Alberta Civil Trial Lawyers Association (ACTLA)

Presentation to the Alberta Automobile Insurance Rate Board (AIRB)

2023 Annual Review

Submission Summary

Observations:

1. Inflation-adjusted bodily injury claims costs and claims costs for all coverages continue their trend of stabilization and decline.

2. Driving patterns have changed effecting accident frequency.

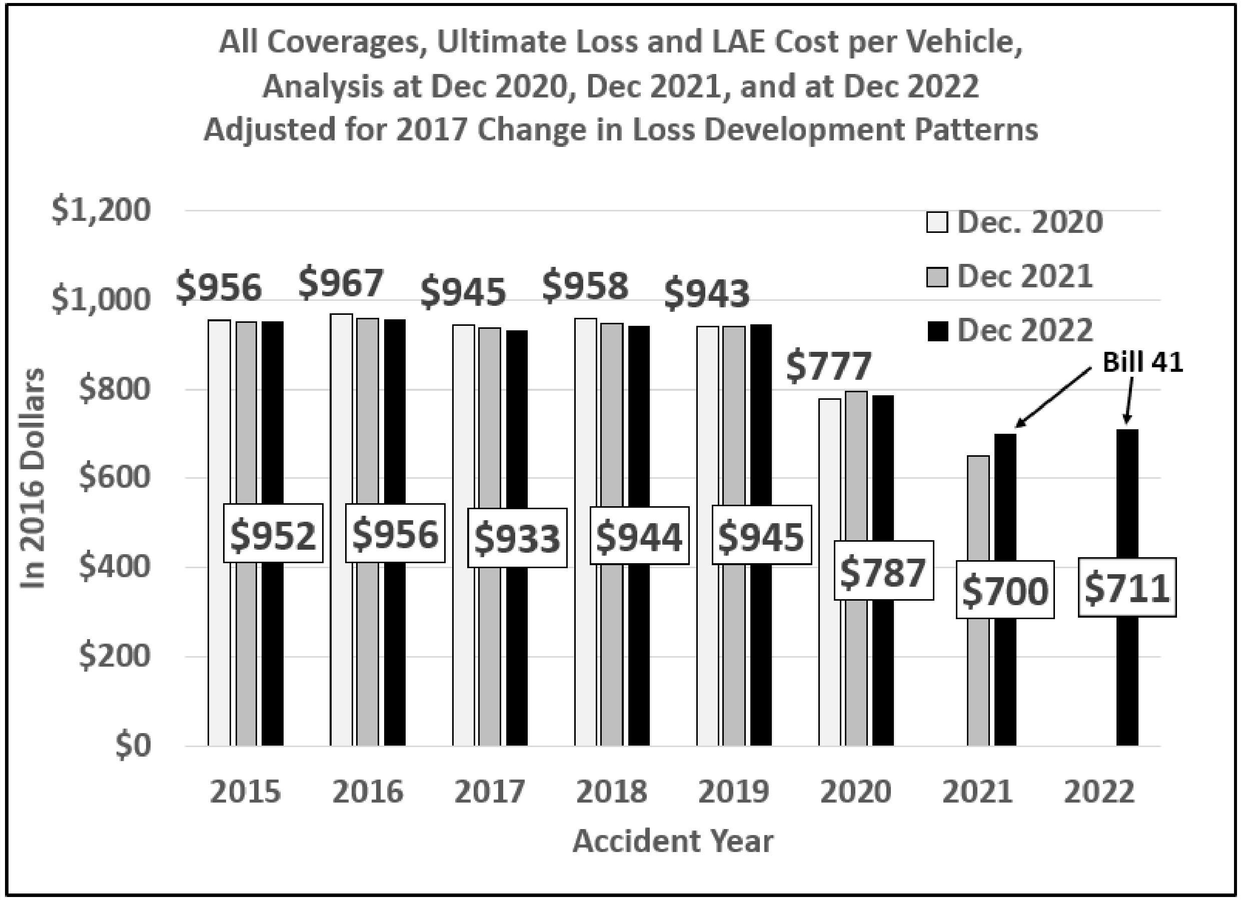
3. The insurance industry is experiencing significant profits.

4. The reported rate of return-on-investment income is very low and not representative of current market conditions.

5. The observed effect of Direct Compensation for Property Damage raises significant and concerning questions.

6. Increased Benchmark Provision for General Expenses.

Inflation-adjusted bodily injury claims costs and claims costs for all coverages continue their trend of stabilization and decline.



For all coverages combined, the Oliver Wyman loss and LAE projections, with the BI coverage adjusted for the change in the loss development pattern, shows stability in the inflation-adjusted loss cost over the accident years 2015 through 2019 and relative declines through 2020-22.

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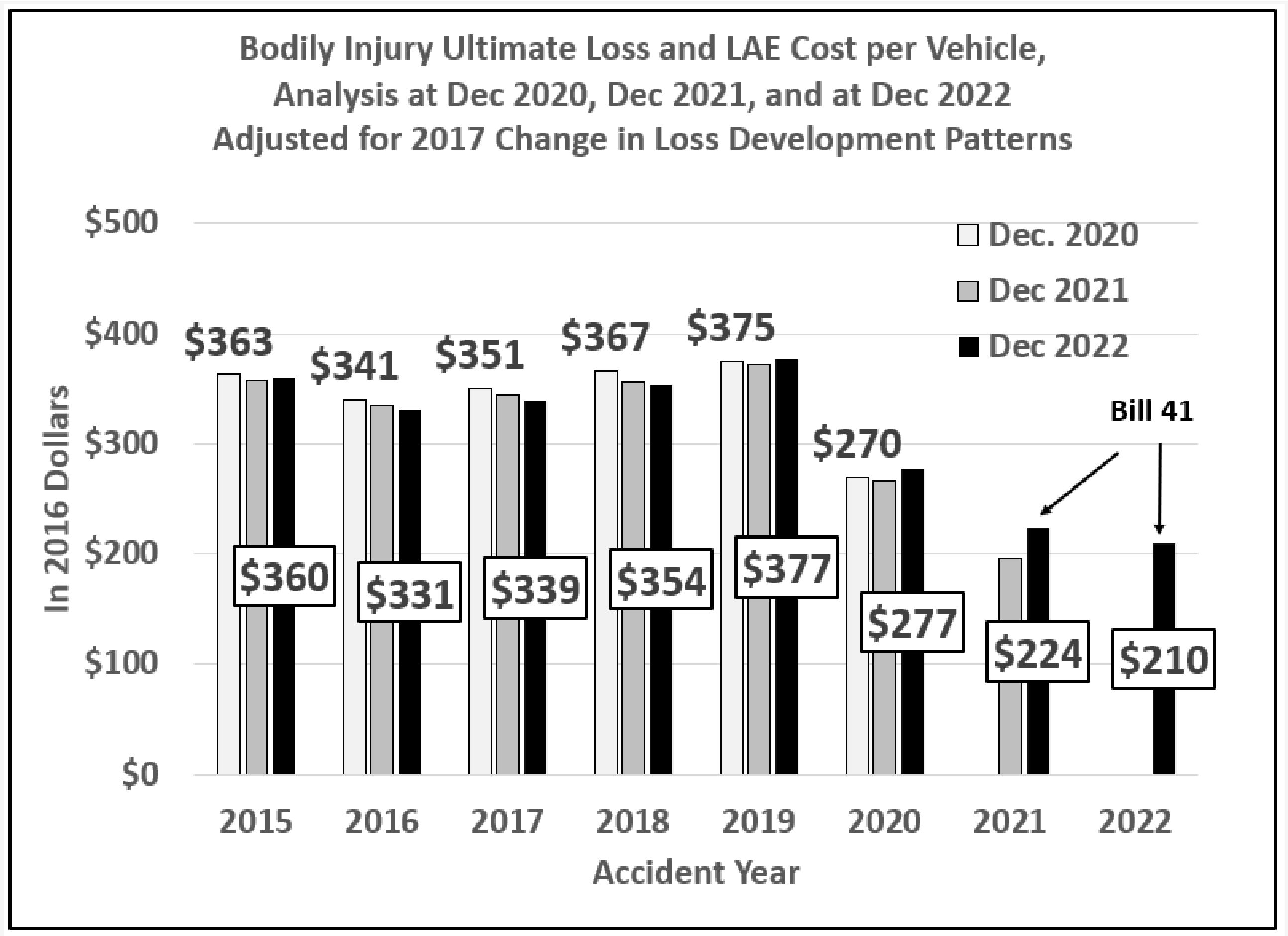
Loss and LAE Cost per Vehicle for Bodily Injury



Bodily injury claims show a more favorable decline than all coverages following 2020. They are influenced by changing driving patterns, which has been reinforced by the reforms in Bill 41.

Driving patterns have changed effecting accident frequency: The Emergence of a "New Normal" Loss Cost

Percentage Changes in Frequency in the New Normal

	Bodily Injury	Property Damage	Accident Benefits	Collision
Percentage Change in Frequency Between 2019 Level and New Normal	-24.6%	+14.4%	-6.6%	-40.9%

There has been understandable concern that the frequency of claims might recover to the pre-pandemic level, as the population re-engages in its activities that were interrupted by the various closures during the pandemic.

Oliver Wyman's proposal of the New Normal frequency adjustments suggests greater confidence that such a recovery to the pre-pandemic level of claim frequency is not likely. Permanent changes in practices of working and driving, the continuation of favorable frequency trends, and the implementation of Bill 41 have combined to create this impact.

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Driving patterns have changed effecting accident frequency: The Emergence of a "New Normal" Loss Cost

Percentage Changes in Loss Cost in the New Normal

	Bodily Injury	Property Damage	Accident Benefits	Collision
Percentage Change in Loss Cost Between 2019 Level and New Normal	-33.5%	+14.4%	-6.6%	-40.9%

The Oliver Wyman New Normal reduction is based on frequency only. For bodily injury, Bill 41 is also expected to have an impact on severity. We estimate the impact of Bill 41 on bodily injury severity as 11.8%. Thus, the combined impact on frequency and severity of Bill 41 on bodily injury loss cost is 33.5%.

The insurance industry is experiencing significant profits

Year	Realized Profit Provision per Allen	Realized Profit Provision per Oliver Wyman
2019	2.1%	-0.3%
2020	19.3%	16.3%
2021	26.9%	17.6%
2022	17.6%	9.0%
Proj 2023	15.7%	

Year	Pre-Tax Profits Implied by RPP per Allen	Pre-Tax Profits Implied by RPP* per Oliver Wyman
2019	$202 million	$69 million
2020	$917 million	$748 million
2021	$1.276 billion	$828 million
2022	$803 million	$406 million
Proj 2023	$806 million	

Pre-tax profits increased dramatically at the beginning of the pandemic in early 2020, as the initial reduction in the volume of automobile traffic reduced the number of accidents.

Further, with Oliver Wyman suggesting the emergence of a New Normal level of claim frequency beginning in the second half of 2022, the pre-tax profit level of approximately $800 million appears to be established as the level of profits for the industry.

Higher profits under Allen estimates are due to differing projections for the value of bodily injury and direct compensation claims.

* For Oliver Wyman, Investment income on capital is imputed by rule of thumb on p. 30 and rates of investment income on p. 21 of their report

The insurance industry is experiencing significant profits

Year	Realized Profit Provision, as Percentage of Premium
2019	2.1%
2020	19.3%
2021	26.9%
2022	17.6%
2023	15.7%*

*projected

Oliver Wyman has introduced a measure of profits for the industry referred to as "Realized Profit Provision." This measure gauges the extent to which the industry's profits meets the benchmark profit margin of 7% of premium.

Since 2019, the realized profit provision has exceeded the benchmark profit level of 7% by a wide margin.

An average reduction in premium of $360 per household in 2023 would reduce the Realized Profit Provision to the 7% margin permitted under the benchmark for rate filings.

The reported rate of return-on-investment income is very low and not representative of current market conditions.

Year	Industry Average Investment Income Rate
2015	3.31%
2016	2.78%
2017	3.69%
2018	2.24%
2019	4.23%
2020	4.17%
2021	2.71%
2022	0.08%

Oliver Wyman 2023 Annual Review provides a table of average annual rates of investment income earned by insurers in the industry on their investment portfolios.

The rate for 2022 is very low, compared to the rates for other years. However, this drop in the rate does not reflect the available rates of return for new investments.

For purposes of insurance ratemaking, premium amounts brought in by a forthcoming rate program will be newly invested. Thus, the low average rates of investment income shown for 2022 would not be the current basis for the setting of auto insurance.

Observed effect of Direct Compensation for Property Damage raises significant and concerning questions

Accident Year	Property Damage – Direct Compensation		Collision		Bodily Injury	
	Frequency per 1000 Vehicles	Loss and LAE Cost per Vehicle, 2016 Dollars	Frequency per 1000 Vehicles	Loss and LAE Cost per Vehicle, 2016 Dollars	Frequency per 1000 Vehicles	Loss and LAE Cost per Vehicle, 2016 Dollars
2015	29.46	$170	40.78	$188	6.38	$360
2016	30.76	$157	39.39	$182	6.28	$331
2017	30.25	$171	42.08	$200	6.56	$339
2018	28.70	$169	43.14	$201	6.37	$354
2019	19.42	$161	42.26	$190	6.46	$377
2020	20.15	$108	27.64	$127	4.32	$277
2021	25.30	$120	26.59	$133	4.75	$224
2022	29.46	$149	24.02	$124	4.53	$210
% Change between 2019 and 2022	-12%	-7%	-43%	-35%	-30%	-44%

The loss cost and frequency for the property damage-direct compensation coverage has increased markedly over the 2021 level for property damage.

Timed with the onset of the pandemic and the change to direct compensation, the frequency for collision has fallen below that of PDDC, possibly indicating that claims involving physical damage to the vehicle are being shifted to the PDDC coverage away from the optional collision coverage.

The profitability of collision coverage has grown rapidly and remained high, even with no net increase in rates since 2019.

Increased Benchmark Provision for General Expenses

Year	Benchmark Expense Percentage	Total Premium (000s)	Total Expenses (000s)	Expenses per Vehicle in 2016 Dollars
2019	26.7%	$3,782,861	$1,010,024	$344
2020	26.0%	$4,067,651	$1,057,589	$355
2021	26.0%	$4,367,273	$1,135,491	$367
2022	27.1%	$4,494,690	$1,218,061	$359
Proj 2023	27.6%	$4,563,737	$1,259,592	$365

Oliver Wyman has increased the recommended benchmark percentage for total expenses to 27.6%, which is increased from 27.1% in 2022 and 26.0% in 2021.

At the same time, total earned premium increased by 2.9% between 2021 and 2022 and further increases in earned premium of 1.5% between 2022 and 2023 are projected

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The increase in the benchmark percentage, combined with the increases in premium over that period results in a compounded increase in the provision for expenses. The increased expense provision is a result of the level of the benchmark, even though a proportion of expenses can be expected to be fixed with respect to premium.

Conclusions

1. The seven percent profit target for insurance companies is appropriate if calculated with inclusion of investment income

Profit on premiums is not the only way insurance companies make money. Insurers hold large sums of capital from which they generate interest and investment income. The seven percent profit benchmark should account for this reality in its calculation.

2. The effects of Direct Compensation for Property Damage warrant further review

One of the primary responsibilities of the AIRB is to safeguard the interests of consumers and to prevent unfair pricing practices. The observed effects of the Direct Compensation for Property Damage model are concerning from a consumer perspective and warrant further investigation from the regulator.

3. Recognition of Oliver Wyman's "New Normal"

The AIRB consider the assessment of Oliver Wyman's "New Normal" in the consideration of any proposed rate increases

Thank you!

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