

Monday, July 20, 2015

Automobile Insurance Rate Board
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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 (1) **Loss Trends**, (2) **Causes for Increasing Severity of Physical Damage Claims**, and (3) **Treatment of ULAE in Trend Analysis**.

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.

Our 42 member owners include co-operatives and credit union centrals representing a combined membership of millions of Canadians. As one of Canada's most prominent financial services organizations we are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values.

In Alberta we employ approximately 526 staff, 103 Advisors and insure 352,929 private passenger vehicles, 117,323 homes, 18,669 farms, and 22,802 businesses.

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.

Loss Trends

Using internal claims data as of December 31, 2014, we note the following trends of Bodily Injury (BI) and Accident Benefit (AB) claims costs.

BI loss costs have risen consistently, with 2014 contributing to this trend. BI Frequency has remained stable. The BI loss costs are therefore being driven by an increasing BI severity average which is above the long term average for the past three years. As we noted the same trend in our 2012, 2013 and 2014 AIRB submissions, we are now alerted to a possible trend emerging from the claims results which warrants attention.

We are experiencing an increase in our average paid both within the Cap amount and outside of the Cap amount for Bodily Injury claims. The recent decision of [McLean v. Parmar](#) where the judge was of the opinion that a WAD (whiplash-associated disorder) injury lasting 3-6 months is chronic has resulted in plaintiff counsel not accepting what was formerly considered to be Cap claim and has also encouraged counsel to take on as clients injured claimants who have relatively small claims. This trend is ongoing and there would unlikely be a reversal of this behavior until other trial level or appellate decisions contradict the findings in this case.

Causes for Increasing Severity of Physical Damage Claims

The Co-operators continues to experience severity increases in auto physical damage, driven by several factors: continued demands for increases in collision repair labour rates, an unregulated towing & storage industry, and Alberta's affinity to the more expensive pickup trucks.

This past year, our loss experience was well above prior years, in terms of average loss paid, driven by severity increases in Loss Paid in the overall 20% range.

Demand for auto body repair services continues to exceed the existing supply of auto body repair vendors. Our clients regularly experience delays of several weeks before receiving an appointment to have their vehicles repaired. Moreover, the cost of body shop labour - approximately 50% of the repair cost - is on average 30% higher in Alberta compared to other provinces, with continued demands for labour rate increases.

In 2015, our calendar YTD auto theft and fire losses have already exceeded our full year losses in either 2012 or 2013. Both theft and fire are growing in terms of frequency and severity. In fact auto theft losses have almost tripled since 2012.

We encourage the AIRB, in their role representing the drivers of Alberta, to introduce Direct Compensation - Property Damage (DC-PD) system as the method of resolving auto physical damage claims. DC-PD brings simplicity, speed and drives client service. The current Tort based model is cumbersome, and adversarial.

Treatment of ULAE in Trend Analysis

As noted in the Oliver Wyman study using Year-End 2014 data, the impact on the trends from including/excluding ULAE does not appear to be material. Additionally, certain companies may choose to treat ULAE as a general expense. Excluding ULAE in the industry trend would make company and individual company trends more easily comparable for these companies.

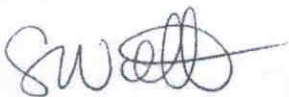
Concluding Remarks

The marketplace in Alberta for mandatory automobile insurance is very competitive and insurance availability is a non-issue. The most recent developments in the economy create more uncertainty and therefore command 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.

As noted, we are not full-members of the Insurance Bureau of Canada so we ask that you contact our Director of Government Relations 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, P&C Pricing and Segmentation
The Co-operators