

February 26, 2020

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, 2019 Private Passenger Vehicles*. The following commentary reflects IBC's and Dr. Miller's review.

The past few years have presented many challenges for Alberta's auto insurance market and its 3 million drivers. The arbitrary 5% rate cap on auto insurance premiums made it very difficult for consumers to obtain certain optional coverages and payment plans, while previous government inaction on increasing claims costs set the stage for today's premium increases.

Unfortunately, both Oliver Wyman and Dr. Miller project that the trend of increasing claims will continue. They project all-coverage loss cost increases of +5.37% and +5.12% and bodily injury loss cost increases of 7.0% and 6.29%, respectively. These projections indicate that absent substantial reforms, consumers will face continued premium increases. Indeed, Dr. Miller estimated that the required premium by mid-2020 will be \$1,829, approximately 32% higher than the actual average premium of \$1,382 consumers paid in mid-2019.

To avoid steep year-over-year premium increases for years to come, IBC recommends that the AIRB, government and industry work towards reforming the current auto market. IBC looks forward to working with the AIRB and the government's Advisory Committee on Auto Insurance to develop solutions that lower claims costs and provide consumers with more stable premiums.

We focus our remaining commentary on future loss cost trend rates, the 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.

Future Loss Cost Trend Rates

According to both Oliver Wyman and Dr. Miller, trend rates for several coverages are significant. The table below highlights future loss cost trend rates from Oliver Wyman and Dr. Miller.

Future Loss Cost Trend Rates

	Oliver Wyman	Dr. Miller
Bodily Injury	+7.0%	+6.29%
Property Damage	+1.5%	+1.76%
Accident Benefits	+8.5%	+11.08%
Collision	+2.5%	+2.41%
Comprehensive – Total	+6.5%	+5.79%
Comprehensive – Theft	N/A	+8.38%
Total Coverages	+5.37%	+5.12%

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

Oliver Wyman and Dr. Miller predict that all-coverage claims costs will increase by several times the rate of inflation, at +5.37% and +5.12%, respectively. Many coverages are anticipated to increase at rates beyond this.

- Oliver Wyman and Dr. Miller project that bodily injury claims costs will increase by +7.0% and +6.29%, respectively.
- Oliver Wyman and Dr. Miller project that accident benefits costs will increase by +8.5% and +11.08%, respectively.
- Oliver Wyman and Dr. Miller project that comprehensive costs will increase by +6.5% and +5.79%, respectively. This is driven by theft claims, which Dr. Miller projects will increase by +8.38%. Oliver Wyman does not provide a theft trend rate.

Without significant reform to the auto insurance system, these continued claims cost increases will result in continued premium increases for consumers.

Health Cost Recovery

Oliver Wyman recommends using the government mandated 2020 health levy loading factor of 4.74% to reflect the target aggregate recovery amount of \$147.0 million. IBC considers this to be reasonable.

Catastrophe Provision

Dr. Miller believes that Oliver Wyman's proposed catastrophe provision of 57% is within a reasonable range at this time.

Investment Income on Cash Flow

In July 2019, AIRB Guidelines were updated directing insurers to support their individually-selected investment income rate. IBC appreciates the AIRB's decision to let insurers assume different investment returns based on their individual circumstances.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 26.7% based on the GISA Industry Expense Report, and implemented IBC's past recommended adjustment to use earned premiums instead of written premiums in the calculation. However, similar to the 2019 AIRB annual review, Oliver Wyman only made this adjustment for the general expenses component of the operating expenses ratio, and not for other components. Dr. Miller applied this adjustment consistently across all operating expenses components, resulting in a total operating expense ratio of 27.1%, 0.4% higher than Oliver Wyman's estimate.

Cannabis Legalization

Although the topic was not explicitly discussed, IBC would like call attention to the potential impact of Cannabis legalization on claims costs. Studies from Colorado, Nevada, Oregon, and Washington found that these states saw an increase in the number of collisions following cannabis legalization compared to years prior to legalization. 2019 full-year data may provide greater clarity on whether the increased frequency seen in American jurisdictions will be mirrored in Alberta.

We believe that the AIRB should consider the potential impact of cannabis legalization on claims costs in the province when setting its industry benchmarks.

IBC appreciates the opportunity to provide input for the 2020 semi-annual review. We hope that this 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,
Vice President, Western

cc: Laurie Balfour,
Executive Director, AIRB