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Desjardins General Insurance Group
Written Submission to the
Alberta Automobile Insurance Rate Board
2010 Review of Automobile Insurance Premium Levels for Basic Coverage
May 28th, 2010



Desjardins
General Insurance
Group

COOPERATE
TO SHAPE OUR DESTINY



Desjardins General Insurance Group is pleased to participate in the Alberta Automobile Insurance Board's Annual Review Process. This written submission is indicative of our commitment to work in collaboration with the Alberta Government to create and maintain a healthy insurance market that will ultimately benefit Alberta consumers.

This submission discusses the following issues:

- Loss trends
- Impact of economic climate on claims costs
- Estimate of ultimate bodily injury claims costs

Although DGIG has prepared its own submission, we fully support the submission and recommendations made by the Insurance Bureau of Canada (IBC). Instead of repeating the IBC arguments, this document presents point of views of particular interest to DGIG.

About Desjardins General Insurance Group

Desjardins General Insurance Group Inc. (DGIG) is a subsidiary of Desjardins Group, the largest financial cooperative group and 6th largest financial institution in Canada, with overall assets of \$157 billion.

DGIG is one of the 10 largest property and casualty (P&C) insurance groups in Canada, with a portfolio of more than 1.8 million policies in force, a premium volume exceeding \$1.5 billion and assets of \$3.1 billion.

Through its subsidiaries, all of which are direct writers, DGIG offers P&C insurance to the general public, businesses and members of partner groups. DGIG's main focus is on personal lines in the individual and group markets. DGIG's 3,500 employees work out of our main offices in Levis, Quebec City, Montreal, Ottawa, Mississauga and Calgary.

DGIG's mission is to:

“ Provide a range of general insurance products and related complementary services to protect our customers' valuable assets. DGIG focuses on markets with the potential for profitable growth, and offers customers the best combination of price and quality.”

In Alberta, DGIG offers direct P&C insurance to the general public under the brand name, **Desjardins General Insurance**, and to members of partner groups through **The Personal**. In addition, DGIG is the underwriter for ScotiaLife Home and Auto Insurance and Hbc Insurance.

Although DGIG is a relatively small player in the Alberta market, we recognize the growth and dynamism of the market and have begun to expand our marketing efforts in the province.

Loss Trends

DGIG supports the comments and arguments put forth in the IBC submission, particularly as they relate to the level of rate making uncertainty from the constitutional challenge and the volatile economic conditions over the past several years. Despite this uncertainty, our experience data does suggest the following trends:

- Third Party Liability – Bodily Injury (TPL-BI) costs are continuing to increase.
- Property Damage (PD) costs are also continuing to rise. As a result, this has increased over time the proportion of PD in the overall TPL premium.
- Following the auto reform in 2004, there has been a shift in claim costs from BI to Accident Benefits (AB). However, there has been no formal recognition in the annual review for the need to re-balance premium between TPL & AB.

Impact of Economic Climate on Claim Costs

The IBC submission effectively outlines why it is not easy to quantify the impact of the uncertain economic climate on auto insurance rates. Nonetheless, there are two main interrelated impacts that should be considered:

- Low investment income.
- Reduced market value of assets.

As insurers are largely invested in bonds, the anticipated increases in the interest rates will negatively impact the market value of insurance company investment assets. This, in turn, will result in reduced capital available.

If as a result there is a need for additional capital, insurers may need to increase their profit margins – above the 7% limit for the Industry Wide Adjustment (IWA).

In addition, the recent volatility in the capital markets could negatively impact investment income. This, in turn, could significantly impact overall profitability.

Estimate of Ultimate Bodily Injury Claim Costs

With the uncertainty related to the constitutional challenge of the MIR now gone, DGIG and most other insurers have moved quickly to release the additional reserves associated with the cap. The natural assumption from these actions would be for an immediate and noticeable improvement in insurance company profitability. However, the reality appears to be somewhat different. With the resolution of the court challenge, DGIG has seen a significant jump in the number of reported claims in Alberta. This would suggest that some policyholders were waiting for the court decision before submitting a claim. We have yet to see the final affect on profitability.

Nonetheless, while it is difficult to predict with accuracy the short term impact, DGIG does believe that the resolution of the court challenge will bring greater stability to the automobile insurance market in Alberta over the longer-term.

As a result, the environment might be ripe for insurers to invest more in the Alberta automobile insurance market, which in turn will stimulate competition and innovation, and ultimately benefit the consumer. Accordingly, DGIG supports IBC's argument that the current environment presents an ideal opportunity to begin moving toward a new, more competitive and flexible regulatory model as this would further stimulate investment.

This new model should:

- Clarify the role of the AIRB and the Superintendent Office in the approval of changes to risk classification systems.
- Clarify prohibited rating factors.
- Support innovation, especially for rating factors that are proven to be predictive.

DGIG also believes that a more competitive and innovative risk classification system would provide the following benefits:

- More price points which translates into more choices for the consumer
- More opportunities for lower premium
- More control to the consumer
- More transparency
- More stable street premium
- Less risks capped by the GRID.

Conclusion

DGIG agrees with IBC's recommendation that current rates be maintained for mandatory auto insurance, as this would help ensure stability in the industry.

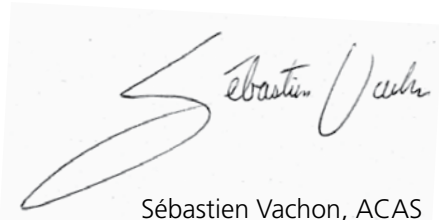
Although industry profitability has improved, the uncertain economy, volatile capital markets, and the expected rise in interest rates could undermine the gains that have been made. For these reasons, DGIG believes that the prudent course of action would not include a rate reduction.

That being said, DGIG supports:

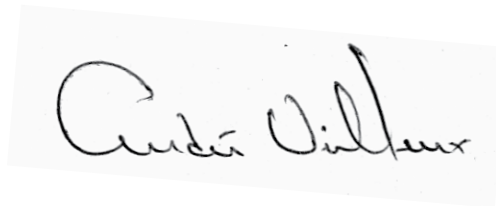
- The AIRB stated view that the Industry Wide Adjustment (IWA) be applicable to GRID Rates only. If as expected this proves impossible to implement this year, ARIB should use a more conservative estimate based on sound actuarial indications. Individual insurers have the option of using a Section 6 filing to further adjust further their rates, if necessary.
- The implementation of a new regulatory model that encourages competition and innovation, and which will ultimately benefit Alberta consumers by offering more choice.
- Continued educational and awareness efforts to help consumers better understand how they can reduce their premiums.

Once again, we would like to thank you for this opportunity to share our views.

Sincerely,



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