February 18, 2022

Alberta Automobile Insurance Rate Board
2440 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Attention: Ms. Laurie Balfour, MBA, CPA, CMA, Executive Director

RE: FA Written Submission in regards to the AIRB Draft Review of 2021-H1 Industry PPV Experience

Dear Ms. Balfour,

Facility Association has reviewed the Oliver Wyman ("OW") draft report entitled "*Semi-Annual Review of Industry Experience – as of June 30, 2021 Preliminary Report Private Passenger Vehicles*" dated January 24, 2022 ("OW Report").

We are pleased to provide our written submission for your consideration. Our comments are focused on the availability of automobile insurance in the voluntary market in Alberta, providing consumers a choice in terms of both insurance provider and type and amount of coverage available[1]. We believe this dovetails with the Alberta Automobile Insurance Rate Board (AIRB) vision of fostering an efficient and effective automobile insurance market with fair and predictable rates.

We continue to be concerned with the potential availability issues in Alberta at the current time. Indeed, except for 2020 and 2021 (impacted by COVID-19), the OW estimates of PPV loss ratios (indemnity, ALAE, and ULAE) have continued to marginally improve from their peak in 2016 but have remained well above the 65% level we estimate would be consistent with the proposed benchmarks as per the OW Report. Nor can we expect the lower loss ratios of 2020 and 2021 to continue as the pandemic restrictions and their economic impact recede.

We estimate that the OW future trend selections at the coverage level will translate to an overall loss cost future trend rate of 4.6% for private passenger vehicles.

It is challenging to promote both fairness and predictability in automobile insurance rates at a time when the underlying costs of benefits provided by the insurance product are very difficult to predict, as stated in several passages of the OW Reports.

In light of this, we believe it is important to reiterate our position that the AIRB should use the benchmarking exercises to inform its considerations of rate filings, rather than to set specific targets, caps, or floors with

[1]Consumers in Alberta are required to purchase $200,000 of third party liability protection. However, it is clear that consumers see value in broader insurance coverage to protect them and their financial wellbeing, as only 0.1% of individually-rated private passenger vehicles were insured for the required minimum third party liability limit, according to 2021 half year data found in GISA industry data (the AUTO7501). Further, 73% purchased protection for their vehicle against collision/upset, and 85% purchased protection for their vehicle against theft and non-collision damage. We believe these statistics show a clear consumer appetite in the province for automobile insurance across many of the perils to which owning or operating an automobile exposes consumers.

respect to any one particular assumption. This approach opens the opportunity for insurers to reflect their own assessment of future costs in providing their product / service to the consumer, and allows them to set their rates based on their assessment of the competitive market in which they operate. This, we believe, will result in the greatest consumer choice in both providers and products, while maintaining fairness to all parties as well as a healthy competitive market.

In contrast, setting specific values, floors or caps may adversely impact availability of voluntary automobile insurance in the province, to the extent that capital providers in the voluntary market take an adverse view of their ability to charge rates that they have assessed relative to the future costs and risk of providing insurance.

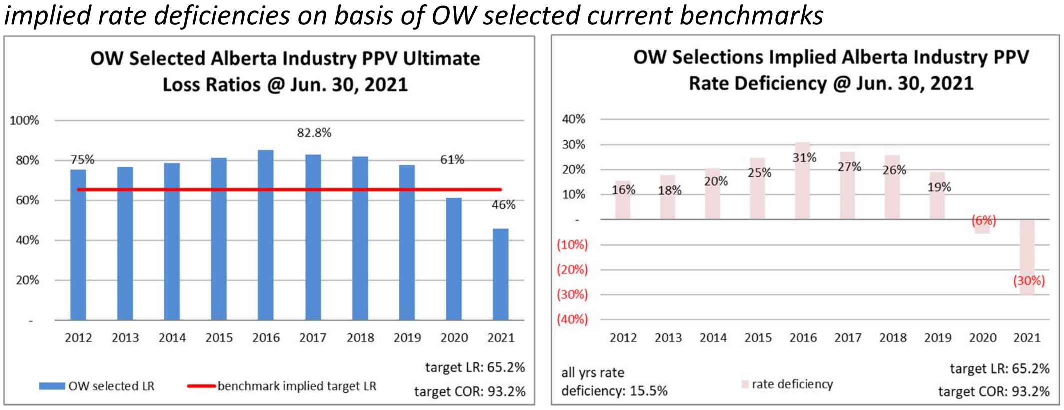
More broadly (i.e. beyond just a focus on reform factors and trends), there are areas of uncertainty where we believe the AIRB should allow flexibility for companies when selecting assumptions supporting their rate applications. These include:

- Impact of COVID-19 and Bill 41 reforms in 2020, including introduction of DCPD;
- Selection of industry ultimate claim counts and amounts supporting their analyses (including trend analyses);
- Selection of trend models (including the underlying methodology and approach) and associated estimates of trends or other changes to claims metrics;
- Large loss and catastrophe loss loadings and methodologies;
- Operational expenses; and
- Profit provisions (in terms of both the metric to use, and the level to target).

In considering these areas of potential flexibility, it is important to recognize the extent of the current estimated rate deficiency in the province. Based on our interpretation, the proposed benchmark assumptions would indicate a target indemnity and claims expense ratios of approximately 65% for PPV.

The charts below summarize estimated rate deficiencies, by accident year, relative to this target level. If we exclude 2020 and 2021, the deficiencies range from 16% (2012) to 31% (2016), with a weighted average rate deficiency of 22.9% or **greater than $5.7 billion in PPV premium shortfall over that 8-year period**. If we were to include 2020 and 2021**,** the weighted average rate deficiency would decrease to 15.5% or **greater than $4.9 billion in PPV premium shortfall over that 9.5-year period.**

*Industry Alberta **PPV** @ June 30, 2021 - OW selected indemnity, ALAE, ULAE LRs and implied rate deficiencies on basis of OW selected current benchmarks*



It is important to note that these are not estimates of actual hindsight rate deficiencies, but rather estimated rate deficiency when applying the OW benchmark assumptions per the current preliminary benchmark report. We have not attempted to put claims or premium amounts "on-level" (i.e. adjusted claims for trends/reforms over time; adjusted premium levels for premium trend and rate changes).

We would also like to acknowledge the recent introduction of DCPD, and the filing guidelines for insurers to split TPL and introduce DCPD[2]. The introduction of DCPD coverage ensures physical damage costs will vary with the vehicle rate groups, and to that end allows for more responsive pricing/segmentation while making the claim process more efficient for all stakeholders. The introduction of DCPD in itself combined with its unique interaction with the Grid structure, results in dislocation at the individual vehicle level, but we believe this will allow the voluntary market in Alberta to be as competitive as it can be. While dislocation can be problematic for customers experiencing increases, efforts to curtail the rate adjustment that flows from a change in risk profile are likely to have consequence for availability. At an aggregate industry level, the cost pre and post DCPD remains the same, but for individual companies, their mix of vehicles may be very different. Simply put, the move to DCPD changes the cost of insuring vehicles following their cost to repair. If we limit the ability of price to follow that shift in cost between insureds, there will be a shift in risk appetite of companies, as they seek to avoid writing more expensive, and potentially now underpriced risks in favour of lower cost vehicles.

As noted in prior submissions, we believe that it is important to begin laying the foundation for a flexible future system, where insurers are able to include their best estimates of future costs based on their own assumptions, judged by the AIRB on their own merit and the basis of reasonableness, considering prediction uncertainty.

Finally, more specific to the trends outlined in the OW Report, we discuss the following issues and our views more broadly over the following pages:

- Selection of ultimates and valuation methodologies;
- Use of indemnity + ALAE + ULAE vs use of indemnity alone;
- reforms and COVID-19; and
- Selection of loss trend rates

Any questions related to this submission may be directed to Philippe Gosselin by email at pgosselin@facilityassociation.com or by phone at 416-644-4968.

Best regards,

Philippe Gosselin, FCAS, FCIA
VP Actuarial & CRO

[2] Filing Guideline for DCPD Filings Change in Rates and Rating Programs effective April 1, 2021, and PPV DCPD rate is not subject to grid rate cap.

General Comments

This document represents the Facility Association ("FA") written submission to the Alberta Automobile Insurance Rate Board ("AIRB") with respect to the Oliver Wyman reports entitled "*Semi-Annual Review of Industry Experience – as of June 30, 2021 Preliminary Report Private Passenger Vehicles*" dated January 24, 2022 ("OW Report").

Summary of Selections

There are many possible models for frequency, severity, and loss costs for each coverage that are valid and reasonable, and the ultimate selection of models by insurers in developing their rates is a matter of judgment and interpretation that can differ among actuaries even when modeling the same data. Differences like this in general should be viewed as both "normal" and healthy in a competitive environment. It is the nature of the actuarial science.

Specifically, we feel it is important for the Board to consider that valid differences in actuarial judgment and opinion can lead to differing selections of ultimates, and differing trend results. Indeed, differing models can fit actual results equally well, and yet, due to their structure (i.e. the selected parameters included in each), result in divergent forecasts.

We also believe the Board should allow the filing insurer to set their prices and market share on their views of ultimates and their selections of models describing frequency/severity/loss costs over time and as projected into the future. The rate review process should focus on whether the filing insurer's process to arrive at their forecast was reasonable (and consistent with the insurer's previous views / process / approach unless an explanation is provided as to what has changed and why). If so satisfied, we believe the Board should accept the filing insurer's view, even if it differs from the view of the Board's actuary. Forcing all participants in the insurance market place to adopt a single view introduces systemic risk and potentially detracts from the competitive marketplace should certain participants reduce their risk appetite where they do not agree with the imposed view. This can lead to an overly prescriptive regulatory environment, which we believe is not the intention of the Board.

We appreciate the opportunity to provide feedback, and we have focused our comments on the following areas:

1. Selection of ultimates and valuation methodologies;
2. Use of indemnity + ALAE + ULAE vs use of indemnity alone;
3. reforms and COVID-19; and
4. Selection of loss trend rates.

Since we have completed our own trend analysis using PPV Industry Experience as of June 30, 2021, we would like to provide the Board with a summary of our selections of the future trends and how they compared with the selections from the OW Report. Please note that our areas of focus can partially explain the differences between the two sets of selections.

Coverage	Alberta PPV Trends at 2021-06		
	FA selection future Trend	OW selection future Trend	difference between FA and OW
BI	7.0%	5.0%	2.0%
PD	1.8%	1.5%	0.3%
AccBen (indivis)	7.6%	12.0%	(4.4%)
UM	-	2.0%	(2.0%)
CL	2.7%	2.5%	0.2%
CM	4.1%	6.5%	(2.4%)
SP	4.4%	3.0%	1.4%
AP	1.1%	2.5%	(1.4%)

1. Selection of ultimates and valuation methodologies

For all coverages, the OW selection of ultimates (counts / amounts) is based on the selection of loss development factors (chain ladder method) using industry data through June 30, 2021.

We believe it is uncommon practice in Canada for a valuation actuary to rely on a single valuation methodology in completing a valuation as this introduces significant model risk (the risk that the model employed is not appropriate or has significant shortcomings for the experience being projected). To minimize model risk it is common to employ different models.

We appreciate OW's response to prior FA submission on this matter: "*For these reasons, it is our view any benefits related to the consideration of additional methods would be marginal".*

However, as OW Report mentioned that "*the selection of development factors has an effect on the selected loss trend rates and other key assumptions, factors, and provisions*", the selection of ultimates is a critical and foundational input of the loss trend analysis, we believe there are a number of factors contributing to the uncertainty in estimating Alberta Industry ultimates and that the "range of reasonable" valuation estimates is wide which subsequently leads to a wide range of reasonable trend estimates.

As the AIRB's vision is for fair and predictable rates, the accuracy of the predictions used for setting benchmarks should be assessed as part of the annual process.

2. Use of indemnity + ALAE + ULAE vs use of indemnity alone

OW uses indemnity plus allocated loss adjustment expense (ALAE) plus unallocated loss adjustment expense (ULAE) as the basis for loss amounts in their trend analysis.

We appreciate OW's response to prior FA submission on this matter: "*Given combined indemnity and expense data is the norm, relevant benchmark trend factors should also be on an indemnity and expense basis".* We agree that the combined indemnity and expense data is the norm in the industry, but we would like to emphasize that the indemnity and expense data, as well as the underlying development and trend may be significantly different. Consequently, we should consider this if the analysis is based on the combination of both.

If the objective is to minimize any impacts or distortions in the data that may arise from insurers changing their mix of ULAE and ALAE over time, this can be achieved by modeling indemnity only data and recognizing that individual insurers are in a much better position to make direct adjustments for any shifts in their usage of ULAE vs ALAE over time, as they deem appropriate.

FA is analyzing the Alberta Industry PPV trends on **an indemnity basis only** and as explained above, this could result in different selections than those made by OW.

3. Reforms and COVID-19

OW Report described reforms including 2020 reforms, but did not include the reforms assessments. We believe users of OW Report would benefit if OW Report provides the assessments of the reforms impacts on the claim costs.

Considering that the impacts of 2020 reforms are important in the context of predicting future claims costs, we agree with the OW Report that "*The industry data that this Annual Review report is based upon, as of June 30, 2021, does not include sufficient claims experience to update the expected cost impact of Bill 41. Due to the impact of COVID-19, we expect an additional time lag before the effect of the reforms can be accurately measured using industry claims experience*".

The difficulty with COVID-19 is to foresee the exact end of the pandemic and therefore identify if a rating program will be effective when COVID-19 continues to have impact on claims costs or not.

The impact of COVID-19 is difficult to predict, as various factors could affect the future exposures and losses and there is still a lot of uncertainty around those. Will the frequency be back to normal? Will the exposure be the same (e.g. km driven)? Will severity increase for physical damage coverage considering supply chain issues (e.g. electronic chips)? Even though we might believe or hope that it will be different, we believe, at this point in time, that pre-pandemic experience is the best representation of post-pandemic experience.

4. Selection of loss trend rates

OW Report loss trend analysis excluded the 2020 and 2021-1 data points for the coverages that have seen a significant change in claim costs as a result of COVID-19, this is consistent with FA's trend analysis and it is our position until such time that there is sufficient data to properly adjust or include 2020 and 2021 in the analysis.

OW Report regression models do not include reform parameter, but FA's loss trend models include reforms impacts (scalar level changes and trend level changes if they are statistically significant). We believe that inclusion of the reform impacts in the trend models will help users to understand how the reforms would impact loss, especially future loss, with consideration of the interaction between trend and scalar changes, rather than on an isolated basis, to avoid overstating or understating the overall impacts on the loss of the reform.

We agree with the OW Report that it is challenging to make selection for the future loss trend rates due to the uncertainties related to the ultimate claim amounts, particularly for the more recent accident years, and the impact of Bill 41, especially for Body Injury and Accident Benefit. As a result, we believe the AIRB should allow flexibility for companies when selecting loss trends supporting their rate applications.