ALBERTA INDUSTRY-WIDE ADJUSTMENT FOR THE YEAR 2011

Automobile Insurance Rate Board

Submission on behalf of Intact Financial Corporation

May 2011

INTRODUCTION

Intact Financial Corporation is a 100% public Canadian company protecting the assets of millions of customers across the country. More Canadians rely on us for their peace of mind than any other company in the country.

We are the largest provider of property and casualty insurance in the province of Alberta with approximately $850 million in written premiums in 2010. We offer automobile, property and liability insurance to individuals and businesses through Intact Insurance, Novex Insurance and GP Car and Home, employing more than 1,300 people who live and work in the province. We insure over 475,000 individual drivers in Alberta through a vast network of 500 brokerages that are active in their respective communities. Automobile insurance is an important segment in our business, making up approximately 65% of our sales in the province.

SUMMARY OF EXPECTATIONS

In our submission, we will address the two topics outlined in the Board's Notice for this Annual Review:

- the recent trends in the cost of claims; and
- the impact of the current economic climate on claims costs

We will also discuss the evolution of the industry-wide adjustment process.

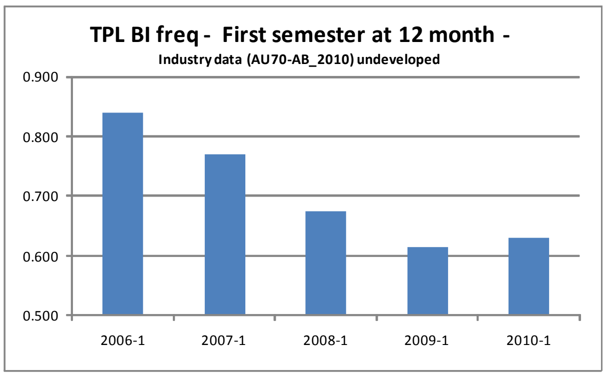
Alberta drivers have continued to benefit from the reforms adopted by the government in 2004. These reforms have contributed significantly to the stability of the marketplace, which was further enhanced by the extension of the Minor Injury Regulation to 2016.

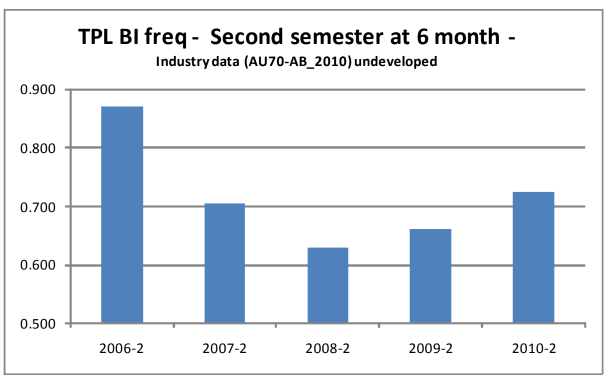
I. LOSS TRENDS – MANDATORY COVERAGE – CLAIMS COSTS INCREASING

In our 2010 submission to the board, we stated that claims costs were increasing, driven by both an increase in the number of claims submitted and an increase in their average cost, notably for Accident Benefits. A year later, this trend has been confirmed by our own data and that of the industry.

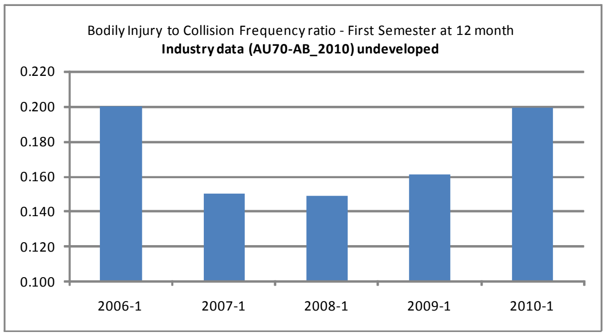
Third Party Liability – Bodily Injury

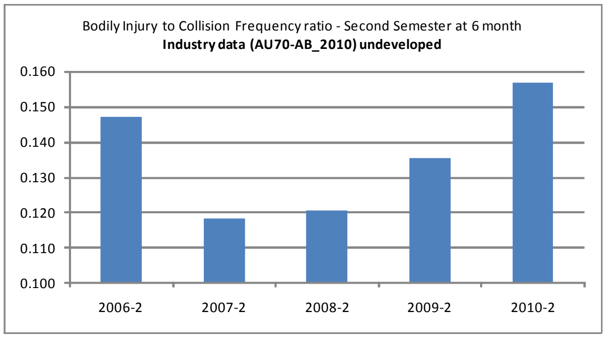
In 2010, we continued to experience an increase in the number of Bodily Injury (BI) claims. This upward trend started in the third quarter of 2009, as evidenced by the industry data (see graphs below) and our internal data in each quarter since. Based on the industry data, the frequency increased by 2.4% between the first semester of 2009 and the first semester of 2010, and increased by 9.7% between the second semester of 2009 and the second semester of 2010.





To confirm that this trend was not related to an increase in collision frequency, we also analyzed the ratio of Bodily Injury to Collision frequency. We can clearly see from the following two graphs that the BI frequency per accident is increasing since the second semester of 2008. Based on the industry data, this ratio increased by 23.5% between the first semester of 2009 and the first semester of 2010, and increased by 15.8% between the second semester of 2009 and the second semester of 2010.





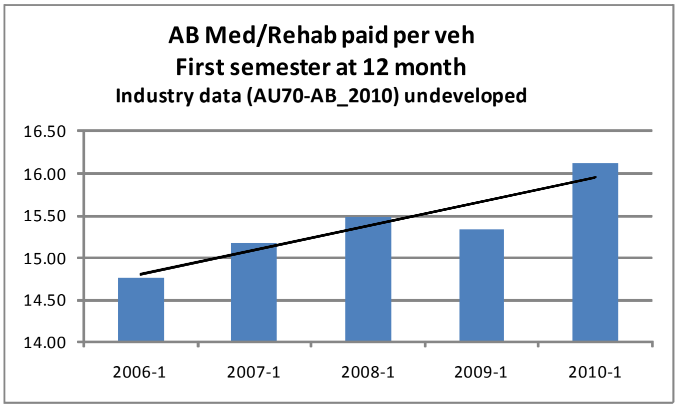
In the first quarter of 2011, we experienced an increase of BI claims partly explained by the poor weather. However, our internal data still shows an increase of 4.7% of the Bodily Injury to Collision claim ratio compared to the same quarter in 2010 confirming the upward trend of BI frequency.

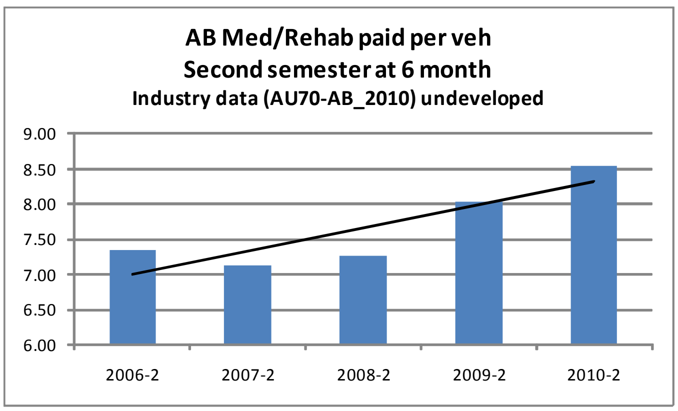
Overall, our analysis shows that the historical declining trend of Bodily Injury claims has been reversed and we expect a higher number of claims in the upcoming accident year resulting in an increase of claims costs for this coverage. Also, the fact that the minor injury cap is indexed will contribute to the claims inflation for Bodily Injury in the years to come.

Accident Benefits – Medical/Rehabilitation

In 2010, we continued to experience an increase in the number of Accident Benefits Medical/Rehabilitation claims. In our internal data, this upward trend started in the third quarter of 2009.

In 2010, the average paid cost per vehicle for Accident Benefit Medical/Rehabilitation continued to increase (see the following graphs). We can observe a similar upward trend in our internal data by quarter. From the industry data, we can also observe that the average paid claim per vehicle has increased by 5.1% between the first semester of 2009 and the first semester of 2010 as of 12 months of development.





In the first quarter of 2011, we experienced an increase of AB claims, again partly explained by the difficult weather.

Given the continuing prevalence of the inflationary pressures for Accident Benefits, we expect the cost of claims to increase consistently in the coming years.

II. ECONOMIC CLIMATE AND ITS IMPACT ON CLAIMS COSTS

As we have seen in the past few years, unpredictable events in the global economy may lead to unexpected volatility in capital markets which can impact the industry's investment income. At this point, all indications point to the fact that the current environment of historically-low returns will continue.

The Office of the Superintendent of Financial Institutions (OSFI) has proposed changes to the 2012 Minimum Capital

Test (MCT). P&C insurers will most likely mitigate the impact of the proposed changes by modifying their investment portfolios.

We recommend that the board exercise caution when predicting how economic factors will impact claims costs or investment returns.

III. MONITORING IMPACT OF REGULATIONS TO ENSURE STABILITY

A great deal of very successful work has been done since the 2004 reforms to bring the product to its current state - affordable, available and stable. We encourage the board to monitor the impact of regulations consistently and regularly.

Recently, the government of Alberta sent out a proposed Automobile Accident Insurance Benefits Amendment Regulation. We support the policy objective to ensure that enhanced benefits are quickly made available to seriously-injured claimants in the aftermath of a motor vehicle accident. We support the government's efforts to define serious injuries in a way that avoids potential disputes by claimants whose injuries do not require enhanced benefits.

We recommend that the board acknowledge that the future cost impact of proposed regulation amendments remains uncertain.

IV. NEXT STEP IN THE EVOLUTION OF PRICING AUTOMOBILE INSURANCE.

With 74 Insurers vying for annual premiums of more than $3.2 billion, the Alberta auto insurance market is competitive. Since automobile insurance is such an important part of the overall insurance market in the province, maintaining an environment that will foster competition and promote innovation is crucial. This will provide Alberta drivers with a dynamic market and broaden the range of the offers that they receive in terms of price, as well as product and service features.

To foster such an environment, in 2009 you recommended to the government that the industry-wide adjustment process evolve and we enthusiastically supported your position.

The single premium adjustment that applies industry-wide does not reflect the experience of each individual company operating in the province and may create distortions in the competitive landscape favouring some insurers and disadvantaging others.

Our analysis of the industry results for the last five years shows that there is significant disparity in the performance of active Alberta insurers. In fact, the loss ratio gap between the top quartile of companies and the bottom quartile in 2010 was 18 percentage points.

In addition to supporting the board's view to evolve the industry-wide adjustment process, we would also suggest that you recommend to the government to maintain the adjustment process for the GRID which provides premium level protection but adopt a simplified file-and-use system for the market premium. Such a system would allow the industry to react rapidly to changing market conditions and further innovate to gain market share by offering well-priced products.

Since the reforms were adopted in 2004, Alberta's auto insurance marketplace has become one of the most stable in the country. In our view, letting insurers compete in terms of product design, underwriting and pricing becomes the best guarantee of availability, affordability and stability of insurance for Alberta drivers.

CONCLUSION

As you embark on your review process, we would respectfully request that the Board:

- consider that the historical declining trend of Bodily Injury claims has been reversed and we expect a higher number of claims in the upcoming accident year resulting in an increase of claims costs for this coverage;
- consider that given the continuing prevalence of the inflationary pressures for Accident Benefits, we expect the cost of claims to increase consistently in the coming years;
- exercise caution when predicting how economic factors will impact claims costs or investment returns;
- encourage competition in the marketplace by providing a healthy environment in which to operate.