



2019 ANNUAL INDUSTRY REVIEW – PRELIMINARY FINDINGS PRIVATE PASSENGER AUTOMOBILE PRESENTATION TO THE AIRB

15 August 2019

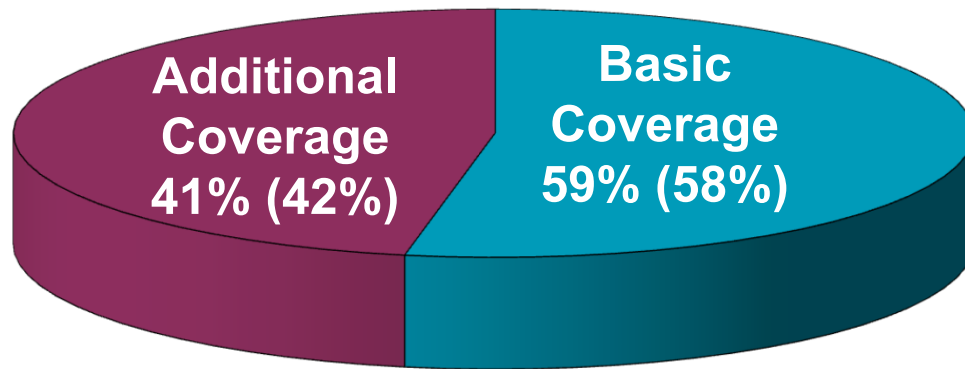
Paula Elliott

Background - General

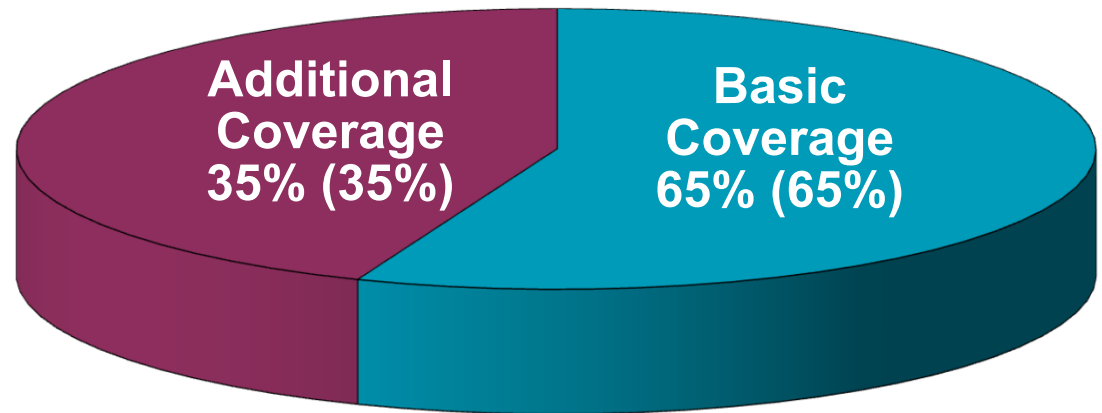
- The Automobile Insurance Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. A component of the review is to analyze Industry experience and develop benchmarks.
- The benchmarks are for use in rate filings, measuring Industry performance, and for calculating the rate level needs of the Grid.
- Loss development and loss trend benchmarks are based on aggregated Industry data without identification of the various “causes” (such as judicial decisions or evolving interpretation of reforms) for increasing average claim costs or changes in claims frequency rate.
- Many of the submissions identified “causes” for increasing loss costs
 - insightful for future reform purposes
 - understanding *why* costs may be increasing beyond inflation and changing patterns

Breakdown of Basic and Additional Coverages

2018 (2017) - Written Premium

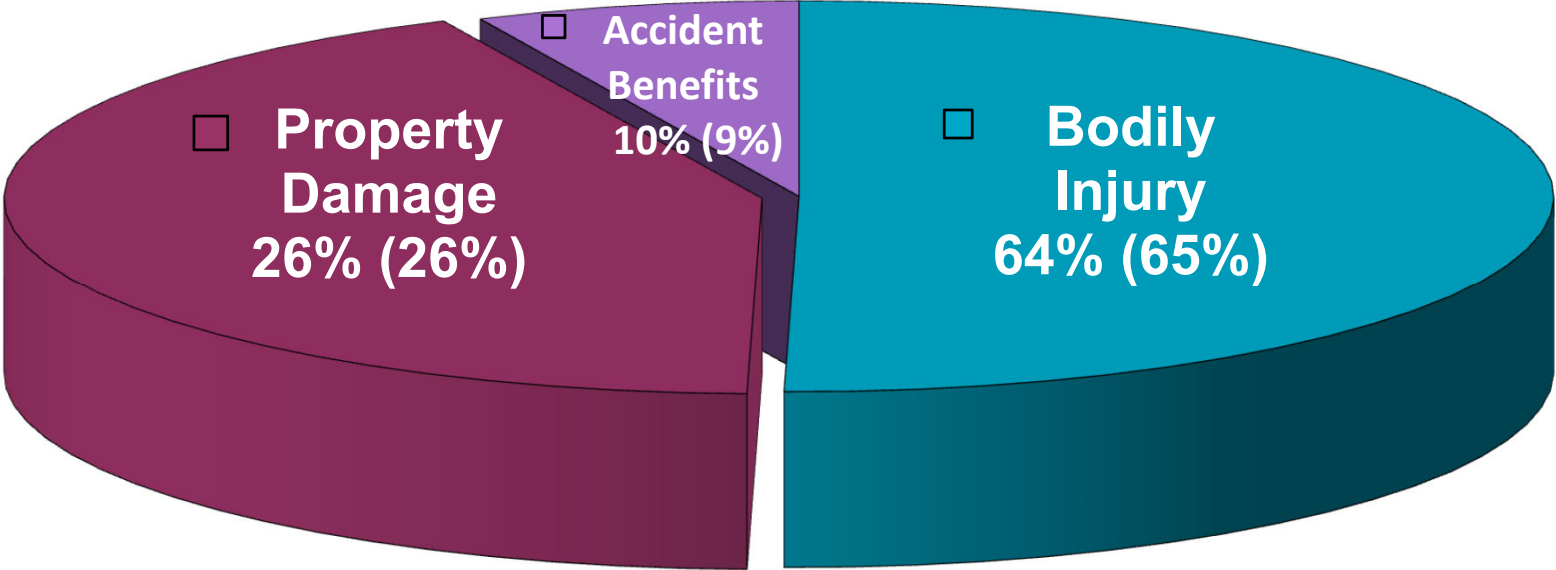


2018 (2017) - Ultimate Claim Costs



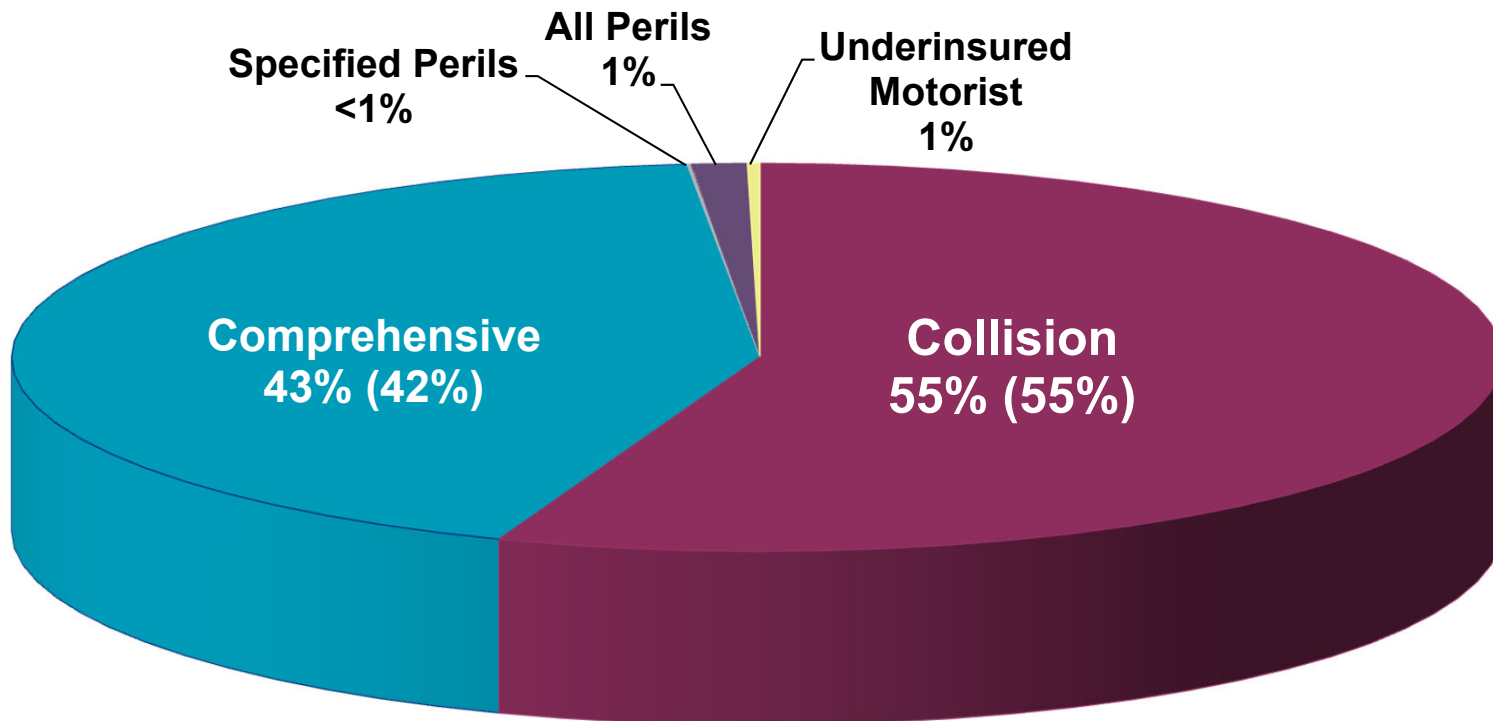
Breakdown of Basic Coverage Ultimate Claim Costs

2018 (2017) – Ultimate Claim Costs



Breakdown of Additional Coverage Claim Costs

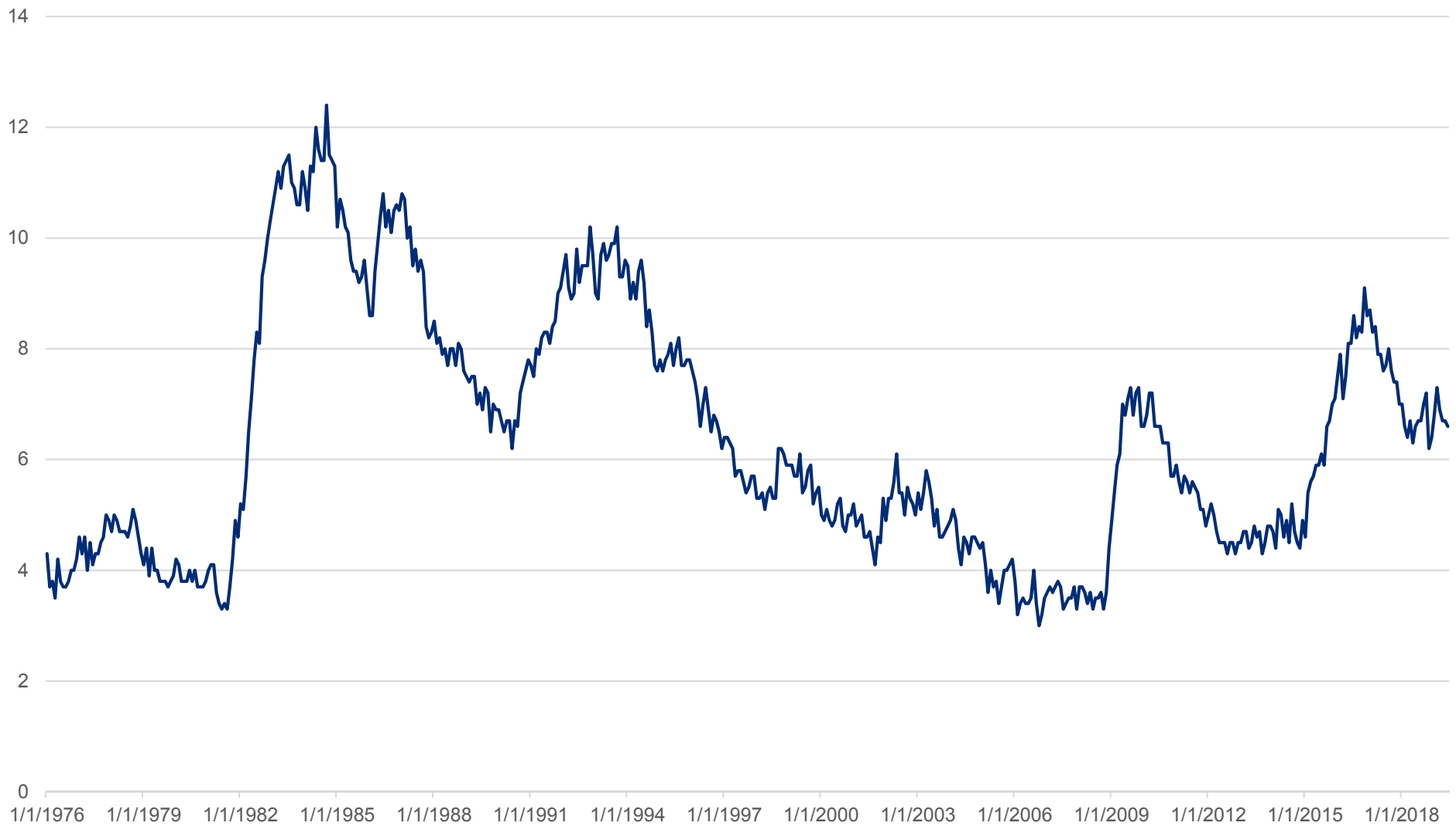
2018 (2017) – Ultimate Claim Costs



Change in Economic Conditions

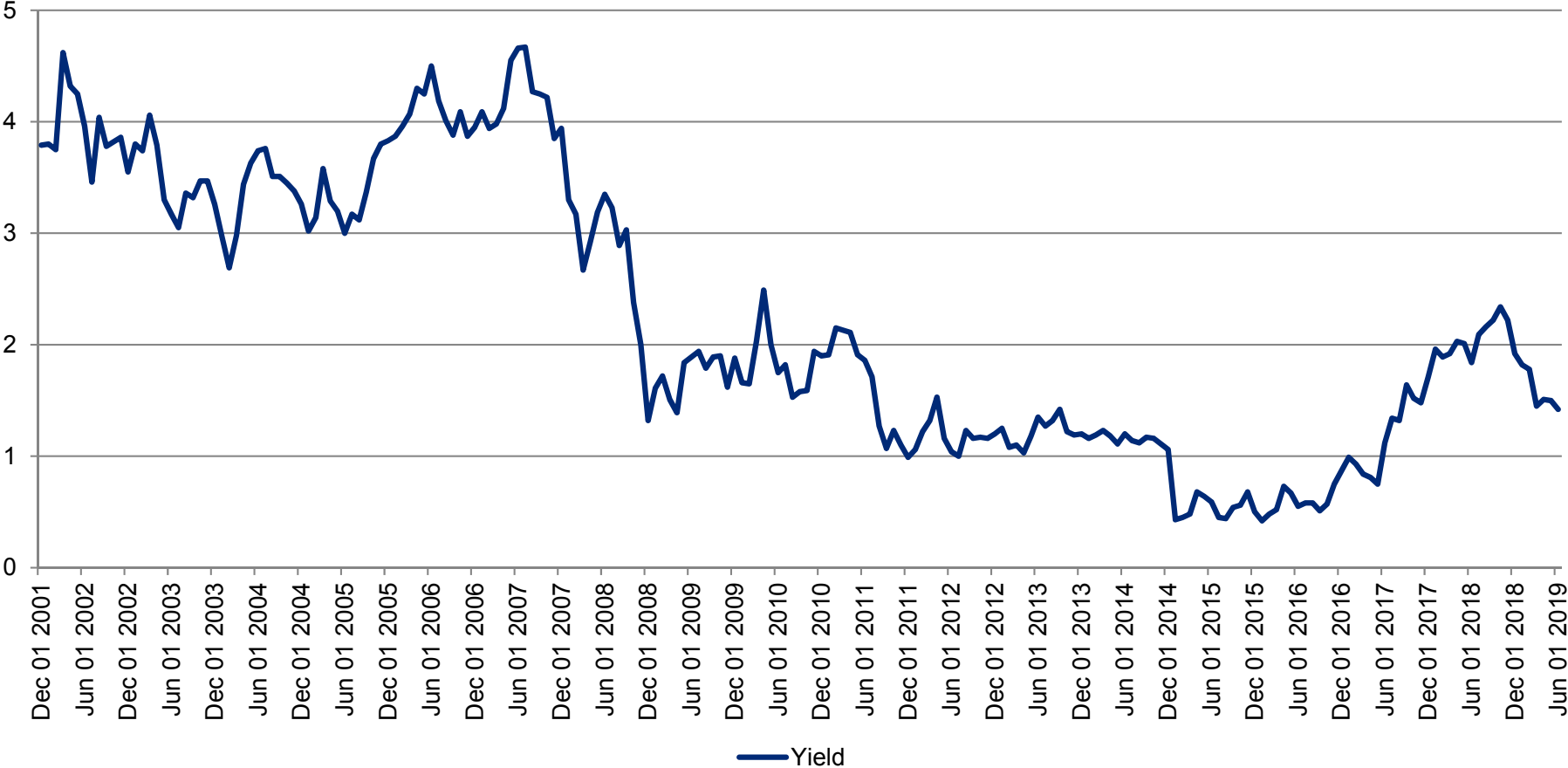
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Alberta Unemployment Rate	8.1% (June)	7.6% (June)	6.6% (June)	6.6% (June)
Alberta CPI (Total)	136.3 (June)	136.9 (June)	140.7 (June)	142.7 (June)
Alberta CPI (ex. Energy)	135.3 (June)	136.1 (June)	138.2 (June)	141.3 (June)
Alberta Gasoline CPI	105.6 (June)	96.3 (June)	127.1 (June)	103.6 (June)
Natural Gas Prices (\$/GJ)	\$1.23 (June)	\$2.39 (June)	\$0.75 (June)	\$1.22 (May)
3 Year Canada Benchmark Bond Rates	0.55% (June)	1.12% (June)	1.84% (June)	1.42% (June)
# Insured Cars	2.71 million	2.72 million	2.77 million	NA
Population	4.18 million	4.23 million	4.29 million	4.36 million

Alberta Unemployment Rate



Historical Investment Rates

Government of Canada Benchmark Bond Yields -- 3 Year



Industry Benchmarks

- ULAE Provision
- Catastrophe Loading
- Investment Rate
- Health Cost Recovery
- Operating Expenses
- Profit
- Loss Development Factors
- Loss Trend Rates

Industry Benchmarks – ULAE Provision

- In determining their rate level needs, insurers should include provisions in their claim costs for Allocated Loss Adjustment Expenses (ALAE) (such as the legal expenses associated with claim settlement) and for Unallocated Loss Adjustment Expenses (ULAE) (the claim and settlement related expense that cannot be associated directly with individual claims) that are based on their experience.
- For the analysis we perform of loss development factors, ALAE is included with the reported Industry loss data.
- For the analysis we perform of trends, ALAE is included with the loss experience, and we also provide for ULAE through the application of factors that are published and applied by GISA in the Automobile Insurance Exhibit (AIX) reports to the accident year experience.

Industry Benchmarks – ULAE Provision

- Oliver Wyman Preliminary Recommended Benchmarks:
- GISA Factors are stated as a percentage of loss and ALAE amounts

Accident Year	GISA ULAE
2009	10.5%
2010	10.2%
2011	9.5%
2012	9.1%
2013	9.9%
2014	9.3%
2015	10.3%
2016	8.5%
2017	9.1%
2018	10.1%

- Observe an increasing pattern over the last three years.

Industry Benchmarks – Catastrophe Provision

- Due to the unpredictable nature of catastrophes (severe weather related events), in determining their rate level needs insurers should remove actual Comprehensive coverage claim costs attributed to catastrophes and replace them with a provision that represents an average level of catastrophic claim costs.
- The current Benchmark provision, which is based on Industry experience through 2017, is 60% (i.e., a factor of 1.60 is applied to the non-catastrophic Comprehensive coverage claim costs). However, the AIRB recognizes that an insurer's exposure to catastrophic losses greatly depends on where an insurer's business is concentrated. Hence the AIRB considers an insurer's own catastrophic loss experience.
- The 60% provision reflects an average of (a) the Industry catastrophe experience over the past ten years, and (b) the Industry catastrophe experience over the past five years – adjusted to reflect the increase in theft claims that has been experienced.

Industry Benchmarks – Catastrophe Provision

- GISA has not released the 2018 Catastrophe Report.
- The catastrophe provision will be updated once the new 2018 Catastrophe Report is released by GISA.
- Industry Comments:
 - IBC find the current 60% Benchmark provision to be reasonable until the 2018 data is available for review.
 - Intact noted the severe weather and shifting climate towards an increasing number of catastrophic events in the recent past; with 6 of 15 events in Canada last year occurring in Alberta.

Industry Benchmarks – Catastrophe Provision

Province of Alberta
 Comprehensive - Total
 Alberta Automobile Insurance Board - Private Passengers Vehicles (Excluding Farmers)

Comprehensive Summary of Catastrophic Claims
 Data as of 12/31/17
 Losses in (000)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Accident Year	Number of Total Claims	Number of Cat Claims	Catastrophe Claim %	Total Loss and Expense	Cat Loss and Expense	Catastrophe Factor
2002	46,052	1,933	4%	93,461	4,389	1.049
2003	43,059	3,154	7%	108,046	11,698	1.121
2004	46,326	6,137	13%	125,209	25,614	1.257
2005	57,486	14,713	26%	153,669	42,833	1.386
2006	54,272	5,547	10%	157,175	18,598	1.134
2007	64,921	12,555	19%	234,102	60,652	1.350
2008	55,208	5,478	10%	212,225	24,386	1.130
2009	55,108	8,003	15%	227,192	44,783	1.246
2010	81,704	38,852	48%	369,451	189,943	2.058
2011	50,821	9,339	18%	212,655	44,486	1.265
2012	76,287	34,863	46%	349,556	170,646	1.954
2013	70,666	21,758	31%	342,786	132,614	1.631
2014	75,434	28,400	38%	398,017	187,457	1.890
2015	74,410	24,138	32%	410,235	156,426	1.616
2016	99,160	41,143	41%	554,029	239,932	1.764
2017	65,395	13,201	20%	380,216	73,642	1.240
All Years	1,016,309	269,215	26%	4,328,023	1,428,099	1.492
Last 10 Years	704,193	225,175	32%	3,456,362	1,264,315	1.577
Last 5 Years	385,065	128,640	33%	2,085,283	790,070	1.610
Avg. of Last 10 and 5						1.593
Recommendation						1.600

Industry Benchmarks – Investment Income Rate

- The current Benchmark is 2.82% based on the June 30, 2018 analysis with the Government of Alberta’s January 2019 forecast of Alberta short and long term bond yields.
- The Preliminary Benchmark is updated to 2.84% based on the Government’s March 2019 forecast. The weighting methodology is the same as the prior methodology; with investment yields to match the timing and duration of the average claim incurred under most rate filings.
- As we have no update, we report the March 2019 Alberta forecasts.

Year	3 Month T Bill Rates	3 Year Bond Rates
2020	2.38%	2.58%
2021	2.79%	2.99%

Industry Benchmarks – Investment Income Rate

Change in Guidelines:

- Effective July 2019, the Board's rate filing guideline for discounting cash flows (e.g., loss amounts) is updated.
- Guideline directs insurers to use and support their individual insurer expected investment income rate.

Changing Interest Rates:

- The United States Fed Funds rate reduced from 2.5% to 2.25% on July 31st.
- Media (CBC, CTV) reports Bank of Canada does not plan to immediately follow USA, instead taking a wait and see position.
- TD and CIBC bank analysts anticipate an eventual lowering by BoC into 2020

Industry Benchmarks – Investment Income Rate

- IBC states they find a risk-free rate of 1.7% to be reasonable; and expect the United State Feds to cut interest rates, and unlikely the Bank of Canada would move in the opposite direction.
 - The Government of Canada 3-month T-bills was 1.7% for **2019** as of March 2019.
 - The Benchmark is based on Government of Alberta forecasted rates for **2020 and 2021**.
 - Government of Canada *forecasted* 3-month T-Bill and 3-year bond rates for 2020 and 2021 are each 0.1% percentage points lower than Government of Alberta rates.
- Wawanesa references its investment returns in the range of +3% (which is insufficient to offset underwriting losses).

Industry Benchmarks – Health Cost Recovery

- The AIRB's position has been to accept the Government's most recent health cost recovery assessment as its Benchmark.
- The current Benchmark is based on the Government's 2019 assessment: 6.70%

Industry Benchmarks – Health Cost Recovery

- Oliver Wyman Preliminary Recommended Benchmark: 6.70%, until the new assessment is announced.
- Industry Comments:
 - IBC finds the 6.70% provision to be reasonable, however
 - IBC continues to recommend (despite the decrease from 7.04% in 2018 to 6.7% in 2019) it would still be reasonable to assume increases in the future.

Industry Benchmarks – Operating Expenses

- The AIRB's position has been to accept the latest Industry average operating expense ratio as published by GISA as the Benchmark for assessing the reasonableness of an insurer's expense provision.
- The current Benchmark, 26.6%, is based on GISA's 2017 expense report with the general expense component based on a percentage of the earned premiums and other components as a percentage of written premiums.
- GISA has not yet released its 2018 expense report.

Industry Benchmarks – Operating Expenses

- Oliver Wyman Preliminary Recommended Benchmark: 26.6%, until the new Expense Report is released (expected release is in October 2019).
- Industry Comments:
 - IBC again recommends that it would be more appropriate to calculate the weighted average based on direct earned premium for *all* components, rather than just those components that do not vary directly with premium. Under this approach, the average expense ratio increases from 26.6% to 26.9%.

Industry Benchmarks – Operating Expenses

	2017 Industry Expense Report
Direct Commissions	11.5%
Contingent Commissions	1.0%
Total Commissions	12.5%
Premium and Fire Taxes	4.0%
Other Acquisition Expenses	2.6%
General Expenses	7.5%
Total Expenses	26.6%

Industry Benchmarks – Profit Provision

- The Board's current position remains unchanged:
a profit provision of 7% of premium
- Oliver Wyman Preliminary Recommended Benchmark:
7% of premium- the Board's position
- Industry Comments: No suggested changes to 7% level

Industry Benchmarks

Loss Development

Industry Benchmarks – Loss Development Factors

- The reported Industry claim counts and claim amounts include each insurer's actual claim payments and estimated individual claim case reserves, but do not include insurers' estimates of their "actuarial reserve."
- Hence, the application of the loss development factors provide for the Industry "actuarial reserve" to determine the ultimate loss amount.
- Individual insurer development patterns can be substantially different than the aggregated industry-wide data development patterns.
- Two large insurers had substantial changes in their development patterns – adds to the uncertainty of estimates.

Industry Benchmarks – Ultimate Loss Amount

- The ultimate loss amount estimates for Accident Years 2013 - 2017 are generally in-line with expected values from our prior review based on data as of June 2018, with the exception of Bodily Injury.
- In the case of Bodily Injury, the emerged losses during the second half of 2018 were generally less than expected from our prior review.
- IBC's estimate of the loss cost per vehicle is essentially the same as Oliver Wyman's. GISA's Bodily Injury estimate is less than IBC's and Oliver Wyman; but generally the same for other coverages.
- Insurers either stated agreement with Oliver Wyman's ultimate loss amount estimates; or did not state an objection.

Industry Benchmarks – Ultimate Claim Counts

- Both IBC and Oliver Wyman observe a modest increase in the Bodily Injury 2018 loss cost over 2017.
- The instability of GISA’s claim count data creates increased uncertainty of separate frequency and severity estimates that depend upon the claim counts.
- It is uncertain how this modest change in the loss cost from 2017 to 2018 for the Industry is driven by frequency and/or severity changes.
- Consideration of “causes” for increases in severity is hampered by the GISA data issues.

Industry Benchmarks – Ultimate Loss Amount

- Industry Comments on “**Causes**”: Bodily Injury
 - Most insurers (Aviva, Co-operators, Aviva, TD) as well as IBC commented on the “causes” that are contributing to the increase in claim amounts which included:
 - A changing injury mix - fewer Minor Injury Regulation (MIR) claims
 - Increased number of claimants with legal representation
 - Increase in TMJ, chronic pain, concussions, and psychological claims overriding MIR
 - Excessive disbursements to experts
 - Lack of judicial resources for timely trial dates
 - The changing distribution of MIR claims was associated with judicial Decisions such as Sparrowhawk, Jones v. Stepanenko, and McLean v. Parmar

Industry Benchmarks – Ultimate Loss Amount

- Industry Comments: Bodily Injury **Minor Injury Reform Amendment**
 - The insurers, as well as IBC, and Oliver Wyman did not or are unable to provide an estimate of the cost impact of the MIR Amendment.
 - Generally, comments suggested that there would likely be no material impact on claims costs as a result of the Amendment.
 - IBC’s view is the Amendment would not reverse the recent pattern of a decreasing proportion of claimants meeting the MIR (i.e., more claimants escaping the cap).
 - Aviva predicts the Amendment will be of “limited value” in making an impact.

Industry Benchmarks – Ultimate Loss Amount

Accident Benefits

- Accident Benefits claims severity has increased substantially over the last five years –as noted by Aviva and others
- Aviva attributes much of this to:
 - the Medical-Rehabilitation component whereby the number of claimants “escaping” treatment protocol has increased from 4.67% in 2011 to 13.27% in 2016.
 - 22.9% of open claims have legal representation, which Aviva suggests is to support the claimant’s Bodily Injury case.

Industry Benchmarks – Ultimate Loss Amount

Cannabis

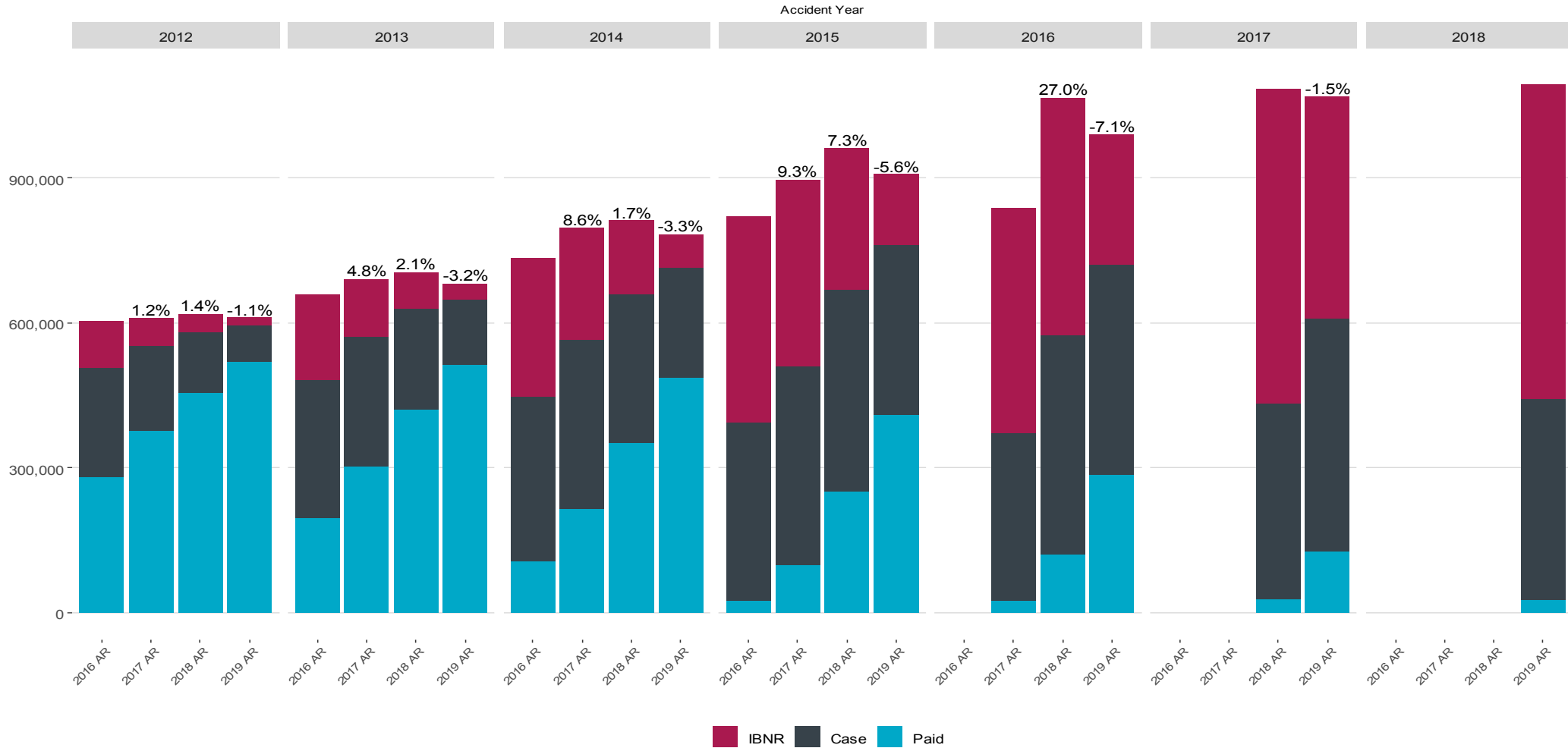
- Several insurers commented on the October 2018 Canadian legalization of cannabis and possible impact on claims frequency without sufficient enforcement of impaired driving.
- There is insufficient data at this time to quantify the impact on the Alberta ultimate loss amounts, if any, of the legalization of cannabis.

Theft

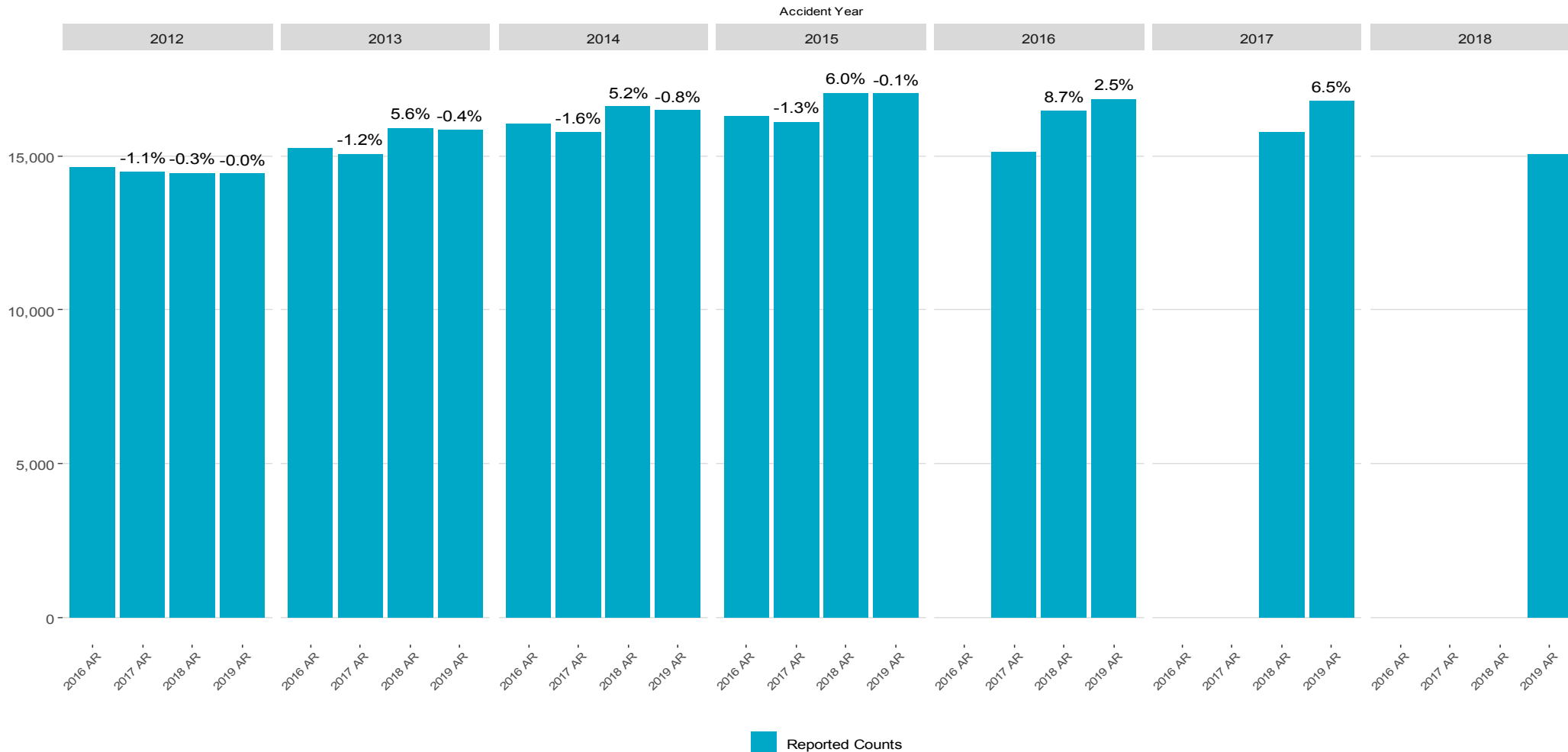
- The number of Comprehensive theft claims in Alberta has risen dramatically since 2012, and has plateaued at this high level in the last few years. Alberta has a higher theft rate than Ontario (Aviva).
- In 2019 IBC implemented various initiatives to combat fraud related to theft; and plans to continue these initiatives into 2020. These initiatives are intended to reduce future theft frequency levels and trends.

Alberta: Bodily Injury

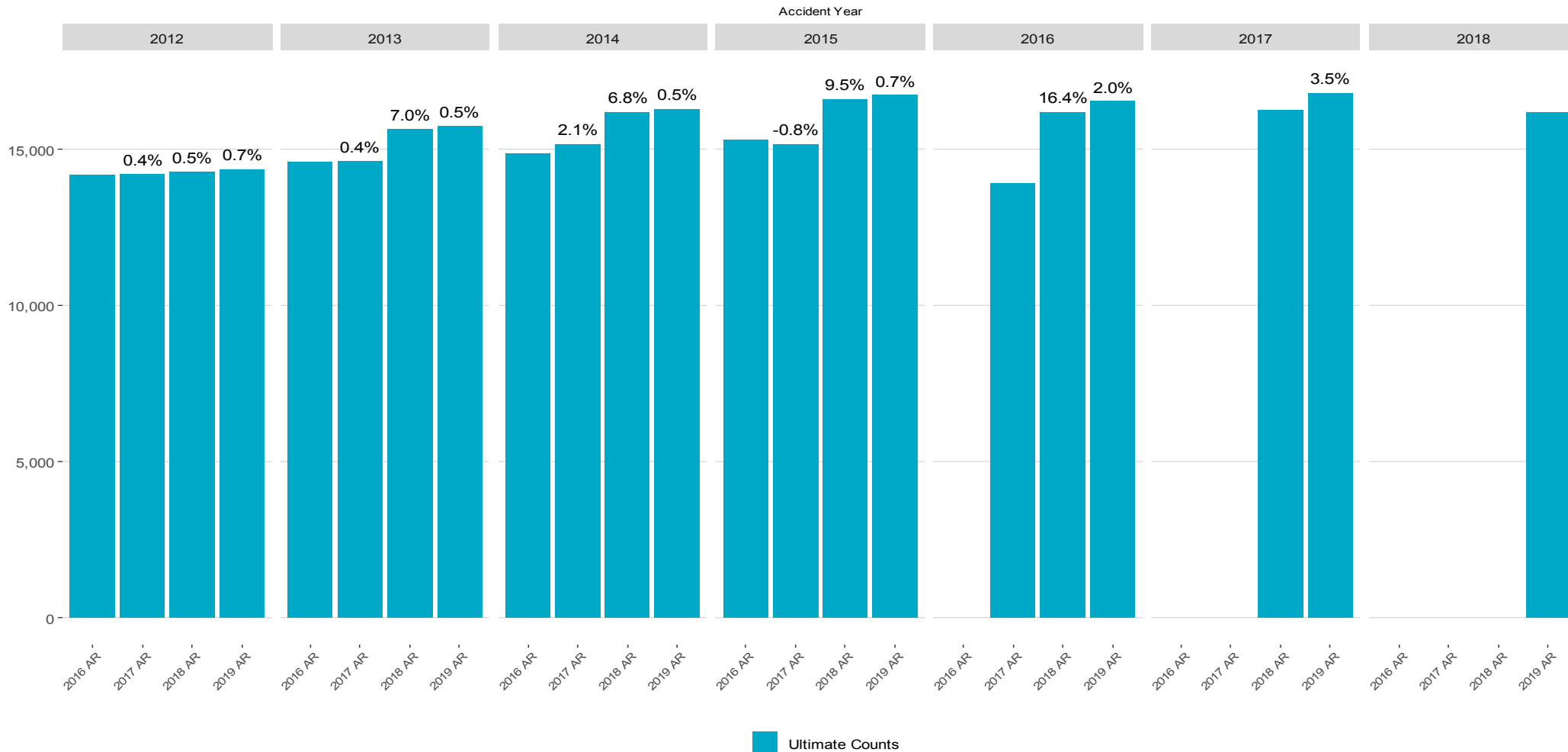
Change in Ultimate Claim and ALAE Amount (\$ 000)



Alberta: Bodily Injury Change in Reported Claim Counts



Alberta: Bodily Injury Change in Ultimate Claim Counts



Industry Benchmarks – Loss Development Factors

Calendar Year	% TPL BI Prior Year-End Case Reserves Paid During Calendar Year
2013	35.4%
2014	36.9%
2015	37.4%
2016	35.8%
2017	39.4%
2018	38.4%

Industry Benchmarks

Loss Trends

Industry Benchmarks – Weather

- Industry Comments:
 - TD reports a correlation between its physical damage coverages and the number of days with temperatures below -5% in Edmonton; likely more claims due to the icy conditions created.
 - TD reports a correlation between its physical damage coverages and the amount of snowfall in Calgary; likely more claims due to poor visibility issues and slippery conditions created.
- Difficult to predict weather and incorporate into trend models.
- Review of weather issues is useful whereby severe weather occurrences can identify “high” data points.

Industry Benchmarks – Unemployment Rate

- Industry Comments:
 - TD reports the unemployment rate appears to contribute to the rising costs.
 - Starting from 2012, TD has observed a correlation between the unemployment rate and Accident Benefits and Bodily Injury loss costs
- Difficult to predict unemployment and incorporate into trend models.
- Consideration of economic environment is useful to identify changing patterns.

Industry Benchmarks - Trends

- Oliver Wyman recommended loss trends are based on an analysis of the Industry data as of December 31, 2018.
- IBC's own analysis and selected loss trends are generally similar to Oliver Wyman's (with IBC's Accident Benefits higher and Bodily Injury lower).
- Aviva, Intact, Co-operators and TD all indicated their own assessment of loss trends rate were generally consistent with Oliver Wyman's and IBC's.
- Concerns that overall rate inadequacy will deteriorate further
annual loss trend rates > annual premium increases

Industry Benchmarks – Loss Trends

	2019 Semi Annual Review Current Benchmark	2019 Annual Review Preliminary Benchmark
Bodily Injury	8.5%/7.5%	8.5/7.5% (A)
Property Damage	2.50%	2.00%
Total Accident Benefits	1.5%/9.5% (B)	0.5%/9.5% (B)
Collision	3.00%	2.50%
Comprehensive	5.0%/8.5%(C)	5.0%/8.5% (D)
All Perils	4.00%	4.00%
Specified Perils	12.00%	10.00%
Underinsured Motorist	4.00%	4.00%

- (A) Future Trend Rate of +7.5% begins Oct 2018
- (B) Level change of +15.0% at July 1, 2015
- (C) Future Trend Begins January 1, 2011
- (D) No update

BODILY INJURY

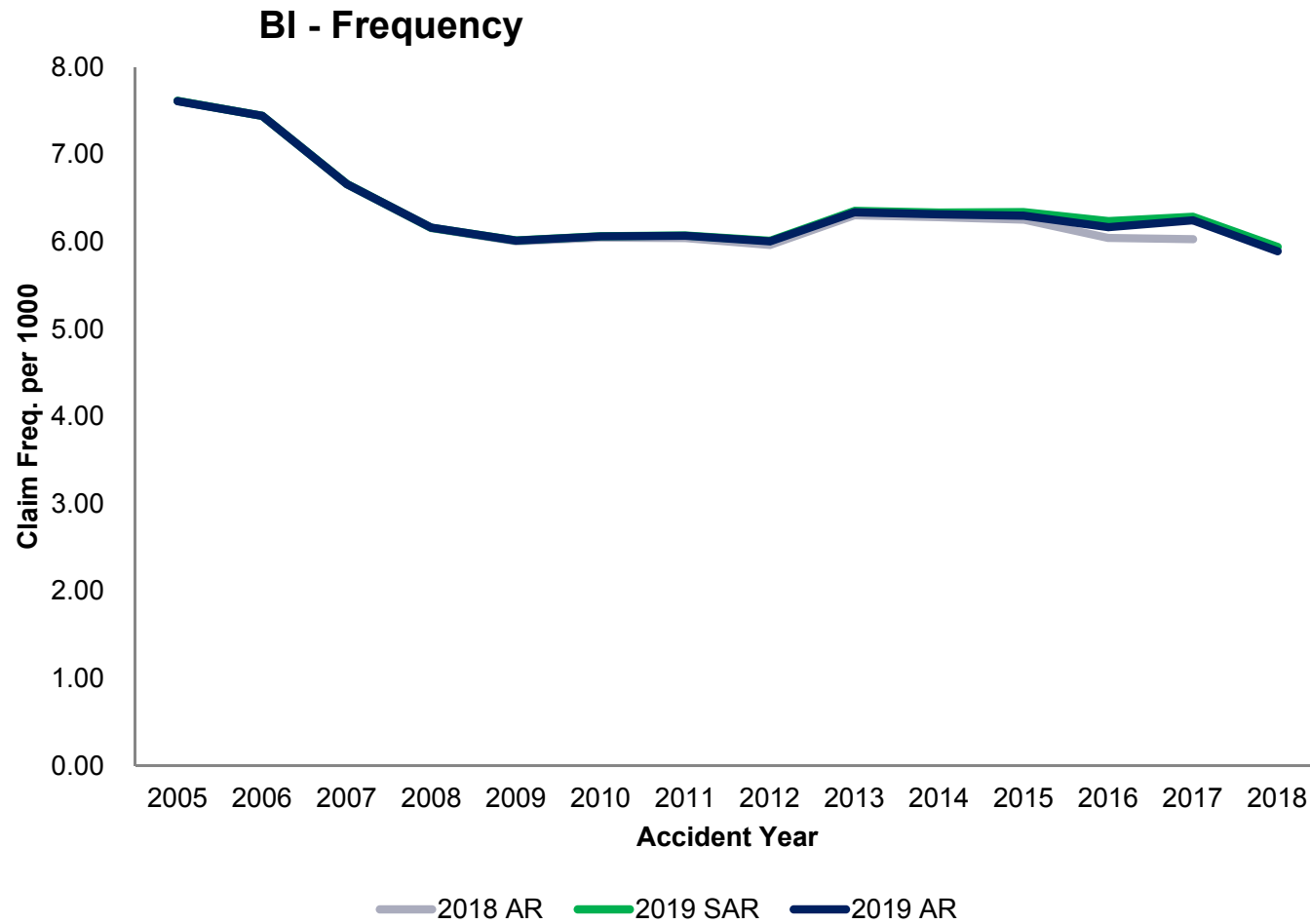
Issue: Bodily Injury Claim Cost Increases and Trend

- Industry Comments
 - Insurers commented on the continuing increase in Bodily Injury claim costs contributing to the high trend rate with need for reforms to temper the high year to year change in costs.
 - IBC commented the trend rate was less steep beginning 2015-1.
 - No insurer suggested that the MIR Amendments would change the trend rate.

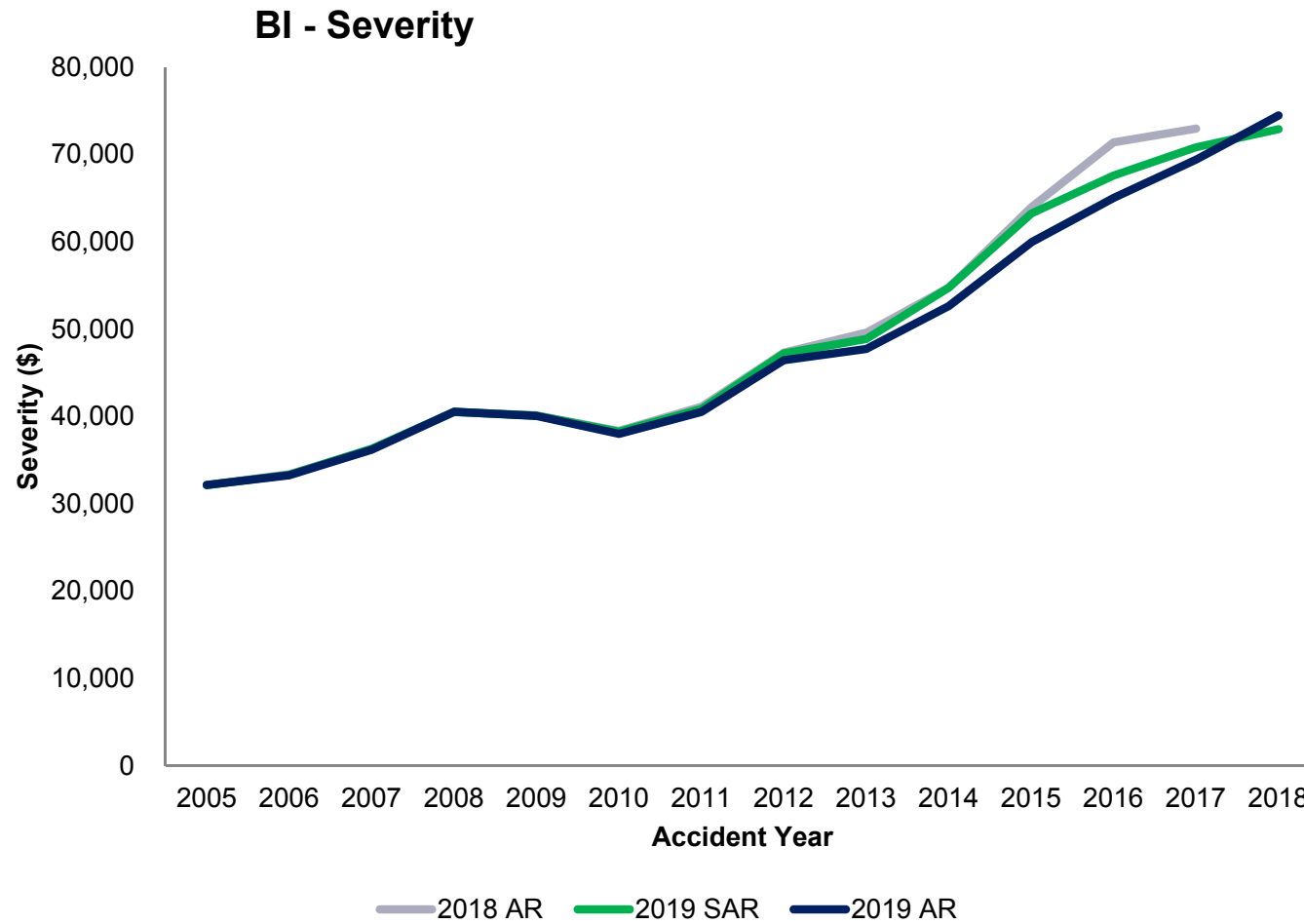
Issue: Bodily Injury Claim Cost Increases

- Aviva commented on the change to the percentage of its claimants subject to the MIR:
 - 2012 at 82% declining to 67% for both 2017 and 2018
 - A reduction in MIR claimants would contribute to the steep upward severity trend.
 - The flat MIR % change between 2017 and 2018 (both at 67%) may have contributed to the relatively flat loss cost change between 2017 and 2018.
- If the percentage of claimants subject to MIR stabilizes, this will help stabilize the loss costs and reduce the future severity trend.

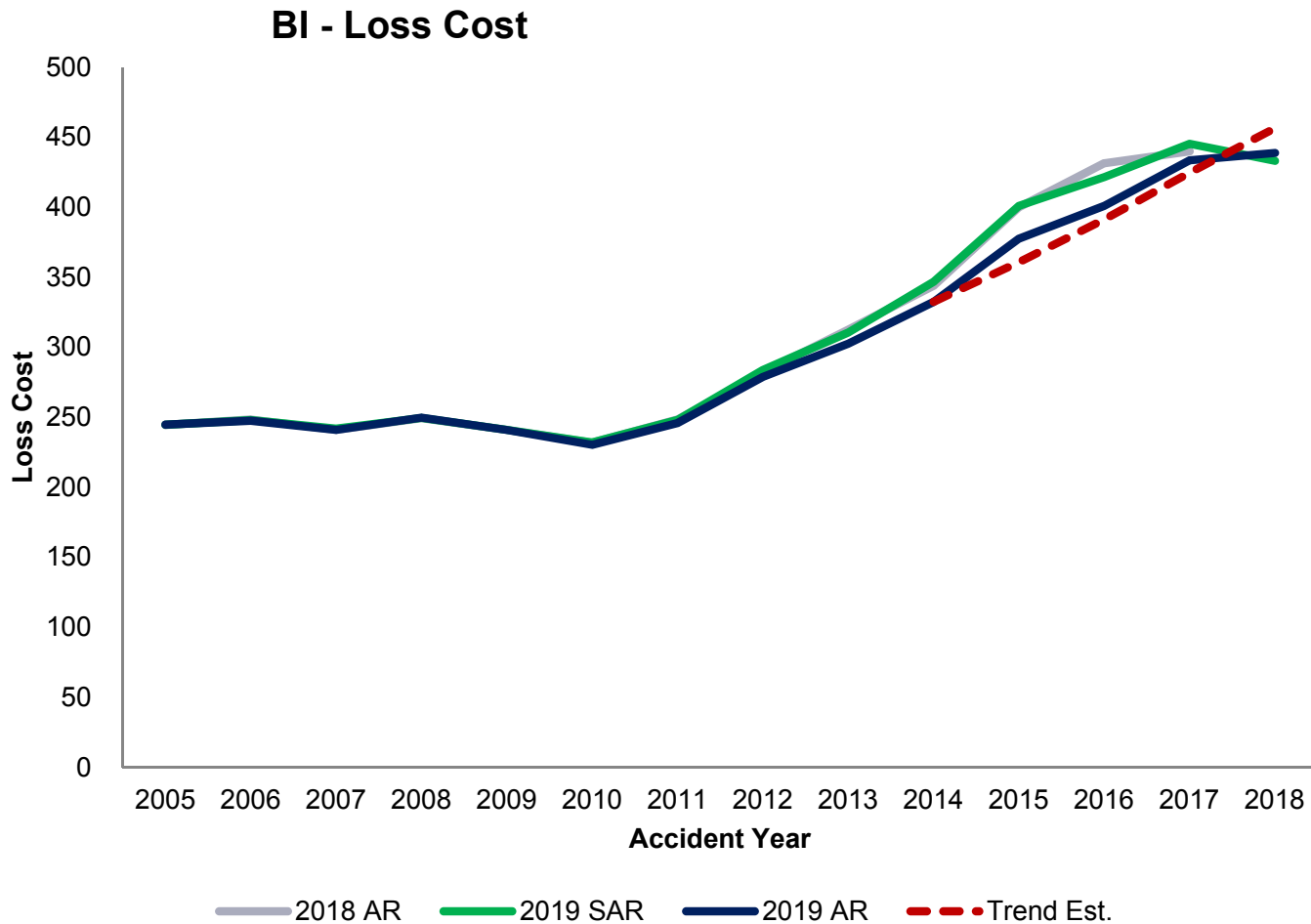
Alberta: Bodily Injury Frequency



Alberta: Bodily Injury Severity



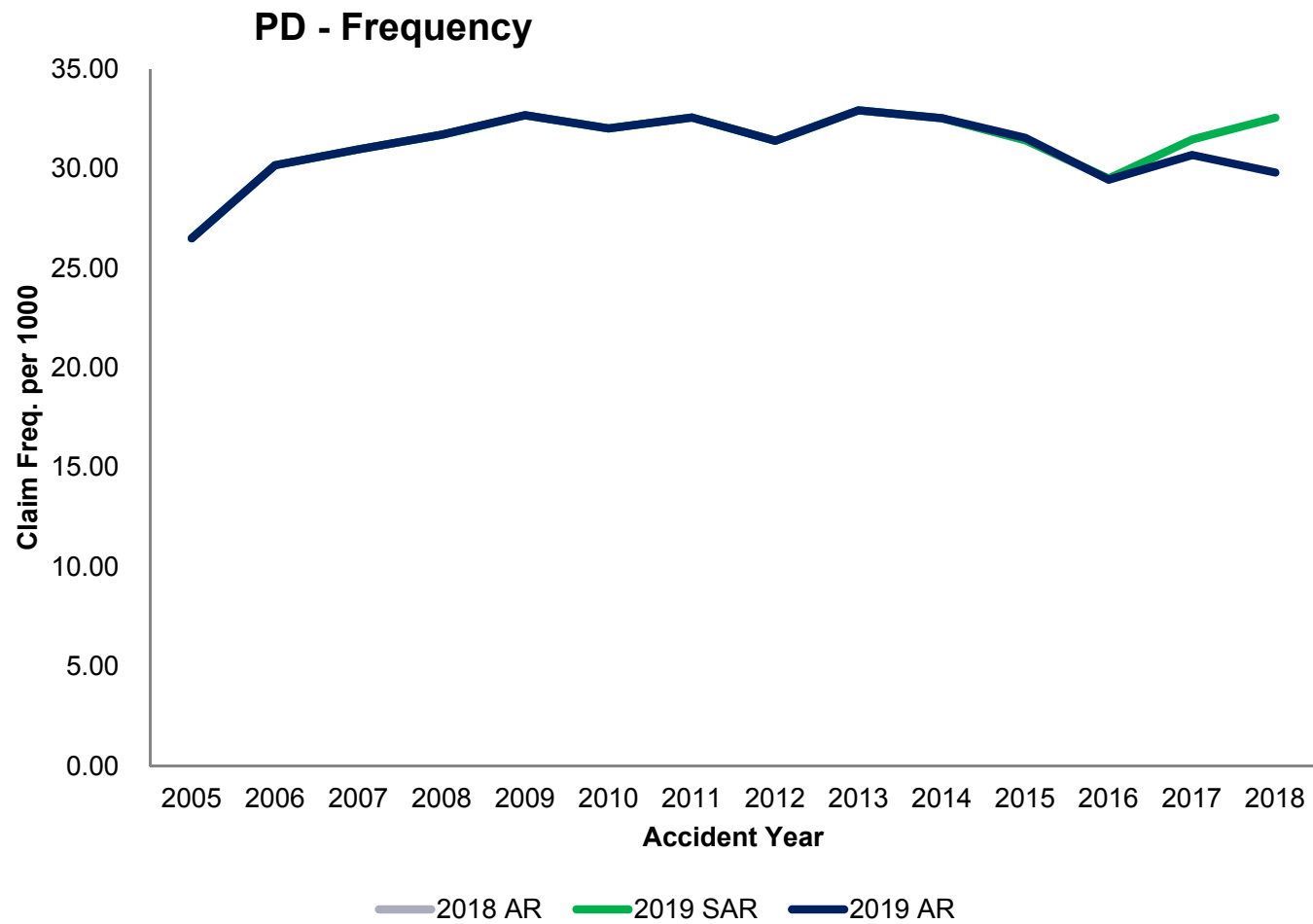
Alberta: Bodily Injury Loss Cost



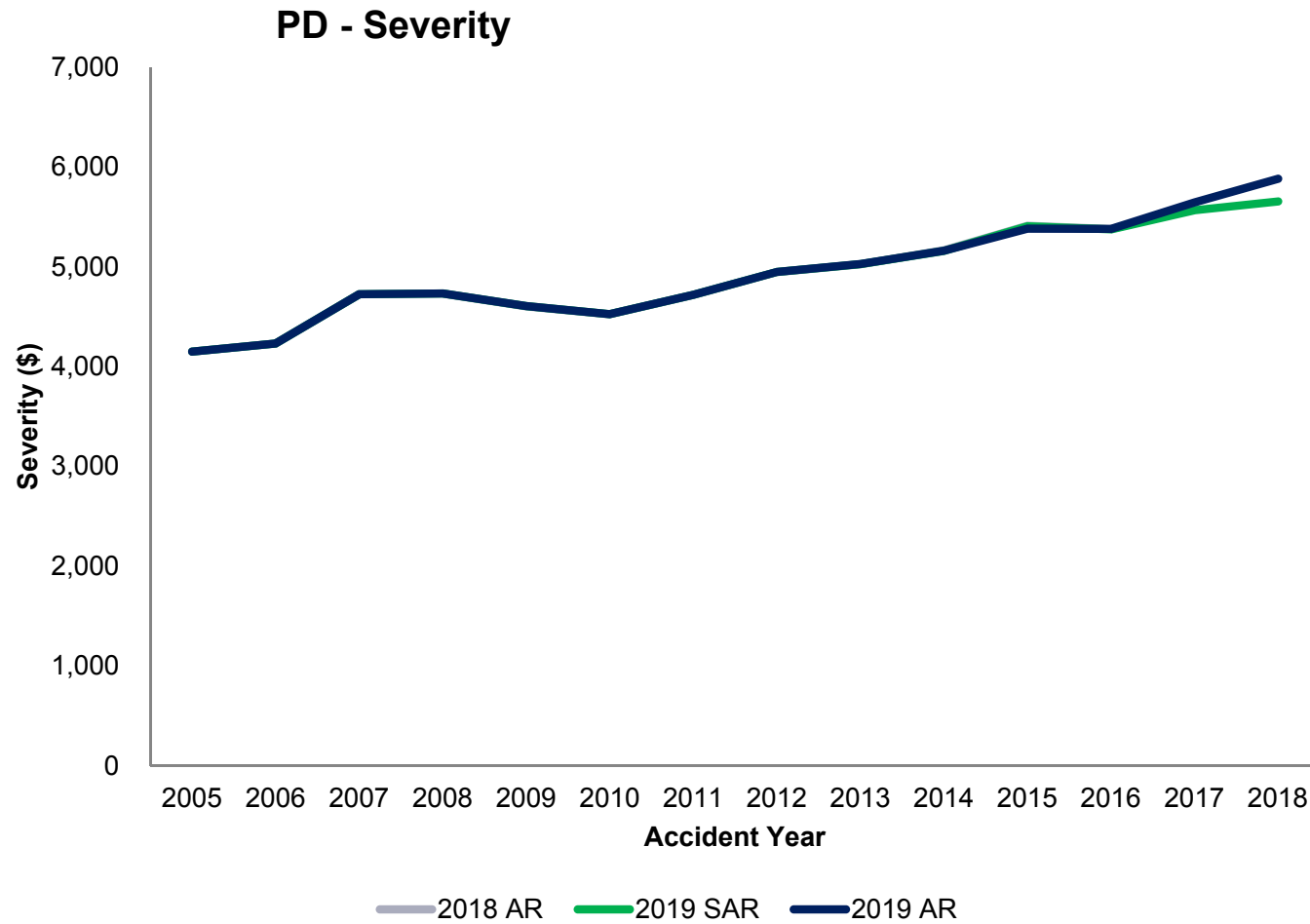
- **2019 Semi Annual Review (SAR) Trend: +8.5%/7.5%** **2019 Oliver Wyman Preliminary Trend: +8.5%/7.5%**

PROPERTY DAMAGE

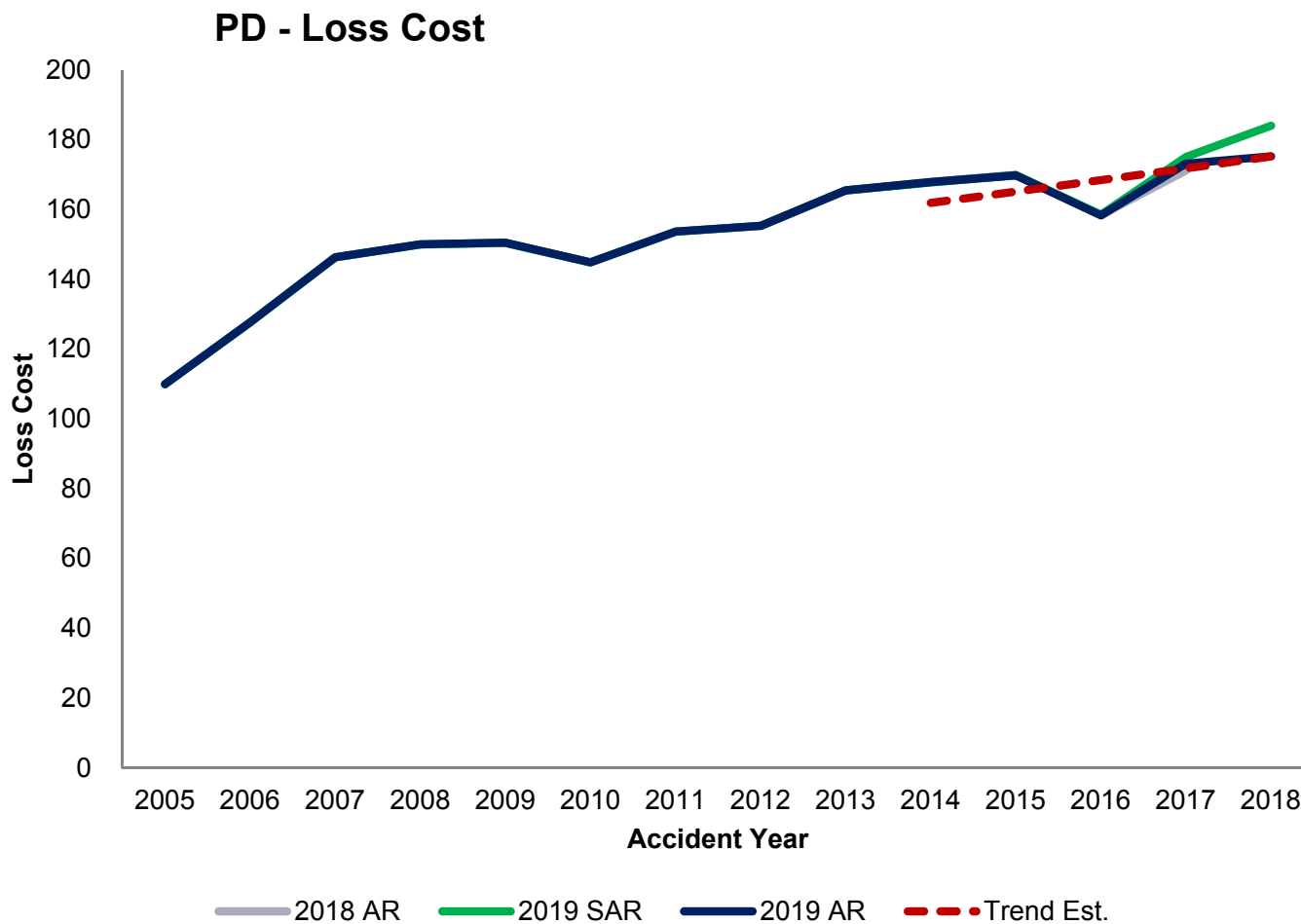
Alberta: Property Damage Frequency



Alberta: Property Damage Severity



Alberta: Property Damage Loss Cost



- **2019 SAR Benchmark Trend: +2.5%** **2019 Oliver Wyman Preliminary Trend: +2.0%**

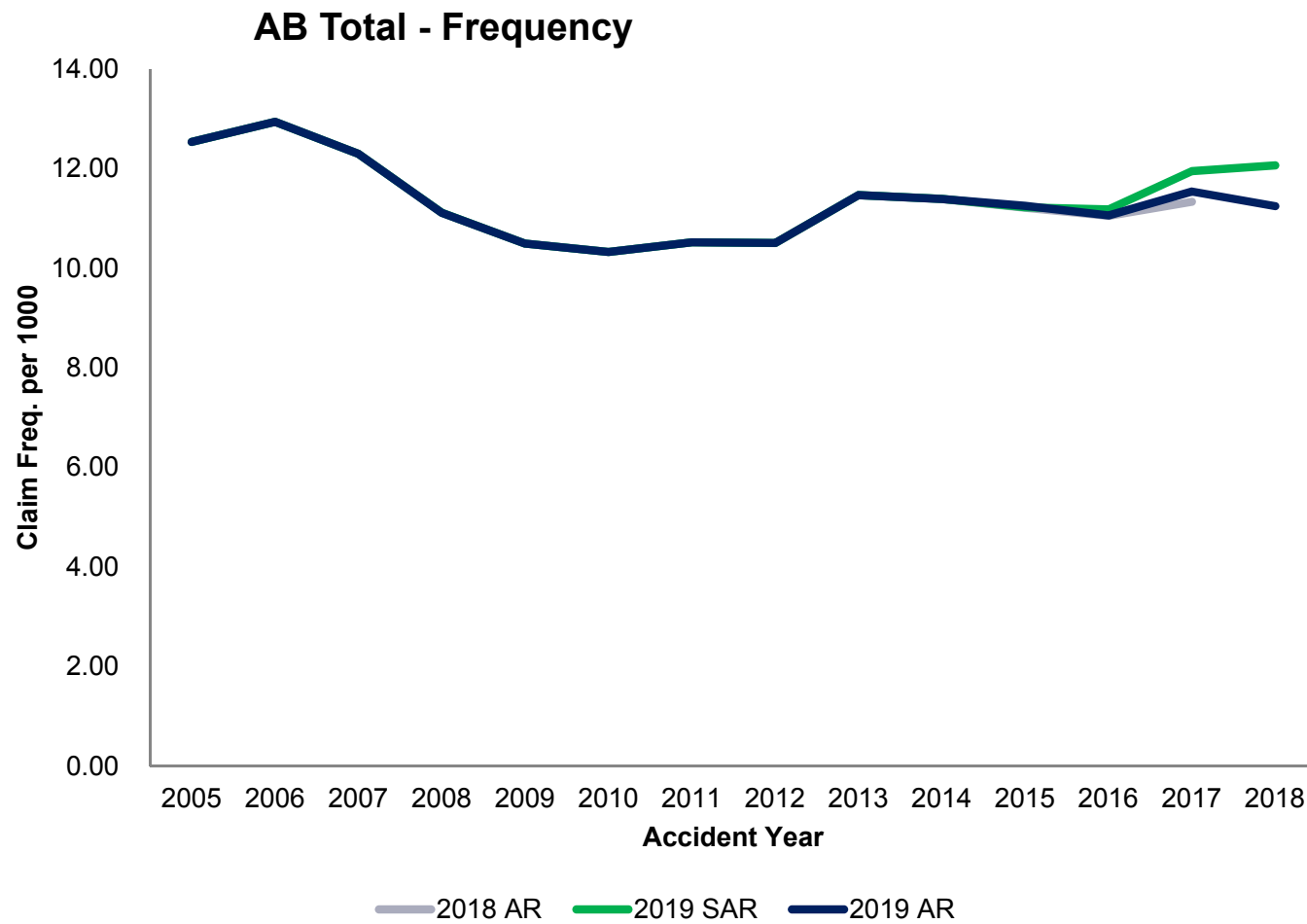
AB – Total

Issue: Medical Benefits - Sharp Claim Cost Increase

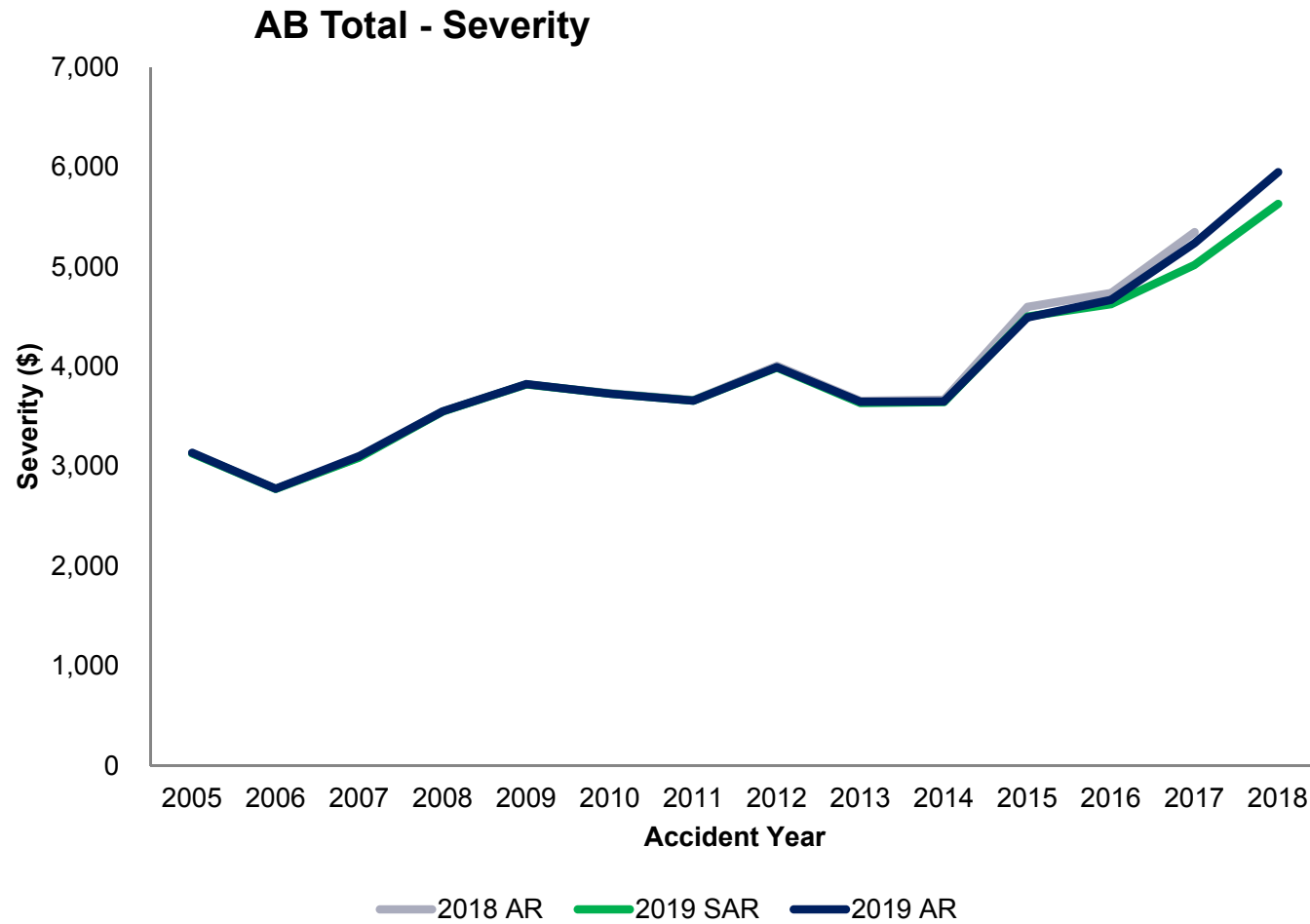
- Industry Comments:
 - IBC attributes the increase to the prevailing economic conditions, greater legal representation, and/or claimants seeking care for longer.
 - Co-operators experienced sharp increase in costs beginning in 2016 that has continued through 2018; the industry increase began in 2015.
 - Aviva experienced sharp increases in Accident Benefit medical claim costs over 2011-2017 at +189%. The comparable increase for Disability Income is +27%; which Aviva suggests implies overtreatment.

Any changes in claimant behavior- overtreatment, care for longer and greater legal representation could lead to higher trend rates.

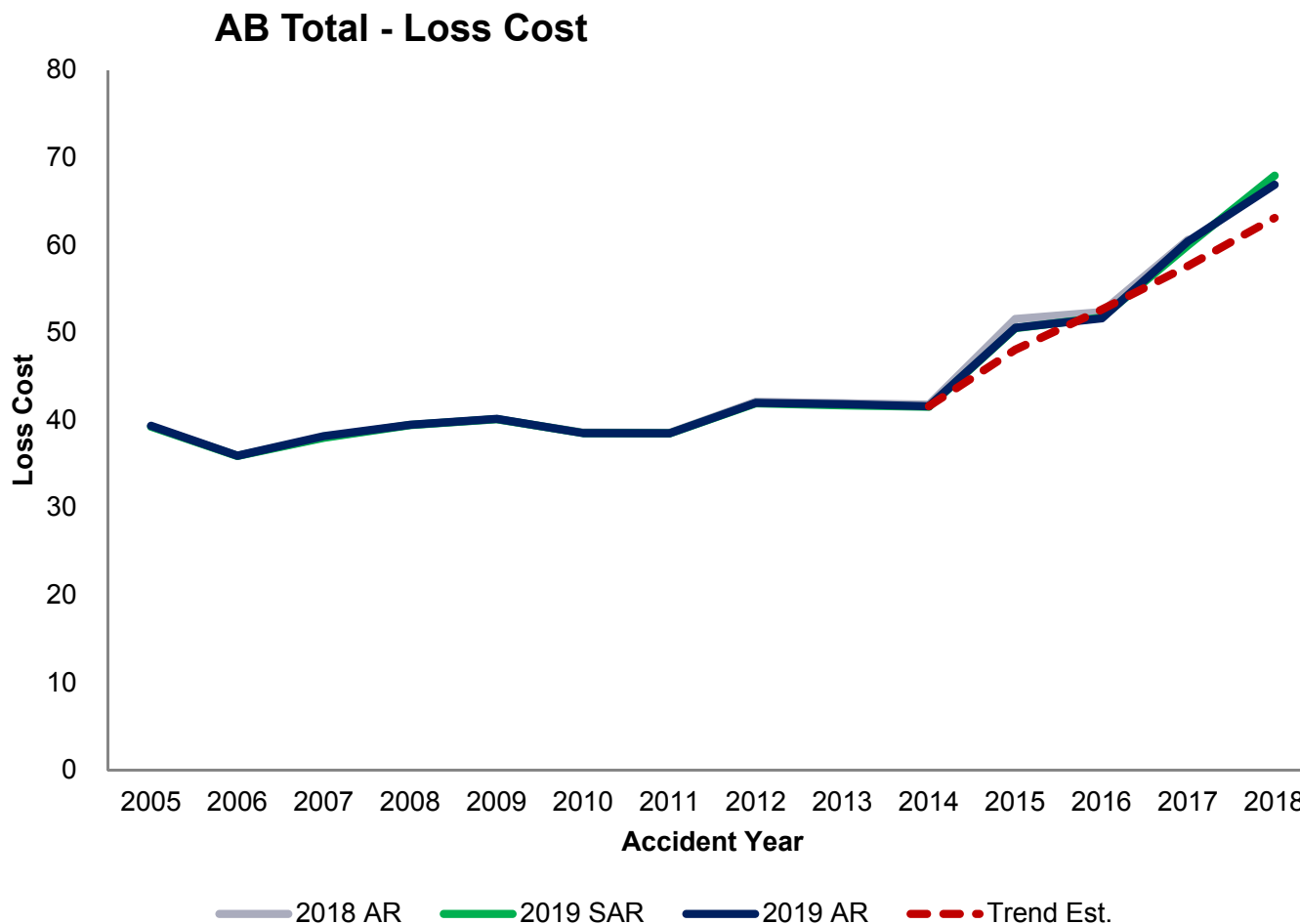
Alberta: Accident Benefits Total Frequency



Alberta: Accident Benefits Total Severity



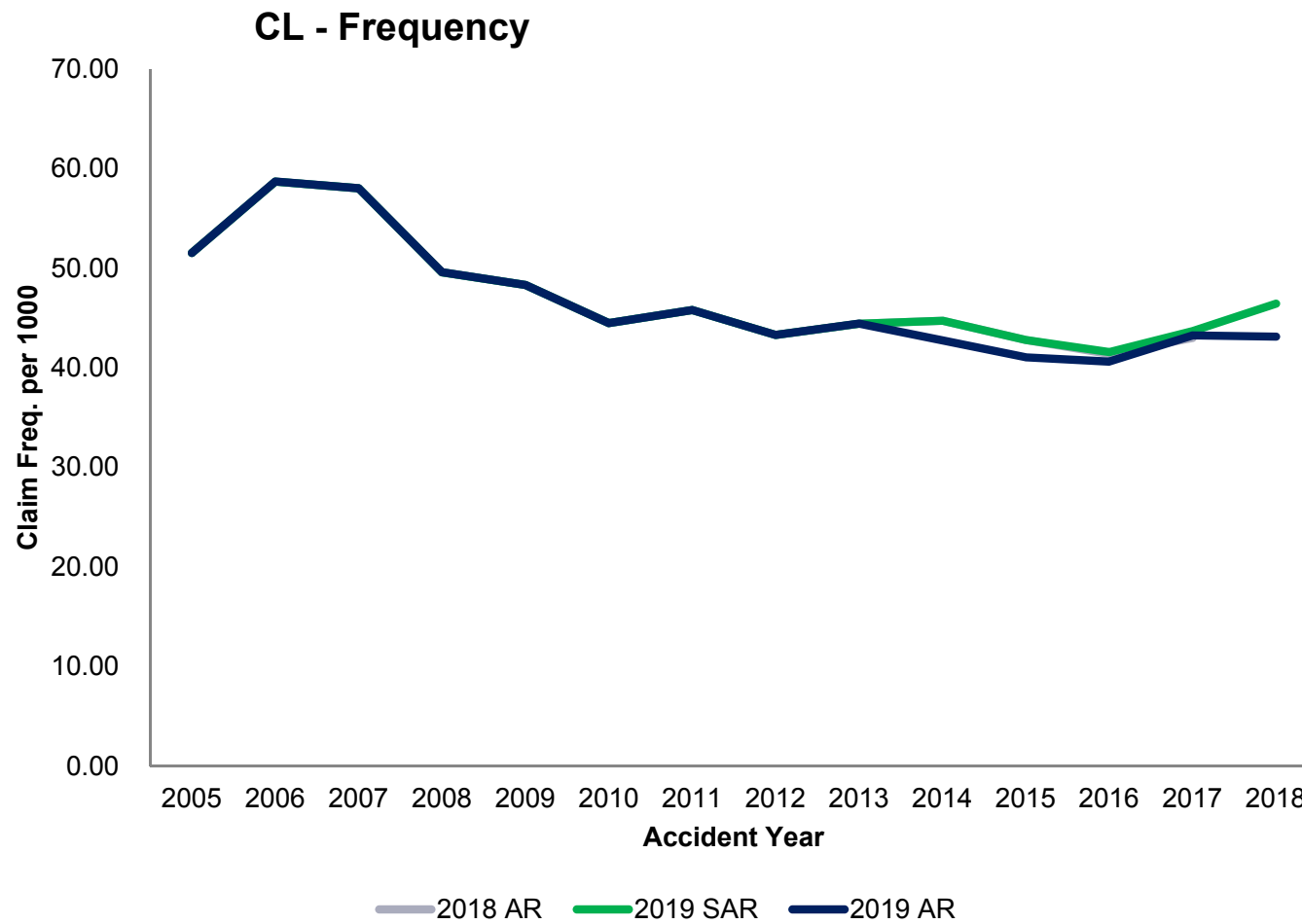
Alberta: Accident Benefits Total Loss Cost



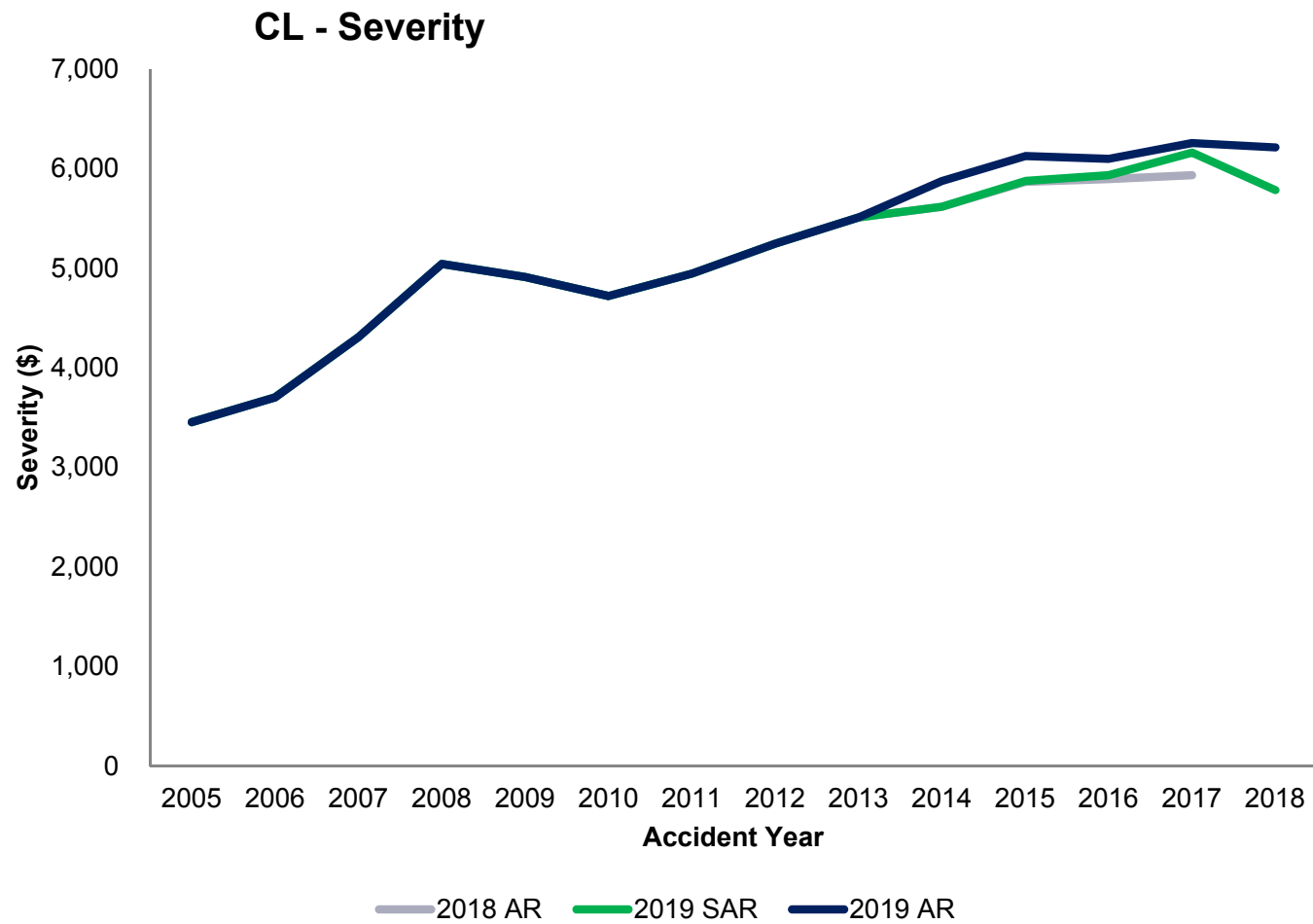
- **2019 SAR Benchmark Trend: +1.5%/9.5%** **2019 Oliver Wyman Preliminary Trend: 0.5% to June 30, 2015, then +9.5% With Level Change at 2015-1 of +15%**

COLLISION

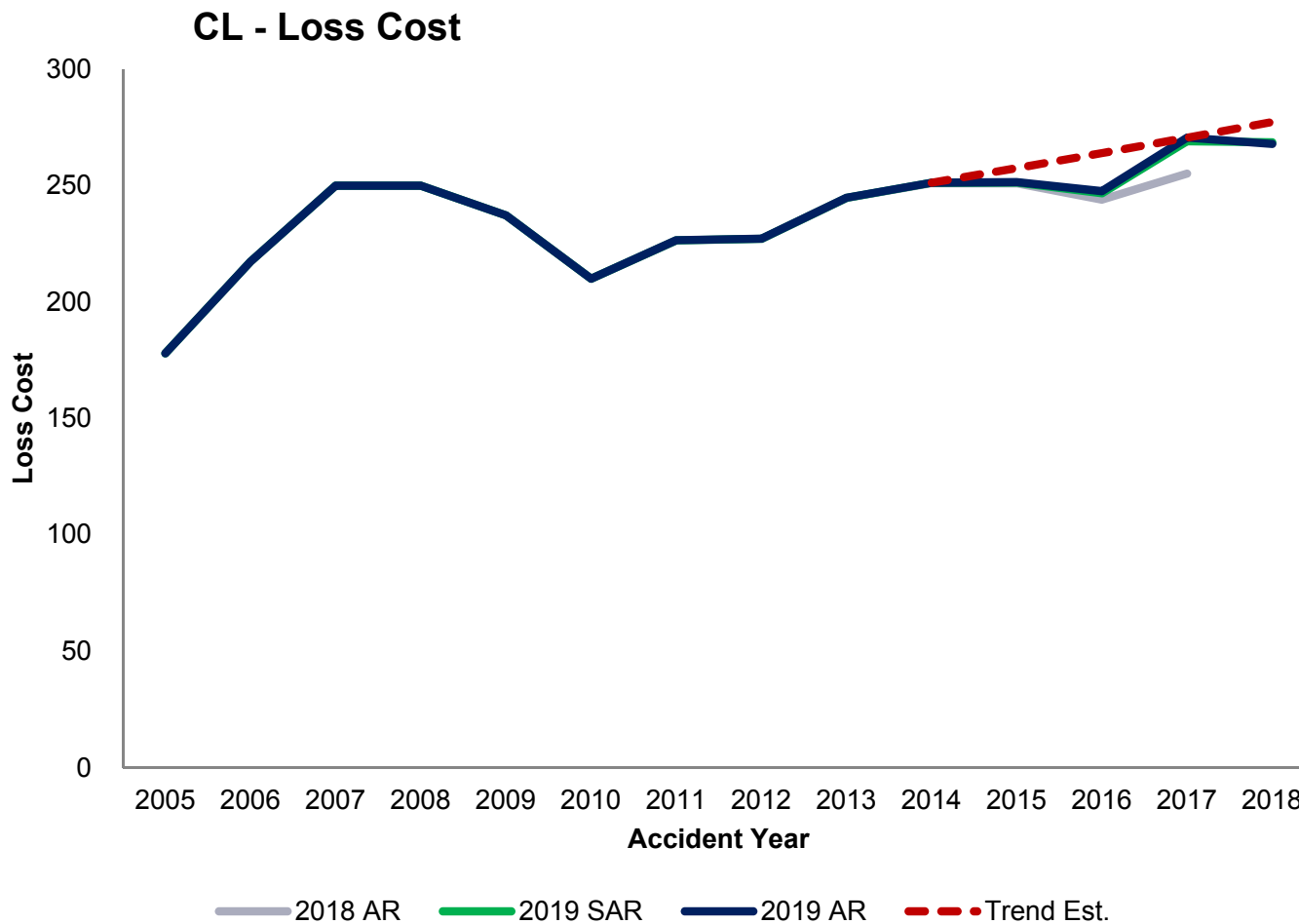
Alberta: Collision Frequency



Alberta: Collision Severity



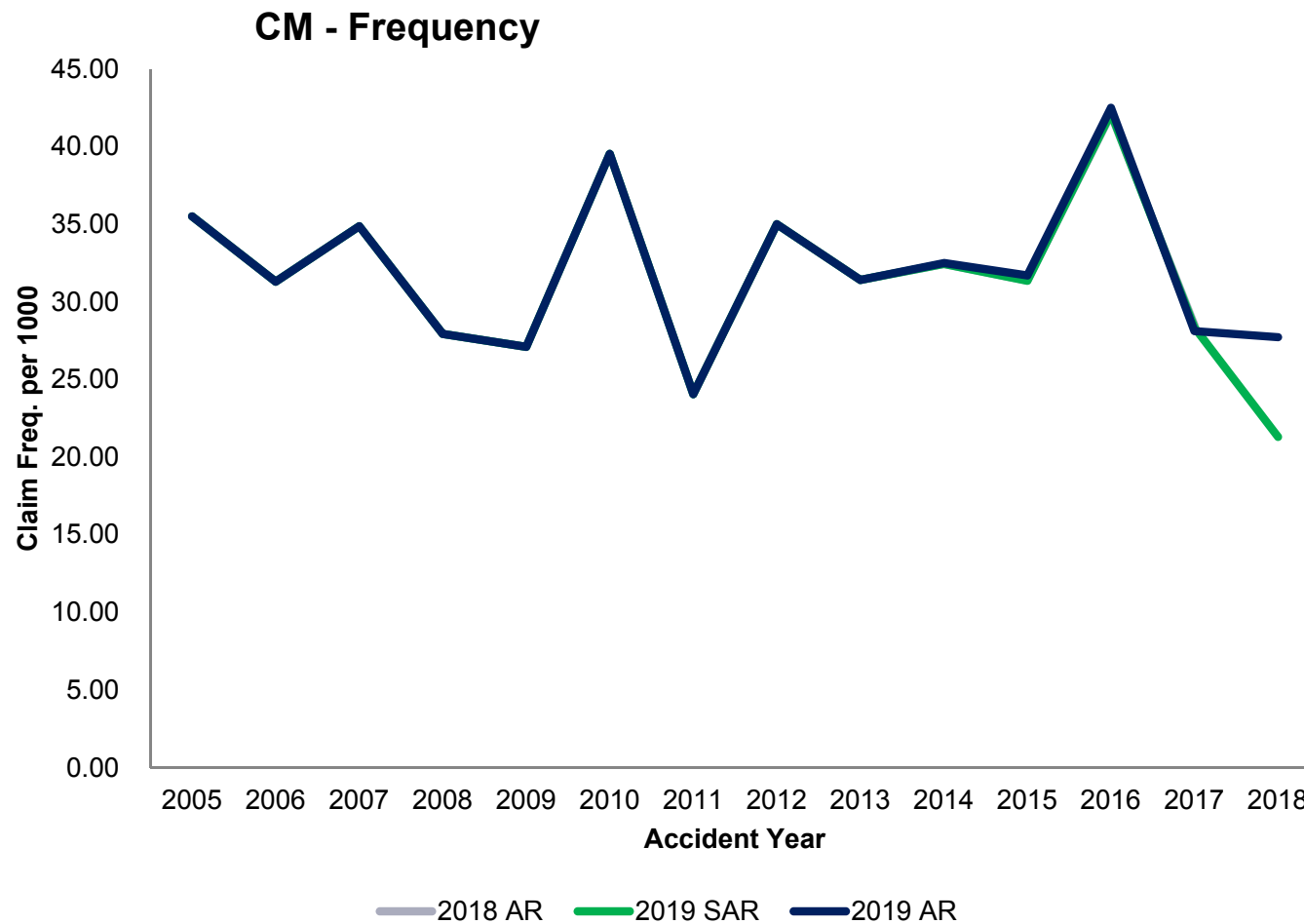
Alberta: Collision Loss Cost



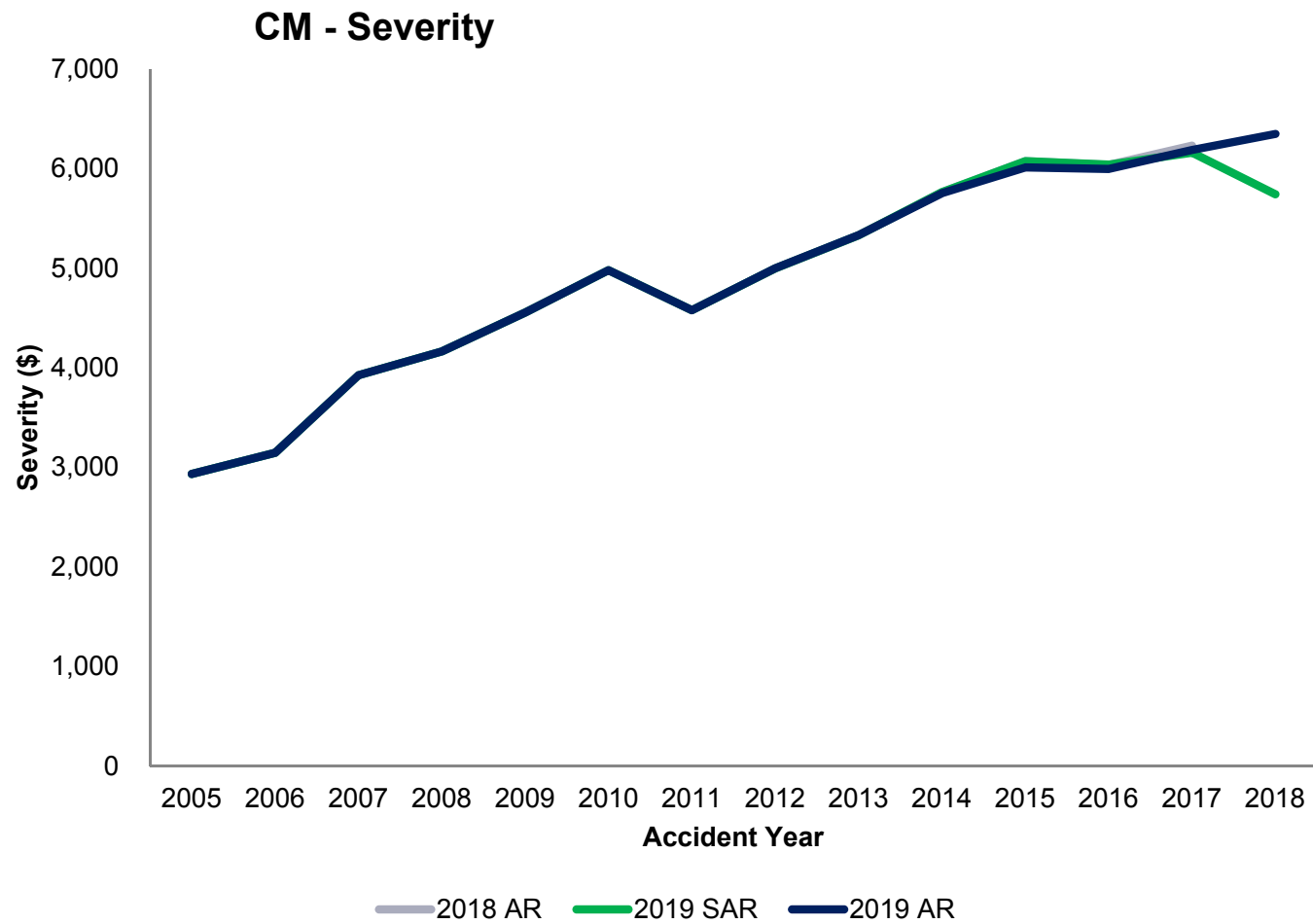
- **2019 SAR Benchmark Trend: +3.0%** **2019 AR Oliver Wyman Preliminary Trend: +2.5%**

COMPREHENSIVE

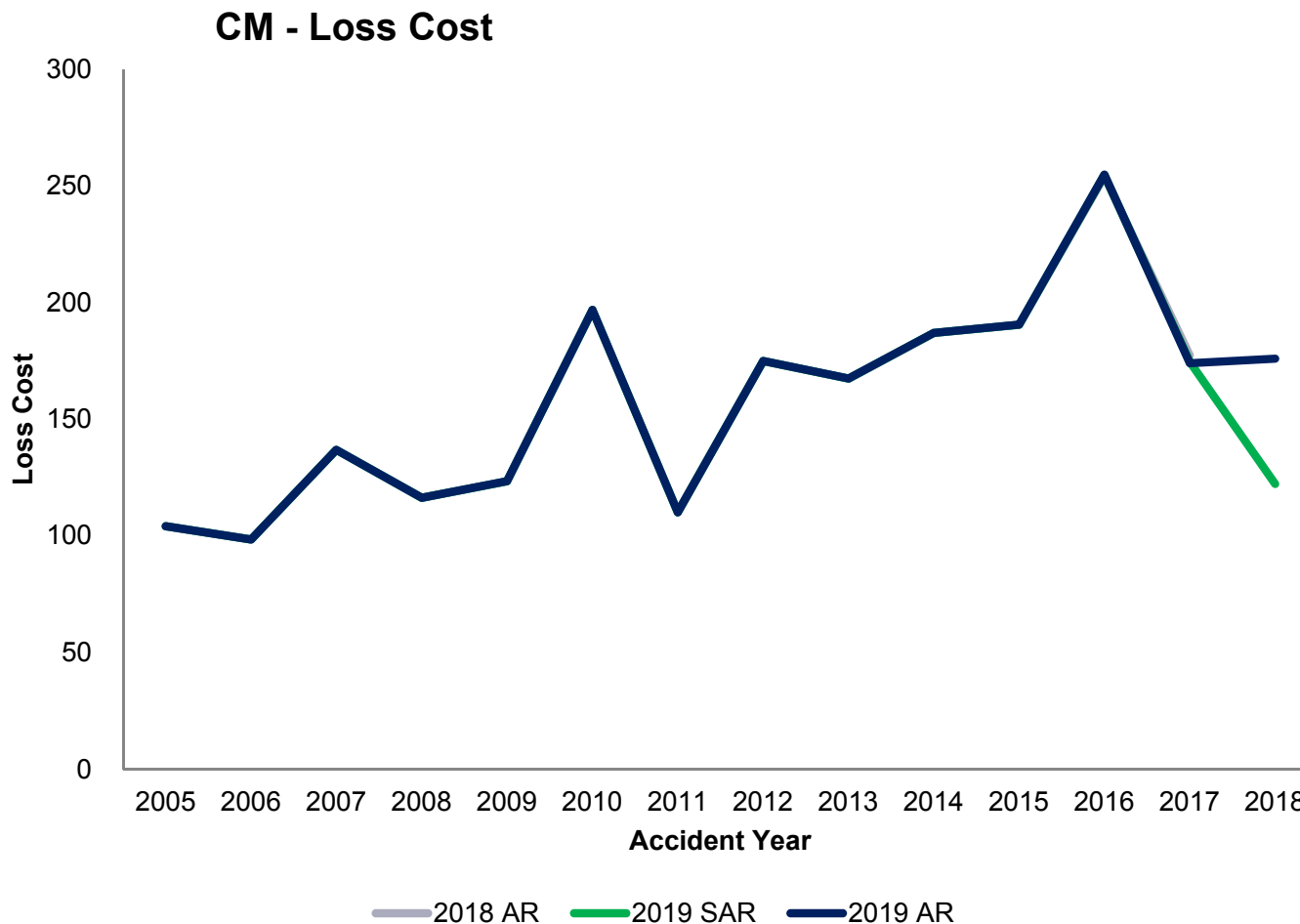
Alberta: Comprehensive – Total Frequency



Alberta: Comprehensive - Total Severity

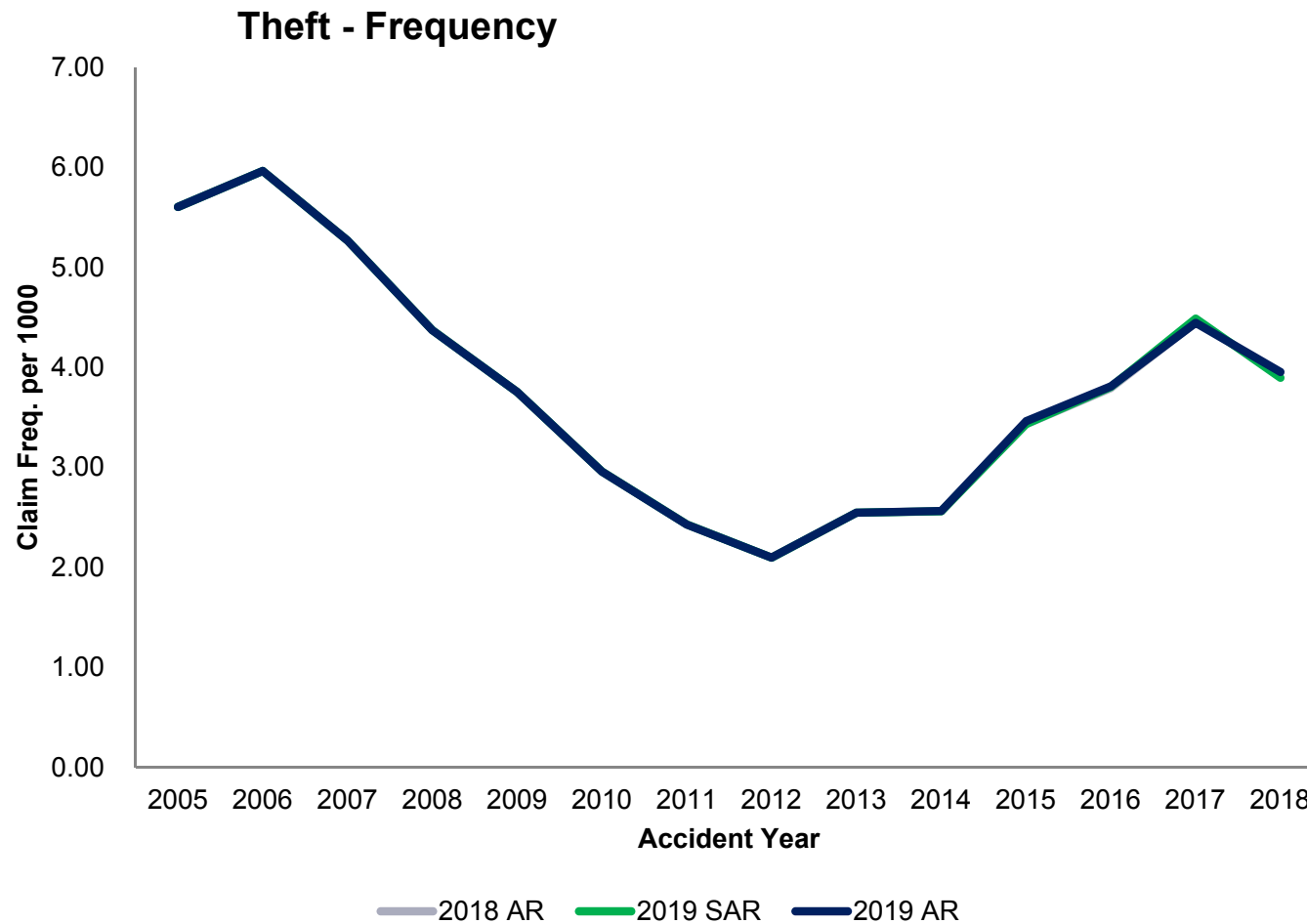


Alberta: Comprehensive – Total Loss Cost

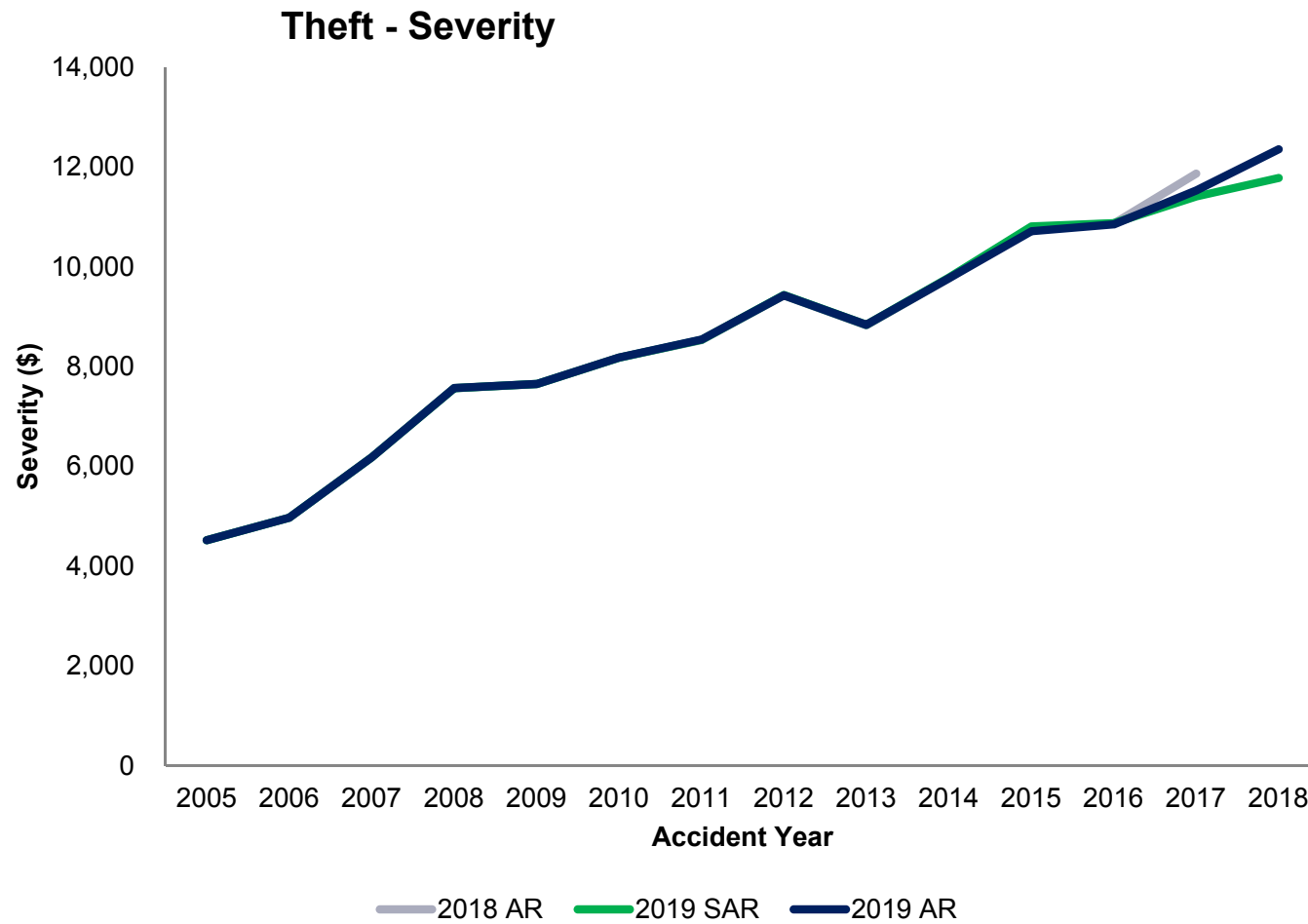


- **2019 SAR Benchmark Trend: +5.0% with Trend Change to +8.5% at July 1, 2015. 2019 Oliver Wyman Preliminary Trend: No Change**

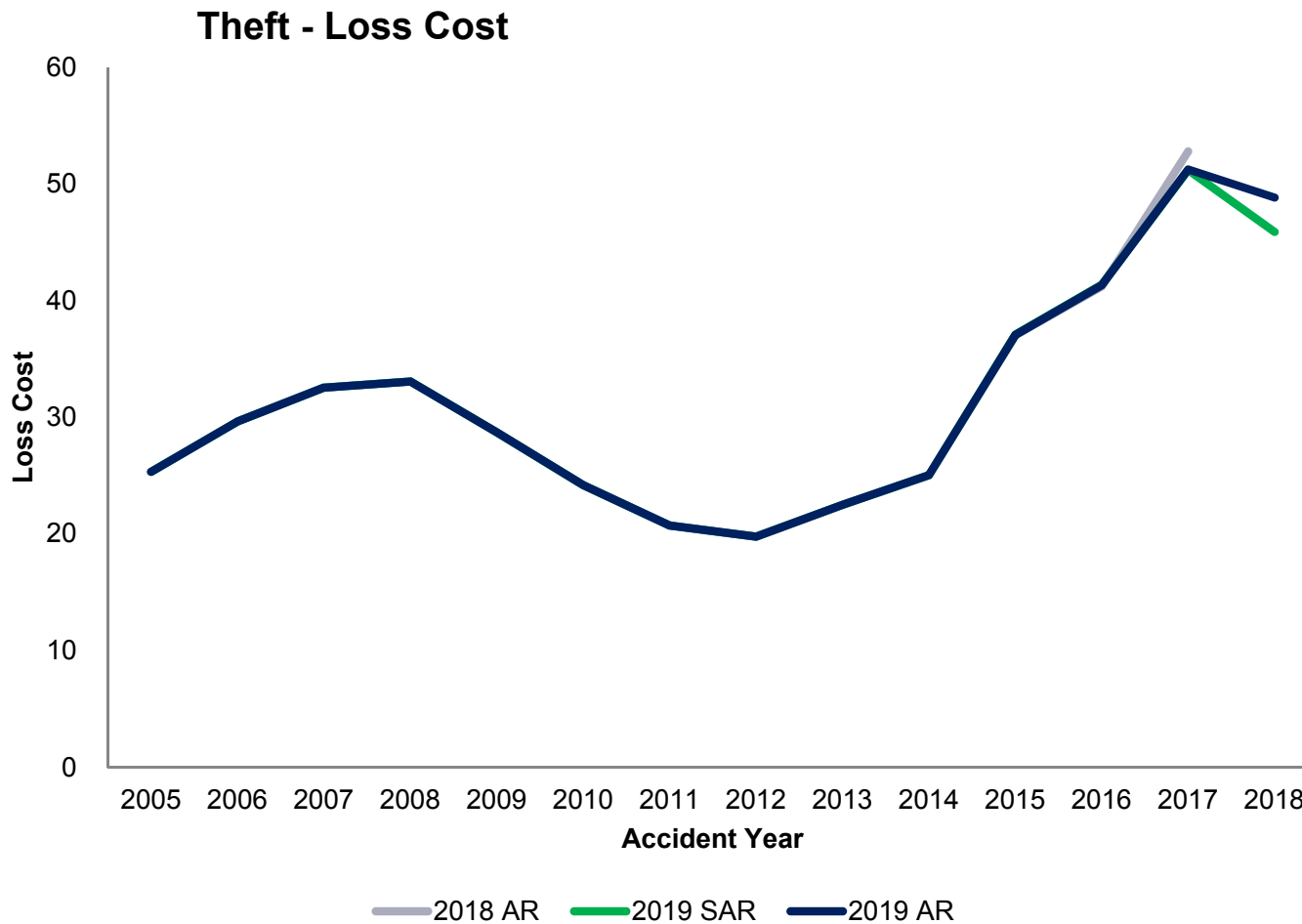
Alberta: Comprehensive - Theft Frequency



Alberta: Comprehensive – Theft Severity



Alberta: Comprehensive – Theft Loss Cost



Issue: Theft Claims

Comparison of Theft Frequency Rates per 100 Vehicles

Accident Year	Alberta	Ontario	Nova Scotia
2014	0.26	0.11	0.08
2015	0.35	0.11	0.08
2016	0.38	0.11	0.08
2017	0.44	0.12	0.07
2018	0.40	0.14	0.08
5-Year % Change	+54%	+35%	-2%

- Source: GISA AUTO7001 Reported claim counts as of Dec 31, 2018

