

July 27, 2023

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 [2023 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 third 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 fourth-largest private passenger auto insurer. We are proud members of Alberta communities with almost 700 associates living and representing the Desjardins brand in local communities.

We have reviewed the report prepared by Oliver Wyman regarding automobile insurance experience in Alberta. We have contributed to and support the Insurance Bureau of Canada (IBC) submission. We wish in our submission to focus our comments upon a few key issues 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. In our view, 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's methodology and process for trend selections based on industry data are reasonable in our view.

Collision and Other Physical Damage Coverages

We note that Oliver Wyman no longer recommends insurers to select an inflation adjustment for future trend rates based on the most recent tapering of the general inflation rate. Although general inflation may be moderating, inflation remains very high for the CPI categories associated with vehicle repair, purchase, and rental.

Oliver Wyman also sets the expectation for reductions in driving due to hybrid work arrangements and a possible recession sparked by rising interest rates. There are several reasons why this may not be an applicable expectation for Alberta:

- Alberta is better positioned than other provinces when it comes to employment due to raw material resources. The expectation is for Alberta to lead the country in [GDP growth this year](#).
- Alberta's leading sources of [employment](#) (health care, retail trade, and construction) do not lend themselves well to hybrid work arrangements.
- The most recent mobility data for Alberta shows strongly increasing trends in vehicle usage with no signs of a slow down.

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. These changes include the increasing use and cost of vehicle diagnostic scans, consumer buying decisions that favour more expensive vehicle types (i.e., pick-ups and SUVs), continued supply chain issues raising the value of new and used vehicles.

In consideration of the above as well as the trending data presented in the Oliver Wyman report, we do not support the reductions to the selected trends.

Accident Benefits

We have noted in the past that our accident benefits loss cost trend is higher than the industry trends expected by Oliver Wyman. Contrary to the 2022 annual review, Oliver Wyman has since acknowledged lagging inflationary pressure on Health Care costs. Given the acceptance of a CPI adjustment on physical damage trends and the acknowledgment of an inflationary lag in healthcare, we believe it would be reasonable to apply a similar adjustment on accident benefits.

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.

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.

Given that the Oliver Wyman report is calling for significant cost pressures to continue in 2023 we urge AIRB to introduce significant increases to GRID rates to coincide with an expected expiration of the government's current rate pause. An increase of 20% or more is reasonable in our current context.

Typically, new GRID rates come into effect on January 1st of each year. The government has indicated that the rate pause is due to expire on December 31, 2023. It will be important then for AIRB to quickly understand the government's future direction on rate changes to allow enough lead time to make decisions about GRID and to notify insurers with sufficient time for them to update their systems to ensure that the transition is timely and smooth for insurance consumers.

Thank you for the opportunity to provide our observations and advice to the AIRB annual private passenger loss experience review process.

Yours sincerely,



Neal Holland
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Desjardins General Insurance Group