



The Co-operators Group Ltd.

The Co-operators written submission to the
Alberta Automobile Insurance Rate Board

Annual Review of Automobile Insurance
Premium Levels for Basic Coverage

May 28, 2010

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A Better Place For You®

The Co-operators is pleased to participate in the Alberta Automobile Insurance Rate Board's consultation process regarding premium levels for basic coverage for private passenger vehicles. We remain committed to working with the government of Alberta to achieve common objectives that will benefit consumers.

This submission will focus on the following issues:

- Loss trends;
- Estimate of ultimate bodily injury claims costs for past years in light of confirmation of Minor Injury Regulation cap on non-economic damages.
- Impact of economic climate on claim costs.

ABOUT THE CO-OPERATORS

The Co-operators philosophy regarding the delivery of the automobile insurance product to the consumers of Alberta is based on the following fundamental guiding principles:

- **Security:** At its most basic level, insurance provides peace of mind. Consumers should have adequate coverage that ensures an appropriate measure of financial protection.
- **Affordability:** Insurance must be affordable for a compulsory insurance system to work.
- **Availability:** Insurance consumers have the right to expect reasonable access to a variety of providers who can meet their coverage needs.
- **Simplicity:** Insurance consumers have a right to understand the product they are purchasing and the benefits to which they are entitled.

The Co-operators is a group of Canadian companies focusing on insurance. As a co-operative, our members are 47 co-operatives, credit union centrals and like-minded organizations, representing a combined membership of millions of Canadians. Our Alberta members include Agrifoods International Cooperative Limited, Credit Union Central Alberta Limited, Lilydale Inc., United Farmers of Alberta Co-operative Limited, Wild Rose Agricultural Producers, Alberta Federation of Rural Electrification Associations, and the Federation of Alberta Gas Co-ops Ltd.

For the past seven years The Co-operators was listed among Canada's "50 Best Employers" in *Report on Business* and this year we have been selected to "The Green 30" list, recognizing our commitment to environmental, social and economic stability.

In Alberta, 107 agents independently own offices in communities across the province in addition to 8 service offices that do not have agents. They provide service to 231,394 clients in 171,789 households. Our agents also create employment, volunteer their time, and help fund community initiatives.

More than 309,874 private passenger vehicles are insured by The Co-operators Group in Alberta. However, a total of 459,088 policies are in effect in Alberta, covering passenger vehicles, homes, farm and commercial enterprises.

Committed to Alberta Communities

Support for the community is one of our guiding principles as a co-operative organization. We seek to contribute to safe, healthy and sustainable Canadian communities through The Co-operators Foundation, our safety programming, and staff volunteerism.

As a national company, The Co-operators supports numerous organizations that focus primarily on education, youth, health, environment and safety. In 2009, The Co-operators Foundation directed \$367,500 to Alberta organizations. This number does not include the local charitable contributions of our agents.

The Co-operators continues to be active in supporting communities in a variety of ways. As the national sponsor of the Block Parent program, we work to promote neighbourhood safety and we support Alberta communities through our 4-H awards and sponsorships. We also promote fire safety through our financial support of the Alberta Fire Chiefs Association

The Co-operators has established 6 Community Advisory Panels (CAP) across Canada; including one in Calgary. These panels provide a sounding board where we can hear the concerns and issues of the community and seek their input. Our 13 Calgary panel members (who do not need to be insured by The Co-operators) represent diverse sectors of the community such as: health care, social services, business, education, safety, seniors and youth. The Calgary CAP meets twice each year and is invaluable in helping us meet the expectations of our clients and their communities.

FRAMING THE DISCUSSION

Since the Alberta government introduced its automobile insurance reforms and implemented The minor injury cap, the Alberta Automobile Insurance Rate Board (AIRB) has mandated a number of rate decreases and only one rate increase.

November 1, 2005 - 4% Reduction

November 1, 2006 - 3% Reduction

November 1, 2007 - No Change

November 1, 2008 - 5% Increase

November 1, 2009 - 5% Reduction

Rather than relying on the market and the underlying competitive forces, and based on the above history, it is fair to say that insurers must factor the likelihood of a rate decrease from the AIRB when they determine their rate indications for each year.

As we have stated in previous submissions, the annual industry-wide adjustments to regular private passenger rates are not necessary. The Board should instead review individual companies on a case by case basis. This allows rates to be set in a competitive environment, and gives each company the opportunity to make changes to their rates that reflect their true loss experience.

The marketplace in Alberta for mandatory automobile insurance is very competitive and stable currently. Consumers seem to be in a good place as well. The Co-operators is not fielding many complaints regarding their automobile insurance rates. As a result we feel that it makes little sense at this time for the AIRB to mandate an industry wide adjustment to rates for 2010.

LOSS TRENDS

We have reviewed loss trends using loss data as of Dec. 31st, 2009. While accident benefit and property damage loss experience shows significant upward trend movements, bodily injury loss experience remains uncertain.

As a result of periodic changes to minor injury regulation, different trend periods give drastically different indications of the future direction of the trend for mandatory coverage loss experience.

The combination of a history of mandatory rate reductions, upward pressure from accident benefit claims, upward pressure from property damage claims and biased data from accident years 2008 and 2009 (as a result of legislative challenges), make determining an appropriate trend factor extremely difficult.

One year of solid data with the cap re-instated would give us greater confidence in the future direction of mandatory loss trends.

Comparison of Loss Cost and Average Premium

We reviewed the loss cost experience of The Co-operators on mandatory coverages by rolling accident year in quarterly intervals. The table below exhibits the ultimate loss cost for the rolling 12-month accident year at the end of each quarter, relative to the ultimate loss cost for the rolling 12-month accident year ending September 30, 2004. This date is an important benchmark as it marks the implementation of the legislative changes in 2004.

Rolling 12-Month Loss Costs Relative to Pre-Reform – Mandatory Coverages*

AY	Mar-31	Jun-30	Sep-30	Dec-31
2003	1.196	1.153	1.121	1.077
2004	1.001	1.017	1.000	0.879
2005	0.857	0.750	0.670	0.670
2006	0.607	0.686	0.759	0.908
2007	0.917	0.909	0.894	0.851
2008	0.881	0.895	0.911	0.806
2009	0.880	0.862	0.763	0.738

* Direct - Excludes ULAE, IBNR, and Levy

The table below illustrates the effect of the historic AIRB annual adjustments on average rate levels since the 2004 legislative reforms. The factors reflect the accumulated effect of the mandated rate changes on earned premium levels for the rolling 12-month calendar year at the end of each quarter.

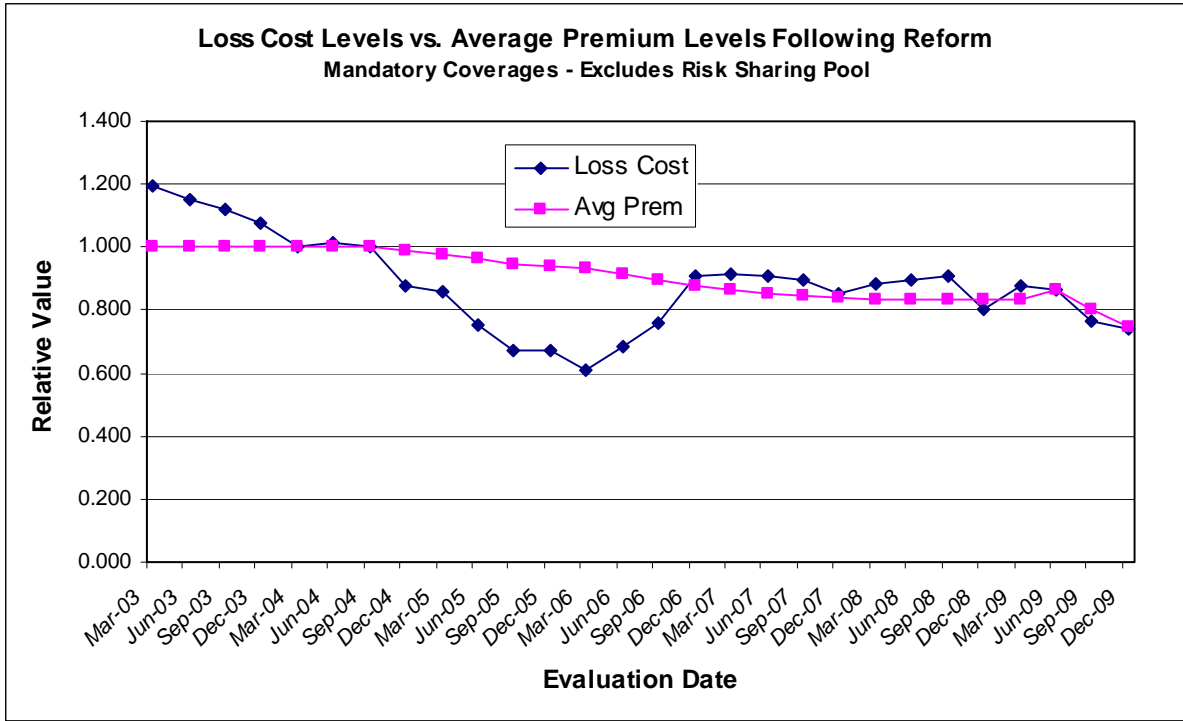
Rolling 12-Month Average Premiums Relative to Pre-Reform – Mandatory Coverages

AY	Mar-31	Jun-30	Sep-30	Dec-31
2003	1.000	1.000	1.000	1.000
2004	1.000	1.000	1.000	0.987
2005	0.975	0.963	0.948	0.942
2006	0.931	0.913	0.893	0.876
2007	0.863	0.853	0.846	0.840
2008	0.836	0.833	0.832	0.832
2009	0.835	0.866	0.802	0.745

* Direct – Based on Annual Adjustments Only

The graph below illustrates the movement of mandatory coverage loss costs experienced by The Co-operators over the last seven years. The movement of the average premium adjustments generated by the AIRB annual adjustment is shown over the same period. As loss cost levels are relative to pre-reform loss costs and average premium adjustments are relative to premiums prior to the annual adjustments, the graph does not intend to draw out conclusions regarding premium adequacy. Rather, it illustrates the relative progression of each statistic since the legislative reforms in 2004.

The mandatory coverage loss costs were effectively reduced following the reform in 2004. Loss cost levels bottomed out in the first quarter of 2006, since that point an increase in loss cost took place which levelled off by the end of 2006.



As can be seen above, as a result of the cap reinstatement, premium and loss cost relativities are tracking each other quite closely.

The Co-operators has already taken steps in decreasing mandatory rates by two percent. As a result, in 2010 it is fair to assume that the relative average premium will be lower than the relative loss cost since reform.

The Co-operators is monitoring its rate adequacy and competitive position very closely. In this context, we feel it is important that each company have the flexibility to file for rate changes as needed through a file and approve process.

ESTIMATE OF ULTIMATE BODILY INJURY CLAIM COSTS FOR PAST YEARS IN LIGHT OF CONFIRMATION OF MINOR INJURY REGULATION CAP ON NON-ECONOMIC DAMAGES

There is little doubt that the successful reinstatement of the cap will keep loss costs to a manageable level.

However, historical experience when the cap was in place may not be reflective of future experience; since there has always been an underlying expectation that the cap would be challenged. Now that the cap is firmly in place without the risk of a constitutional challenge, a new trend pattern may possibly emerge which is difficult to predict. While we have taken steps to reduce our mandatory rates, we believe a prudent insurer should exercise caution in determining the future direction of loss trends in light of a new era in bodily injury loss experience.

IMPACT OF CURRENT ECONOMIC CLIMATE ON CLAIM COSTS

Our expectation is that labour rates for automotive repairs will show moderate increases in 2010/11. We also expect the availability of automotive parts for repairs will continue to be a challenge, as the automotive manufacturing sector restructures. We see delays in repairs, and increases in car rental loss costs, as replacement collision parts come from greater distances.

We anticipate continued demand in the need for auto body repair services, with the expectation that the demand will again tax the existing supply of auto body repair vendors. The combination of the economy gaining strength from the recent economic slowdown, and the anticipated summer hail will result in continued growth in the demand.

In times of recession, injury claims tend to escalate as people who lose their jobs are more prone to rely on alternate sources of income. Fewer cars on the road could lead to a decline in frequency of accidents, however, when people are out of work they are more likely to put in a claim rather than absorb a loss themselves. There is also said to be an increase in potential for vehicle thefts and fraudulent claims.

Finally, it is a well known fact that insurance companies, including The Co-operators, are investing unearned premium, claims reserves and surplus in order to generate an investment return. As this investment yield is contributing to the bottom line of the company, it is allowing us to keep rates lower while still meeting the expectations of our owners. In other words, some of this investment yield is being passed on to our clients.

However, for the foreseeable future we do not expect to be able to produce investment returns equivalent to what we have experienced in recent years. As a result, there will be additional upward pressure on rates in an already challenging context.

CONCLUSION

The marketplace in Alberta for mandatory automobile insurance is very competitive and stable currently. The recent confirmation of the cap will provide some stability and predictability going forward. It is still too soon for reliable data regarding the effect of the cap to be available for appropriate analysis. One year of solid data with the cap re-instated would give us greater confidence in the future direction of mandatory loss trends

Now that the cap is firmly in place without the risk of a constitutional challenge, a new trend pattern may possibly emerge which is difficult to predict. Historical experience when the cap was in place may not be reflective of future experience. We hope that the government will proceed prudently and cautiously.

The combination of a history of mandatory rate reductions, upward pressure from accident benefit claims, upward pressure from property damage claims and biased data from accident years 2008 and 2009 (as a result of legislative challenges), make determining an appropriate

trend factor extremely difficult. One year of solid data with the cap re-instated would give us greater confidence in the future direction of mandatory loss trends.

At The Co-operators, even with the cap set in place, we still feel it is important, that each company have the flexibility to change rates as needed through a file and approve process. The annual industry-wide adjustments to regular private passenger rates are not necessary. The Board should instead review individual companies on a case by case basis. This allows rates to be set in a competitive environment, and gives each company the opportunity to make changes to their rates that reflect their true loss experience.

We would like the opportunity to comment on the 2010 Oliver Wyman Report after it has been released and we have had sufficient opportunity to review.

As always, we are eager to work collaboratively with the AIRB and the Alberta government to ensure that long-term solutions are put in place to ensure that Alberta consumers continue to have an automobile insurance product that provides security, is accessible, and is affordable.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Christian Fournier', is positioned above the typed name.

Christian Fournier, F.C.I.A., F.C.A.S.
Vice President, Actuarial Operations
The Co-operators