

# 2018 ANNUAL INDUSTRY REVIEW – PRELIMINARY FINDINGS PRIVATE PASSENGER AUTOMOBILE PRESENTATION TO THE AIRB

14 August 2018

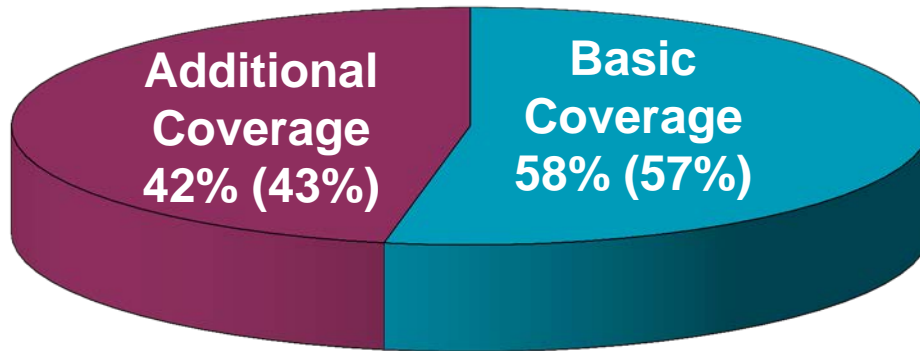
Paula Elliott

# Background - General

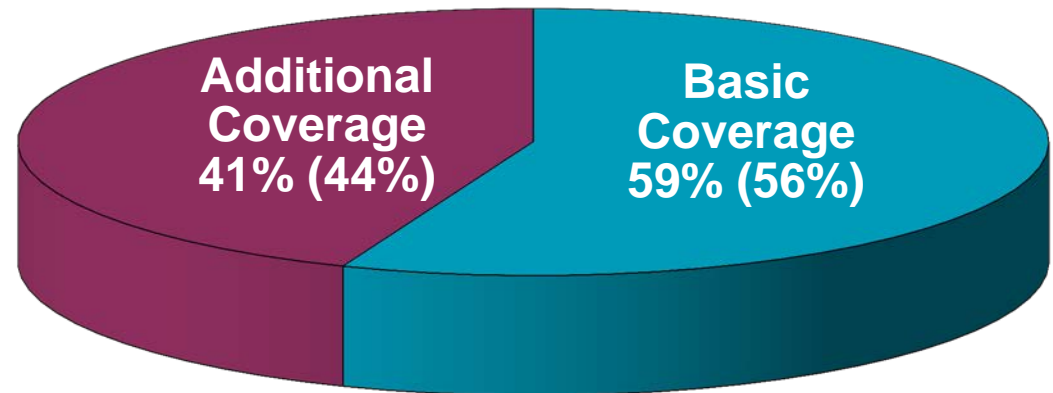
- The Automobile Insurance Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. A component of that review is to analyze Industry experience and develop benchmarks for rate filings.
- The benchmarks are for use in rate filings, measuring Industry performance,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

# Breakdown of Basic and Additional Coverages

## 2017 (2016) - Written Premium

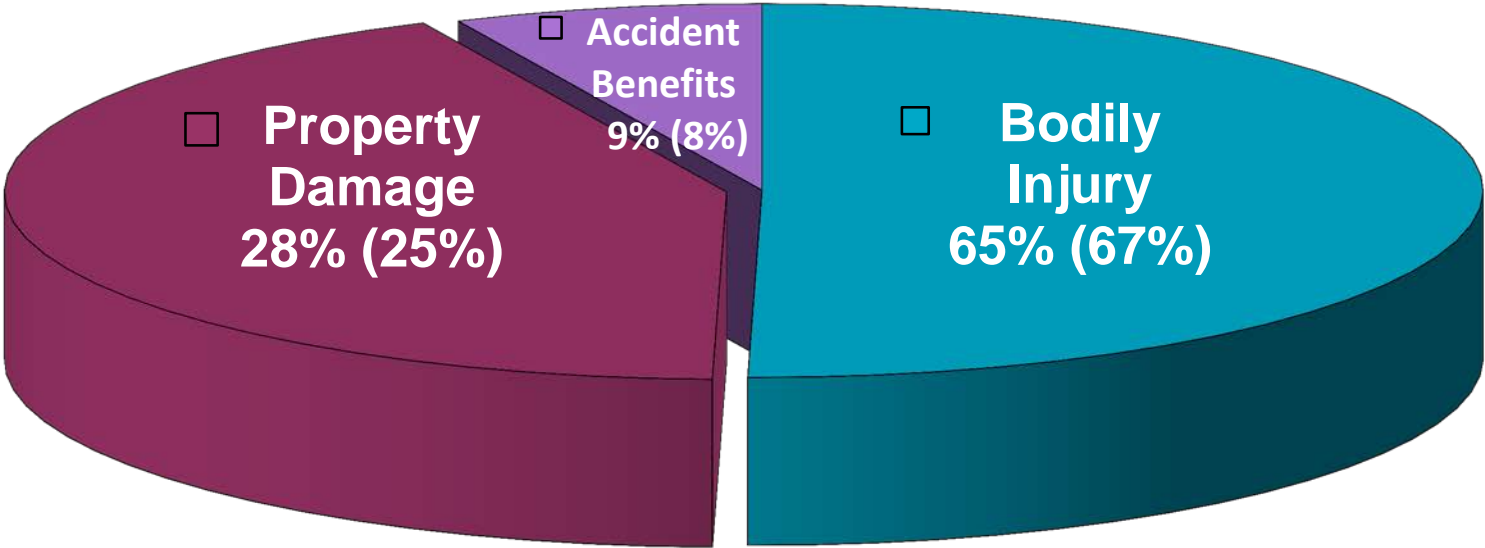


## 2017 (2016) - Claim Costs



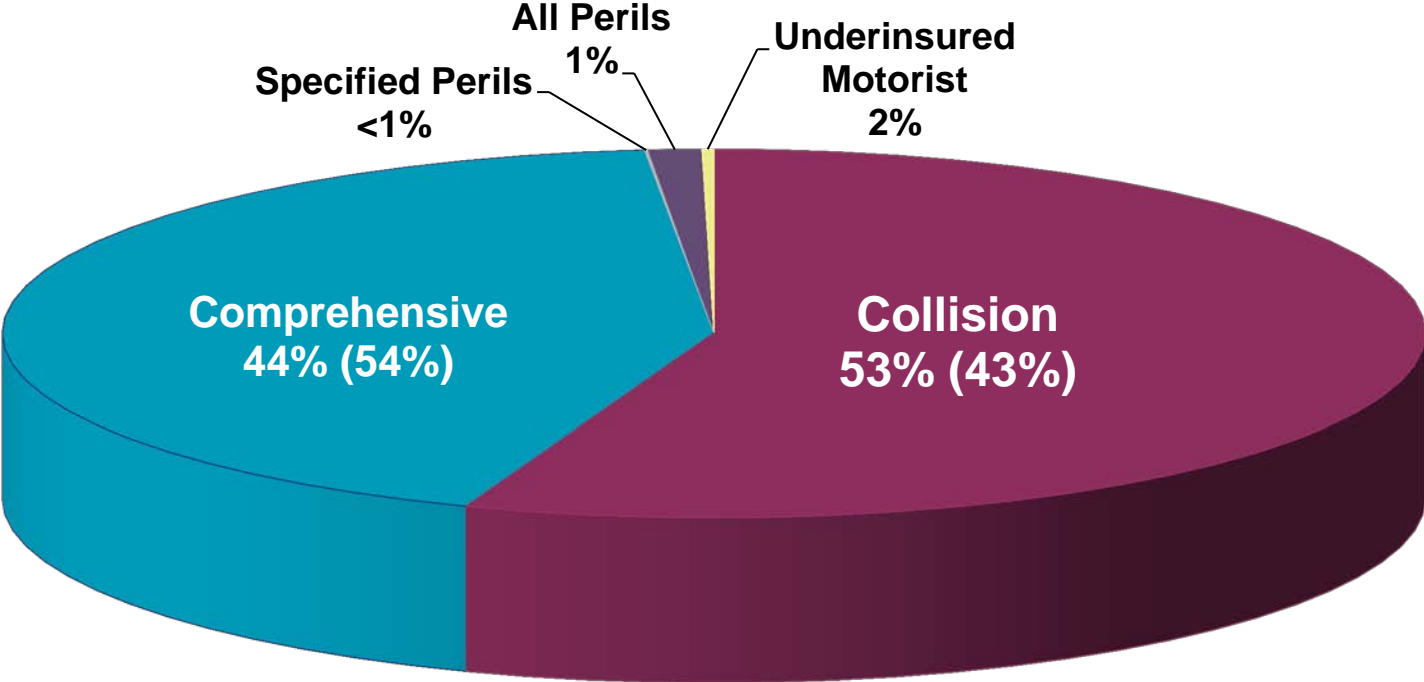
# Breakdown of Basic Coverage Claim Costs

## 2017 (2016) – Claim Costs



# Breakdown of Additional Coverage Claim Costs

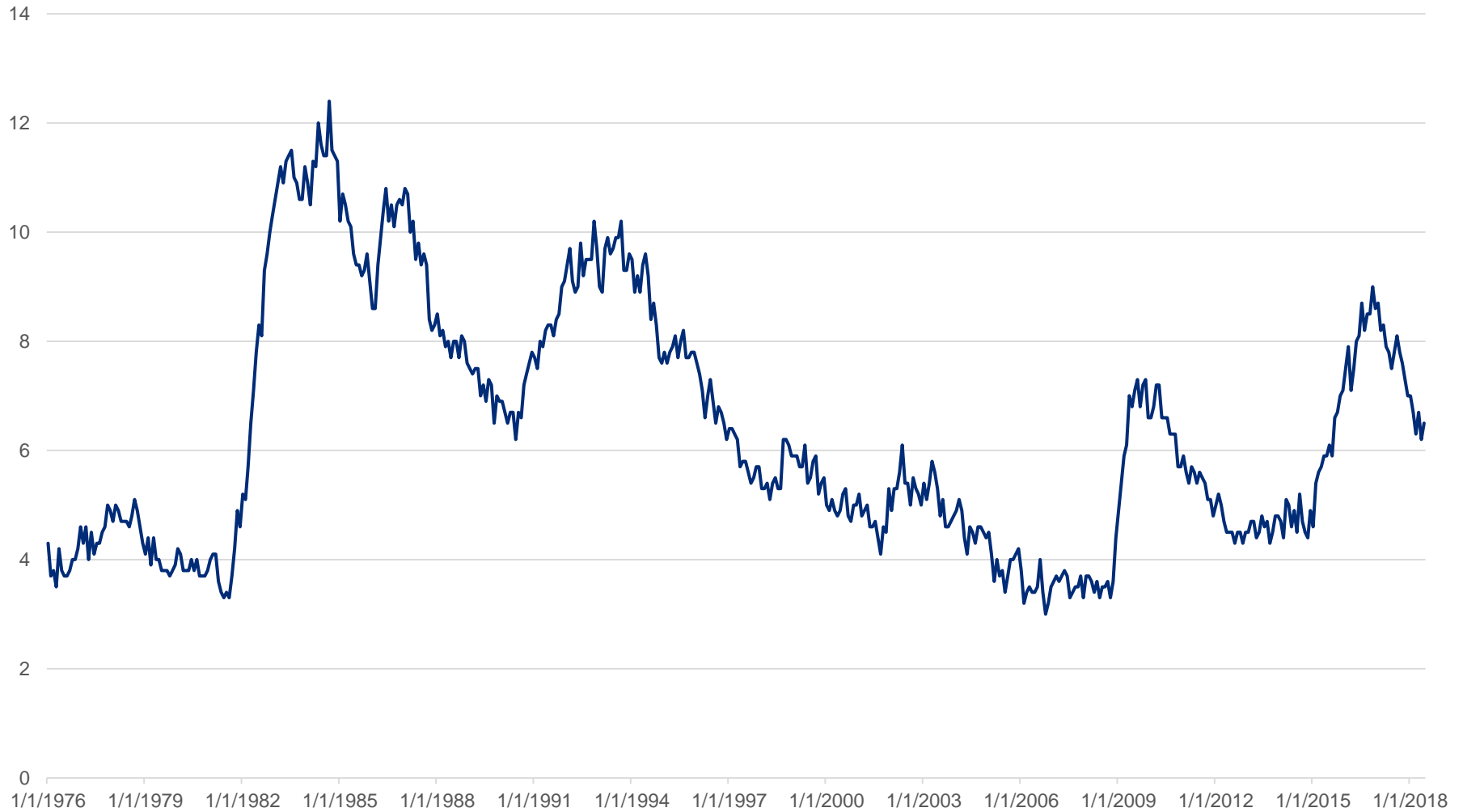
## 2017 (2016) – Claim Costs



# Change in Economic Conditions

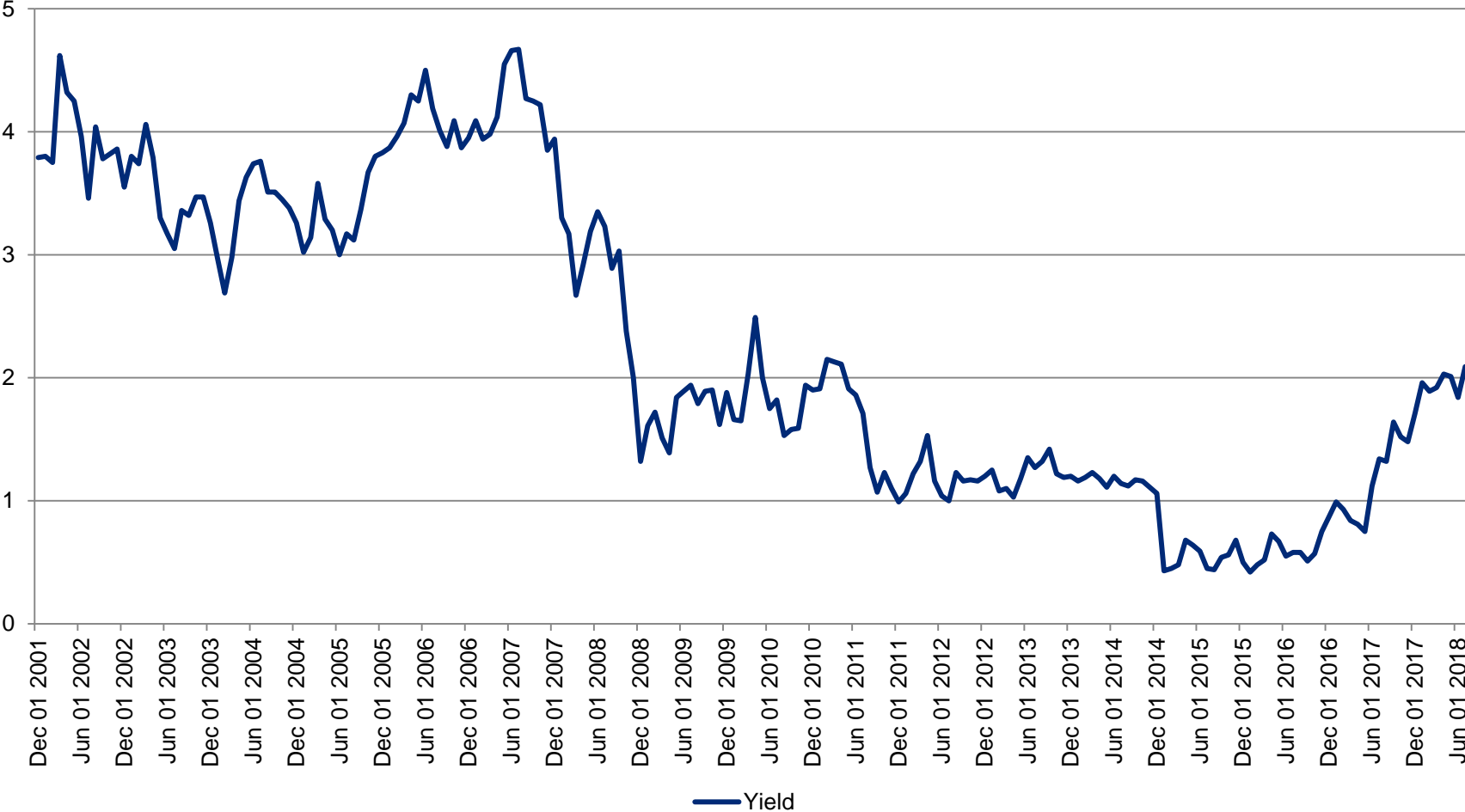
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Alberta Unemployment Rate</b>	<b>5.9% (June)</b>	<b>8.1% (June)</b>	<b>7.5% (June)</b>	<b>6.5% (June)</b>
<b>Alberta CPI (Total)</b>	<b>134.5 (June)</b>	<b>136.3 (June)</b>	<b>136.9 (June)</b>	<b>140.7 (June)</b>
<b>Alberta CPI (ex. Energy)</b>	<b>132.8 (June)</b>	<b>135.3 (June)</b>	<b>136.1 (June)</b>	<b>138.2 (June)</b>
<b>Alberta Gasoline Prices (CAN c/L)</b>	<b>\$1.04 (June)</b>	<b>\$1.02 (June)</b>	<b>\$0.91 (June)</b>	<b>\$1.24 (June)</b>
<b>Natural Gas Prices (\$/GJ)</b>	<b>\$2.30 (April)</b>	<b>\$1.11 (April)</b>	<b>\$2.34 (April)</b>	<b>\$1.26 (April)</b>
<b>3 Year Canada Benchmark Bond Rates</b>	<b>0.59% (June)</b>	<b>0.55% (June)</b>	<b>1.12% (June)</b>	<b>1.84% (June)</b>
<b># Insured Cars</b>	<b>2.69 million</b>	<b>2.71 million</b>	<b>2.72 million</b>	<b>NA</b>
<b>Population</b>	<b>4.15 million</b>	<b>4.21 million</b>	<b>4.26 million</b>	<b>4.32 million</b>

# Alberta Unemployment Rate



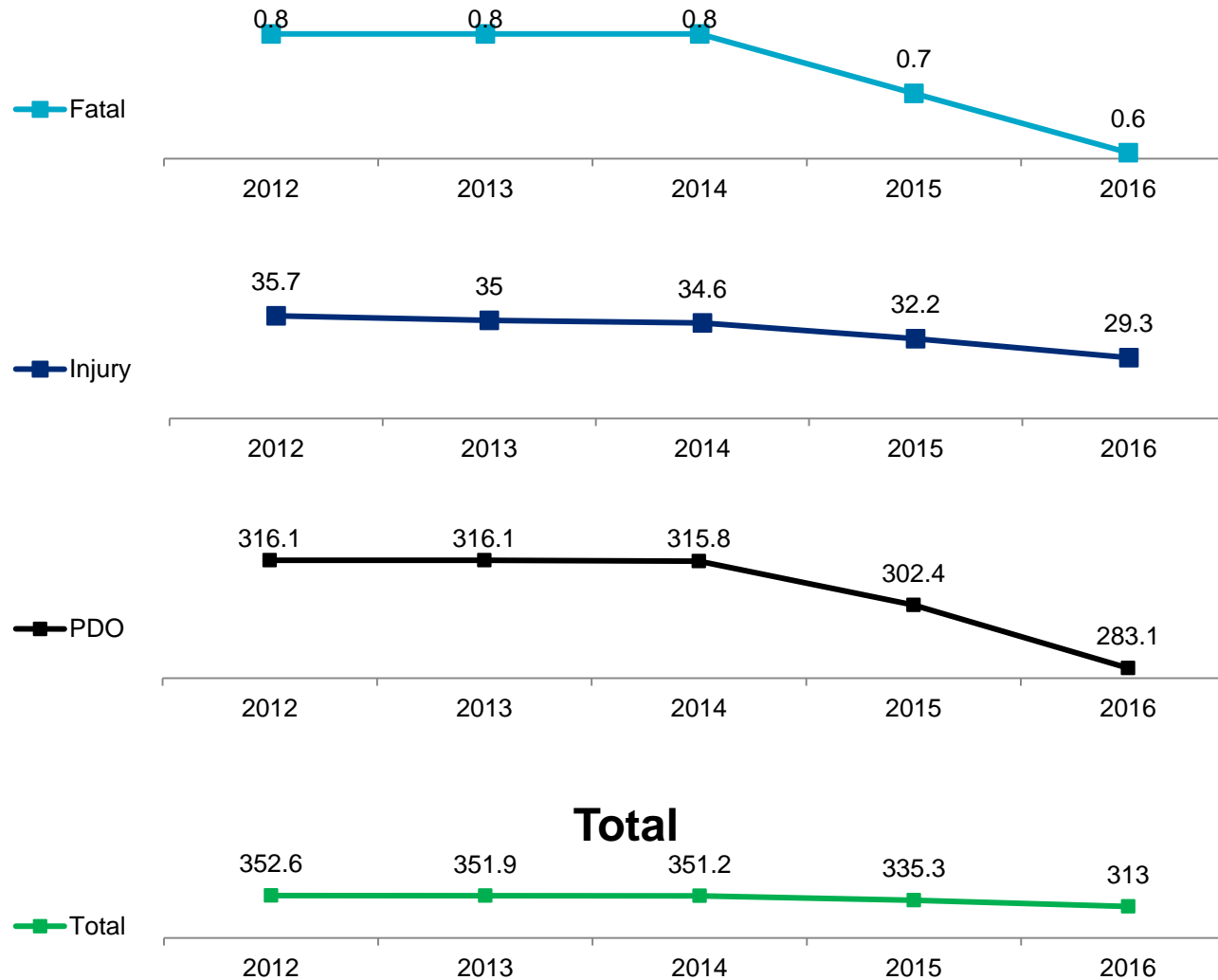
# Historical Investment Rates

Government of Canada Benchmark Bond Yields -- 3 Year





# Collision Rates per 10,000 Population



Source: Alberta Government - Transportation

# 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 Adjusted Loss Adjustment Expenses (ALAE) (such as the legal expenses associated with claim settlement) and for Unadjusted 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 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 Automobile Insurance Exhibit (AIX) reports to the accident year experience.

# Industry Benchmarks – ULAE Provision

- Oliver Wyman Preliminary Recommended Benchmarks:

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ULAE	8.9%	8.4%	10.5%	10.2%	9.5%	9.1%	9.9%	9.3%	10.3%	8.5%	9.2%

- Industry Comments: None

# 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 2016, is 65% (i.e., a factor of 1.65 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 65% 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 2017 Catastrophe Report.
- The catastrophe provision will be updated once the new 2017 Catastrophe Report is released by GISA. non-catastrophe losses.
- Industry Comments:
  - The Industry comments were submitted before the release of the 2017 Catastrophe Report.
  - IBC and other insurers (Desjardins, Intact,) find the current 65% Benchmark provision to be reasonable until the 2017 data is available for review.

# 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	46,052	1,900	4.1%	89,148,262	4,312,981	1.048
2003	43,059	3,154	7.3%	96,352,461	11,697,960	1.121
2004	46,327	6,137	13.2%	99,595,276	25,614,074	1.257
2005	57,486	14,713	25.6%	110,839,889	42,833,271	1.386
2006	54,272	5,537	10.2%	138,575,376	18,597,791	1.134
2007	64,922	12,339	19.0%	173,498,963	60,639,395	1.350
2008	55,208	5,478	9.9%	187,912,471	24,386,347	1.130
2009	55,107	8,003	14.5%	182,406,364	44,782,888	1.246
2010	81,708	38,140	46.7%	182,982,962	186,501,207	2.019
2011	50,829	9,216	18.1%	168,786,016	43,905,889	1.260
2012	76,293	34,173	44.8%	181,892,424	167,658,558	1.922
2013	65,148	19,500	29.9%	212,130,951	130,661,725	1.616
2014	68,885	25,524	37.1%	211,078,041	186,982,264	1.886
2015	68,646	21,928	31.9%	254,259,123	155,171,997	1.610
2016	92,754	38,156	41.1%	314,805,796	230,754,443	1.733
All Years	926,696	243,898	26.3%	2,604,264,375	1,334,500,790	1.512
Last 10 Years	679,500	212,457	31.3%	2,069,753,111	1,231,444,713	1.595
Last 5 Years	371,726	139,281	37.5%	1,174,166,335	871,228,987	1.742
Avg. of Last 10 and 5						1.668
Recommendation						1.650

# Industry Benchmarks – Catastrophe Provision

EXCLUDING THEFT						
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	36,326	1,900	5.2%	56,193,546	4,312,981	1.077
2003	33,693	3,154	9.4%	58,583,473	11,697,960	1.200
2004	37,011	6,137	16.6%	64,813,675	25,614,074	1.395
2005	48,416	14,713	30.4%	73,472,182	42,833,271	1.583
2006	43,934	5,537	12.6%	91,276,291	18,597,791	1.204
2007	55,116	12,339	22.4%	117,838,782	60,639,395	1.515
2008	46,570	5,478	11.8%	127,574,299	24,386,347	1.191
2009	47,478	8,003	16.9%	129,587,693	44,782,888	1.346
2010	75,595	38,140	50.5%	137,563,165	186,501,207	2.356
2011	45,688	9,216	20.2%	128,743,440	43,905,889	1.341
2012	71,722	34,173	47.6%	142,382,607	167,658,558	2.178
2013	60,039	19,500	32.5%	166,024,623	130,661,725	1.787
2014	63,692	25,524	40.1%	157,748,210	186,982,264	2.185
2015	61,530	21,928	35.6%	174,161,699	155,171,997	1.891
2016	84,445	38,156	45.2%	220,947,621	230,754,443	2.044
All Years	811,254	243,898	30.1%	1,846,911,306	1,334,500,790	1.723
Last 10 Years	611,874	212,457	34.7%	1,502,572,139	1,231,444,713	1.820
Last 5 Years	341,428	139,281	40.8%	861,264,760	871,228,987	2.012
Avg. of Last 10 and 5						1.916



# Industry Benchmarks – Investment Income Rate

- The current Benchmark is 2.50% based on the Government of Alberta's latest (at the time) forecast of short and long term bond yields.
- In July the Government updated its forecasts.

## Alberta Government July 2018 Forecast

Year	3 Month T Bill Rates	3 Year Bond Rates
2019	2.17%	2.87%
2020	2.59%	3.19%

# Industry Benchmarks – Investment Income Rate

- Oliver Wyman Updated Preliminary Recommended Benchmark: 2.75%
  - The Preliminary Benchmark is updated to 2.75% based on the Government's July 2018 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 rate filings subject to the Benchmark.
- Industry Comments:
  - The Industry comments are based on the current Benchmark of 2.50% and were submitted prior to the Government's July updated forecast.
  - IBC and others stated that they find the 2.50% rate to be reasonable and expect it to increase with more current information.

# 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 2018 assessment: 7.04%

# Industry Benchmarks – Health Cost Recovery

- Oliver Wyman Preliminary Recommended Benchmark: 7.04%, until the new assessment is announced.
- Industry Comments:
  - IBC finds the 7.04% provision to be reasonable, but continues to recommend that given the Government's history of increasing the aggregate assessment every year, and despite the increase to 7.04% in 2018, 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, 27.8%, is based on GISA's 2016 expense report.
- GISA has not yet released its 2017 expense report.

# Industry Benchmarks – Operating Expenses

- Oliver Wyman Preliminary Recommended Benchmark: 27.8%, until the new Expense Report is released (expected release date is October 31, 2018).
- Industry Comments:
  - IBC again recommends 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 27.8% to 28.2%.
  - Desjardins stated that it agrees with IBC.

# Industry Benchmarks – Operating Expenses

	<b>2016 Industry Expense Report</b>
Direct Commissions	11.4%
Contingent Commissions	1.5%
Total Commissions	12.9%
Premium and Fire Taxes	4.0%
Other Acquisition Expenses	3.1%
General Expenses	7.8%
Total Expenses	27.8%

# Industry Benchmarks – Profit Provision

- The Board's current position is to allow a profit provision of 7% of premium.
- Oliver Wyman Preliminary Recommended Benchmark: 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” or Incurred But Not Reported (IBNR) 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 payments will be when all claims that are incurred as of December 31, 2017 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 2018 Benchmark loss development factors recommended by Oliver Wyman are, generally, similar to the current Benchmark loss development factors.
- The Industry's reported losses (i.e., payments made and changes in individual claim reserves) between June 30, 2017 and December 31, 2017 for the first half of Accident Year 2017 as well as Accident Years 2012 - 2016 are generally higher than what had been expected. This is particularly the case (first half of Accident Year 2017) for Bodily Injury.
- Correction of data reported to GISA for accident years 2013-1 and subsequent during the second half of 2017 has impacted frequency and severity estimates compared to prior estimates.

# Industry Benchmarks – Loss Development Factors

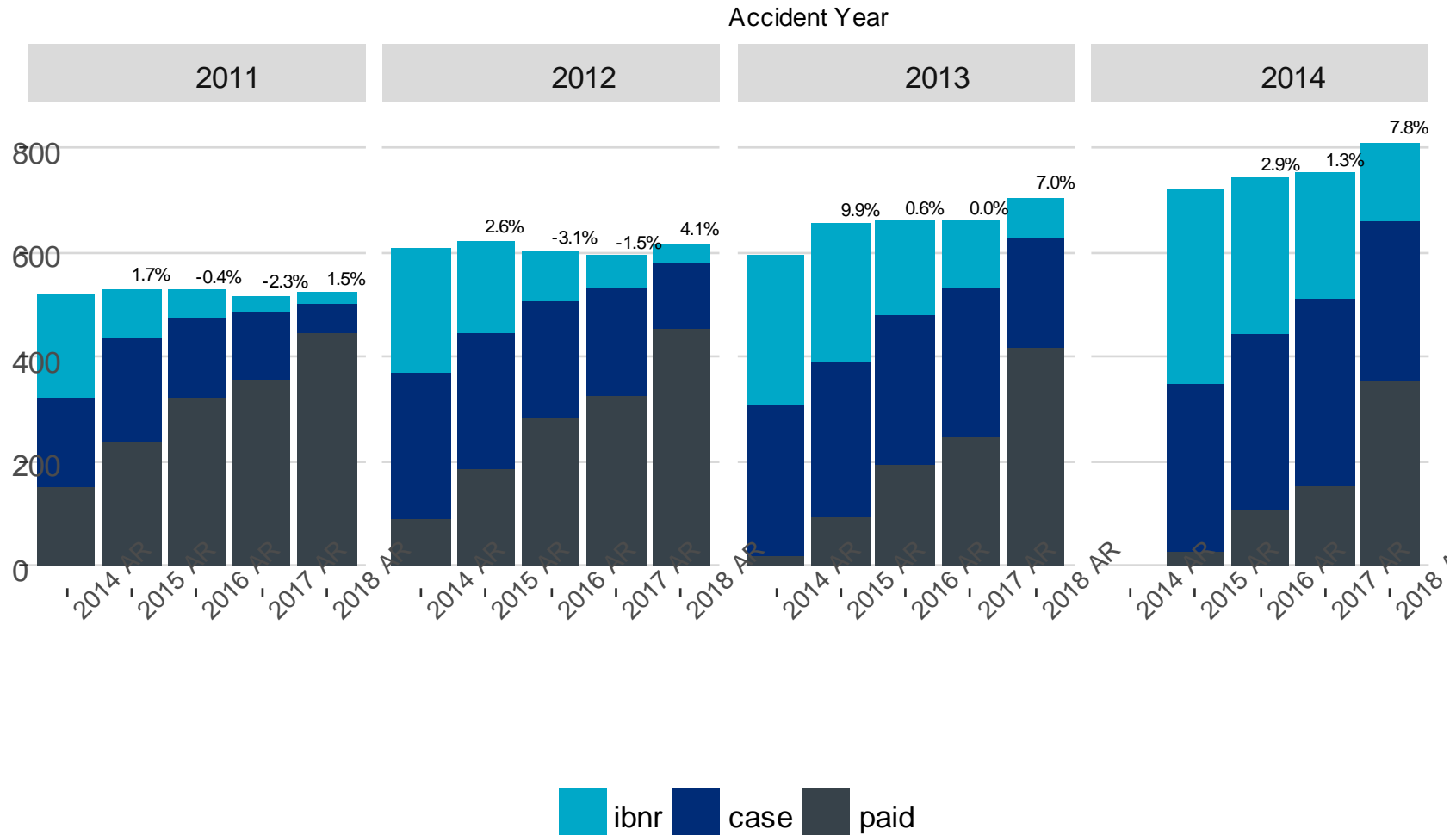
- Industry Comments:
  - Most insurers (Co-operators, Desjardins, Allstate, Aviva, Intact, and TDI) report experiencing adverse development for bodily Injury. Aviva attributes some of the adverse development to a changing injury mix, fewer Minor Injury Regulation (MIR) claims, and increased number of claims with legal representation.
  - Co-operators and other insurers cite Sparrowhawk, and McLean v. Parmar Decisions as adding to the uncertainty of Bodily Injury costs.
  - IBC has also observed adverse development in the Industry claim experience, but less so than Oliver Wyman for 2017; and offers that some of this difference speaks to the uncertainty around Bodily Injury claims costs estimates.

# Industry Benchmarks – Loss Development Factors

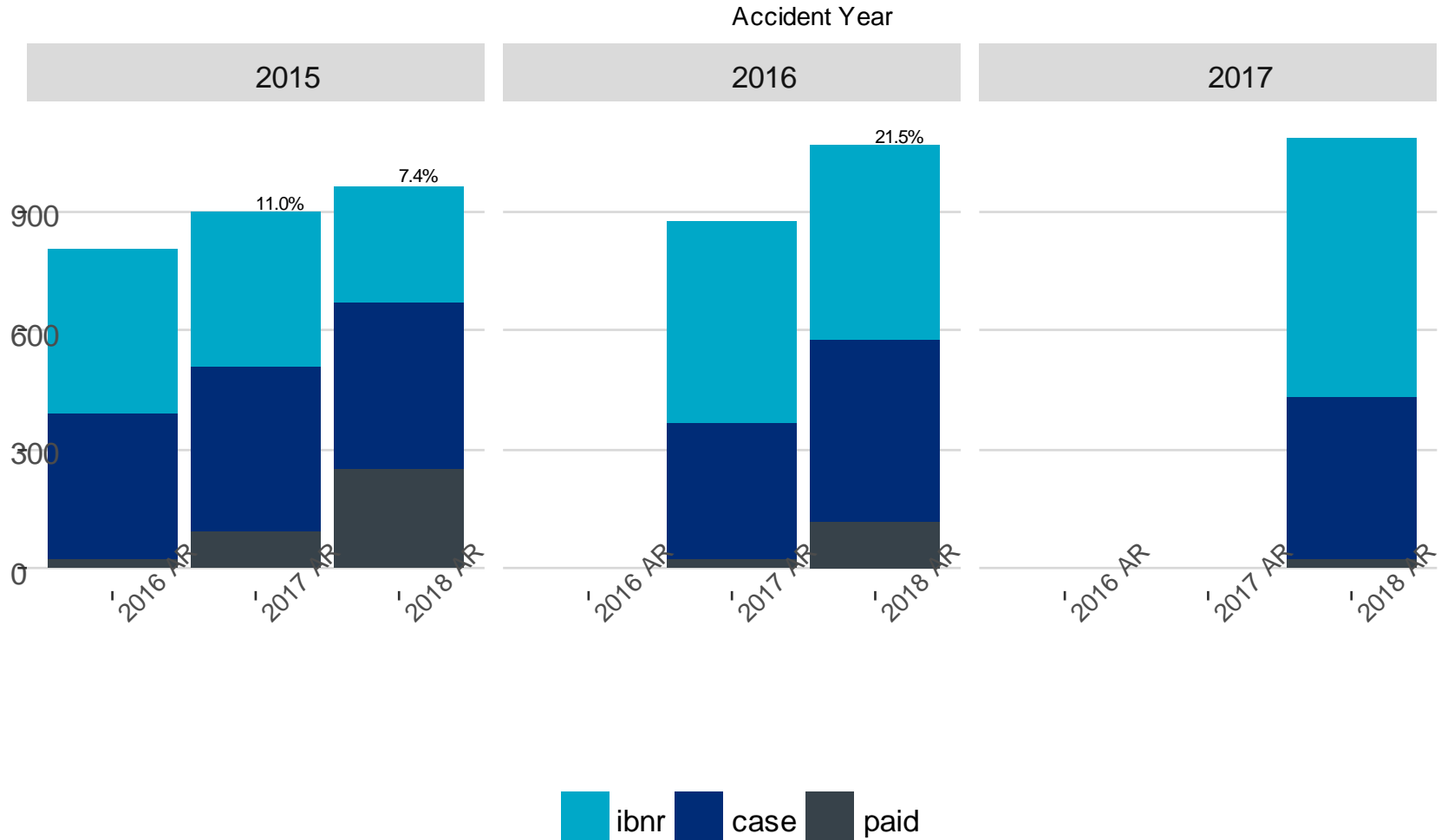
## **Minor Injury Regulation Amendment**

- Co-operators based on its internal data estimates the MIR Amendment would reduce Bodily Injury costs by 3.5%; or its overall rate indications by 1%. Aviva quantified a similar overall reduction in the 1% to 2% range.
- IBC and other insurers are unable to quantify the reduction until more experience emerges as there is uncertainty as to how the courts will interpret the Amendment. Generally, IBC and other insurers felt that the expected reduction would be limited.

# Bodily Injury Estimated Ultimate Claim Amount by Annual Review (\$ millions)



# Bodily Injury Estimated Ultimate Claim Amount by Annual Review (\$ millions)





# Industry Benchmarks – Loss Development Factors

<b>Calendar Year</b>	<b>% TPL BI Prior Year-End Case Reserves Paid During Calendar Year</b>
2012	35.2%
2013	35.4%
2014	36.8%
2015	37.4%
2016	35.8%
2017	39.4%

# Industry Benchmarks

Trends

# Industry Benchmarks - Trends

- The Oliver Wyman recommended loss trends are based on its analysis of the Industry data as of December 31, 2017.
- IBC has performed its own analysis of the same data.

# Industry Benchmarks – Trend

- **Trends** – Oliver Wyman Recommended Trends

	2018 SAR Benchmark	2018 AR OW Rec.	2018 AR IBC Future Rec.
Bodily Injury	+7.5%	+8.5/7.5% (A)	+5.53% (B, C)
Property Damage	+1.5%	+0.5%	+0.77%
Total Accident Benefits	-4.0%	+0.0%/6.0% (D)	+5.46% (E)

- (A) Future Trend Rate of +7.5% begins Oct 2017
- (B) IBC finds reduction beginning 2015-1
- (C) IBC past trend rates not provided
- (D) Level change of +25.0% at January 2015
- (E) Desjardin finds AB trends to be higher

# Industry Benchmarks

- Trends – Oliver Wyman Recommended Trends**

	2018 SAR Benchmark	2018 AR OW Rec.	2018 AR IBC Rec.
Collision	+3.0%	+2.5%	+3.84%
Comprehensive	+3.0%/5.5% (A)	+3.0%/5.5% (B)	+7.37% (C) (D)
All Perils	+5.0%	+4.0%	NA
Specified Perils	+3.0%/5.0%(A)	+12.0%	+7.0%
Underinsured Motorist	+3.0%	+4.0%	NA

- (A) Level change of +7.5% at 2015-1.
- (B) No Update
- (C) Level change of +30.0% in theft costs at 2015-1.
- (D) Intact recommends a trend rate of at least +6%.

# BODILY INJURY

# Issue: Bodily Injury Claim Cost Increases and Trend

- Industry Comments

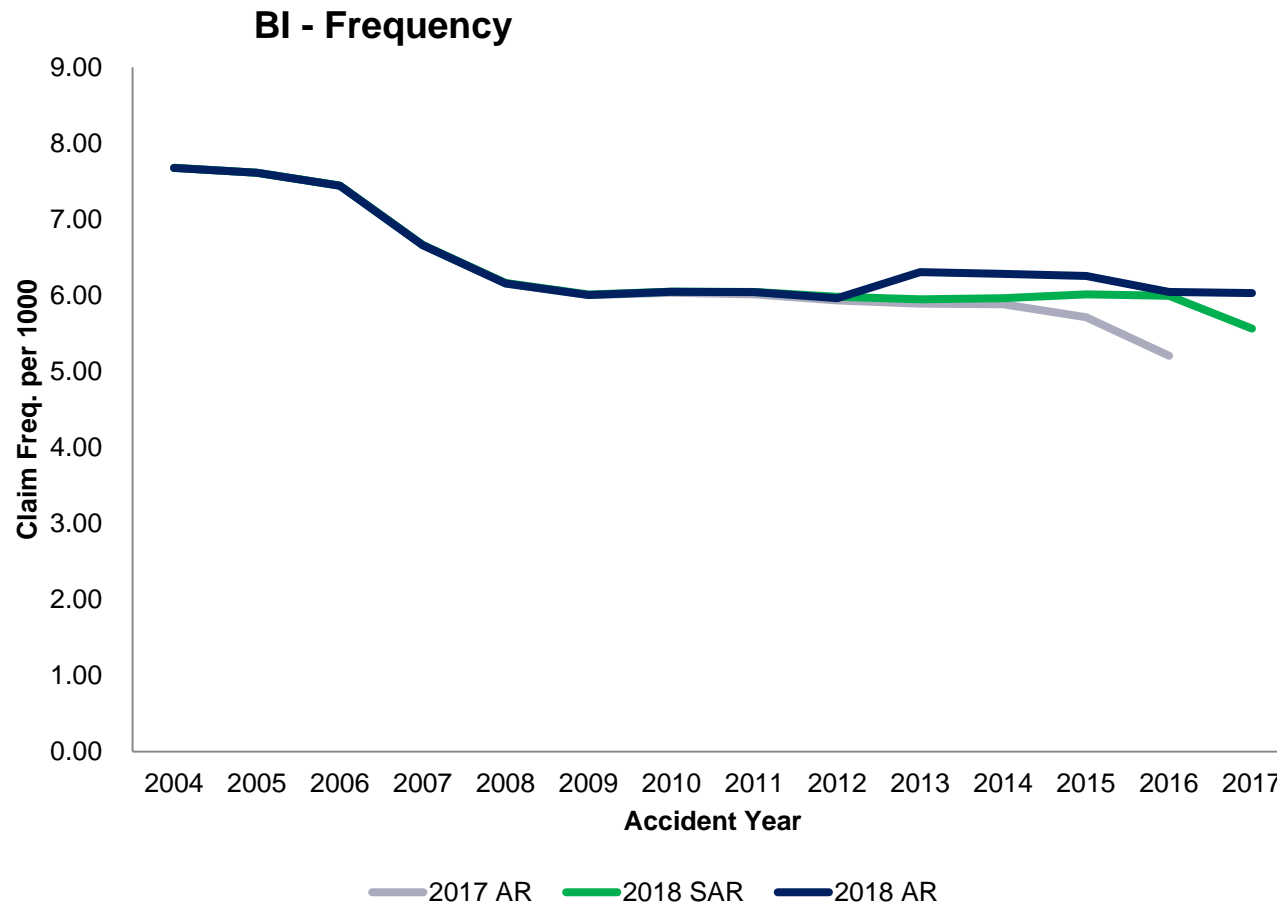
- Insurers commented on the continuing increase in Bodily claim costs (which is reflected in the recommended trend).
- IBC commented on the increase in claims costs since 2013, but noted the increase was less steep beginning 2015.
- No insurer suggested that the MIR Amendments would change the trend rate.

## Issue: Bodily Injury Claim Cost Increases

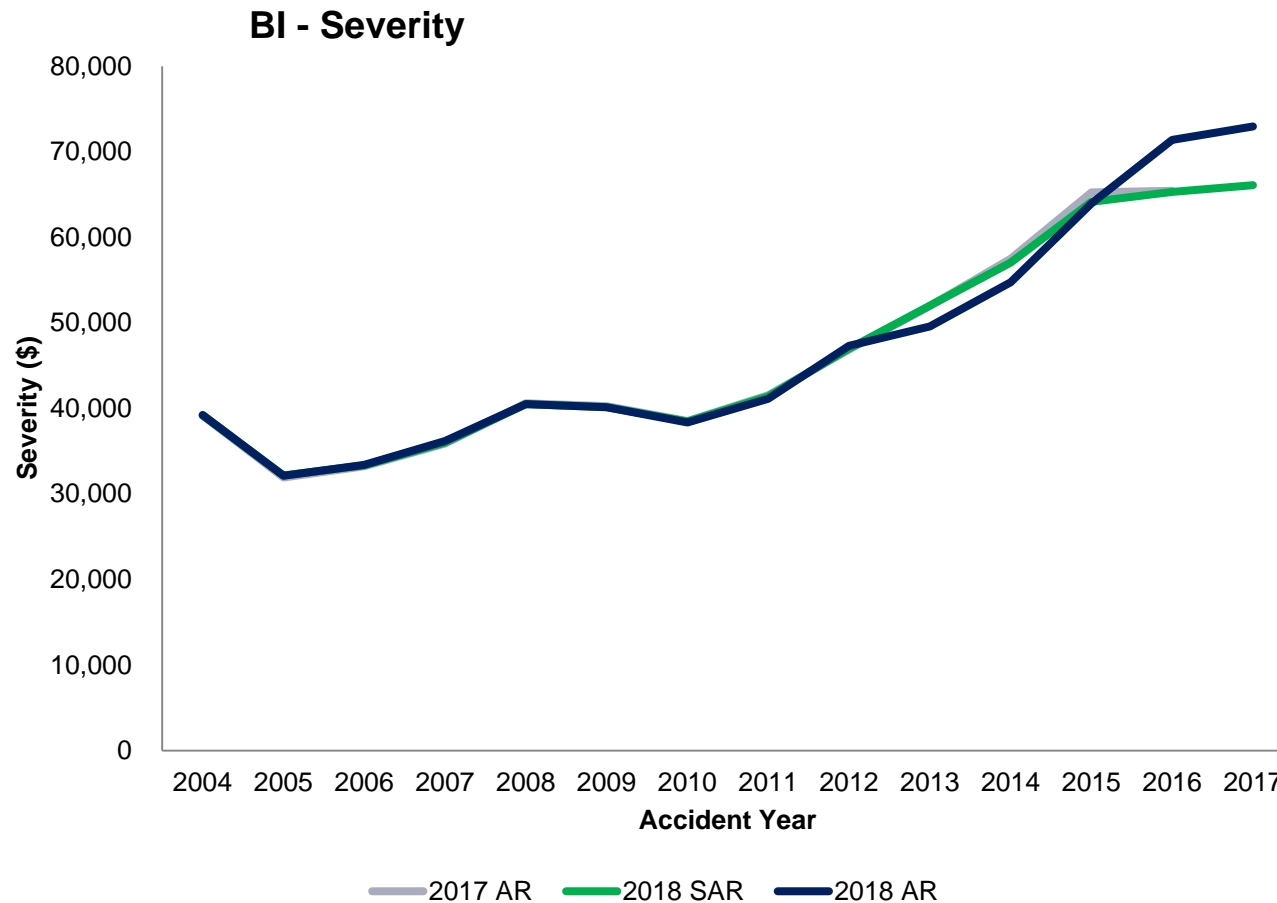
- Others (Intact in particular) echoed prior comments. Reasons given for the claim cost increases include:
  - erosion of the minor injury cap...fewer claims being resolved within the MIR cap (Sparrowhawk v Zapoltinsky and McLean v Parmar rulings cited)
  - increased legal representation and use of strategies to avoid cap limitations (increase number of claims involving psychological impairment, head injuries, chronic pain, and TMD)
  - inefficiency/uncertainty of current Certified Examiner process
  - high (4% interest rate) pre-judgment interest awards; in 2015 Ontario lowered its rate to the bank rate which is currently 0.8%



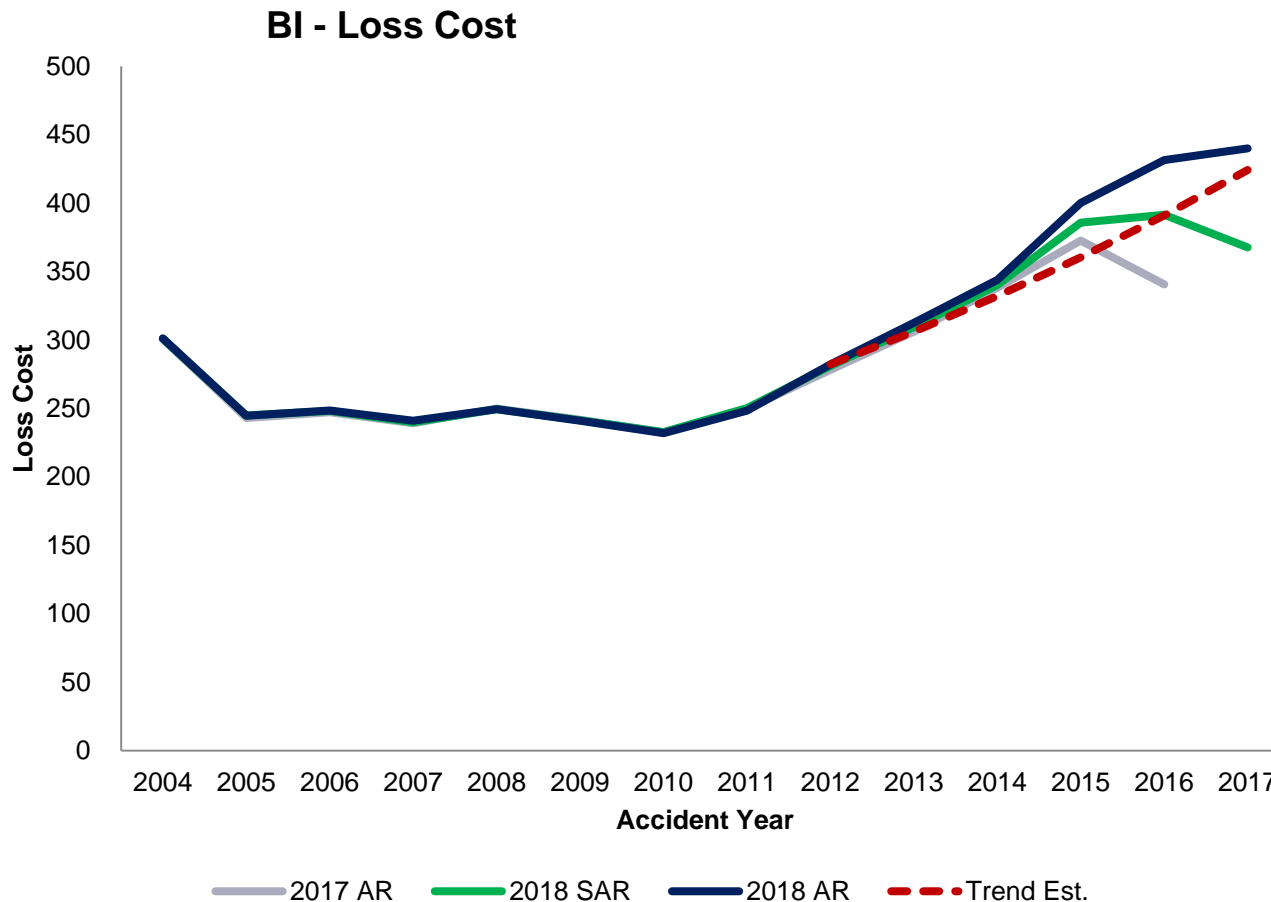
# Alberta: Bodily Injury Frequency



# Alberta: Bodily Injury Severity



# Alberta: Bodily Injury Loss Cost



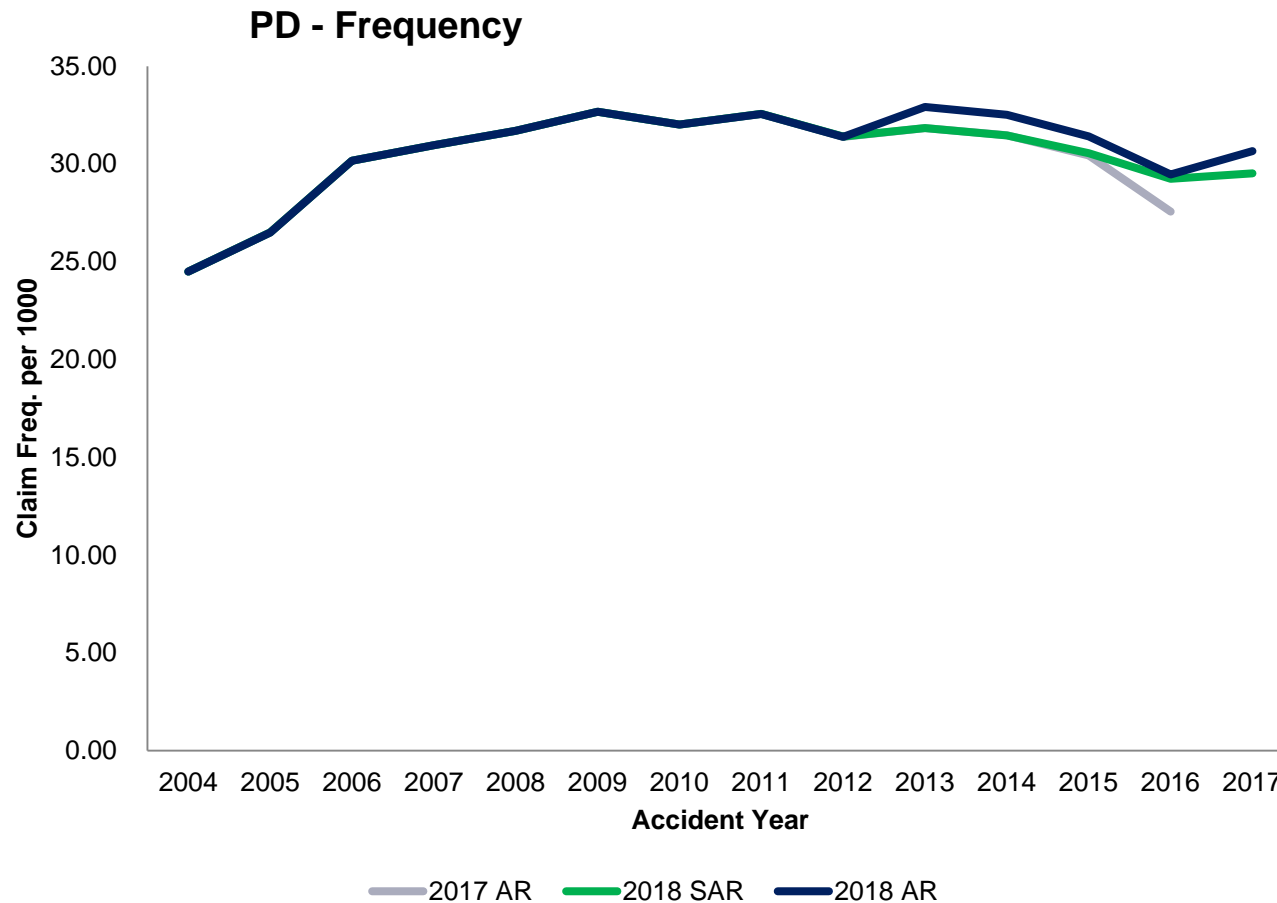
- **2018 Semi Annual Review (SAR) Trend: +7.5%** **2018 Oliver Wyman Preliminary Trend: +8.5%**

# Issue: Bodily Injury Trends

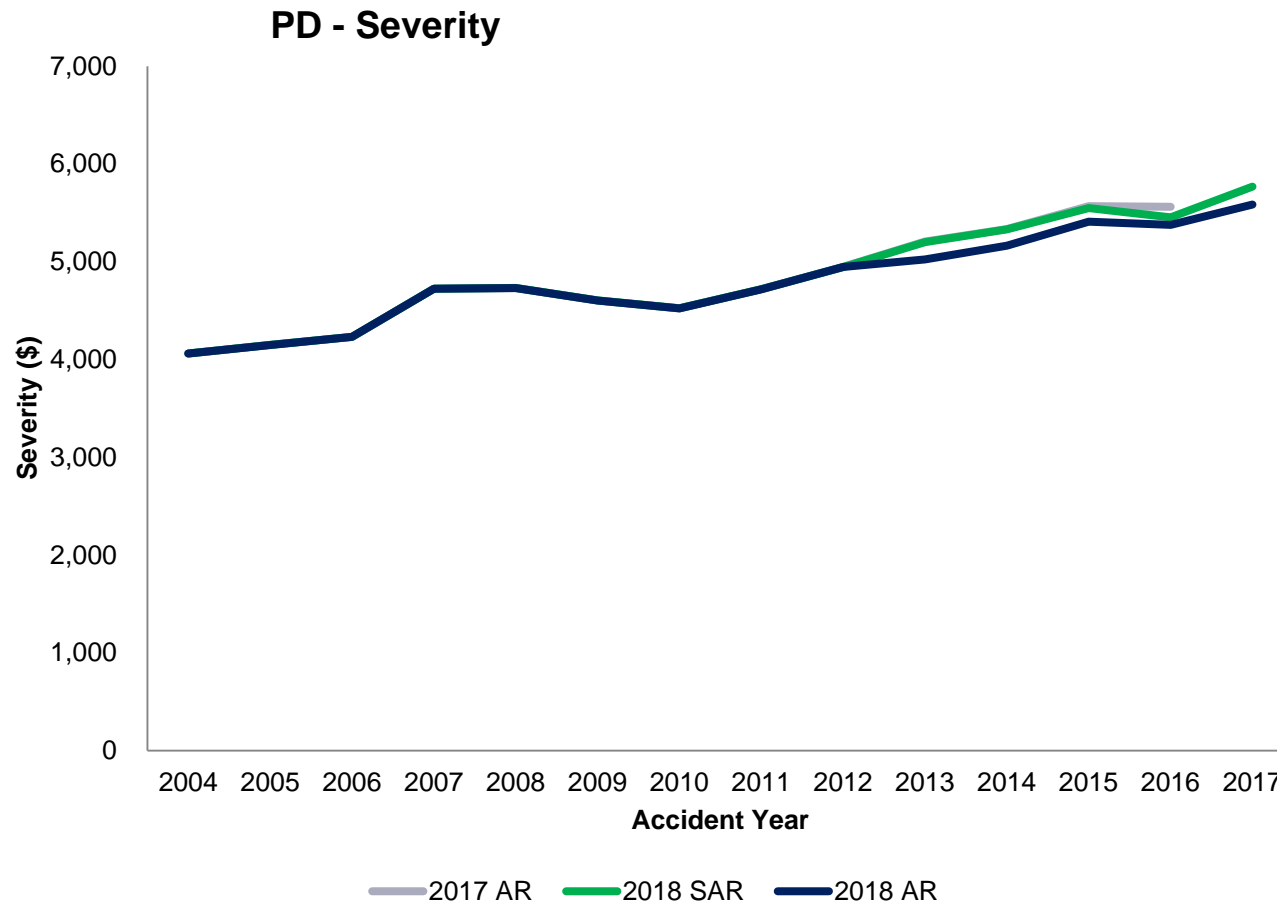
	Trend
Alberta	+8.5%+7.5%
British Columbia	+6% - +8%
Ontario	+0.0%
Nova Scotia	+6.0%
Newfoundland	+3.0%

# PROPERTY DAMAGE

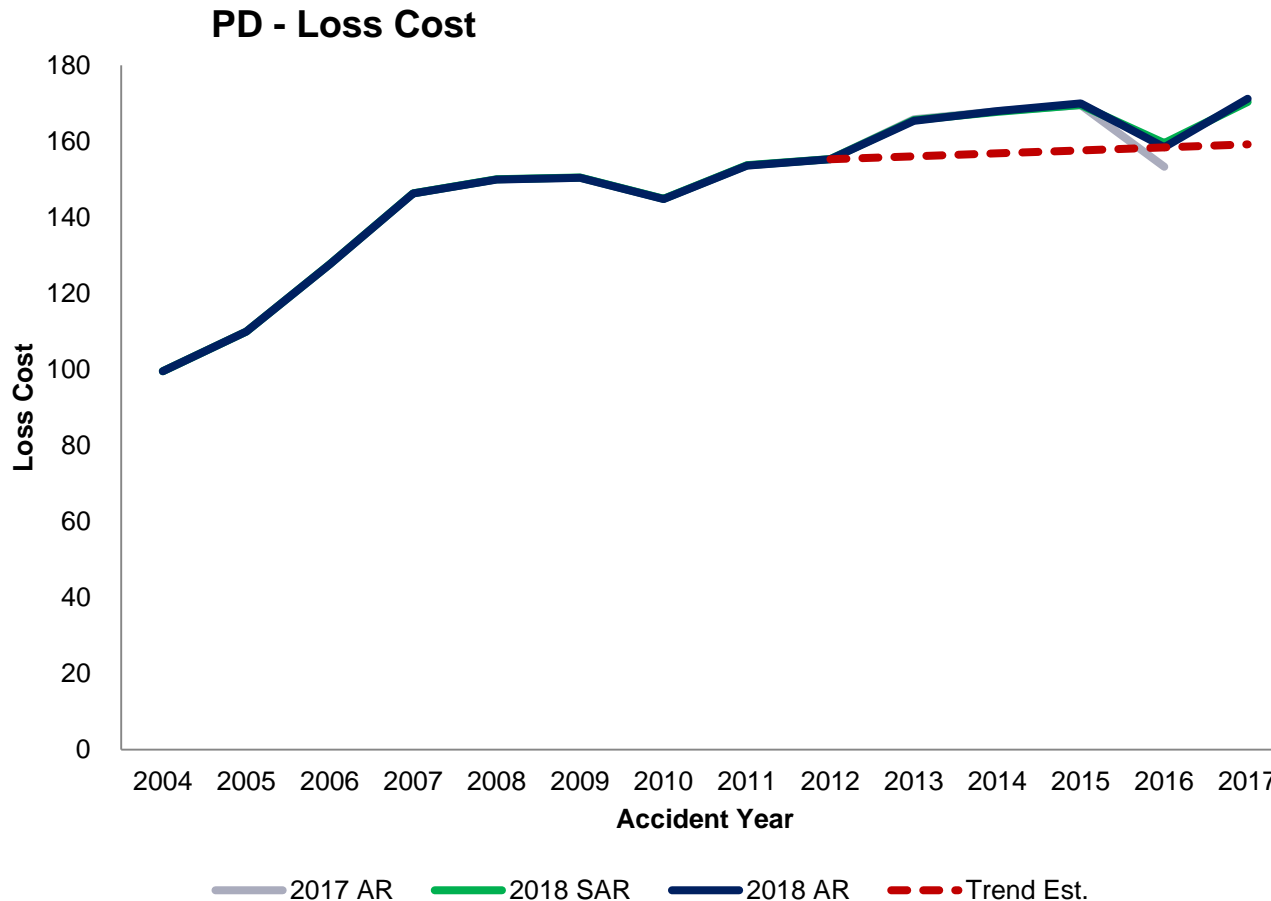
# Alberta: Property Damage Frequency



# Alberta: Property Damage Severity



# Alberta: Property Damage Loss Cost



- **2018 SAR Benchmark Trend: +1.5%**   **2018 Oliver Wyman Preliminary Trend: +0.5%**



AB – Total

# Issue: Medical Benefits - Sharp Claim Cost Increase in 2015

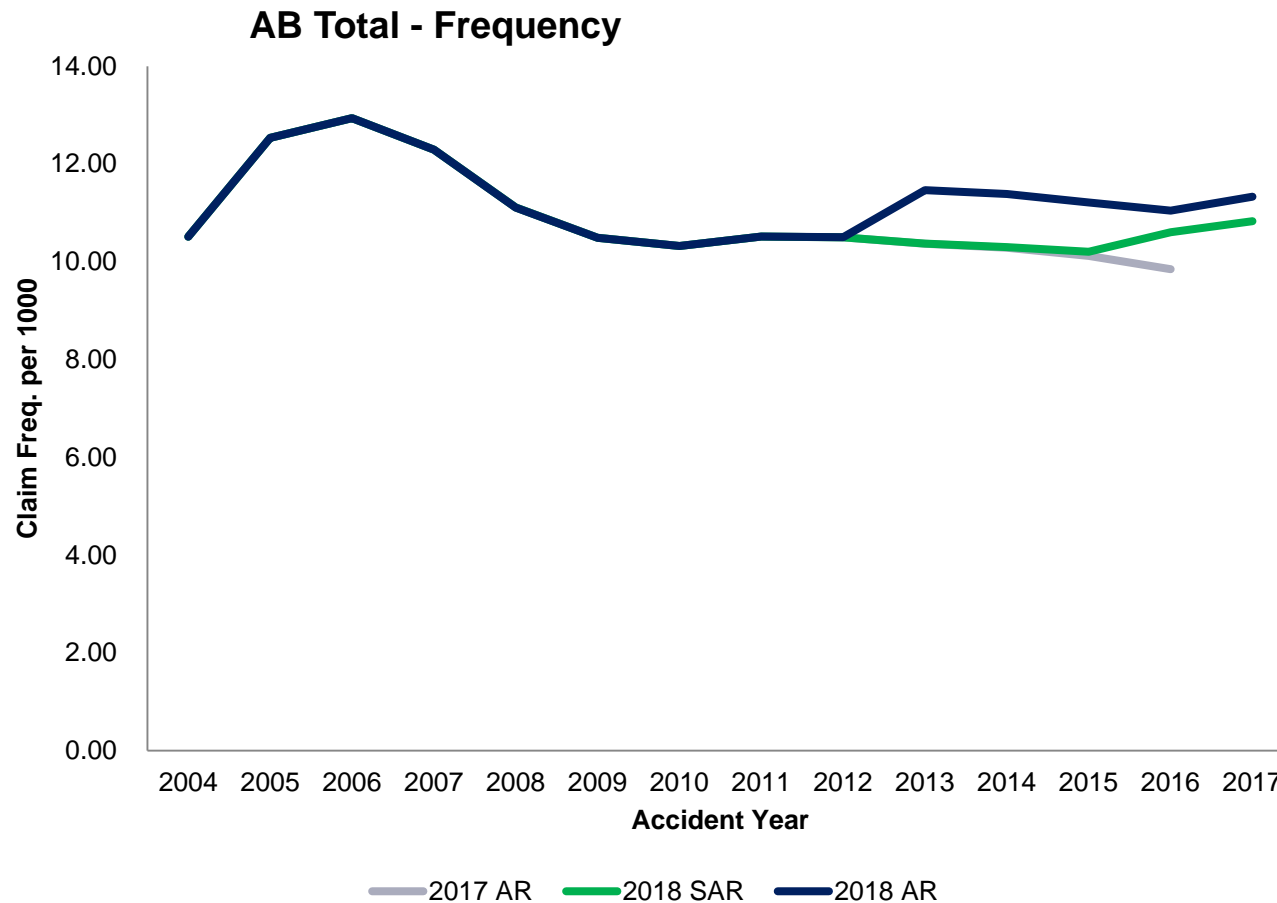
- Industry Comments:
  - IBC attributes the 2015 increase to the prevailing economic conditions, greater legal representation, and/or claimants seeking care for longer.
  - Co-operators hasn't experienced the noted increase in 2015; but instead in 2016
  - Aviva experienced sharp increases in Accident Benefit medical claim costs over 2011-2017
  - Allstate found Medical severity increased beginning 2015
  - Desjardins found higher Medical loss cost trends than Oliver Wyman.

# Issue: Disability Income - Claim Cost Spike in 2015

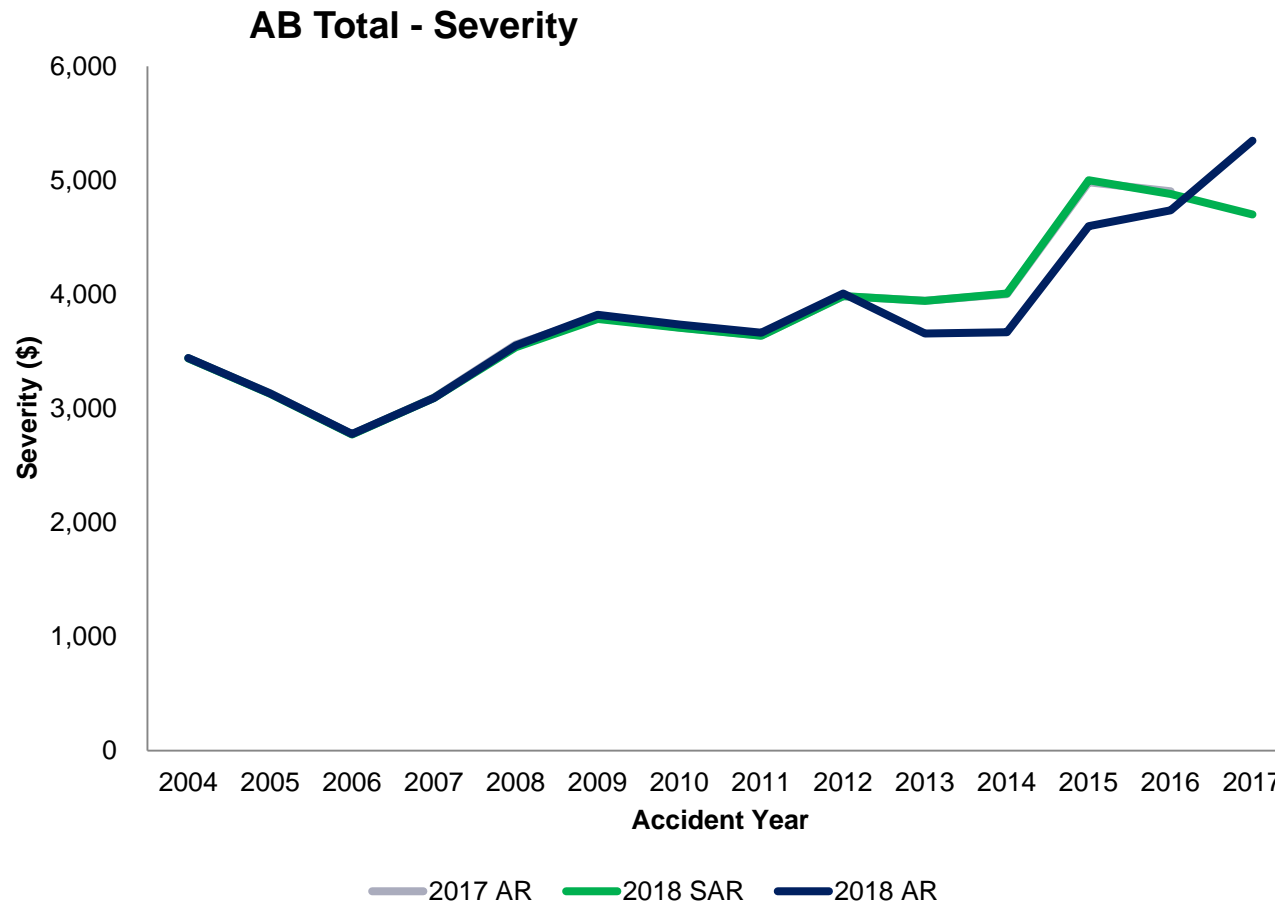
- Industry Comments

- IBC attributes the 2015 increase to the prevailing economic conditions, greater legal representation, and/or claimants seeking care for longer.
- Co-operators hasn't experienced the noted increase in 2015; but instead in 2016
- Desjardin found higher loss cost trends than Oliver Wyman.

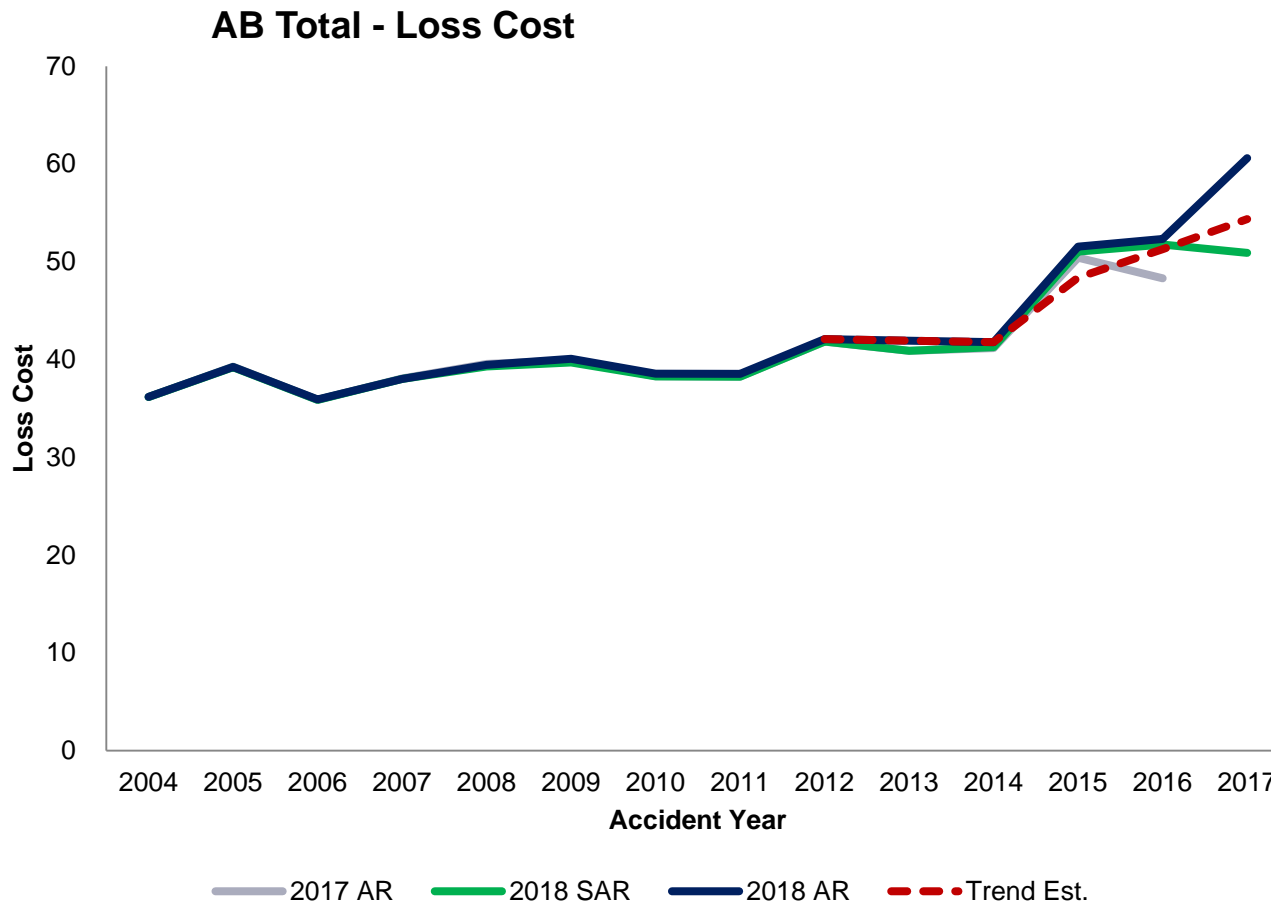
# Alberta: Accident Benefits Total Frequency



# Alberta: Accident Benefits Total Severity



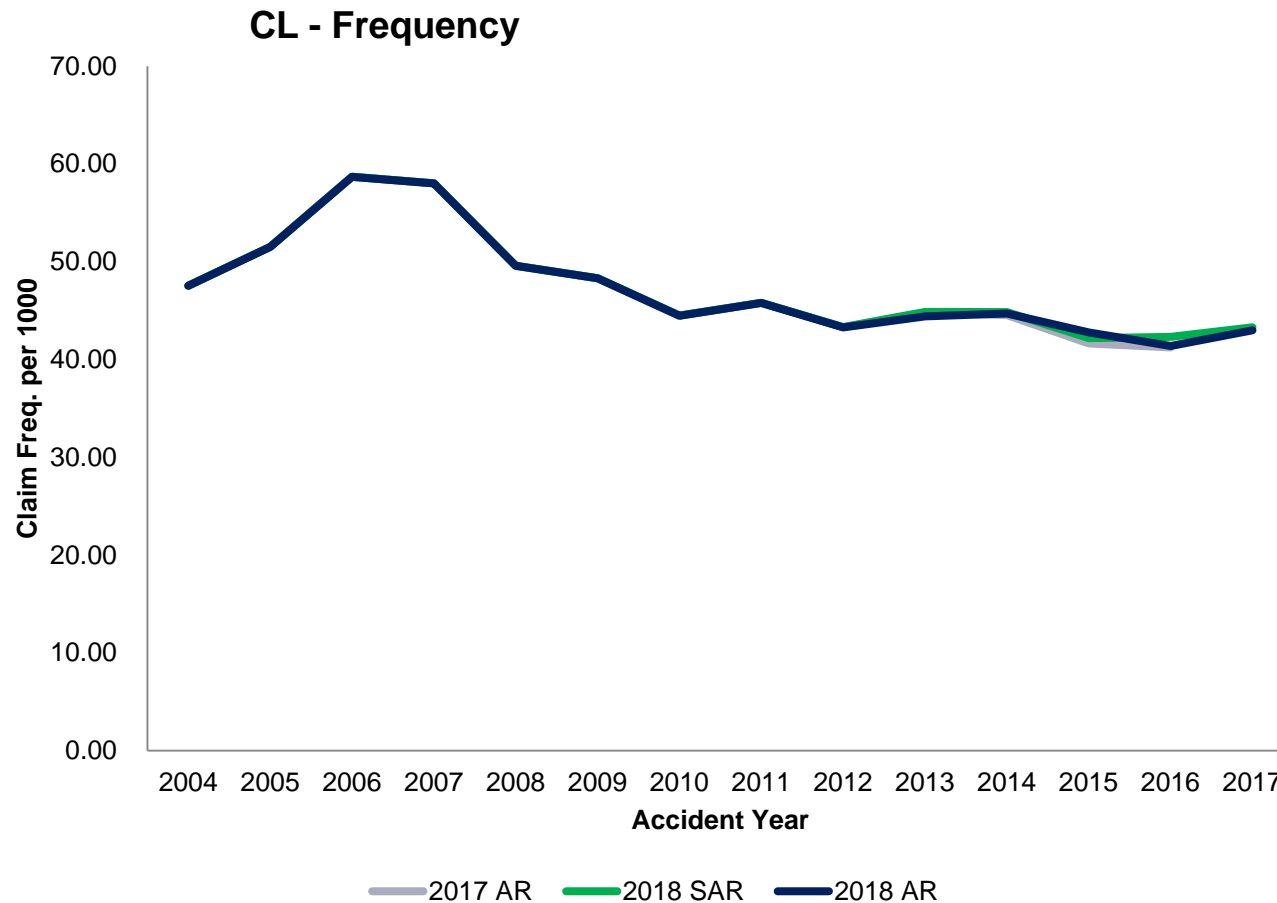
# Alberta: Accident Benefits Total Loss Cost



- **2017 SAR Benchmark Trend: +4.5%** **2018 Oliver Wyman Preliminary Trend: 0.0% to June 30, 2015, then +6.0% With Level Change at 2015-1 of +25%**

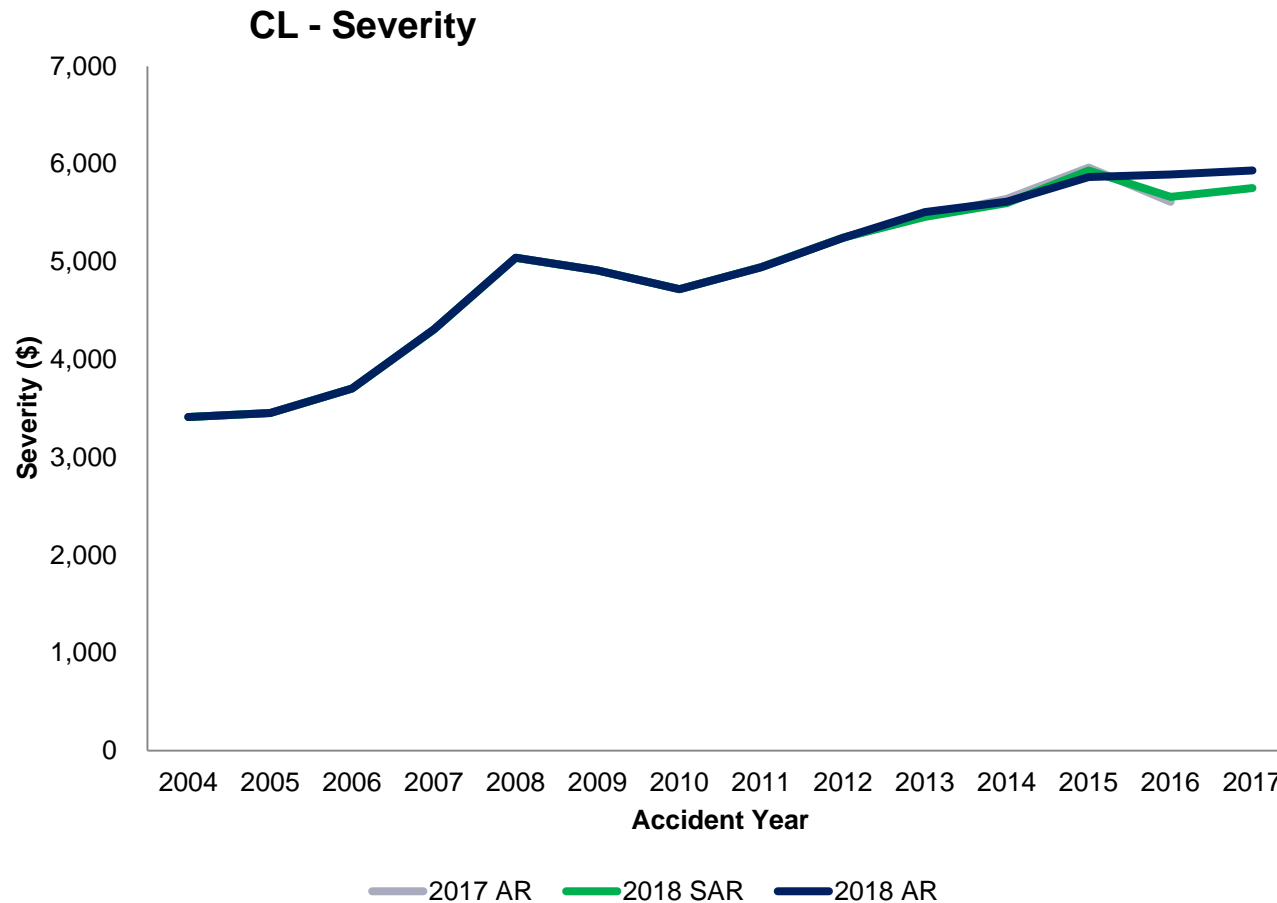
# COLLISION

# Alberta: Collision Frequency

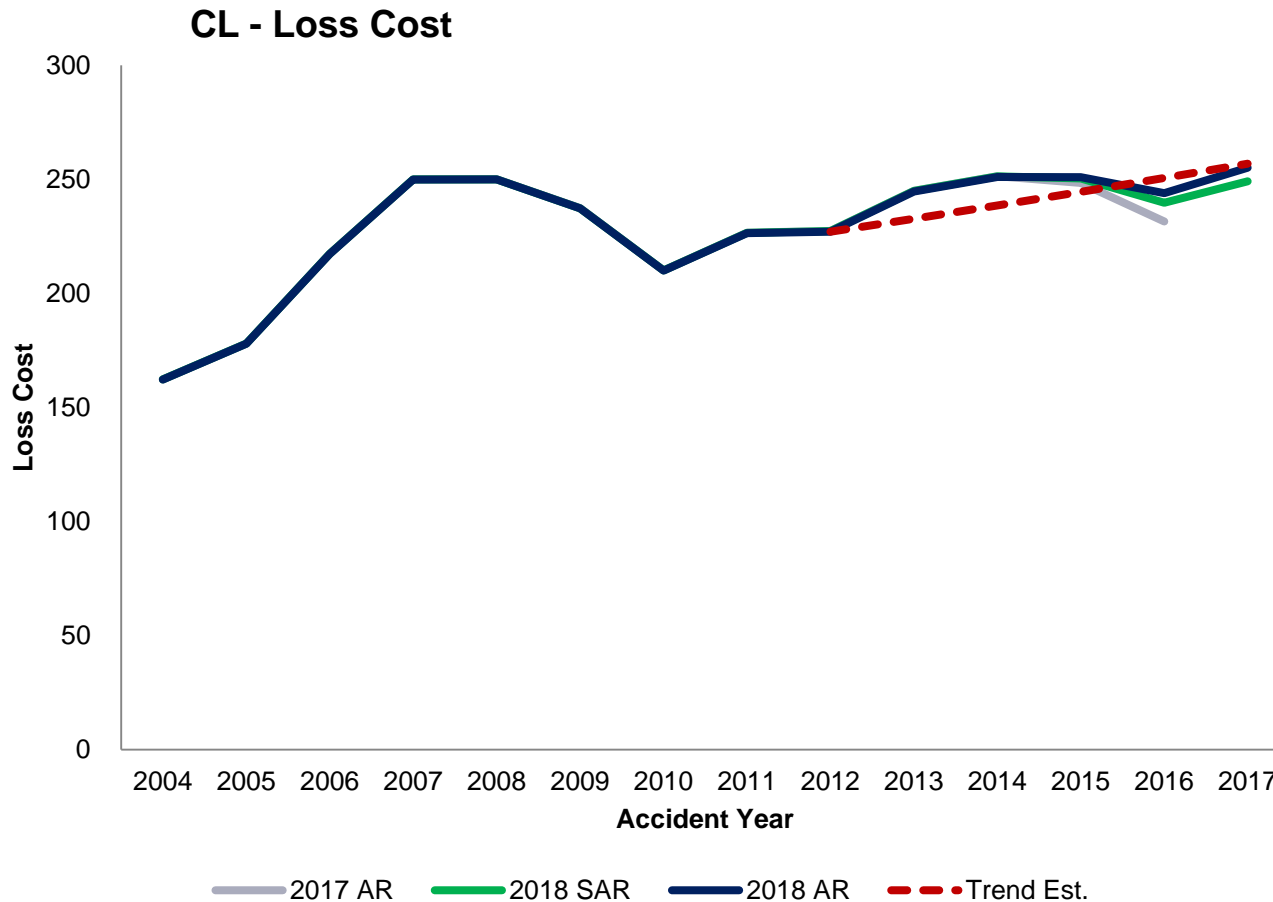




# Alberta: Collision Severity



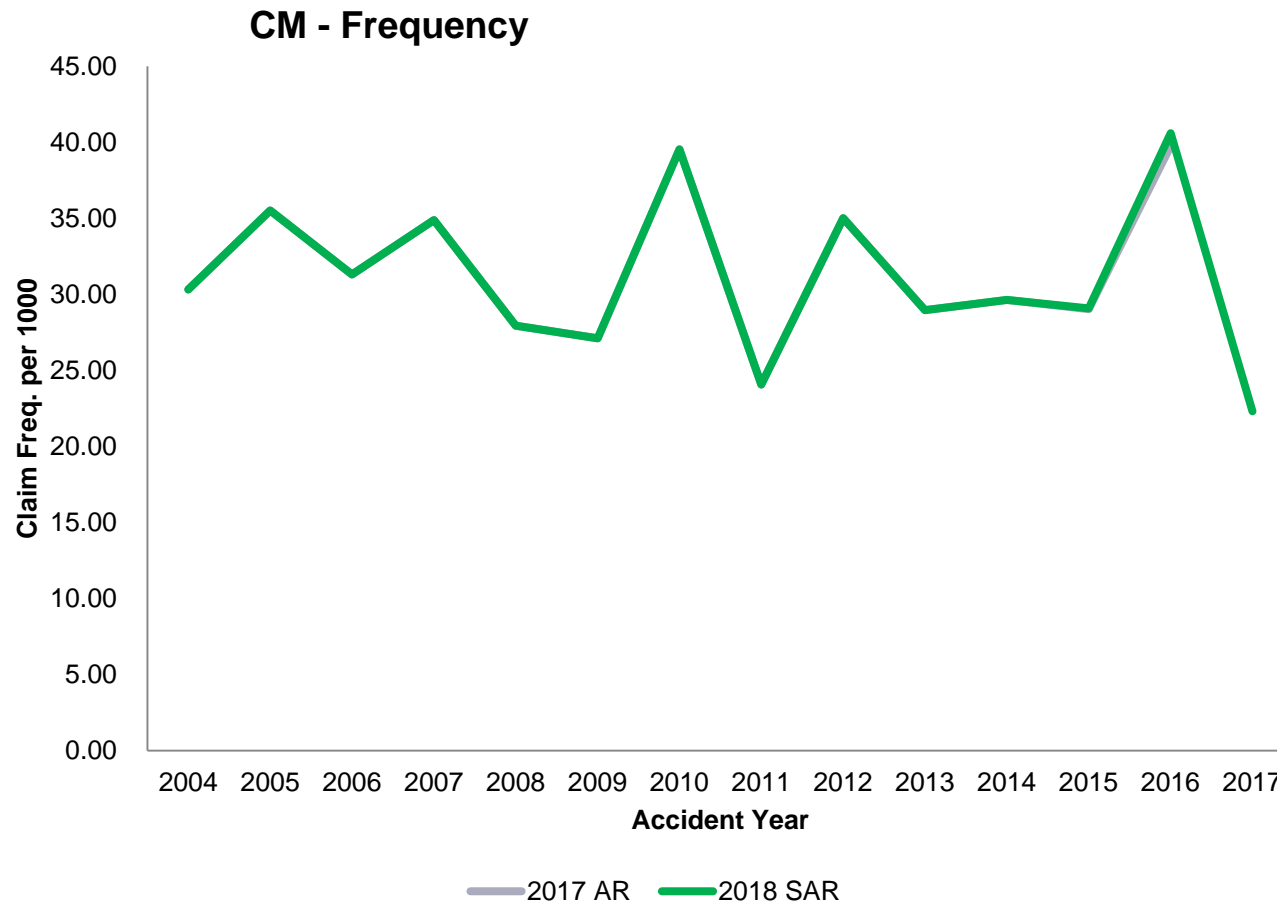
# Alberta: Collision Loss Cost



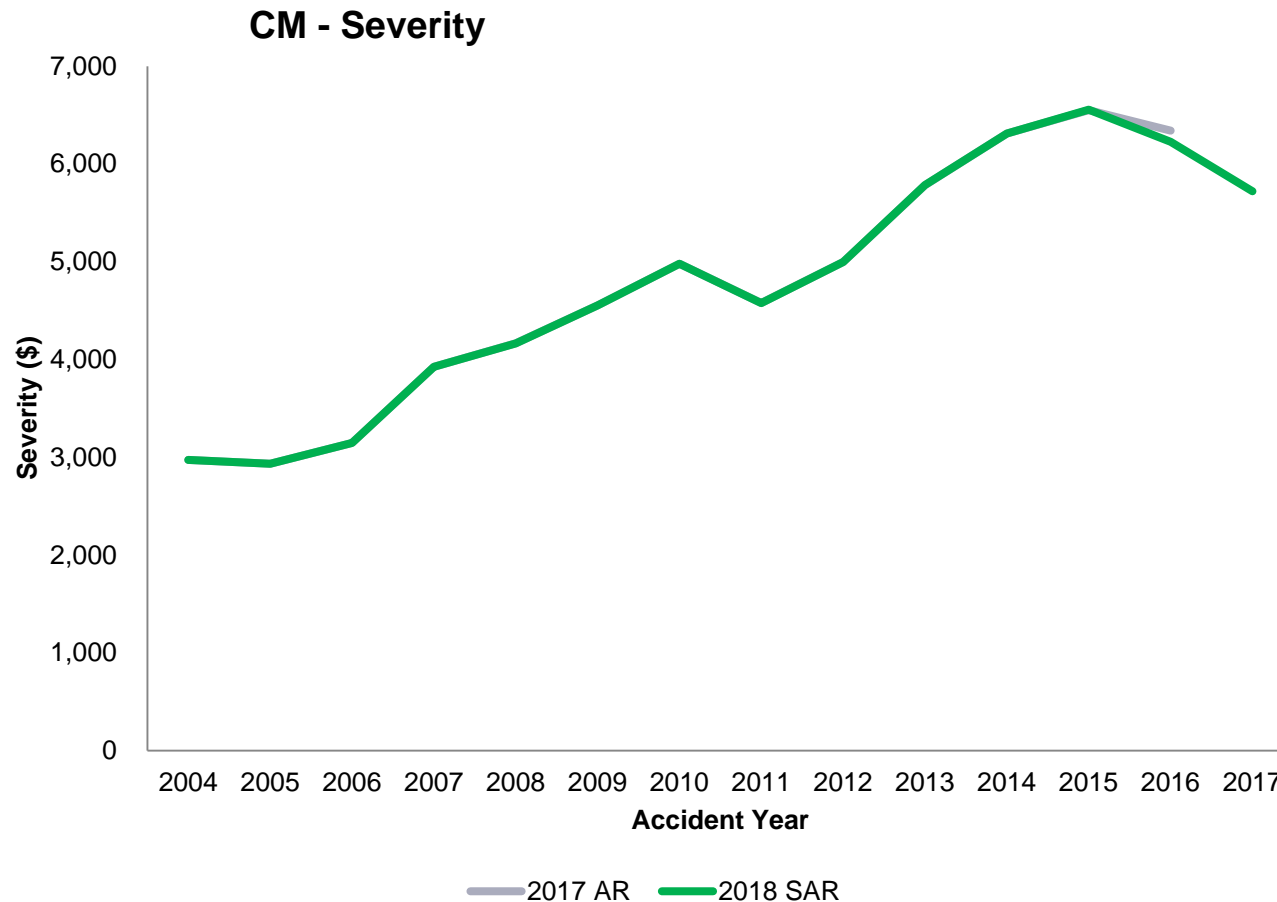
- **2018 SAR Benchmark Trend: +3.0%** **2018 AR Oliver Wyman Preliminary Trend: +2.5%**

# COMPREHENSIVE

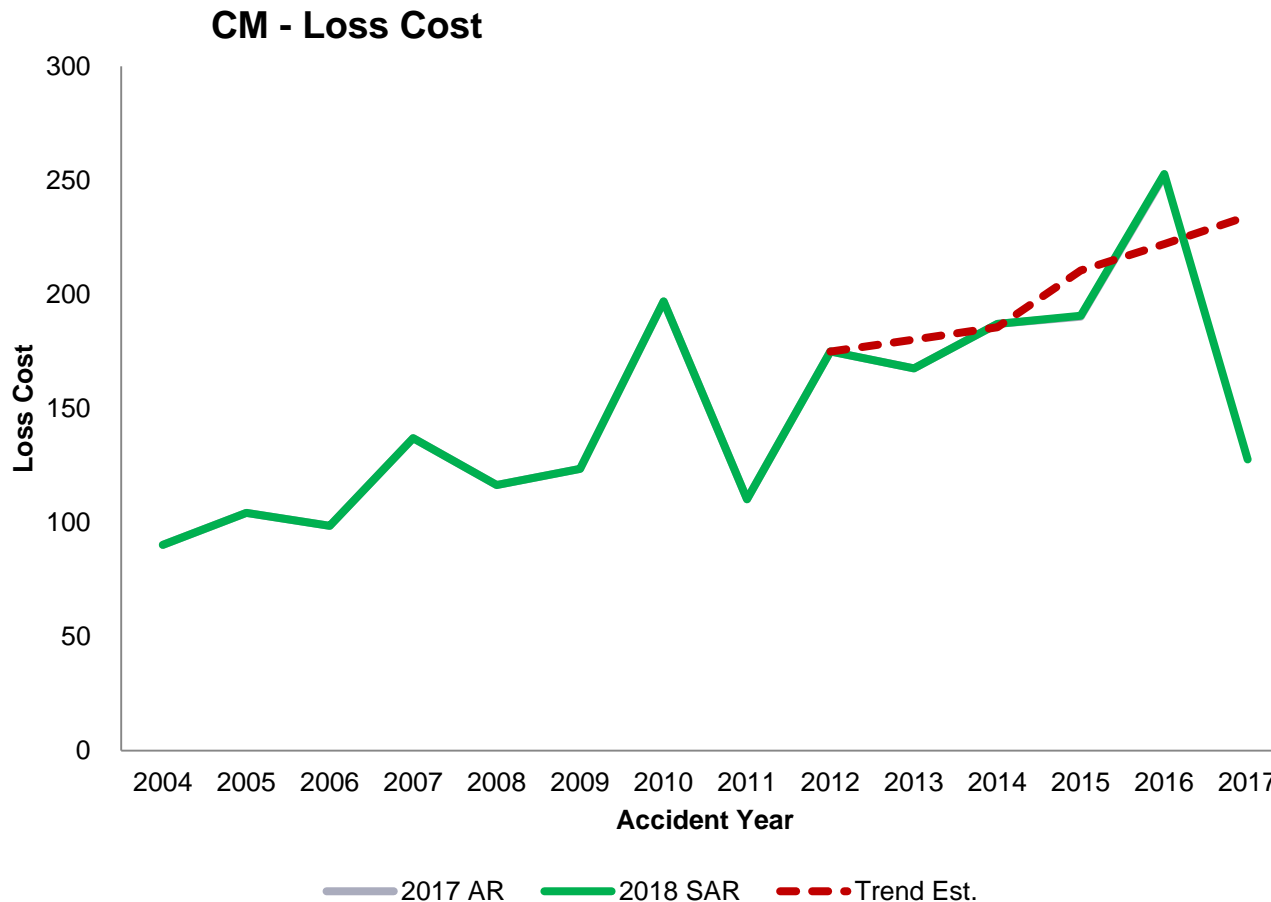
# Alberta: Comprehensive – Total Frequency



# Alberta: Comprehensive - Total Severity

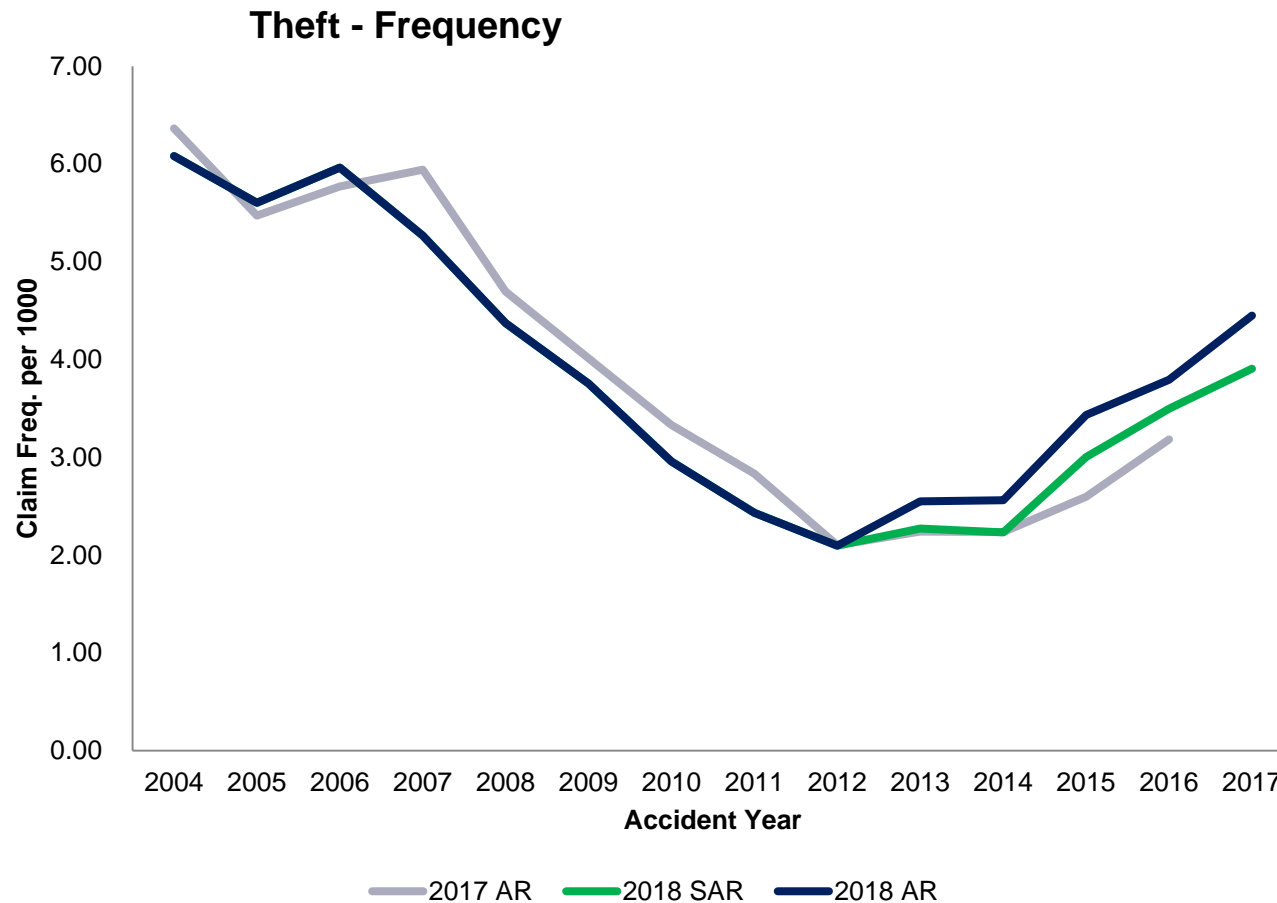


# Alberta: Comprehensive – Total Loss Cost

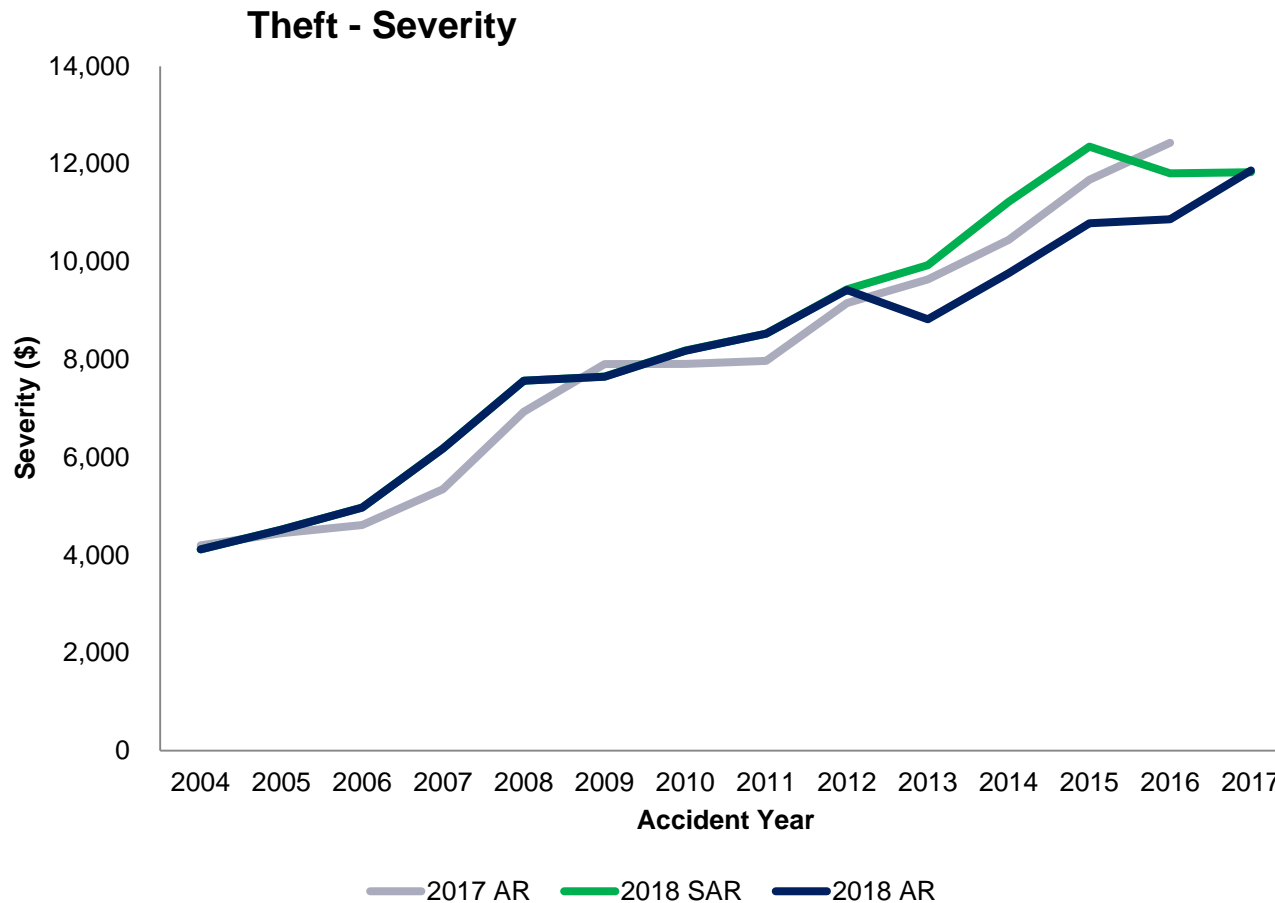


- **2017 SAR Benchmark Trend: +5.0%** **2017 Oliver Wyman Preliminary Trend: +5.5% With Level Change of +7.5% at 2015-1**

# Alberta: Comprehensive - Theft Frequency

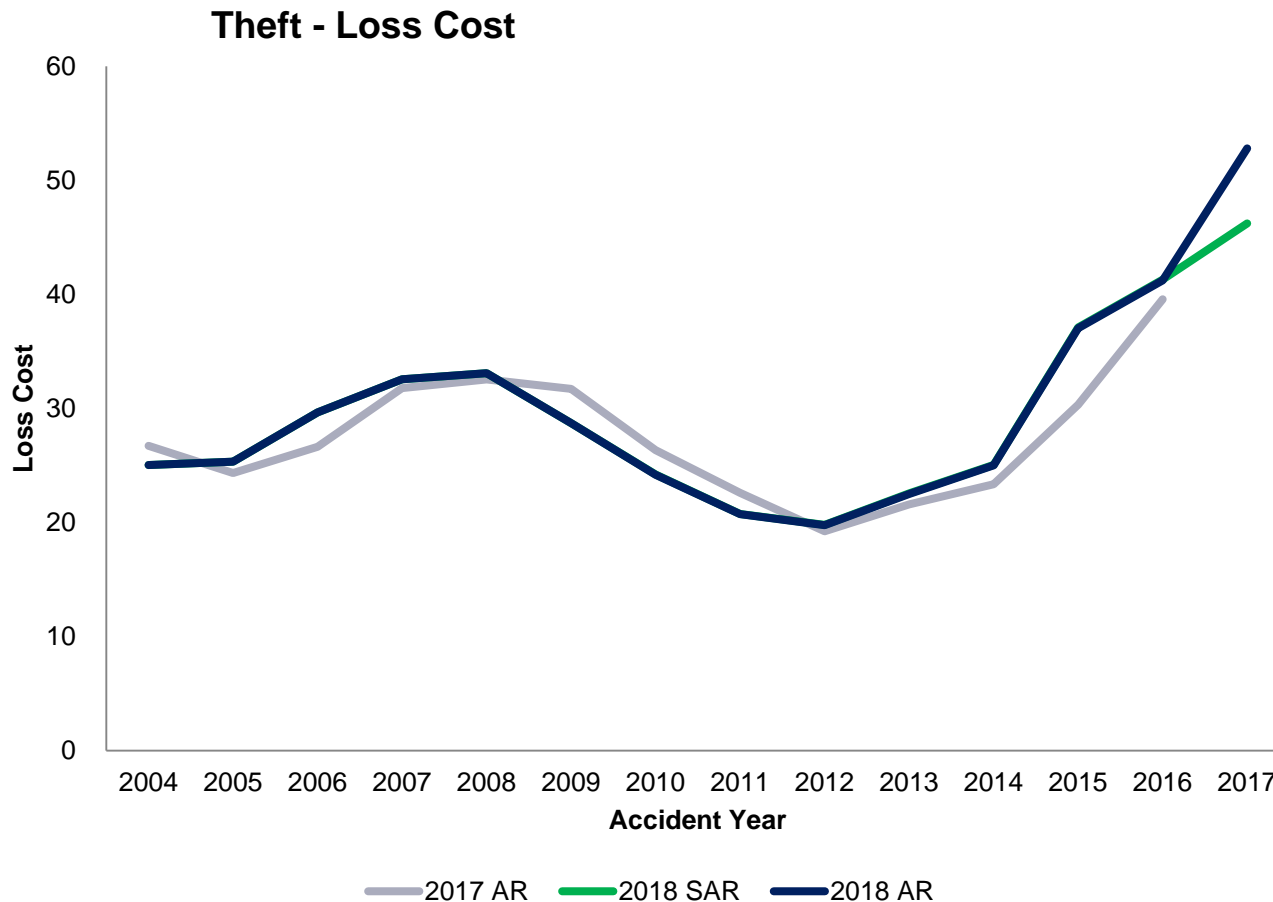


# Alberta: Comprehensive – Theft Severity





# Alberta: Comprehensive – Theft Loss Cost



# Issue: Rise in Theft Claims

- IBC and other insurers also acknowledge the recent sharp increases in theft claim frequency.

# Issue: Theft Claims

## Comparison of Theft Frequency Rates per 100 Vehicles

Accident Year	Alberta	Ontario	Nova Scotia
2013	.26	.12	.09
2014	.26	.11	.08
2015	.34	.11	.07
2016	.38	.11	.08
2017	.45	.12	.07
5-Year % Change	+76%	+4%	-18%

- Source: GISA AUTO7001 as of December 31, 2017
- Reported claim counts as of December 31, 2017

