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Insurance Bureau
of Canada



Insurance Bureau of Canada Presentation to the **AIRB 2023 Annual Review**

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IBC Presentation Overview

1. State of the Industry
2. Overview of Loss Trend Factors
3. Profit Provision
4. Recommended Next Steps



State of the Industry



State of the Industry - A Look Back

- The reforms introduced by government in late 2020 helped provide some premium stability for consumers
 - Over the past two years, monthly average premiums increased by just 1.7% annually*
- A reduction in driving levels during the pandemic also provided a temporary reprieve on claims pressure.

** IBC analysis based on industry data from GISA*



State of the Industry – Looking Ahead

- Persistent inflation, lingering supply chain issues and a strained labour market are putting pressure on auto claims costs
- Insurers have seen **significant increases in the cost of vehicle repairs and replacement**
 - Spending on vehicles and automotive parts increased by over 13%
 - The average price of used vehicles is up 33%
 - New vehicle prices are up 18%

** IBC with data from Statistics Canada 2023 CPI, AutoTrader*



Insurer Rate Filings

- Considering these cost pressures, insurers must have the ability to use their individual experience and projections, where reasonable, in their rate filings.
- The AIRB should **review insurer rate filings based on the reasonableness of those filings** once the rate pause is removed.



Insurer Rate Filings

“The Board consider the reasonableness of additional information provided by interested parties as it may provide more insight into the industry private passenger vehicle claim experience that has emerged or is expected to emerge”

“The Board consider that the experience of one insurer may not be representative of the experience of the industry”

Oliver Wyman Annual Review report, 2023



Grid Framework

- The **Grid framework is no longer aligned with its original intent.** The framework should be revisited.
- Mandatory discounts for new drivers should be considered.



Overview of Alberta's Auto Insurance Loss Trend Factors



Loss Trend Factors

Oliver Wyman and Dr. Ron Miller both project that claims costs for several coverages will increase considerably over the next year.

Future Loss Cost Trend Factors

	OW	Dr. Miller
TPL-BI	+5.0%	+4.2%
TPL-PD	+1.0%	+2.6%
AB	+11.0%	+8.8%
COLL	+2.0%	+3.6%
COMP	+4.0%	+3.1%

IBC with data from Oliver Wyman, Dr. Ron Miller.

Of note:

- Injury claims costs are projected to rise significantly.
- Both actuaries project modest vehicle damage future trend rates.
- Insurers should be permitted to consider CPI data in rate filings to capture changes in various CPI elements.



Loss Trend Factors

Inflationary pressures remain for Alberta insurers. Insurers should be permitted to reflect real-time CPI data in their rate filings.

Examples of Statistics Canada data elements:

- The value of new and used vehicles, which are directly related to the actual cash value for the one-quarter of vehicles that are considered total loss after a collision;
- Vehicle parts, accessories and supply costs;
- Private passenger vehicle lease costs;
- Rental of passenger vehicle costs.



Profit Provision



Profit Provision

- IBC agrees with the AIRB Board's position to maintain a 7% profit provision, as stated in the Oliver Wyman report.
- The province's history of volatile and severe weather makes Alberta a high-risk province for insurers.
- Alberta already has fewer carriers competing in the market than previous years, and even fewer carriers than the entire Atlantic Region – which has roughly half the population.
- Any changes to the profit provision will threaten market competition in the province – hindering consumer choice – which is already at stake under the current rate pause.



Recommended Next Steps

There is significant uncertainty facing Alberta's auto insurance system. Significant system cost pressures remain and are not sustainable



Recommended Next Steps

To mitigate the impact of these identified cost pressures on consumers, the AIRB must **work to alleviate system cost pressures by:**

- 1** **Revisiting the Grid framework** to realign it with its original intent to ensure access to affordable entry-level premiums for new drivers
- 2** **Permitting actuarially justified rate changes** once the rate pause is removed
- 3** **Educating government on system cost pressures** identified in this review



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