

Insurance Bureau of Canada Presentation to the **AIRB 2021 Annual Review**

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IBC Presentation Overview

1. State of the Industry
2. Overview of Loss Trend Factors
3. Alberta's Grid Framework
4. Catastrophe Provision
5. Recommended Path Forward

State of the Industry

Alberta's 2020 reforms to the auto insurance sector were designed to:

- Stabilize premiums and lower claims costs
- Enhance care and treatment options for drivers injured in collisions
- Improve the provinces regulatory framework and reduce red tape

State of the Industry

This Annual Review is the first opportunity to analyze the impact of those reforms, however ***too little time and claims experience is included in the actuarial analysis for any meaningful conclusions to be drawn*** with regard to their effectiveness

State of the Industry

The insurance industry data that this Annual Review report is based upon, as of December 31, 2020, does not include sufficient claims experience to update the expected cost impact of Bill 41. Due to the impact of COVID-19, we expect an additional time lag before the effect of the reforms can be accurately measured...

- Oliver Wyman, 2020 PPV Analysis

State of the Industry

IBC encourages the AIRB to continue to move forward with improvements to the province's regulatory framework. Specifically, this includes focusing on improvements to:

- 1 The province's **rate regulation framework**, and a move towards a true file-and-use system
- 2 Alberta's Grid and refocusing that framework on its **original intent** – namely, ensuring new drivers access to affordable entry-level premiums
- 3 Moving towards a more **principled-based regulatory model** that better promotes competition and choice



Overview of Alberta's Auto Insurance Loss Trend Factors

Loss Trend Factors (1/2)

Oliver Wyman and Deloitte both project steep increases for several coverages including bodily injury, accident benefits, and comprehensive.

Future Loss Cost Trend Factors

	OW	Deloitte
TPL-BI	+5.0%	+6.0%
TPL-PD	+1.5%	+1.7%
AB	+11.5%	+10.0%
COLL	+2.5%	+2.7%
COMP	+6.5%	+5.8%

- Despite 2020 reforms, both actuaries project bodily injury costs will continue to increase at rates well above inflation.
- The impact of the 2020 reforms on accident benefits was higher given the effect of the reforms.
- Under the current product, injury claims costs will continue to rise much faster than the rate of inflation.

IBC with data from Oliver Wyman, Deloitte.

Loss Trend Factors (2/2)

Oliver Wyman selected property damage and collision trend factors of +1.5% and +2.5%, respectively.

Much higher vehicle damage trend factors are projected in Ontario due to more new vehicles on the road with expensive collision-avoidance technology.

As Albertans replace older vehicles, IBC anticipates that vehicle damage claims costs will increase at a faster pace, as has been seen in Ontario.

IBC with data from Oliver Wyman

Grid Vehicles

If not replaced, **improvements can be made** to the existing Grid framework in the interim to mitigate its negative impact on drivers, including a reduction in the number of Grid steps and reforming Grid rules around infractions and territories.

Alberta's Grid Framework

The Grid penalizes safe drivers by forcing them to subsidize premiums of those at higher-risk.

The Grid's **original intent** was to secure affordable premiums for new drivers. Over time it has expanded far beyond this.

- Grid population continues to increase significantly, from 5.2% in 2016 to 7.1% in 2020. This represents nearly 50,000 new drivers. This number is expected to increase in the coming year.

Alberta's Grid Framework

Current Grid changes include:

- Overall Grid level premium reduction of 31.9%
 - Including an 11.4% reduction to account for the reforms
- Reductions to Grid differentials at both the low and high end of the Grid steps.

Alberta's Grid Framework

- These changes are likely to **lead to a further increase** in the numbers placed on the Grid in the coming year
- It is **more important than ever that the Grid be realigned with its original intent** – ensuring new drivers have access to an affordable entry-level premiums
- If not replaced, **IBC believes improvements must made to the existing Grid framework to mitigate its negative impact** on drivers generally, including a reduction in the number of Grid steps and reforming Grid rules around infractions and territories

Alberta's Catastrophe Provision

Oliver Wyman selected a catastrophe provision of 51%. Deloitte selected a higher provision of 55%. However, these are based on 2019 catastrophe data.

2020 saw a number of severe weather events in Alberta, which caused over \$357 million in auto insurance losses alone.

Given Alberta's history of volatile and severe weather, IBC recommends that the AIRB select a higher catastrophe provision in recognition of these trends.

Conclusion

Alberta's 2020 reforms were intended to stabilize premiums for consumers, however, too little information is available to understand their true impacts.

If these reforms end up being successful, a stable premium environment presents an important opportunity for the AIRB to focus on its rate regulation objectives, as envisioned by the 2020 reforms.

Recommended Next Steps

1

Continue to improve the province's rate regulation framework, including a move towards a true file-and-use system.

2

Streamline the Grid framework to realign it to its original intent to ensure new driver access to affordable entry-level premiums.

3

Move towards a more principle-based regulatory model that better promotes competition in the market and greater choice for drivers.
