
2018 Annual Review Report

Alberta Private Passenger Vehicles



September 19, 2018

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Automobile Insurance Rate Board

Mission

As an independent body, the Automobile Insurance Rate Board (referred to herein as either the AIRB or the Board) regulates rating programs of Alberta automobile insurance companies (insurers) to ensure premiums are fair and predictable. The Board also ensures consumers have access to information to facilitate informed choices.

Background

Legislative and Regulatory Authority

The AIRB was established on October 1, 2004 under Section 599(1) of the Insurance Act (the Act) to review and approve rating programs for basic coverage. On November 27, 2013, the Enhancing Consumer Protection in Auto Insurance Act was passed, making amendments to the Act and supporting Automobile Insurance Premiums Regulation (Premiums Regulation), which came into force on July 1, 2014. The amendments expanded the AIRB's authority to review and approve rating programs for additional coverage.

The mandate of the AIRB is defined in the Act and the Premiums Regulation and includes the duty to:

1. Submit an annual report to the Minister on the operations of the Board;
2. Review and approve all rating programs for new and changes to existing rating programs for insurers licensed to sell automobile insurance in Alberta;
3. Conduct an annual review of automobile trends and premiums relating to basic and additional coverage for private passenger vehicles;
4. Conduct an annual open meeting to receive comments from the automobile insurance industry, the consumer representative and the public; and
5. Exercise and perform any other powers and duties assigned to it by the Minister or prescribed by regulations.

Private Passenger Rate Level History

In 2003, the Alberta Government made significant changes to Automobile Insurance in the province.

Bill 53, the Insurance Amendment Act, was effective October 1, 2004¹ and provided the:

- introduction of a cap on pain and suffering for minor injuries at \$4,000²;
- introduction of diagnostic and treatment protocols;
- elimination of the double-recovery of compensation from more than one source;
- determination of wage loss based on net, rather than gross, wages;
- increase in the maximum medical/rehabilitation benefits under accident benefits to \$50,000; and
- introduction of the "take all comers" rule.

¹ The reforms set out in Bill 53 were effective October 1, 2004, with the exception of the consideration of collateral sources and the determination of wage loss based on a net, rather than gross, wages, which was effective January 26, 2004.

² The Minor Injury Regulation allows for an annual adjustment to the amount of the cap on non-pecuniary damages recoverable for minor injuries based on the Consumer Price Index for Alberta. The amount increased to \$5,080 as of January 1, 2018.

The table below outlines the average written premiums for basic, additional, and combined coverage since the reforms made in 2004.

Calendar Year	Basic Coverage	Additional Coverage	Combined	Combined Coverage % Change
2004	707	370	1,077	-5.61%
2005	638	384	1,022	-5.11%
2006	612	411	1,023	+0.10%
2007	600	431	1,031	+0.78%
2008	598	459	1,057	+2.52%
2009	606	489	1,095	+3.60%
2010	575	506	1,081	-1.28%
2011	551	519	1,070	-1.02%
2012	562	525	1,087	+1.59%
2013	579	534	1,113	+2.39%
2014	609	545	1,154	+3.68%
2015	644	536	1,179	+2.17%
2016	686	523	1,209	+2.54%
2017	725	526	1,251	+3.47%

Source: 2017 GISA Actual Loss Ratio Exhibit

Although the premiums for basic coverage have increased overall by 2.5% since 2004, premiums have increased 29.0% in the last six years (2012-2017).

The premium increases for basic coverage in recent years are primarily related to adverse claims development on bodily injury claims. Insurers have reported an increased proportion of claims with injuries falling outside the definition of minor injury and therefore falling outside of the minor injury cap. Insurers indicate that claimants are presenting increasing incidence of chronic pain, psychological injury, Temporomandibular Joint Syndrome (TMJ) (because of the 2012 Sparrowhawk v Zapoltinsky³ ruling) and they are seeing claims for new heads of damage. This combined with a higher percentage of claims being litigated, low investment return, and a longer period of treatment is resulting in increased claims costs, a significant driver of premiums.

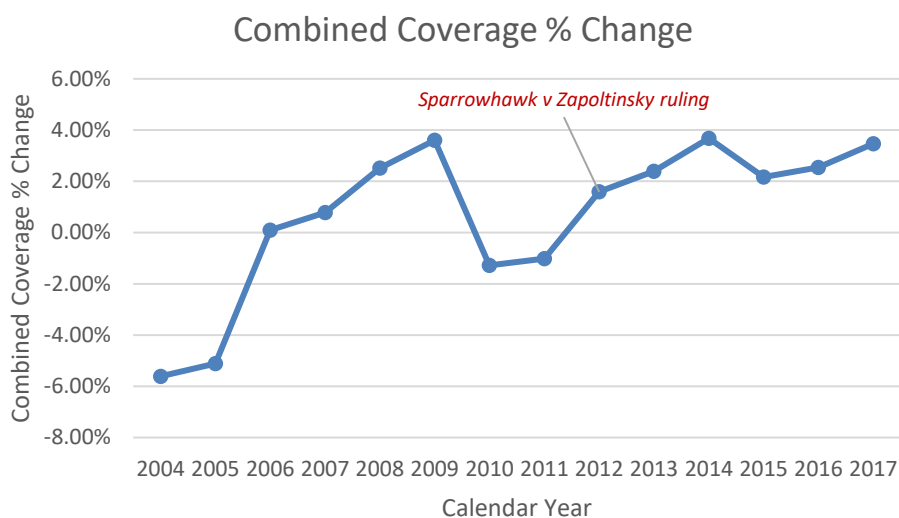
The Government recognized the number of claims settling outside the minor injury definition was one factor that causes increased claims costs, and thereby premiums. In May 2018, to address this concern, the Government clarified the Minor Injury Regulation for accidents occurring on or after June 1, 2018.

³ In Sparrowhawk v. Zapoltinsky, a decision was released on January 13, 2012. The Court of Queen's Bench of Alberta ruled that TMJ injuries are not injuries to which the Minor Injury Regulation and Diagnostic and Treatment Protocols Regulation apply.

The impact of this change will not be fully known for some time, but the AIRB will continue to monitor its impact in reducing claims costs in future review reports.

Since 2004, premiums for additional coverage have increased 42.16%. Pressure on additional coverage premiums in recent years is mainly a result of severe weather and catastrophe events such as hailstorms and flooding events most notably in southern Alberta, the Fort McMurray fire. In addition, the increasing repair costs due to more expensive materials and higher labor costs and increases in vehicle theft have also contributed to the cost pressures.

The graph below illustrates the volatility in the percentage change for combined (basic and additional) coverage over the past 14 years. Combined coverage premiums have been increasing at an average rate of 2.64% per year since 2012.



Annual Review for Private Passenger Vehicles

Automobile Insurance Premiums Regulation

The Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles and as part of that review to conduct an open meeting each year.

Notice of Open Meeting

On June 25, 2018, the AIRB sent a letter to stakeholders advising that the Board would be holding an open meeting on August 14, 2018 to review Alberta industry loss experience for private passenger vehicles to assist the Board in setting Industry Benchmarks for the review of insurer rate filings for basic and additional coverage. All interested parties were requested to submit a letter to the Board by July 6, 2018 of their intent to participate in the open meeting. The meeting is part of the process to review automobile insurance trends and premiums relating to basic coverage and additional coverage for

private passenger vehicles and to receive comments from the automobile insurance industry, the consumer representative and the public.

The notice was also placed in the Grande Prairie newspaper on June 22, 2018 and in the Edmonton, Calgary, Red Deer, Lethbridge and Medicine Hat newspapers on June 23, 2018. The notice was also posted on the AIRB [website](#).

Presentations and Written Submissions

The Board received six letters of intent from insurers to participate. All parties that requested the opportunity to make a presentation were accepted and provided with a copy of the Rules of Procedure for the open meeting and asked to ensure that their comments were within the scope of the annual review.

Open Meeting

The Board held the 2018 open meeting on August 14, 2018 at the Canadian Western Bank Place in Edmonton. The Board was assisted by Paula Elliott, the Board's Consulting Actuary, and AIRB staff: Laurie Balfour (Executive Director), KimBerley Kern and Christine Zhao.

The following parties made presentations at the public meeting:

- Oliver Wyman Limited
- Insurance Bureau of Canada (IBC)
- Facility Association
- Consumer Representative
- The Co-operators Group Limited
- Aviva Canada Inc.
- Intact Financial Corporation
- The Wawanesa Mutual Insurance Company

Written submissions were tabled publicly on August 14 from the following parties:

- Allstate Canada
- Desjardins General Insurance Group
- TD Insurance

All information submitted to the Board as part of the public meeting process including the audio files of the open meeting are available on the AIRB [website](#).

The Oliver Wyman Review of Industry Experience Report

On June 22, 2018, the Board released the preliminary report of its consulting actuary, Oliver Wyman, titled, "Review of Industry Experience as of December 31, 2017 Private Passenger Vehicles" (Oliver Wyman Report). The Oliver Wyman Report includes their analysis and findings regarding the private passenger insurance industry claims experience for basic and additional coverage. The Board requested that the Oliver Wyman Report provide information and professional advice with respect to automobile trends and premiums for private passenger vehicles. Oliver Wyman based its analysis and findings on

data that includes all insured vehicles in the province including those in the Facility Association and in the Risk Sharing Pools. The Oliver Wyman Report includes claim data provided by the General Insurance Statistical Agency (GISA) as reported as of December 31, 2017. This preliminary report is posted on the AIRB [website](#).

On September 19, 2018, Oliver Wyman presented its final report to the Board. This report addressed comments arising from the open meeting in August 2018 (Appendix A). The Oliver Wyman Report includes recommendations to the Board on the Industry Benchmarks to be used for rate filings submitted on or after October 1, 2018.

Industry Benchmarks

The Board reviews individual insurer's filings based on their reasonableness relative to the Industry Benchmarks (Appendix B) selected by the Board. In accordance with the AIRB's Filing Guidelines, the following Industry Benchmarks must be considered for each of the ratemaking components in all full filings.

1. Loss Development Factors
2. Loss Trends
3. Catastrophe Loading
4. Investment Income Rate
5. Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)
6. Health Cost Recovery
7. Profit

The Oliver Wyman Report estimates for ratemaking components 1, 2, 3, and 5, above, are Board approved "benchmarks". These components are to be based on each insurer's own experience – to the extent they are deemed credible. However, should an insurer find a need to calculate industry loss costs or loss ratios to serve as credibility complements, then it is expected that the Board approved benchmarks for each of the ratemaking components be used. Component 4 sets the lowest discount rate that insurers are allowed to use in calculating their rate indications. Components 6 and 7 are to be used by insurers to calculate their rate indications.

Loss Development Factors

Historical claim count and claim amounts must be projected to expected ultimate values by coverage and sub-coverage. Prior years' experience provides insight as to how the number and amount of claims tend to develop from initial reporting. Insurers are expected to select and support claim count and claim amount development factors based on their own experience in calculating their rate level indications.

The Board's consulting actuary, Oliver Wyman, conducted an analysis of industry claim count and claim amount development patterns based on Alberta industry data as of December 31, 2017. No industry comments were received with regard to the loss development selections.

The Board accepts Oliver Wyman's selected development factors as a benchmark for insurers to use to the extent industry claim experience is a consideration in developing their rate level indications. Insurers

that consider industry claims experience must use the benchmark development factors without adjustment. Details are in the Appendix B – Industry Benchmarks Schedule.

Loss Trends

Trending is a means of evaluating how changes over time affect claim costs in addition to the development on claims. Loss trends vary by coverage and sub-coverage.

Based on the industry analysis, Oliver Wyman selected the following loss trend rates for each coverage:

Coverage	Past/Future Trend Rates
TPL - Bodily Injury	+8.5%/+7.5%*
TPL - Property Damage	+0.5%
TPL – Subtotal	+6.3%/+5.5%
AB-Total	0.0%/6.0%**
Collision	+2.5%
Comprehensive	+5.0%/+8.5%***
All Perils	+4.0%
Specified Perils	+12.0%
Underinsured Motorist	+4.0%

* Future trend rate begins October 1, 2017

** Trend rate change and level change adjustment of +25% at July 1, 2015

*** Future trend rate begins January 1, 2011

IBC and insurers commented on the continuing increase in Bodily claim costs (which is reflected in the recommended trend). Reasons given for the increase include:

- erosion of the minor injury cap (Sparrowhawk v Zapoltinsky and McLean v Parmar rulings cited);
- increased legal representation and use of strategies to avoid cap limitations (psychological impairment, head injuries, chronic pain);
- inefficiency/uncertainty of current Certified Examiner process; and
- high pre-judgment interest rate (4%).

Oliver Wyman has taken into consideration the industry comments in their final recommendations.

The Board accepts Oliver Wyman’s selected trend rates as a benchmark for insurers to consider in developing rate level indications. The industry trend rates developed by Oliver Wyman will serve as a point of reference in the review of filings received on or after October 1, 2018. The Board acknowledges that insurers may select different trend rates based on their own claim experience. Insurers have the option to:

- a) use their own experience where it is fully credible;
- b) use their own experience to the extent that it is credible and apply the Board’s accepted industry benchmark trend rates without adjustment as the complement of credibility; or
- c) apply the Board’s accepted industry benchmark trend rates without adjustment.

Catastrophe Loading

Comprehensive coverage, in particular, claims experience is affected by the occurrence or non-occurrence of “weather-related events” such as windstorms, hail, or flooding. Since catastrophes cannot be predicted, it is generally accepted actuarial practice to remove the actual claim costs arising from catastrophes and include a provision for the average level of catastrophic losses that could be expected to occur in a given year.

Oliver Wyman noted that the losses arising from the Fort McMurray wildfire are not considered catastrophe losses by GISA. However, Oliver Wyman believes that the fortuitous nature of these losses should be considered by insurers in calculating their rate level needs. Treating these losses as catastrophe related losses is one approach insurers may apply.

With the release of the 2017 GISA catastrophe exhibit as well as consideration of the points made by stakeholders, Oliver Wyman modified the weighting method and recommended a loading of 60%, or 1.60 to be reasonable. The loading reflects the adjustment made for the rising theft claims.

The Board accepts Oliver Wyman’s recommended loading of 60% as an industry benchmark based on the review of industry experience. Where the insurers’ own claim experience differs from industry and is credible, the Board acknowledges that insurers may select a different catastrophe loading based on their own claim experience, providing their catastrophe definition has been consistent in the experience period.

Investment Income Rate

Insurers must discount claim costs for the investment income on policyholder funds until claims are paid. Based on the Government of Alberta’s forecasts of short and long-term bond yields published, Oliver Wyman recommended a benchmark interest rate of 2.50% in the preliminary report. Stakeholders found the benchmark interest rate to be reasonable.

The government published updated forecasts of short and long-term bond yields in July, after the preliminary report was published, and Oliver Wyman revised their recommendation to 2.75%.

The Board accepts 2.75% for all coverage as the benchmark risk-free rate. Insurers must use a risk-free rate that is no lower than 2.75% when discounting claims in filings submitted to the Board. The investment rate is updated semi-annually; the updated investment rate is posted on the AIRB [website](#), in the Industry Benchmark Schedule.

Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)

Administrative expenses are non-claims related expenses, which are usually composed of commission, taxes and other. ULAE is the claim and settlement related expense that cannot be associated directly with individual claims.

GISA publishes the Automobile Insurance Financial Information exhibit which establishes industry averages for administrative expenses. GISA also publishes automobile industry exhibits where ULAE ratios are incorporated.

Since the expense provision benchmark is only used as a reference when reviewing active insurers' rate filings, the Board does not believe that including expenses from insurers that are running off (i.e. closing their book) is reasonable.

The Board accepts the industry average expense ratios and the ULAE ratio for Alberta presented in the GISA exhibit as the benchmarks. They are used in the Grid analysis and will be the points of reference when considering administrative expenses and ULAE in the review of individual insurer filings. The AIRB will recognize the individual insurer's own experience where it is credible.

Expense Category	Board Selections
Total Commission	12.9%
Premium & Fire Taxes	4.0%
All Other Expenses	10.9%
Total Expenses	27.8%
ULAE	9.2%

Health Cost Recovery

Under Provincial legislation, a levy is paid by each insurer to achieve a target amount set by Government. The levy is calculated as a percentage of earned third party liability premiums, using GISA data. The Government has no subrogation rights against the at-fault parties who have third party liability coverage. The Minister of Finance publishes the levy percentage applied to third party liability written premiums annually.

IBC has suggested that given the most recent aggregate assessment increasing by a smaller percentage in recent years, it would still be appropriate to higher rates in subsequent years. Since the Board is not responsible for calculating the Health Cost assessment, keeping the current practice is deemed fair to all policyholders.

The Board accepts the Health Cost Recovery as a component of claims costs reported by insurers. Insurers must use the most updated percentage published on the Minister of Finance's [website](#). The 2018 assessment factor is 7.04%.

Profit

The Board has established 7% of premium as a target pre-tax profit provision for all coverage. There were no industry comments received with regard to the provision. The Board annually reviews and determines the percentage of premium that represents a reasonable level of profit for insurers for all coverage. Insurers must justify any target that is higher than the Board's selected percentage of premium for profit.

Grid Rating Program

The Government introduced the Grid rating program in October 2004 to set maximum premiums that insurers can charge for basic coverage for any driver profile, and established two risk-sharing pools⁴. Currently, only 5.8% of all drivers in Alberta are capped by the Grid. Insurers must compare the premium for basic coverage under their current rating program to the Grid premium and charge the lesser of the two premiums with exceptions under Section 8(2) of the Premiums Regulation.

Under the Premiums Regulation, the Grid base premium level is adjusted based on the analysis of its own claims experience. Due to data credibility of the Grid-only risks, industry benchmarks accepted by the Board without adjustment will be used for the analysis.

There has been ongoing concerns from stakeholders regarding Grid rate level inadequacy. The Board takes into consideration these concerns and adjust Grid base premiums as necessary each year, after considering:

- loss experience specific to the Grid;
- loss experience for all Alberta private passenger vehicles;
- industry benchmarks as detailed above; and
- any other matters the Board considers appropriate.

In 2018, in making its decision, the AIRB also considered the following factors:

- Premium stability;
- Subsidization by the competitive market, if any;
- Risk sharing pool size and profitability;
- Impact on Grid population;
- AIRB 10% overall premium level cap;
- Ministerial Order 25/2017;
- Impact of the rate change on Grid; and
- Current Alberta market environment.

⁴ Coverage for insureds whose premium for basic coverage is limited by the Grid can be ceded to Grid risk sharing pool. Insurers may voluntarily cede up to 4% of their insured vehicles rated below the Grid through Non-Grid risk sharing pool.

It is noted that due to the nature of the Grid rating program, simply increasing the Grid premium will not bring the Grid rates to an adequate level. As premium levels increase, some risks will leave the Grid rating program, and hence the selected premium increase will not be fully realized. Moreover, the risk make-up of the Grid will change significantly, which suggests that the setting of Grid premium level needs to be an on-going process.

In accordance with Schedule 3 Section 3(1) of the Premiums Regulation, the final decision for the Grid base premium adjustment is required to be made no later than October 1, 2018. In accordance with Schedule 3 Section 2 of the Premiums Regulation, the Board must publish a table determining the base premium for a driver by the territory in which the policyholder resides and the choice of the policyholders coverage on or before October 31. The Board made its decision in regard to the Grid adjustment on September 19, and has published the decision in Board Order 01-2018. This year the posting of the decision was delayed at the direction of the Superintendent of Insurance.

The Order can be viewed on the AIRB [website](#). The approved Grid adjustment takes effect on January 1, 2019.

Consumer Representative's Report

The Consumer Representative, Mr. Chris Daniel, contracted external vendors to conduct the annual telephone and web surveys to obtain consumers' perceptions of automobile insurance in Alberta. Mr. Daniel facilitated focus groups in Edmonton and Calgary as well as follow up interviews with a number of participants located elsewhere in the province. Discussions were held with other stakeholders including the Insurance Brokers Association of Alberta, the IBC, the Superintendent of Insurance and Alberta Transportation Safety Services. As part of his process, he also reviewed data from other provinces, traffic safety trends and complaints reported. Consumers also contacted him by e-mail and letter with their specific concerns.

The results of his findings are presented in his report Appendix C.

Appendices

A. Oliver Wyman Review of Industry Experience

B. Industry Benchmarks Schedule

C. Consumer Representative's Report