



AIRB

SEMI-ANNUAL REVIEW

Intact Financial Corporation

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Insurance isn't just about homes, cars and businesses – it's about people.

When the unexpected happens, Albertans rely on insurance to recover quickly. They deserve peace of mind knowing that they're protected, and at affordable rates. Across our three brands, we wrote over \$1.4 billion premium in 2018, representing 22% of the market share.

As the insurance company of record for 525,000 customers, and the employer of 1,400 individuals within the province, across Intact Insurance, Novex and belairdirect, we are committed to ensuring Albertans can access the insurance they need at affordable and predictable rates. To do so, we believe Alberta must have:

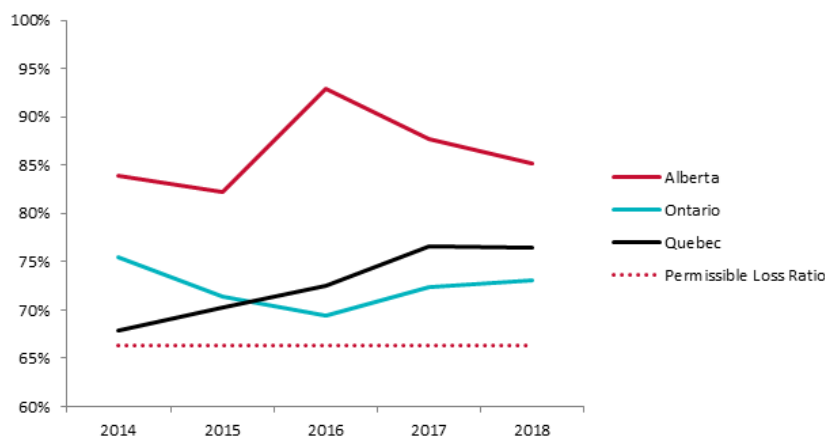
- » An agile, competitive and customer-driven insurance market
- » Predictive trending that closely reflects current costs and payouts
- » A regulatory framework that aligns to today's realities

Today's reality

In 2018 the industry's Personal Auto loss ratio was 85%, indicating auto insurance rates were not accurately reflecting the experience on Alberta roads. This trend is not new; since 2013, the loss ratio in Alberta in personal auto has continually been unsustainable. Industry loss ratio was still at 85% as of Q3 2019.

Loss ratios in Alberta have also been considerably (and consistently) higher than other Canadian provinces, with an average gap of 14.1% over the last five years.

Industry Loss Ratio Personal Auto



These trends not only indicate a challenge for the industry, they directly impact Albertans through their insurance rates.

If the current state is sustained, product availability (and accessibility) will continue to decline.

Industry Benchmark review

LOSS DEVELOPMENT SELECTIONS

We believe the current 6–12 month selection for Bodily Injury (BI) coverage is understating the ultimate amount for the 2019 accident year claims. Returning to a Weighted Average: 6 Semester selection- as was selected in the 2018 Annual Review and Semi-Annual Review- would be more responsive to the recent elevation in BI cost pressures by relying more on recent accident years.

We would also suggest disclosure of development triangles to allow for adequate review of relevant assumptions and selections.

LOSS TREND

The current BI past loss trend selection is leveraged by a relatively low endpoint (2019-1). We would suggest using an average between the trends using 2018-2 and 2019-1 as endpoints in order to temper the effects of a single datapoint on the trend selection.

Making impactful change

We are invested and committed to ensuring Albertans can access the insurance they need at affordable and predictable rates. In addition to the progress that has been made to date, we believe we must look to implement strategies for rate stability today and in the future.

Our vision involves a future where Albertans will have a greater choice of insurance providers. One with more products and benefits to choose from, better customer service, including a more efficient approach for dealing with injured motorists, and a wider range of prices ranging from cost saving alternatives to more premium offerings.

Implementing File-and-Use, then Use-and-File regulatory framework will reduce the regulatory burden on industry and Alberta consumers.

Stringent administrative price regulation is neither efficient nor effective for Alberta consumers. Albertans are not better off in terms of the availability, stability and price of insurance products because of the Prior Approval rate regulation framework currently in place. Customer and industry experience in many other regions has shown that more competition and market-based approaches will benefit all Albertans.

In a 2018 KPMG report¹ on the Canadian insurance industry, 68% of insurance companies surveyed expect disruption in the industry over the next three years due to technological innovation, while 41% said regulatory and compliance burdens are among the biggest obstacles to success.

In many U.S. states and other international jurisdictions, insurance companies can adjust prices and introduce new variables or pricing models without the explicit approval from government or regulatory agency.

Several studies compare the regulatory framework of the U.S. vs Canadian auto insurance markets.² Canadian provinces are significantly more regulated compared to many states in the U.S.

With regards to innovation, in the U.K. for example³, digital sophistication of insurance providers is enabling the industry to focus on risk mitigation with customers. In Germany's mature insurance market, companies have created apps for 'on-demand' micro-insurance needs. Customers no longer limit their purchasing decision on only price and product when selecting an insurer – they focus on the entire service offering, from advice to after-sales service, with a focus on simplicity, transparency and convenience.

An initial step forward would be implementing **File-and-Use** laws, which allow insurance companies to implement new rates without receiving prior government/regulatory agency approval. File-and-Use laws, for mandated products, mandate the insurer to file information supporting the change prior to implementation, while the regulator retains the option to strike down the rate if it is determined the adjustment cannot be justified.

Implementation of **Use-and-File** would allow for real time-based determination of insurance rates. This would allow Albertans to benefit from changing circumstances that can drive down costs or ensure prices reflect incremental changes rather than face large spikes required to "catch-up" after the fact. Additional benefits of ultimately moving to Use-and-File include greater competition in the marketplace, a more innovative industry, and evolution of the regulatory body, motivated to develop new products and service options to attract and retain customers.

¹ <https://assets.kpmg/content/dam/kpmg/ca/pdf/2018/12/19981-6th-annual-insurance-opportunities-and-risks-report.pdf>

² https://www.fraserinstitute.org/sites/default/files/regulatory-severity-in-the-canadian-auto-insurance-market_csr-fall-2011.pdf

³ <https://assets.kpmg/content/dam/kpmg/pdf/2014/11/insurers-fast-changing-digital-world-v5-fs.pdf>

Direct compensation auto insurance (DCPD) will compensate Albertans faster, and minimize the strain on industry and judicial resources.

DCPD coverage compensates customers if their car is damaged in an accident and they are not at fault. It is called 'direct compensation' because the customer deals directly with their insurance company, instead of the third-party insurance company from the at-fault driver. Direct compensation is available in Ontario, Québec, Nova Scotia, Prince Edward Island and New Brunswick.

Currently, until an insurance company determines fault in an auto accident, Albertans frequently wait an inordinate amount of time for compensation. This wait delays the customers' ability to get back on track. It also limits the industry's ability to predict claims costs by actively managing all their customers' property damage claims.

The benefits of introducing DCPD to Albertans, include:

- Customers will receive compensation faster, as they will be compensated directly by their insurance provider
- The minimization of time and costs associated with pursuing the at-fault driver's insurance company
- The minimization of time and costs associated with going to court and reduces the burden on the legal system
- Claims are handled more efficiently, and costs are more easily predicted, benefiting the insurance premiums paid by Albertans

Changes in our weather are impacting Albertans.

Intact believes we can help to both grow the Alberta economy and protect Albertans from the impact of extreme weather events. In our view, climate resilience is economic resilience.

Citing the United Nations Development Programme, the Government of Alberta says that every dollar spent on climate adaptation today results in \$7 saved in emergency response. To this, we would add only that the protection of Albertans is the most important of all.

Between 1983 and 1989, the Insurance Bureau of Canada (IBC) recorded 13 catastrophic events; 57 from 1990 to 1999, 58 from 2000 to 2009, and 85 events between 2010 and 2017. This steady increase in the number of smaller, more frequent, events signals a defining shift in our climate – particularly for Albertans.

Severe weather is not a new phenomenon in Alberta. Last year, six of Canada's 15 events impacted the province. Two of Canada's biggest catastrophic events also occurred in Alberta - the Fort McMurray fire in 2016 and the Calgary flood in 2013.

In 2016, the Climate Change and Emissions Management (CCEMC) Corporation's Adaptation Leaders Round Table Forum concluded that Alberta needs to develop a Climate Change Adaptation Strategy to ensure preparedness and resiliency in facing changing and increasingly extreme long-term weather patterns and events. As a participant and facilitator at the forum, the Intact Centre on Climate Adaptation at the University of Waterloo prepared a report⁴ highlighting that climate change adaptation is multi-faceted, long term and important information gaps need to be addressed to prioritize action.

Through increased preparedness of critical areas such as Alberta's infrastructure, land-use planning, roads, and bio-economy, the burden placed on Albertans and the Alberta economy because of increasingly common extreme weather will be reduced and the affordability and availability of automobile and property insurance will be improved and protected.

As an industry, we must focus on leveraging opportunities and mitigating challenges that these and other emerging trends create to ensure Albertans benefit from responsive, balanced and fair insurance.

⁴<https://www.intactcentrecclimateadaptation.ca/wp-content/uploads/2017/01/CCEMC-Alberta-Adapts-Final-March-31-2016.pdf>





In conclusion

As part of our commitment to achieving this future, we are making changes to how we conduct business in various ways: we're upgrading legacy technology to make it easier for customers to access the insurance solutions they need, such as the Intact app to make insurance more accessible for Albertans; we're managing expenses; and we're leveraging telematics to provide customers with customizable rating experience in personal auto. We are also working to ensure Albertans have access to information to help adapt to our changing climate through awareness and strategic changes to homes and vehicles.

But our actions are not enough. We need to partner together with the industry, the Alberta government, and the rate board, to establish a regulatory framework that drives increased competition and consumer choice, availability of agile and responsive insurance products and stabilized pricing for insurance products. Alberta has the opportunity to be a Canadian leader by implementing an approach to regulation that delivers the best outcomes for Albertans and supports a robust insurance industry which fully provides for the needs of tomorrow.

We look forward to working with the AIRB to address these important issues that impact our customers, employees and all Albertans.



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