



AIRB

SEMI-ANNUAL REVIEW

Intact Financial Corporation



Insurance isn't just about homes, cars and businesses – it's about people. When the unexpected happens, Albertans rely on insurance to recover quickly, and deserve that protection and peace of mind at affordable rates.

In 2017, the industry loss ratio was 87.7%, indicating auto insurance rates were not accurately reflecting the experience on Alberta roads. This trend is not new: since 2013, the loss ratio in Alberta in personal auto has continually increased, reaching 87.8% in Q3 2018. Loss ratios in Alberta have also been considerably and consistently higher than other Canadian provinces, with a widening gap since 2016.

As per the request of the AIRB, we found that our loss trends and selected claim development factors are generally consistent with the findings of Oliver Wyman's Semi-Annual Report, other than the claims amount development factors for third party liability, as below:

Since our last submitted review in July 2018, we continue to observe higher than average development factors for TPL-BI claims, particularly in the 6-12, 12-18 and 18-24 month development periods. This indicates the continuation of elevated cost pressures which should be reflected in the loss reserves to ensure the rating environment has a more accurate estimate of ultimate bodily injury losses. In reviewing Oliver Wyman's report, the low selection of the cumulative 6-24 month factor may significantly understate the ultimate amount for accident year 2018 claims. We believe the selection of a longer-term average is contributing to this understatement in development factors, and as such reinforce our recommendation that a shorter term, four-half year weighted average would more accurately reflect the change in trend.

As the insurer of record for 22% of Albertans across our three brands, we're invested and committed to ensuring Albertans can access the insurance they need at affordable and predictable rates. In addition to the progress that has been made to date, we believe we must look to implement short-term solutions to bring rate back to the market and long-term strategies for rate stability today and in the future.



Short term solutions to make impactful change now

Continue reform of the Minor Injury Regulation (MIR)

IFC has long held the view that substantial reform of the MIR was an important step towards ensuring an affordable and sustainable automobile insurance product is provided in Alberta. Based on our analysis, we are concerned the financial impact from the latest changes will be limited in scope and subject to a large degree of uncertainty based on the interpretation of the reforms by the courts in Alberta.

We support the Alberta government's recent reform and encourage continued evolution, particularly related to the following four areas which limit the applicability of the MIR when determining whether an injury qualifies as "minor", and any consequent reduction in loss cost resulting from the reforms.

1. Clarify terms "Serious Impairment" and "Substantial Inability"

- Provide clarity on interpretation for the terms "serious impairment" or "substantial inability", which are major factors in determining whether injuries are considered minor in relation to the severity and duration of the symptoms. For instance, the MIR should confirm that minor pain syndrome is also a minor injury regardless of the duration of that symptom when it is not limiting the claimant's quality of life.

2. Temporomandibular Joints ("TMJ") Injuries

- There is an important gap in the MIR regime as dentists are not included in the approved list of Certified Medical Examiners. This means that any TMJ injuries where specialized dental intervention is required would arguably not be considered minor.
- Reduce ambiguity of TMJ injuries, especially with regards to damage to cartilage. Currently the regulation only provides clarity for injuries to the articulate disc. This continues to be a source of ambiguity in the determination of injuries as minor.

3. Physical and Psychological conditions

- Provide clarity on the terms "physical conditions and symptoms", "psychological conditions and symptoms", "arises from", "resolves with".

4. Add clarity to the Diagnostic and Treatment Protocols Regulation ("DTPR")

- Provide explicit guidance regarding the diagnosis and treatment protocols to be followed with regards to TMJ injuries, physical or psychological conditions or symptoms related to minor injuries.

Adopt Bank of Canada benchmark interest rate for pre-judgement interest

Pre-judgment interest is meant to compensate for the loss of use of money and not as a punishment on the at-fault party. At the enactment of the Judgment Interest Act, RSA 2000 c J-1 ("JIA") in 1984, the interest rate was set at 4% applied to non-pecuniary damages, with pre-judgment interest on pecuniary damages to be set by the Lieutenant Governor in Council each year.

In 1984, the prime interest rate in Canada was 12.06%¹. The financial reality of Alberta in 2019 is vastly different from Alberta in 1984. As a result, we recommend to repeal and replace, or amend s.4(1) of JIA to provide for a single prejudgment interest rate that is adjusted each year and applicable to all damages. The proposed change would:

- Modernize the JIA and ensure that it promotes the purposes for which it was originally enacted, and
- Continue to appropriately and fairly compensate the Plaintiff for the loss of use of money they would eventually receive, without incentivizing a delay on the part of the Plaintiff.

In January 2015, Ontario passed legislation linking the pre-judgment interest rate to the bank rate in the province, effectively balancing compensation and long-term rate stability. The Bank of Canada interest rate sets the standard for our country and would set a stable and predictable foundation for pre-judgment interest. Adopting the benchmark interest rate will almost immediately improve the affordability of automobile insurance in the province, while ensuring those awarded pre-judgment interest receive fair compensation.

¹ Statistics Canada, "Interest rates and exchange rates", www150.statcan.gc.ca/n1/pub/11-210-x/2010000/t098-eng.htm, accessed February 6, 2019.

Long term strategies for Alberta's future

***Our vision:** a future where Albertans will have a greater choice of insurance providers, more products and benefits to choose from, better customer service, including a more efficient approach for dealing with injured motorists, and a wider range of prices ranging from cost saving alternatives to more premium offerings.*

Technology and telematics can help to improve road safety and stabilize rates through education and awareness.

According to a 2016 study² conducted by the City of Edmonton, 94% believe that distracted driving behaviours such as texting or talking on the phone is a serious threat to safety, but 33% said they've recently done it while driving. This suggests more needs to be done to influence or change behaviour: from January – March 2017, over 24,000³ collisions were a result of distracted driving. Albertans agree⁴ our current penalties for distracted driving are not enough of a deterrent, and more needs to be done to address dangerous behaviours at an individual level.

With more drivers willing to try usage-based insurance, these systems can empower Alberta drivers to track their own behaviour and make changes including reducing distracted driving. Albertans who wish to participate should have the opportunity to provide insurers with evidence of safe driving practices and to receive a discount on their insurance costs.

In Ontario and Quebec, we recently updated our usage-based insurance program to include distracted driving as one of the variables impacting insurance discounts, and we are working with the government to launch a similar program in Alberta.

Direct compensation auto insurance will compensate Albertans faster, and minimize the strain on industry and judicial resources.

Direct compensation auto insurance coverage compensates consumers if their car is damaged in an accident and they are not at fault. It is called direct compensation because the customer deals directly with their own insurance company, instead of the at-fault driver's insurance company. Albertans will receive compensation faster, and claims will be handled more efficiently with costs more easily predicted benefiting the insurance premiums paid by Albertans. Direct Compensation is available in Ontario, Quebec, Nova Scotia, Prince Edward Island, and New Brunswick.

Implementing File-and-Use, then Use-and-File regulatory framework will reduce the regulatory burden on industry and Alberta consumers.

Stringent administrative price regulation is neither efficient nor effective for Alberta consumers. Albertans are not better off in terms of the availability, stability and price of insurance products because of the Prior Approval rate regulation framework currently in place. Customer and industry experience in many other regions has shown that more competition and market-based approaches will benefit all Albertans.

File-and-Use laws allow insurance companies to implement new rates without receiving prior government/regulatory agency approval. File-and-use laws for mandated products mandates the insurer file information supporting the change prior to implementation, while the regulator retains the option to strike down the rate if it is determined the adjustment cannot be justified.

Implementation of File-and-Use would allow for real time-based determination of insurance rates which would allow Albertans to benefit from changing circumstances that can drive down costs or ensure prices reflect incremental changes rather than face large spikes required to "catch-up" after the fact.

As an industry, we must focus on leveraging opportunities and mitigating challenges that these and other emerging trends create to ensure Albertans benefit from responsive, balanced and fair insurance.

²<https://www.edmonton.ca/transportation/RoadsTraffic/TrafficSafetyCultureSurveyReport2016.pdf>

³<https://ama.ab.ca/2018/01/02/distracted-driving-stats-double-standard>

⁴<http://www.airb.alberta.ca/industry-information/annual-review/2017/AIRB-Annual-Review-PPV-2017-Report-Appendix-C-Consumer-Representative.pdf>



In conclusion

As part of our commitment to achieving this future, we are making changes to how we conduct business – upgrading legacy technology to make it easier for customers to access the insurance solutions they need, such as the Intact app to make insurance more accessible for Albertans, managing expenses, and leveraging telematics to provide customers with customizable rating experience in personal auto. We are also working to ensure Albertans have access to information to help adapt to our changing climate through awareness and strategic changes to their homes and vehicles.

But our actions are not enough. We need to partner together with the industry, the Alberta government, and the rate board, to establish a regulatory framework that drives increased competition and consumer choice, availability of agile and responsive insurance products and stabilized pricing for insurance products. Alberta has the opportunity to be a Canadian leader and implement an approach to regulation that delivers the best outcomes for Albertans and supports a robust insurance industry which fully provides for the needs of tomorrow.

We look forward to working with the AIRB to address these important issues that impact our customers, employees and all Albertans.



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