

## AIRB Annual Review

# Auto Insurance Loss Experience

Presentation at Open Meeting  
Edmonton, August 15<sup>th</sup>, 2019

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**IT'S IN OUR NAME:** as a co-operative, our **45 members** include co-operatives and credit union centrals representing a combined membership of **millions of Canadians**



**\$41.7 billion in assets  
under administration**



**Members of CLHIA  
and CADRI**



**5,350 employees & 496  
exclusive financial  
advisors**



**5<sup>th</sup> largest share of the  
Property and Casualty (P&C)  
market**

**Insure 875K homes, 1.4M  
vehicles & protect 663K lives**



**Provide coverage to 40K  
farms & 306K businesses**

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

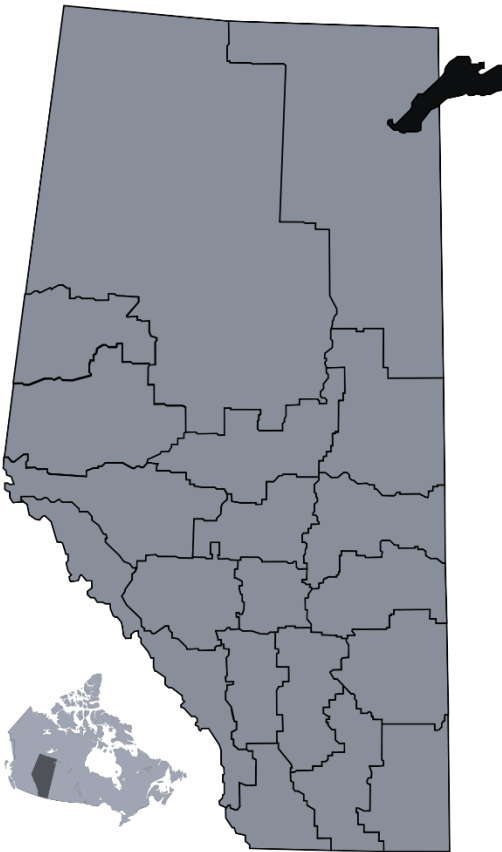
Last year alone, we contributed **\$8.85M** to improve community well-being – 4.3% of our pre-tax profit

**AON®**

**BESTEMPLOYER**



# The Co-operators in Alberta



- We employ **700** people in Alberta
- There are **109** advisors in **127** locations, employing over **600** staff
- The Co-operators General Insurance Company (CGIC) insures approx. **226,000** private passenger vehicles and **35,000** commercial vehicles
- In the last year alone, we invested approx. **\$300,000** in local charities, non-profits and co-ops
- 9 Alberta-based **member organizations**, including:



- Advocate for environmental, social and economic resiliency

# Our Approach to Auto Insurance



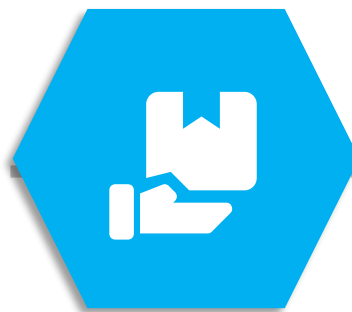
## SECURITY

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.

# CONTEXT: Overall Position in 2018

Consolidated net income was **\$121M** in 2017 vs. **(\$37.1M)** in 2018

**Results** were generated from the experience across all provinces, all product lines, and all of our Property and Casualty companies

Direct written premiums increased by **20.3%** (\$2,740M to \$3,296M)

**12.8%** net earned **premium growth** (\$2,559M to \$2,887M)

Underwriting loss **(\$152.5M)** (compared to **(\$81.7M)** in 2017)

Net investment income and gains decreased **101%** (\$202.0M to \$66.7M) and ROE\* was at **(2.5%)**

\*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 2018 Income Statement

# Target Return on Equity

Our **target return on equity (ROE)** is **12%**.

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

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

Over the last five 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, 83.9%\* is spent on claims and claims handling

\*This represents our actual costs from our indications.

# Alberta Auto ROE



Our target ROE is 12%

Average ROE for the last five years was 2.9%\*

	2014	2015	2016	2017	2018
After tax profit	\$15,941,909	(\$5,388,537)	\$4,383,988	\$2,332,462	\$527,662
YTD ROE	12.9%	(3.3%)	2.8%	1.6%	0.4%

\*Return on equity and after tax profit figures are specific to CGIC's Alberta auto portfolio





# Loss Development & Loss Trends

# LOSS DEVELOPMENT

## Bodily Injury Coverage

For bodily injury coverage, our internal experience demonstrates continued prior years' adverse loss development.



In accident year 2017, losses developed **20% higher** when compared to the average of the prior five accident years, including 2016.

## Loss Cost Estimates

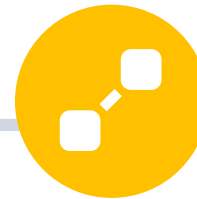
*"Overall, for the four-year period 2014 to 2017, our estimates of ultimate loss costs have decreased by 4.3%"*

Oliver Wyman Preliminary Report, pg. 11

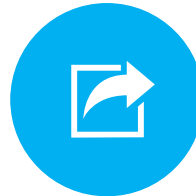


**This statement is not consistent with our findings.** We continue to see an overall deterioration in our loss cost estimates.

# LOSS TRENDS: Bodily Injury Claim Severity



We continue to experience an increase in bodily injury severity



**McLean v. Parmar decision** (Feb. 2015): serves to push minor injuries outside of the cap



Escalating trend of costly expert reports, commissioned by third-party solicitors, to total 20% to 30% of the total settlement value

# LOSS TRENDS: Theft Claims



	2014	2015	2016	2017	2018
Theft claims	756	983	1030	1189	1097

Many of the thefts in the province are **preventable**



## TAKING ACTION

- ✓ Support the work of the Auto Theft Resource Team in Calgary
- ✓ Contribute to the RCMP bait vehicle program to combat vehicle theft
- ✓ Public education efforts on 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 policyholders more financial incentive to prevent their vehicles from being stolen

# Minor Injury Regulation Amendment



**One year** since the amendment to the minor injury regulation came into effect

**No significant impact** on our bodily injury loss costs

Cases continue to be **pushed outside** of the cap

**Further consideration** of the minor injury regulation is warranted

# Rate Caps for Private Passenger Vehicles

## 5% Cap

- Ministerial Order No. 25/2017
- **Ministerial Order No. 14/2018**
- Ministerial Order No. 5/2019



## 10% Cap

- AIRB's cap over a 12-month period

### Impact on Company Solvency:

- Escalating trends, combined with 5% limitation on private passenger rate, leading to continued risk of writing business at a loss
- 2018 underwriting loss of over **\$15.1M** in Alberta alone
- Five-year average underwriting loss in Alberta of **\$11.7M**



# Alternatives to Rate Caps



A focus on **auto insurance reform** will result in meaningful reductions to claims costs, which drive the price Albertans pay for their auto insurance



Implementing **road safety measures** and reducing **distracted driving** will help impact the frequency and severity of claims

# Recommendations



A **return to adequate profit** is critical to the sustainability of the auto insurance market



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



Incorporate the findings from the **claims and costs study** to help inform the industry benchmarks







**THANK YOU!**

