

July 24, 2018

Delivered by email to AIRB@gov.ab.ca

Automobile Insurance Rate Board
2440 Canadian Western Bank Place
10303 Jasper Avenue,
Edmonton, Alberta, T5J 3N6

Dear Board Members,

Thank you for the opportunity to provide comments regarding the annual review of private passenger automobile insurance loss experience in Alberta.

Desjardins General Insurance Group (DGIG) is a subsidiary of Desjardins Group, the leading cooperative group in Canada owned by its 7 million members and clients. DGIG is Canada's third-largest property and casualty insurance provider, with almost \$4.2 billion in premium volume and over 4.3 million policies in force. We are Alberta's fourth-largest property and casualty insurer overall with over \$272 million in auto premium volume in the province in 2017. We have approximately 170 employees in Alberta, and a network of 43 exclusive, local agents, who employ over 215 people in their offices.

We have reviewed the report prepared by Oliver Wyman regarding automobile insurance experience in Alberta and the letter submitted by the Insurance Bureau of Canada (IBC) based on Dr. Miller's review of the Oliver Wyman report.

We wish to provide the following comments:

Loss Development and Loss Trends

Dr. Miller and Oliver Wyman's findings on the significant adverse loss development for Bodily Injury, Medical Payment and Disability Income coverages are consistent with our internal findings. The cost of bodily injury claims continues to be a key concern in the Alberta market. It is an important issue for Albertans given the impact on the cost of the product.

Our Accident Benefit loss cost trend is not in line with Dr. Miller's and Oliver Wyman's loss cost trends. We are seeing a higher loss trend than the trends that were selected.

We find that the remaining coverage loss cost trends are in line with Oliver Wyman's analysis.

Minor Injury Regulation (MIR) Amendment

We are relieved that government has taken steps towards addressing the minor injury definition's significant role in BI cost trends.

The amendment wording, “A physical or psychological condition or symptom that arises from a sprain, strain or WAD injury and resolves with the sprain, strain or WAD injury is deemed not to be an injury separate from the sprain, strain or WAD injury” will likely invite legal challenges to determine its boundaries.

We are adjusting our claim management practices to reflect these government clarifications that are intended to return the MIR to its original public policy intent.

We will be monitoring trends to assess expected future claim costs. It is too early yet to predict the impact of the MIR amendment.

Gender X and Legalization of Cannabis

Absent further research, it is unclear what the effect of gender X should be for rating by gender. However, given the small anticipated volume of insureds who might identify as gender X, it is believed that this will not have a material impact on premium revenue in the foreseeable future.

The impact of legalizing cannabis on PPA claim costs remains unclear. Desjardins will continue to monitor incoming claims over the coming years as legal cannabis is introduced to the public.

In the interests of road safety and insurance affordability, we encourage government to:

- Define impairment by THC along with a corresponding consequence. Since there are many factors that can affect one’s impairment by THC, we ask that this become a top priority to establish reliable per se limits along with a concrete testing solution that can be replicated consistently.
- While operating a motor vehicle, the presence of cannabis should be restricted and the consumption of cannabis should be illegal.

Operating Expenses

The expense ratio based on total earned premium is more appropriate than an expense ratio based on direct written premium however this adjustment should be applied consistently across all operating expenses components rather as per Dr. Miller.

Catastrophe Provision

Oliver Wyman’s proposed catastrophe provision of 65% is reasonable at this time.

Health Cost Recovery

Given GISA’s recent average TPL written premium levels, a health levy loading factor of 7% is appropriate.

Investment Income on Cash Flow

Oliver Wyman's selected average investment rate of 2.50% is a reasonable estimate at this time. This is based on forecasts that the yield will increase in 2019 however, and so may need to be adjusted in future.

Impact of the Ministerial order capping increases to 5%

We are concerned about the negative unintended consequences to Alberta drivers. The government has introduced an arbitrary premium cap level which, in relation to expected claim costs, may be insufficient to maintain an insurer's solvency.

We fear that for our industry, this erodes confidence in a business environment that will be predictable and fair. In this context, it would be reasonable to assume that insurers will be hesitant to grow in the province and for some, this may trigger them to scale back or exit entirely. At the very least, the cap will build up premium need which will ultimately result in more severe premium increases down the road for drivers. Therefore, the cap negatively effects the AIRB's ambition to deliver "fair and predictable rates."

Alberta drivers would be better served if the government focuses on lowering the costs of the auto insurance system while at the same time allowing insurers to charge fair premiums that reflect the costs to deliver that service.

Mandatory Coverage Rating Territories

Since the new mandatory coverage territory moratorium in 2008, a level playing field does not exist as some insurers are allowed the use of additional "grandfathered" territories and therefore enjoy a price segmentation advantage. Consumers are not enjoying the benefits of a fully competitive market.

We recommend that, given the population growth of the province, the number of territories be expanded and that insurers be allowed to create their own established territorial boundaries. This will bring Alberta consumers the benefits of enhanced competition. If the government choses to not allow a comprehensive change to rating territories, at minimum, it is necessary to allow all insurers to use the same number of approved territories.

We thank you once again for the opportunity to provide our commentary. We look forward to working with the Board to ensure that Alberta consumers are served by an insurance product that meets their coverage needs at an affordable price.

Yours sincerely,



Rachel Gow
Director, Automobile and Business Solutions