

An aerial photograph of a multi-lane highway. A white and red train is crossing the highway via a bridge. Several cars are visible on the road. The sky is blue with scattered white clouds. The text is overlaid on the left side of the image.

2020 ANNUAL INDUSTRY REVIEW PRELIMINARY FINDINGS PRIVATE PASSENGER AUTOMOBILE

PRESENTATION TO THE AUTOMOBILE INSURANCE RATE BOARD
August 20, 2020

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BACKGROUND AND ECONOMIC INFORMATION

BACKGROUND

- The Automobile Insurance Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. One component of the review is to analyze insurance industry experience and develop benchmarks.
- The benchmarks are for use in evaluating rate filings, measuring Industry performance, and for calculating the rate level needs of the Grid.
- The benchmarks are based on aggregated insurance industry data without identification of underlying “causes” (such as judicial decisions or evolving interpretation of reforms) for changes in average claim values or 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

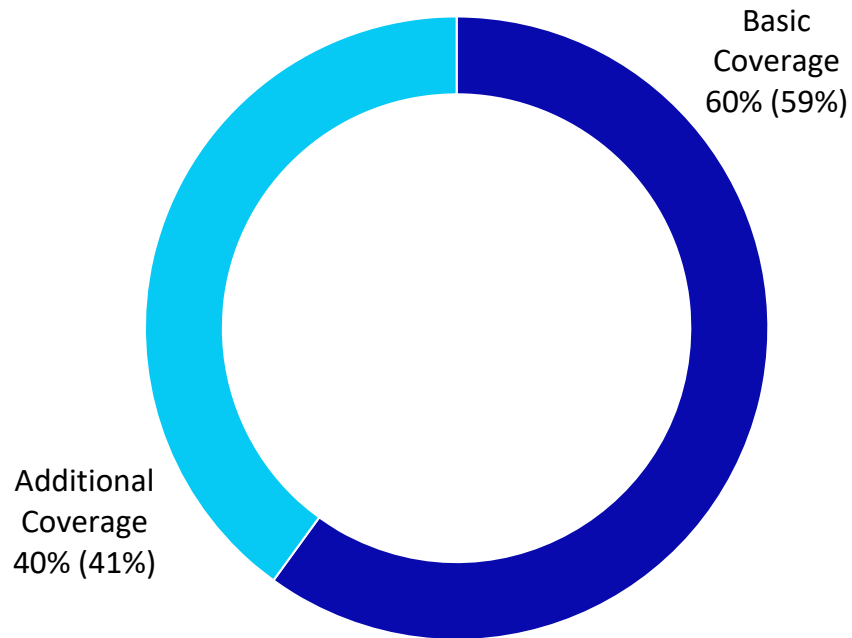
TERMINOLOGY

- **2020 SAR**- Semi Annual Review based on mid-year Industry data as of June 30, 2019
- **2020 AR** - Annual Review based on year end Industry data as of December 31, 2019
- **Basic Coverages:** and
 - Third Party Liability (TPL): Bodily Injury and Property Damage
 - Accident Benefits (AB): Medical, Disability Income, Death Benefits, Funeral, and Uninsured Auto
- **Additional Coverages**
 - Collision
 - Comprehensive
 - Specified Perils
 - All Perils
 - Underinsured Motorists

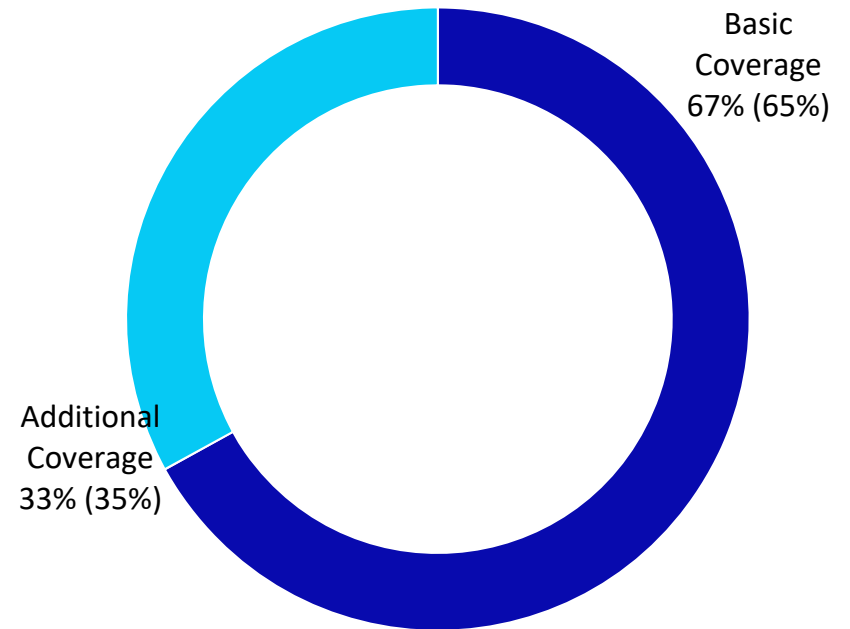
DISTRIBUTION OF PREMIUMS AND COSTS

Basic and Additional Coverage

2019 Written Premium (2018)



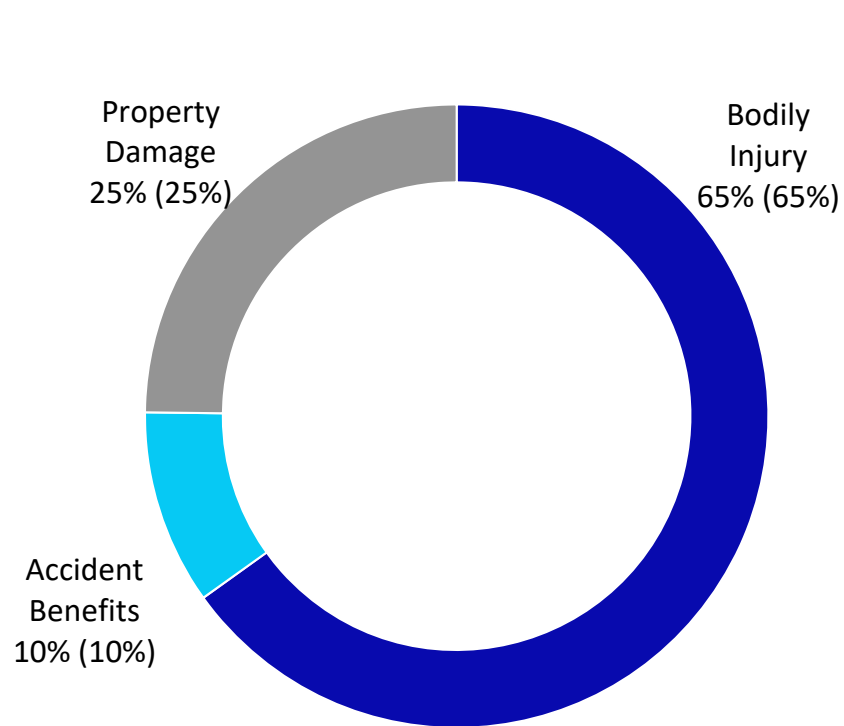
2019 Ultimate Claim Cost (2018)



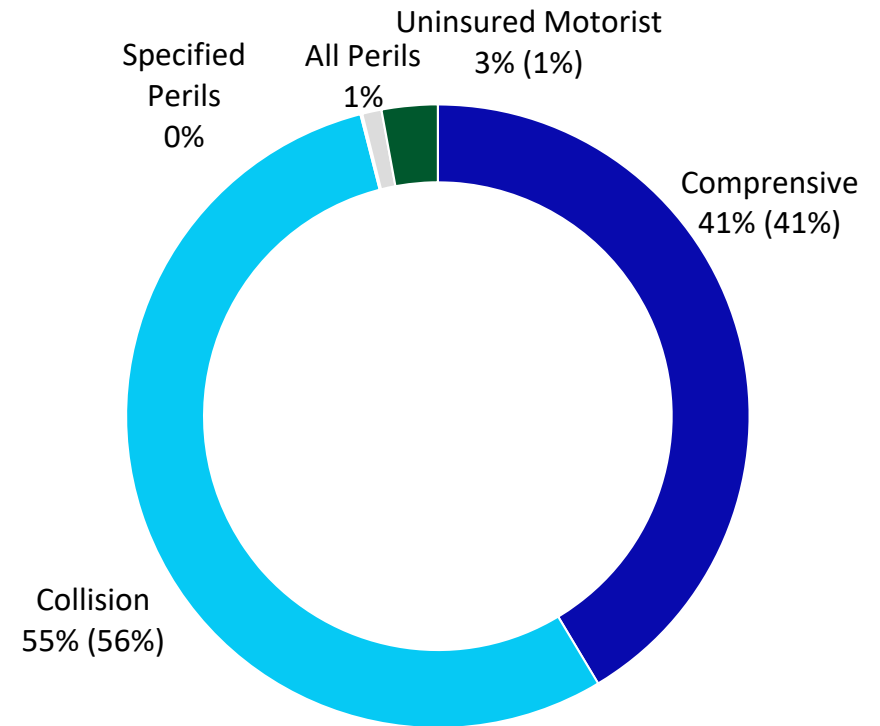
DISTRIBUTION OF PREMIUMS AND COSTS

Basic and Additional Coverage

2019 Basic Coverages (2018)



2019 Additional Coverages (2018)



CHANGE IN ECONOMIC CONDITIONS



	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Alberta Unemployment Rate	7.6% (June)	6.7% (June)	6.7% (June)	15.5% (June)
Alberta CPI (Total)	136.9 (June)	140.7 (June)	142.7 (June)	145.0 (June)
Alberta CPI (ex. Energy)	136.1 (June)	138.2 (June)	141.3 (June)	143.7 (June)
Alberta Gasoline CPI	96.3 (June)	127.1 (June)	103.6 (June)	95.1 (June)
Natural Gas Prices (\$/GJ)	\$2.39 (June)	\$0.75 (June)	\$0.55 (June)	\$1.66 (May)
3 Year Canada Benchmark Bond Rates	1.12% (June)	1.84% (June)	1.42% (June)	0.32% (June)
# Insured Cars	2.72 million	NA	NA	NA
Population	4.23 million	4.28 million	4.35 million	4.43 million

ALBERTA UNEMPLOYMENT RATE



INVESTMENT RATE

Government of Canada Benchmark Bond Yields
3 Year



COVID-19



- The impacts of COVID-19 on the Private Passenger Auto industry is unpredictable. The pandemic has caused a vastly reduced number of vehicles on the road and thus we expect a large decrease in the number of claims filed. The pandemic will have a large effect on the 2020-01 period and likely on the 2020-02 and possibly subsequent period.

Stakeholder Comments

- Several insurers including FA, Co-operators, Aviva and TD have begun to implement consumer discounts for the reduced amount of driving occurring.
- Decreases in frequency have been particularly apparent from most insurers.
- IBC notes that as economies reopen more consumers are choosing to drive their vehicles and avoid using public transportation, this may have an impact on claims, but it is too early to tell.
- Aviva is concerned the decreased frequency will be offset by increased severity due to late reported claims and inability to access treatment during economic shutdown. They noted as economic recovery starts, mobility reports suggest transit use in Edmonton and Calgary has been significantly reduced and more people are driving as compared to pre COVID.

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RATE FILING BENCHMARKS

BENCHMARKS

- Unallocated Loss Adjustment Expenses
- Catastrophe Loading
- Investment Income Rate
- Health Cost Recovery
- Administrative Expenses
- Profit
- **Loss Development Factors**
- **Loss Trend Rates**

UNALLOCATED LOSS ADJUSTMENT EXPENSES

- In determining their rate level needs, insurers should include provisions for loss adjustment expenses (LAE) that are based on their experience.
 - Allocated loss adjustment expenses (ALAE): legal expenses associated with claim settlement) and
 - Unallocated loss adjustment expenses (ULAE): the claim and settlement related expense that cannot be associated directly with individual claims
- 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.

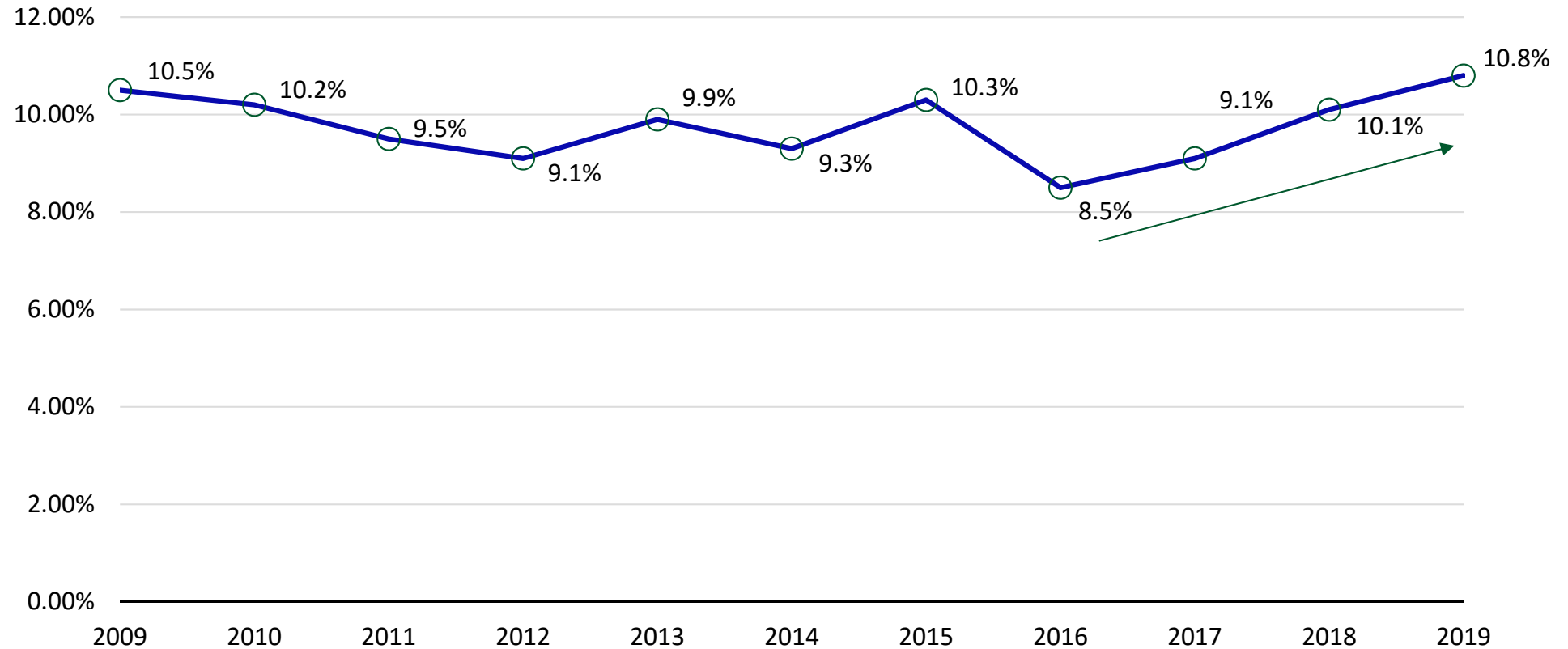
Stakeholder Comments

- Stakeholders did not state any agreement or objections to the ULAE provision.

UNALLOCATED LOSS ADJUSTMENT EXPENSES

GISA ULAE Factors

ULAE / (Loss + ALAE)



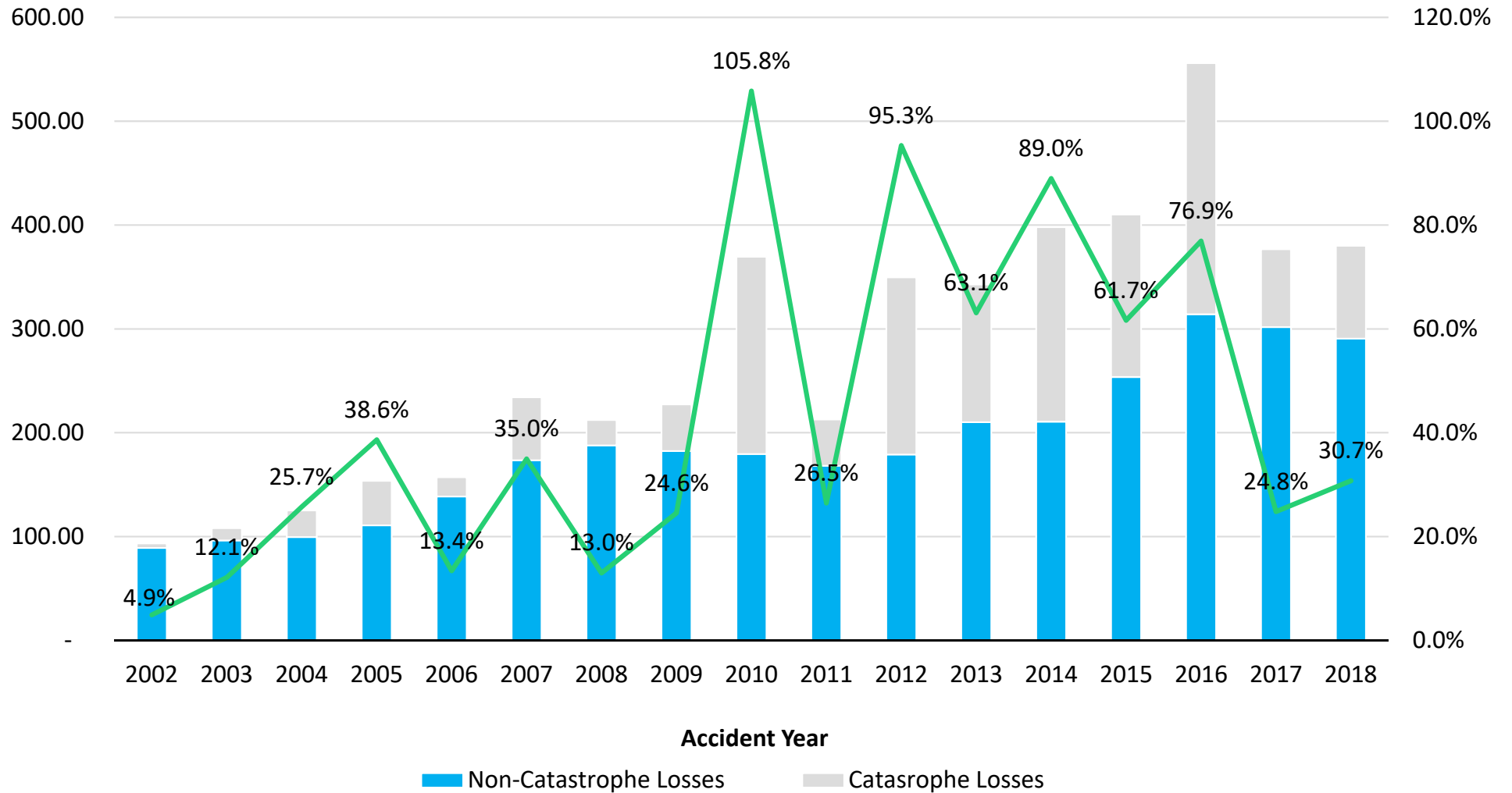
CATASTROPHE LOADING

- 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 2018, is 57% (i.e., a factor of 1.57 is applied to the non-catastrophic comprehensive coverage claim costs).
- The 57% provision reflects an average of
 - the Industry catastrophe experience over the past ten years, and
 - the Industry catastrophe experience over the past five years – adjusted to reflect the increase in theft claims that has been experienced.
- 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.
- GISA has not released the 2019 Catastrophe Report.
- The catastrophe provision will be updated once the new 2019 Catastrophe Report is released by GISA.

CATASTROPHE LOADING

Losses (in \$ Millions)

Catastrophe Load



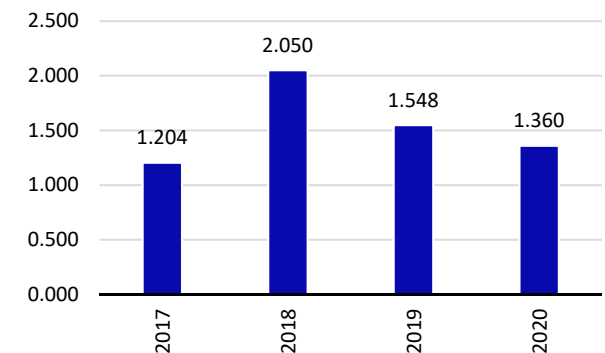
CATASTROPHE LOADING

Stakeholder Comments

- IBC believes Oliver Wyman's proposed catastrophe provision of 57% is within a reasonable range at this time. Reserve right to adjust recommendation after reviewing the GISA catastrophe report which is not yet available
- Insurers did not state any agreement or objections to the catastrophe provision.

INVESTMENT INCOME RATE

- The AIRB updated its Filing Guidelines in July 2019 to adhere to the Canadian Institute of Actuaries Standards of Practice and directed insurers to use their own expected investment return when discounting claims in the filings submitted to the AIRB. Therefore, the AIRB no longer publishes a benchmark for the investment income rate.
- Economic Uncertainty Related to the Pandemic
 - The Federal Open Market Committee dramatically reduced the US Fed Funds Rate in response to the economic concerns related to the COVID-19 pandemic. The current effective Fed Funds Rate is 0.10%
 - The Bank of Canada took similar action. The current Policy Interest Rate is 0.25%.



Stakeholder Comments

- FA supports the AIRB's direction to allow insurers to support their individually selected expected investment income rate.
- IBC also supports AIRB's decision to let insurers assume different investment returns based on their own individual circumstances.

Slide 18

SR1

<https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>

Sahasrabuddhe, Rajesh, 8/6/2020

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 2020 assessment: 4.74%
- Oliver Wyman Preliminary Recommended Benchmark: 4.74%, until the new assessment is announced.

Stakeholder Comments

- IBC finds the 4.74% provision to be reasonable and suggests that insurers should reflect the 2020 health levy of 4.74% in their 2021 filings.
- Insurers did not state any agreement or objections to the Health Cost Recovery.

ADMINISTRATIVE 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, 26.7%, is based on GISA's 2018 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 2019 expense report.
- Oliver Wyman Preliminary Recommended Benchmark: 26.7%, until the new Expense Report is released (expected release is in September 2020).

Stakeholder 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 26.7% to 27.1%.
- Insurers did not state any agreement or objections to the administrative expense provision.

ADMINISTRATIVE EXPENSES

Insurance Industry Expense Ratios

Source: GISA 2018 Expense Report

Expense Component	Current & Recommended Benchmark
Direct Commissions	11.6%
Contingent Commissions	1.0%
Total Commissions	12.6%
Premium and Fire Taxes	4.0%
Other Acquisition Expenses	2.6%
General Expenses	7.5%
Total Expenses	26.7%

PROFIT

- The Board's current position remains unchanged at 7% of premium.
- Oliver Wyman Preliminary Recommended Benchmark is consistent with the Board's position.

Stakeholder Comments

- Insurers did not state any agreement or objections to the 7% profit level.

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LOSS DEVELOPMENT FACTORS

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 significantly different than the aggregated industry-wide data development patterns.
- As noted by GISA, two large insurers had material changes in their development patterns – adds to the uncertainty of estimates. As a result, GISA advises users to **exercise caution**.
 - We note that there are approximately 70 companies writing automobile insurance in Alberta
 - We reviewed development patterns of individual companies to determine whether we should exclude one (or more) companies. We concluded that such an exclusion was not necessary or warranted.

LOSS DEVELOPMENT FACTORS

ULTIMATE LOSS AMOUNT

- The ultimate loss amount estimates for Accident Years 2014 - 2018 are generally in-line with expected values from our prior review based on data as of June 2019

Stakeholder Comments

- IBC's estimate of the loss cost per vehicle is essentially the same as Oliver Wyman's except for a noted methodological difference and claims development uncertainty that caused a difference in bodily injury costs of approximately 8%.
- ATCLA reports that historical and current Oliver Wyman estimates for ultimate losses have not materialized as expected and thus our reserve amounts appear to be too conservative/pessimistic (especially for bodily injury claims dating back to 2015).
- Contrary to ATCLA's point, Co-operators states that they continue to see adverse loss development on bodily injury claims consistent with prior years and their age to ultimate development factors at early maturities have increased relative to Oliver Wyman selections.
- Other insurers either stated agreement with or did not comment on ultimate loss amounts or development factors.

ULTIMATE LOSS AMOUNT

BODILY INJURY MINOR INJURY REFORM AMENDMENT

Stakeholder Comments

- 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.

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LOSS TRENDS

LOSS TRENDS

- To derive estimates of appropriate loss trend rates we consider the observed severity, frequency and loss cost trend patterns based on our estimates of the Industry Alberta ultimate claim frequency, claim severity and loss cost by accident half-year that we derive and the results of regression analyses we perform.
- Regression analyses consider alternative parameterizations that can have an affect on the trends such as inclusion of seasonality, level changes and coverage reforms to find the model with the best fit.
- Our models considered data from 2000-1 to 2019-2 and vary in the starting and ending date for the trend periods.
- Oliver Wyman recommended loss trends are based on an analysis of the Industry data as of December 31, 2019.

INDUSTRY BENCHMARKS – TREND RATES

Coverages	2020 SAR Benchmark 06/2019 Data	2020 AR 12/2019 Data
Bodily Injury	+8.0%/7.0% (a)	+7.0%/6.0% (b)
Property Damage	+1.5%	+1.5%
Accident Benefits – Total	+8.5%	+8.5%
Collision	+2.5%	+1.5%
Comprehensive	+6.5%	+6.5% - not updated
All Perils	+4.0%	+4.0%
Specified Perils	+7.0%	+6.0%
Underinsured Motorist	+4.0%	+4.0%

(a) Future trend date begins April 1, 2019

(b) Future trend date begins October 1, 2019

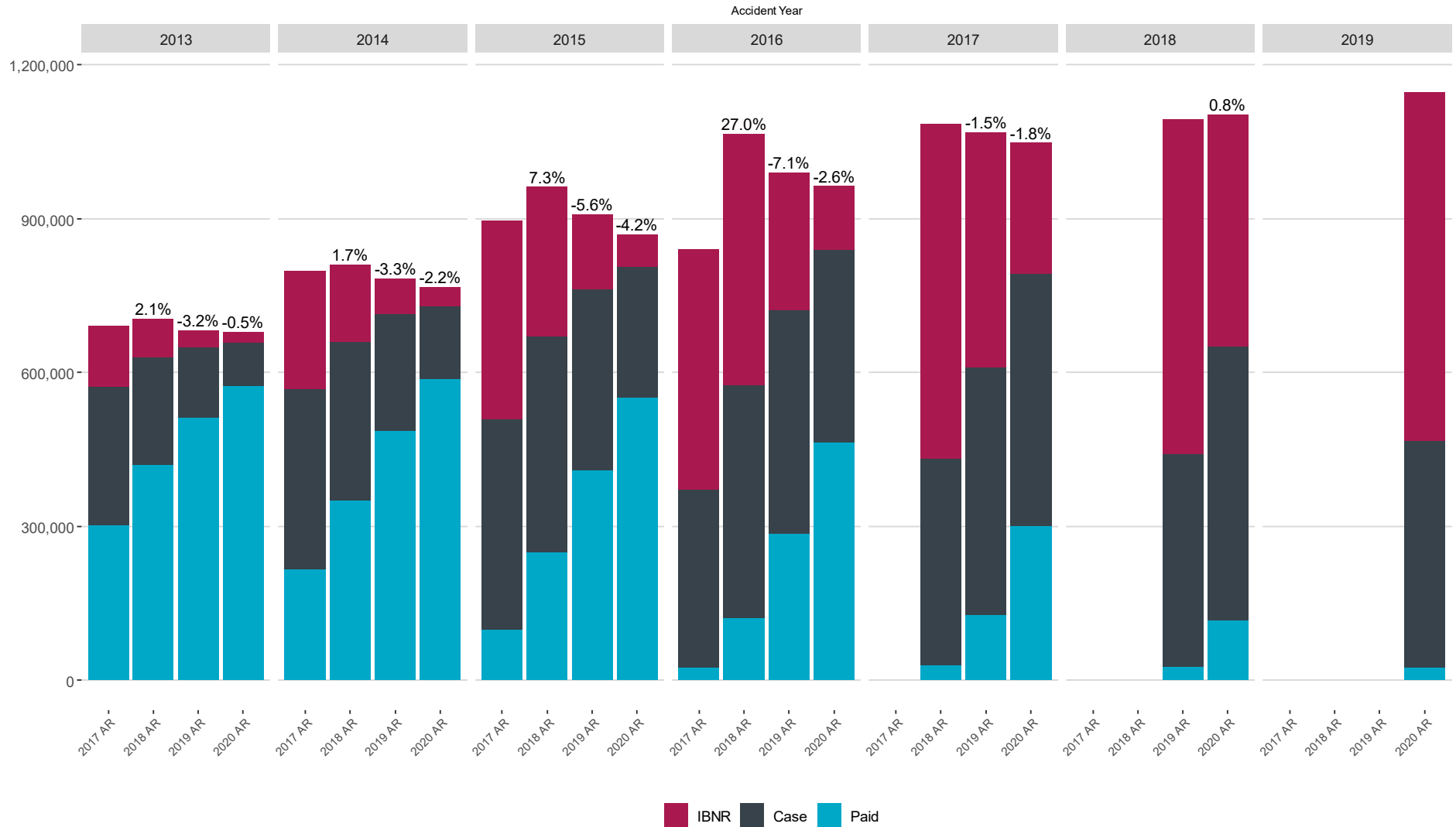
LOSS TRENDS

Stakeholder Comments

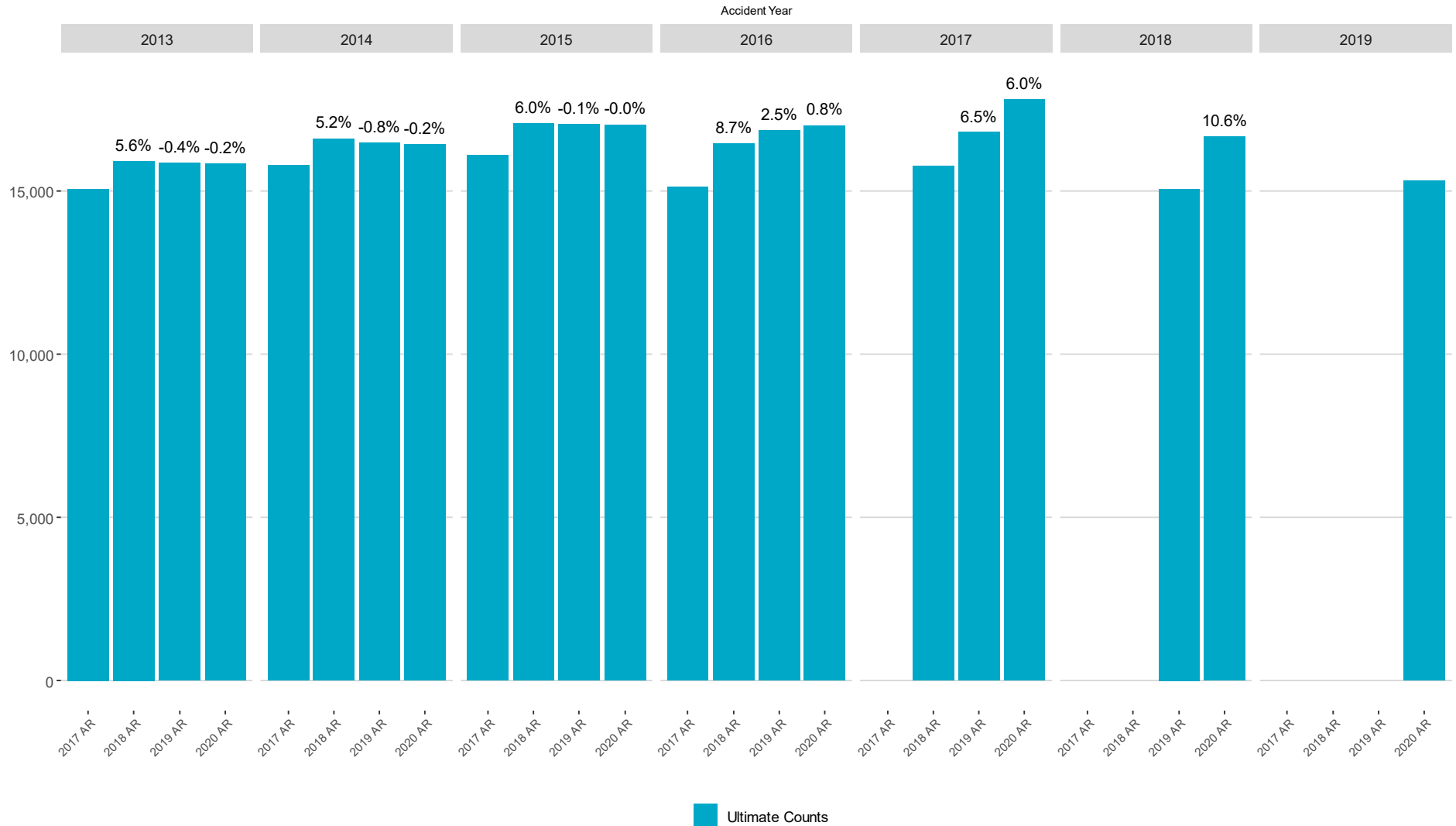
- IBC believes that Oliver Wyman's trend rates are reasonable and projects that claim costs will increase over the next year, however they believe it will be at a somewhat lesser rate.
- Aviva, FA, Desjardins, Intact, Co-operators and TD all indicated their own assessment of loss trends rate were generally consistent with Oliver Wyman's and IBC's.
- Co-operators and ATCLA have some disagreements on the selection of Bodily Injury loss cost trend selections by Oliver Wyman.

BODILY INJURY

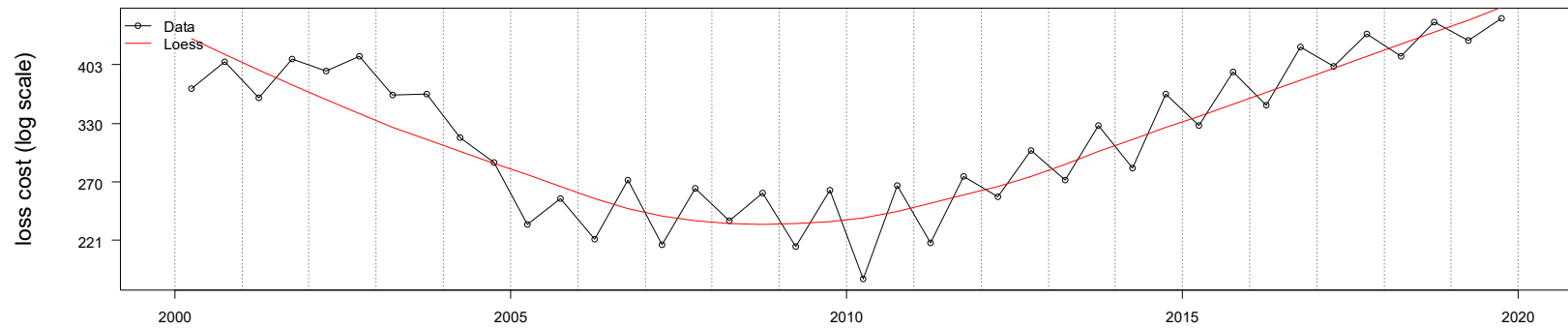
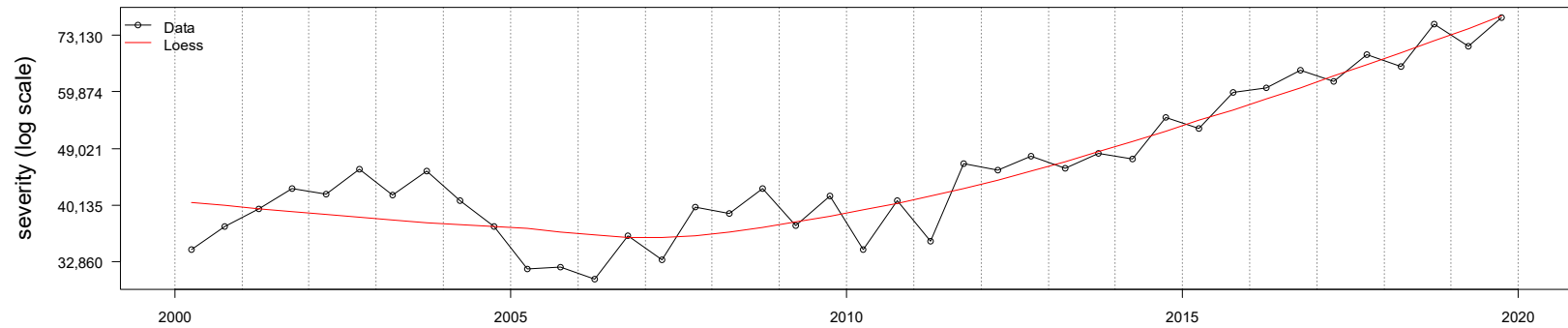
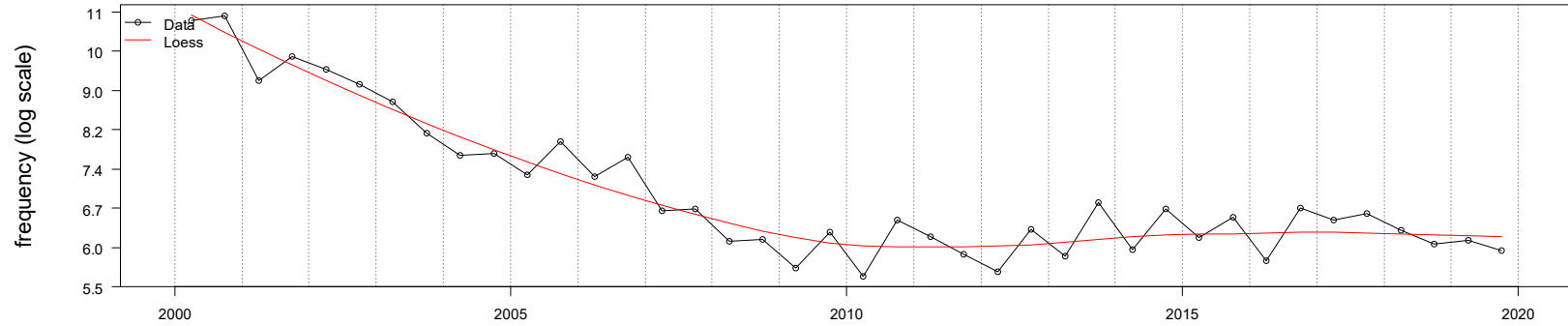
CHANGE IN ULTIMATE CLAIM AND ALAE AMOUNT- ANNUAL REVIEWS



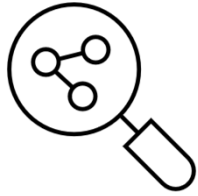
ALBERTA: BODILY INJURY CHANGE IN ULTIMATE CLAIM COUNTS – ANNUAL REVIEWS



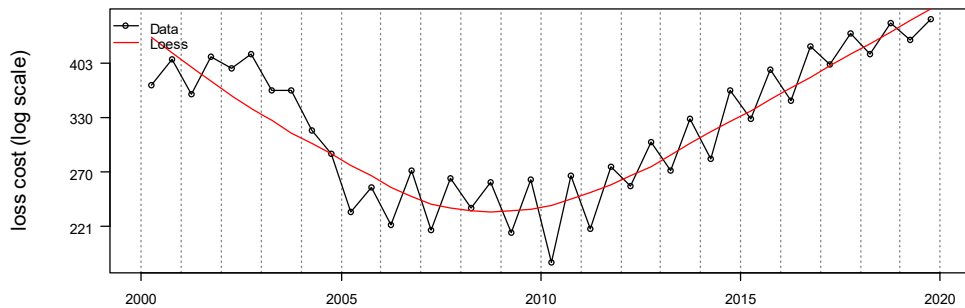
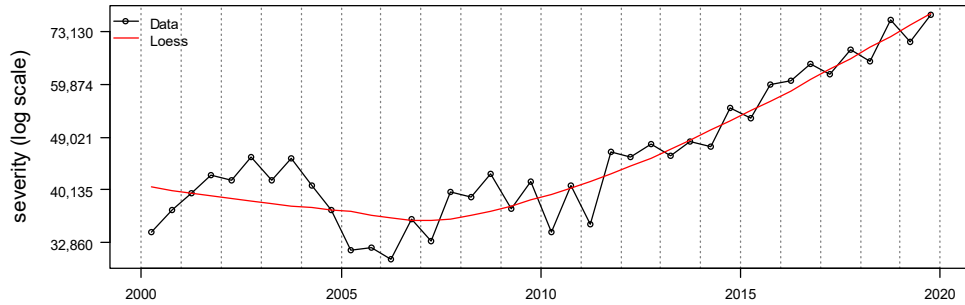
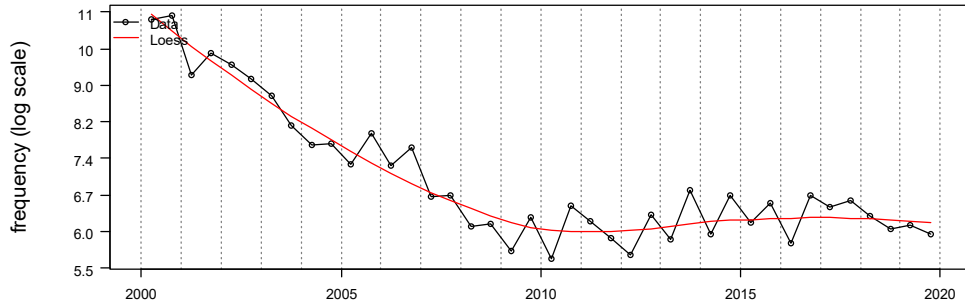
BODILY INJURY



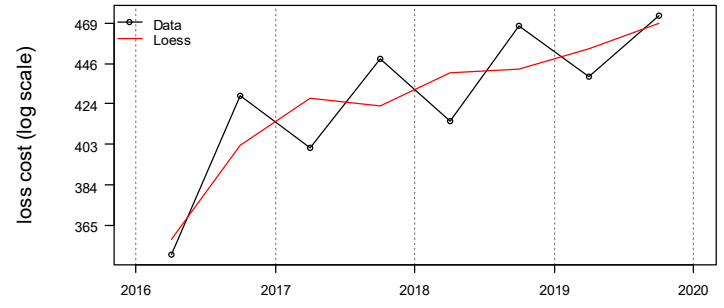
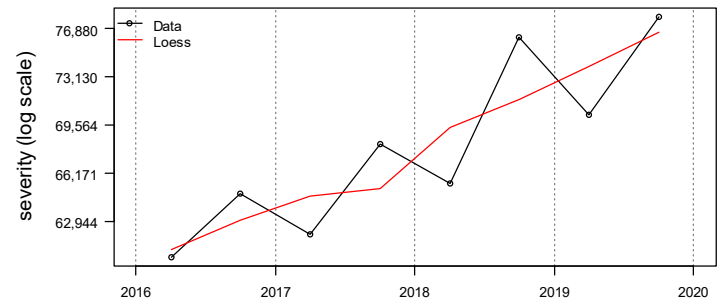
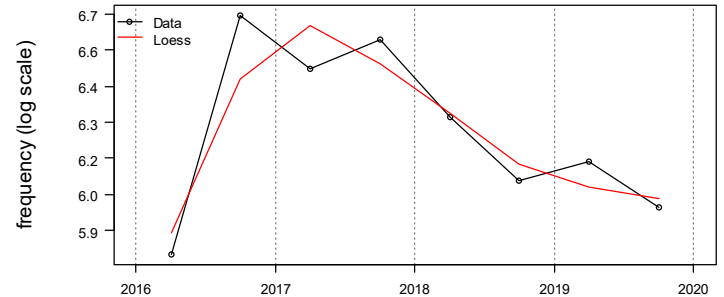
BODILY INJURY



Long Term Trends



Recent Trends



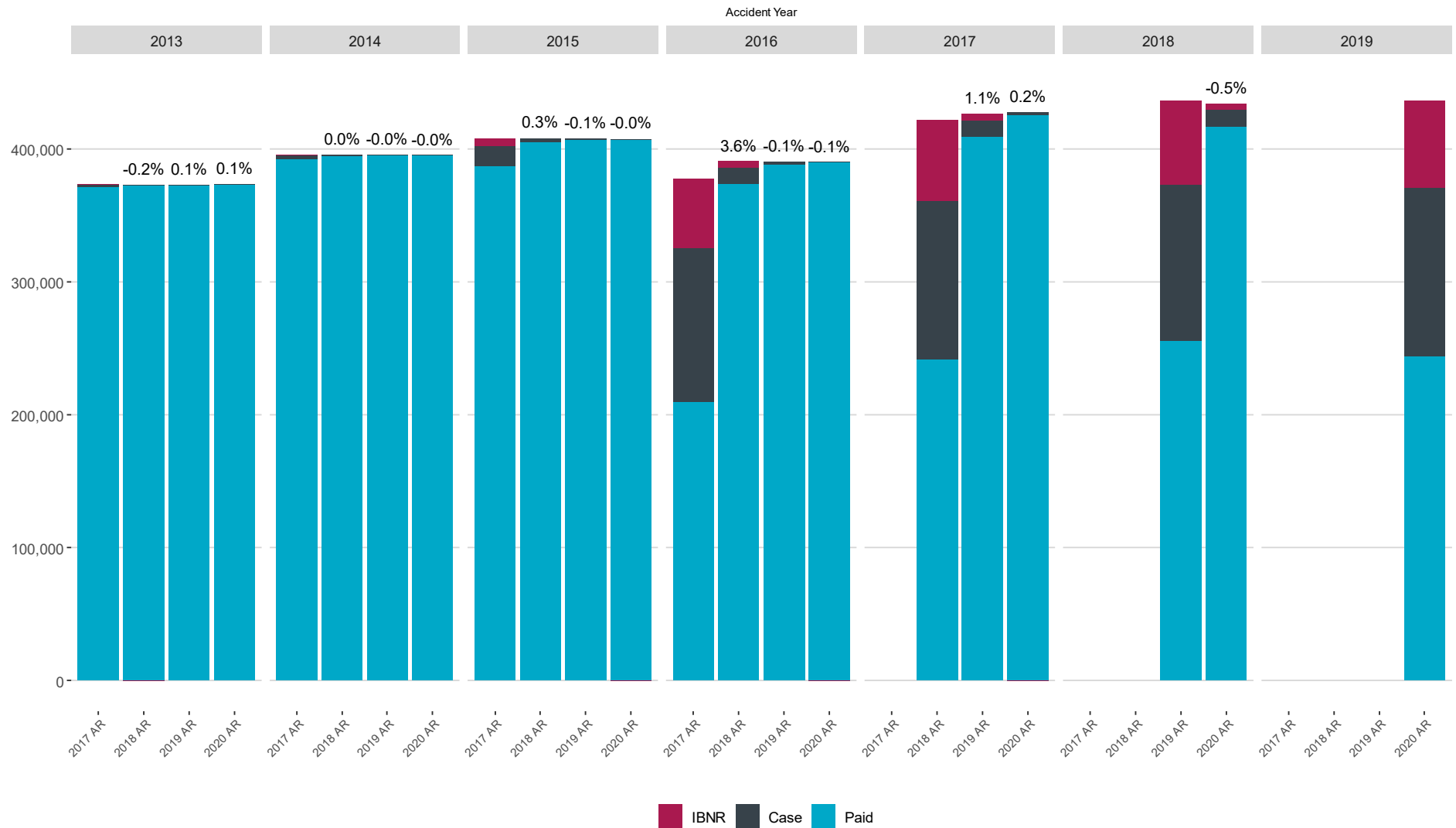
BODILY INJURY LOSS TREND

Stakeholder Comments

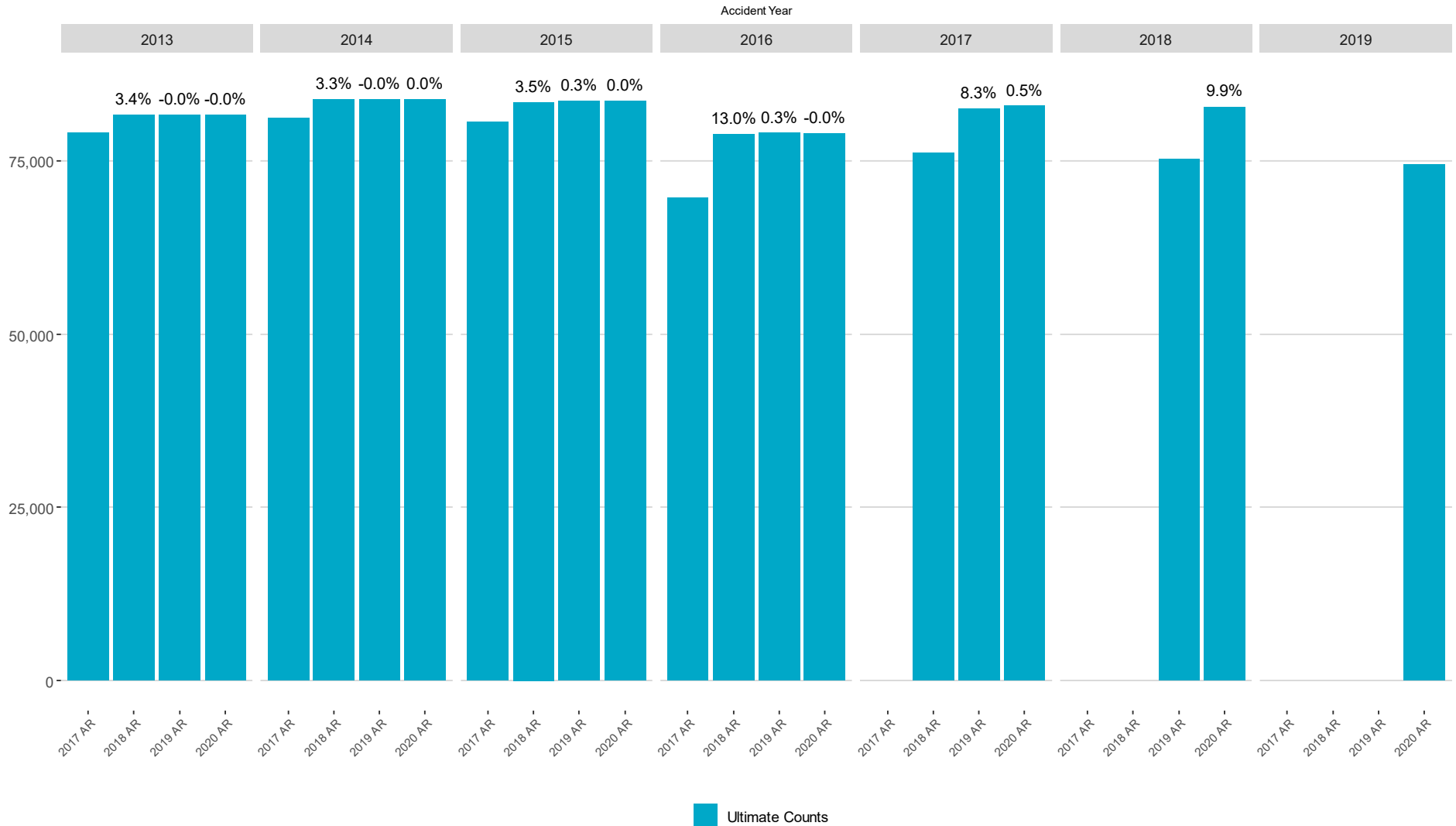
- IBC reports that bodily injury claims are the main reason for increasing total claims costs. These costs have increased by over 80% since 2012 and are projected to increase further over the coming year.
- Aviva makes a similar note and attributes increasing trends to the following:
 - **Minor Injury erosion resulting in a lower percentage of claims settling as Minor Injuries;**
 - Increase in legal representation;
 - Increase in average payout for pain and suffering;
 - More allegations of psychological impairment, minor concussions and chronic pain; and
 - Higher number of claims for valuable services.
- Desjardins and TD comment that their selected trend is consistent with Oliver Wyman's albeit the continued increase is of concern
- ATCLA provides a counter-argument that bodily injury costs are not the driving factor to premium increases and the period of growth of bodily injury claim costs ended in 2016. They reject the notion that bodily injury costs are skyrocketing and believe they have stabilized over the last three years.
- Co-operators suggests that the selected bodily injury trend rate is too low and suggests an alternative that is 1.5% greater than our selection.

PROPERTY DAMAGE

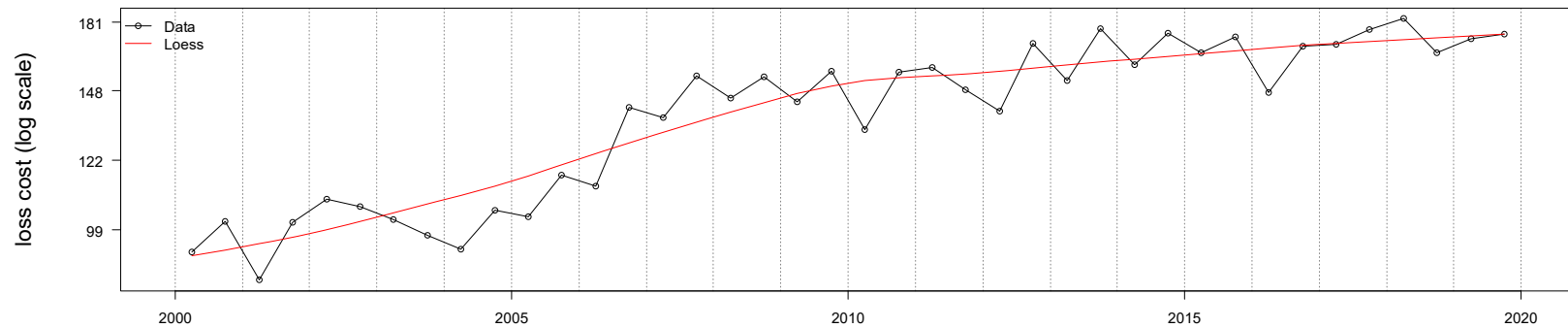
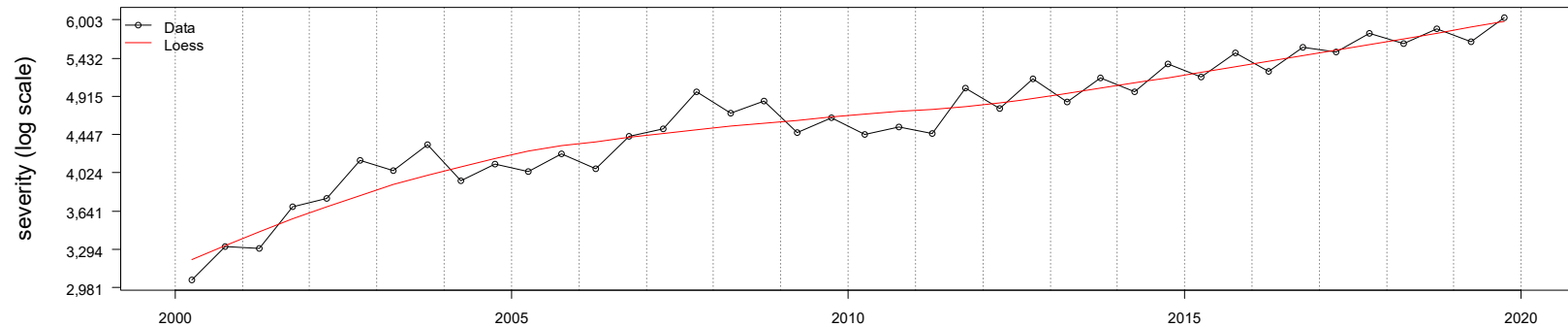
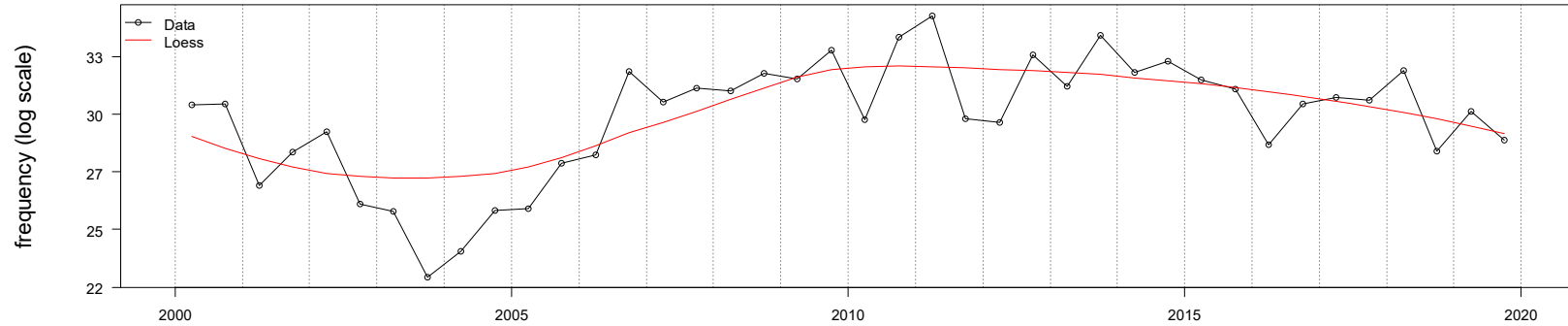
CHANGE IN ULTIMATE CLAIM AND ALAE AMOUNT



PROPERTY DAMAGE CHANGE IN ULTIMATE CLAIM COUNTS

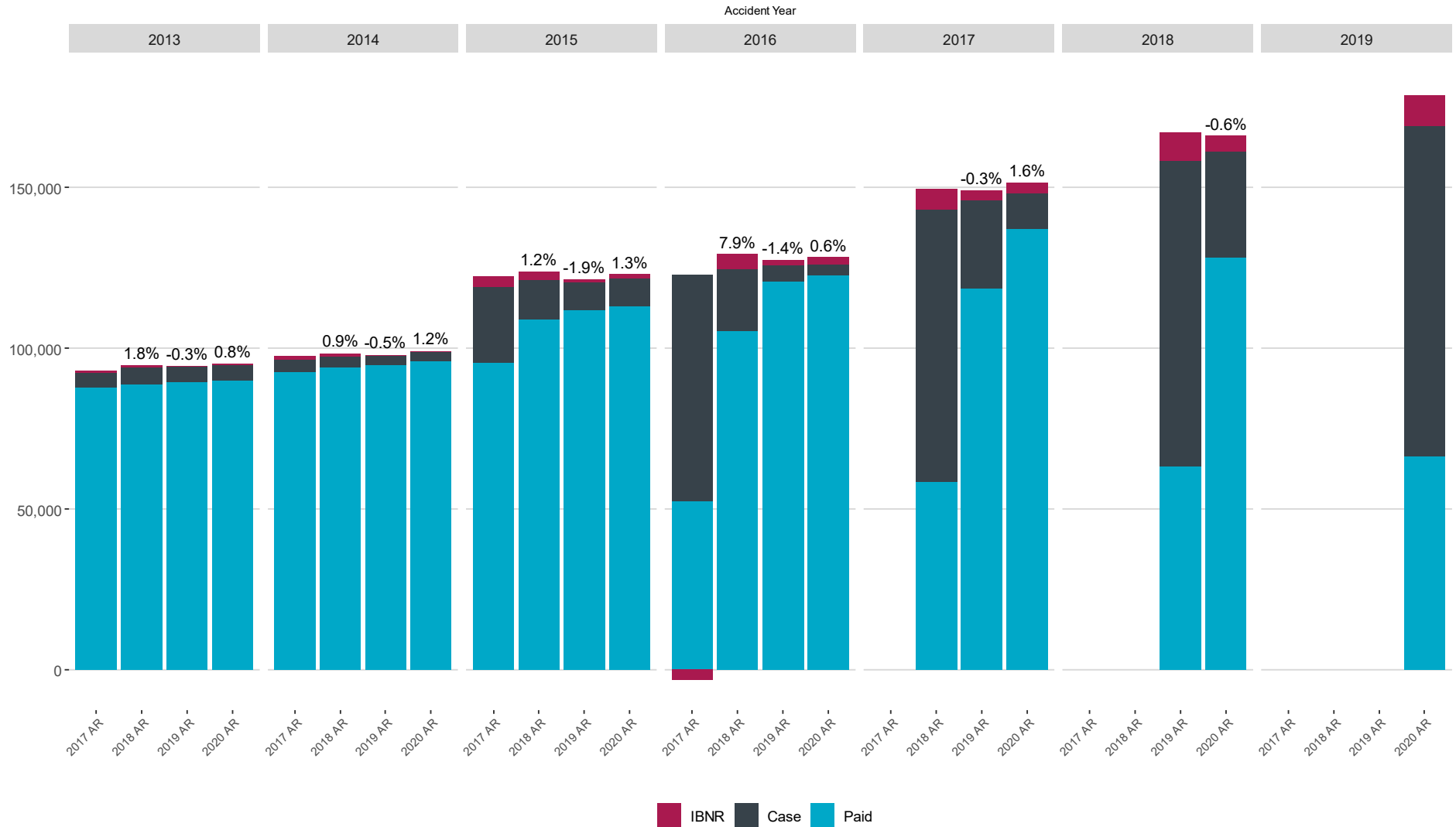


PROPERTY DAMAGE



ACCIDENT BENEFITS

CHANGE IN ULTIMATE CLAIM AND ALAE AMOUNT



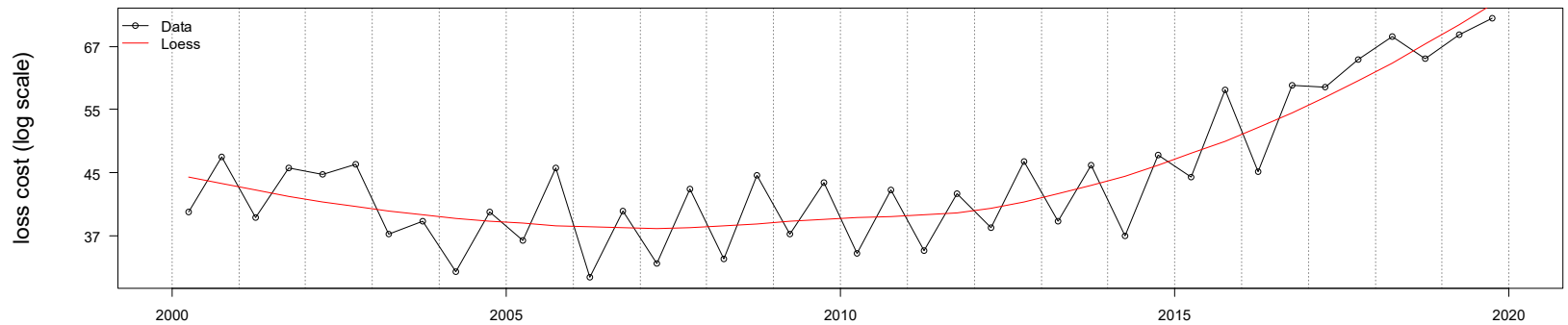
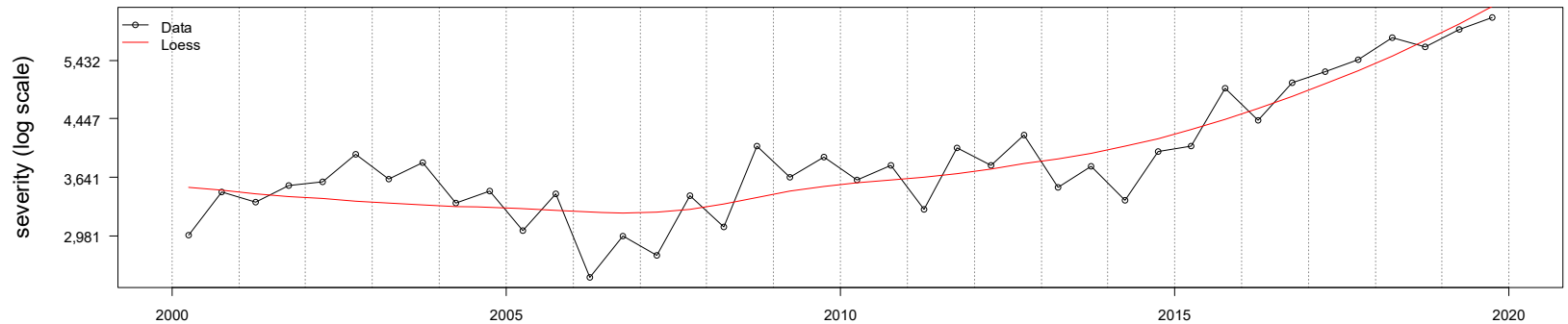
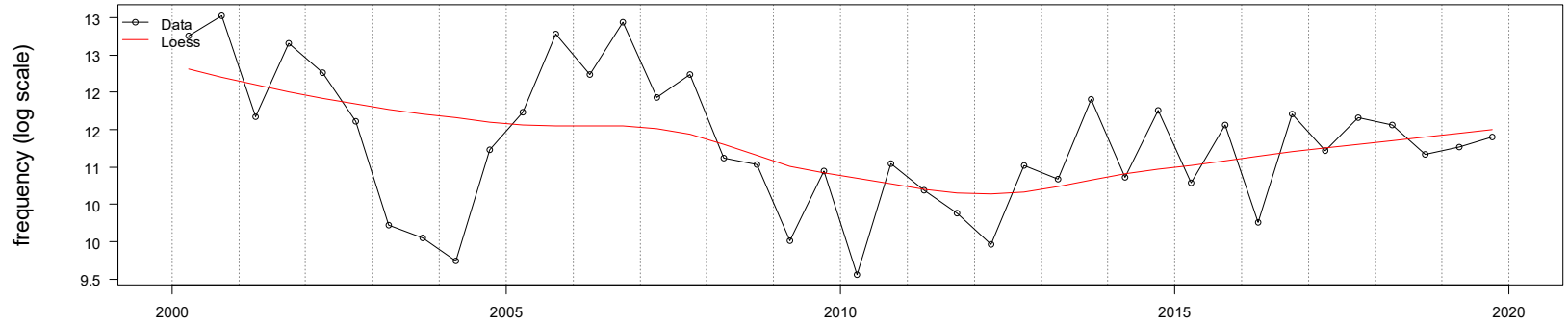
ACCIDENT BENEFITS

CHANGE IN ULTIMATE CLAIM COUNTS



ACCIDENT BENEFITS

ACCIDENT HALF-YEAR CLAIM SUMMARY AS OF 12/31/2019

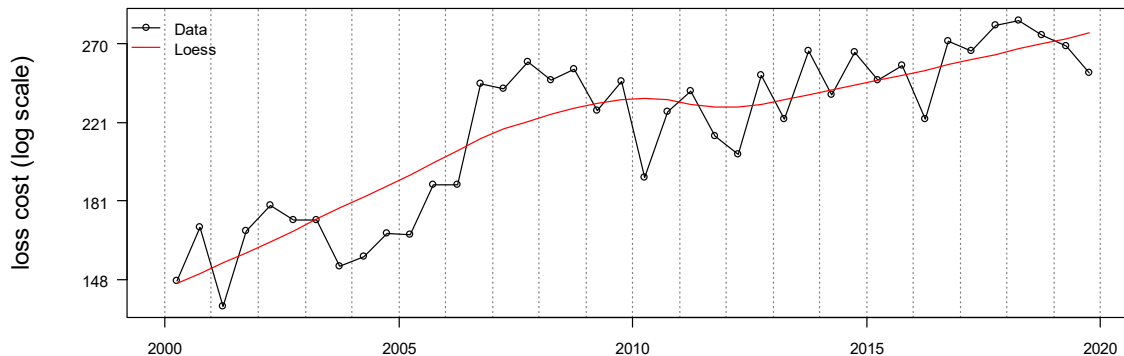
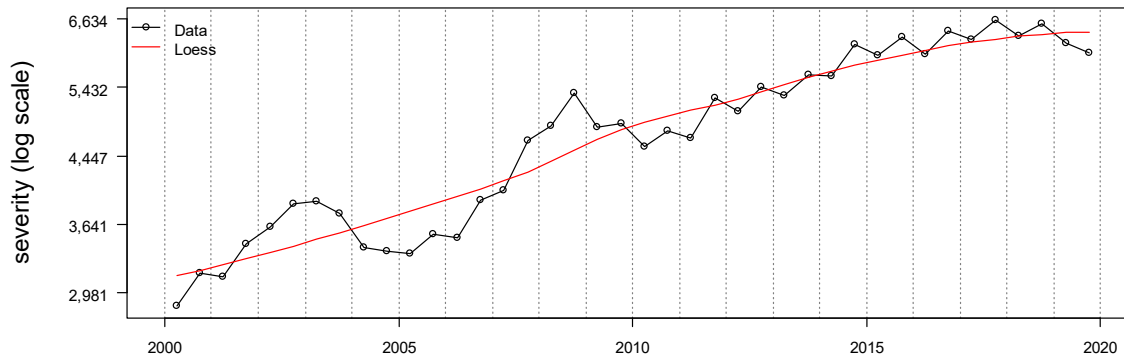
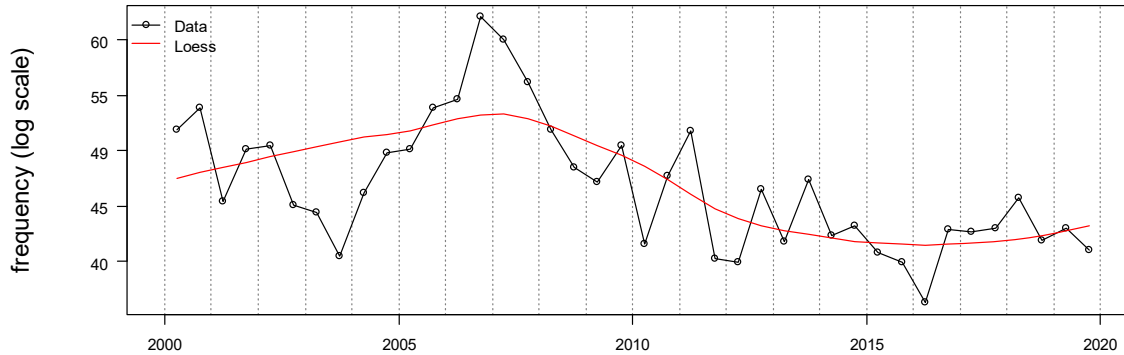


ACCIDENT BENEFITS LOSS TREND

Stakeholder Comments

- Aviva attributes increasing loss costs to:
 - the Medical-Rehabilitation component whereby from 2011 – 2019 Medical- Rehabilitation costs have increased by 236%.
 - The number of claimants receiving treatment in excess of the Treatment Protocol is driving the increase in loss costs. Percentage outside the Treatment Protocol increased from 4.57% in 2011 to 17% in 2018.
 - Their independent medical examiners report an increase in psychological symptoms and chronic pain.
 - An increase of vision therapy for concussion claimants and driver anxiety programs, resulting in claimants treated outside the Treatment Protocols.
- TD Insurance Group noted that they continue to observe high loss trends consistent with Oliver Wyman.
- Desjardins comments that the accident benefits loss cost trend selections are reasonable. However, their internal accident benefit loss cost trend is significantly higher than the industry trends expected by Oliver Wyman. The coverage continues to have a small loss cost compared to bodily injury and physical damage coverages, however the percentage of increase over the past several years is concerning.

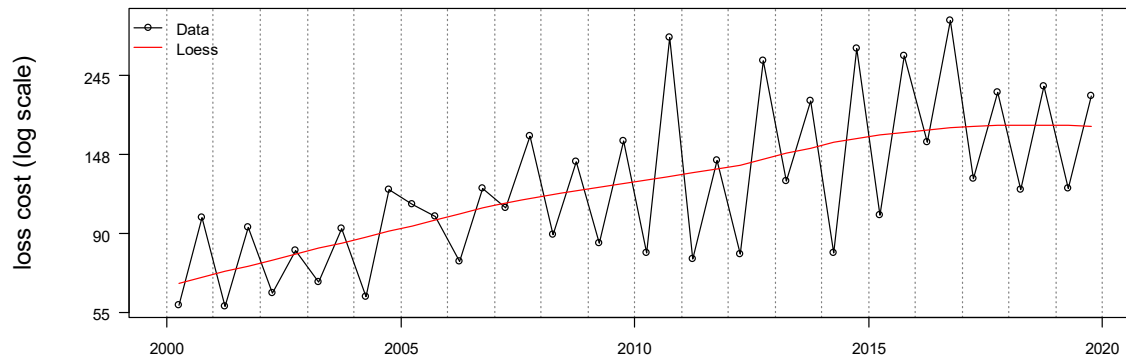
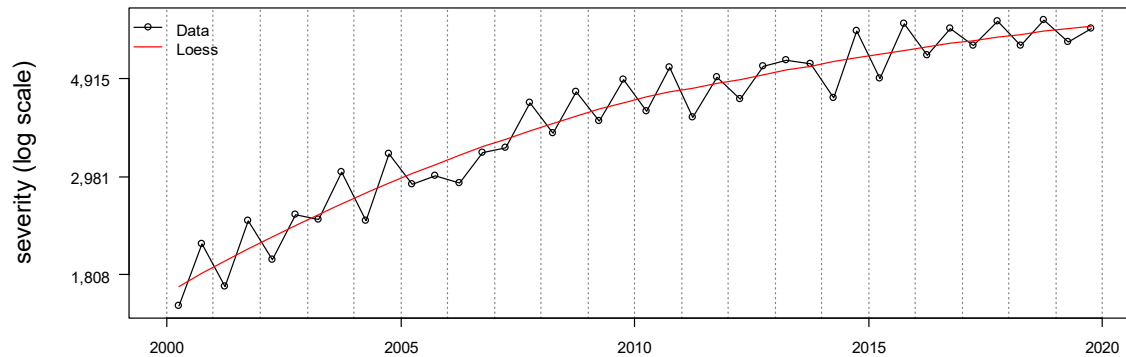
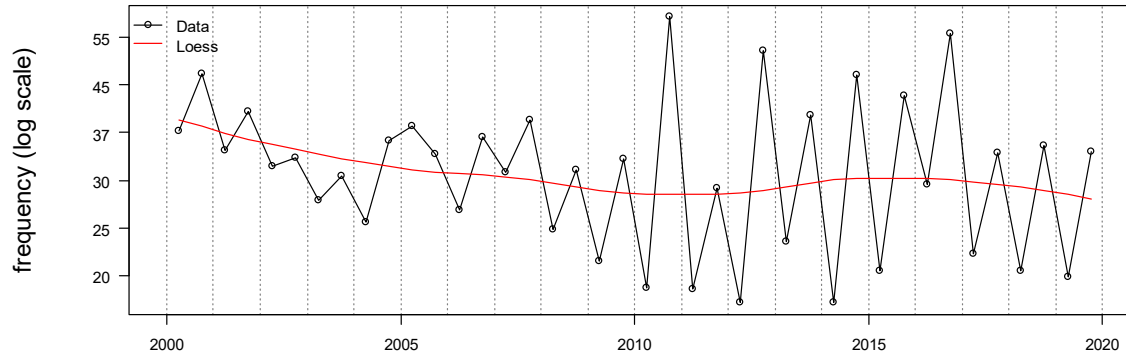
COLLISION



Stakeholder Comments

- Desjardins comments that the loss cost trends selected are reasonable based on past industry experience. They note vehicle repair cost inflation is likely in Alberta in the next few years.

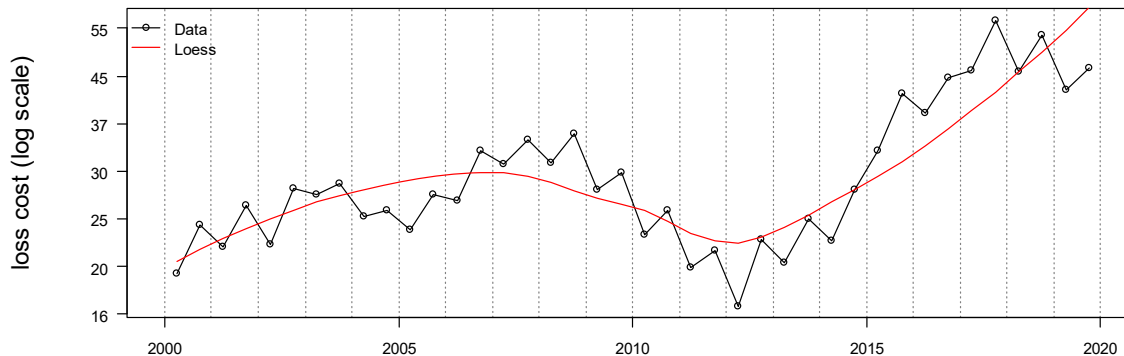
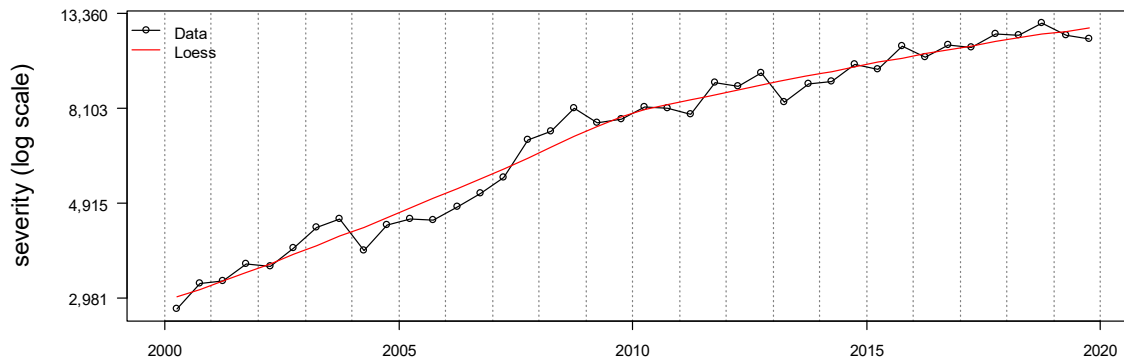
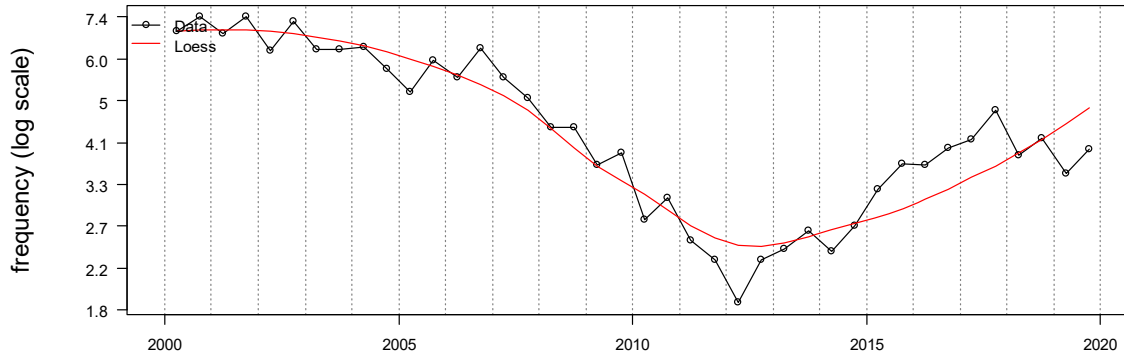
COMPREHENSIVE



Stakeholder Comments

- There were no stakeholder comments regarding selected Comprehensive trends.

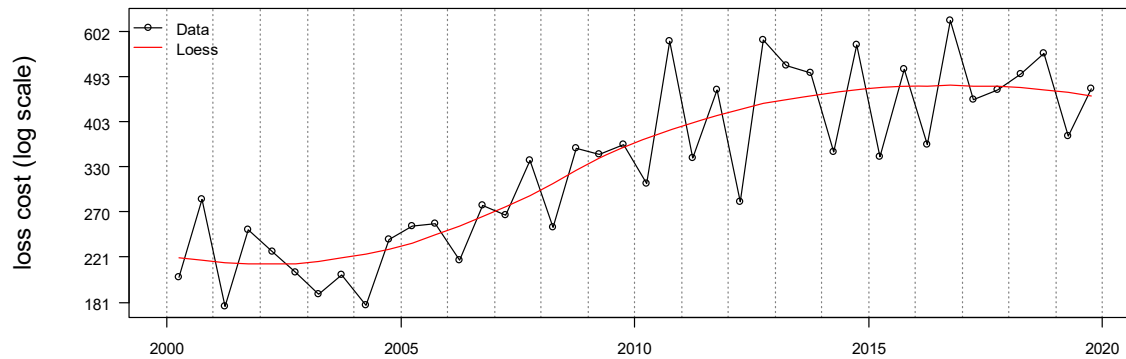
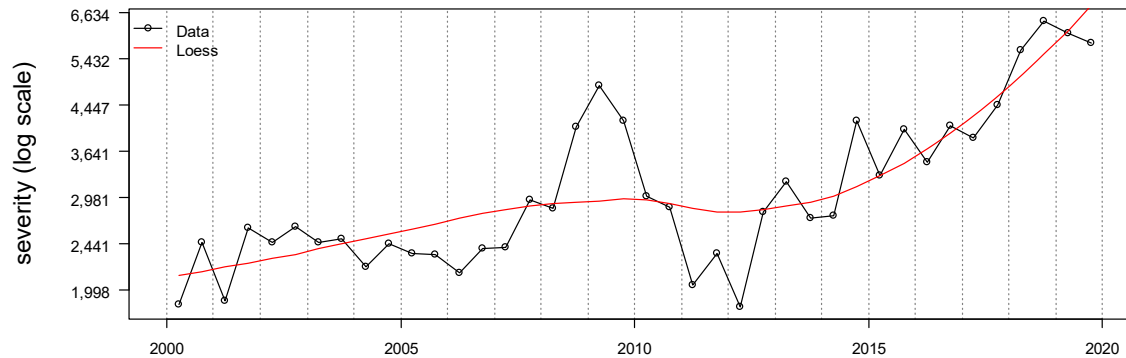
COMPREHENSIVE - THEFT



Stakeholder Comments

- Co-operators notes that theft continues to be a concern in Alberta. Specifically they state that:
 - 2017-2019 saw steady year over year increases in theft incurred losses
 - First quarter 2020 saw the biggest first quarter theft claims in the last four years.

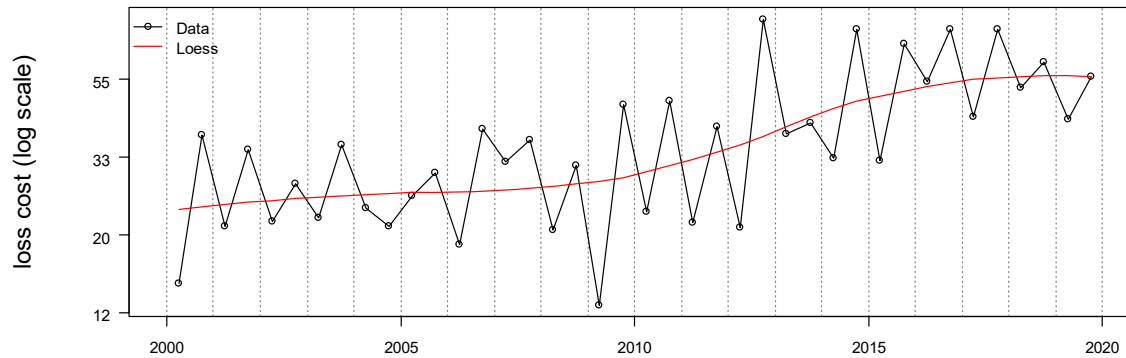
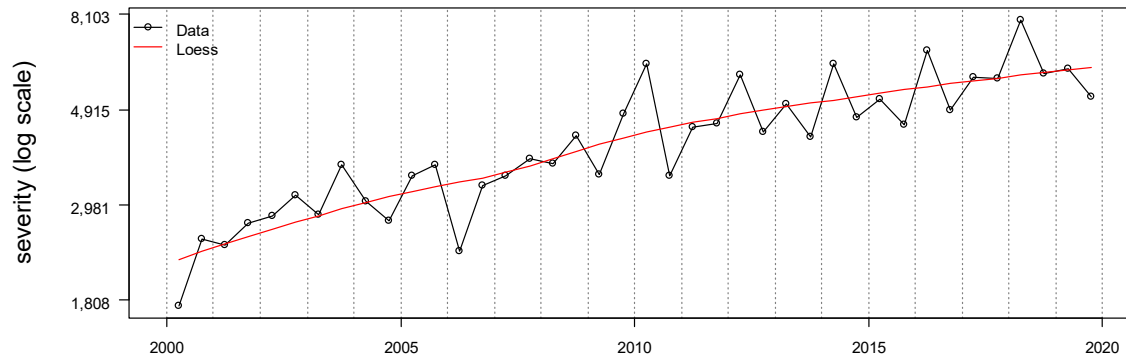
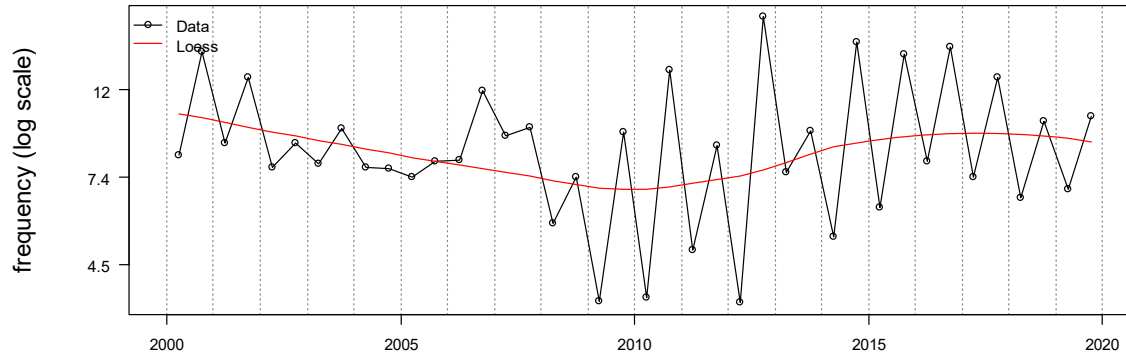
ALL PERILS



Stakeholder Comments

- There were no stakeholder comments regarding selected All Perils trends.

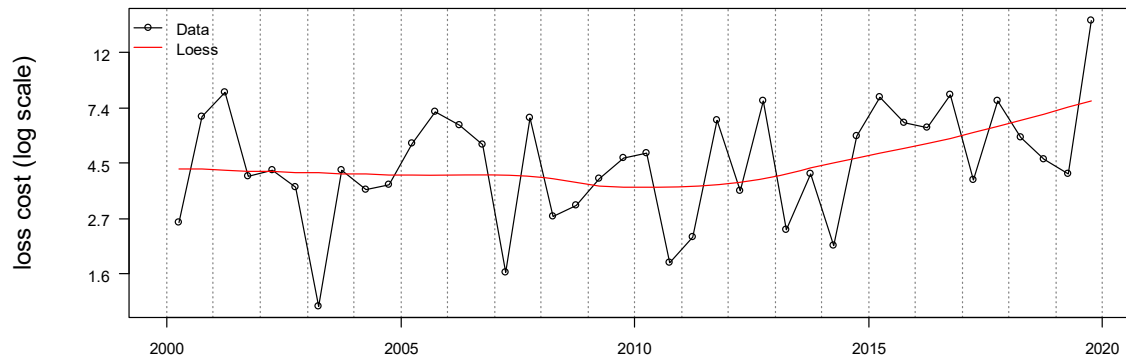
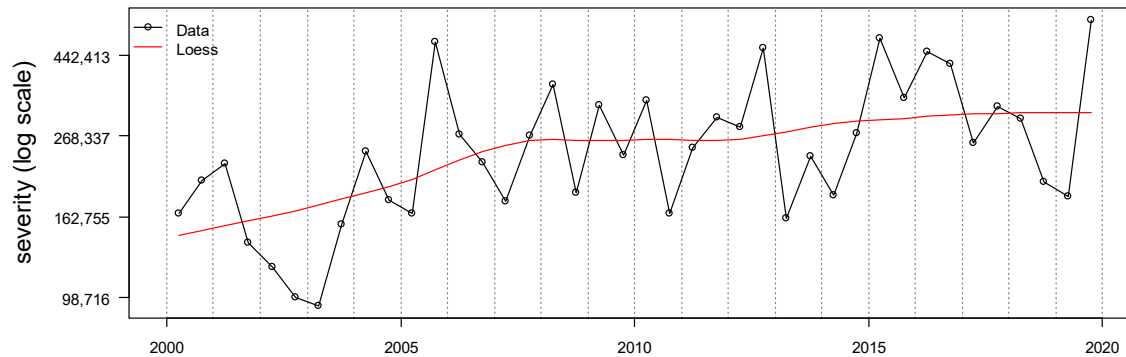
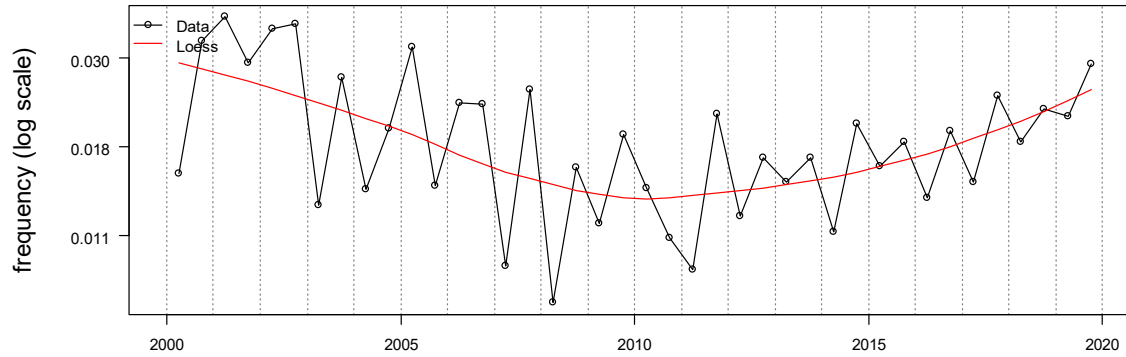
SPECIFIED PERILS



Stakeholder Comments

- There were no stakeholder comments regarding selected Specified Perils trends.

UNDERINSURED MOTORISTS



Stakeholder Comments

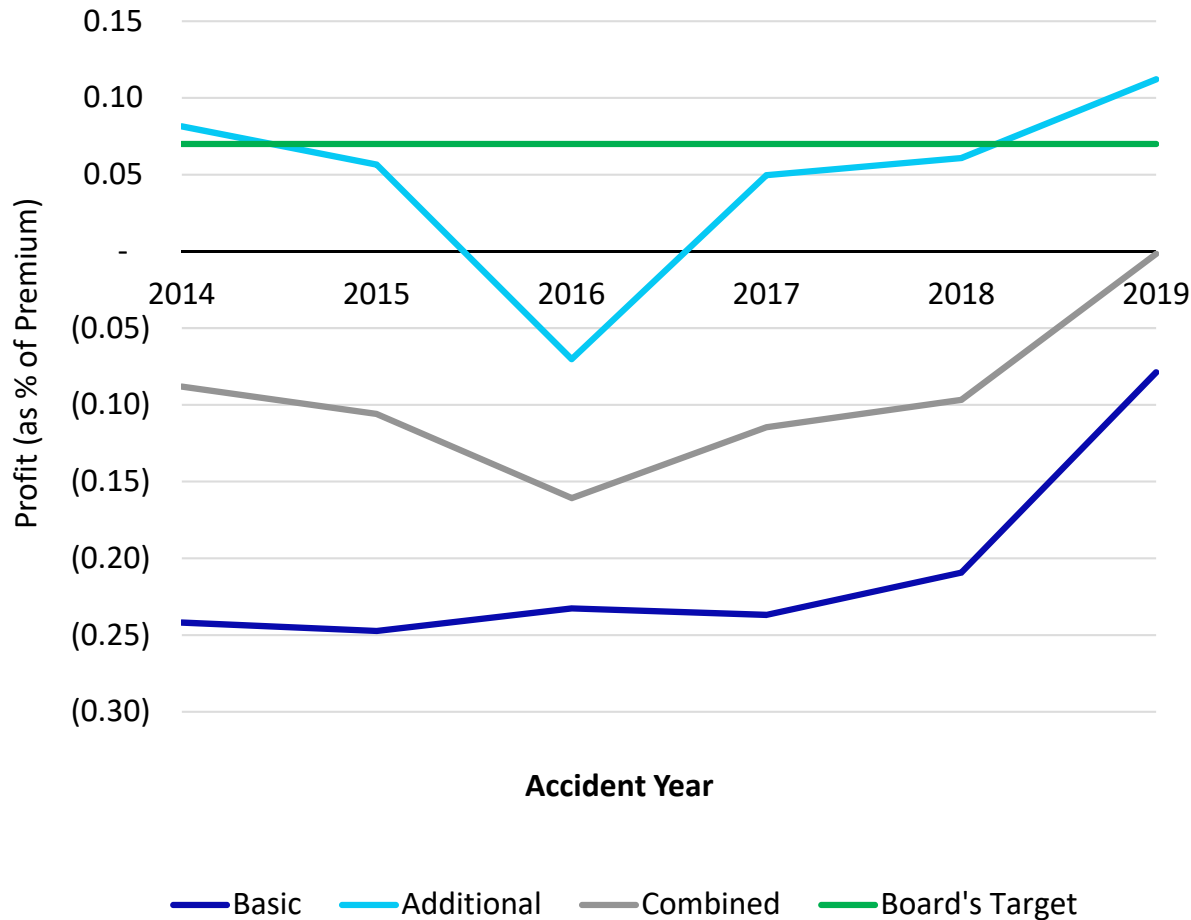
- There were no stakeholder comments regarding selected Underinsured Motorists trends.

5

PROFITABILITY

PROFITABILITY

Profitability

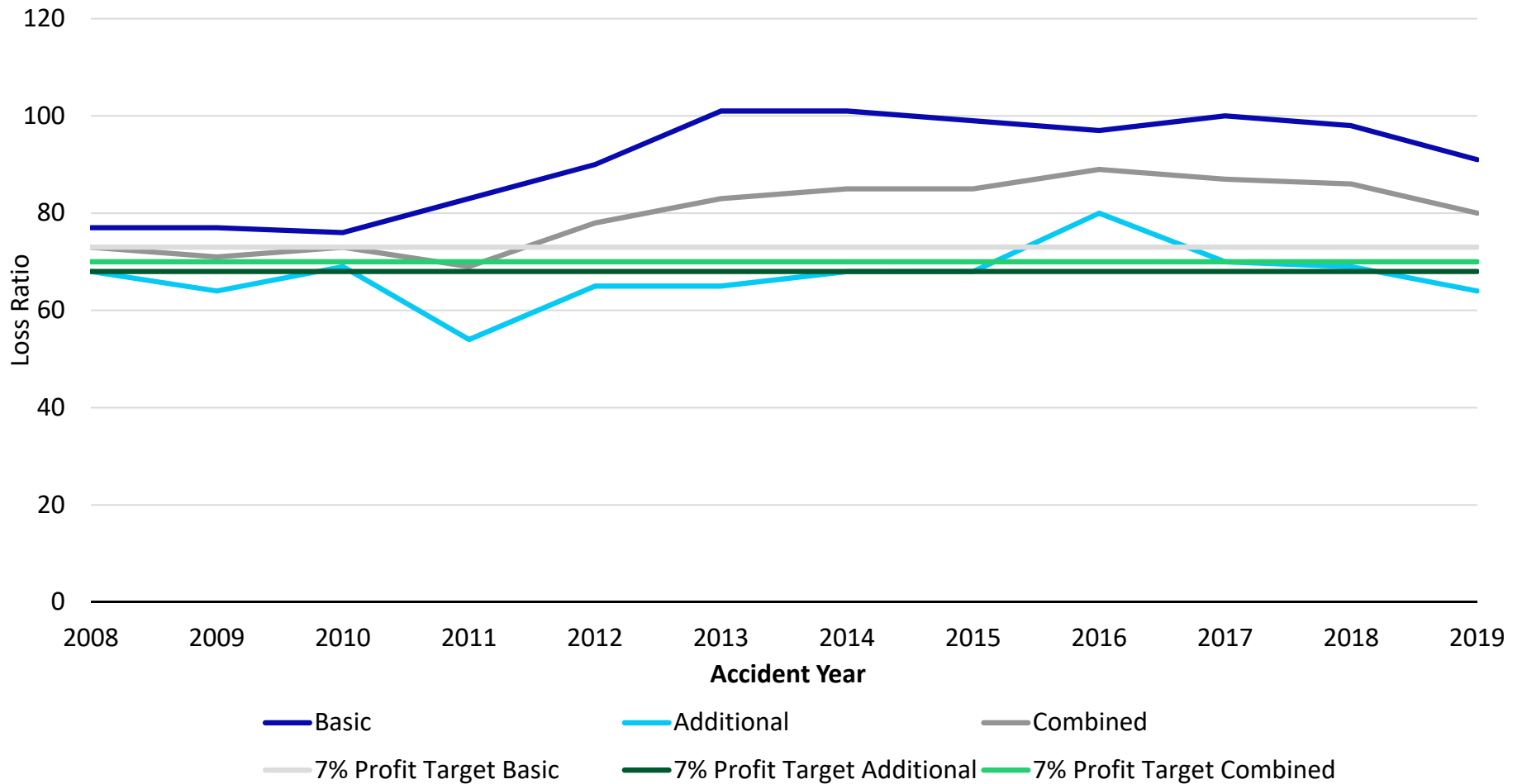


Stakeholder Comments

- Aviva estimates the industry 2019 combined operating ratio was 110%, meaning the industry paid \$1.10 for every dollar of premium collected. They estimate industry lost \$391 million in 2019, and \$2 billion since 2015.
- At the end of Q1 2020, Intact had a loss ratio of 85.2% in Alberta (84.9% for all of 2019). Intact states this result is not new in Alberta, the numbers have been similar since 2013. Alberta's results are clearly higher than in Ontario and Quebec.

PROFITABILITY

Oliver Wyman Estimated Loss Ratios



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