



February 21, 2023

Ms. Charlene Butler
Chair, Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

RE: AIRB 2023 Semi-Annual Review

Dear Ms. Butler,

Thank you for the opportunity to participate in the AIRB's semi-annual review of auto insurance trends and rates for basic and additional coverage. Consistent with our approach from previous years, Insurance Bureau of Canada (IBC) consulted with its member companies to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2022 Private Passenger Vehicles*.

While IBC recognizes the semi-annual review process is a standard practice for the AIRB, it is expected the regulator will be unlikely to review rate filings due to the mandated auto insurance rate freeze. This presents the regulator with an opportunity to focus its efforts on initiatives that help improve Alberta's auto insurance system, and align with government's direction to bring forward *short- and long-term solutions to steady and lower auto insurance rates*. In this context, IBC believes the AIRB should prioritize:

- Regulatory improvements that remove costs from the system and alleviate the pressures on industry and consumers due to the rate freeze. This should include immediate efforts to reform the provincial Grid framework; and
- Working with industry and key stakeholders to identify reform options that pull costs out of the system to present to government.

State of the Industry

According to monthly average premiums data from the General Insurance Statistical Agency (GISA), over the past two years, premiums in Alberta have been stable, changing by just +3.1%¹. This change is far lower than the overall cost of living, which has increased 10.8% since January 2021². Clearly, Alberta's auto insurance market has been functioning well for consumers from a cost-stability standpoint.

This stability, however, is under significant threat due to government's decision to freeze auto insurance rates for the remainder of this year. As proven with the previous provincial rate cap from 2017 to 2019, and as most recently demonstrated by California's rate freeze, government rate interventions create a build-up

¹ December 2022

² CANSIM table 18-10-0004-01, January 2021 to December 2022



of system cost pressures which threaten the viability of insurers operating in the marketplace. Far from improving consumer affordability, such actions only serve to diminish consumer choice while in effect and lead to significant premium increases once removed.

Alberta's rate freeze comes at a particularly concerning time, due to the following:

- Data from Environics Analytics reveals Albertans have returned to the roads in record numbers. Consumer driving habits now exceed pre-pandemic levels and with this, we are likely to see an increase in collisions and claims;
- Since the start of the pandemic, inflationary pressures and global supply chain disruptions have led to a 13% increase in spending on vehicle parts, maintenance and repairs according to data from Statistics Canada³; and
- According to Oliver Wyman, other claims costs will continue to rise significantly with accident benefits and bodily injury loss costs increasing by 12.0% and 5.0%, respectively.

The latest data from MSA indicates industry's auto insurance loss ratio in Q3 of 2022 was 73%. This had deteriorated rapidly over the past year and, when combined with expenses, suggests the industry continues to lose money on the sale of auto insurance products in Alberta. In this context, the increased cost trends outlined above brings governments imposed freeze into serious question as it relates to the viability of insurers operating in the market moving forward. With carriers unable to obtain actuarially justified premiums due to the current rate freeze, the AIRB and government should be prepared to see significant adverse consequences for consumers, as insurers struggle to remain viable moving forward. The uncertainty of the rate freeze has created less industry confidence in the sustainability of the auto insurance market and as noted, could result in significantly less competition for consumers, impeding the choices and prices available.

Of note, the rate freeze does not allow for any exemptions providing those insurers facing significant financial hardship the ability to appeal their rate application to the Rate Board for consideration. Such provisions were permitted under the previous rate cap and in other jurisdictions when similar rate interventions were in effect. IBC urges the AIRB to work with government to include an exemption provision to help mitigate the negative impact the freeze will have on viability of insurers in the marketplace, and the choice and availability of coverages for consumers.

Product Reform

Alberta's Minister of Finance has indicated the rate freeze is temporary until a solution to improve the system is found, and has clearly stated the government's intention to develop short- and long-term solutions to steady and lower auto insurance rates. With its vision to ensure *automobile insurance is accessible, equitable, and sustainable for all Albertans*, the AIRB should immediately undertake its own efforts to identify and put forward reforms that help pull costs out of the system and improve the affordability of auto insurance for drivers. To mitigate consumer harms, we must move quickly to develop such actions, and IBC is keen to work with government and the AIRB in this regard.

³ CANSIM table 20-10-0008-03



Right now, Alberta drivers have little choice in or control over their auto insurance policy, with few options to customize their insurance offerings to best meet their individual needs. IBC believes Albertans deserve to have more choice, more control and more benefits available to them to help them recover from a collision.

IBC recommends its *Enhancing Care & Expanding Choice* proposal as the optimal solution for product reform in Alberta. Last year, IBC shared and presented this proposal to the AIRB, outlining its details would give Albertan's more choice and increased care, while also reducing the price they pay for the coverage received compared to the status quo auto insurance product. Under *Enhancing Care & Expanding Choice*:

- Drivers could choose to pay a lower premium by waiving the ability to receive financial compensation for pain and suffering if they sustain a minor injury;
- Injuries sustained in a collision would be eligible for twice the amount of pre-approved treatment than received today, including specific programs of care based on the most up to date medical literature; and
- If an injury is serious in nature, everyone would continue to have legal recourse after an accident, just like today.

With cost pressures from inflation and continued growth in bodily injury and accident benefit costs, IBC's proposal would greatly improve the affordability of coverage and provide significant premiums savings for consumers, of up \$200, on average. While such savings are likely to erode the longer a rate freeze is in effect, IBC would be pleased to once again present its proposal in greater detail, along with its costing, to demonstrate how it could improve the system for both consumers and insurers alike.

Regulatory Improvements

While the rate freeze is in effect, IBC urges the AIRB to prioritize improvements to the province's regulatory framework to reduce system costs to help alleviate insurer challenges and pressures brought on during the rate freeze period. Doing so not only aligns with government's stated direction to continue to bring forward short- and long-term improvements for drivers, but will also ensure both the regulator and industry are best-positioned for the rate freeze's eventual removal. Building on changes made last year, IBC reiterates its recommendations from our Annual Review submission that the AIRB implement additional regulatory improvements and undertake the following:

- Review the province's rate filing guidelines to streamline the process and establish clear timelines for insurer information and approvals. IBC acknowledges the AIRB has been experiencing significant resource and staffing constraints, which has had a direct impact on the timeliness of responding to insurer rate filings prior to the rate freeze.
- IBC recommends the AIRB simplify the full filings process to reduce the approval timelines and prepare to expand the use of file-and-use, or transition to use-and-file, to ensure that insurers can reflect any cost savings of government reforms as quickly as possible once the rate freeze is removed. Such changes would contribute to a more efficient and effective regulatory framework, while still maintaining the AIRB's oversight of ratemaking. In the near-term, IBC will be sharing its



detailed recommendations to reform the province's rate filing guidelines further, as well as additional regulatory improvements; and

- Reform the province's Grid rating system to refocus the framework to better align with its original intent (see section below for further details).

Grid Vehicle Framework

In addition to improvements to the regulatory framework, while the rate freeze is in effect, it is critical the AIRB immediately prioritize reforms to the Grid framework to reduce its associated - and unnecessary - costs on drivers. Specifically, Alberta's Grid framework is no longer aligned with its original intent of providing new and inexperienced drivers with affordable entry-level premiums. Over time, it has grown into a mechanism that caps rates for many experienced drivers with a history of accidents and infractions. As a result, in its current form, the Grid penalizes the province's low-risk drivers by forcing them to pay higher premiums to subsidize premiums of high-risk drivers.

Last year, IBC shared Deloitte's extensive review of the Grid framework and accompanying recommendations with the AIRB for its consideration. Deloitte's analysis lend further evidence to the immediacy with which reforms to the Grid framework must be undertaken, including:

- In 2021 alone, it is estimated that on average, the Grid cost the province's low-risk drivers \$65 in order to subsidize higher-risk drivers;
- Over half of all Grid subsidies are distributed to drivers with more than seven years' experience — drivers who should not be receiving subsidized premiums as they fall outside the scope of the Grid's original purpose;
- On average, high-risk drivers with a history of infractions and/or at-fault claims (i.e. drivers on Grid steps +7 and above) receive subsidies of \$2,516 or greater. Again, these are drivers that should not be benefiting from subsidized Grid premiums; and
- Insurer data highlights that the number of drivers on the Grid doubled in the past year. This growth in the Grid is vastly outpacing the growth in new drivers and serves only to further expand the Grid beyond its original intent, increasing its cost on drivers overall.

It is clear the Grid is no longer in place to support new and inexperienced drivers. IBC reiterates our recommendation that Alberta should remove the Grid and introduce mandatory discounts for new drivers (similar to what is done in other jurisdictions) to ensure more affordable premiums for new drivers. IBC urges the AIRB to be bold in its actions pertaining to Grid reform while the rate freeze is in effect.

We focus our remaining commentary on future loss cost trend rates, the catastrophe provision, investment income on cash flow, health cost recovery factor, operating expenses, and the profit provision.

Commentary on Loss Cost Analysis

According to Oliver Wyman, trend rates for several coverages are significant, signaling that claims costs are projected to continue to increase in the future. Consistent with last year's review, claims costs for injury claims are projected to increase considerably, with accident benefits and bodily injury costs increasing by



12.0% and 5.0%, respectively. These selections indicate that under the current product, injury claims costs will continue to rise significantly.

As highlighted above, IBC's *Enhancing Care & Expanding Choice* product reform proposal has the ability to drive down injury claims costs, provide Albertans with more choice, increase the care received after an accident, and importantly, reduce the price drivers pay for coverage. Implementing this proposal would minimize many consumers' need to wait for a lengthy tort settlement, reducing injury claims costs that are currently adding pressure in the system.

Once again, Oliver Wyman projects moderate vehicle damage increases, with property damage and collision future trend rates of 1.5% and 3.0%, respectively. However, Oliver Wyman states that its physical damage trend factors "may not be an accurate indication of future trend rates," recognizing its selections do not account for high inflationary pressures on costs for vehicle parts, maintenance, and repair.

To address this, consistent with its recommendation in the Annual Review process, Oliver Wyman suggests insurers consider the *vehicle maintenance and repair costs* CPI data in Alberta, which has increased 13% since the start of the pandemic, at the time of the rate application preparation. In addition to this, as outlined in this review, Oliver Wyman recommends insurers consider the "economic changes (e.g. CPI) that consider both recent observations and forecasts over the rating program period, and how recent inflation has actually affected recent claims costs for the company and industry." As IBC supports greater insurer ability to use real-time data in rate applications, we support this recommendation, as it aligns with our recommendations in our Annual Review submission to include other Statistics Canada data elements.

However, Oliver Wyman suggests this proposed approach would be temporary until inflation stabilizes. IBC recommends insurers be permitted to consider Statistics Canada data elements in all future rate filings to adequately capture changes in CPI where applicable and if the insurer believes it is necessary based on their individual experience.

Catastrophe Provision

Oliver Wyman notes they are no longer approving a benchmark for the catastrophe provision. IBC supports this, as it allows insurers to select their own catastrophe provision based on their individual loss experience caused by significant weather events.

Investment Income on Cash Flow

In July 2019, the AIRB updated its Guidelines to allow insurers to use their individually-selected investment income rate in their rate applications. IBC continues to support this decision to let insurers select their expected investment income rate based on their own individual experiences.

Health Cost Recovery

Consistent with the 2023 Health Cost Recovery Assessment recommended benchmark from the Alberta Treasury Board and Finance, Oliver Wyman agrees that insurers should reflect the health levy of 2.86% in their 2022 filings. IBC believes this is a reasonable provision.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 27.1% based on the GISA Industry Expense Report. IBC considers this to be reasonable.

**Profit Provision**

IBC agrees with the AIRB Board's position to maintain a 7% profit provision, as stated in the Semi-Annual Review document.

Conclusion

IBC appreciates the opportunity to provide input for the 2023 Semi-Annual Review. While it is unlikely the AIRB is able to review rate filings at this time due to the mandated freeze, IBC strongly recommends the AIRB reallocate those resources and prioritize work around reforming the Grid framework, revise its filing guidelines, and work toward developing cost saving reforms to present to government at a particularly urgent time.

We hope this commentary assists the AIRB in its deliberations. If you would like to discuss this further, please do not hesitate to reach out to me at 1-604-349-8046 or Asutherland@ibc.ca.

Sincerely,

Aaron Sutherland
Vice President, Western and Pacific
Insurance Bureau of Canada