

AIRB Annual Review

Auto Insurance Loss Experience

Presentation at Open Meeting
Edmonton, August 14th, 2018

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Agenda:

Who We Are



The Co-operators
in Alberta



Approach to
Auto Insurance



Financial Position
Overview



Loss
Development
and Loss Trends



Minor Injury
Regulation



Cap on Rate
Increases for
Private Passenger
Vehicles



Conclusion





IT'S IN OUR NAME: as a co-operative, our **44 members** include co-operatives and credit union centrals representing a combined membership of **millions of Canadians**



\$48.5 in assets under administration



Members of CLHIA and CADRI



5,044 employees & 512 exclusive financial advisors



4th largest share of the Property and Casualty (P&C) Market & 9th largest share of the Life insurance market

Insure 843K homes, 1.3M vehicles, & protect 692K lives



Provide coverage to 39K farms & 290K businesses

Proud **sustainability champion** and a leader in the co-operative community

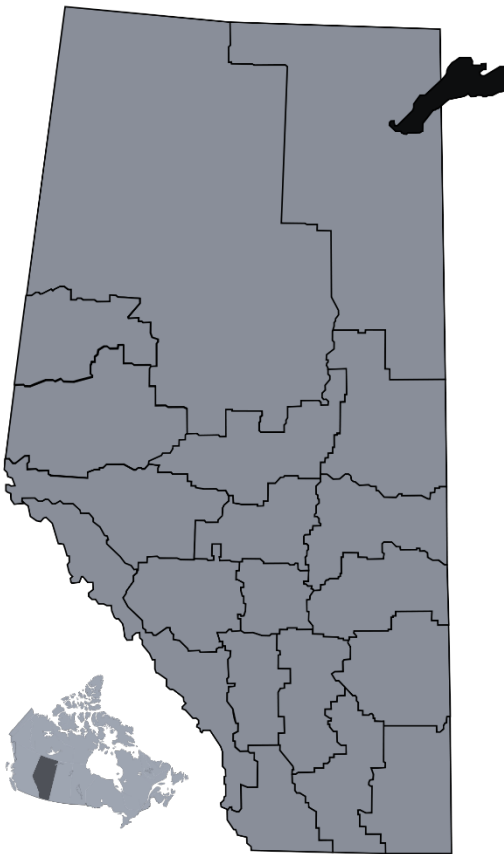
Last year alone, we contributed **\$8.34M** to the community – 4.8% of our pre-tax profit

AON®

BESTEMPLOYER



The Co-operators in Alberta



- We employ approx. **675** people in Alberta
- There are **99** advisors in **125** locations
- We insure over **356,000** private passenger vehicles
- In the last year alone, we invested **\$359,291** in local charities, non-profits, and co-ops.



On Site Placement



United Way

- 9 Alberta-based **member organizations**, including:



- Advocates for flood and wildland-urban interface resiliency

Our Approach to Auto Insurance



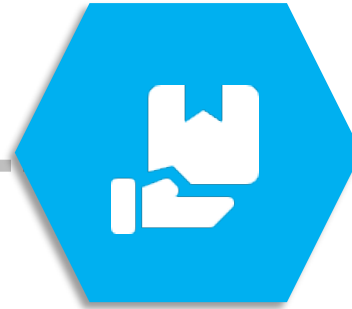
SECURITY

At its most basic level, insurance provides peace of mind. Consumers should have adequate coverage that ensures an appropriate measure of financial protection.



AFFORDABILITY

Insurance must be affordable for a compulsory insurance system to work.



AVAILABILITY

Consumers have the right to expect reasonable access to a variety of providers who can meet their coverage needs.



SIMPLICITY

Insurance consumers have a right to understand the product they are purchasing and the benefits to which they are entitled.

Financial Position Overview



CONTEXT: Overall Position in 2017

Consolidated net income:
was \$145M in 2016 vs.

\$121M in 2017

Income was generated
from the experience across all
provinces, all product lines, and
all of Property and Casualty
companies

Gross written premiums
increased by

6.5%

(\$2.58M to \$2.75M)

6.6% net earned
premium growth
(\$2.4M to \$2.56M)

Underwriting gain/loss
(\$81.7M)
(compared to **(\$22.9M)** in
2016)

Net investment income increased
4.4% (\$113.7M to \$118.7M)
and ROE* was at **8.5%**

*Return on Equity (ROE): the ratio of net income to the average of opening and closing stakeholders' equity excluding accumulated other comprehensive income.

Source: CGIC Consolidated 2017 Income Statement

Target Return on Equity

The Company's **target return on equity (ROE)** is **12%**.

A reasonable target that balances our need to ensure affordable rates and profitability to satisfy requirements place by OSFI

The target level of return needs to be achieved over the long-term

Over the last 5 years, we have achieved our target only once, in 2015

What does a 12% ROE mean to the consumer?

In order to achieve a 12% ROE, it translates into a 5.1% profit margin on premium

From every premium dollar earned, 80.4%* is spent on claims and claims handling

*This represents our actual costs from our indications. Profit margin does not reflect Ministerial Order No.25/2017.

Alberta Auto ROE



Average ROE for the last 5-years was 3.2%

	2013	2014	2015	2016	2017
After tax profit	\$17,793,732	\$15,941,909	(\$5,388,537)	\$4,383,988	\$2,332,462
YTD ROE	11.7%	12.9%	(3.3%)	2.8%	1.6%



Loss Development & Loss Trends

LOSS DEVELOPMENT

With respect to adverse loss development for bodily injury claims, **Oliver Wyman's findings** are consistent with our experience.

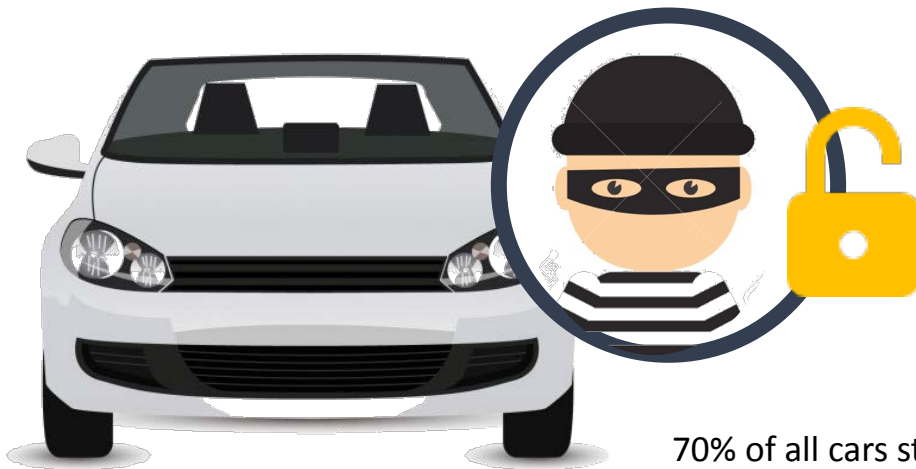
As a third-party insurer, without knowledge of a claimant's diagnosis or prognosis, it is challenging to accurately reserve losses, particularly when the claimant is represented.

Our bodily injury prior year loss development factors have **exhibited increases** in recent years.

Accident year 2016 losses are developing at a rate that is 13% higher than the average of the prior five accident years.



LOSS TRENDS: Rise in Theft Claims



We have seen consistent increases in our average claim over the last 4 years with an **increase of about \$200 per year**.

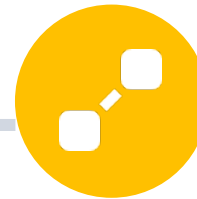
Many of the thefts in the province are **preventable**: Vehicles that are left running to warm up in the winter are easy targets for theft

70% of all cars stolen in the Calgary are committed by criminals with **ties to organized crime**

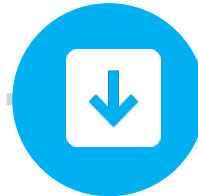
POSSIBLE SOLUTIONS

- Reinstatement of the Auto Theft Resource Team in Calgary
- RCMP bait vehicle program to capture prolific auto thieves.
- Efforts to educate the public in taking preventive measures to avoid theft.
- Consideration should be given to having the comprehensive deductible apply to claims for theft of the entire vehicle, to give the policyholder more financial incentive to prevent their vehicle from being stolen.

LOSS TRENDS: Bodily Injury Claim Severity



Continued rise in severity can be attributed to case law that serves to push minor injuries outside of the cap

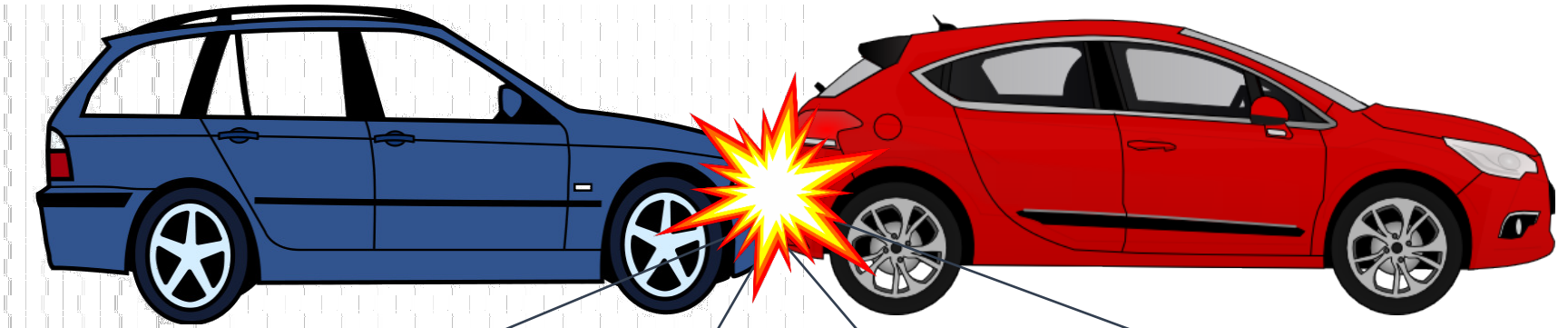


Sparrowhawk v Zapoltinsky (Jan. 2012): Court ruled that temporomandibular joint injuries are not injuries to which the Minor Injury Regulations apply.



McLean v. Parmar decision (Feb. 2015): Ruling that all soft tissue claims lasting longer than three months fall outside of the cap, continues to have a negative impact on severity

Minor Injury Regulation



Bodily injury claims costs in Alberta have increased significantly since 2011

(Source: IBC)

Province introduced a **\$4,000 cap on pain and suffering awards** in minor injury claims in 2004 (inflation adjusted now stands at **\$5,080**)

Erosion of the minor injury definition stemming from court decisions that have **created uncertainty around what constitutes a minor injury**

Restoration of the intent of the minor injury definition would ensure a balance between sustainability of rates and fairness to injured parties

Cap on Rate Increases for Private Passenger Vehicles

5% Cap ←



Impact on Company Solvency:

- Escalating trends, combined with 5% limitation on private passenger rate leading to continued risk of writing business at a loss

Impact on Consumer Premium Dislocations:

- The addition of a rate cap on the overall rate level change does not impact the distribution of changes

Conclusion



Premium stability is critical to the ongoing accessibility and affordability of automobile insurance products



Product reforms must result in **meaningful reductions to claims costs** which ultimately drive the price that Albertans pay for their insurance

Continued rise in bodily injury severity is a major loss trend that needs to be addressed: further clarifications to the **minor injury definition** are needed





THANK YOU!

