



The Wawanesa Mutual Insurance
Company's
Submission to the Alberta Insurance Rate
Board
2019 Annual Review

July 24, 2019

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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 123 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. Wawanesa's mission is:

"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 are very successful in creating strong relationships with the people in Western Canada. Today, we are the second largest property and casualty insurance company in Alberta underwriting over \$1 billion of annual premium of which approximately \$600 million is automobile insurance. We have over 600 employees located in Alberta, with regional offices in Calgary and Edmonton and service offices in Lloydminster, Grande Prairie, Lethbridge and Red Deer. With close to 600,000 policyholders, Wawanesa's market share in Alberta for 2018 was 10%, and in automobile was at 13.2%. We have served Albertans through good times and bad for 120 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 external shareholders pressuring us to earn excessive profits. We have policyholders that hold us accountable to our values of long-term growth and profitability. 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.

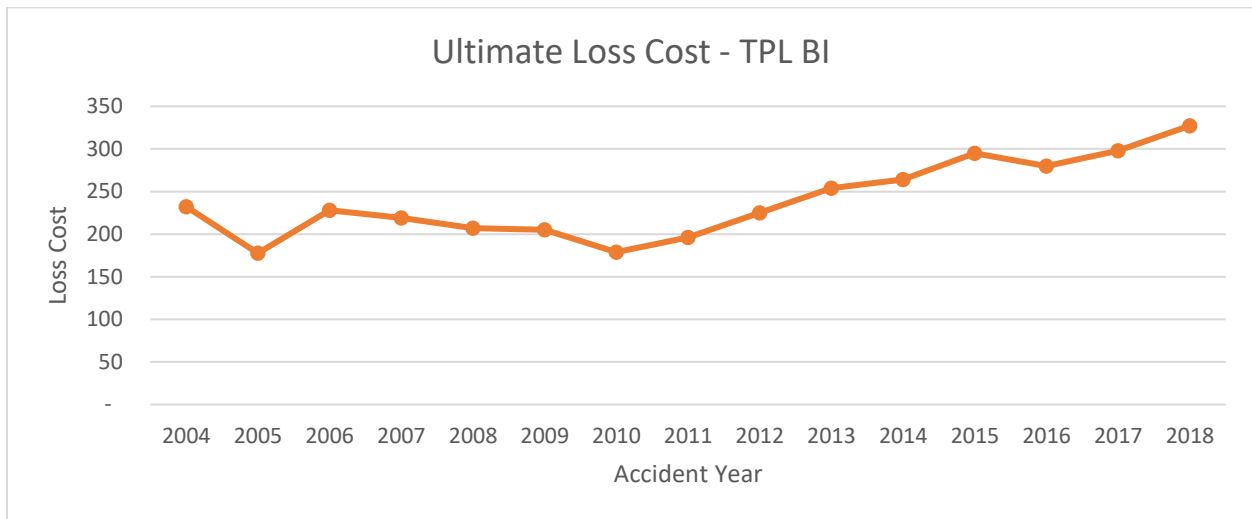
It is important to note that Alberta is a very important province to our operations and we continue to invest in our province. In 2017, we invested in a significant Alberta business, Western Financial Group, paying \$775 million and maintaining its head office in High River Alberta, while investing in its growth in Alberta and beyond. Western Financial Group employs over 1600 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. In 2017 we invested significant time and \$250 million in resources to help our policyholders rebuild in their community of Fort McMurray. Lastly, we moved into new office space in Lethbridge, and are in the midst of planning out a multi-million dollar investment in new office space for our Edmonton location.

Wawanesa's Experience

As of May 2019, we have an underwriting loss on Alberta automobile of \$6.6 million. We had an underwriting loss of over \$82 million in 2018. 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 103% as claims costs continue to outstrip premiums.

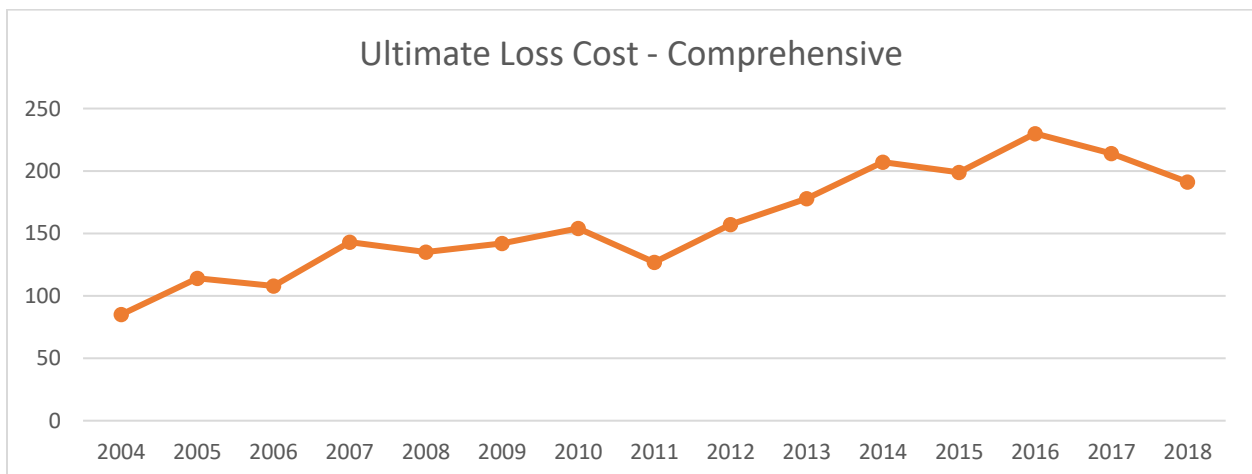
The loss costs have increased substantially on Bodily Injury since the Court of Queen’s Bench Sparrowhawk decision. The graph below shows the increasing trend in Bodily Injury loss costs starting in 2011 and increasing in 2012 after the Sparrowhawk decision.



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 85% and a combined ratio well over 100% for the industry. The loss ratio results have not been good for some time for the industry, with a 5-year earned loss ratio average of 86% for years 2014 through 2018. The 2019, Q1 Private Passenger automobile loss ratio is over 90% for the group of insurers representing over 80% of market share in the province. 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.

Cannabis

The legalization of cannabis in Canada on October 17th of 2018 remains a great concern for the automobile insurance industry. We are concerned whether the enforcement of impaired driving while under the influence of cannabis will be as effective as impaired driving due to alcohol. 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.

Conclusion

We ask that the AIRB:

- Consider your Mission, “The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure Albertans have access to a robust automobile insurance marketplace.” 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 larger percentage rate changes for companies that have demonstrated through their AIRB filing that they are required for sustainability and to provide a path to rate adequacy, as well as, to and bring their rates more in line with industry.
- 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.

- 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 “automobile insurance is accessible, equitable and sustainable for all Albertans” by operating as an independent entity, that allows the industry to respond with rates that are commensurate with the cost of the product.

Respectfully submitted by,

Keith Hartry,
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