



SPRING MEETING

May 21-24, 2017

Sheraton Centre Toronto Hotel
Toronto, Canada



2017 CAS ANNUAL MEETING

**Impact and Implications of
2015 and 2016**

Ontario Auto Insurance Reforms

May 23, 2017

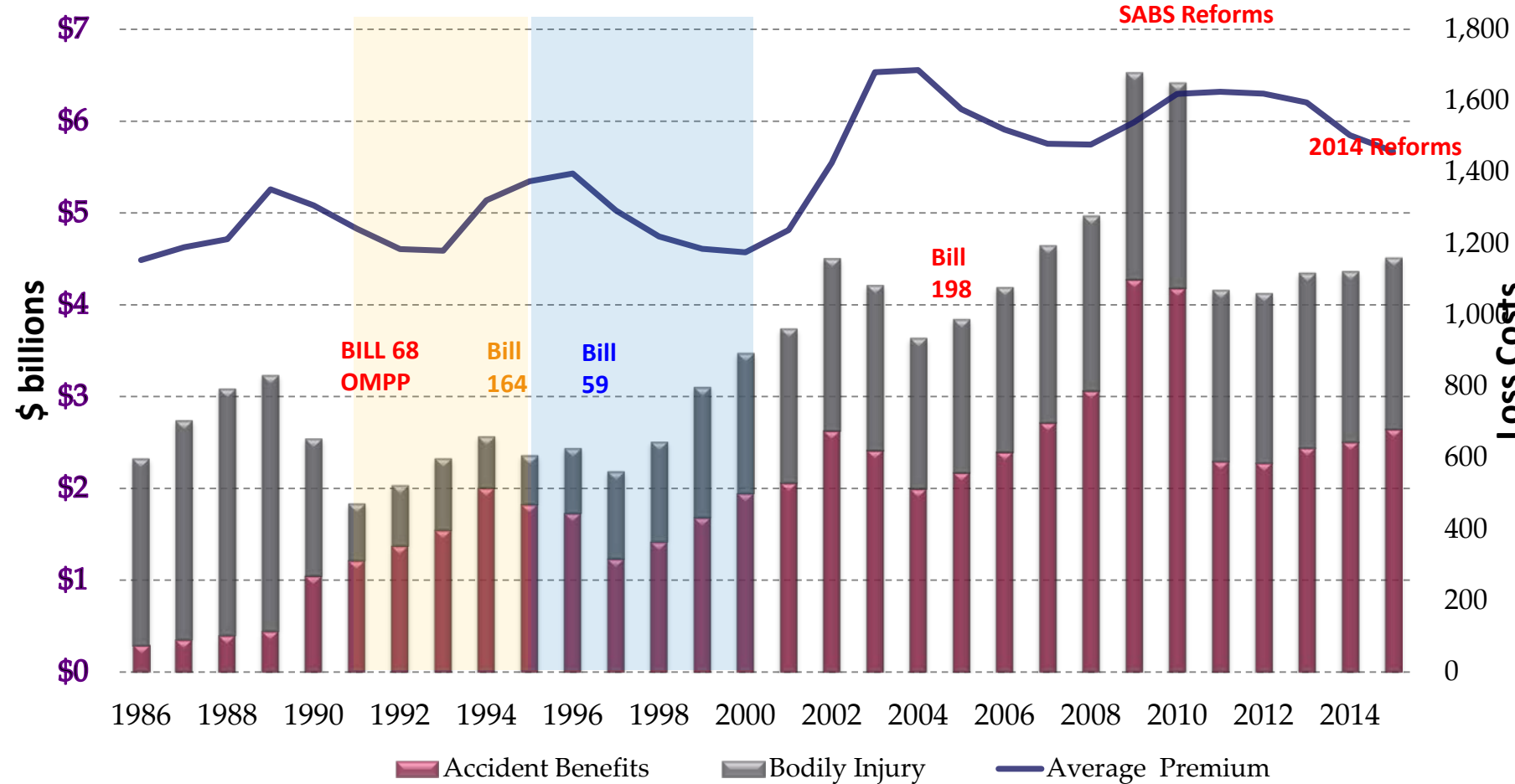
AGENDA

1. History of Ontario Auto
2. Claim Issues leading to 2016 AB Reforms
3. 2015 and 2016 Auto Product Changes
4. Estimate Reform Impact Costing
5. Reserving and Pricing Challenges
6. Marshall Report

HISTORY OF ONTARIO AUTO

30 Years of Tweaking Accident Benefits

Combined Accident Benefits and Bodily Injury Cost Trends
(GISA AU10 and AUTO1005 Exhibits)



Auto Insurance Reforms since 2010

- ✓ Limited med/rehab benefits to \$3,500
- ✓ Established the MIG
- ✓ Reduced standard med/rehab benefits to \$50,000
- ✓ Included the cost of provider-initiated examinations in the med/rehab benefits
- ✓ Reduced standard attendant care benefits from to \$36,000
- ✓ Only an occupational therapist and a RN can do an application for attendant care benefits
- ✓ Limited housekeeping, home maintenance & caregiver benefits to individuals with a cat impairment
- ✓ Limited provider-initiated and insurer examinations to \$2K per exam
- ✓ Auto insurance benefits do not cover future care plans
- ✓ Expanded the definition of cat impairment to include single-limb amputees
- ✓ Only a physician or can conduct an assessment for making a cat impairment determination
- ✓ Reduced the interest rate charged on overdue SABS payments from to 1% per month
- ✓ Prohibited the use of a past claim for which a driver was 25% or less at-fault from being used to determine a rate for auto insurance
- ✓ Prohibited the use of credit information for underwriting and rating purposes
- ✓ Directed an insurer to offer the lowest rate available
- ✓ Added a \$500 deductible for DCPD
- ✓ Established an industry-wide rate reduction target of 15%
- ✓ Licensed health clinics
- ✓ Enhanced FSCO powers on health clinics
- ✓ Embedded the MIG in the SABS
- ✓ For *pre-existing medical condition* to receive more than \$3,500 in med/rehab benefits, documented prior to
- ✓ Clarified that *incurred loss* for attendant care is the actual amount lost
- ✓ Prohibited multiple elections for income replacement, non-earner and caregiver benefits
- ✓ Set the prejudgment interest rate for awards for non-pecuniary damages with the rate for special damages
- ✓ Reform the accident benefits dispute resolution system
- ✓ Reduce storage costs for vehicles damaged in collisions
- ✓ Apply greater oversight of tow truck operators
- ✓ Changed the interest rate applied on overdue SABS payments
- ✓ Adjusted the guidelines for simplified rate filings
- ✓ Update the catastrophic impairment definition and reduce the amount of benefits to \$1M or both med/rehab and attendant care
- ✓ Reduces the amount of standard benefits from to \$65,000 for both med/rehab and attendant care
- ✓ Reduces the maximum duration of med/rehab benefits to 5 years for all collision victims, except those with cat impairment
- ✓ Reduce the six-month waiting period for non-earner benefits to one month
- ✓ Limit the duration to 2 years after the collision
- ✓ Require goods and services not explicitly listed in the SABS to be essential
- ✓ Change the deductible on comprehensive coverage to \$500
- ✓ The deductible on awards for non-pecuniary damages is now \$36,540 and for *Family Law Act* claims is now \$18,270
- ✓ The monetary threshold for non-pecuniary damages will increase set for \$121,799 and as *Family Law Act* claims set as \$60,899
- ✓ Allow for the effect of the deductible to be taken into account when determining a party's entitlement
- ✓ Change the maxi interest rate charged on monthly auto insurance premium payments to 3% 1.3%
- ✓ Prohibit premium increases for minor at-fault collisions that meet certain criteria
- ✓ Require all insurers offer a discount for the use of winter tires

Ontario AB and BI – By the numbers

2013 ACCIDENT YEAR

TOTAL INCURRED LOSSES	\$3.9B (excl HSL)
Insurer Legal Fees to defend claims	\$0.5B
Legal Contingency Fees	\$0.5B
Insurer Initiated Medical Exams	\$0.4B
TOTAL ADMINISTRATIVE COSTS	\$1.4B
BENEFITS RECEIVED BY INJURED CLAIMANTS	\$2.5B

Highest Average Premiums and AB Severity

- Ontario has a no-fault regime for first-party losses (i.e., AB) with tort for third-party losses (bodily injury, BI, and property damage, PD)
- Product design and coverage, claims adjudication practices, rules and guidelines are highly prescribed in Ontario's "take all comers" market
- Government recognizes the need to better align premium levels to benefit payout (Marshall Report – April 2017)

HIGHEST AVERAGE PPV PREMIUMS PER RISK IN ONTARIO*



HIGHEST AB CLAIMS SEVERITY IN ONTARIO*



Claims Process

WEAKENING OF THE CATASTROPHIC INJURY DEFINITION

- Definition contained in the Statutory Accident Benefits Schedule (SABS). Extremely complex*
- Requires several specialists to reach a cat determination
- Significant incentive to be deemed cat where benefit limit increases from \$65k to \$1 million
- Erosion of the cat definition with precedent-setting legal decisions

Case	Decision Date	Decision
Kusnierz v Economical	2011	Combine physical and psychological impairment when determining whether a person is “catastrophically” impaired
Pastore v Aviva	2013	Combine marked impairment in daily living and take pain into consideration when determining whether a person is “catastrophically” impaired

* Fair Benefits Fairly Delivered – A Review of the Auto Insurance System in Ontario

CLAIMS ISSUES LEADING TO 2015 AND 2016 AUTO REFORMS

Catastrophic Losses and Adverse Development

WHAT WE ARE SEEING

- Industry Experience
 - Adverse development started in 2015-Q3 for Ontario (“ON”) Accident Benefits (“AB”)
 - Driven by trend of increased case reserves as losses which were basic becomes

Industry PPV Ontario
At 2016H1
Accident Benefits - Medical/ Rehabilitation
Reported Claims

AY	6-12	12-18	18-24	24-30	30-36	36-42	42-48	48-54	54-60	60-66
2007H2	1.368	1.098	1.047	1.020	1.033	1.028	1.013	1.007	1.012	1.014
2008H1	1.444	1.110	1.028	1.021	1.024	1.011	1.005	1.017	1.007	1.009
2008H2	1.546	1.108	1.018	1.014	1.008	1.001	1.013	1.012	1.010	1.007
2009H1	1.603	1.113	0.997	0.986	0.998	0.999	1.008	1.009	1.011	1.006
2009H2	1.609	1.094	0.993	0.997	0.966	1.018	1.004	1.009	1.002	1.011
2010H1	1.620	1.066	0.978	0.927	1.005	1.008	1.006	0.999	1.005	1.001
2010H2	1.251	0.991	0.948	1.041	1.038	1.022	1.016	0.998	1.006	1.008
2011H1	1.213	1.040	1.049	1.093	1.050	1.044	1.018	0.999	1.006	1.020
2011H2	1.201	1.037	1.052	1.068	1.058	1.032	1.005	1.026	1.013	
2012H1	1.224	1.077	1.051	1.076	1.078	1.049	1.021	1.009		
2012H2	1.274	1.081	1.064	1.072	1.052	1.047	1.039			
2013H1	1.324	1.083	1.050	1.066	1.044	1.075				
2013H2	1.260	1.068	1.049	1.046	1.064					
2014H1	1.269	1.075	1.036	1.068						
2014H2	1.309	1.068	1.077							
2015H1	1.340	1.088								
2015H2	1.379									

Minor Injury to Cat Examples

SCENARIO 1

- Pedestrian sustained three fractured ribs and soft tissue injuries
- Claimant deemed cat 5 years later based on psychological impairments of post traumatic stress disorder (“PTSD”)

SCENARIO 2

- Claimant rear ended. Sustained neck & back strain plus mild facial fracture
- Deemed cat 4 years later based on deteriorated psychological condition

BENEFITS to be PAID

- Income replacement - \$400 per week for life
- Med/rehab - \$1 million (policy limit)
- Attendant care - \$1 million limit (policy limit)
- Housekeeping - \$100 per week for life

2015 AND 2016 ONTARIO AUTO PRODUCT CHANGES

Auto Product Changes



**Reduce costs within the system, reduce fraud,
and provide more choice to consumers**

**Standard Benefits have been
combined**

**CURRENT Optional Accident Benefits
have been eliminated**

**NEW Optional Accident Benefits have
been introduced**

Auto Product Changes

Reform Item	Cov.	Eff Date
Pre Judgment Interest Rate (5% to 1.3%)	BI	1-Jan-15
SABS Interest Rate on overdue benefits	AB	1-Jan-15
Inflation-indexed deductibles (\$30K)	BI	1-Aug-15
\$120K threshold inflation indexed	BI	1-Aug-15
Standard \$500 deductible for Comp	Comp	1-Jun-16
MR + AC Combined CAT Limit (\$1 million)	AB	1-Jun-16
MR + AC Combined Non-CAT Limit (\$65K)	AB	1-Jun-16

Auto Product Changes – Miscellaneous Items

If applicable, the tort deductible is to be taken into account when determining a party's **entitlement to costs** in an action for damages from bodily injury or death arising directly or indirectly from the use or operation of an automobile (BI)

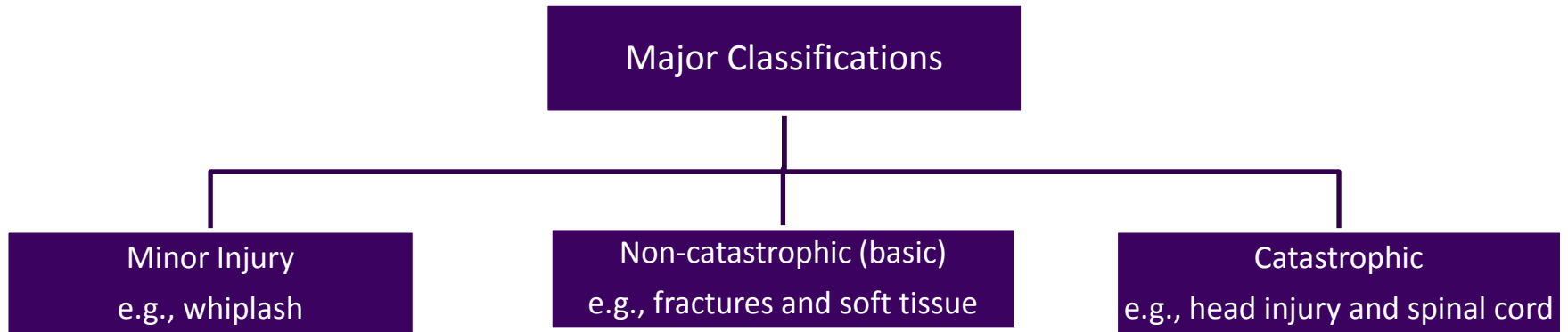
The **definition of Catastrophic impairment** in the SABS is amended (AB) ***

Goods and services not explicitly listed in the SABS are required to be "**essential**" and **agreed** upon by the insurer (AB)

Amount paid for Attendant Care services is **limited** to the **actual incurred expenses** (AB)

Winter tire discounts are required to be offered (safer driving impacts all coverages)

Injury Classification and Standard AB Changes



Benefit	2010 Policy limits	2016 Policy limits
Minor Injury Guideline	\$3,500	\$3,500
Medical and Rehabilitation (non-catastrophic injuries)	\$50,000	Combined \$65,000
Attendant Care (non-catastrophic injuries)	\$36,000	
Medical and Rehabilitation (catastrophic injuries)	\$1 million	Combined \$1 million
Attendant Care (catastrophic injuries)	\$1 million	

Audience Participation

Jon's auto policy renewed on June 28, 2016. He currently has standard accident benefit coverage.

What changed on Jon's June 28, 2016 renewal with regards to standard accident benefit coverages?

Med/Rehab & AC - \$65,000 for non-cat losses

Med/Rehab & AC - \$1 million for cat losses

2016 Optional Accident Benefits

Options: Medical, Rehabilitation & Attendant Care	Maximum for Non-Catastrophic Injuries	Maximum for Catastrophic Injuries
STANDARD ACCIDENT BENEFITS	\$65,000	\$1 million
[1] \$130,000 combined (non-catastrophic injuries)	\$130,000	\$1 million
[2] \$1 million (all injuries)	\$1 million	\$2 million
[3] \$1 million (catastrophic injuries)	\$65,000	\$2 million
Optional Benefit Combinations [1+2 can not be purchased together]		
[1+3] \$130,000 combined (non-catastrophic injuries) +\$1 million (catastrophic injuries)	\$130,000	\$2 million
[2+3] \$1 million (all injuries) +\$1 million (catastrophic injuries)	\$1 million	\$3 million

Audience Participation

Mike's policy is effective March 25, 2016.
Mike would like to purchase some Optional
Accident Benefits.

What optional benefits can be purchased?
(Pre-Reform or Post Reform)

Pre-Reform

Audience Participation

Jennifer's home has been insured since 2012. She is looking to purchase a car for the first time in July, 2016.

Will Jennifer's new car be eligible for the new auto reform benefits?

Yes

ESTIMATED REFORM IMPACT COSTING

Company Data Challenges

Missing / Inaccurate Injury Flags

- Cat claims closed w/o payment
- Non-cat claims closed over \$250,000
- Claims have an injury description but no injury flag

Split of General Damages

- Judges make lump sum court awards
- Additional Investigation - Claim file notes may provide clues to split general damages into pecuniary and non-pecuniary amounts

Company and Industry Data working together

Industry reform estimates published in the regulator's technical notes based on data from:

- GISA (**G**eneral **I**nsurance **S**tatistical **A**gency)
- HCAI (**H**ealth **C**laims for **A**uto **I**nsurance)

Companies have more granular and more recent data than GISA or HCAI

Companies have likely will adjust their claims reserving and settlement practices over time

Company Reform Savings Data

Claim and claimant data summarized by Company, Accident Year, Injury-type and Sub-cover

Provides split by **Injury-type**: minor, basic, catastrophic losses

Provides split by **Sub-cover**: medical payments, medical examinations, renovation (rehab), vocational (rehab), attendant care

Develop and trend claims by sub-cover

Loss development factors need to be applied by
Company, Accident Year, Injury-type and Sub-cover

Minor claims - Med/Rehab claims capped at \$3,500.
AC claims are not capped.

Basic claims (Tested 2 scenarios)

1. Hard limit – Cap the development of Med/Rehab and AC claims **individually** to their respective limit. This is the **upper** end of the savings range.
2. Soft limit - **Do not cap** development of Med/Rehab and AC. This is the **lower** end of the savings range.

CAT claims - Cap the development for each claimant

Develop and trend claims by sub-cover

Calculate the expected indemnity savings as a % of **developed and trended indemnity losses by sub-cover**

Determine Sub-cover IBNER by Co, AY, Injury-type

- IBNR Factor = (IBNR / Case Reserve)
- IBNER Factor = IBNR Factor x % of reported claims
- Sub-cover IBNER = O/S Case Reserve x IBNER factor

ALLOCATE IBNER to each claim (iterative process)

- Since losses are capped some IBNER is not allocated.
- Repeat process until IBNER can no longer be allocated

Case Study

Injury Type = Basic ; Sub-cover = Med/Rehab

IBNER Factor = 1.200, Trend Factor = 1.060

Sub-cover Paid Indemnity = \$150K, Sub-cover Case Reserves = \$200K

Claim Paid Indemnity = \$10K, Claim Case Reserve = \$30K

Sub-cover IBNER to be allocated = (IBNER Factor – 1) x Sub-cover Case reserves = \$40K

Sub-cover Ultimate indemnity amount $\$150K + \$200K + \$40K = \$390K$

1st iteration

Ultimate claim indemnity amount = $\$10K + \$30K \times 1.200 = \$46K$

Sub-cover group Ultimate indemnity amount remaining after first round of allocation = \$344K

IBNER remaining to be allocated = $\$40K - \$6K = \$34K$

Since indemnity is < \$50K limit and there is more IBNER to be allocated, iterate again.

2nd iteration

Claim Case Reserve = \$30K ; Sub-cover Remaining Case Reserves = \$170K

Ultimate claim indemnity amount: $\$46K + (30K/170K \times \$344K) = \$52K$

Since the claim amount is over the \$50K limit, we stop iterating this claim

Trended Ultimate Loss = \$50K

Reform Savings Estimation

Calculate projected indemnity savings by **sub-cover**

Calculate projected ALAE savings by **sub-cover**

Calculate projected indemnity+ALAE savings across all sub-covers

Projected Accident Benefit Savings =
(Indemnity %) x (Indemnity Savings)
+ (ALAE %) x (ALAE Savings)

Audience Participation

Are the expected automobile reform savings for the following types of insurers **Higher** or **Lower** than average

Non-Standard Insurers – **Higher**

Insureds have more CAT claims

Group Insurers – **Lower**

Auto insurance is generally the second payer

Claimants usually return to work faster

Direct Insurers – **Higher or Lower**

Younger insureds have less basic + minor injuries

Urban claimants impacted by stakeholder influences

RESERVING AND PRICING CHALLENGES

Reserving Challenges

Principle 1 - An unpaid claims estimate is reasonable if it is derived from reasonable assumptions and appropriate methods

- Can a reserving actuary trust the historical Accident Benefit link ratios?
- How are the Bodily Injury (BI) claims expected to change?
- What will the frequency and severity trends look like going forward?

Reserving Challenges

Principle 2 – An unpaid claims estimate is inherently uncertain. This uncertainty stems from circumstances that are unknown when the estimate is made. Thus the unpaid claims estimate implies that a range of estimates can be reasonable.

- Use many methods to evaluate the proper accident year Ult Loss Ratio
- Collaboration is key to provide ‘best estimates’ of unpaid claims in a very uncertain / evolving environment
- Separate CAT / non-CAT claims and basic, minor claims by region
 - Expected claims mix change
 - Expected development pattern differences

Reserving / Pricing Challenges

Principle 3 – The actual amounts paid will likely differ from the estimated future payments. The actual future payments can be known with certainty only when all the payments for such claims have been made.

- Are we there yet? (Regularly monitor – validate a priori assumptions)
- Reserving challenges result in pricing challenges (business strategy – target marketing, segmentation analysis, RSP cession strategy, future trends etc)
- May be more product reforms (U/W cycles, stakeholder knowledge, political agenda)
- Auto Reforms apply to ALL automobile policies (Cauto, Misc Auto)

MARSHALL REPORT – APRIL 11, 2017

Marshall Report

BACKGROUND

- 1) David Marshall appointed in 2016 as a special advisor to the Minister of Finance
- 2) Mandate to develop further initiatives to reduce claims costs and uncertainty in ON's auto insurance system

MAIN OBJECTIVES

- 1) To build an auto insurance system where the insurance market is stable over the long term at significantly less cost to consumers
- 2) To ensure that the typical experience of people injured in traffic accidents is to receive the best evidence-based treatment to allow a return to normal living as quickly as possible
- 3) To ensure that the most severely injured people receive the resources they will need through an objective and transparent process that minimizes disputes
- 4) To reduce ON premiums to achieve a rate that is close to, if not at, the Canadian average of \$900 vs \$1,458 per year

Marshall Report

KEY FINDINGS

- 1) 1/3 of AB spend is not getting injured individuals
- 2) 5/6 of injuries are minor and can be treated by simple, short-term, and inexpensive procedures
- 3) Simplest of claims are taking over a year to close
- 4) If a claim is disputed, the average time to resolve minor injuries increases to approx 900 days
- 5) 25% of claims present themselves as having developed serious and permanent impairment from what began as mostly simple, soft tissue injuries
- 6) 1/3 AB claims goes through the dispute resolution system. Almost all claims that go into dispute are represented by legal counsel; 40% go onto an arbitration process
- 7) Contingency fees are not sufficiently transparent and can be as high as 40%

System is open to inefficiency, excessive cost, and over treatment

<http://www.fin.gov.on.ca/en/autoinsurance/fair-benefits.pdf>

Marshall Report

KEY CONCLUSIONS

- 1) Government's goal is to provide affordable care for injured individuals undermined by the way the system is structured
- 2) Government outsources delivery of benefits to private sector without giving insurers authority to decide how to deliver it
- 3) Legislation is very broad and open to wide latitude of interpretation while regulations are very prescriptive on how insurers can deliver it, which creates opening for disputes
- 4) System hampered by disputes and inefficiencies with very high percentage of premiums being used to pay experts and lawyers with little agreement on what constitutes fair diagnosis and care

Marshall Report

KEY CONCERNS / RECOMMENDATIONS

- 1) Catastrophically injured persons must be given top priority and do not need to hire lawyers or other professionals to obtain their entitlement
- 2) Establish a roster of independent examiners to have sole responsibility for rendering appropriate diagnostic and treatment determination including CAT eligibility
- 3) Contingency fees should be made fully transparent to the client
- 4) Make the injury compensation system more efficient and cost effective
- 5) Introduce evidence-based programs of care to treat common traffic accident injuries
- 6) Overhaul of pricing schedule for treatment by providers to bring them more in line with prices paid by similar bodies
- 7) Provide enhanced education to consumers to help explain how insurance works
- 8) Empower consumers to choose coverage options that meets their needs
- 9) Government should encourage greater price competition in the marketplace
- 10) Equip FSRA to provide robust and independent market conduct oversight

Concluding Remarks

- 1) Ontario Auto Product will continue to evolve – case law, stakeholder interests, driving / car buying / sharing behaviour etc. Actuaries must understand the past to begin the process to predict and plan for the future.
- 2) Actuaries play a key role to help government design an affordable and sustainable automobile insurance product
- 3) Actuaries must work with their claims colleague not just to understand the cost/trend of the auto insurance product but also to gather facts that can be shared with the public (demystify insurance)