

July 28, 2020

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 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 group in Canada owned by its 7 million members and clients. DGIG is Canada's second largest property and casualty insurance provider, with over \$5.2 billion in premium volume and over 4.3 million policies in force. We are Alberta's fourth-largest private passenger auto insurer with over \$334 million in auto premium volume in the province in 2019. We are proud members of Alberta communities with approximately 170 employees in Alberta, and a network of 43 exclusive, local agents, who employ over 215 people in their offices across the province.

We have reviewed the report prepared by Oliver Wyman regarding automobile insurance experience in Alberta. We wish to build upon the report and provide our reactions to some of the 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 for auto insurance system analysis and for system problem solving. Industry cost benchmarks are not valuable or 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. 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

Oliver Wyman's methodology and process for trend selections based on industry data are reasonable in our view.

Bodily Injury

Oliver Wyman's findings of the continued significant adverse loss development for Bodily Injury are concerning and consistent with our internal trends. The cost of bodily injury claims continues to be a key challenge in the Alberta market. 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. Harmonize 4% interest rate on non-pecuniary damages with pecuniary damages and post-judgment interest.
3. Consider the creation of a separate tribunal to deal with auto insurance matters.

Accident Benefit

The loss cost trend selections based on the industry data are reasonable. Our internal Accident Benefit loss cost trend is significantly higher than the industry trends expected by Oliver Wyman and is very concerning.

This coverage continues to be a relatively small loss cost compared to Bodily Injury and the physical damage coverages, but the cost percentage increases that industry has experienced for several years now, 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.

Collision and other physical damage coverages

The cost trends selected are reasonable based on past industry experience. 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 and consumer behaviour:

- 20% increase to average parts count since 2015 and parts cost are now equal to labour cost of total repair as collision avoidance technologies (i.e. cameras and sensors) and design materials change in newer vehicles
- Vehicle Diagnostic Scans on newer cars add an additional \$100 to each repair involved in 4% of repairs in Sept 2017 increased to 45% in Sept 2019. Use of vehicle scans has increased significantly over the years, in Ontario and Quebec.
- Buying decisions - 58% of vehicles repaired in 2015 were sedans but only 48% in 2019 compared to SUVs and Pickups. The average value of vehicles is rising.
- Increased need to repair the front of vehicles (primary point of impact) over the past 5 years suggesting increased driver distraction

Based on our internal data, there is some indication that this cost inflation, that continues to be experienced in Ontario and Quebec, is now starting to be experienced in Alberta 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 along with increased use of vehicle diagnostic scans in repair facilities strongly suggest that vehicle repair cost inflation is on the horizon for Alberta.

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 systems loss experience continues to be poor resulting in significant rate subsidization by lower risk drivers. Given claims cost inflation of 5% as predicted by Oliver Wyman, we believe it is important that GRID rates are increased in excess of that to reduce the subsidy and incent responsible driving behaviours. We would recommend at least 5% in excess of claims cost inflation.

Auto Insurance Territory Definitions for Mandatory Coverages – Non-level Playing Field

Geographic location is one of the primary predictors of future claim experience.

In 2008, a moratorium on approving new pricing territories was imposed. Certain insurers, who were permitted to have a greater number of territories prior to the moratorium being imposed, were allowed to continue to enjoy that pricing segmentation advantage.

That moratorium on new pricing territories is still in effect and Desjardins is restricted to just 4 provincial territories for mandatory coverage (TPL & AB). That means we must knowingly overcharge some clients and undercharge others relative to the risk that they present.

This puts Desjardins at a significant competitive disadvantage and prevents clients from receiving their fair price.

To re-establish a level competitive playing field, we recommend that the moratorium be lifted, and all insurers be allowed to create their own territorial boundaries to bring Alberta consumers the benefits of enhanced competition.

Usage-Based Insurance (UBI) Rules as Barriers to Consumer Choice & Innovation

Desjardins' Ajusto was the first and is still the leading UBI program introduced in Canada. We have approximately 100,000 clients in Ontario and Quebec who have chosen this option. It is not available in Alberta due to the province's UBI rules that do not promote innovation and choice for consumers.

We were pleased to see the Superintendent's announcement on October 4, 2019 that the UBI rules had been updated and that GPS tracking of speed would now be permitted. Unfortunately, at the same time, they added new process-focused rules requiring that clients be given an annual opportunity to ask for their driving behavior to be re-monitored and that each rated driver be given the opportunity to participate in the UBI program. Unfortunately, the current edition of Ajusto cannot accommodate those two new requirements.

We recommend that the Superintendent replaces UBI rules with guiding principles focused on transparency and fairness. As a starting point for its development we have offered suggestions for UBI guiding principles to government.

Auto Insurance Price Regulation – Streamline & Simplify

Pricing for auto insurance consumers needs to allow for fast and appropriate reaction to marketplace changes, encourage innovation, and better reflect consumer preferences.

The auto insurance rate approval process in Alberta requires the participation of two regulatory bodies – the Alberta Automobile Insurance Rate Board (AIRB) reviewing the reasonableness of the rate indications and the Superintendent of Insurance Office (SIO) determining what automobile insurance rating factors are allowed for use. This overlap in duties can cause delays and review complexity.

To streamline and simplify the process we recommend that the AIRB become responsible for all aspects of the auto insurance rate process. The involvement of only one regulatory body is a best practice seen in other provinces.

All prohibited rate factors (e.g. race, income, etc.) that are not in the public interest should be transparently identified, allowing insurers the agility to immediately move forward to compete and innovate using any other insurance rate factors.

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,



Haseeb Rehman

Vice-President, Automobile and Business Solutions
Desjardins General Insurance Group