



# **Automobile insurance Rate Board 2017 Annual Review**

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**August 15, 2017**

# Agenda

Aviva's auto insurance results

Bodily injury

Accident benefits

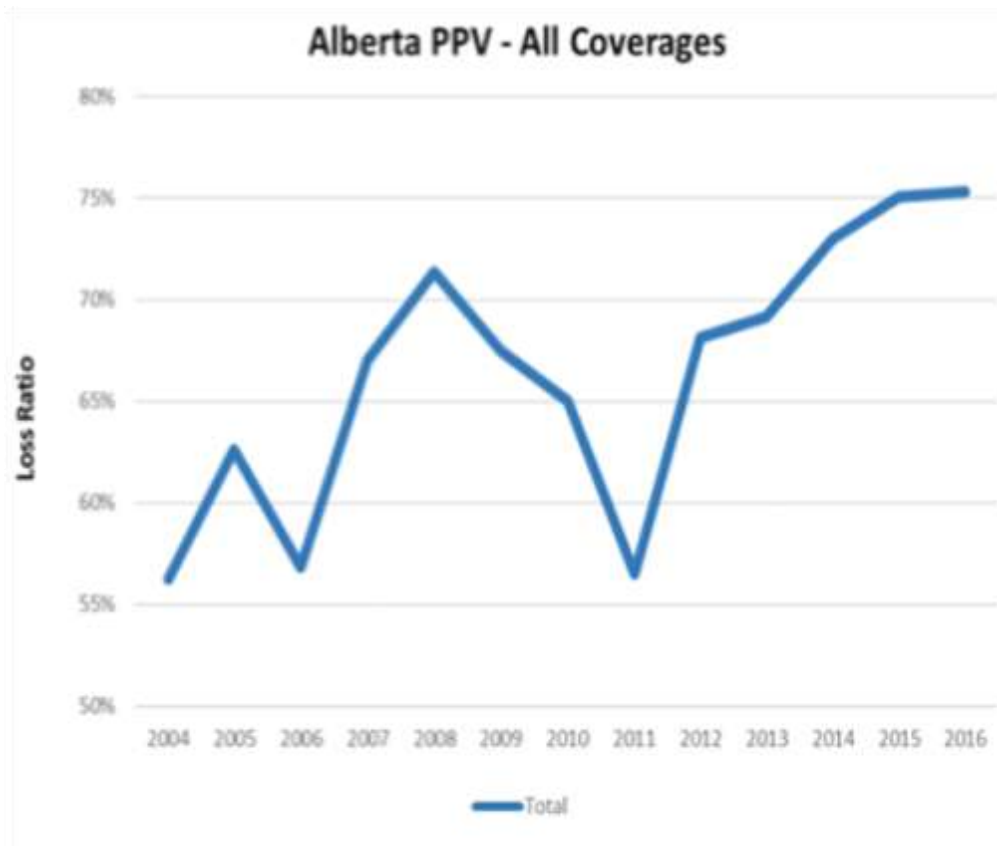
Collision and comprehensive

The Grid

Miscellaneous issues

# Aviva's auto insurance results

## Aviva's loss ratio – Alberta PPV

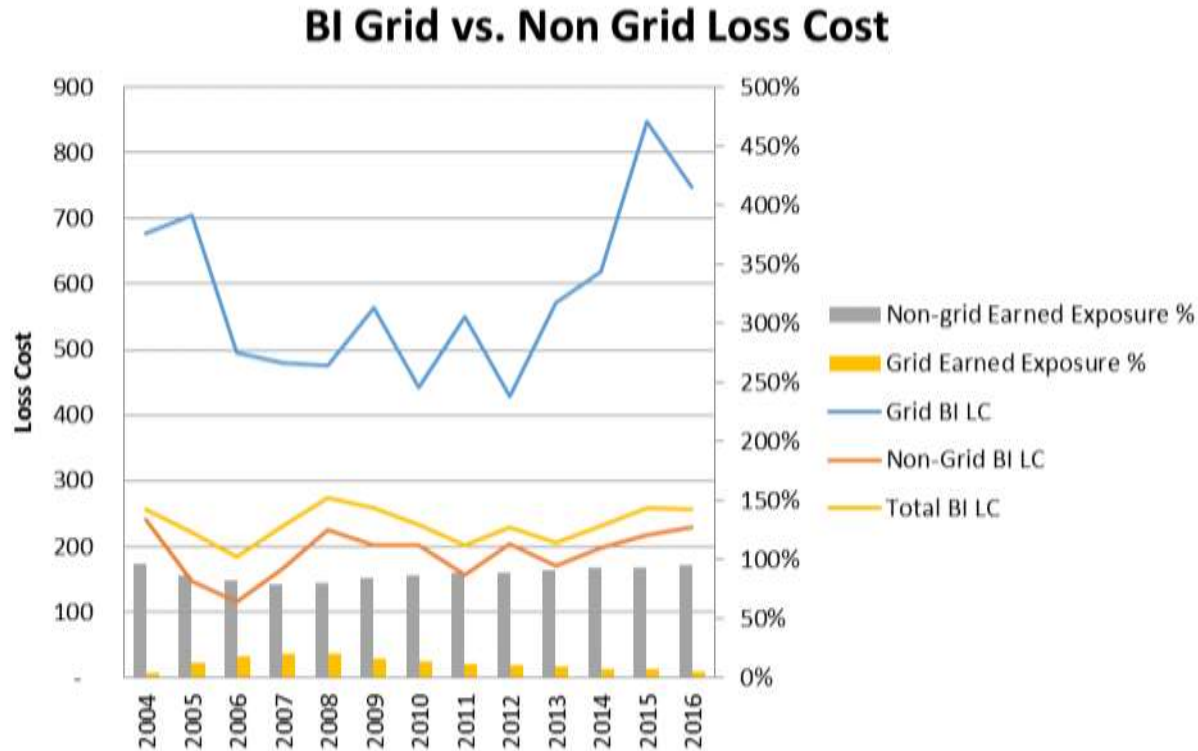


- Aviva's overall loss ratio deteriorated by 18 points from 2011 to 2016.
- Combined operating ratio deteriorated from 100% in 2012 to 108% in 2016.
- AIRB has recognized the need for rate increases
  - ✓ 3.4% rate increase effective March 2016
  - ✓ 6% rate increase effective November 2017.

# Bodily Injury

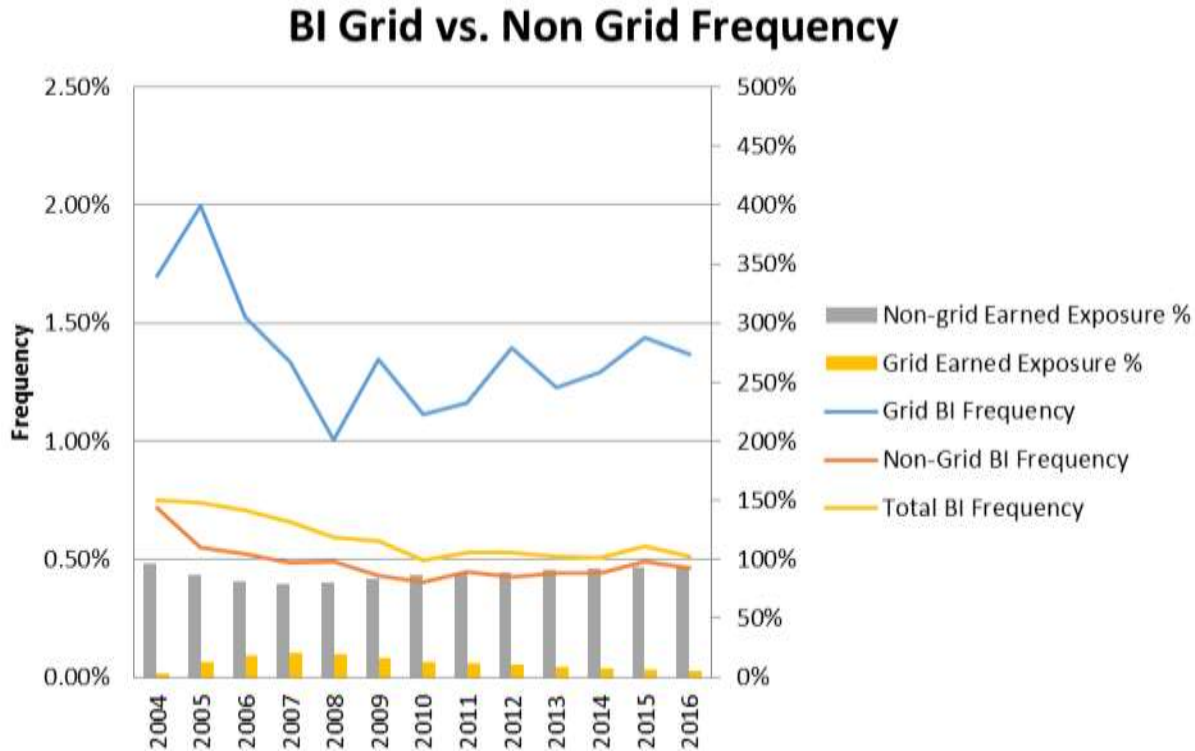


# BI loss costs continue to rise



- Some volatility in experience over the years due to the volume of data and possibly due to weather and economic conditions.
- However, there is significant deterioration in overall bodily injury frequency and severity since 2011.
- Frequency shows a consistent upwards trend but the main cause for concern is severity.

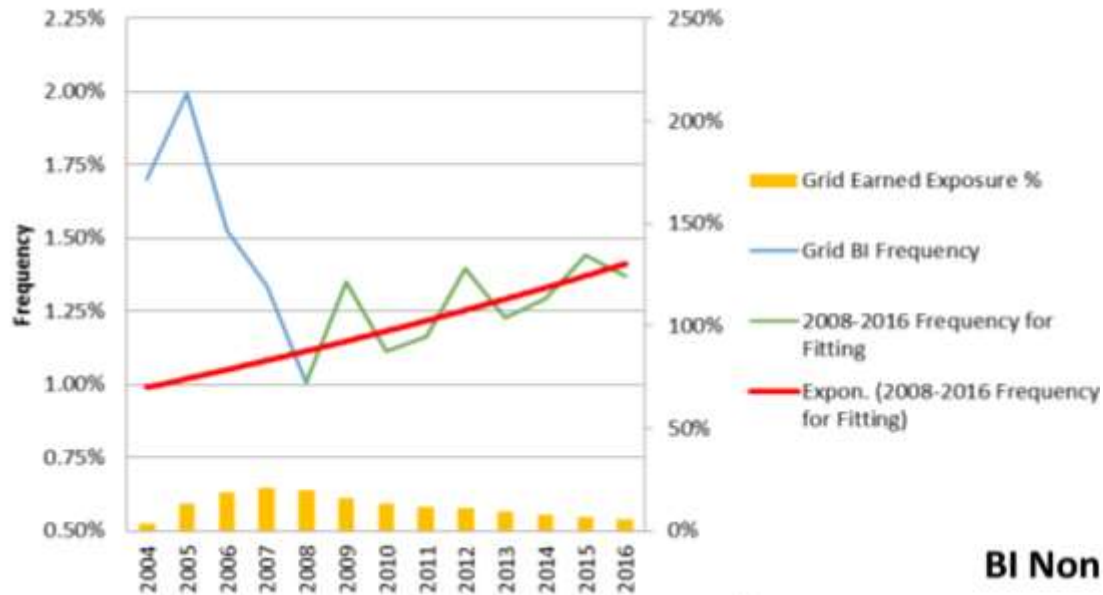
# BI frequency has increased



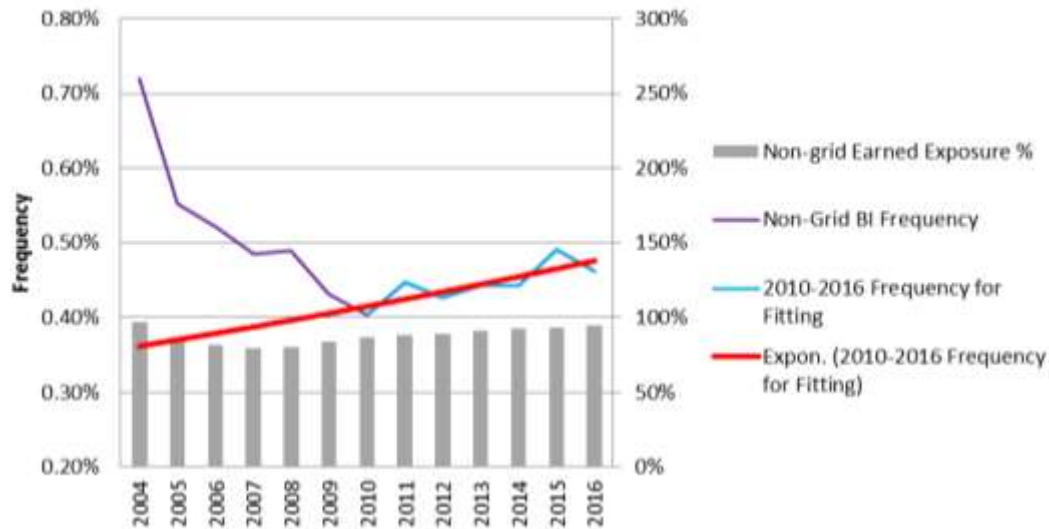
- Grid Bodily Injury frequency steadily increased since 2008
- Non-Grid Bodily Injury frequency steadily increased since 2010
- Reduction in frequency in 2016 is likely due to volatility and is not a new trend

# Increases in Grid and non-Grid frequency

## BI Grid Frequency

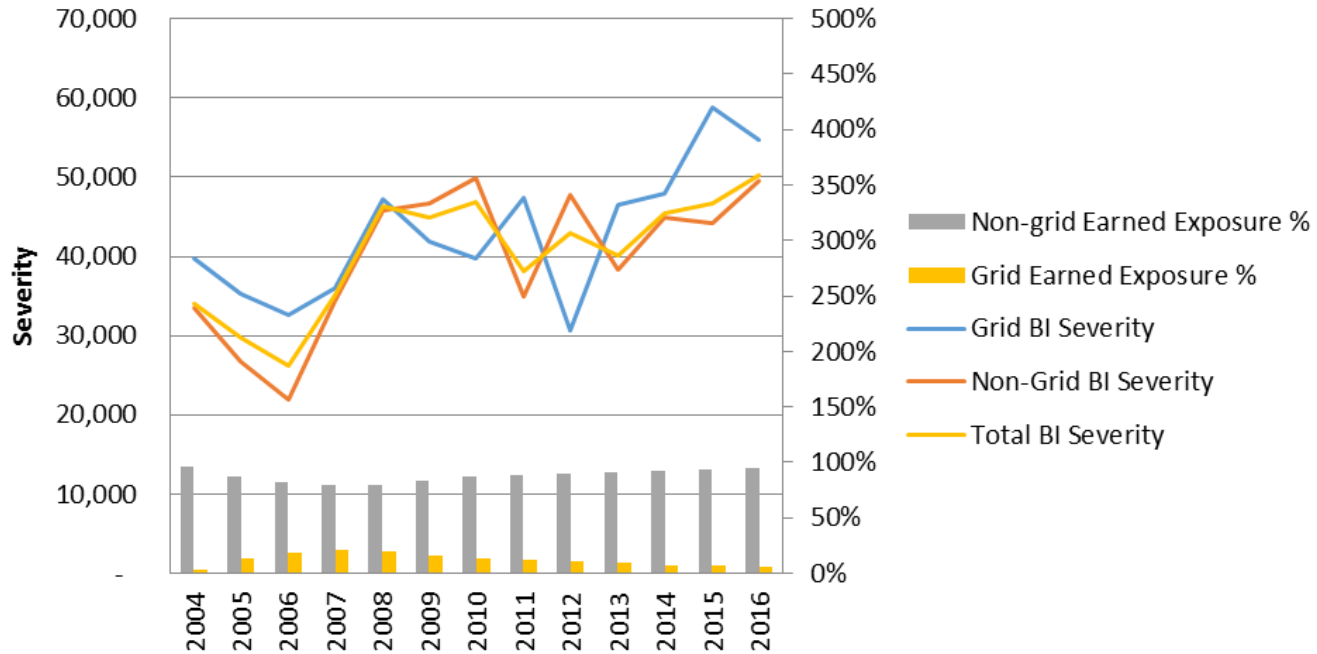


## BI Non Grid Frequency



# BI severity

## BI Grid vs. Non Grid Severity



- Grid and Non Grid Severity have increased by 32% between 2011 and 2016 and is cause for concern
- We agree with Dr. Ron Miller and Oliver Wyman: that BI loss costs are expected to continue to increase



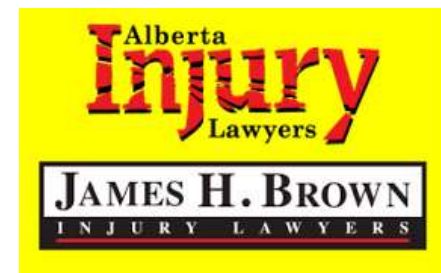
## BI cost drivers

- In 2014, Aviva conducted an internal review to understand the causes of unfavourable reserve development in BI claims.
- Three cost drivers were identified:
  - 1) Increase in legal representation
  - 2) Slippage in Minor Injury Claims due to the 2012 Sparrowhawk v Zapoltinsky decision
  - 3) Increase in allegations of psychological, chronic pain and TMJ injuries
- In response to the 2014 study:
  - ✓ Aviva increased ultimate losses particularly for accident years 2012 through 2014 to reflect the additional uncertainty not yet fully seen in the loss development factors
  - ✓ Aviva's recent emergence exceeded our expectations but was smaller overall than what we saw at the time of the study
  - ✓ Ultimate losses increased for accident years 2014 and 2015

**We have seen additional deterioration  
in the emergence in our 2017Q2 analysis.**

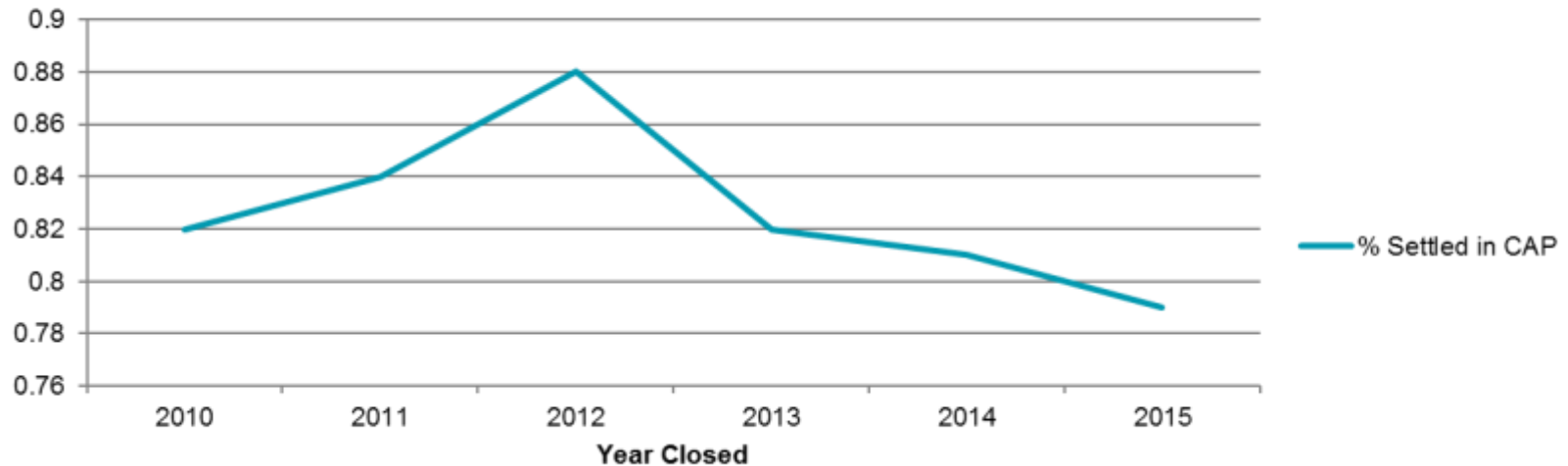
# Legal representation

- **Rate of legal rep by plaintiff counsel has increased since the 2008 constitutional challenge**
  - ✓ Less than 20% of BI claimants had legal representation before 2008
  - ✓ 2009: 33% BI claimants represented
  - ✓ 2010: 41% BI claimants represented
- Legal representation has leveled off at 27%
- **Increase in legal representation has a financial impact**
- Claims with legal rep cost 2-3 times more than unrepresented claims
- Insurers are exposed to plaintiff's costs and disbursements/incur their own legal expenses



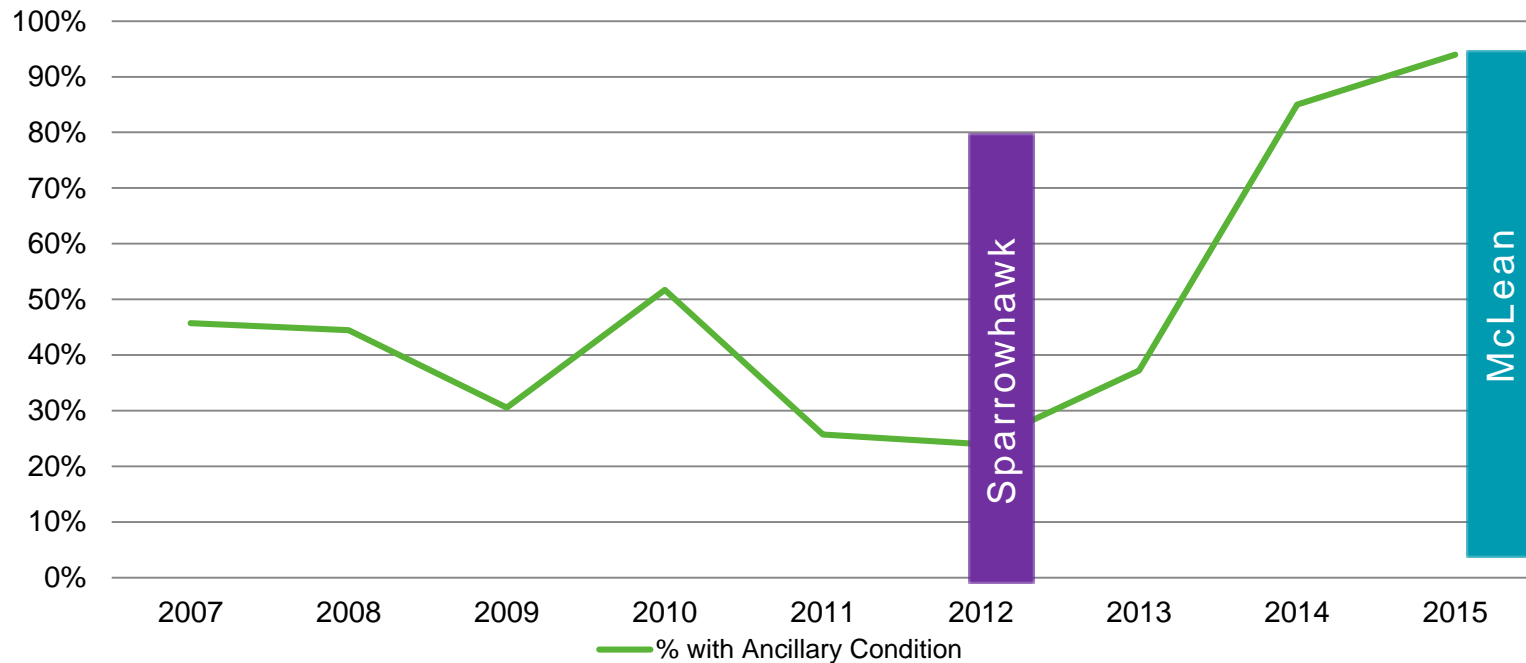
## Minor injury settlements

### Percentage of Claims Settled within CAP



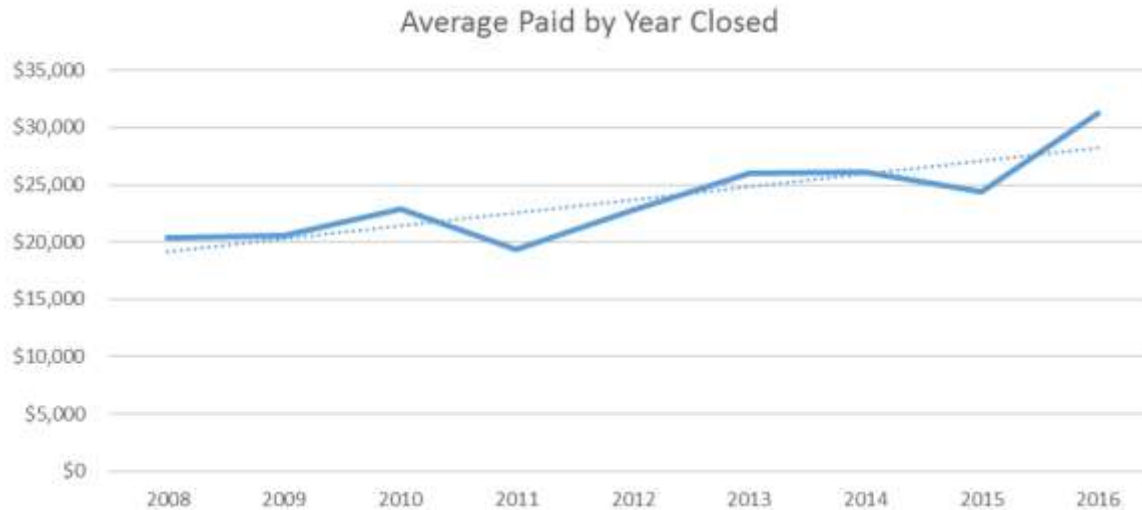
- Aviva is resolving less claims within the Minor Injury Cap since the *Sparrowhawk and McLean decisions*
- The number of claims resolved within the Minor Injury Cap has dropped from 83% in 2005- 2007 to 77% in 2016
- The slippage in Minor Injury Settlements has a direct correlation to the increase in BI severity

## Psychological injury and chronic pain

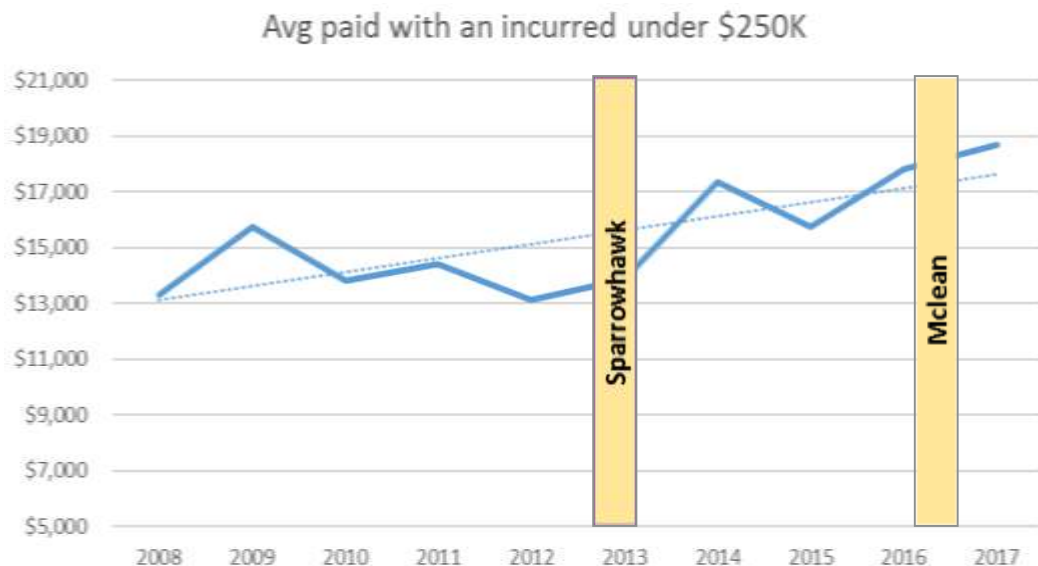


- Plaintiff counsel are using psychological injury and chronic pain to get out of Minor Injury
- 94% of claims with plaintiff counsel include an allegation of psychological or chronic pain

## BI average paid is increasing



- BI average paid on all closed claims increased from \$20,331 in 2008 to \$31,200 in 2016.
- This is an increase of 53.4%.



- Claims that escape Minor Injury Cap are also included in the average paid with an incurred under \$250k chart.
- Average paid on these claims has increased by 34% since 2008.

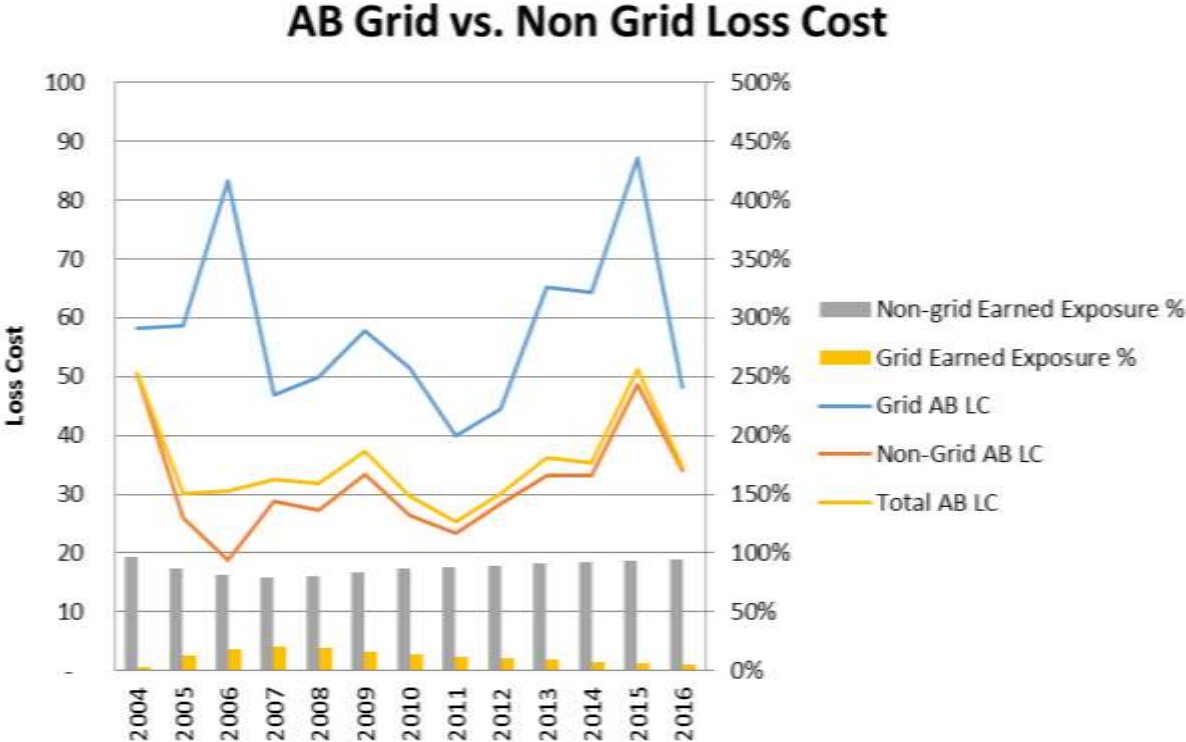
## Minor injury definition needs to be amended

- We agree with Dr. Ron Miller and Oliver Wyman's expectations: that BI loss costs will continue to increase.
- We do not expect this trend to change until the Minor Injury definition is changed.
- We expect the McLean decision to have a significant impact on BI loss costs.
- The Impact of the McLean decision has not yet fully materialized in BI loss costs but plaintiffs undergoing more psychological counselling.

# Accident benefits



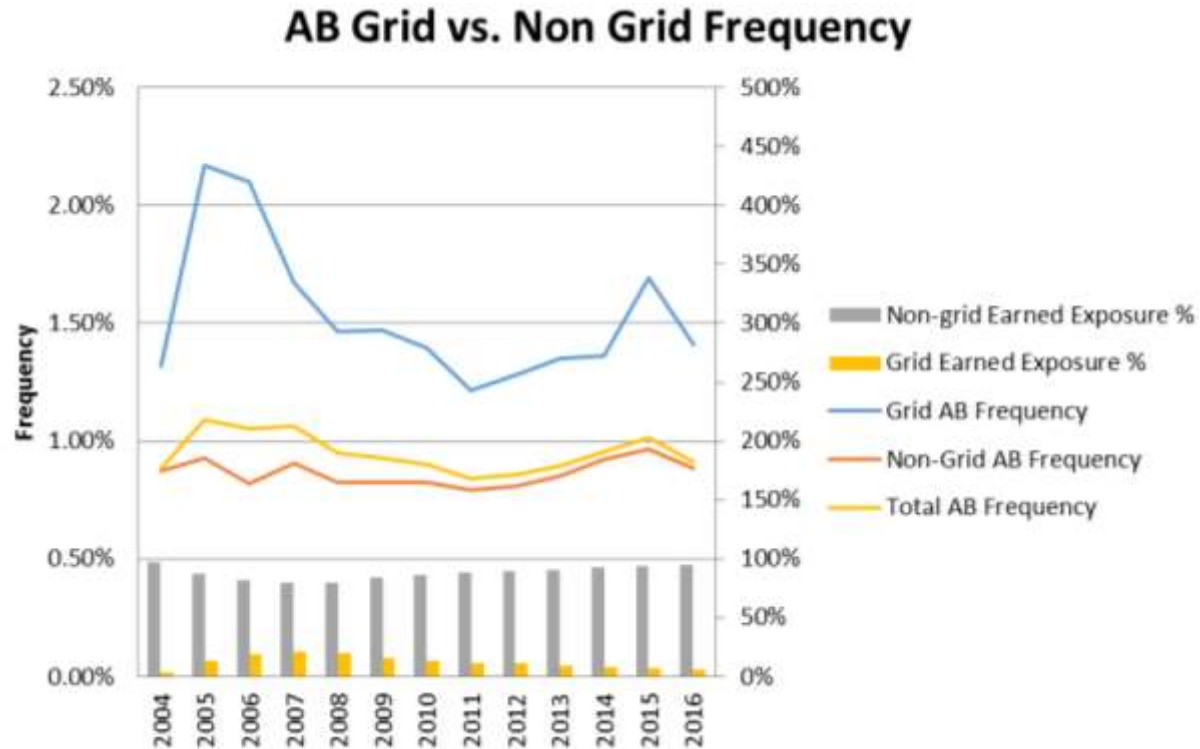
# Accident benefits loss cost



- Severity has generally been increasing since 2011
- The data is very volatile but we expect to see a generally increasing pattern continue

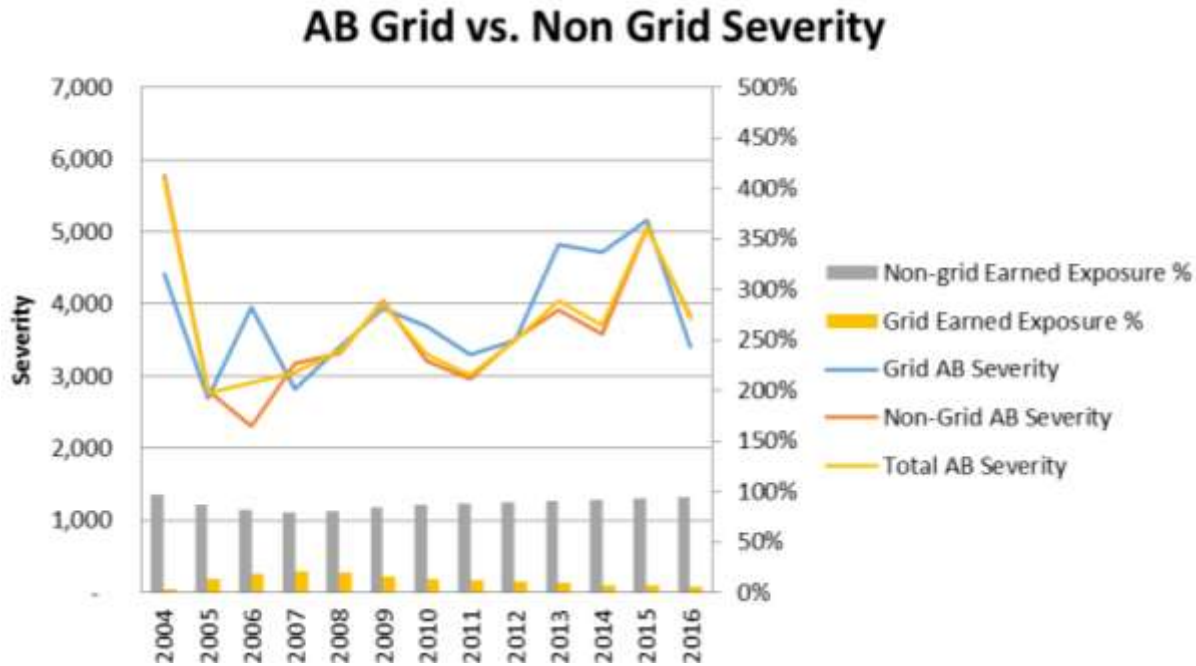


# Accident benefits frequency



- AB frequency had a sharp increase in 2015
- Grid frequency is higher than non-Grid

# Accident benefits severity



- Severity shows a generally increasing pattern for both Grid and non-Grid

# Collision and comprehensive

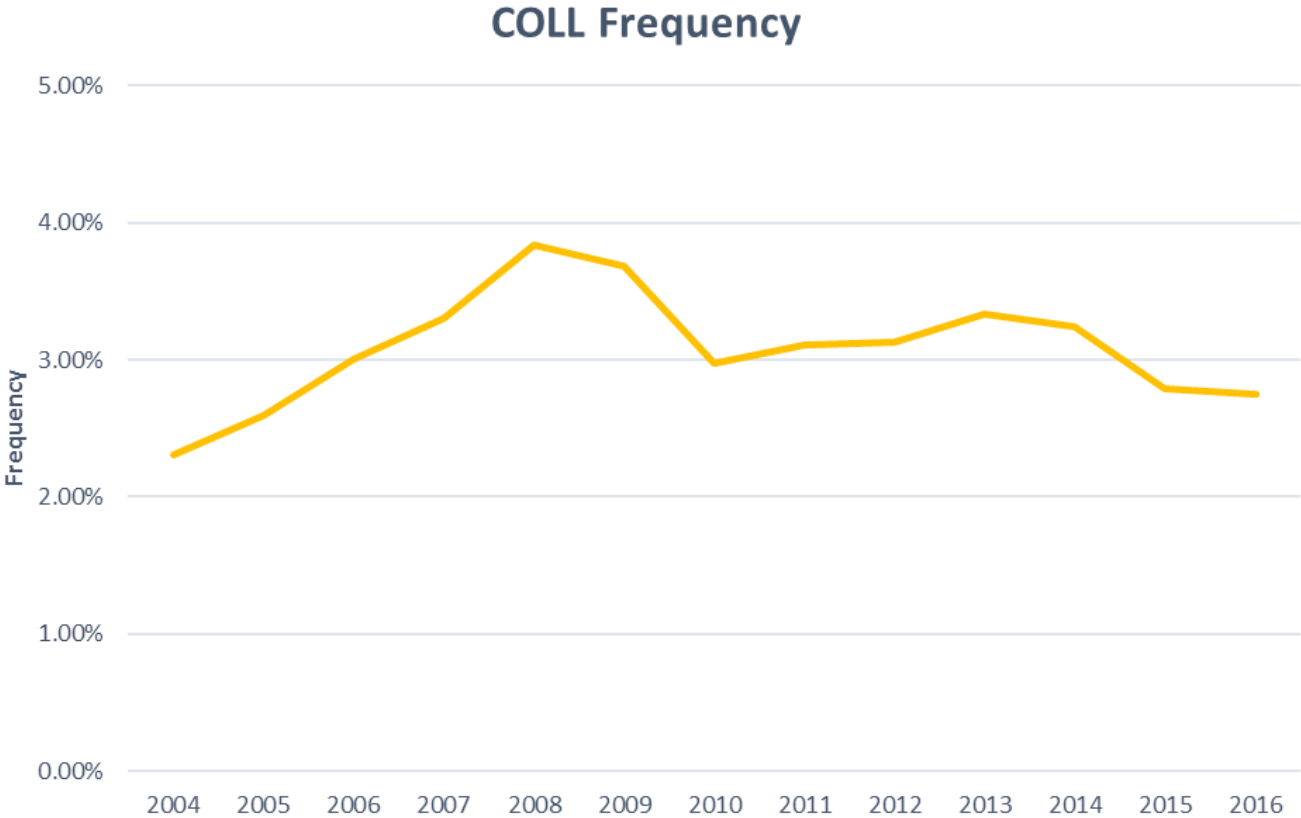


# Collision



- Reduction in loss cost could be due to the milder weather in 2015 and 2016
  - ✓ likely not a new long-term trend
- increase in severity even after consideration of seasonality, continuing well into our 2017 Q2 data
- Aviva did not see the same decrease in severity in 2016 that Oliver Wyman has noted in the industry data

# Collision

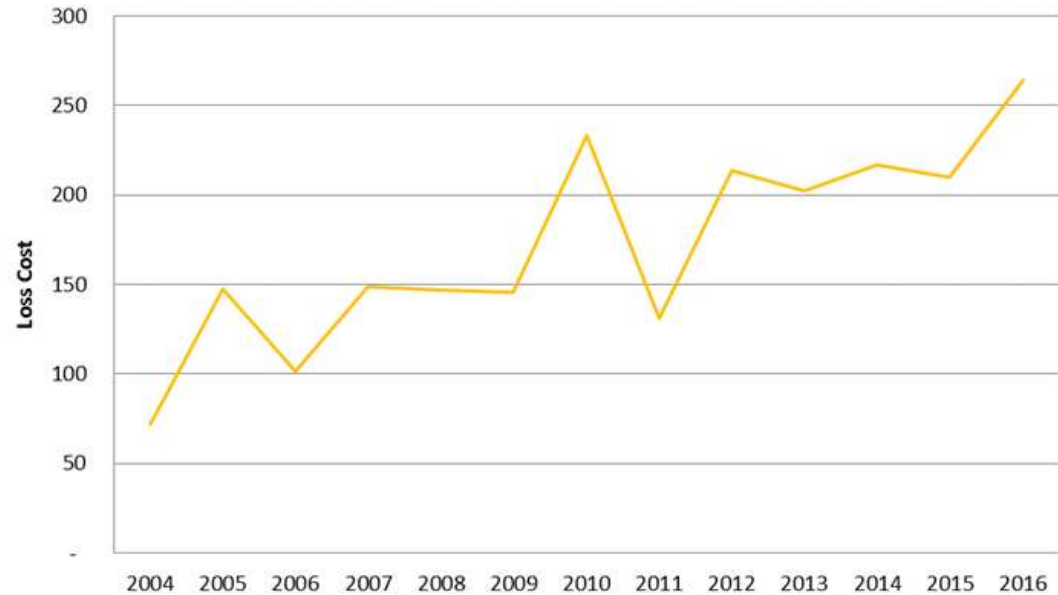


- Slight decrease in frequency in accident years 2015 and 2016

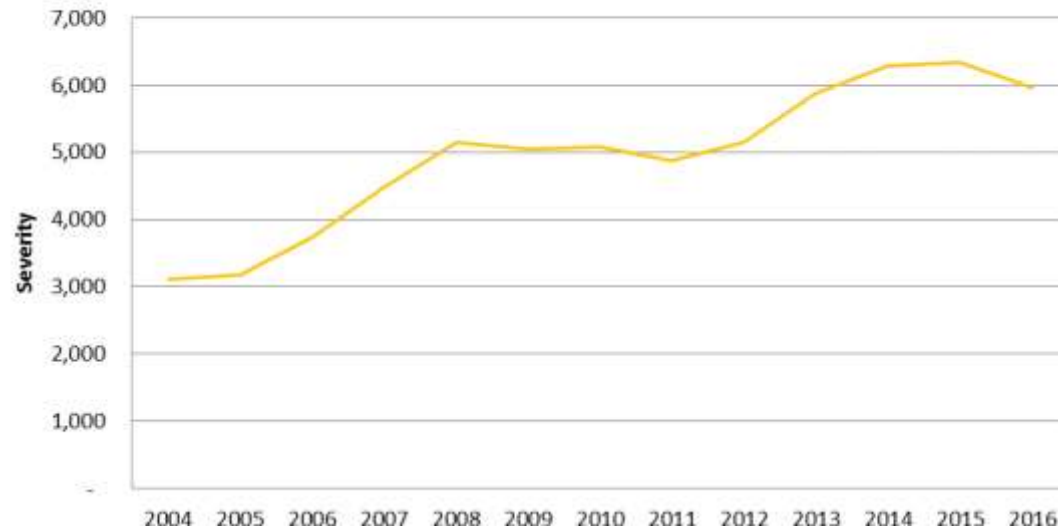
## Comprehensive

- Comprehensive loss costs have been trending upward
- Aviva expects this trend will continue

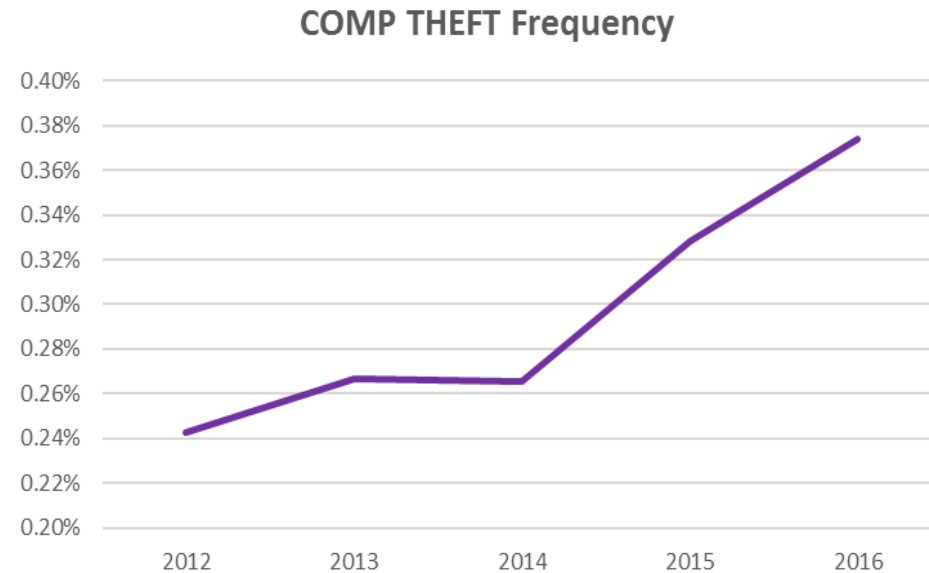
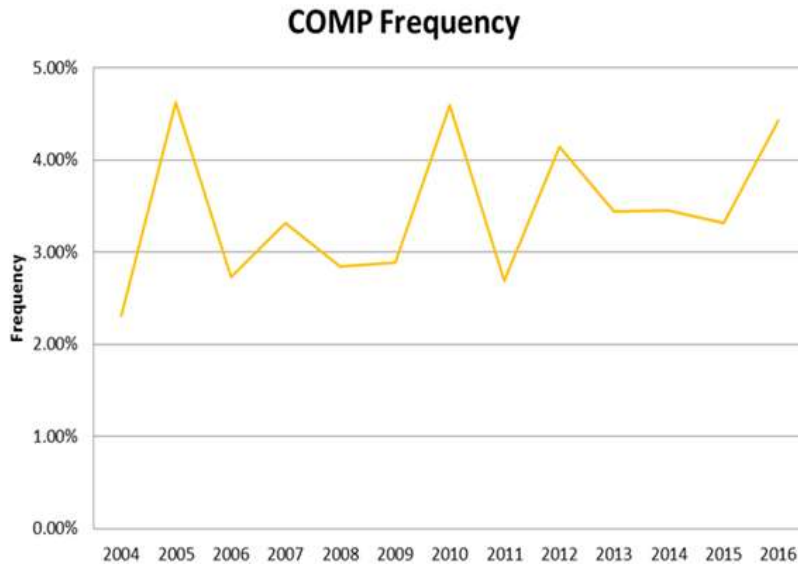
### COMP Loss Cost



### COMP Severity



# Comprehensive



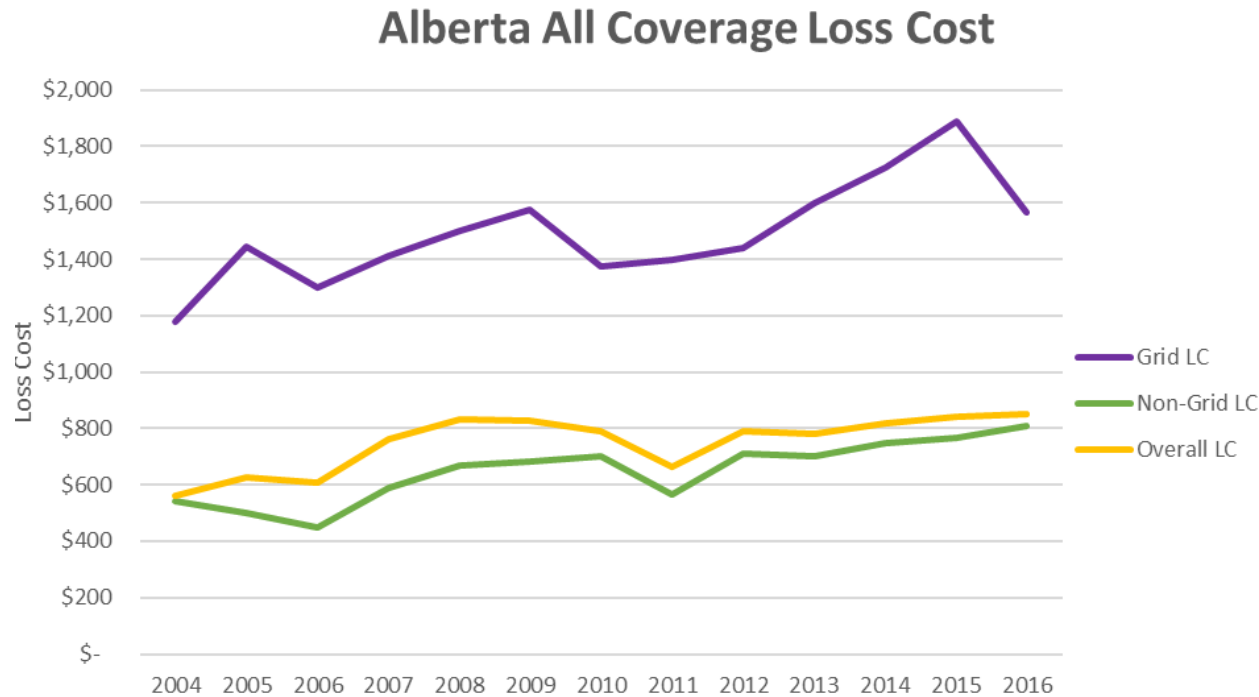
- Theft is an increasingly frequent cause of comp claims.
- Theft claims frequency has increased by 54% since 2012
- Increase in referrals to Aviva's Anti-Fraud Department to investigate a number of these thefts

# The Grid



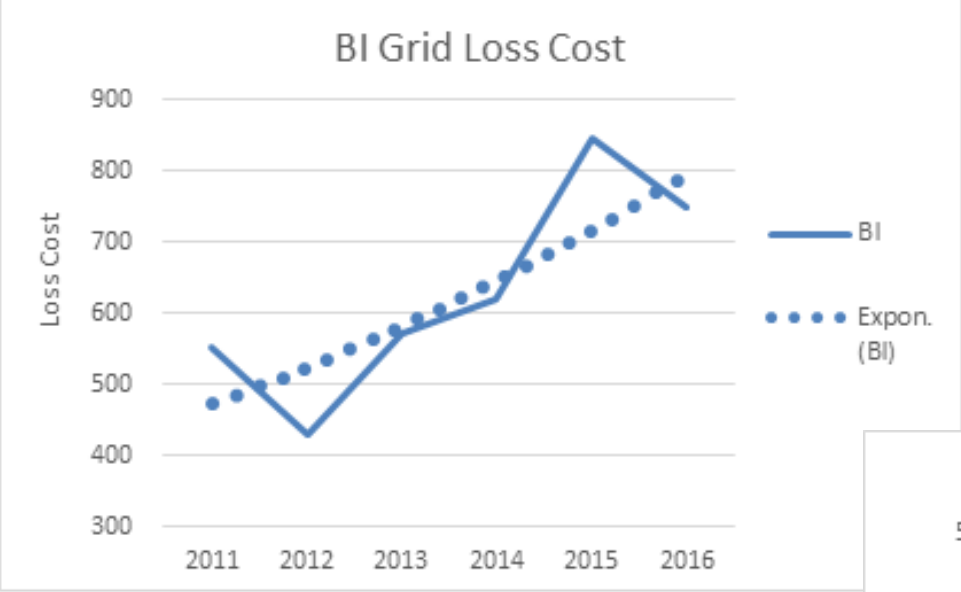


# The Grid

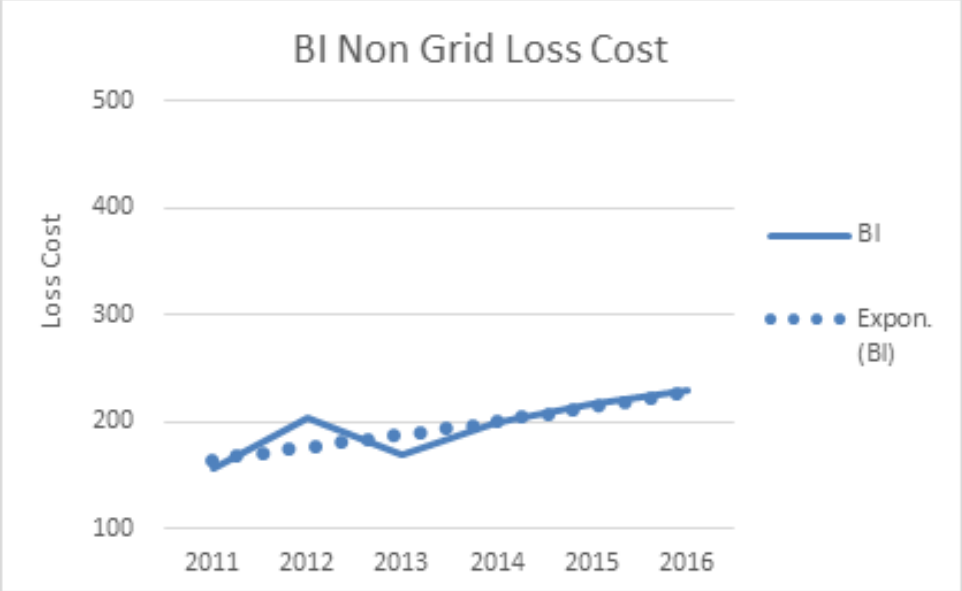


- Aviva agrees with Dr. Ron Miller that Grid loss costs are higher than non-Grid loss costs
- A Grid rate increase is even more important this year as costs are increasing and expected to further increase
- The increase should at least cover the trends agreed to in this hearing

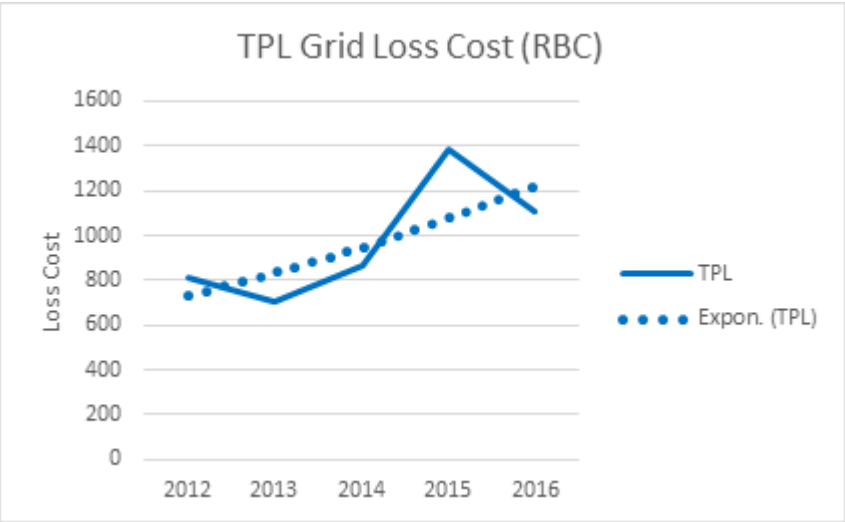
# BI Grid loss costs are higher



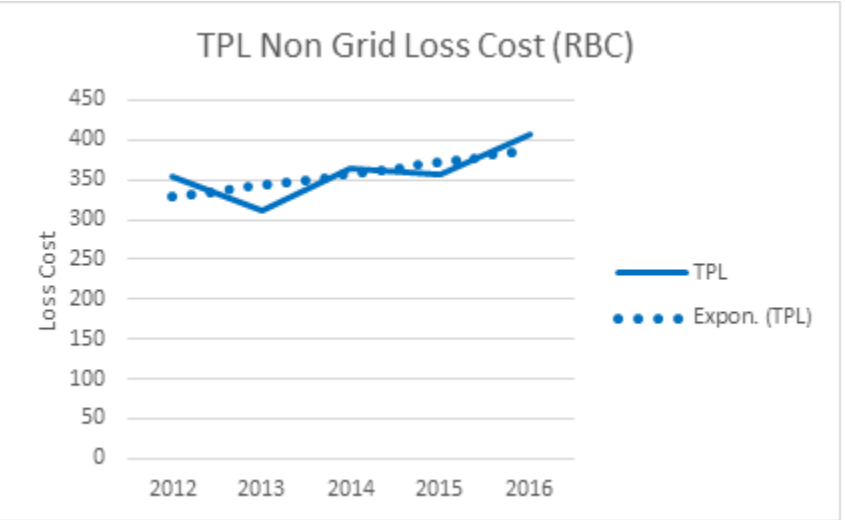
- In 2016, BI Grid loss costs were \$758 compared to \$229 for Non-Grid
- BI loss costs trend for Grid is 12.0% vs. 7.6% for Non-Grid
- Our Grid indication is 32%



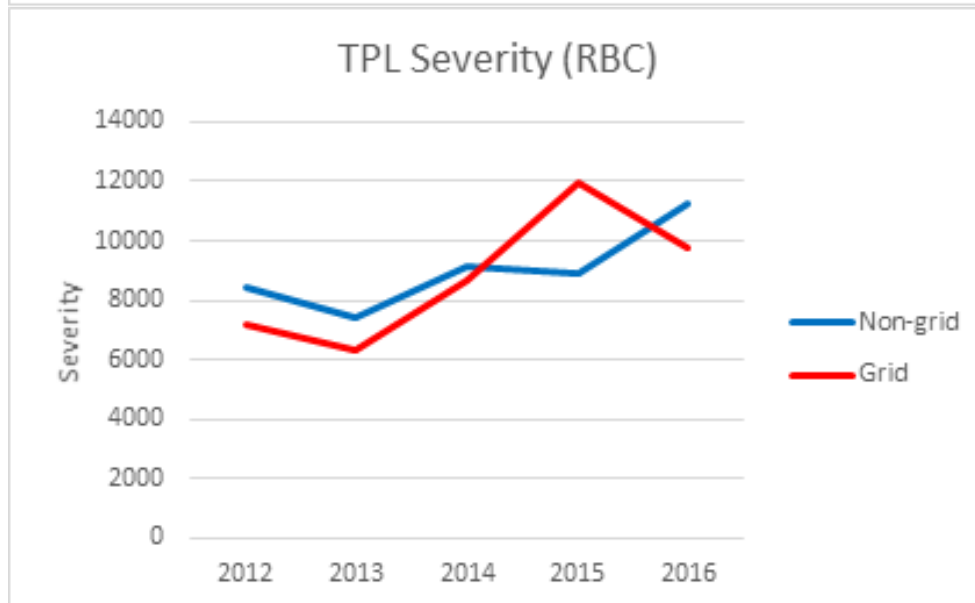
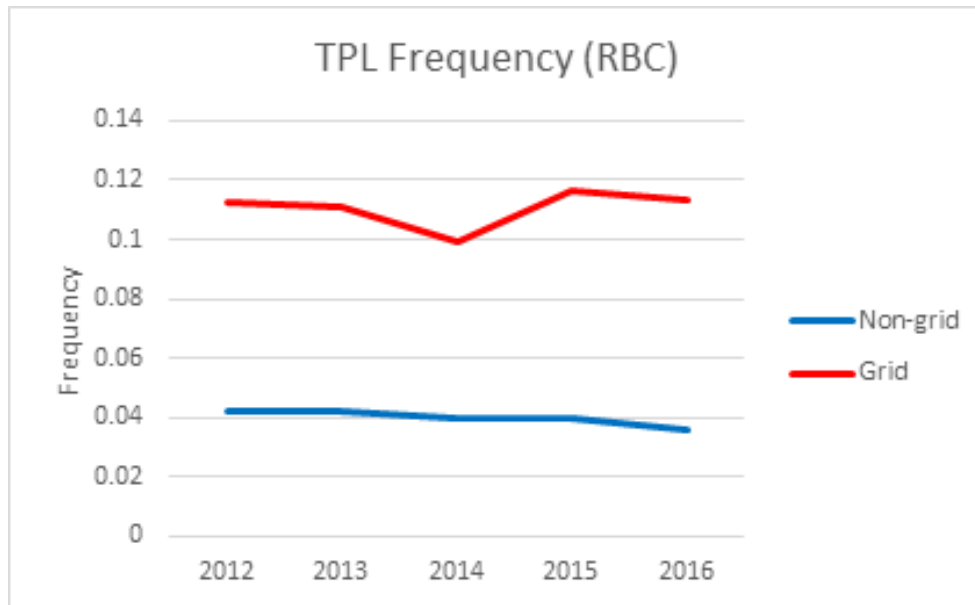
# RBC's Grid losses are also higher



- RBC TPL loss cost is significantly higher for Grid than Non Grid
- Loss cost is trending upwards for both Grid and Non Grid, but at a faster rate for Grid



## RBC Grid TPL frequency and severity



- As with Aviva, the higher loss cost for Grid is largely driven by a higher frequency
- Severity shows a strong upward trend for both Grid and Non Grid

## Aviva Grid risks

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Grid Distribution	11.2%	10.1%	8.0%	7.3%	5.9%	4.8%

- Since 2011, the proportion of our book that is Grid rated has been declining
- In the last two years, market rates have increased more than historically and as mentioned above are expected to continue to increase to keep up with trends

**Grid rates must increase, otherwise the gap between Grid and market will decline and the proportion of Grid-rated vehicles will grow**

# Miscellaneous issues

## Weather and economic conditions

- Aviva agrees with Dr. Ron Miller that incorporating these variables into trend analysis will be difficult
- Including these variables will increase uncertainty and volatility in the model without adding value

## Health levy

- Aviva agrees with Dr. Ron Miller that an increase over the 2017 levy for filings made in 2018 is reasonable
- We consider:
  - ✓ historical increases and the significant magnitude of recent increases
  - ✓ many of the policies impacted by the 2018 filings will be effective into 2019

## CAT provision

- Aviva agrees with Dr. Ron Miller that a 5-year average is more responsive given the changing climate patterns, and the increasing frequency and severity of CAT losses

## Investment income

- Aviva believes that Oliver Wyman's approach to investment income is reasonable
- The likely return is company specific and will depend on the composition of each company's portfolio
- The AIRB should consider this in upcoming filings



# Thank you

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