



The Wawanesa Mutual Insurance  
Company's  
Submission to the Alberta Insurance Rate  
Board  
2018 Annual Review

July 24, 2018

# Contents

- The Wawanesa Mutual Insurance Company .....3
- Wawanesa’s Experience.....3
- State of the Alberta Private Passenger Insurance Market .....5
- Minor Injury Regulation .....5
- Gender X.....5
- Cannabis.....5
- Ministerial Order No.25/17 .....6
- Conclusion .....7

## The Wawanesa Mutual Insurance Company

The Wawanesa Mutual Insurance Company has a proud history of protecting Albertans, with our first mutual policyholder joining us back in 1899. We were protecting Albertans, before Alberta joined confederation in 1905 and have been underwriting insurance across Canada for 122 years. Today Wawanesa has nearly 300 independent insurance broker partners in Alberta, offering Albertans the right risk protection at the right price, for their most significant assets, their cars, their homes and their businesses. We have a mission:

*“Earning your trust since 1896”. As a policyholder-owned mutual insurance company, we will continue to earn trust by providing quality products and services at the lowest price which supports long-term growth and financial stability.”*

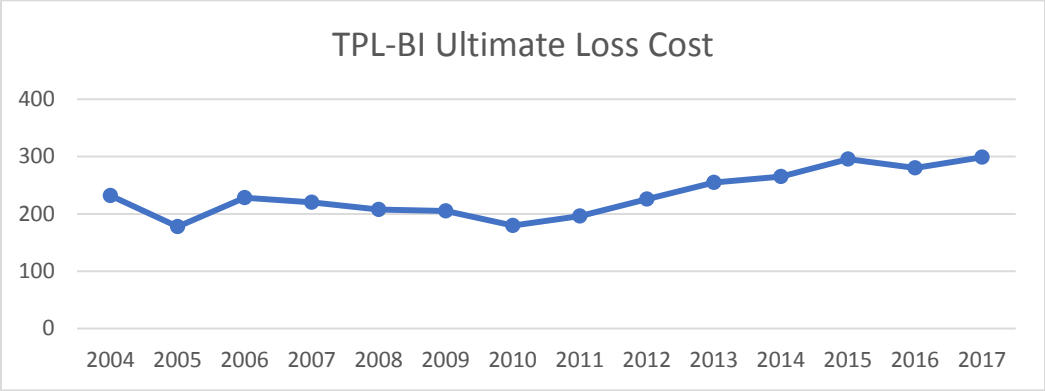
Mutual insurance companies have been very successful in creating strong relationships with the people in Western Canada as our values, our focus on their needs and not those of shareholders and our mission, align with theirs. Today we are the second largest property and casualty insurance company in Alberta underwriting nearly \$1 billion of annual premium of which \$575 million is automobile insurance. With two Regional offices as well as our local service offices, we employ over 600 people as well as opening opportunities to youth by providing summer employment to nearly 50 summer students. With close to 900,000 policyholders, Wawanesa’s market share in Alberta for 2017 was 10.3%, and in automobile was at 13.2%. We have served Albertans through good times and bad for 119 years and wish to work with you through the current challenges.

Wawanesa in its mission states “providing quality products and services at the lowest price which supports long-term growth and financial stability”. We do not have investors nor do we have shareholders. Our policyholders expect financial stability and quality products and services from Wawanesa. We have struggled with significant underwriting losses in Alberta, and we need to do our absolute best to get the right price for the risk we are underwriting, to support our policyholders as they are our owners, we serve them and we must earn their trust.

## Wawanesa’s Experience

As of May 2018, we have an underwriting loss on Alberta automobile of \$30 million. These results do not provide our mutual policyholder owners with the financial stability they expect from their long standing and trustworthy insurance company. Wawanesa is experiencing unsustainable loss performance on automobile products in Alberta with a current Combined Operating Ratio of 120% as claims costs continue to outstrip premiums.

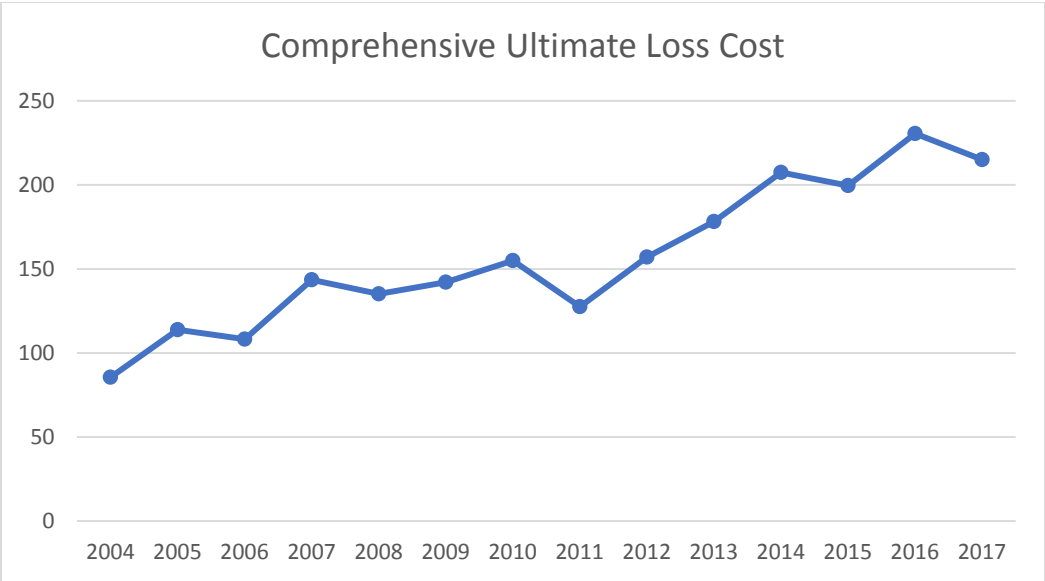
The loss costs have increased substantially on Bodily Injury since the Court of Queen’s Bench Sparrowhawk decision. The graph below shows the increasing trend in Bodily Injury loss costs starting in 2011 and increasing in 2012 after the Sparrowhawk decision.



Since 2012 we have observed a material increase in the occurrence of bodily injury claims presented with chronic pain, head injuries (concussions, headaches, etc.) and/or psychological conditions such as post-traumatic stress disorder. We have also seen an increase in claims involving temporomandibular joint dysfunction (“TMJ”) with chronic pain often as the overriding issue.

For Accident Benefits coverage we have seen a significant increase in development since 2015 which is consistent with the findings in the Oliver Wyman reports.

Another concerning coverage that should be considered by the AIRB is Comprehensive coverage. The trend in Comprehensive loss costs is very concerning as well as shown in the graph below.



The latest issue with Comprehensive coverage in Alberta is the increase in theft claims in the province, on top of the weather and wildlife claims that have historically been the biggest contributors.

## State of the Alberta Private Passenger Insurance Market

MSA data shows that the Private Passenger automobile book is producing an average earned loss ratio of over 84% and a combined ratio of 114% for the industry. It also shows that the results in Q1 of 2018 are worse than the results in Q1 of 2017. The loss ratio results have not been good for some time for the industry, with a 5-year earned loss ratio average of 81% for years 2012 through 2017. The loss ratio and claim results are continuing to deteriorate, and we see no indication that the minor change effective June 1, 2018 will make a significant impact in the direction of the Alberta automobile business.

In the past insurers may have relied on investment income and the returns on investments did help the Net Income results for the industry in prior years. Today the returns on investment in the fixed income assets that support our liabilities, as required by the solvency regulator, OSFI are much lower. These returns of around 3 % cannot offset the significant double-digit percentage underwriting losses in Alberta.

## Minor Injury Regulation

On May 17th of 2018, the Minor Injury Regulation was introduced with the goal of clarifying the definition of a minor injury that should be subject to the minor injury cap. This applies to temporomandibular joint (TMJ) injuries, and physical and psychological conditions associated with sprains and strains, but only to those injuries within the cap. These changes come into effect for injuries sustained after June 1, 2018. The impact of these changes is very uncertain because the wording of the minor injury definition is different than in other jurisdictions and will be tested by plaintiffs in the courts. This is combined with the fact that there was not corresponding Diagnostic and Treatment Protocols Regulation amendments along with the amendments to the Minor Injury Regulation. How the judicial system interprets the Minor Injury Regulation amendment will determine if it has a reduced impact on the escalating Bodily Injury average loss cost claim trend that is now indicating to Wawanesa the need to increase our Bodily Injury rates by 50%. The required changes to improve Bodily Injury results will require significant product reform, similar to what we are seeing in other provinces and countries. It is unlikely that the June 1, 2018 amendment will improve results or decrease rate indications in a material way.

## Gender X

Gender X will not impact overall claims costs but will impact the ability of insurers to charge the right rate for each risk based on the propensity of the risk group. Clarity around this would be beneficial. In Ontario the Financial Services Commission of Ontario has outlined a process for insurers allowing them to use a simplified filing process and to voluntarily offer the lower of the male and female rate.

## Cannabis

The legalization of cannabis in Canada on October 17th of this year is a great concern for the automobile insurance industry. Although it is assumed that the existing legislation excluding entitlement to benefits for those convicted of a criminal offence involving the operation of a vehicle there are issues around the detection of cannabis consumption. There is also the concern that the same public awareness and understanding around the dangers of driving while

impaired by alcohol is not established for cannabis impairment. Cannabis legalization will have a negative impact on claims experience and add further uncertainty to industry results.

## Ministerial Order No.25/17

In August 2017 the Board made the decision to cap the cumulative all coverage total rate increase by company over any 12-month period at 10% for the foreseeable future.

Further, in December 2017 the Minister issued Ministerial Order No. 25/2017 requiring the AIRB to limit cumulative rate increases on private passenger vehicles 5% on filings submitted between January 1, 2018 and November 30, 2018. This order is for the period November 1, 2017 up to and including November 30, 2018 (these dates refer to Board approval dates not rate implementation dates). This is the most concerning issue for the auto market in Alberta at this time.

An extension of this order will significantly impact the ability of insurers to write automobile insurance in the province of Alberta. The AIRB should operate as an independent body, as stated in its mission, ensuring that rates are “reasonable and not excessive, inadequate or unfairly discriminatory” as stated in Principle 4 of the Casualty Actuarial Society’s Statements of Principles Regarding Property and Casualty Insurance Ratemaking.

It is important to note that Alberta is a very important province to our operations and we continue to invest in your province. In 2017 we invested in a significant Alberta business, Western Financial Group, paying \$775 million and maintaining its head office in High River Alberta, while investing in its growth in Alberta and beyond. Western employs over 1800 people and is the largest insurance broker in Alberta. We also implemented new technology to allow hundreds of local independent brokers in Alberta to meet the challenges of the new distribution entrants into the Alberta insurance space and maintain their presence in local communities. Lastly, in 2017 we invested significant time and \$250 million in resources to help our policyholders rebuild in their community of Fort McMurray.

## Conclusion

We ask that the AIRB:

- Consider your Mission, “as an independent body, the AIRB will regulate rating programs for Alberta Auto insurers to ensure premiums are fair and predictable. The Board will also ensure consumers have access to information to facilitate informed choices.” Drivers in Alberta will not feel they are being treated fairly when insurer’s premiums are not fair, and insurers have to implement other options to offset the impact of rate inadequacy.
- Allow for exceptions to companies that did not increase rates in 2017, other than the mandatory increases to Grid rates.
- Reverse the decision by the Board made in August 2017 to cap the cumulative all coverage total rate increase over any 12-month period at 10% for the foreseeable future.
- Work with the government to reverse the Ministerial Order 25/2017 which became effective in December 2017 limiting the cumulative all coverage total Private Passenger rate increase to 5% on filings submitted between January 10, 2018 and November 30, 2018.
- Recommend that the government work with the industry to look for sustainable options in product reform for private passenger automobile insurance in the province to ensure affordability for consumers in the years to come.
- Partner with the government to deliver on your Vision of an “efficient & effective automobile insurance market with fair and predictable rates” by operating as an independent entity, that allows the industry to respond with rates that are commensurate with the cost of the product.