

# 2014 INDUSTRY REVIEW PRESENTATION TO THE AIRB

AUGUST 19, 2014

**Ted Zubulake**

# Background - General

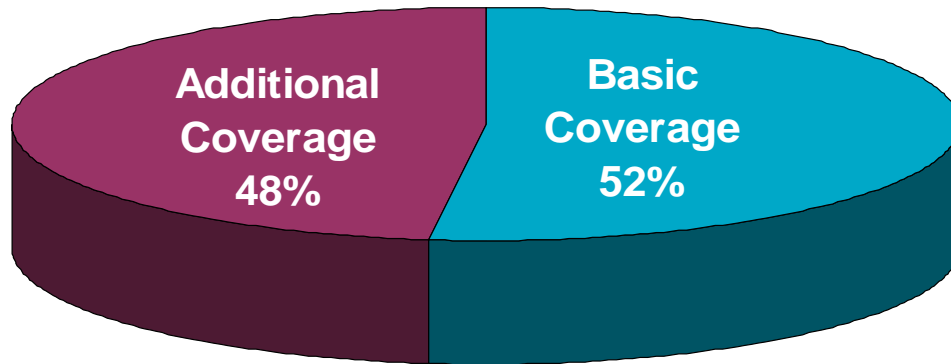
- On July 1<sup>st</sup>, the Enhancing Consumer Protection in Auto Insurance Act came into force.
- The Act and Premiums Regulation expand the AIRB's mandate to include the regulation of Additional Coverage.
- Alberta is moving to a “file-and-approve” model.
- The Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. A component of that review is to analyze Industry experience and develop guidelines for rate filings.
- The guidelines are for use in rate filings, measuring Industry performance, and for calculating the rate level needs of the Grid.

# Background - Introduction to Additional Coverage

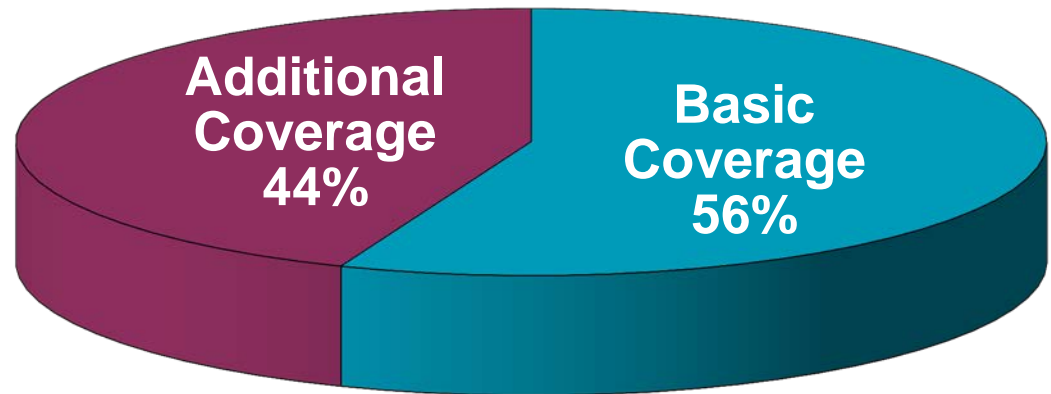
- **Collision:** Coverage for damage to the insured's vehicle arising out of a collision
- **Comprehensive:** Coverage for damage to the insured's vehicle arising out of a peril other than collision (e.g., theft, vandalism, flood, hail, fire, etc.)
- **All Perils:** Combines the coverages under Collision and Comprehensive
- **Specified Perils:** Coverage for damage to the insured's vehicle arising out of certain named perils
- **Underinsured Motorist (UIM):** Coverage for personal injury to the insured caused by an at-fault driver who is insured, but who does not have sufficient insurance. The insured collects from his/her insurer the amount of the damages in excess of the at-fault driver's Bodily Injury coverage limit, up to the limit of UIM coverage purchased.

# Breakdown of Basic and Additional Coverages

**2013 - Written Premium**

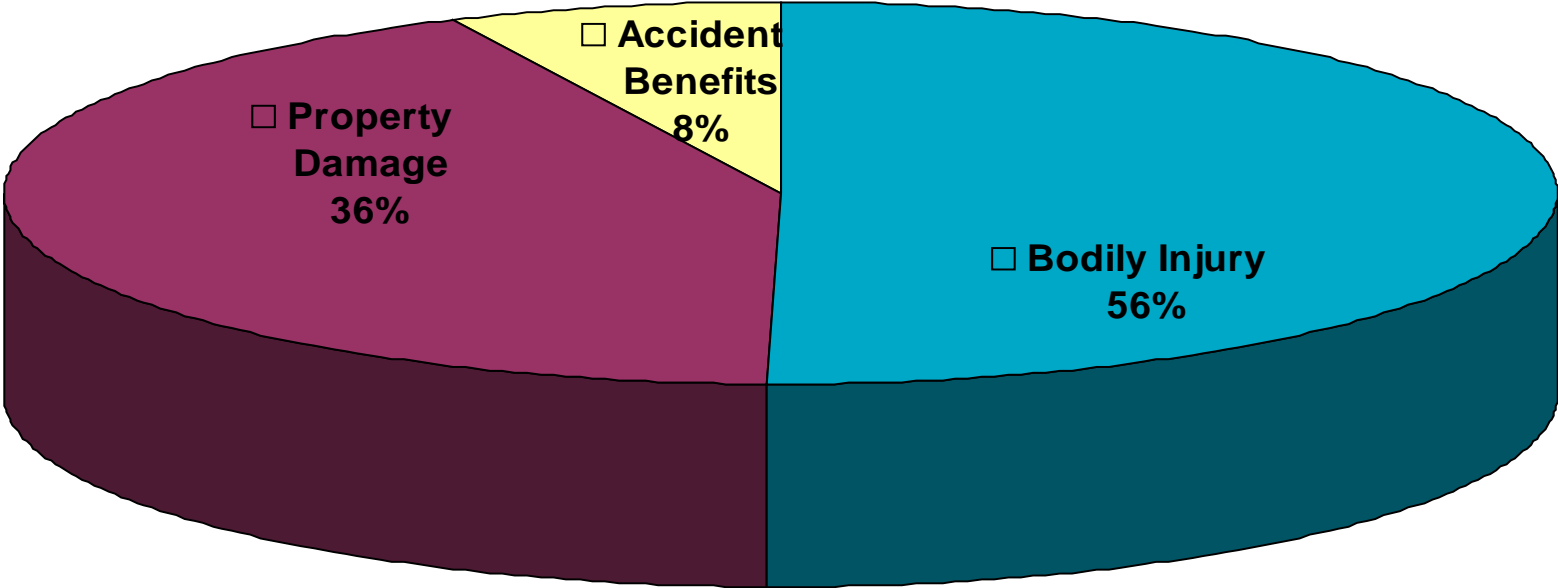


**2013 - Claim Costs**



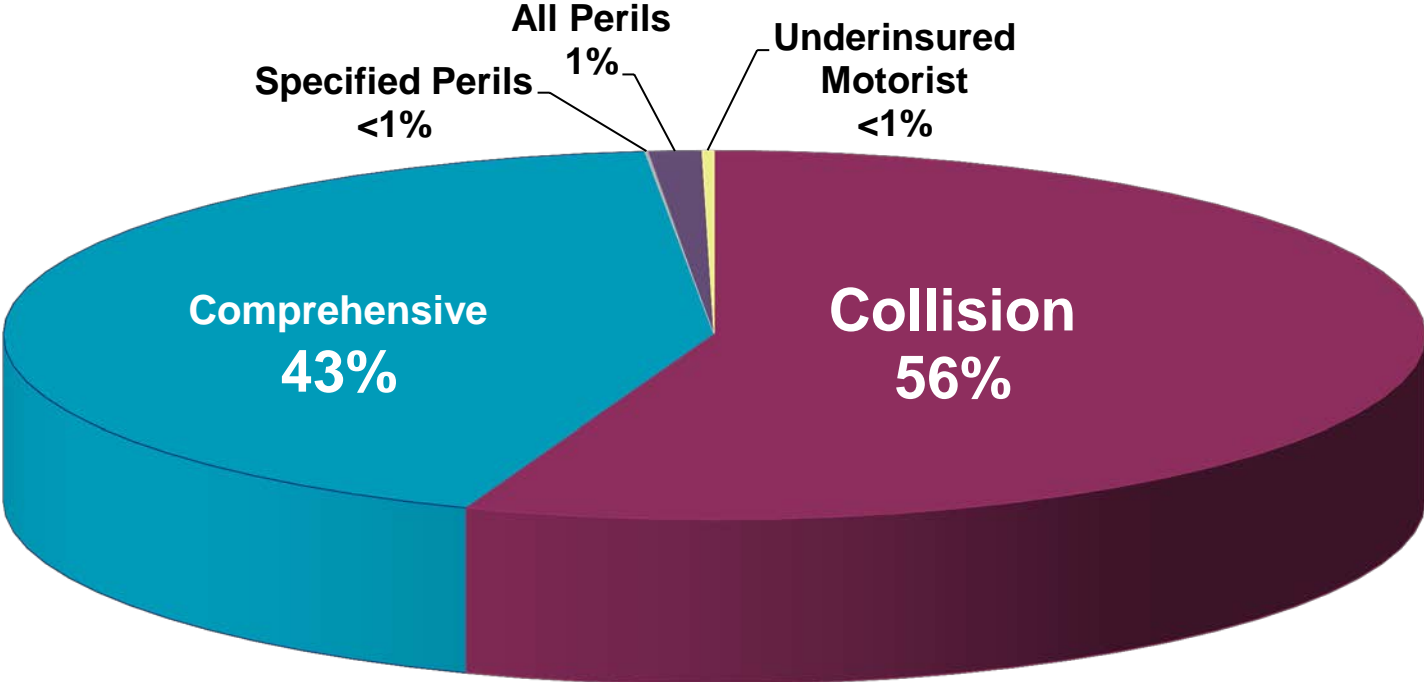
# Breakdown of Basic Coverage Claim Costs

Province of Alberta 2013 - Estimated Claim Costs



# Breakdown of Additional Coverage Claim Costs

Province of Alberta 2013 – Estimated Claim Costs

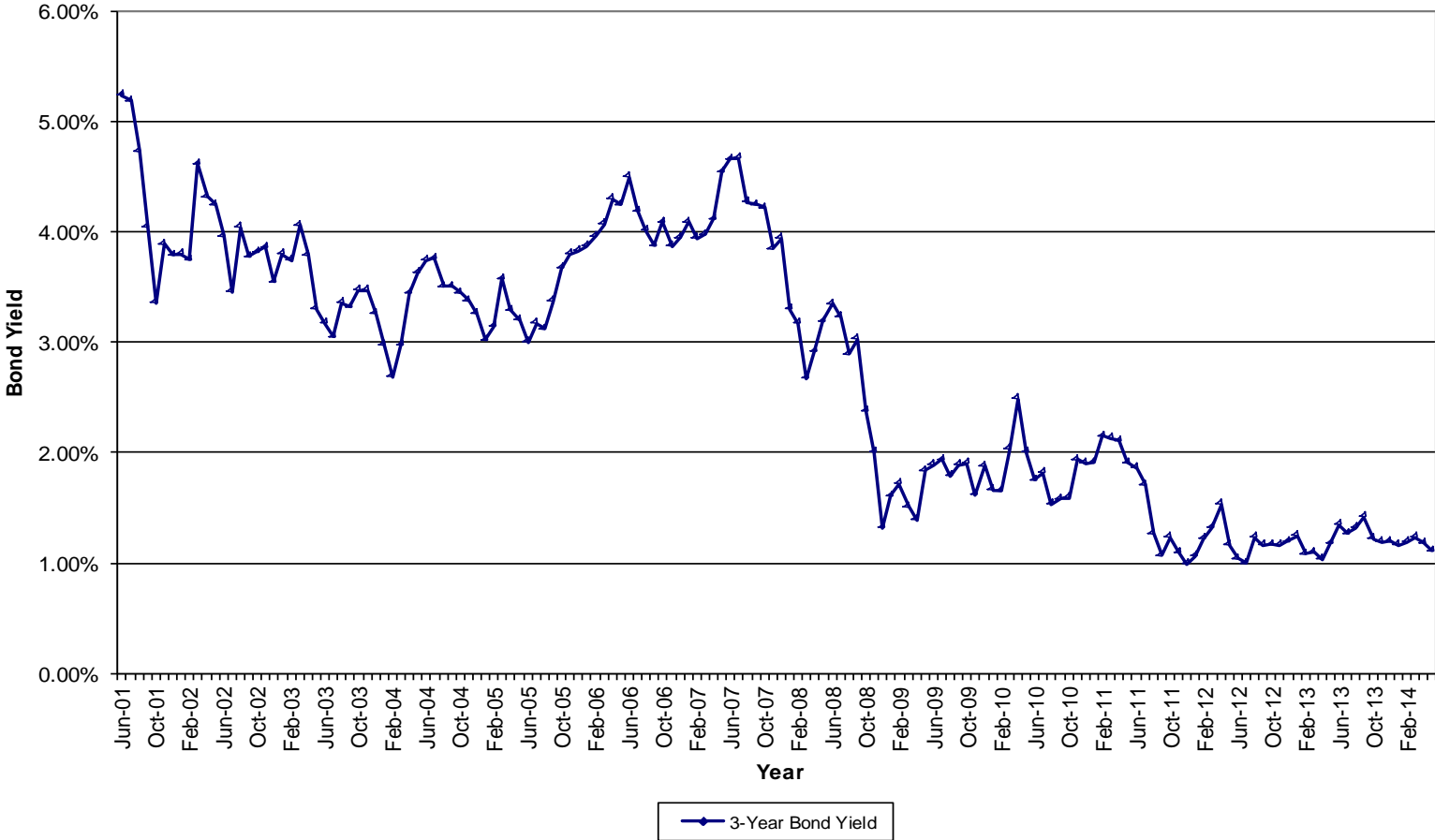


# Change in Economic Conditions

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Alberta Unemployment Rate</b>	<b>5.5% (July)</b>	<b>4.6% (July)</b>	<b>4.5% (July)</b>	<b>4.5% (July)</b>
<b>Alberta CPI (Total)</b>	<b>125.3 (June)</b>	<b>126.9 (June)</b>	<b>129.8 (June)</b>	<b>132.3 (June)</b>
<b>Alberta CPI (ex. Energy)</b>	<b>122.1 (June)</b>	<b>124.1 (June)</b>	<b>126.1 (June)</b>	<b>129.5 (June)</b>
<b>Alberta Gasoline Prices</b>	<b>\$1.11 (Aug)</b>	<b>\$1.15 (Aug)</b>	<b>\$1.14 (Aug)</b>	<b>\$1.15 (Aug)</b>
<b>Natural Gas Prices (\$/GJ)</b>	<b>\$3.37 (May)</b>	<b>\$3.39 (May)</b>	<b>\$1.58 (May)</b>	<b>\$4.21 (May)</b>
<b>3 Year Canada Benchmark Bond Rates</b>	<b>1.71% (July)</b>	<b>1.00% (July)</b>	<b>1.27% (July)</b>	<b>1.14% (July)</b>
<b># Insured Cars</b>	<b>2.35 million</b>	<b>2.44 million</b>	<b>2.54 million</b>	<b>NA</b>
<b>Population</b>	<b>3.78 million</b>	<b>3.87 million</b>	<b>4.03 million</b>	<b>NA</b>

# Historical Investment Rates

Government of Canada Benchmark Bond Yields - 3 Year





# Rate Filing Guideline Components

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

# Rate Filing Guideline Components

- **Loss Development Factors** – Continued adverse loss development for the BI coverage. (Discussed Later)
- **Trends** – OW Recommended Trends (Discussed Later):

	2013 IWA Selections	2014 Selections
Bodily Injury	+2.0%	+2.5%
Property Damage	+1.0%	+2.0%
Medical	+2.0%	+3.0%
Disability Income	-2.5%	-1.5%
Collision	NA	+2.5%
Comprehensive	NA	+1.0%

# Rate Filing Guideline Components

- **ULAE Provision** - For first time, GISA has published two ULAE provisions: 9.9% for Total Auto and 10.7% for Private Passenger Vehicles. Previously, GISA published a Total Auto provision. OW has used the Total Auto provision of 9.9% in determining the loss trends, but recommends that 10.7% be used to estimate claim costs for the 2013 accident year.
- **Catastrophe Loading** – The Comprehensive coverage (in particular) claim experience is affected by the occurrence or non-occurrence of “weather-related events,” e.g., windstorms, hail, flooding, etc. Since catastrophes cannot be predicted, it is generally accepted actuarial practice to remove the actual claim costs arising from catastrophes and including a provision for the average level of catastrophic losses that would be expected to occur in a given year. OW recommends a loading of 30% based on a review of Industry experience. (Discussed Later)

# Rate Filing Guideline Components

- **Investment Income Rate** – Based on the Government of Alberta’s forecasts of short and long term bond yields, OW had recommended an investment rate of 1.8% for all coverages, and stated that should the Board decide to reflect the different claims durations between Basic and Additional coverages, OW’s recommended rates would be 1.9% for Basic and 1.6% for Additional.
- After we released our report, the Government of Alberta updated its forecasts of short and long term bond yields: from 3.5% to 3.25% for 10-year Canada bonds and made no change to the 1.2% forecast for 3-month treasury bills. Based on these forecasts, OW recommends an investment rate of 1.7% for all coverages. Should the Board decide to reflect the different claims durations between Basic and Additional coverages, OW’s recommended rates would be 1.8% for Basic and 1.6% for Additional.
- **Health Services Levy** – The 2014 assessment was \$105 million. No decision has yet been announced on the 2015 assessment. The Ministry has typically increased the assessment by \$5 million per year. This would make the 2015 assessment \$110 million.

# Rate Filing Guideline Components

- **Operating Expenses (Benchmark)** - IBC's voluntary expense survey has been replaced with a new GISA Automobile Insurance Financial Information Report. As of this time, only the 2012 report is available.
- We note that the expense ratios presented in the GISA Automobile Insurance Financial Information Report are on a net of reinsurance basis (i.e., net expenses as a percentage of net premium). This is in contrast to the expense ratios that were presented in IBC's expense survey, which were on a direct basis (i.e., direct expenses as a percentage of direct premium).

# Rate Filing Guideline Components

Expense Category	2013 IWA Board Selections	2012 GISA Report
Standard Commission	NA	11.0%
Contingent Commission	NA	1.6%
Total Commission	12.4%	12.6%
Premium & Fire Taxes	3.0%	3.2%
Other Acquisition Expenses	NA	3.4%
General Expenses	NA	6.0%
All Other Expenses	9.0%	9.4%
Total Expenses	24.4%	25.1%

# Loss Development

# Definition – Ultimate Claim Amount

- “**Ultimate Claim Amount**” is comprised of:

***Claim Payments*** (the claim amounts paid by insurers)

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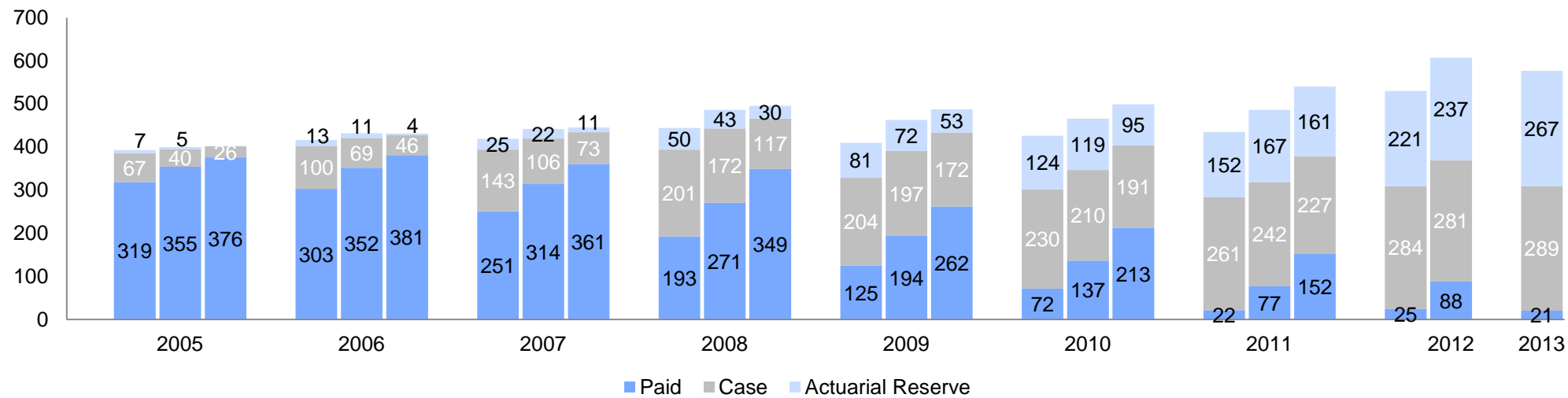
***Case Reserves*** (the reserves carried by insurers on individual claims)

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***“Actuarial” Reserves*** (to account for unreported claims and deficiencies that may exist in the case reserves)

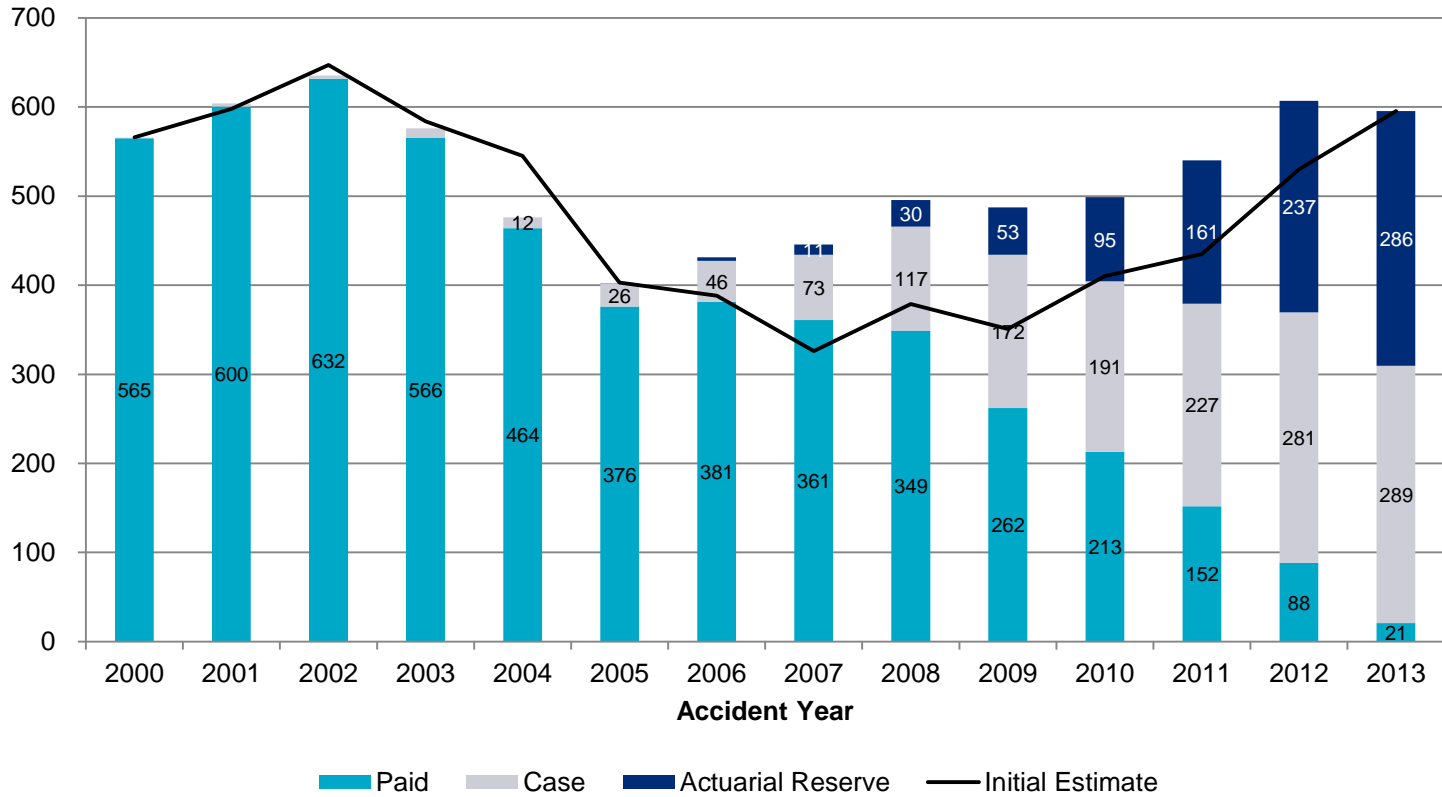


# Change in Bodily Injury Estimated Ultimate Claim Amount By Accident Year 2012 IWA vs 2013 IWA vs 2014 OW (\$ millions)

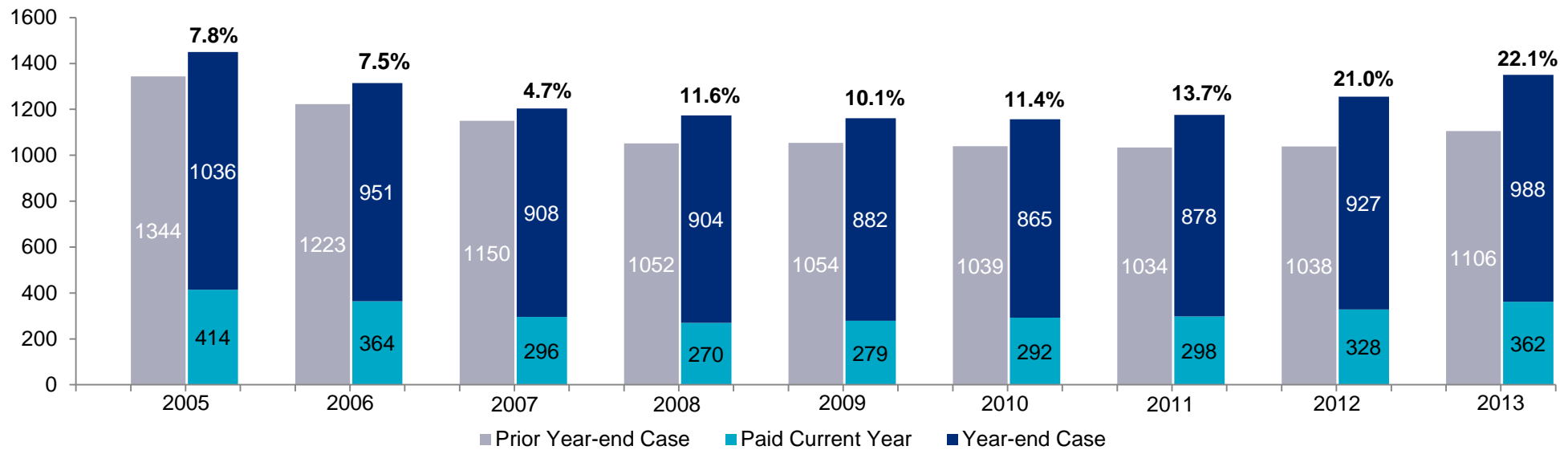


# Hindsight Review of Ultimate Claim Amount Estimates

## Bodily Injury (\$ millions)



# One Year Case Reserve Adequacy Bodily Injury Five Accident Year Look-Back (\$ millions)



For example, the 2013 comparison is for accident years 2008 through 2012

# Average Amount Paid on Claims that Closed During the Year (\$000's)

Accident Year	Age in Years							
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
2006				73	109	180	258	314
2007			22	71	122	208	213	
2008		9	21	70	150	277		
2009	5	9	26	94	176			
2010	5	9	26	137				
2011	5	9	32					
2012	7	10						
2013	6							

# Average Case Reserve as of End of the Year (\$000's)

Accident Year	Age in Years							
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
2006			82	102	129	155	183	227
2007		45	78	102	139	182	237	
2008	24	45	83	119	171	201		
2009	24	48	88	144	216			
2010	23	47	103	157				
2011	22	50	110					
2012	24	52						
2013	23							

# Percent of Prior Year Case Reserve Paid During the Year

Accident Year	Age in Years							
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
2006				26%	34%	40%	49%	43%
2007			23%	32%	31%	39%	46%	
2008		18%	24%	31%	39%	46%		
2009		19%	26%	34%	35%			
2010		19%	28%	36%				
2011		21%	31%					
2012		22%						
2013								

Province of Alberta  
 Alberta Automobile Insurance Board - Private Passengers Vehicles (Excluding Farmers)  
 TPL Bodily Injury  
 Incurred Losses (\$ 000s) as of 12/31/13

Accident Semester	Car-Years										
		6	12	18	24	30	36	42	48	54	60
Jun-99	744,746	155,805	190,066	204,174	216,787	231,084	237,074	243,505	247,784	247,363	251,180
Dec-99	761,320	176,720	214,319	224,122	241,379	253,713	261,904	270,212	272,492	275,420	278,596
Jun-00	782,580	169,464	202,297	218,193	226,187	239,007	246,863	252,029	256,868	257,988	260,444
Dec-00	810,796	177,592	233,922	240,753	253,758	265,759	273,126	282,745	287,252	290,783	294,955
Jun-01	830,225	175,853	204,253	220,946	230,774	240,960	251,732	258,990	261,644	264,933	266,346
Dec-01	851,902	196,019	253,382	270,955	283,114	295,717	302,141	308,020	311,653	310,632	312,964
Jun-02	834,467	183,933	233,688	250,409	266,059	274,657	284,098	288,459	293,772	293,053	295,512
Dec-02	869,888	196,904	253,853	273,672	290,937	302,824	308,401	314,959	321,246	326,084	328,773
Jun-03	853,493	181,013	224,362	236,298	244,627	253,826	260,666	264,997	270,365	274,262	275,368
Dec-03	874,538	189,513	234,007	243,565	252,964	262,823	271,472	277,028	279,819	281,123	282,201
Jun-04	861,327	170,374	202,974	204,931	208,969	213,647	219,450	225,783	229,277	232,303	232,937
Dec-04	888,618	168,599	197,662	196,670	204,657	208,154	212,401	216,967	220,477	225,528	227,551
Jun-05	884,452	132,381	145,575	146,170	148,635	150,596	154,820	162,221	167,478	171,292	171,530
Dec-05	939,958	140,797	164,877	161,245	163,987	165,687	175,879	185,292	193,135	195,138	195,625
Jun-06	945,710	137,451	147,050	142,699	142,320	150,169	156,122	162,609	163,101	166,974	172,082
Dec-06	1,001,690	159,373	189,608	173,602	176,228	190,380	200,385	206,825	210,728	219,939	221,994
Jun-07	1,002,212	113,309	128,951	128,606	134,978	146,440	152,527	157,870	160,737	167,279	173,607
Dec-07	1,056,658	135,785	163,960	170,226	178,737	186,616	194,418	207,715	215,258	219,843	226,608
Jun-08	1,052,705	120,258	140,609	141,311	142,263	149,705	160,333	173,691	182,588	195,122	204,581
Dec-08	1,097,548	136,879	167,169	164,687	171,683	188,010	202,398	211,851	226,046	237,976	245,718
Jun-09	1,080,211	121,587	127,292	123,772	128,009	139,215	147,289	161,999	176,501	185,189	196,422
Dec-09	1,119,429	142,842	160,467	161,656	174,050	181,501	197,740	214,396	225,829	237,575	
Jun-10	1,100,281	116,441	126,394	123,675	129,672	139,362	151,027	161,839	170,914		
Dec-10	1,147,258	155,708	172,916	172,497	182,734	195,620	216,390	233,282			
Jun-11	1,128,804	125,737	133,988	134,036	140,132	153,142	168,257				
Dec-11	1,178,692	149,131	171,122	179,153	194,372	210,825					
Jun-12	1,172,355	133,657	161,252	164,395	177,049						
Dec-12	1,224,868	147,885	179,414	192,384							
Jun-13	1,215,525	123,133	151,392								
Dec-13	1,274,785	158,189									

Province of Alberta  
 Alberta Automobile Insurance Board - Private Passengers Vehicles (Excluding Farmers)  
 TPL Bodily Injury  
 Incurred Loss Development Factors as of 12/31/13

Accident Semester	6-12	12-18	18-24	24-30	30-36	36-42	42-48	48-54	54-60	60-66
Jun-99	1.220	1.074	1.062	1.066	1.026	1.027	1.018	0.998	1.015	1.002
Dec-99	1.213	1.046	1.077	1.051	1.032	1.032	1.008	1.011	1.012	1.004
Jun-00	1.194	1.079	1.037	1.057	1.033	1.021	1.019	1.004	1.010	0.998
Dec-00	1.317	1.029	1.054	1.047	1.028	1.035	1.016	1.012	1.014	1.007
Jun-01	1.161	1.082	1.044	1.044	1.045	1.029	1.010	1.013	1.005	1.009
Dec-01	1.293	1.069	1.045	1.045	1.022	1.019	1.012	0.997	1.008	1.003
Jun-02	1.271	1.072	1.062	1.032	1.034	1.015	1.018	0.998	1.008	1.008
Dec-02	1.289	1.078	1.063	1.041	1.018	1.021	1.020	1.015	1.008	0.999
Jun-03	1.239	1.053	1.035	1.038	1.027	1.017	1.020	1.014	1.004	1.005
Dec-03	1.235	1.041	1.039	1.039	1.033	1.020	1.010	1.005	1.004	1.012
Jun-04	1.191	1.010	1.020	1.022	1.027	1.029	1.015	1.013	1.003	1.008
Dec-04	1.172	0.995	1.041	1.017	1.020	1.021	1.016	1.023	1.009	1.004
Jun-05	1.100	1.004	1.017	1.013	1.028	1.048	1.032	1.023	1.001	1.008
Dec-05	1.171	0.978	1.017	1.010	1.062	1.054	1.042	1.010	1.002	1.009
Jun-06	1.070	0.970	0.997	1.055	1.040	1.042	1.003	1.024	1.031	1.019
Dec-06	1.190	0.916	1.015	1.080	1.053	1.032	1.019	1.044	1.009	1.017
Jun-07	1.138	0.997	1.050	1.085	1.042	1.035	1.018	1.041	1.038	1.031
Dec-07	1.207	1.038	1.050	1.044	1.042	1.068	1.036	1.021	1.031	1.031
Jun-08	1.169	1.005	1.007	1.052	1.071	1.083	1.051	1.069	1.048	1.033
Dec-08	1.221	0.985	1.042	1.095	1.077	1.047	1.067	1.053	1.033	1.012
Jun-09	1.047	0.972	1.034	1.088	1.058	1.100	1.090	1.049	1.061	
Dec-09	1.123	1.007	1.077	1.043	1.089	1.084	1.053	1.052		
Jun-10	1.085	0.978	1.048	1.075	1.084	1.072	1.056			
Dec-10	1.111	0.998	1.059	1.071	1.106	1.078				
Jun-11	1.066	1.000	1.045	1.093	1.099					
Dec-11	1.147	1.047	1.085	1.085						
Jun-12	1.206	1.019	1.077							
Dec-12	1.213	1.072								
Jun-13	1.230									

6-12	12-18	18-24	24-30	30-36	36-42	42-48	48-54	54-60	60-ult.
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OW Selected

<b>Age To Age</b>	<b>1.216</b>	<b>1.022</b>	<b>1.067</b>	<b>1.074</b>	<b>1.087</b>	<b>1.076</b>	<b>1.058</b>	<b>1.047</b>	<b>1.036</b>	
Age to Ultimate	2.106	1.731	1.694	1.587	1.477	1.360	1.263	1.194	1.140	1.101

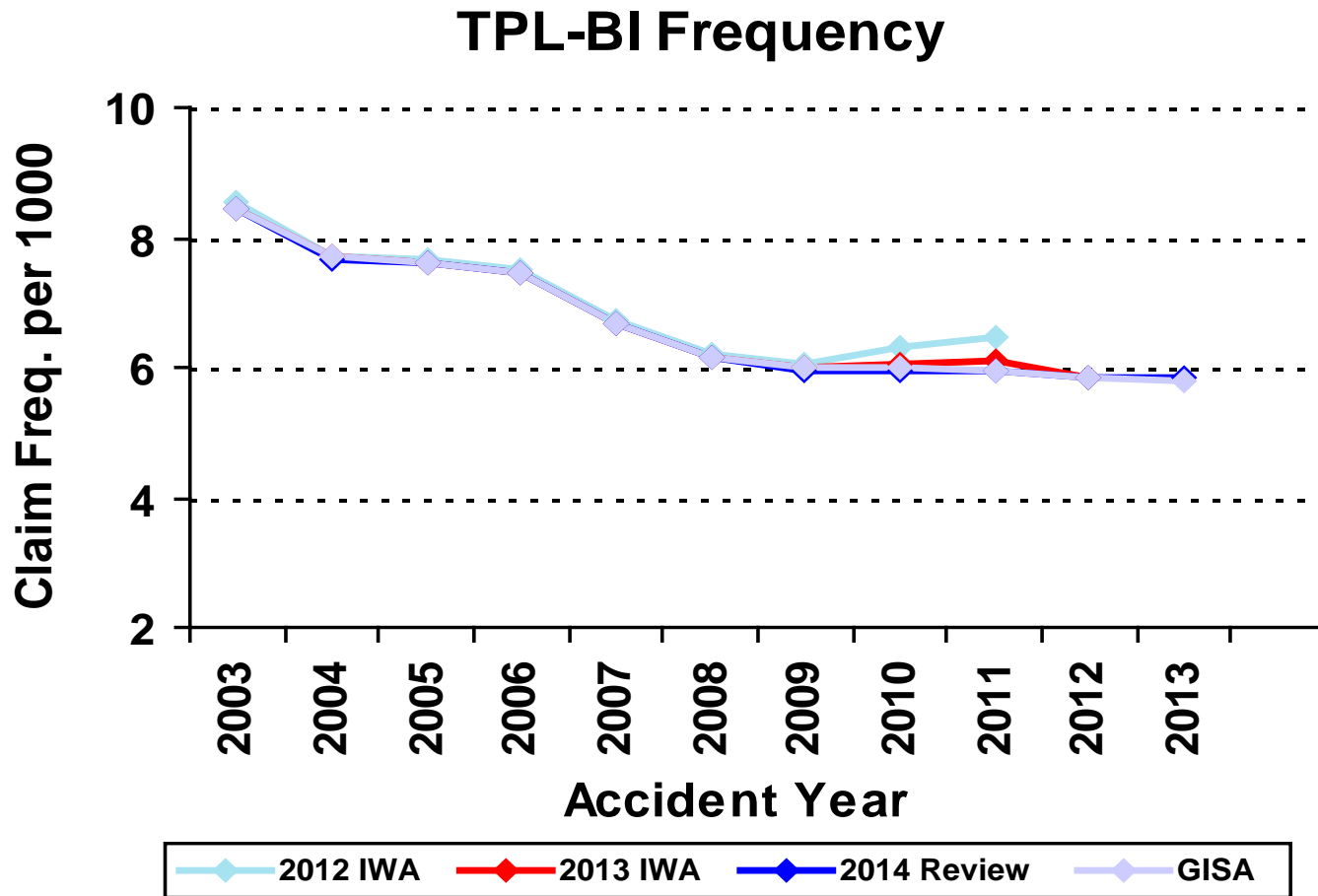
GISA Selected

<b>Age To Age</b>	<b>1.216</b>	<b>1.046</b>	<b>1.069</b>	<b>1.082</b>	<b>1.094</b>	<b>1.083</b>	<b>1.066</b>	<b>1.055</b>	<b>1.043</b>	
Age to Ultimate	2.305	1.895	1.811	1.694	1.565	1.430	1.320	1.238	1.173	1.125

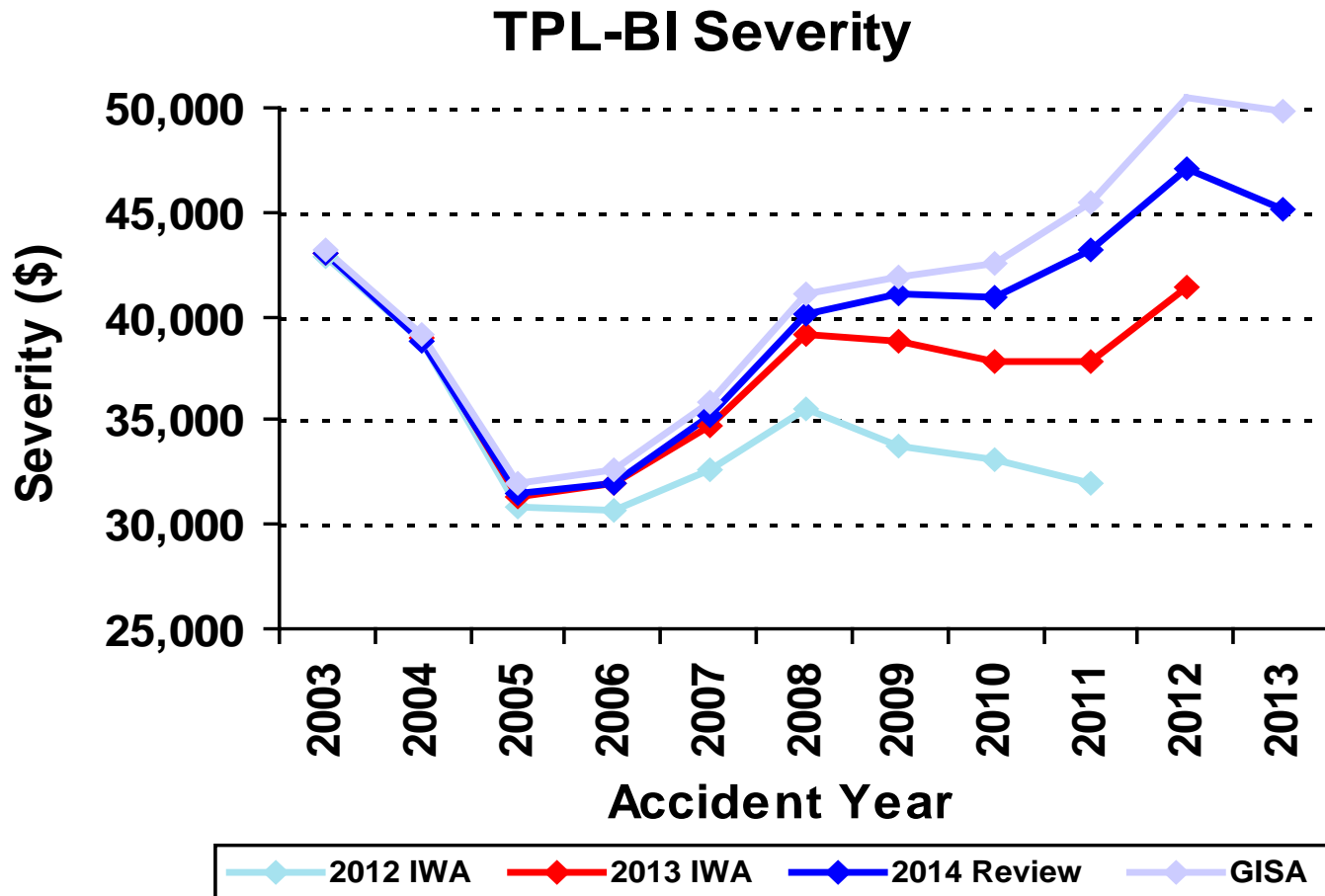


# Trends

# Alberta: Bodily Injury Frequency

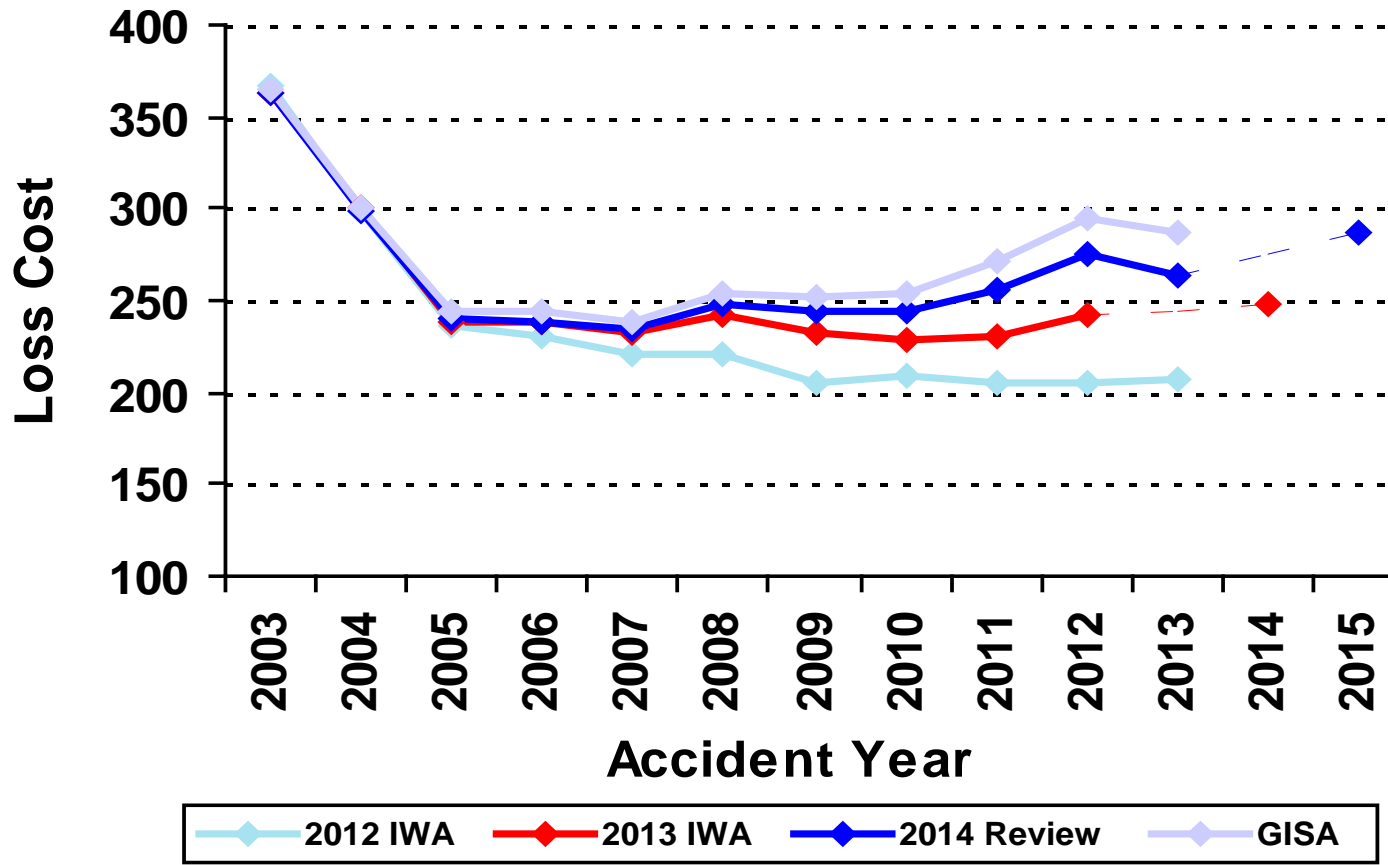


# Alberta: Bodily Injury Severity



# Alberta: Bodily Injury Loss Cost

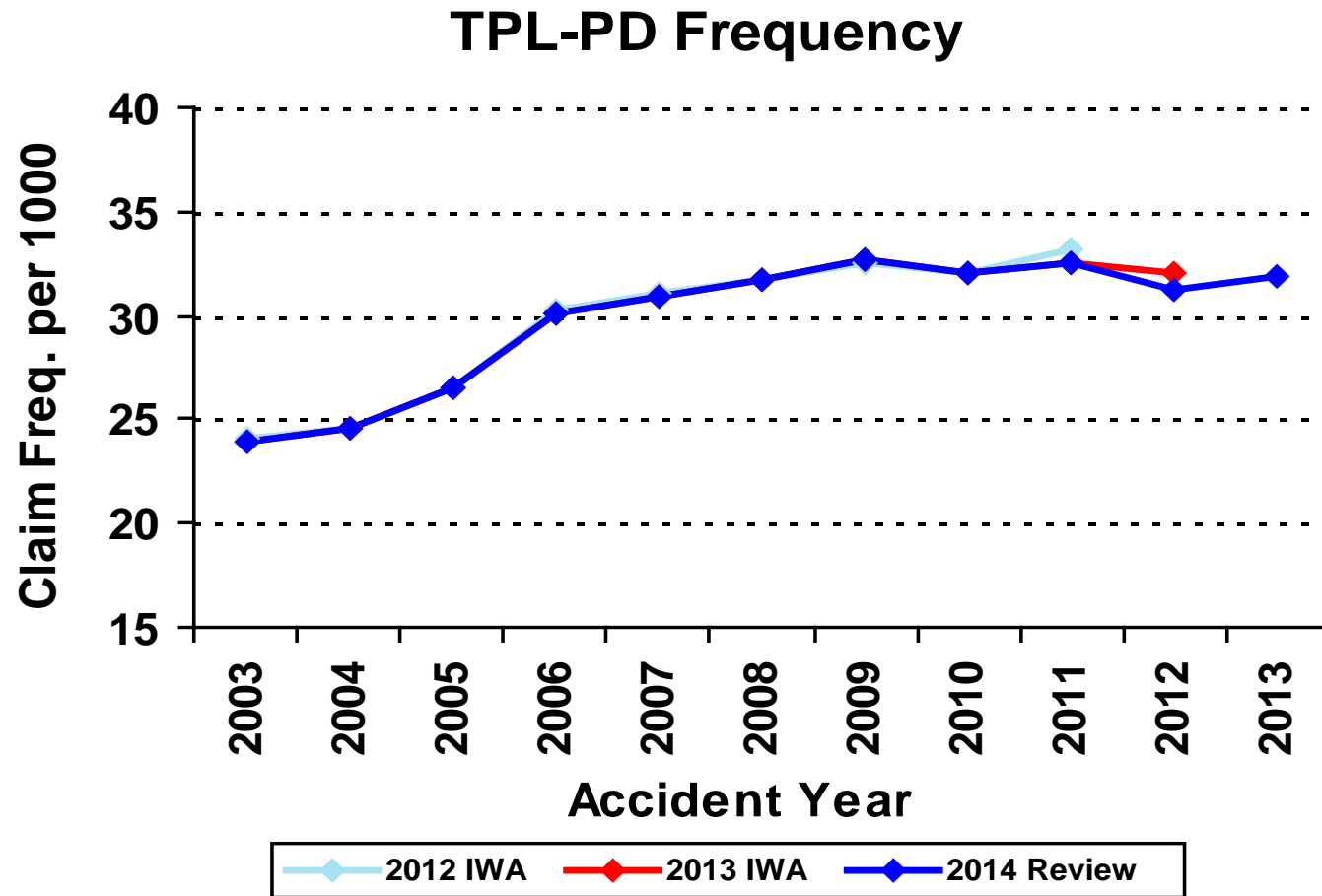
## TPL-BI Loss Cost



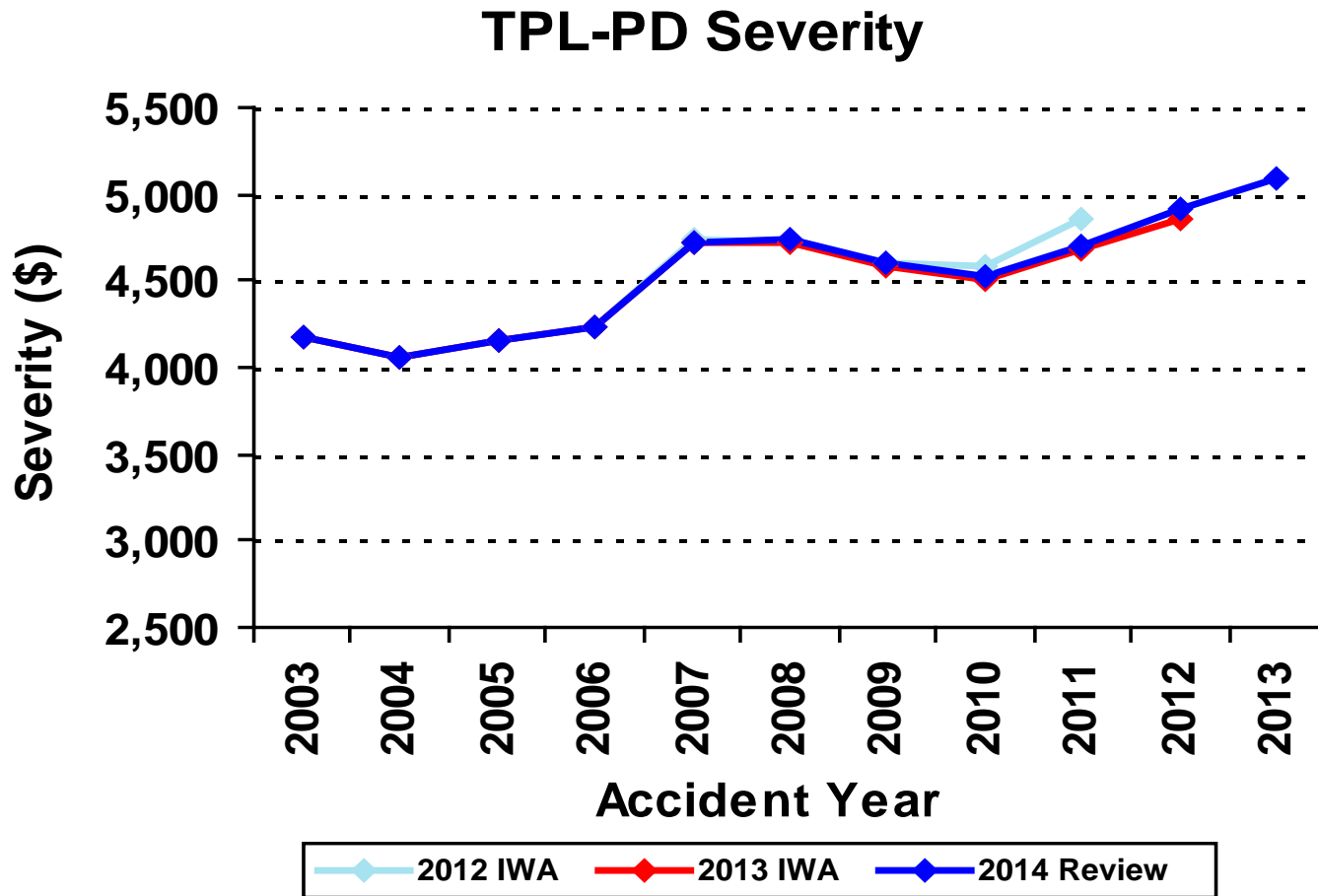
• 2013 Selected Trend: **+2.0%**

2014 OW Selected Trend: **+2.5%**

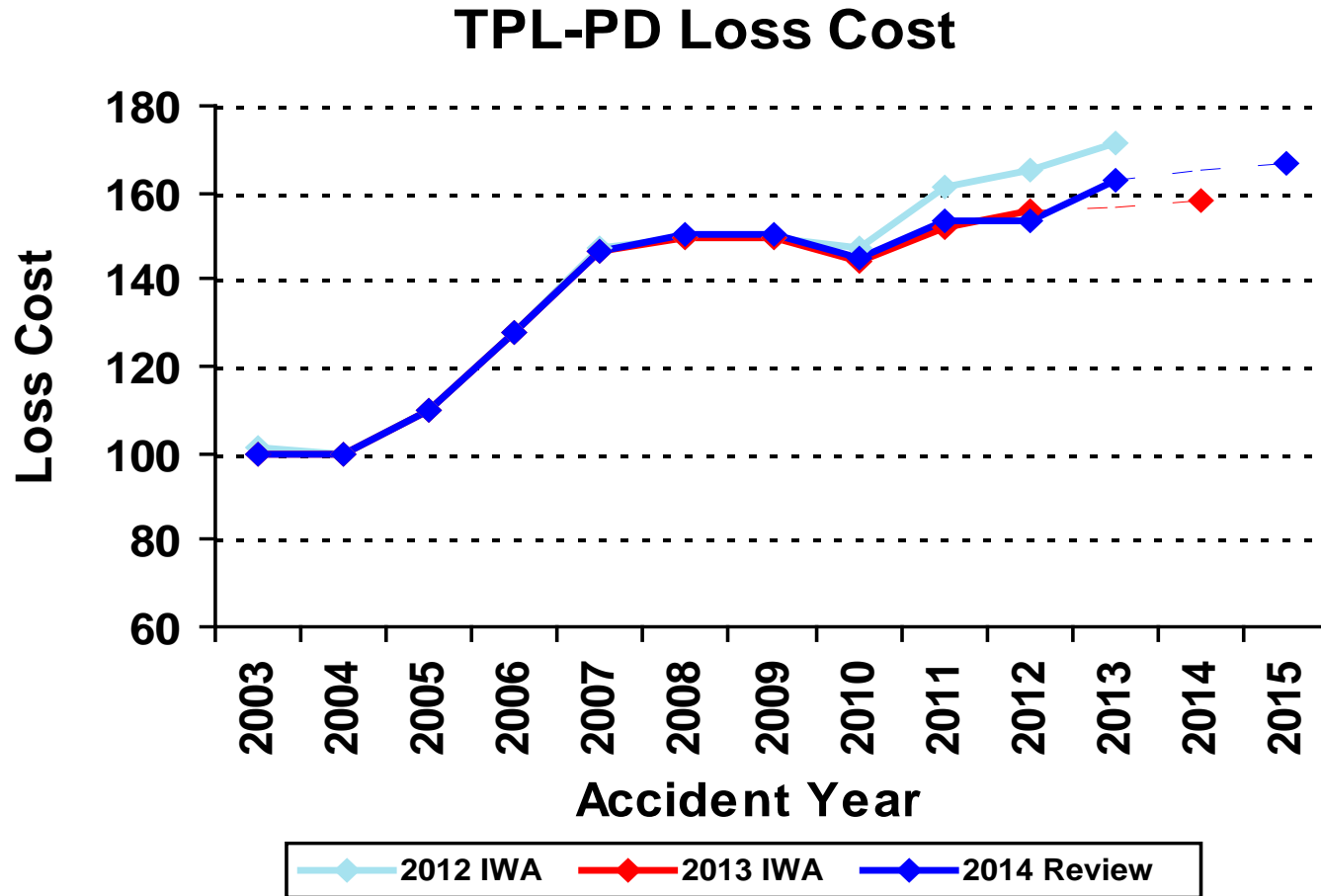
# Alberta: Property Damage Frequency



# Alberta: Property Damage Severity



# Alberta: Property Damage Loss Cost

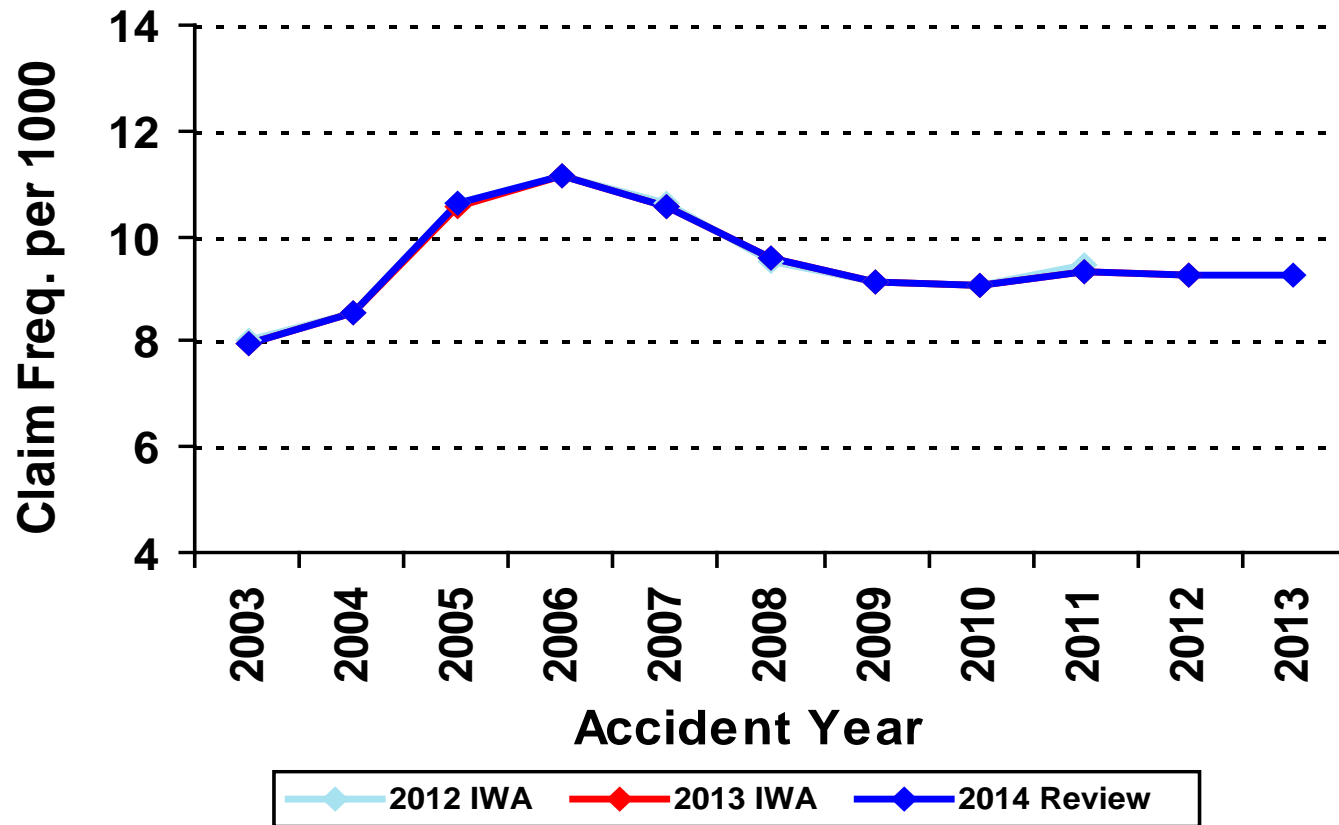


• 2013 Selected Trend: **+1.0%**

2014 OW Selected Trend: **+2.0%**

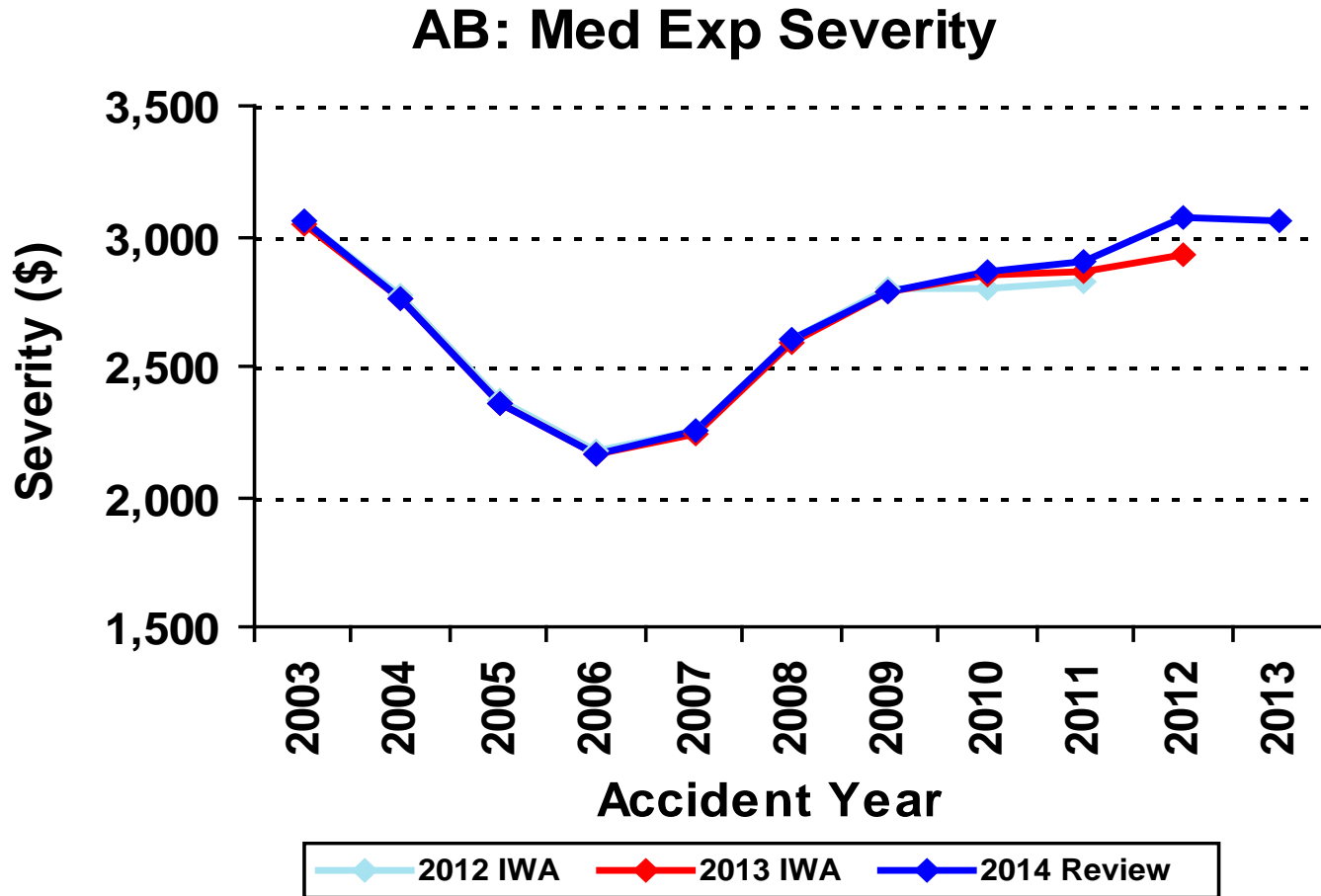
# Alberta: Medical Expenses Frequency

## AB: Med Exp Frequency



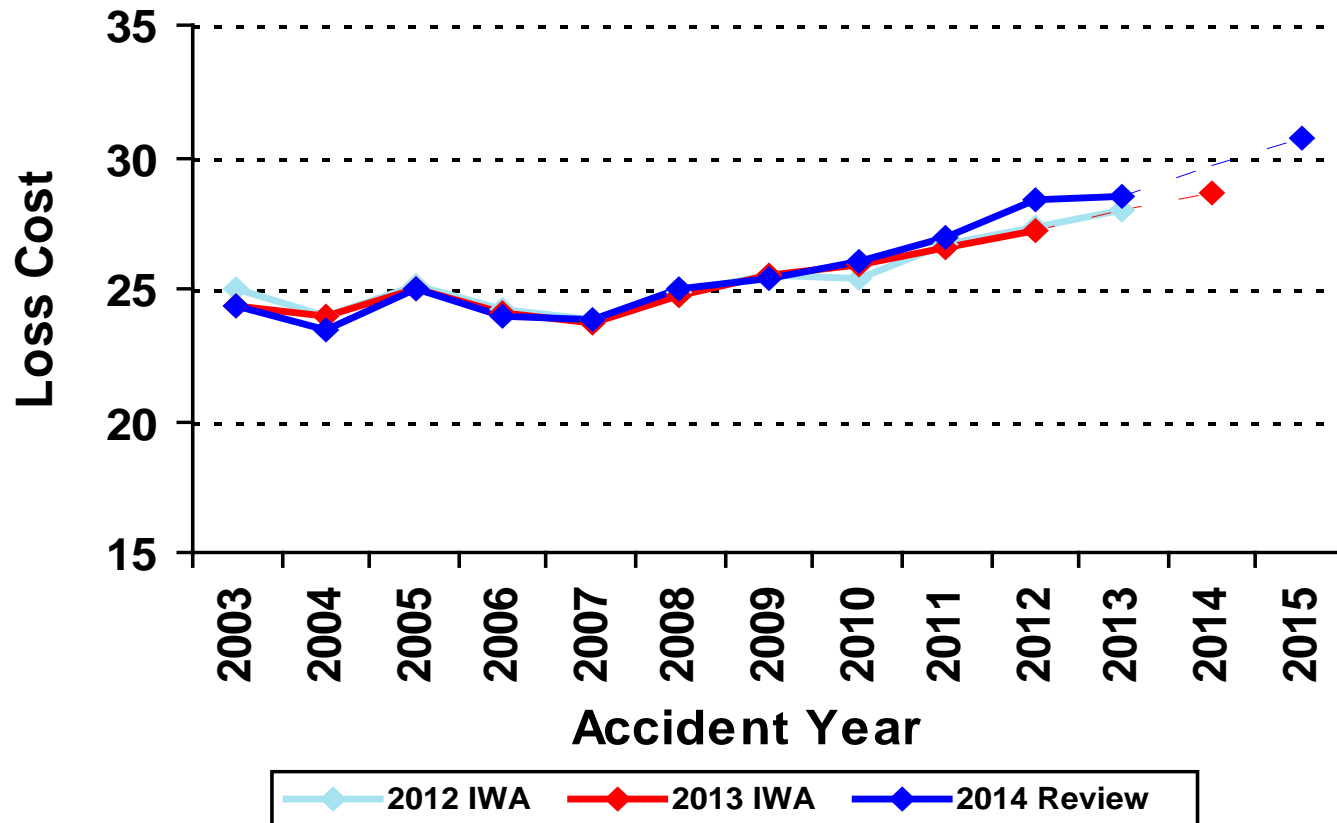


# Alberta: Medical Expenses Severity



# Alberta: Medical Expenses Loss Cost

## AB: Med Exp Loss Cost

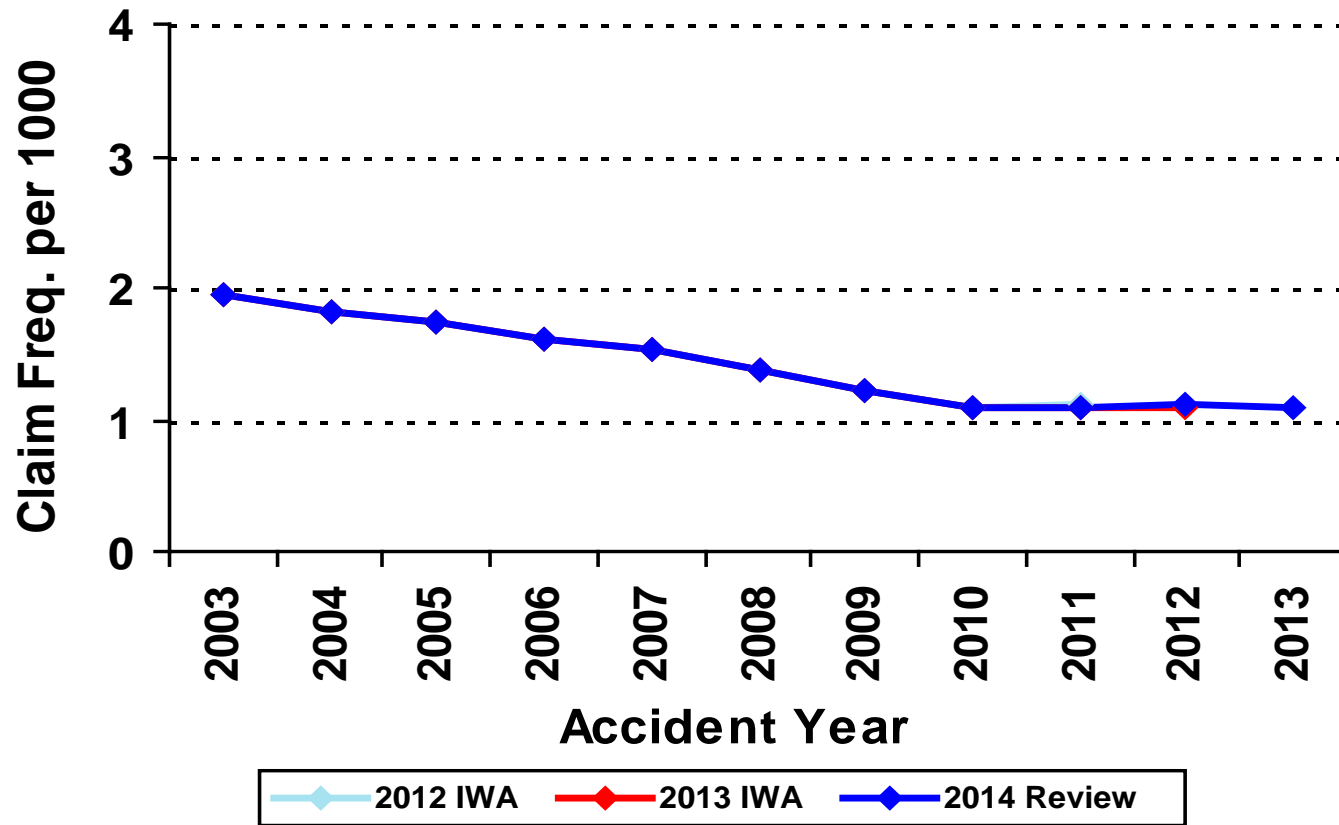


• 2013 Selected Trend: **+2.0%**

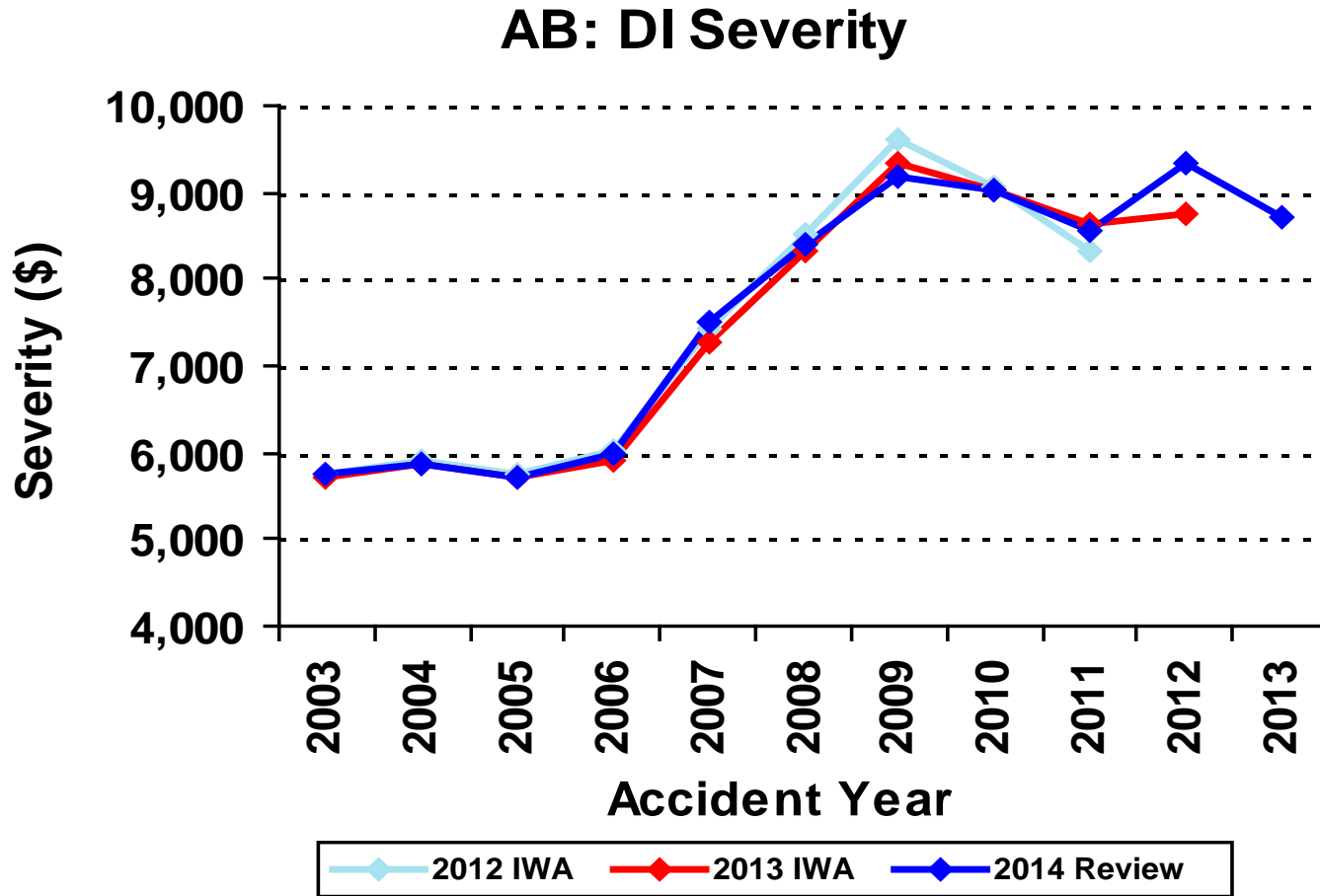
2014 OW Selected Trend: **+3.0%**

# Alberta: Disability Income Frequency

## AB: DI Frequency

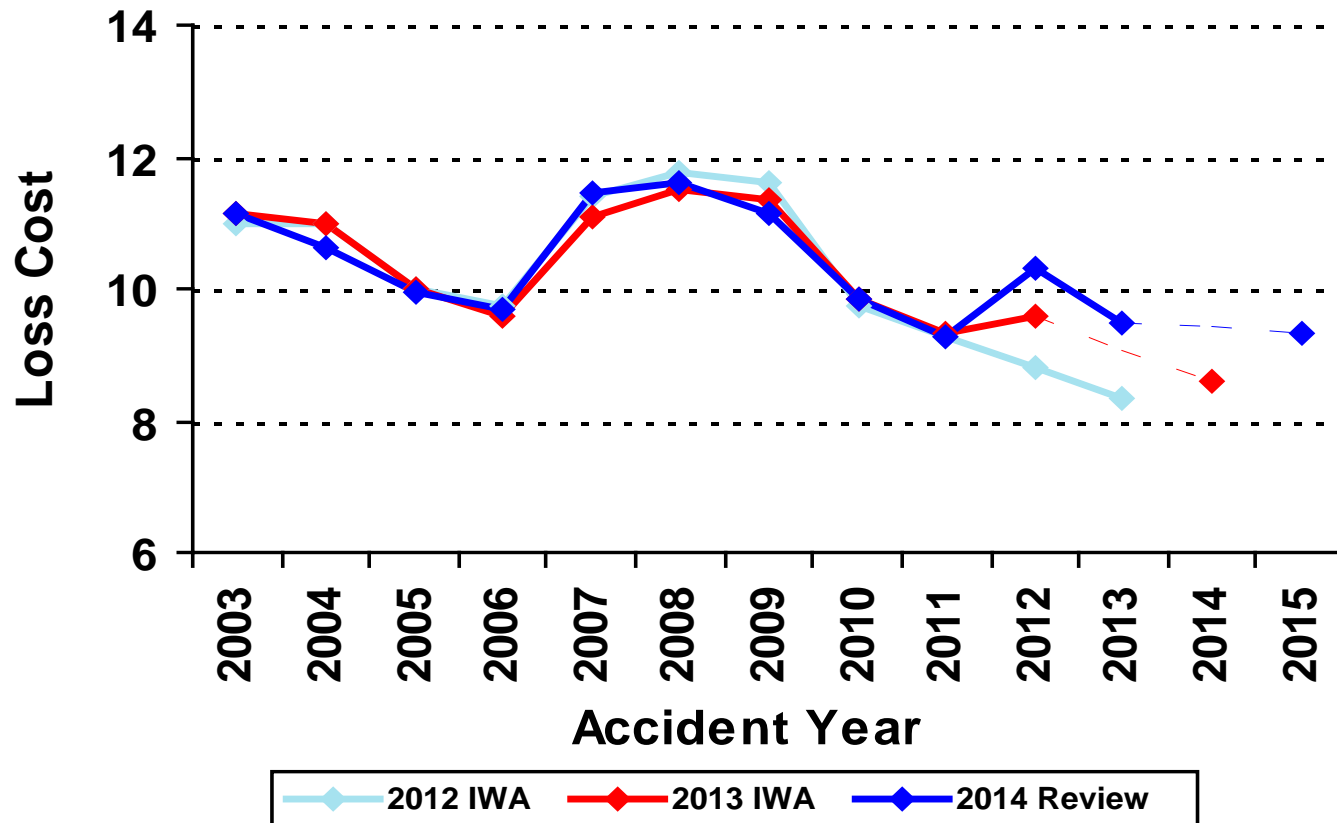


# Alberta: Disability Income Severity



# Alberta: Disability Income Loss Cost

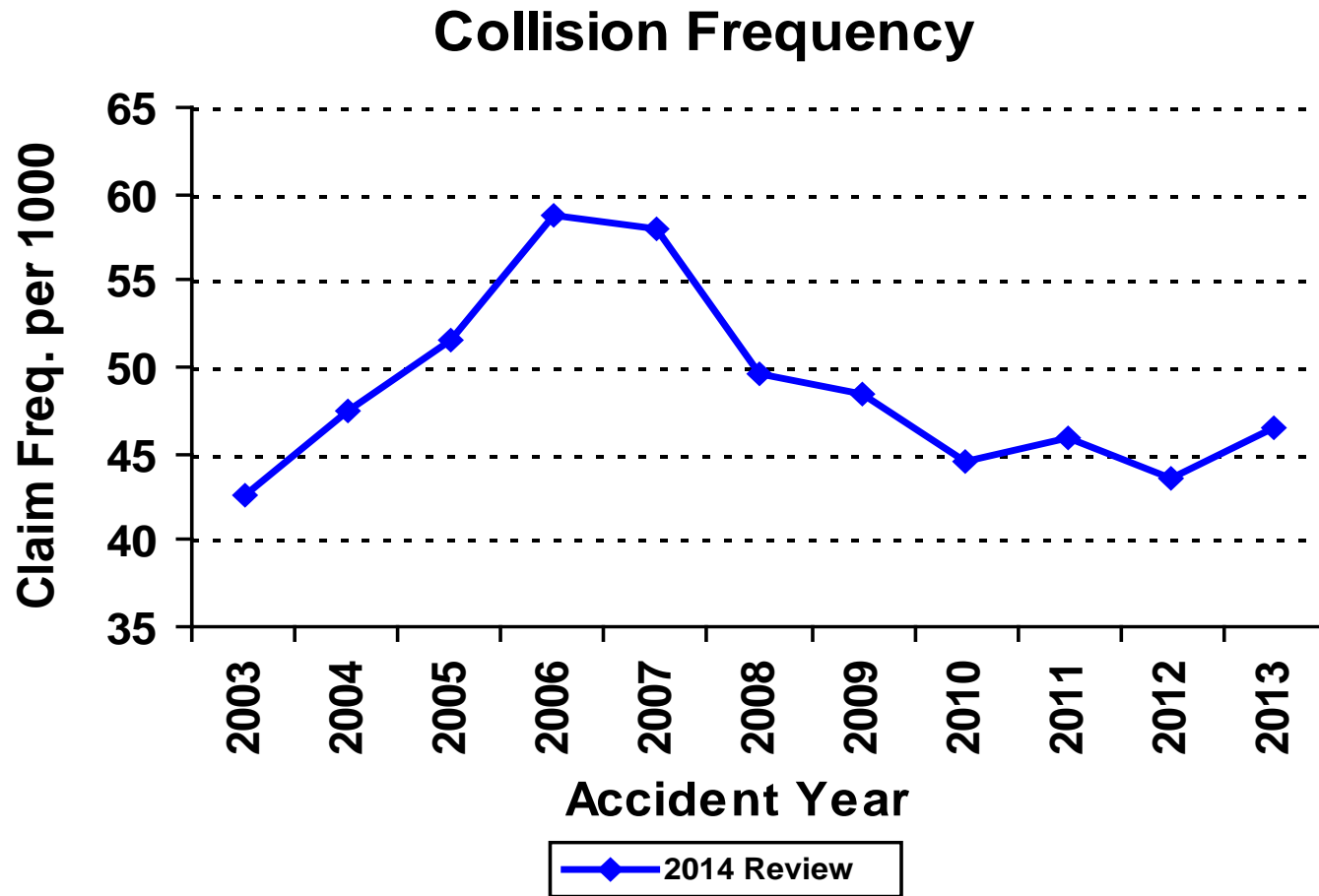
## AB: DI Loss Cost



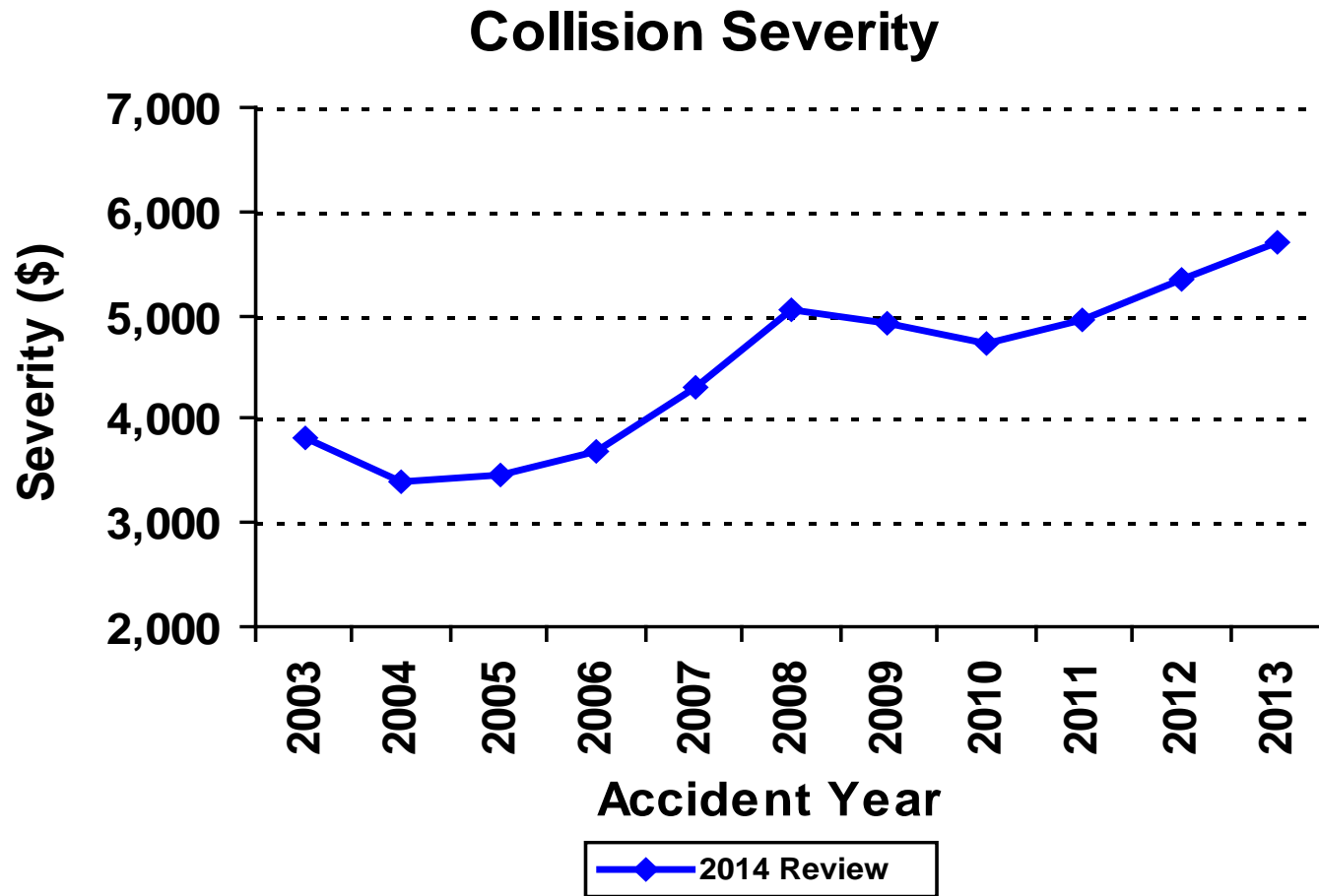
• 2013 Selected Trend: **-2.5%**

2014 OW Selected Trend: **-1.5%**

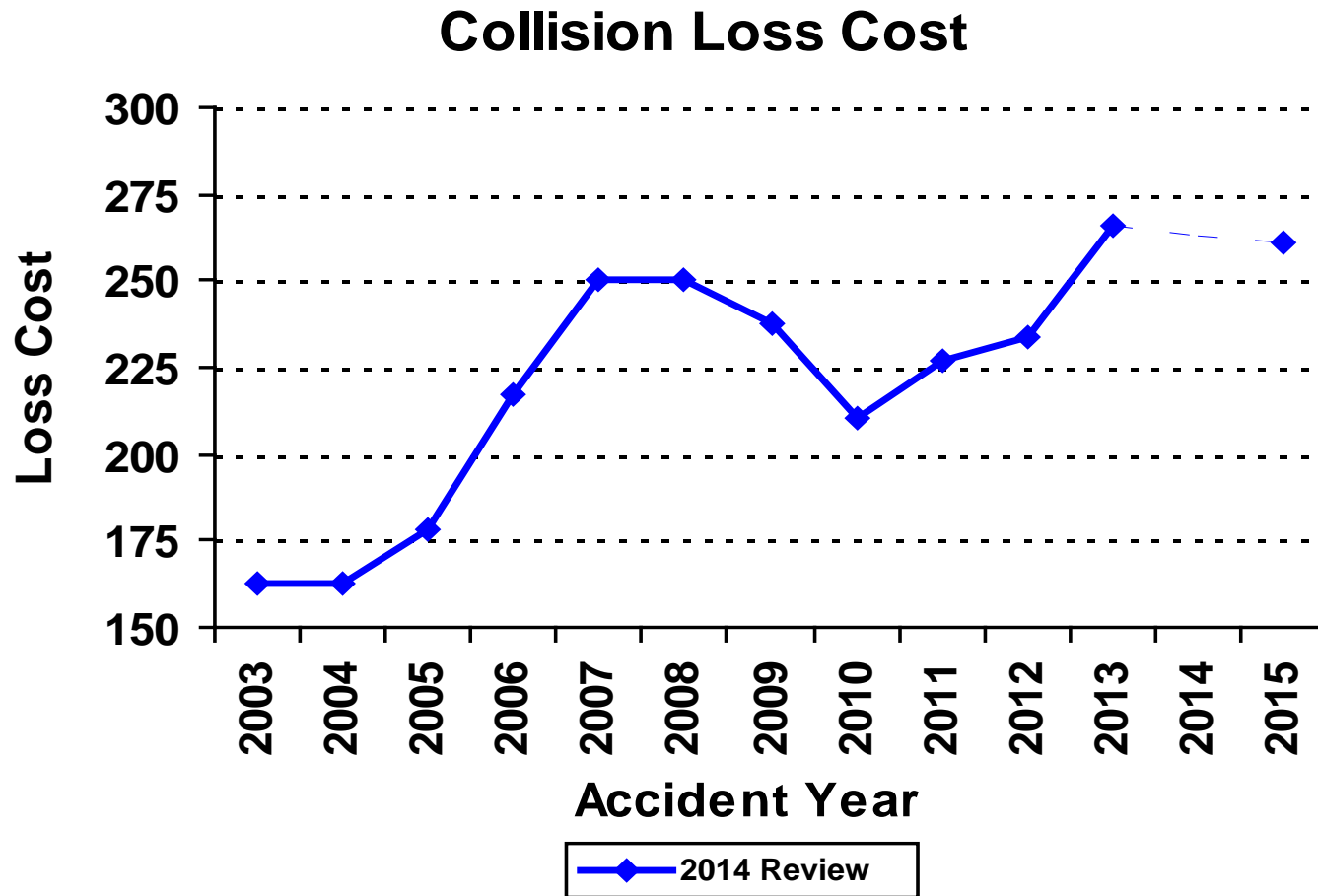
# Alberta: Collision Frequency



# Alberta: Collision Severity



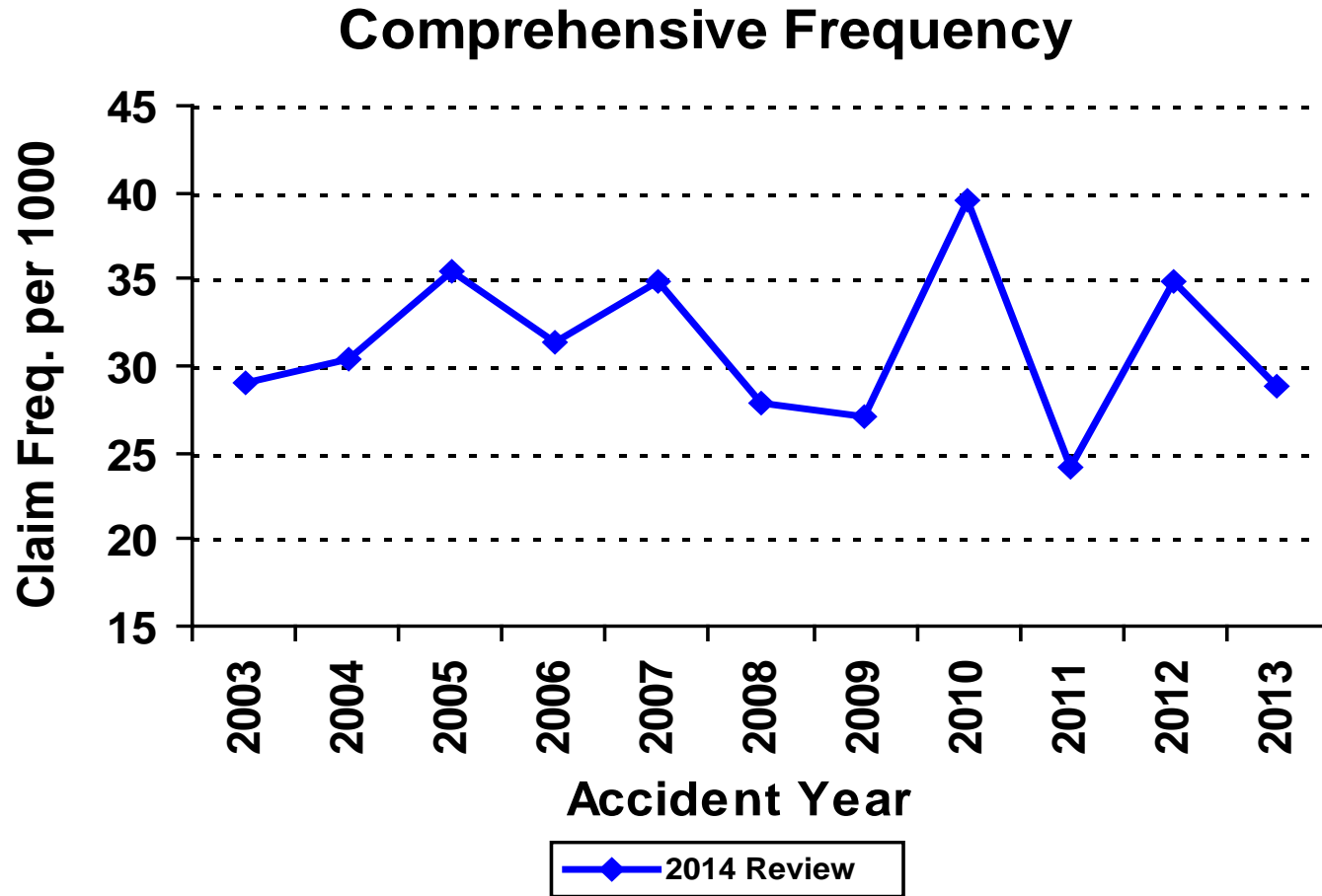
# Alberta: Collision Loss Cost



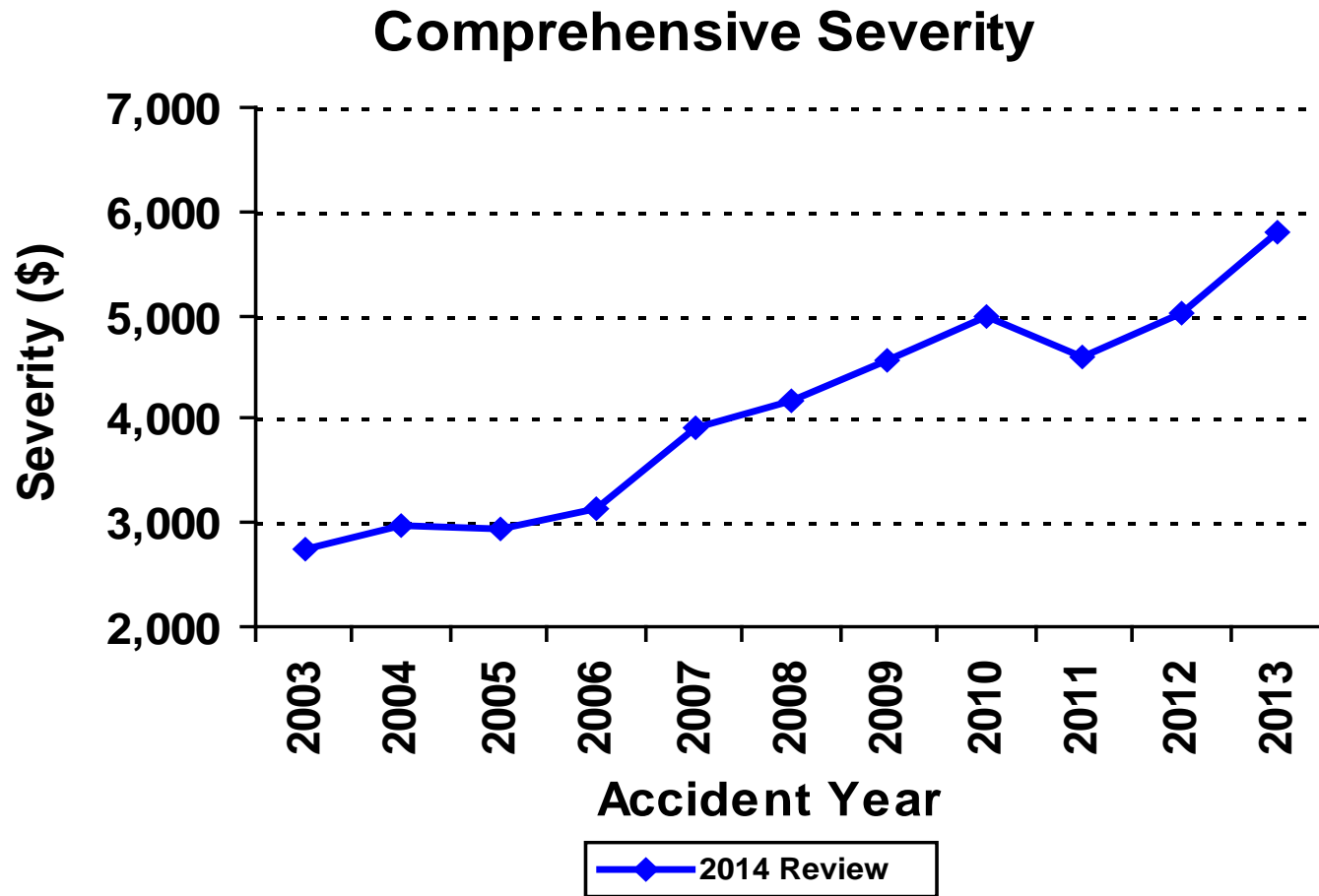
- 2014 OW Selected Trend: **+2.5%**



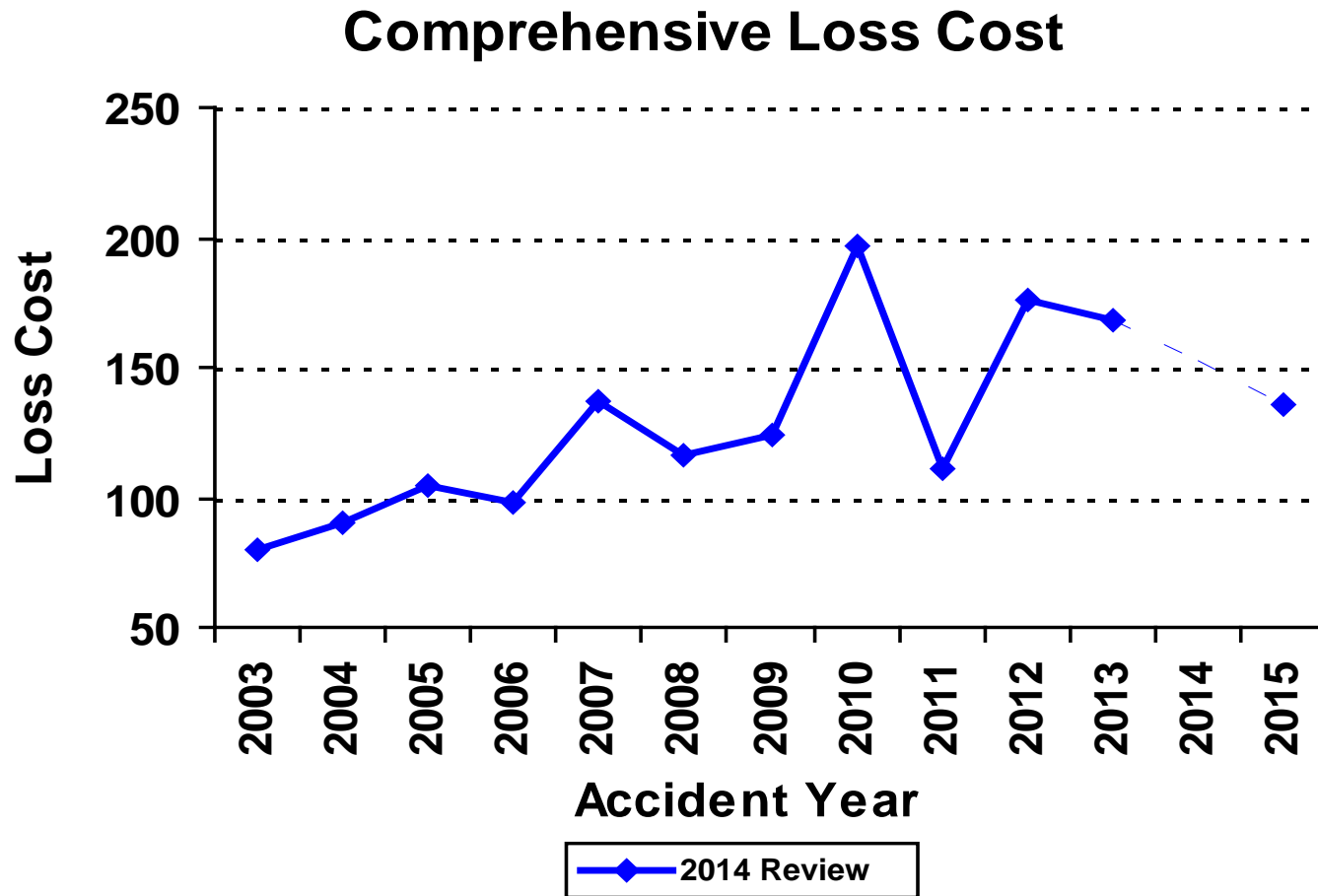
# Alberta: Comprehensive Frequency



# Alberta: Comprehensive Severity



# Alberta: Comprehensive Loss Cost



- 2014 OW Selected Trend: **+1.0%**

# Alberta: Comprehensive Loss Cost Excluding Catastrophe Losses



- 2014 OW Selected Trend: **+1.0%**

# Summary of Loss Trend Selections

	<b>OW-Prior</b>	<b>OW</b>	<b>IBC</b>
Bodily Injury	+2.0%	+2.5%	+2.6%
Property Damage	+1.0%	+2.0%	+1.6%
AB - Medical	+2.0%	+3.0%	+3.2%
AB - Disability	-2.5%	-1.5%	+0.3%
AB-Total	+1.0%	+2.0%	
Collision	NA	+2.5%	-0.02%
Comprehensive	NA	+1.0%	+5.5%

# Bodily Injury Trend by Insurer

BI Loss Cost Trend By Insurer 2007-2013	
A	5.30%
B	0.40%
C	0.00%
D	9.40%
E	14.50%
F	2.10%
G	8.80%
H	0.40%
I	-1.70%
J	7.10%
K	-1.70%

# Catastrophe Loading

# Alberta Catastrophe Experience Comprehensive Coverage

Alberta Comprehensive Coverage						
	NUMBER OF TOTAL CLAIMS	NUMBER OF CAT. CLAIMS	Catastrophe Claim %	AMOUNT OF NON-CAT. LOSSES	AMOUNT OF CAT. LOSSES	Catastrophe Factor
YEAR						
1993	97,677	746	0.8%	78,947,978	1,087,725	1.014
1994	85,000	1,629	1.9%	75,222,532	2,867,745	1.038
1995	80,528	13,394	16.6%	69,740,431	27,882,535	1.400
1996	76,791	14,203	18.5%	69,942,760	34,020,082	1.486
1997	56,532	399	0.7%	70,988,133	691,552	1.010
1998	61,016	7,358	12.1%	77,543,655	19,192,563	1.248
1999	50,802	1,581	3.1%	77,153,192	2,558,841	1.033
2000	54,351	6,955	12.8%	84,860,237	17,376,959	1.205
2001	50,860	3,094	6.1%	94,166,216	9,671,236	1.103
2002	46,490	1,933	4.2%	98,394,252	4,388,752	1.045
2003	43,068	3,186	7.4%	106,445,316	11,686,052	1.110
2004	46,345	6,136	13.2%	112,609,249	25,613,362	1.227
2005	57,486	14,714	25.6%	125,896,210	42,844,189	1.340
2006	54,273	5,559	10.2%	152,320,523	18,597,807	1.122
2007	65,009	12,849	19.8%	194,348,299	60,646,002	1.312
2008	54,530	5,443	10.0%	206,645,891	24,198,541	1.117
2009	55,285	7,928	14.3%	202,731,732	44,445,313	1.219
2010	82,571	38,144	46.2%	222,198,040	180,817,151	1.814
2011	49,434	9,281	18.8%	193,208,284	44,453,724	1.230
2012	76,460	34,238	44.8%	222,383,705	167,383,030	1.753
All Years	1,244,508	188,770	15.2%	2,535,746,635	740,423,161	1.292
Last 15 Years	847,980	158,399	18.7%	2,170,904,801	673,873,522	1.310
Last 10 Years	584,461	137,478	23.5%	1,738,787,249	620,685,171	1.357
Last 5 Years	318,280	95,034	29.9%	1,047,167,652	461,297,759	1.441
All ex. HH/LL	931268	115243	12.4%	1941228779	390443703	1.201
Last 15 ex. HH/LL	591,657	82,503	13.9%	1,550,775,612	318,725,748	1.206
Last 10 ex. HH/LL	328,089	56,351	17.2%	1,035,439,665	242,201,131	1.234
Last 5 ex. H/L	181179	51447	28.4%	618323721	256282067	1.414
Selected						1.300

\*Table and selection will be updated to reflect 2013



# GRID

# Comparison of Grid vs. Non-Grid Loss Ratios Based on Experience Through 2012 OW Estimates

	<b>Grid Loss Ratio</b>	<b>Non-Grid Loss Ratio</b>
2008	80%	75%
2009	76%	73%
2010	76%	75%
2011	89%	81%
2012	88%	85%
Total	82%	78%

# Comparison of Grid vs. Non-Grid Loss Ratios Excluding Grid Step -15 Based on Experience Through 2012 OW Estimates

	<b>Grid Loss Ratio</b>	<b>Non-Grid Loss Ratio</b>
2008	79%	86%
2009	74%	84%
2010	78%	84%
2011	88%	88%
2012	90%	90%
Total	82%	87%

# Comparison of Grid vs. Total Loss Ratios Based on Experience Through 2013 IBC Estimates

	<b>Grid Loss Ratio</b>	<b>Total Loss Ratio</b>
2009	79%	76%
2010	81%	79%
2011	97%	88%
2012	104%	94%
2013	97%	89%

