
Bulletin 03-14

September 26, 2014

To: Private Passenger Automobile Insurers

Subject: AIRB – 2014 Annual Review – Final Report

In accordance with Section 9 of the Automobile Insurance Premiums Regulation, the Board has completed its 2014 Annual Review. The Board has considered all of the oral and written information presented through the open meeting process, including the analysis and the findings presented by its actuary, Oliver Wyman. The AIRB - 2014 Annual Review can be viewed on our website at airb.alberta.ca/industry-information/annual-review/2014/default.aspx.

Based on the Annual Review analysis of Alberta private passenger vehicle loss experience ending December 31, 2013, the Ratemaking Components Schedule (attached) outlines the ratemaking components and guidelines that will be considered by the Board in its review of private passenger rate filings for Basic and Additional coverage submitted on or after October 1, 2014. The following are the approved ratemaking components:

1. Loss Development Factors
2. Loss Trends
3. Catastrophe Loading
4. Investment Income Rate
5. Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)
6. Health Cost Recovery
7. Profit

The components 1, 2, 3, and 5 are Board approved “benchmarks”. These components are to be based on each company’s own experience – to the extent they are deemed credible. However, should a company find a need to calculate industry loss costs or loss ratios to serve as credibility complements, then it is expected that the board approved benchmarks for each of the ratemaking components be used. Components 4, 6, and 7 are to be used by companies to calculate indications.

Sincerely,

“Original signed”

Del Dyck CMA, CLGM
Executive Director

Ratemaking Components Schedule

For Private Passenger Rate Filings for Basic and Additional Coverage Submitted On or After October 1, 2014

Loss Development Factors

The Board approved benchmark loss development factors for use by insurers in developing filings are outlined in Attachment 1.

Loss Trends

The following are the Board approved benchmark trend rates for use by insurers in developing filings:

| Coverage | Oliver Wyman Selected Trend Rates |
|-----------------|-----------------------------------|
| Bodily Injury | +2.5% |
| Property Damage | +2.0% |
| AB - Medical | +3.0% |
| AB - Disability | -1.5% |
| AB-Total | +2.0% |
| Collision | +2.5% |
| Comprehensive | +1.0% |

The Board acknowledges that insurers may select different trend rates based on their own claim experience. Insurers have the option to (a) use their own experience where it is fully credible; (b) use their own experience to the extent that it is credible and apply the Board's accepted industry benchmark trend rates without adjustment as the complement of credibility; or (c) apply the Board's accepted industry benchmark trend rates without adjustment.

Catastrophe Loading

The Board approved Catastrophe Loading is 40%. Where the insurers' own claim experience differs from industry and is credible, the Board acknowledges that insurers may select a different catastrophe loading based on their own claim experience.

Investment Income Rate

The Board approved risk-free rate for all coverage is 1.7%. Insurers must use a risk-free rate that is no lower than 1.7% when discounting claims in filings submitted to the Board. This rate is updated on a semi-annual basis.

Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)

The Board approved expense ratio is 24.4% and the approved ULAE factor is 1.105. Insurers' own experience should be used when filing with the Board.

Health Cost Recovery

Health Cost Recovery is a component of claims costs reported by insurers. Insurers must use the most current percentage published on the Minister of Finance's website at <https://open.alberta.ca/publications/health-cost-recovery-special-notice-assessment-factor> (2014 assessment factor is 5%)

Profit

The Board approved 7% of premium as a target pre-tax profit provision for all coverage.

Attachment 1

**Oliver Wyman Selected Age-to-Ultimate Development Factors
As of December 31, 2013
Alberta**

Private Passenger Automobile (Excluding Farmers)

As of 2013-2

**Age-to-Ultimate Factors
Incurred Claim Amount**

| | Bodily Injury | Property Damage | AB - Disability Income | AB - Medical Rehab | AB - Funeral | AB - Death | AB - Uninsured |
|---------|--------------------------|----------------------------|---------------------------------------|-----------------------------------|-------------------------|-----------------------|---------------------------|
| 180-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 174-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 168-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 162-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 156-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 150-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 144-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 138-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 132-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 126-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 120-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 114-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 0.976 |
| 108-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 0.972 |
| 102-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 0.970 |
| 96-Ult | 1.007 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 0.971 |
| 90-Ult | 1.013 | 1.000 | 1.000 | 1.001 | 1.000 | 1.000 | 0.972 |
| 84-Ult | 1.020 | 1.000 | 1.000 | 0.999 | 1.000 | 1.000 | 0.881 |
| 78-Ult | 1.031 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 0.983 |
| 72-Ult | 1.049 | 1.000 | 1.000 | 1.001 | 1.000 | 1.000 | 1.160 |
| 66-Ult | 1.076 | 1.000 | 0.999 | 1.003 | 1.000 | 1.000 | 1.252 |
| 60-Ult | 1.101 | 1.000 | 1.006 | 1.002 | 0.998 | 1.003 | 1.197 |
| 54-Ult | 1.140 | 1.000 | 1.008 | 1.004 | 0.996 | 1.005 | 1.337 |
| 48-Ult | 1.194 | 1.000 | 1.010 | 1.006 | 0.990 | 0.998 | 1.378 |
| 42-Ult | 1.263 | 0.999 | 1.007 | 1.007 | 0.989 | 0.998 | 1.532 |
| 36-Ult | 1.360 | 1.000 | 1.009 | 1.006 | 0.986 | 0.995 | 1.603 |
| 30-Ult | 1.477 | 0.998 | 1.010 | 1.006 | 0.975 | 0.989 | 2.120 |
| 24-Ult | 1.587 | 0.999 | 1.007 | 0.977 | 0.961 | 0.976 | 3.001 |
| 18-Ult | 1.694 | 1.003 | 1.065 | 0.976 | 0.948 | 0.971 | 3.028 |
| 12-Ult | 1.731 | 1.012 | 1.187 | 0.921 | 0.934 | 0.961 | 6.820 |
| 6-Ult | 2.106 | 1.213 | 1.599 | 0.686 | 1.019 | 1.150 | 13.328 |

Oliver Wyman Selected Age-to-Ultimate Development Factors
As of December 31, 2013
Alberta
Private Passenger Automobile (Excluding Farmers)

As of 2013-2
Age-to-Ultimate Factors
Incurred Claim Amount

| | Collision | Comprehensive | Specified Perils | All Perils | Underinsured |
|---------|------------------|----------------------|-------------------------|-------------------|---------------------|
| 180-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 174-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 168-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 162-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 156-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 0.991 |
| 150-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 0.993 |
| 144-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.001 |
| 138-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.002 |
| 132-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.007 |
| 126-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 120-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.007 |
| 114-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.004 |
| 108-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.053 |
| 102-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.080 |
| 96-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.052 |
| 90-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.045 |
| 84-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.029 |
| 78-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.040 |
| 72-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.063 |
| 66-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.033 |
| 60-Ult | 1.000 | 1.000 | 1.000 | 0.998 | 1.030 |
| 54-Ult | 1.000 | 1.000 | 0.997 | 1.001 | 1.032 |
| 48-Ult | 1.000 | 1.000 | 0.998 | 0.999 | 1.053 |
| 42-Ult | 1.000 | 1.000 | 0.998 | 1.000 | 1.063 |
| 36-Ult | 0.999 | 1.000 | 0.993 | 1.001 | 1.174 |
| 30-Ult | 0.997 | 1.000 | 0.988 | 1.001 | 1.277 |
| 24-Ult | 0.987 | 1.000 | 0.983 | 0.987 | 1.497 |
| 18-Ult | 0.961 | 0.997 | 0.980 | 0.984 | 1.799 |
| 12-Ult | 0.848 | 0.987 | 0.957 | 0.949 | 2.498 |
| 6-Ult | 0.615 | 1.000 | 0.988 | 0.809 | 6.401 |