

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 30, 2011

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;
- 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 45 member owners include co-operatives and credit union centrals representing a combined membership of millions of Canadians. Our Alberta members include Agrifoods International Cooperative Limited, Credit Union Central Alberta Limited, Lilydale Inc., UFA Co-operative Limited, Wild Rose Agricultural Producers, Alberta Federation of Rural Electrification Associations, and the Federation of Alberta Gas Co-ops Ltd.

In 2010, The Co-operators was ranked #2 among the 50 Best Corporate Citizens in Canada by Corporate Knights and has just been chosen as one of Canada's "Green 30" employers for a second consecutive year.

At The Co-operators we are not full members of the Insurance Bureau of Canada as we prefer to contribute to the policy development process directly. We are a co-operative as well as an insurance company and believe that we bring a uniquely Canadian and co-operative perspective to public policy consultations.

In Alberta, 105 agents independently own offices in communities across the province in addition to 6 service offices that do not have agents. They provide service to 230,394 clients in 171,116 households. Our agents also create employment, volunteer their time, and help fund community initiatives.

More than 268,006 private passenger vehicles are insured by The Co-operators Group in Alberta. However, a total of 272,151 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.

"The Co-operators continues to be active in supporting communities in a variety of ways. One example being that we are now in our third year of our fire safety education targeting Grades JK-2 via our National partnership with the *Canadian Association of Fire Chiefs* and the *Fire Marshal's Public Fire Safety Council*.

The Co-operators has established 6 Community Advisory Panels (CAPs) across Canada; including one in Calgary that is currently in its seventh year. These panels provide a sounding board where we can hear the concerns and issues of the community and seek their input. Our 14 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.

The Co-operators also has a vibrant Volunteers In Action program located in seven different cities across Canada. Calgary is the founding location of our staff-led volunteer program. The Co-operators is proud to offer its employees two paid days per year to volunteer in their community, and our Calgary Volunteers In Action group supports volunteerism through very active means. Their annual Golf Tournament has financially supported a variety of organizations in Alberta that focus on the well-being of families and children. In 2010 they raised \$27,000 for Camp Goldeye and this year, they will be holding their seventh annual Golf Tournament in support of the Sarah Faith Hogan Foundation. This foundation provides financial support to families who have infants born with severe health concerns.

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
November 1, 2010 -	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 of now, there continues to be uncertainty as to the possibility of a mandated industry wide rate level adjustment effective Nov 1, 2011. Our operational decisions are again hampered by this uncertainty. If it were not for this uncertainty, our policyholders who deserve equitable rates could begin to enjoy their potential premium savings sooner.

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 there is no lack of insurance availability. Consumers seem to be in a good place as well. At The Co-operators we find there are very few inquiries about auto insurance. As a result we feel that a mandated industry wide adjustment to rates is not warranted at this time.

LOSS TRENDS

We have reviewed loss trends using loss data as of Dec. 31st, 2010. While bodily injury claims frequency shows a downward trend, severity trends remain volatile. This results in an uncertain loss cost trend for bodily injury claims.

The accident benefits coverage in Alberta exhibits a volatile severity trend and a downward frequency trend. Moreover, the discussion around potential changes to coverage limits for catastrophic accident benefits injuries adds some uncertainty. Therefore, the combined effect of existing volatile trends and the change to coverage limits for catastrophic accident benefit makes the prediction of trends even more complex than it is currently.

In summary, while uncertainty from that past has been resolved with the final decision on the cap, new challenges have arisen for mandatory coverage types. Stable prediction of trends would require some stability in the coverages.

IMPACT OF CURRENT ECONOMIC CLIMATE ON CLAIM COSTS

Our expectation is that labour rates for automotive repairs will continue to increase in 2011/12, in excess of normal inflationary rates. The availability of replacement automotive parts for repairs will continue to be a challenge, as the automotive manufacturing sector restructures. We see increases in the cost of replacement parts, delays in repairs, increases in car rental loss costs, as replacement collision parts come from greater distances given current oil prices. In addition, the maturity of auto body repair technicians and the short supply of new technicians entering the industry to replace them will be an additional driver of costs.

We anticipate continued stress on the demand for auto body repair services, with the expectation that the demand will again tax the existing supply of auto body repair vendors. The continued growth in demand for auto body services will come from a combination of the economy gaining strength, continued growth in population, and the anticipated summer major weather events such as hail and windstorms or wildfires.

Investment income naturally plays a role in an insurer's profitability. According to our investment department, short term overnight rates are expected to rise. The effect of this on longer term bonds (which dominate our investment portfolio) is uncertain. As a result it would not be prudent for us or our policy holders to rely on investment income to maintain low auto insurance rates. It is vital to the future financial stability of our organization to have reasonable auto insurance rates; especially given the uncertainty in the economy, particularly in the bond market.

CONCLUSION

The marketplace in Alberta for mandatory automobile insurance is very competitive, insurance availability is a non-issue. The uncertainty in both loss trend and the economy commands some prudence and caution.

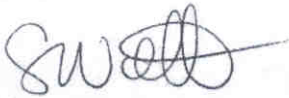
We are encouraged by the recent statement in the Alberta's Automobile Insurance Rate Board Annual Report that they intend to "review the Premiums Regulation with the view to moving away from the current industry-wide adjustment process to a file-and-approve system". If the limits are increased for catastrophic impairments, insurers should be permitted to price the product based on their own estimates of the impacts, as opposed to having a common industry assumption applied to all insurers.

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 2011 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 black ink, appearing to read 'S Nolet', with a long horizontal stroke extending to the right.

Sylvain Nolet
Vice-President, Actuarial Operations
The Co-operators