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July 27, 2022

Ms. Laurie Balfour  
Executive Director, Automobile Insurance Rate Board  
#2440 Canadian Western Place  
10303 Jasper Avenue  
Edmonton, AB T5J 3N6

**RE: AIRB 2022 Annual Review**

Dear Ms. Balfour,

Thank you for the opportunity to participate in the Automobile Insurance Rate Board's (AIRB) annual review of auto insurance trends and rates for basic and additional coverage. We will provide our view on Oliver Wyman's (OW) W selected trends, the impact of inflation and the reforms introduced in 2020.

**Oliver Wyman's Loss Costs Trends**

Aviva believes that OW's loss trends would be appropriate if we were living in a period of stability and certainty but we are not. OW's loss trends do not include an adjustment for elevated inflation and are therefore understated. OW recognizes that we are in unprecedented times and as such, estimates of future trend are subject to considerable uncertainty. COVID-19, inflation and reforms introduced in 2020 are all contributing to uncertainty. Using data prior to 2022 may grossly understate current trends. We note that OW has only referenced the impact of elevated inflation on the Physical Damage coverages. Aviva believes that elevated inflation will impact all three coverages- Bodily Injury, Accident Benefits and Physical Damage.

Data from the years 2020 and 2021 will be of limited value due to COVID-19. COVID-19 led to reduced driving, less accidents, and lower loss costs, We have returned to pre-COVID driving levels. The favourable loss costs and loss ratios seen in 2020 and 2021 will not continue. There will be pressure to increase premiums.

Adding to the uncertainty are the reforms that were introduced in 2020. The full impact of the reforms will be seen with the passage of more time and the return to pre-COVID accident frequency. We have seen the impact of some of the reforms- the pre-judgment interest change has produced savings; the expanded income replacement benefits and increased health care fees have added more costs and the minor injury definition changes appear to be underperforming and not delivering the anticipated savings. We believe that OW's Bodily Injury loss trend is consequently understated.

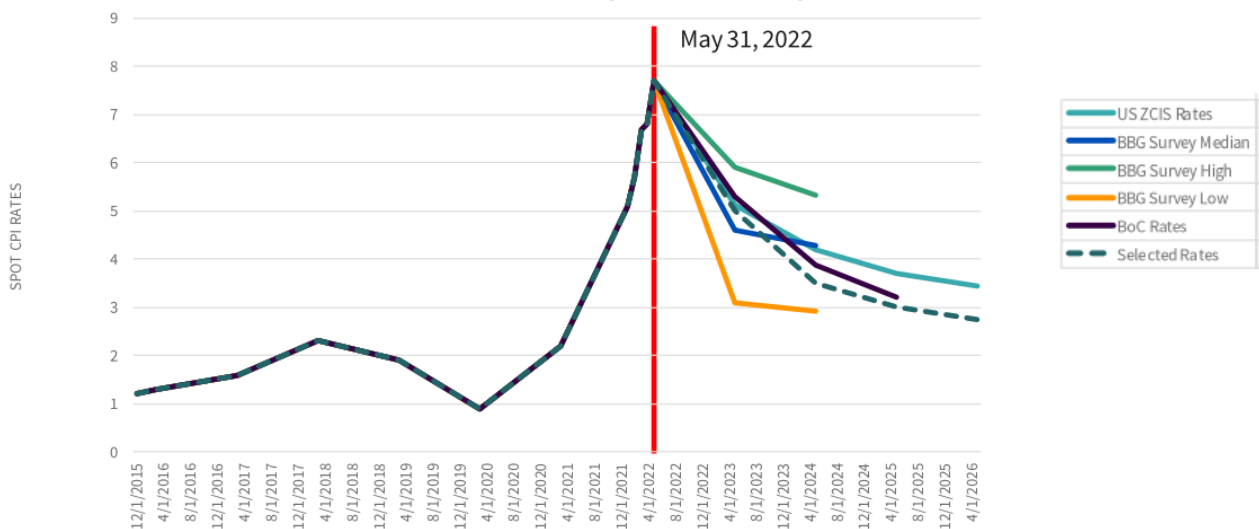
Inflation, discussed below, is the most significant contributor to uncertainty. Estimates of inflation using data prior to 2022 would **grossly understate** current trends.

The past will not be a reliable indicator of the future so it will be important for the Board to look beyond past trends and indications, give more weight to insurers' actuaries and be forward looking. In particular, the insurer's inflation assumptions for all coverages will be crucial components in rate adequacy calculations. Historical rate inadequacy coupled with record inflation and a high degree of uncertainty underline the need for insurers to receive rate increases. The AIRB's Business Plan sets a 2% target for rate increases. This target does not seem reasonable in the current environment given annual net loss trends are in the range of +4-5%. We urge the Board to allow actuarially justified increases.

### Inflation

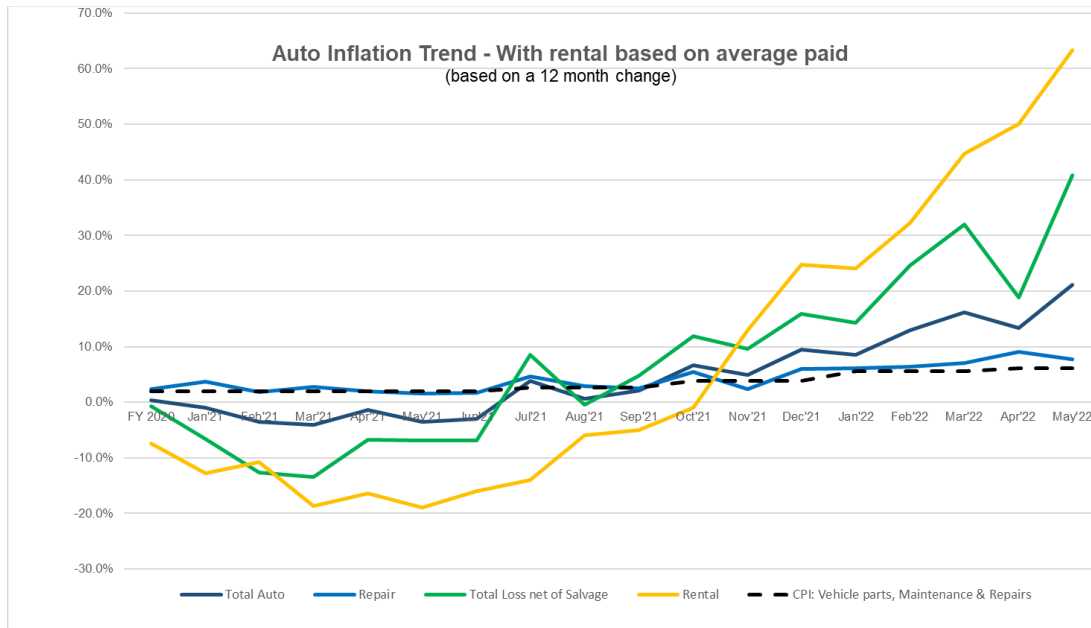
Canada's inflation rate rose to 8.1% in June, the highest since January 1983. Projections going forward vary depending on the source. Most experts agree that inflation will peak in 2022 and gradually reduce by 2025 but not to pre-2022 levels.

**Comparison of Canadian CPI Rate Projections (May Data)**



The impact of inflation is already seen in auto physical damage claims, as seen in the graph below. We have experienced inflation of 13% or more per month since February. This is driven primarily by supply chain issues which impact the availability of parts. The reduced availability of parts has led to increases in the cost of parts and used vehicle prices. Rental vehicle costs have increased sharply with the longer repair times.

### Auto Inflation Trend



The calculation of future loss trends has always included an element of inflation that has been based on historic CPI. That approach must be adjusted in an environment of unprecedented inflation. It will be important to consider “inflation shock” or elevated inflation in the calculation of future loss trends. Inflation shock is defined as the difference between the CPI Rate Projection and the normal average CPI in the historical years. Inflation Shock represents the increase we expect to see above the regular inflation / loss trend.

Using the data and expert opinion, we estimated the degree to which the inflation shock will impact each coverage. By overlaying the expected change in CPI over time, we estimated the impact of the inflation shock in the future for each coverage. We expect the inflation shock to be greatest for Physical Damage, followed by Bodily Injury and Accident Benefits. We expect inflation shock to increase our indications for Personal Auto by 7.3%. Broken down by coverage, the increase to indications is estimated to be: Physical Damage +7.6%, Bodily Injury +7.4% and Accident Benefits +4.6%.

Current rates are not adequate to cover future costs.

## 2020 Reforms

Aviva continues to be concerned that the 2020 reforms will not produce the savings forecasted by OW. We acknowledge that it is still early to fully understand the impact of the reforms, especially the Minor Injury definition change. COVID-19 has further confused things. However, Aviva's early indications show that we are not seeing the expected increase in Minor Injury claims (as a proportion of total Bodily Injury claims). It is our opinion that the expected reform factor of -18% will not materialize.

The Industry Reform Benchmark Adjustment was based on the following assumptions:

Using the 2010/2012/2017 CCS Database, we assume that any claimant currently identified as a "minor" claimant subject to the MR would continue as such. In addition, claimants (currently not identified as minor) with any of the following injuries would be considered as "minor":

- Any sprain, strain, WAD I, II or III, plus Temporomandibular Joint (TMJ) injury with no damage to bone or teeth or displacement of articular disc;
- Any sprain, strain, WAD I, II or III, with duration lasting longer than six months;
- Any sprain, strain, WAD I, II or III, resulting in an impairment physical or cognitive in nature; and
- Psychological injury or post-traumatic stress disorder (PTSD)

Aviva is seeing less not more claims being settled under the Minor Injury cap. Specifically, we are struggling to capture in Minor Injury:

- Sprain, strain, WAD I, II or III, with duration lasting longer than six months
  - The Court in *McLean v. Parmar* said that a sprain lasting longer than 6 months is considered chronic pain and is not a minor injury.
- Psychological injury or post-traumatic stress disorder (PTSD):
  - The amendments only apply to clinically associated sequelae of a sprain, strain or WAD I, II or III injury. Most psychological injuries are being presented as chronic pain, fibromyalgia or clinical depression which are separate injuries, not sequelae of the soft tissue injury and thus not contained in Minor Injury.

Aviva would be pleased to answer any questions arising from its submission. Thank you to the AIRB for the opportunity to comment.

Yours very truly,

**Aviva Canada Inc.**

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