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# Alberta Annual Review of Automobile Insurance Loss Experience



PRIORY SQUARE, GUELPH, ON N1H 6P8  
T: (519) 824-4400 F: (519) 824-0599  
[www.cooperators.ca](http://www.cooperators.ca)

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Automobile Insurance Rate Board  
2440 Canadian Western Bank Place  
10303 Jasper Avenue  
Edmonton, AB T5J 3N6  
[airb@gov.ab.ca](mailto:airb@gov.ab.ca)

### Subject: Annual Review of Automobile Insurance Loss Experience

The Co-operators is pleased to once again participate in the Alberta Automobile Insurance Rate Board's annual consultation process regarding loss experience 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 address the following:

1. Loss Development;
2. Loss Trends; and
3. The Government of Alberta's latest investment yield forecast and the resulting, higher, recommended investment rate benchmark.

### About The Co-operators

The Co-operators' philosophy regarding the delivery of automobile insurance products 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 products they are purchasing and the benefits to which they are entitled.

As one of the country's most prominent financial services organizations, we are proud to provide insurance and financial million customers nationwide. Our 44 members include co-operatives and credit union centrals representing a combined membership of millions of

Canadians. Guided by our co-operative principles, we are committed to the communities in which we work. This is why, The Co-operators contributed over \$553,000 to Alberta charities and community organizations in 2016 alone.

We play an active role in working with all levels of governments to offer our uniquely Canadian and co-operative perspective on important public policy matters. It is important to note that we are not members of the Insurance Bureau of Canada as we prefer to participate in public policy consultations directly.

#### IN ALBERTA, WE INSURE:



### Loss Development

**Oliver Wyman reports continued prior years' adverse loss development (based on its estimates) for Bodily Injury, and significant adverse loss development for the 2016-1 semester for Medical Payments and Disability Income. Are Oliver Wyman's findings consistent with what individual companies are experiencing? If yes, what are the causes?**

The Co-operators experienced adverse loss development on prior year Bodily Injury claims in accident year 2015. This continued in accident year 2016, however to a lesser extent when compared to the previous accident year. Our reserving practices with respect to Bodily Injury claims remains unchanged. Any increases resulting in adverse loss development were the result of a larger number of older claims experiencing negative contingencies.

With respect to Accident Benefits, Oliver Wyman's findings with respect to industry experience for Medical Payments and Disability Income are not consistent with our internal data.

## Loss Trends

- 1. Cause(s) for the decline in Bodily Injury, Property Damage, and Collision claim frequencies in 2015 and 2016, and the thoughts offered by Oliver Wyman on considering weather and economic conditions in the analysis of trends.**

We agree that the downturn in the economy and the unusually favourable weather conditions were likely a factor in the change in driving patterns and a factor in the decrease in frequency.

- 2. Cause(s) for the continued increase in Bodily Injury claim severity (More claims being settled outside the Minor Injury Cap? Increase in legal representation? Other reasons?) and whether it is reasonable to assume that the rate of increase will continue.**

Court cases impacting those injuries that were previously accepted as CAP drive up settlement amounts and result in files remaining open longer, which has a significant impact on claims severity.

As Oliver Wyman's report suggests, there was a sharp rise in severity in the second half of 2011 and the first half of 2012 which can be attributed to the [Sparrowhawk](#) decision that TMJ injuries are outside of CAP. Similarly, it is our opinion that the [McLean v. Parmar](#) decision in February 2015, ruling that all soft tissue claims lasting longer than three months fall outside of the CAP, had a similar impact on severity later in 2015 and 2016.

We believe that the ongoing erosion of the CAP encourages plaintiff counsel to take on as clients injured claimants who have relatively small claims and push to resolve for amounts in excess of the CAP. Based on internal data, we experienced a 20% increase in the settlement amount of minor claims resolved with Third Party solicitors from 2014 to 2016.

- 3. Cause (s) for the sharp increase in Medical Expense severity in 2015, and whether this represents (and should be treated as) a change in severity level.**

Based on our claims data, The Co-operators has not experienced a "sharp increase" as medical payments increased only 2% from 2014 to 2015 (from \$4.3M to \$4.39M).

**4. Causes(s) for the sharp increase in Disability Income severity in 2015, and whether this represents (and should be treated as) a change in severity level or a data point outlier.**

Like with Medical Expenses, The Co-operators has experienced a very modest increase in Disability Income payments, up 1% from 2014 to 2015 (from \$2.68M to \$2.72M).

**5. Causes for the decline in Collision severity in 2016 (Is this simply a reflection of the variability of the data?)**

The Co-operators did not experience a decline in Collision severity in 2016. Instead, severity remained relatively flat.

Although contributing to a decrease in collision frequency, the introduction of advanced collision avoidance technology on late model year vehicles leads a slight upward trend in collision costs, as this new technology is unfortunately located in the areas of the vehicle that are most frequently damaged by collisions.

Another factor contributing to collision costs is the cost of towing, which can exceed the payout for the damage to the vehicle. We have seen that a lack of regulation or market controls of the towing and storage industry is leading to more confrontation over the reasonableness of towing charges.

**6. Cause(s) for the rise in theft claims, and whether the high frequency trend has continued in 2017.**

The Co-operators has experienced a 21% growth in auto theft claims in 2017, over our 2016 losses. Our 2017 Alberta theft losses will be double the losses we experienced in 2014.

The Co-operators has been a long-time supporter of the RCMP bait vehicle program to capture prolific auto thieves.

In terms of causes for the rise in auto theft, there are several possible factors: a downturn in economic conditions makes auto theft a possible solution to debt; anti-theft devices offered by automobile manufacturers are not preventing vehicle thefts; and our police and court system are challenged to combat auto theft against other criminal initiatives. Dedicated Crown Attorneys to prosecute auto theft as a much more serious offence could be a possible solution.

Presently the policyholder has no deductible on auto theft claims. Consideration should be given to having the Comprehensive deductible apply to claims for theft of the entire vehicle, to give the policyholder more financial incentive to prevent their vehicle from being stolen.

## The Government of Alberta's latest investment yield forecast and the resulting, higher, recommended investment rate benchmark

Seeking clarification on this item, The Co-operators has learned through a recent conversation with the Alberta Insurance Rate Board that, the Government of Alberta's latest investment yield forecast and the higher recommended investment rate benchmark are not available to the public. With this in mind, we are commenting on the Board's currently approved risk-free rate of 0.90%.

The Co-operators would accept an increase to the risk-free rate provided it aligns with the market price for risk-free investments.

### Concluding Remarks

Thank you for providing the opportunity to participate in the AIRB's Annual Review. We remain eager to work collaboratively with the AIRB and the Government of Alberta towards long-term solutions that ensure Alberta consumers continue to have an automobile insurance product that provides security, accessibility, and affordability.

Should you have any questions or to advise of future consultations, please contact Maya Milardovic, Director of Government Relations at 1-888-767-3909 ext. 302244 or email [maya\\_milardovic@cooperators.ca](mailto:maya_milardovic@cooperators.ca)

Best regards,



Ryaz Mohamed  
Director Auto Pricing – Actuarial Services  
The Co-operators Group Ltd.