

July 29, 2020

Ms. Laurie Balfour  
Executive Director  
Automobile Insurance Rate Board (AIRB)  
#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 coverage. Consistent with our past approach to this annual review, Insurance Bureau of Canada (IBC) retained Dr. Ron Miller to review Oliver Wyman's preliminary report, Annual Review of Industry Experience as of December 31, 2019 Private Passenger Vehicles, and to undertake an analysis of the loss experience of the grid vehicle population. The commentary contained in this letter reflects data from Dr. Miller's review and the views of insurers operating in Alberta's private passenger vehicle (PPV) insurance market.

### **State of the Industry**

Alberta's auto insurance system is no longer working for Alberta's 3 million drivers. As evidenced in Oliver Wyman's analysis in previous years and confirmed once again in its publicly-available report for this Annual Review, claims costs have been increasing for several years. These increasing claims costs are leading to higher premiums for consumers, who must pay for a product that does not provide the sufficient care and treatment options they deserve following a collision.

Based on Oliver Wyman's data, the main reason for increasing total claims costs are steep and steady increases in bodily injury claims. These costs have increased by over 80% since 2012 and are projected to increase further over the coming year. Unfortunately, Alberta's drivers will continue to pay higher premiums as a result of these increases unless changes to the auto insurance product are made to stabilize claims costs. Indeed, Dr. Miller estimates that absent reforms, by 2021, average premiums will need to increase by additional 10% over AIRB-approved levels to be considered adequate<sup>1</sup>.

While this submission includes IBC's commentary on items addressed during this Annual Review, we believe we have a duty to Alberta drivers to provide a path forward to affordable and sustainable auto insurance. To stabilize premiums, IBC and its members want to continue working with the AIRB, the government and stakeholders to bring transformational change to the system so Alberta's 3 million drivers will no longer face continued premium increases. The insurance industry believes consumers should have – and deserve – a system that is affordable and offers them choice and ample care when they need it most.

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<sup>1</sup> Policy year 2021. Based on AIRB-approved rate filings up to March 31, 2020

IBC and its members have been advocating for the government to make key reforms to Alberta's auto insurance system that will focus on affordability and care by implementing More Care, Less Court, a made-in-Alberta insurance product. Key elements include:

- Providing up to \$5,000 of pre-approved medical treatment for accident victims, roughly twice the amount of pre-approved treatment available under the existing product;
- Expanding the number of injuries eligible for pre-approved treatment;
- An expansion of the number of health care practitioner services eligible for pre-approved treatment; and
- A greater ability for consumers to control their premiums by purchasing higher limits or declining coverages that they do not need.

This proposal will reduce claims costs by between 11% and 19% per vehicle compared to the current product so that consumers would no longer see continued premium increases<sup>2</sup>. In fact, many consumers would see premium reductions. Allowing for more choice in the system will also give consumers options to customize the coverage that is right for them and meets their budget.

Further, IBC recommends the AIRB and Alberta government work together on measures that will reduce red tape, increase competition and enhance innovation. Outlined in its *Driving Change* proposal, IBC recommended the government implement the following additional reforms:

- Transition to a Direct Compensation for Property Damage framework, in line with most other Canadian provinces, so that drivers only work with their own insurer for repairs to their vehicle following a collision;
- Allow insurers to maximize the benefits of Usage-Based Insurance by giving drivers the option to have their premiums based solely on their specific driving habits;
- Allow insurers more freedom in creating customized rating territories so drivers living in low-claims areas are no longer paying elevated premiums to subsidize drivers living in high-claims areas; and
- Reform, if not remove, the current grid framework that causes Alberta's good drivers to subsidize high-risk drivers through higher premiums.

IBC welcomes the opportunity to speak with the AIRB on any of these measures as we move forward.

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<sup>2</sup> IBC with data from Dr. Ron Miller, by accident year 2021

### Grid Vehicle Population

Dr. Miller undertook an analysis of the loss experience of the grid population and the total market. Although the small size of the grid population reduces confidence in the results of this part of the analysis, it provides insight into the differences in driver experience.

The table below shows the grid vehicle market share since 2007.

#### Grid Vehicle Market Share

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
8.8%	9.1%	8.0%	7.5%	7.4%	7.6%	7.0%	6.6%	6.1%	5.5%	5.4%	5.7%	6.5%

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

During the AIRB annual reviews held in 2012 to 2017, the AIRB increased the grid base premiums by progressively larger amounts, reaching 10% in 2017. In 2018, the grid base premium increase for the following year was reduced to 5%, in line with the rate cap. Following the expiration of the rate cap, the AIRB increased grid base premiums by 15% last year. The impact of this increase will not be seen until 2020 accident year data is available.

Prior to the 2018 and 2019 annual reviews, these increases led to a subsequent decrease in the grid vehicle market share, from 7.6% of earned vehicles capped by grid premiums in 2012, to a low of 5.4% in 2017. However, this trend changed after the 2017 annual review. Despite a high grid premium increase of 10% in 2017, the grid market share increased from 5.4% to 5.7% over the next year. The smaller 5% increase in 2018 led to another increase of nearly a full percentage point from 5.7% to 6.5% by 2019. Although last year's 15% grid increase will likely lead to a decrease in market share for 2020, it may still be above the low of 5.4% vehicles seen in 2017.

Below are loss costs and loss ratios for grid- and non-grid vehicle compulsory coverages between 2012 and 2019.

#### Compulsory Coverage Loss Costs and Loss Ratios

	Grid Loss Costs	Grid Loss Ratio	Non-Grid Loss Costs	Non-Grid Loss Ratio
2012	\$1,280	99%	\$445	90%
2013	\$1,306	97%	\$477	93%
2014	\$1,409	101%	\$499	93%
2015	\$1,642	111%	\$546	96%
2016	\$1,614	101%	\$580	95%
2017	\$1,655	97%	\$643	99%
2018	\$1,762	97%	\$666	97%

<b>2019</b>	<b>\$1,684</b>	<b>90%</b>	\$693	94%
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*IBC calculation with data from Dr. Ron Miller. Includes ULAE and the health levy.*

According to Dr. Miller, over the eight-year period, grid vehicle compulsory coverage loss costs increased by 31.6%, or an average of 4.0% per year. However, between 2018 and 2019, these costs actually *decreased* by 4.4% primarily due to lower bodily injury frequency and severity, contributing to an improved loss ratio of 90%.

Over the last year, non-grid compulsory coverage loss cost experience differed from that of grid vehicles. Between 2018 and 2019, non-grid loss costs actually *increased* by 4.1%. Given the relatively small grid vehicle claim count and reliance on actuarial reserves to calculate projected compulsory coverage loss costs, the one-year grid loss cost improvement may be an anomaly.

A similar situation emerged during the 2018 annual review. At that time, preliminary data suggested that between accident years 2016 and 2017, grid vehicle compulsory coverage loss costs declined by 9% due to similarly favourable bodily injury claims experience. However, more developed claims data shows that grid vehicle compulsory coverage loss costs actually *increased* by 2.6% between 2016 and 2017, a difference of nearly 12 percentage points from the original projection.

The table below shows estimated aggregated grid vehicle underwriting losses between 2012 and 2019.

Estimated Grid Vehicle Underwriting Losses, Millions

<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Average</b>
(\$47.0)	(\$43.1)	(\$51.8)	(\$78.1)	(\$56.7)	(\$48.9)	(\$55.6)	<b>(\$41.8)</b>	(\$52.9)

*IBC calculation with data from Dr. Ron Miller, GISA.*

Due to a combination of lower grid vehicle loss costs and the 5% grid base premium increase for 2019, the estimated grid vehicle underwriting loss decreased significantly by 25%, from \$55.6 million in 2018 to \$41.8 million in 2019. The unexpected one-year decline in grid loss costs described above means that the 2019 improvement may not prove accurate, though 2020 underwriting losses will likely improve once the full impact of last year's 15% grid base premium increase is incorporated.

Despite potential decreases in underwriting losses, Dr. Miller projects that to reach rate adequacy, grid base premiums will need to increase by 28.2% by 2021. This premium deficiency is on top of last year's 15% grid base premium increase. High loss ratios, unstable claims costs, an increasing market share and tens of millions of dollars in annual underwriting losses make it evident that the current grid framework is not working, and Alberta's good drivers continue to shoulder the burden of higher premiums. While IBC believes the current grid framework should be removed, we acknowledge that in the meantime, a faster solution is needed to reduce grid premium rate inadequacy. IBC recommends the AIRB increase grid base premiums by an amount that will further reduce the grid vehicle market share. To meet this objective, we

recommend the increase be larger than the 5% all-coverages trend rate selected by Oliver Wyman.

### Loss Development Factors and Loss Trend Rates

The table below shows accident year 2019 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 2019	RM 2019	GISA 2019	OW 5-Year Change	RM 5-Year Change	GISA 5-Year Change
BI	\$456	\$463	\$422	26.1%	28.9%	17.5%
PD	\$174	\$173	\$174	2.4%	2.1%	2.6%
AB-MR	-	\$54	\$53	-	51.3%	50.2%
AB-DI	-	\$15	\$15	-	8.6%	14.6%
AB-Total	\$71	\$69	\$69	38.8%	35.4%	36.2%
COLL	\$260	\$265	\$263	3.3%	5.1%	4.6%
COMP - Theft	-	\$44	-	-	18.6%	-
COMP	\$168	\$166	\$166	-11.9%	-12.8%	-12.7%

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

2019 loss costs between Oliver Wyman and Dr. Miller are generally similar. However, due to methodological differences and claims development uncertainty, bodily injury costs from Oliver Wyman, Dr. Miller, and GISA differ from one another by approximately 8%.

For this year's Annual Review, Oliver Wyman selected the following trend factors, some of which project considerable increases over the next year.

#### Oliver Wyman Future Loss Cost Trend Rate by Sub-Coverage

TPL-BI	TPL-PD	AB	COLL	COMP	TOTAL
+6.0%	+1.5%	+8.50%	+1.5%	+6.5%	+4.89%

*IBC with data from Oliver Wyman.*

Oliver Wyman's selected TPL-BI, and total coverage future trend rates of +6.0% and +4.89%, respectively, highlight that absent reforms, claims cost increases will continue.

Notably, Oliver Wyman projects TPL-PD and collision trend rates both at +1.5%. Although these trends may be in line with recent Alberta claims development, they are likely to increase in the coming years. In Ontario, Oliver Wyman recently selected much higher respective trend rates of +9.2 and +9.1%<sup>3</sup>. The difference is largely due to the fact that for economic-growth reasons, Ontario consumers have purchased proportionally more new vehicles in recent years<sup>4</sup>; conversely, Albertans have had less opportunity to do the same.

Albertans will inevitably replace their older vehicles with newer ones. Newer vehicles, most of which come standard with expensive collision-avoidance safety technology, are much more expensive to repair. IBC anticipates that Alberta vehicle damage claims costs will soon exhibit a similar trend as that seen in Ontario.

Overall, IBC believes Oliver Wyman's trend rates are reasonable. Dr. Miller also projects claims costs will increase over the next year, though at a somewhat lesser rate.

### Commentary on Loss Cost Analysis

There have been very different claims cost experiences across sub-coverages.

### Bodily Injury Claims

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

Loss Cost by Sub-Coverage by Accident Year

	BI	PD	AB	COLL	COMP
2015	\$360	\$170	\$51	\$252	\$191
2016	\$390	\$158	\$52	\$248	\$255
2017	\$426	\$174	\$61	\$275	\$174
2018	\$445	\$174	\$66	\$283	\$175
2019	\$463	\$173	\$69	\$265	\$166
Annual Increase	6.5%	0.5%	7.9%	1.2%	-3.4%

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

After accident benefits, which began from a relatively low base, bodily injury loss costs had the greatest annual increase compared to other sub-coverages. Specifically, bodily injury loss costs increased by an average of 6.5% per year over the last five years.

### Theft Claims

Dr. Miller's analysis notes that between 2015 and 2017, there was an increase in the estimated ultimate loss cost for COMP-theft coverage, largely due to rising COMP-theft claim frequency. However, this has been on the decline since 2018.

<sup>3</sup> IBC with data from Oliver Wyman. Ontario Future Trend Rates.

<sup>4</sup> IBC with data from Statistics Canada

On an industry level, IBC has undertaken a number of initiatives to combat 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 greater collaboration and information sharing regarding auto theft investigations;
- Conducting workshops to educate Alberta law enforcement on issues related to fraud, vehicle detection, and auto theft investigations. In 2019 alone, IBC conducted seven presentations to 170 members of law enforcement and Service Alberta related to auto theft and fraud detection; and
- IBC has a memorandum of understanding with Alberta law enforcement to facilitate the sharing of information. This is intended to increase collaboration between industry and law enforcement, leading to improved detection and prosecution efforts.

#### **Catastrophe Provision**

Dr. Miller believes that Oliver Wyman's proposed catastrophe provision of 57% is within a reasonable range at this time. This may be adjusted when Oliver Wyman revises its recommendation after review of the upcoming 2019 GISA Catastrophe Report.

When selecting this benchmark, IBC recommends the AIRB consider the substantial losses of well over \$1 billion from Alberta's most recent hailstorm that are not reflected in Oliver Wyman or Dr. Miller's catastrophe provisions. IBC believes this may necessitate a higher catastrophe provision.

#### **Health Cost Recovery**

Oliver Wyman states that insurers should reflect the 2020 health levy of 4.74% in their 2021 filings. Dr. Miller believes this is a reasonable provision.

#### **Investment Income on Cash Flow**

In July 2019, the AIRB updated its Guidelines to allow insurers to use their individually-selected investment income rate. IBC supports the AIRB's decision to let insurers assume different investment returns based on their own individual circumstances.

#### **Operating Expenses**

Oliver Wyman selected an operating expense ratio of 26.7% based on the GISA Industry Expense Report, using earned premiums as opposed to written premiums in its calculation. However, Oliver Wyman still only uses 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 27.1%, which is 0.4% higher than the selected 26.7% by Oliver Wyman.

### **COVID-19 Impact**

The COVID-19 pandemic has had a significant impact on driving behaviour and trends. Commercial shutdowns and mandated isolation resulted in people driving less, very few vehicles on the road, and minimal usage of public transportation. As economies have reopened, driving trends have begun to shift, but more consumers are choosing to drive their vehicles and avoid using public transportation. Though this may have an impact on claims costs, it is too early to determine the real impact of COVID-19 as there are several variables to consider in addition to driving trends, including fraud, theft, and weather events, among others.

### **Conclusion**

In an effort to stabilize rates for consumers and improve the auto insurance system in Alberta, IBC is working with the government on short-term changes but believes transformational reform is needed. IBC recommends the government implement the changes outlined in IBC's *Driving Change* proposal to improve affordability, while offering drivers more choice and care when they need it.

Again, thank you for the opportunity to provide input for the annual review. We look forward to virtually meeting with the AIRB on August 20<sup>th</sup>.

Sincerely,



Celyeste Power, Vice-President, Western