



Insurance

July 28, 2021

Laurie Balfour, Exec Director
Automobile Insurance Rate Board
2440 Canadian Western Bank
Place 10303 Jasper Avenue
Edmonton AB T5J 3N6
via email: airb@gov.ab.ca

Annual Review

Introduction

With roots dating back to 1949, TD Insurance (“TDI”) is a member of TD Bank Group (“TDBG”), the second largest financial service organization in Canada. TDI offers a wide range of insurance products, including credit protection, life, health, travel, home and automobile.

TDI is the largest direct response insurer, in Canada, with more than 2.4 million policies, and more than \$3.9 billion in written premiums. TDI employs more than 4,700 people across Canada, with offices in Alberta, Ontario, Québec, Nova Scotia and New Brunswick.

Our home and auto insurance products are underwritten by wholly owned insurance companies: Security National Insurance Company, TD General Insurance Company, TD Home and Auto Insurance Company, and Primmum Insurance Company.

The TDI business model is direct response, meaning service is provided directly to clients, without using third-party intermediaries. As a result of our position as the largest direct response insurer in Canada, no one talks to more Canadians about automobile insurance than we do. The processes and technology that we use allow us to provide quality service in a timely and efficient manner.

TDI is the second largest automobile insurer in the province with offices in Calgary and Edmonton. Our automobile market share in the province is 16.9%.

TDI conducts its business across a variety of jurisdictions and we are pleased to draw upon our expertise and share our experience in operating with a variety of models. We are committed to working with the government to maintain a healthy auto insurance environment that is efficient, affordable, cost effective and sustainable to meet the needs of Albertans.

TDI appreciates the opportunity to present comments and recommendations for consideration by the Alberta Automobile Insurance Rate Board (“The Board”) in the annual review of industry loss experience for private passenger vehicles.

COVID-19

The COVID-19 pandemic has had a significant impact on the automobile insurance industry. Social isolation and commercial shutdowns resulted in reduced driving and fewer vehicles on the road. At TD Insurance we have always focused on quality customer experience, and that means we take very seriously our commitment to supporting our customers during their time of need. This commitment has been evident in the steps we've taken to support our customers across Canada during the unprecedented global pandemic, notably flexible payment options, coverage changes and rate capping.

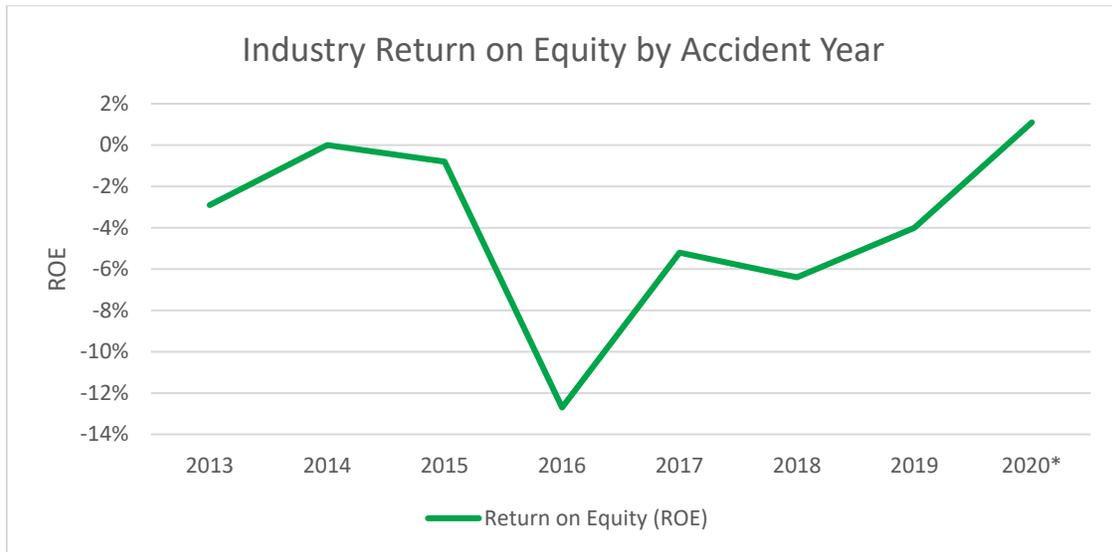
As the vaccination rollout accelerates and economies reopened, driving trends have begun to shift. Although this is too soon to be behind us, we anticipate some permanent trend in the future that could potentially reduce traffic such as increasing remote working, virtual shopping, people moving to suburbs due to remote working and change in car ownership behavior. On the other hand, some consumers will opt to use their personal vehicles more frequently because of increased domestic travel or to avoid crowded transportation, resulting in minimal usage of public transportation. The post-pandemic driving environment is uncertain and will depend on both reality and perceptions. It is too early to determine the real impact of COVID-19 as there are several factors to consider in addition to driving trends, including weather events, thefts, fraud, among others.

REFORMS

We commend the Alberta Government for introducing reforms to help industry reduce current claims costs, hence making auto insurance more affordable.

With reforms, there is a willingness for the industry to immediately reflect how reforms will positively impact premiums, however with the most recent set of reforms, benefits will take longer to materialize as they impact mainly claims expenses and DCPD which does not take effect until January 2022.

Despite recent reforms, it is too early to assess whether the rates will be adequate in upcoming years as the Bodily Injury loss trend is still high and Accident Benefits loss trend may continue to deteriorate. The industry rates were inadequate before the reforms and COVID (see graph below) and they remain inadequate partly due to the impact of the 5% imposed rate cap from 2017 to 2019. Also, there is potential for deterioration of severity in losses for DCPD coverage similar to what we observed in Nova Scotia following the 2013 reform.



Source: GISA Report - AUTO9501-AB_2020

* 2020 may not be reflective of the future due to the pandemic

Loss Trends

Bodily Injury

Bodily Injury claims are the main driver of upward claims costs in Alberta. Despite recent reforms, Bodily Injury loss cost trend is still high (Oliver Wyman selected trend is 5%). TDI selected trend for Bodily Injury is higher than Oliver Wyman's selection. TDI has observed an increase in the number of claims for which the severity exceeds \$50,000 as well as for the number of claims in excess of \$150,000. The proportion of claims exceeding \$50,000 increased from 33% in 2017 to 42% in 2021.

We believe that the erosion of the Minor Injury Regulation, costs and disbursements being excessive (4 to 5 times what we see in other jurisdictions for like cases) and the lack of judicial resources (judges and courtrooms) available to conduct civil trials, are contributing factors to the increased Bodily Injury claims cost.

The recent legislative changes may prove to be of some assistance, but we will not be able to assess their impact until matters affected by the changes proceed to trial which will not likely be for some time. Without further comprehensive reforms to drive down bodily injury claim costs, it is likely some trends will continue, putting increased pressure on rates in the future.

Due to COVID, there were very few civil trials conducted in Alberta over the past year and a half. We continue to see erosion of the MIR through Court interpretation and increased general damages, housekeeping and loss of earning capacity. Loss of earning capacity is awarded in almost every case and is often awarded as one to two years gross income or more.

The matter *Mason v. Thompson*¹ is another example indicative of increasing general damages (165K) and loss of earning capacity (500K), both of which were significant in this decision.

Accident Benefits

For Accident Benefits, we observed that loss trends were already high prior to the reforms and recent reforms increased several medical/rehabilitation and income replacement entitlements which will cause that trend to be even higher (estimated double digit by Oliver Wyman). TDI selected loss trend is in line with Oliver Wyman. It is likely these trends will continue in the future.

Like Bodily Injury, we observed that claims in excess of \$20,000 increased from 6.2% to 10.6% from 2017 to 2021. Furthermore, we also observed increasing severity of losses below \$20,000.

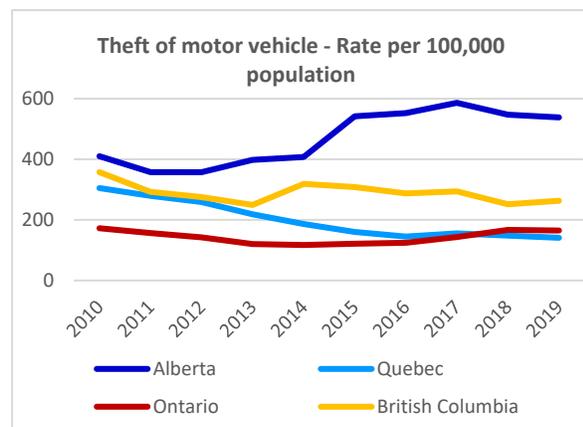
¹ [Mason v. Thompson, 2020 ABQB 76](#)

Comprehensive - Theft

As stated by IBC², on average, a car is stolen every 6 minutes in Canada. Each year, auto theft costs all Canadians millions of dollars, ultimately impacting consumers' comprehensive coverage premiums. As shown below, Alberta remains the number one province in terms of number of stolen cars per 100,000 inhabitants. One of the challenges is that Alberta has some of the weakest regulatory requirements among the Canadian provinces on how to transfer vehicle ownership from one person to another.

Over time, Alberta has the biggest increase in the number of stolen vehicles among the four biggest provinces. In Quebec we observed a decreasing trend possibly due to cooperative efforts between IBC, the Port of Montreal, the City of Montreal police force and Canada Border Service Agency to counter the export of stolen vehicles and, thus, try to recover more of them³. Although it requires involvement of multiple partners to fight this crime, a similar approach in Alberta to tackle organized crime for theft could result in decreased costs for comprehensive coverage which ultimately is passed on to Albertans.

Rank	Province	Number of thefts of motor vehicle	Rate per 100,000 population
1	Alberta	23,535	538
2	Saskatchewan	5,284	450
3	Manitoba	5,546	405
4	Territories	429	345
5	British Columbia	13,352	263
6	Ontario	23,992	165
7	Quebec	11,961	141
8	Atlantic	2,967	122



Source: Statistics Canada. Table 35-10-0177-01 Incident-based crime statistics, by detailed violations, Canada, provinces, territories and Census Metropolitan Areas

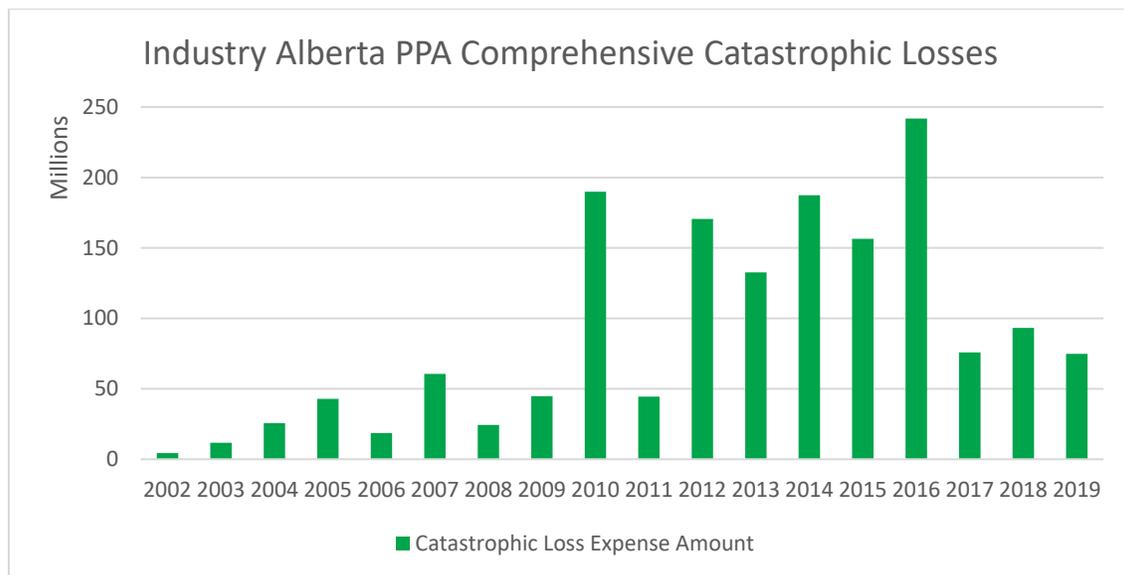
² <http://www.ibc.ca/ab/auto/theft>

³ <https://bac-quebec.qc.ca/en/insurance-issues/automobile-theft/>

GROWING RISK OF CLIMATE CHANGE

The series of natural catastrophes all around the globe point to a world increasingly at risk from extreme weather and climate change. The nature and volatility of unforeseen severe events adds to the solvency risk of insurers in the province of Alberta, being more prone to catastrophe among the Canadian provinces. As so, 2020 proved to be one of the highest years in terms of catastrophic losses with the Central and Southern Alberta Storms (\$221M), the Fort McMurray Flood (\$562MM) and the Calgary hailstorm (\$1,3B)⁴. Also, with the most recent severe hailstorm that happened early July 2021 in Calgary, the natural catastrophes in Alberta continues to negatively impact the insurance industry and the consumers.

As an industry, there is a need for a climate change strategy to reduce claims costs resulting from more frequent weather events. An increased preparedness to adapt to these weather events will ultimately benefit consumers' interests in the long term and ensure that a sustainable product can be offered rather than addressing this concern with an increased catastrophe loading.



Source: GISA Report - AUTO6001-AB_2019

⁴ [http://www.abc.ca/on/resources/media-centre/media-releases/severe-weather-caused-\\$2-4-billion-in-insured-damage-in-2020](http://www.abc.ca/on/resources/media-centre/media-releases/severe-weather-caused-$2-4-billion-in-insured-damage-in-2020)

Concluding Comments

We appreciate the opportunity to provide input for the annual review. The introduction of the reforms by the Alberta government are excellent news for the industry to reduce claim costs in order to drive more affordable rates. Our comments seek to bring some considerations to the Board around uncertainties as to the future driving environment post COVID, as to the impact of the reforms since it may take some time to observe and around adequacy of rates post reforms and post COVID. Also, certain drivers of high loss trends can potentially be addressed such as to bring the loss trends at a more sustainable level.