

February 10, 2015

Council of Experts on Automobile Insurance Contributions  
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Québec (Québec)  
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## Introduction

The Canadian Institute of Actuaries (CIA) is pleased to present its comments on the consultation document Proposed Insurance Contributions: Proposal for 2016–2018 prepared by the Société de l'assurance automobile du Québec (SAAQ).

The CIA is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board (ASB) in developing standards of practice applicable to actuaries working in Canada.

There are more than 2,750 Fellows of the CIA across Canada. Nearly half of them work in the insurance sector. The services of actuaries are especially used to ensure that the future financing needs of insurance plans are properly understood and that the plans are properly funded.

The CIA is interested in the financing and funding of the Québec automobile insurance plan. The following comments focus on those aspects of the consultation document.

## Financing

In addition to the public consultation document, the CIA consulted *Rapport actuariel sur les contributions d'assurance 2016, Fonds d'assurance automobile du Québec*, which provided a sound basis for its comments. The CIA calls upon the SAAQ to make this report available to the public at the same time as any consultation document.

The CIA has noted the improvement in the road safety record and encourages the SAAQ to continue its prevention efforts. Combined with surpluses from the review of compensation practices and from higher-than-expected investment income, the improvement now makes it possible for the SAAQ to set contributions at the level required for a financing ratio of 100 percent without the need to include a deficit financing component.

The CIA notes that the vehicle traffic accident frequency assumption used to determine financial needs assumes that the road safety record in 2014 and 2015 will improve in relative terms and then remain stable. This is a decision by the board of directors that your actuaries have noted for the purposes of the statutory expert actuarial assessment.

Although the SAAQ seems confident that improvements in road user behaviour are not at risk, the CIA believes that a slightly more cautious approach, such as using an average of past years, would also be justifiable. This would reduce the potential for contribution increases in the future, maintain the objective of fairness that aims to have road users cover accident costs, and still provide users with substantial reductions.

### **Funding**

At the end of 2013, the funding ratio exceeded 100 percent for the first time since the funding policy was adopted, a few years earlier than had been expected when the previous rate-setting exercises were adopted for 2011–2015. In the consultation document the SAAQ determines the level of funding required to ensure the long-term financial soundness of the plan. To that end, it relies on the practices of Canadian workers' compensation boards, which target a funding ratio within a variable range whose lower limit is always 100 percent or greater, but whose upper limit varies from 120 percent to 153 percent.

The SAAQ has selected a range from 100 percent to 120 percent, but has not explained the criteria for this choice. The CIA therefore cannot judge its appropriateness, but asks that the SAAQ base its choices on risk analyses that follow the actuarial practices that deal with its own situation. It is reasonable to believe that the situation of the SAAQ differs from that of workers' compensation boards in that the boards set their rates annually, while the SAAQ sets its rates for longer intervals.

It may seem strange that the examples of funding ratios used as benchmarks exclude the Québec workers' compensation plan for no given reason. The public may expect two similar insurance plans (subject to the different frequency of setting rates mentioned in the preceding paragraph) in a given jurisdiction to have similar policies or may expect to be told the reasons for any differences.

### **Telematics**

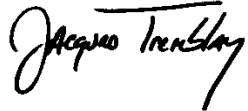
The CIA takes note and encourages the SAAQ to value the potential of telematics in order to improve the road safety record. It is possible that the SAAQ may be obligated to offer incentives to volunteers to execute these tests. These incentives will inevitably have to be funded by the overall population of road users. The CIA calls upon the SAAQ to respect in every way possible the equity principles in insurance and to forecast a rigorous statement of costs and gains for this experience.

### **Conclusion**

Bill 55 assigns clear responsibility to the SAAQ for the financing and funding of the plan.

The CIA supports the direction of the SAAQ's board of directors to maintain the financial soundness of the plan. We hope that the rates of the plan will be set on the basis of sound actuarial parameters.

Yours truly,

A handwritten signature in black ink that reads "Jacques Tremblay". The signature is written in a cursive, flowing style.

Jacques Tremblay

CIA President

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