

It takes

AVIVA

Aviva Presentation to AIRB Annual Review

August 17, 2023

For  
**325**  
years



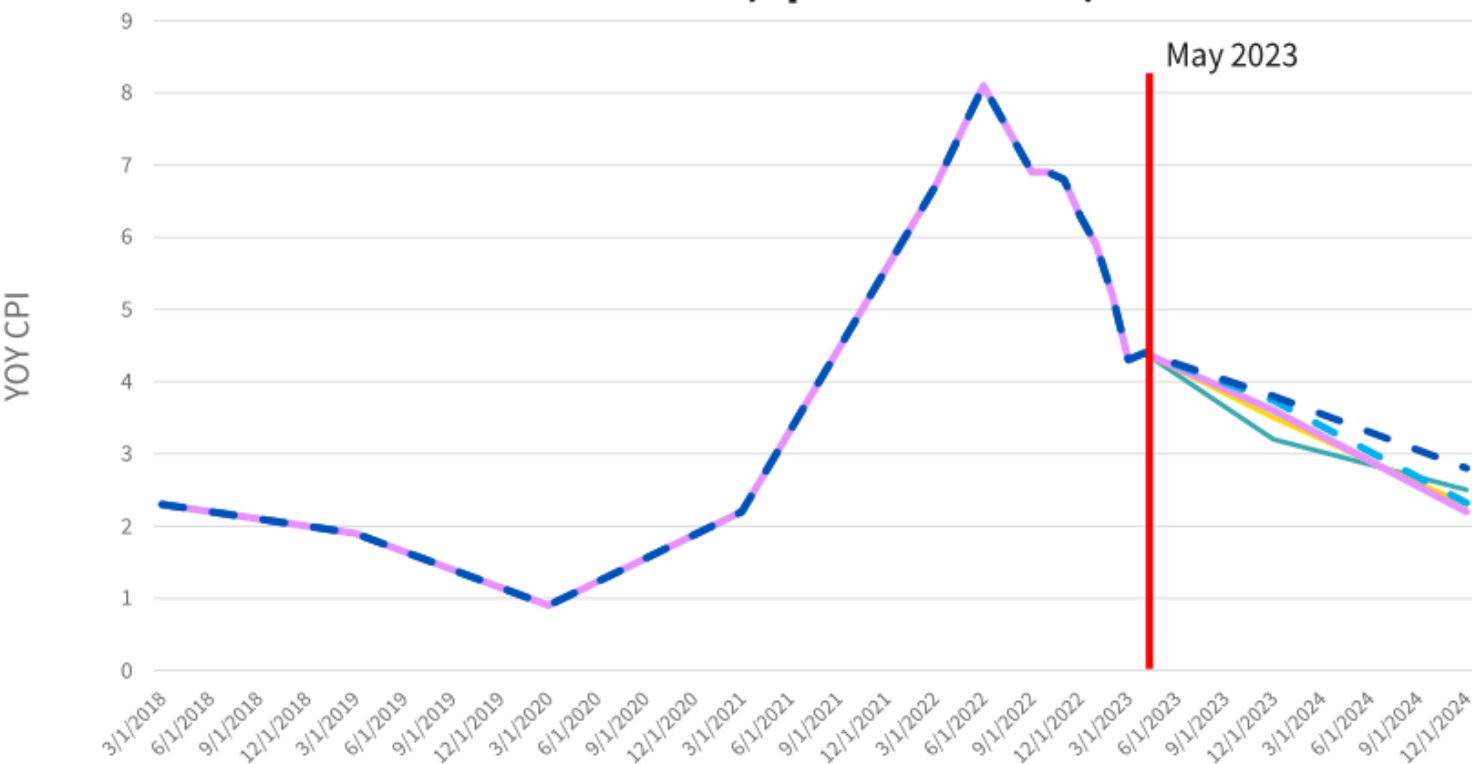
# ➤ Executive Summary

- Aviva agrees with OW's 2022-2 Industry loss trends selections
  - Trends are appropriate at the aggregate level
- There are still uncertainties about inflation, the impact of reforms and individual insurer claim experience
- OW acknowledges the significant increase in PD/COL severity that occurred in 2021 and the need to adjust historical accident years (2021-2 and before) to account for elevated inflation
  - But elevated inflation will persist until at least 2024 so adjustment is also needed for the initial years following late 2021
- Continuing long-term uncertainties from Bill 41 reform impact and the potential delay in inflation for BI and AB
- 2022-2 frequency level alone is not reliable to conclude a “new normal” frequency
- Watch for migration of auto theft from Ontario to Alberta
- AIRB should continue to consider the individual experience of the insurers and give weight to opinions of company's actuaries

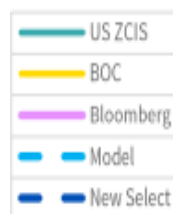
# Inflation has likely peaked

## Though underlying core inflation will remain sticky

Canadian CPI Inflation Forecast (April 2023 Data)



**Inflation projections vary depending on the source. We selected CPI Rate Projections based on inflation-linked securities Market Data.**

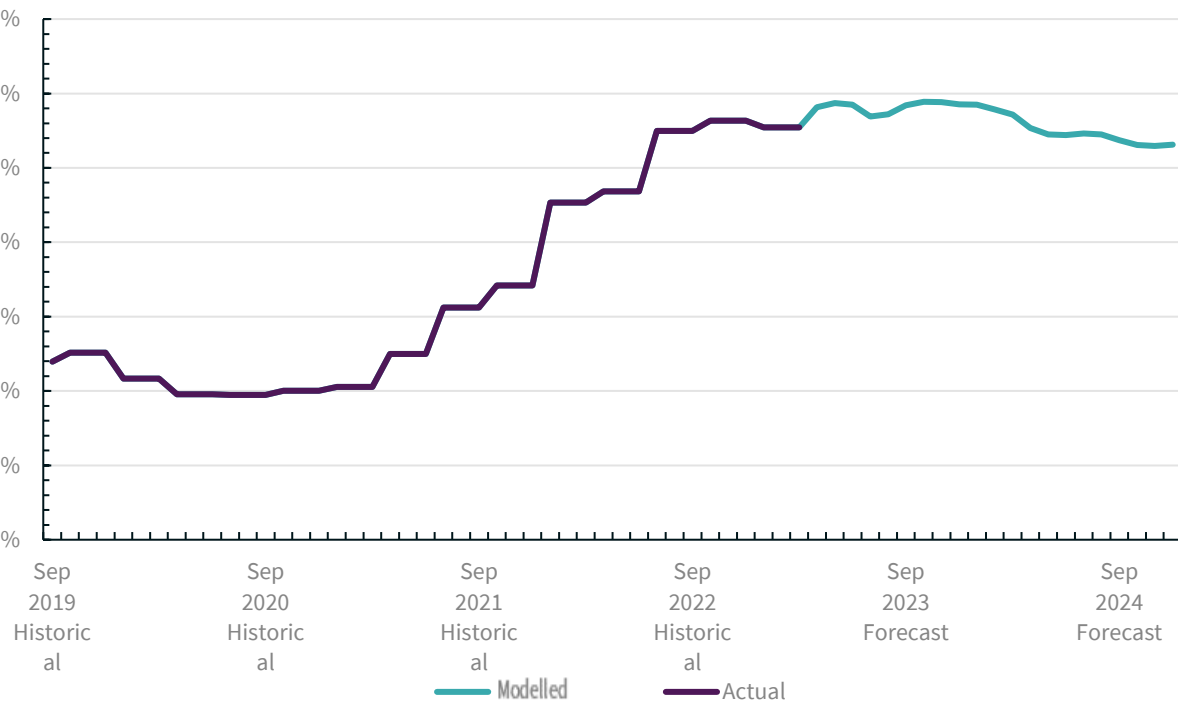


**Inflation is moderating but underlying core inflation will remain sticky – Inflation is likely to be structurally higher over the longer term too**

- Premium growth will be offset by inflation-driven increases in claims costs for P&C insurers.
- Rising costs will continue to erode profit margins for insurers that are unable to achieve sufficient rate.
- Inflation will also drive up wages as insurers seek to retain talent.

# Auto Parts Inflation

## Canadian Parts YoY Change



## Auto parts inflation is a good indicator for Physical Damage inflation

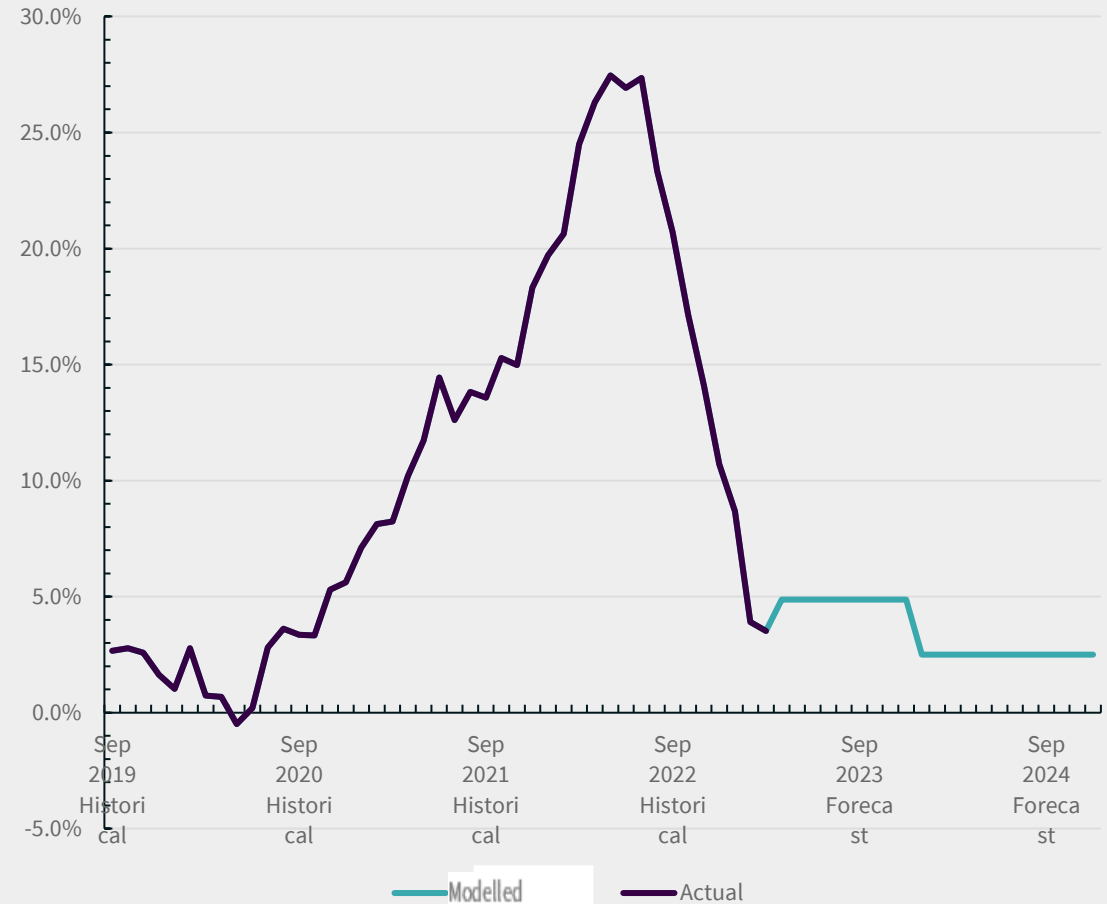
- Aviva has been modelling PD/ COL claims inflation with parts price index
- Parts inflation has not returned to pre-2021 level
- Insurers should have flexibility to adopt a different trend for post-2021 or include an inflation adjustment factor for the early periods after 2021

# Used Car Inflation

## Used car inflation is a good indicator for Physical Damage inflation

- Aviva has been modelling PD/ COL claims inflation with used car price index
- Used car inflation is projected to return to pre-2021 level in 2024
- Insurers should have flexibility to adopt a different trend for post-2021 or include an inflation adjustment factor for the early periods after 2021

## Canadian Used Car Price YOY Change



# Wage Inflation

## Canadian Wages YoY Change



## Wage inflation is a key predictor for claim cost inflation

- Aviva has been modelling PD, COL, BI, AB claims inflation with used Canadian wage data
- Wage inflation has not returned to the pre-2021 level
- Insurers should have flexibility to adopt a different trend for post-2021 or include an inflation adjustment factor for the early periods after 2021

# Inflation Shock Impact

- **Inflation Shock** (also known as elevated inflation) is 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.
- Oliver Wayman estimated a one-time severity increase at 2021-2 for PD and COL.
- Using the data and expert opinion, we estimated the degree to which the inflation shock will impact each coverage. For example, the inflation of PD claim cost is 11.5% higher than the regular inflation in 2022.
- We expect inflation shock to persist beyond 2021. Insurers must factor in the additional cost in their indications.

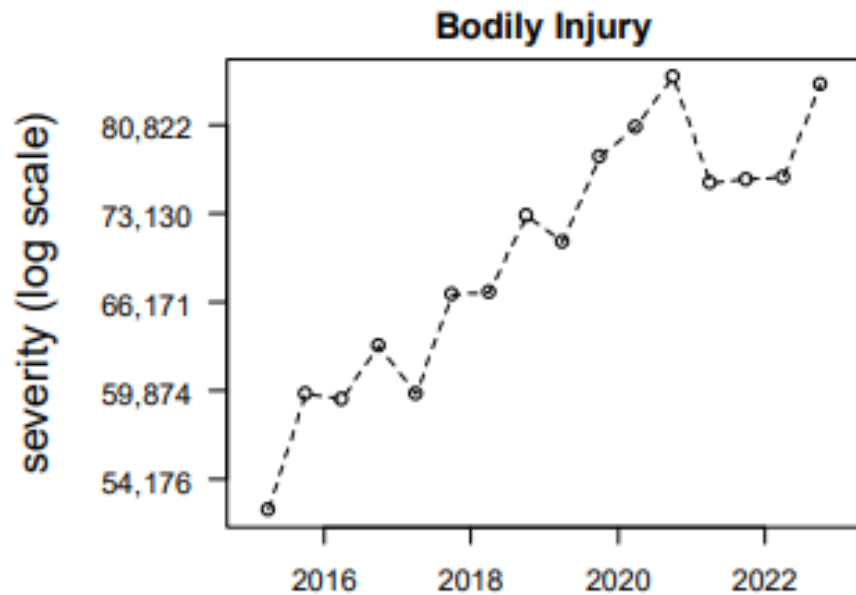
## Inflation Shock by Coverage (Year over year)

	Baseline	2022	2023	2024	2025	2026
Auto Physical Damage	1.74%	11.50%	2.50%	2.00%	0.75%	0.75%
Auto Accident Benefits	1.80%	2.50%	1.50%	1.00%	0.75%	0.75%
Auto Bodily Injury	2.07%	3.50%	2.00%	1.50%	1.10%	1.10%
Personal Property	1.77%	4.00%	2.00%	1.00%	0.75%	0.75%

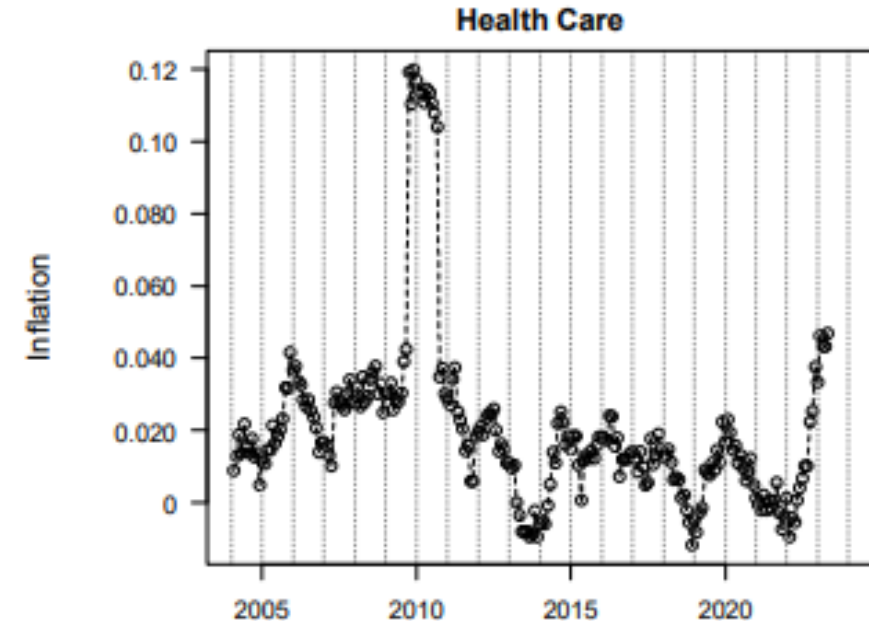
# Impact of inflation and reforms on BI and AB remain uncertain

- BI severity has increased in 2022-2
- Pre-judgment interest is high as it fluctuates with CPI interest rates after Bill 41, and the current interest rates are high
- Aviva agrees with OW that inflationary pressures on health care costs have lagged behind physical damage
- AIRB should be flexible when assessing insurers' BI and AB severity projections

**Historical severity (Figure 12) provided by Oliver Wyman:**



**Consumer Price index (Figure 11) provided by Oliver Wyman:**



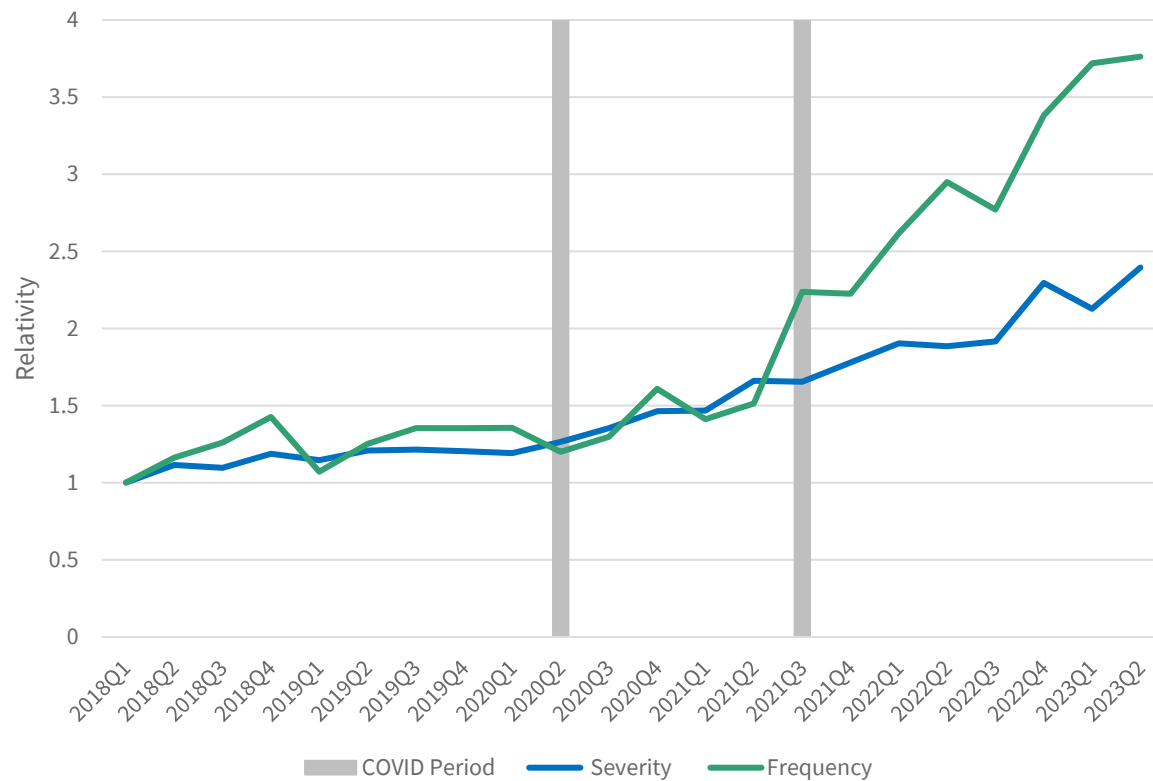


# “New Normal” Claim Frequency Level

- Aviva agrees with OW’s recommended adjustment to historical accident years to reflect the change in claims frequency expected as a result of the reforms and the general shift toward a hybrid workplace
- OW considers 2022-2 to be the starting point of the “new normal” and suggests a prospective adjustment to the historical accident years based on 2022-2’s trended frequency level
- Aviva believes that 2022-2 **may be a starting point** but it is premature to say that 2022-2 is the new normal” because:
  - PD claim frequency in 2022-2 is even higher than the pre-pandemic level. Aviva does not believe the increased frequency is due to a shift from collision to DCPD claims.
  - Data suggests total kms driven is increasing despite hybrid work.
  - Companies continue to encourage employees to spend more days working in the office which may continue to increase total kms driven and claim frequency.
  - It’s too early to conclude we have already seen the full impact of the reforms.

# Auto Theft Crisis

## Aviva Ontario PPV Theft Comp Severity and Frequency



## Auto theft has hit crisis levels across Canada.

- Theft claims frequency and severity have increased significantly especially in Ontario due to organized crime
- Alberta has not experienced the same increase in auto theft as Ontario
- As Ontario clamps down on auto theft, we should watch for criminal organizations to move their operations to other provinces

# Conclusion

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- Aviva recommends additional consideration be given to the following:
  - Elevated inflation after 2021
  - Long-term uncertainties from Bill 41 reform impact
  - Uncertainties of the “new normal” frequency level
  - Potential migration of auto theft from Ontario to Alberta
- We encourage the Board to consider that insurers have different claims experience from the industry average



**Thank you**

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