

February 18, 2022

Delivered by email to AIRB@gov.ab.ca

Automobile Insurance Rate Board
2440 Canadian Western Bank Place
10303 Jasper Avenue,
Edmonton, Alberta, T5J 3N6

Dear Board Members,

Thank you for the opportunity to provide comments regarding the [2022 semi-annual review](#) of private passenger automobile insurance loss experience in Alberta.

Desjardins General Insurance Group (DGIG) is a subsidiary of Desjardins Group, the leading cooperative financial institution in Canada with over 7.5 million members & clients. DGIG is Canada's second largest property and casualty insurance provider, with over \$6 billion in premium volume and over 4.4 million policies in force. We are Alberta's fifth-largest private passenger auto insurer with over \$334 million in auto premium volume in the province in 2020. We are proud members of Alberta communities with approximately 277 employees in Alberta, and a network of 47 exclusive, local agents, who employ over 170 people in their offices across the province.

We have reviewed the report prepared by Oliver Wyman regarding automobile insurance experience in Alberta and the letter submitted by the Insurance Bureau of Canada (IBC) based on Deloitte's review of the Oliver Wyman report. We have contributed to and support the IBC's recommendations. We wish to build upon both reports and provide our reactions to some of their conclusions for your consideration.

Value of Cost Trend Benchmarking Exercises

We applaud the AIRB for the inclusive approach to its review of private passenger vehicle cost trends. It is valuable to conduct an industry cost trend benchmarking exercise to understand current market conditions for auto insurance. However, industry cost benchmarks are not valuable nor appropriate for evaluating individual insurer rate change applications. The differences in client profiles, pricing and claims business practices, and a variety of other factors can lead to unique and legitimate cost needs. Appointed actuaries who have years of close working experience with the underwriting company and with access to internal subject matter experts should be relied upon to evaluate an insurer's cost needs. To protect the interest of consumers, the AIRB's review of the insurer's estimates should be focused upon the reasonableness of the assumptions used, instead of trying to recreate the specific rate change need. We should acknowledge the power of consumers making choices in a competitive marketplace as the best and ultimate regulator of auto insurance rates.

Loss Development and Loss Trends

Deloitte and Oliver Wyman's methodology and process for trend selections based on industry data are reasonable in our view. We note that their coverage trend selections are different, but they are within a reasonable range and appear to be defensible opinions on the future cost trends of the industry.

Bodily Injury

We recognize the effort in restoring the original intent of the Alberta Minor Injury Regulation (MIR) by broadening the definition of “minor injury.” We endorse the change in the calculation of prejudgment interest paid on non-pecuniary damages. Nevertheless, the cost of bodily injury claims continues to be problematic. Recent reforms have not yet resulted in actual claim savings. We have recently made recommendations to adjust the tort process to the Alberta Advisory committee that include:

1. Allow for past and future pecuniary damages but restrict access for non-pecuniary damages to those with select serious injuries. Substantial cost savings are related to this adjustment. Allow consumers to purchase the option to receive compensation for non-pecuniary damages for non-serious injuries.
2. Consider the creation of a separate tribunal to deal with auto insurance matters.

Accident Benefits

The cost trend selections for the industry are reasonable. Still, our Accident Benefits loss cost trend is higher than the industry trends expected by Deloitte and Oliver Wyman.

This coverage continues to be a relatively small loss cost compared to Bodily Injury and the physical damage coverages. Still, the industry has experienced strong cost percentage increases for several years now, and recent amendments to Automobile Accident Insurance Benefits Regulations will only exacerbate the problem. We suggest that it is time for Government and industry stakeholders to analyze the underlying cost drivers to determine if there is any need for consumers to be protected from unnecessary costs. For example, it could be expected that claimants participate in reasonable medical rehabilitation treatments to continue to qualify for income replacement benefits.

Collision and Other Physical Damage Coverages

The cost trends selected are reasonable based on past industry experience. For these coverages, our loss cost trends are higher than the industry trends. We wish however, to alert the Board that we believe over the next few years that vehicle repair cost inflation is likely for Alberta.

Changes happening to the vehicle manufacturing process, consumer behaviour and global automobile supply chain are expected to apply pressure on claims cost:

- Vehicle Diagnostic Scans on newer cars, adding an additional \$100 to each repair, were involved in 4% of repairs in Sept 2017 increased to 54% in Sept 2021.
- Buying decisions - 61% of vehicles repaired in 2016 were sedans or smaller vehicles but only 46% in 2021 compared to SUVs and Pickups. The average value of vehicles is rising.
- Price of used vehicles has been skyrocketing due to global supply chain disruptions and is likely to continue rising significantly. Delays in auto parts are leading to longer repair periods necessitating higher auto rental fees.

Our data indicates that this cost inflation as a result of collision avoidance technology in newer vehicles is already being experienced in Ontario and Quebec. Alberta’s vehicle fleet is slightly older than those provinces, with a lower percentage of vehicles built in 2015 and later. Over time this will change.

Looking to the future, collision avoidance technology replacement and increased driver distraction sources strongly suggest that vehicle repair cost inflation is on the horizon for Alberta.

Other Benchmarks

Oliver Wyman's proposed catastrophe provision, health cost recovery assessment factor and operating expense ratio are reasonable in our opinion.

GRID Rating System

We are on record as calling for the Grid rating system to be reimagined to decrease the additional complexity and operational cost that it generates. We believe that premiums that reflect the risk that the driver presents are perceived as fair and are an incentive for responsible driving.

The GRID system's loss experience continues to be poor, resulting in significant rate subsidization by lower risk drivers. We note that in 2022 that GRID rates have been decreased by 10% assuming that the recent auto reforms would produce savings. Given that reform savings have not yet materialized, the 10% decrease will result in even more drivers entering the GRID. With Bodily Injury claims cost inflation of 5.0% as predicted by Oliver Wyman, we believe it is not justified to decrease GRID rates. It is important to responsible drivers in the province that we do not further inflate the level of price subsidization of higher risk drivers or fail to properly incent responsible driving behaviours.

Auto Insurance Territory Definitions for Mandatory Coverages

We are very appreciative of the Board's decision to remove the moratorium on new pricing territories. It is our firm belief that this decision will allow Alberta consumers to purchase insurance at a fairer price, while reaping the benefit of enhanced competition amongst insurers.

We thank you once again for the opportunity to provide our commentary. We look forward to working with the Board to ensure that Alberta consumers are served by an insurance product that meets their coverage needs at an affordable price.

Yours sincerely,



Neal Holland
Vice-President, Automobile Business Solutions
Desjardins General Insurance Group