



Proudly Presents...



**THE RISING COST OF
BODILY INJURY CLAIMS**

“Why you should be concerned”

Frank Cowan Company

- We are a Managing General Agent – We act on behalf of insurer partners with a commitment to deliver an underwriting profit
- We are in a specialized field of public sector P&C insurance with exposure to high severity claims
- Challenge - Predicting the ultimate level of claims in today's environment!



Rising Cost of Bodily Injury Claims

WHY? Take a look around...

- Our society is more litigious
- A culture of entitlement
 - Someone else is responsible for my misfortunes
- Plaintiff lawyers
 - Billboard advertisements
 - Working on a contingent basis
- Looking for the deep pocket



Bodily Injury Claims Exposure

- Motor vehicle accidents
- Trip and falls
- Injuries while engaged in recreational activities
- Injuries arising out of primary cause such as fire, severe weather
- Medical malpractice



Increasing Claims Costs

Factors driving up the cost of claims

- Escalating judgements (who will break the \$20m barrier?)
- Cost of future care increasing especially where 24/7 care needed
- Defense costs including expert opinions
- Class action lawsuits
- Joint and several liability – 1% rule



Future Care Claims

Future care is the largest expense of a Bodily Injury case

- The injured are living longer
- Medications, Rehab costs
- 24/7 nursing (this is the BIG one!)
- Loss of income
- Home renovations, transportation
- Education needs, assistive devices



Cost of Medical Care

- In 1999 RPN care fees from an agency cost \$21 per hour.
- In 2010 we have seen costs of \$35-45 per hour and as high as \$54 for a specialist for a brain injury.
- RPN fees have more than doubled in the last 11yrs. Will this trend continue?



Long Tail Liability Costs

- Claims take several years to finalize
- Claims inflation is significant and it is NOT the same as the CPI
- Expenses on the file increasing with legal experts, need for experts witnesses



Increasing Claim Cost Trends

- Legislative environment (1% rule)
- Court rules (speed - avoid trials)
- Broader scope for class actions
- Defendants being held to higher standard of care (e.g. in a non-repair of roads case, what is considered to be non-repair?)



Claims Cost – The 1% Rule

- Bodily injury claims very often arise out of motor vehicle accidents
- Limits being carried by privately insured autos (\$1 million) are not sufficient to respond to damages
- Plaintiff looks for deep pocket – in our business that means suing the road authority



Impact on Insurers

In high risk long tail business, the results can be challenging

- Severity of claims often with high limits of liability
- Development of claims
- Unlike a fine wine, claims do not get better with age



Claims drive Premiums

NEED: to set prices today to cover the ultimate costs of claims including claims inflation (bear in mind - no high interest income to enable discounting)

CHALLENGE: setting adequate prices in a soft market where new entrants who do not have the benefit of history are unable to accurately price the product



Explaining need for Premium

- First point – actuaries heavily involved in pricing decisions today
- JF presentation – development and trending – very difficult for a client to understand - but it is correct
- Client will look at results and think it looks ok – but it may not be after taking the above information into account



Future of Claims Costs

Appears to be no end in sight

- Premiums have to increase to pay the claims
- Limits may be reduced
- Higher deductibles/SIRs mandatory
- Judicial reform (the 1% rule)

We are concerned about where this is heading – you should be as well!



Where Do We Go from Here

- Integrated Risk Management approach
 - Know your business
 - Greater focus on loss prevention
 - Broader scope of knowledge
- Risk-informed decisions are made regarding the calculation of investment, resource needs and capital allocation
- Build positive and strong relationships with your providers



Specific issues to consider

- Continue to push for judicial reform
 - Joint and several liability (1% rule)
- Enhanced risk management activity
 - Know your governing legislation
 - Understand the standard of care and inspect to identify the risks – treat risks accordingly
 - Safety of equipment
 - Keep good records and documentation
 - Staff training and culture of risk mgt.



Thank you for attending the
Ottawa Capital Connexions
Conference

