

THE CO-OPERATORS RESPONSE:

Annual Review of Automobile Insurance Loss Experience

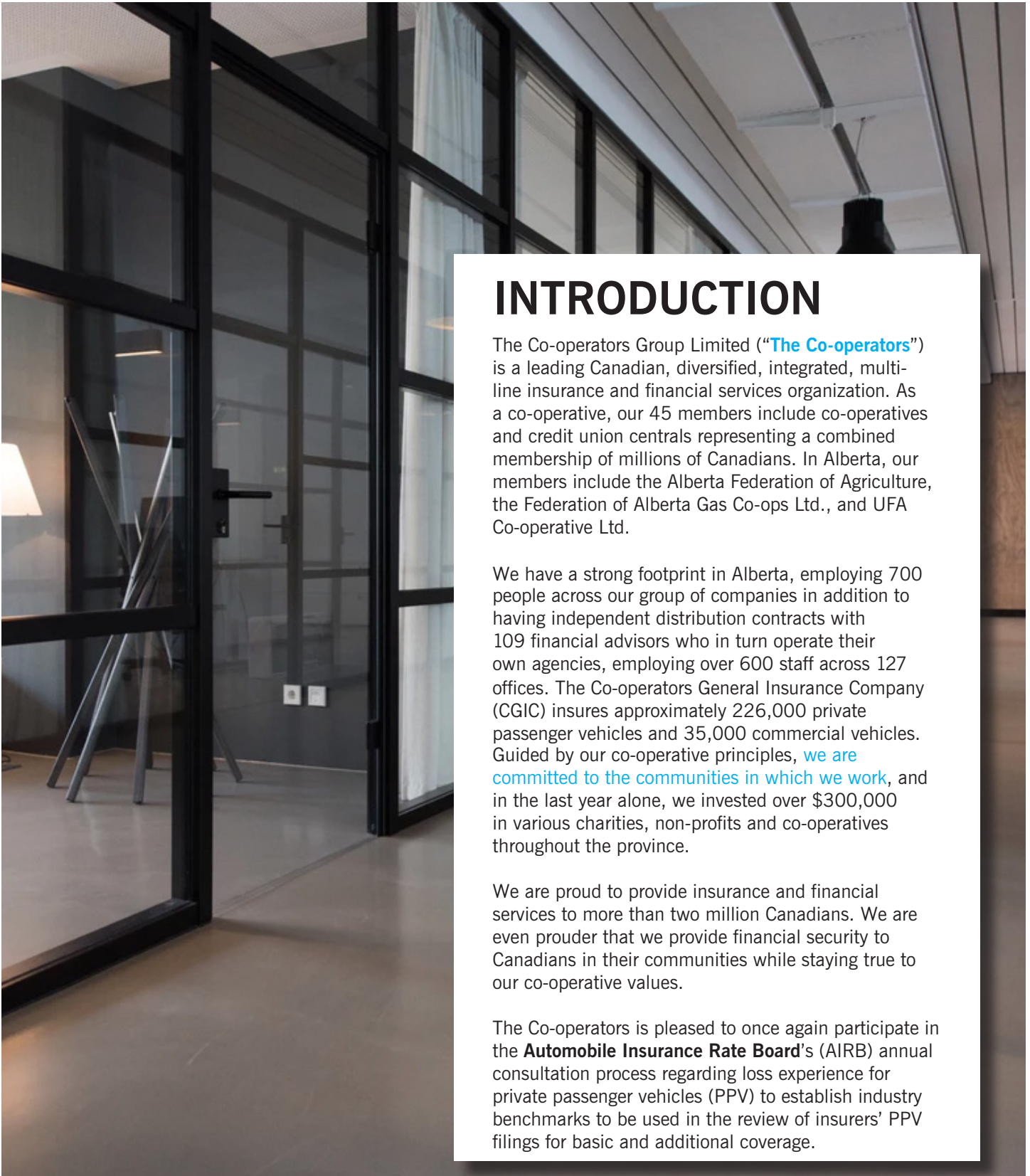


July 25, 2019

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, our members include 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, employing 700 people across our group of companies in addition to having independent distribution contracts with 109 financial advisors who in turn operate their own agencies, employing over 600 staff across 127 offices. The Co-operators General Insurance Company (CGIC) insures approximately 226,000 private passenger vehicles and 35,000 commercial vehicles. 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 \$300,000 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 consultation process regarding loss experience for private passenger vehicles (PPV) to establish industry benchmarks to be used in the review of insurers’ PPV filings for basic and additional coverage.

LOSS DEVELOPMENT

The AIRB's consulting actuary, Oliver Wyman reports continued prior years' adverse loss development (based on its estimates) for bodily injury coverage, and significant adverse loss development since 2015 for medical payments and disability income. Are Oliver Wyman's findings consistent with the experience of individual insurers? If no, what are the causes?

For bodily injury coverage, our internal experience demonstrates continued prior years' adverse loss development. The above statement is supported by our bodily injury prior year loss development factors, which have exhibited increases in recent years. In accident year 2016, losses developed 13 per cent higher when compared to the average of the prior five accident years. In accident year 2017, **losses developed 20 per cent higher** when compared to the average of the prior five accident years, including 2016.

On page 11 of Oliver Wyman's preliminary report they state, "Overall, for the four-year period 2014 to 2017, our estimates of ultimate loss costs have decreased by 4.3%." **This statement is not consistent with our findings** using internal data, as we continue to see an overall deterioration in our loss cost estimates. For the four-year period 2014 to 2017, our estimates of ultimate loss costs have increased between the Dec 31, 2017 and Dec 31, 2018 valuations, as we observed a pattern of higher than expected development during 2018.

As a third-party insurer, without information on a claimant's diagnosis or prognosis, it is an ongoing challenge to accurately reserve losses, particularly when a 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 resulting from previously undisclosed information or negative contingencies.

With respect to accident benefit claims, we initially experienced significant adverse loss development starting in 2016. However, since that time, it has been difficult to gauge whether there is deterioration given the volatility in results observed. There does not appear to be one single cause driving these results.

LOSS TRENDS

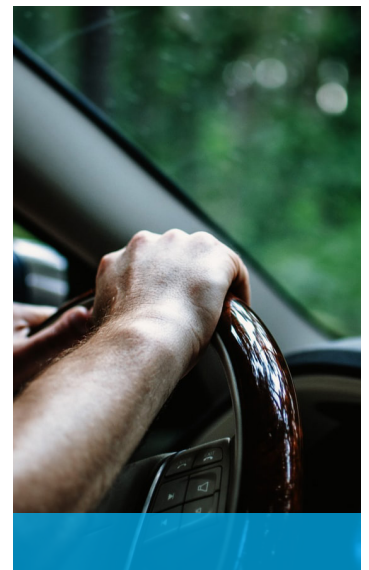
Bodily Injury Claim Severity

Similar to the industry results presented by Oliver Wyman, we continue to experience an increase in bodily injury severity, which 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 for longer periods of time, which has a significant impact on claims severity.

The **McLean v. Parmar decision** (February 2015) serves to push minor injuries outside of the cap. While changes to the minor injury definition have certainly been an important step, they have not resolved this ongoing issue, which continues to affect bodily injury claims severity.

Increased legal representation on all files is another factor impacting severity as well as loss costs. As evidenced from our submissions for the Alberta Claims and Costs study, it is routine for costly expert reports, commissioned by third-party solicitors, to total 20 per cent to 30 per cent of the total settlement value. This is a trend we expect to continue over the long term.



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 an increasing trend for medical expense starting in 2016, which has continued through to 2018.

Theft Claims

The Co-operators experienced a 15 per cent increase in the total number of theft claims in Alberta in 2017 compared to 2016. Comparing 2018 to 2017, the total number of theft claims decreased by eight per cent. However, the 2018 theft claims remain above both our 2015 and 2016 levels. **While the decline in 2018 is positive news, it is too early to predict that the frequency will continue to decline.**

We know that many of the thefts in the province are preventable. For example, many vehicles stolen have had the keys in them at the time of the theft. We are supportive of the work of the Auto Theft Resource Team in Calgary and continue to contribute to the RCMP bait vehicle program in order to combat vehicle theft. Together with public education efforts regarding preventative measures to avoid theft, we believe these programs are having an impact on the prevalence of theft claims. We hope that based on these successes, similar programs will be implemented province wide.

Presently the policyholder has no deductible on auto theft claims. As noted in our last two submissions, 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.

Comprehensive and Specified Perils Coverage

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.

We are currently participating in the government's claims and costs study and have provided detailed data on our loss trends.

It is our hope that the AIRB will use the findings of the claims and costs study to help inform the industry benchmarks.

MINOR INJURY REGULATION AMENDMENT

It has now been a year since the amendment to the minor injury regulation came into effect, clarifying that sprains, strains and whiplash injuries—along with the relating physical and psychological symptoms—are considered minor injuries. While the amendment provided clarity around minor temporomandibular joint (TMJ) injuries, [it has not yet had a significant impact on our bodily injury loss costs](#). Due to the time factors associated with the nature of these claims, it will be years before we can measure the true impact of the changes on loss costs.

We continue to believe that changes have not gone far enough to ensuring that true minor injuries remain within the cap. The impact of the *McLean v. Parmar* decision continues to impact the severity and loss costs of minor injuries. Only allowing a three- to six-month window for the resolution of soft tissue injuries can push many cases outside of the cap, which limits the impact of the minor injury regulation amendment. **Further consideration of how the minor injury regulation can adequately address claims trends is warranted.**



MINISTERIAL ORDER NO. 14/2018

We remain very concerned about the cumulative impact of ministerial order no. 25/2017, ministerial order no. 14/2018, and the new ministerial order no. 5/2019. Under current policies, we are unable to return to an adequate profit while meeting our clients' needs. In order to deliver on our claims guarantee, adapt to changing circumstances and pursue evolving business opportunities, our reasonable target return on equity (ROE)¹ is set at 12 per cent across all product lines, in all provinces. 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. 2018 marked another difficult year for CGIC's Alberta auto portfolio, with a [0.4 per cent ROE](#). This has been a significant issue over recent years, with our five-year average ROE only reaching [2.9 per cent](#). Being hindered by the ministerial orders and the AIRB's own 10 per cent rate cap over a 12-month period has limited our returns and impacted our underwriting results, which in 2018, was a [loss of over \\$15.1 million in Alberta alone](#). This is in line with our [five-year average underwriting loss in Alberta of \\$11.7 million](#).

As demonstrated through our significant underwriting loss, the continuation of the rate cap under ministerial order nos. 14/2018 and 5/2019 and the AIRB's own rate cap have limited insurers' ability to charge necessary rates that are adequate with risk. While we recognize the intent of these rate caps was to provide more stability in household budgets, they are negatively affecting the sustainability of the auto insurance product, which ultimately impacts the availability and choice of the auto insurance product available to Alberta drivers. Additionally, insurers are continuously seeking to improve rate segmentation to achieve rates that are commensurate with individual risk, which means that price stability at the client level cannot be achieved through rate suppression.

We continue to advocate directly to government that the ministerial order must be permitted to expire at the end of August without the introduction of a new rate cap. We also strongly recommend that the AIRB consider loosening its cap.

Ultimately, insurers' profits comprise the smallest portion of auto insurance rates, limiting the success of rate regulation over the long term. **Addressing claims costs through responsible product reform will have a more impactful and stable result on the price that Albertans pay for their auto insurance.**

¹ Return on equity (ROE) is the ratio of new income to the average of opening and closing stakeholders' equity excluding accumulated other comprehensive income. The target ROE is for the Co-operators General Insurance Company (CGIC), a member of The Co-operators group of companies.

LEGALIZATION OF CANNABIS

The impact of the legalization of cannabis on our loss frequency or severity is not something that can be accurately measured. The same conviction code is used for impaired driving charges, whether the impairment is a result of alcohol or cannabis. We are therefore not able to differentiate between different types of impairment charges and do not rate them differently.

We encourage continued action on public education programs to raise awareness about the impacts of impaired driving and the importance of safe driving.



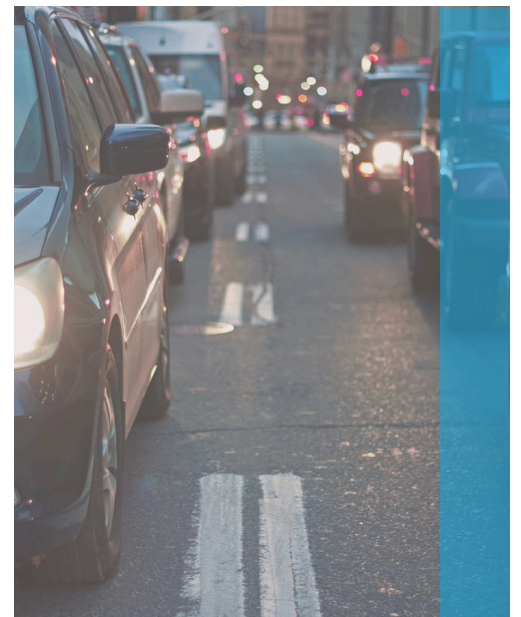
ROAD SAFETY

Improving the safety of our roads and working to reduce distracted driving will help to prevent accidents and claims, which in turn will help address rates. We commend the City of Edmonton for its Vision Zero strategy, which has resulted in serious injuries from motor vehicle collisions dropping 17 per cent over the last three years.¹ Implementing similar plans across the province could help to improve road safety for drivers, pedestrians and cyclists, reducing collision and claims rates.

Distracted driving is a growing trend impacting road safety and claims. In fact, distracted driving fatalities have surpassed impaired driving fatalities in a number of jurisdictions across Canada.² To address this trend, jurisdictions have begun implementing stronger penalties and fines for distracted driving convictions. As a founding member of the Canadian Coalition on Distracted Driving, we support strong distracted driving legislation to improve the safety of our roads, with a goal of reducing the frequency and severity of claims.

¹City of Edmonton. (2018). 2018 Annual Report: Vision Zero Edmonton. <https://www.edmonton.ca/transportation/PDF/2018VisionZeroEdmontonAnnualReport.pdf>.

²Traffic Injury Research Foundation. Preventing Distracted Driving. <http://diad.tirf.ca/wp-content/uploads/2019/06/Distracted-Driving-One-Stop-Resource-6.pdf>





CONCLUDING COMMENTS

We appreciate the opportunity to participate in the AIRB's annual review process. We look forward to continuing 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, is simple to understand, meets their needs and is affordable.

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 contact our **Director of Government Relations, Maya Milardovic**, at 1-888-767-3909 ext. 302244 or maya_milardovic@cooperators.ca.

Sincerely,

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The Co-operators Group Ltd.

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