

Automobile Insurance Third Party Liability Bodily Injury Closed Claim Study in Ontario

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Introduction

Pinnacle Actuarial Resources, Inc. (Pinnacle) was engaged by the Financial Services Commission of Ontario (FSCO) to conduct a study of automobile insurance third party liability bodily injury (BI) claims in Ontario. The purpose of the study is to provide a detailed analysis of costs and other factors relating to claims that have been filed, processed and closed by insurance companies in Ontario. Pinnacle was responsible for designing the study, conducting the data collection, and developing a report based on the study results.

The closed claim study was to provide necessary data not available from other sources to better enable FSCO to understand the factors contributing to cost changes and to use as a framework for analyzing tort settlement costs and other factors that could have an impact on the Ontario automobile insurance system. The study is important to the government as it will also assist in evaluating the factors affecting the costs of future product changes pertaining to BI claims. In addition, the closed claim study will supplement data collected by statistical plans.

The data that was analyzed in this study was collected from auto insurers in conjunction with FSCO and Insurance Bureau of Canada (IBC). IBC is the national association representing Canada's private home, car and business insurance companies.

The last closed claim study conducted in Ontario was in 1987, with the results published in the *Report of Inquiry into Motor Vehicle Accident Compensation in Ontario* (Osborne report) by the Honourable Mr. Justice Coulter A. Osborne in 1988. The study covered Ontario automobile BI claims closed during 1986 and accident benefit claims for accidents that occurred in 1985.

In order to account for the time it took stakeholders to become familiar with the 2003 reforms in the Ontario auto insurance system under Bill 198, this study surveyed private passenger automobile BI claims for accidents that occurred in calendar year 2005.

Reliances and Limitations

In developing this report, Pinnacle has relied upon data and information supplied by the claim representatives of the automobile insurance companies that participated in the study. Pinnacle relied upon the general accuracy of this data and information without independent verification. However, Pinnacle did review certain elements of this data and information for reasonableness and consistency with our knowledge of the insurance industry and the claims process. Pinnacle also validated that data provided was internally consistent. Any errors or omissions in the data provided could have a material effect on our analysis of the drivers of loss costs.

The analysis of the loss experience was for claims that occurred in 2005. As such, any projection of the results of this data into the current claims environment involves estimates of the impact of differences in the legal environment now as opposed to 2005. Therefore, any such projections are subject to economic and statistical variation. No assurances can be offered that the results of this claim study will be representative of today's conditions.

We have assumed that no significant differences in claims management or philosophy exist between the individual companies that participated in the survey.

Other reliances and limitations and specific assumptions and data adjustments are cited in this report and in the attached exhibits that are an integral part of this report.

Selected Observations

Selected observations from the study are listed below.

1. The average gross payment to claimant was just under \$120,000, while the median payment was \$56,500.
2. Special damages account for 12% of the total gross payments (comprised of general damages, special damages, party and party costs, disbursements and prejudgment interest) to the claimants. The largest category of special damages payments is for loss of income, which includes lost wages (34%) and other income loss (18%). Housekeeping services are the second largest category of special damages at 31%.
3. General damages account for 64% of the total gross payments to the claimant. Non-pecuniary damages (pain and suffering) represent the largest portion of the general damages, accounting for 53% of the total general damages payments. As a percentage of the total gross payments to the claimant, non-pecuniary damages account for 35% of the total gross payments to the claimant.
4. Total insurer reported external counsel costs were about 9.2% of the total gross payments. Overall, total insurer reported costs were 14.3% of total gross payments.
5. Overall, there was an average of 1.11 claimants per claim occurrence.
6. Over 43% of the claims surveyed occurred in GISA Statistical Territory (Territory) 717 that includes Toronto, Markham, Richmond Hill, Vaughan, Brampton and Mississauga. For gross payment severity, the largest severities occurred in Territory 722, which is Northwestern Ontario. The average severity in this Territory is almost twice the overall average.
7. The highest average gross payment severities by claimant role are for motorcycle drivers and motorcycle passengers. The total gross payment average severity for motorcycle drivers is 2.7 times the overall average and the average severity for motorcycle passengers is 1.6 times the overall average gross payment severity. Passengers in the named insured vehicle are the next

highest, with a severity of 1.5 times the average, followed by pedestrians, with a severity of 8% higher than average. The severities for named insureds in the insured vehicle are about 7% higher than average.

8. The highest average gross payment severity by GISA Type of Use Code was for code 09, married males under the age of 25. The second and third highest severities were for unmarried males under age 20 and occasional females under age 25.
9. Gross payment severity by claimant age increases through age 20, and then decreases as the age of the claimant increases beyond 20.
10. For accidents that occur between 12:00 a.m. and 3:00 a.m., the average gross payment severity is 25% to 46% higher than average.
11. Soft tissue injuries (neck and back sprains) were associated with claimants who accounted for 67% of the total claim payments in the survey. Similarly, roughly 70% of the claimants in the survey were classified as having no injuries or having minimal or minor injuries in the police report.
12. The severity for mild neck strains was about 50% of the overall average gross payment severity, the severity for moderate neck strains was roughly equal to the average gross payment severity, and the severity for severe neck strains was almost 2.5 times the overall average gross payment severity.
13. The claimant count shows that 91% of the claimants had some type of legal representation. In the Osborne report, 54% of claimants had legal representation.
14. The majority of claimants ultimately commenced legal action against the insurer (83%). This is an increase of 60% since the Osborne report. The ultimate severity for claims in which legal action commenced was 14% higher than average.
15. The percentage of claimants with psychological trauma increased from 1.1% in the Osborne report to 36.2% in the current study. The percentage of claimants with mild neck injuries and mild back injuries increased as well, going from 3.4% to 27.2% and 1.5% to 25.3%, respectively. The percentage of claimants with shoulder soft tissue injuries also increased by 15.3%, going from 14.9% to 30.2%.
16. The percentage of claimants with soft tissue neck injuries decreased from the Osborne report to the current study, going from 58.7% to 36.1%.
17. The actual time lost from work increased from the Osborne report to the current claim study. In the Osborne report, the median time lost from work was two months. In the current claim study, the median time lost is seven months.
18. In the Osborne report, 77% of the claims were settled before an action commenced. In the current claim study, 16% of the claims were settled before an action commenced.

Claim Survey Development

To complete this analysis, Pinnacle worked with FSCO and IBC, as the trade association, to develop a survey questionnaire that company representatives would need to complete for each selected claim. A draft of the questions was developed by Pinnacle, using as input our experience as well as elements from the following previously completed studies:

- *Report of Inquiry into Motor Vehicle Accident Compensation in Ontario, 1988*
- *New Brunswick Closed Claim Study, 2011*
- *Private Passenger Automobile Closed Claim Study – 2004: Newfoundland and Labrador*
- *Alberta Closed Claim Study, 2006*
- *No-Fault Auto Injury Claims in Michigan: A Study of Closed Claims and Open Catastrophic Claims, 2012*

Once the draft questions were developed, the draft was provided to FSCO and IBC, who provided additional questions and input on the draft questions. The questions were also designed to ensure that the current survey questions would allow the results of this study to be compared with the results of the Osborne report to the extent possible. Also, in an effort to reduce the time and effort required to complete a survey for each claim, questions which were deemed insignificant were removed from the questionnaire. Once the input from FSCO and IBC was incorporated, the survey was provided to the participating insurance companies for their feedback. Insurer feedback was evaluated and incorporated into the survey questionnaire.

In addition to the questionnaire, Pinnacle also developed an Excel form to facilitate the data input by companies and to increase the consistency of the information submitted.

The final claim survey questionnaire and survey completion instructions are included as Appendix 1.

Claim Sample Numbers

Companies were identified for participation in the study based on their market share in 2005. Data submitted by insurers to the Automobile Statistical Plan was used. The goal for the study was to obtain a representative sample of 3,500 – 4,500 claims files from 10 to 13 Ontario auto insurers representing 70 – 80% of the market share in 2005. A table of insurers chosen to participate in the survey are shown below.

Table 1: Participating Ontario Auto Insurance Companies

Group/Co.
Aviva Group
Intact Group
State Farm Group
TD Insurance Group
Economical Group
Cooperators Group
Dominion of Canada
Northbridge Group
RSA Group
Desjardins Group
Allstate Group
Wawanesa Mutual Insurance

The total number of claims to be sampled was selected to be consistent with the overall distribution of claims by company and Territory.

Data Collection Process

There were a number of steps taken during the data collection process to ensure accuracy and consistency of the data collected.

Once the survey and number of claims for each company were finalized, Pinnacle held a training session for company claim representatives. During this training, Pinnacle reviewed the claim survey questions to clarify the data that was being requested, the Excel form to be used for the data collection, and the data collection process. Pinnacle also answered any questions that the companies had.

Once the training was complete, each company completed 20 claim surveys and submitted the results electronically to Pinnacle to review. Pinnacle reviewed these initial 20 responses and provided feedback to each company on the surveys to ensure the questions were being answered correctly and consistently.

After the initial survey responses were completed, companies then submitted the completed surveys to Pinnacle weekly for review. Pinnacle reviewed the weekly submissions, checking for errors and inconsistencies in the answers, and provided reports back to companies based on our review. Companies then reviewed the responses, and if necessary, corrected the submissions and resubmitted the responses to Pinnacle.

Pinnacle also held bi-weekly conference calls with the insurance companies. The purpose of these calls was to answer any questions that the insurance companies had, to discuss any general observations or clarifications based on our review of the survey responses, and to discuss the companies' progress in completing the survey questions.

For each company submission, Pinnacle conducted error checks on the data to ensure that the data was correct and reported consistently between companies. The types of checks that were conducted included:

- Duplicate entries
- Missing key data fields
- Inconsistent entries (e.g., indicated no injury occurred but also checked another entry type)
- Ensuring that total claim amounts equal the sum of the underlying claim amount entries

Data Validation

To validate that the responses to the claim surveys were consistent with external information, we compared the responses to the survey questions with several external data sources.

Auto Ontario Incurred Loss Development Report

Pinnacle was provided with the General Insurance Statistical Agency (GISA) 2012-1 Incurred Loss Development Report for Private Passenger Auto. As part of this report, incurred to date and projected Bodily Injury total losses and claim counts are included for the industry for Ontario. For 2005, the average bodily injury severity including loss and allocated loss adjustment expense (ALAE) was approximately \$145,000. As will be seen later in this report, the average gross payments from the claim survey were \$119,816 without ALAE. When adding a conservative estimate for ALAE developed from the claim survey, the average severity for the claim survey was \$137,000. This also excludes the incurred amounts from open claims, which would increase this average as well. Therefore the average amounts from the survey track well with the average projected amount from the industry report.

Gross Weekly Wage Comparison

The gross weekly wage was reported for just over 2,500 of the claimants in the claim survey. The average reported weekly wage for those claimants where the weekly wage was reported was \$887. Based on the Human Resources and Skills Development Canada office, the average weekly wage for Ontario in 2005 was \$846. Therefore, the weekly wage numbers are consistent with external reports.

Age Distribution

We also looked at the distribution of ages in the claim survey data and compared this with the distribution of drivers and passengers injured in collisions in 2005 as reported by the Ontario Ministry

of Transportation¹. The distribution from the survey compared to the Ministry of Transportation data is shown below.

Table 2: Age Distribution

<u>Age Category</u>	<u>Ministry of Transportation - Drivers and Passengers Injured in Collisions</u>	<u>Claim Survey Injured Claimants</u>
Under 16	7.5%	3.2%
16 – 20	12.4%	5.6%
21-24	9.5%	5.3%
25-34	18.6%	17.6%
35-44	18.5%	23.3%
45-54	15.1%	22.2%
55-64	9.6%	13.4%
65 & Over	8.9%	9.3%

While the distribution is not identical, the distribution between the two sources is reasonably consistent, and therefore we are comfortable that the age data we received as part of the survey is reasonable.

Overall Data Summaries

In total, surveys were completed for 3,414 claim occurrences. For these claim occurrences, there were 3,804 claimants. As a result of the data reviews and corrections, this final closed claim report is based on 3,049 claim occurrences. For these claim occurrences, there were 3,364 claimants.

¹ Road Safety Program Office, Safety Policy & Education Branch, Ministry of Transportation “Ontario Road Safety Annual Report 2005.” p. 36.

Appendices

1. Claim Survey Questions
2. Injury Descriptions
3. Error Checks Conducted
4. Claim Survey Data Summaries
5. GISA Type of Use Codes
6. GISA Statistical Territory Codes
7. Severity by Injury Type
8. Comparison to Osborne Report