



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 Group (“TDFG”), the second largest financial service organization in Canada. The wide range of TD Insurance products help protect clients from the “accidents of life” including auto and home insurance, credit protection, life, health, and travel insurance.

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 \$2.4 billion in written premiums as of December 2010. TDI employs more than 4,000 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. 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 allows us to provide quality service in a timely and efficient manner.

TDI and TDBG are strongly committed to the Alberta market. TDI offices in Calgary and Edmonton employ more than 600 personnel dedicated to serving Albertans. TDBG employs more than 4,000 people and maintains 128 branches in Alberta. TDI is the third largest auto insurer in Alberta with over 340,000 automobile policyholders and \$385 million in written automobile premiums for 2010.

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

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 provide a healthy auto insurance environment that is efficient, affordable, cost effective and sustainable at meeting the needs of Albertans.

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
- Impact of economic climate on claims costs

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.

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 2010 to April 2011)

| Coverage | Frequency Change | Severity Change |
|-----------------------------------|------------------|-----------------|
| Accident Benefits | +15% | +13% |
| TPL - Bodily Injury | +18% | +9% |
| TPL - Property Damage* | +21% | +0% |
| * Includes collision for severity | | |

Frequency Changes

We understand that the severe winter in Alberta increased claims frequency to a higher level than normal. This increase is significantly higher than expected. However, we would like the board to pay attention to the following table.

| Snowfall in cm between November and April* | | | | |
|---|------|------|------|------|
| 2011 | 2010 | 2009 | 2008 | 2007 |
| 169 | 88 | 133 | 120 | 145 |
| * Based on average between Calgary and Edmonton | | | | |

This table reflects the fact that the winter between November 2010 and April 2011 was indeed unusual compare to the previous years with the highest quantity of snow in the last five years. However, the same period ending in April 2010 was as much unusual but in the opposite direction with a quantity of snow that was by far the lowest of the last five years. The "soft" winter of 2010 added to the "difficult" winter of 2011 contribute to create frequency trends between 15% and 21% on our TPL and AB coverage's in 2011.

These changes in frequency should be considered in the selection of trends for all coverages.

Severity Changes

Accident Benefits

- We have experienced a severity increase of 13% in Accident benefits.

Third Party Liability – Bodily Injury

- In 2010, following the Supreme Court decision regarding the MIC claims, TD Insurance has decided to settle many claims to catch up on our backlog. This decision had an impact of closing claims at a lower level than usual. This unique event had a direct impact on our severity trend when comparing 2010 to 2011. If it was not of this decision to settle many claims at that time, the average paid losses in 2010 would have been higher and our severity trend in 2011 would have been lower than the 9% seen in our data for that coverage.

Third Party Liability – Property Damage

- If the frequency increased has a result of winter weather, severity remained stable. There has not been significant changes in hourly rates charged by body shops and cost of auto parts have also been stable so far.

II. IMPACT OF ECONOMIC CLIMATE ON CLAIMS COSTS

Alberta has recovered from the recession and is expected to once again have one of the strongest economies among the provinces. Real GDP growth is expected to be 3.3 per cent in 2011, and average 3.2 per cent over the following three years.

Average employment in 2011 is expected to increase by 41,000 jobs, with the unemployment rate averaging 5.5 per cent this year, and falling to 4.5 per cent by 2014.

Alberta's year-over-year inflation rate was 3.0% in April, up from the 2.0% rate recorded in March. Nationally, the inflation rate stood at 3.3%, unchanged from March.

The current strength of the Alberta economy suggests that labour and material costs will rise faster than the national average. We learned from the past that this situation would lead to an increase of the claims severity trends.

In the past, the robustness of the Alberta economy impacted the supply side of the auto insurance industry. Alberta auto body shops were not able to effectively handle the volume of repair business available to them. This had led to inflationary pressure on the average body shop labour rate and to a significant increase in the delay to get cars fixed.

Strong economy will also have an impact on the labour market. The increase of the average employment can have the following impact:

- Increase of the payroll expenses, including the increase in the salary and the retention bonuses in some sectors with particularly acute skills shortages and "hard to hire" positions.
- Increase of the hiring costs, in the form of signing bonuses, more aggressive recruitment marketing, and more advertising to source candidate pools to fill our vacancies
- Higher turnover as employees shop for "the best deal" among employers who are all desperately looking for personnel

We submit that the Board should take into consideration the expected increase of the claims severity trends and the increase in the labour expenses.

CONCLUSION

We submit that the Board should take into consideration the significant increase in the frequency observed for Bodily Injury. Even if the severe winter in Alberta can explain this increase, the Board cannot ignore such increase in the determination of the premium level for basic coverage in the coming year.

An increase in claims severity is also expected, given economic pressures that will affect the goods and services we use in providing service to clients. We believe that the Board should consider the potential strength of the Alberta economy and adopt a cautious approach in determining the adjustment decision.

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.