FACILITY ASSOCIATION

February 21, 2023

Alberta Automobile Insurance Rate Board   *Delivered via email: airb@gov.ab.ca*
2440 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Attention: Ms. Charlene Butler, MBA, BSc, BComm, Chair

RE: FA Written Submission in regards to the Alberta Automobile Insurance Rate Board's Annual Review of
      Automobile Insurance Loss Experience: AIRB Draft Review of 2022-H1 Industry PPV Experience

Dear Ms. Butler,

Please find enclosed Facility Association's (FA) submission to the Alberta Automobile Insurance Rate Board's Semi-Annual Review of Automobile Insurance Loss Experience. Our submission is in two parts. The first section provides FA's perspective on the current state of the insurance market in the province. The second section, addresses the draft Oliver Wyman ("OW") report entitled *Semi-Annual Review of Industry Experience – Preliminary Report as of June 30, 2022 Private Passenger Vehicles*" dated January 19, 2023 ("OW Report").

Sincerely,

Saskia Matheson
President & CEO

Encl.

c.c.: Christopher Cooney, Facility Association Board Chair

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INTRODUCTION

FA's purpose is to ensure the availability of Automobile Insurance, and it is our continued position that this is best achieved through the availability of automobile insurance in the voluntary market in Alberta, providing consumers a choice in terms of both insurance provider and type and amount of coverage available[1]. We believe this corresponds with the Alberta Automobile Insurance Rate Board ("AIRB") vision of fostering an efficient and effective automobile insurance market with fair and predictable rates.

Broadly speaking, we continue to be concerned with potential availability issues in Alberta. We note that, except for 2020 and 2021 (impacted by COVID-19), the OW estimates of PPV loss ratios (indemnity, ALAE, and ULAE) have persisted at only a marginal improvement from their peak in 2016, and have remained well above the 65% level we estimate would be consistent with the proposed benchmarks as per the OW Reports. This longer term high loss ratio environment since 2013 is confirmed in the OW report.   In addition, the lower loss ratios of 2020 and 2021 cannot be expected to continue as the pandemic restrictions and their economic impact recede.

It is fair to assume that the introduction of reforms in the last quarter of 2020 would have positively impacted the experience for 2020 and 2021. However, an accurate delineation of what resulted from product reform, and what resulted from the temporary impact of the pandemic and its economic consequences is unknown.

It is challenging to promote both fairness and predictability in automobile insurance rates at a time when the underlying costs of benefits provided by the insurance product are very difficult to predict, as stated in several passages of the OW Report. In light of this, we believe it is important to reiterate our position that the AIRB should use the benchmarking exercise to inform its considerations of rate filings, rather than to set specific targets, caps, or floors with respect to any one particular assumption.

With that said, FA commends the Board in its decision last year, asking insurers to use their own catastrophe loadings, and their own return on investment rates. This approach opens the opportunity for insurers to reflect their own experience, and their own assessment of future costs in providing their product/ service to the consumer. Opening this door further would allow insurers to set their rates based on their assessment of the competitive market in which they operate. This, we believe, will result in the greatest consumer choice in both providers and products, while maintaining fairness to all parties as well as a healthy competitive market.

In contrast, setting specific values, floors or caps adversely impacts availability of voluntary automobile insurance in the province, to the extent that capital providers in the voluntary market take an adverse view of their ability to charge rates that they have assessed relative to the future costs and risk of providing insurance.

We believe it is important to lay the foundation for a flexible future system, where insurers would be able to include their best estimates of future costs based on their own assumptions, judged by the AIRB on their own merit and the basis of reasonableness, considering prediction uncertainty.

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[1]Consumers in Alberta are required to purchase $200,000 of third party liability protection. However, it is clear that consumers see value in broader insurance coverage to protect them and their financial wellbeing, as only 0.1% of individually-rated private passenger vehicles were insured for the required minimum third party liability limit, according to 2021 data found in GISA industry data (the AUTO7501). Further, 73% purchased protection for their vehicle against collision/upset, and 85% purchased protection for their vehicle against theft and non-collision damage. We believe these statistics show a clear consumer appetite in the province for automobile insurance across many of the perils to which owning or operating an automobile exposes consumers.

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In recent years, the Board has taken important positive actions, such as the new filing guidelines which permits the 'file and use filing' and a 'non-actuarial prior approval (Full) filing,' where the insurer has submitted a filing with rate indications for each coverage within the last three years[2]. Unfortunately, the recent rate freeze constitutes the most drastic form of closing the door on the very flexibility we believe critical to ensure long term availability and a healthy voluntary market.

Outside of the question of the freeze, and the further restrictions currently imposed in the market, we would respectfully request the AIRB consider expanding the areas where it permits flexibility for companies when selecting assumptions supporting their rate applications, including:

- Impact of COVID-19 and Bill 41 reforms in 2020, including introduction of DCPD;
- Selection of industry ultimate claim counts and amounts supporting their analyses (including trend analyses);
- Selection of trend models (including the underlying methodology and approach) and associated estimates of trends or other changes to claims metrics;
- Operational expenses; and
- Profit provisions (in terms of both the metric to use, and the level to target).

In considering these areas of potential flexibility, it is important to recognize the extent of the current estimated rate deficiency in the province. Based on our interpretation, the proposed benchmark assumptions would indicate a target indemnity and claims expense ratios of approximately 65% for PPV. The charts below summarize the estimated rate deficiencies for PPV, by accident year, relative to this target level.

It is important to note that these are not estimates of actual hindsight rate deficiencies, nor do they represent FA models of required profitability. This is rather the estimated rate deficiency when applying the OW benchmark assumptions per the current preliminary benchmark report. We have not attempted to put claims or premium amounts "on-level" (i.e. adjusted claims for trends/reforms over time; adjusted premium levels for premium trend and rate changes).

*Industry Alberta **PPV** @ June 30, 2022 - OW selected indemnity, ALAE, ULAE LRs and implied rate deficiencies on basis of OW selected current benchmarks*
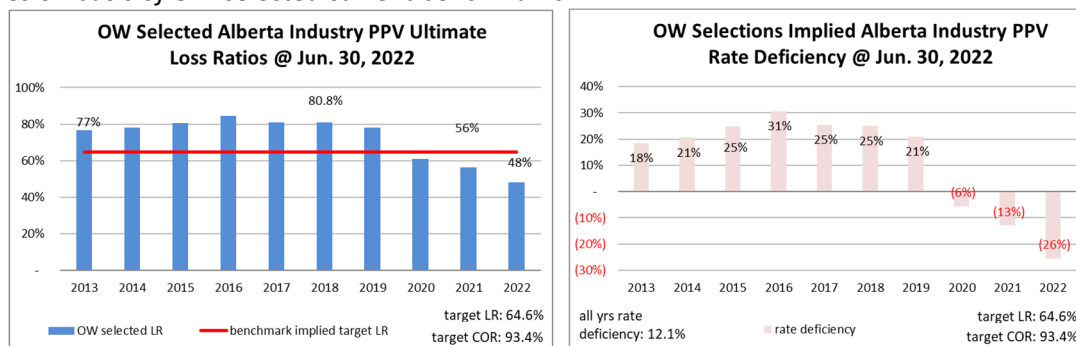
For PPV, if we exclude 2020 and 2021, the deficiencies range from 18% (2013) to 31% (2016), with a weighted average rate deficiency of 23.8% or **greater than $5.4 billion in PPV premium shortfall over that 7-year period**. If we were to include 2020 to 2022-H1, the weighted average rate deficiency would decrease to 12.1% or

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[2] AIRB bulletin 03-2022 dated June 29, 2022.

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greater than $4.0 billion in PPV premium shortfall over that 9.5-year period. Thus even with the full impact of the reduced claims from the pandemic on costs, there remains a significant shortfall in the industry's profitability.

GROWTH IN RSP MARKET SHARE

As has been mentioned in our previous submission as well as discussions with AIRB, the **significant** growth of the grid-capped portion of the market, as well as with the correlated significant growth in the Grid Risk Sharing Pool ("Grid RSP") has been a concern throughout 2022. The AIRB's reduction of the Grid base premiums by 11.4% effective January 1st 2022, reflected the Board's estimated impact of reforms implemented by the Government in 2020. However, this was not mirrored by the industry in its expectations of impact to that portion of the market. This has resulted in a much larger number of risks being subject to the grid cap. FA noted growth in the Grid RSP beginning in January of 2022. Our review of industry wide data shows that by December of 2022, the percentage of vehicles subject to the Grid cap had been growing at an unprecedented pace and had reached an historical high of 11.65%. The market share of the Grid RSP increased more than 70% in just 12 months and reached a peak of 4.73% in December 2022. To date, the Non-Grid RSP has been more stable, around a 3.0% market share. The net result is that the RSPs total market share has been increasing at a steady pace.

Rolling 12 month BI/TPL Written Vehicles
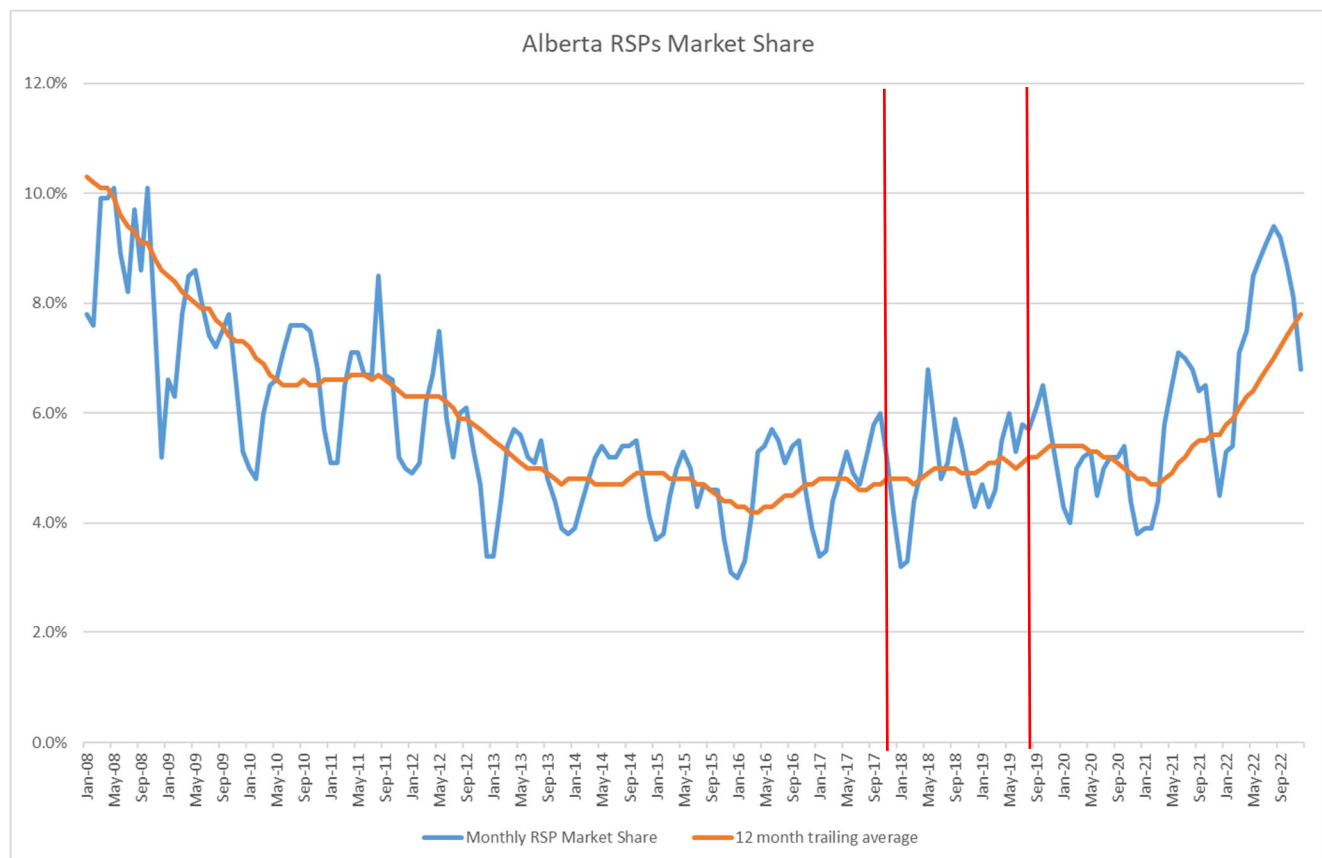**(simulating an annual vehicle count up to the displayed entry month)**

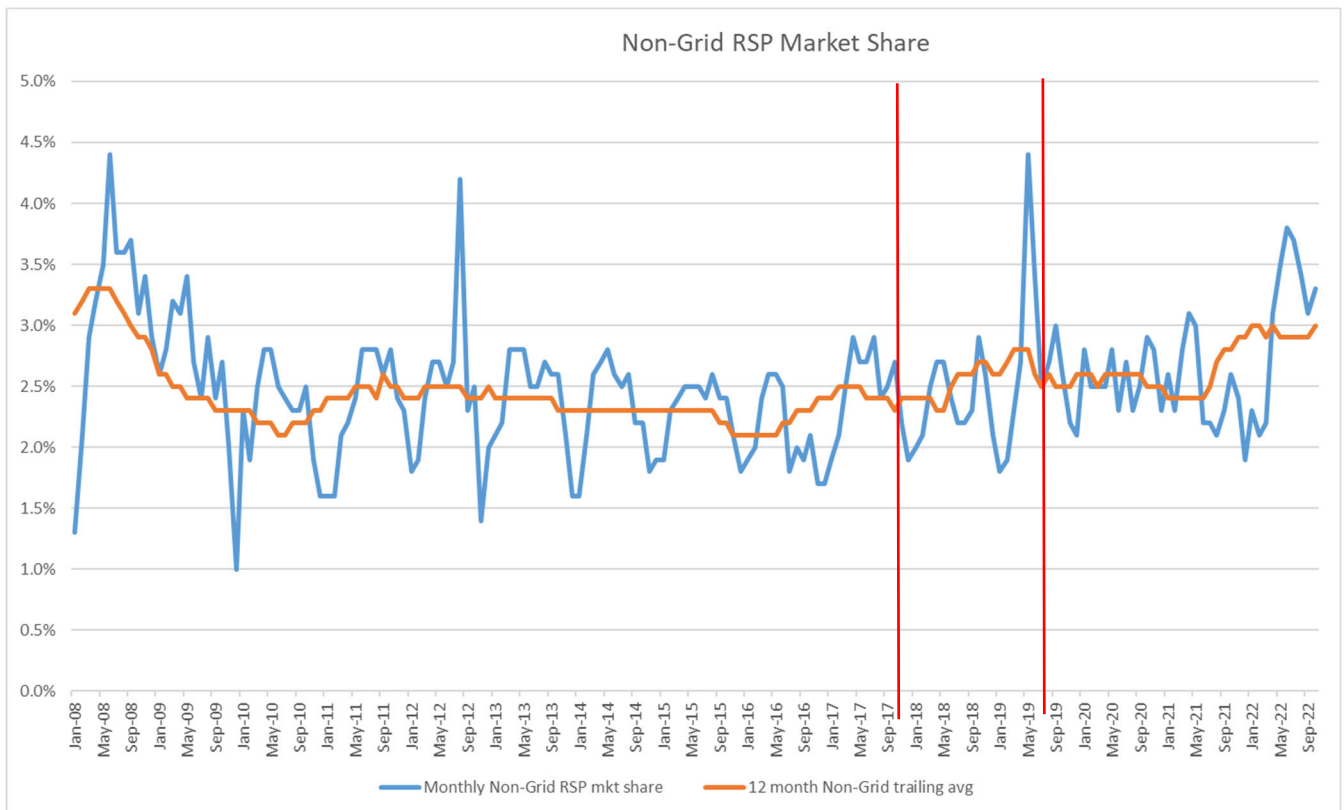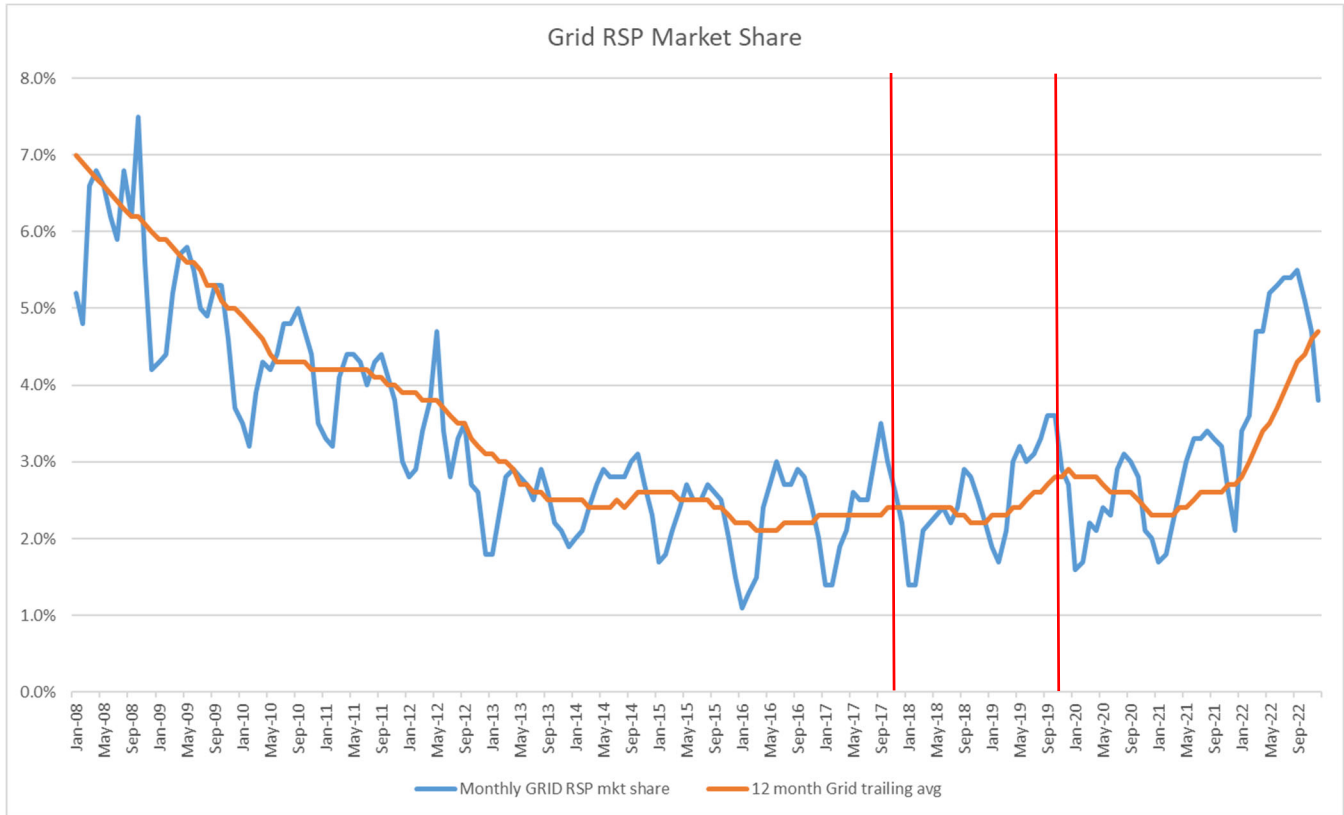|	AB			RSP Grid		RSP Non-Grid		RSP Total	
	Total PPxF	Grid Capped	% of Grid	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share
2020-12	2,786,011	197,423	7.09%	66,575	2.39%	69,345	2.49%	135,920	4.88%
2021-01	2,784,589	197,360	7.09%	66,605	2.39%	68,499	2.46%	135,104	4.85%
2021-02	2,785,136	197,459	7.09%	66,694	2.39%	68,188	2.45%	134,882	4.84%
2021-03	2,798,825	198,526	7.09%	66,679	2.38%	66,927	2.39%	133,606	4.77%
2021-04	2,816,241	201,032	7.14%	68,003	2.41%	66,968	2.38%	134,971	4.79%
2021-05	2,814,428	200,454	7.12%	69,542	2.47%	68,192	2.42%	137,733	4.89%
2021-06	2,814,392	200,044	7.11%	71,834	2.55%	72,011	2.56%	143,845	5.11%
2021-07	2,860,362	199,709	6.98%	72,845	2.55%	75,608	2.64%	148,454	5.19%
2021-08	2,864,224	198,637	6.94%	73,501	2.57%	78,708	2.75%	152,210	5.31%
2021-09	2,814,418	195,384	6.94%	74,244	2.64%	80,691	2.87%	154,935	5.51%
2021-10	2,816,381	193,121	6.86%	75,127	2.67%	82,336	2.92%	157,463	5.59%
2021-11	2,819,878	193,576	6.86%	76,424	2.71%	83,540	2.96%	159,963	5.67%
2021-12	2,821,955	194,430	6.89%	76,803	2.72%	84,817	3.01%	161,620	5.73%
2022-01	2,821,252	202,659	7.18%	81,013	2.87%	84,046	2.98%	165,059	5.85%
2022-02	2,823,468	211,691	7.50%	85,463	3.03%	83,193	2.95%	168,656	5.97%
2022-03	2,823,347	223,461	7.91%	91,362	3.24%	83,856	2.97%	175,218	6.21%
2022-04	2,823,586	235,940	8.36%	96,413	3.41%	82,958	2.94%	179,370	6.35%
2022-05	2,830,306	249,664	8.82%	101,590	3.59%	82,587	2.92%	184,177	6.51%
2022-06	2,830,963	262,892	9.29%	106,497	3.76%	82,038	2.90%	188,535	6.66%
2022-07	2,832,075	275,644	9.73%	111,534	3.94%	82,337	2.91%	193,871	6.85%
2022-08	2,840,466	289,754	10.20%	116,511	4.10%	83,714	2.95%	200,225	7.05%
2022-09	2,848,837	303,435	10.65%	121,777	4.27%	85,396	3.00%	207,173	7.27%
2022-10	2,854,447	316,538	11.09%	126,429	4.43%	86,095	3.02%	212,524	7.45%
2022-11	2,862,069	326,840	11.42%	131,484	4.59%	87,475	3.06%	218,959	7.65%
2022-12	2,865,641	333,802	**11.65%**	135,624	**4.73%**	88,776	3.10%	224,400	**7.83%**
Min 2018-2022			5.65%		2.27%		2.38%		4.77%
Max 2018-2022			**11.65%**		**4.73%**		3.10%		**7.83%**

The Grid rate increase announced in the fall, and effective in January closes the gap between the industry's assessment of this market segment and the price it can charge, and all else being equal, we expect the 10% increase to the Grid base premium will stabilize the Grid market and eventually result in a decrease in the Grid

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market. Industry data for January 2023 was not available at the time of this submission but we will keep AIRB informed of the situation. Early signs were positive, and we saw a 21.5% decrease of the written vehicle count transferred to the Grid RSP in January 2023 versus January 2022.

However, as a result of the decision to freeze private passenger vehicle rate increases through to the end of 2023, we anticipate significant growth in the RSP's in total. The increase in grid premiums will act to release a portion of this segment from Grid cap, and make it ineligible for the Grid RSP. However, based on our experience when PPV rates were frozen from 2017 to 2019, we anticipate there will be an increase in the number of vehicles ceded to the Non-Grid RSP throughout the remainder of 2023.

As we can observe from the charts below, the RSPs market share increased during the previous rate freeze.

Alberta RSPs Market Share

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Grid RSP Market Share

Monthly GRID RSP mkt share — 12 month Grid trailing avg

Non-Grid RSP Market Share

Monthly Non-Grid RSP mkt share — 12 month Non-Grid trailing avg

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As with the Grid RSP market share, we will closely monitor the situation and we will keep AIRB informed of any development.

While there is no preset optimal market share for residual risks, the RSPs across Canada managed by the FA have been harmonized to an upper bound of not more than 5% of a member's written car years. In the view of the FA, this represents the absolute maximum before the impact and burden of the RSP to members becomes a significant strategic and operational burden. The recent growth to such a large extent in the RSP portion of the market is thus especially concerning. Growth in the FARM is of concern to the public, and to the industry, but FARM market share growth, where rates are permitted to respond to the risk level, is at least balanced by the design of the mechanism to be cost neutral. The danger of a large market share in RSP is that the mechanism is designed to be subsidized. Considering the increasing trend in the RSPs market share since 2016, the cost of the RSPs to the industry might become, in our view, an important strategic consideration for insurers because such market conditions works against the spirit of a healthy and competitive insurance market.

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SPECIFIC COMMENTS REGARDING THE SEMI-ANNUAL REVIEW OF INDUSTRY EXPERIENCE

This document represents the Facility Association ("FA") written submission to the Alberta Automobile Insurance Rate Board ("AIRB") with respect to the Oliver Wyman reports entitled "*Semi-Annual Review of Industry Experience – Preliminary Report as of June 30, 2022 Private Passenger Vehicles*" dated January 19, 2023 ("OW Report").

We appreciate the opportunity to provide feedback, and we have focused our comments on the following areas:

- Selection of ultimates and valuation methodologies;
- Use of indemnity + ALAE + ULAE vs use of indemnity alone;
- Reforms and Impact;
- Mobility Parameter and COVID-19 Adjustment Factors; and
- Selection of loss trend rates and Uncertainty.

Summary of Selection

For each coverage, there are many possible models for frequency, severity, and loss costs that are valid and reasonable. The ultimate selection of models by insurers in developing their rates is a matter of judgment and interpretation that can differ among actuaries even when modeling the same data. Differences should be expected and be seen as healthy in a competitive environment. It is the nature of the actuarial science.

Specifically, we feel it is important for the Board to consider that valid differences in actuarial judgment and opinion can lead to differing selections of ultimates, and differing trend results. Indeed, differing models can fit actual results equally well, and yet, due to their structure (i.e. the selected parameters included in each), result in divergent forecasts.

We also believe the Board should allow the filing insurer to set their prices and market share on their views of ultimates and their selections of models describing frequency/severity/loss costs over time and as projected into the future. The rate review process should focus on whether the filing insurer's process to arrive at their forecast was reasonable (and consistent with the insurer's previous views / process / approach unless an explanation is provided as to what has changed and why). If so satisfied, we believe the Board should accept the filing insurer's view, even if it differs from the view of the Board's actuary. Forcing all participants in the insurance market place to adopt a single view introduces systemic risk and potentially detracts from the competitive marketplace should certain participants reduce their risk appetite where they do not agree with the imposed view. This can lead to an overly prescriptive regulatory environment, which we believe is not the intention of the Board.

1.   Selection of ultimates and valuation methodologies

For all coverages, the OW selection of ultimates (counts / amounts) is based on the selection of loss development factors (chain ladder method) using industry data through June 30, 2022.

We believe it is uncommon practice in Canada for a valuation actuary to rely on a single valuation **methodology in completing a valuation** as this introduces significant model risk (the risk that the model employed is not appropriate or has significant shortcomings for the experience being projected). To minimize model risk it is common to employ different models.

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The selection of ultimates is a critical and foundational input of the loss trend analysis and this is acknowledged in the OW Report when they mentioned that "*We note that the selection of development factors influences the selected loss trend rates*". We believe there are a number of factors contributing to the uncertainty in estimating Alberta Industry ultimates and that the "range of reasonable" valuation estimates is wide which subsequently leads to a wide range of reasonable trend estimates.

As the AIRB's vision is for fair and predictable rates, the accuracy of the predictions used for setting benchmarks should be assessed as part of the annual process.

2.   Use of indemnity + ALAE + ULAE vs use of indemnity alone

OW uses indemnity plus allocated loss adjustment expense (ALAE) plus unallocated loss adjustment expense (ULAE) as the basis for loss amounts in their trend analysis.

Even though we understand that the combined indemnity and expense data is the norm in the industry, we would like to emphasize that the indemnity and expense data, as well as the underlying development and trend may be significantly different. Consequently, we should consider this if the analysis is based on the combination of both.

If the objective is to minimize any impacts or distortions in the data that may arise from insurers changing their mix of ULAE and ALAE over time, this can be achieved by modeling indemnity only data and recognizing that individual insurers are in a much better position to make direct adjustments for any shifts in their usage of ULAE vs ALAE over time, as they deem appropriate.

FA is analyzing the Alberta Industry PPV trends on an indemnity basis only and as explained above, this could result in different selections than those made by OW.

3.   Reforms and Impact

We agree with the OW Report that "*The industry data that this Annual Review report is based upon, as of June 30, 2022, 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 using industry claims experience*".

For FA's trend analysis using PPV Industry Experience as of June 30, 2022, the AIRB published reform impact factors have been imposed in our loss trend models until there are sufficient post reform data to estimate the reform impacts.

4.   Mobility Parameter and COVID-19 Adjustment Factors

The OW Report introduces mobility composite metric in Table 15, COVID-19 Adjustment Factors in Table 16, and includes loss trend models with mobility parameter and calculated COVID-19 Adjustment Factors in Appendix F (see table below from OW Report Appendix F page 1)[3].

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[3] Please note the COVID-19 Adjustment Factors on Appendix F page 1 do not match COVID-19 Adjustment Factors on Table 16 for coverage AccBen, UM and CL.

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(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(8)
	Selected	Selected	(2) + (3)			1/exp(mobility * LC Coefficient)		
						COVID-19 Adjustment Factors		
Coverage	Frequency Mobility Coefficient	Severity Mobility Coefficient	LC Coeff	2020-1	2020-2	2021-1	2021-2	2022-1
BI	0.014	0.000	0.014	1.364	1.446	1.554	1.262	1.232
PD	0.016	0.000	0.016	1.426	1.524	1.655	1.305	1.269
AB Total	0.016	0.000	0.016	1.426	1.524	1.655	1.305	1.269
CL	0.018	0.000	0.018	1.490	1.606	1.763	1.349	1.308
CM	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000
AP	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000
SP	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000
UM	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000
			Mobility	-22.164	-26.318	-31.492	-16.634	-14.899

We appreciate the inclusion of COVID-19 adjustment Factors, but we are not sure about the use of a mobility parameter as temporal variables in the loss trend models. The model design and output is, in our view, difficult to explain and use. In the FA general approach, Scalars are introduced in models as dummy variables, taking values of 0 or 1.

We tested the model results based on FA approach and one of the OW's model structure on Appendix F, with only replacing Scalar temporal variables of mobility parameter to 1. Please note that, unfortunately, OW Report does not indicate the final model for the Mobility Coefficient shown above.

The detailed outputs for BI and CL are provided below:

Model Output – OW BI Frequency Model (with time, seasonality and mobility parameters) applied to FA BI data set, only change the mobility variables at 2020-H1 to 2022-H1 from (-22.164, -26.318, -31.492, -16.634, and -14.899) to FA standard value 1 - based on 2006-H2 to 2022-H1 data.

	FITTED TREND STRUCTURE REGRESSION STATISTICS						
			Adjusted	S.E. of	# of Obs.	# of Obs.	# parameters
Multiple R	R²		R²	Estimate	n	Excluded	p
0.9158	0.8386		0.8213	0.0647	32	8	4
	Runs-Test Result:		0.4320	RESIDUALS RUNS RANDOM		; residuals normal	
	# parameters with p-value >5%		1	(intercept specifically not included)			
				C.I.	95%	Selected	
	Coefficients	S.E.	t-Stat	p-value	Lower	Upper	Coeff.
	1	2					
Intercept	1.739	6.417	0.271	78.8%	(11.405)	14.882	1.739 4
Season	0.083	0.023	3.635	0.1%	0.036	0.130	0.083 3
All Years	0.000	0.003	0.010	99.2%	(0.006)	0.007	0.000 2
Scalar 1	(0.353)	0.041	(8.682)	0.0%	(0.436)	(0.269)	(0.353) 1
Trend 1	-	-	-	n/a	-	-	- 0
Scalar 2	-	-	-	n/a	-	-	- 0
Trend 2	-	-	-	n/a	-	-	- 0
Scalar 3	-	-	-	n/a	-	-	- 0
Trend 3	-	-	-	n/a	-	-	- 0
Scalar 4	-	-	-	n/a	-	-	- 0
Trend 4	-	-	-	n/a	-	-	- 0

	SELECTED TREND STRUCTURE REGRESSION STATISTICS						
			Adjusted	S.E. of	# of Obs.	# of Obs.	# parameters
Multiple R	R²		R²	Estimate	n	Excluded	p
0.9158	0.8386		0.8213	0.0647	32	8	4
	Runs-Test Result:		0.4320	RESIDUALS RUNS RANDOM		; residuals normal	
	Fitted	Previous	Selected	selected = fitted			
	Annual	Selected	Annual				
past	0.0%	0.4%	0.0%				
future	0.0%	0.4%	0.0%				

Cumulative Trends (summed coefficients)				C.I.	95%	Selected
	fitted coeff	S.E.	t-Stat	p-value	Lower	Upper	Coeff.
All Yrs or AY	0.000	0.003	0.010	99.2%	(0.006)	0.007	0.000
AY+1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3+4	n/a	n/a	n/a	n/a	n/a	n/a	n/a

The model indicates Scalar 1 coefficient of -35.3%, and it is easy to explain that the estimated average annual COVID-19 impact based on the industry data as at June 30, 2022 is about -29.7% comparing to pre-pandemic. However, it is difficult to explain the OW model estimated mobility coefficient of 1.4% with the COVID-19 Loss Adjustment Factors.

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Model Output – OW CL Frequency Model (with time and mobility parameters) applied to FA CL data set, only change the mobility variables at 2020-H1 to 2022-H1 from (-22.164, -26.318, -31.492, -16.634, and -14.899) to FA standard value 1 - based on 2008-H2 to 2022-H1 data

FITTED TREND STRUCTURE REGRESSION STATISTICS						
Multiple R	R²	Adjusted R²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p
0.9127	0.8329	0.8196	0.0972	28	12	3

	Runs-Test Result:	2.2999	RESIDUALS RUNS NOT RANDOM	residuals normal
# parameters with p-value >5%		0	(intercept specifically not included)	

	Coefficients	S.E.	t-Stat	p-value	C.I. Lower	95% Upper	Selected Coeff.	
	1	2						
Intercept	30.314	12.252	2.474	2.0%	5.080	55.548	30.314	3
Season	-	-	-	n/a	-	-	-	0
All Years	(0.013)	0.006	(2.166)	4.0%	(0.026)	(0.001)	(0.013)	2
Scalar 1	(0.433)	0.064	(6.753)	0.0%	(0.565)	(0.301)	(0.433)	1
Trend 1	-	-	-	n/a	-	-	-	0
Scalar 2	-	-	-	n/a	-	-	-	0
Trend 2	-	-	-	n/a	-	-	-	0
Scalar 3	-	-	-	n/a	-	-	-	0
Trend 3	-	-	-	n/a	-	-	-	0
Scalar 4	-	-	-	n/a	-	-	-	0
Trend 4	-	-	-	n/a	-	-	-	0

SELECTED TREND STRUCTURE REGRESSION STATISTICS						
Multiple R	R²	Adjusted R²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p
0.9127	0.8329	0.8196	0.0972	28	12	3

Runs-Test Result:	2.2999	RESIDUALS RUNS NOT RANDOM	residuals normal

	Fitted Annual	Previous Selected	Selected Annual	selected = fitted
past	(1.3%)	(1.0%)	(1.3%)	
future	(1.3%)	(1.0%)	(1.3%)	

Cumulative Trends (summed coefficients)				C.I.	95%	Selected
	fitted coeff	S.E.	t-Stat	p-value	Lower	Upper	Selected Coeff.
All Yrs or AY	(0.013)	0.006	(2.166)	4.0%	(0.026)	(0.001)	(0.013)
AY+1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3+4	n/a	n/a	n/a	n/a	n/a	n/a	n/a

The model indicates Scalar 1 coefficient of -43.3%, and it is easy to explain that the estimated average annual COVID-19 impact based on the industry data as at June 30, 2022 is about -35.2% comparing to pre-pandemic. However, it is difficult to explain the OW model estimated mobility coefficient of 1.8% with the COVID-19 Loss Adjustment Factors.

The table below compares the OW Report estimated COVID-19 LC Adjustment Factors from Appendix F and the estimated COVID-19 LC Adjustment Factors based on one of OW's model structures in Appendix F using FA's approach. We believe the difference between OW's approach and FA's approach is not significant for most coverage and FA's simple approach is reasonable and easy to use and explain.

	OW COVID-19 LC Adjustment Factor						FA Approach for COVID-19 Adj Factor		Difference Between FA vs OW
Coverage	2020H1	2020H2	2021H1	2021H2	2022H1	Average	COVID-19 Coeff	COVID LC Adj Factor	
BI	1.364	1.446	1.554	1.262	1.232	1.372	-0.353	1.423	0.051
PD	1.426	1.524	1.655	1.305	1.269	1.436	-0.710	2.034	0.598
AccBen (indivis)	1.426	1.524	1.655	1.305	1.269	1.436	-0.411	1.508	0.072
UM	1.000	1.000	1.000	1.000	1.000	1.000	0.000	1.000	-
CL	1.490	1.606	1.763	1.349	1.308	1.503	-0.433	1.542	0.039
CM	1.000	1.000	1.000	1.000	1.000	1.000	0.000	1.000	-
SP	1.000	1.000	1.000	1.000	1.000	1.000	0.000	1.000	-
AP	1.000	1.000	1.000	1.000	1.000	1.000	0.000	1.000	-

Since we completed our Alberta PPV industry loss trend analysis as of June 30, 2022, we tested both the reforms and the COVID-19 impacts. Our preliminary indication (with limited data) is that the impact of the reforms is not significant and most of the scalar changes happening in 2020 would be the result of COVID-19. We estimated the COVID-19 impact on the loss frequency as a scalar coefficient at 2020-H1 with 5 data points (2020H1, 2020H2, 2021H1, 2021H2, and 2022H1), the table below summarizes the FA estimated COVID-19 impacts by coverage for PPV based on FA selected frequency model with COVID-19 scalar coefficient added:

Coverage	BI	PD	ACCBEN	UM	CL	CM	SP	AP
COVID-19 Scalar Coefficient	-0.371	-0.789	-0.370	0.000	-0.445	0.000	0.000	0.000
COVID-19 Impact Factor	1.449	2.201	1.448	1.000	1.560	1.000	1.000	1.000

![Facility Association logo]

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Finally, we know that the impact of COVID-19 is difficult to predict and it is also acknowledge in the OW Report:

"*As return to a "new" normal in 2022 unfolds, there is uncertainty as to the lasting impacts of the pandemic with respect to future claims frequency rates. Will the increase of remote and hybrid work result in a sustained lower frequency level? Or will increased use of private vehicles with reduced use of public transit offset effect of remote and hybrid work*?"

5.   Selection of Trends Rates and Uncertainty

Since we have completed our own trend analysis using PPV Industry Experience as of June 30, 2022, we would like to provide the Board with a summary of our selections of the future trends and how they compared with the preliminary selections from the OW Report. Please note that our areas of focus treated above can partially explain the differences between the two sets of selections.

Alberta Industry Trends as at June 30, 2022

Coverage	Alberta PPV Trends at 2022-06		
	FA selection future	OW selection future	difference between FA and OW
BI	6.9%	5.0%	1.9%
PD	1.8%	1.5%	0.3%
AccBen (indivis)	10.4%	12.0%	(1.6%)
UM	-	1.5%	(1.5%)
CL	2.7%	3.0%	(0.3%)
CM	3.7%	4.0%	(0.3%)
SP	4.3%	3.0%	1.3%
AP	1.0%	2.5%	(1.5%)

The **OW PPV Report selected trends** are generally **in line** with the loss cost trends estimated for indemnity as per **FA's own modeling of the Alberta industry experience** as at June 30, 2022, neither consistently higher or lower by coverage (i.e. OW is higher for some coverages, lower for others).

We estimate that the OW future trend selections at the coverage level will translate to an overall loss cost future trend rate of 4.3% for private passenger vehicles, while the FA estimated overall loss cost future trend rate is 4.8% for private passenger vehicles. So, FA estimated overall future loss cost trends rates are aligned with the benchmarks.

Finally, we appreciate the OW Report's mention regarding heightened uncertainty due to COVID 19, Bill 41 Reforms and rising inflation as well as OW's recommendation that:

"*…when selecting the future trend rate, we suggest consideration of:*

- *The correlation of the historical CPI index with historical claim cost changes; and the recent rise in the CPI.*

- *The actual change in claim costs data that has emerged during the recent high inflationary period.*

- *The anticipated future CPI during the rating program period given the Federal Government's actions to curb inflation through higher interest rates.*

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- *The impact of higher gas prices and general high inflation on vehicle usages."*

As such, the projection of future rate needs is subject to considerable uncertainty and the AIRB should consider this when review individual rate filings.

Any questions related to this submission may be directed to Philippe Gosselin by email at pgosselin@facilityassociation.com or by phone at 416-644-4968.