



# Insurance Bureau of Canada Presentation to the **AIRB 2022 Annual Review**

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**Hanna Beydoun**, Manager, Policy



# IBC Presentation Overview

1. Alberta's Regulatory Environment
2. Overview of Loss Trend Factors
3. Recommended Next Steps



# Alberta's Regulatory Environment



## Over the past year, the AIRB has undertaken significant regulatory improvement:

- ✓ Principles-based approach to rating variables
- ✓ Adoption of File-and-Use rate filing system
- ✓ Launch of online Collection and Reporting System (CARS)

These changes help encourage innovation in the marketplace, and spur more choice and product offerings for consumers.

IBC applauds these actions and encourages the AIRB to continue to undertake regulatory improvements that encourage greater consumer choice and fulfill its mandate to **ensure that Albertan's have access to a robust insurance market.**



## State of the Industry - A Look Back

- In late 2020, government introduced reforms designed to stabilize consumer premiums – and that's exactly what has happened.
  - Over the past 12 months, premiums have fallen 0.1%\*
- Premium stability cannot be ascribed to reforms alone as the COVID-19 pandemic significantly reduced driving activity and claims pressure.

*\* IBC analysis based on industry data from GISA*



## State of the Industry – Looking Ahead

- According to Environics Analytics, driving habits are now exceeding pre-pandemic levels.
- Supply chain disruptions continue and inflationary pressures are impacting the cost of parts and labour. Insurers have seen **significant increases in the cost of vehicle repairs and replacement**
  - Spending on vehicles and automotive parts increased by over 15% \*
  - The average price of used vehicles is up 47% \*
  - New vehicle prices are up 8.2% \*

*\* IBC with data from Statistics Canada June 2022 CPI*



# The Impact of Inflation on Rate Adequacy

- Inflationary pressures are likely to increase in vehicle-damage related loss costs greater than is projected by both Oliver Wyman and Deloitte.
  - IBC analysis suggests that insurers could face combined loss ratios between 102.5% and 106.5% in 2022.
- Given this, it is clear that the AIRB's 2% threshold for industry rate increases is likely inadequate.



## Inflation and Rate Adequacy

“Due to the COVID-19 pandemic, there is additional uncertainty with the estimates for the 2020 and 2021 accident years.”

“The uncertainty surrounding inflation, adds uncertainty around selecting an appropriate future trend rate.”

- Oliver Wyman, 2022 PPV Analysis



# Inflation and Insurer Rate Filings

- Given the uncertainty regarding inflation and the significant changes in consumer driving habits, insurers must have the ability to use their individual experience and projections, where reasonable, in their rate filings.
- As such, the AIRB should **review insurer rate filings based on the reasonableness of those filings**, rather than deferring to the alternate opinion of its own consulting actuary.



# Grid Framework

In its current form, it is clear that the **Grid framework is no longer aligned with its original intent**. It penalizes safe drivers with higher premiums and actually incentivizes poor driving behavior on our roadways.

- In 2021, total Grid subsidies were estimated to be \$180 million.
  - This equates to \$65, or 4% of premiums, **for every driver**
- Recent insurer data points to the number of Grid vehicles **already doubling** this year.



# Grid Framework

**To address this, the AIRB must immediately work to:**

- Restore Grid premiums to their 2020 levels, and
- Undertake further relativity changes to the Grid steps, to better align the framework with its intent.

IBC commissioned Deloitte to review the Grid and provide recommendations to better align the framework with its original intent, which include:

- Using all at-fault claims to move drivers up or down Grid steps
- Reducing the number of years that drivers are subject to the Grid by phasing out Grid steps –7 to –15
- Restricting Grid access to drivers who have been licensed for seven years



# Overview of Alberta's Auto Insurance Loss Trend Factors



# Loss Trend Factors

Oliver Wyman and Deloitte both project that several coverages, particularly those related to injury claims, will increase considerably over the next year.

## Future Loss Cost Trend Factors

	OW	Deloitte
TPL-BI	+5.0%	+6.2%
TPL-PD	+1.5%	+1.7%
AB	+12.0%	+10.0%
COLL	+2.5%	+3.5%
COMP	+3.5%	+5.7%

*IBC with data from Oliver Wyman, Deloitte.*

### Of note:

- Injury claims costs are projected to rise significantly.
- Due to their omission of recent inflationary pressures, both Oliver Wyman and Deloitte project relatively modest vehicle damage future trend rates.



## Recommended Next Steps

There is significant uncertainty facing Alberta's auto insurance system. However, it's clear **both vehicle damage and injury claims costs are on the rise.**



## Recommended Next Steps

To mitigate the impact of this on consumers, the AIRB should continue in its efforts to **ensure that Albertan's have access to a robust insurance market**, including:

- 1 **Continue to improve** the province's rate regulation framework
- 2 **Streamline the Grid framework** to realign it to its original intent to ensure new driver access to affordable entry-level premiums
- 3 **Permit actuarially justified rate changes**



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