



SUBMISSION TO THE

**ALBERTA AUTOMOBILE INSURANCE
RATE BOARD**

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PREAMBLE

With roots going back to 1949, TD Insurance (“TDI”) is a member of TD Bank Financial Group (“TDBFG”), one of the largest financial service organizations in Canada. TDI is the largest direct response insurer in Canada and the second largest auto and home insurer in Canada, with more than 1.8 million policies and more than \$2 billion in written premiums in 2009. TDI employs more than 3,000 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 Primum Insurance Company.

The TDI business model is direct response, meaning service is provided directly to clients, without using third-party intermediaries. The processes and technology that we use allow us to provide quality service in a timely and efficient manner.

TDI and TDBFG are strongly committed to the Alberta market. TDI offices in Calgary and Edmonton employ more than 600 personnel dedicated to serving Albertans. TDBFG employs more than 4,000 people and maintains 116 branches in Alberta. TDI is the third largest auto insurer in Alberta with over 250,000 automobile policyholders and \$375 million in written automobile premiums for 2009. TDI growth has exceeded 10% per year in number of automobile insurance policies over the last five years and our market share is around 15% (for private passenger).

TDI and TDBFG are involved in the community and have donated more than \$1.7 million to not-for-profit organizations in Alberta over the last year.

INTRODUCTION

TDI appreciates the opportunity to present comments and recommendations to the Alberta Automobile Insurance Rate Board (“The Board”) as it undertakes the annual review of the premium level for basic automobile insurance coverage.

Our submission will focus on the following issues:

- Loss trends
- Estimate of ultimate bodily injury claim costs for past years
- Overview of the current position and outlook for private passenger automobile in Alberta

Based on our experience in the market, we consider the reforms adopted since 2004 were a benefit for Alberta drivers and we continue to support them. The auto insurance environment has benefited from the decision of the Supreme Court of Canada related to the constitutional challenge to the cap on soft-tissue injury claims. However, the potential non-renewal of this cap at the end of 2011 creates uncertainty. We believe that the Board should adopt a cautious approach in determining the premium level for basic coverage.

TDI is pleased to assist the Board in the decisions it has to make for Alberta drivers.

I. LOSS TRENDS

It is our understanding that the Board is especially interested about obtaining additional information about the latest loss trends. For this purpose, this section presents loss trends of the first six months of our fiscal year (November through April) compared to the same period in previous years.

Loss Trends by Coverage

Summary of Frequency and Severity Changes (November 2009 to April 2010)

Coverage	Frequency Change	Severity Change*
TPL - Bodily Injury	+6%	+12%
TPL - Property Damage	-8%	+1%
Accident Benefits	+2%	+89%
Accident Benefit - Adjusted	+2%	+7%
Collision	-2%	-2%

* The Severity Change is based on an estimation made with non mature data.

Third Party Liability – Bodily Injury

- Second consecutive increase in bodily injury claim frequency. However, the 6% increase in Bodily Injury should be interpreted with caution given the recent minor injury cap decision which makes the two period used more difficult to compare but also because of the fact that the data is very immature for this coverage after 6 months.
- Severity has increased, although this is likely related to an improved internal process that enables an earlier case reserving of most probable claim resolution outcome.

Third Party Liability – Property Damage

- Frequency has reduced by 8% compared to same period prior year. This reduction could probably be attributable to the economic downturn in Alberta.
- Severity has remained relatively constant so far in 2010.

Accident Benefits

- We have experienced a small frequency increase of 2% in Accident benefits.
- Severity is up substantially as a result of a modification implemented in our automatic opening reserve process. To be on a consistent basis, we have adjusted case reserves and computed an adjusted severity change of +7%

Collision

- As previously mentioned in prior submissions, we consider collision as a good indicator of what is truly happening for physical damage coverage given that it is not impacted by minor injury challenge.
- We believe that severity is down by 2% as a result of automobiles remaining on the road longer and not being replaced by new models, again due to the downturn in the economy. This normally leads to lower cost for parts.

II. ESTIMATE OF ULTIMATE BODILY INJURY CLAIM COSTS FOR THE PAST YEARS

It is our understanding that the Board is seeking input to better estimate the ultimate bodily injury claim costs for past years given the confirmation of the *Minor Injury Regulation*. Knowing that it has the historical claim experience of the industry, we assume that the Board is looking for historical claims that have been paid or reserved differently than if there was no uncertainty during the historical period.

During the uncertainty period around the minor injury cap, TDI has been reserving and settling individual claims as follow:

On February 8, 2008 the Alberta Court of Queen's Bench struck down the Minor Injury Cap (MIC) provided in the *Minor Injury Regulation*.

From February 8, 2008 until April 2008, we placed a moratorium on BI minor injury resolutions while we reviewed and defined our approach to these claims, with the uncertainty the court decision created. It was a certainty at that point that the decision would be appealed. In April 2008, we implemented a revised BI Settlement Policy that provided our BI Claims Analysts with authority to negotiate minor injury resolution on general damages up to \$8,000 per claimant. Settlements above that amount required management approval.

The Alberta Court of Appeal heard the appeal of the Morrow vs. Zhang decision and released their decision on June 12, 2009, overturning the Court of Queens Bench decision. In July 2009, we again revised our BI claim Settlement Policy to remove analyst settlement authority above the Minor Injury Cap. Above the cap amount, the analyst would require management approval. However, settlement offers made prior to the decision release were honoured.

During the period of April 2008 and December 2009, all claims settled subject to the minor injury cap have been tracked separately. The following is a summary of payments that were made:

- Total number of files closed: 2,904
- Total amount paid for pain and suffering: \$10,580,481
- Number of cases above the cap: 676
- Amount paid above the cap: \$1,723,971

<u>Acc. Year</u>	<u>Paid over cap</u>	<u>% of Ultimate BI</u>
2004	\$46,250	0.1%
2005	\$289,902	0.6%
2006	\$540,919	1.2%
2007	\$611,140	1.4%
2008	\$235,760	0.5%
2009	-	0.0%
Total	\$1,723,971	0.6%

To be more meaningful, it is better to look at the payments above the cap in relation to all bodily injury incurred claims and expenses. The previous figures include files regardless of accident dates. To have an apples to apples comparison, we have to compare payments above the cap of a given accident year with the incurred claims and expenses of the same accident year. Out of the amount shown above, \$0 was related to accident that occurred in 2009 and \$235,760 for 2008. Based on 2008, the amounts paid in excess of the cap represent 0.5% of the bodily injury ultimate claim and expenses.

III. OVERVIEW OF THE CURRENT POSITION AND OUTLOOK FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE IN ALBERTA

The success of the reforms implemented by the Government regarding the automobile insurance in Alberta has benefited the public through lower insurance premiums. These lower premiums were possible because the reforms have been successful at reducing and stabilizing claims costs. The cap on soft-tissue injury claims constitutes an important part of the reforms and an important condition to maintain this stability.

In the last years, the Alberta auto insurance market has been affected by the uncertainty caused by the Minor Injury Cap Challenge.

We submit that the decision of the Supreme Court of Canada not to grant leave the Alberta Court of Appeal's decision was very good news for the Alberta market.

The elimination of the uncertainty caused by the Minor Injury Cap Challenge should create market stability in Alberta, which should facilitate competition and support fair rates for Alberta drivers.

However, section 19 of the *Minor Injury Regulation* provides the following:

"19 For the purpose of ensuring that this Regulation is reviewed for ongoing relevancy and necessity, with the option that it may be repassed in its present or an amended form following a review, this Regulation expires on September 30, 2011."

We understand that the Board cannot decide if the *Minor Injury Regulation* will be renewed at the end of September 2011 and, if so, under what conditions. However, the Board cannot ignore the adverse and significant impact that the non-renewal of the minor injury cap will have on the cost of automobile insurance in Alberta. We submit that the potential non-renewal of the Minor Injury Cap must be factored as a key element in the Board's rate adjustment decision.

Because of the uncertainty created by the possibility that the *Minor Injury Regulation* could not be renewed or be substantially modified, we submit that the Board should adopt a cautious approach in determining the premium level for basic coverage for the coming year. We evaluate that more than 50% of the claims related to the policy issued between November 1, 2010 and October 31, 2011 will be occurring after September 30, 2011. Knowing how meaningful the Minor Injury Cap has reduced claim cost in the past, letting it expire would create massive inadequacy if not taking into account in this year's adjustment.

The non-renewal of the *Minor Injury Regulation* would lead to a significant increase in the claim costs in the future, which would have a serious and negative impact on the Alberta automobile insurance system.

TDI would be pleased to work with the Board to maintain insurance accessibility and premium stability in Alberta.

CONCLUSION

The reforms introduced since 2004 have been successful at reducing and stabilizing claim costs. The decision of the Supreme Court regarding the minor injury cap should create stability and facilitate competition into the Alberta market.

However, the potential non-renewal of the *Minor Injury Regulation* is a serious concern and poses threat to the stability of the Alberta automobile insurance system.

We believe that the Board should consider this potential non-renewal of the Cap and adopt a cautious approach in determining the premium level for basic coverage in the coming year. We are concerned that significant reduction of premiums – given the uncertainty associated with the potential non-renewal of the minor injury cap regulation – would have a negative impact on the health of the Alberta automobile insurance system.

TDI is committed to working with the Board in providing a healthy auto insurance environment that is stable, affordable and sustainable at meeting the needs of Albertans.