TRIAL LAWYERS' PERSPECTIVE

2020

# REVIEW OF EXPERIENCE Alberta Private Passenger Automobile Insurance

# EXECUTIVE SUMMARY

**Finding 1:** For accident periods beginning July 1, 2016, inflation-adjusted bodily injury loss and LAE cost per vehicle has been approximately stable.

**Finding 2:** There is data that provide further support to the stability in bodily injury loss and LAE per vehicle seen since mid-2016 and that current estimates of the loss and LAE cost per vehicle may be conservative, and that subsequent estimates for recent accident years may in fact decline and not increase.

**Finding 3:** According to a consistent and transparent method of profit allocation for the industry, the Alberta private passenger automobile insurance industry earned a pre-tax profit of $185.5 million between 2013 and 2018. Current projections, using this method, indicate that the industry will earn a total pre-tax profit of more than $980 million during the period 2019 and 2020 combined.

**Finding 4:** Given the stabilization of bodily injury loss and LAE per vehicle costs since mid-2016 combined with allowed filing increases has created a significant redundancy which will create increased profits for insurance companies.

**Finding 5:** COVID-19 will likely lead to a further reduction in bodily injury loss and LAE per vehicle and an increased redundancy and profit for insurers.

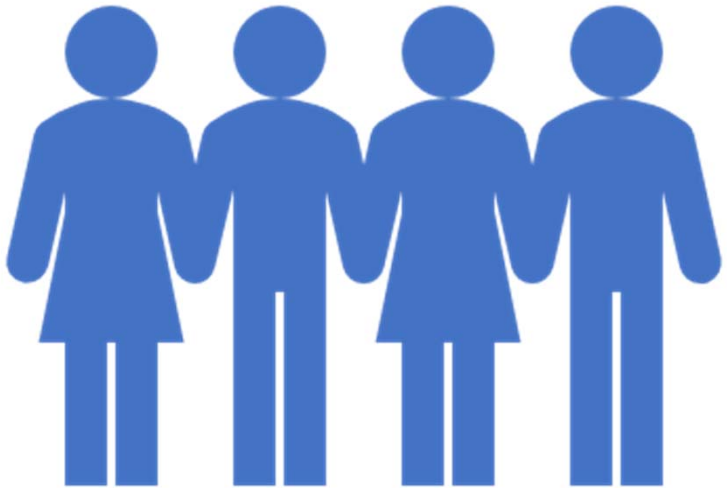
# OUTLINE

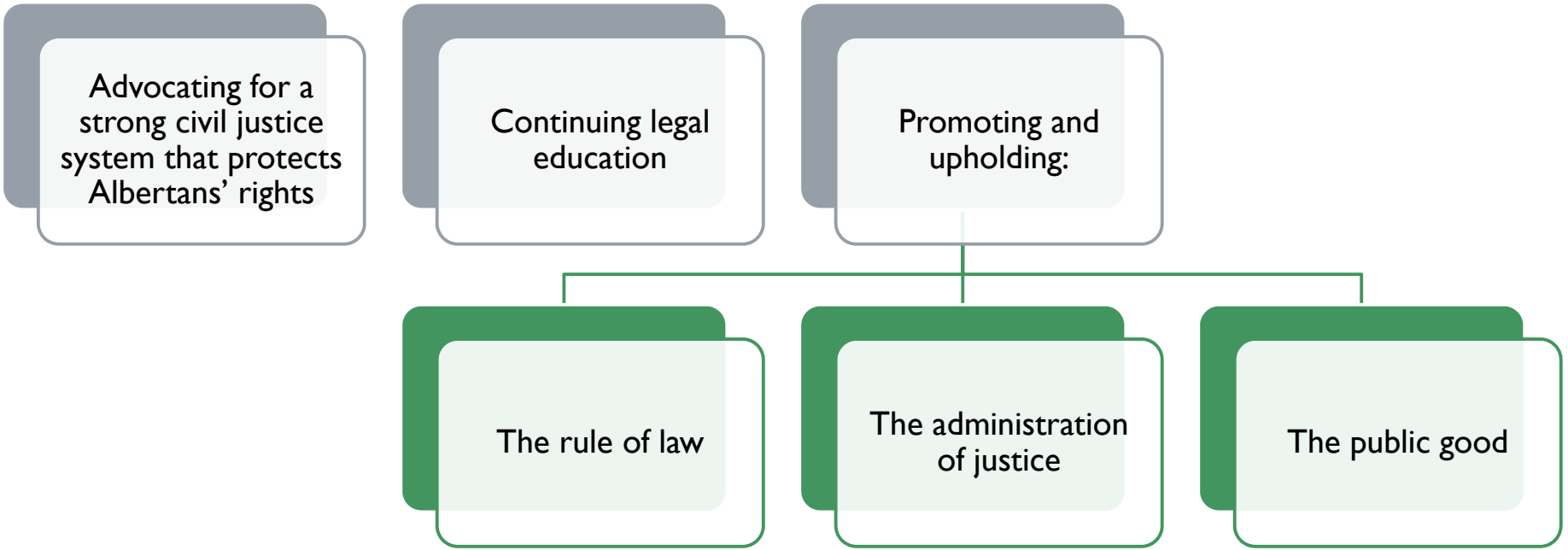
1. Alberta Civil Trial Lawyers Association (ACTLA)
2. The Trend in Bodily Injury Loss and LAE Cost per Vehicle
3. In-Depth Analysis of the Projections of Bodily Injury Loss Costs
4. Profitability of the Alberta Private Passenger Automobile Insurance Industry
5. Shortfalls and Redundancies, in the Provision for Bodily Injury Loss Cost
6. Affect of COVID-19

# ALBERTA CIVIL TRIAL LAWYERS ASSOCIATION

# FACTS

- Province wide not-for-profit association (starting in 1986)
- 600+ members representing thousands of Albertans
- Large percentage of members from smaller firms (2-10 lawyers), including defence lawyers
- Voluntary membership and board






# MISSION & OBJECTIVES

# Stability in bodily injury loss and LAE cost per vehicle since 2016

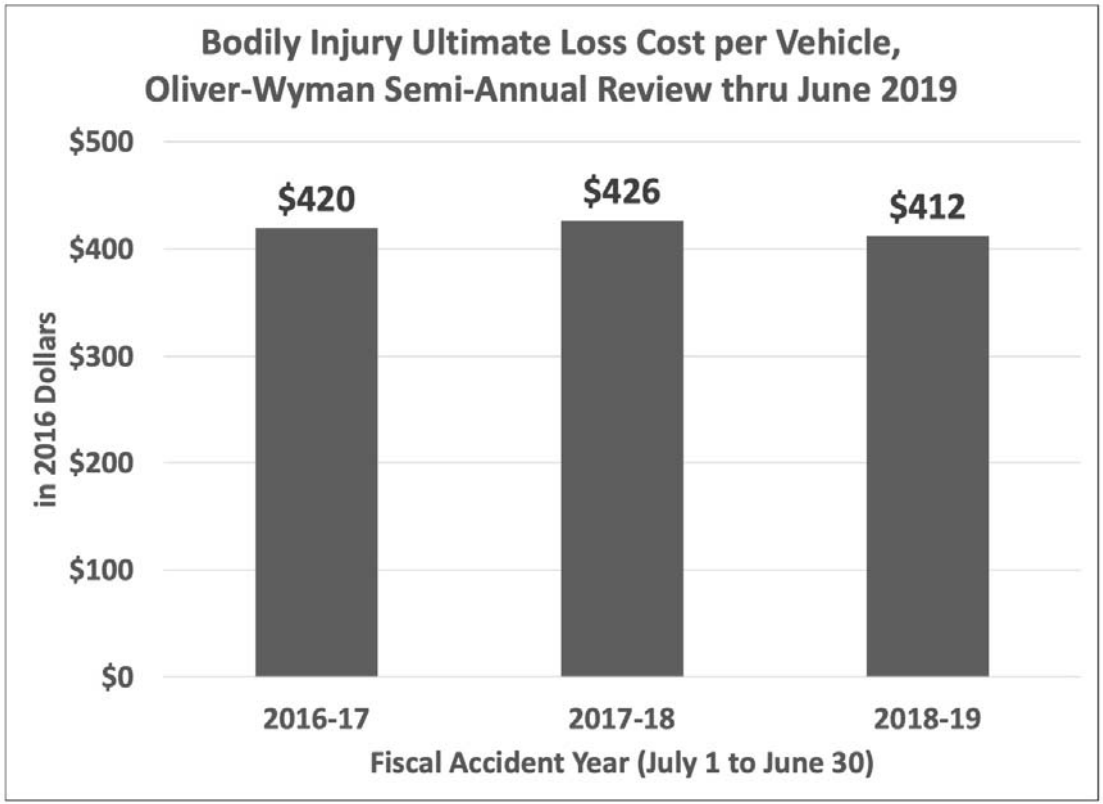
According to projections of loss cost in the 2020 Semi-Annual Review by Oliver Wyman, through June 30, 2019, the rate of increase in BI loss cost slowed dramatically, beginning in mid-2016.

Between the 2010-2011 and the 2015-2016 fiscal accident years (July 1 to June 30), the BI loss cost in 2016 dollars increased from $266 to $420, an average annual rate of increase of 7.9%.

In mid-2016, this rate of increase declined sharply and has stabilized. Figure 1 illustrates that beginning June 30, 2016, the rate of increase in BI loss cost dropped to a level approximately equal to general inflation, as represented by the growth in the CPI.

There is nothing to suggest that bodily injury loss costs will increase at the level assessed in the Oliver Wyman report.

Figure 1: Bodily Injury Loss Cost, by Fiscal Accident Year, in 2016 Dollars, Valued at June 30, 2019



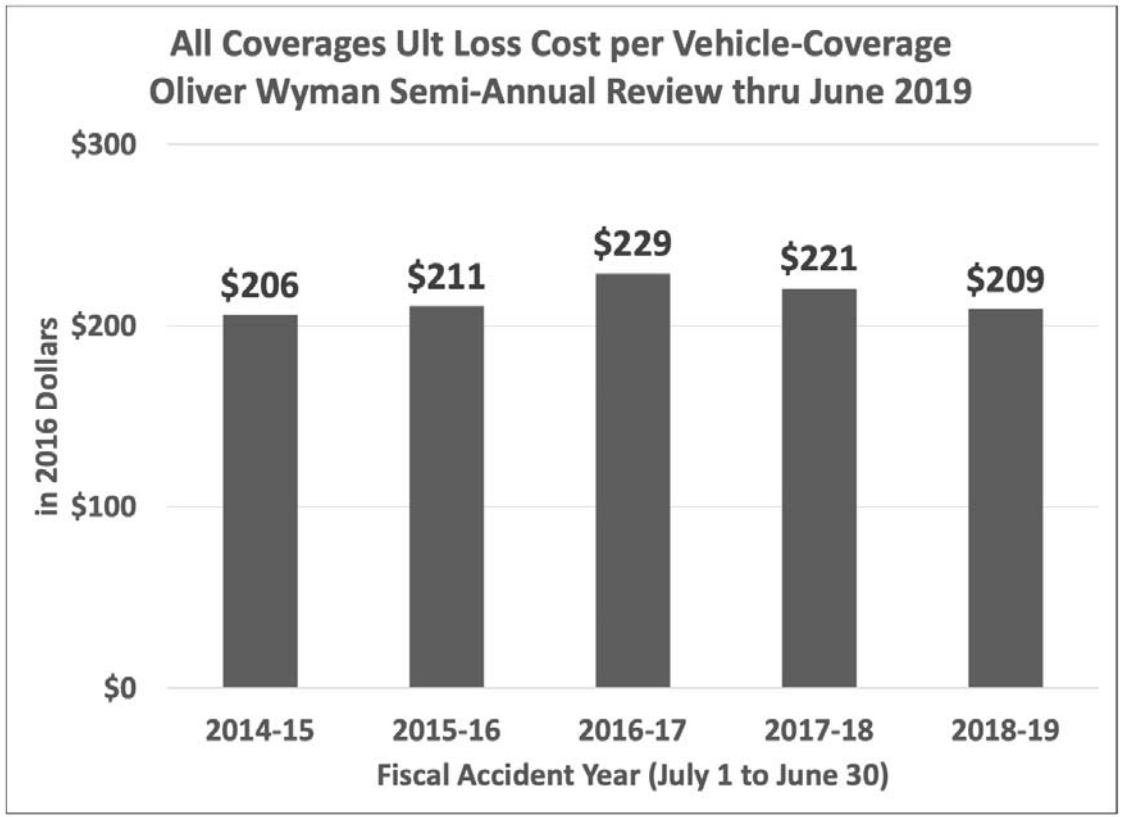



Figure 2: All Coverages Loss Cost, by Fiscal Accident Year, in 2016 Dollars, Valued at June 30, 2019

FOR THE MAJOR COVERAGES COMBINED, (BI, PROPERTY DAMAGE, ACCIDENT BENEFITS, COLLISION, AND COMPREHENSIVE) THE LOSS COST HAS BEEN STABLE IN INFLATION-ADJUSTED TERMS FOR A LONGER PERIOD I.E. BEGINNING IN MID-2014.

# ANNUAL REVIEW THROUGH DECEMBER 31, 2019

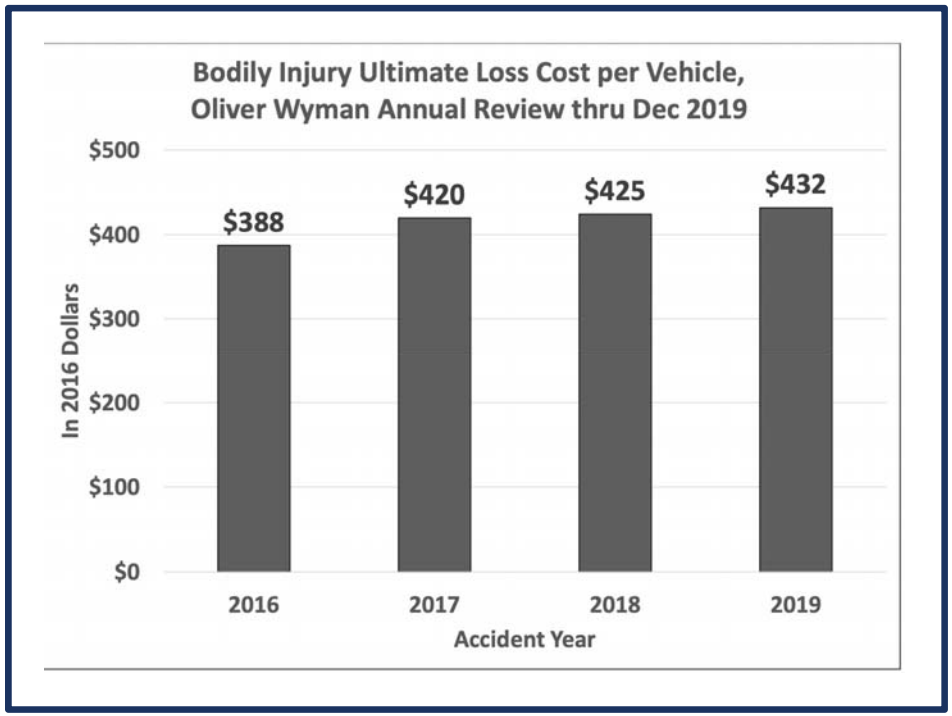
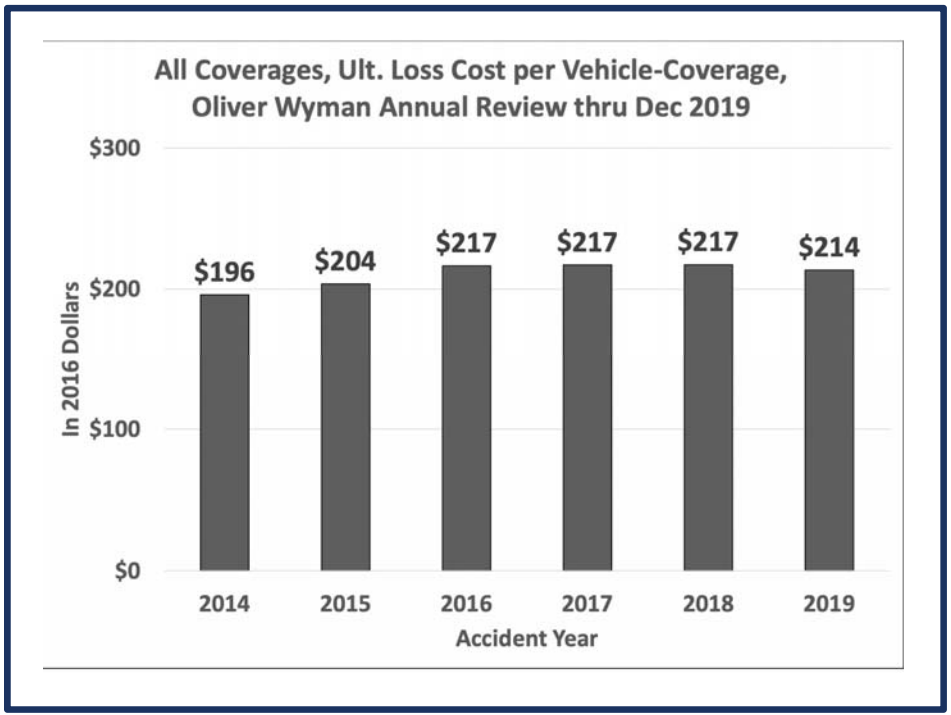



Figure 3: Bodily Injury Loss Cost, by Accident Year, in 2016 Dollars, Valued at December 31, 2019

- The projections of loss cost in the 2020 Preliminary Annual Review by Oliver Wyman, through December 31, 2019, show that inflation-adjusted BI loss cost continues to remain in a narrow band for the last three accident years, between $420 and $432.

# FIGURE 4: ALL COVERAGES LOSS COST, BY ACCIDENT YEAR, IN 2016 DOLLARS, VALUED AT DEC. 31, 2019




- For the major coverages combined, Oliver Wyman's December 2019 projections find that loss cost has remained stable for a longer period beginning in mid-2014.

# IN-DEPTH ANALYSIS OF THE PROJECTIONS OF BODILY INJURY LOSS COSTS FROM THE OLIVER WYMAN REPORT

## AN ANALYSIS OF THE BODILY INJURY LOSS COST FOR CORRESPONDING SEMESTERS

- Given the relative stability in loss costs the current valuation of BI loss cost for the more recent accident years may overly be conservative.
- Figure 5 illustrates the seasonal pattern that the loss cost for the second semester of each accident year is greater than that for the first semester of each accident year. Thus, a proper comparison is between first-semester results, and a second proper comparison is between second-semester results.

EVEN THOUGH THE LOSS COST FOR 2019-1 IS GREATER THAN WAS PREVIOUSLY ESTIMATED, IT HAS MOVED FROM BEING LESS THAN THAT OF 2017-1 AND 2018-1 TO ONLY SLIGHTLY MORE THAN THE TWO PRIOR FIRST-SEMESTER LOSS COSTS. AND EVEN THOUGH THE LOSS COST FOR 2019-2 IS GREATER THAN THAT OF 2019-1, A COMPARISON TO OTHER SECOND-SEMESTER LOSS COSTS SHOWS THAT THERE IS ALMOST NO CHANGE FROM THE CORRESPONDING SECOND-SEMESTER LOSS COSTS FOR 2017-2 AND 2018-2.

THIS PROVIDES SUPPORT FOR CONTINUED STABILITY TO DATE IN THE INFLATION-ADJUSTED BI LOSS COST.

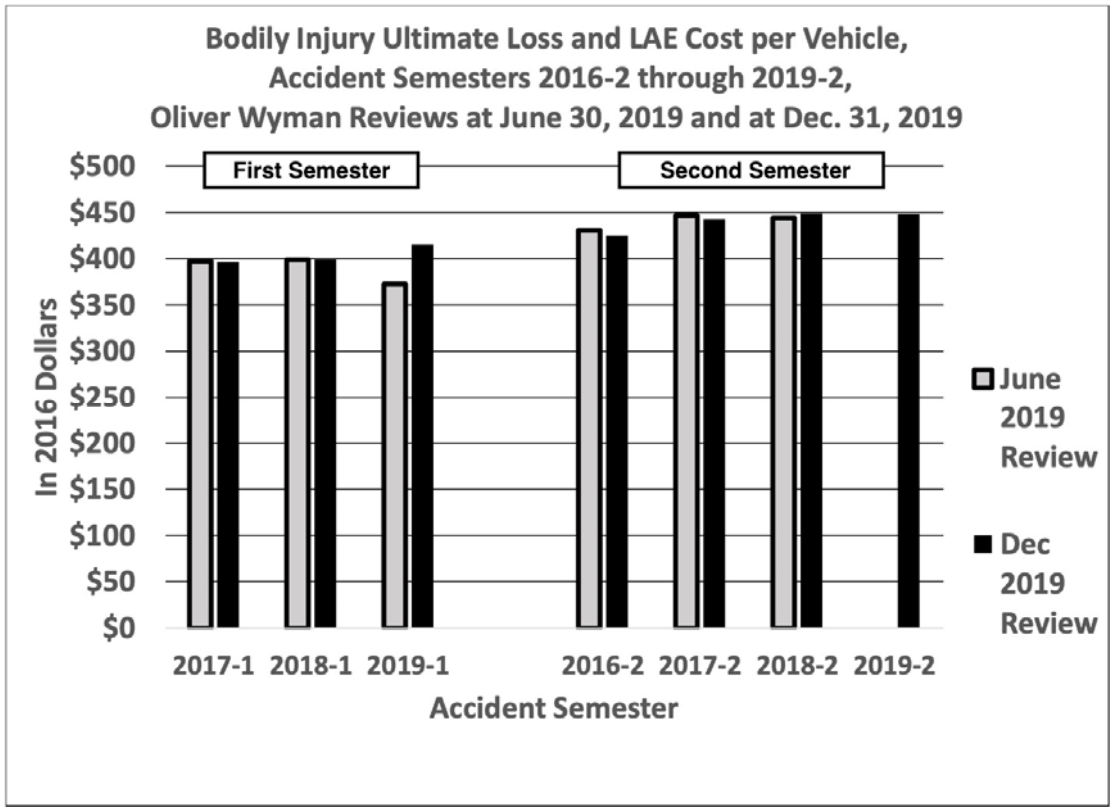



Figure 5: Bodily Injury Loss Cost per Vehicle, by Accident Semester, in 2016 Dollars, Valued at June 30, 2019 and at December 31, 2019

# DIVERGENCE BETWEEN INCREASING CASE RESERVES AND DECREASING PAYMENTS

- **Analysis suggests that reserves for 2019 are more generous and higher than prior accident years and may prove redundant.**

# TABLE 2: CASE INCURRED LOSS AND LAE AT AGE 12 MONTHS, ACCIDENT YEARS 2016 THROUGH 2019

- Table 2 provides the rationale for the estimate for the accident year 2019. It shows the total case incurred loss and LAE for BI at age 12 months, for each of the accident years 2016 through 2019, and calculates the average case incurred loss per earned vehicle at age 12 months, in 2016 dollars. Here it is seen that the total case incurred loss and LAE for accident year 2019 is substantially above that for prior accident years. (Although averaged over the number of earned vehicles, and adjusted to 2016 dollars, the value is only slightly above that for accident year 2017).

| Accident Year | Case Incurred Loss and LAE (000s), Age 12 Months | Count of Earned Vehicles | Case Incurred Loss and LAE per Vehicle, Age 12 Months | Case Incurred Loss and LAE per Vehicle, Age 12 Months, 2016 Dollars |
|---|---|---|---|---|
| 2016 | $371,467 | 2,678,797 | $139 | $138 |
| 2017 | $431,911 | 2,692,885 | $160 | $158 |
| 2018 | $442,375 | 2,748,083 | $161 | $155 |
| 2019 | $467,484 | 2,784,904 | $168 | $159 |

# TABLE 3: CUMULATIVE PAID LOSS AND LAE AT AGE 12 MONTHS, ACCIDENT YEARS 2016 THROUGH 2019

TABLE 3 SHOWS THAT THE CUMULATIVE AMOUNT PAID FOR ACCIDENT YEAR 2019 BI CLAIMS AT 12 MONTHS IS ONLY $24.9 MILLION, WELL BELOW THE $27.8 MILLION AND $26.4 MILLION PAID FOR THE TWO PRIOR ACCIDENT YEARS AT THE SAME AGE. AVERAGED OVER THE NUMBER OF EARNED VEHICLES, AND STATED IN 2016 DOLLARS, THE AMOUNT PAID FOR ACCIDENT YEAR 2019 IS LESS THAN ANY OF THE THREE PRIOR ACCIDENT YEARS.

| Accident Year | Cumulative Paid Loss and LAE (000s), Age 12 Months | Count of Earned Vehicles | Cumulative Paid Loss and LAE per Vehicle, Age 12 Months | Cumulative Paid Loss and LAE per Vehicle, Age 12 Months, 2016 Dollars |
|---|---|---|---|---|
| 2016 | $24,523 | 2,678,797 | $9.15 | $9.08 |
| 2017 | $27,858 | 2,692,885 | $10.35 | $10.22 |
| 2018 | $26,420 | 2,748,083 | $9.61 | $9.24 |
| 2019 | $24,942 | 2,784,904 | $8.96 | $8.49 |

| Accident Year | Count of Claims Closed, Age 12 Months | Count of Claims Reported, Age 12 Months | Percentage of Reported Claims Closed, Age 12 Months |
|---|---|---|---|
| 2016 | 3,762 | 15,283 | 24.6% |
| 2017 | 4,320 | 15,400 | 28.1% |
| 2018 | 4,066 | 15,194 | 26.8% |
| 2019 | 4,039 | 15,308 | 26.4% |

Table 4 Percentage of Reported Claims Closed, Age 12 Months, Accident Years 2016 through 2019

One possible hypothesis for the reduction in the amount paid for accident year 2019 is a slowdown in the rate at which claims are closed.

However, Table 4 below shows that there is no significant decline in the percentage of claims closed, compared to prior accident years.

IN SUM, THE FAILURE OF CUMULATIVE PAYMENTS TO DATE FOR THE 2018 AND 2019 ACCIDENT YEARS TO KEEP PACE WITH PAYMENTS ON EARLIER ACCIDENT YEARS RAISES QUESTIONS ABOUT WHETHER THE ELEVATED LEVEL OF CASE RESERVES FOR THE 2018 AND 2019 ACCIDENT YEARS ARE INDICATIVE OF AN ELEVATED ULTIMATE LOSS COST.

| Accident Year | Case Incurred Loss and LAE (000s), Age 24 Months | Cumulative Paid Loss and LAE (000s), Age 24 Months | Case Incurred Loss and LAE per Vehicle, Age 24 Months, 2016 Dollars | Cumulative Paid Loss and LAE per Vehicle, Age 24 Months, 2016 Dollars | Percentage of Reported Claims Closed, Age 24 Months |
|---|---|---|---|---|---|
| **2016** | $575,352 | $120,299 | $213 | $44.55 | 66.6% |
| **2017** | $609,604 | $127,852 | $224 | $46.89 | 66.2% |
| **2018** | $650,772 | $117,178 | $228 | $40.97 | 62.6% |

## Changes in Claims Handling Practices, per GISA Notes to Users

- In publishing private passenger automobile experience for Alberta, GISA issued a bulletin of Notes to Users (see Section 7 of the Appendix). These notes advise users of where to exercise caution in using the GISA exhibits.
- Note 12 advises that a large insurer has changed its claims handling practices for BI claims, increasing the rate at which it closes claims, beginning in the first half of 2017 and continuing in later calendar periods.
- Note 13 advises that a large insurer has strengthened its case reserving practice for BI claims, beginning with accident semester 2017-2, yielding increased case reserve amounts in calendar periods 2017-2 and later.
- Evidence of these changes in claims handling practices can be seen in the ratios of case incurred loss and LAE at successive age intervals (i.e. age-to-age ratios in the loss development "triangle.")
- Both notes state "Users should exercise caution when using this data."
- The Oliver Wyman report confirms that it makes no adjustment to their data for the above noted issues.



Source: Oliver Wyman – Annual Review of Industry Experience (AIRB)

| Accident Semester | 6 months to 12 months | 12 months to 18 months | 18 months to 24 months | 24 months to 30 months | 30 months to 36 months | 36 months to 42 months |
|---|---|---|---|---|---|---|
| 2011-1 | 1.065 | 1.001 | 1.046 | 1.093 | 1.099 | 1.088 |
| 2011-2 | 1.147 | 1.047 | 1.085 | 1.085 | 1.088 | 1.061 |
| 2012-1 | 1.206 | 1.020 | 1.077 | 1.116 | 1.081 | 1.056 |
| 2012-2 | 1.206 | 1.073 | 1.109 | 1.079 | 1.101 | 1.075 |
| 2013-1 | 1.230 | 1.076 | 1.092 | 1.114 | 1.103 | 1.097 |
| 2013-2 | 1.274 | 1.059 | 1.109 | 1.115 | 1.111 | 1.084 |
| 2014-1 | 1.222 | 1.085 | 1.104 | 1.135 | 1.089 | 1.077 |
| 2014-2 | 1.214 | 1.104 | 1.149 | 1.127 | 1.096 | 1.082 |
| 2015-1 | 1.261 | 1.074 | 1.139 | 1.147 | 1.108 | 1.078 |
| 2015-2 | 1.249 | 1.101 | 1.162 | 1.162 | 1.101 | 1.049 |
| 2016-1 | 1.256 | 1.208 | 1.156 | 1.124 | 1.085 | 1.086 |
| 2016-2 | 1.443 | 1.194 | 1.138 | 1.129 | 1.100 | 1.073 |
| 2017-1 | 1.351 | 1.167 | 1.132 | 1.148 | 1.113 | |
| 2017-2 | 1.366 | 1.108 | 1.153 | 1.148 | | |
| 2018-1 | 1.230 | 1.142 | 1.167 | | | |
| 2018-2 | 1.393 | 1.177 | | | | |
| 2019-1 | 1.413 | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Average of Perforated Boxed Area | 1.245 | 1.091 | 1.125 | 1.123 | 1.101 | 1.078 |
| Average of Shaded Area | 1.366 | 1.158 | 1.147 | 1.142 | 1.107 | 1.073 |

Table 6 shows the age-to-age ratios. The 6-12 month ratios are markedly larger for accident semesters 2016-2 and later, increasing from an average of 1.245 for the prior four accident semesters, to 1.366 for the subsequent six accident semesters. This increase coincides with the two changes in Notes 12 and 13, which begin in calendar period 2017-1 and continue in later calendar periods.

The grey shaded boxes track the subsequent age-to-age ratios for the 2016-2 and later accident-semester cohorts. The boxes in perforated outline determine the average age-to-age ratios in the four periods prior to the claims handling changes in 2017-1. Notably, the ratios in the grey shaded boxes remain higher, on average, than the perforated boxes, up to the 36-42 month ratios.

The strengthening of case reserving practice for the large insurer in Note 13 appears to roll out over a period of time – perhaps the strengthening of reserves is implemented only on those claims that have reached a sufficient level of maturity to have moved beyond a standard opening reserve. If the strengthening takes time to gain full effect for a given cohort of claims, this supports the pattern seen in the grey-shaded boxes.

- Most importantly, to the extent that this reflects strengthening of reserves, rather than increases in ultimate claim sizes, the age-to-age ratios in the grey boxes should eventually fall below the ratios in the perforated boxes, now that the reserves have been strengthened, and will require a smaller further boost to reach the ultimate claim size.
- It can be expected that the age-to-age ratios chosen for the 2016-2 and later accident semesters, at ages greater than 42 months, will eventually need to fall below the ratios seen in calendar periods prior to 2017-1, i.e. below the averages in the perforated boxes. That hasn't happened yet, which suggests that the current loss development factors used for accident years 2017-1 and greater may be too high for the strengthened reserves.
- If this is true, the BI loss cost for accident semesters beginning in 2016.2 is too high, even as the current estimates support the argument that inflation-adjusted loss cost has stopped rising.
- Such a reversal, at a period beyond age 42 months, is not reflected in the 42-to-ultimate loss development factors selected in the Oliver Wyman analysis. Rather, the Oliver Wyman factors are based on ratios taken from cohorts of claims prior to the 2016-2 accident year, which did not get the benefit of the high age-to-age ratios at the 6-12 stage (or at the subsequent periods like 12-18 months).

# ACTUAL CHANGES IN ESTIMATED BODILY INJURY LOSS COST, SINCE 2017

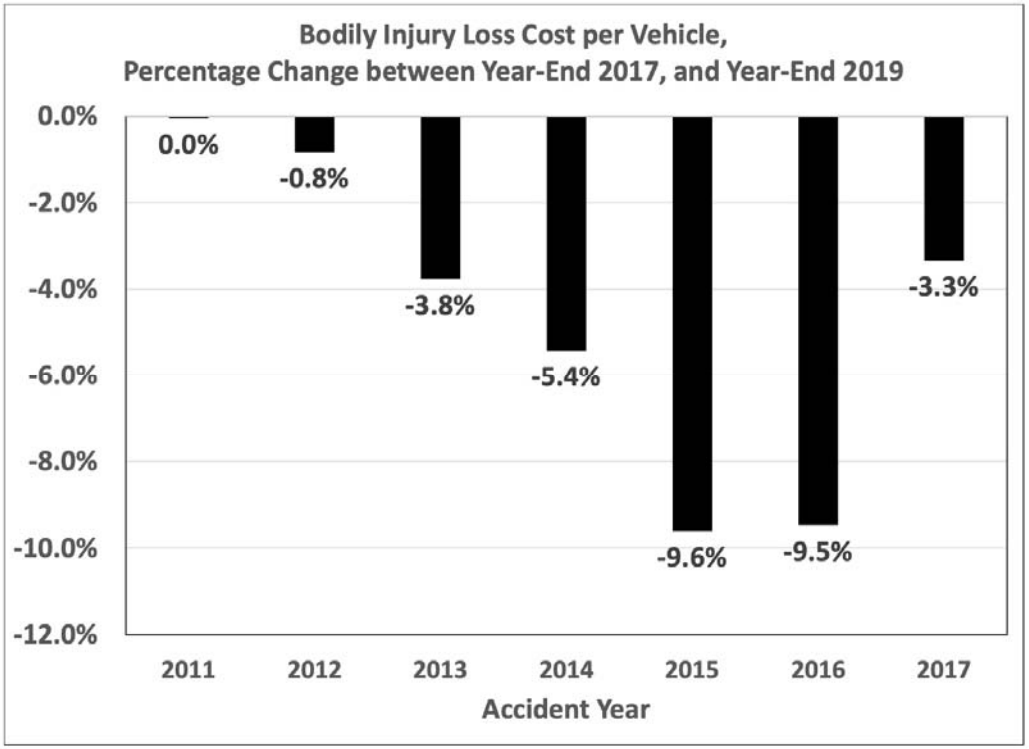



Figure 6: Bodily Injury Loss Cost, Percentage Change between Year-End 2017 and Year-End 2019 Estimates

- Successive Annual and Semi-Annual reviews since year-end 2017 have shown decreases in the estimated BI loss cost. The percentage magnitudes of these decreases, between year-end 2017 and year-end 2019, are shown in Figure 6. To date, this has had greatest impact for the 2015 and 2016 accident years.
- These decreases reversed previous **increases** made between year-end 2016 and year-end 2017. These increases were brought about by the change in age-to-age ratios during calendar year 2017, coinciding with the strengthening of case reserves pointed out in Note 13 in the GISA Notes to Users.

# ACTUAL CHANGES IN ESTIMATED BODILY INJURY LOSS COST, SINCE 2017 (continued)

- The increases in estimated BI loss cost during the 2017 reviews, later undone by decreases in subsequent reviews, suggest a pattern that may be continuing with the accident years beginning with 2016-2.
- This pattern is that the strengthening of reserves, beginning in 2017, leads to a temporary overstatement of BI loss costs. Eventually, this temporary overstatement is undone. This pattern, if re-enacted, could lead to reductions in the BI loss costs of more recent accident years.

Private insurers providing auto insurance in Alberta has remained essentially stable since 2012. Based on information from the Alberta Automobile Insurance Rate Board (IBC) the following is a breakdown of the number of instance companies operating in Alberta from 2012 to present.

| Year | # of Insurance Companies |
|---|---|
| 2012 | 71 |
| 2013 | 70 |
| 2014 | 70 |
| 2015 | 69 |
| 2016 | 69 |
| 2017 | 69 |
| 2018 | Over 69 |
| 2019 | Over 70 |

# Profitability of the Alberta private passenger automobile insurance industry

- It has been reported by the Alberta Ministry of Treasury Board and Finance that the Alberta private passenger auto (PPA) insurance industry sustained an after-tax loss of $667.3 million over the years 2013 through 2018. The Ministry reports that it obtained this amount from the annual Profit and Loss report published by GISA. (On a pre-tax basis, the reported amounts show a pre-tax loss over this period of $870.4 million.)

- In contrast, this analysis, performed using the same method that J.S. Cheng and Partners, Inc. ("Cheng") used in its 2007 analysis of Alberta auto insurance reform, shows a pre-tax *profit* of $185.5 million over the same period.

- Looking forward, the results for the industry, combining the accident year 2019 and a forecast for the year 2020, and using Cheng's method, show an anticipated pre-tax profit of greater than $980.6 million.

RESULTS BY YEAR, 2013 TO 2018

THE AMOUNTS FOR ALBERTA PPA IN THE GISA ANNUAL PROFIT AND LOSS REPORT, FOR 2013 THROUGH 2018, BROKEN DOWN INTO THE MAJOR REVENUE AND EXPENSE ITEMS, ARE AS IN TABLE 7 BELOW: AS REPORTED BY ALBERTA TREASURY BOARD AND FINANCE

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|
| **Premium and Other Revenue** | $2,685,200 | $2,985,000 | $3,032,000 | $3,097,200 | $2,848,700 | $3,225,600 | |
| **Less: Claims Costs** | $2,219,500 | $2,442,400 | $2,448,800 | $2,793,500 | $2,432,200 | $2,715,000 | |
| **Less: Expenses** | $708,800 | $751,500 | $802,100 | $866,500 | $829,400 | $860,500 | |
| **Plus: Investment Income** | $165,900 | $236,600 | $192,100 | $182,400 | $222,500 | $126,600 | |
| **Total Profit, Pre-Tax** | -$77,200 | $27,700 | -$26,800 | -$380,400 | -$190,400 | -$223,300 | -$870,400 |
| **Less: Income Taxes** | -$17,700 | $27,700 | -$9,800 | -$78,500 | -$61,200 | -$63,600 | |
| **Total Profit, After Tax** | -$59,500 | $0 | -$17,000 | -$301,900 | -$129,200 | -$159,700 | -$667,300 |

Table 7: GISA Profit and Loss Report, Alberta Private Passenger Auto Insurance

*(Thousands of Dollars)*

Table 8: Annual Profit and Loss, Alberta Private Passenger Auto Insurance, Using Method of J.S. Cheng and Partners
*(Thousands of Dollars)*

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|
| **Premium** | $2,729,300 | $2,923,200 | $3,089,400 | $3,186,100 | $3,308,700 | $3,525,100 | |
| **Less: Claims Costs** | $2,109,100 | $2,317,800 | $2,523,400 | $2,735,000 | $2,762,700 | $2,894,900 | |
| **Less: Expenses** | $660,500 | $707,400 | $784,700 | $850,700 | $919,800 | $937,700 | |
| **Plus: Investment Income** | $246,000 | $321,800 | $303,700 | $244,900 | $307,200 | $203,800 | |
| **Total Profit, Pre-Tax** | $205,700 | $219,800 | $85,000 | -$154,700 | -$66,600 | -$103,700 | $185,500 |

## Attributes of the GISA Profit and Loss Report

In preparing its annual Profit and Loss Report, GISA's statistical service provider, the Insurance Bureau of Canada (IBC) collects and aggregates financial data submitted by each licensed automobile insurer in nine jurisdictions in Canada, including Alberta.

Some of this data is taken directly from the insurer's Property and Casualty (P&C) return filed with its regulator (usually OSFI). However, other data is not reported in the P&C at the Alberta and PPA level of detail. Thus, these data items must be allocated to Alberta and PPA based on other individual company information.

In the Notes to Users and in the General Disclaimers published with the report (provided in Section 7 in the Appendix), GISA advises users to be aware of the following issues. These issues bear on the consistency and reliability of the report, depending on the user's purpose.

# Issues with GISA data

The reporting insurers have used their own company-specific allocation methodology, which thus may vary from insurer to insurer, and from year to year.

The quality of the report is dependent on the accuracy of the data filed by insurers. For amounts taken directly from the P&C Return, GISA relies on the work of the insurer's internal and external auditors. However, for the data items allocated to finer levels of detail, GISA advises that no independent audit has been performed.

Since the report was first published for 2012, GISA has advised that "the reliability of the information is expected to improve over time, as GISA fine-tunes the processes and requirements for the collection and reporting of the financial information in subsequent years." This suggests that the processes used in the earlier years (i.e. back to 2013) may be of poorer quality, and may produce less consistent and reliable results.

The report is based on insurers' fiscal year. Thus, the claims costs reported in a given year will combine current-year accidents and changes to prior-year accidents, combining results for accidents of several years. GISA advises that such data may also be subject to abnormal accounting activity in a particular year.

# Issues with GISA data (continued)

- The report is primarily on a net basis. Thus it does not report amounts ceded by the insurers to reinsurers, limiting the report's transparency regarding these amounts. GISA advises that a major insurance group was identified to have reported its reinsurance contrary to instructions. While this issue has been identified as specific to Ontario, it illustrates that issues can arise in the consistency of data reporting. Further, it is seen in Table 1 that the net earned premium reported for 2017 show a marked decrease compared to that of 2016. This was followed by a rebound in the net earned premium in 2018. In Table 2, this pattern is not seen in the gross earned premiums for 2016 through 2018, thus suggesting a significant yet unknown variation in reinsurance reported.

# Comparison of the Cheng Method to the GISA Profit and Loss Report

By contrast, Cheng's method of allocating insurer operating results to Alberta and to PPA has the following attributes:

- It uses claims and premium data specific to Alberta PPA for individual accident years.
- Allocations to Alberta and PPA of equity, expenses and investment income are based on ratios drawn from industry-wide financial statistics, that aggregate financial amounts taken directly from insurers' P&C returns. These financial statistics have thus been subject to insurers' internal and external audit processes.
- Allocations based on these industry-wide statistics are consistent and transparent, using the same allocation method for all insurers and from year to year.

These attributes can be expected to provide a more consistent and better-understood measure of industry-wide profitability than a measure based on allocation processes that are not subject to audit, that vary between insurers and from one year to the next year.

# Industry Profit in 2019 and Projected for 2020

Table 9 presents projected pre-tax profit for the industry for 2019 and 2020, using Cheng's method. The projection for 2020, is largely based on a continuation forward of the individual components for the 2019 year

Table 9: Projected Annual Profit, 2019 and 2020, Alberta Private Passenger Auto Insurance, Using Method of J.S. Cheng and Partners

*(Thousands of Dollars)*

| | 2019 | Projected 2020 | Total |
|---|---|---|---|
| **Premium** | $3,786,200 | $3,894,300 | |
| **Less: Claims Costs** | $2,926,000 | $2,344,000 | |
| **Less: Expenses** | $1,010,900 | $1,039,800 | |
| **Plus: Investment Income** | $351,200 | $269,600 | |
| **Total Profit, Pre-Tax** | $200,500 | $780,100 | $980,600 |

Detailed calculations used to determine the amounts in Table 9 are shown in the Appendix, Tables A 4.1 through A4.6.

# Industry Profit in 2019 and Projected for 2020

The projected earned premium for 2020 partially captures the premium rate increases taken through late 2019. This done by adjusting the 2019 earned premium upward to the level of written premium in the second half of 2019. This is a conservative estimate of 2020 premium for the industry, as it does not fully recognize rate increases taken by a number of company groups in late 2019 and early 2020.

As has been noted, the magnitude of inflation-adjusted claims costs has been approximately stable between 2016 and 2019. Thus, as a starting point, 2020 claims costs are set at the 2019 claims costs, plus 2% for projected general inflation.

The COVID-19 crisis in 2020 has led to dramatically reduced traffic volumes and to corresponding decreases in claims costs. Consequently, the 2020 claims costs are reduced, for the "moving" coverages by 50%, for a three-month period, until the start of Alberta's Stage 2 reopening June 12, and by 25% for a further six months.

The COVID-19 crisis has led to premium decreases, granted by insurers in response to reduced amounts of driving. In a May 8, 2020 announcement, the IBC estimated "reductions that could result in over $100 million in savings for Albertans who have changed their driving habits as a result of the pandemic." This analysis uses the $100 million amount named by the IBC as the estimated reduction in premium.

http://www.ibc.ca/ab/resources/media-centre/media-releases/alberta-auto-insurers-focused-on-affordability

- Since the rate increases taken by several insurer groups in late 2019 and early 2020 are not fully reflected in the projection for 2020, the projected total profit for the two years can be expected to exceed the $980.6 million shown in Table 9.
- In addition, if the BI loss cost for the more recent accident years does prove conservative, as discussed in Section B, the industry profit will increase further.
- Volatility in the financial markets in the wake of the COVID-19 crisis is reflected by reducing investment returns from the 3.4% seen in 2019 (and 3.1% averaged between 2013 and 2019) to 2.5% for 2020.

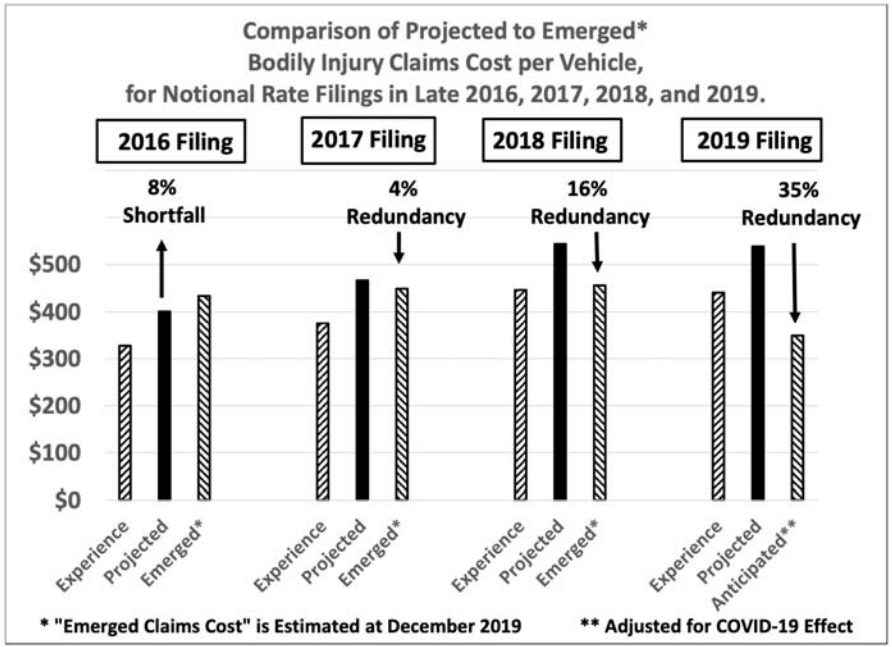



Figure 7: Comparison of Projected to Emerged Bodily Injury Loss and LAE Cost per Vehicle, Notional Rate Filings

# Shortfalls and Redundancies, in the Provision for Bodily Injury Loss Cost, Underlying 2016 through 2019 Notional Rate Filings

FIGURE 7 SHOWS THE AVERAGE PROJECTED UNDERLYING BI LOSS COST ASSOCIATED WITH FOUR NOTIONAL RATE CHANGE FILINGS, SUBMITTED IN LATE 2016, LATE 2017, LATE 2018, AND LATE 2019. IT SHOWS THAT RATE CHANGES FOR BI MADE IN LATE 2017 AND LATER, USING THE BENCHMARK PARAMETERS PROMULGATED BY AIRB, WOULD PROVIDE FOR MORE THAN THE AMOUNT OF BI LOSS COST THAT ACTUALLY EMERGED. ALL OTHER FACTORS BEING EQUAL, THIS WOULD INCREASE THE PROFIT OF AN INSURER FITTING THIS PROFILE TO AN AMOUNT GREATER THAN THE AMOUNT GRANTED BY THE FILING.

- The notional filings are built upon BI loss cost data from the most recent three accident years prior to the filing date (bars with upward sloping stripes). Factors provided by the AIRB benchmarks, current at the time of the notional filing, are then applied to the claims data. The AIRB benchmarks include factors for loss development, an annual trend of between 7% and 8.5%, and internal insurance company loss adjustment expenses (unallocated LAE) of between 8.5% and 10.3%.
- The claims data, with the benchmark factors applied, then forms a projection of the BI loss cost (dark solid bars), which provides the basis for the rate change.
- Figure 7 then compares the projected BI loss cost for the filing to the value of the actual emerged BI loss cost provided for by the filing (bars with downward sloping stripes). If the emerged BI loss cost is greater than the projection, there is a shortfall. And if the emerged BI loss cost is less than the projection, there is a redundancy.

- It can be seen that for filings notionally submitted in late 2016, the emerged BI loss cost for the policy year after the filing is 8% higher than the projected amount, with the result that the rate change submitted would not provide fully for the actual loss cost. All else being equal, such a shortfall would cause an underwriting loss for an insurer fitting the profile of the filing.
- This situation turned around from shortfall to redundancy by late 2017. In this notional filing, the estimated BI loss cost for the three prior accident years is higher than for the 2016 filing. This increase supports a higher projected BI loss cost than for the 2016 filing.
- However, the BI loss cost that actually emerged is almost unchanged from that of the 2016 filing. The result is that the emerged BI loss cost is 4% below the amount requested in the filing. All else being equal, such a redundancy would produce greater profit for an insurer fitting the profile of the filing.
- For the 2018 notional filing, the redundancy grows from 4% to 16%. It is a logical consequence that the benchmark trend factor, by projecting annual increases in excess of general inflation in the BI loss cost that don't actually emerge, will create the redundancies that have been seen.

## *The Particular Case of the 2019 Notional Filing*

- The notable feature of the 2019 notional filing is that the projected BI loss cost is almost identical to that for the 2018 filing. This implies that insurers with BI loss cost equal to the industry average, with adequate rates in 2018, will not require a further rate change in 2019 for the BI coverage (all else being equal).
- For the 2019 notional filing, the shortfall or redundancy cannot yet be known, since actual emerged claims experience for 2020 has not yet been reported by GISA. To work around this lack of information, an alternative is to use the BI loss cost underlying the claims projection for 2020 in Table 9. Doing so, the redundancy increases to 35%.
- Note that part of the reason for this increased redundancy for the 2019 notional filing is the reduced claims volume arising from the COVID-19 crisis. Further, note that the BI loss cost does not account for the estimated $100 million of premium reductions announced by the IBC on May 8, 2020. Thus, the redundancy in BI loss cost for the 2019 filing may not be sustained when the COVID-19 crisis passes, and the redundancy will not fully pass through to profit.

# THE INSURANCE INDUSTRY PROJECTIONS FOR BODILY INJURY CLAIMS PAYOUTS AND RESERVES WERE OVERLY PESSIMISTIC AND CONSERVATIVE AND LIKELY CONTINUE TO BE SO BASED ON THE STATISTICS AND GISA CAVEATS

It should be noted that the Gisa documentation, upon which Oliver Wyman relies, contains several specific caveats as it relates to bodily injury claims payouts.

These are set out below in their entirety with emphasis added:

- A large writer has changed its case reserving protocol for Bodily Injury Kind of Loss as of Accident Year 2015-1 and is now reporting lower incurred claim counts and lower incurred claim amounts at earlier age of development. Another large writer has strengthened their reserving practice for Accident Year 2013 and onwards, starting during the second half of calendar year 2015. Users should exercise caution when using this data.
- An unusual significant increase in claim counts for a major writer for Bodily Injury Kind of Loss for Accident Half-Years 2016-1, 2016-2 and 2017-1 at the 6-month development stage. This has been confirmed as a result of a temporary change in its claims handling, which created significant claims backlog. Users should exercise caution when using this data.
- A large writer has confirmed its change in claims handling practice for Bodily Injury claims, which results in larger than historical claims closure across the 2017-1 and later diagonals of the Bodily Injury claim count and amount triangles. Users should exercise caution when using this data.
- A large writer has strengthened their case reserving practice for Bodily Injury Kind of Loss as of Accident Year 2017-2, resulting in larger than usual case reserve amounts across the 2017-2 and later diagonals of the Bodily Injury amount triangle. Users should exercise caution when using this data.

Clearly there appears to be a significant industry move towards strengthening claims reserves beginning in 2017.

It is also worthy to note that despite the GISA suggestion that users exercise caution when using this data, the Oliver Wyman report makes no adjustments to the data for the noted issues.

It is impossible to know the actual impacts of these variations. However, analysis conducted by Mr. Allen in the appended exhibit does show that the conservative reserves shown in previous Annual and Semi-Annual reviews, which continue to date, have not materialized in the manner that was feared. In fact, historical analysis now shows that the results in previous Annual and Semi-Annual reviews were overly pessimistic and took significantly higher reserves than what was ultimately paid out for bodily injury claims dating back to 2015.

This practice is combined with AIRB benchmark trend factors that have overestimated the growth in the value of bodily injury claims since 2016. The trend factors, ranging between 7% and 7.5%, have resulted in a redundancy beginning in 2018 and projected to increase in 2019 and more significantly in 2020. The fact that premium increases have been premised on rising bodily injury claims, which the statistics show have not materialized, can only mean increased profits for insurance companies. In the event forward looking projections continue to accept continued increases in bodily injury claims as reflected in the overly conservative AIRB benchmark trend factors and reserves, neither of which have materialized, the impact will be corresponding redundancy and increase in insurance company profits.

# CONCLUSIONS

# FINDING 1:

- For accident periods beginning July 1, 2016, inflation-adjusted bodily injury loss and LAE cost per vehicle has been approximately stable. A continuation into the future of the stability seen for the last 3.5 years would be in contrast to the AIRB bodily injury trend rate, which continues to project future growth well in excess of the general inflation rate.

# FINDING 2:

- There are underlying features of the available claims data that provide further support to the stability in bodily injury loss and LAE per vehicle seen since mid-2016. Further, there are facts that suggest that current estimates of the loss and LAE cost per vehicle may be conservative, and that subsequent estimates for recent accident years may decline. Facts in support of this proposition include:
  - Very little growth in the inflation-adjusted loss cost estimates between corresponding accident semesters,
  - Cumulative payments for recent accident years that are not keeping pace with payments for prior accident years,
  - Growth in case reserves for bodily injury claims that is greater than cumulative payments,
  - A GISA advisory, supported by the claims statistics, of an increase in the level of adequacy ("strengthening") of case reserves, that has not yet been accompanied by offsetting changes in the actuarial loss development factors, and
  - Demonstrated reductions since 2017 in bodily injury loss and LAE cost estimates for accident years prior to 2018.

# FINDING 3:

- According to a consistent and transparent method of profit allocation for the industry, the Alberta private passenger automobile insurance industry earned a pre-tax profit of $185.5 million between 2013 and 2018. My current projection, using this method, is that the industry will earn a total pre-tax profit of more than $980 million during the period 2019 and 2020 combined.

# FINDING 4:

- Since 2017, a notional rate change application for bodily injury coverage, based on AIRB benchmarks and the prior three accident years of industry-wide claims experience, will overestimate the dollars needed to cover the loss and LAE costs that have subsequently emerged. All else being equal, this overestimate would increase the profit for an insurer, having a similar profile, making such a filing.

# THANK YOU

Contact Us:

Alberta Civil Trial Lawyers Association

777, 10339 – 124TH Street

Edmonton, Alberta T5J 2Y2

1-800-665-7248 | (780) 429-1133

Executive Director, Jacqueline Biollo, MBA

executivedirector@actla.com

ACTLA President, Jackie Halpern

JHalpern@mcleod-law.com