



OLIVER WYMAN

2016 ANNUAL INDUSTRY REVIEW – PRELIMINARY FINDINGS PRESENTATION AT OPEN MEETING

August 16, 2016

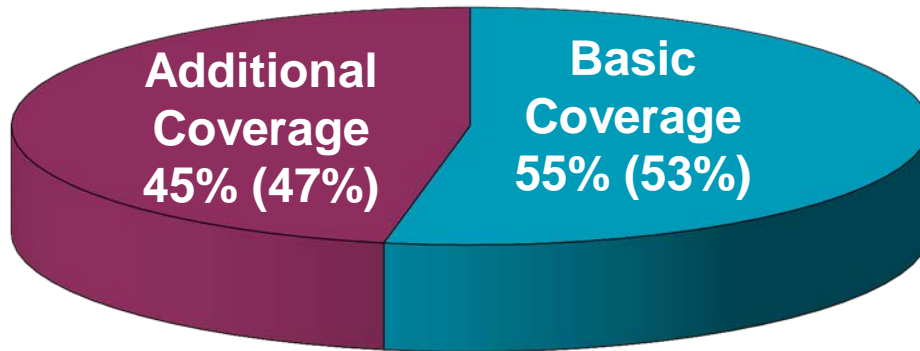
Ted Zubulake

Background - General

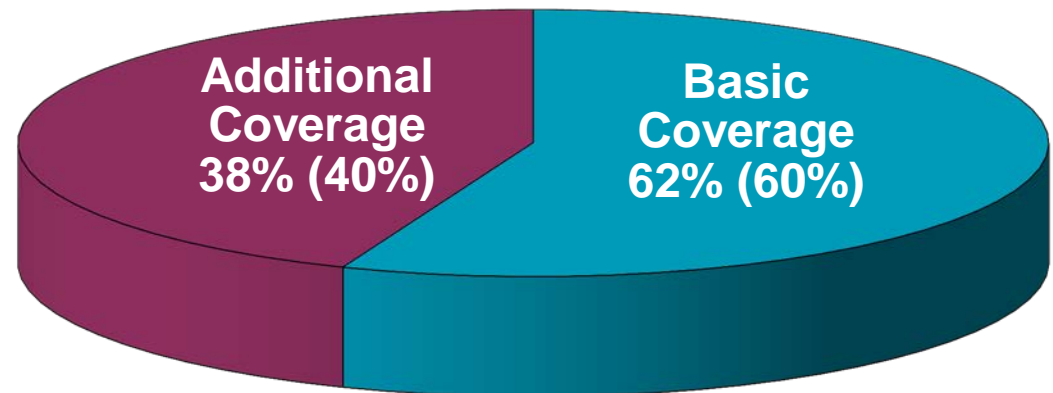
- The Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. A component of that review is to analyze Industry experience and develop Benchmarks for rate filings.
- The Benchmarks are for use in rate filings, measuring Industry performance, and for calculating the rate level needs of the Grid.

Breakdown of Basic and Additional Coverages

2015 (2014) - Written Premium

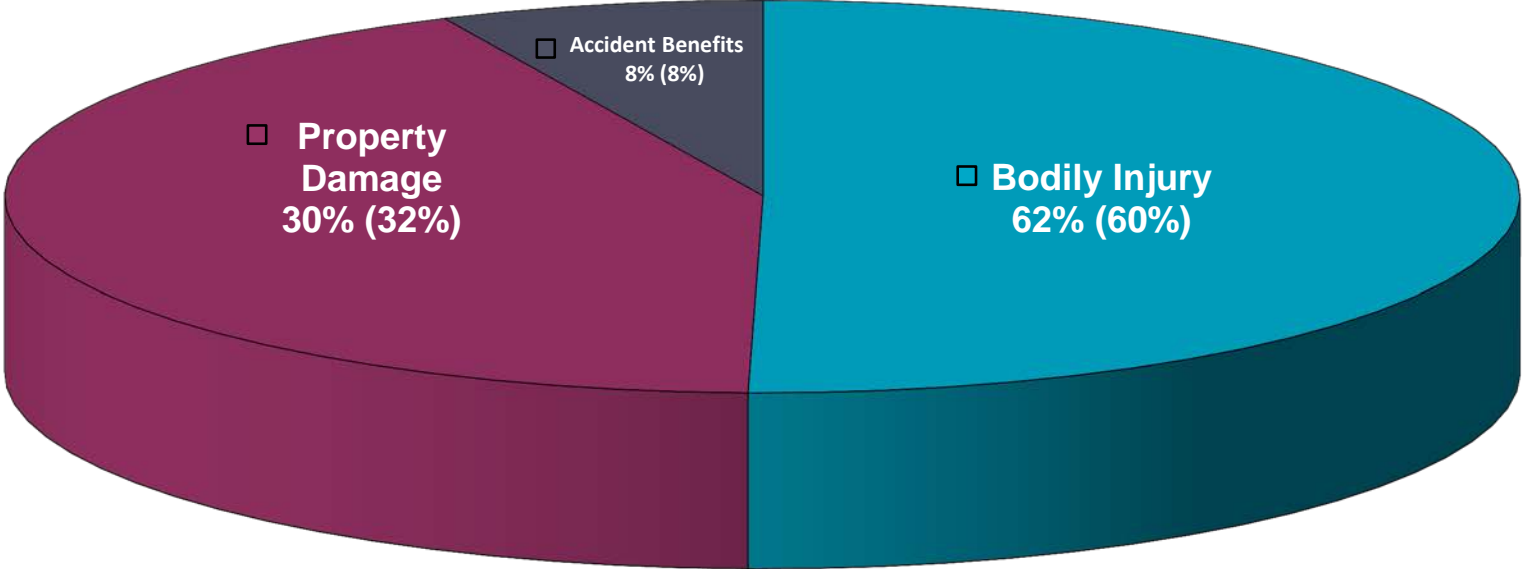


2015 (2014) - Claim Costs



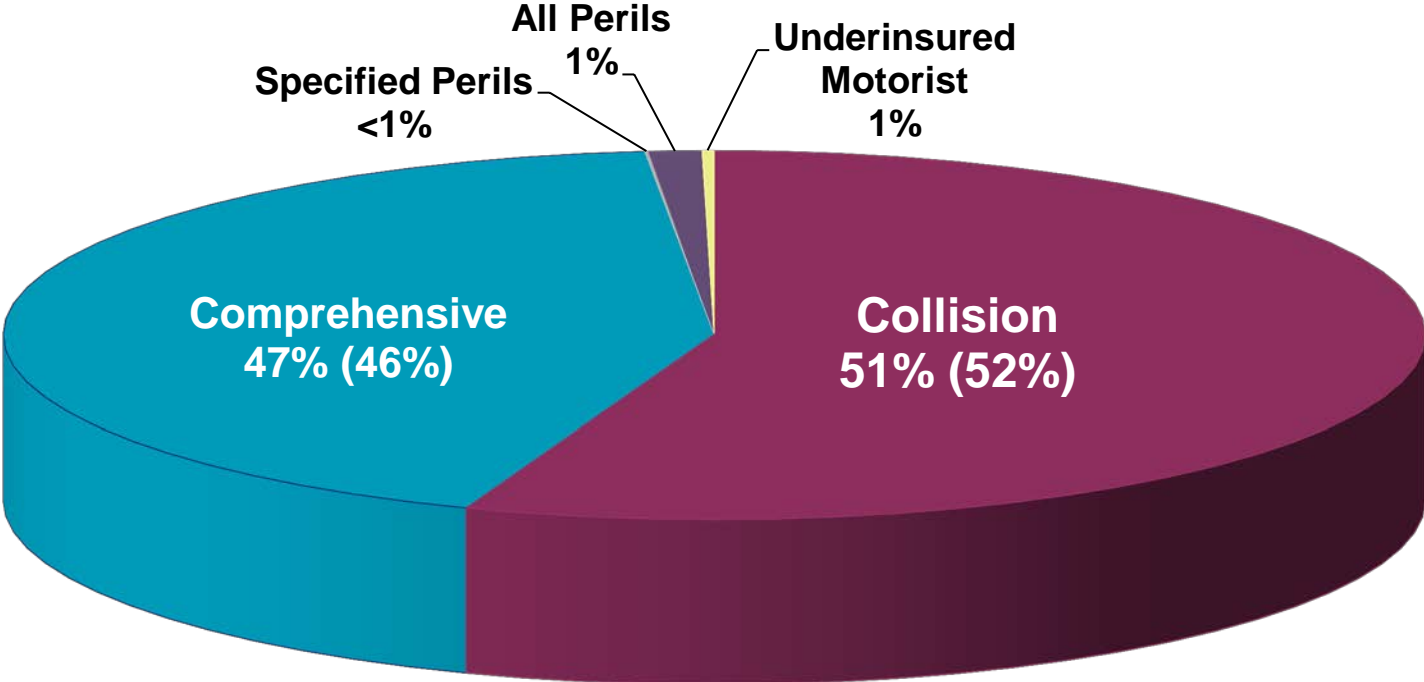
Breakdown of Basic Coverage Claim Costs

2015 (2014) – Claim Costs



Breakdown of Additional Coverage Claim Costs

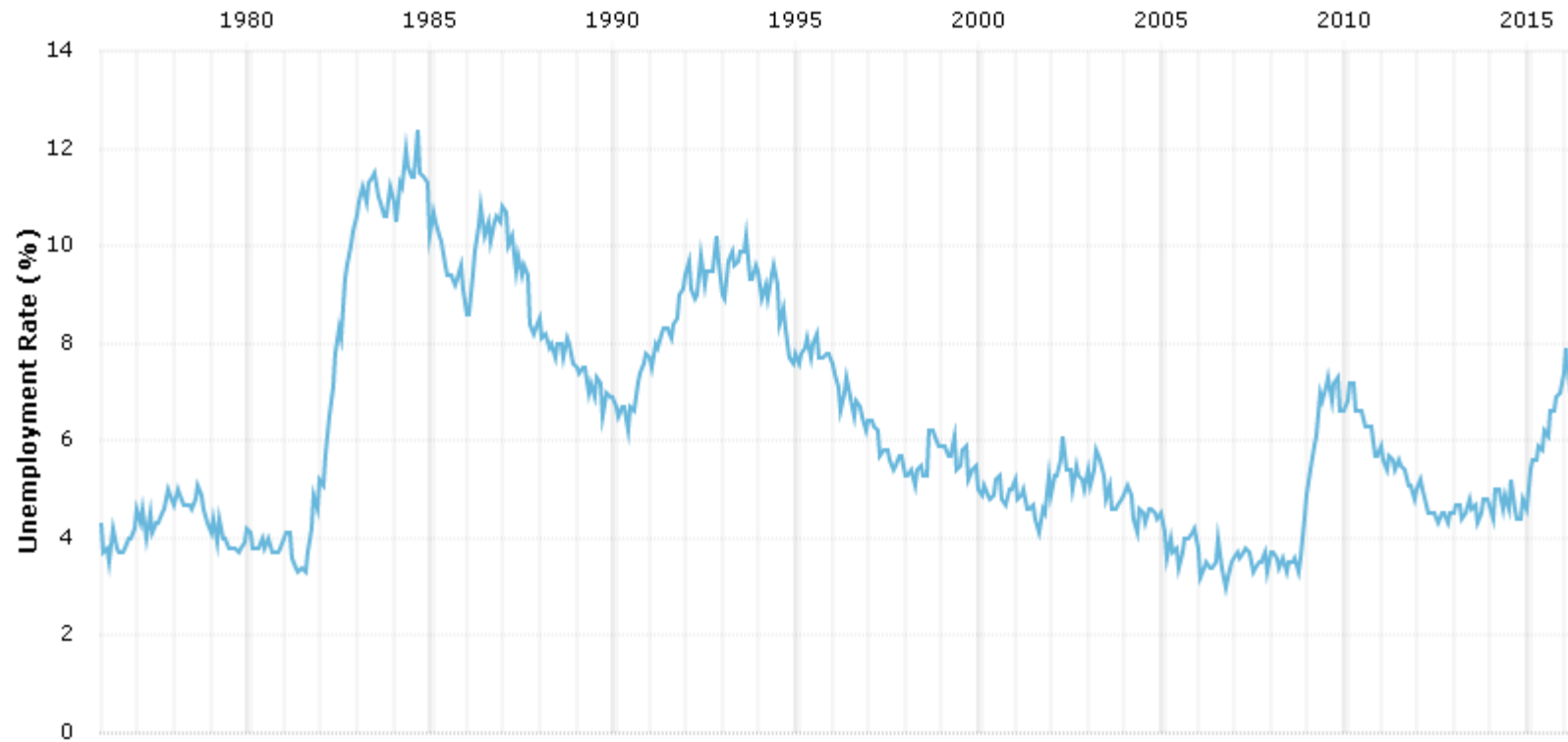
2015 (2014) – Claim Costs



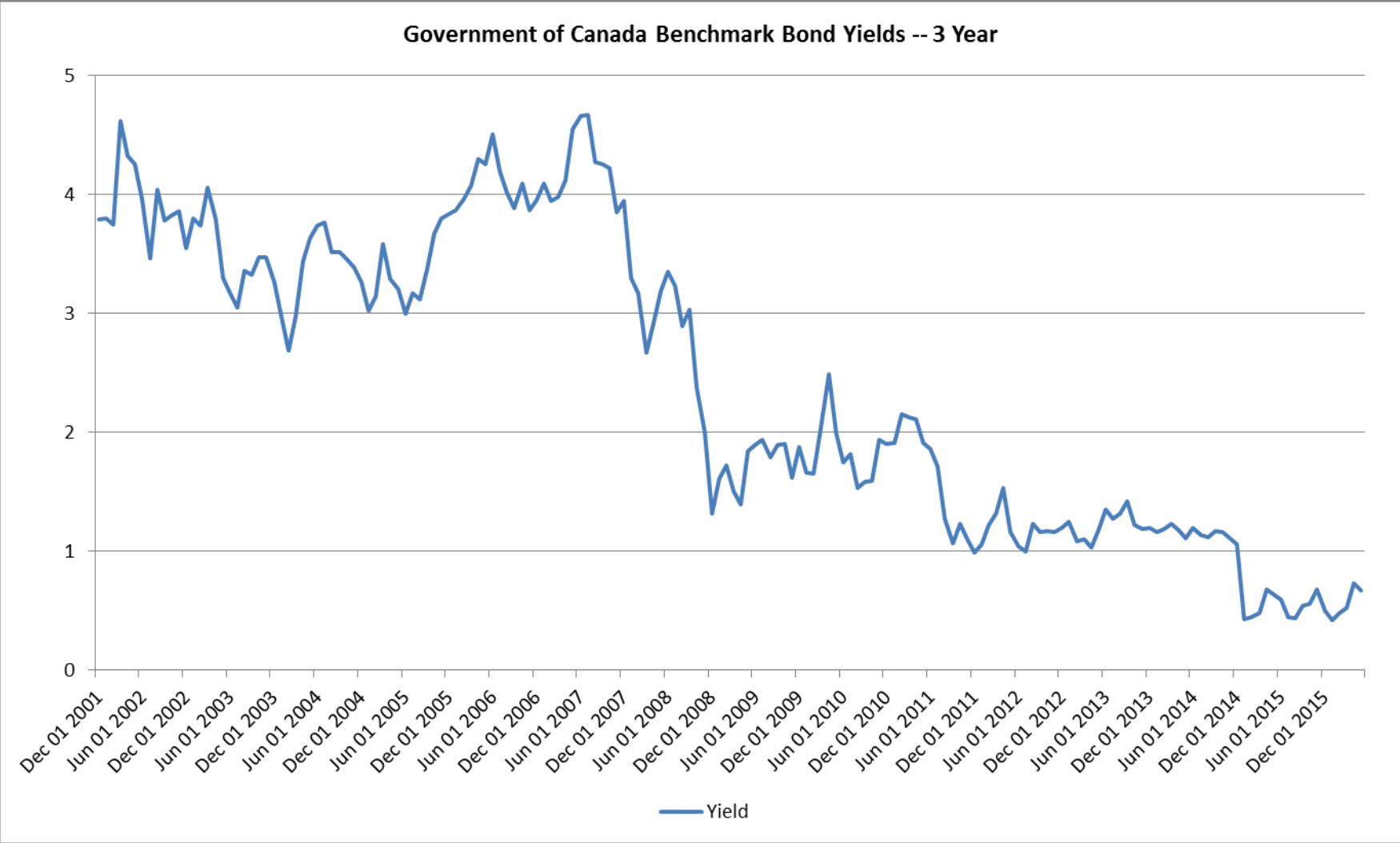
Change in Economic Conditions

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Alberta Unemployment Rate	4.5% (July)	4.5% (July)	6.0% (July)	8.6% (July)
Alberta CPI (Total)	129.8 (June)	132.3 (June)	134.5 (June)	136.3 (June)
Alberta CPI (ex. Energy)	126.1 (June)	129.5 (June)	132.8 (June)	135.3 (June)
Alberta Gasoline Prices (CAN c/L)	\$1.14 (Aug)	\$1.15 (Aug)	\$1.08 (Aug)	\$0.93 (Aug)
Natural Gas Prices (\$/GJ)	\$1.58 (May)	\$4.21 (May)	\$2.33 (May)	\$0.94 (May)
3 Year Canada Benchmark Bond Rates	1.27% (July)	1.14% (July)	0.45% (July)	0.58% (July)
# Insured Cars	2.54 million	2.64 million	2.69 million	NA
Population	4.04 million	4.15 million	4.22 million	NA

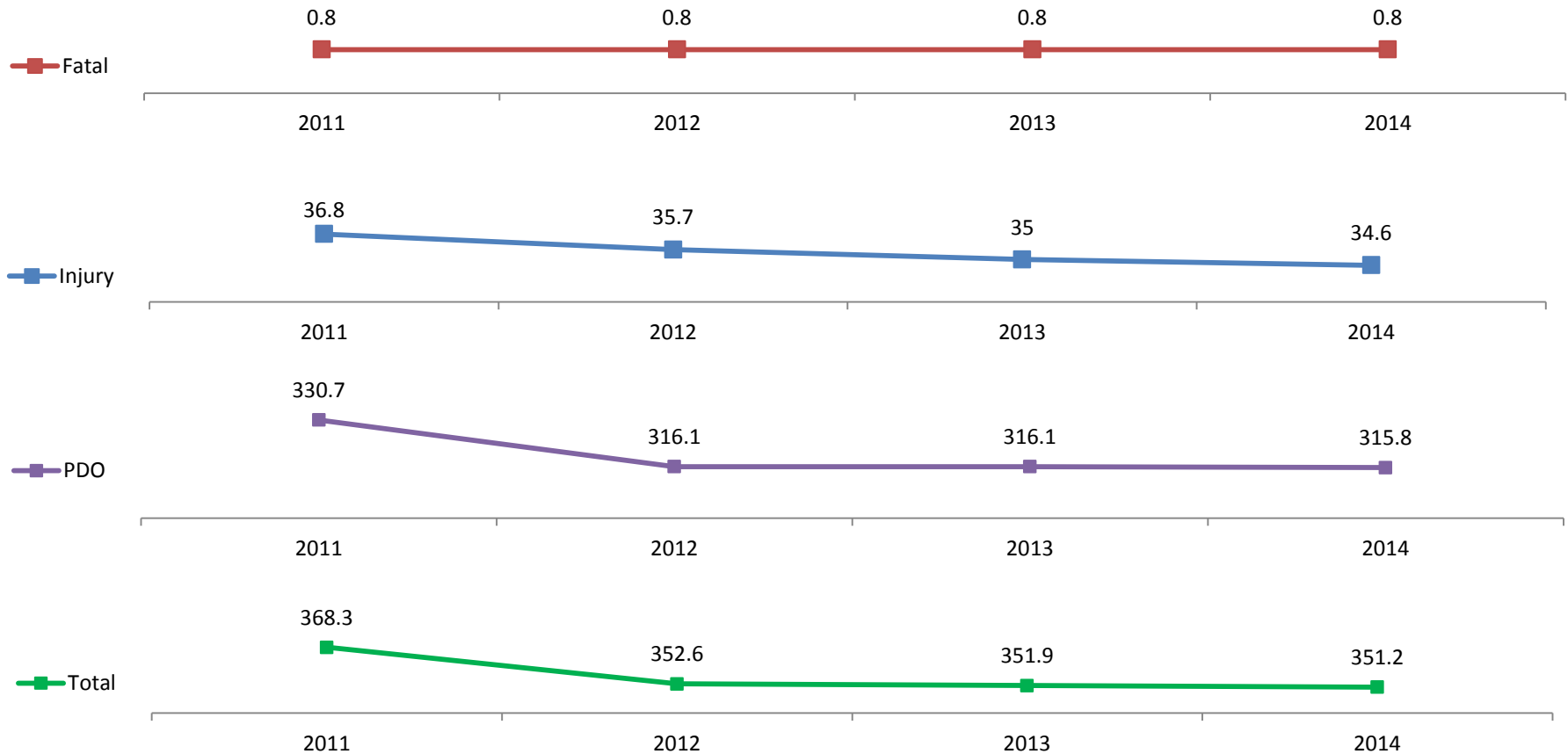
Alberta Unemployment Rate



Historical Investment Rates



Collision Rates per 10,000 Population



Source: Alberta Government - Transportation

Industry Benchmarks

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 ALAE (such as the legal expenses associated with claim settlement) and for 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 and trends, ALAE is included with the reported Industry loss data. For the analysis we perform of trends, we also provide for ULAE through the application of factors that are published and applied by GISA in the AIX reports to the accident year experience.

Industry Benchmarks – ULAE Provision

- Industry Comments: None

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ULAE	9.7%	8.7%	8.9%	8.4%	10.5%	10.2%	9.5%	9.1%	9.9%	9.3%	10.3%

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 OW recommended Benchmark factor, which is based on Industry experience through 2014, is 1.55 (i.e., a provision that is equal to 55% of the non-catastrophic Comprehensive coverage claim costs).
- The current AIRB Benchmark is 1.45. 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 will consider an insurer's own catastrophic loss experience.

Industry Benchmarks – Catastrophe Provision

- GISA has not yet published its 2015 Catastrophe Report.
- Industry Comments: IBC and other insurers (e.g. Desjardins, Intact) continue to find the current 1.45 Benchmark to be too low and recommend 1.65 as being more appropriate.

Industry Benchmarks – Catastrophe Provision

Alberta

Comprehensive Coverage - Private Passenger Automobiles

YEAR	NUMBER OF TOTAL CLAIMS	NUMBER OF CAT. CLAIMS	Catastrophe Claim %	AMOUNT OF NON-CAT. LOSSES	AMOUNT OF CAT. LOSSES	Catastrophe Factor
2002	45,722	1,907	4.2%	98,203,713	4,388,136	1.045
2003	43,063	3,173	7.4%	106,411,287	11,697,960	1.110
2004	46,207	6,137	13.3%	112,509,363	25,614,222	1.228
2005	57,487	14,711	25.6%	125,802,475	42,832,686	1.340
2006	54,272	5,547	10.2%	152,264,696	18,597,807	1.122
2007	64,922	12,573	19.4%	194,335,286	60,653,561	1.312
2008	55,210	5,480	9.9%	205,774,369	24,387,625	1.119
2009	55,112	8,003	14.5%	206,328,405	44,788,008	1.217
2010	81,709	38,944	47.7%	219,322,581	187,928,464	1.857
2011	50,834	9,339	18.4%	188,652,717	44,487,885	1.236
2012	76,449	34,918	45.7%	211,536,391	170,854,122	1.808
2013	65,148	19,712	30.3%	244,184,422	132,152,698	1.541
2014	68,729	25,374	36.9%	243,477,569	178,223,771	1.732
All Years	764,864	185,819	24.3%	2,308,803,274	946,606,945	1.410
Last 15 Years	764,864	185,819	24.3%	2,308,803,274	946,606,945	1.410
Last 10 Years	629,872	174,602	27.7%	1,991,678,911	904,906,627	1.454
Last 5 Years	342,869	128,287	37.4%	1,107,173,681	713,646,940	1.645
Recommendation						1.550

Industry Benchmarks – Investment Income Rate

- The current Benchmark is 0.95% based on the Government of Alberta’s latest (at the time) forecast of short and long term bond yields. Based on the Government of Alberta’s latest forecast the OW recommended Benchmark is 0.65%.
- Industry Comments: Based on current yields (closer to 0.50%) IBC finds an investment rate of 0.5% for all coverages and an rate of 0.60% for basic coverages to be appropriate. Desjardins stated that it finds the investment rate forecasts used by OW to be “unrealistically high.”

Fiscal Year	3 Month Bond Rates	3 Year Bond Rates
2016/2017	.53%	.59%
2017/2018	.75%	.85%

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 2015 assessment: 5.9%
- Industry Comments: IBC has suggested that given the Government's history of increasing the aggregate assessment every year, and since many of the policies that will be written under the rate filings submitted between October 1, 2016 and March 31, 2017 will be in effect in 2017 and 2018, that it would be more appropriate for the Benchmark to reflect an increase in the assessment in 2017 and 2018. Desjardins commented that it agrees with IBC.

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, 25.4%, is based on GISA's 2014 expense report (and an adjustment for the April 2015 change in premium tax).
- GISA has not yet released its 2015 expense report.

Industry Benchmarks – Operating Expenses

- Industry Comments: IBC has suggested that it would be more appropriate to calculate the weighted average based on direct earned premium, rather than direct written premium – as doing so would recognize premium dollars for those insurers that report expenses but do not have direct written premium. Under this approach, the average expense ratio increases from 25.4% to 26.6% (including increasing the average premium tax to 4.0%) according to IBC. Desjardins stated that it agrees with IBC.

Industry Benchmarks – Operating Expenses

	2014 GISA Industry Expense Report Based on Written Premium	2014 GISA Industry Expense Report Based on Earned Premium
Direct Commissions	10.5%	10.9%
Contingent Commissions	1.4%	1.5%
Total Commissions	11.9%	12.5%
Premium and Fire Taxes	4.0%	4.0%
Other Acquisition Expenses	3.2%	3.4%
General Expenses	6.3%	6.7%
Total Expenses	25.4%	26.6%

Industry Benchmarks – Profit Provision

- The Board's current position is to allow a profit provision of 7% of premium.
- Industry Comments: None

Industry Benchmarks

Loss Development

Definition – Ultimate Claim Amount

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

Claim Payments (the claim amounts paid by insurers)

+

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

+

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

Industry Benchmarks – Loss Development Factors

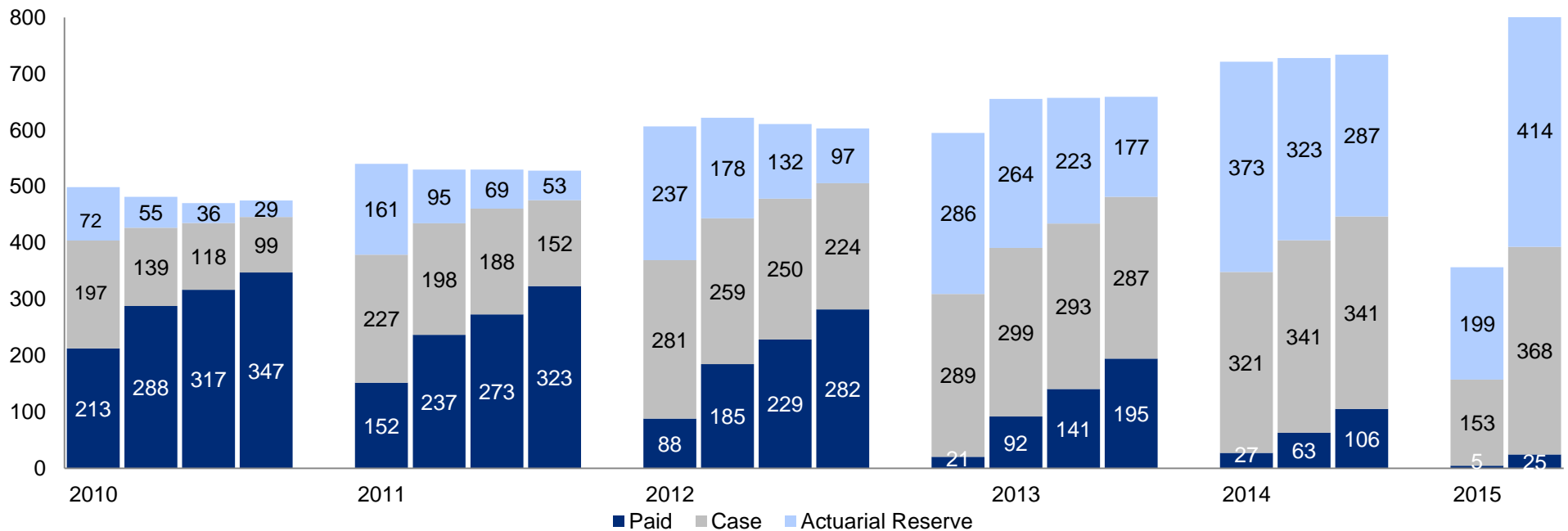
- Loss development factors are multiplicative factors that are applied to the reported Industry claim counts and claim amounts to arrive at an estimate of what the Industry's number of claims and amount of claim payment will be when all claims that are incurred as of December 31, 2015 have been reported and are eventually settled. 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."

Industry Benchmarks – Loss Development Factors

- The Benchmark loss development factors recommended by OW are somewhat higher than the current Benchmark loss development factors.
- There were some data issues that OW had to address in order to select the recommended Benchmark loss development factors for Bodily Injury.

Change in Bodily Injury Estimated Ultimate Claim Amount By Accident Year

2014 AR vs 2015 AR vs 2016 SAR vs 2016 AR (\$ millions)



Industry Benchmarks

Trends

Industry Benchmarks - Trends

- The OW recommended loss trends are based on its analysis of the Industry data as of December 31, 2015 – including the aforementioned adjustments to the Bodily Injury data.
- IBC has performed its own analysis of the same data – but without the adjustments to the Bodily Injury data (for reasons of confidentiality).
- TD provided trend selections based on its data.

Industry Benchmarks – Trend

	2016 SAR Benchmark	2016 AR OW Rec.	2016 AR IBC Rec.
Bodily Injury	+6.0%*	+7.0%*	+7.6%
Property Damage	+2.0%	+3.5%	+2.0%
Medical	+2.0%	+3.0%	+2.6%
Disability Income	-2.5%/+0.0%	+0.0%	+2.9%
Death Benefits	-4.0%	-4.0%	NA
Funeral	-6.0%	-5.0%	NA
Uninsured Motorists	+0.0%	+0.0%	NA

* Level change factor of 1.11 at 2011.2

Industry Benchmarks - Trend

	2016 SAR Benchmark	2016 AR OW Rec.	2016 AR IBC Rec.
Collision	+4.5%	+4.0%	+3.5%
Comprehensive	+1.0%	+1.0%	+1.7%*
All Perils	+5.0%	+5.0%	NA
Specified Perils	+1.0%	+1.0%	NA
Underinsured Motorist	+6.0%	+7.0%	NA

* Intact recommends +2% to reflect the rise in theft claims.

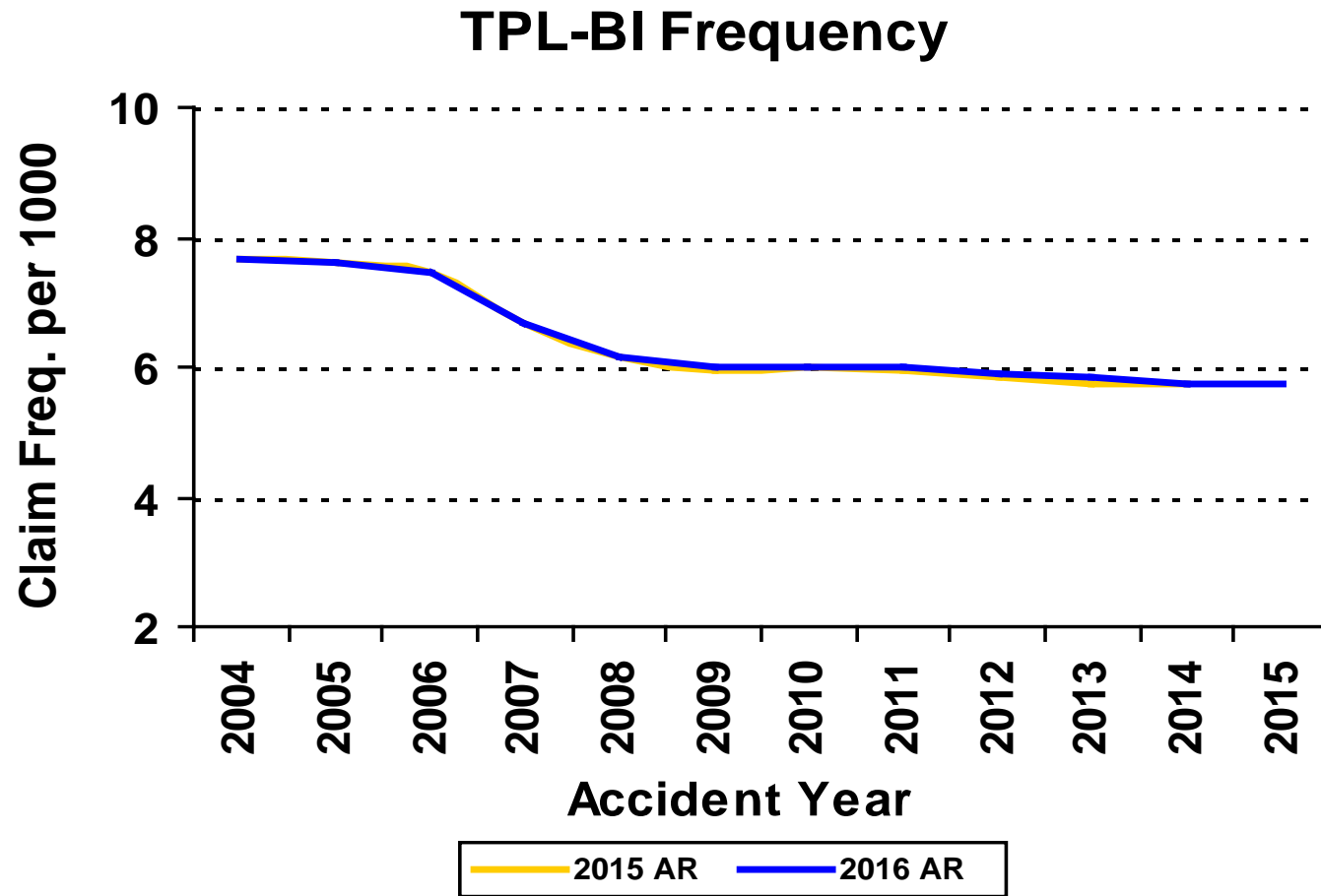
Issue: Bodily Injury Claim Cost Increases

- IBC and other insurers commented on continuing increase in Bodily claim costs (which is reflected in the recommended trend). Reasons given for the increase include:
 - erosion of the minor injury cap (Sparrowhawk v Zapoltinsky and McLean v Parmar rulings cited)
 - increased legal representation and use of strategies to avoid cap limitations (psychological impairment, head injuries, chronic pain)
 - inefficiency/uncertainty of current Certified Examiner process
 - high pre-judgment interest awards (4% interest rate)

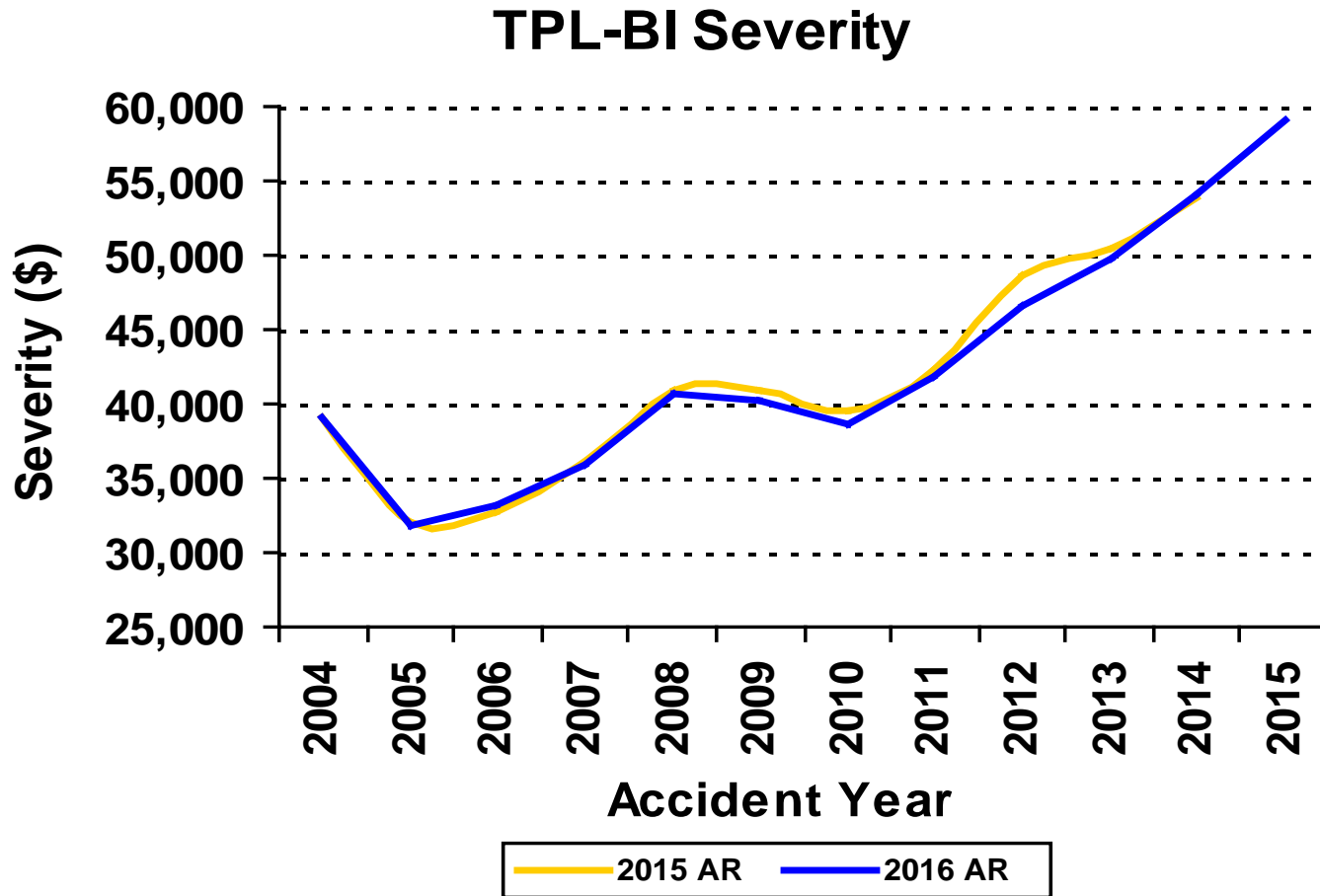
Issue: Weather

	Calgary & Edmonton Snowfall (cm)	Industry PD Claim Frequency	Industry Collision Claim Frequency
2006-2	133.5	32.3	62.9
2007-2	56.8	31.3	55.9
2008-2	93.6	32.2	48.0
2009-2	132.6	33.5	49.9
2010-2	90.1	34.3	47.2
2011-2	64.8	29.7	40.7
2012-2	98.7	33.2	46.0
2013-2	171.5	33.2	47.2
2014-2	124.3	31.7	45.1
2015-2	61.5	28.9	41.2

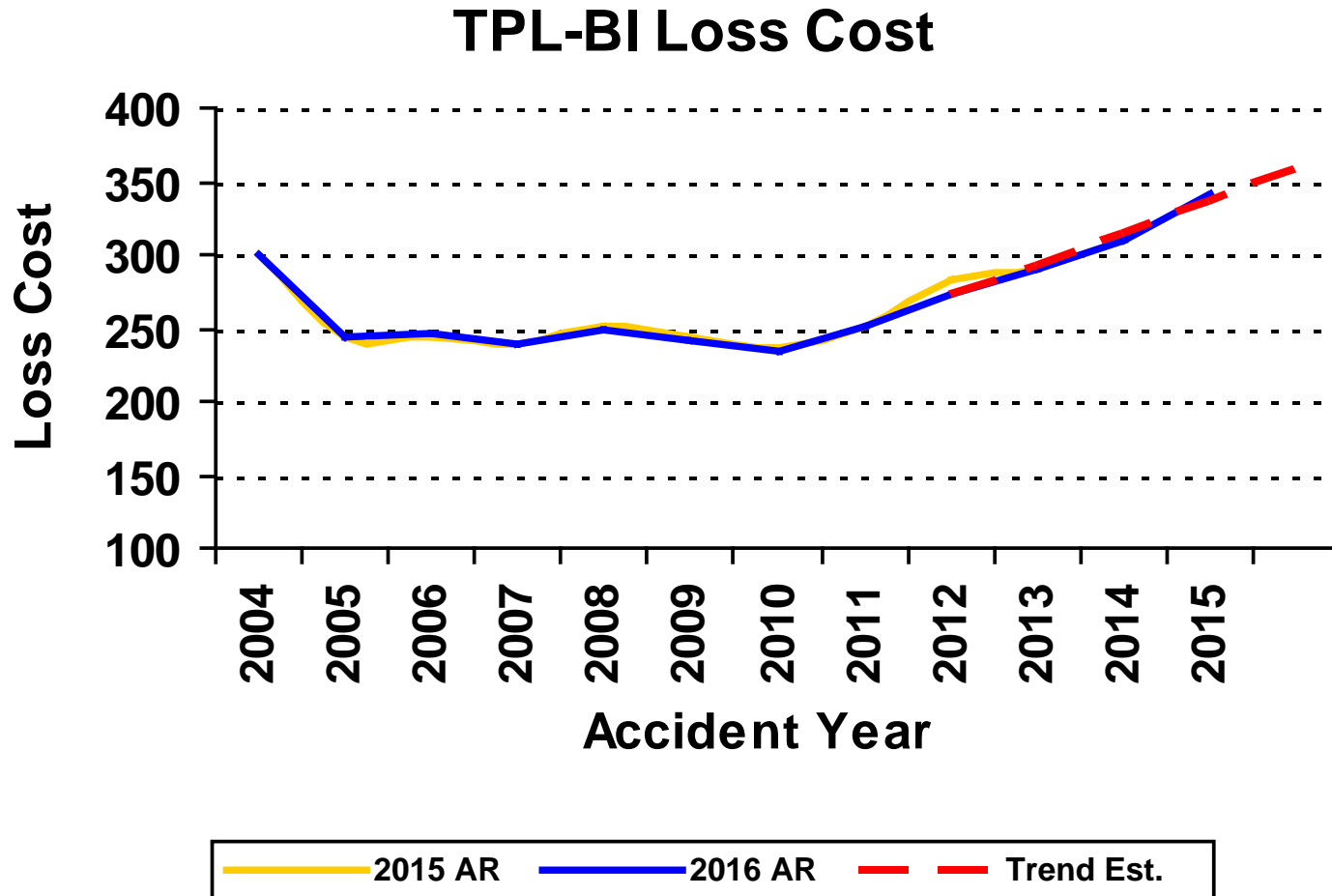
Bodily Injury Frequency



Bodily Injury Severity

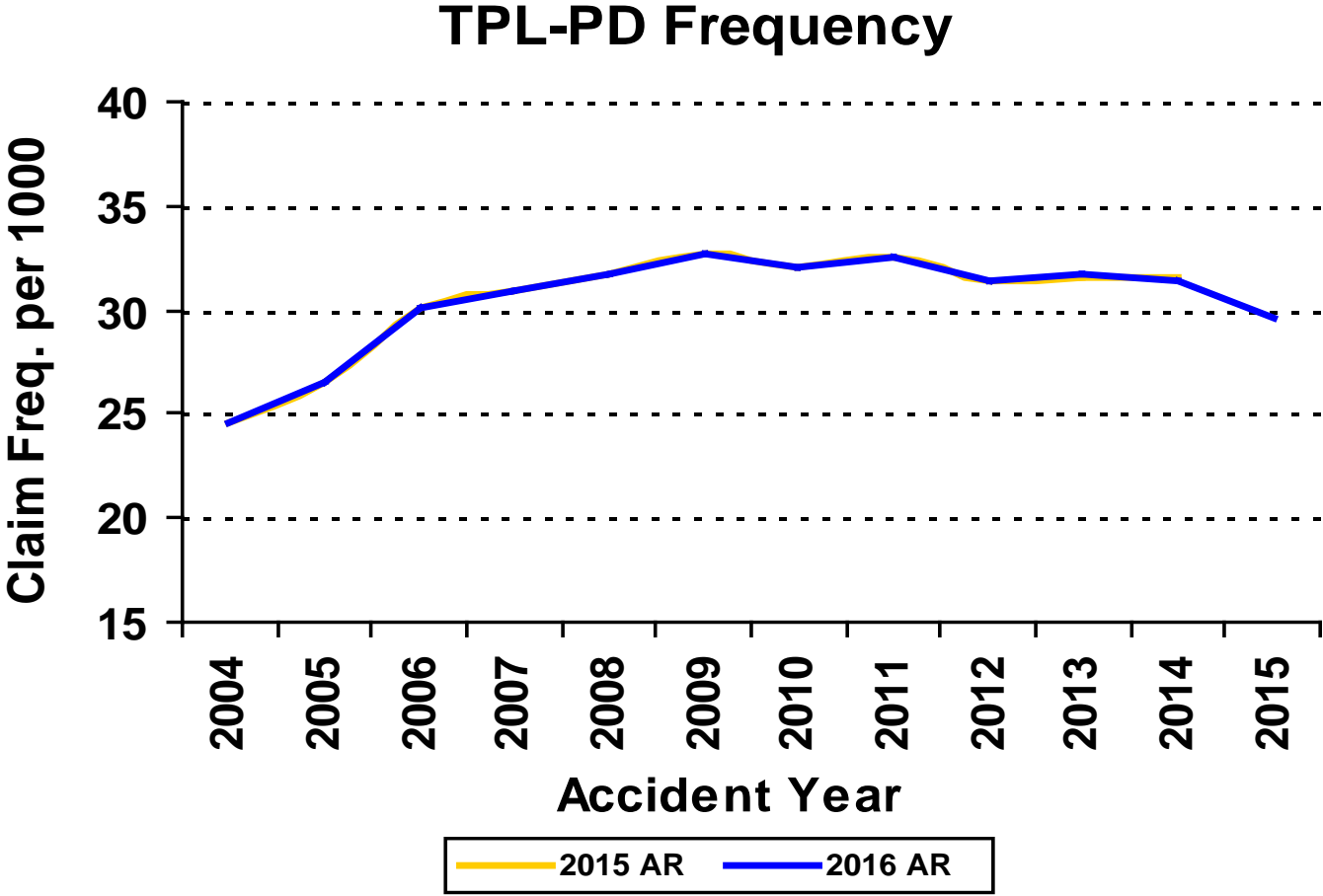


Bodily Injury Loss Cost

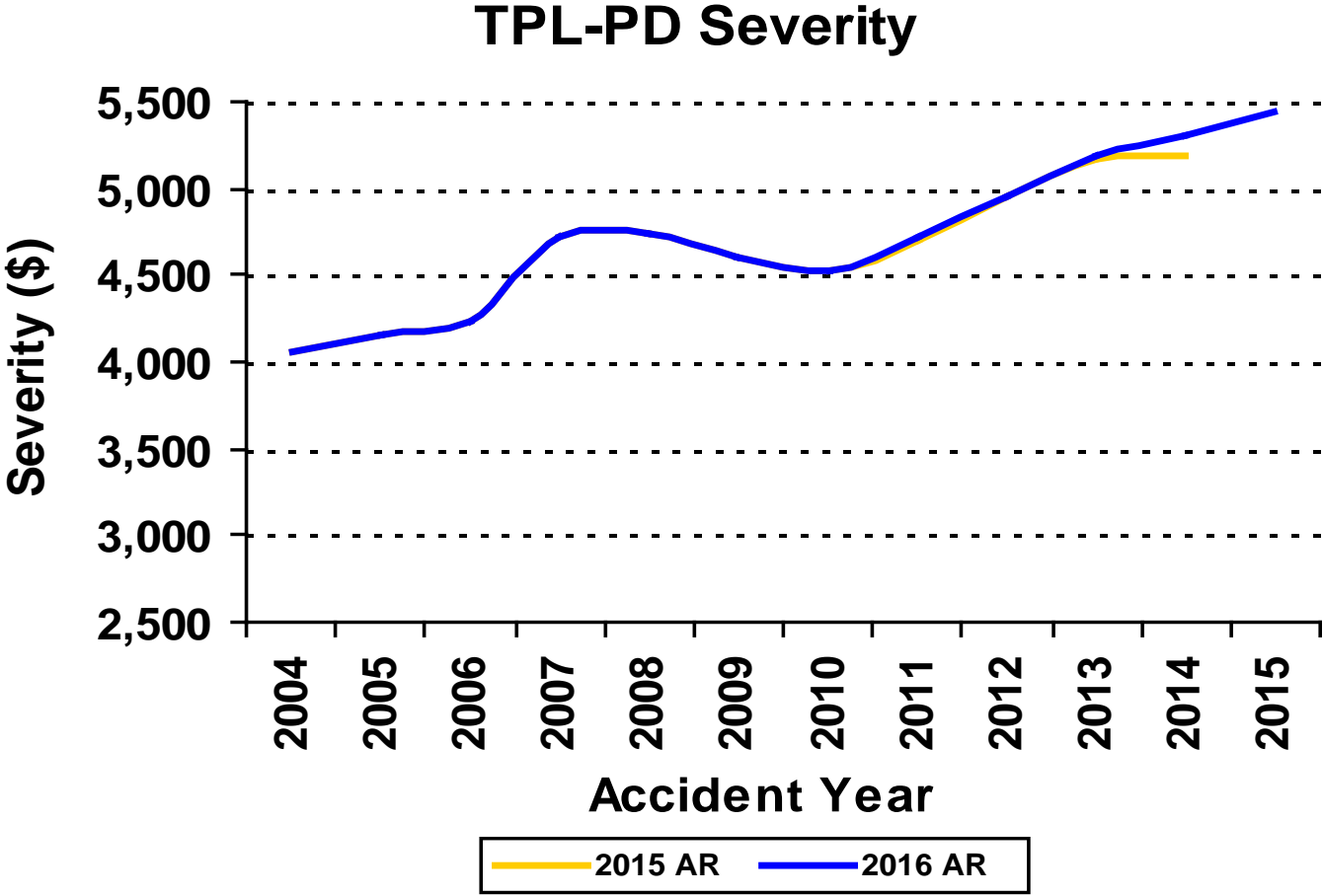


- 2016 SAR Benchmark Trend: +6.0% 2016 AR Recommended Trend: +7.0%

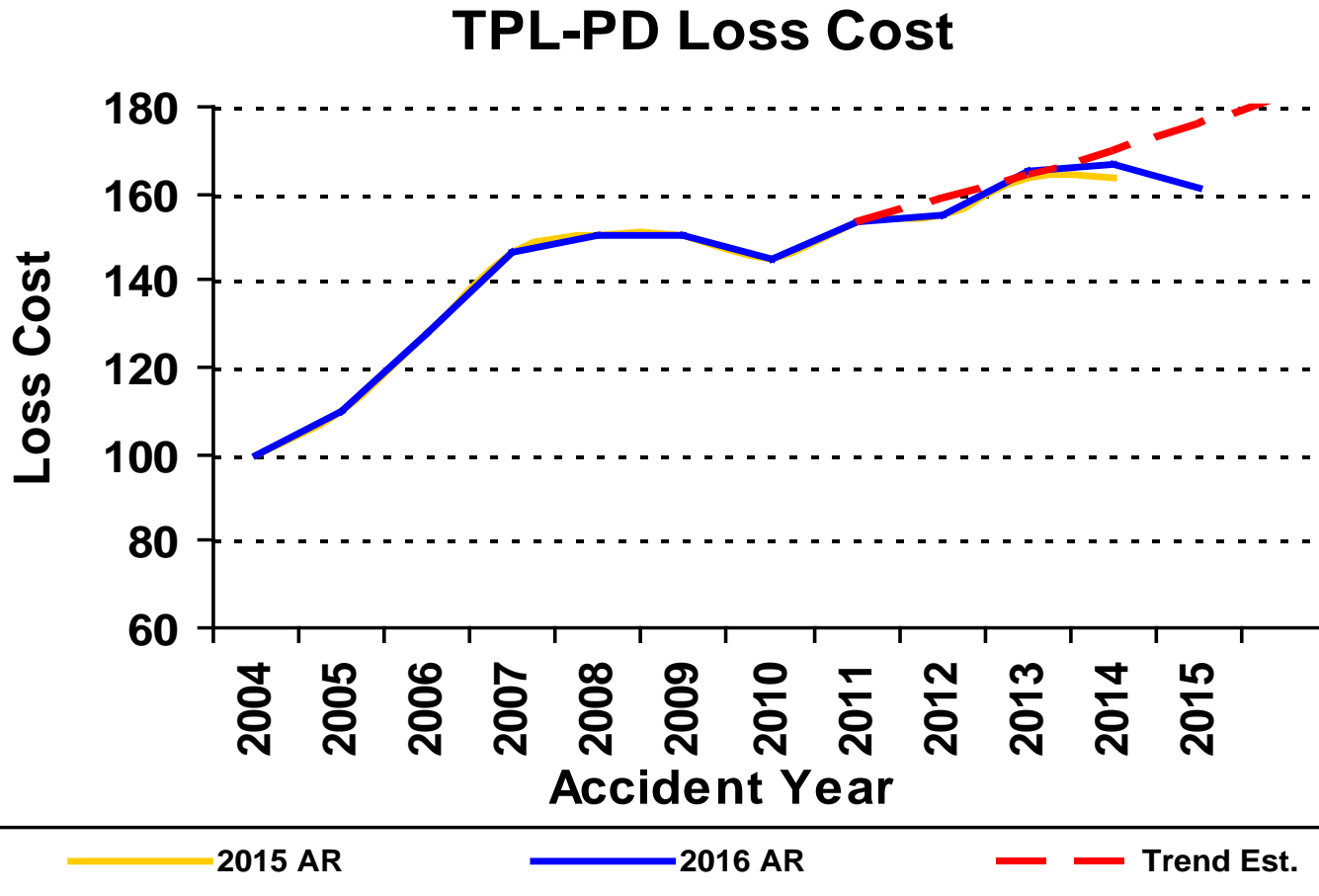
Property Damage Frequency



Property Damage Severity



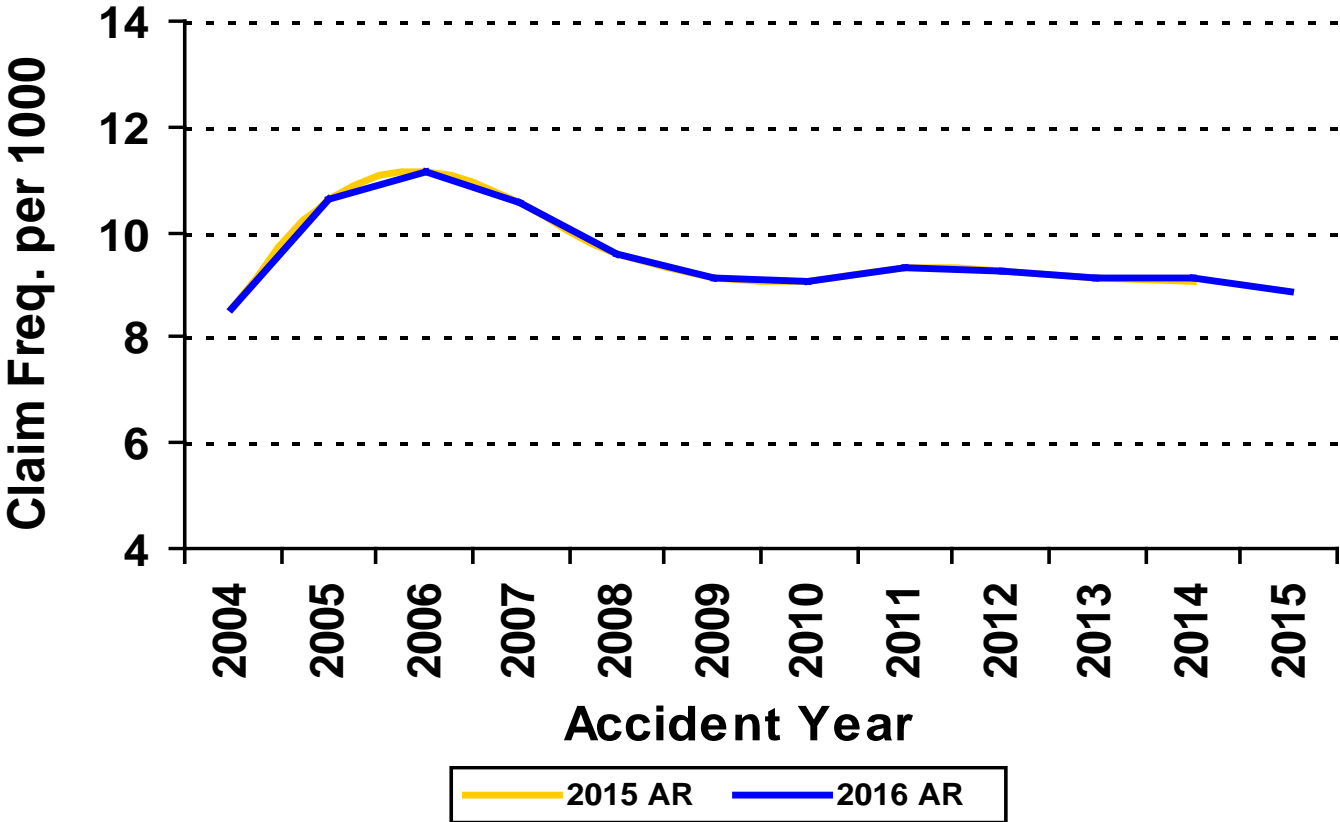
Property Damage Loss Cost



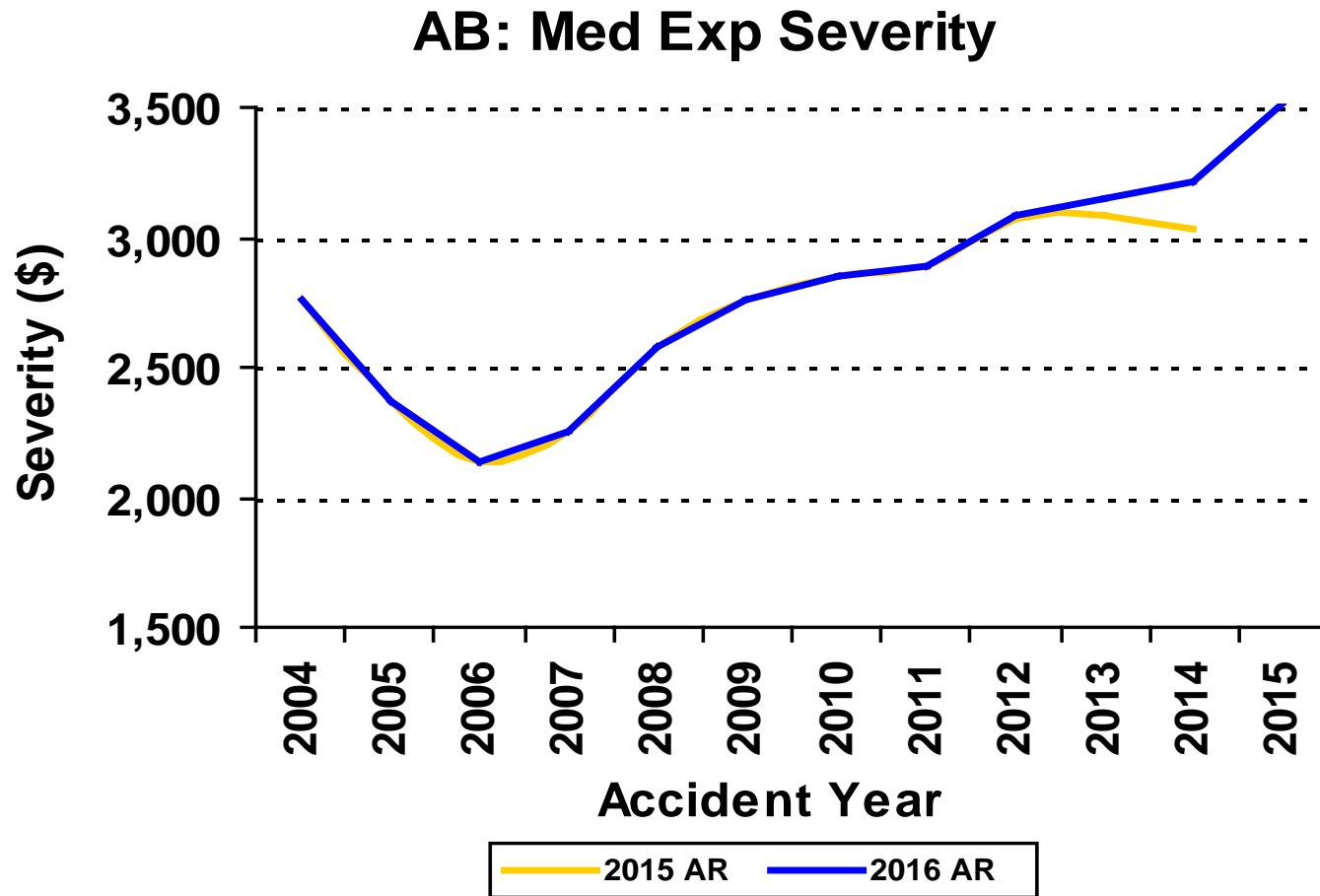
- 2016 SAR Benchmark Trend: +2.0% 2016 AR Recommended Trend: **+3.5%**

Medical Expenses Frequency

AB: Med Exp Frequency

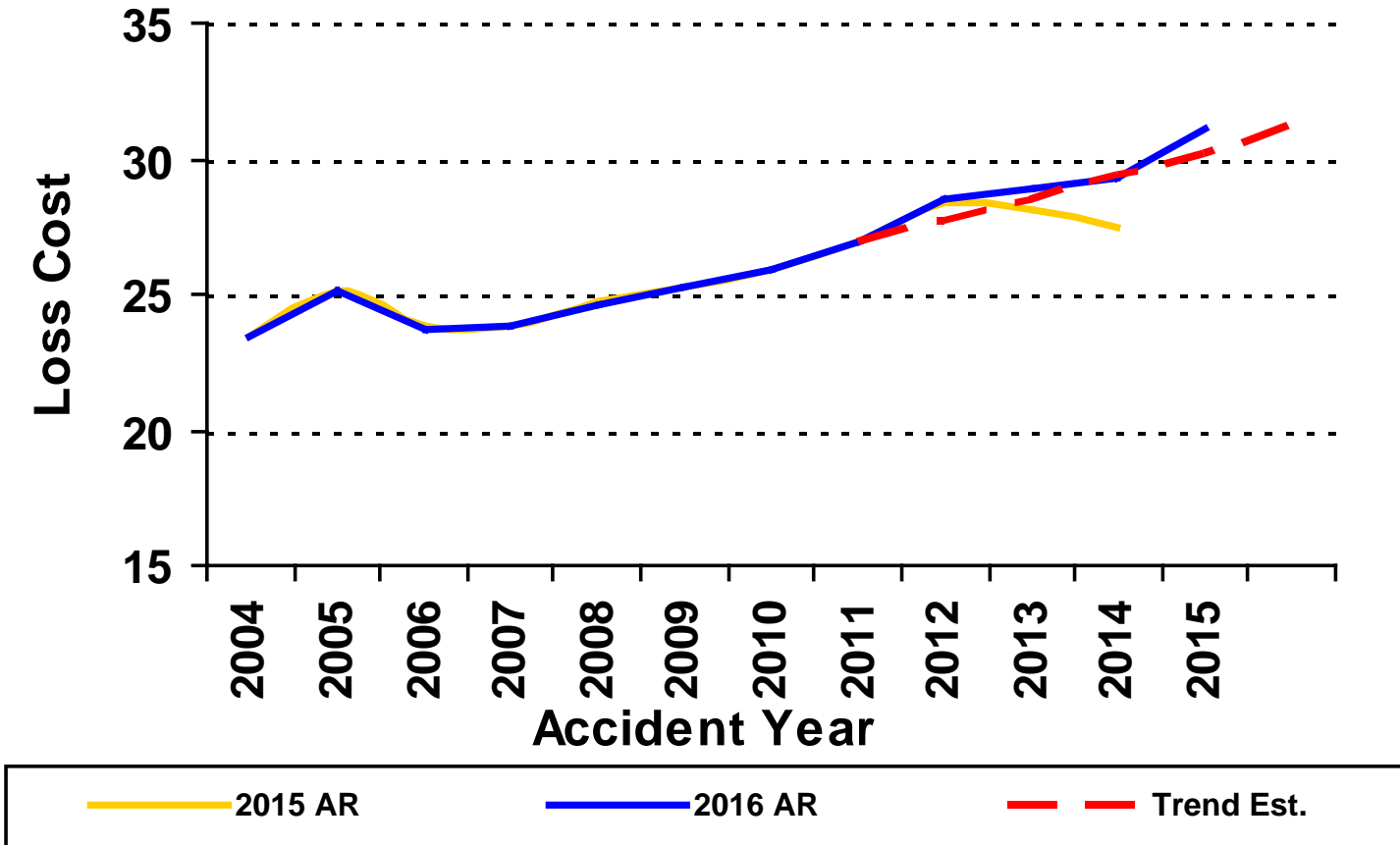


Medical Expenses Severity



Medical Expenses Loss Cost

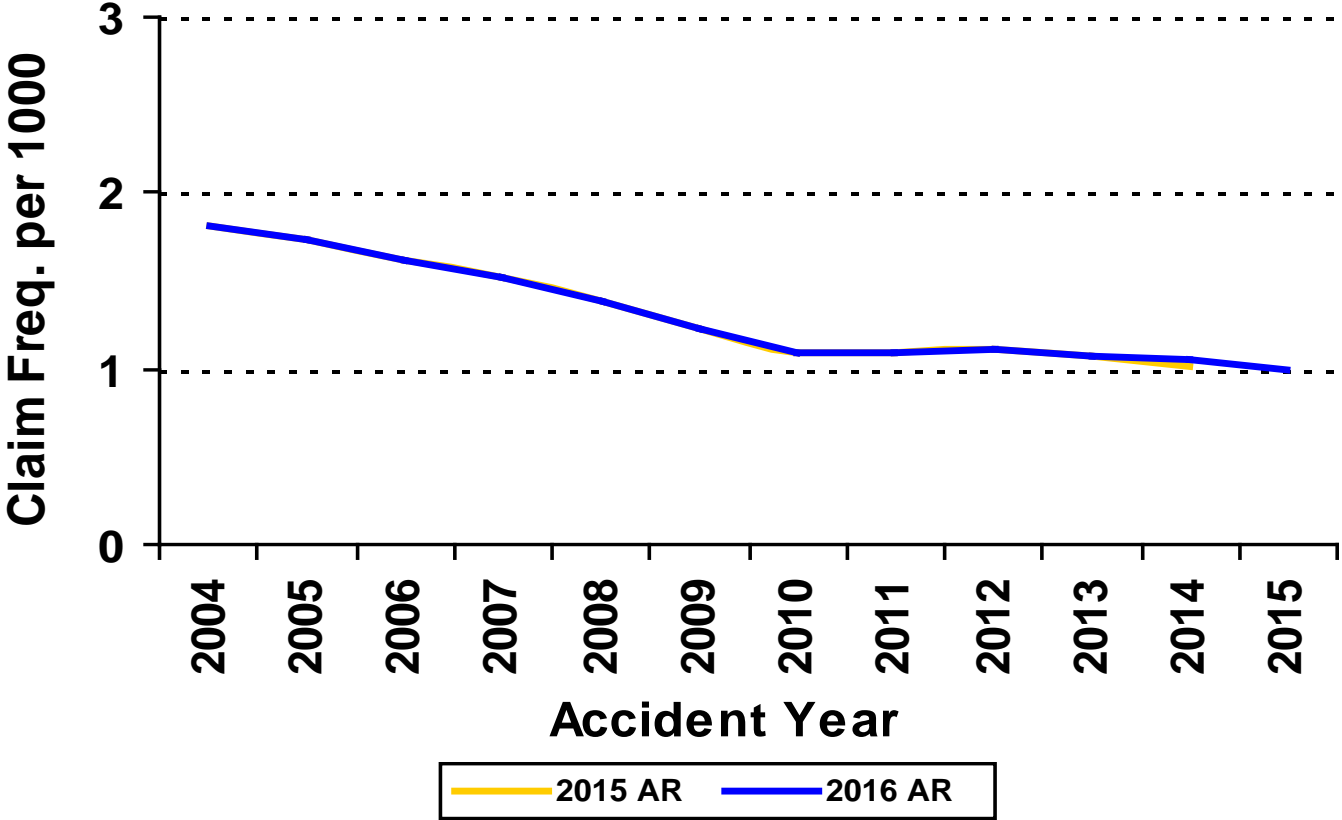
AB: Med Exp Loss Cost



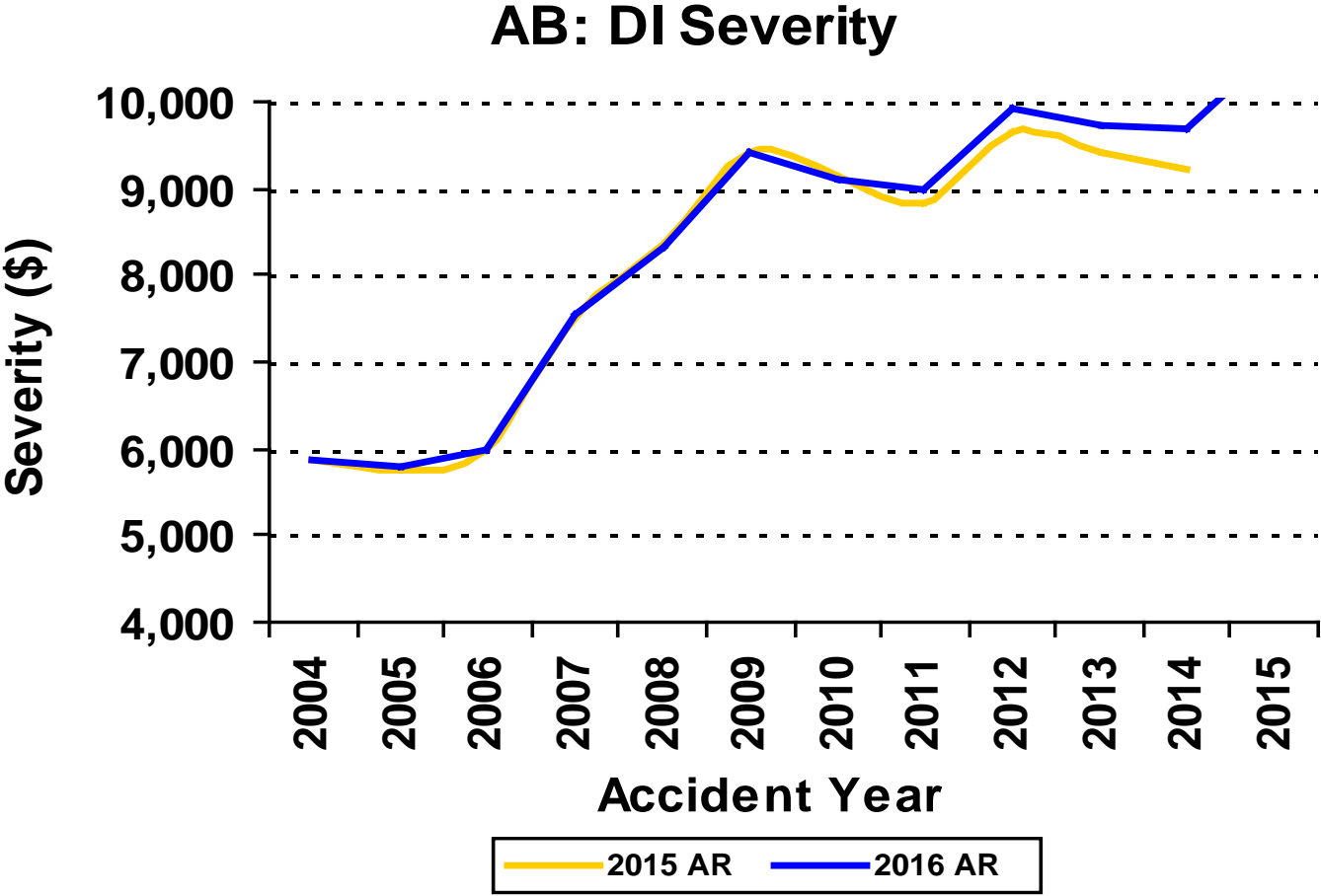
- 2016 SAR Benchmark Trend: +2.0% 2016 AR Recommended Trend: **+3.0%**

Disability Income Frequency

AB: DI Frequency

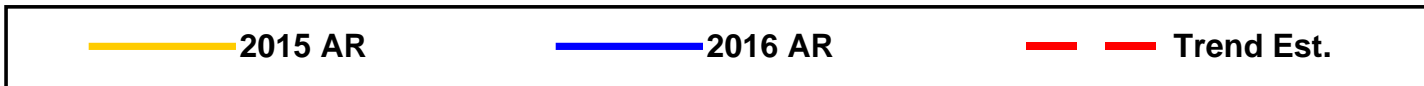
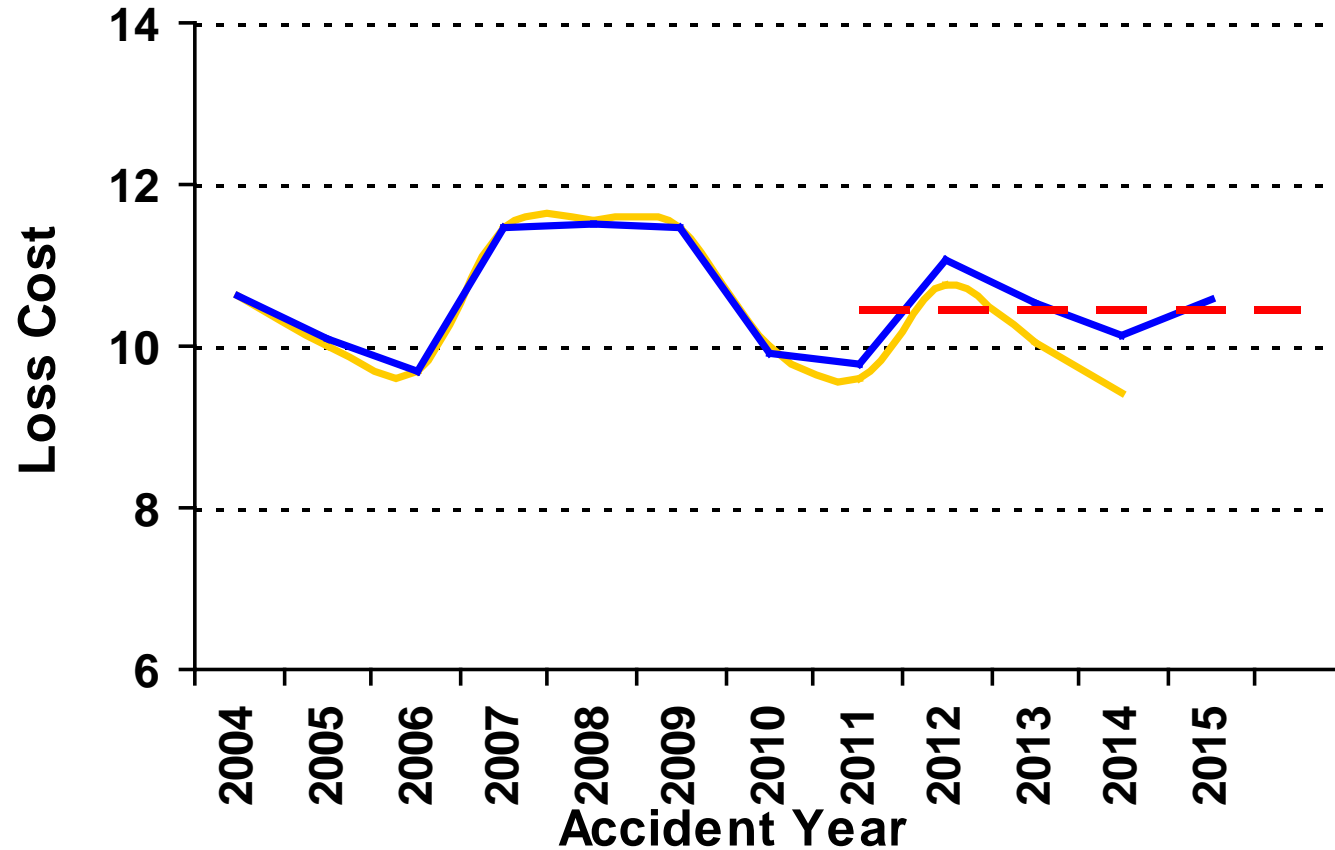


Disability Income Severity



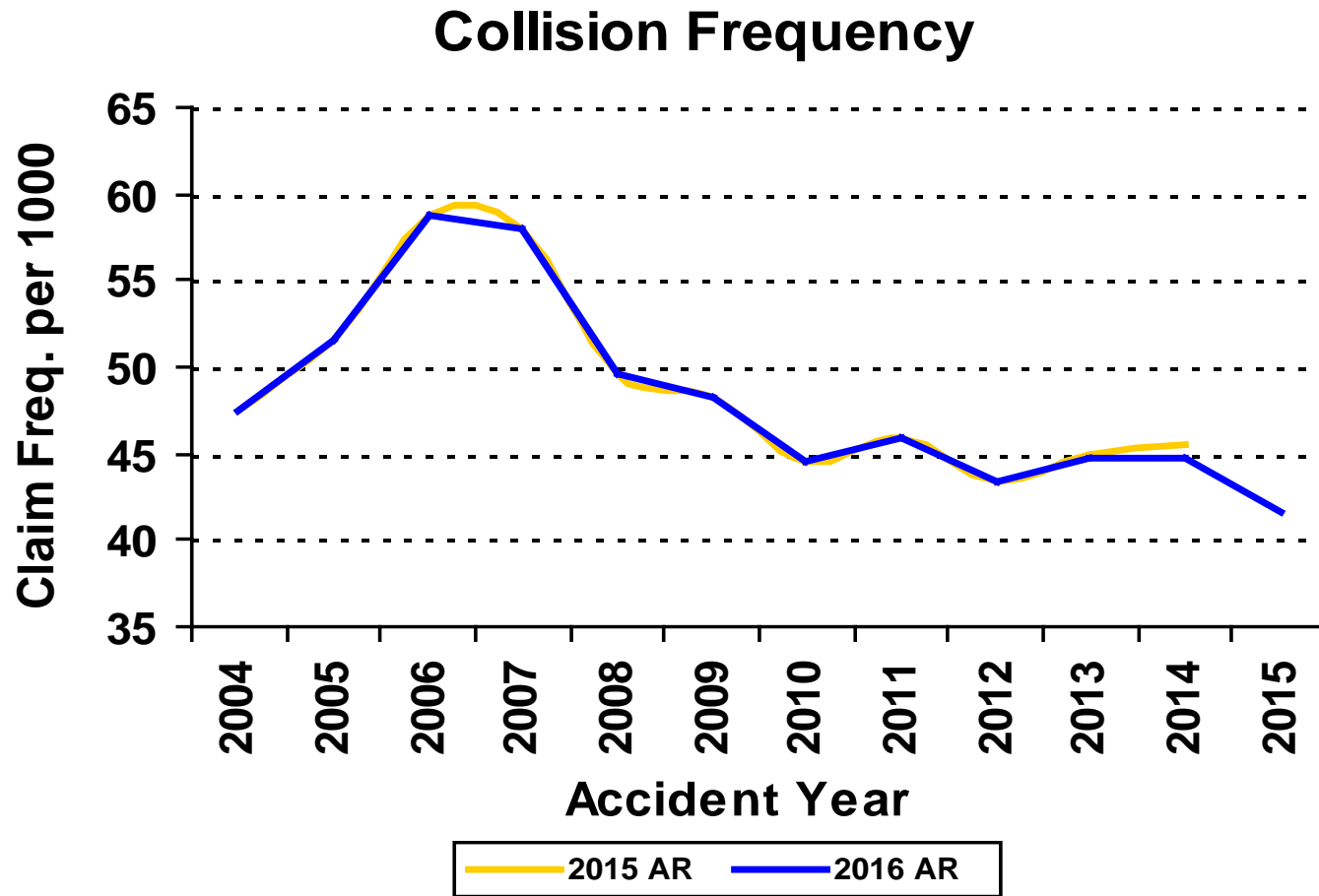
Disability Income Loss Cost

AB: DI Loss Cost

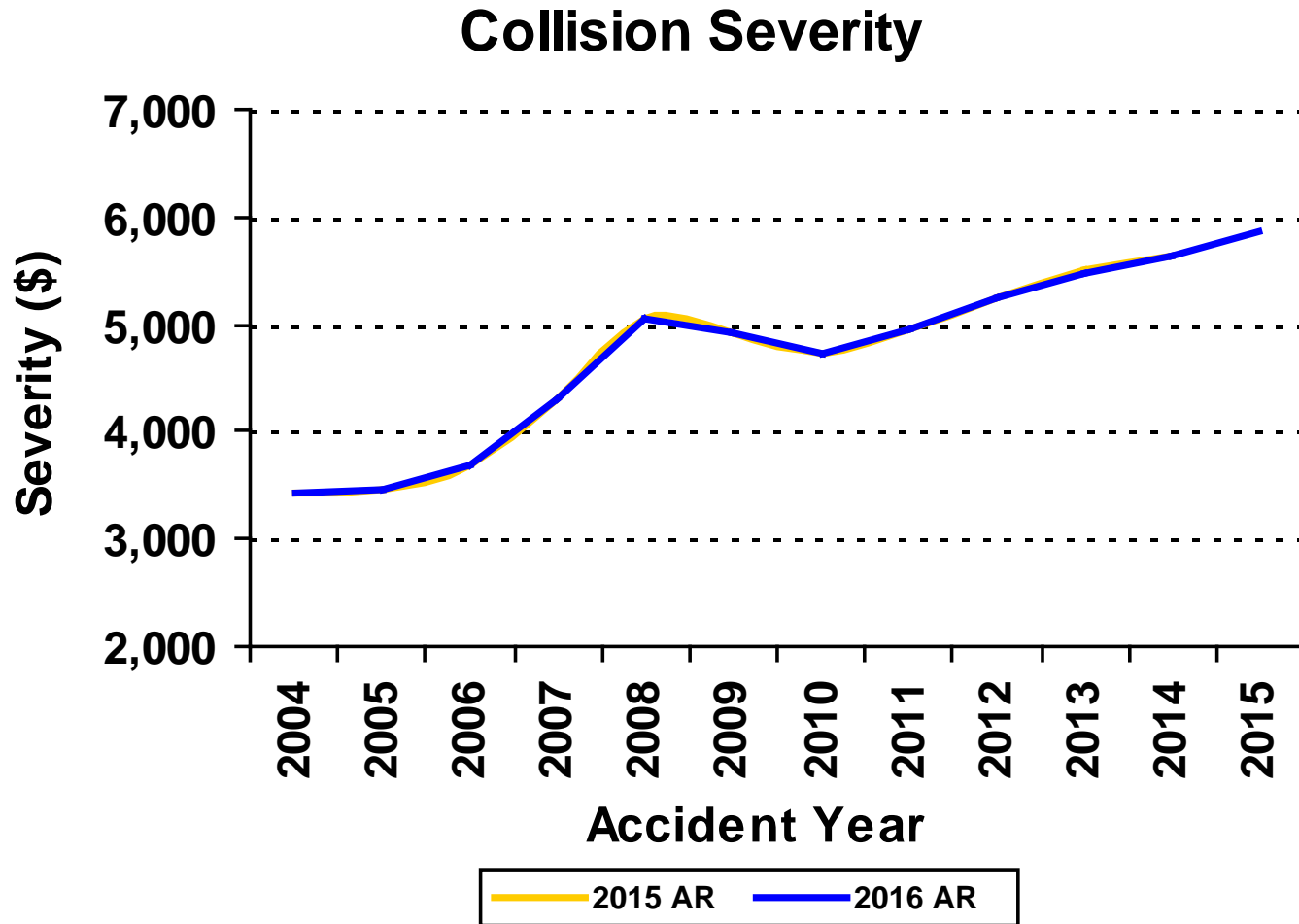


- 2015 SAR Benchmark Trend: -2.5%/0.0% 2016 AR Rec. Trend: **0.0%**

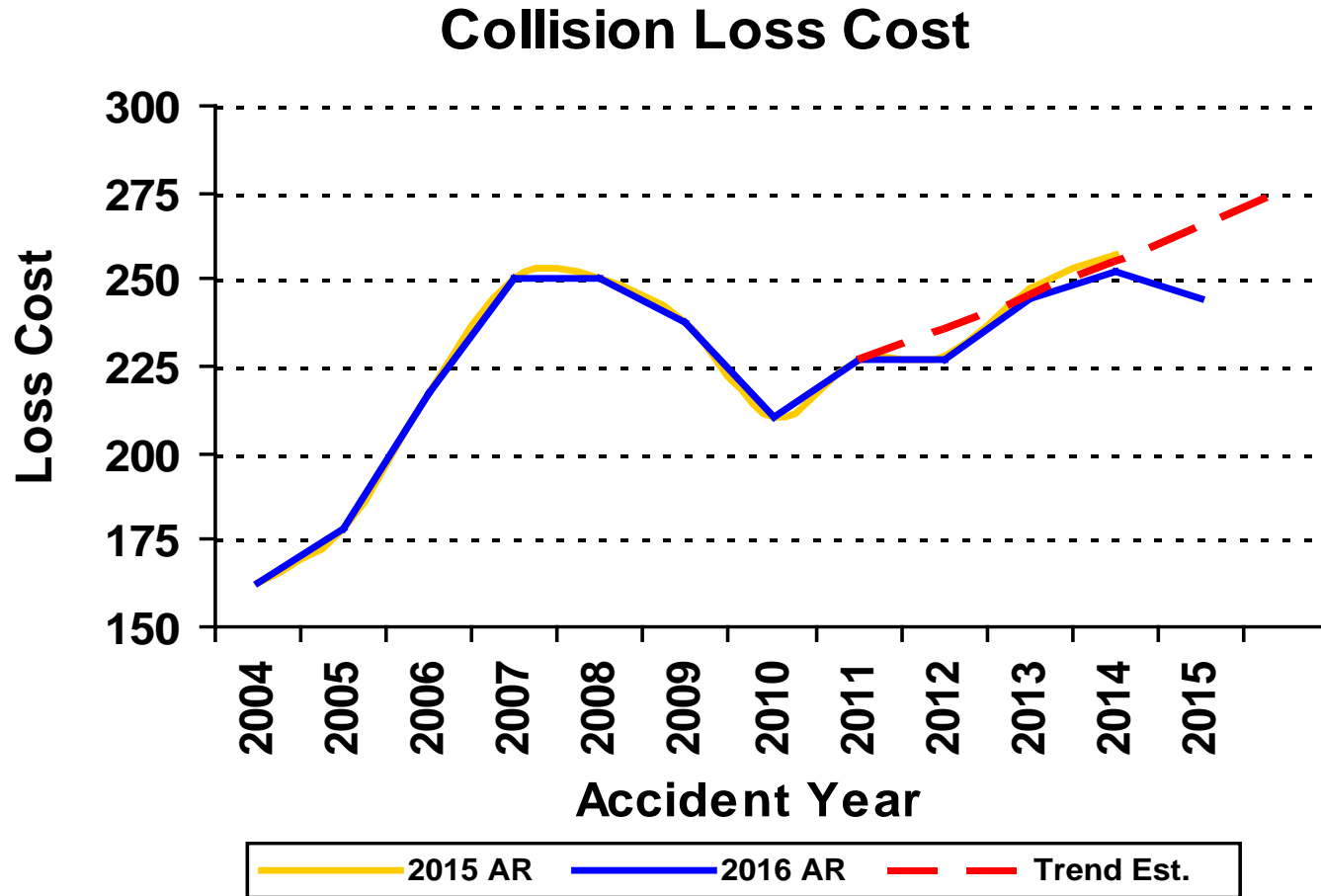
Collision Frequency



Collision Severity

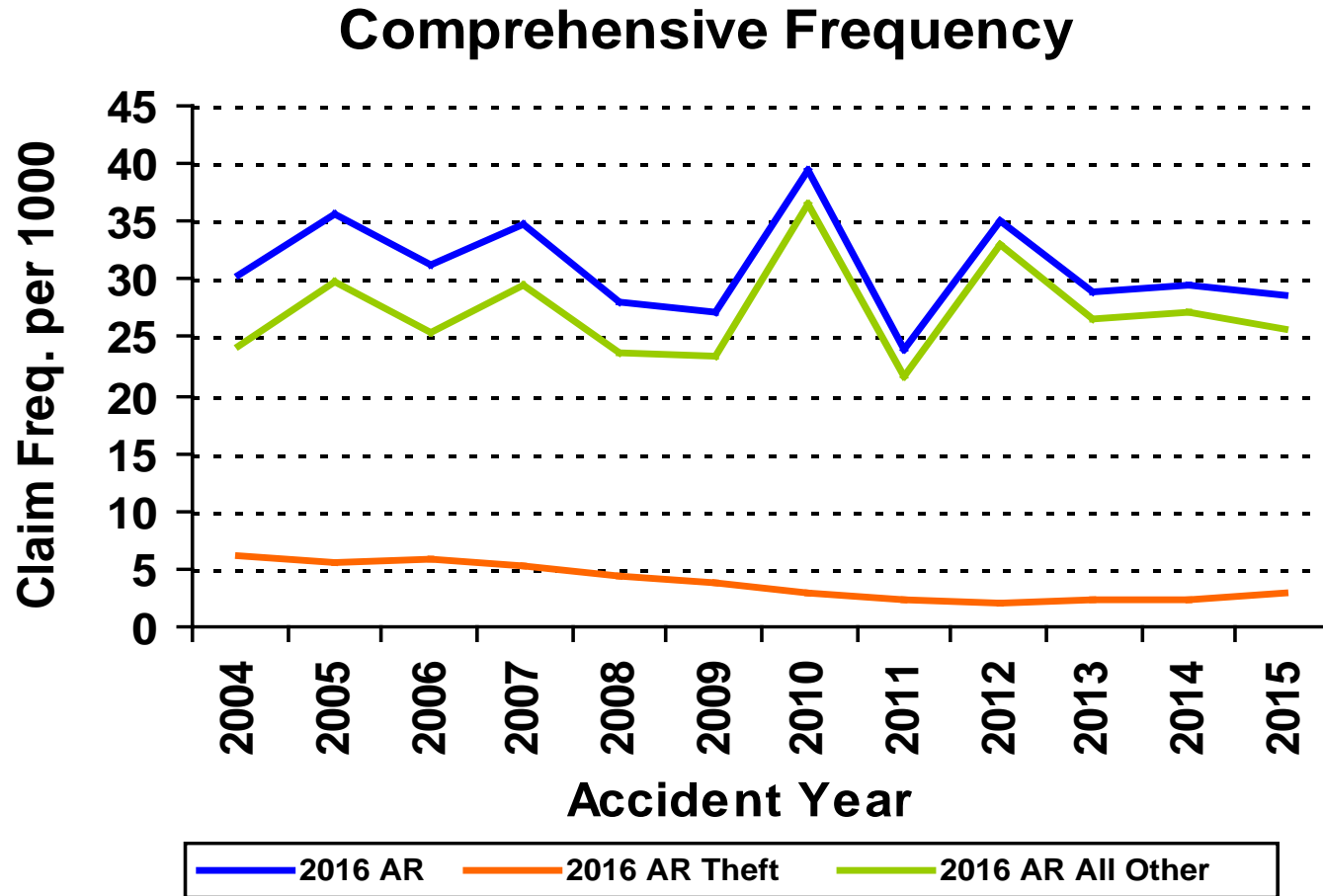


Collision Loss Cost

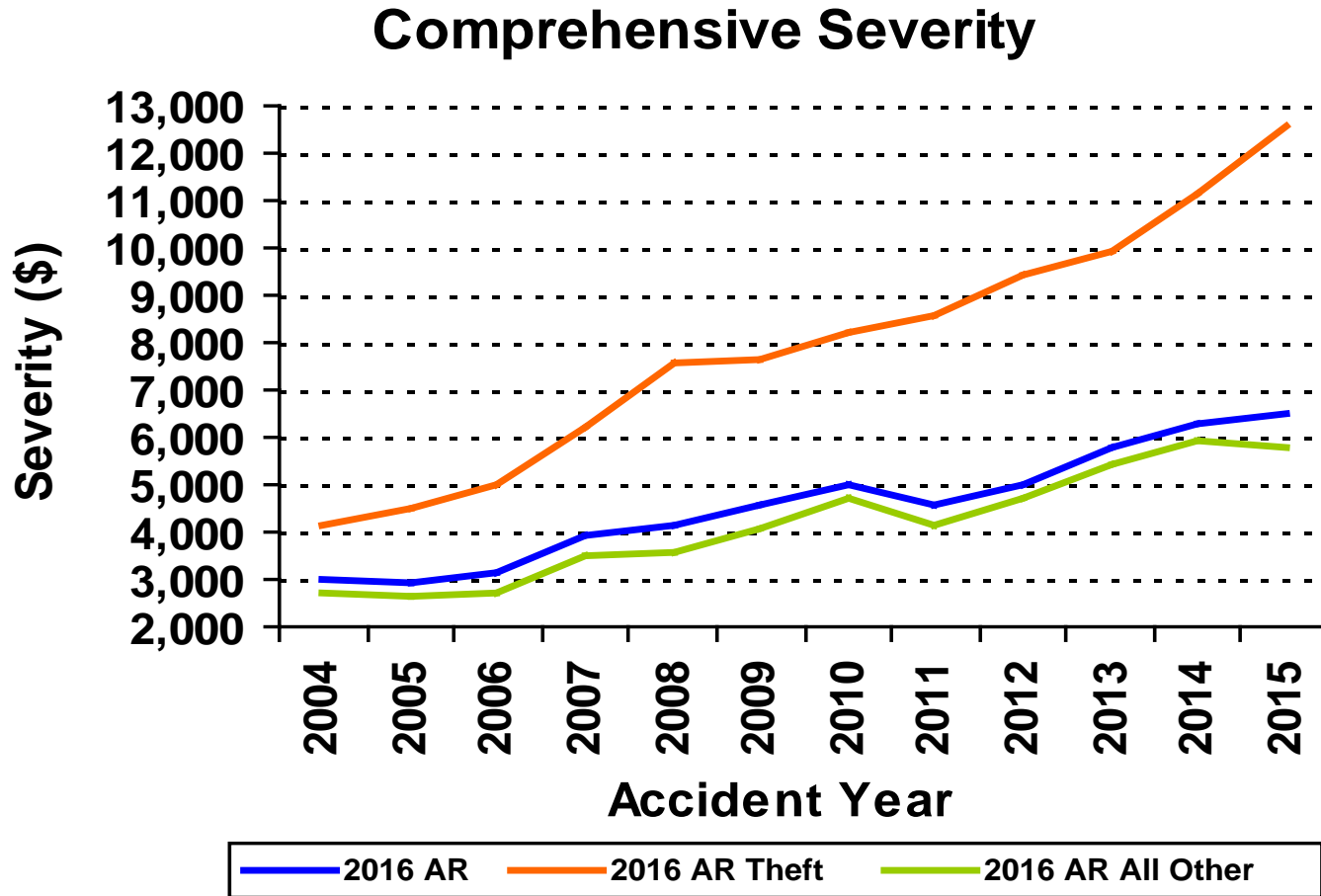


- 2016 SAR Benchmark Trend: +4.5% 2016 AR Recommended Trend: **+4.0%**

Comprehensive Frequency

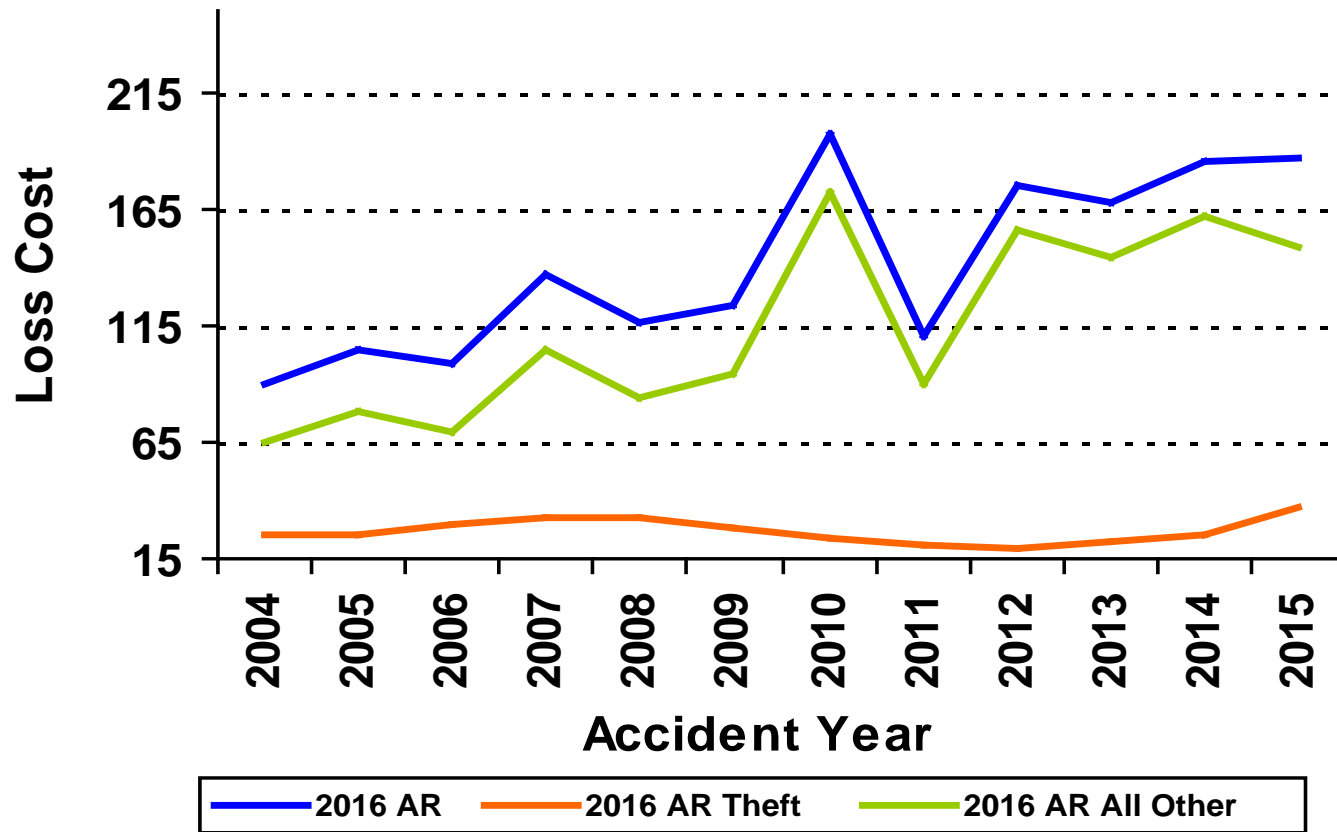


Comprehensive Severity



Comprehensive Loss Cost

Comprehensive Loss Cost



- 2016 SAR Benchmark Trend: +1.0% 2016 AR Recommended Trend: **+1.0%**

Industry Benchmarks – Trend

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Bodily Injury	+6.0%*	+7.0%*	+7.6%
Property Damage	+2.0%	+3.5%	+2.0%
Medical	+2.0%	+3.0%	+2.6%
Disability Income	-2.5%/+0.0%	+0.0%	+2.9%
Death Benefits	-4.0%	-4.0%	NA
Funeral	-6.0%	-5.0%	NA
Uninsured Motorists	+0.0%	+0.0%	NA

* Level change factor of 1.11 at 2011.2

Industry Benchmarks - Trend

	2016 SAR Benchmark	2016 AR OW Rec.	2016 AR IBC Rec.
Collision	+4.5%	+4.0%	+3.5%
Comprehensive	+1.0%	+1.0%	+1.7%*
All Perils	+5.0%	+5.0%	NA
Specified Perils	+1.0%	+1.0%	NA
Underinsured Motorist	+6.0%	+7.0%	NA

* Intact recommends +2% to reflect the rise in theft claims.

