

2015 CAS Annual Meeting

Lessons from Auto Insurance Reforms

Presented by
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Disclaimer

- The estimates presented here are my opinion only, not those of JSCP.
- They were based on my evaluation in October 2015.

Source of Data

- (1) 2014-2 Ontario Health Claims Database (HCDB)
- (2) Auto 0002_ON_2014 General Insurance Statistical Agency (GISA)
- (3) Ontario Closed Claim Study (completed in 2014 using 2005 accident year closed claims).
- (4) 2015 Ontario Budget

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Historical Reforms in Chronological Order

1990	Ontario Motorist Protection Plan (OMPP)
1994	Bill 164 <i>Insurance Statute Law Amendment Act</i>
1996	Bill 59
2003	Bill 198 <i>Keeping the Promise for a Strong Economy Act (Budget Measures)</i> Bill 5 <i>The Automobile Insurance Rate Stabilization Act</i>
2010	Five-Year Review Reform
2015	The Ontario 2015 Budget

Definitions

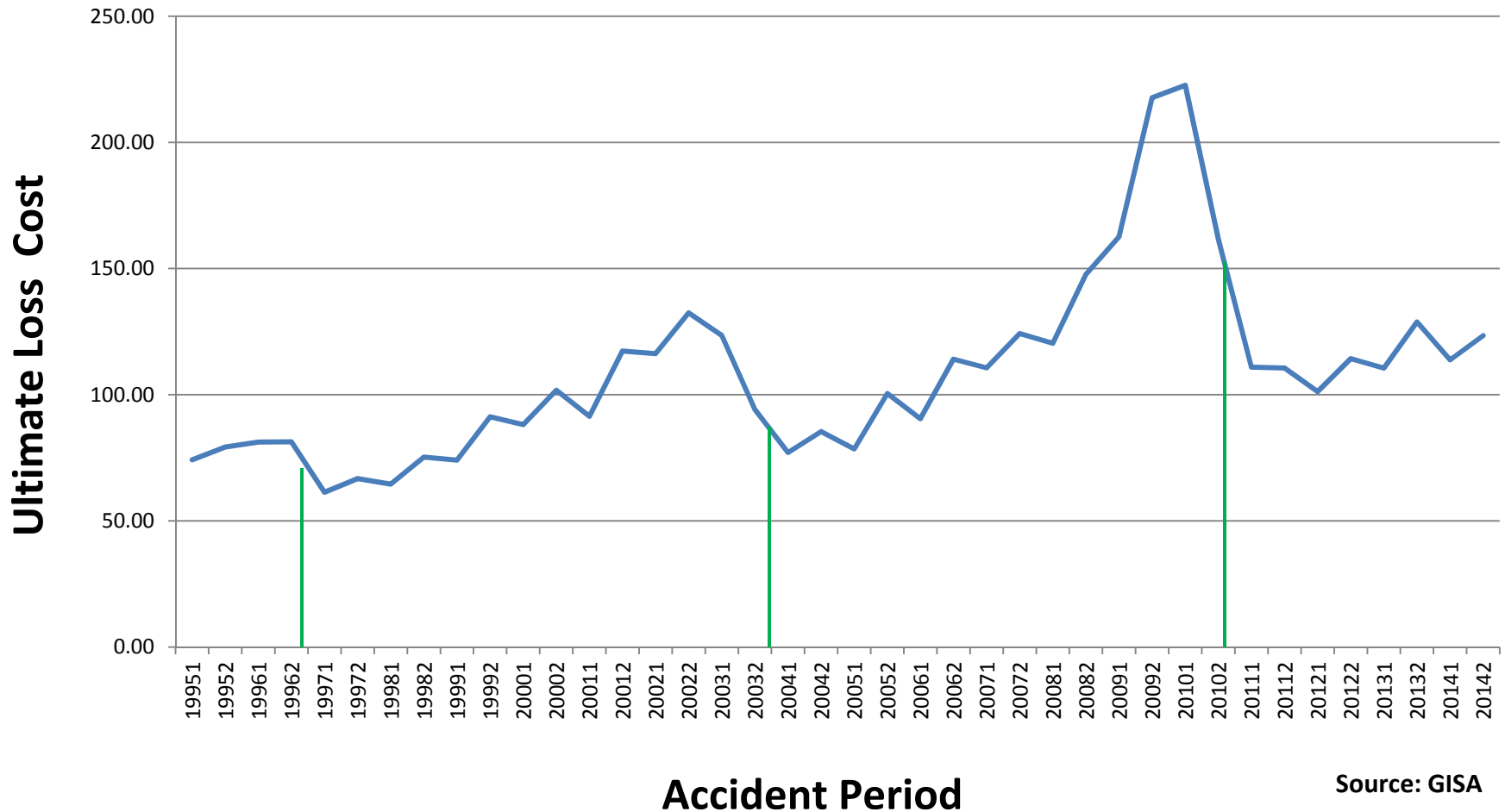
Accident Benefits (AB) mean no fault benefits or personal injury protection.

Loss Cost means losses and ALAE per vehicle.

Threshold Bodily Injury (BI) means tort benefit with a verbal threshold for non-economic loss.

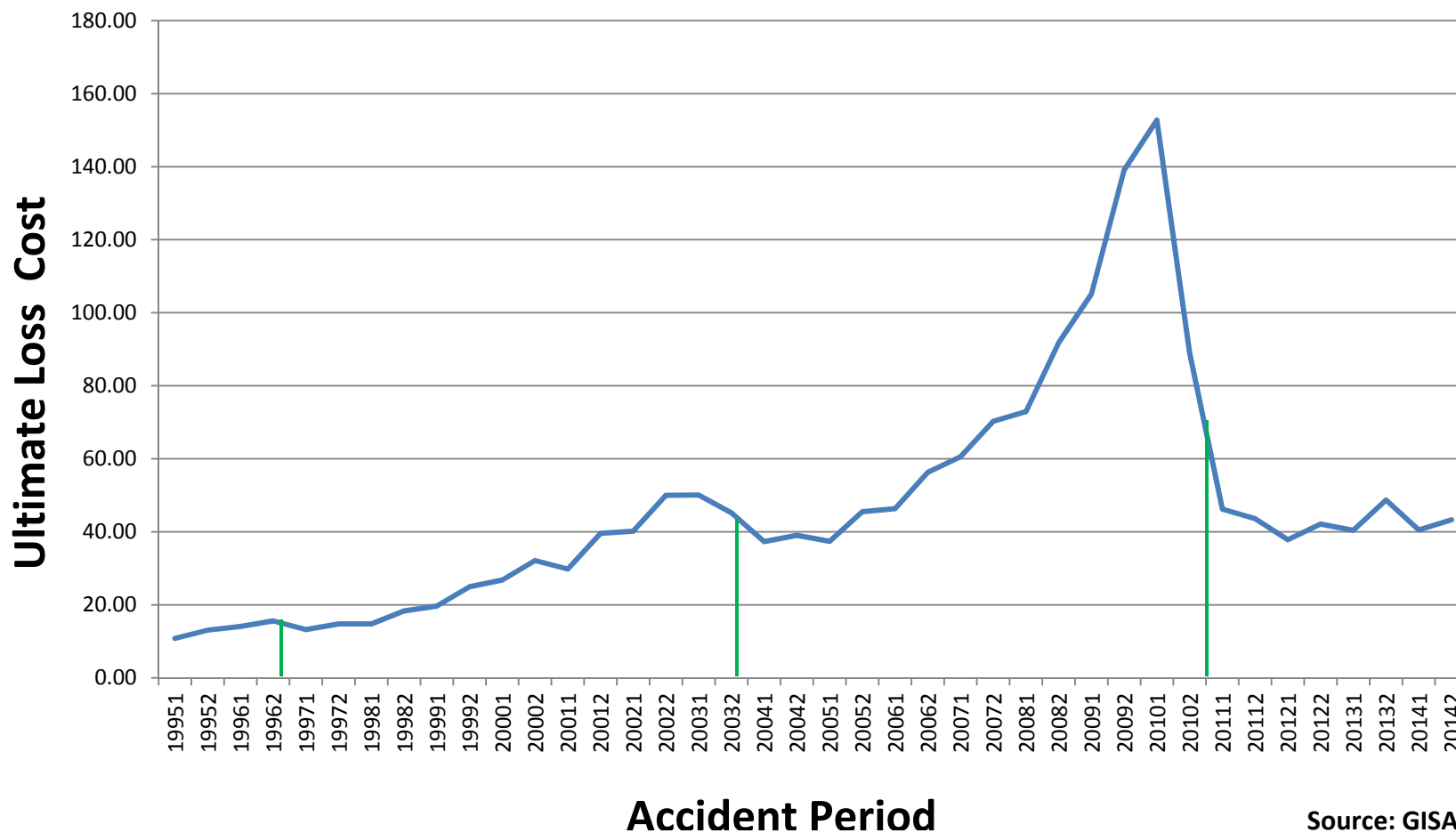
Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31

Accident Benefits – Medical (KOL 31,41,61)



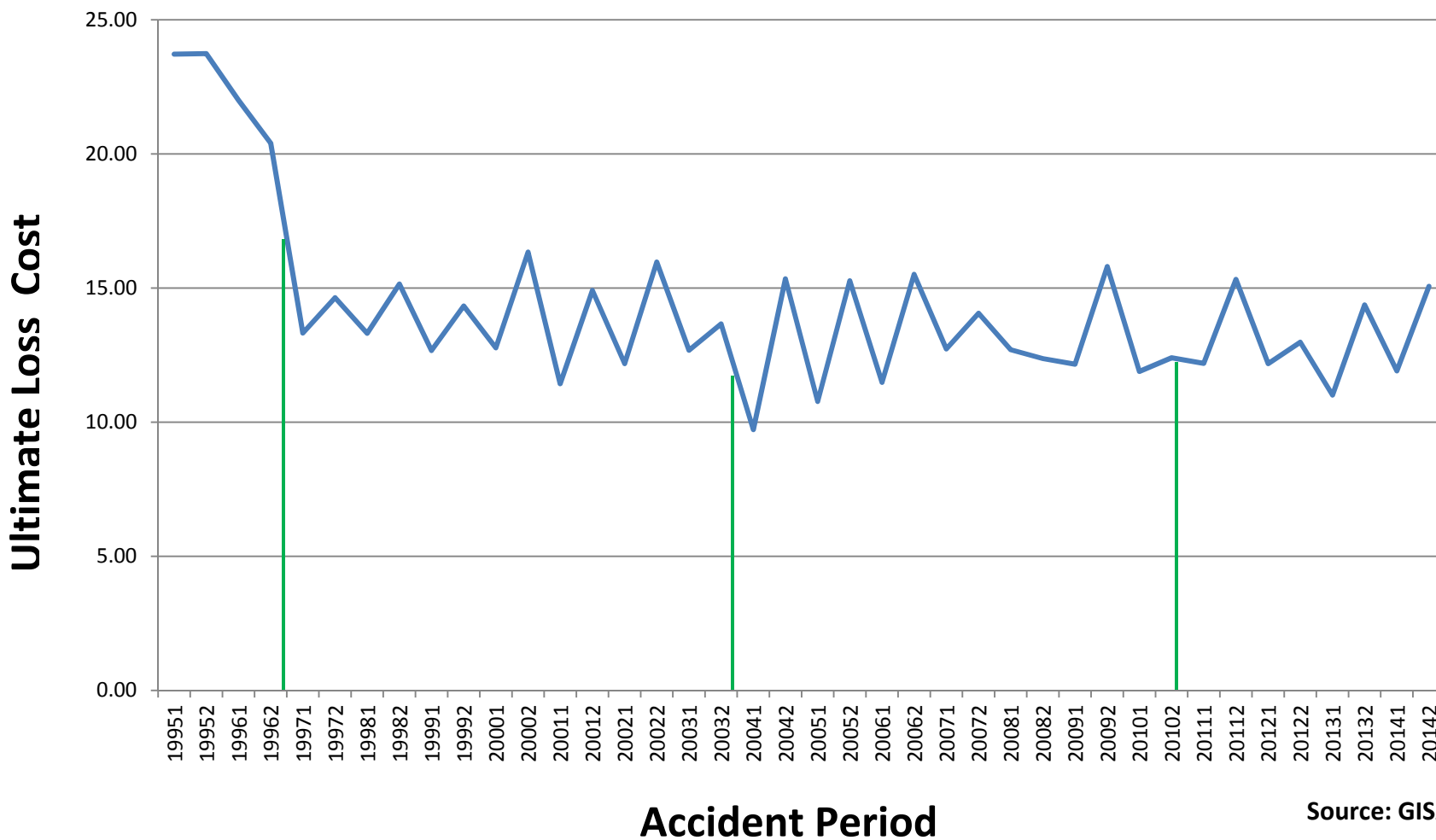
Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31

Accident Benefits – Exam (KOL 86, 96)



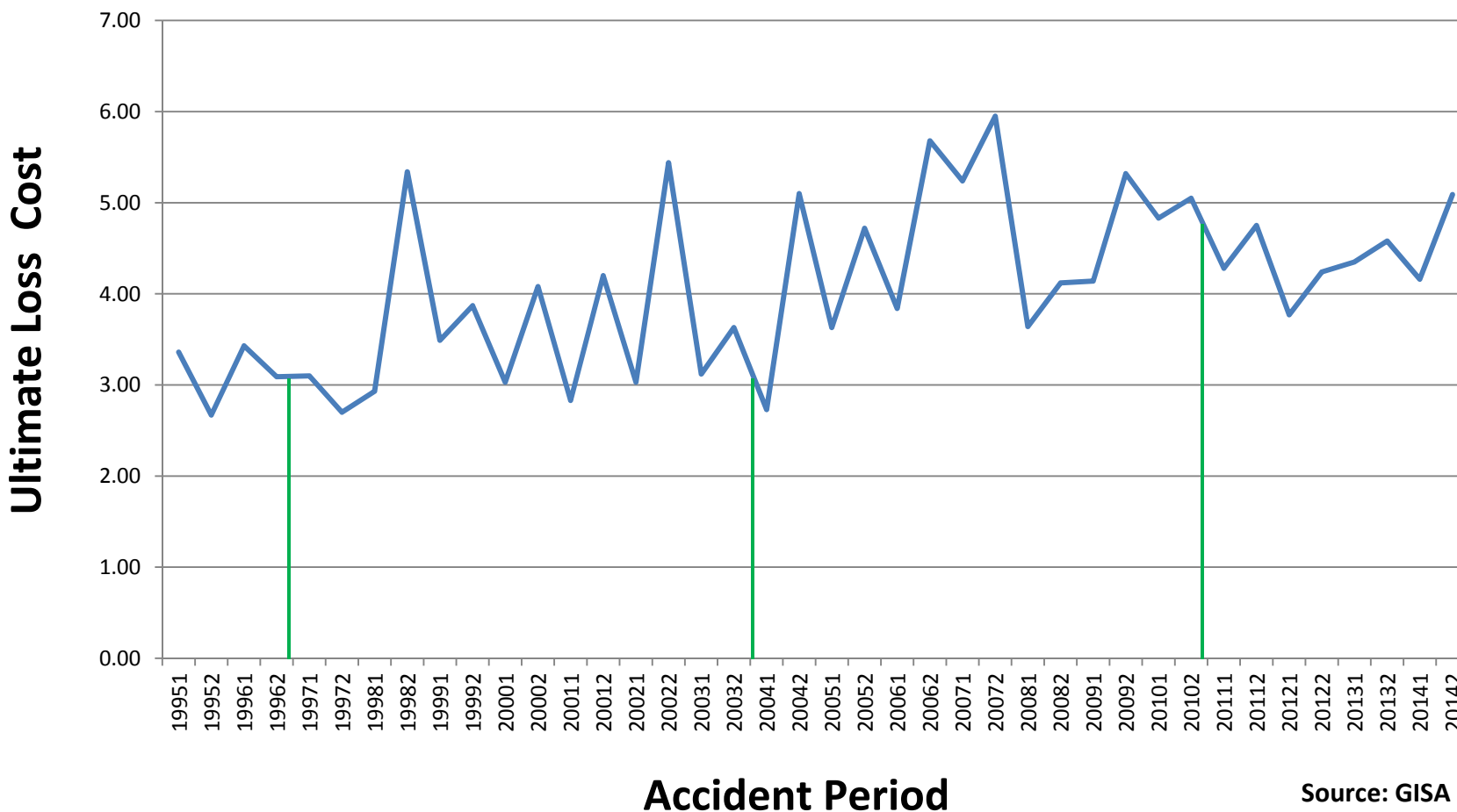
Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31

Accident Benefits – Other Rehabilitation (KOL 45,46)



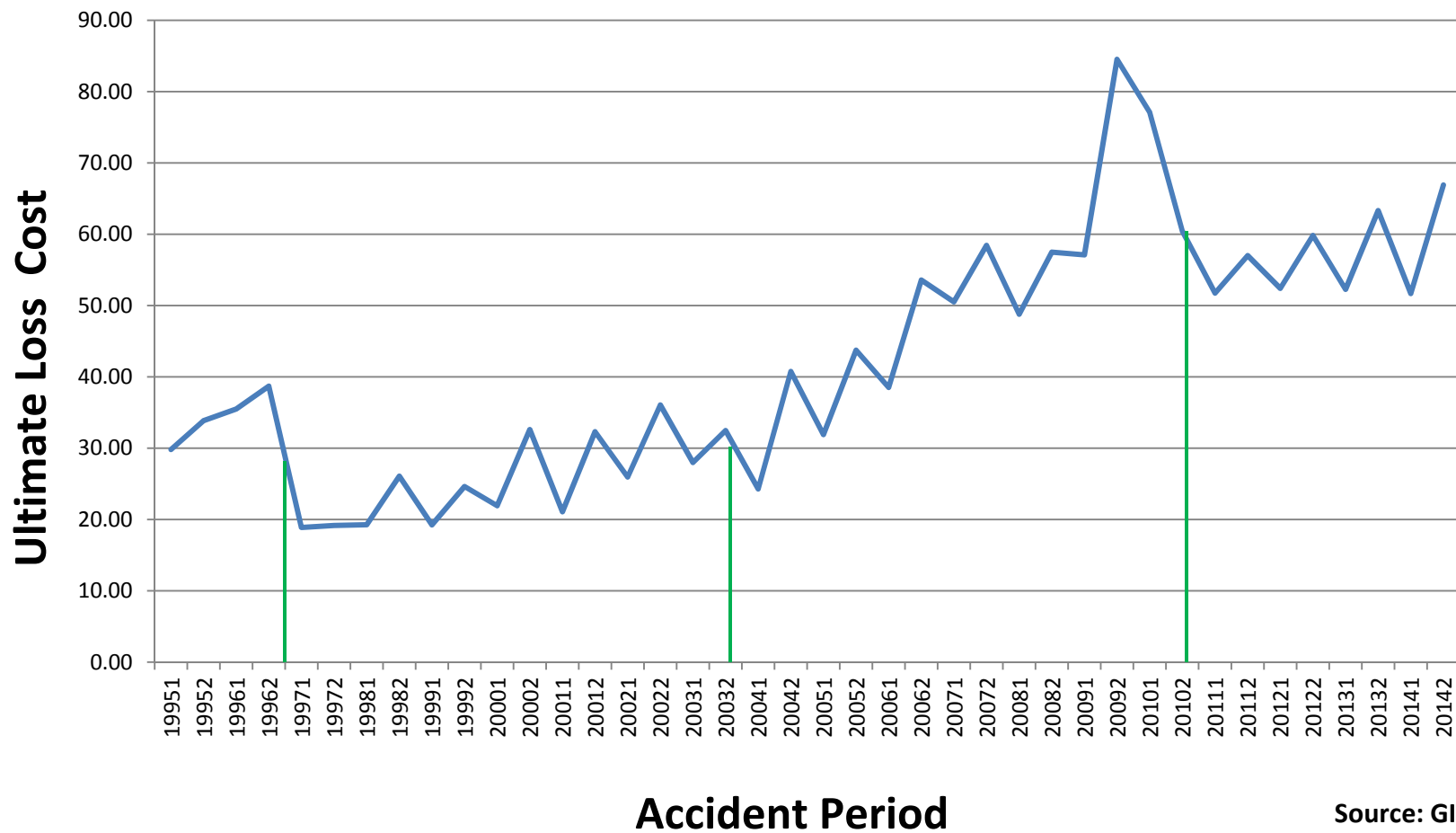
Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31

Accident Benefits – Renovation Rehabilitation (KOL 43,63)



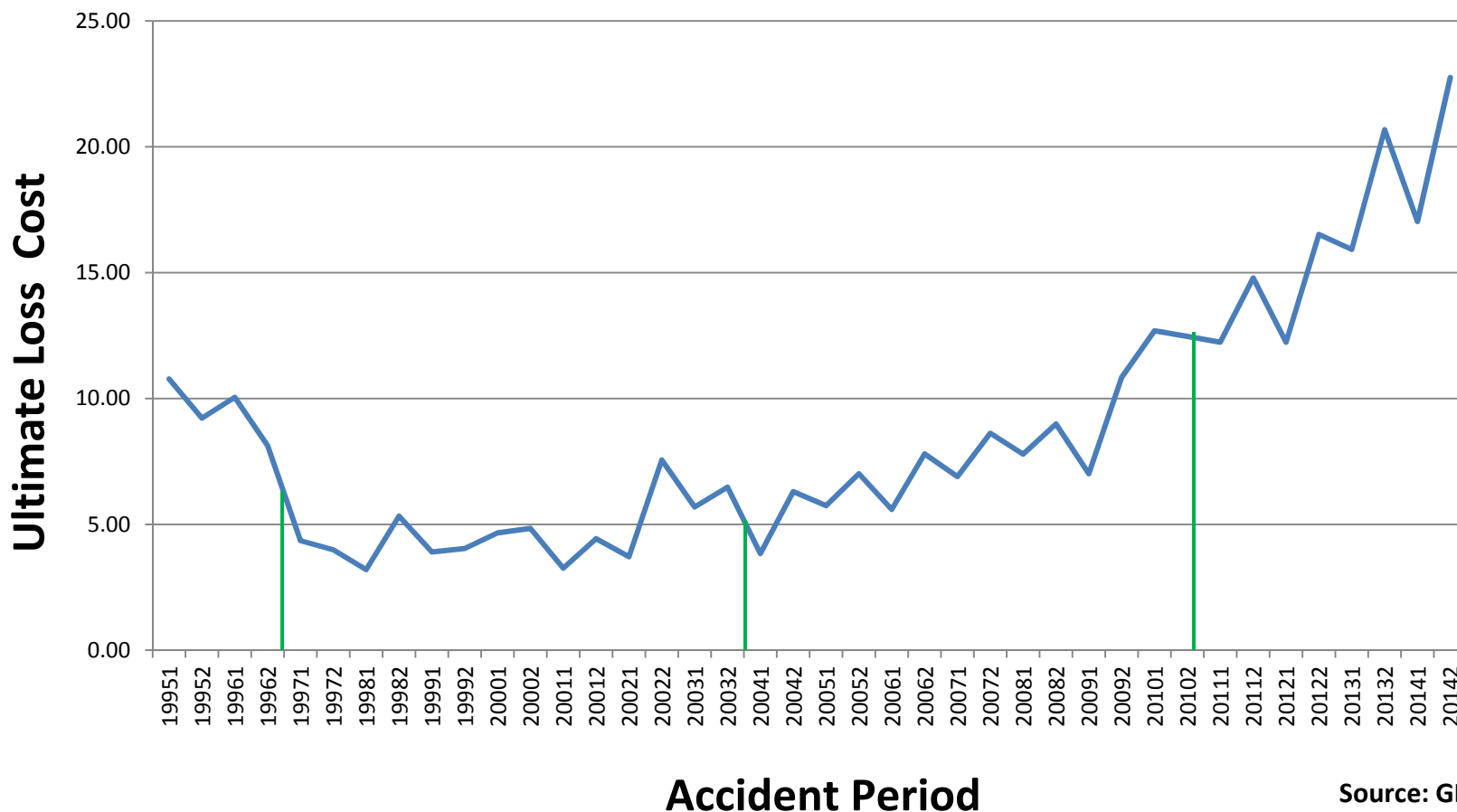
Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31

Accident Benefits – Attendant Care (KOL 46,66)



Source: GISA

Ontario Private Passenger (Excluding Farm Vehicles) ILDF Report – 2014-12-31
Accident Benefits – Non-Earner Disability (KOL 82,92)



2013 Loss Cost as of 12/31/2014

Coverage \ Accident Year	Ultimate Loss Cost 2013
Third Party Bodily Injury (BI)	
Threshold BI (KOL 5,6)	259.76
Tort BI (KOL 1,2,3,4)	6.82
Loss Transfer (KOL 7)	7.68
Total BI	274.26

Coverage \ Accident Year	Ultimate Loss Cost 2013
Accident Benefits (AB)	
Medical (KOL 31,41,61)	119.83
Renovation Rehabilitation (KOL 43,63)	4.47
Other Rehabilitation (KOL 45,65)	12.72
Attendant Care (KOL 46,66)	57.88
Examinations (KOL 86,96)	44.65
Employed Disability Income (KOL 34,44,64,80,90)	62.73
Non-Earner Disability Income (KOL 82,92)	18.34
Other sub-coverages	8.48
Total AB	329.10

Source: GISA

Where do the Medical/Exam dollars go?

<u>Payment Distribution *</u>	<u>Treatment² (Med/Rehab)</u>	<u>Examinations³</u>
Chiropractors	33.6%	6.4%
Message therapists	6.7%	0.2%
Occupational therapists	9.0%	11.7%
Psychologists	5.7%	22.2%
Physiotherapists	31.6%	4.1%
Med doctors	2.5%	33.5%
Psychiatrists	0.9%	11.9%
all others	10.0%	10.0%
<u>Total</u>	<u>100.0%</u>	<u>100.0%</u>
2013 ultimate loss cost per vehicle ¹	137	45

*subject to development beyond 24 months; final distribution may change.

Source: 1 GISA
 2,3 HCDB

After the 2010 (September 1, 2010) reform, the Government of Ontario suggested that a 15% average premium reduction (measuring from 2013) should be achieved.

However, the rates in 2013 were inadequate on average. Some companies were able to reduce rates; other could not.

As of Q2, 2015, only 7% was achieved (on a market share weighted basis). This leaves an unfulfilled gap of 8%.

Pre-Reform Trended Loss Costs to July 2016 Level

<u>Cost Level July 1</u>	<u>2013</u>	<u>2016</u>
Accident Benefits	\$329	\$401
Third Party BI	\$274	\$309
Other Coverages	\$356	\$392
	<hr/>	<hr/>
	\$989	\$1,102

Summary of Loss Costs (July 2016 Level)

	Pre-Reform	Post Reform	
	2014 Policy	2014 Policy + interest rate change	New Policy
Accident Benefits (AB)	401	397	348
Bodily Injury (BI)	309	295	286
All other auto	392	392	390
Average Package	1,102	1,084	1,024
Savings	0	18	78
% of pre-reform loss cost		2%	7%

Undiscounted 2016 Cost Level

2014 Product(Accident Benefits)			Post 2015 Budget (Accident Benefits)		
Benefit		Loss Cost	Benefit		Loss Cost
1a	Basic Medical/Rehab/Renov. \$50,000 up to 10 years	73	1a	Medical/Rehab/Attendant Care/Renov. \$65,000 up to 5 years (except children)	77
1b	Basic Attendant Care \$36,000 up to 2 years	11	1b	CAT Medical/Rehab/Attendant Care/Renov. \$1 million max.	136
1c	CAT Medical/Rehab/Renov. \$1 million max.	95			
1d	CAT Attendant Care \$1 million max.	59			
	Max. Medical/Rehab/Attendant Care/Renov. (Basic & Catastrophic Benefits) \$2.086 million	incl		Max. Medical/Rehab/Attendant Care/Renov (Basic & Catastrophic Benefits) \$1.065 million	

Definition of Catastrophic Impairment

Besides the usual permanent and serious injuries (e.g., paraplegia, quadraplegia, brain injury), the new definition introduces a whole person impairment (WPI) score.

Combination of physical impairments $\geq 55\%$ WPI
(based on 4th edition of AMA Guides)

Combination of mental and physical impairments
 $\geq 55\%$ WPI (mental impairment is based on
Chapter 14 of 6th edition of AMA Guides)

Definition of Catastrophic Impairment (Cont'd)

The use of the AMA Guides is objective and should reduce disputes and the number of examinations.

Given a small number of approved clinicians who would apply the AMA Guides, my guess is: this new definition should reduce catastrophic benefits by 10% or more.

Impact of a Change in Definition

	Pre-Reform	Post-Reform
Catastrophic Benefits	154	136
10% reduction	(15.4)	(13.6)
	138.6	122.4

Comparison of Ontario Closed Claim Study with Osborne Study (in 1988)

Injury	Osborne Study	Current Claim Study	Number of Claims
None - Shaken Up	10.60%	0.10%	4
None - Psychological Trauma	1.1%	36.2%	1,216
Paraplegic, Quadraplegic, Vegetative State	0.1%	0.7%	22
Brain - Other	0.6%	2.4%	80
Head Fracture	0.4%	1.3%	43
Head Concussion	5.0%	7.4%	248

Comparison of Ontario Closed Claim Study with Osborne Study (in 1988) (Cont'd)

Additional Information	Osborne Study	Current Claim Study	Number of Claims
Represented by Counsel	53.9%	91.6%	3,065
Action Commenced	23.3%	83.0%	2,778
Examination for Discovery	12.3%	60.4%	2,020
Case Pre-Tried	4.2%	11.4%	380
Case Tried by Jury	0.2%	0.8%	27
Case Appealed	0.1%	0.1%	3
Appealed by Plaintiff	0.0%	0.0%	-

Undiscounted 2016 Cost Level

2014 Product(Accident Benefits)			Post 2015 Budget (Accident Benefits)		
Benefit		Loss Cost	Benefit		Loss Cost
2	Non-earners Disability \$185/week up to 2 years 26 weeks deductible \$320/week max. afterwards for life	22	2	Non-earners Disability \$185/week up to 2 years 4 weeks deductible	12

Undiscounted 2016 Cost Level

2014 Product(BI)		
Benefit		Loss Cost
3a	Threshold Deductible \$30,000 disappearing at \$100,000	292
3b	Does not allow for the effect of the tort deductible to be taken into account when determining a party's entitlement to costs.	n/a
3c	Tort BI	8
3d	Loss Transfer	9
Total BI		309

Post 2015 Budget (BI)		
Benefit		Loss Cost
3a	Threshold Deductible \$37,601 disappearing at \$125,340	284
3b	Allow for the effect of the tort deductible to be taken into account when determining a party's entitlement to costs.	(4)
3c	Tort BI	8
3d	Loss Transfer	9
Total BI		297

2005 Ontario Closed Claims Study

Claimants	Third Party	Family Law Act*
With deductible	1,270	137
Without deductible	273	36
Useable records	1,543	173
% without deductible	17.7%	20.8%

*Non-pecuniary damages for dependents.

2005 Ontario Closed Claims Study (Cont'd)

BI Deductible existed since 1996 @\$15,000;
BI Deductible increased to \$30,000 in 2003.

Why is there such a high percent of claims without deductible?

2005 Ontario Closed Claims Study (Cont'd)

An example:

Assuming that both the plaintiff and the defendant lawyer agree that the fair value for non-pecuniary damage should be \$60,000.

A “fair” offer to settle is \$30,000.

In the real world, the offer should be higher to avoid the cost of a trial. In Canada, unlike the US, the losing party has to pay the costs of the winning party. Before the reform, the judge would award the costs to the plaintiff due to the wording of the legislation.

Undiscounted 2016 Cost Level

2014 Product(BI)		
Benefit		Loss Cost
4	Shift from Accident Benefits to Tort Benefits	n/a

Post 2015 Budget (BI)		
Benefit		Loss Cost
4	Increase in special damages due to reduced Accident Benefits	3

Undiscounted 2016 Cost Level (Cont'd)

Why a large reduction in accident benefits would not shift the cost to bodily injury loss cost?

Only actual accident benefits paid are deducted from tort BI benefits.

Undiscounted 2016 Cost Level (Cont'd)

Judges are human too. They are reluctant to reduce current tort benefits in anticipation of future accident benefits.

Results:

Double dipping occurs all the time.

Reduction in accident benefits will materialize, but not comparable increase in BI cost.

Deductible Change

The Ontario government proposes to change the base comprehensive deductible from \$300 to \$500 without changing the base rates.

In other words, no balancing back.

This generates a \$2.1 reduction in loss cost.

Other Interest Rate Related Changes

Interest penalty for late accident benefits payments will change from 1% per month to 1% per annum.

About 1% of the claims would be affected.

	2014 Product	2015 Budget
Reduction	\$3.7	\$3.4

Impact on Loss Cost (2016 Cost Level)

Prejudgment interest rate on BI claims will be adjusted every quarter.

Q4 2014 5.0% pre-reform

Q1 2015 1.3%

Q2 2015 1.0%

	2014 Product	2015 Budget
Reduction	\$14.3	\$13.9

More Changes

However, all require balancing back.

Therefore, I would not discuss them.

Recap of Impact on Loss Cost

		2014 Policy + Interest Rate Change	2015 Budget
1	Medical/Rehab/AC		
	Basic	0	25.0
	CAT	0	
	Definition of CAT	0	13.6
2	Non-earner disability	0	10.4
3	Indexed deductible	0	12.0
	Entitlement to costs	0	
4	Shift from AB to BI	0	(3.0)
5	Comprehensive Deductible	0	2.1
6	Interest penalty for AB disputes	3.7	3.4
7	PJI rate for BI	14.3	13.9
		18.0	77.4

Lessons Learned

1. A review of the auto policy every 5 years is a good thing.
2. Quarterly update of interest rates is a must in this environment.
3. Elimination of life time disability benefit for non-earners is long overdue because the benefit is expensive and should be an individually priced optional benefit.

Lessons Learned (Cont'd)

4. An objective definition of catastrophic impairment will reduce disputes and lower cost in the long run.
5. Accident benefits should focus on catastrophic injuries and less on minor injuries. The Minor Injury Guideline in 2010 is a step in the right direction; more should be done to make auto insurance affordable.

Lessons Learned (Cont'd)

6. An amendment to the Insurance Act to require that the tort deductible be taken into account when determining a party's entitlement to costs; this amendment will reduce litigation and increase the application of tort deductible.