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Lundi 25 novembre 2013

Standing Committee on General Government

Comité permanent des affaires gouvernementales

Automobile insurance review

Examen de l'assurance-automobile

Chair: Grant Crack
Clerk: Sylwia Przezdziecki

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON GENERAL GOVERNMENT

COMITÉ PERMANENT DES AFFAIRES GOUVERNEMENTALES

Monday 25 November 2013

Lundi 25 novembre 2013

The committee met at 1404 in committee room 2.

AUTO INSURANCE REVIEW

The Vice-Chair (Mrs. Donna H. Cansfield): I'd like to call the meeting of the Standing Committee on General Government to order, please.

I'm going to ask you, if you would, committee members, to just add three items to your agenda. There's a motion that will come, there's a discussion about legislative research, and also some reporting discussion about next Wednesday.

To begin with, we have three deputants. Our first deputant is from the Insurance Bureau of Canada.

Mr. Jeff Yurek: I know I'm going to make a motion at the end, but seeing how we only have three witnesses, do you think we could have the committee agree upon adding 25 minutes per deputant if they wish to use it?

The Vice-Chair (Mrs. Donna H. Cansfield): We have 35 scheduled per deputant. If it's the will of the committee to have additional, it's up to the committee.

Mr. Jeff Yurek: Yes, 25 per, if they wish to take it up.

Interjection.

The Vice-Chair (Mrs. Donna H. Cansfield): I'm sorry. I couldn't hear—

Ms. Dipika Damerla: We do have some committee business that we want to do in terms of motions. As long as we can leave time for that, because this was already scheduled, as is, we don't mind extending a little bit, but not to the point they would crowd out other business.

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Singh?

Mr. Jagmeet Singh: My only concern is that I wouldn't want to increase the time for the deputation, but I'd be happy to increase the time for our questioning. I have no issue with that at all.

The Vice-Chair (Mrs. Donna H. Cansfield): So you'd be happy with—we have from 2 until 6. We have four hours. We're scheduled until 3:10. Add 35 minutes; that would take us to about 3:45. So we certainly have some time. Could we use our discretion and see if additional questions are required? We could ask each of the parties at that time if they have more questions they would like to add on beyond their 10 minutes allotted. Do you want to go for 15 minutes and try that?

Ms. Dipika Damerla: Sorry. We need to ask the deputants as well, because we've scheduled them in. Now, if we're going to extend it by 15 minutes for each, I don't know how their timing and their scheduling is. I just wanted to throw that out, because they've come here based on certain time frames, and for us to now add extra time means they have to wait longer or—

The Vice-Chair (Mrs. Donna H. Cansfield): That's a fair question. It's up to the committee. Mr. Yurek?

Mr. Jeff Yurek: I appreciate their time and the fact they have come here, but there have been times at this committee where, due to what occurs outside of the committee's control, deputants didn't even have an opportunity to give their statements. So I'm thinking that 15 minutes extra is not going to really affect their scheduling.

The Vice-Chair (Mrs. Donna H. Cansfield): Okay. It would appear that we do have a difference in opinion. The committee has already made a decision around the time that they would allot, so, because there cannot seem to be agreement at this point, we'll just go with what has been scheduled.

Mr. Jagmeet Singh: Madam Chair, we did agree, I thought. Did we not—

The Vice-Chair (Mrs. Donna H. Cansfield): I'm sorry. I didn't take—

Mr. Steven Del Duca: The last point that I had said—sorry, Chair—was that I think 15 is a reasonable compromise that shouldn't affect too adversely most of the deputants on schedules. So I think—

The Vice-Chair (Mrs. Donna H. Cansfield): It will just affect the last one by half an hour.

Mr. Jagmeet Singh: I'm okay with that.

The Vice-Chair (Mrs. Donna H. Cansfield): Okay, as long as everybody is comfortable with that, that's fine. It's the decision of the committee?

Mr. Jagmeet Singh: And just on the questioning side.

The Vice-Chair (Mrs. Donna H. Cansfield): On the questioning side. So the deputants would each have five minutes, and then there would be 45 minutes for questioning. Is that correct?

Interjection.

The Vice-Chair (Mrs. Donna H. Cansfield): Fifteen minutes each, as opposed to 10 for each deputant. Everybody is in agreement?

Mr. Jagmeet Singh: Yes.

Ms. Dipika Damerla: Sure.

The Vice-Chair (Mrs. Donna H. Cansfield): Okay, then that's what we will do.

INSURANCE BUREAU OF CANADA

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Palumbo, would you like to introduce yourself and your guest for Hansard, please?

Mr. Ralph Palumbo: Ralph Palumbo, Ontario vice-president, Insurance Bureau of Canada. To my right is Barb Sulzenko-Laurie, vice-president, policy, from IBC.

Thank you, Madam Chair. This will be short. We did want to, at the outset, follow up with a discussion that took place at this committee in September relating to insurer profits.

In September, the Ontario Trial Lawyers Association as well as another individual testified on the issue of insurer profits. I think OTLA indicated that it was somewhere between 16% and 20%. I believe the other individual, Bill Andrus, testified that it was somewhere in the neighbourhood of 25%. In a follow-up, Mr. Singh, in the Legislature, told the House that it was this stunning testimony that it was 25%.

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I'm here to say that, frankly, the only thing stunning about it is that it was so wrong. Not only did the IBC offer two reports from two different actuaries on insurer profits that indicated that the ROE was nowhere near 25%, but at the hearing I understand that there was agreement that we all ought to wait, take a breath and wait until GISA reported on its insurer profits review.

GISA, which is the General Insurance Statistical Agency, which is a not-for-profit statistical agent that works on behalf of provincial insurance regulators, has now reported. They reported in October, and their report indicated that the ROE was 6.4%, and you have a copy of that report—nowhere near the 16% to 20% or 25% that was alleged here in September. And we're concerned about it.

We're not asking for your love here. We understand that the industry is not going to get a whole lot of love; we get that. But one thing this committee can do is be right. If you're going to issue a report, if you're going to rely on some of the submissions that have been made, you've got to be right, and so we're asking that you deal with the facts, and the facts are other than what the trial lawyers and Mr. Andrus alleged. I'd ask you to look at that report, the GISA report, and come to your own conclusions, and I'm satisfied that you'll agree that those numbers were just wildly off base.

The second issue we want to deal with is fraud. I know that we've talked an awful lot about fraud, publicly and even at this committee. I just want to assure the committee that the industry is aggressively taking on the fraud issue. As a matter of fact, nine companies, making up 70% of the Ontario insurance market, formed a company called CANATICS, the Canadian National Insurance Crime Services, and it's a not-for-profit organization that will pool claims data and will use sophisticated analytics to identify suspicious claims, and when they identify those claims early, then a company can focus its investigative resources and catch fraudsters before they make a payment. Of course, obviously, that will help in terms of costs, and it will certainly help in terms of premiums.

More than that, individual companies are employing their investigative units vigorously. They've invested in predictive analytics and they've launched civil actions against health clinics and others that have been involved in fraudulent schemes, and I'm sure you may have seen some of those stories in the newspaper.

Moreover, the government requires, each year, that the senior officer of every company must attest that controls are in place to address fraud and abusive—not only that they're in place but they're, in fact, effective. Those are reviewed regularly, and they ensure that legitimate claims are treated fairly. Frankly, FSCO conducts on-site examinations to confirm compliance with the attestations made by senior officers.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much for your presentation. We're going to start with Mr. Singh and the New Democratic Party for 15 minutes.

Mr. Jagmeet Singh: Thank you very much.

Good afternoon. I'm going to begin with some questions around territories and collateral benefits policies. First of all, are you in a position to speak to the territorial boundaries that insurance companies set? Do you have some knowledge of that, and would you be able to speak to that series of questions?

Ms. Barb Sulzenko-Laurie: We don't have any expertise in the territorial pricing.

Mr. Jagmeet Singh: Okay. Understanding the limitation of your knowledge, we'll take that into consideration. I'll ask you a couple of questions and see where you can go with them.

As far as you know, insurance companies get to set their own territorial boundaries; is that correct? Do the insurance companies get to set their own boundaries?

Ms. Barb Sulzenko-Laurie: As far as I understand it, they have to justify it to FSCO, okay, that—

Mr. Jagmeet Singh: Just because we are in a limited time, the question is: Do the insurance companies themselves set it? Then approval can be the second question, but do the insurance companies set their boundaries?

Mr. Ralph Palumbo: Excuse me, Madam Chair: If we're going to be asked a question, we should be able to answer it. I understand the time limitations, but let's let the witness answer it.

The Vice-Chair (Mrs. Donna H. Cansfield): I agree.

Ms. Barb Sulzenko-Laurie: As I understand it, insurance companies do an actuarial analysis and, on the basis of the actuarial analysis, identify a pool. Then they propose that pool, which is the territory, to FSCO. FSCO examines it, may approve it or may not, and may in fact order that it be changed.

Mr. Jagmeet Singh: If I can just decipher your answer, the insurance companies set it and then FSCO approves it?

Ms. Barb Sulzenko-Laurie: That's not what I said. I said exactly what I said.

Mr. Jagmeet Singh: Okay. And there are no limits to how big the differential rates are between two adjacent territories, as far as you're aware? There's a 10% difference if you split a territory, but if you keep the territory the same, over the years there can be a huge difference between one territory and the next. There's actually no limitation on how big that territory spread can be, as long as you're not splitting one territory.

Ms. Barb Sulzenko-Laurie: I believe that goes beyond my level of expertise.

Mr. Jagmeet Singh: Okay. I'm going to ask you some questions about—and if you're unable to answer, I appreciate that. That's good. We can move along quickly, then.

Collateral benefits rules: I'm going to ask you a question around the collateral benefits. In the context of auto insurance, the rule means that, "Auto insurers are liable to pay accident benefits (the no-fault benefits available to all accident victims) only after all other insurance plans or programs available to the insured have been exhausted. In this respect, therefore, auto insurance is a second payer."

I can repeat that statement, if you'd like, but do you follow the gist of the question?

Ms. Barb Sulzenko-Laurie: I do, and I think that it's largely correct, but insofar as another insurance program, which could be the publicly funded health program, provides funding for that service, that has to be exhausted.

Mr. Jagmeet Singh: So to put it in another term, if, for example, a particular individual has other forms of coverage beyond auto insurance coverage, those other forms of coverage would be exhausted first before the auto insurance coverage is then tapped into?

Ms. Barb Sulzenko-Laurie: If I can use an example: If, for example, through a private insurance program or an employee insurance program, an individual has access to $500 in massage therapy, that needs to be exhausted prior to the use of auto insurance funds for further massage therapy.

Mr. Jagmeet Singh: Okay. So in other words, if someone has private insurance above and beyond their auto insurance, that person would cost the auto insurance company far less, for example, than someone who does not have additional private insurance coverage.

Ms. Barb Sulzenko-Laurie: The purpose of that policy, which exists in most provinces in Canada—I believe, all provinces in Canada—is to try to keep auto insurance prices as low as possible and also to ensure that people are not double-dipping with respect to the care that they're receiving.

Mr. Jagmeet Singh: Certainly. But you would agree, then, based on that policy, that if someone has private insurance above and beyond their auto insurance, that individual would cost the auto insurer less than someone who does not have the additional coverage through another form of private insurance.

Ms. Barb Sulzenko-Laurie: If it hasn't been exhausted, yes.

Mr. Jagmeet Singh: Okay. On the flip side, if an individual has no health benefits and no other private form of insurance, then that individual's auto insurance policy would pay the first dollar and anything that's not covered by OHIP?

Ms. Barb Sulzenko-Laurie: Yes, that's correct.

Mr. Jagmeet Singh: Okay. Then isn't it likely, given that, that in the GTA there will be certain regions, certain areas, certain territories where there's a higher proportion of folks, or people, who don't have private insurance, and there's a higher proportion in other areas where they do have private insurance?

Ms. Barb Sulzenko-Laurie: That's probably true. I don't believe, however, that pricing is done on the basis of the amount of the claim but, rather, the frequency of the claim. In that respect, there are going to be a lot of differences amongst regions as well, as to the frequency of the claims.

Mr. Jagmeet Singh: In either respect, if there are areas where there's a higher proportion of folks who have private insurance, and there are other areas where there's a higher proportion of folks who do not have that, the claims costs will be different, not based on the frequencies and not based on the severity of the accident itself, but based on the fact that some folks have access to other forms of coverage and some folks don't.

Ms. Barb Sulzenko-Laurie: I don't believe the pricing is done on that basis. It is, in fact, done largely on the basis of the frequency of claims.

Mr. Jagmeet Singh: But in terms of not on the pricing but the actual cost, you would agree with me, then, based on this line of argument, that in a region that has a higher proportion of folks who have private insurance coverage above and beyond their auto insurance coverage—in those areas, the claims costs would then be proportionately lower, and in areas where they don't have private insurance, the claims cost itself would be lower?

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Ms. Barb Sulzenko-Laurie: I'm not trying to play games at all, but claims costs are a combination of frequency and the severity of the claim. I believe that the frequency is the major factor that's involved, and also whether the insured person was at fault or not at fault.

Mr. Jagmeet Singh: Sure. That's very fair to talk about frequency. But if we put frequency aside and just ask the question based on the direct cost of a claim, the direct cost of a claim would be different not because the claim costs more or less in terms of what the person is claiming for, but it would cost more or less based on if they had additional coverage as well; that would also be an impact on the cost of that one individual claim. If we put that over a number of people, that would also have an impact in terms of certain areas costing more and certain areas costing less to the insurer.

Ms. Barb Sulzenko-Laurie: I think that the point you're trying to make is that by virtue of the fact that in some areas, people may have fewer other benefits, as a result of that, the auto insurance prices would be higher because the severity of the claims would be higher. I don't believe that's the case.

Mr. Jagmeet Singh: I'm not making that claim yet, but what I'm saying is that the costs would certainly be different; that if you have an area where a lot of folks have additional coverage, that individual who makes a claim—his or her claim would be lower. In another area where they don't have the coverage, their claim would be higher.

Ms. Barb Sulzenko-Laurie: As long as the frequency is the same in both areas.

Mr. Jagmeet Singh: Okay. I'm going to ask you a question regarding frequency and high-cost territories. Average auto insurance claims from territories which have a higher proportion of policy-holders without workplace and other health benefits would be higher when they are hurt, the reason being because the auto insurance policy would be the first to pay on the policy.

Ms. Barb Sulzenko-Laurie: I think that, when you're talking about an individual, yes, that's true.

Mr. Jagmeet Singh: What are the implications for folks in these higher-cost territories, if, going along with this argument that certain areas cost more because the individual has less coverage, taking out the idea of frequency—what are the implications for people who never make a claim? So 80% of policyholders don't make a claim—that's the provincial average—and they're paying far higher premiums than those living perhaps a kilometre or two away because of where they live, but they don't cost the insurance industry a penny and they don't make a claim. What do you think the implications are for those 80% of people who never make a claim?

Ms. Barb Sulzenko-Laurie: I believe that an auto insurer is going to be a witness at this committee after us, and they have expertise in that area. I don't want to mislead you—

Mr. Jagmeet Singh: That's fair.

Ms. Barb Sulzenko-Laurie: —so I think you should—

Mr. Jagmeet Singh: I appreciate that.

I just want to double-check my time. How much time do I have left?

The Vice-Chair (Mrs. Donna H. Cansfield): You have another six minutes.

Mr. Jagmeet Singh: Thank you very much.

I'm going to ask you some questions regarding the GISA-versus-OSFI debate that we've been a part of. In the GISA 2012 report on Ontario private passenger loss ratios and other 2012 statistics, they say that the claims and adjustments incurred were $6.483 billion. The report you've referred to—it's in the totals column; the 2012 column following the net claims and adjustment expenses for 2012, Ontario—says $7.744 billion. Are you able to explain the difference between the two?

Ms. Barb Sulzenko-Laurie: What exactly is the question here?

Mr. Jagmeet Singh: On the GISA financial information report, private passenger automobile, Ontario, 2012, in the net claims and adjustment expenses—

Mr. Jeff Yurek: Chair, could we get a copy of this?

Mr. Jagmeet Singh: I think this is referred to—

The Vice-Chair (Mrs. Donna H. Cansfield): It's in your package that's on your desk. It's page 14.

Mr. Jagmeet Singh: Thank you. I should have said that. It would have been easier—page 14. We're looking at the net claims and adjustment expenses. If you follow that along, there's a total. There's a total amount dollar figure and there's also a ratio. The total amount is $7.744 billion—I think it should be $7.745 billion, if you round it.

Ms. Barb Sulzenko-Laurie: It's $7.7 billion, yes.

Mr. Jagmeet Singh: That's right; $7.7 billion is good enough. If we compare that to the Ontario private passenger loss ratios, there is a figure of $6.483 billion. That's on the PPV-IR Ontario, and it's on page 28.

Ms. Barb Sulzenko-Laurie: What are you referring to here?

Mr. Jagmeet Singh: For 2012, "Claim and adjustment expenses incurred," that number says $6.48 billion, about a billion dollars—

Ms. Barb Sulzenko-Laurie: Are you referring to another report?

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Singh, that's another document; is that correct? Just so we know, because not everyone has the other document—

Mr. Jagmeet Singh: Sorry. Yes, it is—

The Vice-Chair (Mrs. Donna H. Cansfield): It's a different document.

Mr. Jagmeet Singh: It is a different document. My apologies.

In fairness to committee members, is there a pause button we can press so I can make sure that we give a copy of this to everybody, so that everyone can follow along?

The Vice-Chair (Mrs. Donna H. Cansfield): We can put a pause button. We can have that copied so people can have an opportunity to review the same that you're reviewing.

Mr. Jagmeet Singh: Sure, if we can take a five-minute recess.

Interjection.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, we're on pause.

Mr. Jagmeet Singh: Is a five-minute recess okay with the committee?

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): Five is fine.

The committee recessed from 1426 to 1432.

The Vice-Chair (Mrs. Donna H. Cansfield): We'll call the meeting back to order. Mr. Singh, you have three minutes left.

Mr. Jagmeet Singh: What I'm going to ask you to do is compare. There's a report on profit that was released; that's the $7.7-billion number; and then there's a regular report that GISA releases annually, and in that they say

$6.5 billion. That's page 28, 2012, "Claim and adjustment expenses incurred."

Ms. Barb Sulzenko-Laurie: We were not given a copy of the report that was just handed out to the members of the committee, so I'm not in a position to—

Mr. Jagmeet Singh: That's quite inconvenient.

Ms. Barb Sulzenko-Laurie: Yes.

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): I'm sorry, but I couldn't hear. We need to remember to be respectful when someone is answering a question. Thank you.

Mr. Jagmeet Singh: They just indicated, about the question I was asking about the report, that just we have a copy, that they don't actually have a copy of it.

Now they do. The GISA number that's released annually—I'm sure you're very familiar with it. They released $6.5 billion—I'm rounding; it's $6.48 billion. The number that is in the profit report is $7.7 billion. So I'm going to take you through the differences and you can respond if you understand, if you agree, in the affirmative or the negative. I'm going to walk you through this.

The difference between these two numbers leads to a loss ratio of 62%, if you use the GISA claims data, versus 76%, if you use the OSFI claims data. If you look at the two—

Ms. Barb Sulzenko-Laurie: They're both GISA.

Mr. Jagmeet Singh: They're both GISA, but in the 2012 profit report, where they use the $7.7 billion, they're using OSFI numbers, and in the regular annual reporting they're using the normal in which GISA analyzes the profit, and they have it at $6.48 billion.

Ms. Barb Sulzenko-Laurie: I think you're mistaken, because my understanding of the GISA report—and it is a superficial understanding of the way in which it was conducted, but I do believe that GISA actually asked the insurance companies to report the data. I'm not aware that they asked them to use OSFI data in reporting it. So the GISA profit report was entirely designed by GISA, with the companies responding to it.

Mr. Jagmeet Singh: Sure. So either way we have the GISA annual report, which indicates the $6.48-billion number, and this, which reports $7.7 billion. If you look at it and analyze it, you actually get a 62% loss ratio versus a 76% loss ratio, if you use those two different numbers and calculate it. Using the two different sets of numbers—both are GISA's, just different ways of accounting—one gives you a 7% net income and the other gives you something closer to 15%. If you use the same GISA number in the same year—2012—"Claim and adjustment expenses incurred." The same thing over here: "Net claims and adjustment expenses." Those two exact same columns: different numbers. In one, you're getting a net income of 7%. In the other, you'll get 15%, using the exact same numbers. I'm just showing this one report by one organization and another report by this same organization.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much. We now go to the Liberals: Ms. Damerla.

Ms. Dipika Damerla: Thank you, Chair. I'd like to begin by thanking you for coming.

Ms. Barb Sulzenko-Laurie: Thank you.

Ms. Dipika Damerla: I'm just going to start by asking, can you talk to us a little bit about the effect the 2010 reforms on the auto insurance industry have had on your industry?

Do you want me to repeat that? Did you get the question, or—

Ms. Barb Sulzenko-Laurie: I can certainly attempt the beginning of the answer, and I think that Ralph may want to follow up. It was something we were very pleased with—the 2010 reforms—which focused on the SABS, the statutory accident benefits schedule, and particularly on certain provisions within the SABS for benefits that had been a source of runaway costs prior to the implementation of the reforms. We were quite pleased to see that the cost of SABS reforms appeared to fall significantly in the aftermath of the 2010 reforms—very pleased to see that.

On the other hand, I have to say that we were very disappointed to see that so many of those claims that appeared to fall in cost then went into dispute resolution. That's why we saw this huge buildup of waiting lists in dispute resolution. First, in mediation, and now that an effort has been made to clear some of those out of mediation, we have a buildup of cases before arbitration.

So what it really means to insurers is that although there's a paper savings as a result of the 2010 reforms, we have no idea whether there are any savings at all. In fact, any savings that we might have realized on paper since 2010 could retroactively be wiped out and we could find ourselves in the same situation, plus the need for retroactive payments, depending upon what happens when those claims are finally resolved.

I noticed that in Justice Cunningham's recent report on the ADR system, he said that only just now is the ADR system starting to deal with issues arising from the 2010 reforms. He makes the same case: that you have no idea what the ultimate savings or not are going to be from the 2010 reforms.

Mr. Ralph Palumbo: If I might, but in the short term, those reforms were meant to stabilize rates, which they have done. The first three quarters, for example, of this year, rates haven't gone up; they've gone down. Now, by small amounts, but, in fact, they have stabilized, and those reforms left a lot of work to be done, and the government's dealing with that.

On the fraud side, for example, we have the anti-fraud task force report. The government's now looking at the licensing of clinics, and those regulations are being prepared. The government hasn't dealt with the catastrophic impairment definition, but that's still out there. So there are things left to be done. It wasn't intended that just those reforms, in and of themselves, would produce huge, huge rate decreases. And, of course, they haven't, but they've at least stabilized.

Ms. Dipika Damerla: Thank you so much for that, Ralph. I understand the situation, because the $3,500 cap was supposed to control costs, but what you are saying is, a lot of those small claims have actually moved on to disputes and so you're concerned about the contingent cost that might come out. Is that what you're referring to when you say that your profits, or the savings, have been wiped out? Is it the contingency costs that you're referring to?

Mr. Ralph Palumbo: Well, they could be. There was a decision earlier this year on the minor injury definition that I guess I could say could potentially add anywhere between $200 million and $300 million in costs that was not anticipated, because who knows how an arbitrator or how the court is going to interpret a provision. Those are the sorts of things that have happened, that can happen, and so it's very difficult to say just how much savings there will be.

Ms. Dipika Damerla: Well, thank you for that. As you know, the government is committed to looking at cleaning up the dispute resolution system, and we look forward to working with you on that.

Just moving on to something else: I was wondering if you could just explain to us what the current return on equity looks like in the auto insurance industry?

Ms. Barb Sulzenko-Laurie: For auto insurance in Ontario, the return on equity is as reported by GISA of 6.4%, and I have here a comparison of auto insurance in Ontario versus some other industries for the same time period. We're looking at utilities, and it's 7.8%; manufacturing, 8.5%; banking, 6.6%; and construction, 19.7% in the same period. So it's quite clear that auto insurance in Ontario was very much below par. Certainly also—

Mr. Jeff Yurek: Excuse me, Chair. Do we have copy of that chart you're referring to?

Ms. Barb Sulzenko-Laurie: No. It was just my notes, but I can give it to the—

Mr. Jeff Yurek: You're referring to it, and I wouldn't mind a copy. Could we get a copy of that?

The Vice-Chair (Mrs. Donna H. Cansfield): Is it possible to get a copy for everyone?

Ms. Barb Sulzenko-Laurie: Absolutely, no problem.

The Vice-Chair (Mrs. Donna H. Cansfield): We'll take a few minutes' recess.

The committee recessed from 1442 to 1446.

The Vice-Chair (Mrs. Donna H. Cansfield): We'll call the meeting back to order.

Ms. Damerla, I'd just remind you that you have nine minutes left.

Ms. Dipika Damerla: Thank you. Please continue.

Ms. Barb Sulzenko-Laurie: I was just citing the return on equity in some other industries in 2012. I thought I would just add to that, as we just have the brand new figures from the third quarter for the industry as a whole, across Canada, from OSFI, again showing that ROE for the industry as a whole is 4.9%, down from 9% a year ago. Obviously, the industry is going through a tough time, shall we say.

Ms. Dipika Damerla: Okay. As you're probably aware, the government has moved on quite a few initiatives to bring down the cost side, to manage the cost side, in the insurance industry. That includes moving forward with licensing the health clinics, which we hope should happen sometime in the spring of 2014. We've laid about 164 fraud charges already and hope to continue to work on that, working on the dispute resolution system, as you earlier mentioned.

Given that we're moving forward on all of these, are there any other issues that you want to raise that might be contributing to the challenge in reducing auto insurance rates, from your perspective?

Ms. Barb Sulzenko-Laurie: First of all, we really appreciate the measures that the government has moved on. We think that over the long term, they're going to have very positive effects in terms of righting some of the things that are wrong with the auto insurance system in Ontario.

We don't expect to see those savings emerge in the near term. They're part of rebuilding a system that took 25 years to get into the kind of problems that it's facing now. It's going to take some time to put back the system so that it's better functioning for drivers as well as for insurers and the general public.

We are very concerned, however, at the present time—and again, Justice Cunningham's report speaks about this—that there are provisions in the SABS, some of which are in the reforms that were introduced in 2010, which are not clear insofar as what their intention is, what the policy intention was. Our concern is that if those are not addressed—you know, things like what an incurred expense is and what a pre-existing condition is—if those problems are not addressed, then we are very much at risk of seeing an undoing of some of the savings that have been achieved, and also new pressures.

We also see, on the bodily injury tort side, very substantial increases having occurred over the last few years in terms of the costs of claims. Since 2008, I think it's something like $750 million in increased costs on the tort side. The problems on the tort side were what got us into a largely no-fault system back in 1989.

Our view is that because this is a partnership between consumers, the industry and the government—which defines the product in legislation and regulation—you've got to be watchful at all times. As the problems are arising, problems have to be addressed as they occur.

Ms. Dipika Damerla: I know that we're all working towards lowering auto insurance rates, but they do continue to be higher than other provinces'. Could you speak to, based on the best of your knowledge, how fraud in Ontario compares with fraud in other provinces?

Mr. Ralph Palumbo: I'm not sure that I could give you an exact number, but here, as you probably recall, KPMG conducted a review that estimated fraud on an annual basis to be somewhere in the neighbourhood of $1.6 billion. It's nowhere near that in other jurisdictions in Canada, although we do understand that there are some pockets in Alberta where it's starting to be an issue.

But this is the mother lode here; this is where the problem is, in particular in the GTA.

Ms. Barb Sulzenko-Laurie: I think the reason for that is that we have the most generous auto insurance product in the country, and have had for many, many years. It serves as a magnet for fraudsters to try to take advantage of the system. It's also very complex—hugely complex. With all the rules that are there, there are multiplying ways of getting around the rules. But I think it's largely the fact that in this jurisdiction the generosity of the auto insurance product has really served as a magnet for fraud, and we see that when we look south of the border as well, in those jurisdictions where the auto insurance product is richer in terms of the benefits that it offers. That's where they have bigger fraud problems.

Ms. Dipika Damerla: That's a fair statement, because that is sometimes lost in the conversation where people only talk about the premiums in Ontario. But to compare apples to apples, you also need to compare the benefits that you're entitled to in Ontario, compared to other provinces. So that's a good point.

Could you just talk a little about what your organization is doing to help constituents like mine access lower auto insurance?

Ms. Barb Sulzenko-Laurie: Ralph just talked about the formation of a new company, CANATICS, which is going to be able to identify fraud using big data analysis and data analytics. Certainly, that's been very significantly supported by IBC as part of a system-wide effort to try to reduce the source of cost pressure that comes from fraud.

Mr. Ralph Palumbo: The other area, of course, is innovative products that will hopefully be in the market, and particularly those that look specifically at driver behaviour, so that if the concern is that—insurance is about risk. It's about a pooled risk, and people will forget that sometimes. Even if that person hasn't made a claim, they're part of a pool where the risks are greater, perhaps, than in another area, and that contributes to the higher premiums. But there are products out there that will look more specifically at the individual driver and that hopefully will mitigate some of the effects of that whole idea of a pooled risk. I know that insurers are very much looking at being as innovative as possible. What we hope, however, is that the regulator, FSCO, will allow that to happen, because sometimes that doesn't happen.

Ms. Barb Sulzenko-Laurie: If we look back over the years, we've been the initiators and instigators of seat belt legislation and graduated licensing. The distracted driver campaign originated with IBC and has now been adopted by most governments across the country. We're certainly very heavily invested in trying to improve the safety of the roads and of drivers, so as to reduce the cost of auto insurance.

Ms. Dipika Damerla: How much time do I have, Chair?

The Vice-Chair (Mrs. Donna H. Cansfield): A minute and a half.

Ms. Dipika Damerla: I just wanted to very quickly touch on something that comes up, which is the rate of return that's mandated for you. Would lowering that have any impact on insurance rates?

Ms. Barb Sulzenko-Laurie: The rate of return has just been reviewed by FSCO, and they adjusted it downwards to 11%. It's a benchmark. It's not a guaranteed rate of return. There are very few insurers who are making 11% on their auto insurance business here in Ontario today. As I say, it is a target. The ability to achieve that target is very questionable. If we were to lower the benchmark rate, we would be sending a signal to the markets that have to capitalize insurance. You can never make more than a certain percentage on the money that you invest in insurance and supporting insurance without capital to back insurance policies. We can't sell insurance; we're not allowed to sell insurance.

Our view is that it would lead to a contraction in the market because of a shortage of capital, and ultimately that would reduce competition and produce higher prices.

Ms. Dipika Damerla: I take your point on it, but I did want to leave one last thought. The last time I checked, I believe in Manitoba their return on equity is around 7%. So I'm just wondering how that plays out, but we can talk about that later because I don't have the amount of time—

Ms. Barb Sulzenko-Laurie: Well, the fact that they get their capital from the government instead from the securities markets makes a big difference.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much. Now Mr. Yurek.

Mr. Jeff Yurek: Thank you for coming out to speak to us, I think for the 10th or 12th time over the two years we've started this review at this committee.

I've been a proponent for OSFI data since the start, and we'll leave that at what that is, but recently GISA came out with a new report. You mentioned it earlier in your statement. It gave you a return on equity of around 6.4%. Could you elaborate on the GISA report a little further than what you had and maybe touch on the 6.4%?

Ms. Barb Sulzenko-Laurie: Our understanding is that GISA designed the report and called upon the industry to supply data in response to a survey that they designed. GISA undertook the responsibility for the analysis of the data, and the provincial regulators across the country approved the analysis and approved the report before it was issued.

Mr. Jeff Yurek: Okay. What has been said at this committee previously—the third party has mentioned that the industry is making $2 billion since the 2010 reforms. Seeing how the insurance business is a $10-billion market, and they're saying you're making $2 billion extra since 2010 and GISA is saying your return on equity is 6.4%, can you make sense of these different numbers that are being thrown out?

Ms. Barb Sulzenko-Laurie: You're talking about the $2-billion reduction in costs for AB?

Mr. Jeff Yurek: Yes.

Ms. Barb Sulzenko-Laurie: There are several factors that need to be taken into account. One is that, prior to the introduction of those reforms, in the previous year the industry lost $1.7 billion or $1.8 billion—a very substantial reduction in AB costs, and it was largely—not entirely, but largely—as a result of the high cost of AB benefits. So a very substantial portion of the savings, if not all of the savings, were necessary just to stabilize the AB cost pressures. That's the biggest part of the explanation.

The second part of the explanation is along the lines of what I've discussed in terms of the uncertainty that's faced by the stability of the reforms—whether they're going to hold. Also, during the same period, here in Ontario and across the country we've seen a very substantial push in costs on the BI side.

Mr. Jeff Yurek: It seems to me that the 15% reduction put forth by the NDP was based on their calculation of $2 billion in cost savings to the insurance company.

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Ms. Barb Sulzenko-Laurie: Yes, and that would assume that it was okay that we were losing $1.8 billion the year before.

Mr. Jeff Yurek: Okay. Yes, just going further with that, would you say that making a huge decision based on the $2-billion cost to actually reduce rates 15% when there are possibly other avenues to go to to achieve that rate reduction—do you think that was kind of a risky venture for the third party to propose based on the $2 billion?

Ms. Barb Sulzenko-Laurie: We believe that it is a very risky venture all by itself. Now, having said that, we also agree that the price of auto insurance is way too high in Ontario, okay? We absolutely want to see the price of auto insurance in Ontario fall so that it's more comparable to the kinds of costs that are being incurred by drivers across the country. But in order for that to happen, there are some additional cost savings that have to be made.

We want those to be made. We want the system to be tightened up because it's, in our view, unacceptable that Ontarians are paying 5.5% of their disposable income on auto insurance whereas in some of the other provinces, it's more like 2% or 3%. So absolutely, we want those prices to come down, and the only way prices can come down is for costs to come down and costs to be stabilized.

Mr. Ralph Palumbo: And, Mr. Yurek, if I might, the other issue, and I think Barb touched on this, is that GISA looks at accident year. It changes from year to year because, of course, actuaries make projections. Sometimes they're right; sometimes they're not.

One thing that we can't ever be sure of is what the costs are going to be with any particular file because, as we said, the file could be in mediation or arbitration and you just don't know what the final costs are. To base a policy of a 15% cut on GISA numbers just is not smart policy, frankly.

Mr. Jeff Yurek: I just want to quickly hop over to fraud for a minute because I found it interesting that you made mention of CANATICS being formed to pool data and go after fraud. How much does that cost in the industry that you in fact had to go and form your own company to go after fraud?

Ms. Barb Sulzenko-Laurie: I don't have a number. I have to say that I was talking to a member of the board of CANATICS who is a senior official with one of the insurance companies, and she says it's costing us a lot of money.

I think there's no question that fraud is very expensive to the industry and to consumers from the standpoint of it loading in the cost of claims. But it's also very expensive to fight. There are investigations that have to be done in order to identify fraudulent situations, and then evidence has to be accumulated in order to be able to be handed over to the police so that they can actually successfully do a prosecution. That doesn't come cheaply.

Mr. Ralph Palumbo: We know one company, for example, that has well over 35 employees directly focused on suspicious claims, and we know of another company that moved, again, an awful lot of resources into their investigative services division. It's an expensive proposition.

CANATICS is a separate corporation, so we don't really know what the numbers are, but it's expensive, as you can imagine.

Mr. Jeff Yurek: Are they using the HCAI system to collect the data or are they just pooling data they've collected on their own?

Ms. Barb Sulzenko-Laurie: It's data that's coming from the industry; it's not HCAI.

Mr. Jeff Yurek: It's not?

Ms. Barb Sulzenko-Laurie: It's not, no.

Mr. Jeff Yurek: Would HCAI be a role that could actually do this role, maybe filtering it through FSCO instead of making the insurance companies create a whole new entity?

Ms. Barb Sulzenko-Laurie: I'm sure that HCAI can contribute; I can just say from my previous experience in working with HCAI. But HCAI is mainly a system for processing claims and claims documentation. It has a limited role. I believe that the large amounts of data that are required for the CANATICS operation cannot come from HCAI but have to be specifically designed to come for the purposes of the CANATICS operation.

Mr. Ralph Palumbo: And with HCAI, there is a pooling of data, but it's stripped of personal information. So there is a pool of data that says in 2011, perhaps, the psychiatrists invoiced the industry X amount, or there are these types of injuries broken down by age, by gender, by territory—that sort of thing.

On the CANATICS side, privacy obviously has to be respected, but it's very important when they're investigating that they can actually link certain clinics and certain other actors in the system from one company to those in another company. So there are two different processes, but I'm sure that HCAI will develop in such a way—I'm sure it is—that they will be able to be of assistance.

Mr. Jeff Yurek: I was just going on my pharmacy experience. We have the Ontario Drug Benefit Program, and that links every single claim that goes through Ontario Drug Benefit. The government is fairly efficient at catching the double doctoring or the people who are getting their pills a week too early or two weeks too early or who are getting a 60-month supply when they should get a 30-month supply. I just don't see why we're forcing the insurance industry to form their own corporation to go after their own analytics when the technology is out there for an organization like FSCO, whose job is to regulate the marketplace, to actually fix HCAI to actually do this for the system, to help lower costs in the system, which would give us lower premiums in the province.

Ms. Barb Sulzenko-Laurie: Well, you're hitting a very soft spot with me, because some years ago, when we were just setting up HCAI, we had a vision that, "Wouldn't it be great to be able to link the HCAI system with data from the publicly funded health care system, with data from the workers' compensation system?"—particularly workers' compensation and auto insurance, because they use the same kinds of health providers. So we took that proposal to the privacy commission and they said, "Absolutely not. We'll not allow the insurance industry to have a link with these public databases," even with technology that could protect the identities of individuals and of clinics.

It was unfortunate because we thought that here was a real opportunity that would be a win-win for the publicly funded system, the workers' compensation system, and for auto insurance. Maybe that time is still ahead of us when that will be allowed.

Mr. Jeff Yurek: Okay. Do you know the term "moral hazard" with regard to insurance? Can you explain that to the committee?

Ms. Barb Sulzenko-Laurie: "Moral hazard" generally is an insurance concept that says that, for example, if you're located on a flood plain and you are able to get insurance against flood, you have no incentive, or limited incentive, to mitigate against the risk of flood and flood damage in your home. So it's by virtue of having insurance protection that individuals may feel that the onus is off them to make an effort to protect themselves from losses.

Mr. Jeff Yurek: Now, does rate regulation affect moral hazard?

Ms. Barb Sulzenko-Laurie: I have no question that rate regulation does affect moral hazard, rate regulation which protects the individual from the effects of their own driving. It's one of the reasons why we like some of the new technologies that are emerging, where there's a direct linkage between the individual's driving performance and the rates that they pay.

Mr. Jeff Yurek: I just want to ask, and I've asked this question in the House: Would the fact that FSCO is directing substandard companies to lower their rates for Ontario's worst drivers be a good example of the kind of moral hazard that comes from excessive rate regulation?

Mr. Ralph Palumbo: Yes, and the difficulty is that we had a policy of rate reduction in a vacuum. I mean, companies were being asked to reduce their rates without any kind of accompanying cost reduction. Clearly, the government is looking at that, but at the present time that isn't there.

You then add on to that the fact that substandards are companies that insure people with driving records that are not exemplary, and you have a situation where people can argue that the worst drivers are in fact going to get a rate reduction, which is the reason why you have to be careful when you advocate a policy of rate reduction up to 15% without thinking it through.

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Mr. Jeff Yurek: Sure.

Mr. Ralph Palumbo: So those people, who can be terrible drivers—what incentive would they have to do anything about their driving? They're going to get a rate decrease—potentially. I'm not saying they will, but potentially they could.

Mr. Jeff Yurek: The person who, say, just was charged with drunk driving, maybe taking out a pedestrian or something, and charged—

Mr. Ralph Palumbo: Well, we have to give insurance companies more credit than that. I mean, obviously, they'll look at that. But the potential for some bad drivers—short of a driver who has killed someone, I would think—is that they could see rate decreases.

Mr. Jeff Yurek: Okay. How much time do I have left?

The Vice-Chair (Mrs. Donna H. Cansfield): Forty-nine seconds.

Mr. Jeff Yurek: Forty-nine seconds. Just a quick question: Referring back to your chart, return on equity by industry, should the construction industry be worried about the government coming and cutting their ROE in the future?

Ms. Barb Sulzenko-Laurie: Well, we hope not. We hope not. We like well-functioning markets.

Mr. Jeff Yurek: Thank you.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much for your presentation.

AVIVA CANADA

The Vice-Chair (Mrs. Donna H. Cansfield): Our next presenters are Aviva Canada: Mr. Somerville.

Mr. Rob Leone: Madam Chair?

The Vice-Chair (Mrs. Donna H. Cansfield): Yes?

Mr. Rob Leone: Does this work? Because it seems like it's broken here. That's why I'm—so we're good? Okay. That's all I wanted to know.

The Vice-Chair (Mrs. Donna H. Cansfield): Great.

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): How do you do?

Mr. Greg Somerville: Great, thanks.

The Vice-Chair (Mrs. Donna H. Cansfield): Great. I'll let you get settled in. I believe everyone has a copy of your presentation. You have five minutes for your presentation, sir. I'll give you a one-minute heads-up, and then we'll do rotation, starting with the Liberals.

Ms. Damerla, will you be taking this as well? Thank you very much.

Mr. Somerville, would you please introduce yourself and your guest for Hansard?

Mr. Greg Somerville: I sure will. My name is Greg Somerville. I'm the CEO of Aviva Canada. This is Ms. Karin Ots, a senior vice-president with our company, responsible for government regulatory affairs.

Let me first thank the committee for the opportunity to come and talk to you. It's certainly our view that there's work to be done in reforming the product, taking some costs out of the system. We've been asked to move forward through FSCO with a rate filing that respects the need to bring down premiums, but clearly we're concerned about the knock-on impact of requiring that the costs be taken out of the system—certainly, corresponding dollars to the premium reductions that we're looking for, for Ontario drivers.

If you look at the system in general, there are many opportunities, in our view, and some that can be done fairly simply. I think you'll see in the paper that we've—the paper has been shared with the committee, is my understanding, so you have our six points that we'd like to focus on as it relates to the need to address the cost side of the equation.

We also believe, from Aviva's perspective, that a longer-term solution likely should be worked on in parallel, which is a broader product reform, recognizing that many of the recommendations that we're making, similar to other reforms that have been enacted in Ontario, are sort of band-aids, if you will, looking to fix problems that have manifested themselves with the current legislation.

We also believe that, in parallel—I wouldn't want to derail any of the good work that's being done to deal with the cost reductions that are in front of us now and the opportunity to take costs out of the system and reduce premiums for Ontario drivers, but I think longer-term, sustainable reform is what we need to have in place, ultimately.

I would like to emphasize that there has been lots of good discussion. The fraud report has been commissioned. There has been work done on the cat definition. I guess, again, if you're looking for my view on any concerns, the concerns are that we need to start moving forward with some of these recommendations. We need to look to implement some of the changes that have been tabled and, in a responsible and effective way, start to take costs out of the system.

We've filed for a rate reduction. It's before FSCO. We're waiting to hear back from the regulator. That has obviously been on a promise that the costs will come out of the system. Clearly, to the extent that our rate filing is approved—I haven't heard one way or the other yet, to be honest, but I am sure that they're working through ours and others in the backlog that's created—it will be important to understand what costs are being taken out of the system and what actions are being taken so that we can get comfort that the promise we've been given that the costs will come down is manifested. Clearly, what will happen is that the rates will come down. The uncertainty is what are the longer-term, sustainable actions that are going to be taken to ensure that the costs come out and stay out.

I will say this: Both Karin and I had an opportunity to present to Justice Cunningham on the ADR reform. I think I'd applaud that effort. I think that's a very good focus. Clearly, that system needs to be overhauled—

The Vice-Chair (Mrs. Donna H. Cansfield): You have one minute left.

Mr. Greg Somerville: Thank you. I think that the nature of that discussion and the draft report—and we will obviously be responding to the draft report. It has been sent out, we've had a look at it and we'll be responding, but I'd applaud that effort. I think there is some work to be done there and I think there are meaningful benefits to be achieved.

With that, I'll leave it to you, Madam Chair, to direct the questions to the appropriate parties. Given the time constraint that I've been put under, I'll stand down with any further comments until I get the questions.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much. We will start the questions with Ms. Damerla.

Ms. Dipika Damerla: Thank you, Chair. Thank you, Mr. Somerville and Ms. Ots, for coming here today and presenting. I'm also looking forward to a decision on your application for a rate reduction, something that I personally would be looking forward to as well as, I know, many of my constituents. Thank you for that.

You're the second-largest insurance company—a very big company. I'm just curious, because you operate in so many jurisdictions; I'm wondering if you can paint a picture and compare for us some of the insurance rates in Ontario vis-à-vis other Canadian jurisdictions.

Mr. Greg Somerville: Sure. I'm happy to do that. I'll let Karin take you through the details. Clearly, the premiums for the regulated auto product in this province are higher than others, but it's a function of the product. The cost of manufacturing is a function of the product that we have to administer. I'll let Karin take you through the detail.

Ms. Karin Ots: Sure. The average Ontario premium is approximately $1,500. Compare that to the average Alberta premium, which is around $1,000. Atlantic Canada, with the exception of Newfoundland, hovers around $775.

Both Greg and I have been in the reform initiative game for quite a while. All of these products underwent significant reform in 2003-04. In the Atlantic, auto reform became a political issue, an election issue, for the New Brunswick government. The provinces that have got the lower premiums went in a certain direction. They've got much tighter accident benefit coverage—$50,000 for medical rehab, with a time limit of either two years in Alberta or four years in the Atlantic provinces.

The BI product is different as well. In Ontario, we have a verbal threshold for minor injuries; you have to show that you're seriously and permanently impaired before you can claim for pain and suffering. In the other jurisdictions, they set a cap on general damages, so you can get up to $4,500 in Alberta and $7,500 in the Atlantic provinces. Those differences seem to have made a large difference in keeping the costs down.

Ms. Dipika Damerla: I quickly looked at your recommendations and the one that you mentioned about the time period. In Alberta it's four years, and did you say—

Ms. Karin Ots: Alberta is two years.

Ms. Dipika Damerla: Two years, and in BC it's four years.

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Ms. Karin Ots: The Atlantic is four years.

Ms. Dipika Damerla: Four years. In Ontario, it's 10 years—

Ms. Karin Ots: Yes.

Ms. Dipika Damerla: —and one of your recommendations is that we come down to four years. I see that that's going to make a 7% reduction in premiums. Perhaps you could just speak to us a little bit about the mechanics of why it would reduce that much.

Ms. Karin Ots: Sure. This is the medical rehab, which is, if I'm injured, my own insurance company pays for my medical treatment. One of the problems that we have right now with the system is, it's 10 years, and we can't force people out of the system. Unless we choose to negotiate a full and final release for settlement, there's no mechanism whereby we help a claimant finish their claim and move on, never to come back. So one of the problems that we have from an insurance company perspective is we have claims that are open for a very long time, which means we have to keep people on staff that can handle those claims, even when they appear to be somewhat inactive. So bringing the time limit down shortens the period of time that a claim has to be worked on.

The other significant issue is that 10 years is a long time. For any of these injuries—a broken leg—you generally don't need 10 years' worth of treatment. That's why the dollars are so significant, to bring them out.

Ms. Dipika Damerla: What I'm hearing, because we've had a series of these hearings, is that there are two factors at play in Ontario. One is fraud; another is the fact that our product is much richer than comparable products in other provinces. Would that be a fair assessment?

Ms. Karin Ots: That's absolutely correct. In fact, the fact that the product is so rich drives some of the fraud as well.

Ms. Dipika Damerla: Yes. We have, as a government, as you may know, moved on some of these. I'm just going to read out some of our initiatives, which you're probably familiar with. The first one is, we are going ahead with licensing health clinics, and we're hoping that we should be able to bring that online by the spring of next year, perhaps. We're hoping that that'll be a big push towards greater transparency and reducing fraud.

We've also laid about 164 fraud charges so far. Again, that's another step in that direction.

We're also looking at what you hinted at: dispute resolution. The government is moving forward to see what can be done to fix it.

Given these changes that we are working on, as well as some of the reforms we've made in 2010, can you tell us—the combination of these two: What has that done for you in terms of bringing the costs down?

Ms. Karin Ots: So far, the health care licensing: not enacted yet. Right now, that's still a zero. ADR, still under review, is a zero.

Fraud is a funny thing, because without question there is a ton of fraud in this system. At Aviva, we've invested very heavily in fighting fraud. We've always been at the forefront of fighting fraud. Mr. Somerville established our fraud investigation department well over 20 years ago. We've now grown that department to 43 employees; that's full-time staff, and all they do is investigate fraud. We've invested very significantly in data analytics, and we're part of the industry consortium as well. Over time, we will probably get more fraud out of the system, but it's really expensive to detect fraud, to investigate it and to get it out of the system. So if we're trying to count savings as a result of fraud, we need to find so much more to get that net savings.

Let me just speak to the health care licensing because I am on that working group. I think it's really important that the government make sure that FSCO has the resources to do the licensing adequately, to make sure that they've got resources that can look at the applications, go out and do the site visits, and take action against health care providers that are falling short. Otherwise, it'll just be a paper exercise.

Ms. Dipika Damerla: What about the 2010 reforms that we brought forward which put a cap on small claims injuries, for starters?

Ms. Karin Ots: Yes, the 2010 reforms, without question, in 2011 delivered savings. The concern that we always have is that these claims last for years. We generally don't know the outcome of a claim, often, for six or seven years. We've seen a lot of deterioration in the 2010 reforms. In the minor injury guidelines, 25% of our disputes right now involve minor injury claims. How those claims will play out through the FSCO ADR system will have a significant impact on whether or not the minor injury guidelines stand. If you look at the Scarlett v. Belair decision, that was not a great first decision.

Against that backdrop, we've got catastrophic claims. We had the unfortunate misfortune of having one of the leading cases, called Pastore v. Aviva. That case has brought down the catastrophic threshold greatly. So we have more catastrophic claims coming in, adding more money, and that's going to deteriorate whatever happened on the 2010 reforms.

Mr. Greg Somerville: To reinforce what Karin is saying, we can deal with some of those risks to the product through reform change. We can deal with the recommendations around the cat definition, and we can deal with some tightening of the MIG definition—the minor injury guideline—to get it to operate as intended to operate and not have the kind of leakage that it's having and the risks that it's having based on some of the jurisprudence that's coming out.

Ms. Dipika Damerla: The rate of return on equity for auto insurance companies is a hot issue these days. Can you explain what the current return on equity looks like for your company?

Mr. Greg Somerville: For Aviva, it's 3.1%.

Ms. Dipika Damerla: Some of the numbers that were thrown around were, I believe, 7% industry average. Are you saying—

Mr. Greg Somerville: I think 6.4% is the number I've seen from the industry. But to look at any return on equity as a snapshot, certainly from our perspective, is not a very responsible way to approach it. If we did that as it related to habitational business, for example—we've just incurred $235 million worth of losses in Alberta and in Ontario from floods, and if we looked at that on an acute basis and said, "What's the return on equity for that business?" we likely wouldn't be writing it anymore. So we have to look at those things over a longer horizon. These claims in particular have a seven-year lifespan. You really don't have a sense, given the maturity of injuries and how long it takes for them to plateau, whether the cost of manufacturing an injury product is appropriate till six or seven years down the road.

So to make those decisions in isolation of looking at the broader horizon—we just can't run our business like that. There are too many other factors. Like I said, we'd like to get out of hab business if we looked at one year.

Ms. Dipika Damerla: Just for clarification, that 3.4% is on auto alone; right? I heard you talk about flood insurance. That would be a totally different product—

Mr. Greg Somerville: Yes, the number I gave you is auto. I'm just highlighting that to look at those kinds of returns on a one-year basis is not the way we would look at it, for the reasons I mentioned.

Ms. Dipika Damerla: Okay. One of your other recommendations is around dispute resolution. Could you just expand on what you'd like to see different?

Mr. Greg Somerville: ADR.

Ms. Karin Ots: The ADR system, sure. We've put a fairly extensive submission in to the committee.

The first thing that we would like to see is we would like to see the system move out of FSCO. We think that there's an inherent conflict that FSCO has in being the regulator and then also being the arbiter, the court. We would like to take the arbitration system back to—it's a single dispute, so if Aviva has an issue with their customer, they mediate, they arbitrate; that's it. It's not case law-setting until it gets to a court. That was the other recommendation that we made.

We would also like to see some action in terms of limiting the types of disputes. There are too many disputes in the system right now. If we were to introduce more programs of care, we would get rid of the amount of disputes around medical treatment. We shouldn't be fighting with our customers over what's the appropriate treatment for a soft tissue injury strain. I think medical science should be capable of establishing what it is.

Mr. Greg Somerville: We were pretty straightforward with Justice Cunningham that this is the AB environment. These are people who bought policies from Aviva. So the first line of dispute resolution should be our customers talking to somebody at Aviva. We feel really strongly about that. To the extent that we have a dispute with somebody, we'd like to have a mechanism where we would sit down with our customer and try and resolve the dispute directly, rather than people retaining counsel and everybody goes in their corner and the next thing you know, you're in a dispute and a fight with your customer. We just don't think that's—the first step should be us sitting down with our customer, and to build a mechanism that allows that to happen and facilitates that.

1530

Ms. Dipika Damerla: Chair, how much time do I have?

The Vice-Chair (Mrs. Donna H. Cansfield): You have two minutes and 17 seconds.

Ms. Dipika Damerla: Thank you. So my last question is going to be this. You've said that you have filed for a rate reduction. Perhaps you could speak to what has allowed you to file for that rate reduction.

Mr. Greg Somerville: The promise that costs are going to come out of the system.

Ms. Dipika Damerla: Sorry?

Mr. Greg Somerville: The promise that costs are going to come out of the system, which is why I said that's a concern that I have. We've had to file in advance of the costs coming out, and we've had—like I say, there have been lots of good conversations and rhetoric around things that are going to happen. I just think some meaningful actions need to take place to start to drive the costs out of the system to make these changes sustainable for everybody.

Ms. Dipika Damerla: All right. Thank you very much.

The Vice-Chair (Mrs. Donna H. Cansfield): No further questions?

Mr. Yurek.

Mr. Rob Leone: Can we get her time, Madam Chair?

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, you do. Are you going to take the lead, Mr. Leone?

Mr. Rob Leone: No. I just wondered.

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Yurek?

Mr. Jeff Yurek: Thank you, Chair.

Thanks for coming in and speaking to us. I don't think Aviva has been at committee yet, have they? I don't recall if you've spoken at committee.

Ms. Karin Ots: No.

Mr. Jeff Yurek: Welcome.

Ms. Karin Ots: Thank you.

Mr. Jeff Yurek: We're hoping that the review comes to an end soon. It's been a long two years that we've been at this, and it would be nice to have a report at the end of the day.

Since you haven't been here previously, I'd like to just take an opportunity to ask you a question with regard to territories. If the territories were removed from Ontario, as has been put forth by the third party, what effect would that have on the rates of, say, someone living in Niagara Falls?

Mr. Greg Somerville: Somebody in Niagara Falls? I'm not really sure I know the answer to that, but it would—I don't know the context of that comment to "remove the territories," to be honest. If I had more—

Mr. Jeff Yurek: There's a bill in the Legislature to remove the territories.

Mr. Greg Somerville: I'm aware of that, but the context meaning that everybody pays the same rate? Well, then, obviously if that's the context of it, then that's—I mean, we underwrite based on the individual risk characteristics, and that would be more of a social pricing issue. Obviously, if everybody's paying the same rate, some people are going up and some people are going down. That's not rocket science.

Mr. Jeff Yurek: Would you be able to supply to the committee an idea of an average that the rates would be affected in the Niagara area if they weren't—

Mr. Greg Somerville: Yes, we could undertake to provide some of that information, for sure.

Mr. Jeff Yurek: That would be great. Thank you.

Mr. Greg Somerville: Clearly, some people would go up and some people would go up down if you moved more towards social pricing rather than underwriting by risk characteristics.

Mr. Jeff Yurek: Thank you. I just want to talk about some of the rate reduction. I appreciated what you've submitted to the committee. Prior to 2010, the claims costs were high at a time when, after 2008, a lot of our securities tanked out, so it had a double impact on insurance market profitability. In 2010, the government came out with their reforms to provide some cost relief. However, things constantly change, and you even mentioned in your report that we're seeing an increase in bodily injury claims. Can you tell us what's driving up those costs and why we are beginning to see an increase in the bodily injury claims?

Ms. Karin Ots: Sure. So a number of factors, I think, one of them procedural. There's very much a backlog in the courts as well. We seem to have more bodily injury claims going into courts. Here in Toronto right now, the waiting time for a trial from the time that you get to the point in the process where you actually set a trial to the trial is about 18 to 24 months. Again, the longer a file stays open, whether it's a BI file, a property file, an accident benefit file, the more costs are incurred.

There's also a great incentive to—you know, there's an active plaintiff bar at work. They do a great job of securing funds for their clients, and there have been a number of changes to law firm advertising, contingency fees, all of which probably drive more BI claims or more claiming behaviour.

The accident benefit file—because of where the threshold is set, because the claimant does have to show a serious and permanent injury, there is more incentive to work up an accident benefit file to get more medical reports to show that a claimant is more seriously hurt, to elevate the BI claim. Can you think of anything else?

Mr. Greg Somerville: No. I would just not underestimate the last point. There are collateral incentives, given the threshold and the deductible, to use the accident benefit side of the policy to build the file for the threshold on the other side, which is alive and well. There's activity in the province for sure.

Mr. Jeff Yurek: With respect to the bodily injury claims that are increasing, what will happen to the system for insurers if the government fails in its quest to lower costs? If they somehow are unable to lower the costs in the next year or so, what are we looking at in the industry?

Mr. Greg Somerville: At the highest level—I'll speak for Aviva in a minute—it's going to be problematic, depending on the relative starting point of the individual company as to where they are in their profit cycle and what they're asked to reduce premiums by. Clearly, if we don't see corresponding cost reductions, it's going to make it difficult to sustain the business. You're obviously going to have profits eroded and then the appetite to write business.

Listen: We're dealing with fairly sophisticated capital that has choices as to where it goes. Given the volatility of this business—a case in point, the $235-million worth of storms that we've responded to in the last 90 days—the returns need to be there to keep people interested in putting their capital at risk to protect not just Ontarians but Canadians. To not see the manifestation of cost reductions in line with the request to reduce premiums will make some people seriously nervous. As I say, the capital is somewhat sophisticated and has choices. I certainly have to compete with other CEOs around the world for Aviva's capital. If the environment is not seen to be friendly enough to allow us to price our products and free enough to allow us to make returns to keep the shareholder interested, I'm going to have challenges and I'm going to have decisions to make domestically about where we place capital in Canada.

Mr. Jeff Yurek: Just going on to your recommendations, this chart you gave us comparing WSIB charges to what FSCO allows—I was quite shocked at the differences in what is paid out. Can you maybe comment or go over the chart for the committee?

Ms. Karin Ots: Sure. It's the appendix, so it should be at the very back of the package.

Ms. Dipika Damerla: Sorry, which one?

Ms. Karin Ots: The end, at the very back. It starts with "Aviva Comparison." This is our research. FSCO, as you may know, negotiates hourly rates with health care providers. In the first column, I've shown the FSCO maximum hourly rates. We pay chiropractors $111.80 an hour. If it's a catastrophic claim, the hourly rate goes up to $134. In the columns next to it, we've set out the WSIB rates. As you can see, they're a fair amount less than the FSCO amount.

Two other points: I understand that FSCO has put on their list of approved health care providers more types of health care providers. If you turn to page 2, the unregulated providers, you'll see that there are certain categories of occupations that WSIB doesn't reimburse. So that's another difference in the savings.

The third difference—and we haven't included any of this because our research is still fairly incomplete—is that the WSIB has more programs of care. Right now in the auto world we've got the minor injury guideline, which talks about how to treat a minor injury. WSIB has got programs of care built out for back injuries and for head injuries, so that's another way that they've contained the cost of treatment.

I think that there is lots to learn from another agency in Ontario that's dealing with injuries.

1540

Mr. Jeff Yurek: Onto your reform of the ADR system: You've already talked about privatizing the dispute resolution system, and you made comments. Any further comments that you want to make on the benefits of—you already talked about removing the costly counsel out of the way that tend to put everyone in their corners to come out fighting. Do you have any other further benefits?

Ms. Karin Ots: The one benefit that we haven't included is whatever benefit would tie to stabilization, if you made the system more stable. Before I moved into this job I was the head of our accident benefit and BI claim department, and I was often the ultimate decision-maker on whether or not to take a case into FSCO or the court. It's a wild card. In Pastore, we had no less than three legal opinions that told us we had a good case, and we lost, so anything that we can do to stabilize the outcome of the decisions just takes more cost out because you don't have to fight. That's the same for the plaintiff's side. If they know that the word "the" means "the," there's no fight over it.

Mr. Jeff Yurek: In your last point here about limiting disputes to questions of entitlement and eligibility, I think you touched upon that, and that's more of the wording of—

Ms. Karin Ots: Yes. The more that we can do to, again, clarify or move this policy toward almost more like what a disability policy looks like—I'm sure that most of us have got disability policies. You know when you go in that you've got $1,500 worth of physiotherapy treatments at the beginning of the year, and then you're able to plan: "This is what I'm going to get. I'm going to take my $1,500 worth of physiotherapy treatments." We tend not to fight with our disability carrier.

It's the same when you go for dental treatment. I know that my root canal may or may not be covered. I'm told that in advance or I can read that in my handbook. There's no fighting over it. That all takes costs out of the system. That's what we're recommending. The more we can put in that creates some sort of certainty—it's critical for the person who is injured that they know that this is how much money and this is how much access to treatment they have, and then they don't have to fight over it—the more that helps the system become more stable and cost-effective.

Mr. Greg Somerville: If you look at many of the components of the AB portion of the policy, it's similar to things you'd find in a disability policy. Consumers are not unused to caps and limits and certainty in disability policies, whether it be for a weekly indemnity in income or prescribed treatment, and the number of visits and dollars associated with it, which brings, for both parties, certainty to the contract and to the transaction.

Mr. Jeff Yurek: Further, you haven't been here to comment on it, but the Scarlett and Belair arbitration decision added a lot of questions to what the MIG covers. Can you talk about the implications of that decision for the system?

Ms. Karin Ots: Sure. Yes, I'm happy to talk about that; I'm just looking for my notes on that. We've certainly seen an impact as a result of that decision, even though it's not finalized. What we have seen is that the nature of the assessments all of a sudden changed. We get a lot of assessments every day on claimants who are injured. All of a sudden, instead of just being a soft tissue injury, there's a whole list of associated symptoms, including things like anxiety and chronic pain, which very closely start to mirror the Scarlett and Belair list of symptoms. I hope that Scarlett and Belair will stand and the same list of symptoms will allow the claimant to come out of the minor injury bucket, so for sure, we've already seen that coming.

We've got a couple of solutions for the minor injury guideline. I think that there is work that can be done to tighten up the definition again so that there's more clarity—if you're in, you're in and if you're out, you're out—and less dispute over it.

We would also like to see everybody go into it. There's no medical reason, from the doctors and the health care professionals we've talked to—everybody who has a minor injury should go into this guideline. Right now, there's a big exemption if you've got a pre-existing issue, and not surprisingly, now we see a lot of people with pre-existing issues that we say, "They shouldn't be in this guideline."

Again: a great idea. It's a good program of care. It works. You had a lot of the best doctors and medical people around the table helping to write this, but we think it's time to revise it a bit and tighten it up so that it delivers the savings.

Mr. Jeff Yurek: Do I have much time?

The Vice-Chair (Mrs. Donna H. Cansfield): You have 17 seconds.

Mr. Jeff Yurek: Seventeen seconds. Just quickly on the catastrophic definition, I haven't heard anything from the government side that that's a cost-saving measure. Have there been any discussion?

Ms. Karin Ots: We've not heard anything, other than what has been announced in the press.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much for your presentation.

Mr. Rob Leone: Point of order, Madam Chair.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, sir?

Mr. Rob Leone: I'm just mindful of what's happening in the Legislature right now. I know we're going to be—probably in the middle of the NDP questioning, going to have the bells ring. I was wondering if we could recess the committee so that we don't disrupt the members from the NDP's line of questioning until after the—

The Vice-Chair (Mrs. Donna H. Cansfield): The normal process is that we actually continue through and then suspend once the bells are ringing. But what we could do is find out how much time is left. Could you call and find out? Let's check that first and then the committee can make a decision.

Mr. Rob Leone: Okay.

The Vice-Chair (Mrs. Donna H. Cansfield): So what it is, ladies and gentlemen: We have a vote in the House. We'll just see how close we are to when the bells will ring. It's probably a 10-minute bell, but it also means that we suspend your discussion for a few moments as well. We're very cognizant that we have another group waiting to be heard as well.

We have till about approximately 4:01 p.m., and then there'll be a 10-minute bell. That would give you approximately 12 minutes.

Mr. Singh, would you like to suspend or would you like to speak?

Mr. Jagmeet Singh: It's 12 minutes right now?

The Vice-Chair (Mrs. Donna H. Cansfield): Yes.

Mr. Jagmeet Singh: Until the bells will ring?

The Vice-Chair (Mrs. Donna H. Cansfield): Right; approximately.

Mr. Jagmeet Singh: I'm okay with that, then.

The Vice-Chair (Mrs. Donna H. Cansfield): Okay. Let's start and go ahead. Thank you very much.

Mr. Jagmeet Singh: Good afternoon. Thank you for being here.

I want to ask you some questions regarding the territories and how they're set up. I understand that insurance companies are able to determine their own territories and then those territories have to be approved by FSCO.

Mr. Greg Somerville: That's correct, yes.

Mr. Jagmeet Singh: Okay. I understand that there isn't a limit as to how big the differential is between one territory and another. The only restriction is, if an existing territory is divided, there can't be more than a 10% spread between a divided territory, but if it's a pre-existing territory, there can be as much of a gap between one and the other.

Mr. Greg Somerville: You haven't got the chief underwriter here; you've got the CEO. I can undertake to get you an answer for that. The rules are set by FSCO—the number of them. We have to file our view of how we're going to divide the province up, and it gets approved by FSCO. The number and the rules around how we go about defining are mandated. Then we have to file them and they're approved by the regulator.

Mr. Jagmeet Singh: Okay. Would you be able to give your undertaking to provide an answer—just the difference between one territory and another, that there is no limit on how different the rates can be from one territory to another?

Mr. Greg Somerville: We can check on that, yes.

Mr. Jagmeet Singh: I'm going to read you the collateral benefits rule. Tell me if this applies.

Mr. Greg Somerville: You're going to read me the what, sorry?

Mr. Jagmeet Singh: The collateral benefits rule.

Mr. Greg Somerville: Oh.

Mr. Jagmeet Singh: If you can then comment—I'll ask a question about that.

In the context of auto insurance, the rule means that, "Auto insurers are liable to pay accident benefits (the no-fault benefits available to all accident victims) only after all other insurance plans or programs available to the insured have been exhausted. In this respect, therefore, auto insurance is a second payer."

Do you agree with the statement?

Ms. Karin Ots: We can both take a shot at answering.

Mr. Jagmeet Singh: Good.

Ms. Karin Ots: Yes, that's the rule. We are a second payer. There is a long-standing history of push and pull between us and the life companies or the disability companies over who goes first. A number of the life companies have tried to get around that rule by writing in exceptions, that they aren't the first payer, but we take the position that they are the first payer.

1550

In terms of the impact—

Mr. Greg Somerville: Yes, I was just going to say it's important to note that it's not an underwriting criteria. We're not allowed to underwrite for disability, the existence of a disability plan. It only comes at the point of a claim, where somebody gets asked what benefits they have available, and the adjuster would work through that process. So to me, if those benefits that are deductible are in the loss-cost pool—and I'm taking it up to a high level for Ontario. If they are removed, the loss-cost pool gets bigger and premiums go up for the auto insurance companies. It's not on an individual basis. It flows through the loss cost as a result of the claims that are adjusted where there are collateral benefits. But it's not underwritten on an individual basis; it just becomes part of the—

Mr. Jagmeet Singh: The overall kind of cost analysis.

Mr. Greg Somerville: Yes. The costs would go up if those benefits weren't taken across a category of claims.

Mr. Jagmeet Singh: Okay. So if I can just put that into layman's terms, then, and I'll give myself as an example: If I don't have any other form of health benefit, then my auto insurance policy would pay the first dollar on anything that's not covered by OHIP. Would that be accurate?

Mr. Greg Somerville: Subject to the conditions and the terms of the policy. I mean, to get the full benefits of the policy, not everything, but—

Mr. Jagmeet Singh: So whatever I'm approved to, based on the policy that I have, if I don't have any other form of insurance, if I don't have any other program, any other private insurance, then if I have auto insurance, whatever I'm entitled to be paid would be paid first, subject to whatever wouldn't be covered by OHIP.

Mr. Greg Somerville: OHIP, yes. Correct. And if you weren't at fault, there would be a liability claim—

Ms. Karin Ots: Right.

Mr. Jagmeet Singh: So if I compared one individual with another individual, you would agree with me that the one individual who had, for example, some private coverage, whether it's disability or life insurance or some other form of coverage—in an accident, if they made a claim, that individual would cost less than that exact same accident, the exact same individual who didn't have any other form of private insurance or any other sort of coverage. If you looked at the cost for those two people—identical accidents, identical circumstances, one with additional private coverage, one without—the one with the additional coverage would actually cost the insurance company, the auto insurer, less than the one without those benefits. Is that a fair—

Mr. Greg Somerville: To the extent that they had collateral benefits that applied to the claim they presented to the insurance company, the costs would be taken as a credit against the first payer, yes.

Mr. Jagmeet Singh: Thank you. I think that's a very fair response.

So isn't it true that in the GTA, in certain communities, in certain parts of the GTA, there's likely to be a higher proportion of folks, of residents, who have collateral benefits, and some other areas in the GTA where people would have a lower proportion of that type of coverage?

Mr. Greg Somerville: We're not allowed to underwrite for that criteria, so I couldn't give you the answer to that.

Mr. Jagmeet Singh: You're not allowed to underwrite for it, but you would agree with me that there is a likelihood that in certain areas there's a different proportion of folks who are covered by collateral benefits compared to other areas where they're less likely to be covered by collateral benefits?

Mr. Greg Somerville: Intuitively, that makes sense. I don't know what those areas are as I sit here. There may be some areas that have more or less.

Mr. Jagmeet Singh: And it would flow. I mean, if we're following this line of argument that in those territories or those areas that are drawn up where there's a higher proportion of people who don't have other sorts of benefits, those territories might actually cost—in general, the entire territory might cost the insurance company more. Their claims costs might be higher because they don't have that proportionality of coverage.

Mr. Greg Somerville: I don't know if it's—you're using the word "territory." it could be one house to the next house.

Mr. Jagmeet Singh: Exactly; whatever the territories are defined by. Each individual, for example—

Mr. Greg Somerville: No, I'm just saying that the scenario you're articulating could be one house to the next house. You make it sound like they're all in one territory and not in another territory. Somebody could have collateral benefits in one house and not in the next house. It's so mutually exclusive to the individuals. I don't have any information to suggest it's one territory over another territory. It's an individual circumstance within any territory.

Mr. Jagmeet Singh: I'm suggesting that there might be certain territories within, for example, the GTA. If we look at different boundaries that are drawn up by each individual insurance company, there are certain boundaries where the residents in that territory—for example, if we choose certain communities in the Rosedale community, the Lawrence Park community, they might have a higher proportion of folks who are covered with collateral benefits. If we choose another territory, another community, they might have a lower percentage or proportion of folks who are covered by benefits of that nature. The proportions will be different in different communities.

Mr. Greg Somerville: I haven't done any research on that, so I don't know the answer to that. It might intuitively make sense, but I don't know to what magnitude and what territories, because we don't collect that data; we're not allowed to underwrite for that.

Mr. Jagmeet Singh: That makes sense.

My next question is, what are the implications, if there is a difference in costs in terms of claims costs based on an area that has a higher proportion of folks with coverage and another area with a lesser percentage of folks with coverage—the fact that the provincial average is about 80% of people who never make a claim in their lives. What is the implication for those folks, given that each territory's costs are higher or lower, based on those who have a higher percentage of coverage and those who don't? What would be the implication to those who don't ever make a claim, those 80%?

Mr. Greg Somerville: Eighty per cent that don't ever make a claim?

Mr. Jagmeet Singh: I guess the premise of my question is—

Mr. Greg Somerville: Eight per cent is our frequency rate, so 92% of our customers don't make claims; 8% do.

Mr. Jagmeet Singh: Okay. So the provincial average is 80%.

Mr. Greg Somerville: I'm talking about in total across Canada. I don't have a specific Ontario number.

Mr. Jagmeet Singh: The Ontario number that I've been advised of, the provincial average, is 80%, but if it's higher, that's fine. What is the implication, then, if territories is one of the bases that's allowed by FSCO—

you can increase or decrease your rates based on territory—if a certain territory costs you more, and it costs you more because the residents of that community are less likely to have benefits, but the fact is that, in your case, 92% of those folks never make a claim? What is the implication to them, that they never make a claim but the 8% drives up the costs a bit more in one territory versus the other?

Mr. Greg Somerville: I think what's implied in the question is that that's an overriding material factor. Our loss costs are different by territory and frankly driven by many factors that we're allowed to understand that aren't related to what you just said. It could be the person's employment income; it could be the level of benefits required to treat the injury. There are so many different factors that drive the ultimate loss cost. In fact, our GTA loss costs are higher than outside, so that seems to be at odds with your question, if you're assuming that the people in the GTA are the ones on the other side of that equation.

Ms. Karin Ots: I think the other thing to understand is that private health coverage does have its limits. It's a policy that's even much more limited than the auto policy, so its overall impact on loss costs I can't say, because we have not looked at it, but I would hazard it's not that significant.

Mr. Jagmeet Singh: Are you in a position to—or do you have any data that would speak to this issue that different areas—the cost for each territory, that the fraction or the proportion of that cost is attributable to the fact that those areas have a higher likelihood of having additional benefits? Would you have any way of assessing that?

Mr. Greg Somerville: No, we don't have any way, because I mentioned several times that we're not allowed to underwrite for that. It's not in our underwriting criteria, and we can't collect the data on our customers.

Ms. Karin Ots: We can't even ask them.

Mr. Greg Somerville: We can't even ask the question. I guess if we could, we'd be able to answer it more positively.

Mr. Jagmeet Singh: Would you agree with me, though, that it is one of the factors, maybe not the overriding factor, but it is one of the factors in the cost analysis between one territory and another? One of those factors would eventually be the fact that some areas might have a higher density of folks who are covered by additional benefits and other communities would have a lesser percentage or density of folks who are—

Mr. Greg Somerville: I can't agree, because you said "the cost analysis," and we don't do a cost analysis on that basis, so there is no analysis on that basis.

Mr. Jagmeet Singh: In terms of the territories, though—maybe you could answer for Aviva—do you assess the cost incurred by each territory, that this territory costs us more and because it costs us more—

Mr. Greg Somerville: I guess we look at the loss costs by territory, but to Karin's point and my point earlier, there are many factors that drive the loss costs in any given territory, and the one that you're raising is one that we're not able to isolate and underwrite for.

Mr. Jagmeet Singh: Okay. Though you're not able to isolate it, you would agree with me that it will probably factor in because it's one of the cost factors? If there are a lot of people in a particular community who are covered by additional benefits, they're going to cost you less, and in another community that doesn't have those benefits, it's going to cost you more. That seems to be an intuitive argument; do you agree?

Ms. Karin Ots: I think it's so speculative, which is why I think we're both hesitant. I'm happy to answer it at a claim level. If you have one claim where the person has collateral benefits, if those collateral benefits kick in and cover some of the injury-related treatment or disability, yes, that will be lower than a claim that doesn't have that. But I'm sorry, we can't extrapolate.

Mr. Jagmeet Singh: That's fine. I tried my best to push you on that.

Mr. Greg Somerville: You're definitely trying.

Mr. Jagmeet Singh: Thank you. Just a quick question: In terms of the richness, I guess is the question, of the product in Ontario, would you agree with me that on our minor injury guideline, we're amongst the poorest in terms of coverage, but that in perhaps the catastrophic injury, we're in a better position? If you isolated not the overall claims and the average claim payout but just our minor injury guideline in the province of Ontario, we're amongst the poorest in terms of coverage—that $3,500 cap—

Ms. Karin Ots: The other provinces haven't established anything similar to a minor injury guideline. When I talked earlier about what the other provinces had done, that was on the BI side. On the accident benefits side, they don't have a minor injury guideline—

Mr. Jagmeet Singh: That's why I'm making this assertion that—

Ms. Karin Ots: I don't know what they have. A lot of the US states—New Jersey and New York have programs of care.

Mr. Jagmeet Singh: We can leave America to the side; we're going to focus on Canada. But you agree with me, though, that if we focus in on the minor injury guideline portion, we're not by any means the richest province in terms of coverage. We're probably amongst the lowest coverage on that side.

Ms. Karin Ots: Being the lawyer here, I get to play with words. We're the province that has a minor injury guideline.

Mr. Jagmeet Singh: Sure. I'll take that as it stands. There has been an estimated—and the Insurance Bureau of Canada also supports this rough figure, that since the 2010 changes to the insurance regime, there has been $2 billion—

Interruption.

Mr. Jagmeet Singh: That's my 14 minutes, so I think I have a minute left. There has been about $2 billion—

The Vice-Chair (Mrs. Donna H. Cansfield): You have 49 seconds left.

Mr. Jagmeet Singh: How many?

The Vice-Chair (Mrs. Donna H. Cansfield): Forty-nine seconds.

Mr. Jagmeet Singh: A $2-billion reduction annually: By and large, do you agree with that number? Even with the Scarlett decision, even with increasing the BI side, it still hasn't significantly been changed. It has been a huge cost savings, probably one of the most historic cost savings in the history of Ontario, since the 2010 changes, and those changes really aren't significantly going anywhere. Your response to those two comments?

Mr. Greg Somerville: You can speak to the claims side, what you guys are seeing on the claims side, because that's—

Ms. Karin Ots: I think I did speak to that. They're deteriorating fast. We need to be extremely worried about the impact of that lowered cat impairment limit. We've yet to see a minor injury guideline—

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much for your presentation. We were well within the guidelines before we now go for a vote, so we will suspend this meeting until the opposition day vote is done.

The committee recessed from 1603 to 1622.

The Vice-Chair (Mrs. Donna H. Cansfield): We'll call the meeting back to order.

CANADIAN INSTITUTE OF ACTUARIES

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Oakden, we would be delighted if you would come and join us. If you would say your name and your credentials for Hansard. You have five minutes, sir, and I'll just say, "One minute," so you'll have a heads-up.

Mr. David Oakden: I'm David Oakden. I'm here representing the Canadian Institute of Actuaries. I am a past president of the Canadian Institute of Actuaries and one of a number of people who speak on behalf of the institute on general insurance matters. I am currently retired. Prior to my retirement, I was managing director of the actuarial division at OSFI, in charge of P&C actuarial matters. I think the CIA was asked to come here today to clarify the use of the term "actuary," and so that's really my primary purpose in being here.

The term "actuary," like the term "accountant," is not a term that has a restricted use in law, so anybody can call themselves an actuary. However, there are a number of laws in Canada—I could hand this to you, if you want; it's a 12-page document that references all the reserved roles for actuaries in Canada, and in every case, these reserved roles are restricted to a fellow of the Canadian Institute of Actuaries. I'm just going to quote these. I don't think it's something that you need to have, but I could leave this with you, and you could hand it out afterwards.

The Vice-Chair (Mrs. Donna H. Cansfield): Would that be sufficient? Well, leave it with us, Mr. Oakden—

Mr. David Oakden: I'd be happy to leave this with you.

The Vice-Chair (Mrs. Donna H. Cansfield): That would be great. Thank you very much, sir.

Mr. David Oakden: For example, the Insurance Act of Ontario defines "actuary" in one of the definitions as "a fellow of the Canadian Institute of Actuaries." It then goes on to define the duties that actuaries perform.

More important, sections 410 to 417 and section 7 of the Automobile Insurance Rate Stabilization Act, 2003, allow the superintendent to set procedures for approval of rates for personal auto insurance. The current procedure requires a statement of an FCIA.

Another example would be: The Insurance Companies Act of Canada also defines "actuary" as a fellow of the Canadian Institute of Actuaries.

Whenever there's a law requiring an actuary to perform a reserved role, it is always a fellow that has been defined.

Just in terms of our procedures, the Canadian Institute of Actuaries, in recognition that there is some confusion around the use of the term "actuary"—we don't require our members, but we strongly advise our members, to only use the term "actuary" when referring to a fellow of the Canadian Institute of Actuaries, so that members would not—for example, I would not use the term "actuary" to describe anyone who was not a fellow in the Canadian Institute of Actuaries, and other actuaries would follow that practice, to try to make it clear to the public that that is the case.

I should point out that in other countries there is a category of "associate actuary." It's very similar to Canada and the USA. The USA does permit associate actuaries to call themselves actuaries, but in Canada we do not.

I'd also like to point out that the CIA has a number of rules. One I would like to point out is that an actuary is not allowed to associate himself or herself with anything that is false or misleading. Any documents you receive, signed by an FCIA, should stand up to that criteria. Any document that has actuarial input, because the actuary has allowed himself or herself to be associated with that document, would also be subject to the same criteria. There is a discipline process, if that is not the case.

Also, while I'm here, I'd just like to make some general comments. First of all, the rates that companies set are all signed off on, or at least almost all of them are signed off on, by a fellow of the Canadian Institute of Actuaries or by an actuary, in my definition. That sign-off and that work are subject to our standards of practice and the rules. Therefore, I think, to make any cut in insurance premiums would require a commensurate cut in the benefits that are payable. You can't just cut the premiums without making a commensurate cut in the benefits.

That ends my remarks.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much. We start with Mr. Yurek.

Mr. Jeff Yurek: Thank you, Chair. Thanks for coming in today. Only certified actuaries can sign off on rate filings—you mentioned that—with insurance companies?

Mr. David Oakden: Only a fellow of the Canadian Institute of Actuaries.

Mr. Jeff Yurek: Can you explain why it has to be only a fellow? What is the importance of it being associated with that?

Mr. David Oakden: To be an actuary in Canada, you have to basically pass a number of examinations. Basically, an associate only passes some of the examinations, not all of them. The associate is a little more than halfway along in the process. We really think that to sign off, one has to go through the full course of being an actuary. There's a lot of detailed information on the higher exams that people on the lower exams—I mean, they may know that information; they just have not demonstrated, through an examination, that they have mastered that information.

Mr. Jeff Yurek: Further to the Canadian Institute of Actuaries, do you have a code of ethics that your members abide by?

Mr. David Oakden: Yes. We have rules of conduct; we have standards of practice.

Mr. Jeff Yurek: Are there any disciplinary actions taken if someone breaks the code?

Mr. David Oakden: We have a disciplinary process, and actuaries are disciplined if they don't follow our rules. One of the rules requires that you follow the standards, and the rules basically are a code of ethics.

Mr. Jeff Yurek: Would it be fair to compare it to, say, the Law Society of Upper Canada? Would that be a fair comparison?

Mr. David Oakden: I think maybe the Canadian Institute of Chartered Accountants might be a fairer comparison.

Mr. Jeff Yurek: So anybody who really is an actuary knows the importance of keeping these professional standards in check when doing their job.

Mr. David Oakden: That's correct.

Mr. Jeff Yurek: Is it true that actuaries are bound by certain standards when it comes to analysis and the way they present that analysis?

Mr. David Oakden: Yes, there are general standards that apply to all actuarial work, and then there are specific standards that would apply to other aspects, such as filing auto rates or filing insurance company financial reports.

Mr. Jeff Yurek: I have a report here that I'd like you to take a look at, and I'd like to ask you a question on it if I hand it to you.

The Vice-Chair (Mrs. Donna H. Cansfield): Does everyone have a copy of the report?

Mr. Rob Leone: I actually don't—

The Vice-Chair (Mrs. Donna H. Cansfield): Could we get a copy so everyone has it?

Mr. Rob Leone: Five-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): Could we have a five-minute recess then, or as long as it takes, just to do this. How's that?

The committee recessed from 1630 to 1642.

The Vice-Chair (Mrs. Donna H. Cansfield): So we'll reconvene the meeting.

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): Ladies and gentlemen, if we could, please, we will start. Mr. Yurek, you have 12 minutes and 10 seconds.

Mr. Jeff Yurek: Thank you, Chair. I'd just finished my last question. It was about certain standards when it comes to analysis and about why they present that analysis.

This two-page document was given to committee in regard to insurers' profits in the Ontario market. Does this document resemble anything that an actuary, who is bound by the institute, would officially present?

Mr. David Oakden: No, this is not something that an actuary would present. This is some raw data. Without some words and descriptions, I really can't tell what it is.

Mr. Jeff Yurek: Okay.

Mr. David Oakden: But, first, an actuary, if they were presenting something official, would sign it. Second, there would be a verbal description, perhaps going on for quite a few pages, describing exactly what assumptions they used, exactly what data they had used, and what steps they had taken to ensure the data was accurate.

Mr. Jeff Yurek: So it's maintaining the standard that's set out—

Mr. David Oakden: These standards would be set out. There would be a fairly lengthy report that would describe what steps they had taken and also what assumptions they had made.

In looking at these numbers, I don't know whether these numbers contain what I would call IBNR or not, which would be an estimate of future claims, or whether they're just raw data. So that would be spelled out in detail.

Mr. Jeff Yurek: Okay. And finally, before I hand it over to Mr. Leone here—you might not have the information with you, but if you can get the information, possibly, could you let us know if an individual by the name of Bill Andrus is actually a member of the Canadian Institute of Actuaries?

Mr. David Oakden: Bill Andrus is not a fellow of the Canadian Institute of Actuaries.

Mr. Jeff Yurek: He's not?

Mr. David Oakden: He's not. I don't believe that he's an associate member either. But if he applied, he would probably be admitted as an associate.

Mr. Jeff Yurek: If he applied?

Mr. David Oakden: If he applied.

Mr. Jeff Yurek: Rob? Mr. Leone?

Mr. Jagmeet Singh: If he applied, he'd be what?

Mr. David Oakden: I said if he applied, he would probably be admitted.

Mr. Rob Leone: Is it my time?

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, it is.

Mr. Rob Leone: Okay. Hi, Mr. Oakden. Thanks for coming in today to talk to us.

I want to perhaps make this conversation a little bit more basic. I think there are a lot of people who have some assumptions about the insurance industry and don't really know who the players are within it. Can you give us a couple-minute description of what exactly an actuary does and what role they play within the system?

Mr. David Oakden: Yes. An actuary is basically a mathematician-statistician who is also knowledgeable about the insurance business and applies their skills in the insurance base.

There are several types of actuaries. Can I restrict my comments to actuaries working in general insurance or do you want a more general response to your question?

Mr. Rob Leone: I'm happy to have the general insurance answer. That would be sufficient for me. I want to know what role they play, particularly in the auto insurance industry.

Mr. David Oakden: In the insurance industry, actuaries have two primary—well, they have more than two primary functions, but one function is basically to set rates for insurance companies. In performing that function, actuaries look at the raw data, understand the data and use that data to project what the loss costs are going to be. They then look at the expense data to determine what provisions should be included for internal and external expenses, and then look at appropriate profit margins to determine what the premium ought to be. They look at the numbers, they use statistical techniques, and they use forecasting techniques, because often what's happened in the past is not exactly what's going to happen in the future. You have inflation, which, when I started out, was 10% a year, so it was pretty major. Now it's smaller, but it's still there. Whenever you modify the policy, the actuary has to determine what impact those modifications are going to have on the loss that occurs and will use a number of techniques to determine that. So that's one thing an actuary does.

Another important role of actuaries is to comment on the provision for unpaid claims in the company's annual statements. Whenever a claim is filed, an adjuster will typically come up with an estimate as to what that claim is ultimately going to cost. That number is set up as a reserve, which we often refer to as a case reserve. However, there are a number of claims at any given point in time, say on December 31, when they have to file their financial returns, which have not yet been filed and will be filed late, and provision for all those claims has to be made. But in addition, claims that had been filed with estimates on them—if you look at large numbers of those estimates, you typically find that those estimates are inadequate in the total. In fact, it may be that three quarters of them will be excessive, but the ones that are not adequate will end up going up rather substantially. If you look at large numbers of these, you'll find that they aren't adequate. So the actuary really has to determine the amount that an insurance company has to hold. That would be an additional amount to what the case reserves are. Companies are required to put that on their financial statements.

I mentioned that I had worked for OSFI. One of my primary duties was to review these actuary reports and make sure companies actually had put enough money up for those claims.

Other roles that actuaries play in insurance companies involve risk management. An actuary would look at the risks an insurance company faces and try to make sure that these risks were being dealt with in an appropriate way. In some cases, it's okay just to accept the risk, but in other cases, you can do things to mitigate the risk or diversify the risk, or you can decide that the risk is just so large that you shouldn't accept it. Actuaries play a large role in that space.

Those are the major things. A lot of actuaries get involved in many other non-actuarial jobs because of their knowledge of insurance companies. Those are the three main areas.

Mr. Rob Leone: Right. And you said that actuaries are mathematicians. What's the education that one requires to—

Mr. David Oakden: To become an actuary, you don't have to have a university degree, but it would be the very rare actuary who does not have a university degree. You'd have to go to a four-year university degree. Following that, you have to pass a number of exams. In my day it was 10 exams, but they've now broken it down into smaller pieces and rearranged them. It can be a lot more than that, but it's the same kind of material. It typically takes seven to 10 years, following graduation, to pass those exams. So if you count the university, which is really a necessary part of the training, you're looking at, say, 11 to 14 years to become an actuary. In some cases, it's longer; in rare cases, it's shorter than that.

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Mr. Rob Leone: I had no idea it took that long. That was news to me that it takes that long to become an actuary.

Mr. David Oakden: It's a very exacting process.

Mr. Rob Leone: In the educational component of it, you're going to obviously have a background in mathematics, but I'm assuming, then, that folks who want to become actuaries—is there some sort of apprenticeship, mentoring, work practice?

Mr. David Oakden: We have an associate level, and really that's someone who's got a university degree, they've got four or five years' work experience and they've passed a certain number of exams. It was felt that that's a lot of work that they've put into it, so we recognize that by calling those people associates. When people are writing the exams, they're typically working. It's kind of like articling for a lawyer or—

Mr. Rob Leone: That's a long articling. And you say about 10 exams now?

Mr. David Oakden: When I was there, there were 10 exams. Now they've broken it up and there's a lot of little pieces. You could argue that there are 20 exams, but they're all smaller pieces than when I wrote them.

Mr. Rob Leone: It adds up to the same thing.

Mr. David Oakden: When I wrote them, a typical exam would be the equivalent of a couple of university courses.

Mr. Rob Leone: You mentioned adjusters. What's the difference between the role of an actuary and the role of an adjuster in the system?

Mr. David Oakden: An adjuster is an individual who would have a number of claims to handle. He would not be a statistician or a mathematician; he would be a person who would be familiar with what medical claims cost or whatnot.

There are some exams that adjusters can write, but adjusters don't have to have any professional qualifications. But a good adjuster has to really be knowledgeable about medical conditions. He has to have a fair bit of legal knowledge to know how claims might proceed through the court. The adjuster's the one who makes the decision as to whether you settle a claim or whether you fight all the way. He may take advice of a lawyer making that decision, but he's the person who ultimately makes it.

Mr. Rob Leone: When you say there's 11 to 14 years to become a full-fledged actuary, and given how actuaries are pretty central to the insurance industry, my question is, what's the labour market information on the average age of actuaries? Is there going to be a labour market shortage in actuaries? Are you able to find sufficient people who are interested in becoming an actuary?

The reason why I ask that is, I don't think if I asked my children what they wanted to be in life it would be an actuary.

Mr. David Oakden: Well, surprisingly enough, we have a lot of actuaries.

Mr. Rob Leone: We do?

Mr. David Oakden: A number of years ago, there was a Jobs Rated almanac, and it decided once that actuary was the best profession in North America. I'm not sure if I agree with that or not, although I've been very happy in my career as an actuary, but a lot of students looked at that and said, "Hey, I want to become an actuary." If your kids are really into mathematics, actuarial is certainly one of the better careers that they can pursue. But just to point out, there's a number of universities in Canada that have actuarial programs, and I think the University of Waterloo has 500 or 600 students studying actuarial science right now in university—

Mr. Rob Leone: That's incredible.

Mr. David Oakden: Laval has huge numbers—

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much, sir.

Interruption.

The Vice-Chair (Mrs. Donna H. Cansfield): Who doesn't trust me in my role?

Mr. Rob Leone: It's for his own reference.

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Singh, will you take the lead on this?

Mr. Jagmeet Singh: Yes. Thank you. I'll make sure I start mine at the same time.

Good afternoon, sir.

Mr. David Oakden: Good afternoon, Mr. Singh.

Mr. Jagmeet Singh: Sir, I'm going to ask you some questions about some reports that we have before us. One of the questions is, there was a report released by GISA recently, and it was a report that was to indicate the profit that the insurance industry is enjoying. My first question is, are you familiar with that special GISA report on profit?

Mr. David Oakden: No, I'm not.

Mr. Jagmeet Singh: Are you aware that it was released, or are you aware of anything around that issue at all?

Mr. David Oakden: I think I've been aware by attending actuarial meetings, but have not had any professional involvement.

Mr. Jagmeet Singh: Okay, no problem. I'm going to refer to some numbers on some documents. I just want to make sure you have a copy of them.

Madam Clerk, do we have a copy of those documents that we initially photocopied? Do we have any more of those?

The Vice-Chair (Mrs. Donna H. Cansfield): You can have my copy.

Mr. Jagmeet Singh: Excellent.

That's not the one I was referring to. It's page 28.

The Vice-Chair (Mrs. Donna H. Cansfield): Page 27/28?

Mr. Jagmeet Singh: Yes, that's it. It looks like this. Do you have an extra one?

Interjection.

Mr. Jagmeet Singh: That's fine, if you can hand him that. That's fine. You can hand him that one.

The Vice-Chair (Mrs. Donna H. Cansfield): You can use mine.

Mr. Jagmeet Singh: We have an extra one, too. That's fine.

The Vice-Chair (Mrs. Donna H. Cansfield): We can proceed?

Mr. Jagmeet Singh: Yes, we can proceed. Thank you so much. I'm just going to take a picture of this one and hand him this one as well. Excellent.

So, sir, I'm going to ask you just—it may not make any sense at the moment. I'm just going to point out what I'll ask you to look at. There's two sheets before you. One has the title "PPV-IR excluding farmers"—no disrespect to farmers, I'm sure. It's page 28, at the bottom of that page.

Mr. David Oakden: Yes.

Mr. Jagmeet Singh: And the other document that should be in front of you has page 14 at the bottom and says, "GISA Financial Information Report, Private Passenger Automobile, Ontario, 2012." Do you see both?

Mr. David Oakden: Yes.

Mr. Jagmeet Singh: Okay. So on the page 28 document where it says, "Claim and adjustment expenses incurred" along the top—it's the seventh column over, going from left to right. It says, "Claim and adjustment expenses incurred."

Mr. David Oakden: Yes.

Mr. Jagmeet Singh: If you follow that down to the total, it has total by year, 2008 to 2012, and that's on the left-hand side.

So my question to you is, if you could note 2012, the number in terms of claim and adjustment expenses incurred is $6.48 billion.

Mr. David Oakden: Right.

Mr. Jagmeet Singh: Now I'm going to ask you to look at page 14 of the GISA Financial Information Report, and the number there is $7.74 billion.

Mr. David Oakden: So where's the number?

Mr. Jagmeet Singh: Sorry. It's 2012 and it's net claims and adjustment expenses, which is in the left column, four down, and if you follow that to the total amount, it's $7.74 billion. So four down on the left and then—

Mr. David Oakden: Oh, 7.74—on the right, you mean?

Mr. Jagmeet Singh: On the right, yes. If you follow that to the right, then the total amount is that amount.

My understanding, and maybe you can—GISA releases a yearly assessment of the claim and adjustment expenses incurred; they release it every year. So they've released it for this year saying that the cost was $6.48 billion, but in this report it's another number: $7.74 billion. You'd agree with me that GISA employs very respected and qualified actuaries? You'd agree with me on that? GISA, the General Insurance Statistical Agency, employs qualified and reputable actuaries—

Mr. David Oakden: I'm not aware of that fact, no.

Mr. Jagmeet Singh: Okay. I would say they do. It's a government—it's a national agency, not a government agency. It's a national agency that provides data on claims costs for insurance companies. I'm sure you—

Mr. David Oakden: I wouldn't make that assumption.

Mr. Jagmeet Singh: You would not.

Mr. David Oakden: I would not, no.

Mr. Jagmeet Singh: So in your role in OSFI, were you aware that GISA existed?

Mr. David Oakden: I was aware they existed. I had nothing to do with them.

Mr. Jagmeet Singh: Okay.

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Mr. David Oakden: I should point out, OSFI was a prudential regulator, and that term means we were concerned with insurance companies' capital levels and their financial soundness. We were not concerned with their auto insurance policies.

Mr. Jagmeet Singh: Okay. Fair enough.

Mr. David Oakden: And so as long as companies were making money in total and had adequate capital level and good systems in place to ensure their soundness, we didn't spend a lot of time on them.

Mr. Jagmeet Singh: When did you end your involvement with, or did you retire—sorry—from OSFI?

Mr. David Oakden: I retired this year from OSFI.

Mr. Jagmeet Singh: Okay. So your understanding is that OSFI is not overly concerned with the auto insurance product specifically; they're just worried about the overall financial—

Mr. David Oakden: I shouldn't say that. Certainly to the extent that auto insurance in Ontario might become unprofitable or significantly unprofitable, OSFI would be concerned, because it would affect the financial viability of the insurance companies we supervise, and that would be the perspective of our concern.

Mr. Jagmeet Singh: Maybe we'll just focus on what OSFI does, then. So with respect to OSFI's data, one of the issues is that it's financial year versus accident year in terms of the way they track data; is that correct?

Mr. David Oakden: In the OSFI financial statements that are put together, yes, the data is accounting year as opposed to accident year, that's correct.

Mr. Jagmeet Singh: Okay.

Mr. David Oakden: And also I should point out that the OSFI data only contains those companies that are federally registered to—I'm sorry—registered with OSFI. The companies can pursue a provincial registration or a federal—

Mr. Jagmeet Singh: —registration. They have the choice. And OSFI, being a federal entity, deals with—

Mr. David Oakden: —with companies that we regulate, so it doesn't include everybody.

Mr. Jagmeet Singh: That's fair. The one factor is, OSFI data is financial year or accounting year, as you've indicated. The other factor is that OSFI data incorporates reserves in terms of their assessment of the financial stability of a company.

Mr. David Oakden: The OSFI data does include the reserves, correct. And in terms of an accounting year, what you have is really the change in reserves.

Mr. Jagmeet Singh: Fair enough. And are you aware on just a basic level that the GISA data—the difference is that they are based on accident year as opposed to financial or accounting year. Are you aware of that—

Mr. David Oakden: I'm very much aware of the distinction between accident year and calendar year.

Mr. Jagmeet Singh: And are you aware that GISA employs the accident year as opposed to the accounting—

Mr. David Oakden: Yes. Well, that would be the natural way to look at rate filings.

Mr. Jagmeet Singh: I was going to ask you that next. That was my next question. So that would be the natural way to look at rate filings?

Mr. David Oakden: Right.

Mr. Jagmeet Singh: And why would you say that?

Mr. David Oakden: Well, when you look at a calendar year—let's say you got your reserves wrong. As actuaries, I think we do a very good job, but it's impossible to predict the future, and sometimes things unfold very differently than we think they're going to, and if you get the future wrong, then the errors in the past are reported in the current financial statements. If you look at an accident year result, you're taking your best estimate of that accident year to its ultimate level and using that data. So you're not sort of paying for your past sins.

Mr. Jagmeet Singh: That really surmises everything that I really wanted to adduce from you, and that was wonderfully said. I really appreciate that. I was trying to get to that point and you cut right to the chase, so I appreciate that.

So in assessing—and feel free to answer however you feel appropriate in terms of if this is something within your range or scope or not. Given what you just said about the impact on rate filing, would you agree with me if I was to suggest that for legislators or policy-makers, in determining what decisions we should make with respect to auto insurance, decisions based on—for legislators and policy-making—accident year and profits that are deduced from accident year would give a more accurate picture for legislators to make decisions on policies regarding auto insurance, as opposed to relying on OSFI data, which has a different intention, which is more about the financial stability and security of a company as opposed to the rate filing issue?

Mr. David Oakden: If you want my personal view, I really think you should not get overly concerned with all the different data sources. The rates that companies charge in Ontario must be prepared and an actuary must sign off that the actuary has followed actuarial standards, to the extent that the accident year results reflect better experience. The actuarial standards will force that experience to be recognized in the rates and those rates to be passed along.

But to try to second-guess—now, when you look at numbers—I don't have the pages that would describe exactly what I'm looking at. But if you're looking at the numbers from the statistical report on an accident year basis, you have to add the appropriate level of IBNR onto those numbers. When you look at a calendar year result, it reflects the change in IBNR. So if you have a large IBNR and it changes a little bit, just that change goes into the financial statements. If you're looking at an accident year result, the IBNR—sometimes when I use IBNR, "incurred but not reported," it also covers the "incurred but not enough reported." That number can often exceed the reported claims, so the number can be huge. There's a judgment determination in that number, and two actuaries may not agree on that determination.

So, these numbers I'm looking at here: Do they contain an adequate IBNR? Typically, when you're making rates, you would look at several years' worth of data, not just one year's worth of data, to make your decisions.

Looking at the financial statements can be helpful, and looking at accounting statements can be helpful. But these numbers, if they contain an IBNR, it may be one actuary's opinion. I don't see that actuary signing anything, but it could be attached to these 27 pages, if there's another page where there's an actuarial report.

Mr. Jagmeet Singh: Fair enough. The reason why I'm putting this to you is because if we compare—if you look at the page 28 document in 2011 and 2012, you notice that they're both in the $6 billion, and previous to that, it was in the $8 billion, so there was a significant reduction in costs. Various institutions, or various agencies, including the IBC, the Insurance Bureau of Canada, have indicated that there has been a significant reduction in claims costs.

When we look at this data, the GISA data, and apply that to assessing the profits, we get a net return on equity closer to 15%, which is quite significant, versus if we use the other figure, which is the $7.7 billion on page 14 in the document, we get something closer to 7%, so that's almost twice.

It's a significant issue, because when we're assessing the profits of the insurance industry and what should happen with rates, we need to have a clearer picture of what the return on equity is so that we can make the right decisions. We're seeing a spread of more than 7%—almost double, more than double. That's going to significantly impact our ability to make decisions.

Mr. David Oakden: There's one issue here, and I'm not sure how it has been determined and how you've gotten that return, but these claim costs may not include internal adjustment expenses, so they need to be included.

I don't have the verbal description as to exactly what's behind these numbers and how they're used, but I think that if you were to hire a consulting actuary and ask them to assess the return, based on these numbers, they could prepare an independent opinion for you, if that was—

Mr. Jagmeet Singh: Thank you very much; I appreciate that. I'm sorry, because we're running out of time, so my last question is—I'm going to put an assertion to you, and tell me your response to that. We assert that the GISA claims data is a better source of data than OSFI claims data, because it is cleaner and doesn't reflect the reserve policies of the companies, which, at least in part, sometimes use reserves for tax purposes. Do you agree with that overall, the sentiment of that?

Mr. David Oakden: The last comment on tax purposes, I don't agree with, but certainly the accident year data would be better for rate-making. The OSFI data is not appropriate for rate-making.

Mr. Jagmeet Singh: Okay. Thank you very much.

The Vice-Chair (Mrs. Donna H. Cansfield): Actually, you had 18 seconds. I was kinder to you than you were to you.

Mr. Jagmeet Singh: Thank you.

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The Vice-Chair (Mrs. Donna H. Cansfield): Ms. Damerla?

Ms. Dipika Damerla: Thank you, Chair. Thank you, Mr. Oakden, for coming. One of the advantages of going last is that you get to hear all of the other questions. I have to say that my colleagues did a great job in covering off all of the questions that I might have asked you, so I have no questions for you. Thank you so much.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much, Mr. Oakden, for joining us this afternoon and for your patience and understanding as we left you for a little while and wandered off to the Legislature. We appreciate it.

Mr. David Oakden: Sorry. Would you like this document that summarizes the reserved roles—

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, please, and then we can distribute it to everyone.

Ms. Dipika Damerla: Chair?

The Vice-Chair (Mrs. Donna H. Cansfield): I have an agenda, if you'll recall, Ms. Damerla, that I had read out before, and I'm going to go back to that agenda.

COMMITTEE BUSINESS

The Vice-Chair (Mrs. Donna H. Cansfield): On the agenda, first off, Mr. Yurek had indicated a motion—as I said, legislative research; next Wednesday; and you would have a motion as well.

Mr. Yurek, you have a motion you'd like to present?

Mr. Jeff Yurek: Yes, please.

The Vice-Chair (Mrs. Donna H. Cansfield): Do you have copies, sir?

Mr. Jeff Yurek: Yes.

The Vice-Chair (Mrs. Donna H. Cansfield): Could we distribute those copies so everybody has one?

Mr. Jeff Yurek: I believe they're all the same.

Mr. Jagmeet Singh: Chair, I have a question for you.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, sir.

Mr. Jagmeet Singh: During the course of the Aviva CEO's deputation, he had indicated that he would undertake to provide some information.

The Vice-Chair (Mrs. Donna H. Cansfield): That's correct.

Mr. Jagmeet Singh: What is the process by which we would follow up with that?

The Vice-Chair (Mrs. Donna H. Cansfield): We'll ask the Clerk to do that. She will follow up, and he will have the information for us as soon as possible.

Mr. Jagmeet Singh: Thank you.

The Vice-Chair (Mrs. Donna H. Cansfield): Mr. Yurek, would you like to move your motion?

Mr. Jeff Yurek: Yes. Thank you, Chair. I move that the Standing Committee on General Government request from the Ministry of Finance all research documents, electronic or otherwise, pertaining to the issue of the proposed 15% fee reduction to auto insurance rates, that were released to, or authorized by, the ministry between February 1, 2013, and November 25, 2013; and that these be filed with the committee in electronic format by 2 p.m. the day after this motion passes.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you, Mr. Yurek. There is an error in your speaking. You indicated "or authorized by." It says "or authored by."

Mr. Jeff Yurek: Oh, did I misread that? I'm sorry. It's "authored by" the ministry. Excuse me.

The Vice-Chair (Mrs. Donna H. Cansfield): It is so corrected. Thank you very much. Any comments?

Ms. Dipika Damerla: Five-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): Pardon me?

Ms. Dipika Damerla: Seeking a five-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, a five-minute recess. Is that fine with everyone? It's a quarter after 5, roughly. So at 20 after 5, we'll be back. Five-minute recess.

The committee recessed from 1713 to 1716.

The Vice-Chair (Mrs. Donna H. Cansfield): I'll call the meeting back to order, please. Mr. Yurek, would you have any comments to your motion?

Mr. Jeff Yurek: Yes, Chair. I brought forth this motion to ensure that we have all the data that we can look at. Seeing the amount of controversy this 15% fee reduction has caused within the industry, how much promise it is showing for the ratepayers of our province and how everyone is clamouring for a 15% fee reduction, including myself—I would love a 15% fee reduction—I think it's only fair that the committee itself, before it releases its report, can take a look at what exactly the government has done to prepare and to ensure that the people of the province of Ontario obtain their 15% rate reduction and, in fact, to ensure the integrity of the industry and ensure that those who are injured in accidents are able to be treated in a timely manner and get back into the workforce and return to their normal, everyday lives they had prior to an accident. We just want to make sure that there are proper things in place so that we know, as a committee and as members of our individual parties, that the government has taken the correct steps and given us all the information so that the decision that has been made in the last budget is, in fact, the right decision to be made and we're heading down the right street.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you, Mr. Yurek. Mr. Del Duca.

Mr. Steven Del Duca: Reading this motion, I don't think that, in principle, our side or our caucus has any objection to the general thrust.

I would make a comment: When I read the last line in this particular motion, it does suggest that if the motion passes momentarily, the Ministry of Finance would have until—if I'm reading it correctly—2 o'clock tomorrow afternoon to provide everything that you're asking for in this. I'm just wondering if the member has contemplated the logistical challenge of that. But again, in principle, we don't object to the request.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you. Mr. Leone.

Mr. Rob Leone: I am new to this committee so I don't really understand the nuances of this particular topic, but I do think, as Mr. Yurek has pointed out, that it is important to have, in the course of outlining and preparing a report, particularly on this matter, a matter that I know is of importance to the public—I think all parties would be satisfactorily saying that it is important to the public. I believe that the report-writing is taking place soon in this committee, and if the timing of what Mr. Del Duca has suggested is off, perhaps I'll propose an amendment to change the time from 2 p.m. the day after the motion passes to 2 p.m. two days after the motion passes. If that would be satisfactory, I would like to move that amendment, Chair.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you. We have an amendment on the floor that indicates that instead of 2 p.m. the day after, it would be amended to two days after this motion passes. Any comments?

Mr. Rob Leone: May I speak to that amendment?

1720

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, you may speak to the amendment.

Mr. Rob Leone: You know, we want to be quite reasonable with what we're suggesting in this committee, and I do appreciate Mr. Del Duca's concern that the timing is not sufficient. One day is probably very tough, given that the ministry is likely to receive this request at 9 a.m. tomorrow, given that we're past the end of the business day. So it's not unreasonable, I don't think, to suggest that we move the time an extra day so that the ministry has ample time to prepare the documents that we're looking for.

Again, Madam Chair, this is about looking at the scope of a very important issue of public importance. Auto insurance is something that a lot of people talk about in my riding; I'm sure that my riding isn't unique when it comes to that. Given that our capable critic, Mr. Yurek, has been on this file for quite some time, I know that these issues get quite complex.

The fact that an actuary has to take 11 to 14 years to actually finish his educational requirements is, frankly, something I learned today for the very first time—

Mr. Steven Del Duca: Chair, he's not speaking to the motion.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, I understand. He's just about finished. Thank you.

Mr. Rob Leone: Yes. I'm sorry. I'll wrap up as quickly as possible.

Anyway, getting back to the point here, we are wanting to accommodate what Mr. Del Duca had suggested. I think we should move the timing of the release for one more day, and hopefully that will be satisfactory to the members of this committee and to the ministry.

The Vice-Chair (Mrs. Donna H. Cansfield): Thank you very much, Mr. Leone. Any further comment on the amendment to the motion? Ms. Damerla.

Ms. Dipika Damerla: I'd like the question to be called.

The Vice-Chair (Mrs. Donna H. Cansfield): We don't call questions in committee. What we do is, we debate and then, when everybody's had sufficient debate, we can say we've had sufficient debate and then we can have a vote.

We have an amendment on the floor. Any further comment to the amendment?

Mr. Jim McDonell: Yes, Chair. I'd like to request a 20-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): You'd like a 20-minute recess.

Mr. Jim McDonell: To discuss this.

The Vice-Chair (Mrs. Donna H. Cansfield): I'd like a discussion on the 20-minute recess. Is everyone in favour?

Ms. Dipika Damerla: I think it's unreasonable.

The Vice-Chair (Mrs. Donna H. Cansfield): You're not in favour of a 20-minute recess.

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): You're right. There is a motion on the floor, so we now have a 20-minute recess. All those in favour of a—

Mr. Jim McDonell: —before the vote just to discuss this?

The Vice-Chair (Mrs. Donna H. Cansfield): We actually have a motion on the floor.

Mr. Jim McDonell: Before the vote?

Mr. Rob Leone: We are entitled to a 20-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, right. I've asked if there's any further questions. So I'm asking for a vote on the 20-minute recess. Is there any—

Interjections.

Ms. Dipika Damerla: Chair, I think it's unreasonable—

Interjection.

Ms. Dipika Damerla: —20 minutes. Maybe five minutes.

Interjection.

Ms. Dipika Damerla: Yes, we can, but I'm just proposing.

The Vice-Chair (Mrs. Donna H. Cansfield): It's not a voting item. We're just trying to find some consensus on the amount of time.

Ms. Dipika Damerla: We think 20 minutes is too long.

Mr. Rob Leone: We're entitled to 20 minutes.

The Vice-Chair (Mrs. Donna H. Cansfield): You've moved a 20-minute recess. According to the Clerk, you have to have full agreement on that 20 minutes. I apologize because I misunderstood. I was correct in the first place. There's no consensus, so we go to a vote. All those in favour of a 20-minute recess?

Mr. Rob Leone: We have asked for a 20-minute that we're entitled to according to the standing orders.

The Vice-Chair (Mrs. Donna H. Cansfield): I don't disagree, but because there's no consensus, the Clerk is saying that we have to have a vote—

Interjection.

The Vice-Chair (Mrs. Donna H. Cansfield): I have to put the question first and then you can ask for a 20-minute recess.

Mr. Rob Leone: I'm ready.

The Vice-Chair (Mrs. Donna H. Cansfield): There is an amendment on the floor. There's no further discussion on the amendment. I'm going to call for a vote on the amendment.

Mr. Rob Leone: Twenty-minute recess.

The Vice-Chair (Mrs. Donna H. Cansfield): Yes, there will be a 20-minute recess.

The committee recessed from 1726 to 1746.

The Vice-Chair (Mrs. Donna H. Cansfield): Ladies and gentlemen, our 20 minutes are up and we have five minutes before we have to go in. There's no further discussion on the amendment to the main motion, so I will take the vote on the amendment. All those in favour of the amendment to the main motion? All those opposed? Seeing none, the amendment carries.

All those in favour of the main motion—or further discussion, I should ask first. Further discussion on the main motion?

Interjection.

The Vice-Chair (Mrs. Donna H. Cansfield): No, I'm going to do this very quickly, if I can get it through. Any further discussion on the main motion? Seeing none, all those in favour of the main motion—

Mr. Rob Leone: Twenty-minute recess?

Interjections.

The Vice-Chair (Mrs. Donna H. Cansfield): I'm sorry. He's asked for a 20-minute recess.

Ms. Dipika Damerla: But we already had our hands up—

The Vice-Chair (Mrs. Donna H. Cansfield): But I hadn't taken the vote, so we have a 20-minute recess, and let's go and vote.

The committee recessed from 1748 to 1803.

The Vice-Chair (Mrs. Donna H. Cansfield): The meeting is adjourned.

The committee adjourned at 1803.

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Ms. Sarah Campbell (Kenora–Rainy River ND)
Mrs. Donna H. Cansfield (Etobicoke Centre / Etobicoke-Centre L)
Mr. Grant Crack (Glengarry–Prescott–Russell L)
Ms. Dipika Damerla (Mississauga East–Cooksville / Mississauga-Est–Cooksville L)
Mr. John Fraser (Ottawa South L)
Mr. Michael Harris (Kitchener–Conestoga PC)
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Ms. Laurie Scott (Haliburton–Kawartha Lakes–Brock PC)
Mr. Jeff Yurek (Elgin–Middlesex–London PC)

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Mr. Steven Del Duca (Vaughan L)
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Mr. Jagmeet Singh (Bramalea–Gore–Malton ND)

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