

Alberta Civil  
Trial Lawyers  
Association  
(ACTLA)

Presentation to the Alberta  
Automobile Insurance Rate Board  
(AIRB)

2022 Annual Review - August 18<sup>th</sup> 2022

# Submission Summary

## Recommendation:

There should not be rate increases to premiums for basic and additional coverage for private passenger vehicles in 2022.

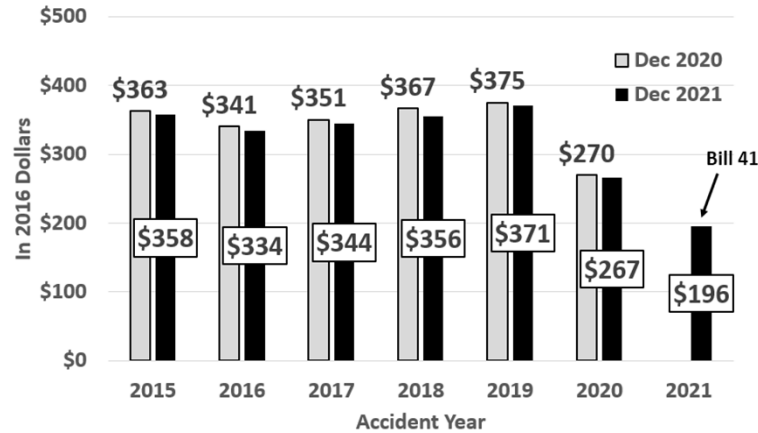
## Rationale:

1. Inflation-adjusted bodily injury claims costs and claims costs for all coverages continue their trend of stabilization and decline.
2. Loss and LAE costs per vehicle from prior accident years continue to be revised downward by Oliver Wyman.
3. The insurance industry is experiencing significant profits.
4. The divergence between declining claims costs and increasing premiums continues.
5. Operating expenses of Alberta auto insurers have increased more than the rate of inflation, while claims costs have declined.
6. Assumptions of a return to pre-pandemic driving patterns have not yet materialized



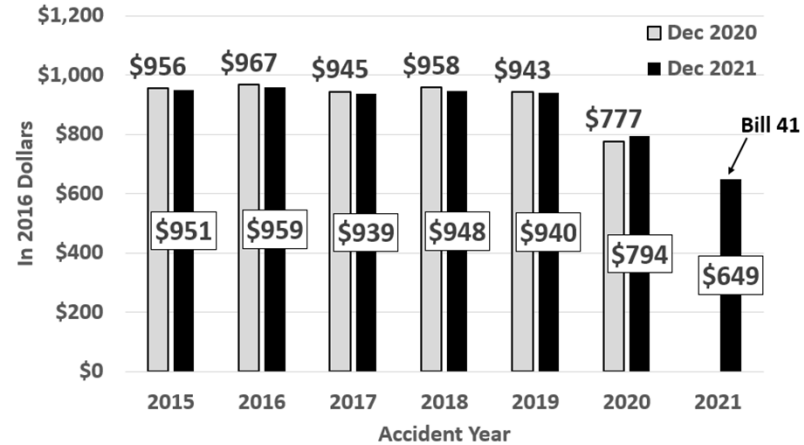
# Inflation-adjusted bodily injury claims costs and claims costs for all coverages continue their trend of

Bodily Injury Ultimate Loss and LAE Cost per Vehicle,  
Analysis at Dec 2020 and at Dec 2021  
Adjusted for 2017 Change in Loss Development Patterns



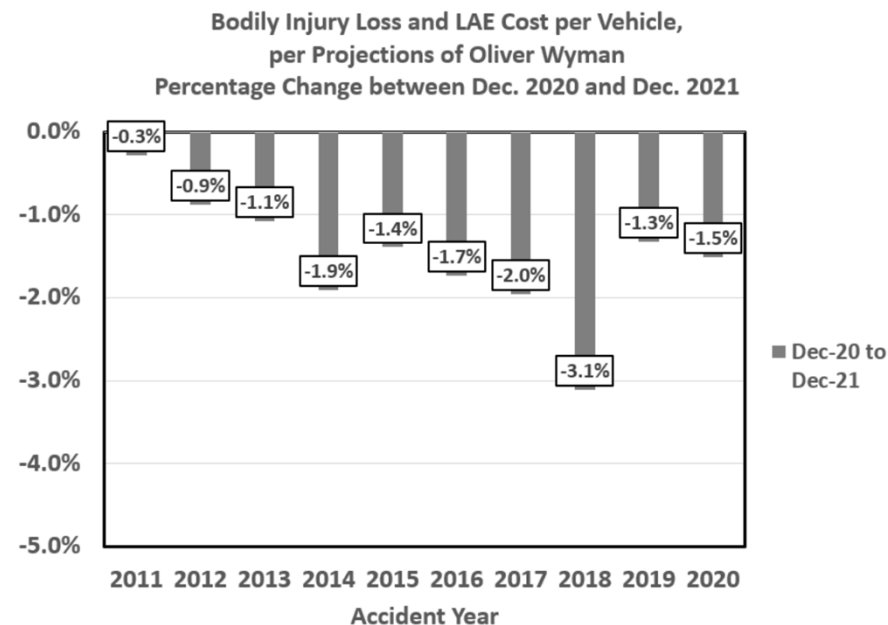
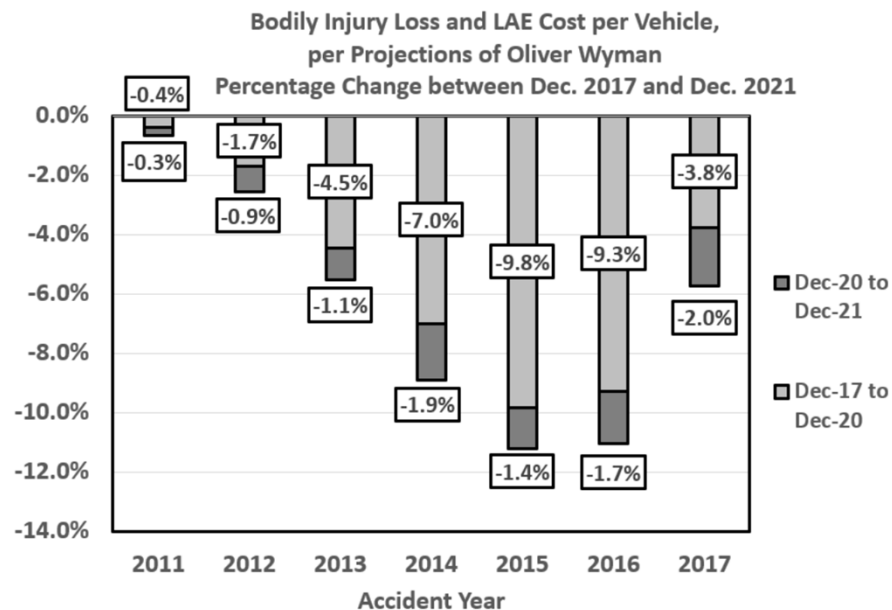
The 2022 Annual Review analysis of Oliver Wyman projections show approximate stability in inflation-adjusted loss and LAE costs per vehicle for the period 2015 through 2019.

All Coverages, Ultimate Loss and LAE Cost per Vehicle,  
Analysis at Dec 2020 and at Dec 2021  
Adjusted for 2017 Change in Loss Development Patterns



For all coverages combined, the Oliver Wyman loss and LAE projections, with the BI coverage adjusted for the change in the loss development pattern, shows stability in the inflation-adjusted loss cost over the accident years 2015 through 2019.

# LAE costs per vehicle from prior accident years continue to be revised downward by Oliver Wyman.



Prior projections of bodily injury and LAE costs per vehicle for accident years 2011-2020 have all been adjusted downward. The variations are stark and range from a 0.7% revision in 2011 to a 11.2% variation in 2015.

These charts demonstrate the uncertainty that continues in the projected values of bodily injury coverages. It indicates that the coverage has been more profitable than was indicated in previous Annual and Semi-Annual Reviews.



# The insurance industry is experiencing significant profits.

Table 11 from the Allen report calculates industry pre-tax profit using the claims costs from the Oliver Wyman December 2021 report, adjusted for the 2017 change in loss development patterns.

With claims at this level including the impact of PJI of Bill 41, total pre-tax profit for the period increases to \$1.060 billion, including a pre-tax profit of more than \$215 million for 2019.

Table 11: Annual Profit and Loss, Alberta Private Passenger Auto Insurance, Using Claims Amounts per Oliver Wyman Analysis as at Dec 2021, Adjusted for 2017 Loss Development Pattern Change

*(Thousands of Dollars)*

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Premium	\$2,476,400	\$2,579,400	\$2,729,300	\$2,923,200	\$3,089,300	\$3,186,100	\$3,308,500	\$3,524,600	\$3,783,000	
Less: Claims Costs	\$1,653,100	\$1,940,500	\$2,094,900	\$2,286,900	\$2,508,600	\$2,590,600	\$2,559,800	\$2,710,100	\$2,762,300	
Less: Expenses	\$604,300	\$629,400	\$665,900	\$707,400	\$784,700	\$850,700	\$919,800	\$937,600	\$1,010,000	
Less: Health Cost Recovery	\$82,100	\$75,700	\$63,800	\$72,700	\$101,400	\$100,100	\$102,900	\$139,200	\$146,300	
Plus: Investment Income	\$297,500	\$288,200	\$242,900	\$321,800	\$303,700	\$244,900	\$307,100	\$203,800	\$351,000	
<b>Total Profit, Pre-Tax</b>	<b>\$434,500</b>	<b>\$222,000</b>	<b>\$147,500</b>	<b>\$178,000</b>	<b>-\$1,700</b>	<b>-\$110,500</b>	<b>\$33,200</b>	<b>-\$58,400</b>	<b>\$215,200</b>	<b>\$1,059,800</b>

# The insurance industry is experiencing significant profits.

Table 12 from the Allen report projections of the pre-tax profits of the private passenger auto insurance industry in Alberta. This projection has since been revised for the claims experience observed in the 2021 accident year.

Industry pre-tax profits for 2020 are now projected at \$894 million. For 2021, they are projected at \$1.434 billion.

This analysis includes consideration of industry investment earnings on capital, a key factor in industry profitability, which Oliver Wyman advises is not captured in its reporting of the realization of the "7% of premium" profit provision.

Table 12: Projected Annual Profit, 2020, 2021 and Projected 2022, Alberta Private Passenger Auto Insurance, Using Claims Amounts per Oliver Wyman Analysis as at December 2021, Adjusted for 2017 Loss Development Pattern Change  
(Thousands of Dollars)

	Actual 2020	Actual 2021	Projected 2022*	Total
Premium	\$4,068,000	\$4,370,400	\$4,496,800	
Less: Claims Costs	\$2,368,700	\$2,179,800	\$3,102,600	
Less: Expenses	\$1,057,700	\$1,136,300	\$1,218,600	
Less: Health Cost Recovery	\$115,500	\$75,800	\$92,500	
Plus: Investment Income	\$368,100	\$284,600	\$242,700	
<b>Total Profit, Pre-Tax, Excl. Bill 41</b>	<b>\$894,200</b>	<b>\$1,263,100</b>	<b>\$325,800</b>	<b>\$2,483,100</b>
Plus: Further Savings from Bill 41		\$171,300	\$255,500	\$438,000
<b>Total Profit, Pre-Tax, Incl. Bill 41</b>	<b>\$894,200</b>	<b>\$1,434,400</b>	<b>\$581,400</b>	<b>\$2,910,000</b>



# The insurance industry is experiencing significant profits.

The left column is calculated based on the "Realized Profit Provision" provided by Oliver Wyman (table 5, page 18) and incorporates investment income on capital. This calculation indicates passenger auto insurance profits in line with the calculations of Craig Allen and in contrast to those provided by GISA.

Year	Realized Pre-tax Profit Provision, plus Investment Income Earned on Capital	Cheng Method, Pre-Tax Profit
2011	Not Published by Oliver Wyman	\$434 million
2012	Not Published by Oliver Wyman	\$222 million
2013	\$128 million	\$148 million
2014	\$152 million	\$178 million
2015	Loss of \$14 million	Loss of \$1.7 million
2016	Loss of \$227 million	Loss of \$110 million
2017	Loss of \$61 million	\$33 million
2018	Loss of \$144 million	Loss of \$58 million
2019	\$175 million	\$215 million
2020	\$886 million	\$894 million
2021	\$986 million	\$1.434 billion
<b>2013-2019</b>	<b>\$10 million</b>	<b>\$403 million</b>
<b>2020-2021</b>	<b>\$1.872 billion</b>	<b>\$2.329 billion</b>



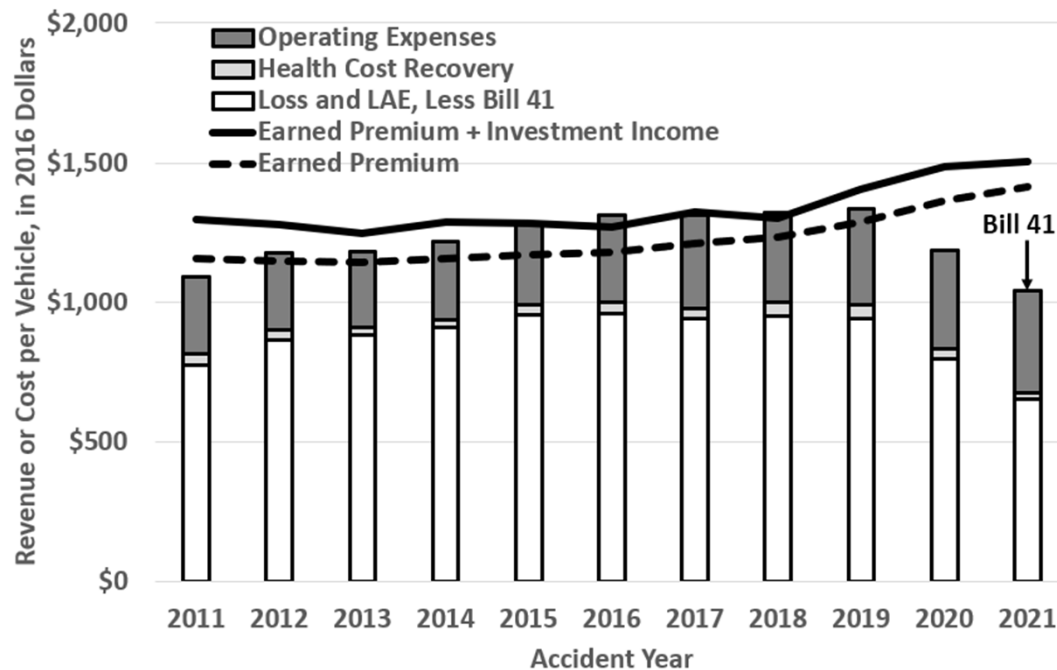
# The divergence between declining claims costs and increasing premiums continues.

Growth in premium income for the Alberta private passenger auto insurance industry has exceeded the rate of general inflation, while claims costs have declined, in keeping with the reduced claims activity that began with the COVID-19 pandemic, and the reforms in Bill 41.

These factors, along with a reduction in the amounts levied by the Alberta government for Health Cost Recovery have contributed to the much-increased level of profits beginning in 2020.

At the same time, a long-time trend of increases greater than general inflation in per-vehicle operating expenses, in particular general expenses and commissions, have somewhat reduced the level of profits in the industry.

Comparison of Premium and Investment Income to Claims and Operating Expenses, per Vehicle, 2016 Dollars





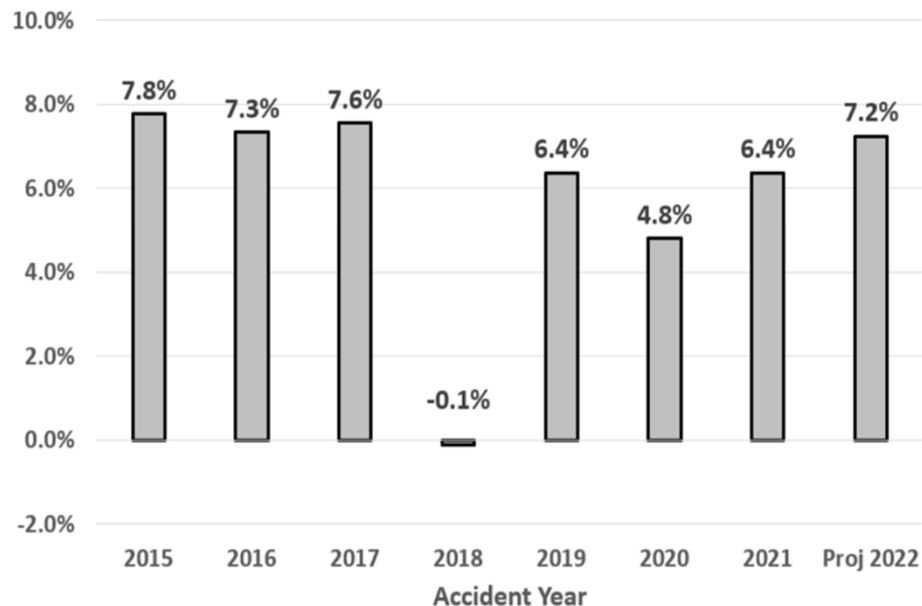
# Operating expenses of Alberta auto insurers have increased more than the rate of inflation, while claims costs have declined.

While claims costs have stabilized between 2015-2019 and declined significantly post-COVID, the operating expenses per vehicle of Alberta auto insurance companies has increased significantly more than the rate of inflation since 2015 (except for the anomaly of 2018).

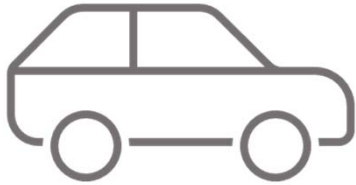
Oliver Wyman further suggests that operating expenses should be assessed at a significantly higher rate for 2022. There is no explanation provided for the increase in operating expenses.

When auto insurance claims reduced significantly and most other industries reduced operating expenses for matters such as rent, advertising, executive compensation and other general administrative expenses during the pandemic, operating expenses per vehicle for Alberta auto insurers increased between 4.8% - 6.4% per vehicle.

Annual Pct Increase in Operating Expenses per Vehicle, as per April Benchmark, Applied to Earned Premium



# Assumptions of a return to pre-pandemic driving patterns have not yet materialized.



COVID-19 effects on transportation habits and driving patterns continue to linger and may endure to a greater extent than assumed by Oliver Wyman.

Industry benchmarks for 2022 as drafted by Oliver Wyman assume a return to pre-pandemic driving patterns.

If experience from 2021 is to be drawn upon, it is unlikely this assumption will come to fruition and should be revised. In the latter half of 2021 frequency rates for both bodily injury and collision remained noticeably down from 2019 at -23% and -28% respectively.

# Conclusion



**Recommendation:** There should not be rate increases to premiums for basic and additional coverage for private passenger vehicles in 2022.

Albertans have seen dramatic increases to their auto insurance premiums since 2018. Along with inflation and rising energy costs, large premium increases for auto insurance have been a major strain on many Albertans who continue to struggle with the ongoing affordability crisis.

At minimum, private passenger premiums should be frozen until the long-term impacts of COVID-19 can be observed in the industry and until the relationship between insurer costs and consumer premiums is brought back into some semblance of equilibrium.

Thank you!



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