



THE CO-OPERATORS RESPONSE: Annual Review of Automobile Insurance Loss Experience



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INTRODUCTION

About The Co-operators

The Co-operators Group Limited (“**The Co-operators**”) is pleased to once again participate in the Alberta Automobile Insurance Rate Board’s annual consultation process regarding loss experience for private passenger vehicles to establish industry benchmarks to be used in the review of insurers’ PPV filings for basic and additional coverage.

The Co-operators philosophy regarding the delivery of automobile insurance products to the consumers of Alberta is based on the following fundamental guiding principles:



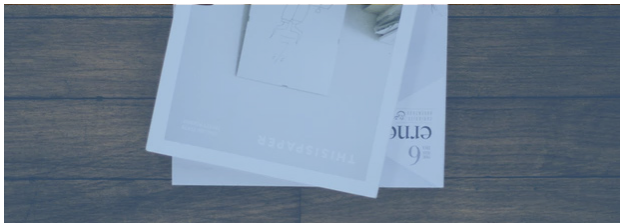
● **Security:**

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



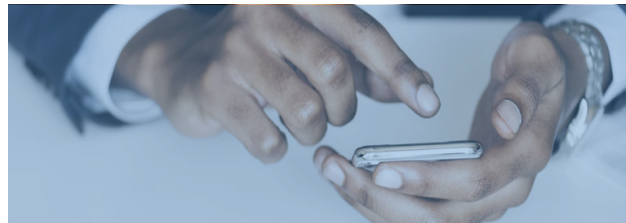
● **Affordability:**

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



● **Availability:**

Insurance 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.



The Co-operators is a leading Canadian multi-line insurance and financial services co-operative. Governed by 44 co-operatives and credit union centrals across the country, we provide solutions in four core areas: property and casualty insurance, life insurance, institutional asset management, and brokerage operations.

We have a strong footprint in Alberta, employing 675 people across our group of companies in addition to having independent distribution contracts with 99 advisors, who in turn operate their own agencies. Guided by our co-operative principles, **we are committed to the communities in which we work**. This is why in the last year alone, we invested almost \$360,000 in local charities, non-profits, and co-ops in the province.

While the current state of the market remains challenging, we remain committed to working with the AIRB and the Government of Alberta to achieve common objectives that will benefit consumers.

In our submission, we will address the following:

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1. LOSS DEVELOPMENT

The AIRB's consulting actuary, Oliver Wyman reports continued prior years' adverse loss development (based on its estimates) for Bodily Injury, and significant adverse loss development since 2015 for Medical Payments and Disability Income. Are Oliver Wyman's findings consistent with what individual companies are experiencing? If yes, what are the causes?

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. It is not unusual for pleadings, issued at two years post-accident, to provide insurers with initial information outlining the plaintiff's loss. As a result, it is common for reserves to be impacted two to three years post-accident either resulting from previously undisclosed information or negative contingencies.

Our bodily injury prior year loss development factors have exhibited increases in recent years. Of particular note is the accident year 2016 losses which are developing at a rate that is 13 per cent higher than the average of the prior five accident years.

With respect to accident benefit claims, we experienced significant adverse loss development starting in 2016. We are observing higher than usual development factors in the most recent time periods, as well as a recent pattern of higher than projected development. At this point in time, there does not appear to be one, single cause that is driving these results.



2. LOSS TRENDS

Bodily Injury Claim Severity

The continued increase in bodily injury severity can be attributed to several factors. Court cases impacting those injuries that were previously accepted as under the cap drive up settlement amounts and result in files remaining open longer, which has a significant impact on claims severity.

Recent changes to the minor injury definition are a step in the right direction to ensure that minor injuries are contained within the cap. However, the continued rise in severity can be attributed to case law that serves to push minor injuries outside of the cap. Specifically, the *McLean v. Parmar decision* (February 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. More recent is the decision from the Alberta Court of Queen's Bench of *Stevenson v. Thompson* (July 2017). Despite the Judge finding that the plaintiff "exaggerated her symptoms to her caregivers,"¹ and "whitewashed her past medical history in her interactions with her caregivers", the Judge found that these failings did not make the witness not credible in her testimony. The Judge awarded the plaintiff almost \$200,000 for chronic pain resulting from a WAD II injury.

Increased legal representation on all files is another factor impacting severity as well as loss costs.

¹ Court of Queen's Bench of Alberta (July 25, 2017). Citation: *Stevenson v Thompson*, 2017 ABQB 451. <https://www.canlii.org/en/ab/abqb/doc/2017/2017abqb451/2017abqb451.html>

Medical Expense and Disability Income Severity

Based on our claims data, The Co-operators did not experience a sharp increase in either medical expense nor disability income severity in 2015. We experienced increases starting in 2016.

Rise in Theft Claims

The Co-operators has experienced a 14 per cent increase in the total number of theft claims in Alberta for the full year of 2017 compared to 2016. During the first half of 2018, our vehicle theft experience has been very similar to the first half of 2017. It appears that the elevated level of theft claims is not regressing and will need to be reflected in pricing moving forward.

Many of the thefts in the province are preventable. For example, vehicles that are left running to warm up in the winter are easy targets for theft. According to a representative from the Edmonton Police Service at the 2018 Central Canadian Auto-Theft Association seminar, at least 50 per cent of vehicles stolen in Edmonton had the keys still in them, and about 70 per cent of all cars stolen in the city are committed by criminals with ties to organized crime.

We are pleased to see the reinstatement of the Auto Theft Resource Team in Calgary aimed at curtailing auto theft. Also, efforts to educate the public in taking preventive measures to avoid theft can prove helpful. In some communities, bylaws are in place that can ticket vehicle owners who leave their vehicles unoccupied and idling, making them prime targets for theft. The Co-operators continues to be a supporter of the RCMP bait vehicle program to capture prolific auto thieves.

Presently the policyholder has no deductible on auto theft claims. As noted in our submission in 2017, 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.

Differing Trends in Comprehensive and Specified Perils

The Co-operators does not have the volume of specified perils claims to derive statistically reliable loss trends. Therefore, a comparison to comprehensive loss trends is not possible. We have always combined comprehensive and specified perils for the purpose of calculating and selecting trends.

3. MINOR INJURY REGULATION

Impact from Minor Injury Regulation Amendment

We recognize the positive steps taken by the Alberta government to control escalating costs with changes to the minor injury regulation definition, effective June 1st, 2018. Without a doubt, the changes provide clarity around minor TMJ injuries which will temper the impact of the 2012 *Sparrowhawk* decision. Our internal estimate of the savings from changes to the MIR would result in a 3.5 per cent improvement to bodily injury loss costs. This would translate into an approximate reduction to our overall rate indication of 1 per cent. While there is uncertainty in this estimate, we are committed to monitoring the impact of these new measures and reflecting them in our rate analysis if the actual impact of these changes differs from expectations. Due to the long tail nature of these claims, it will be years before we can measure the impact of these changes on loss costs.

However, we believe that the changes did not go far enough to ensure that true minor injuries remain within the cap. Specifically, the *McLean v. Parmar* decision of February 2015 finding that soft tissue claims lasting longer than three months to six months fall outside of the cap has been more impactful to severity and loss costs than *Sparrowhawk*. Soft tissue injuries may take longer to resolve for some than others when factors such as age and general health are taken into consideration. Applying a three to six-month window for resolution of soft tissue injuries to remain in the minor injury regulation is not always reliable and in fact could incorrectly push those injuries outside the cap, which is not the intent.



4. MINISTERIAL ORDER NO.25/2017

We are concerned that increasing claims costs driven by escalating trends, combined with the 5 per cent limitation on private passenger rate increases, will threaten the availability of insurance within the province. As an insurer committed to communities in which we work, we see this as a significant risk. Consumers are the ones that ultimately bear the burden when companies are unable to stay in the market place and competition decreases.

Our resiliency depends on an ability to be profitable while meeting clients' quickly evolving needs. We preserve sufficient capital at all times to allow us to fulfil our promises to our clients through changing circumstances, to deliver on our claims guarantee which allows clients to trust us that their financial needs will be met, to meet regulatory and rating agency expectations, and to pursue business opportunities as they arise. For this reason, our reasonable target return on equity (ROE)² is set at 12 per cent - across all product lines and in all provinces.

² Return on Equity (ROE) is the ratio of net income to the average of opening and closing stakeholders' equity excluding accumulated other comprehensive income. Target ROE for the Co-operators General Insurance Company (CGIC), a member of The Co-operators group of companies.

Due to the nature of the insurance market, we know that there will be individual years when we will not achieve our target return on equity. However, our target needs to be achieved over the long-term. This has been a difficult challenge for CGIC's Alberta Auto portfolio, where the 5-year average after-tax ROE is 3.2 per cent, up to and including 2017. The after-tax ROE in 2015 alone was -3.3 per cent. As noted, below-target and negative ROEs in particular, pose a significant risk to the ongoing viability of the insurance market and with it, the availability of the product and choice for consumers.

As the AIRB noted in its notice to industry in 2017 with respect to the implementation of Ministerial Order No.25/2017 "given the overall industry average rate indication and the continued deterioration of bodily injury claims costs insurers would under normal circumstances be filing for significant rate increases until such time as rates have either caught up with rate indications or claims costs have declined."³

Although we recognize the intent of the Ministerial Order in terms of preventing large swings in household budgets, its continued application may likely result in consequences more severe than rate increases in the short-term across the industry. As a result, we believe the solution in the short term is to remove the cap and allow insurers to make rate level decisions that support their sustainability while at the same time aggressively working towards product reforms that will result in meaningful reductions to claims costs which ultimately drive the price that Albertans pay for their insurance.

Reforms should aim not only to reduce claims costs, and thereby the cost of insurance, but also to improve the experience for consumers and ensure a strong, competitive and sustainable insurance market that will serve them well.

While using responsible product reform to manage overall premium increases, it is also important to engage in a continuous process that measures and responds to loss trends. As noted previously, the continued rise in bodily injury severity represents a major loss trend that needs to be addressed. Despite recent changes to the minor injury definition, the continued rise in severity can be attributed to case law that serves to push minor injuries outside of the cap. In particular, we believe that the *McLean v. Parmar* decision has and will continue to negatively impact bodily injury claims costs moving forward resulting in continued upward pressure on premiums.

³ Alberta Automobile Insurance Rate Board (Dec. 14, 2017). Notice 05-2017 to all PPV Automobile Insurers. <http://www.airb.alberta.ca/industry-information/communications/notices/2017-2018/2017-05.pdf>

5. GENDER X AND LEGALIZATION OF RECREATIONAL CANNABIS

The Co-operators recognizes that an “X” **gender designation** has been introduced for government-issued documents and we are supportive of this step to advance equality for all Canadians. Our plan is to introduce Gender X into our automobile rating structure. At this time, common to the industry, we do not have data available to support a standalone Gender X rate. We are currently reviewing our approach to accommodate Gender X rating and will propose appropriate changes through the AIRB’s filing process, as we would with any new rating variable, in due course.



With respect to the legalization of cannabis, the impacts on the auto insurance market need to be monitored. Early analysis from the U.S. indicates that we can expect to see a slight increase in the frequency of crashes.⁴ Insurers need to be allowed to properly rate for this increased risk, in a similar way as we are allowed to rate for other impairments (e.g., alcohol and medical). New drug-impaired driving offences for having specified levels of drugs in the bloodstream must be in place.

We are encouraged to see that one of priorities of **Alberta’s Plan for Action** with regards to cannabis legalization is the promotion of road safety. We believe that the AIRB, as part of its mandate to provide information to enable consumers to make informed choices about the purchase of auto insurance, is in a unique position to contribute to any public education programs – specifically with regards to the potential for impairment/liability, but also the impact to roadside safety.



⁴ Insurance Institute for Highway Safety, Highway Loss Data Institute (June 2017). Legalizing recreational marijuana is linked to increased crashes. <http://www.iihs.org/iihs/news/desktopnews/legalizing-recreational-marijuana-is-linked-to-increased-crashes>

CONCLUDING REMARKS



We appreciate being able to participate in the AIRB's Annual Review process. In line with our guiding principles with regards to the delivery of auto insurance, The Co-operators would welcome the opportunity to work collaboratively with the AIRB and the Government of Alberta towards solutions that ensure Alberta consumers have an automobile insurance product that provides security and is not only affordable but also readily available, and simple to understand.

As a co-operative financial services provider, we hope to bring a unique perspective to important public policy issues. As such, we are currently not members of the Insurance Bureau of Canada (IBC) as we prefer to participate in the public policy process directly on such matters. Should you have any questions or to advise of future consultations, please contact [Maya Milardovic, Director of Government Relations](#), at 1-888-767-3909 ext. 302244 or email at maya_milardovic@cooperators.ca.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Lisa Guglietti'.

Lisa Guglietti
Executive Vice President, Chief Operating Officer
P&C Manufacturing
The Co-operators Group Ltd.

