



MARKET & 2022 TRENDS REPORT

Automobile Insurance Rate Board

2022 Market & Trends Report



Canadian Western Bank Place
#2440, 10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428

Email: airb@gov.ab.ca

albertaairb.ca

TABLE OF CONTENTS

2 | EXECUTIVE SUMMARY

3 | PRIVATE PASSENGER VEHICLE
MARKET STATISTICS

19 | ECONOMIC & INDUSTRY TRENDS

23 | COMMERCIAL VEHICLE
MARKET STATISTICS

EXECUTIVE SUMMARY

As the COVID-19 pandemic continued for a second year in 2021, many of Alberta's automobile insurance market trends have generally remained stable in relation to 2020 or, in some cases, returned to pre-pandemic levels. The AIRB strives for affordable automobile insurance for Albertans while ensuring a robust, competitive marketplace offering choice for drivers.

Affordability

The AIRB is concerned about the affordability of automobile insurance for Alberta drivers. The AIRB limited rate approvals throughout 2021, leading to the annual change in total average premiums for private passenger vehicles (PPV) returning to 2017 levels, increasing by only 3.6% in 2021. Also, after-tax income spent on automobile insurance was 3.2% in 2020, which aligns with most other Canadian jurisdictions.

In late 2020, the Government of Alberta passed Bill 41: Insurance (Enhancing Driver

Affordability and Care) Amendment Act, 2020 to lessen the impact of bodily injury costs and to enhance the care and treatment of injured Alberta drivers. These Government reforms were intended to ensure automobile insurance remains affordable for Albertans. However, it is too early to see the impacts of this legislation on market trends.

Albertans can also ensure their insurance remains affordable by shopping the market.

The Marketplace

Alberta's automobile insurance marketplace is competitive, with 65 insurance companies (insurers) offering PPV insurance. To ensure these companies continue to provide insurance to Albertans, they need to remain reasonably profitable. Insurers base the premiums they charge using future trends, which have been difficult to predict during the pandemic.

Because the pandemic lasted longer than expected, in 2021, insurers' return on equity for PPV unexpectedly increased by 11%. Although this level of profit is outside recent trends, the average profit per insured vehicle in Alberta was \$142, which is lower than five other Canadian jurisdictions.

Trends to Watch

Insurance claims frequency in Alberta has decreased due to reduced mobility because of the pandemic, but the severity per claim has increased. Many factors are causing this rise in costs for claim severity, including severe weather events like hailstorms, theft, and the higher cost of repairing new vehicles.

In addition to claim severity, starting in late 2021, inflation, labour shortages, and global supply chain disruptions have further increased the costs of claims, new vehicles, and car rentals. As of June 2022, inflation has reached a 30-year high of 8.4% in Alberta. These increasing factors are putting additional financial pressures on both drivers and insurers.

The AIRB has taken two recent actions to streamline the insurance filing process to improve efficiency, transparency, accountability, and security. First, by having all aspects of the filing process on a single online platform for use by the insurance industry. Second, the AIRB expanded the use of "file and use" rate filings with the goal of improving the AIRB's efficiency when processing rate changes and reducing the regulatory burden for insurers.

The AIRB will continue watching inflation, labour levels, and the global supply chain closely over the next year while ensuring our processes are efficient and transparent and Albertans have access to a sustainable and affordable automobile insurance market.

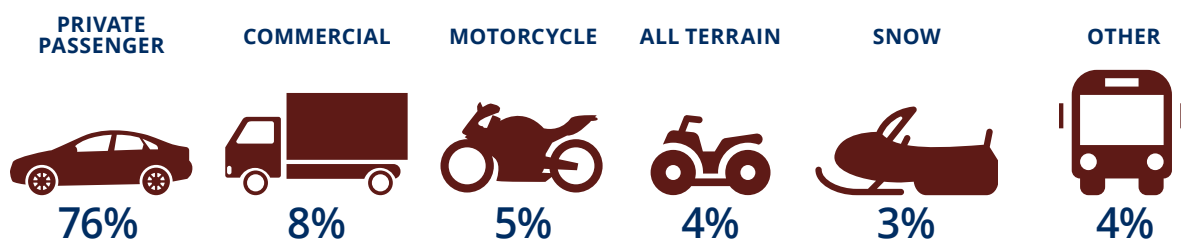
PRIVATE PASSENGER VEHICLE MARKET STATISTICS

Introduction

The AIRB's vision is for automobile insurance to be accessible, equitable and sustainable for all Albertans. The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure access to a robust automobile insurance marketplace. The AIRB monitors industry trends and developments to inform its board members, the Government of Alberta, and other industry stakeholders. Further, the AIRB evaluates affordability, accessibility, and service quality by monitoring relevant indicators influenced by competition, consumer knowledge, and industry trends. This report mainly focuses on competition, affordability, accessibility, and industry trends.

Private passenger vehicle (PPV) policies make up three-quarters of Alberta's automobile insurance market. The remaining 24% consists of commercial, motorcycles, all terrain, snow, and other miscellaneous vehicles. Alberta has a competitive private automobile insurance market providing coverage for over 2.8 million vehicles. This report primarily examines the market for PPV, given its size relative to other vehicle types, except where noted. Be advised the data is from a variety of sources, including the General Insurance Statistical Agency, Statistics Canada and the Insurance Bureau of Canada. Also, some data illustrates trends for five years, while in other cases, ten years is presented.

Vehicles by Class



Automobile Insurance Approval & Rate Regulation

The AIRB approves or rejects automobile insurers' filings for rate changes with the authority granted by the Insurance Act and regulations. The AIRB reviews rate filings in detail to ensure all Albertans have access to a fair and affordable premium. Each aspect of a rate filing is scrutinized, including but not limited to proposed rating variables, discounts, surcharges, and rating models. Like all businesses, insurers need to charge enough to cover their operating and claims costs to earn a reasonable profit. Part of the AIRB's review includes examining their past experience and

related premium adequacy due to market conditions.

To address market challenges when making decisions, the AIRB continuously monitors the automobile insurance market, including loss trends, availability, affordability, and consumer perceptions. We further discuss these topics with stakeholders and industry experts to stay informed and ensure proactive decision-making.

Albertans can review rate changes as they are approved for every automobile insurer in Alberta on our website.

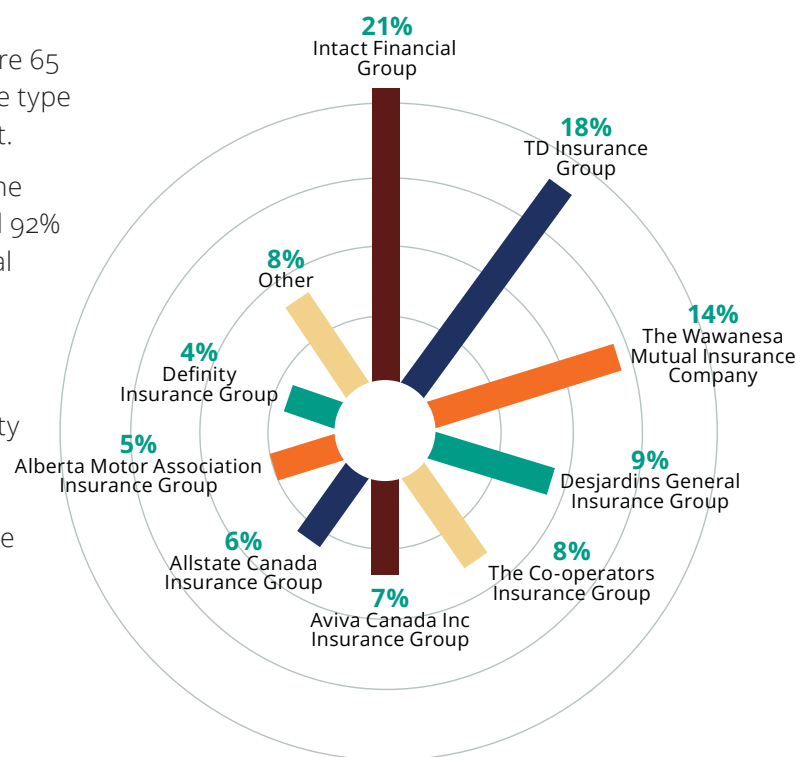
Competitive Marketplace

Alberta is fortunate to have a competitive market for automobile insurance. There are 65 insurers offering insurance for at least one type of vehicle, both individually rated and fleet.

Based on 2021 direct written premiums, the top insurer groups in Alberta represented 92% of the PPV market share, with 40 individual insurers writing PPV insurance in 2021.

A competitive market allows insurers to compete on price and service and contributes to accessibility and affordability for consumers. Consumers can choose between different insurers, and no single insurer dictates premium levels or how the market operates.

2021 TOP PRIVATE PASSENGER INSURANCE GROUPS¹



Mobility

The COVID-19 pandemic changed driving habits in Alberta throughout 2020 and 2021. Reduced mobility impacted the claims frequencies for most coverages, reflecting the overall decrease in driving levels. The longer term impacts of changes in mobility are not yet known.

Employers continue to offer hybrid work arrangements which possibly decreasing longer term mobility. We will continue to monitor this trend to determine the “new normal” or baseline for future mobility.

Accessibility

The AIRB monitors the industry to ensure coverage is accessible to Albertans. Although we have a competitive marketplace and insurers were profitable during the two years of reduced mobility, the uncertainty of future mobility and the recent inflationary impacts are causing insurers to refocus on price accuracy. In the past, when insurers believed they did not have an adequate price for their policies, they made business decisions negatively impacting customer service and accessibility, including

declining to offer payment plans, requiring signed renewal forms, declining to offer additional coverages often required for leasing or financing and cancelling broker contracts. With the recent changes to the filing guidelines, are which are intended to reduce regulatory red tape and create a more responsive and complete market, the AIRB expects all insurers to ensure their actions do not negatively affect the accessibility of automobile insurance to Alberta drivers.

¹ Source: General Insurance Statistical Agency

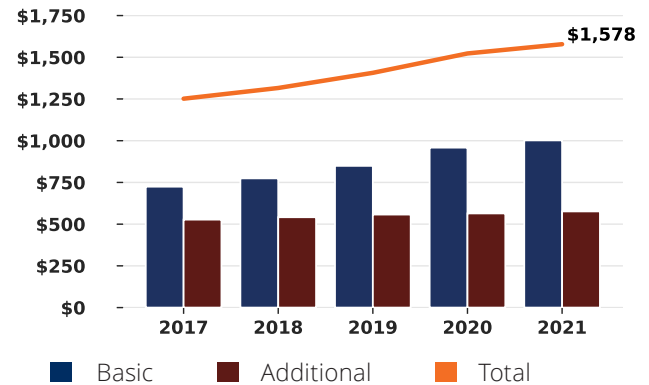
Insurance Premium Trends

AVERAGE PREMIUMS

The annual change in average premiums is an important indicator of affordability in the market. Over the last five years, the average premiums for basic coverage (third-party liability and accident benefits) increased by 38%, and additional coverage (collision, comprehensive, specified perils and all perils) increased by nine percent.

The total average premium increased by 26% over the past five years. The increases in total average premium over the reporting period are well above inflation rates and represent decreased market affordability. Albertans can budget for regular rate increases; our research has found they will generally tolerate increases up to 10% annually. When an insurer files regularly to adjust their rates in response to cost pressures with modest increases, Albertans are less likely to shop the market and change insurers.

AVERAGE WRITTEN PREMIUMS BASIC & ADDITIONAL ²



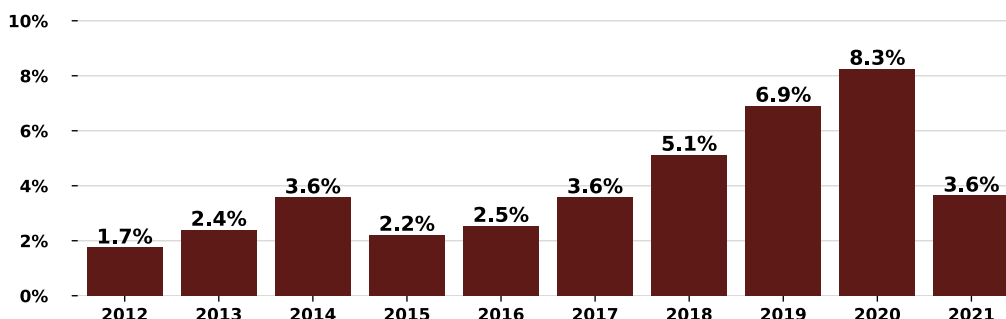
YEAR-OVER-YEAR CHANGE

Looking over the last ten years average premium changes were steady and generally manageable by Alberta drivers until 2017. In 2021, the year-over-year average premium increase returned to the 2017 levels. The average premium levels increased during 2018 and 2019 while the cap on an insurer's overall PPV insurance rates was in place. The rate cap did not allow insurers to address cost pressures resulting in actions which limited access to the required insurance for many Albertans from both availability and affordability perspectives. The cap was lifted in late 2019, and insurers pressured by the limitation filed and received rate increases to return to a competitive marketplace and stop actions which restricted market access. The rate increases approved in the fall of 2019 were implemented throughout

2020 data and are reflected in the peak of year-over-year rate changes shown below.

The year-over-year change in average premiums does not always correspond with insurers' increasing costs. Insurers adjust premiums to influence their market share or support other internal strategic business decisions. In addition, some insurers do not file for rate changes as frequently due to technology, cost or internal resource restraints; this can result in higher rate increases and is not in the policyholder's best interest and the overall affordability for Albertans. The AIRB updated its filing guidelines in July 2022 to encourage frequent filings to enable insurers to maintain their rating programs, with the goal of reducing the volatility for Alberta drivers.

YEARLY CHANGE IN TOTAL AVERAGE PREMIUMS ²

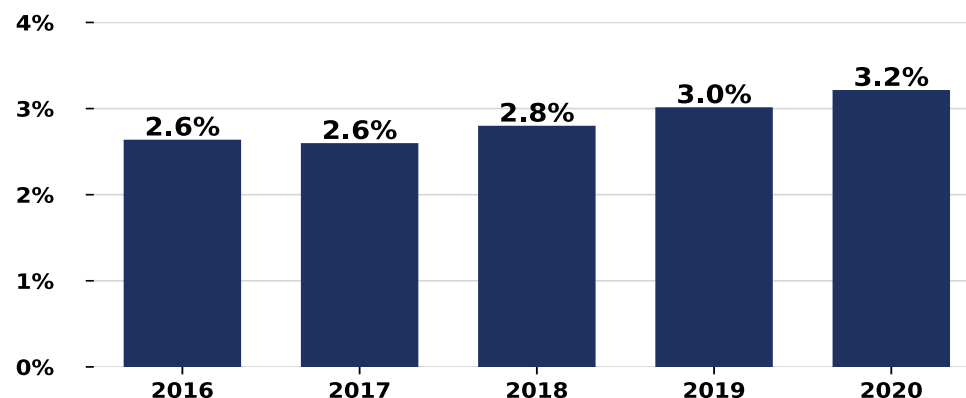


² Source: General Insurance Statistical Agency

CHANGE IN INCOME SPENT ON AUTOMOBILE INSURANCE

Another way to evaluate the affordability of automobile insurance is to consider the average premium expressed as a percentage of after-tax income. We have benchmarked the results for the past five years. From 2017 to 2020, Albertans saw an increase of 0.6% on after-tax income spent on automobile insurance, less than the inflation rate on other consumer goods and services.

AVERAGE AFTER-TAX INCOME SPENT ON AUTOMOBILE INSURANCE (2020) ³



HOW DO OUR PREMIUMS COMPARE?

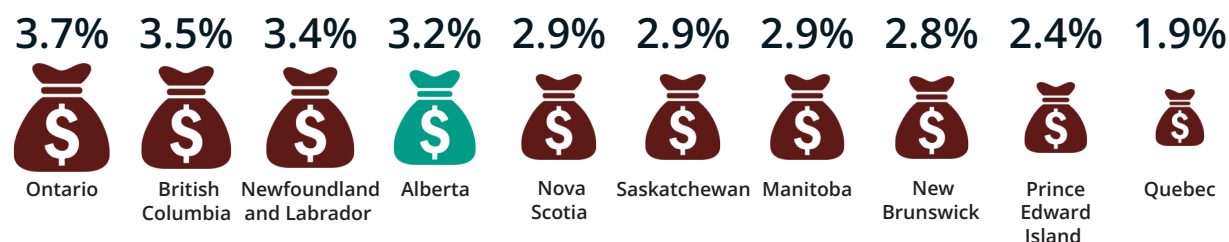
The AIRB benchmarks the percentage of after-tax income Albertans spend on average for automobile insurance with data from other provinces. The AIRB recognizes the coverage varies by province. There are several factors contributing to the difference in average premiums, which include, but are not limited to:

- > Type of coverage purchased
- > Prevalence of telematics offered
- > Weather
- > Driving location
- > Accident rates
- > Traffic density
- > Vehicle theft
- > Vehicle repair costs
- > Population density

The AIRB's analysis considered the average premium paid, not reflecting any jurisdictional differences in coverage. Average premiums by province will reflect the factors listed.

Among the provinces evaluated, the average percent of after-tax income spent on the average premium in 2020 was 3.0%. Albertans pay slightly above the average, at 3.2% of after-tax income.

AVERAGE AFTER-TAX INCOME SPENT ON AUTOMOBILE INSURANCE (2020) ³



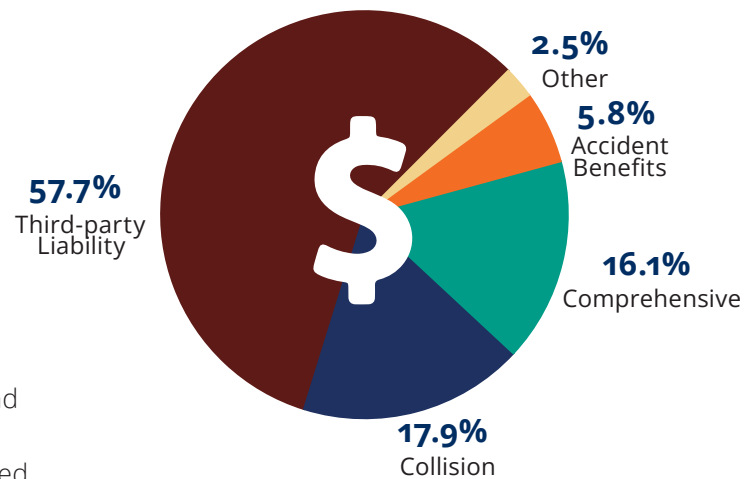
³ Source: General Insurance Statistical Agency & Statistics Canada (2020 is the most recent data available)

Average Premium & Claims By Coverage

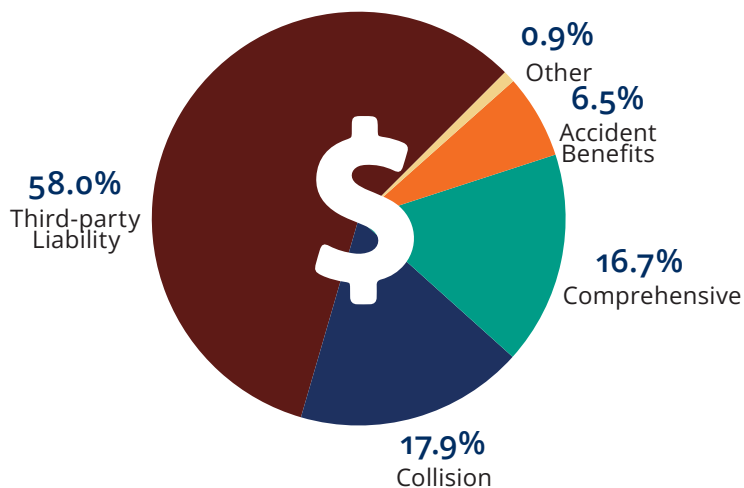
AVERAGE PREMIUM BY COVERAGE

Drivers are required to carry insurance for basic coverage (third-party liability and accident benefits) and have the option to purchase additional coverage, like collision, comprehensive, and others. Premium is determined and paid for the individual coverages the policyholder purchases and reflects the total cost of the coverage. Nearly 60% of the total premiums paid in Alberta are for third-party liability coverage, which is expected given it is a mandatory coverage and results in the highest claims costs. The chart highlights the percentage of premium allocated for all coverages; collision is the second highest, which is often required when financing a vehicle.

WRITTEN PREMIUM BY COVERAGE ⁴



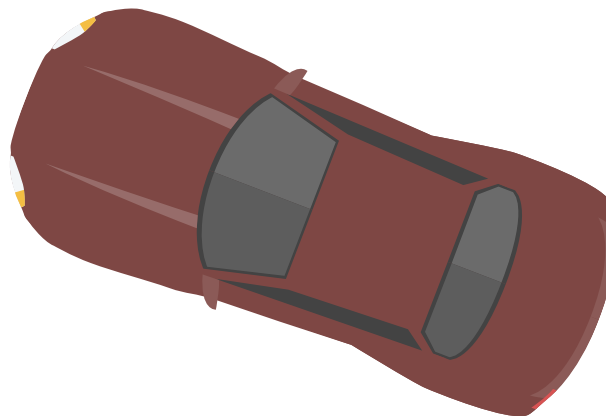
CLAIMS AND ADJUSTMENT EXPENSES BY COVERAGE ⁴



AVERAGE CLAIM COSTS BY COVERAGE

Given claims are the highest cost for automobile insurers and the breakdown of premiums by coverage, it is not surprising to see third-party liability claims make up nearly 60% of all claims paid out by insurers in 2021. The second highest was collision, followed by comprehensive coverage. Where claims by coverage exceed the premiums, there is a premium inadequacy, resulting in subsidization by the other coverages.

The comparison of the claims and adjustment expenses to premiums by coverage shows a reasonable allocation of premiums by coverage. The premium distribution reflects the costs incurred.



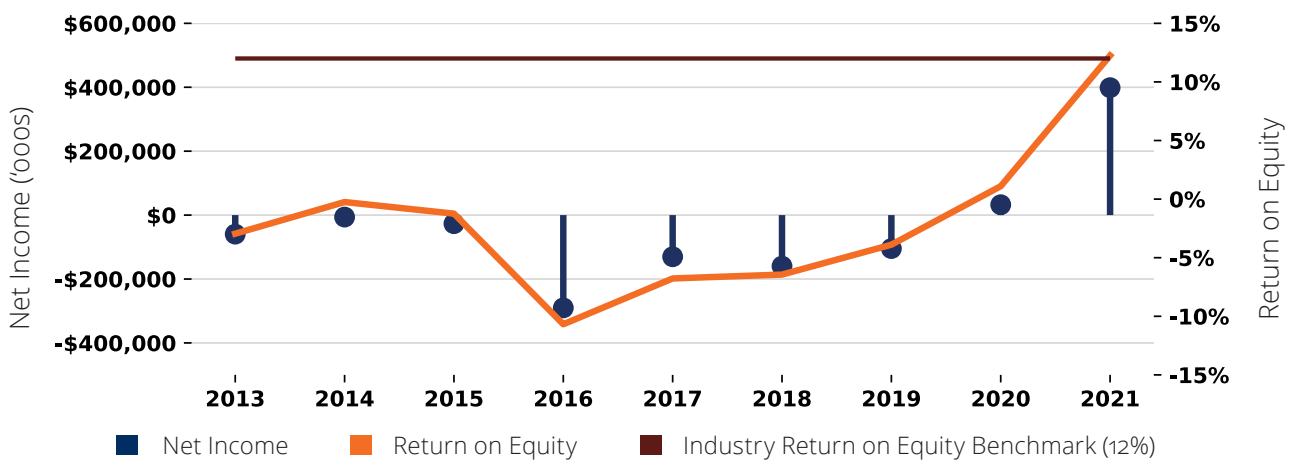
⁴ Source: General Insurance Statistical Agency

Insurer Profitability

Insurers estimate future costs in determining premiums, and it is a forward-looking process. The ability to estimate future costs with the uncertainty of mobility and claims frequency throughout the pandemic has been challenging. In 2021, the industry saw unprecedented profitability, which was true for those writing PPV insurance in Alberta. Insurers cannot recoup prior year losses, nor do they reduce premiums for unexpected profits. The General

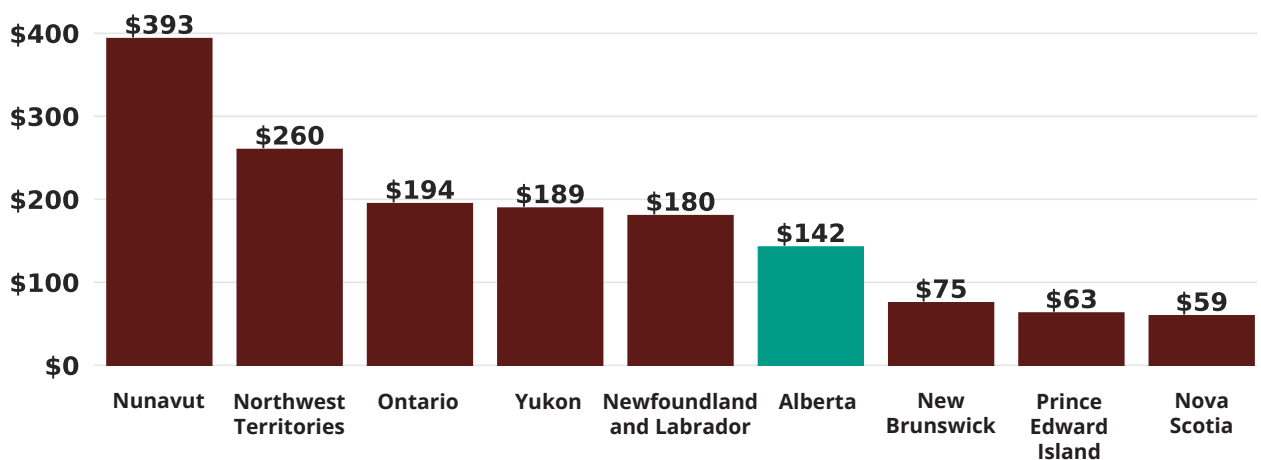
Insurance Statistical Agency has collected and reported net income for PPV by province since 2013. During this time, Alberta's PPV insurers have accumulated deficits of \$346.4 million. The \$398.7 million net income in 2021 resulted in a return on equity of 12.3%. Most businesses strive for a 12% return on their investment each year. Insurers have achieved this once in the past nine years.

PRIVATE PASSENGER INDUSTRY RETURN ON EQUITY & NET INCOME ⁵



When we compare the profits nationally per vehicle, Alberta is in the bottom half, with profits averaging \$142 per vehicle. Over the past five years, Alberta's average profit per vehicle was two dollars.

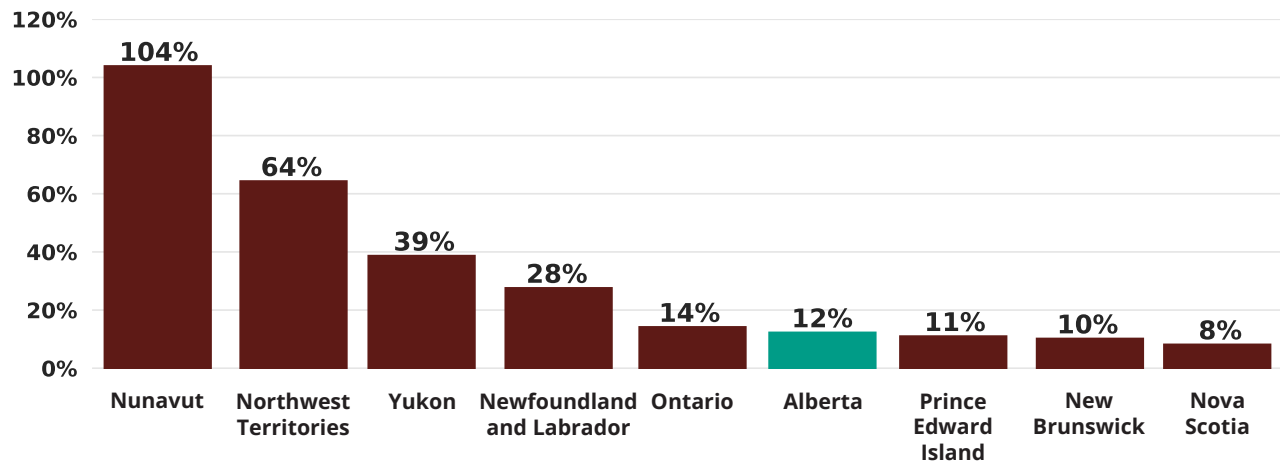
INSURERS PROFIT PER WRITTEN VEHICLE (2021) ⁵



The return on equity by province also shows Alberta in the bottom half, with other provinces achieving a much higher return, including Canada's largest automobile insurance market, where the return on equity was two percent higher than Alberta.

⁵ Source: General Insurance Statistical Agency & Statistics Canada

INSURER RETURN ON EQUITY PER PROVINCE (2021)⁶



Automobile Insurance Claim Trends

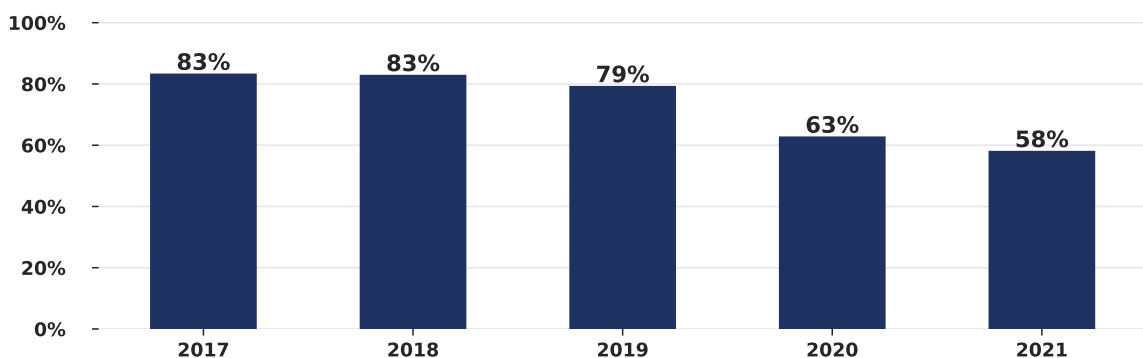
LOSS RATIO

The changes in driving habits due to the pandemic observed in 2020 continued in 2021. When setting premiums for 2021, insurers were not anticipating the longevity of COVID-19's effect on mobility, resulting in a second year of low loss ratios. The uncertainty on the duration of the affect the pandemic has on accident frequency and severity, paired with the time required to adjust premiums; resulted in premiums written exceeding claims expenses again in 2021. The AIRB monitors the loss ratio, which is an important measure of sustainability for the industry. An insurer who consistently writes policies at a loss may choose not to offer automobile insurance in the future, or at the least request to increase rates for coverages with an inadequate premium. In late 2021 and to date in 2022, the inflationary pressures

on physical damage claims are eroding any benefits hybrid mobility was expected to have on claims frequency.

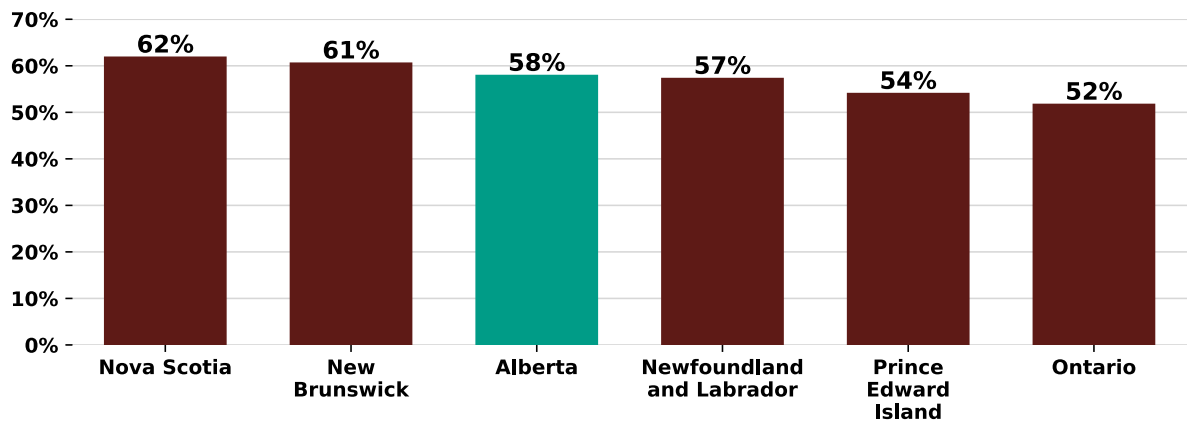
The industry standard for profitability is a loss ratio of 70%, as shown; loss ratios in Alberta before the pandemic have been consistently above that threshold. With notable premium increases in late 2019, the PPV industry loss ratio was expected to improve, even without the reduction in claims frequency in 2020. The 2021 reporting shows, from 2017 to 2019, the earned incurred loss ratio was stable averaging 10% above what is considered profitable. The earned incurred loss ratio does not account for expenses beyond the cost of claims. The Alberta PPV industry average for expenses was 26% of earned premiums in 2021.

PRIVATE PASSENGER INDUSTRY LOSS RATIO⁶



⁶ Source: General Insurance Statistical Agency & Statistics Canada

PRIVATE PASSENGER INDUSTRY LOSS RATIO BY PROVINCE (2021) ⁷



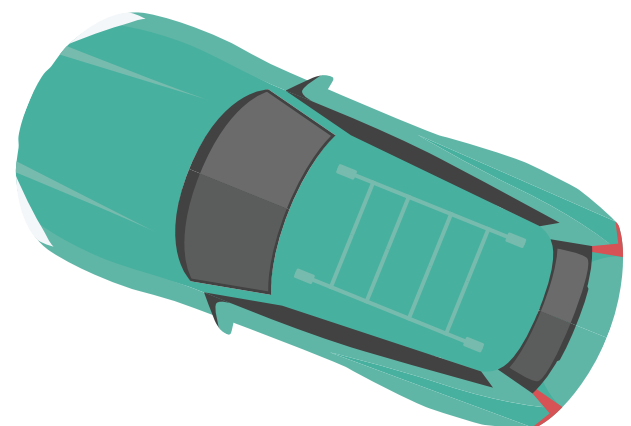
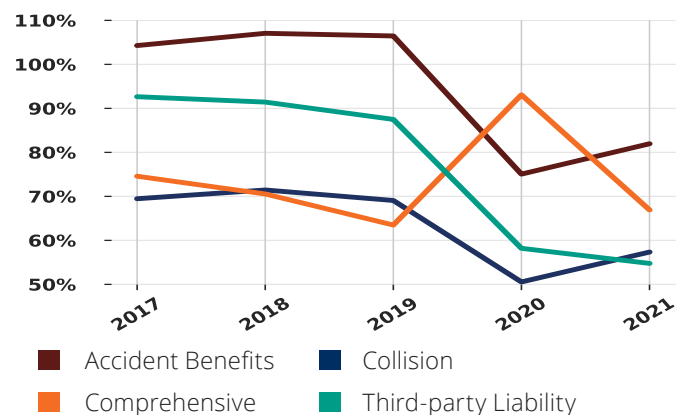
In 2021, Alberta's loss ratio was less than the industry standard for profitability, but it was consistent with the loss ratios in other Canadian provinces with private delivery automobile insurance. Although each province had differences handling the COVID-19 pandemic and duration of measures like lock downs, which impacted mobility the affect of

the pandemic on automobile loss ratios was fairly consistent nationally. The loss ratios for all coverages are the main factor leading to increases in overall profitability. Provinces with a higher loss ratio had lower profitability than provinces with a lower loss ratio.

HOW DOES THE LOSS RATIO FOR EACH COVERAGE TYPE COMPARE?

Claims are a significant cost for insurers, and COVID-19 brought uncertainty to their ability to price for the expected claim frequency and severity. The graph illustrates the loss ratios by coverage. From 2017 to 2019, the loss ratios for accident benefits, and third-party liability coverages were well above the profitable threshold. In 2021, loss ratios for collision and accident benefits started to increase, and the only significant decline was for comprehensive coverage. The comprehensive coverage protects the policyholder against events like fire, theft, vandalism and hail, and therefore, are impacted by catastrophes and are volatile regardless of the changes in driving habits experienced. The peak was related to the Calgary hailstorm in June 2020.

LOSS RATIO BY COVERAGE ⁷



⁷ Source: General Insurance Statistical Agency

THIRD-PARTY LIABILITY - BODILY INJURY

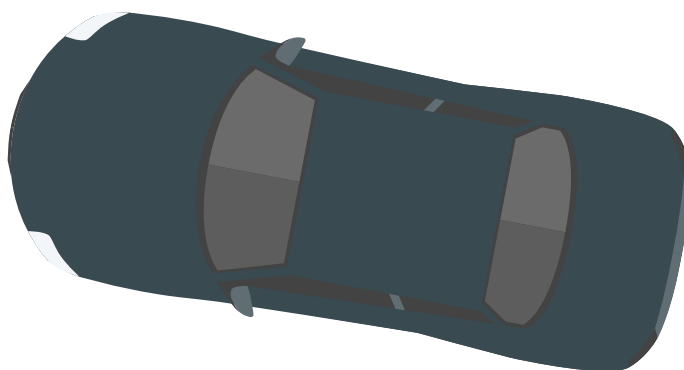
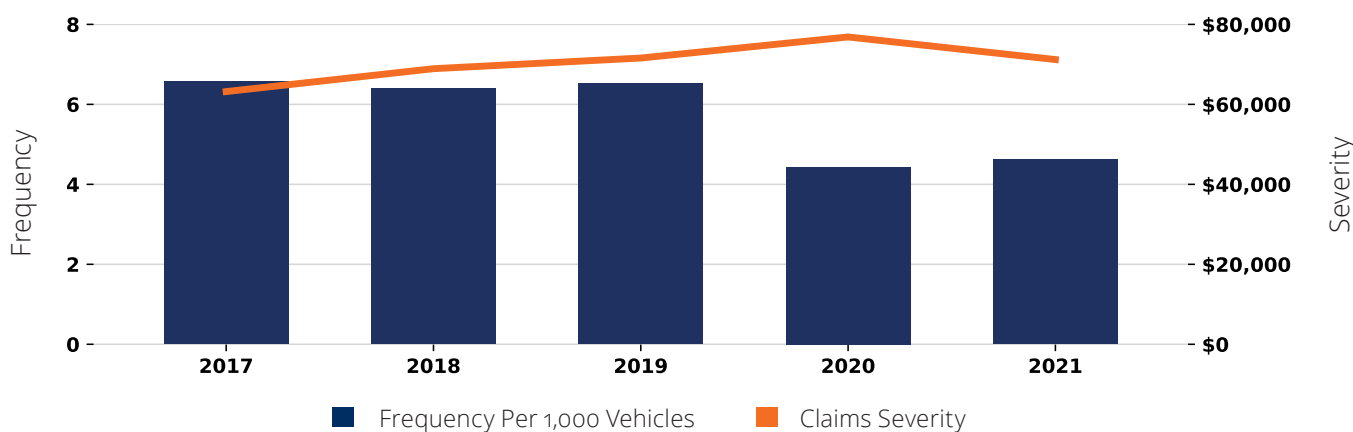
Third-party liability covers policyholders if they are liable for a bodily injury or damage to another person or their property. Bodily injury is a significant component of the third-party liability coverage and the most significant cost pressure in recent years. Claims frequency remained stable from 2017-2019 before dropping during the pandemic due to fewer accidents due to reduced mobility. Claims severity rose at an unsustainable rate before a slight decrease in 2021. Insurers cite the following reasons for increased bodily injury claims costs:

- Fewer claimants captured within the minor injury definition than in the past;
- Changes in the mix of injury types claimants report;
- Larger claims settlements; and
- Increased legal representation.

The government implemented a change in the minor injury definition in late 2020. Given the longer-term nature of this claim type, it is too early for the data to show if this change has addressed the cost pressure as anticipated. The AIRB will continue to monitor this.

Increased automation and new safety features are attractive to consumers but expensive to repair in case of a claim. Although these advancements may reduce the frequency of collisions, increasing diagnostic and repair costs are the primary reason the severity of property damage claims has been trending upwards over the last ten years. As more vehicles are equipped with safety features, the trends observed, of slightly increasing severity and decreasing frequency, are expected to continue. In 2019, claims frequency for property damage experienced a notable decrease of 14%, a trend that continued into 2020 due to the pandemic.

THIRD-PARTY LIABILITY - BODILY INJURY ⁸



⁸ Source: General Insurance Statistical Agency

COLLISION, COMPREHENSIVE, ACCIDENT BENEFITS & THIRD-PARTY LIABILITY PROPERTY DAMAGE

We examined claims frequency (number of claims per 1,000 vehicles) and severity separately for the other four coverage types.

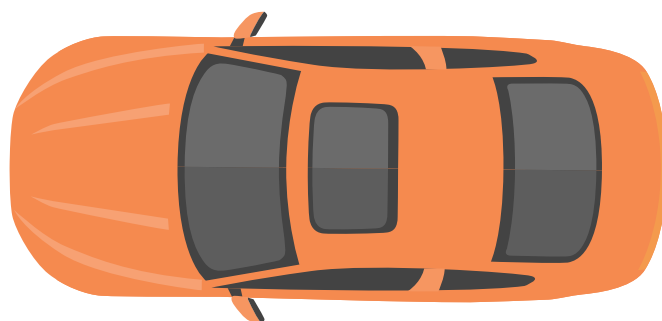
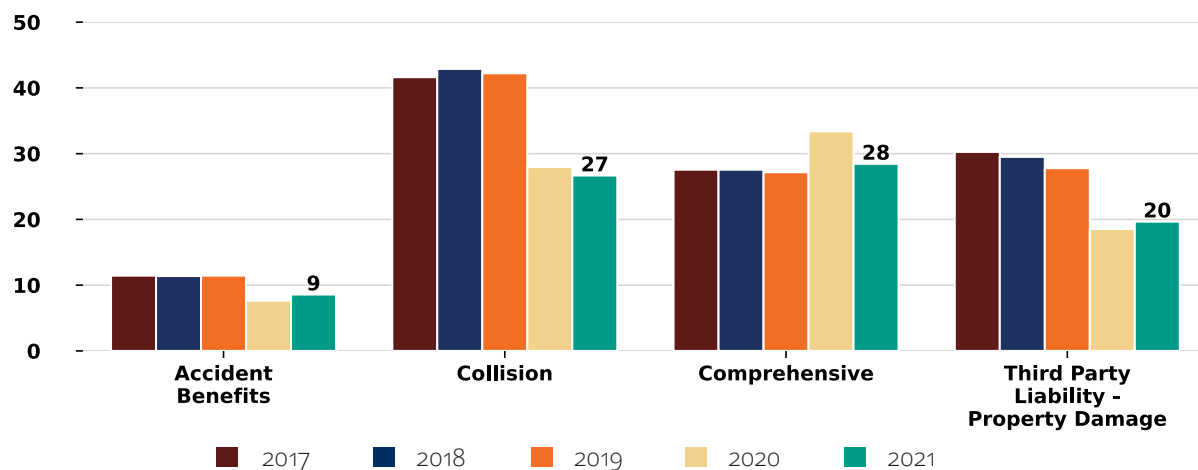
Accident benefits coverage compensates those injured in vehicle collisions for medical and rehabilitation services not covered under third-party liability coverage, regardless of fault. The frequency of accident benefits has decreased by 25% since 2017. For severity, the upward trend continued in 2021 mainly due to the enhanced coverage limits introduced with the reforms implemented at the end of 2020. The severity of accident benefits has increased 64% since 2017.

Physical damage coverages pay to repair or replace the policyholder's vehicle if it is damaged in an accident. Third-party liability property damage will cover the cost if the driver is not at fault, whereas collision will provide coverage when the driver is at fault. Both physical damage coverage frequencies remained low for the second year, due to

decreased mobility. Collision saw a greater spike in claims severity in 2021, which is driven by the increased cost to repair vehicles with more automated features.

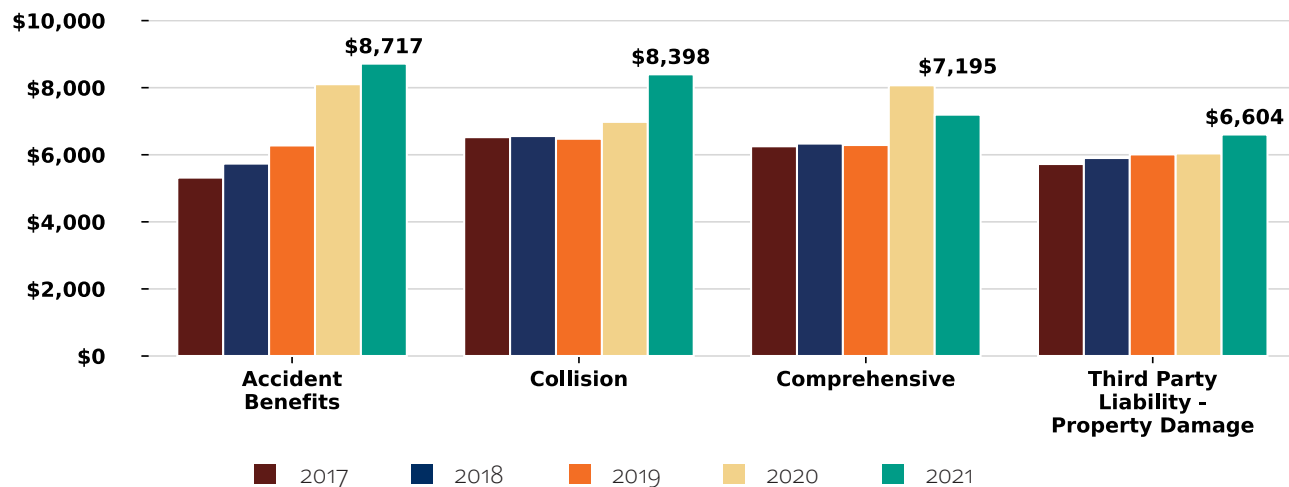
Comprehensive coverage pays to repair or replace the policyholder's vehicle if it is stolen or damaged in an incident which is not a collision. This coverage's claims frequency and severity are driven less by mobility and more by other factors such as theft and severe weather. Alberta has a significant number of vehicle theft claims each year. Insurers have indicated theft claims are increasingly contributing to the cost of comprehensive coverage. Severe weather also remains an issue in Alberta, and although previous years have demonstrated sustainable frequency trends in comprehensive coverage, the unpredictably contributes to higher premiums. The hail storm in June 2020, which was one of the top 10 catastrophes in Canada, is the main cause of the spike in frequency. In 2021 the frequency returned to pre-pandemic levels.

CLAIMS PER 1,000 WRITTEN VEHICLES ⁹



⁹ Source: General Insurance Statistical Agency

CLAIMS SEVERITY ¹⁰

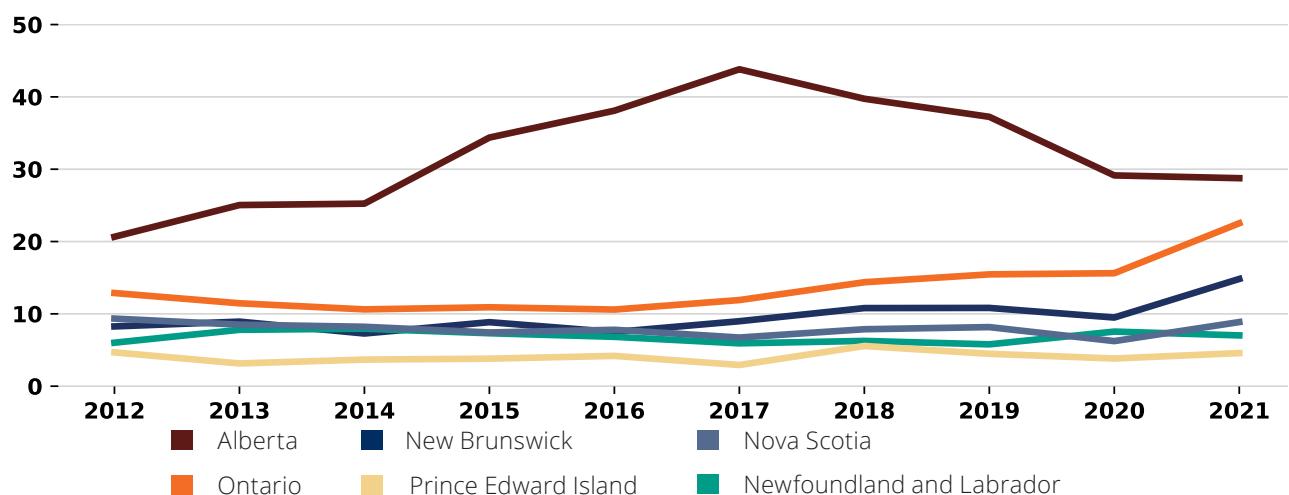


THEFT

Vehicle theft is a crime affecting many Canadians, both directly and indirectly. According to the Insurance Bureau of Canada, on average, a vehicle is stolen every seven minutes in Canada. In 2021, there were 28.8 theft claims per 10,000 written vehicles with comprehensive coverage in Alberta. While this is a 24% decrease from the prior five-year average, it is still 148% higher than the national average of 11.6 theft claims per 10,000 written vehicles with comprehensive coverage in 2021.

Vehicle theft is a significant cost-driver for comprehensive coverage premiums. The financial cost to consumers, police, insurers, and governments has been estimated by the Insurance Bureau of Canada to be more than \$1 billion annually. With Alberta's disproportionately high vehicle theft rates, a significant amount of these costs will be experienced within the province.

THEFT CLAIMS PER 10,000 VEHICLES ¹⁰



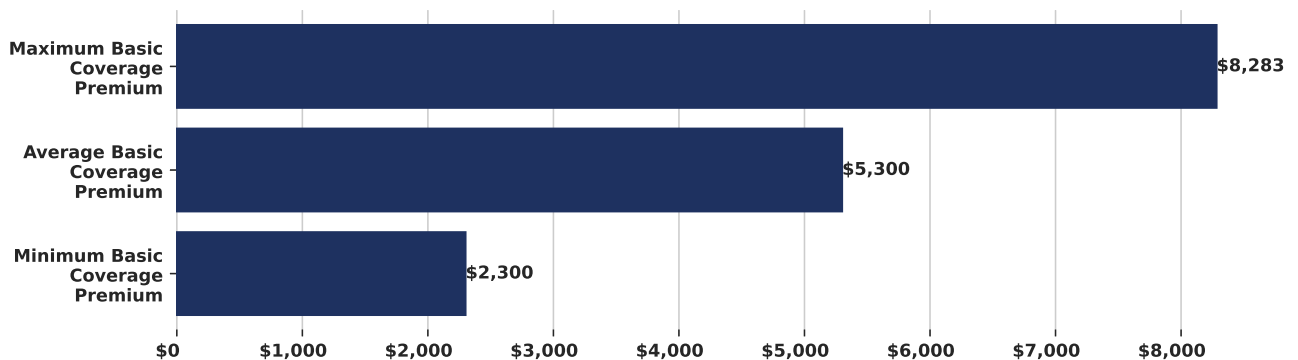
¹⁰ Source: General Insurance Statistical Agency.

Shop the Market

The AIRB encourages drivers to shop the market to ensure they get the best coverage and price to meet their needs. Premiums for the same coverage can vary between insurers, as each has a unique claims experience. Insurers develop their rating program using different risk characteristics and weigh each differently. These differences contribute to a competitive marketplace while creating the need for consumers to shop the market.

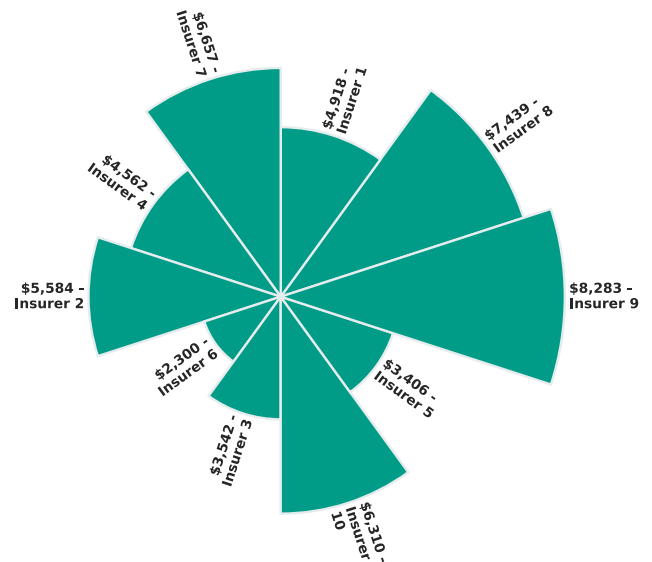
The AIRB's website includes an interactive Rate Comparison Tool. It illustrates a range of premiums based on predetermined generic profiles. It is not intended to provide specific premium quotations. To highlight the benefits of shopping the market we are highlighting three driver profiles from our Rate Comparison Tool. All three profiles are based on the driver residing in Calgary, based on rates effective April 1, 2022.

RATING PROFILE #1

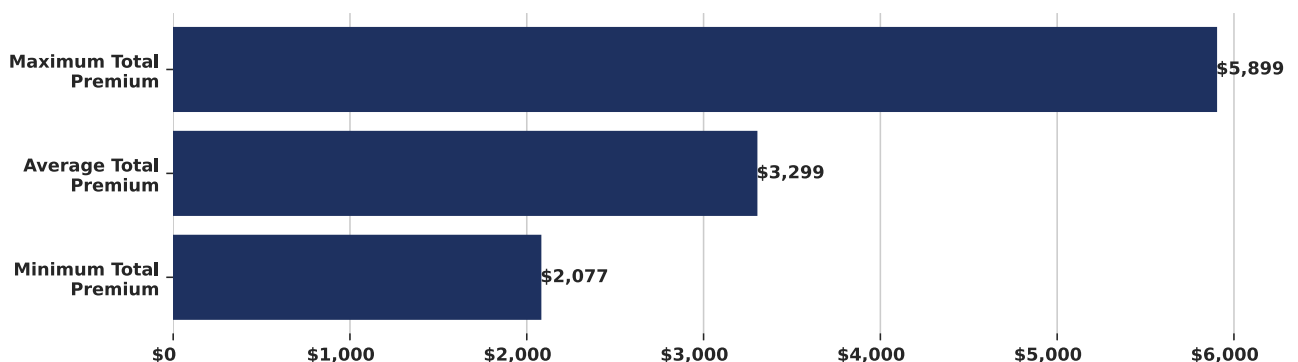


The first profile is for a new driver, a 19-year-old male with two years of driving experience, insuring a 2013 Hyundai Elantra. In this case, we are showing the premium for basic coverage only (third-party liability, property damage accident benefits and direct compensation for property damage), as many new drivers have older vehicles and do not add optional coverages like collision or comprehensive to control costs. As illustrated, there is a significant range from the minimum to the maximum premiums charged by insurers, and the driver would benefit from shopping the market.

#1: BASIC COVERAGE ONLY TOP TEN INSURERS



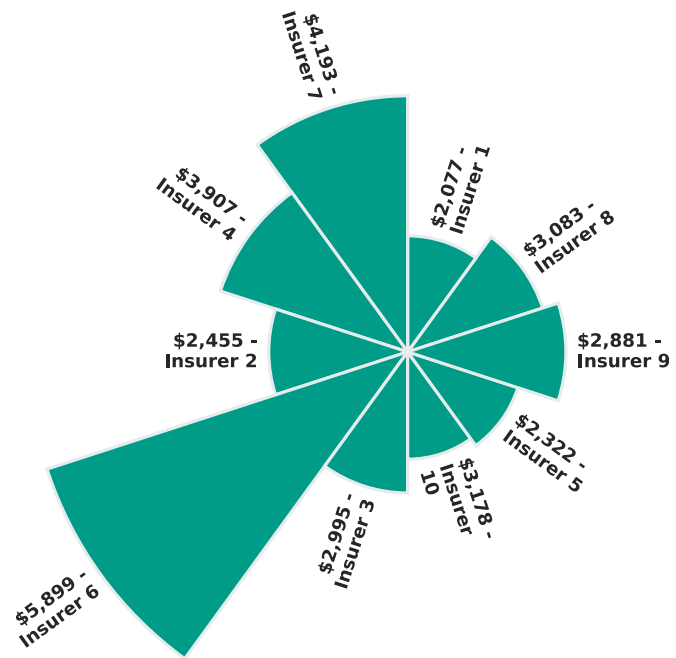
RATING PROFILE #2



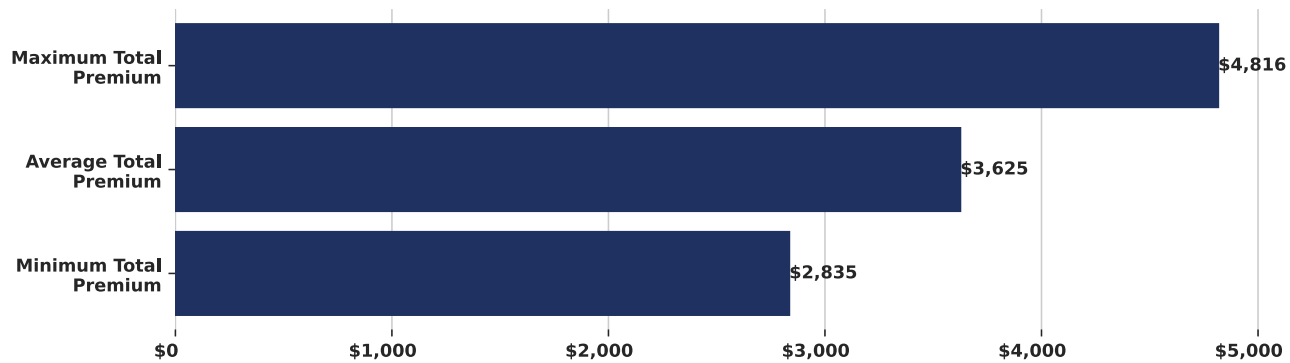
The second profile is an experienced driver, a 70-year-old male with 45 years of driving experience insuring a 2017 Toyota Corolla. Given the age of this vehicle, we are showing the premium difference for full coverage. As illustrated, there is a significant range in premiums, and the driver would benefit from shopping the market.

The third profile is also an experienced driver, a 35-year-old female with 15 years of driving experience insuring a 2017 Honda Civic. Although the variance in premiums is not as significant as the other two profiles, there is still a \$2,000 difference between the high and low premiums, and the driver would benefit from shopping the market.

#2: TOTAL PREMIUM TOP TEN INSURERS

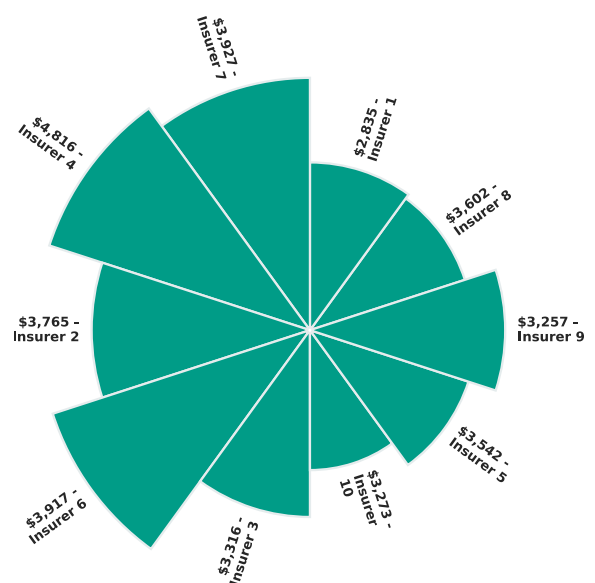


RATING PROFILE #3



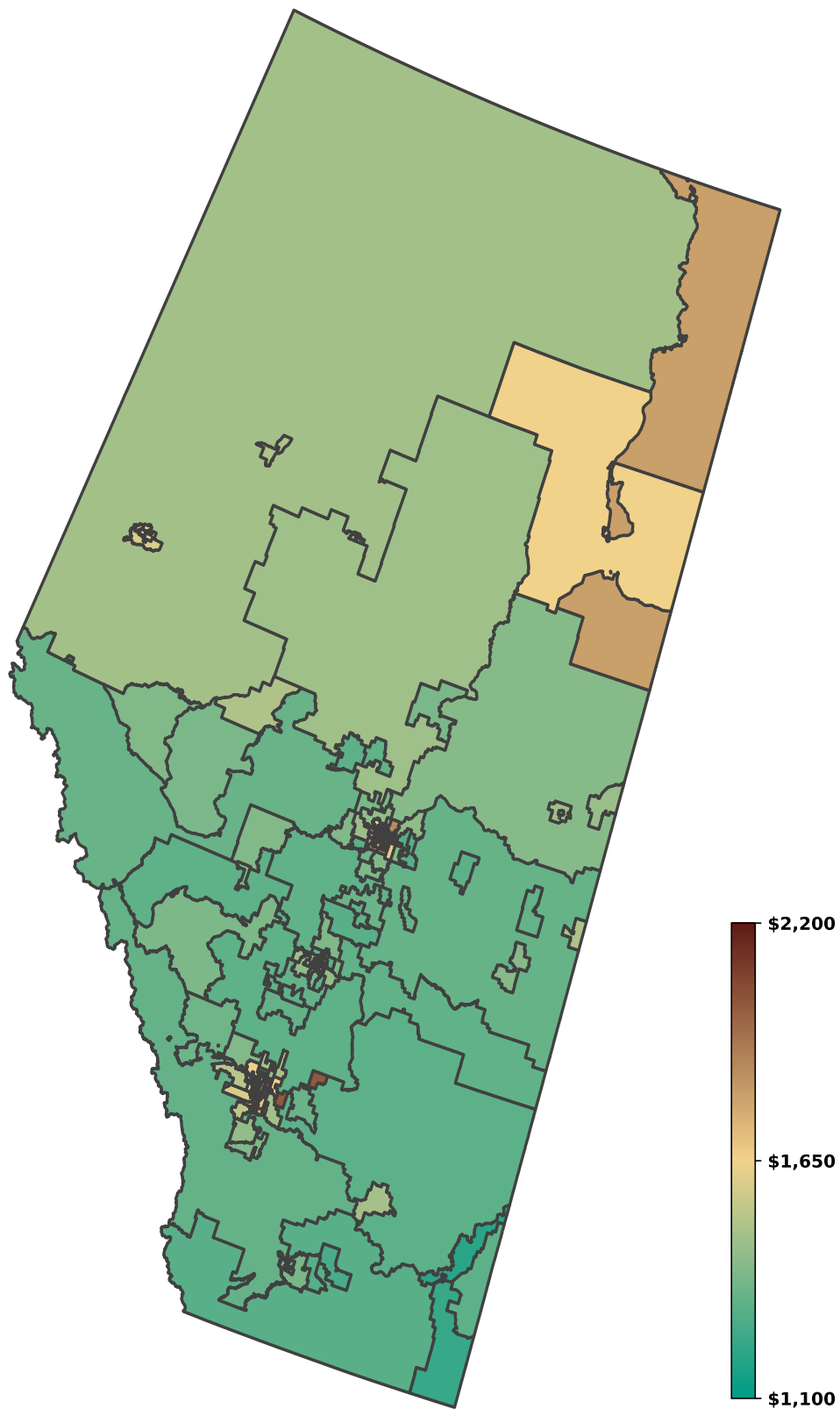
As we have shown, in a competitive marketplace, each insurer has different prices. Price is not the only factor to consider in choosing an automobile insurer. The level of service you can expect should be a consideration, as service can also vary by insurer. Still, during challenging economic times we know price is the main differentiator. There are many ways to purchase insurance, through a broker, direct writer or online. Shopping the market may require a driver to seek quotes from all three sources and multiple insurers to get the right price, coverage and service to suit their needs.

#3: TOTAL PREMIUM TOP TEN INSURERS



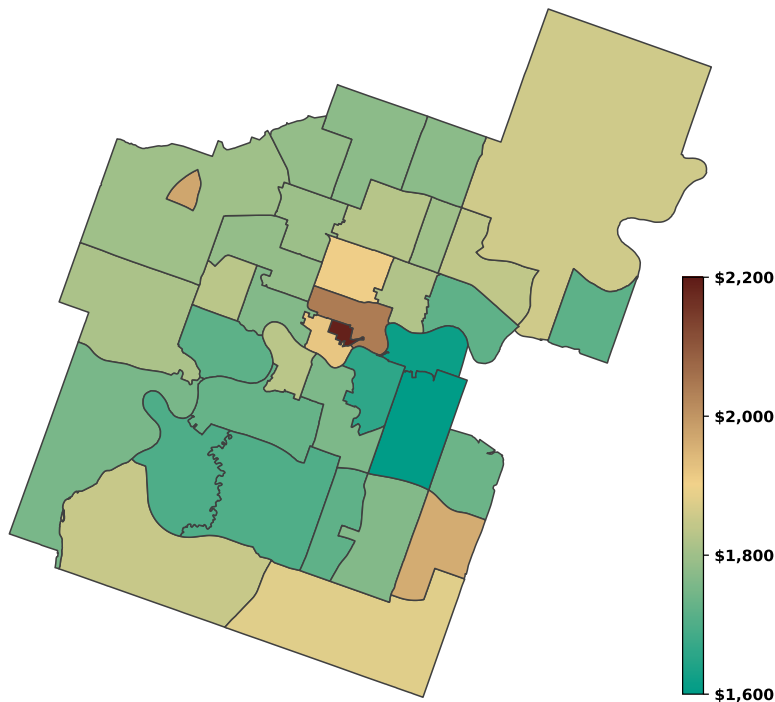
Rating Territories

AVERAGE PREMIUM IN ALBERTA¹¹



¹¹ Source: General Insurance Statistical Agency

AVERAGE PREMIUM IN EDMONTON ¹²



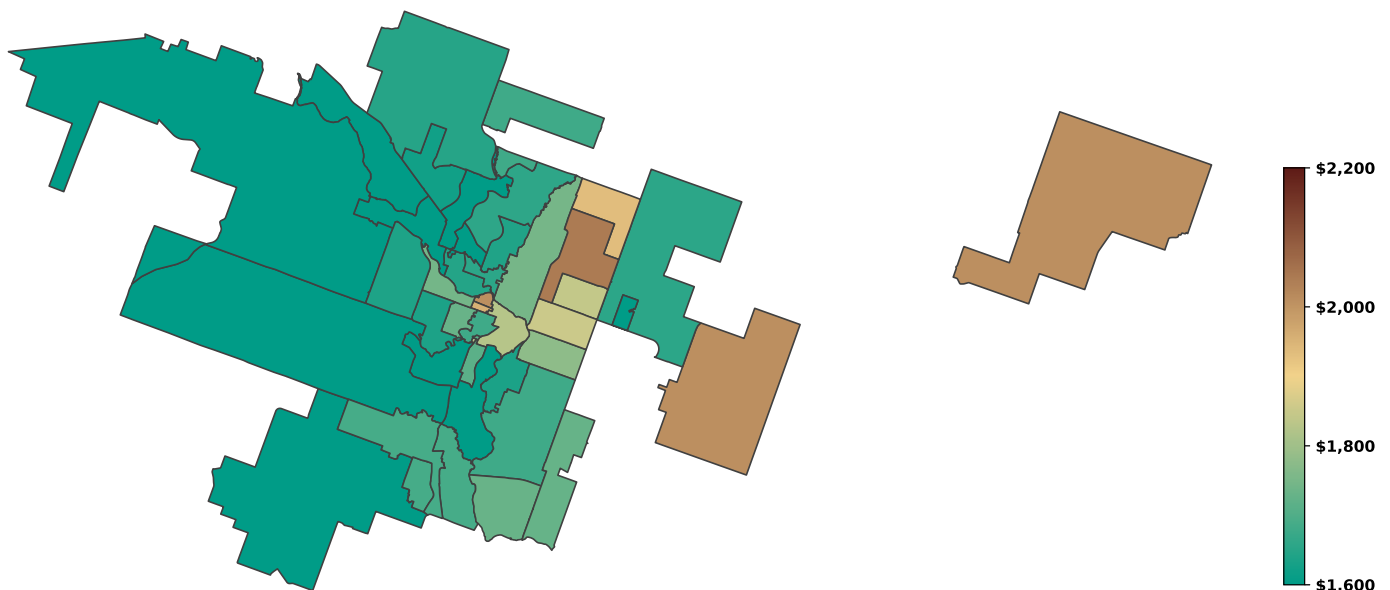
RATING TERRITORIES MAPS

In late 2020, the Superintendent of Insurance issued Notice 05-2020 revoking restrictions imposed on the number of rating territories for mandatory coverage, allowing all insurers to expand the number of rating territories beyond the previous four. This change levelled the playing field for the market, where over 50% of insurers had expanded territories before the restriction. In March 2021, the AIRB updated its filing guidance to include criteria for expansion of rating territories. Insurers changing their rating territory definitions must provide actuarial support to determine how many territories are statistically credible. Like any change to a rating variable, an insurer is required to file with the AIRB. To manage the premium impact, Albertans may see as a result of changes to territory definitions; the AIRB has limited the change in relativity for any one territory to a maximum of 10% per year.

The rating territories maps for both Edmonton and Calgary indicate living closer to downtown corresponds to a higher average premium due to the increased claims experience and living where theft and crime rates are higher. In Calgary, drivers living in the northeast also have a higher average premium due to recent weather-related events.

The AIRB is closely monitoring the fairness of territorial rating to ensure automobile insurance is affordable no matter where you live in the province.

AVERAGE PREMIUM IN CALGARY ¹²

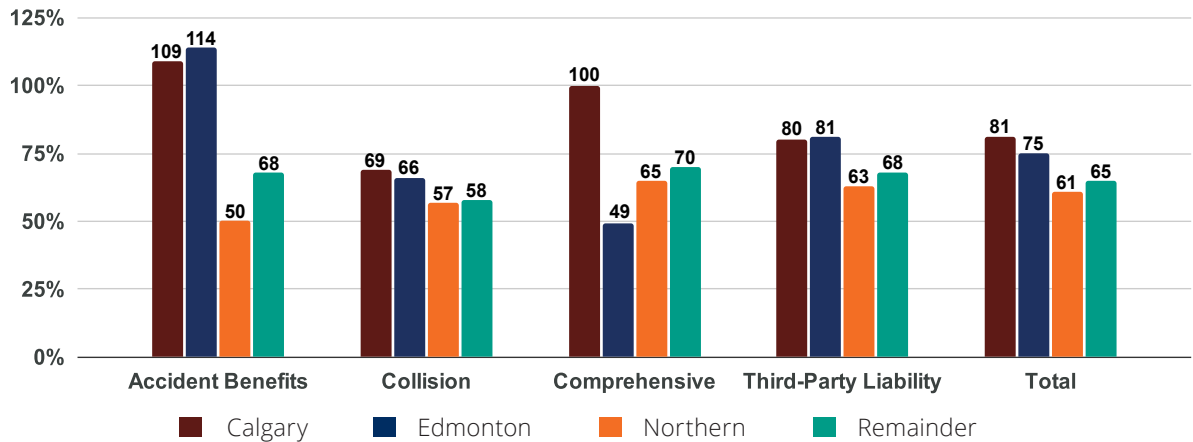


¹² Source: General Insurance Statistical Agency

The AIRB has continued monitoring trends in the four previously mandated rating territories. The average loss ratio, over five years by coverage and territory, shows a significant difference in accident loss ratios between

large cities and the rest of Alberta. The comprehensive loss ratio for Calgary is much higher than the rest of Alberta due to recent hail storms.

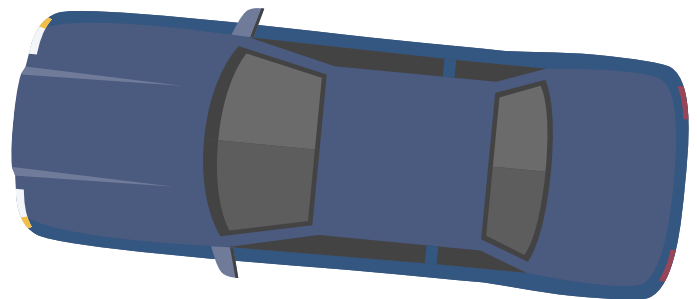
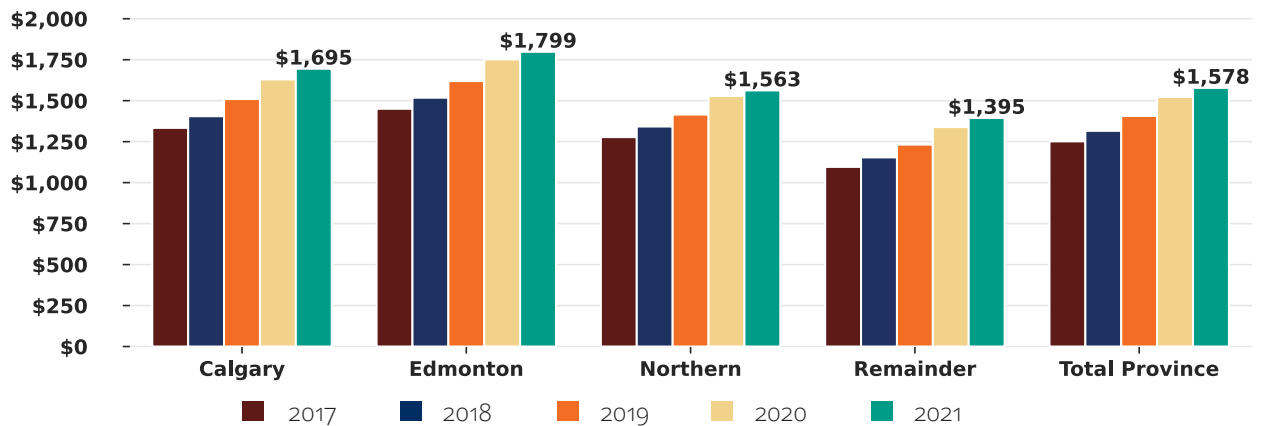
AVERAGE FIVE-YEAR LOSS RATIO BY TERRITORY ¹³



The average written premium by year shows insurance premiums are higher in large cities compared to the rest of the province. Edmonton has consistently had higher average written premium than Calgary. In 2021

Edmonton's average written premium was 6.1% higher. This is highlighted on the map on the previous page, where Edmonton has more areas with increased average premium.

AVERAGE WRITTEN PREMIUM BY TERRITORY ¹³



¹³ Source: General Insurance Statistical Agency

ECONOMIC & INDUSTRY TRENDS

Economic Trends

The Consumer Price Index (CPI) measures the average change over time in the prices paid by urban consumers for a sample of commonly purchased consumer goods and services. We are monitoring both the Canada and Alberta CPI for trends impacting the costs for insurers to deliver automobile insurance. We consider the private transportation CPI specifically as it includes the cost of private passenger vehicle insurance premiums, and the cost to purchase, register, repair, fuel, or rent a vehicle.

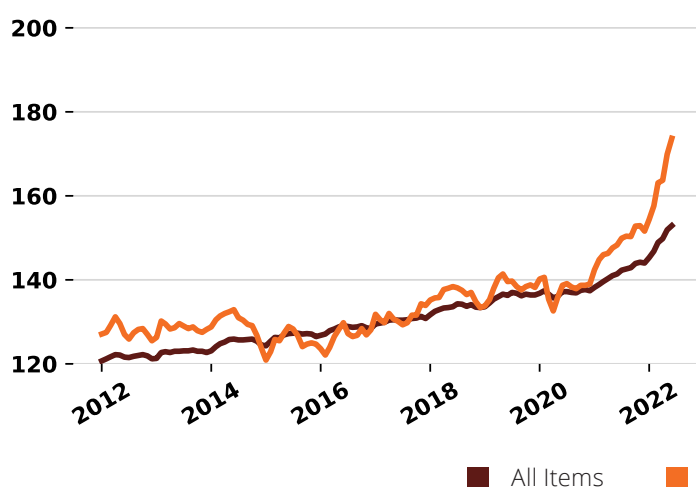
In late 2020 the private transportation CPI started diverging from the overall CPI. From June 2020 to June 2022, Alberta's overall CPI rose 11.3% from 145.0 to 161.4 and Alberta's

private transportation CPI rose 27.9% from 143.9 to 184.1. In comparison, Canada's overall CPI rose 11.4% from 137.2 to 152.9, and private transportation CPI rose 25.2% from 138.7 to 173.7. The increase in CPI in June 2022 is the highest seen in nearly three decades. It is creating pressure on Albertans for items they require for daily living, such as gas, utilities, food, and housing, not just automobile insurance.

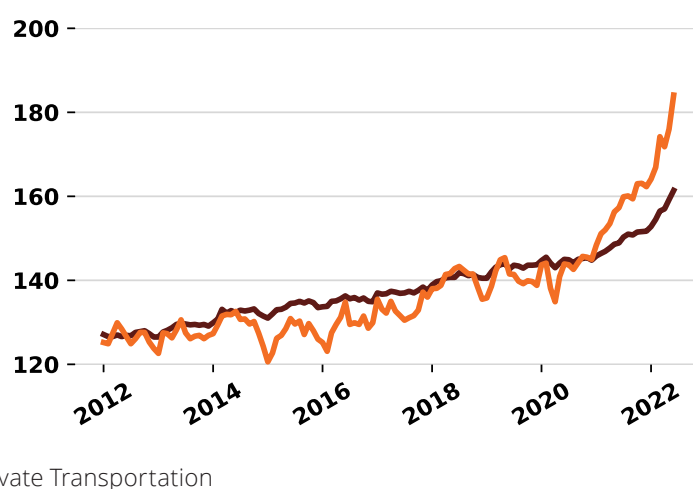
In addition to inflation's effect on automobile insurance, Alberta's CPI for gasoline has increased 98.8% from 145.4 to 289.0 since June 2020. These large increases in a single year are making driving less affordable for Albertans.

CONSUMER PRICE INDEX & PRIVATE TRANSPORTATION ¹⁴

CANADA



ALBERTA



Industry Trends

The AIRB consults with industry stakeholders each year to receive feedback during the Annual Review process. The AIRB invites stakeholders to comment on the impact of emerging trends and issues and values their insight as part of our ongoing evaluation of the trends impacting the insurers and drivers. In addition to stakeholder feedback, the AIRB also monitors several market trends and issues.

¹⁴ Source: Statistics Canada

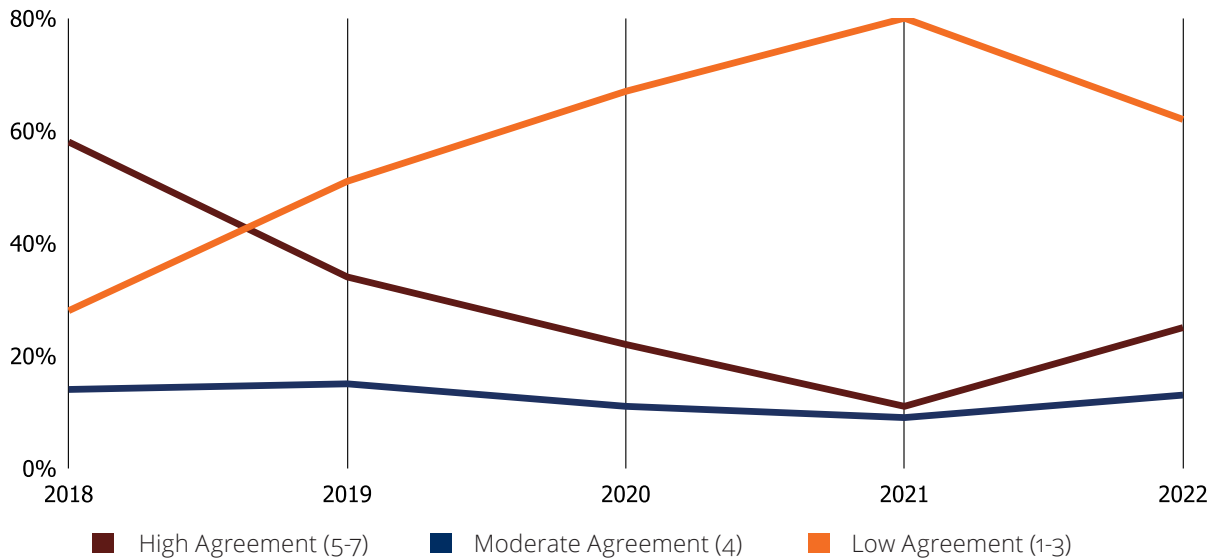


CONSUMER CONFIDENCE

Albertans expect automobile insurance to be affordable, stable, and accessible. Each year the Consumer Representative surveys Alberta drivers to hear about their perceptions of automobile insurance. The 2022 survey collected the consumer's level of agreement with the statement: "Automobile insurance premiums are fair and reasonable." We found

the percentage of consumers surveyed who highly agree their premiums are fair and reasonable has decreased significantly from 2018 to 2021, before rebounding slightly in 2022. In 2022, 25% of respondents had a high level of agreement, up from 11% in 2021.

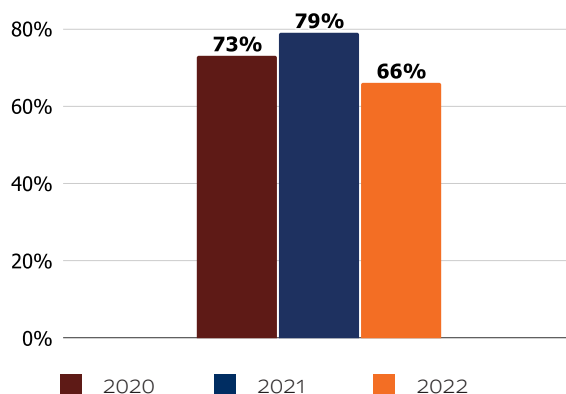
AUTOMOBILE INSURANCE PREMIUMS ARE FAIR & REASONABLE ¹⁵



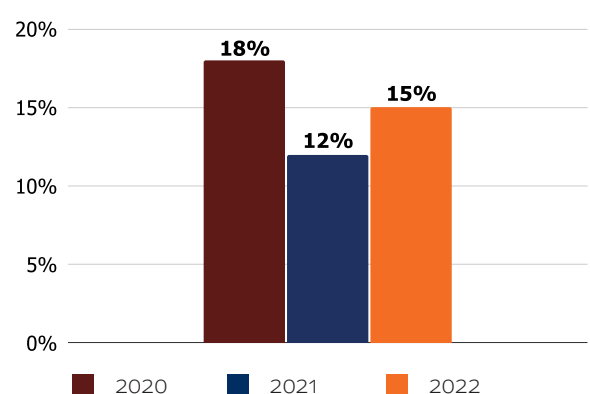
Alberta drivers also expect insurers, brokers, and agents to provide sufficient customer service. In recent years, these expectations have not been met. On the customer service side, drivers are looking for answers, to why their premiums have increased but cannot find the information they are seeking. When

asked, 66% percent of drivers who experienced premium increases contacted their broker or agent for an explanation. Of those who reached their broker or agent, only 15% felt their broker or agent provided a satisfactory explanation for why their premiums increased.

CONSUMERS WHO CONTACTED THEIR BROKER OR AGENT FOR AN EXPLANATION AS TO WHY THEIR PREMIUMS INCREASED ¹⁵



CONSUMERS WHO FELT THEIR BROKER OR AGENT PROVIDED A SATISFACTORY EXPLANATION AS TO WHY THEIR PREMIUMS INCREASED ¹⁵



¹⁵ Source: Consumer Representative's Report



INFLATION

In June 2022, Canada's inflation rate increased to 8.1%, the highest level in 30 years, up from 3.7% during the second half of 2021. Alberta's inflation rate was above the national average at 8.4%. Although many Canadian banks forecast inflation will remain above 5% for the remainder of 2022, the impact on automobile insurers may be higher. Inflation leads to higher operating expenses and, more importantly, higher claims costs. The Canadian Price Index (CPI) data is believed to be a conservative estimate of the actual costs insurers are facing.

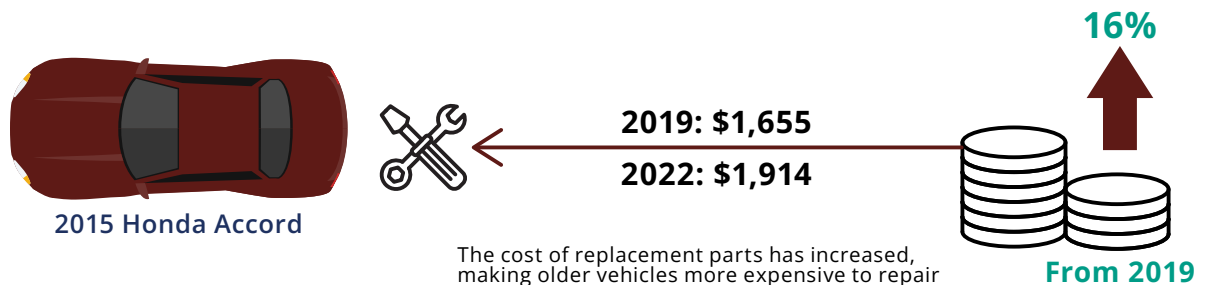
According to Statistics Canada data, spending on automobile-related items has increased substantially in 2022 compared to 2021. The main drivers of increasing costs are inflation,

labour shortages, and global supply chain disruptions. As well, the price for new vehicles has increased by 7.5%, vehicle parts, maintenance, and repair costs have increased by 6.1%, and rental car costs have increased 19.4%. According to the Canadian Black Book, the average price of a used car in Canada increased 34% in 2022

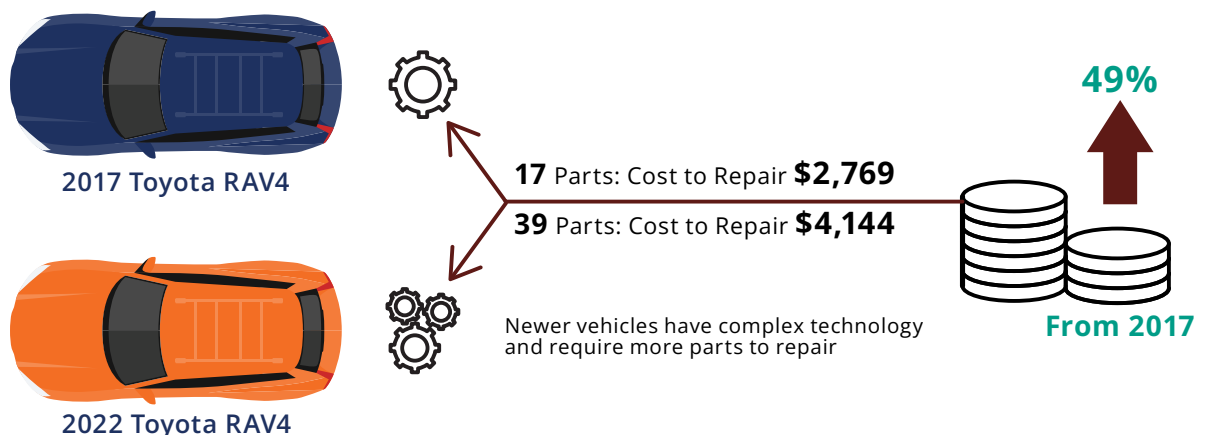
We have anecdotally heard about these cost pressures from insurers, and there are two examples to put this into perspective. An IBC member insurer provided these, and showed how inflation is impacting vehicle repair costs. The AIRB will continue to monitor inflation with publicly available data when available.

EXAMPLES OF INFLATION PRESSURES ON AUTOMOBILE INSURANCE CLAIMS ¹⁶

Example 1: While the value of a vehicle may decrease over time, the cost to repair it has increased due to inflationary pressures. This example, shows the cost to repair a 2015 Honda Accord bumper has increased by 15.7% over the last three years.



Example 2: While it is getting more expensive to repair the same vehicle, newer versions can cost even more. This example shows the cost to repair a Toyota RAV4's bumper has increased dramatically since 2017.



¹⁶ Source: Insurance Bureau of Canada

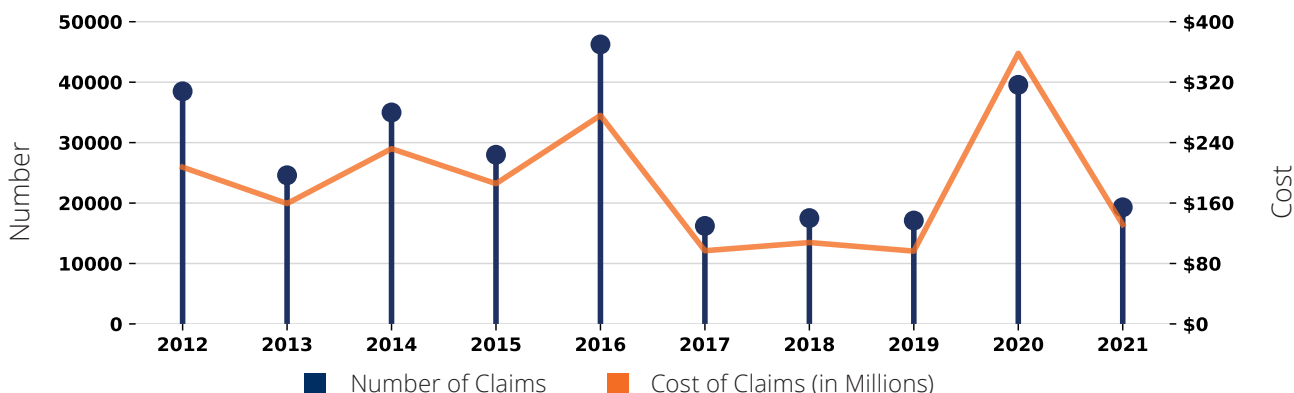


SEVERE WEATHER

Severe weather continues to be a concern for insurers. Comprehensive loss ratios are influenced year-over-year by severe weather event claims. With the frequency and severity of weather events increasing yearly due to global warming, pricing comprehensive coverage becomes increasingly difficult. With

the added uncertainty, drivers pay more for coverages. Catastrophic losses due to severe weather contribute significantly to claims costs. In 2021, Alberta continued to experience hail and weather-related events. The catastrophic loss data indicates the long-term upward trend of catastrophic event claims cost will continue.

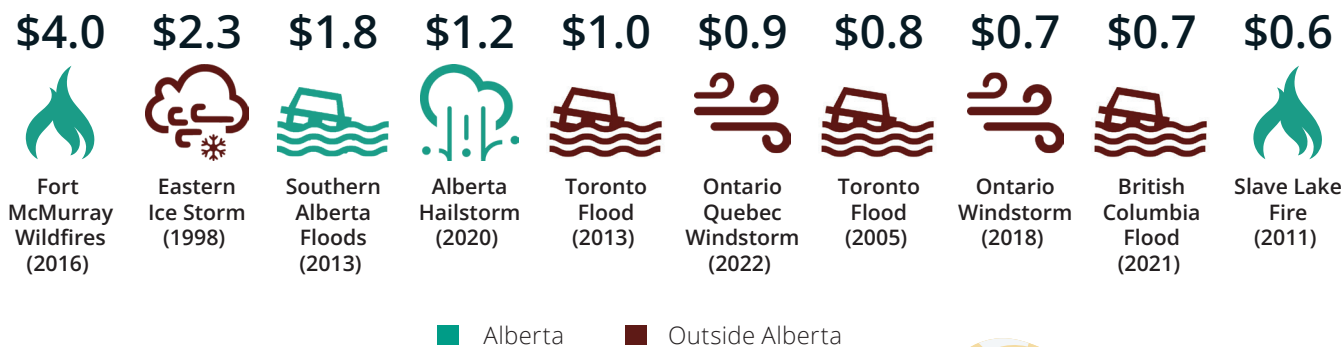
SEVERE WEATHER CLAIMING TRENDS ¹⁷



Weather-related catastrophes include ice, flood, hail, wind and fire. Alberta has experienced four of the top ten catastrophes in Canada since 1998, with three of the four most expensive insurance costs. Natural catastrophes are a

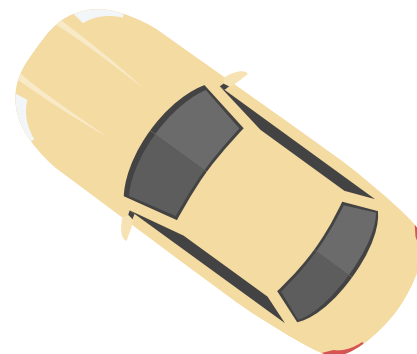
global concern, and regulators across Canada are working to improve consumer awareness of these events to ensure adequate, appropriate coverage is purchased to protect their property if event they have a claim.

TOP 10 CATASTROPHES IN CANADA BY INSURANCE PAYOUT (IN BILLIONS) ¹⁸



¹⁷ Source: General Insurance Statistical Agency

¹⁸ Source: Insurance Bureau of Canada



COMMERCIAL VEHICLE MARKET STATISTICS

Commercial Market

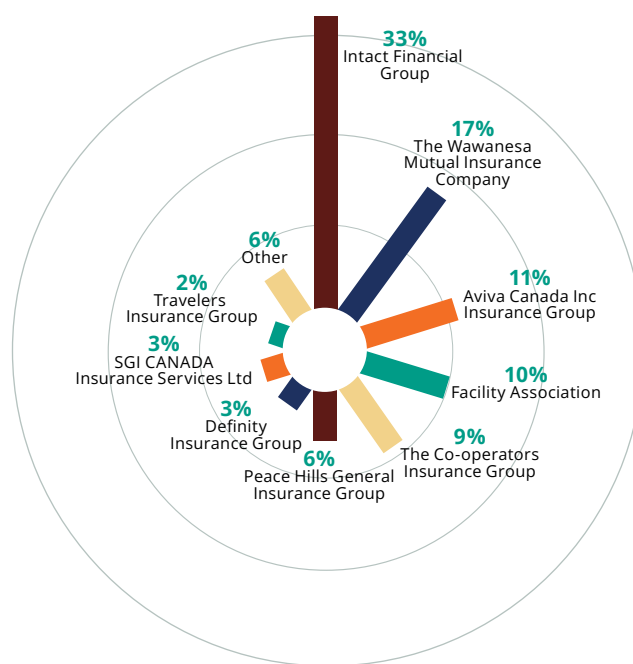
Although this report mainly focuses on PPV, the AIRB also reviews and approves rating programs for other types of vehicles, including individually rated commercial vehicles and monitors the commercial vehicle market. The AIRB has noted changes in the accessibility

of insurance through increased placement in the Facility Association Residual Market. Also, rising costs pressures similar to PPV indicate increasing trends in some commercial coverages.

COMPETITIVE MARKETPLACE

Like the PPV market, Alberta has a competitive market for commercial vehicle insurance. Based on 2021 direct written premiums, the top insurer groups in Alberta represented 94% of the commercial vehicle market share. A competitive market allows insurers to compete on price and service. Consumers have can choose between different insurers, and no single insurer dictates how the market operates.

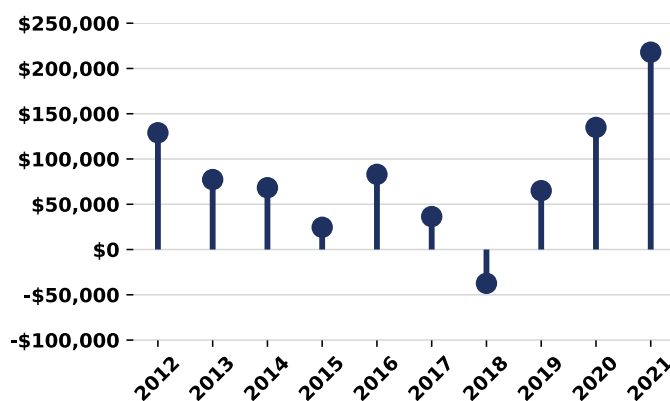
2021 TOP COMMERCIAL INSURANCE GROUPS ¹⁹



Insurer Profitability

Alberta's non-PPV insurance data suggests profit levels are much more sustainable than PPV. In the previous two years, insurers writing non-PPV 20 reported over \$350 million in net income. The increase in net income observed in 2020 and 2021 is attributed to the impacts of the COVID-19 pandemic, and reduced mobility. The AIRB continues to monitor profitability as a key indicator for availability. Without an all-comers rule, as in the PPV market, commercial and miscellaneous vehicle policyholders can face more challenges when trying to find automobile insurance.

NON-PPV INDUSTRY NET INCOME ²⁰



¹⁹ Source: General Insurance Statistical Agency

²⁰ Source: General Insurance Statistical Agency (Includes commercial and miscellaneous vehicles such as all terrain, snow and motorcycle)

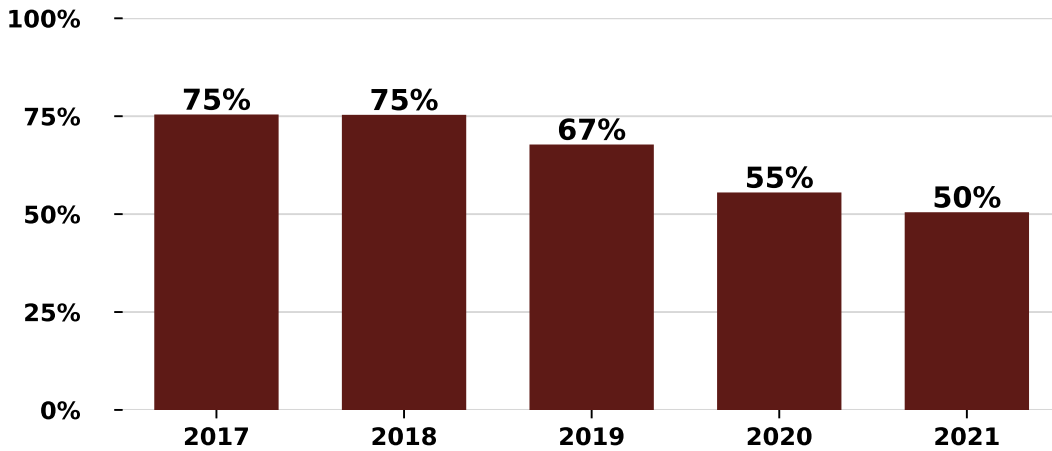
Commercial Claim Trends

LOSS RATIO

The COVID-19 pandemic had an affect on loss ratios for commercial vehicles, with a decline in 2020 and 2021 similar to PPV. The extended uncertainty the pandemic has on accident frequency and severity, paired with the time required to adjust premiums, resulted in

premiums written exceeding claims expenses again in 2021. The loss ratio does not account for expenses beyond the cost of claims. The Alberta industry average for expenses is 26% of premiums written.

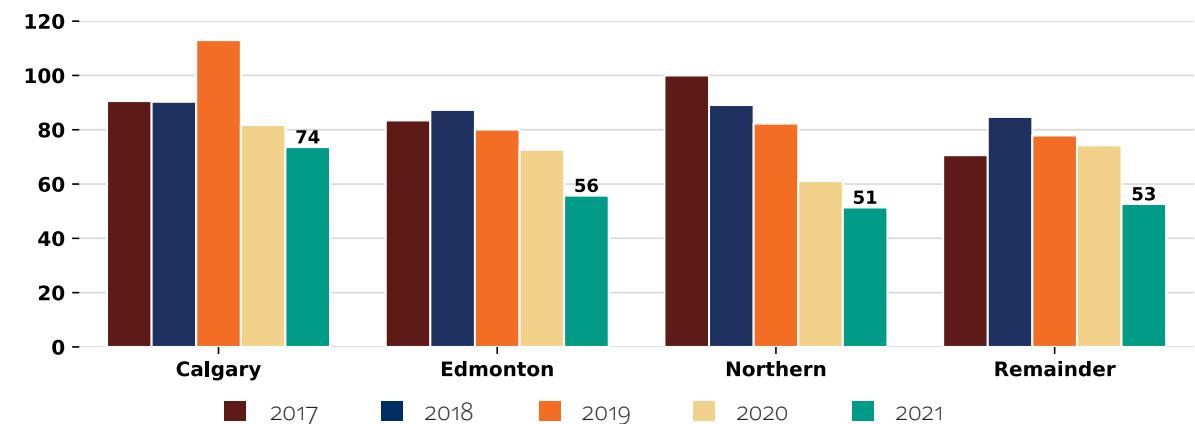
COMMERCIAL INDUSTRY LOSS RATIO ²¹



The AIRB monitors trends in four territories. The average loss ratio for all coverages shows annual volatility the past five years between

territories. The 2021 results indicate profitable loss ratios in all territories except Calgary.

AVERAGE FIVE-YEAR LOSS RATIO BY TERRITORY ²¹



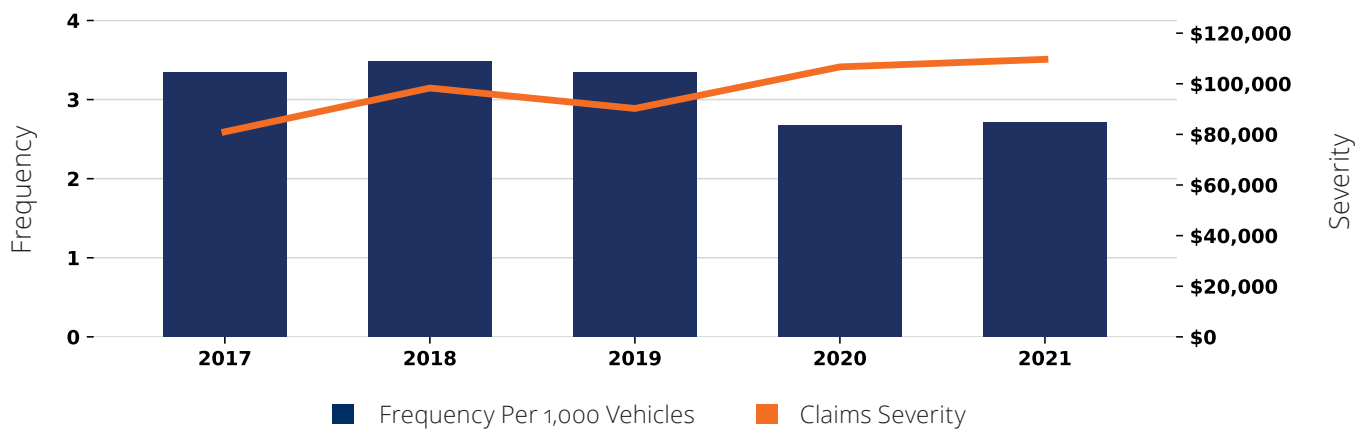
THIRD-PARTY LIABILITY - BODILY INJURY

The frequency for commercial vehicles bodily injury claims is lower than PPV, however the severity is greater. Claims frequency remained at 2020 levels for a second year as the pandemic continued to reduce mobility. Claims

severity continued to increase in 2021. Since 2017 claims severity increased 35%, rose from \$81,019 to \$109,648.

²¹ Source: General Insurance Statistical Agency

THIRD-PARTY LIABILITY - BODILY INJURY ²²



ACCIDENT BENEFITS, COLLISION, COMPREHENSIVE, & THIRD-PARTY LIABILITY PROPERTY DAMAGE

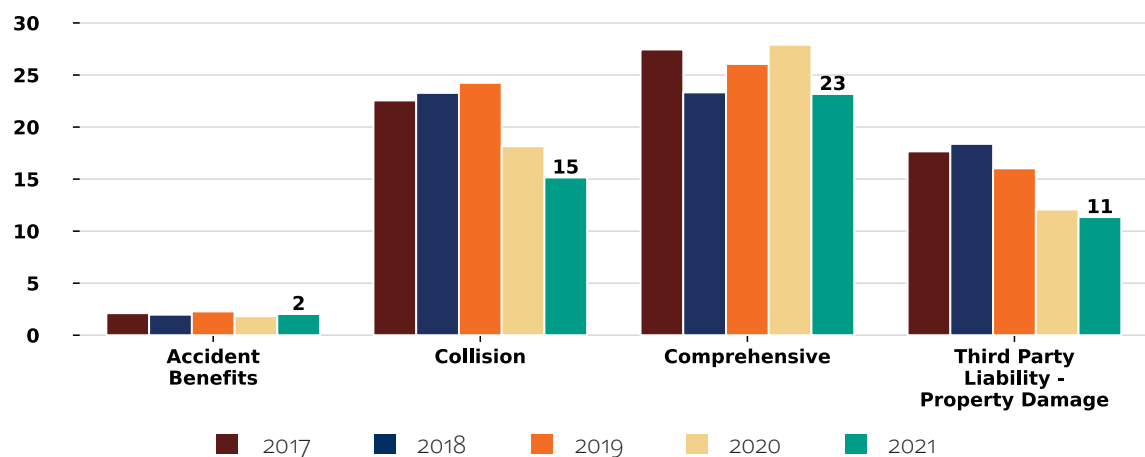
For the other four coverage types we examined claims frequency and severity separately. Accident benefits claims trends for commercial vehicles appear similar to those demonstrated in PPV. Frequency has remained stable over a five-year period, whereas the severity of claims has increased since 2020. Since 2017 claims severity increased 48%.

Both physical damage coverages, collision and third-party liability property damage had lower claims frequency in 2021, which continues to be attributed to reduced mobility on Alberta roads. Consistent with PPV, new features and safety technology on vehicles are reducing accident frequency and increasing the repair costs in the event of a claim. Increasing repair costs are

the primary reason the severity of property damage claims has trended upwards in recent years. The severity of both coverages increased further in 2021. Since 2017 claims severity for collision has increased by 9.5%, whereas the severity for third-party liability property damage has increased by 3.3%.

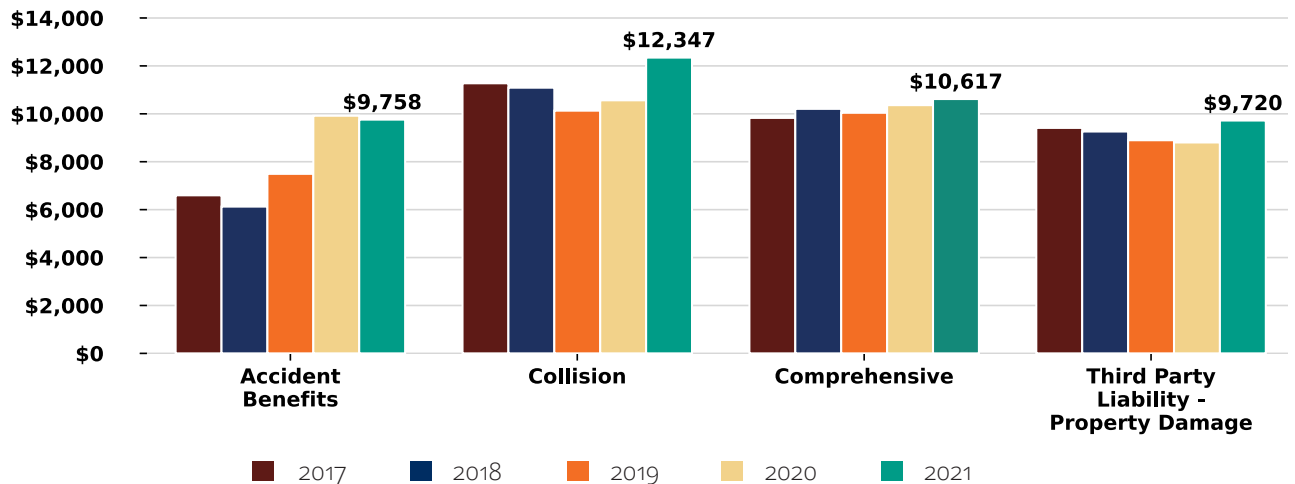
The frequency of comprehensive claims remains volatile and partially dependent on the severe weather events occurring in Alberta. Over the last five years there has been an overall upward trend in claims frequency and severity, with theft rates primarily contributing to the increases in frequency and non-theft claims contributing to the increased severity. Since 2017 claims severity has increased by 8%.

CLAIMS PER 1,000 WRITTEN VEHICLES ²²



²² Source: General Insurance Statistical Agency

CLAIMS SEVERITY ²³



Industry Trends - Commercial Market

The AIRB also monitors emerging trends and issues in the commercial vehicle market. Along with many of the emerging trends outlined in the PPV section, the commercial vehicle market faces some specific market issues.



FRAUD

Since 2019, fraud has been an issue in the commercial vehicle market. There has been an increasing number of truck owner and operators registering their vehicle in one province and operating primarily in another with the purpose of obtaining a lower premium. There can be a significant difference in the premium charged by province for inter-urban vehicles. For example a policy in Alberta may be charged a premium up to one-third of what the same policy costs in Ontario. This price difference is one factor leading to the inadequate disclosure of where the risk is garaged, which may not represent the risk of where the vehicle is actually driven.

The risk of this fraud is increased further when a vehicle enters the United States, where there is a more litigious society, resulting in increased claim payouts. Which ultimately impacts the affordability and availability of inter-urban vehicle insurance in Alberta.

Later this fall, the Facility Association will be adopting a new interurban rating matrix to apply either a discount or surcharge based on the jurisdiction where the vehicle is mainly operating, as evidenced by reporting required under the International Fuel Tax Agreement. The matrix will apply to third-party liability coverage only. This change is expected to level the playing field for local operators who are following the rules and are subsidizing the actions of those who are not.

RISK APPETITE FOR COMMERCIAL VEHICLES



In recent years the industry has reduced its capacity and risk appetite for underwriting commercial vehicles. Unlike PPV, there is no all-comers rule for commercial vehicles. Insurers can choose not to write a policy based on their internal risk appetite or underwriting guidelines. Although loss experience and inadequate risk disclosure continue to be

issues, there are other concerns impacting the availability of coverage including the training and risk management practices of the insured. The AIRB continues to monitor availability, as Government and industry stakeholders consider solutions to ensure capacity for this sector, which is important to Alberta's economic recovery.

²³ Source: General Insurance Statistical Agency



Automobile Insurance Rate Board

Canadian Western Bank Place
#2440, 10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428
Email: airb@gov.ab.ca

albertaairb.ca

