



**2022 Annual  
Industry Review  
Preliminary Findings  
Private Passenger Automobile**  
presentation to the Automobile Insurance Rate Board  
18 August 2022

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# AGENDA

## **1. Background and Economic Information**

## **2. 2022 Annual Review Benchmarks**

- Unallocated Loss Adjustment Expenses
- Catastrophe Historical Losses
- Investment Income Rate
- Health Cost Recovery
- Non-claim Expenses
- Profit Provision
- Ultimate Loss Amounts and Claim Counts

## **3. COVID-19 Effect on Claim Costs**

## **4. Loss Trend Rates**

## **5. Industry Profitability**

# 1

## **Background and Economic Information**

# BACKGROUND

- The Automobile Insurance Premiums Regulation requires the AIRB to conduct an Annual Review for private passenger vehicles. The review includes the analysis of insurance industry experience to develop benchmarks.
- The benchmarks are for use in **evaluating rate filings, measuring insurance Industry performance, and for calculating the rate level needs of the Grid.**
- The loss trend benchmarks are based on aggregated insurance industry data. Estimation of the **past** trend rates is dependent upon the aggregated historical data, along with consideration of reforms and COVID-19.
- The selection and application of **future** trend rates is dependent upon the changing economic environment. The recent inflation spike, impact of the surge in gas prices, and the timing of a return to the traditional 2-3% inflation rate needs to be considered as data emerges.

# ADDED UNCERTAINTY

- **COVID-19 pandemic:**
  - Will the increase of remote and hybrid work result in a sustained lower frequency level?
  - Will increased use of private vehicles with reduced use of public transit offset effects of remote and hybrid work?
- **Timing of Bill 41:**
  - Introduction occurring during the pandemic creates additional challenges to isolating early estimates of the actual claims cost impact of the reforms.
  - We continue to assume the *a priori* claims cost savings of the reforms will be realized.
- **The rise in inflation and possible recession:**
  - Not fully embedded in the claims cost data (through to December 31, 2021)
  - The **past** loss trend rates not likely an accurate indication of **future** trend rates. Current inflation data should be submitted with rate applications to support future trend rates.
  - A surge in gas prices or a recession may lead drivers to reduce their vehicle usage and would likely be correlated with a reduction in the future claims frequency rate.

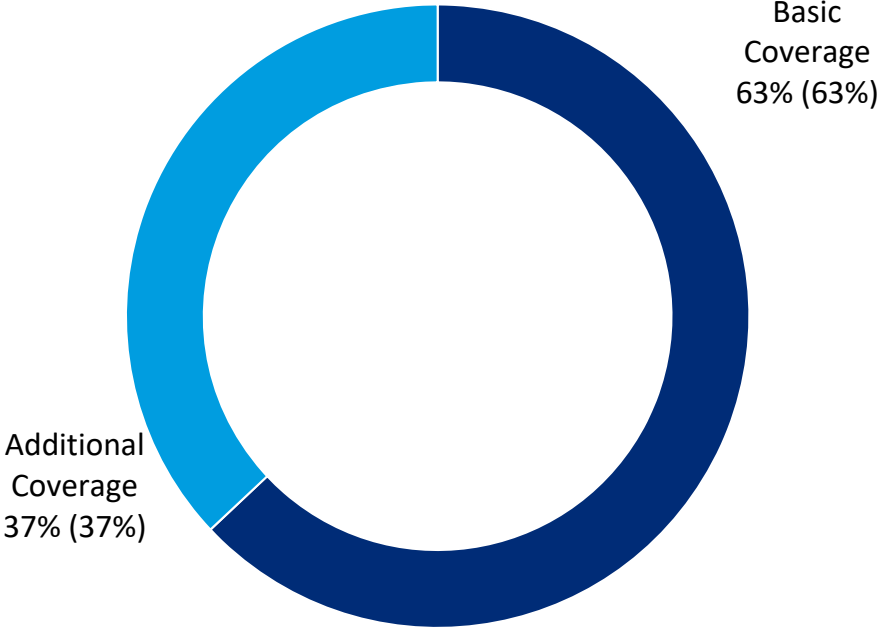
# TERMINOLOGY

- **2022 SAR**- Semi Annual Review based on mid-year Industry data as of June 30, 2021
- **2022 AR** - Annual Review based on year end Industry data as of December 31, 2021
- **Basic Coverages**
  - Third Party Liability (TPL): Bodily Injury and Property Damage
  - Accident Benefits (AB): Medical, Disability Income, Death Benefits, Funeral, and Uninsured Auto
- **Additional Coverages**
  - Collision
  - Comprehensive
  - Specified Perils
  - All Perils
  - Underinsured Motorists

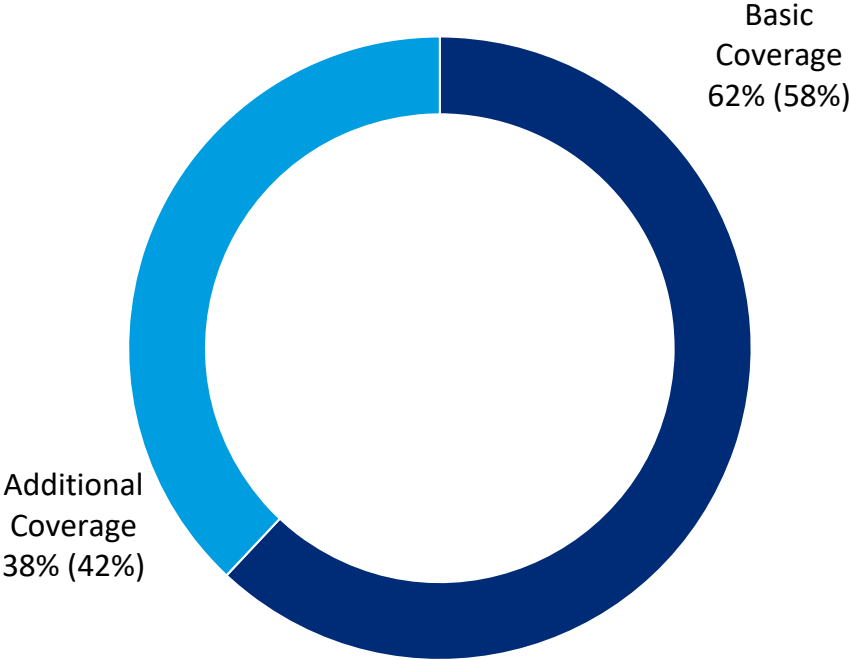
# DISTRIBUTION OF PREMIUMS AND COSTS

## Basic and Additional Coverage

2021 Written Premium (2020)



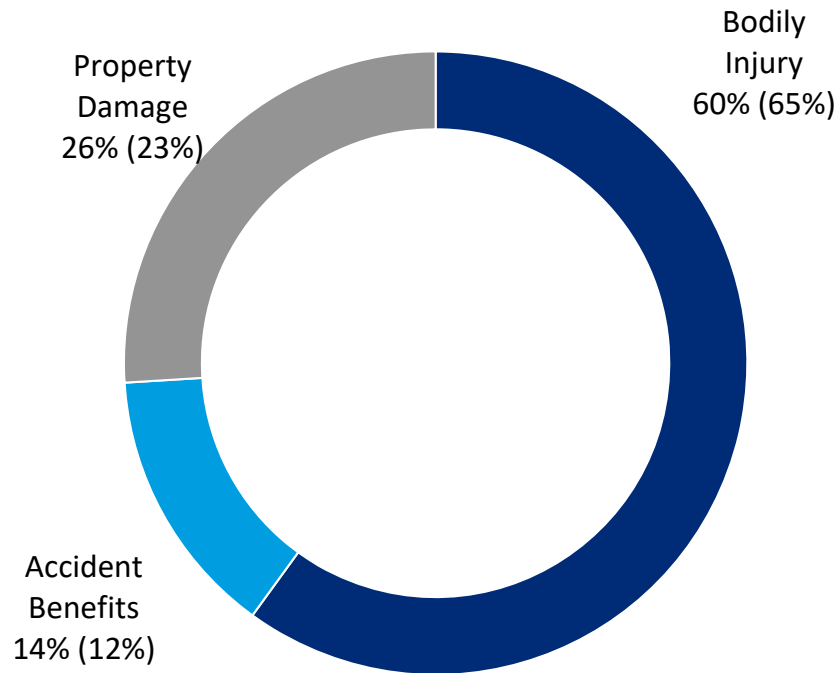
2021 Ultimate Claim Cost (2020)



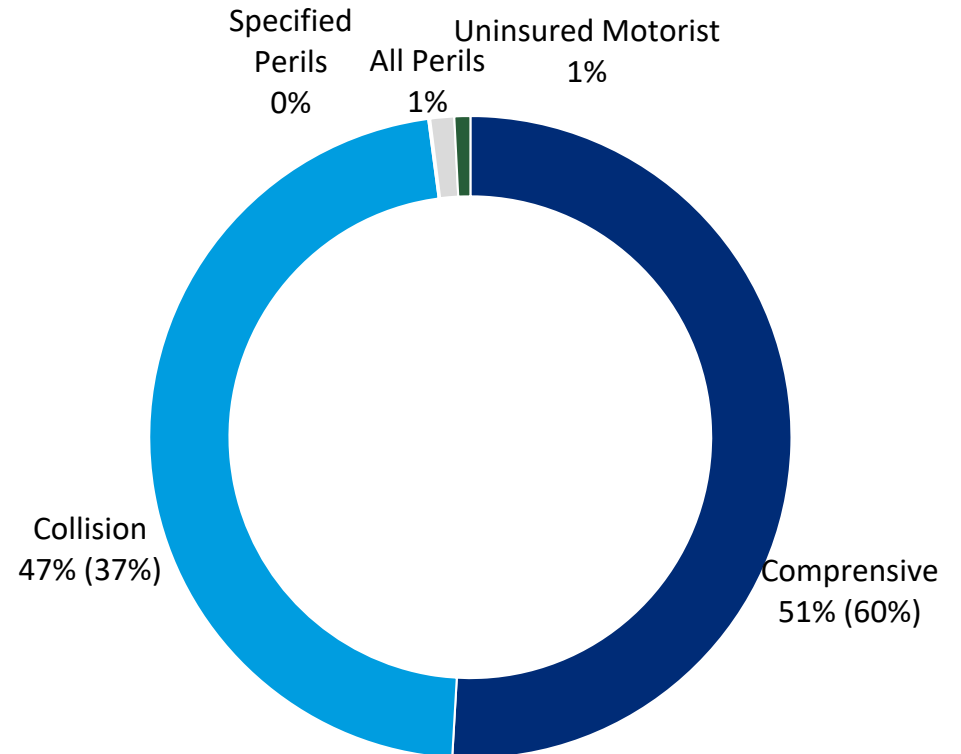
# DISTRIBUTION OF PREMIUMS AND COSTS

## Basic and Additional Coverage

### 2021 Basic Coverages (2020)

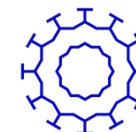


### 2021 Additional Coverages (2020)





# CHANGE IN ECONOMIC CONDITIONS



	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Alberta Unemployment Rate	6.7%	6.7%	15.8%	9.3%	4.9%
Alberta CPI (Total)	140.7	142.7 (1%)	145 (2%)	148.9 (3%)	161.4 <b>(8%)</b>
Alberta CPI (ex. Energy)	138.2	141.3 (2%)	143.7 (2%)	145.4 (1%)	153.7 (6%)
Alberta Gasoline CPI	194.6	159.8 (-18%)	145.4 (-9%)	197.9 <b>(36%)</b>	289 <b>(46%)</b>
Natural Gas Prices (\$/GJ)	\$0.75	\$0.55 (-27%)	\$1.65 (200%)	\$2.78 (68%)	\$5.97 (115%)
3 Year Canada Benchmark Bond Rates	1.8%	1.4%	0.3%	0.5%	2.8%
Population	4.28	4.35 (2%)	4.43 (2%)	4.44 (0%)	4.5 (1%)

# ALBERTA UNEMPLOYMENT RATE



# INVESTMENT RATE

Government of Canada Benchmark Bond Yields  
3 Year



# 2

## Rate Filing benchmarks

# UNALLOCATED LOSS ADJUSTMENT EXPENSES

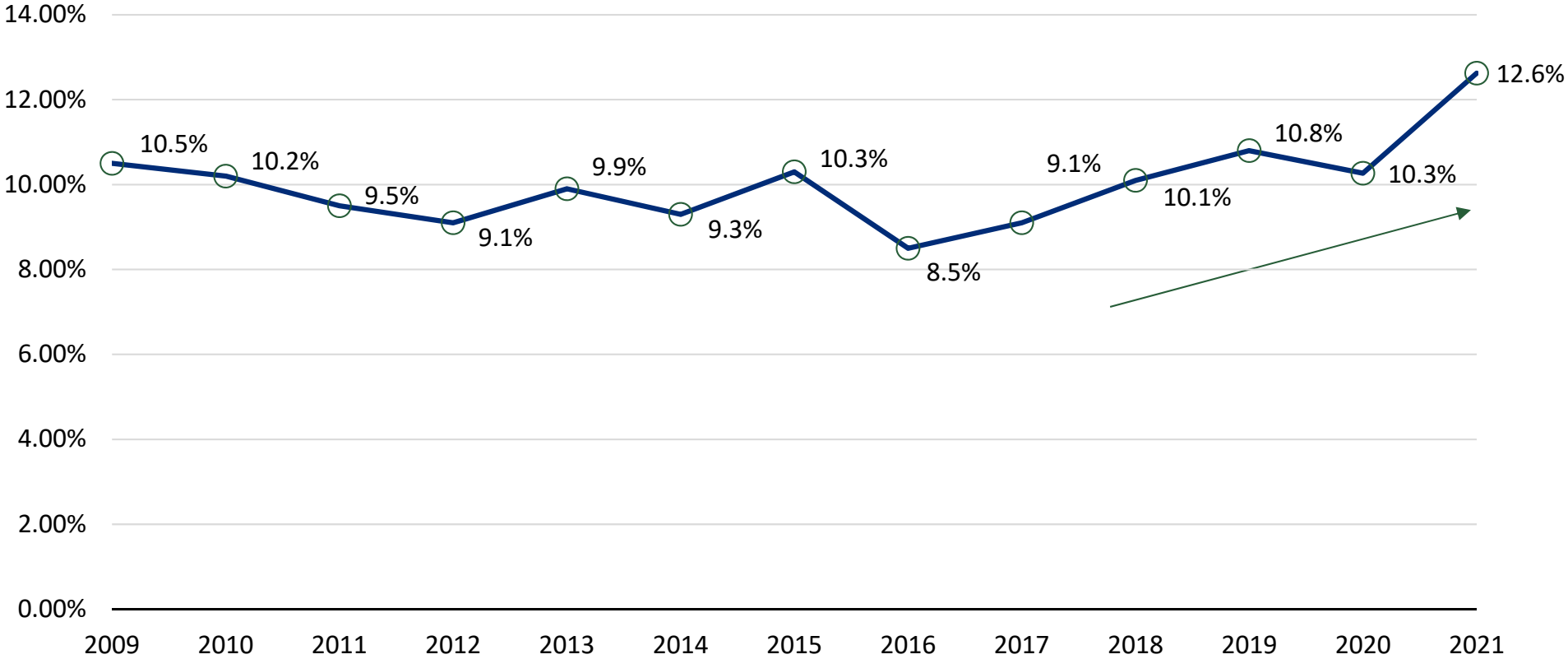
- In determining their rate level needs, insurers should include provisions for loss adjustment expenses (LAE) that are based on their experience.
  - Allocated loss adjustment expenses (ALAE): legal expenses associated with claim settlement
  - Unallocated loss adjustment expenses (ULAE): the claim and settlement related expense that cannot be associated directly with individual claims
- For the analysis we perform of loss development factors, ALAE is included with the reported Industry loss data.
- For the analysis we perform of trends, ALAE is included with the loss experience, and we also provide for ULAE through the application of factors that are published and applied by GISA in the Automobile Insurance Exhibit (AIX) reports to the accident year experience.

## Stakeholder Comments

- None

# UNALLOCATED LOSS ADJUSTMENT EXPENSES

**GISA ULAE Factors**  
ULAE / (Loss + ALAE)



# CATASTROPHE LOADING

- Due to the unpredictable nature of catastrophes (severe weather-related events), in determining their rate level needs insurers should remove actual comprehensive coverage claim costs attributed to catastrophes and replace them with a provision that represents their average level of catastrophic claim costs.
- The AIRB recognizes that an insurer's exposure to catastrophic losses greatly depends on an insurer's geographic concentration of business. The AIRB considers an insurer's own catastrophic loss experience in rate applications and no longer publishes a benchmark.

## Stakeholder Comments:

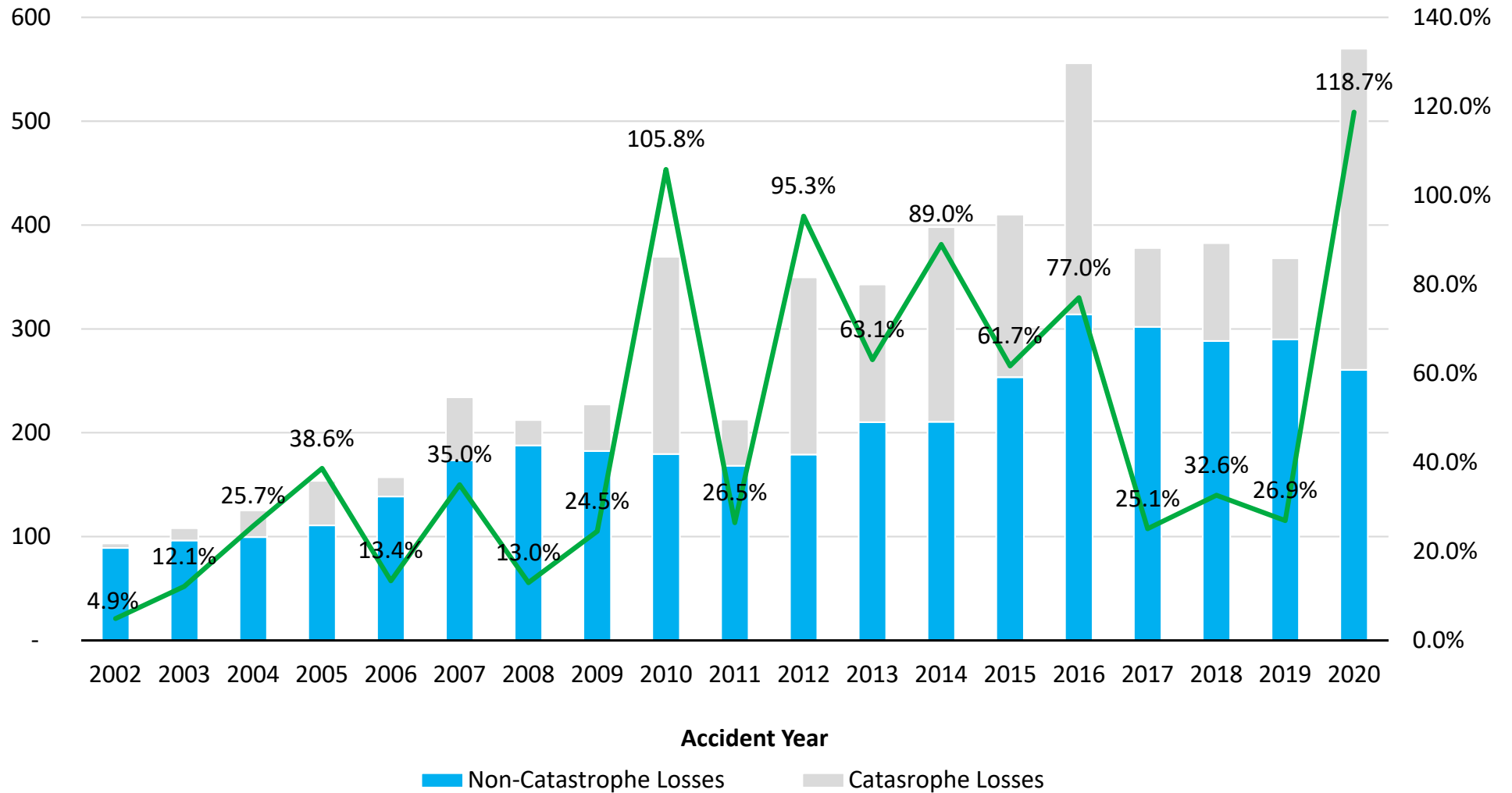
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# PROPORTION OF COMPREHENSIVE LOSSES ATTRIBUTED TO CATASTROPHES

Losses (in \$ Millions)

Catastrophe Load





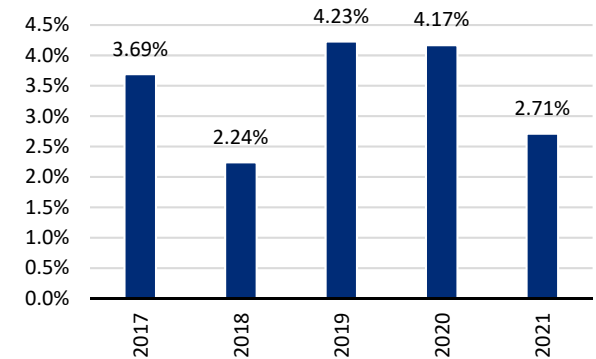
# INVESTMENT INCOME RATE

- The AIRB updated its Filing Guidelines in **July 2019** and directed insurers to use their own expected investment return when discounting claims in the filings submitted to the AIRB. Therefore, the AIRB no longer publishes a benchmark for the investment income rate.
- Insurers invest in a combination of risk-free bonds, corporate bonds, and equities. The average return on investment rate (ROI) shows a narrow range amongst insurers.
  - The three-year (2019-21) average pre-tax ROI is 3.70% in Alberta
  - The industry average we present for each year is the average reported investment rate weighted by the written premiums of each insurer writing automobile insurance in the province.

## Stakeholder Comments

- None

## Industry Average Pre-Tax ROI



# HEALTH COST RECOVERY

- The AIRB's position has been to accept the Government's most recent health cost recovery assessment as its Benchmark.
- The current Benchmark is based on the Government's 2022 assessment rate: 3.55%
- No update recommended at this time

## Stakeholder Comments

- None

# NON-CLAIM EXPENSES

- The AIRB's position has been to accept the latest Industry average operating expense ratio as published by GISA as the Benchmark for assessing the reasonableness of an insurer's expense provision.
- The current Benchmark, 26.0%, is based on GISA's 2020 expense report with the general expense component based on a percentage of the earned premiums and other components as a percentage of written premiums.
- Oliver Wyman Preliminary Recommended Benchmark: **27.1%** based on GISA's 2021 expense report; with contingent commission capped at the level in current Benchmark (1.4%).

## Stakeholder Comments

- ACTLA states operating expenses per vehicle are raising faster than inflation rate.

# ADMINISTRATIVE EXPENSES

## Insurance Industry Expense Ratios

Source: GISA 2021 Expense Report

<b>Expense Component</b>	<b>Current Benchmark (2022 SAR)</b>	<b>Recommended Benchmark (2022 AR)</b>
Direct Commissions	11.1%	11.5%
Contingent Commissions	1.4%	1.4%
Total Commissions	12.5%	12.9%
Premium and Fire Taxes	3.7%	3.8%
Other Acquisition Expenses	2.7%	2.9%
General Expenses	7.1%	7.5%
Total Expenses	26.0%	27.1%

# PROFIT PROVISION

- The Board's current position is a profit provision allowance in rates at 7% of premium.
- Oliver Wyman does not provide any recommended changes.

## Stakeholder Comments:

- None

# ULTIMATE LOSS AMOUNTS AND CLAIM COUNTS

- The reported Industry claim counts and claim amounts include each insurer's actual claim payments and estimated individual claim case reserves, but do not include insurers' estimates of their "actuarial reserve."
- The application of the loss development factors provide for the industry "actuarial reserve" to determine the ultimate loss amount and claim count.
- Individual insurer development patterns can be significantly different than the aggregated industry-wide data development patterns.
- As noted by GISA, several large insurers had material changes in their development patterns which adds to the uncertainty of estimates. As a result, GISA advises users to **exercise caution**.
  - We note that there are approximately 60 companies writing automobile insurance in Alberta
  - We reviewed development patterns of individual companies to determine whether we should exclude one (or more) companies. ***We concluded that such an exclusion was warranted for the physical damage coverages due to the unusual data of one insurer.***

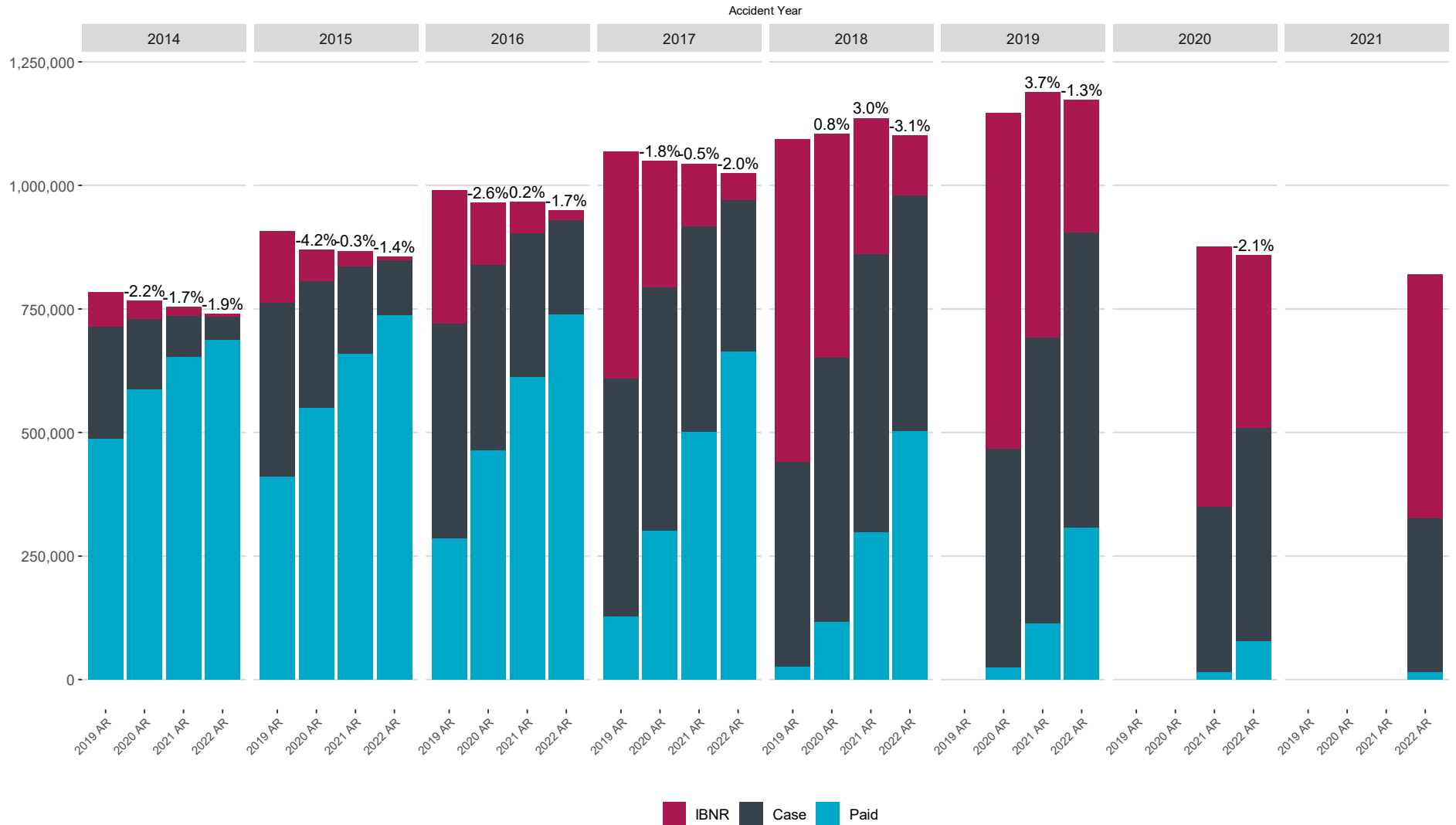
# LOSS DEVELOPMENT FACTORS

## Stakeholder Comments

- Desjardin comments that more transparency for changes in the loss development selection basis for property damage claim count and collision loss amount factors.
  - The property damage change was due to the data error of one large insurer - before the decision was made to exclude that insurer. The selections under either the former or later approach are effectively the same once the erroneous data of the insurer is excluded.
  - The collision 6-12 factor is based on the default 6 point weighted average. The 12-18 and 18-24 factors are based on the higher 4 point weighted average (rather than the six point) due to evidence of a rise in the more recent factors for the those intervals, that was not observed in the 6-12 period.
  - We will strive to add additional explanations in future reviews
- FA suggests multiple methods should be considered, but does not state disagreement with the selected ultimate loss amounts or claim counts. We believe the incurred loss development method is sufficiently robust for determining ultimate loss amounts used in a trend analysis.
- ACTLA presents alternative estimates of the ultimate loss amounts, by reducing our estimates by approximately - 16.6%, on the basis that prior favourable development associated with reserve strengthening in 2017 will again occur. We find this adjustment to be unsupported.

# BODILY INJURY

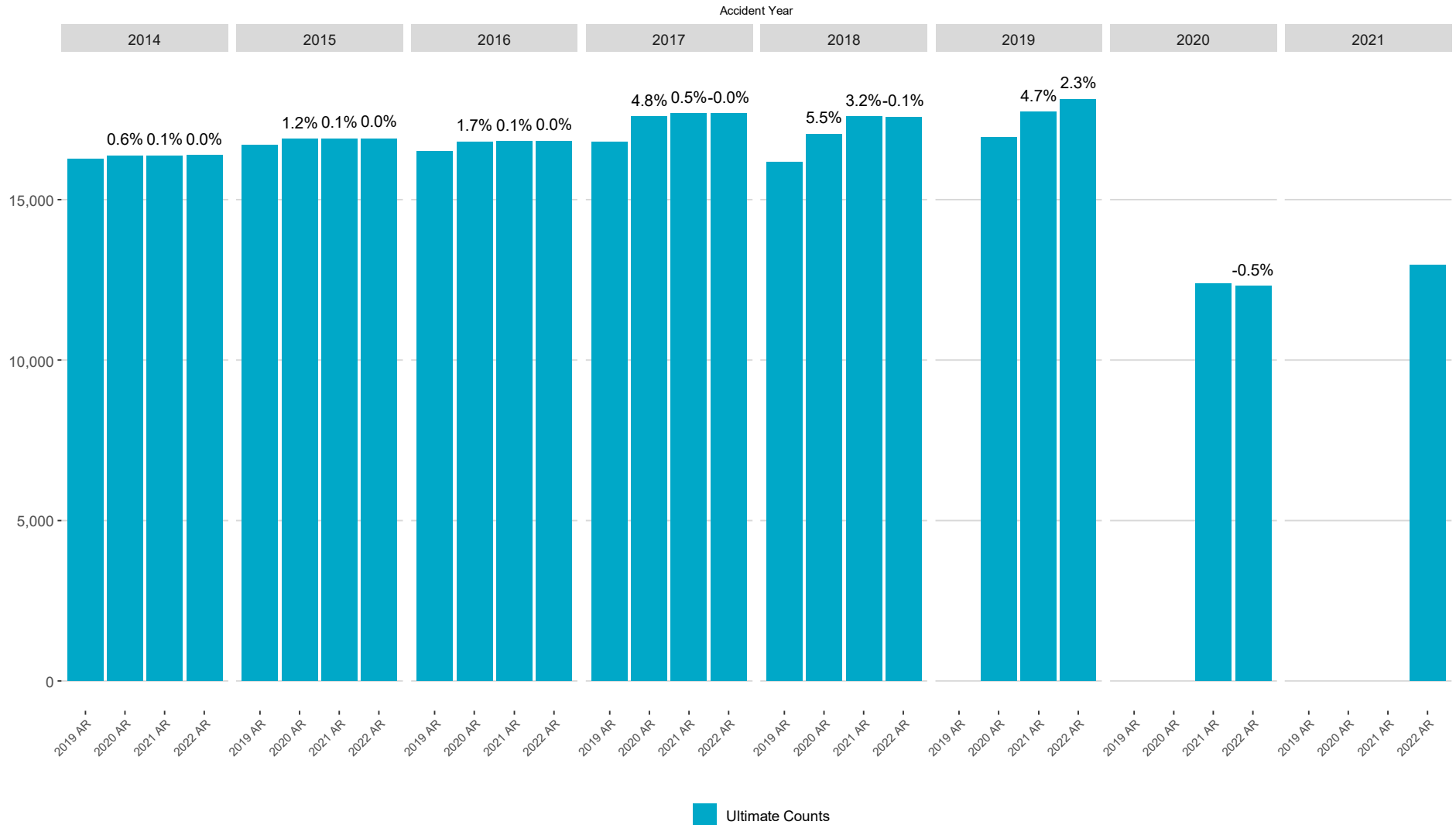
Change in Ultimate Claim and ALAE amount- annual reviews





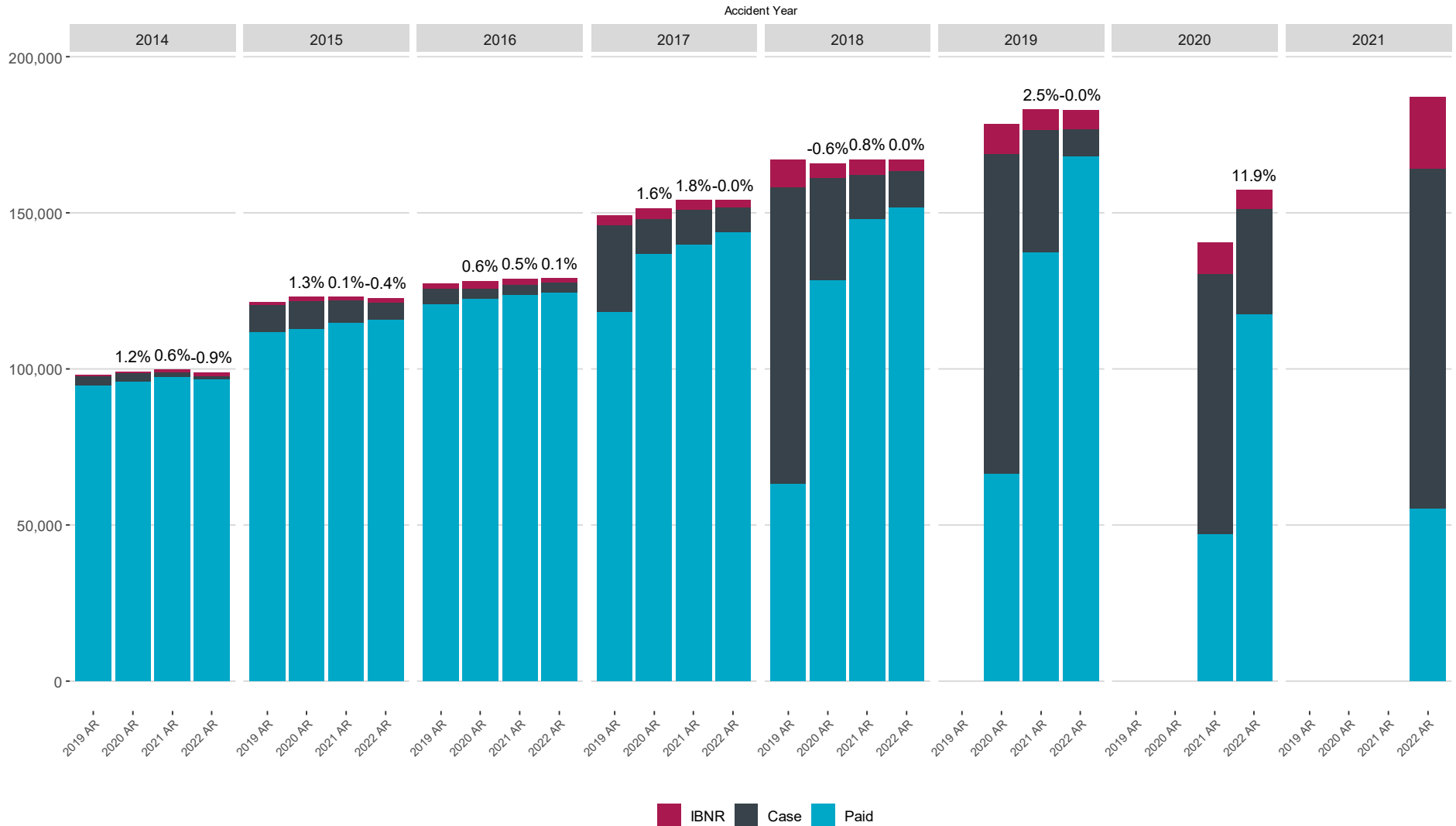
# BODILY INJURY

Change in ultimate claim counts – annual reviews



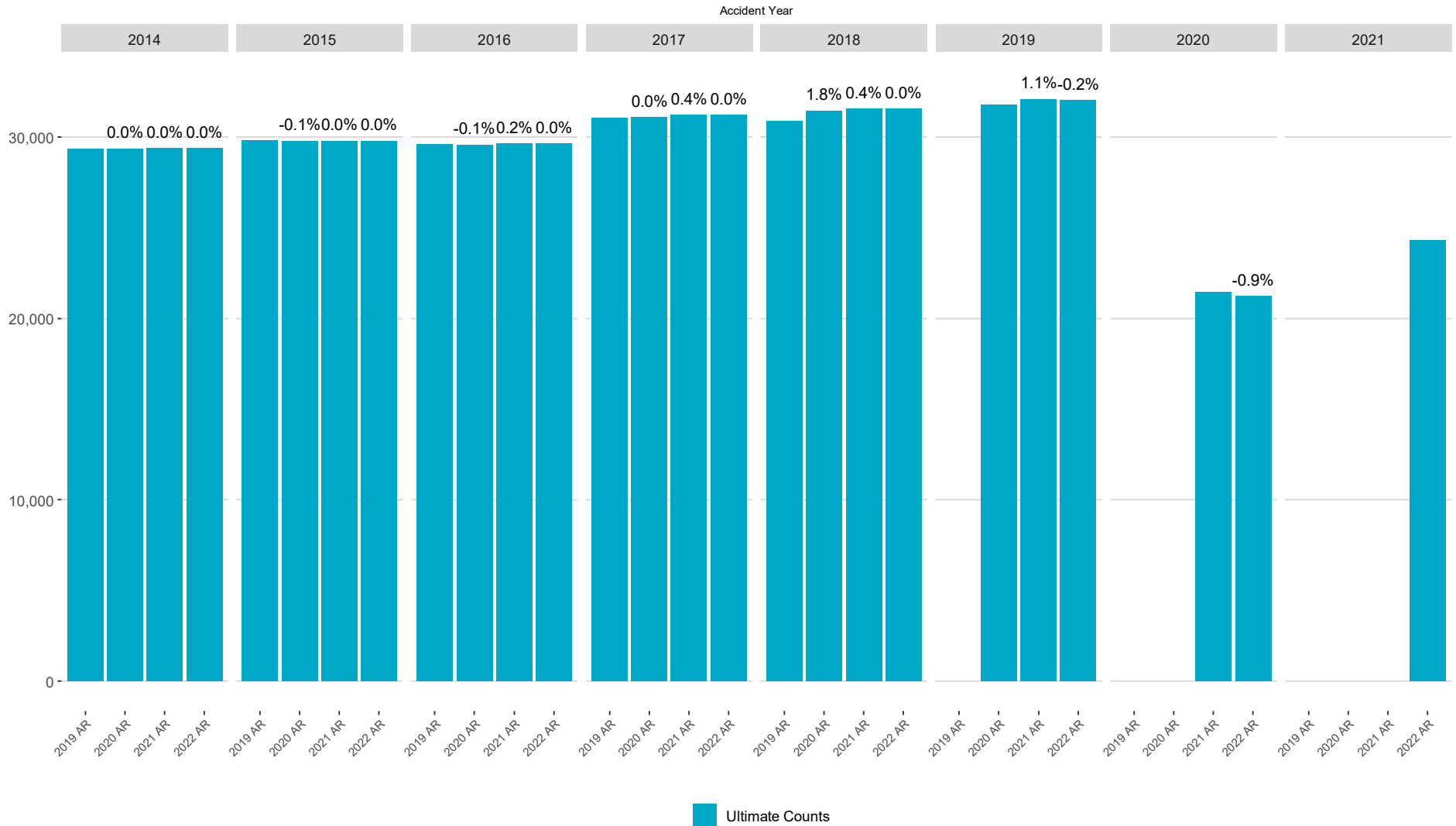
# ACCIDENT BENEFITS

Change in Ultimate Claim and ALAE amount



# ACCIDENT BENEFITS

Change in ultimate claim counts



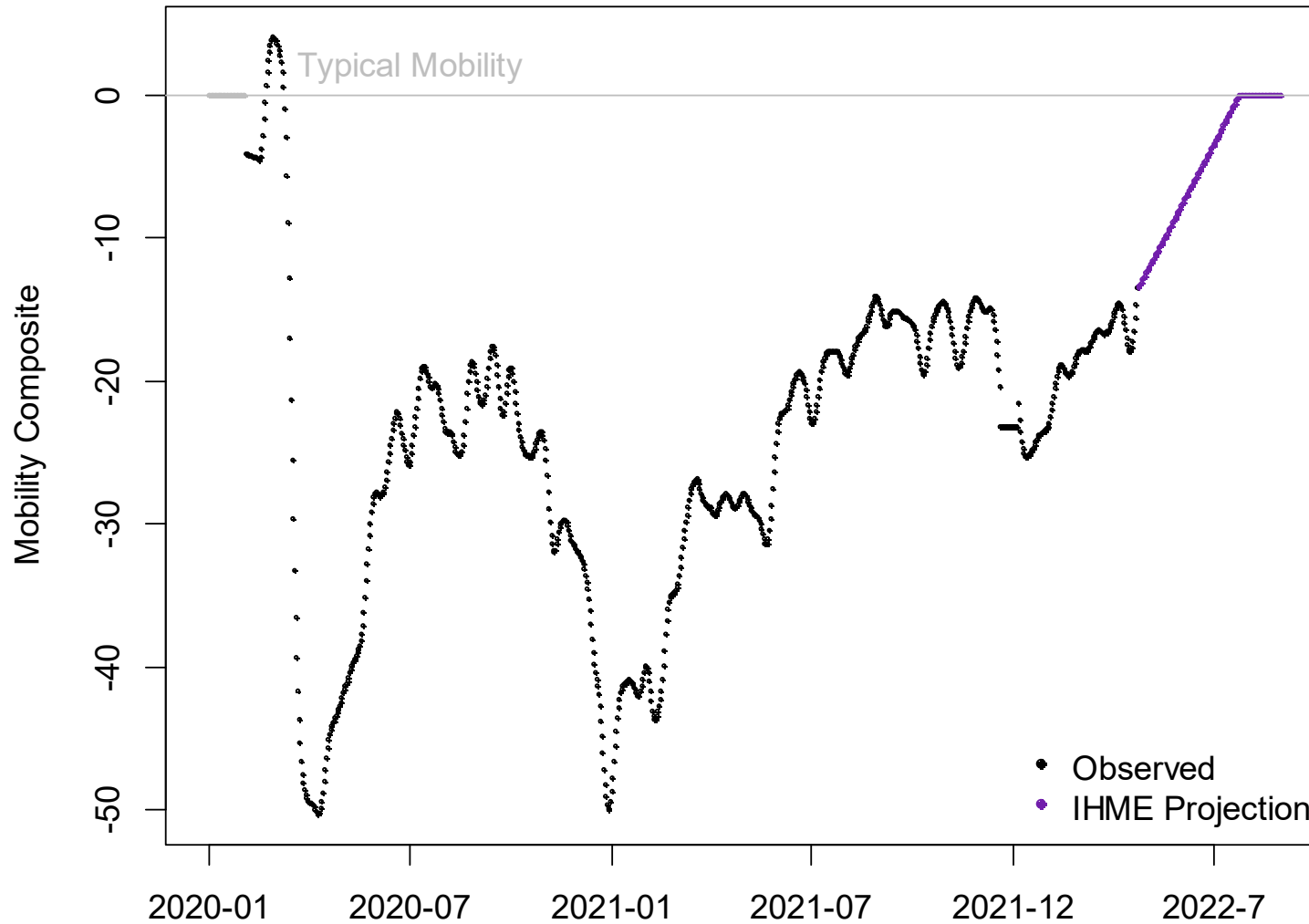
# 3

**COVID-19 effect on claims  
cost**

# COVID-19 EFFECT ON CLAIMS COST

- “Stay-at-home” orders introduced to control the spread of COVID-19 dramatically reduced traffic
  - Significant reduction to reported frequency in 2020 and 2021
  - No material impact on reported severity apparent
- Proposed rate programs should adjust claims experience for the effect of the COVID-19 pandemic
  - Fully remove or unwind the impact of the pandemic on the historical data
  - Apply an adjustment for the impact the pandemic is expected to have on the loss experience during the proposed rating program
- The future of COVID-19 adds considerable uncertainty to rate setting. Some impact of the COVID-19 pandemic is expected to be observed early 2022 due to the Omicron variant, and to reduce thereafter subject to the severity of future possible waves and variants.
- Some metrics indicate a return to pre-pandemic traffic volume will occur in 2022.
  - “Traffic volume now exceeds pre-pandemic levels” - May 2022 IBC Inflation and auto insurance presentation

# IHME MOBILITY COMPOSITE METRIC



# COVID-19 EFFECT ON CLAIMS COST

## Stakeholder Comments

- Co-operators agrees with our methodology of removing 2020 and 2021 data from consideration in selecting trend rates and developing rate indications.
- Co-operators states that the timing of the shift to the “new normal” is an important input to our methodology.
- Aviva suggests we have returned to pre-COVID driving levels.

**4**

**Loss trends**

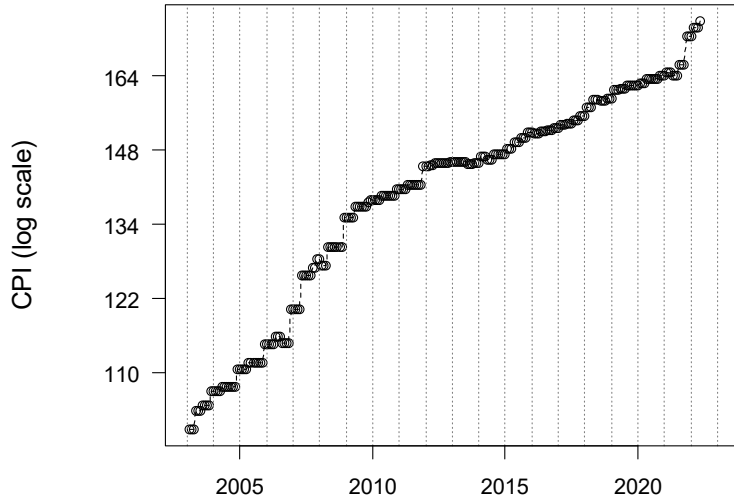


# LOSS TRENDS

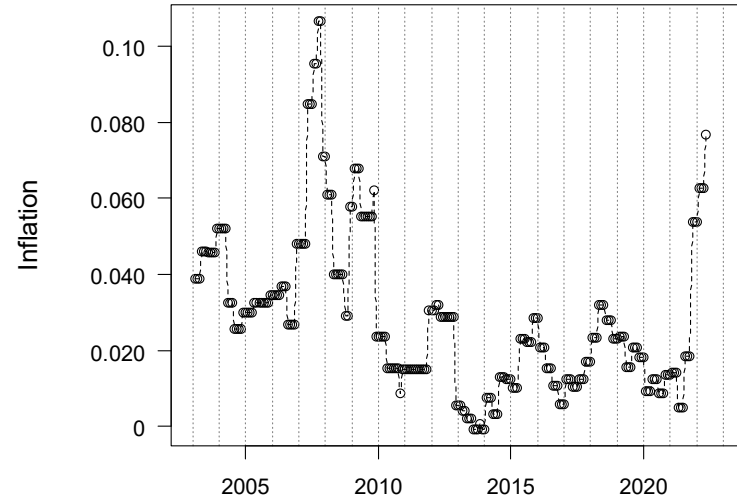
- We consider the observed severity, frequency and loss cost trend patterns based on our estimates of the Industry Alberta ultimate **claim frequency, claim severity and loss cost** by accident half-year that we derive, and the results of regression analyses we perform.
- Our models considered seasonality and reforms, using data from 2002-1 to 2021-2 and vary in the starting and ending date for the trend periods.
- COVID-19 “stay-at-home” orders and other directives resulted in a dramatic decline in traffic. Until the directives and restrictions are lifted, we expect the pandemic to affect traffic levels in varying degrees. IHME is projecting return to “normal mobility” in mid-2022.
  - Our benchmark trend rates are intended to measure the rate of change in loss cost experience without the influence of the COVID-19 pandemic . Therefore, we have excluded the 2020 and 2021 observations from our models where the COVID-19 pandemic has had a material impact on claims costs
- We recommend that the **physical damage** future trend rates be based on the selected past trend rates plus a modification for the surge in the inflation rate or other impactful economic issues that are not reflected in the GISA data as of December 31, 2021.
- Rising inflation may also impact other coverages. Insurers should submit evidence supporting the impact of inflation on claim costs for all coverages.

# INFLATION

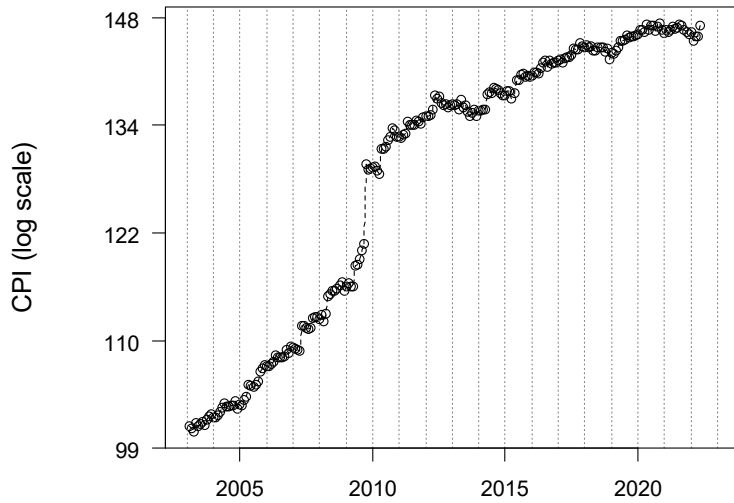
Passenger Vehicle Parts, Maintenance And Repairs



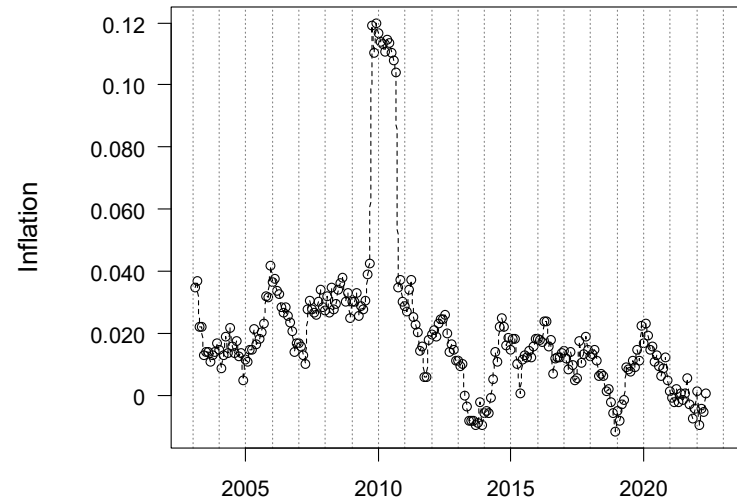
Passenger Vehicle Parts, Maintenance And Repairs



Health Care



Health Care



# INFLATION

## Stakeholder Comments

- Several insurers have acknowledged the difficulty in predicting inflation and the corresponding effect on coverage trends.
- Aviva and DGIG expect inflation will also impact bodily injury and accident benefits.
- Aviva suggests that using data prior to 2022 will understate current trends and proposes a target for rate increases between +4.0% and +5.0%.
- IBC and Definity suggest consideration of other Statistics Canada data elements related to vehicle damage. These include:
  - The value of new and used vehicles
  - Vehicle parts, accessories, and supply costs.
  - Private passenger vehicle lease costs
  - Rental of passenger vehicle costs

# INDUSTRY BENCHMARKS –TREND RATES

Coverages	2022 SAR 6/2021 Data	2022 AR 12/2021 Data
<b>Bodily Injury</b>	<b>+6.5%/5.0% (a)</b>	<b>+7.0%/5.0% (a)</b>
Property Damage	+1.5%	+1.5% (Past Only)
DCPD	+1.5%	+1.5% (Past Only)
<b>Accident Benefits – Total</b>	<b>+1.0%/+12.0% (b)</b>	<b>+1.0%/+12.0% (b)</b>
Collision	+2.5%	+2.5% (Past Only)
Comprehensive	+5.0%/3.5% (c)	Not Updated
All Perils	+2.5%	+2.5% (Past Only)
<b>Specified Perils</b>	<b>+3.0%</b>	<b>+3.0%</b>
<b>Underinsured Motorist</b>	<b>+2.0%</b>	<b>+2.0%</b>

(a) Future trend date begins November 1, 2020.

(b) Future trend rate of +12.0% begins January 1, 2015; most rate applications consider data after 2015.

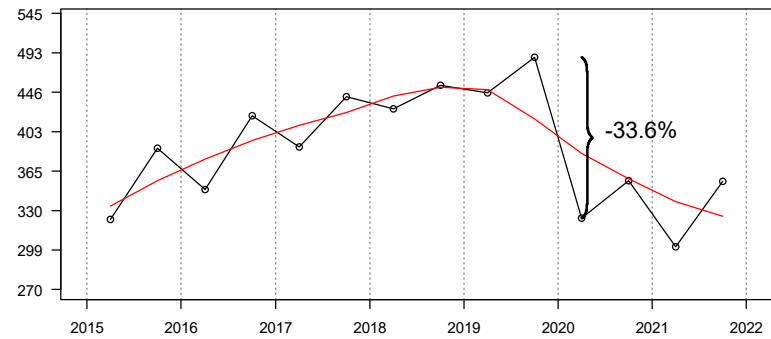
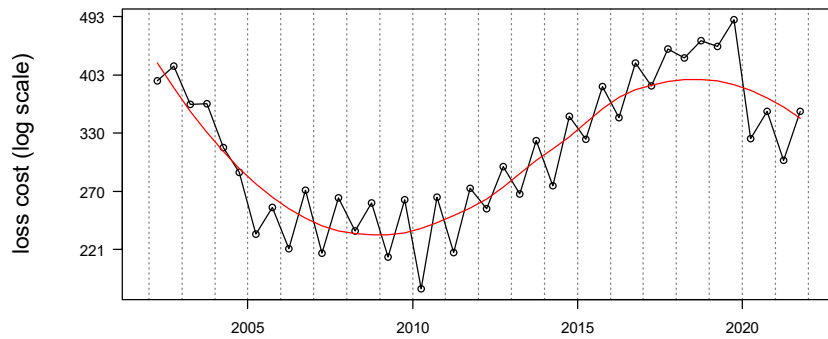
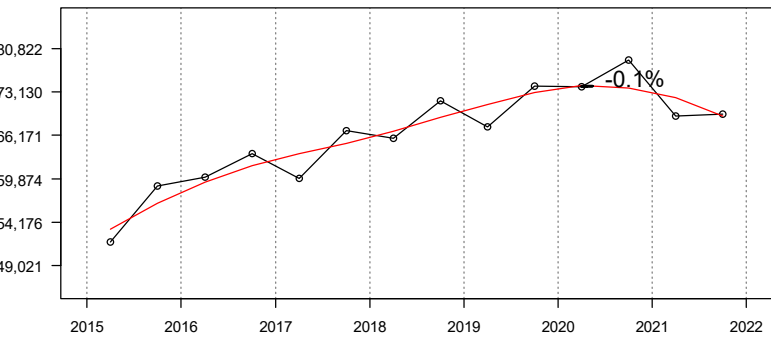
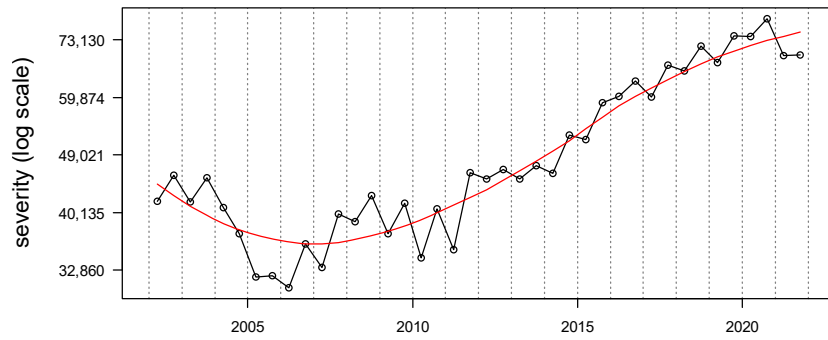
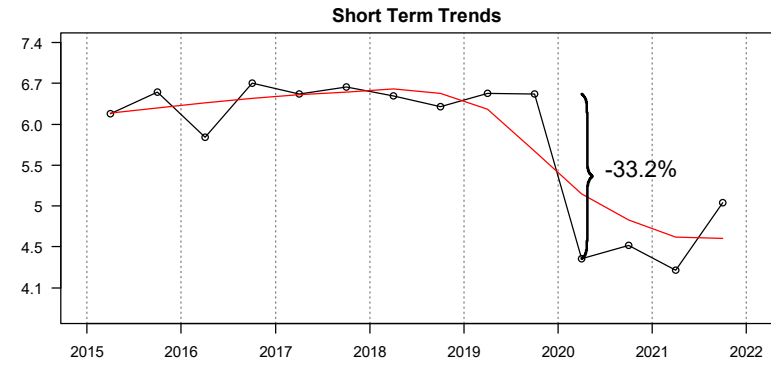
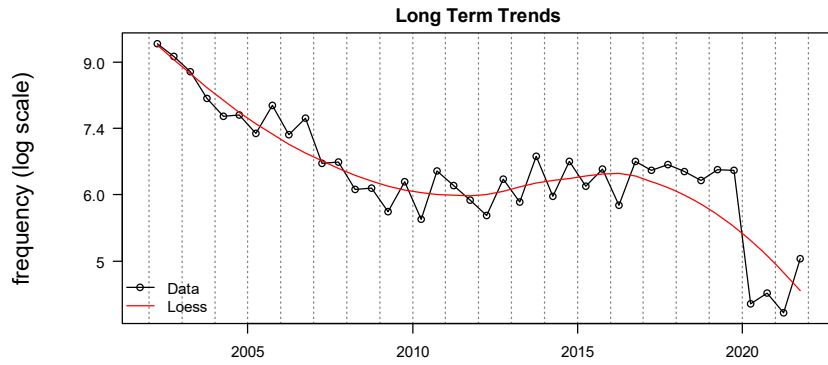
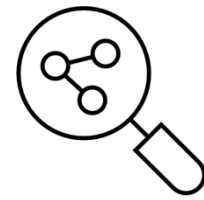
(c) Future trend rate begins October 1, 2020.

# LOSS TRENDS

## Stakeholder Comments

- Several comments raised concerns on future trend rates – the degree to which inflation in various categories, beyond those listed by Oliver Wyman, will impact future severity trend rates.
- No Stakeholders raised the impact of rising gas prices and possibility of a recession on future vehicle usage and future frequency trend rates.
- General agreement that GISA data as of December 2021 is insufficient alone as a basis for the future trend rates due to the current surge in inflation. Rate applications will need to individually address inflation using the most recent related information.

# BODILY INJURY

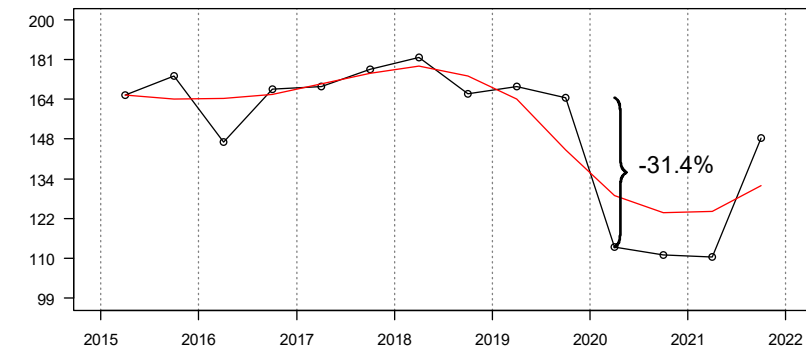
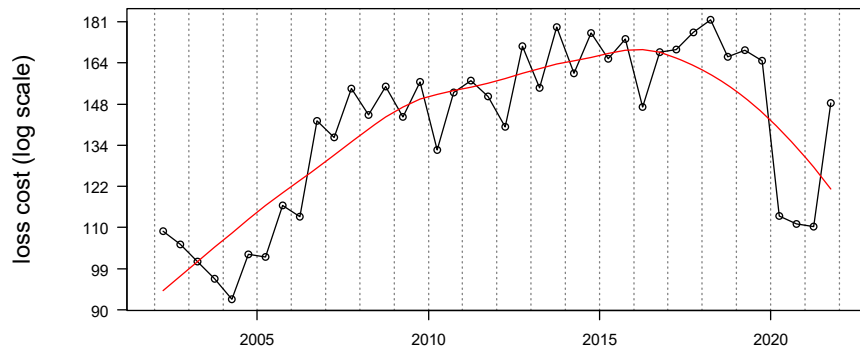
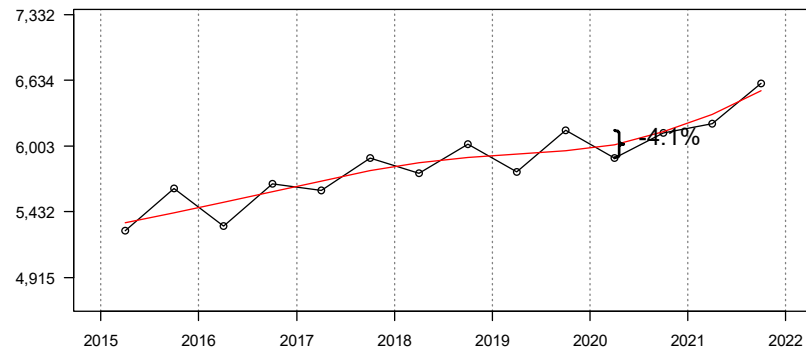
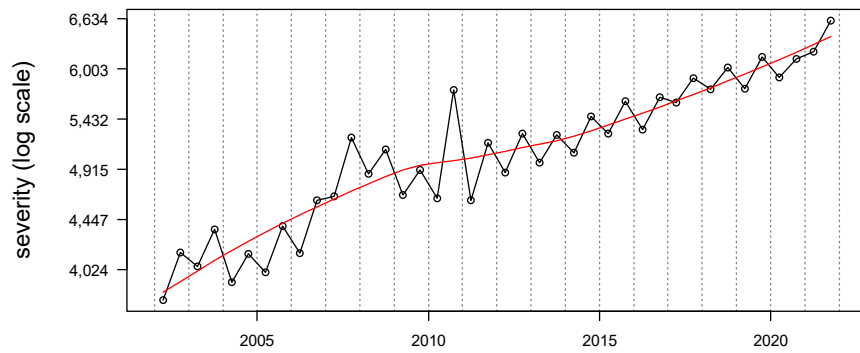
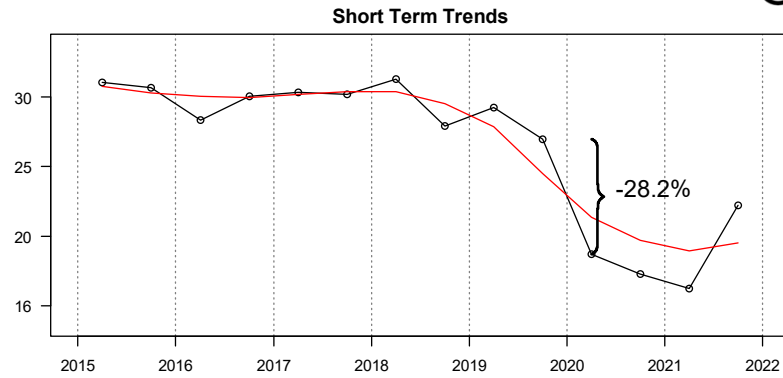
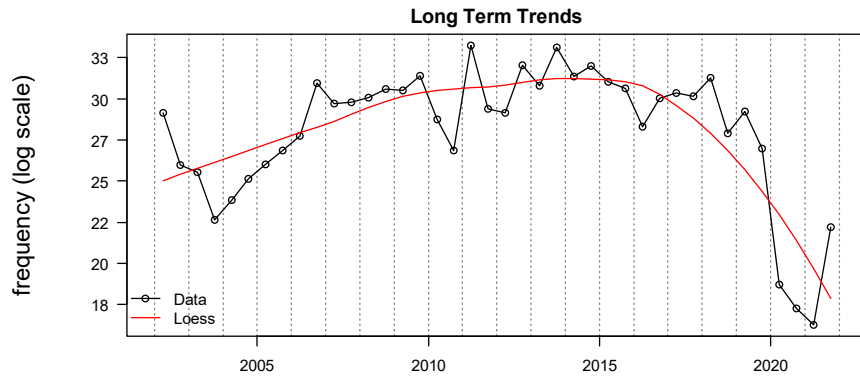
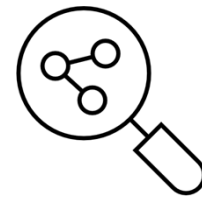


# BODILY INJURY LOSS TREND

## Stakeholder Comments

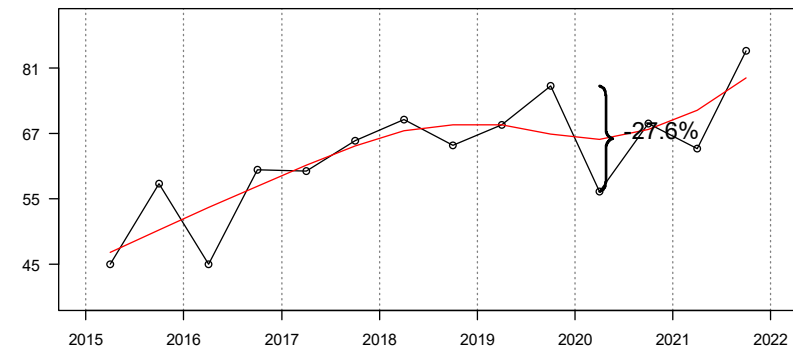
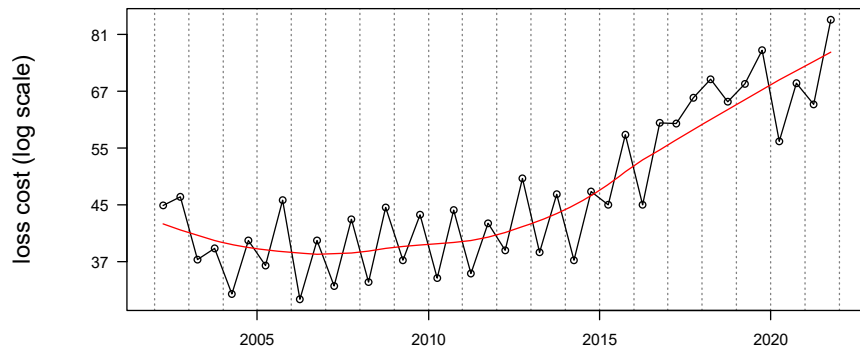
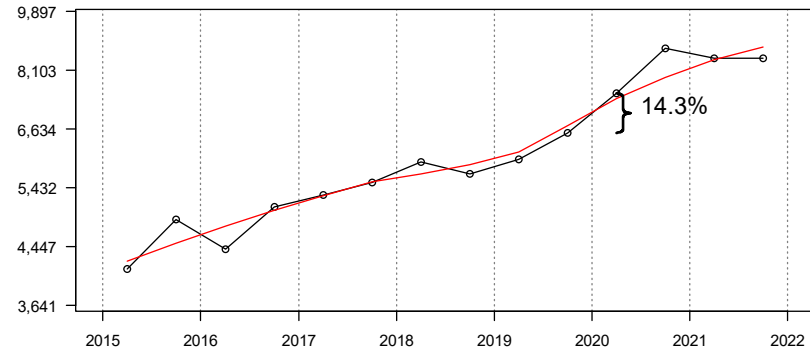
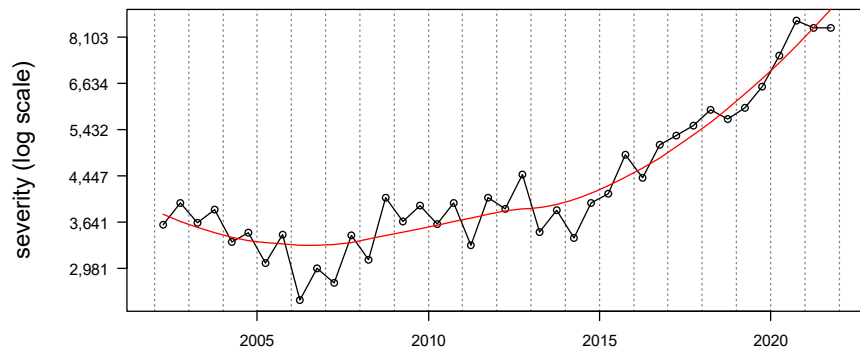
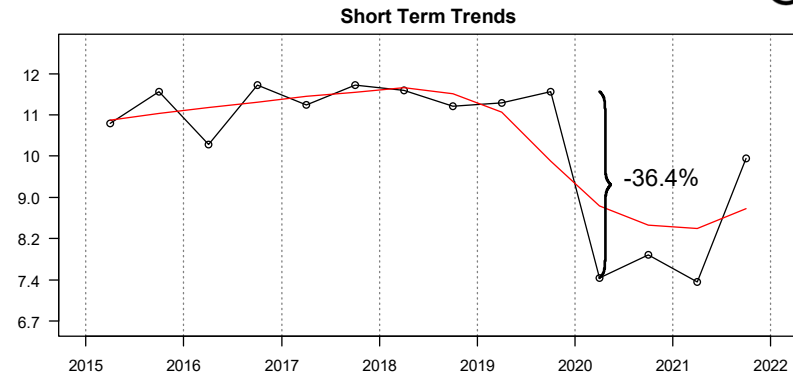
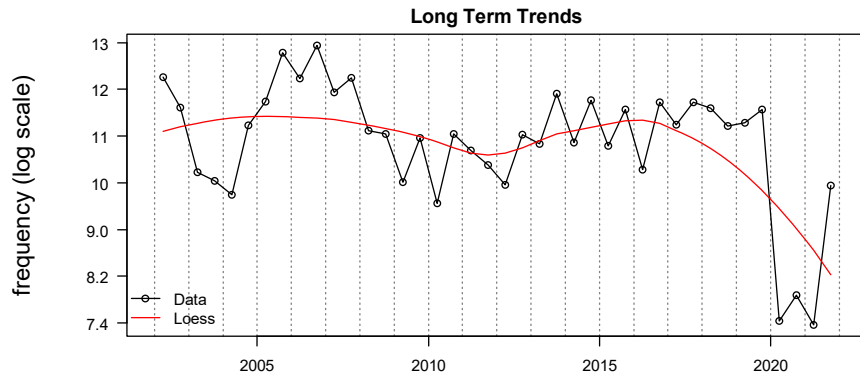
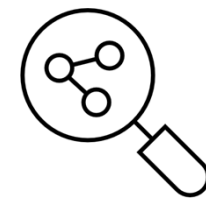
- Co-Operators suggests that the selected bodily injury trend rate is too low and provides an alternative of 8.2% for past and future loss cost based on 10 years of data (1.2% higher for past trend and 3.2% higher for future).
- DGIG suggests that the future selected bodily injury trend is too low.
- We observe a small decrease in 2021 severity in the industry data
  - Decrease is coincident with the reform.
  - Unable to discern if the reforms changed claimants' propensity to pursue a claim due to pandemic impact.

# PROPERTY DAMAGE





# ACCIDENT BENEFITS

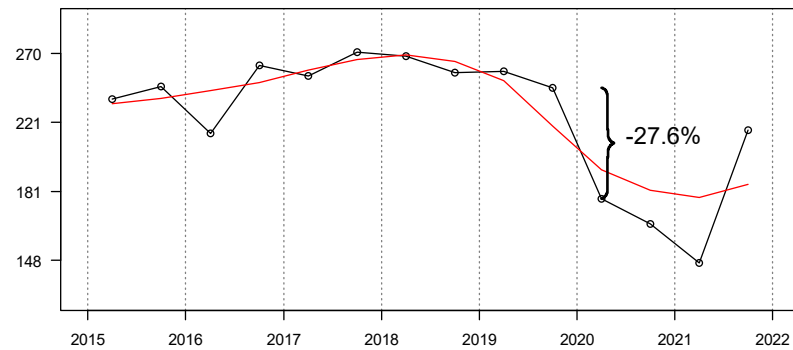
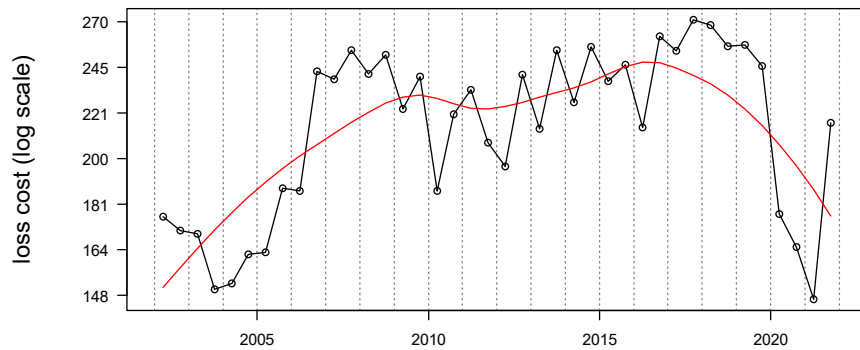
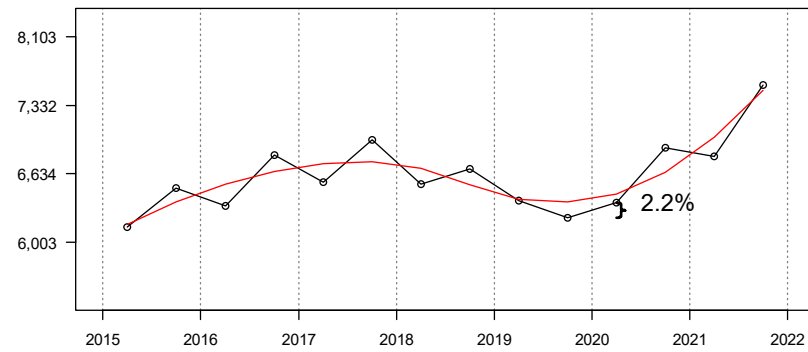
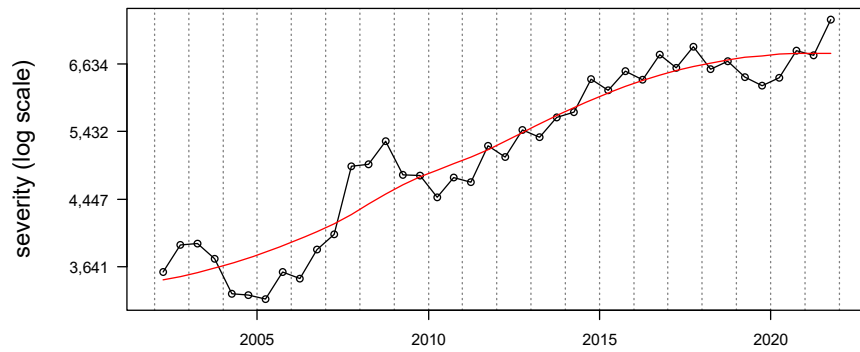
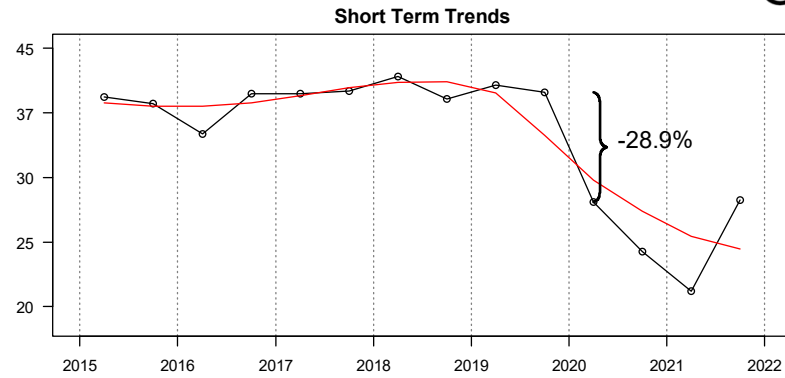
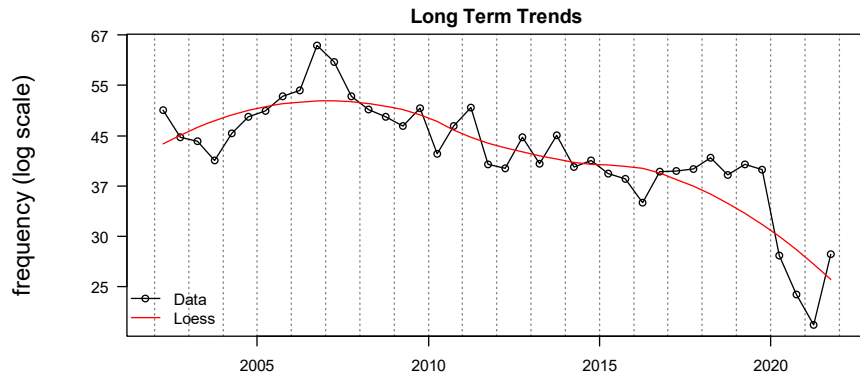
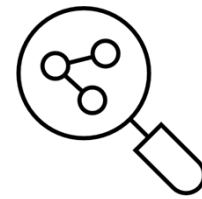


# ACCIDENT BENEFITS LOSS TREND

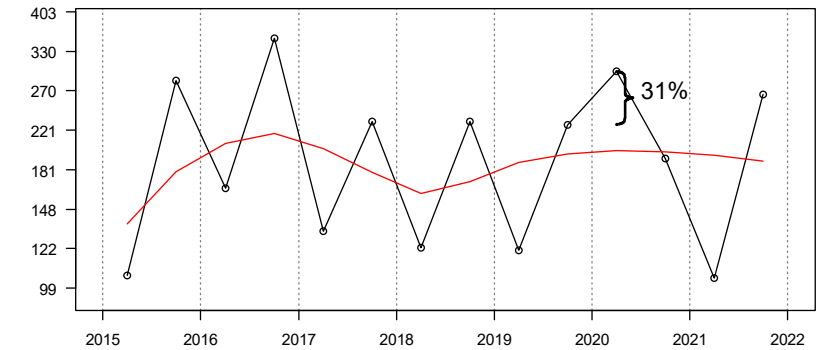
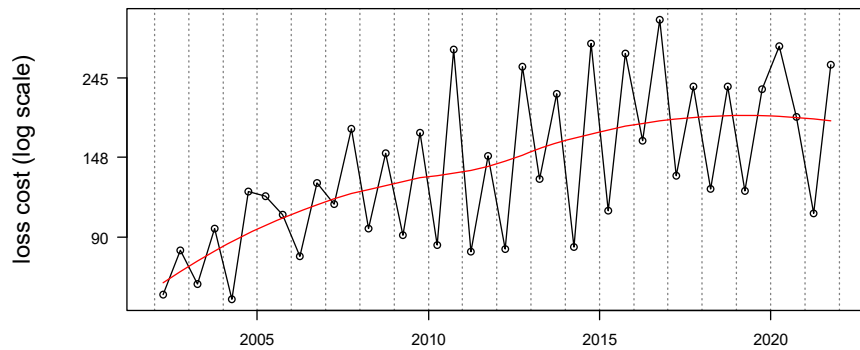
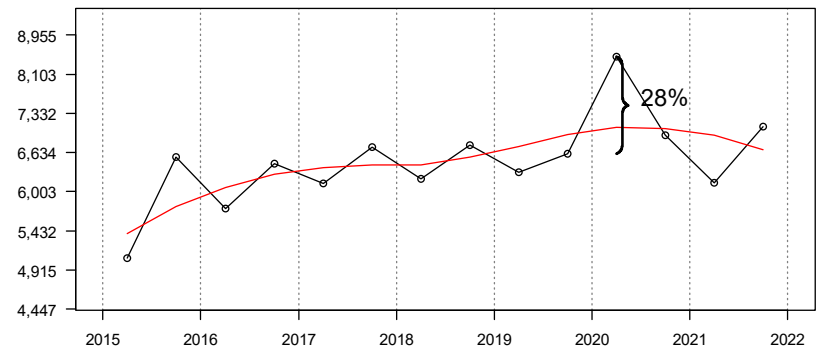
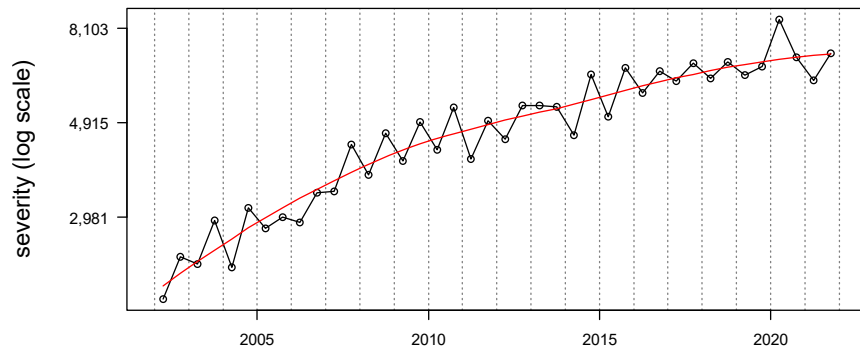
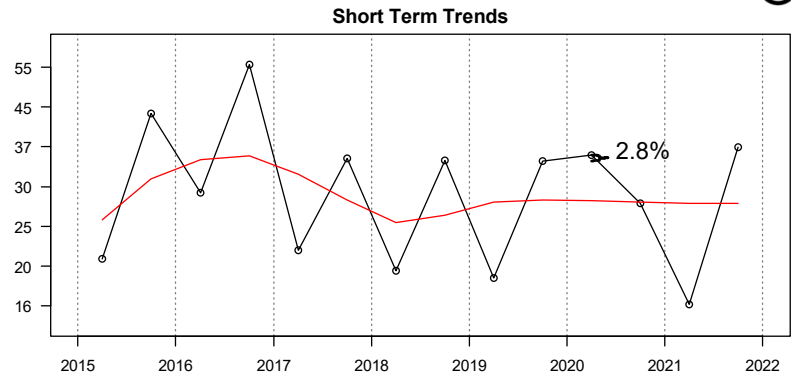
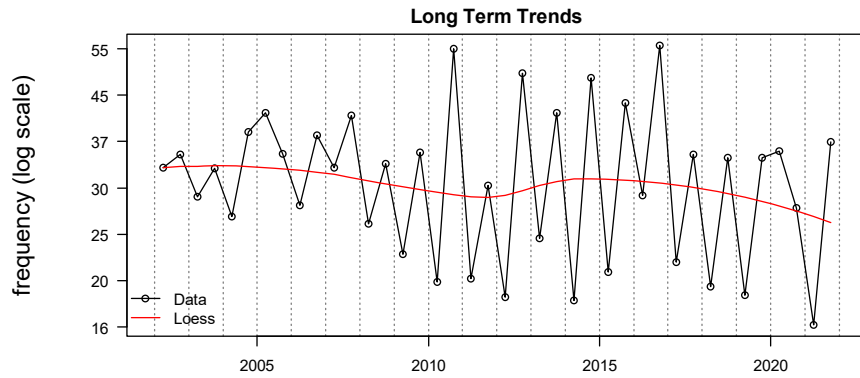
## Stakeholder Comments

- DGIG states their concern that recent amendments will exacerbate the large positive trend.

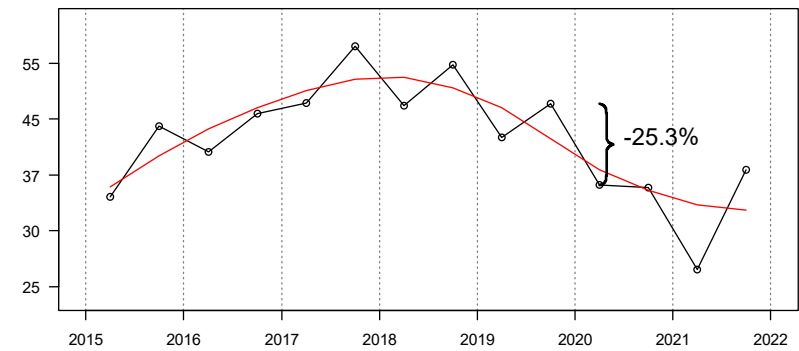
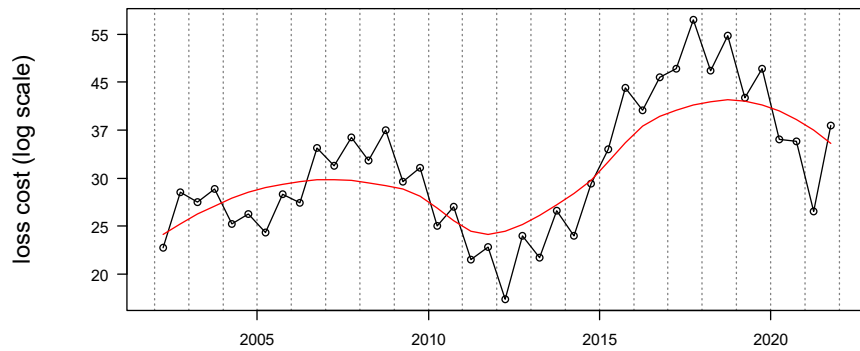
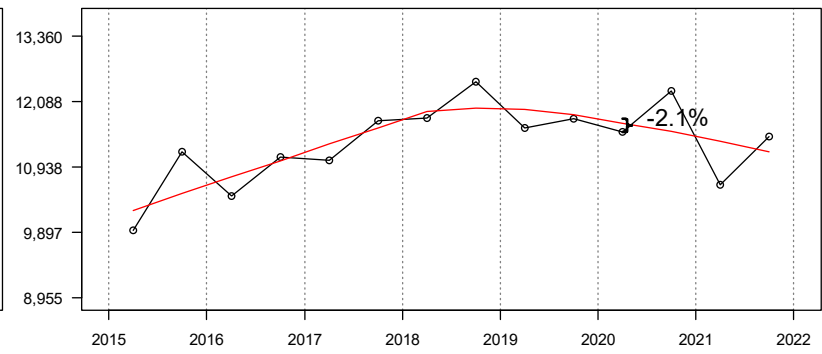
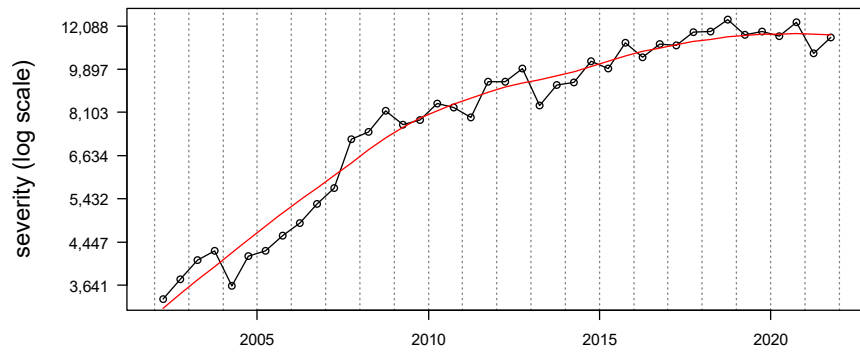
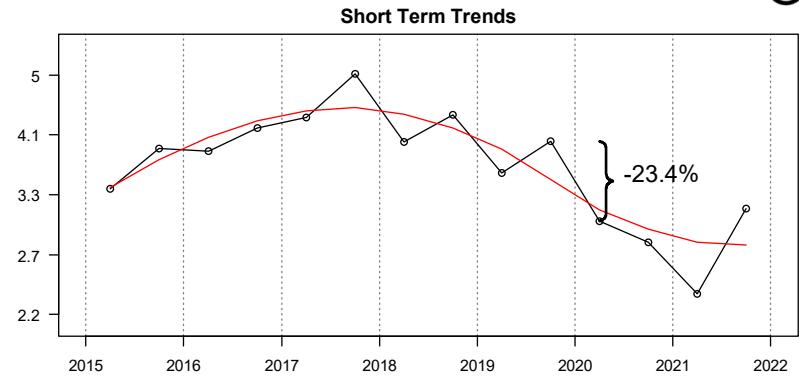
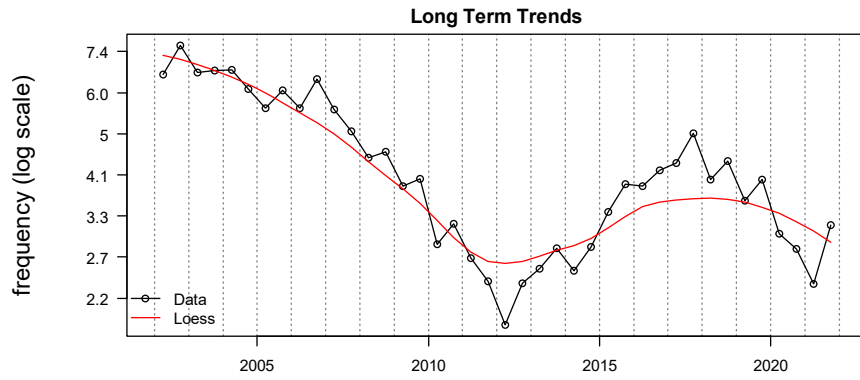
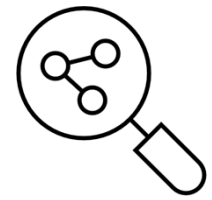
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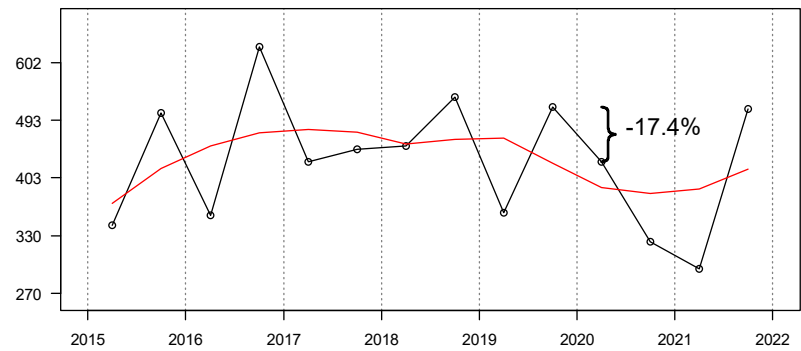
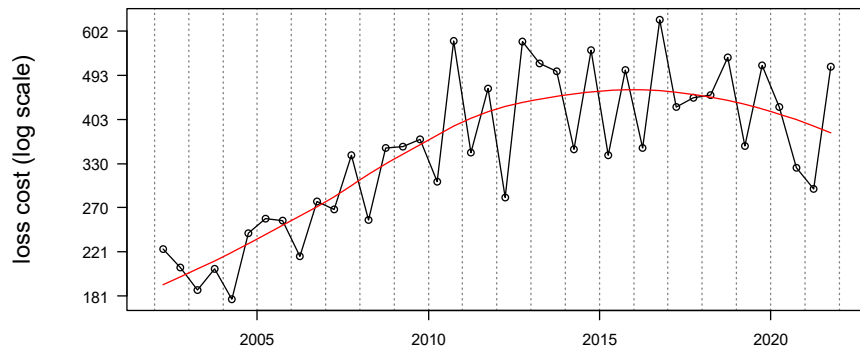
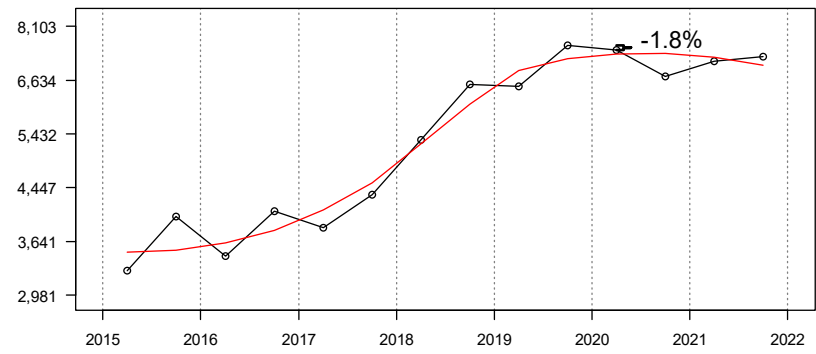
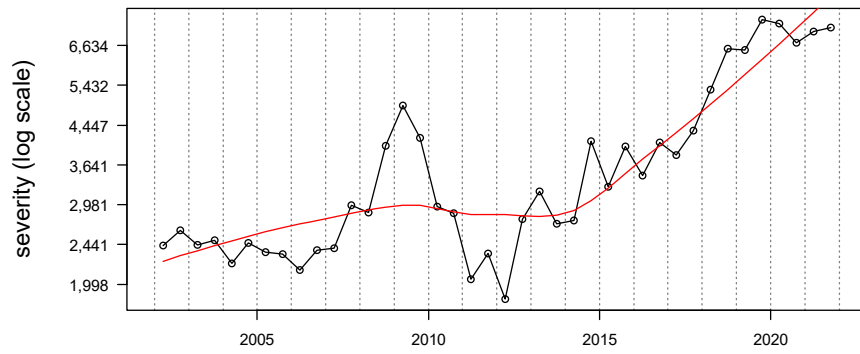
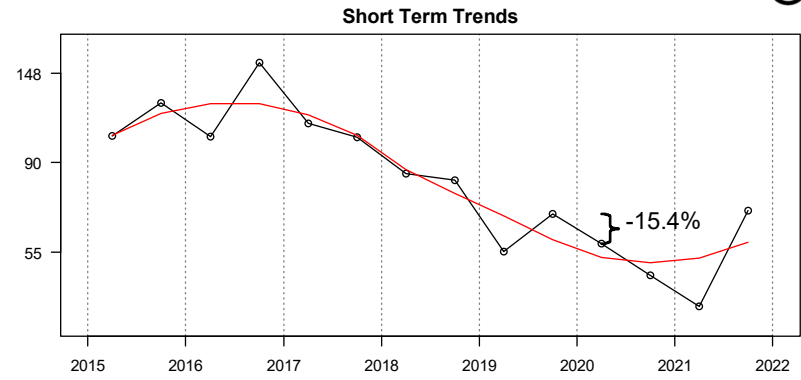
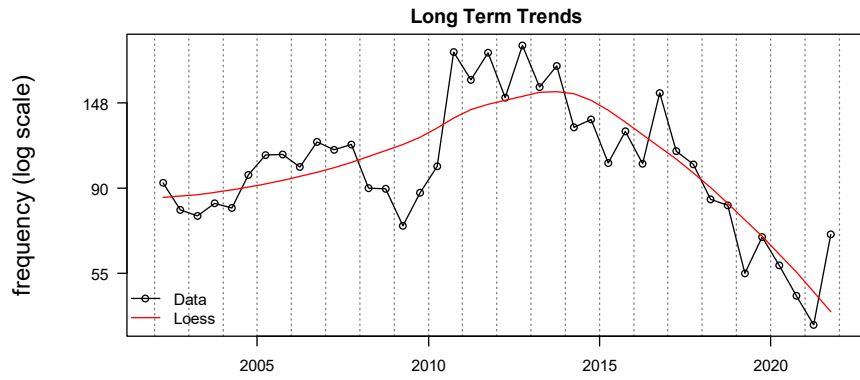
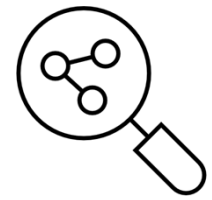
# COMPREHENSIVE



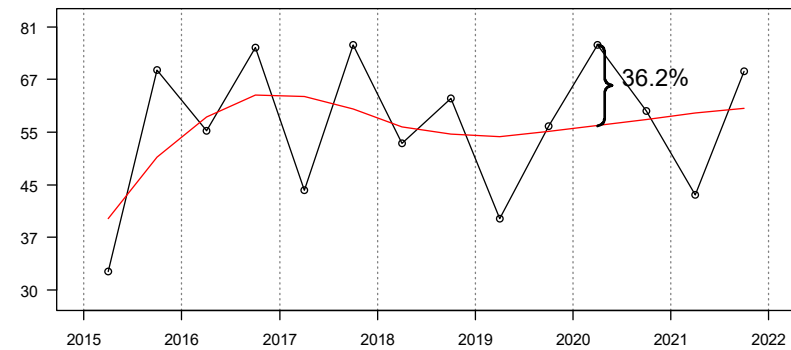
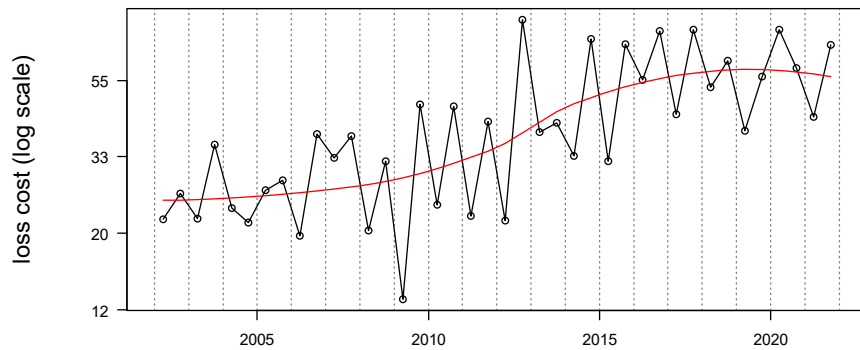
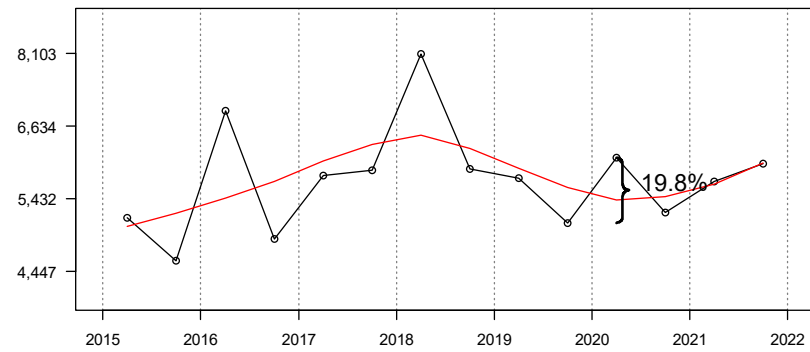
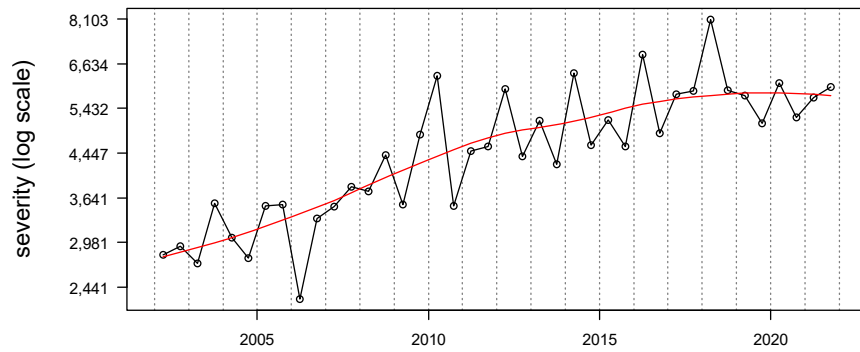
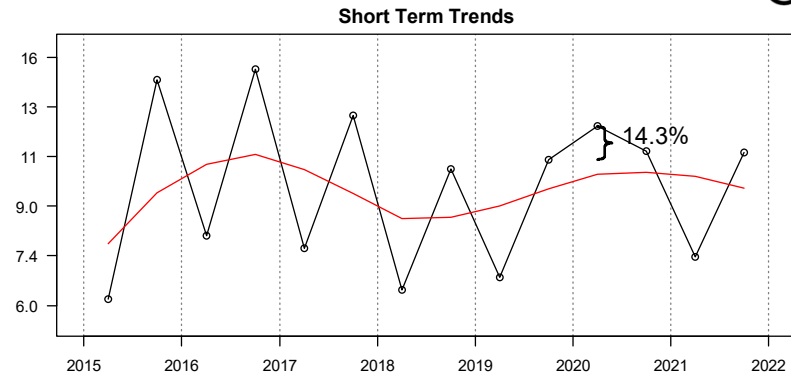
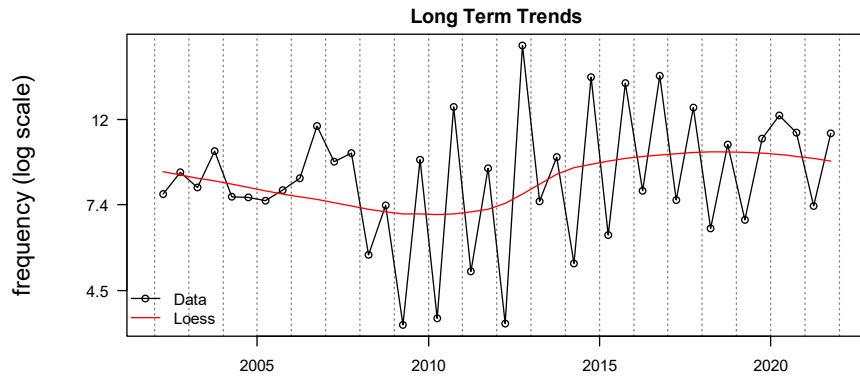
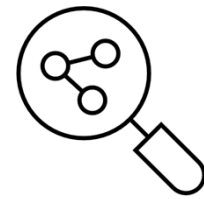
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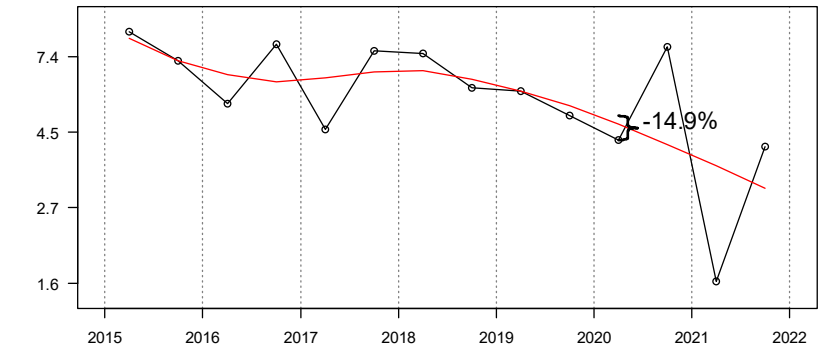
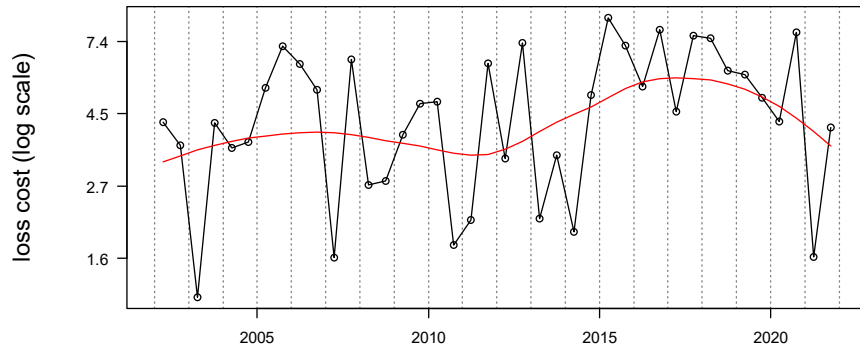
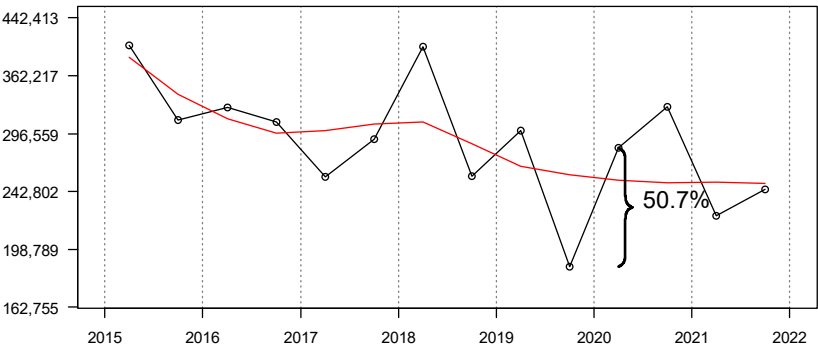
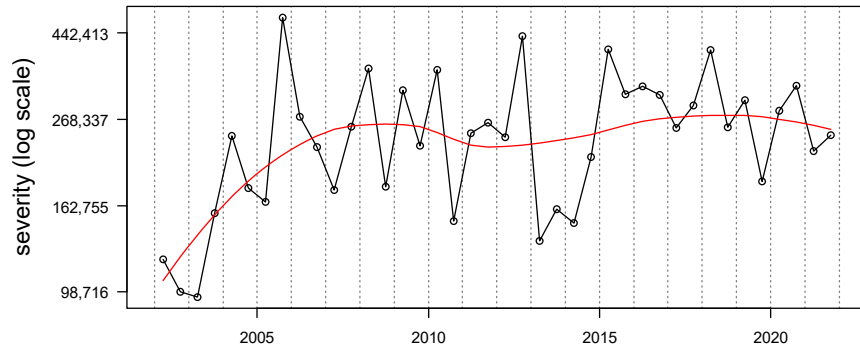
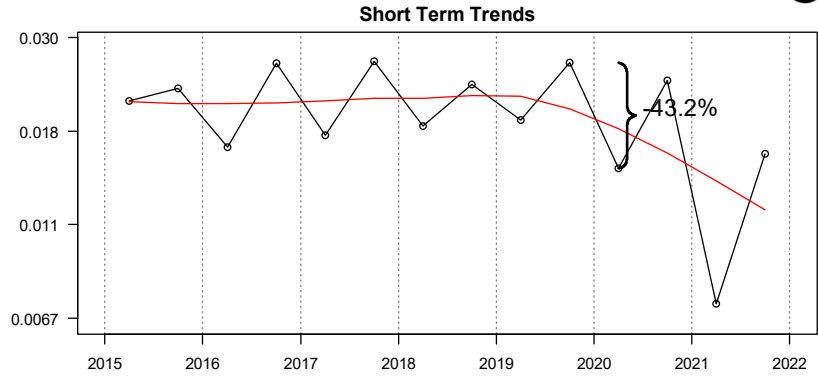
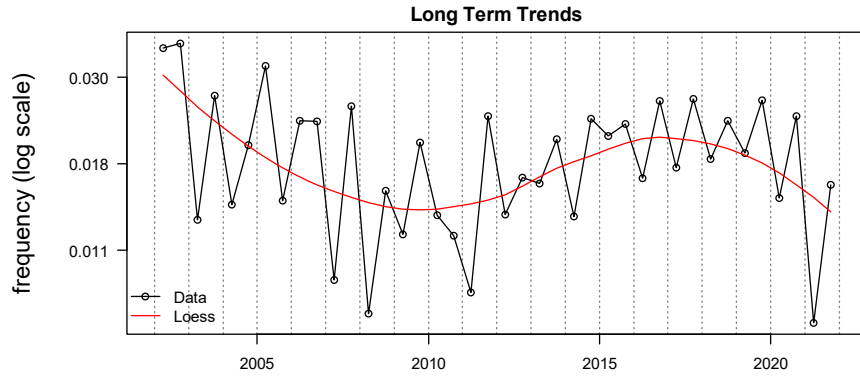
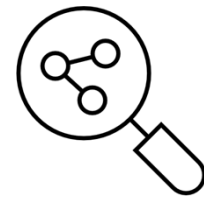
# ALL PERILS



# SPECIFIED PERILS



# UNDERINSURED MOTORISTS





# 5

**Bill 41 - November 2020 Reforms,  
Future reforms**

# REFORMS

- Prejudgment Interest
  - Prejudgment interest paid on non-pecuniary damages will now fluctuate with current interest rates
- Minor Injury Regulation
  - The definition of a “minor injury” was updated to include clinically associated sequelae of sprains, strains or whiplash-associated disorder injuries, whether physical or psychological in nature, that do not result in a serious impairment
  - Dentists were added as eligible health professionals able to act as certified examiners under the MIR, with their scope limited to temporomandibular joint injuries.
- Diagnostic and Treatment Protocols Regulation
  - Dentists, psychologists and occupational therapists are now considered adjunct therapists and the new benefit for treatment by any combination of these adjunct therapists is \$1,000.
- Automobile Accident Insurance Benefits Regulation
  - Multiple benefit level increases
  - Clarification on use of Section B- Accident Benefits
- Direct Compensation Property Damage
  - Effective January 1, 2022
  - Insurers will be required to provide DCPD premiums separated from third party liability premiums.

# CHANGE IN SECTION B – ACCIDENT BENEFIT LEVELS

<b>Benefit</b>	<b>Prior Benefit</b>	<b>New Benefit</b>
Chiropractic Services	\$750	\$1,000
Massage Therapy and Acupuncture	\$250	\$350
Funeral Expenses	\$5,000	\$6,150
Grief Counselling	\$400	\$500
Employed Disability Income (weekly)	\$400	\$600
Non-Earner Disability Income (weekly)	\$135 for 26 weeks	\$200 for 104 weeks
Psychological, physical Therapy, and Occupational Therapy Services	\$600	\$750

# NOVEMBER 2020 REFORM IMPACT ESTIMATES

## Bodily Injury

Minor Injury Regulation	-14% to -16%
Prejudgment Interest	-3%
Benefit Level Increases - Offset	-1%
<b>Total</b>	<b>-18% to -20%</b>

## Accident Benefits

Benefit Level Increases	+15%
Minor Injury Regulation - Offset	-7% to -8%
<b>Total</b>	<b>+6% to +8%</b>

# REFORMS

## Stakeholder Comments

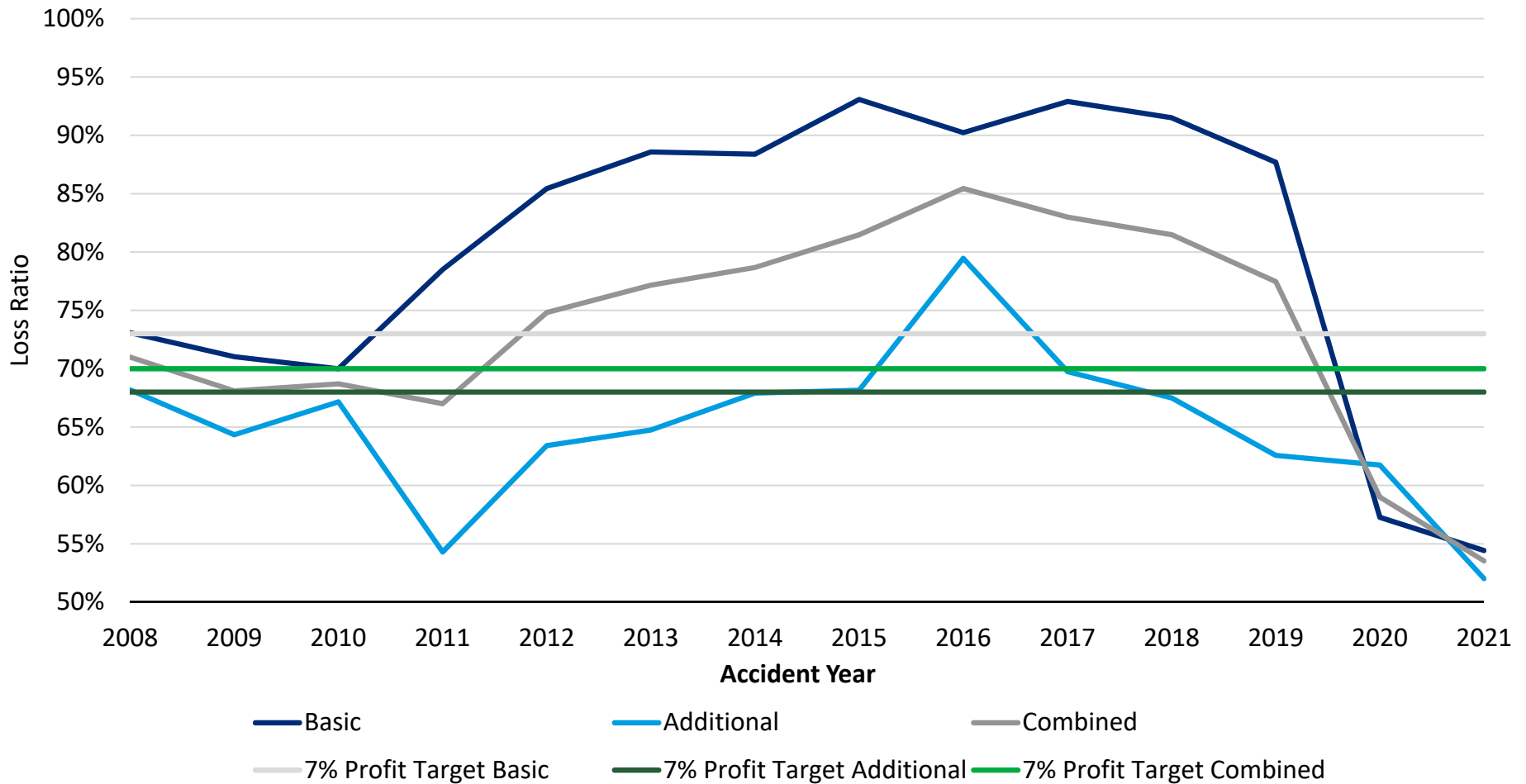
- Aviva expresses concern that the expected minor injury reform factor of -18% will not materialize.
- FA suggests flexibility in assessing the impact of reforms (as well as impact of COVID-19, and DCPD)

# 6

**Profitability**

# HISTORIC PROFITABILITY

Estimated Loss Ratios



# RECENT PROFITABILITY

<b>Calendar Year</b>	<b>Loss &amp; LAE Ratio</b>	<b>Discount Factor</b>	<b>Health Levy as % of Total EP</b>	<b>Expense Ratio</b>	<b>Realized Profit Provision</b>
2017	83.0%	0.924	1.5%	26.2%	-4%
2018	81.5%	0.953	1.8%	26.2%	-6%
2019	77.5%	0.913	1.8%	25.7%	+2%
2020	59.0%	0.914	1.3%	25.6%	+19%
2021	53.5%	0.943	0.8%	27.8%	+21%



# PROFIT

## Stakeholder Comments

- ACTLA is concerned about the windfall profits observed during the pandemic and implies high profitability may be expected in the future.
- We view the 2020 and 2021 profits as the direct result of the decrease in traffic/mobility during the pandemic and is not directly applicable to the prospective nature of ratemaking.
- We recognize the heightened uncertainty around the expectation of post-pandemic claim costs.

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