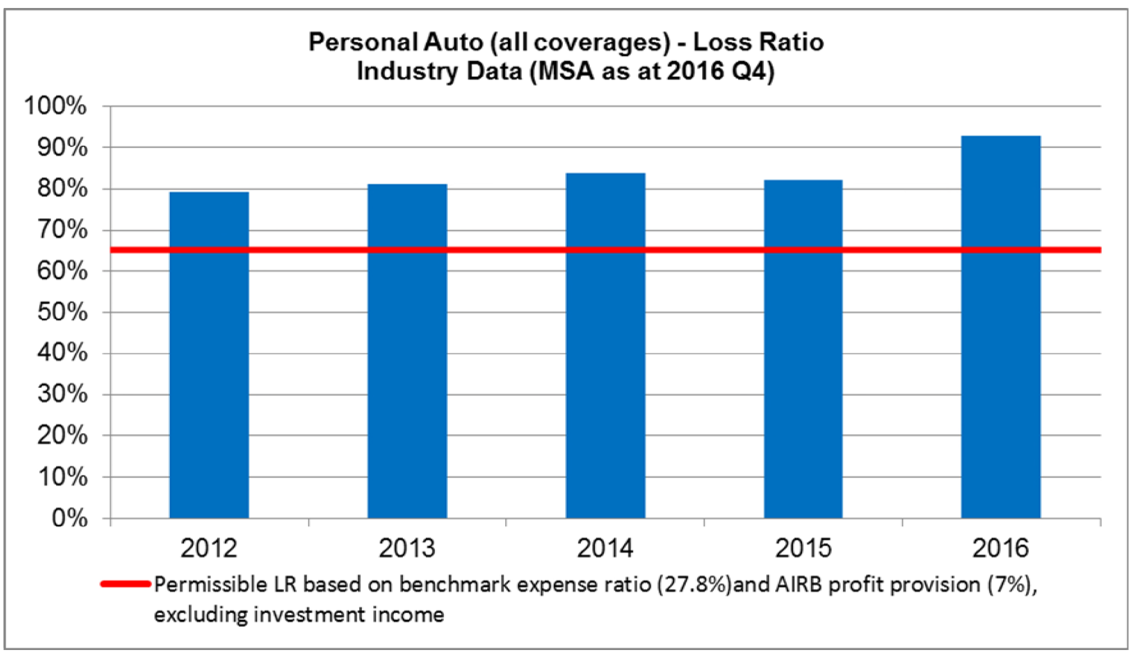
Intact Financial Corporation ("Intact") helps people, businesses and society prosper in good times and be resilient in bad times. With over $1.5 billion in written premiums in 2017, we are the largest provider of property and casualty insurance in Alberta, offering automobile, property and liability 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 directly 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 50% of our sales in the province.

SUMMARY OF EXPECTATIONS AND CONSIDERATIONS

Intact would like to reiterate that a reform of the Minor Injury Regulation ("MIR") is important to ensure an affordable and sustainable automobile insurance product is provided in Alberta.

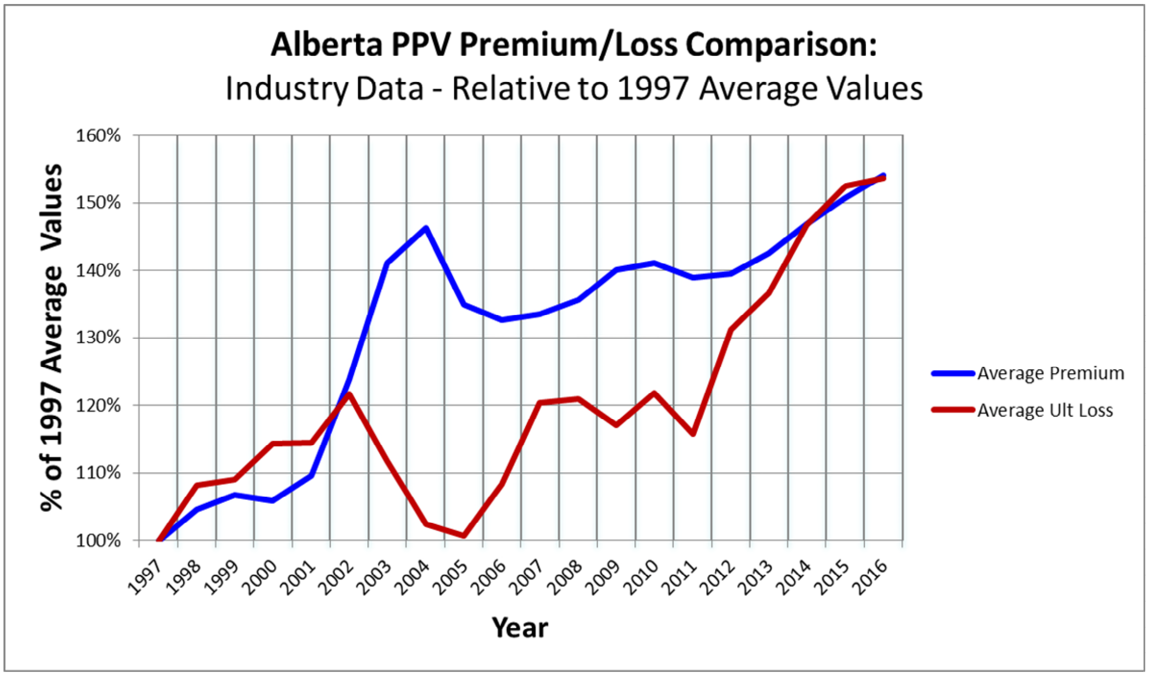
In 2016, the industry loss ratio was 93%, demonstrating a continued high level of rate inadequacy in Alberta. This loss ratio implies a premium deficiency of around 42% (or $500 per vehicle on average), based on a low interest rate environment, with recommended benchmark profit and expense ratios of 7% and 27.8%, respectively.

In 2017 the industry loss ratio has remained high at 83%, as of Q3. Given this high premium deficiency, significant premium increases are expected in the short to medium term.



The seriousness of the current level of rate inadequacy is also highlighted by the following graph, which shows how industry premiums have responded to changing levels of losses. It is clear that premiums will need to increase to catch up to the rapidly growing losses experienced over the past several years. The current 5% limitation on private passenger rate increases will only postpone the premium adjustments needed to achieve premium adequacy.

We maintain that further product reform is necessary to once again bring stability to the industry and maintain affordability for customers.



In our submission, we will focus on:

- Claim amount development factors;
- Loss trends; and
- Causes for increasing severity of bodily injury claims resulting from increased incidence of claims being settled outside the MIR.

I. Claim Amount Development Factors

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

After reviewing Oliver Wyman's report entitled *Semi-Annual Review of Industry Experience – Preliminary Report as of June 30, 2017,* we suggest that the claim amount development factors that were selected for TPL BI may be understated. As pointed out in the report, these factors have been materially higher than expected for many of the recent development periods.

We believe that selecting development factors closer to those that have emerged in the latest period would be more responsive to the changing BI environment and would lead to a more realistic estimate of ultimate BI losses. For example, using a four period average rather than a six period overage would be more appropriate as it would result in the age to ultimate factors below:

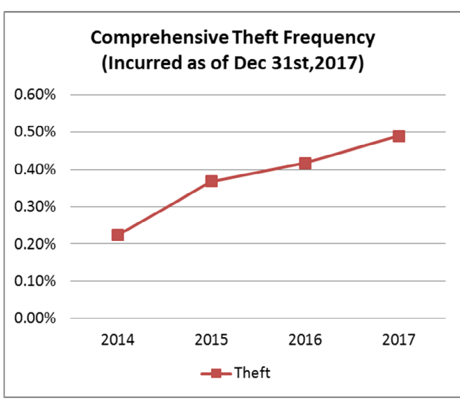
Age (months)	Factor
24	1.674
18	1.910
12	2.139
6	2.787

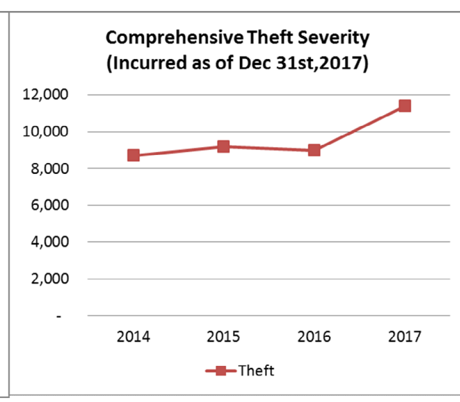
II. Loss Trends

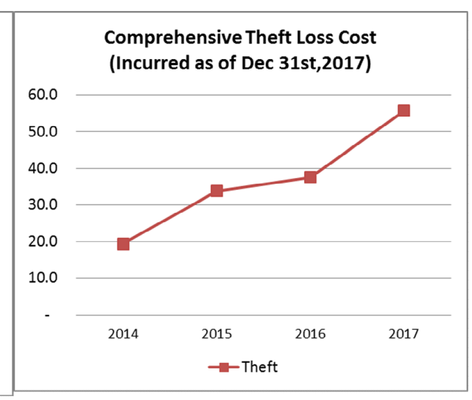
After reviewing Oliver Wyman's report and analyzing our internal data, we found that our trends were generally consistent with the findings of this report, with the exception of comprehensive coverage.

Comprehensive – Theft

The industry experience is reflective of Intact's experience, as per the graphs below. After including full year 2017 data, the relatively small increase in comprehensive loss cost trend from 2016 – 2017 that we noted in our previous submission, has worsened to an increasing trend in line with the previous years.







There has been a significant 48.7% increase in the theft loss cost from 2016 – 2017. Once again, we maintain the same stance that, with the ongoing economic downturn we would expect this trend to continue into the future. Therefore, we believe a future trend of at least +6% for comprehensive loss cost is appropriate (versus the +5.5% noted in Oliver Wyman's report). This is still conservative given the observed 2015-2017 loss cost increase.

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

Recognizing the rising costs of TPL BI costs, we agree with the future trend selection of +7.5% as noted by Oliver Wyman and the AIRB. This trend poses affordability risks for automobile insurance in Alberta and as such, reinforces the need for legislative reform to reverse the observed trends.

Accident Benefits

While Accident Benefits is currently a relatively small portion of the average automobile premium, we express some concern about the significant increase in loss costs experienced in the past few years. As selected by Oliver Wyman, the largest component of Accident Benefits, medical/rehabilitation, maintains a significant positive loss cost trend of +3.5% even after a very large +16.0% level change at 2015-1. We comment on a possible cause for the upward trend seen since 2012 in Section III of this document. Like TPL BI this trend is putting upward pressure on automobile insurance rates.

For all coverages combined, the future loss trends selected by Oliver Wyman would add an extra 5.0% per year (or $59 per vehicle on average) in the future. This is in addition to the current 42% (or $500 per vehicle on average) premium deficiency, based on 2016 industry results mentioned on page 1.

III. Causes for increasing severity of bodily injury claims

Following the Court of Queen's Bench Sparrowhawk decision, the behaviours we highlighted in our last submissions have continued this year. This decision interpreted the scope of the MIR narrowly. If a motorist suffers from an injury that is not a sprain, strain or WAD I or II, the cap does not apply. Furthermore, if an injury is affecting a person for more than 6 months, it can be deemed chronic and is also outside the cap. This interpretation was confirmed in another decision of the Court of Queen's Bench in McLean v. Parmar.

As a result of this narrow interpretation of the MIR, we continue to experience an evolving presentation of injuries by plaintiff counsel arguing that their clients are suffering from multiple and/or chronic injuries that are not covered by the MIR.

Since 2012, we have observed an approximate 20% increase in the occurrence of bodily injury claims presented with chronic pain, head injuries (concussions, headaches, etc.) and/or psychological conditions such as post-traumatic stress disorder. We have also seen an increase in claims involving temporomandibular joint dysfunction ("TMD") with chronic pain often noted as the overriding issue.

This has an impact on general damage awards and other heads of damages, for example, loss of future income, housekeeping, etc. To increase compensation on these heads of damage, plaintiffs need to treat with various doctors over a long period of time. The longer someone is under treatment, the more there is pressure on compensation. In addition, this strategy often keeps claims open longer, increasing pressure on BI and Accident Benefits coverage as injured motorists are encouraged to seek treatment to evidence their injuries. This issue is aggravated by an overly generous pre-judgement interest ("PJI") rate environment. We will comment on the PJI issue later in the submission.

In addition, the current Certified Examiner ("CE") process is adding upward pressure on bodily injury coverage. When the MIR was introduced, the CE process was expected to be used by insurers to settle more claims more efficiently by determining the nature of the injury. According to the MIR, the opinion of the CE is sufficient evidence that the injury is or is not minor. In other terms, it is supposed to be sufficient evidence unless rebutted.

In the last few years, we have seen a significant erosion of the value of this process; in addition to the time required to deliberate the nature of injury and the CE (particularly if disagreements arise), 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 expert 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.

PJI awards are another source of cost pressure for bodily injury claims. PJI is meant to compensate for the loss of use of money and not as a punishment on the at-fault party. Since 1984, the PJI rate has been set at 4%, which is nearly 3% higher than the current bank rate. This increases claims costs and provides an incentive to keep files open longer. In January 2015, Ontario passed legislation linking the PJI rate to the bank rate in the province. By following the fluctuations in the bank rate, the PJI appropriately compensates for the loss of use of money. If a similar change were introduced in Alberta, we estimate savings on BI loss costs to be around 6.0% annually. While more will be required to reform the automobile product and claims procedures in Alberta, a reduction in the PJI interest rate to reflect today's interest rate environment will almost immediately improve the affordability of automobile insurance in the province. We also feel such a change will appeal to the logic and intuition of all industry stakeholders.

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

Intact is actively involved in the current regulations review and presented these arguments to the Superintendent of Insurance in August last year.

CONCLUSION

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

- Adopt higher claim amount development factor benchmarks for TPL BI that are more in line with recently emerged factors;
- Adopt a comprehensive future loss trend benchmark of at least +6% to reflect that comprehensive claims costs are increasing due to the downturn in the Alberta economy;
- Support legislative reform to reverse the high BI loss trend that is currently at +7.5% based on Oliver Wyman’s latest analysis.