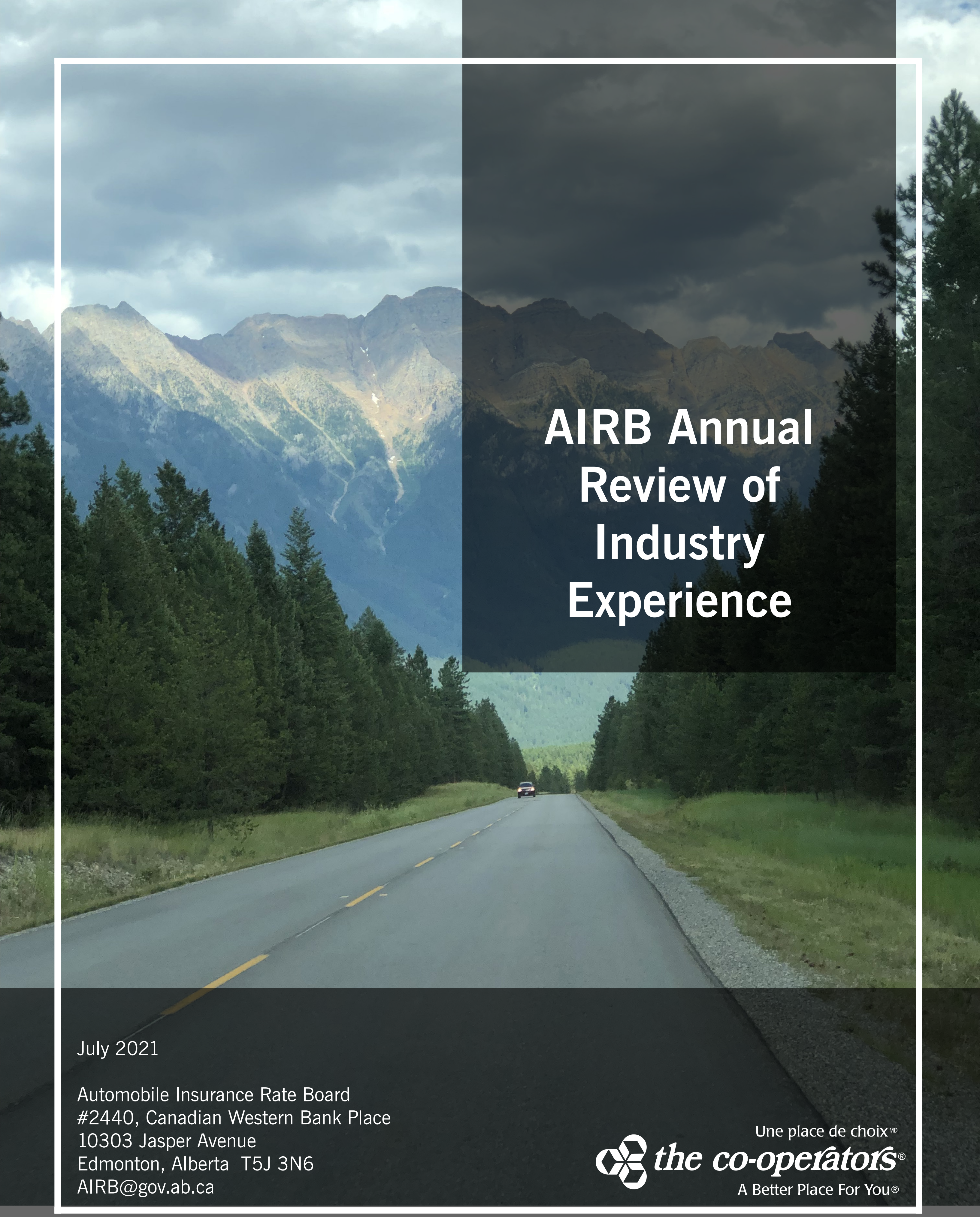

AIRB Annual Review of Industry Experience

July 2021

Automobile Insurance Rate Board
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INTRODUCTION

The Co-operators Group Limited ("The Co-operators") is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 45 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians. In Alberta, we have 10 member organizations, including the Alberta Federation of Agriculture, the Federation of Alberta Gas Co-ops Ltd., and UFA Co-operative Ltd.

We have a strong footprint in Alberta, insuring approximately 260,000 private passenger vehicles and 56,000 commercial vehicles across our group of companies, ranking fifth in market share by direct written premium. We employ over 680 staff in addition to having independent distribution contracts with 95 financial advisors who in turn operate their own agencies, employing 516 staff across 130 offices. Guided by our co-operative principles, we are committed to the communities in which we work, and in the last year alone, we invested over $2,400,000 in various charities, non-profits and co-operatives throughout the province.

We are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values.

The Co-operators is pleased to once again participate in the Automobile Insurance Rate Board's (AIRB) annual review of industry experience for private passenger vehicles (PPV) and for the opportunity to provide feedback to Oliver Wyman's industry loss experience analysis, which is used to establish industry benchmarks to be used in the review of insurers' PPV filings for basic and additional coverage.

We commend the AIRB for their expeditious and collaborative approach to modernizing rate regulation in Alberta, following the government's decision to increase the AIRB's authority. We are pleased with the new User Based Insurance guidance and the expansion of rating territories that are products of this authority and approach. These changes are positive for Albertans as they will increase choice, create a more competitive market and drive innovation, while also creating a level playing field for insurers. The AIRB has also responded positively to the industry's request for timely information and direction with respect to the new Direct Compensation Property Damage coverage, to facilitate a successful implementation in advance of the January 1, 2022 effective date. We look forward to continued collaboration with the AIRB on additional rate regulation items to create more equitable rates for drivers in the province.

FINANCIAL CONTEXT & OUTLOOK

After several challenging years, the sustainability of the Alberta market is no longer a concern in the short term. Contributing to the industry's turnaround was the expiry of the second rate cap in 2019 and the rate increases approved by the AIRB shortly thereafter. In addition, the COVID-19 pandemic had a significant impact on profitability in 2020. Government lockdowns and other protective measures, which influenced a change in driving habits and behaviour, led to an impactful reduction in vehicle collision frequency.

As vaccination rates climb and COVID-19 cases continue to decline, Alberta has lifted public health measures and eased restrictions. With respect to driving habits and behaviour, a complete return to pre-pandemic levels is not expected but we believe a transition to a "new normal" will occur. We have reviewed the methodology to adjust for the pandemic period within the rate level indications, presented by Oliver Wyman in their preliminary report, and we are aligned with this methodology. To be more precise, the effects of the COVID-19 pandemic must be removed from 2020 data and then all years in the experience period should be adjusted to reflect the expected "new normal." The timing of the shift to the "new normal" is an important input to this methodology and we are actively monitoring our data to identify this timing. We would be pleased to share our findings with the AIRB. Additionally, given rate level indications are sensitive to loss trend selections, we believe these selections must continue to balance stability and responsiveness as the shift towards the "new normal" occurs.

The sustainability of the automobile insurance product in Alberta has been addressed in the short term and, as a result, accessibility has improved for Albertans. However, there is an opportunity to achieve more affordable premiums through comprehensive product reform and we remain concerned that rates will continue to increase without this reform. Additional rate regulation will create more equitable premiums, and the pandemic has likely changed driving behaviour and habits for many years to come, but we believe product reform is required for sustainable lower average premiums and we encourage the AIRB to advocate with The Co-operators for these product reform changes.

REVIEW OF INDUSTRY BENCHMARKS

LOSS TRENDS

Our selected loss trend rates are generally consistent with the recommended selections from Oliver Wyman's preliminary report. There is an exception for one coverage, which is explained in this subsection, but the gap is not significant.

For Bodily Injury (BI) coverage, Oliver Wyman has selected a past loss cost trend of +7.0%, based on four separate indicated trends. Each of these indicated trends use the same end period (2019.75), with one of four start periods ranging from 2014.75 to 2016.25. We observe a slight flattening of the BI loss cost curve starting in 2017 using industry data, presented in Figure 1 of Oliver Wyman's preliminary report, but there were no significant external environment events (ie. reform) between 2014.75 and 2016.25 to justify the shorter period used by Oliver Wyman. We believe this shorter period is overly responsive. Using the BI Loss Cost Heatmap produced by Oliver Wyman as Figure 4 in the same report, we believe +8.5% is a more appropriate selection for the past loss cost trend. This selection relies on a longer period and, therefore, balances responsiveness with stability. The models indicating a +8.5% past loss cost trend are also supported by higher adjusted R-squared values.

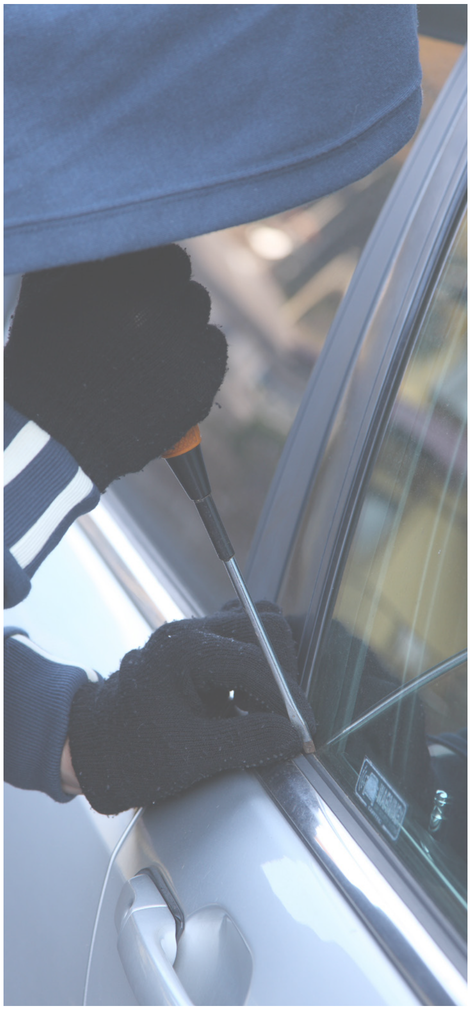
Using our internal data, we observe frequency, severity, and loss cost trends prior to making trend selections. We are not impacted by the claims count challenges discussed by Oliver Wyman and this allows us to evaluate the individual components of the loss cost first. Following our loss trend analysis, we selected past frequency and severity trends from 10 years of data (excluding 2020), both with adjusted R-squared values greater than 98%, and these selections resulted in a loss cost trend of +8.5%. Analyzing our internal data, we did not observe a flattening of the loss cost curve starting at 2017 nor did we have any other observations that would support the selection of an indicated loss cost trend from a period shorter than 10 years. We have selected a past loss cost trend of +8.5% and believe it is more appropriate than +7.0%.

As previously noted, from the industry loss cost exhibit provided by Oliver Wyman, we also observe a slight flattening of the curve around 2017. However, the same flattening of the curve is not observed from our own data and there is no evidence that the number of minor injuries pushed outside of the cap is stabilizing since the February 2015 McLean v. Parmar decision. As we noted in our submission last year, although the 2018 changes to the minor injury regulation wording were an important step, given the long-tailed nature of BI claims, it will take years before we can assess whether there has been a resulting reduction in BI loss costs. With respect to Bill 41, the *Insurance (Enhancing Driver Affordability and Care) Amendment Act, 2020* we agree with Oliver Wyman that there is insufficient claims experience at this point to update the expected cost impact of these changes. Insurers are unlikely to realize any benefits from a lost cost perspective until 2024. Additionally, the COVID-19 pandemic may create an additional time lag before an accurate measure of changes from Bill 41 can be completed. For these reasons, we believe selecting a future loss cost trend 2% below the past loss cost trend is too aggressive. We have selected a future loss cost trend 1% below our past loss cost trend selection and will re-evaluate when there is more evidence.

LOSS DEVELOPMENT

In previous submissions, we noted prior years' adverse loss development for BI observed from our internal experience. Specifically, loss development in the 12 months following the end of an accident year was increasing at a significant rate year-over-year. The same observation was not present in the industry data presented by Oliver Wyman. This year, with the addition of 2020 data, we are observing development patterns more consistent with those reported by Oliver Wyman in their preliminary report. Therefore, the deterioration noted in our submission from 2019 and 2020 has leveled out. It is important to continue to monitor development as many of the effects from the COVID-19 pandemic are still unknown and there may be severity impacts that take years to materialize for this long-tailed coverage.

THEFT CLAIMS



From 2017 to 2019, Co-operators General Insurance Company spent over $1.2M per month in auto theft losses and then, in the first quarter of 2020, we experienced the largest number of first quarter auto theft claims over the four previous years. From the second quarter of 2020 forward however, during the COVID-19 pandemic specifically, our auto theft loss counts have dropped significantly from 2019 levels. We believe this is a pandemic effect, a result of Albertans being home more and therefore driving less throughout the pandemic. When we reach the post-pandemic period, we will continue to monitor vehicle thefts closely and share our findings with the AIRB.

We support the Auto Theft Resource Team's work in Calgary and continue to contribute to the RCMP bait vehicle program, which combats vehicle theft. Together, with public education efforts that promote preventative measures to avoid theft, these programs will continue to have an impact on the incidence of auto theft claims. Based on these successes, we recommend similar programs be implemented province wide.

Presently, there is not a deductible on auto theft claims for policyholders in Alberta. We continue to recommend that the comprehensive deductible apply to claims for theft of the entire vehicle to give policyholders more financial incentive to prevent vehicle theft. We also support regulatory action to prevent fraudulent registration of stolen vehicles.

CONCLUDING REMARKS

We appreciate the opportunity to participate in the AIRB's annual review process and look forward to continuing to work collaboratively towards rate regulation solutions that ensure Alberta consumers have an accessible, affordable and equitably priced automobile insurance product that provides security, is simple to understand and meets their needs.

We are not members of the Insurance Bureau of Canada (IBC) and prefer to contribute to the policy development process directly. As a co-operative financial services organization, we believe we bring a unique perspective to public policy consultations.

If you have any questions or require clarification, please do not hesitate to contact me at **todd_saunders@cooperators.ca.**

Todd Saunders
AVP – Regulatory Affairs & Rating System
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