

A Report and a Request

January 1957

Dear Policyholder:

This is a long letter, but please read it - we are reporting to you on automobile insurance problems and plans. In the past eight years your company has provided attractive rates and, for most of that period, has been a leader in claims service - in promptness, fairness, satisfaction. In short, CIA has provided lively competition. The members of our sponsoring organizations, and the public, have been appreciative - we had 57,000 automobile policies in force at the end of 1956.

More Cars, More Driving, More Accidents - In the last two years there has been a rapid increase in the number of cars on the road, in the amount of driving done and in the number of accidents. We had 12,000 claims in 1956, compared with 8,000 in 1955 - we spent on claims 77 cents of each earned premium dollar compared with 63 cents in 1955. Like most other companies, we lost money on automobile insurance during the year. We underestimated the rising tide of claims by about a dollar a renewal.

As a result, our slowly-built surplus fund of \$140,000 was substantially reduced although there was a pleasing increase in the company's capital as a result of preferred share purchases by friends. The company has paid-in capital of \$260,000 and is reinsured by Britain's fourth largest insurance company, Co-operative Insurance Society.

Some Premiums Higher - Premium rates for many classes of policyholders are higher this year. In addition, at the next renewal, rates will be slightly higher for some policyholders, but lower for others, as a result of some new rating distinctions which we are making because of the rapid increase in motor traffic and accident frequency on Ontario roads.

Or perhaps you should be paying more premium or less premium because of a change in age of the drivers of your vehicle. Please return the enclosed rating questionnaire with your remittance, so that we may rate everyone correctly at the next renewal.

Competition with "Accident-free" plan - Most other companies have been getting extra premium from their "accident-free" plan. In 1957 they will get even more. They will charge a policyholder who has had an accident within one year an extra 43 percent on his liability or collision premium (or on both), for an accident within two years an extra 29 percent, and for an accident within three years an extra 14 percent. This means that if a policyholder reports an accident - big or small - and the company makes a payment which it does not recover, he pays, over a three-year period, about an extra 85 percent of one year's premium - or 170 percent of six months premium.

To avoid these extra charges many policyholders of other companies do not report their smaller accidents - or they deny responsibility for loss they have caused to others. We have not adopted this plan, because we want our policyholders to report their claims so that we may give good claims service.

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CIA Adopts Service Fee Plan - However, to keep our rates competitive, and yet obtain the revenue to maintain and improve our high standard claims service, CIA is adopting

- (1) a continuous re-underwriting program - we will charge a higher premium where the risk seems to have increased unduly, and
- (2) a schedule of claims service fees - to pay part of the cost of handling a claim. The policyholder will pay the fee, in two payments, at two subsequent renewals. The fee will vary with the net cost to the company of liability and collision claims, but will be nominal for medical payments and comprehensive claims, which usually are more easily handled even when the amounts are large.

Encourage Collision Protection - The fee also will be nominal if CIA recovers in full what it pays under a collision claim. In working out the "net cost" for a policyholder who has \$50 or \$25 deductible we will assume that the policyholder has \$100 deductible because we wish to encourage low deductibles.

Scale of Fees

<u>Size of Liability and/or Collision Claim (collision based on \$100 deductible)</u>	<u>2 Payments of.</u>	
\$1,000 or over -----	\$ 15	
\$ 500 or over but under \$1,000 -----	14	
\$ 400 or over but under \$ 500 -----	13	
\$ 300 or over but under \$ 400 -----	12	
\$ 200 or over but under \$ 300 -----	11	
\$ 175 or over but under \$ 200 -----	10	
\$ 150 or over but under \$ 175 -----	9	Fees apply to
\$ 125 or over but under \$ 150 -----	8	passenger cars,
\$ 100 or over but under \$ 125 -----	7	farm, semi-farm
\$ 75 or over but under \$ 100 -----	6	and family use
\$ 50 or over but under \$ 75 -----	5	trucks.
\$ 25 or over but under \$ 50 -----	4	
Less than \$25 or only Medical Payments -----	3	
Other claims where company makes a payment (including full recovery by company of what it has paid out) -----	2	
Comprehensive only -----	2	

Fees Won't Help Much This Year - This claim service fee is fair, and we think that you will like it. Under this plan because the fees vary with the amount of the claim, there will be no reason for you not to report a claim - except a comprehensive claim of less than \$5. In another year or so it will enable the company to charge about five percent lower rates than would be possible otherwise. However, because it applies only to claims occurring on and after March 1, 1957, it will not give the company much revenue this year.

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How You Can Help - We are competing with companies that established huge surplus funds in the days before income taxation and with U.S. mutuals which even today do not pay income tax on their U.S. operations. In its first seven years in automobile insurance, 1949 to 1955, CIA paid \$200,000 in income and premium taxes, and, after \$36,000 in dividends on capital, had accumulated in surplus at the end of the period only \$140,000.

We are therefore asking each policyholder to give his company at this renewal, as a voluntary contribution in addition to his premium, \$2 for each automobile policy he has in force. As a gift your \$2 will go into the company's surplus fund without CIA having to pay tax on it. We have taken the liberty of showing this extra amount with your renewal premium - you don't need to include it unless you wish, but we hope you will. Your gift will build your company's surplus to enable it to do a better job.

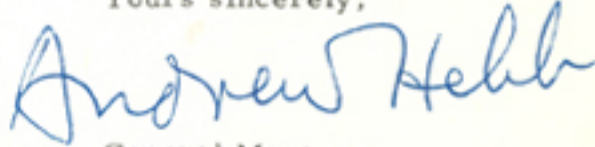
Abstainers' Bonus Coverage - We also ask your help in retaining a fair portion of those motorists who never drink. We have found from a study of our records that, on the average, policyholders who do not drink at all drive about a thousand miles less a year. These policyholders, on the average, apparently stay at home more. This lower mileage, just like the lower average mileage of older drivers compared with that of younger drivers, results in less accidents and reduces our claim costs.

We do not, of course, so far as we can help it, insure anyone who drinks and drives, but, in addition, we must attract and hold as many policyholders as possible whose mileage and accidents are likely to be below average.

We will give, without extra premium, \$1,500 per person (instead of \$1,000) basic medical payments protection to these abstainer policyholders - if they have medical payments (80 percent of our policyholders have). The policyholder will sign a form once a year to qualify for his bonus protection. His statement that no driver of his car drinks at any time will be subject to verification when he makes a claim under this extra coverage.

More Danger Daily - The danger on Ontario highways is increasing steadily. Will you try to adjust your driving to these greater hazards, and help others to do so? Will you also help CIA by sending us the name of someone you are sure is a careful driver - someone who would like to join a group of people who are trying to prevent automobile accidents and provide the best in claim service protection?

Yours sincerely,



Co-operators Insurance Association

General Manager