

Monday, August 11, 2014

Automobile Insurance Rate Board
2440 Canadian Western Bank Place
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Edmonton, AB T5J 3N6
airb@gov.ab.ca

Subject: Annual Review of Automobile Insurance Premiums for Basic Coverage

The Co-operators is pleased to participate in the Alberta Automobile Insurance Rate Board's annual consultation process regarding premium levels for basic coverage for private passenger vehicles. We remain committed to working with the government of Alberta to achieve common objectives that will benefit consumers. This letter will focus on *loss trends* and *causes for increasing severity of physical damage claims*.

About The Co-operators

The Co-operators philosophy regarding the delivery of the automobile insurance product to the consumers of Alberta is based on the following fundamental guiding principles:

- **Security:** At its most basic level, insurance provides peace of mind. Consumers should have adequate coverage that ensures an appropriate measure of financial protection.
- **Affordability:** Insurance must be affordable for a compulsory insurance system to work.
- **Availability:** Insurance consumers have the right to expect reasonable access to a variety of providers who can meet their coverage needs.
- **Simplicity:** Insurance consumers have a right to understand the product they are purchasing and the benefits to which they are entitled.

The Co-operators is a group of Canadian companies focusing on insurance. As a co-operative, our 42 member owners include co-operatives and credit union centrals representing a combined membership of millions of Canadians. Our Alberta members include Alberta Federation of Agriculture, Alberta Federation of Rural Electrification Associations, Agrifoods International

Cooperative Limited, Credit Union Central Alberta Limited, Federation of Alberta Gas Co-ops Ltd., and UFA Co-operative Limited.

At The Co-operators we are not full members of the Insurance Bureau of Canada as we prefer to contribute to the policy development process directly. We are a co-operative as well as an insurance company and believe that we bring a uniquely Canadian and co-operative perspective to public policy consultations.

In Alberta, 115 agents independently own offices in communities across the province. They provide service to 184,552 households and 341,990 private passenger vehicles are insured by The Co-operators Group in Alberta.

Loss Trends

Using internal claims data as of December 31, 2013, we note the following behaviours of Bodily Injury (BI) and Accident Benefit (AB) claims costs.

When looked at over the past 10 years, BI loss costs have remained fairly stable allowing for year-to-year variability. Recent BI frequency has remained stable and is low relative to the 10 year average. The average severity for BI is increasing but not outpacing inflation. We will continue to watch average severity for future volatility.

The past three years of AB loss costs remain very stable and present a small positive trend. AB frequency has decreased every year except 2011 (which appears anomalous) and this nearly, but not entirely, offsets the increases in AB average severity.

Causes for Increasing Severity of Physical Damage Claims

Continued demands from our collision repair vendors for labour rate increases have pushed the average body shop labour rate in Alberta to be 30 per cent higher than in Ontario. The cost of body shop labour is a significant factor in our auto physical damage costs. The demand for auto body repair services continues to exceed the existing supply of auto body repair vendors, and in some Alberta municipalities, our clients experience delays of several weeks before receiving an appointment to have their vehicles repaired.

We continue to see double digit increases in towing and storage costs in Alberta. Given the current oil prices, we also see continued increases in transportation costs as replacement collision parts come from greater distances.

In 2015, the province of Prince Edward Island will become the fifth Canadian province to implement the Direct Compensation - Property Damage (DC-PD) system as the method of resolving auto physical damage claims. Our clients favour the simplicity and the speed of claim settlement found using DC-PD, and we recommend implementation in Alberta.

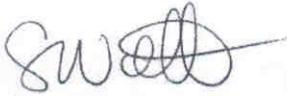
Conclusion

The marketplace in Alberta for mandatory automobile insurance is very competitive and insurance availability is a non-issue. The uncertainty in the economy commands some prudence and caution.

As always, we are eager to work collaboratively with the AIRB and the Alberta government to ensure that long-term solutions are put in place to ensure that Alberta consumers continue to have an automobile insurance product that provides security, is accessible, and is affordable.

We are not full-members of the Insurance Bureau of Canada so we ask that you contact our Director of Government Relations and Public Affairs, Frank Bomben, at 519-767-3055 or frank_bomben@cooperators.ca should you have any questions or to advise of any future consultations or reviews.

Sincerely,



Sylvain Nolet
Vice-President, Actuarial Operations
The Co-operators