July 27, 2023

Mr. Jamie Hotte
Chair, Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

**RE: AIRB 2023 Annual Review**

Dear Mr. Hotte,

Thank you for the opportunity to participate in the AIRB's Annual Review of auto insurance trends and rates for basic and additional coverage. Consistent with our approach with previous years, Insurance Bureau of Canada (IBC) retained Dr. Ron Miller to review the trend factors presented in Oliver Wyman's report, *Annual Review of Industry Experience as of June 30, 2022 Private Passenger Vehicles*. The commentary contained in this letter reflects the views of insurers operating in Alberta's private passenger vehicle (PPV) insurance market.

## State of the Industry

According to monthly average premiums data from the General Insurance Statistical Agency (GISA), for the two years leading up to January of this year, auto insurance premiums in Alberta had changed by just +1.7% annually – far lower than the overall cost of living, which increased by 10.8% over the last two years. The market was functioning well, providing the province's 3 million drivers with stable auto insurance premiums. However, the pause on auto insurance rate filings is jeopardizing this stability, and the market is now under significant stain due to mounting cost pressures within the system:

- According to Oliver Wyman, accident benefits and bodily injury claims costs are expected to once again increase significantly, by 11.0% and 5.0%, respectively;

- Since the onset of the COVID-19 pandemic, inflationary pressures coupled with global supply chain disruptions have led to increasing on spending on vehicle repairs and maintenance, and the cost of new and used vehicles.

The data presented in this annual review by Oliver Wyman confirms that there are still sustained claims costs pressures in Alberta's auto insurance system. Given this, it is critical that the AIRB inform and educate government of these trend factors, outlining how such pressures threaten the viability of insurers operating in the province's auto insurance market, and urge government to remove the rate pause immediately to prevent further availability challenges for consumers. As insurers are not able to account for these pressures due to the rate pause, once it expires at the end of this year, the AIRB must be prepared to review insurer rate filings based on their reasonableness.

## Grid Vehicle Framework

The Oliver Wyman report briefly outlines the history of the Grid vehicle framework in Alberta. IBC recommends the government revisit the Grid framework and consider mandatory discounts for new drivers (similar to what is done in other jurisdictions) to ensure access to affordable premiums for new drivers.

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

## Commentary on Loss Cost Analysis

For this year's Annual Review, Oliver Wyman and Dr. Miller projected that several coverages, particularly those related to injury claims, will increase considerably over the next year. The table below highlights projected future trend rates from both actuaries.

Future Loss Cost Trend Rates

| | Basic Coverage | | | Additional Coverage | |
|---|---|---|---|---|---|
| | **Bodily Injury** | **Property Damage** | **Accident Benefits** | **Collision** | **Comprehensive** |
| **Oliver Wyman** | **+5.0%** | +1.0% | **+11.0%** | +2.0% | +4.0% |
| **Dr. Miller** | **+4.2%** | +2.6% | **+8.8%** | +3.6% | +3.1% |

*IBC with data from Oliver Wyman and Dr. Miller.*

Oliver Wyman's projected bodily injury future loss trend rate is +5.0%, while Dr. Miller's is +4.2%. Both actuaries are once again projecting double-digit accident benefits future trend rates, at +11.0% and +8.8%, respectively. These selections indicate that under the current product, injury claims costs will continue to rise significantly. To that end, the expected savings from the 2020 reforms have not materialized, further demonstrating the rising concerns with injury claims costs and their impact on consumer premiums. IBC is looking forward to speaking with the AIRB Board to discuss our *Enhancing Care and Expanding Choice* proposal that will provide Albertan's with more choice, increase the care received after an accident, and importantly, reduce the price drivers pay for coverage.

Similar to the semi-annual review, Oliver Wyman and Dr. Miller project relatively low vehicle damage future trend rates. However, unlike the two previous reviews, Oliver Wyman no longer suggests that insurers consider the *vehicle maintenance and repair costs* CPI data in Alberta at the time of the rate application.

While the general inflation rate is subsiding, inflationary pressures remain for Canada's insurers who continue to see sizable increases in the cost of vehicle repairs and replacement due to the long-term impact of supply chain disruptions during the pandemic and pent-up consumer demand. Recent increases in spending on auto-related parts and vehicle repairs as noted earlier demonstrate these pressures:

- Over the past few years, spending on vehicles and automotive parts increased by over 13%[1];

[1] CANSIM table 20-10-0008-03

- Global supply chain disruptions have contributed to steep increases in the price of used vehicles. According to AutoTrader, over the last two years, the average price of a used vehicle increased by 33%, while the average price of new vehicles increased by 18%[2]. It is also contributing to a significant increase in vehicle theft; and

- A shortage of parts is leading to longer cycle times to repair vehicles. This is leading to both higher vehicle repair costs as well as insurers paying more than anticipated due to consumers needing vehicle rentals longer while their vehicles are being repaired.

IBC reiterates its recommendation from the semi-annual review that insurers be permitted to consider Statistics Canada data elements in all future rate filings to adequately capture changes in CPI where applicable, and if the insurer believes it is necessary based on their individual experience. Such elements would include:

- 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; and

- Rental of passenger vehicle costs.

Finally, Oliver Wyman "suggests 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." Oliver Wyman also "suggests the Board consider that the experience of one insurer may not be representative of the experience of the industry." Given this, IBC strongly recommends that the AIRB consider the approval of insurer rate filings based on the reasonableness of those filings. As noted by Oliver Wyman, not only did the COVID-19 pandemic result in uncertainty regarding 2020 to 2022 accident year periods, but also that inflation uncertainty makes it difficult to select an appropriate future trend rate.

In light of this, once the rate pause is removed, it is more important than ever that insurers be permitted to use their individual experience and projections, where reasonable, in their rate filings.

### Catastrophe Provision

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

### Health Cost Recovery

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

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[2] AutoTrader

## Operating Expenses

Oliver Wyman selected an operating expense ratio of 27.6% based on the GISA Industry Expense Report. IBC considers this to be reasonable.

## Investment Income on Cash Flow

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

## Profit Provision

Writing PPV insurance in Alberta has been extremely unprofitable for much of the last decade. According to GISA's Industry Profit and Loss Report, over the past decade, Alberta PPV auto insurers have paid out considerably more in claims costs, operating expenses and premium taxes than they earned in premiums and investment income.

With the current profit provision benchmark at 7%, the Alberta PPV auto insurance industry rarely approaches this level, let alone exceeds it. The problem in Alberta's auto insurance market is that it has been broadly unprofitable, which makes changes to the province's profit provision both unnecessary and potentially harmful to the choice and competition that consumers enjoy today.

Restricting insurers' capacity to pursue long-term and sustainable profitability is counter to Alberta's fundamental free-market principles. Changing the profit provision will impact insurer decisions to grow or continue to operate in Alberta, which would negatively impact insurer capacity in the province at a time when Alberta needs to attract additional capital and increase competition. This is particularly concerning in today's market, as two insurance companies have indicated that they intend to exit Alberta's auto insurance market due to the rate pause and their inability to obtain the premiums needed to cover claims costs pressures. Making matters worse, one has already pulled out of the market, leaving over 16,000 drivers without coverage and reducing consumer choice for the rest of Albertans.

Compounding this issue is the fact that there are already fewer auto insurance providers operating in the province compared to previous years and with roughly double the population, Alberta has fewer private passenger auto insurers operating in its market than Atlantic Canada. As a result, the viability of Alberta's auto insurance system is at risk.

Within this context, changes to the province's profit provision is akin to solving a problem that does not exist. Worse, it will send a strong, negative signal to insurers considering expansion in the province that can only serve to negatively impact the availability and affordability of auto insurance for consumers at a time when improvement in these areas is needed most.

In light of the above, IBC agrees with the AIRB Board's position to maintain a 7% profit provision, as stated in the Oliver Wyman report. Alberta's history of volatile and severe weather make it a high-risk province for insurers. The unpredictable nature of these weather events makes it near impossible to predict and adds to the insolvency risk of insurers in the province. This warrants a higher profit provision in the province as insurers rely on greater capital funds and profit margin to ensure their availability under such adverse scenarios.

## Conclusion

IBC appreciates the opportunity to provide input for the 2023 Annual Review. The current state of the auto insurance environment in Alberta has presented significant challenges for insurers operating in this space, and the trend factors put forward by Oliver Wyman highlight the growing pressures that are mounting under the rate pause. It is critical that the AIRB work with government to inform and educate them of these system pressures and place urgency on the removal of the rate pause.

IBC looks forward to working with government and the AIRB on improvements to support the province's 3 million drivers. Thank you for the opportunity to provide input for this year's Annual Review. We look forward to virtually meeting with the AIRB on August 17.

Sincerely,

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