

February 18, 2022

Ms. Charlene Butler
Chair, Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

RE: AIRB 2022 Semi-Annual Review

Dear Ms. Butler,

Thank you for the opportunity to participate in the AIRB's semi-annual review of auto insurance trends and rates for basic and additional coverage. Consistent with our approach to the last Annual Review, Insurance Bureau of Canada (IBC) retained an outside actuary, Deloitte, to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2021 Private Passenger Vehicles*. The commentary contained in this letter reflects data from Deloitte's review and the views of insurers operating in Alberta's private passenger vehicle (PPV) insurance market.

Supporting a Sustainable Insurance Market for Alberta Drivers

IBC and its members applaud the AIRB for its efforts to modernize Alberta's outdated regulatory environment and to create a best-in-class insurance system that fosters choice and innovation for the province's 3 million drivers. In the last year, your office has ushered in significant improvements to the province's regulatory and rate filing system that will benefit consumers for years to come. Expanding on this – and in particular on the province's File-and-Use rate filing system – should be an immediate priority in order to create a more dynamic and competitive insurance market that is more responsive to consumer wants and needs.

Following the passing of Bill 41, the *Insurance (Enhancing Driver Affordability and Care) Amendment Act*, consumer premiums have begun to stabilize. According to data from the AIRB, rates decreased by 0.6% over the last year. Likewise, commercial vehicle premiums are stable, with an annual rate change of just +0.01%. However, we caution premature observations around the reforms' longer-term impact on premiums. Nonetheless, with inflation challenging consumer affordability in many other areas, consumers are currently seeing the direct benefits of government's action in this area.

It is important to note that while consumer premiums are beginning to stabilize, both Oliver Wyman and Deloitte have identified significant claims costs pressures that insurers will grapple with in the year ahead. Both actuaries project substantial and double-digit increases in accident benefits loss costs (+12.0% and +10.0%, respectively) and significant total coverage loss cost increases (+4.7% and +4.9%, respectively). These are in addition to other challenges insurers have been facing, such as the mandated decrease in Grid premiums following the introduction of DCPD.

However, despite these cost and premium pressures, insurers operating in Alberta have been significantly restricted in their ability to implement actuarially justified rate changes. While we acknowledge the uncertain impact the COVID-19 pandemic has had on consumer driving habits,

we emphasize that insurance rate setting is prospective, not retrospective, and these cost trends identified by both Oliver Wyman and Deloitte cannot be ignored. Insurers must have the flexibility to present and receive approval for rate changes, where actuarially justified, in a timely manner.

IBC recognizes the significant resource and staffing constraints that the AIRB is currently experiencing and its related impact on the timeliness of responding to insurer rate filings. We believe transitioning PPV filings to a File-and-Use Framework would reduce the resources required by both insurers and the AIRB. This will create a more efficient and effective regulatory framework overall, without reducing the AIRB's oversight of ratemaking itself.

Consumers benefit when there is a wide variety of insurers competing for their business. Permitting insurers to change rates, where actuarially justified, is a critical component of this. Healthy market competition fosters an environment that allows consumers to find the best price possible for their driver profile.

IBC Recommendations for the AIRB in the Year Ahead

As noted above, both Oliver Wyman and Deloitte have identified significant cost pressures facing insurers in Alberta. Given the identified cost trends, IBC recommends the AIRB focus its current efforts on:

- Allowing insurers, where actuarially justified, to obtain approval for rate changes in a timely manner;
- Improving the province's rate regulation framework by continuing to move towards a File-and-Use system, as referenced in the AIRB's 2021-2024 Business Plan. This includes:
 - Allowing all simplified rate filings to proceed on a File-and-Use basis where it does not result in a total rate increase of greater than 5% or any single consumer dislocation of greater than 15%. We believe that an increased threshold of at least 5% for PPV risks is reasonable given the roughly +5% all-coverage trend factor selected by both Oliver Wyman and Deloitte, as well as inflation of roughly 5% in the province; and
 - Reviewing the province's rate filing guidelines to streamline the filing process and establish clear timelines for insurer information and approvals;
- Streamlining the Grid framework to realign it with its original intent to support new drivers' access to affordable premiums; and
- Moving towards a more principle-based regulatory model that better promotes competition in the market and greater choice for consumers.

We focus our remaining commentary on future loss cost trend rates, the health cost recovery factor, catastrophe provision, operating expenses and the impact of the COVID-19 pandemic.

Future Loss Cost Trend Rates

According to both Oliver Wyman and Deloitte, trend rates for several coverages are significant. The table on the next page highlights future loss cost trend rates from both actuaries:

Future Loss Cost Trend Rates

	Oliver Wyman	Deloitte
Bodily Injury	+5.0%	+6.0%
Property Damage	+1.5%	+1.7%
Accident Benefits	+12.0%	+10.0%
Collision	+2.5%	+2.9%
Comprehensive	+6.5%	+5.6%
Total Coverages	+4.7%	+4.9%

IBC with data from Oliver Wyman, Deloitte.

According to both actuaries, claims costs are projected to increase in the future. Oliver Wyman and Deloitte selected future total coverages trend rates of +4.7% and +4.9%, with accident benefits considerably higher at 12% and 10% respectively. Likewise, bodily injury loss costs are projected to be a continued cost driver in Alberta. These selections highlight that under the current product, injury claims costs will continue to rise significantly.

Although both actuaries project claims cost increases, we believe actual increases will likely be considerably higher due to skyrocketing vehicle repair/replacement costs. There are several recent elements not reflected in these trend factors in support of this:

- Global supply chain disruptions have led to steep increases in the price of used vehicles. For example, according to Auto Trader, the price of a *used* vehicle has increased by 21% in Alberta over the last year. This increases the actual cash value of vehicles on the road;
- According to data from Mitchell International, during the pandemic, the average length of a rental vehicle in Alberta increased from 12.1 days to 13.8 days, making it the province with the longest cycle time and the only province that experienced an increase in the average length of a rental vehicle in 2020. In addition to higher vehicle repair costs, this is leading to insurers paying more than anticipated when consumers need vehicle rentals for a longer duration; and
- Vehicle damage trend factors in Alberta have been moderate in recent years, but this is only because Albertans have purchased proportionately fewer new vehicles compared to drivers elsewhere in Canada. As these vehicles are inevitably replaced, newer vehicles are more expensive to repair due to the sophisticated collision avoidance technology included. This is already happening in Ontario, where a June 2021 Oliver Wyman analysis selected property damage and collision future trend rates of nearly 10%. IBC believes these cost pressures will inevitably develop in Alberta as well.

For these reasons, we emphasize the need for insurers that can justify rate changes to be able to present and obtain approval for these to reflect these claims cost pressures. Permitting sustainable actuarially justified rates now will help avoid rate shocks in the future for consumers.

Health Cost Recovery

Consistent with the 2022 Health Cost Recovery Assessment recommended benchmark from the Alberta Treasury Board and Finance, Oliver Wyman recommends using the government mandated 2022 health levy loading factor of 3.55%. IBC and Deloitte consider this to be reasonable.

Catastrophe Provision

Oliver Wyman has proposed a catastrophe provision of 58%. Deloitte selected a slightly higher provision of 60%. Both of these selections were made based on the 2020 GISA Catastrophe Report, which includes the impact of the over \$1 billion Calgary hailstorm.

Deloitte believes a catastrophe provision between 56% and 62% is reasonable. However, as noted in IBC's 2021 Annual Review submission, when selecting this benchmark, IBC recommends the AIRB consider substantial losses from catastrophic events that are not reflected in Oliver Wyman's selection, such as the 2021 hail event in the Calgary area. With extreme weather events expected to increase moving forward, IBC believes a higher catastrophe provision is necessary.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 26.0% based on the GISA Industry Expense Report. IBC and Deloitte consider this to be reasonable.

COVID-19 Impact

Driving behaviours and trends in Alberta have shifted significantly over the course of the COVID-19 pandemic. Oliver Wyman noted that stay-at-home orders in 2020 led to a dramatic decline in traffic levels, whereas vaccine distribution in 2021 contributed to an increase in traffic patterns. Both Oliver Wyman and Deloitte emphasize there remains uncertainty as to the impact of the pandemic on driving activities and traffic patterns.

As noted in IBC's 2021 Annual Review submission, we reemphasize that the process of ratemaking involves looking at past claims cost trends in order to try to predict future trends. While full-year accident year 2021 data is not yet available, IBC recommends during future Annual and Semi-Annual Reviews, the AIRB place lesser weight on accident years 2020 and 2021 claims data when predicting future trends due to its level of uncertainty.

IBC appreciates the opportunity to provide input for the 2021 semi-annual review. We hope this commentary assists the AIRB in its deliberations. If you would like to discuss this further, don't hesitate to reach out to me at 1-604-349-8046 or Asutherland@ibc.ca.

Sincerely,



Aaron Sutherland,
Vice-President, Western & Pacific
Insurance Bureau of Canada