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Ms. Laurie Balfour
Executive Director
Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Dear Ms. Balfour,

Thank you for the opportunity to participate in the Automobile Insurance Rate Board's (AIRB) annual review of auto insurance trends and rates for basic and additional coverages. Consistent with our past approach to the annual review, IBC retained Dr. Ron Miller to review Oliver Wyman's preliminary report, *Annual Review of Industry Experience as of December 31, 2018 Private Passenger Vehicles,* and to undertake an analysis of the loss experience of the grid vehicle population. The commentary contained in this letter reflects Dr. Miller's review as well as the views of insurers operating in Alberta's private passenger vehicle (PPV) insurance market.

State of the Industry

According to Dr. Miller, between 2017 and 2018, Alberta PPV accident year loss ratios improved slightly, from 87.5% to 85.5%, primarily due to claims costs increasing at a slightly slower rate compared to some recent years. Unfortunately, given the recent difficulties faced by Alberta's auto insurance industry, this is not yet a development that can be celebrated. Alberta's auto insurers have faced significant pressure since the Ministerial Order capping annual rate increases at 5%. Even with the improved loss ratio, Alberta's auto insurers saw the seventh consecutive year of significant underwriting losses. According to data from Dr. Miller, the 2018 underwriting loss is estimated to be almost $450 million.

Two years ago at the 2017 AIRB Annual Review, Oliver Wyman and Dr. Miller estimated 2018 all-coverage loss trend factors of 5.8% and 6.5%, respectively. Subsequent data shows that the actual increase in total coverage loss costs was below these estimates[1]. This presents the government with an opportunity. IBC's *Road Map to Sustainable Auto Insurance in Alberta* (Road Map) contains several quick claims cost reduction measures to remove unnecessary costs from Alberta's auto insurance system while improving the insurance environment for consumers. A slightly lower premium inadequacy combined with quick cost reduction measures could help stabilize rates for consumers following the expiry of the 5% rate cap on August 31, 2019.

It is critical that these measures be implemented while the industry is in a time of temporarily slowing claims cost increases. Over the next year, Oliver Wyman and Dr. Miller estimate that claims costs will increase by 6.06% and 5.44%, respectively. The quick claims cost reduction measures outlined in IBC's Road Map will help reduce and stabilize claims costs.

However, to properly sustain the market and ensure that consumers can access affordable and available insurance in the coming years, IBC also recommends that the government, AIRB,

[1] IBC with data from GISA, Dr. Ron Miller. Trend factors from the 2018 Annual Review were not used because 2019 loss costs will not be known until the 2020 Annual Review

industry and stakeholders work together on transformational change to Alberta's auto insurance system in the best interest of consumers.

Grid Vehicle Population

Dr. Miller undertook an analysis of the loss experience of the grid population. The table below shows the market share for the grid population since 2007.

Grid Vehicle Market Share

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
9.0%	9.3%	8.0%	7.6%	7.5%	7.7%	7.2%	6.7%	6.1%	5.5%	5.5%	5.9%

IBC with data from Dr. Ron Miller. Car-years earned exposure.

During AIRB annual reviews held between 2012 and 2017, the AIRB increased the grid base premiums by progressively larger amounts, reaching a high of a 10% in 2017. In 2018, the grid premium increase for the following year was reduced to 5%, in line with the rate cap.

Prior to the 2018 annual review, these premium increases led to corresponding decreases in the overall grid market share, from 7.7% of earned vehicles capped by grid premiums in 2012, to 5.5% of earned vehicles in 2017. However, this trend changed after the 2017 annual review. Despite the highest-ever grid base premium increase of 10%, the grid market share actually increased the following year, from 5.5% of vehicles in 2017 to 5.9% of vehicles in 2018. This points to a problem with the current grid framework.

Grid vehicle compulsory coverage loss costs have increased in recent years at rates significantly above inflation. Below are loss costs and loss ratios for grid vehicle compulsory coverages between 2012 and 2018.

Grid Vehicle Compulsory Coverage Loss Costs and Loss Ratios

	Grid Loss Costs	Grid Loss Ratio
2012	$1,285	99%
2013	$1,313	98%
2014	$1,451	104%
2015	$1,682	113%
2016	$1,640	103%
2017	$1,628	95%
2018	$1,753	97%

IBC with data from Dr. Ron Miller. Includes ULAE and the health levy.

Over the seven-year period, grid vehicle compulsory coverage loss costs increased by 36%, or 5.3% per year. Over this time, loss ratios have averaged over 100%. Dr. Miller projects that by policy year 2020, the average grid street premium would have to be approximately 33% higher than that written in the second half of 2018 to reach rate adequacy.

This continued rate inadequacy is evident from the significant grid vehicle underwriting losses. The table below shows estimated aggregate grid vehicle underwriting losses between 2012 and 2018.

Estimated Grid Vehicle Underwriting Losses, Millions

2012	2013	2014	2015	2016	2017	2018	Average
($47.8)	($44.3)	($58.9)	($84.5)	($60.5)	($44.9)	($56.2)	**($56.7)**

IBC with data from Dr. Ron Miller, GISA

In 2018, despite the 10% grid base premium increase, the estimated annual aggregate grid vehicle underwriting loss increased by 25% year-over-year, from $44.9 million in 2017 to $56.2 million in 2018. Continually increasing loss costs, high loss ratios, tens of millions of dollars in annual underwriting losses and an increasing market share despite large base premium increases make it clear that the current grid framework is no longer working as it was intended. As the number and market share of drivers paying subsidized grid premiums increases, the increasing cost is borne by Alberta's good drivers.

In the short-term, IBC recommends that the AIRB increase grid base premiums by the same percentage as it sees in the majority of PPV rate filings following the rate cap expiry, and that the AIRB undertake a review of the grid to better understand what's working and what isn't. At the same time, IBC recommends working towards establishing an appropriate metric to measure grid activity such as a target per-vehicle grid subsidy or a target grid vehicle market share. Establishing such a target will help determine appropriate annual increases to grid base premiums.

In the longer-term, IBC recommends that the government remove the grid subsidy currently being offered to the province's bad drivers in order to minimize the burden placed on good drivers, while working on options to assist new drivers who are currently protected by the grid. These changes could accompany much-needed rate regulation reform to improve the accuracy and stability of rates for Alberta drivers.

Loss Development Factors and Loss Trend Rates

The table below shows accident year 2018 loss costs by sub-coverage based on the loss development factors that Oliver Wyman, Dr. Miller and GISA actuaries used for their individual analyses. It also shows the percentage changes over a five-year period.

Loss Cost by Sub-Coverage Comparison

	OW 2018	RM 2018	GISA 2018	OW 5-Year Change	RM 5-Year Change	GISA 5-Year Change
BI	$439	$446	$413	32.0%	33.3%	25.2%
PD	$175	$177	$176	4.4%	5.7%	4.8%
AB-MR	-	$50	$50	-	66.6%	65.8%
AB-DI	-	$14	$14	-	41.1%	39.9%
AB – Total	$67	$66	$65	60.8%	58.0%	57.2%
COLL	$268	$273	$271	6.6%	8.6%	7.8%
COMP - Theft	$49	$49	-	95.1%	93.4%	-
COMP	$176	$175	$176	-5.9%	-6.7%	-6.2%

IBC with data from Oliver Wyman, Dr. Ron Miller, and GISA. Includes ULAE but excludes the health levy.

Other than for BI coverage, 2018 loss costs between the actuaries are similar. However, due to methodological differences and claims development uncertainty, BI loss costs from Oliver Wyman, Dr. Miller, and GISA differ from each other by approximately 8%.

The table below shows the annual future loss cost trend rate by sub-coverage from Oliver Wyman and Dr. Miller. There are modest differences in the trend rates for TPL-BI, AB, and COMP. coverages.

Future Loss Cost Trend Rate by Sub-Coverage

	OW	RM	Difference
TPL-BI	+8.5%/7.5%	+6.60%	(0.9 p/p)
TPL-PD	+2.0%	+2.07%	0.07 p/p
AB	+9.5%	+11.32%	1.82 p/p
COLL	+2.5%	+2.40%	(0.1 p/p)
COMP	+5.0%/+8.5%	+6.63%	(1.87 p/p)
TOTAL	+6.06%	+5.44%	(0.62 p/p)

IBC with data from Oliver Wyman, Dr. Ron Miller.

Both Oliver Wyman and Dr. Miller expect the trend of increasing TPL-BI and total claims costs to continue. Oliver Wyman and Dr. Miller selected future TPL-BI loss trend rates of 7.5% and 6.6%, respectively, and total coverage future trend rates of 6.06% and 5.44%, respectively. These selections suggest that absent any reforms, claims costs will continue to increase which ultimately and, unfortunately, leads to higher required premiums for consumers. This is an outcome that neither the insurance industry nor government would like to see.

Additionally, Dr. Miller found a statistically significant reduction in the TPL-BI loss cost trend beginning in accident half-year 2015-1. For both AB-MR and AB-DI sub-coverages, Dr. Miller believes that the 2015 trend change may be attributable to both economic conditions and increased legal counsel involvement, with some claimants seeking higher levels of care for longer periods.

Differences between COMP trend rates are primarily because Oliver Wyman did not update its COMP trend from the AIRB semi-annual review, while Dr. Miller did.

Commentary on Loss Cost Analysis

Although total claims costs have been increasing more slowly than initially projected, there have been very different claims cost experiences across sub-coverages.

Bodily Injury Claims

The table below shows loss costs by sub-coverage for the last five accident years.

Loss Cost by Sub-Coverage by Accident Year

	BI	PD	AB	COLL	COMP
2014	$335	$168	$42	$252	$187
2015	$382	$170	$51	$252	$191
2016	$408	$158	$52	$248	$255
2017	$440	$173	$61	$273	$174
2018	$446	$177	$66	$273	$175
Annual Change	**7.4%**	**1.3%**	**12.0%**	**2.0%**	**-1.6%**

IBC with data from Dr. Ron Miller. Includes ULAE but excludes the health levy.

After AB, which began from a relatively low base, the sub-coverage that sustained the largest average annual cost increase was BI. Specifically, BI loss costs increased at a rate four times as fast as the rate of inflation.

The government's 2018 Minor Injury Regulation (MIR) amendment was intended to address the trend of injuries escaping the cap that the medical literature deems to be minor, a trend which began in 2012. The amendment applies the minor injury cap on Temporomandibular joint (TMJ) injuries, except for tooth, bone or articular disc damage, and physical and psychological conditions and symptoms arising from and resolving with a minor sprain, strain or whiplash injury.

In its discussions with government, IBC had recommended that the revised minor injury definition contain alternate terminology: "*including any clinically associated sequelae, whether physical or psychological in nature*". The "*clinically associated sequelae*" terminology is used in the Ontario, New Brunswick and Prince Edward Island minor injury definitions.

In Alberta, the lack of corresponding *Diagnostic and Treatment Protocols Regulation* (DTPR) amendments to include dental and psychological services could potentially cause the judiciary to deem certain TMJ and psychological conditions non-minor. The different terminology used in Alberta and lack of corresponding DTPR amendments create uncertainty around how the judiciary will interpret the MIR amendment, and therefore, the size of potential BI claims cost savings. Oliver Wyman and Dr. Miller's high TPL-BI trend factors suggest that neither actuary expects to see BI claims cost reductions as a result of the government's 2018 MIR amendment.

In its Road Map, IBC has recommended specific reforms to the MIR and DTPR, combined with reforms to the province's Certified Examiner framework, as the best way to decrease and stabilize bodily injury claims costs. However, to fully sustain the product, the government, AIRB and industry should work together on transformational change that will give consumers more choice and access to more care options.

Theft Claims

Dr. Miller notes that beginning in the first half of 2015, there was an increase in the estimated ultimate loss cost for COMP-Theft coverage of 38%, approximately three-quarters of which was due to increasing frequency.

On an industry level, IBC is undertaking a number of initiatives aimed at combatting fraud and auto theft, including

- IBC has memorandums of understanding with Calgary and Edmonton police services as well as with the RCMP which allow for collaboration and information sharing regarding auto theft investigations. IBC acts as the main point of contact for industry to contact law enforcement for auto theft investigational inquiries;

- Conducting workshops to educate Alberta law enforcement on issues related to fraud, vehicle detection, and auto theft investigations. In 2019 alone IBC has conducted 7 presentations to 170 members of law enforcement and Service Alberta related to auto theft and fraud detection, with additional workshops planned into 2020;

- IBC is in the final stages of approval to obtain and run an investigative tool to help its member insurers investigate auto theft claims; and

- IBC is working with the RCMP on its rural crime reduction strategy and has committed resources to support that initiative as it develops.

IBC and its members would welcome a more strategic discussion with the AIRB, government and law enforcement in Alberta to curb auto theft and fraud.

Different COMP and Specified Perils Trends

Dr. Miller notes that the major difference between COMP and Specified Perils claims trends is that windshield claims are covered by COMP coverage, though not by SP coverage. Nevertheless, he projects similar trend rates of 6.6% and 7.7% for COMP and SP coverages, respectively.

Dr. Miller also notes that Oliver Wyman's significantly higher trend rates of 8.5% and 10.0% for COMP and SP, respectively, may be explained because it did not update its COMP trend from the AIRB semi-annual review, whereas Dr. Miller did.

Catastrophe Provision

Dr. Miller believes that Oliver Wyman's proposed catastrophe provision of 60% is reasonable at this time, though this may be adjusted when Oliver Wyman revises its recommendation after review of the upcoming 2018 GISA Catastrophe Report.

Health Cost Recovery

Oliver Wyman states that insurers should reflect the 2019 health levy of 6.70% in their 2020 rate filings. Dr. Miller believes that this is a reasonable provision. However, he notes that despite the recent aggregate assessment decrease, it would still be appropriate for insurers to assume higher rates in subsequent years.

Investment Income on Cash Flow

Oliver Wyman selected an investment rate of 2.84% using forecasts from the Alberta government for the 3-month Treasury-Bill yield of 2.38% in 2020 and 2.79% in 2021, and for the 3-year bond yields of 2.58% in 2018 and 2.99% in 2019.

Conversely, Dr. Miller recommends an investment rate of 1.7% based on late-June 2019 risk-free interest rates. Dr. Miller believes that Oliver Wyman's estimate is too high unless there are further Bank of Canada interest rate increases. Given the widespread expectation that the United States Fed will cut interest rates at its July meeting, it seems unlikely that the Bank of Canada would move in the opposite direction and increase interest rates in the near-term.

Accordingly, IBC recommends that the AIRB revises its permissible investment rate to 1.7%.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 26.6% based on the GISA Industry Expense Report, and has partially made IBC's recommended adjustment to use earned premiums instead of written premiums in the calculation.

However, Oliver Wyman only made this adjustment for the general expenses component of the operating expenses ratio, and not for the other components.

Dr. Miller applied this adjustment consistently across all operating expenses components, resulting in a total operating expenses ratio of 26.9%, which is 0.3% higher than Oliver Wyman's estimate.

Cannabis

The insurance industry has a long history of promoting road safety and related initiatives in Alberta and across the country. The legalization of cannabis is once again an opportunity for the industry and all stakeholders to work together to raise awareness about the dangers of driving under the influence of cannabis.

We know that among the general public, views on driving high differ from views on driving drunk. On June 3, 2019 an AIRB Bulletin outlined that the AIRB will not consider adjustments to rating programs or actuarial assumptions that reflect the legalization of recreational use of cannabis. The insurance industry understands that generally, Canada-wide historical claims data is the best for ratemaking. However, the legalization of Cannabis presents a situation where no such data exists. U.S. experience shows that cannabis legalization leads to an increase in the claim frequency rate. Public opinion polling in Canada on the perceptions of Cannabis use and driving highlights that Cannabis legalization could lead to the same consequences in Canada. In 2018, IBC commissioned a poll which found concerning views among respondents' acceptance of cannabis use while driving:

- 18.4% of Alberta respondents felt that people under the influence of cannabis are less impaired than alcohol; and

- 39% of Alberta respondents did not know how long to wait to drive after consuming cannabis, while 7.3% and 9.8% felt it was safe to drive after one and two hours, respectively.

Studies from France and the US have found that drivers with tetrahydrocannabinol – the chemical responsible for most of the psychological effects of cannabis – in their blood are twice as likely to be involved in a serious collision, while a US study found that drivers who had consumed both alcohol and cannabis were 14 times more likely than sober drivers to be responsible for a crash.

Furthermore, although many cannabis products became legal last Fall, edible cannabis products will not become legal until late this Fall. Many consumers may be unaware that edible cannabis products can have a significantly greater impact on how long an individual must wait before operating a vehicle compared to traditional smoked cannabis products. These issues will make it increasingly difficult for insurers to incorporate the claims cost impact of cannabis legalization into their AIRB rate filings.

Many groups, including IBC, federal and provincial governments, are educating the public on the risks of driving high. However, insurers need to be able to account for and anticipate risk factors that could increase the number of claims. IBC recommends that the AIRB permit insurers to consider the potential impact of cannabis legalization on claims costs when making rate filings.

Conclusion

In 2018, according to MSA, Alberta automobile insurers faced an average combined ratio of 112%. Companies representing over 99% of the private passenger auto insurance market had combined ratios of between 101% and 129%. Data from GISA and Dr. Miller paint a similar picture of an industry under duress.

In an effort to help stabilize rates for consumers, IBC's Road Map contains several easily implementable provisions to help reduce claims costs. Some of these recommendations include:

- A strengthening of the minor injury definition in the *Minor Injury Regulation,* which will help reduce bodily injury claims costs following years of increases, combined with increases in the amount of pre-approved treatment available in the *Diagnostic and Treatment Protocols Regulation*;

- Reform to the prejudgment interest (PJI) environment in line with common practice in other parts of Canada so that PJI payments are made based on prevailing interest rates, and that the PJI calculation begins on the date a claim is filed; and

- A reform to the Alberta's Certified Examiner (CE) framework to help speed up the processing of bodily injury claims.

Additionally, the Alberta government should strive to improve the competitive environment in the province so that consumers can enjoy the full benefits of competition. The AIRB recently took a positive step by increasing the simplified filing threshold to 5% in a single year and 8% over two years. However, more work remains to be done.

IBC recommends that the government continue to engage in a collaborative dialogue with Alberta's PPV auto insurance industry to develop its Road Map to stabilize costs in the short-term and look at transformational change of the system to fully stabilize the system for years to come. This transformational change will help consumers lower their premium costs while also providing them with greater choices of innovative insurance products that meet their needs.

Again, thank you for the opportunity to provide input for the annual review. We look forward to meeting with the AIRB on August 15th.

Sincerely,

C Power.

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