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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 2022 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 financial institution in Canada with over 7.5 million members & clients. DGIG is Canada's second largest property and casualty insurance provider, with over $6 billion in premium volume and over 4.4 million policies in force. We are Alberta's fifth-largest private passenger auto insurer with over $376 million in auto premium volume in the province in 2021. We are proud members of Alberta communities with a network of 48 exclusive, local agents, who employ over 257 people in their offices across the province.

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 Deloitte's review of the Oliver Wyman report. We have contributed to and support the IBC's recommendations. We wish to build upon both reports and provide our reactions to some of their conclusions for your consideration.

Benchmarking Exercises

We applaud the AIRB for the inclusive approach to its review of private passenger vehicle cost trends. It is valuable to conduct an industry cost trend benchmarking exercise to understand current market conditions for auto insurance. However, industry cost benchmarks are not appropriate for evaluating individual insurer rate change applications. The differences in client profiles, pricing and claims business practices, and a variety of other factors can lead to unique and legitimate cost needs. Appointed actuaries who have years of close working experience with the underwriting company and with access to internal subject matter experts should be relied upon to evaluate an insurer's cost needs. To protect the interest of consumers, the AIRB's review of the insurer's estimates should be focused upon the reasonableness of the assumptions used, instead of trying to recreate the specific rate change need. We should acknowledge the power of consumers making choices in a competitive marketplace as the best and ultimate regulator of auto insurance rates.

Loss Trends

Oliver Wyman and Deloitte's methodology and process for trend selections based on industry data are reasonable in our view. We note that their coverage trend selections are different, but they are within a reasonable range.

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Loss Development

With respect to loss development, we note that Oliver Wyman has changed its basis of selection for:

- Third Party Liability - Property Damage 12 month claim count development factor from Wght Avg: 6 Semester to Avg: 6 Semester ex hi/lo.
- Collision 6, 12, and 18 month reported loss development factors to longer term averages for the 6 and 12 month maturities and a shorter term average for the 18 month maturity.

Although this is not a cause for concern, we would like to encourage transparency and an inclusion of a discussion around any change in basis used for selection of development factors. We note that the Facility Association had called for this in their submission following the 2019 annual review, and we would like to lend our support for this sentiment. The development factors used can have a material impact on the trend selections made.

Collision and Other Physical Damage Coverages

The recent acceleration in inflation is of major cause for concern.

Even before the recent rise in inflation, we had noted that changes happening to the vehicle manufacturing process, consumer behaviour and global automotive supply chain will continue to apply pressure on claims costs:

- Vehicle Diagnostic Scans on newer cars, adding an additional $100 to each repair, were involved in 4% of repairs in Sept 2017 and increased to 65% in May 2022.
- Buying decisions - 61% of vehicles repaired in 2016 were sedans or smaller vehicles but only 46% in 2021 compared to SUVs and Pickups. The average value of vehicles is rising.
- The price of new and used vehicles have been skyrocketing due to global supply chain disruptions and is likely to continue rising significantly. Delays in auto parts are leading to longer repair periods necessitating higher auto rental fees. According to Statistics Canada, the cost of purchase, leasing and rental of private passenger vehicles has increased by 9.0% in Alberta from June 2021 to June 2022.

For the above reasons, we are in alignment with Oliver Wyman's proposed inflation adjustment for future trend rates.

Bodily Injury

According to Statistics Canada general inflation has risen to its highest point since 1983. It would be reasonable to assume that inflation will not simply be contained within the physical damage coverages. As interest rates rise, we could also expect to see an increase in pressure to adjust the regulated pre-judgement interest rate.

Inflationary effects will put upward pressure on the claim costs of all coverages. We would therefore propose that Oliver Wyman's inflation adjustment be extended to both bodily injury and accident benefit coverages.

With respect to Oliver Wyman's trend selection, we do not see any basis for the future trend selection of 5%. The use of bill 41 as a justification for a lower trend rate seems unreasonable given:

- The impact from bill 41 has yet to materialize.

- Insurers are already required to account for the estimated impact of bill 41 using reform factors in their rate applications. Selection of a lower future trend should only be made if justified after the application of reform factors to the data used to analyze trends.
- In selection of the accident benefits future trend, greater weight is given to the models ending before the impact of reforms. Citing that “insurers would separately adjust the historical loss experience in their rate applications to a cost level reflective of the new reforms.” This highlights inconsistencies between the treatment of accident benefits and bodily injury trends as it relates to bill 41.

Accident Benefits

We have noted in the past that our accident benefits loss cost trend is higher than the industry trends expected by Deloitte and Oliver Wyman. From our reading of the annual report, it is not clear how the future severity trend of 11.0% for accident benefits is arrived at. We are referred to an appendix E for a model with a trend period ending in 2020-1. An appendix E does not appear to have been attached.

This coverage continues to be a relatively small loss cost compared to bodily injury and the physical damage coverages. Still, the industry has experienced strong cost percentage increases for several years now, and recent amendments to Automobile Accident Insurance Benefits Regulations will only exacerbate the problem. We suggest that it is time for Government and industry stakeholders to analyze underlying cost drivers to determine if we can do more to protect consumers from unnecessary costs. For example, it could be expected that claimants participate in reasonable medical rehabilitation treatments to continue to qualify for income replacement benefits.

Other Benchmarks

We commend and agree with the removal of an approved “benchmark” for catastrophe loading. We also agree with Oliver Wyman continuing to provide the historical average catastrophe impact in their industry reviews.

Oliver Wyman’s proposed operating expense ratio and health cost recovery factor are reasonable in our opinion.

GRID Rating System

We are on record as calling for the Grid rating system to be reimagined to decrease the additional complexity and operational cost that it generates. We believe that premiums that reflect the risk that the driver presents are perceived as fair and are an incentive for responsible driving.

The GRID system’s loss experience continues to be poor, resulting in significant rate subsidization by lower risk drivers. We note that in 2022 that GRID rates have been decreased by 11.4% assuming that the recent auto reforms would produce savings. Given that reform savings have not yet materialized, the 11.4% decrease will result in even more drivers entering the GRID. According to a recent Deloitte study, without immediate changes, the total number of drivers subject to GRID rates is expected to double.

In IBC's annual review submission, a GRID rate increase of 15% is suggested to restore premiums to their 2020 levels and reduce the growing number of drivers subject to GRID premiums. We believe this would be the minimum increase needed and would encourage a further review of the GRID rates required to maintain an appropriately sized pool of GRID drivers. It is important to responsible drivers in the province that we do not further inflate the level of price subsidization of higher risk drivers or fail to properly incent responsible driving behaviours.

Yours sincerely,

Neal Holland
Vice-President, Automobile Business Solutions
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