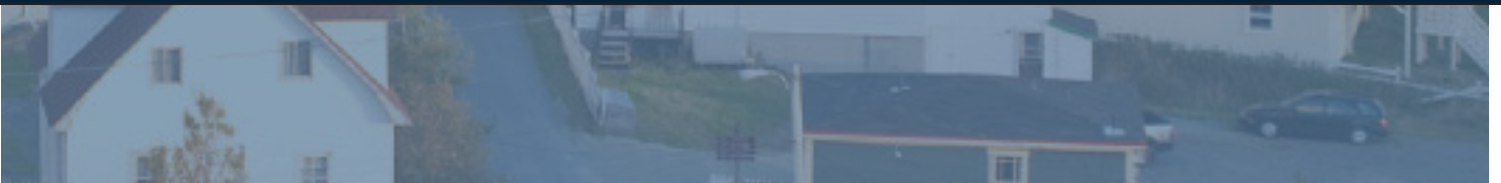




# **CONSULTATION SUBMISSION:** **Public Utilities Board** **Automobile Insurance Review**



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***the co-operators***<sup>®</sup>

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May 31st, 2018

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## INTRODUCTION

### *About The Co-operators*

**The Co-operators Group Limited** (“**The Co-operators**”) is a leading Canadian multi-line insurance and financial services co-operative. Our integrated subsidiary companies provide solutions in four core areas: property and casualty insurance, life insurance, institutional asset management and brokerage operations.

We are driven to provide financial security and peace of mind to meet the evolving needs of Canadians and their communities. We work for the benefit of our members, clients, employees, and communities. In Newfoundland and Labrador, we operate two property and casualty insurance brands which offer automobile insurance to clients: Co-operators General Insurance Company, and COSECO Insurance Company. Together, **we insure approximately 38,000 private passenger vehicles in the province.**

### *Committed to the communities we serve*

In Newfoundland and Labrador, we employ approximately 110 people across our group of companies and are proud to have a network of 19 financial advisors serving in 24 locations. In turn, these independent advisors hire or independently contract with 85 associate insurance and financial advisors and staff.

Additionally, we live out our co-operative identity and create benefits for communities through contributions to charities, non-profits and co-operatives. Over the past five years we invested almost \$300,000 in Newfoundland and Labrador.



Through **The Co-operators Community Economic Development (CED) Funds** we support charities, non-profits, social enterprises and co-operatives whose programs provide employability training and employment opportunities for marginalized youth and persons with mental health challenges. Choices for Youth, an organization based in St. John's, will use the funds it received to increase the number of youth supported and employed by their social enterprise production facility Project SucSeed, and offer a more diverse set of employment options for youth.

We welcome the government undertaking a review of the automobile insurance sector. Some of the issues in the market have been well-documented: The recently published Closed Claims Study commissioned by the PUB, in which The Co-operators participated, confirmed claims costs are rising faster than premiums and are still not covering the cost of offering auto insurance in the province. Premiums in Newfoundland and Labrador are the highest in Atlantic Canada and in fact, are rising higher than the national average. Significant reforms are needed to keep costs as low as possible, improve the experience for consumers and ensure a strong, competitive and sustainable market that will serve them well.

# OUR APPROACH TO AUTO INSURANCE & REFORM OBJECTIVES

Our philosophy regarding the delivery of the insurance products to consumers 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.



*These principles inform and guide our recommendations with respect to designing an auto insurance product that is optimal for consumers. Our recommendations are intended to contain costs and improve health outcomes for consumers through product reform and a more competitive, innovative market supported by an improved regulatory filing process. Lastly, underpinning any major changes must be a greater emphasis on consumer education. A well-informed consumer is best empowered to ensure a well-functioning marketplace.*



# PROPOSED REGULATORY REFORMS

As supported by the analysis conducted by Oliver Wyman, it is our recommendation that Newfoundland and Labrador adopt a combination of Direct Compensation for Physical Damage coverage, mandatory Section B/ accident benefits with minor injury protocols and increased benefits, and a cap for minor injuries. Together, these initiatives would ensure consumer protection - both in terms of injury coverage as well as premium control – and bring about meaningful change.

## *Increase Consumer Protection and Improve Outcomes*

### **RECOMMENDATION: Mandatory Section B/ Accident Benefits Coverage**

We support accident benefits being mandatory to better protect consumers – leading to better health outcomes through faster access to care and less friction in litigation which leads to increased costs in the system.

The current coverage limits on medical and rehabilitation benefits (\$25,000) are lower than the other Atlantic Provinces (\$50,000). The weekly indemnity for loss of income is also lower at \$140/week (vs. \$250/week). We recommend that the timeframe to qualify for weekly indemnity be changed to match other Atlantic Provinces. In the other Atlantic Provinces, the client must be substantially disabled within 30 days to qualify; in Newfoundland & Labrador they have 104 weeks.

Increasing accident benefits coverage under Section B to match the other Atlantic Provinces would provide enhanced protection to clients but would also put additional cost pressures on premiums in the province. It is thus important that increased collateral benefits offset tort entitlements. It is equally important that increased section B benefits be accompanied by appropriate controls – through treatment protocols and clear limits.

### **RECOMMENDATION: Adopt Well-Defined Treatment Protocols**

While we support the establishment of pre-approved evidence-based treatment protocols, these alone are not enough to be a significant driver of stability and predictability. Alberta for example, has been successful in establishing policies that control loss costs as well as transaction costs since its implementation in 2004. There are key components of the Alberta approach we believe merit consideration:

- 1.** Medical and Rehabilitation (max \$50,000) and Income Replacement Benefits (max \$400/week) are only available for two years from the date of the accident.
- 2.** After the Diagnostic and Treatment Protocols, Alberta has separate hard payment limits for Chiropractic (\$750), Massage Therapy (\$250) and Acupuncture (\$250).

## **RECOMMENDATION: Implement a \$5,000 Minor Injury Cap**

We recommend the adoption of a minor injury cap of \$5,000. Note that other Atlantic Provinces with current minor injury caps indexed at \$7500 have not sufficiently contained costs. We believe increased Section B benefits in conjunction with the implementation of a minor injury cap may translate to a reduction in the number of tort claims being made with respect to minor injuries – leading to speedier settlements and better outcomes for consumers.

Establishing a clear minor injury definition is also key. Any psychological sequelae of a minor injury should be included or considered as part of the definition.



## *Improve the Consumer Experience with Faster Replacement of Damaged Vehicles*

### **RECOMMENDATION: Adopt Direct Compensation for Physical Damage Coverage to Drive Down Costs and Allow for Better Client Service**

Direct Compensation for Property Damage (DCPD) allows insured drivers to be compensated by their own insurance company for damage to their vehicle, its contents and any resulting loss of use due to a collision caused by an identified and insured third party. Clients will not pay a deductible for the portion of any claim paid under DCPD and it will not impact their driving record.

A DCPD system would be an important improvement for the insurance industry in Newfoundland and Labrador. It reduces the costs associated with subrogation and is better for the consumer. For example, insurers would require less resources to service the same number of claims they receive and for clients, the DCPD system is faster – ultimately leading to greater satisfaction by receiving their entitlements quicker.

## Encourage Innovation and Competition to Benefit Consumers

### RECOMMENDATION: Streamline the Rate Filing Process



Removing barriers to innovation must include a nimble approach to modifying the regulations as well as rate filing processes that are quick, straightforward, and encourage competition.

Currently, the Public Utilities Board approves all rates and risk-classification systems before they can be used by insurers. Approval is achieved once actuarial justification is submitted to the PUB, as defined in detailed filing guidelines, and after responses to filing questions are provided, which often provoke discussion. This process, while also common in other Canadian provinces, does not produce a desirable outcome for consumers. It is time-consuming, and therefore costly, reducing competition in the market place, and creating a lag which prevents insurers from charging premiums that are commensurate with each individual's risk in a timely manner.

Additionally, the filing guidelines require insurers to reflect specific data and pricing assumptions in the calculation of their overall rate level indication. Quite often, these assumptions do not represent the insurer's financial reality and, therefore, impact the insurer's ability to operate a sustainable business in the province. Insurers must have the ability to apply their own data and assumptions to the calculation of their overall rate level indication and to apply actuarial judgement as required, including in their rating variable differential selections. Ensuring conditions allow for a sustainable marketplace increases competition and in turn, the offerings and benefits available to consumers.

Therefore, we recommend a "file-and-use" approach, where the market regulates itself. The most significant advantage to this approach is again, increased competition. Insurers will have the opportunity to improve their segmentation by charging rates that more closely reflect the risk presented by individual consumers and quickly adjust those rates in response to similar adjustments by competitors. The role of the regulator will subsequently shift to monitoring compliance with the regulations and overall rate levels.





## *Additional Comments*

### **RISK-SHARING POOL:**

We believe a risk sharing pool is an important component of risk management, as it allows insurers to pool high-risk drivers and share equally in their losses. Pools also benefit the consumer by providing access to insurance that high-risk drivers could not otherwise get in the regular market and controlling premiums for all other drivers that are part of the regular market. Numerous other provinces have implemented risk sharing pools. We recommend following the structure of the pools in Ontario, Alberta, or Quebec which is less restrictive than the existing Atlantic pools.

### **CHANGES TO DISCLOSURE FORM:**

We recommend a revision of the mandatory disclosure forms sent to claimants after a loss. While we appreciate that the intent is to be transparent in the communication of information to consumers, we believe that references to the threat of surveillance may unnecessarily create an adversarial relationship between insurers and injured parties.



## **CONCLUDING REMARKS**

Once again, we appreciate the opportunity to provide our perspectives on the auto insurance market in Newfoundland and Labrador. This is an important opportunity to create better outcomes for consumers and a more competitive, innovative market. As a co-operative financial services provider, we hope to bring a unique perspective to public policy consultations. As such, we are not members of the Insurance Bureau of Canada (IBC) as we prefer to contribute to the policy development process directly. We remain committed to working directly and collaboratively to ensure the delivery of products that provide security, remain accessible, affordable, and easy to understand.

Should you have any questions or to advise of future consultations, please contact **Maya Milardovic, Director of Government Relations**, at 1-888-767-3909 ext. 302244 or email [maya\\_milardovic@cooperators.ca](mailto:maya_milardovic@cooperators.ca).

Sincerely,

**Jessica Baker**  
Vice President, Atlantic Region  
The Co-operators