

February 28, 2019

Ms. Charlene Butler
Chair
Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Dear Ms. Butler,

Thank you for the opportunity to participate in the AIRB's semi-annual review of auto insurance trends and rates for basic and additional coverage. The Insurance Bureau of Canada (IBC) retained Dr. Ron Miller to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2018 Private Passenger Vehicles*. The following commentary reflects IBC's and Dr. Miller's review:

For the first 9 months of 2018, the Alberta PPV insurance industry paid an average of \$1.12 in claims, operating expenses, and premium taxes, for every \$1.00 earned in premium. Some insurers paid as much as \$1.30. According to an analysis from Dr. Miller for this review, the 2019 street premium deficiency for the July 1 policy year is estimated to be 21%. Dr. Miller estimates that for that policy year, Alberta insurers will face an underwriting loss of approximately \$525 million¹.

As significant as these underwriting losses are, evidence from this review suggests that absent new cost containment measures or higher permitted rate increases, losses are projected to increase over time. Both Oliver Wyman and Dr. Miller selected total coverage loss cost trend rates higher than the current 5% rate cap. Without meaningful change, the Alberta auto insurance industry must be willing to accept annual – and growing – underwriting losses of hundreds of millions of dollars as the cost of doing business in the province.

Alberta's three million drivers are already being impacted by the rate cap and spiralling claims costs. In 2018, IBC's Consumer Information Centre received approximately 1400 auto insurance-related calls, one-third of which related to the availability and affordability of auto insurance. The local insurance industry is also beginning to feel this impact through cancelled broker contracts and difficult staffing decisions being made across the province. To say that the current situation is untenable is an understatement.

IBC recommends that the AIRB, government and industry work together to bring down claims costs and transition back to market rates in short order. The industry believes the AIRB has the expertise and resources to regulate rates appropriately, and its power should be restored.

We focus our additional commentary on the future loss cost trend rates, health cost recovery factor, catastrophe provision, investment income on cash flow, operating expenses, and the potential impact of the recent Cannabis legalization on claims costs.

¹ Based on an assumed 5% per annum upward drift in average premiums.

Future Loss Cost Trend Rates

According to both Oliver Wyman and Dr. Miller, trend rates for nearly all coverages are increasing rapidly. The table below shows future loss cost trend rates from Oliver Wyman and Dr. Miller.

Future Loss Cost Trend Rates

	Oliver Wyman	Dr. Miller
Bodily Injury	+7.5%	+7.97%
Property Damage	+2.5%	+1.61%
Accident Benefits	+9.5%	+7.11%
Collision	+3.0%	+2.25%
Comprehensive	+8.5%	+7.0%
Total Coverages	+6.24%	+5.76%

IBC table with data from Oliver Wyman, Dr. Ron Miller

The total coverages future lost cost trend rates as estimated by Oliver Wyman and Dr. Miller are +6.24% and +5.76%, respectively. A significant driver of this trend is bodily injury claims costs. Both actuaries project BI loss costs to increase at a rate of at least +7.5%.

Based on these trend rates, the Alberta auto insurance market is projected to deteriorate further.

Health Cost Recovery

Oliver Wyman recommends using the published 2019 health levy loading factor of 6.70% to reflect the 2019 target levy decrease to \$141.2 million. Dr. Miller advises that despite the decrease in the target levy, it is appropriate for the AIRB to permit insurers to account for a higher levy for policies that will be effective in 2020.

Catastrophe Provision

Dr. Miller believes that Oliver Wyman's proposed catastrophe provision of 60% is within a reasonable range at this time.

Investment Income on Cash Flow

Oliver Wyman selected an average investment rate of 2.82%. Dr. Miller recommends a rate of 1.9%. Dr. Miller notes that Oliver Wyman's estimates seem high without additional increases in the Bank of Canada's target overnight rate in the near future.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 26.6% based on the GISA Industry Expense Report, and made IBC's past recommended adjustment to use earned premiums instead of written premiums in the calculation. However, similar to the 2018 AIRB annual review, Oliver Wyman only made this adjustment for the general expenses component of the operating expenses ratio, and not for the other components. Dr. Miller applied this adjustment consistently

across all operating expenses components, resulting in a total operating expense ratio of 26.9%, 0.3% higher than Oliver Wyman's estimate.

Cannabis Legalization

Although the topic was not explicitly discussed, IBC would like to call attention to the potential impact of Cannabis legalization on claims costs. Studies from American jurisdictions that legalized Cannabis found an increase in the number of collisions following legalization compared to years prior to legalization:

- In Colorado, a study by federal, state and local drug enforcement agencies found that cannabis-related traffic deaths accounted for 20% of all traffic deaths in 2016, compared to 9% in 2009.²
- A recent study conducted by the Insurance Institute for Highway Safety (IIHS) found that vehicle crashes are up by as much as 6% in Colorado, Nevada, Oregon and Washington compared with their neighboring states that have not legalized cannabis use.³
- The IIHS also found that there is a prevalence of permissive attitudes toward cannabis use and driving which can impact child passenger safety. Of a sample group of individuals who did not view cannabis use as a risky driving behavior, 41% of those traveling with a child tested positive for tetrahydrocannabinol (THC).⁴

IBC believes that the AIRB should consider the potential impact of Cannabis legalization on claims costs in Alberta when setting its industry benchmarks.

Finally, IBC recommends that the AIRB and the government jointly discuss the underlying escalating claims cost trend that led to the imposition of the rate cap. We believe that leveraging the AIRB's expertise and insight, developed over its 15 years of regulating rates in Alberta, could help the government find solutions to the untenable situation facing Alberta's insurers. IBC recommends that the government enact short-term measures to remove costs from the system and transition back to market rates. This will ensure that Albertans continue to have access to a product with strong benefits at an affordable price.

Again, thank you for the opportunity to provide input for the 2019 semi-annual review. We hope that our commentary assists the AIRB in its deliberations. Please do not hesitate to contact me should you wish to discuss the contents of this letter.

Sincerely,



Celyeste Power

cc: Laurie Balfour, Executive Director, AIRB

² The Legalization of Marijuana in Colorado: The Impact. *Rocky Mountain High Intensity Drug Traffic Area*. Vol. 5/October 2017.

³ Status Report: *Legal Pot*. Vol 53/October 2018

⁴ Ibid