The Co-operators Group Limited

July 27, 2023

Automobile Insurance Rate Board
2440 Canadian Western Bank Place
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Edmonton, Alberta T5J 3N6
AIRB@gov.ab.ca

Re: AIRB Annual Review of Industry Experience for Private Passenger Vehicles

Introduction

The Co-operators Group Limited ("Co-operators") is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 46 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians. Operating in Alberta, we have 5 member organizations, including the Alberta Federation of Agriculture, the Federation of Alberta Gas Co-ops Ltd., and UFA Co-operative Ltd.

We have a strong footprint in Alberta, insuring approximately 265,800 private passenger vehicles, 114,000 homes, 19,500 farms, 23,500 businesses and 57,000 commercial vehicles. We employ over 700 staff and have independent distribution contracts with local financial advisors, who in turn operate 127 offices across the province and hire their own staff. Guided by our co-operative principles, we are committed to the communities in which we work and made significant contributions to various charities, non-profits and co-operatives in Alberta in 2022.

We are proud to provide insurance and financial services to more than two million Canadians. We take even more pride providing financial security to these Canadians and their communities while staying true to our co-operative values.

Co-operators is pleased to participate in the Automobile Insurance Rate Board's (AIRB) annual review of industry experience for private passenger vehicles (PPV) again in 2023, which provides us with the opportunity to share feedback in response to Oliver Wyman's industry loss experience analysis.

We commend the AIRB for their efforts to modernize rate regulation in Alberta with transparency and through collaboration. The shift to a more principles-based approach is positive for Albertans because, under normal conditions, the reduction of regulatory red tape creates a more responsive and competitive market and it supports the accessibility of the product and sustainability of the industry. Additionally, the framework allows the AIRB to maintain significant oversight, ensuring all rating programs are evidence-based. We look forward to continued collaboration with the AIRB on additional rate regulation items that benefit both parties and, more importantly, Alberta drivers.

Financial Context & Outlook

After several challenging years, optimism with respect to the sustainability of the Alberta automobile insurance market returned following the expiry of the second rate cap in 2019 and the rate increases approved by the AIRB shortly thereafter. The COVID-19 pandemic impacted profitability significantly in both 2020 and 2021 as well. Government lockdowns and other protective measures, along with individual responses to the pandemic in general, influenced a change in driving habits and behaviour and led to impactful reductions in vehicle collision frequency for that period.

Driving habits and vehicle collision frequency are returning to pre-pandemic levels now, even though many Albertans have the choice to work from home or to follow a hybrid work model. Our country also continues to experience economic pressures from supply issues, labour shortages and historic inflation. In short, the insurance industry, like many others, is experiencing a significant amount of complexity and uncertainty with no clear end date or end state. We believe it is important for the AIRB, insurers and industry partners to continue their open communication to identify new and emerging trends. The uncertainty and complexity experienced underscores the importance of the expansion of file-and-use filings, as this filing approach (when fully available to insurers) is a tool to adjust rates, as needed, more responsively to ensure the accessibility and sustainability of the product. With this tool and others in place, historical challenges faced by the automobile insurance industry in Alberta may be avoided.

Albertans must carry mandatory coverages for automobile insurance, so affordability must be a priority for all stakeholders. We understand the current rate pause ordered by the Government of Alberta was put in place with affordability in mind, to provide temporary relief from increasing auto insurance premiums. However, as record inflation continues to be a driver of increasing claim costs, premiums must respond with corresponding increases to ensure the availability and sustainability of the product. Co-operators understands that the authority for the rate pause does not belong with the AIRB, but as new rate applications are submitted to the AIRB at or after the end of the rate pause, we encourage the AIRB to consider the balance between affordability and insurer's rate adequacy when making decisions with respect to new rate approvals. Albertans benefit from a healthy, competitive marketplace.

We believe the real opportunity to achieve more affordable premiums is through comprehensive product reform. If this opportunity is not pursued, in favour of more short-term or temporary measures, we are concerned rates will ultimately continue to increase. Recent rate regulation changes have paved the way to more equitable premiums, and the pandemic may have changed driving behaviour and habits moving forward, but product reform is required to lower average premiums more permanently. We encourage the AIRB to advocate with Co-operators for our company-specific product reform proposal.

Review of Industry Benchmarks

Loss Trends

Bodily Injury

For Bodily Injury (BI) coverage, we note that Oliver Wyman selected a past severity trend rate (+8.0%) and a past frequency trend rate (0.0%.) This is a different approach from the previous year when only a past loss cost trend rate was selected for reasons explained in the report. After combining their frequency and severity selections this year, Oliver Wyman has selected a past loss cost trend rate of +8.0%, one percentage point higher than last years' past loss cost trend rate. We observe that the selected past severity trend of +8.0% is very close to the 4 indicated severity trends with starting periods between 2014.75 to 2016.25 and an end period of either 2022.25 or 2022.75.

Oliver Wyman notes in their report, with respect to their loss cost analysis, that "since 2017, (they) observe early signs of a flattening, until a large decline in level in 2020-1 coincident with the COVID-19 pandemic." The observations from these two years, 2020 and 2021, were excluded from the indicated frequency trends considered for their selections. Similar to their approach last year, Oliver Wyman selected a future loss cost trend 3% lower than their past loss cost trend, at +5.0%.

Co-operators' pricing actuaries analyze frequency, severity, and loss cost trends separately as well, using internal data only, prior to making trend selections. We are not impacted by claims amount and claims count challenges in the GISA data, so we can always evaluate the individual components of the loss cost first. Further, if we modify our claims handling and/or reserving practices, the knowledge of our data combined with the available expertise from our Claims and Reserving teams, equips us to make appropriate adjustments. Following our most recent loss trend analysis, we selected past frequency and severity trends from 10 years of data, excluding 2020 and 2021. These individual selections resulted in a loss cost trend of +9.1%. Upon review of our internal data, we did not observe a flattening of the loss cost curve starting at 2017, so there is no evidence to suggest our future loss cost trend selection should be lower than our past loss cost trend selection.

We appreciate the transparency within Oliver Wyman's preliminary report and commend their consistently professional work. That said, we do not agree with their BI loss cost trend selections, past or future. The slight flattening of the loss cost curve starting in 2017 is somewhat visible from the industry data, in the third image of Figure 14 from the report, but there were no significant external environment events (ie. reform) between 2014.75 and 2016.25 to justify the selection from a shorter period. From both our internal data and the industry data, there are no other observations supporting the selection of an indicated loss cost (or severity) trend from a period shorter than 10 years. The flattening of the curve is not observed in our internal data and we believe the shorter period is overly responsive for a long-tailed coverage like BI. From the BI Severity Heatmap provided by Oliver Wyman as Figure 15 in their report, it is our position that a past severity trend at or above +8.7% is more appropriate because it relies on a longer period and is supported by higher adjusted R-squared values. A selection at this level, combined with a frequency selection at or slightly above 0%, aligns more closely with our loss cost selection of +9.1% and achieves the balance between responsiveness and stability.

All Other Coverages

We observe that Oliver Wyman has introduced a new method to account for inflation within its future severity trend analysis and, ultimately, selections. Although our initial internal loss trend analysis does not apply the same methodology, we are comfortable with Oliver Wyman's inflation adjustments and will consider applying a similar approach moving forward.

We believe it is appropriate to account for inflation within the trend analysis for Comprehensive coverage, which Olive Wyman has not done. That said, the impact to the indicated trend does not appear to be material.

We support Oliver Wyman's preliminary loss cost trend rate selections, which rely on separate severity and frequency trend selections, for all coverages other than Bodily Injury.

Theft Claims

From 2017 to 2019, Co-operators General Insurance Company spent over $1.2M per month in auto theft losses, and then in the first quarter of 2020, we experienced the largest number of first quarter auto theft claims over the four previous years. From the second quarter of 2020 forward however, during the COVID-19 pandemic specifically, our auto theft loss counts dropped significantly from 2019 levels. We believe this was a pandemic effect, a result of Albertans staying home more and therefore driving less.

This year, we are observing an increase in auto theft losses once again, although not yet close to 2019 levels. Analysis is ongoing to determine whether these thefts are similar to those observed in Alberta in prior years or if they are connected to the record number of auto theft losses occurring across the country, mainly in Ontario and Quebec.

Presently, there is no deductible on auto theft claims for policyholders in Alberta. We continue to recommend that the comprehensive deductible should apply to claims for theft of the entire vehicle to provide policyholders more financial incentive to prevent vehicle theft. We also support regulatory action to prevent fraudulent registration of stolen vehicles.

Application of Industry Benchmarks

We appreciate the opportunity to participate in the AIRB's annual review process and acknowledge the amount of work to prepare the preliminary report, to gather and incorporate industry feedback and to host the open meeting. The industry benchmarks are an important tool for all insurers and their pricing actuaries. For larger insurers such as Co-operators, the Annual Review Report and the benchmarks offer another qualified point-of-view, that may challenge an actuary's thinking or confirm what the actuary is observing in their internal data and/or their selections. In some cases, with the proper rationale, it may be appropriate for the pricing actuary to adopt an industry benchmark as an input into their rate level indication.

When an actuary's internal data is sufficiently or fully credible, we encourage the AIRB to continue to allow the actuary to rely on that internal data and apply the selections or inputs derived from that data within the rate level indication calculation. An actuary has intimate knowledge of its internal data, they have access to the insurer's internal experts to explain shifts or anomalies in the data and they partner with qualified internal personnel who make appropriate adjustments to the data or analysis as needed prior to the pricing actuary's selection. Additionally, internal data reflects the mix of business of the insurer which may be different or poorly represented by the industry data. It is our position that a qualified actuary should be given the flexibility to determine the appropriate dataset and to make selections for the rate level indication calculation. This represents the spirit of principles-based regulation.

Concluding Comments

We would like to thank the AIRB for allowing Co-operators, and our industry peers, to provide written submissions in response to Oliver Wyman's preliminary report. We look forward to more opportunities to work collaboratively with the AIRB along its transition to a more principles-based approach and as additional rate regulation amendments are considered. We are aligned with the AIRB in that all solutions must provide Alberta drivers with an accessible, affordable and equitably priced automobile insurance product; a product that provides security, is simple to understand and meets their needs.

As noted in previous years, we are not members of the Insurance Bureau of Canada (IBC) and prefer to contribute to the policy development process directly. As a co-operative financial services organization, we believe we bring a unique perspective to public policy consultations.

If you have any questions or require clarification with respect to any of the topic in this written submission, please do not hesitate to contact me at todd_saunders@cooperators.ca.

Sincerely,

Todd Saunders
AVP – Regulatory Affairs & Rating Systems
The Co-operators