

July 27, 2023

Alberta Automobile Insurance Rate Board
2440 Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Delivered via email: airb@gov.ab.ca

Attention: Mr. Jamie Hotte, FCIP, 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-H2 Industry PPV and CV Experience

Dear Mr. Hotte,

Please find enclosed Facility Association's (FA) submission to the Alberta Automobile Insurance Rate Board's 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 "*Annual Review of Industry Experience – Preliminary Report as of December 31, 2022 Private Passenger Vehicles*" dated June 12, 2023 and "*Annual Review of Industry Experience – Preliminary Report as of December 31, 2022 Commercial Vehicles*" dated June 13, 2023 ("OW Reports").

Sincerely,

A handwritten signature in black ink, appearing to read 'Saskia Matheson', written over a light-colored background.

Saskia Matheson
President & CEO

Encl.

c.c.: Karen Dyberg, Facility Association Board Chair

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 available¹. We believe this aligns with the Alberta Automobile Insurance Rate Board ("AIRB") vision of fostering an efficient and effective automobile insurance market with fair and predictable rates. Availability, and a sustainable market with access for Albertans to the automobile insurance they need is the focus of our submission.

We continue to be concerned with potential availability issues in Alberta. We note that, except for 2020 to 2022, 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 64% level we estimate would be consistent with the proposed benchmarks as per the OW Reports. This long-term high loss ratio environment since 2013 is confirmed in the OW report. The lower loss ratios of 2020 to 2022 cannot be expected to continue as the pandemic restrictions and their economic impact recede.

While it was reasonable at the time to assume that the introduction of reforms in the last quarter of 2020 would have positively impacted the experience for 2020 to 2022, an accurate delineation of what resulted from product reform, and what resulted from the temporary impact of the pandemic and its economic consequences remains unclear.

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 Reports. In light of this, we believe it is important to reiterate our longstanding 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. We appreciate that the AIRB has in fact moved to this approach in a number of rate filing aspects, and we urge the Board to continue.

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. It is our view that this approach results in the greatest consumer choice in both providers and products, while maintaining fairness to all parties in a healthy competitive market.

In contrast, setting specific values, floors or caps adversely impacts availability of voluntary automobile insurance, 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.

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 years². Unfortunately, the current rate freeze for

¹Consumers 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 2022 data found in GISA industry data (the AUTO7501). Further, 72% purchased protection for their vehicle against collision/upset, and 83% 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.

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

PPV constitutes the most drastic form of closing the door on the very flexibility we believe is critical to ensure long term availability and a healthy voluntary market.

While we realize these matters are not in the AIRB’s jurisdiction, there is even more need to respect the diversity of approaches in the market and, we would respectfully request the AIRB consider expanding the areas where it permits flexibility for companies when selecting assumptions supporting their rate applications, including:

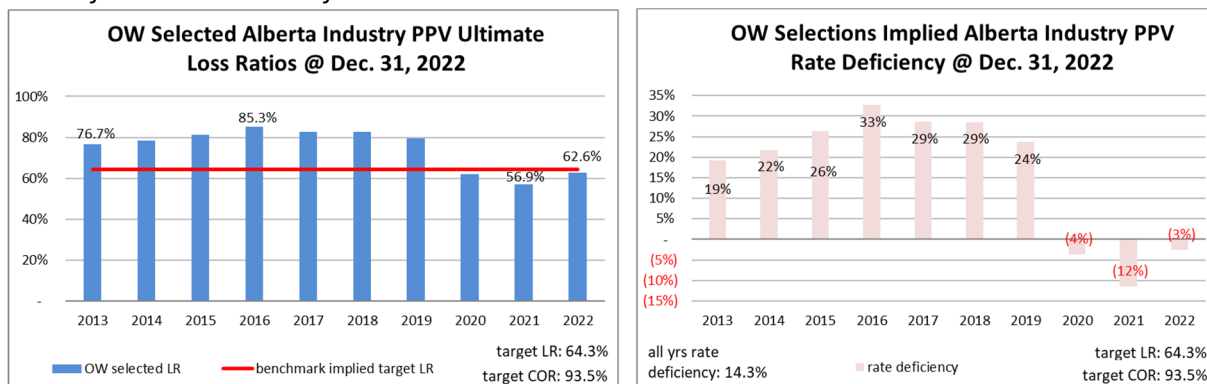
- Impact of COVID-19 and Bill 41 reforms in 2020, including introduction of DCPD;
- Selection of industry ultimate claim counts and amounts supporting their analyses (including trend analyses);
- Selection of trend models (including the underlying methodology and approach) and associated estimates of 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).

We believe it is important to protect 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.

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 64% for both PPV and CV. The charts below summarize the estimated rate deficiencies for PPV and CV, 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 reports. 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).

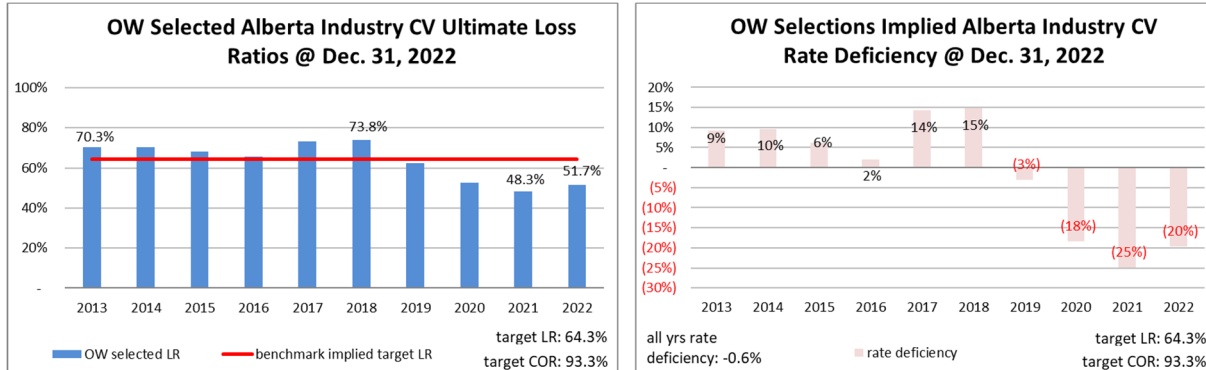
Industry Alberta PPV @ December 31, 2022 - OW selected indemnity, ALAE, ULAE LRs and implied rate deficiencies on basis of OW selected current benchmarks



For PPV, if we exclude 2020 to 2022, the deficiencies range from 19% (2013) to 33% (2016), with a weighted average rate deficiency of 26.0% or **greater than \$5.8 billion in PPV premium shortfall over that 7-year period.** If we were to include 2020 to 2022, the weighted average rate deficiency would decrease to 14.3% or **greater**

than \$5.0 billion in PPV premium shortfall over that 10-year period. Thus even with the full impact of the reduced claims from the pandemic on costs, there remains a significant shortfall in the long-term industry's profitability.

Industry Alberta CV @ December 31, 2022 - OW selected indemnity, ALAE, ULAE LRs and implied rate deficiencies on basis of OW selected current benchmarks



While the Alberta industry CV average premium redundancy over the decade is not as significant (-0.6%), experience prior to COVID-19 from 2013 to 2019 saw deficiency ranging from -3% to +15% with a weighted average rate deficiency of 7.5% or greater than \$255 million in CV premium shortfall over that 7-years period.

Also of note is that since 2016, the industry CV written exposure has been decreasing steadily, while the FARM CV written exposure and market share has been steadily increasing. Indeed, FARM market share has more than doubled in this time frame, increasing from 1.3% in 2017 to 3.2% in 2021 (2022 industry AIX data is not available at this time). The continued increase of the FARM CV written exposure and FARM CV market share up to 2021 points to a divergent view in the industry around the projected profitability of this sector, and we are concerned for future availability in Alberta for commercial vehicles.

While we appreciate that the Board intends to review commercial benchmarks separately, the PPV and CV markets exist in close proximity, and the health of one will impact the overall health of the other. Thus for its own sake, as well as its influence on the automobile insurance market overall, we would recommend the Board to consider the growth in FA's market share, and the pressure on FA's CV loss ratio into consideration when reviewing the CV benchmark loss cost trends.

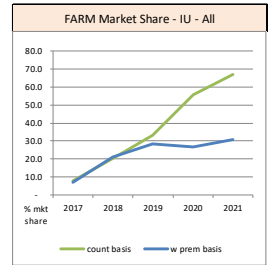
The chart below shows the Alberta CV FARM market share since 2017. Please note that the 2022 industry data is not available at the time of this submission.

Written Premium is in \$000s		FARM AB - CV - All			Industry AB - CV - All			FARM Market Share / AWP Comparison			FARM Market Share - CV - All	
Commercial Vehicles	Year	Written Exposure (excl trailers) - policy	Written Premium	Average Written Premium	Written Exposure (excl trailers) - policy	Written Premium	Average Written Premium	FARM Market Share (veh counts)	FARM Market Share (w prem)	FARM / Industry AWP	% mkt share	
CV	2017	4,880	19,411	3,978	390,213	547,430	1,403	1.3	3.5	284%		
CV	2018	5,547	24,569	4,429	381,778	584,698	1,532	1.5	4.2	289%		
CV	2019	7,898	37,921	4,802	330,785	631,877	1,910	2.4	6.0	251%		
CV	2020	8,333	42,162	5,060	295,773	680,014	2,299	2.8	6.2	220%		
CV	2021	9,300	45,493	4,892	286,346	719,379	2,512	3.2	6.3	195%		
	Total	35,958	169,556	4,715	1,684,896	3,163,398	1,878	2.1	5.4	251%		

CV trend also applies to Interurban, and thus we also need to consider the significant increase of FARM IU written exposure and FARM IU market share since 2017. Please note that the 2022 industry AIX data is not

available at this time, however the FARM IU written exposure continued to increase significantly from 7,703 in 2021 to 8,739 in 2022 and therefore we expect that the FARM market share would continue to increase in 2022.

Written Premium is in \$000s			FARM AB - IU - All			Industry AB - IU - All			FARM Market Share / AWP Comparison			FARM Market Share - IU - All
Interurban	Year	Written Exposure (excl trailers) - policy	Written Premium	Average Written Premium	Written Exposure (excl trailers) - policy	Written Premium	Average Written Premium	FARM Market Share (veh counts)	FARM Market Share (w prem)	FARM / Industry AWP	FARM Market Share - IU - All	
											count basis	w prem basis
IU	2017	1,188	8,809	7,415	15,382	121,537	7,901	7.7	7.2	94%		
IU	2018	3,317	33,440	10,083	16,255	157,042	9,661	20.4	21.3	104%		
IU	2019	4,933	54,456	11,038	14,856	191,464	12,888	33.2	28.4	86%		
IU	2020	5,438	50,394	9,268	9,785	189,180	19,334	55.6	26.6	48%		
IU	2021	7,703	67,948	8,821	11,500	220,337	19,160	67.0	30.8	46%		
	Total	22,579	215,047	9,524	67,778	879,560	12,977	33.3	24.4	73%		



SPECIFIC COMMENTS REGARDING THE 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 “Annual Review of Industry Experience – Preliminary Report as of December 31, 2022 Private Passenger Vehicles” dated June 12, 2023 and “Annual Review of Industry Experience – Preliminary Report as of December 31, 2022 Commercial Vehicles” dated June 13, 2023 (“OW Reports”).

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

Our position has not changed that:

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 different selections of ultimates, and different trend results. Indeed, different 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 applicant 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 December 31, 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.

The selection of ultimates is a critical and foundational input of the loss trend analysis and this is acknowledged in the OW Reports 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 an example, we believe that the Covid pandemic and the current macroeconomic environment are affecting claims development pattern and therefore, the loss development method would be unduly affected.

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 and CV 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

The OW PPV Report stated *“In this review, we consider the data that has emerged since these reforms were implemented and estimate the actual impact of these reforms to the extent possible – as a preliminary assessment”* and included estimated -15% actual impact on bodily injury severity and +8% on accident benefits severity.

As OW PPV Report stated *“However due to the concurrent effect of the COVID-19 pandemic, we are unable to separately estimate the impact of the reform and the COVID-19 pandemic on bodily injury or accident benefits claims frequency”*. As result, OW continues to find the AIRB current reform impact factors of -18% for bodily injury loss cost and +8% for accident benefits loss cost to be reasonable.

For FA’s trend analysis using PPV and CV Industry Experience as of December 31, 2022, the AIRB published reform impact factors (-18% for bodily injury and +8% for accident benefits) have been imposed in our loss severity trend models until there are sufficient post reform data to estimate the reform impacts.

However, FA has concerns on the continued use of a -18% reform adjustment factor to Bodily Injury loss costs for the 2020 Bill 41 reforms.

In 2020, Bill 41 amended the *Insurance Act* of Alberta to change the prejudgment interest (PJI) on general damages from a flat 4% to now having its rate tied to the PJI prescribed by the regulation, which follows changes in bank rates. At the time of the amendment, PJI was 1.5%, dropping over the next two years closed to 0%, thus lowering insurer’s exposure to PJI. However, in 2023 the PJI rate jumped significantly, effectively undoing any benefit Bill 41 provided to insurers regarding PJI. With the rate now subject to the adjustments under the Regulation, further increases by the Bank of Canada will actually result in Bill 41’s amendments causing higher exposure to insurers on PJI for general damages, which is the opposite of what Bill 41 intended.

We believe that continuing to use -18% as the reform adjustment factor will result in projected loss costs for Alberta Bodily Injury to fall below the actual results, and we would encourage a refresh of the cost savings estimates tied to Bill 41

4. Mobility Parameter and COVID-19 Adjustment Factors

The OW Report introduces mobility composite metric in Table 21, COVID-19 Adjustment Factors in Table 22, 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).

(1)	(2) Selected	(3) Selected	(4) (2) + (3)	(5)	(6)	(7) 1/exp(mobility * LC Coefficient)	(8)	(8)
Coverage	Frequency Mobility Coefficient	Severity Mobility Coefficient	LC Coeff	COVID-19 Adjustment Factors				
				2020-1	2020-2	2021-1	2021-2	2022-1
BI	0.013	0.000	0.013	1.334	1.408	1.506	1.241	1.214
Total PD	0.016	0.000	0.016	1.426	1.524	1.655	1.305	1.269
AB Total	0.015	0.000	0.015	1.394	1.484	1.604	1.283	1.250
CL	0.014	0.000	0.014	1.364	1.446	1.554	1.262	1.232
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 continue questioning the usage of the mobility parameter and 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 Reports 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 PPV 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 2007-H1 to 2022-H2 data.

FITTED TREND STRUCTURE REGRESSION STATISTICS							
Multiple R	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p	
0.9374	0.8787	0.8657	0.0534	32	8	4	
Runs-Test Result: 1.7007 RESIDUALS RUNS RANDOM ; residuals normal							
# parameters with p-value >5% 1 (intercept specifically not included)							
Coefficients	S.E.	t-Stat	p-value	C.I.		Selected Coeff.	
				Lower	Upper		
1	2						
Intercept	(5.175)	5.603	(0.924)	36.4%	(16.653)	6.302	(5.175) 4
Season	0.069	0.019	3.630	0.1%	0.030	0.107	0.069 3
All Years	0.003	0.003	1.245	22.3%	(0.002)	0.009	0.003 2
Scalar 1	(0.359)	0.033	(10.913)	0.0%	(0.426)	(0.291)	(0.359) 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	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p	
0.9374	0.8787	0.8657	0.0534	32	8	4	
Runs-Test Result: 1.7007 RESIDUALS RUNS RANDOM ; residuals normal							
Fitted Annual	Previous Selected	Selected Annual		selected = fitted			
past	0.3%	0.3%	0.3%	'19H2 => last period in "past"			
future	0.3%	0.3%	0.3%				
Cumulative Trends (summed coefficients)				C.I.		95% Upper	Selected Coeff.
All Yrs or AY	fitted coeff	S.E.	t-Stat	p-value	Lower		
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 -35.9%, and it is easy to explain that the estimated average annual COVID-19 impact based on the industry data as at December 31, 2022 is about -30.1% comparing to pre-pandemic. However, it is difficult to explain the OW model estimated mobility coefficient of 1.3% with the COVID-19 Loss Adjustment Factors.

Model Output – OW PPV 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-H2 data

FITTED TREND STRUCTURE REGRESSION STATISTICS									
Multiple R	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters			
0.9408	0.8851	0.8763	0.0800	29	11	3			
Runs-Test Result: 2.3743 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.		95% Selected			
				Lower	Upper	Coeff.			
Intercept	29.387	10.049	2.924	0.7%	8.731	50.043	29.387	3	
Season	-	-	-	n/a	-	-	-	0	
All Years	(0.013)	0.005	(2.549)	1.7%	(0.023)	(0.002)	(0.013)	2	
Scalar 1	(0.419)	0.052	(8.124)	0.0%	(0.524)	(0.313)	(0.419)	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	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters			
0.9408	0.8851	0.8763	0.0800	29	11	3			
Runs-Test Result: 2.3743 RESIDUALS RUNS NOT RANDOM residuals normal									
selected = fitted									
	Fitted Annual	Previous Selected	Selected Annual						
past	(1.3%)	(1.0%)	(1.3%)						
future	(1.3%)	(1.0%)	(1.3%)						
Cumulative Trends (summed coefficients)									
	fitted coeff	S.E.	t-Stat	p-value	C.I.		95% Selected		
					Lower	Upper	Coeff.		
All Yrs or AY	(0.013)	0.005	(2.549)	1.7%	(0.023)	(0.002)	(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		
4Y+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 -41.9%, and it is easy to explain that the estimated average annual COVID-19 impact based on the industry data as at December 31, 2022 is about -34.2% 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.

The table below compares the OW PPV 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.

Coverage	OW COVID-19 LC Adjustment Factor						FA Approach for COVID-19 Adj Factor		Difference Between FA vs OW
	2020H1	2020H2	2021H1	2021H2	2022H1	Average	COVID-19 Coeff	COVID LC Adj Factor	
BI	1.334	1.408	1.506	1.241	1.214	1.341	-0.359	1.432	0.091
PD	1.426	1.524	1.655	1.305	1.269	1.436	-0.316	1.372	(0.064)
AccBen (indivis)	1.394	1.484	1.604	1.283	1.250	1.403	-0.335	1.398	(0.005)
UM	1.000	1.000	1.000	1.000	1.000	1.000	0.000	1.000	-
CL	1.364	1.446	1.554	1.262	1.232	1.372	-0.419	1.520	0.148
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 and CV industry loss trend analysis as of December 31, 2022, we tested both the reforms and the COVID-19 impacts factors. 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, 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 & DCPD	ACCBEN	UM	CL	CM	SP	AP
COVID-19 Scalar Coefficient	-0.359	-0.365	-0.329	0.000	-0.431	0.000	0.000	0.000
COVID-19 Impact Factor	1.432	1.441	1.390	1.000	1.539	1.000	1.000	1.000

5. Selection of Trends Rates and Uncertainties

Since we have completed our own trend analysis using PPV and CV Industry Experience as of December 31, 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 Reports. Please note that our areas of focus treated above can partially explain the differences between the two sets of selections.

Alberta Industry PPV & CV Trends as at December 31, 2022

Coverage	Alberta PPV Trends at 2022-12			Coverage	Alberta CV Trends at 2022-12		
	FA selection	OW selection	difference between		FA selection	OW selection	difference between
	future	future	FA and OW		future	future	FA and OW
BI	7.1%	5.0%	2.1%	BI	6.9%	7.0%	(0.1%)
PD	1.8%	1.0%	0.8%	PD	1.1%	-	1.1%
AccBen (indivis)	10.4%	11.0%	(0.6%)	AccBen (indivis)	8.4%	5.0%	3.4%
UM	-	1.5%	(1.5%)	UM	-	7.0%	(7.0%)
CL	2.7%	2.0%	0.7%	CL	0.8%	(1.0%)	1.8%
CM	3.8%	4.0%	(0.2%)	CM	3.9%	4.0%	(0.1%)
SP	4.5%	3.0%	1.5%	SP	4.8%	4.0%	0.8%
AP	1.0%	-	1.0%	AP	3.1%	0.5%	2.6%

The **OW PPV and CV Reports 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 December 31, 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 3.9% for private passenger vehicles and 3.1% for commercial vehicles, while the FA estimated overall loss cost future trend rate is 4.9% for private passenger vehicles and 3.9% for commercial vehicles.

OW reports commentary on inflation have focused on the impacts on physical damages, and commented that *"A change in severity coincident with the inflation change is not obvious for bodily injury, accident benefits..."* We note that inflation has impacts on non-physical damages claims costs such as medical and rehabilitation expenses, loss of income benefits, as well as Minor Injury Cap which is indexed with inflation, and they are worth continued monitoring as data emerges.

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 on OW PPV Report page 4:

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

- *The correlation of the historical CPI index with historical claim cost changes; and any recent changes to 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.*
- *The impact of economic conditions 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.