

ANNUAL 2020 REVIEW REPORT

SEPTEMBER 25, 2020

Automobile Insurance Rate Board

2020 Annual Review Report

September 25, 2020



#2440, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428

Email: airb@gov.ab.ca

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VISION

Automobile insurance is accessible, equitable and sustainable for all Albertans.

MISSION

The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure Albertans have access to a robust automobile insurance marketplace.

VALUES

Accountability

Integrity

Excellence



BACKGROUND

Legislative and Regulatory Authority

The AIRB was established, on October 1, 2014, under Section 599(1) of the Insurance Act (the Act).

The Act and the Automobile Insurance Premiums Regulation (Premiums Regulation) define the AIRB's mandate which includes, among other things, the duty to:

1. review and approve all rating programs for insurers licensed to sell automobile insurance in Alberta;
2. conduct an annual review of automobile trends and premiums relating to basic and additional coverage for private passenger vehicles; and
3. conduct an open meeting as part of the annual review, to receive comments from the automobile insurance industry, the Consumer Representative and the public.

Legislative History

On October 1, 2004¹, the Government of Alberta introduced significant changes to automobile insurance in the province 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;
- introduction of the "take all comers" rule; and
- implementation of an industry wide adjustment process for basic coverage on private passenger vehicles and the Grid.

Subsequent Amendments to the Act and Premiums Regulation came into effect July 1, 2014 and included:

- expansion of the AIRB's mandate to regulate additional coverage;
- discontinuation of the industry wide adjustment process; and
- implementation of a "file and approve" model where by insurers must file on an individual company basis for revisions to their rating programs.

¹ The reforms set out in Bill 53, the Insurance Amendment Act, 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 \$5,296 as of January 1, 2020.



Private Passenger Vehicle Rate Level History

The rate level history for private passenger vehicles, shown below, is the average written premiums for basic, additional and combined coverage since the automobile insurance system reforms were implemented in 2004. We monitor the change in premium year over year and reflect on the change compared to 2004 and 2014.

During the period 2004 – 2013, basic coverage premiums were mostly adjusted through an industry wide adjustment process. Premiums

for additional coverage were not regulated by the AIRB, and insurers used them to offset basic coverage premium deficiencies. Starting in 2014, additional coverage became regulated and, insurers had to file with the AIRB for approval of all coverages providing actuarial justification for rate increases over a certain threshold.

The impact of regulatory change is evident in the graph on the next page.

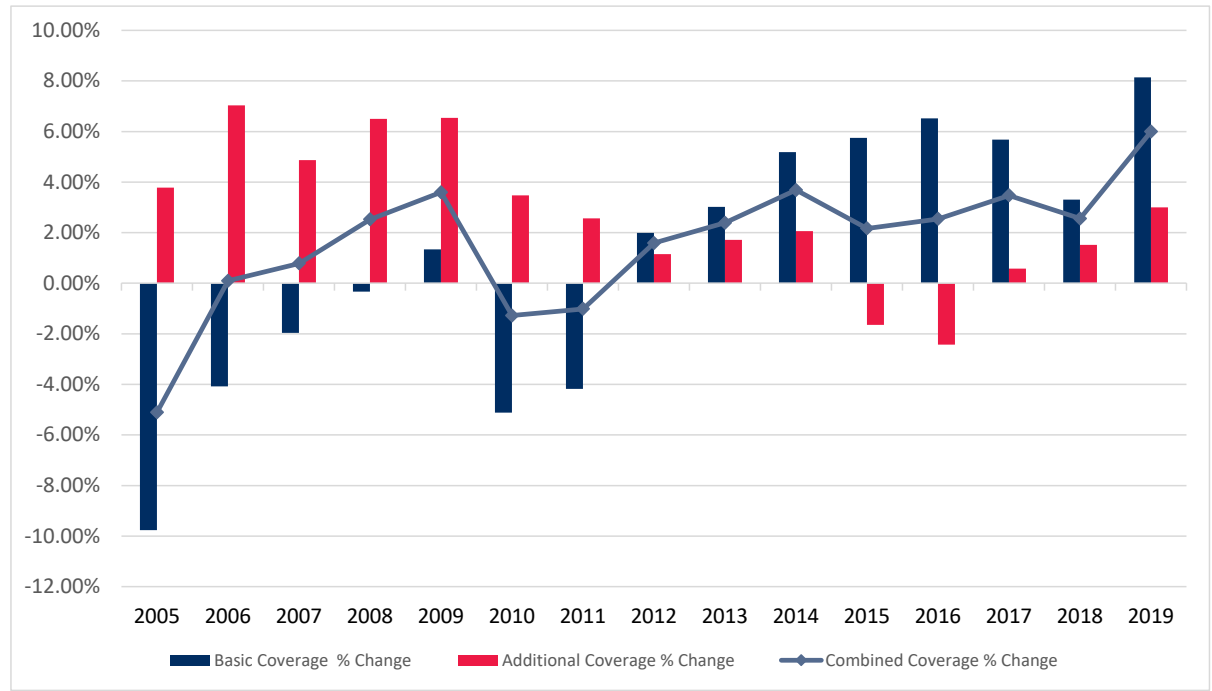
Calendar Year	Basic ³ Coverage	Additional Coverage	Combined	Combined Coverage % Change
2004	707	370	1,077	
2005	638	384	1,022	-5.11%
2006	612	411	1,023	+0.10%
2007	600	431	1,031	+0.78%
2008	598	459	1,057	+2.52%
2009	606	489	1,095	+3.60%
2010	575	506	1,081	-1.28%
2011	551	519	1,070	-1.02%
2012	562	525	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%
2018	749	534	1,283	+2.55%
2019	810	550	1,360	+6.00%

Source: General Insurance Statistical Agency Actual Loss Ratio Exhibits (Auto 1010-AB)

³ Third party liability and accident benefits.



Premium % Change By Coverage



The graph above illustrates the volatility in the percentage change for combined (basic and additional) coverage over the past 16 years.

Since 2004, premiums for basic coverage have increased a total of 14.57%, or an average of 0.91% per year. One of the main factors contributing to premium increases is adverse claims development on bodily injury claims. Insurers reported an increased proportion of claims with injuries falling outside the definition of minor injury and therefore, outside of the minor injury cap. Insurers indicate claimants present increasing incidence of chronic pain, psychological injury, Temporomandibular Joint Syndrome (TMJ)⁴ and they are seeing claims for new heads of damage. This combined with increased claims litigation, low investment returns, and a longer period of treatment is resulting in increased claims costs, and

ultimately premiums.

The Government recognized the number of claims settling outside the minor injury definition was a factor causing increased claims costs, and clarified the Minor Injury Regulation for accidents occurring on or after June 1, 2018. The AIRB monitors the industry results for signs of the clarification resulting in reduced claims costs, so far change has been marginal if at all.

Since 2004, premiums for additional coverage have increased 48.64%. These increases on additional coverage premium are mainly a result of severe weather and catastrophe events such as hailstorms and flooding events, the rising cost to repair vehicles due to vehicle automation features, more expensive materials, higher labor costs; and increases in vehicle theft.

⁴ In *Sparrowhawk v. Zapoltinsky*, a decision was released on January 13, 2012. The Court of Queen's Bench of Alberta ruled TMJ injuries are not injuries to which the Minor Injury Regulation and Diagnostic and Treatment Protocols Regulation apply.

ANNUAL REVIEW PROCESS

Regulatory Requirement

In accordance with the Premiums Regulation, the AIRB conducts an Annual Review for private passenger vehicles and as part of the review, conducts an open meeting. The meeting is the AIRB's opportunity to receive comments from the automobile insurance industry, the Consumer Representative and the public

Notice of Open Meeting

On June 26, 2020, the AIRB advised stakeholders of the dates related to the 2020 open meeting to review Alberta industry loss experience for private passenger vehicles. All interested parties were invited to submit a letter of intent to participate in the open meeting by July 8, 2020.

Stakeholders were provided the option to make a written submission, should they choose not to present.

The notice was posted on the AIRB [website](#).

Open Meeting

The AIRB held a virtual open meeting on August 20, 2020. The Board Members were assisted by the AIRB's Consulting Actuaries: Paula Elliott, Rajesh Sahasrabuddhe and Chris Schneider and AIRB staff: Laurie Balfour, Min Lee, KimBerley Kern, Tracy Lemieux, and Haydn Borlase.

The following parties made presentations at the open meeting:

- Oliver, Wyman Limited (Oliver Wyman)
- Insurance Bureau of Canada (IBC)
- Consumer Representative
- Alberta Trial Lawyers Association
- Facility Association

as part of the process to review automobile insurance trends and premiums relating to basic and additional coverage for private passenger vehicles. The feedback received is considered in the finalization of the Industry Benchmarks Schedule and any adjustment to the Grid base premiums.

Presentations & Written Submissions

There were three presentations in addition to Oliver Wyman and the Consumer Representative submitted for the open meeting.

In addition, six written submissions were received and considered.

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



INDUSTRY EXPERIENCE REPORT

Each year, the AIRB requests its consulting actuary Oliver, Wyman Limited (Oliver Wyman) to conduct a review of industry experience for private passenger vehicles.

On June 26, 2020, the AIRB released the preliminary report titled “Review of Industry Experience as of December 31, 2019 Private Passenger Vehicles” (Oliver Wyman Report). The Oliver Wyman Report includes their analysis and findings regarding the private passenger vehicle insurance industry claims experience for basic and additional coverage. The AIRB requested Oliver Wyman to 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 including all insured vehicles in Alberta 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, 2019. This preliminary report is posted on the AIRB [website](#).

Oliver Wyman’s final report was presented to the AIRB on September 25, 2020. This report considered comments arising from the open meeting in August 2020 (Appendix A). The Oliver Wyman Report includes recommendations to the AIRB on the Industry Benchmarks to be used for rate filings submitted on or after October 1, 2020.

INDUSTRY BENCHMARKS

The AIRB reviews individual insurer’s filings based on their reasonableness relative to the Industry Benchmarks (Appendix B) selected by the AIRB. 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. Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)
5. Health Cost Recovery
6. Profit

The Oliver Wyman Report estimates for ratemaking components 1, 2, 3, and 4, should 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 the AIRB approved benchmarks for each of the ratemaking components be used. Components 5 and 6 are to be used by insurers to calculate their rate indications.

In addition, insurers are expected to use their own expected investment return when discounting claims in calculating 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 AIRB'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, 2019 and considered industry comments with regard to the loss development selections.

The AIRB 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 considering industry claim experience must use the benchmark development factors without adjustment. Details are in the Appendix B – Industry Benchmarks Schedule.

Loss Trend

Coverages	2019 Semiannual Review (as of 06/30/2018)	2019 Annual Review (as of 12/31/2018)	2020 Semiannual Review (as of 06/30/2019)	2020 Annual Review (as of 12/31/2019)
Third Party Liability (TPL) Bodily Injury	+8.5%/+7.5%	+8.5%/+7.5% ⁵	+8.0%/+7.0% ⁶	+7.0%/+6.0% ⁷
TPL Property Damage	+2.5%	+2.0%	+1.5%	+1.5%
TPL Sub Total	+6.8%/+6.1%	+6.7%/+6.0%	+6.1%/+5.4%	+5.4%/+4.7%
Accident Benefits	+1.5%/+9.5%	+0.5%/+9.5% ⁸	+8.5%	+8.5%
Collision	+3.0%	+2.5%	+2.5%	+1.5%
Comprehensive	+5.0%/+8.5%	+6.5%	+6.5%	+6.5%
All Perils	+4.0%	+4.0%	+4.0%	+4.0%
Specified Perils	+12.0%	+8.0%	+7.0%	+6.0%
Underinsured Motorist (SEF 44)	+4.0%	+4.0%	+4.0%	+4.0%

⁵ Future trend rate begins October 1, 2018.

⁶ Future trend rate begins April 1, 2019.

⁷ Future trend rate begins October 1, 2019.

⁸ Trend rate change and level change adjustment of +15% at July 1, 2015.



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 loss trend rates for each coverage (refer to chart on previous page).

Stakeholders commented on the loss trends for bodily injury, accident benefits and collision coverages. Oliver Wyman has taken into consideration the industry comments in their final recommendations.

The AIRB 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, 2020. The AIRB acknowledges insurers may select different trend rates based on their own claim experience. Insurers have the option to:

1. use their own experience where it is fully credible;
2. use their own experience to the extent it is credible and apply the AIRB's approved industry benchmark trend rates without adjustment as the complement of credibility; or
3. apply the AIRB'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 which could be expected to occur in a given year.

Oliver Wyman noted losses arising from the Fort McMurray wildfire are not considered catastrophe losses by GISA. However, Oliver Wyman believes 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 2019 GISA catastrophe exhibit as well as consideration of the points made by stakeholders, Oliver Wyman modified the weighting method and recommended a loading of 51%, or 1.51 to be reasonable.

The AIRB accepts Oliver Wyman's recommended loading of 51% as an industry benchmark based on the review of industry experience. Where the insurers' own claim experience differs from industry and is credible, the AIRB acknowledges 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

The AIRB no longer publishes an investment income rate. Insurers must discount claim costs for the investment income on policyholder funds until claims are paid and are expected

to use their own expected investment return to discount claims for calculating their rate indications

Administrative Expense & Unallocated Loss Adjustment Expense

Administrative expenses are non-claims related expenses, which are usually composed of commission, taxes and other. Unallocated loss adjustment expense (ULAE) is the claim and settlement related expense which 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 AIRB does not believe including expenses from insurers which are running off (i.e. closing their book) is reasonable.

The AIRB 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 are 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	AIRB Selections
Total Commission	12.5%
Premium Taxes	3.7% ⁸
All Other Expenses	9.8%
Total Expenses	26.0%
ULAE	10.8%

⁸ Oliver Wyman acknowledges the premium tax rate in Alberta is 4%. Oliver Wyman assumes the reported total expense ratio is correct in aggregate, and accepts some misallocations in reporting amongst components, therefore the difference is selection.



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 President of Treasury Board and Minister of Finance publishes the levy percentage applied to

third party liability written premiums annually.

The AIRB accepts the Health Cost Recovery as a component of claims costs reported by insurers. Insurers must use the most updated percentage published on the President of Treasury Board and Minister of Finance's [website](#). The 2020 assessment factor 4.74%.

Profit

The AIRB 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 AIRB regularly reviews and determines the percentage of

premium representing a reasonable level of profit for insurers for all coverage. Insurers must justify any target higher than the AIRB's selected percentage of premium for profit.

GRID RATING PROGRAM

The Government introduced the Grid rating program in October 2004 to set maximum premiums insurers can charge for basic coverage for any driver profile, and established two risk-sharing pools⁹. Currently, only 7.07% 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 AIRB without adjustment were used for the analysis.

Stakeholders expressed concerns regarding Grid rate level inadequacy. The AIRB takes into consideration these concerns and:

- loss experience specific to the Grid;
- loss experience for all Alberta private passenger vehicles;
- industry benchmarks; and
- other matters the AIRB considers appropriate when considering any adjustment to Grid base premiums.

⁹ 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..

This year, the AIRB also considered following factors when making its decision:

- premium stability;
- subsidization by the competitive market;
- risk sharing pool size and profitability;
- impact on Grid population; and
- current Alberta market environment.

Given 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, hence the selected premium increase will not be fully realized. Moreover, the risk make-up of the Grid will change significantly, which suggests the setting of Grid premium level needs to be an on-going process.

In accordance with the Premiums Regulation,

the final decision for the Grid base premium adjustment is to be made no later than October 1, as required by the Premiums Regulation. The AIRB publishes a table determining the base premium for a driver by the territory in which the policyholder resides and the choice of the policyholders coverage. The AIRB made its decision in regard to the Grid adjustment on September 25, and has published the decision in AIRB Order 01-2020.

The Order can be viewed on the AIRB [website](#). The approved Grid adjustment is effective January 1, 2021.

CONSUMER REPRESENTATIVE

In accordance with the Premiums Regulation, the Annual Review includes a report from the Consumer Representative.

On behalf of the Consumer Representative, Mr. Chris Daniel, the AIRB contracted an external vendor to conduct the survey on consumers' perceptions of automobile insurance in Alberta. Discussions were held with other stakeholders

including the Insurance Brokers Association of Alberta, IBC and the Superintendent of Insurance. As part of his process, he also reviewed data from other provinces, traffic safety trends and complaints reported.

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



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#2440, Canadian Western Bank Place
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