



2023 Annual Industry Review Preliminary Findings Private Passenger Automobile

presentation to the Automobile Insurance Rate Board
17 August 2023

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A business of Marsh McLennan

AGENDA

- **Loss Trend Rates**
- **Inflation**
- **Policy Reform**
- **COVID-19 Adjustment Factors**
- **Industry Profitability**

1

Loss Trend Benchmarks

INDUSTRY BENCHMARKS

- 2023 Annual Review Benchmarks can be applied in rate filings submitted between October 1, 2023 and March 31, 2024.
- The 2023 Annual Review Benchmarks are based on an analysis of insurance industry private passenger vehicles loss and expense experience in Alberta reported as of December 31, 2022.
- Insurers using their company data may support loss trend rates that reflect the characteristics of their portfolio of risks.

INDUSTRY BENCHMARKS – TREND RATES CHANGES SINCE PRIOR REVIEW

Coverages	2023 SAR 6/2022 Data	2023 SAR 12/2022 Data
Bodily Injury	+7.0%/5.0% (a)	+8.0%/5.0% (a)
Property Damage	+1.5%	+1.0%
DCPD	+1.5%	+1.0%
Accident Benefits – Total	+1.0%/+12.0% (b)	+1.0%/+11.0% (c)
Collision	+3.0%	+2.0%
Comprehensive	+4.0%	+4.0%
All Perils	+2.5%	+0.0%
Specified Perils	+3.0%	+3.0%
Underinsured Motorist	+1.5%	+1.5%

(a) Change in trend date begins November 1, 2020.

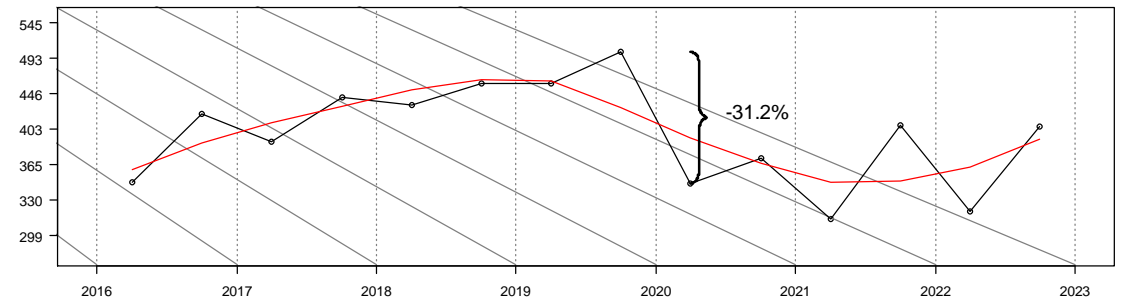
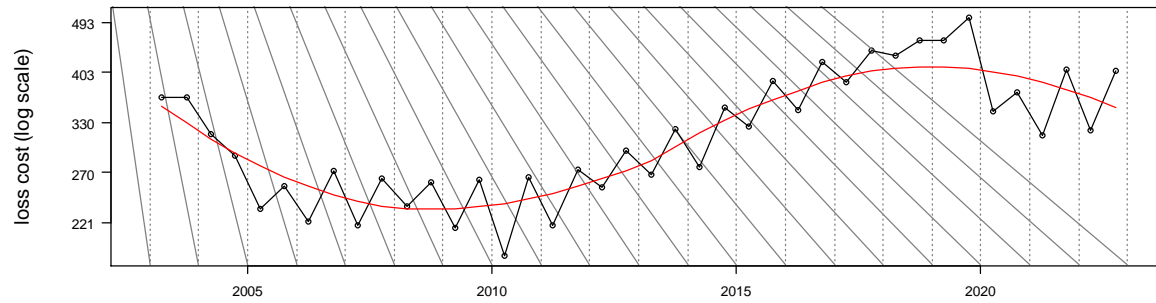
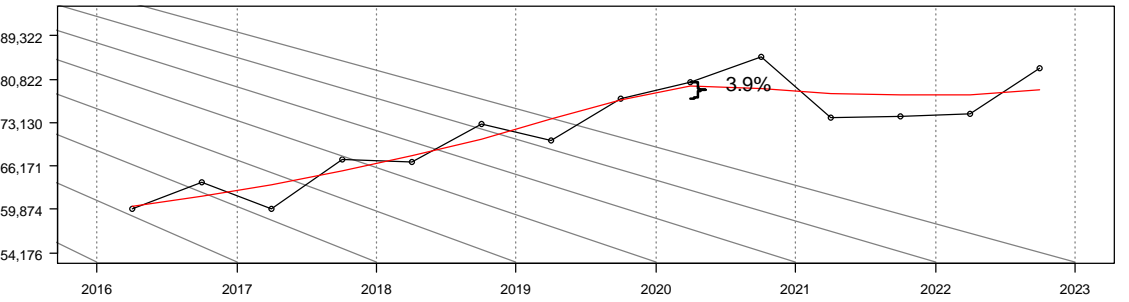
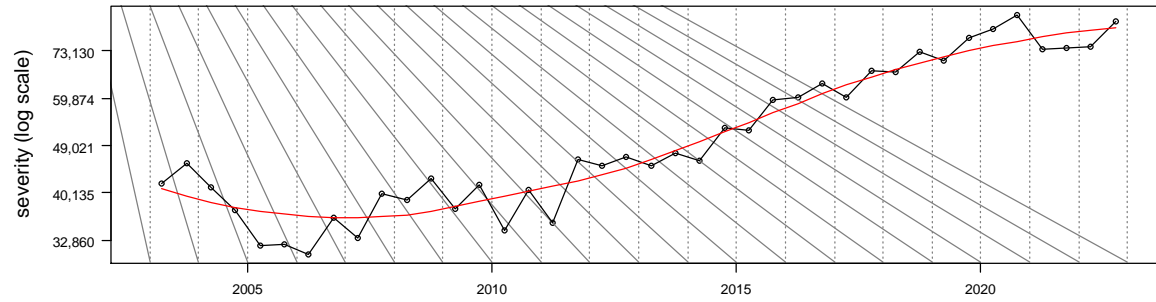
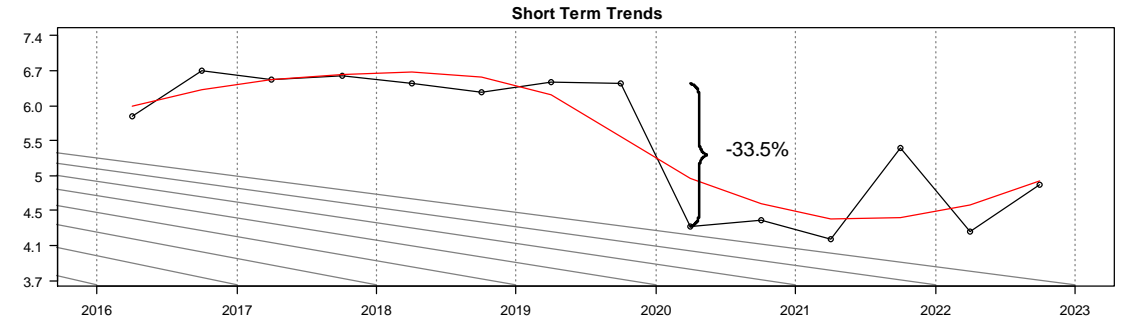
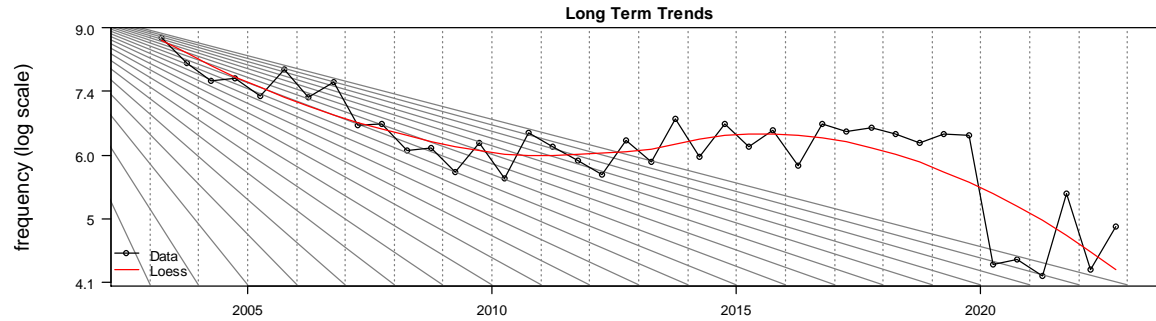
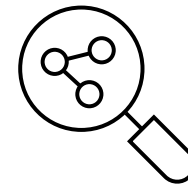
(b) Change in trend rate of +12.0% begins January 1, 2015; most rate applications consider data after 2015.

(c) Change in trend rate of +11.0% begins January 1, 2015; most rate applications will only consider data from 2015 and onward.

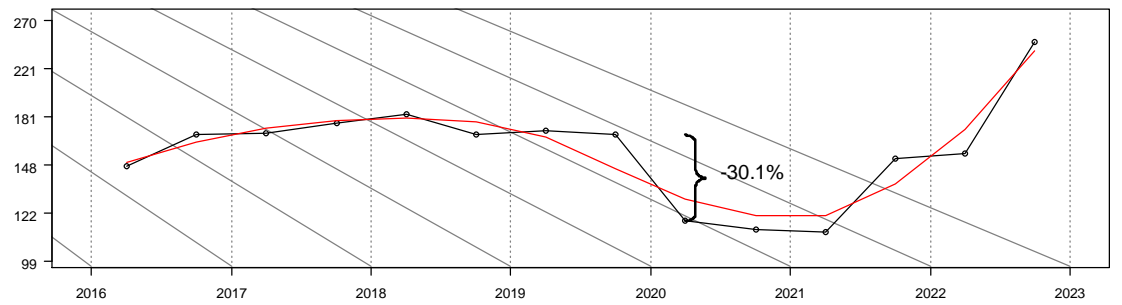
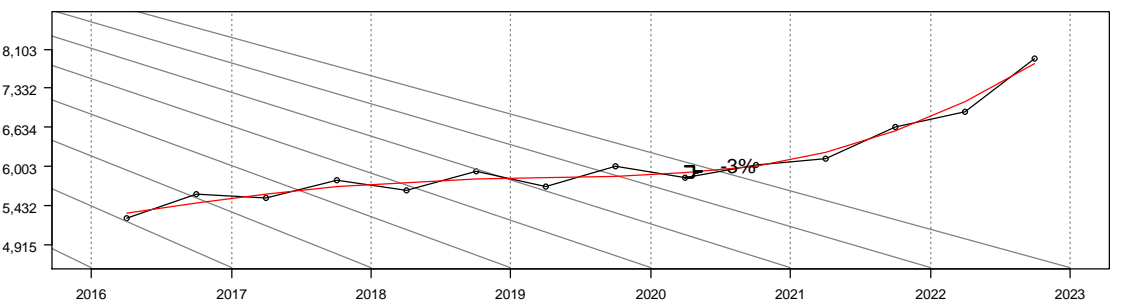
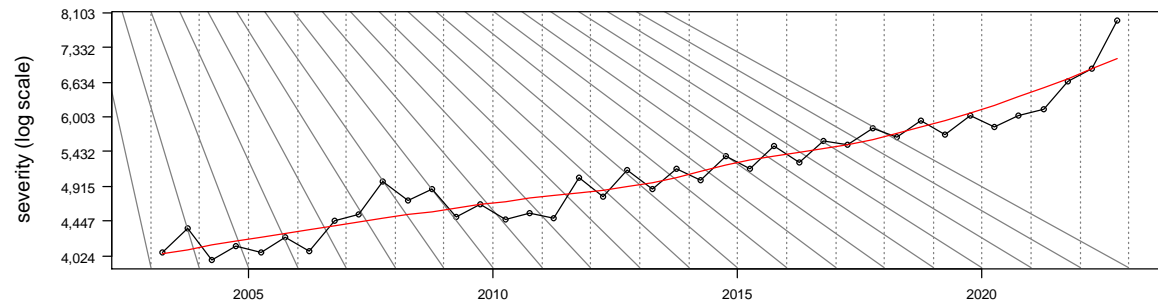
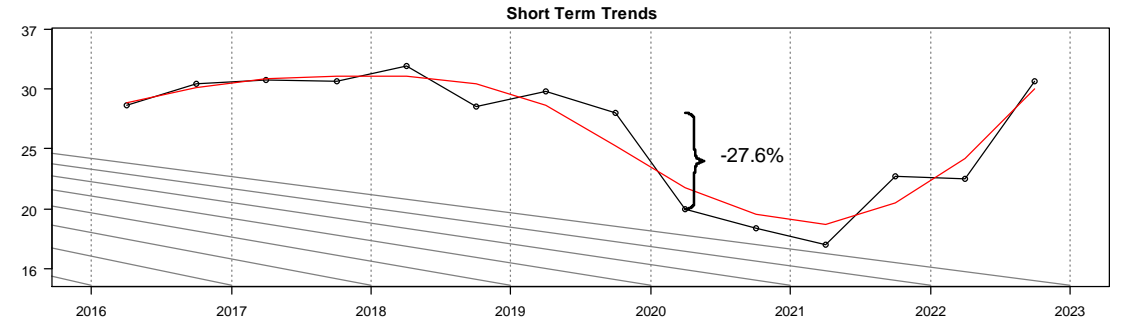
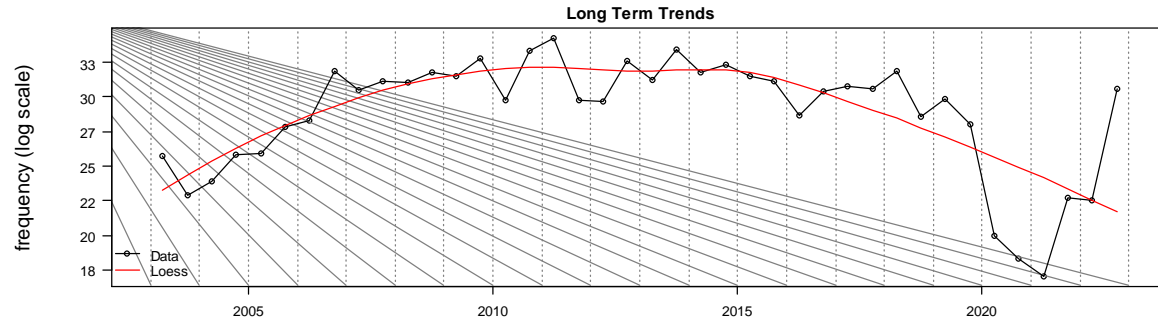
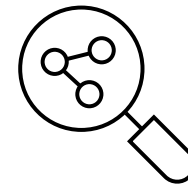
INDUSTRY BENCHMARKS – STAKEHOLDER COMMENTS

- Comments on the preliminary past trend rates from Industry Submissions:
 - *Generally align ...*
 - *Agree with selections...*
 - *Minor differences by coverage... in aggregate close*
 - *Flattening for BI future trend may not occur*
- Inflation Consideration in Loss Trends:
 - *Agree with use of scalar adjustment*
 - *Agree with adjustment to future trend rates for CPI based on the latest information*
 - *Agree evidence of inflation on BI and AB is emerging and should be considered*

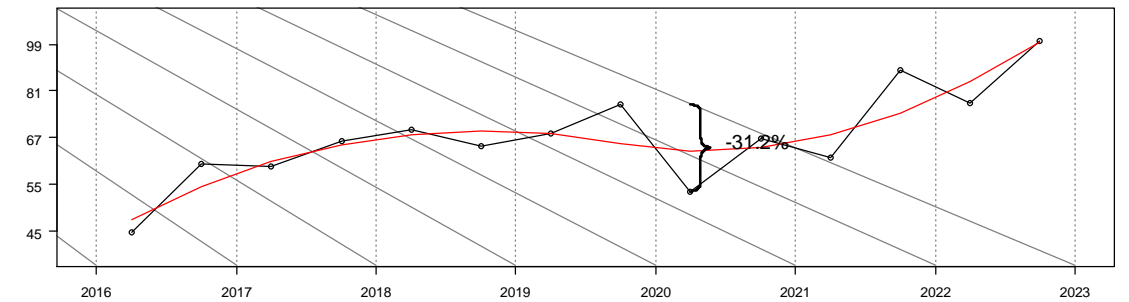
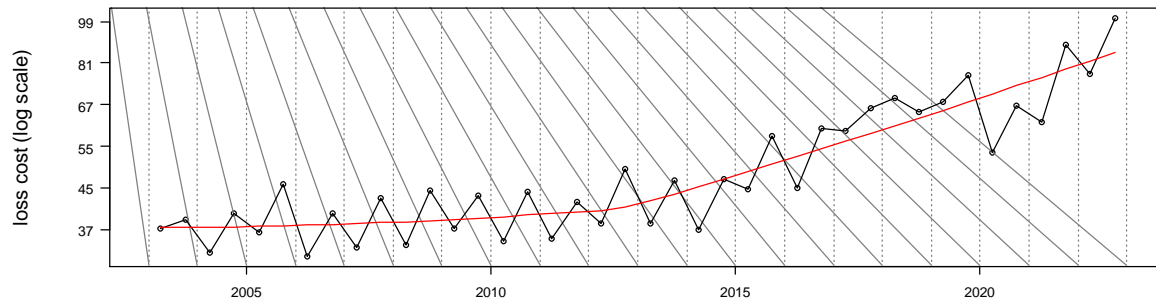
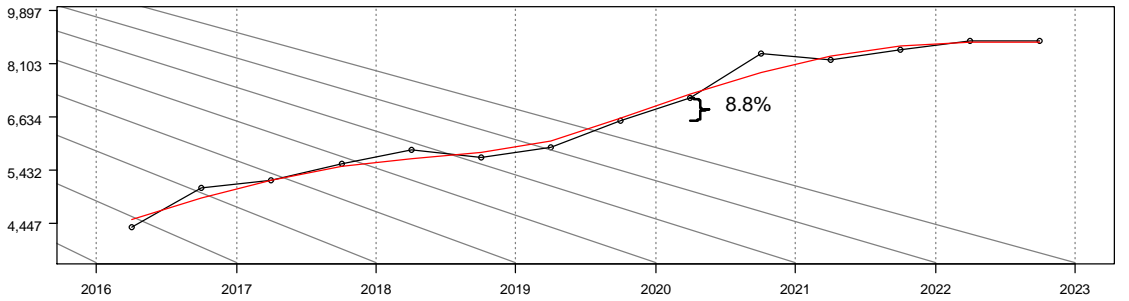
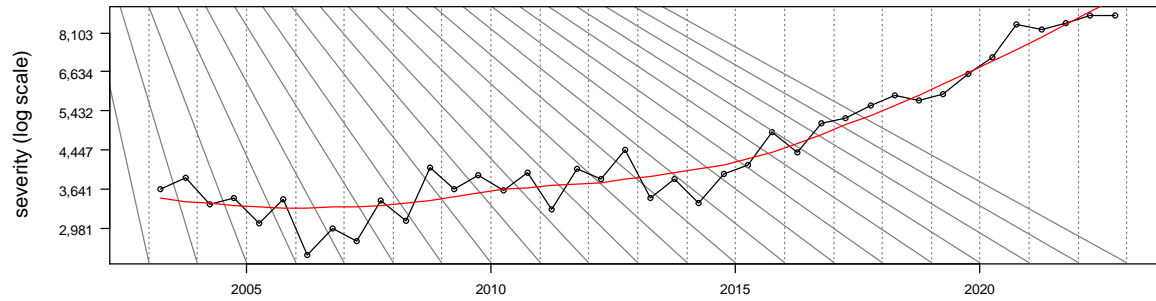
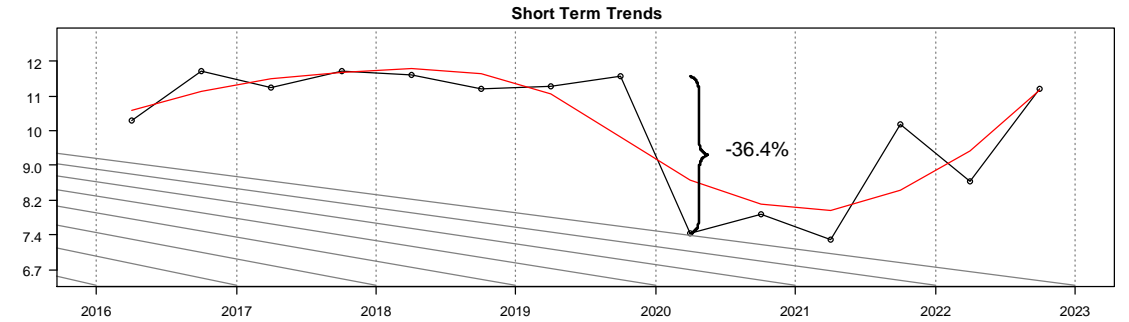
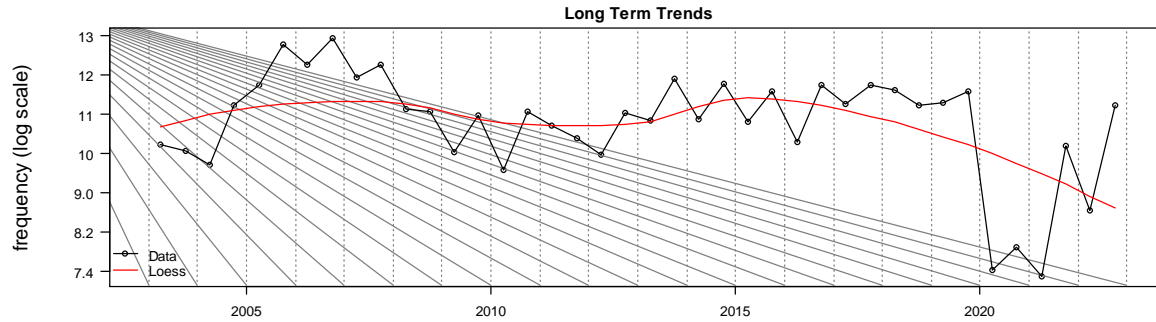
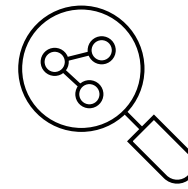
BODILY INJURY



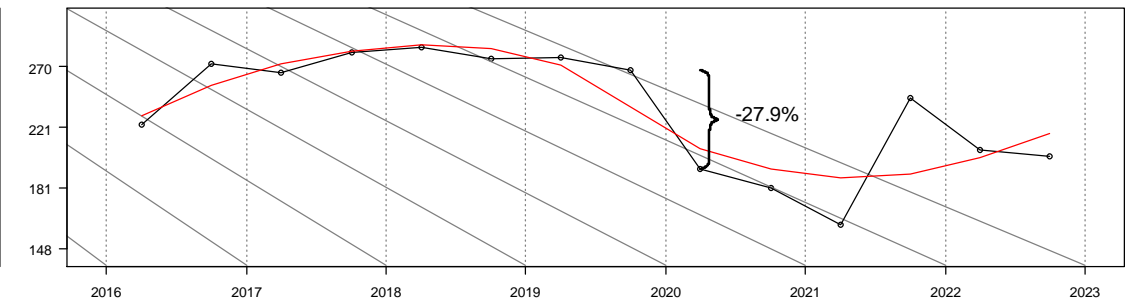
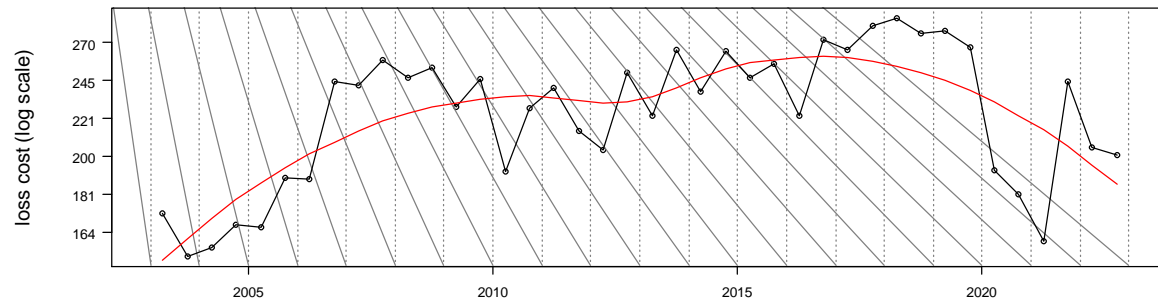
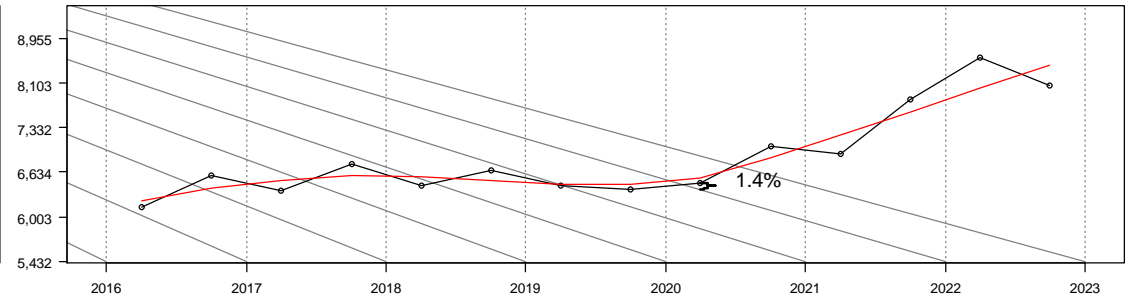
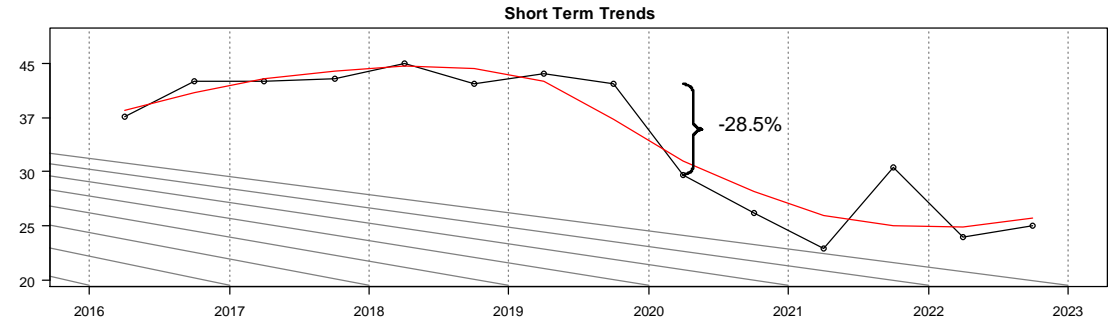
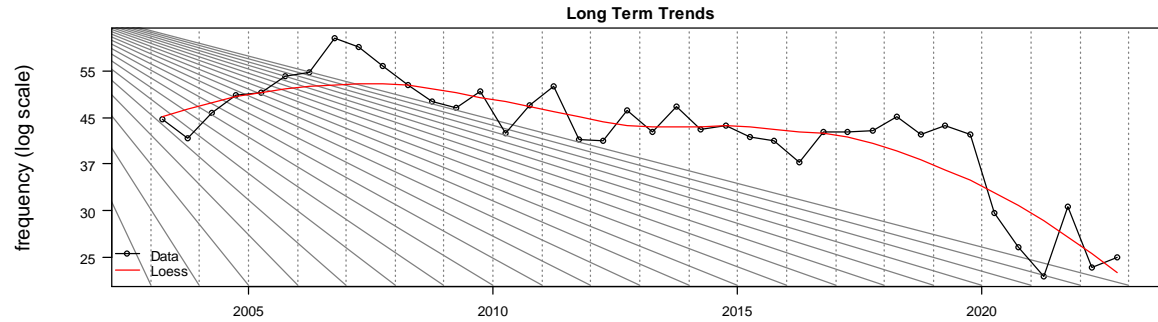
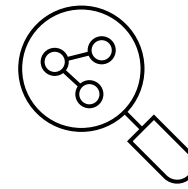
PROPERTY DAMAGE



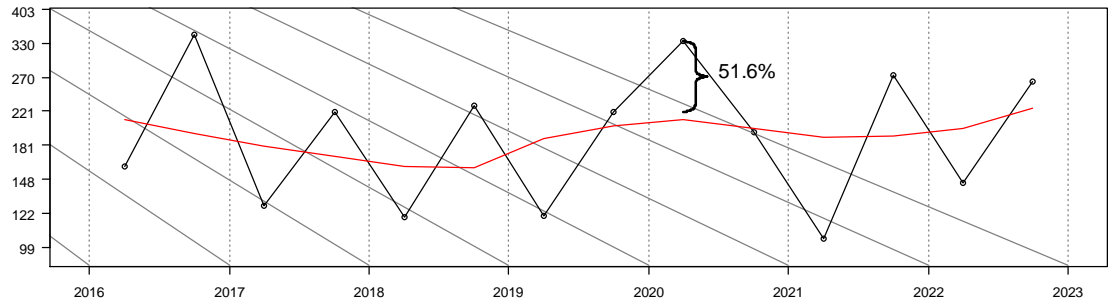
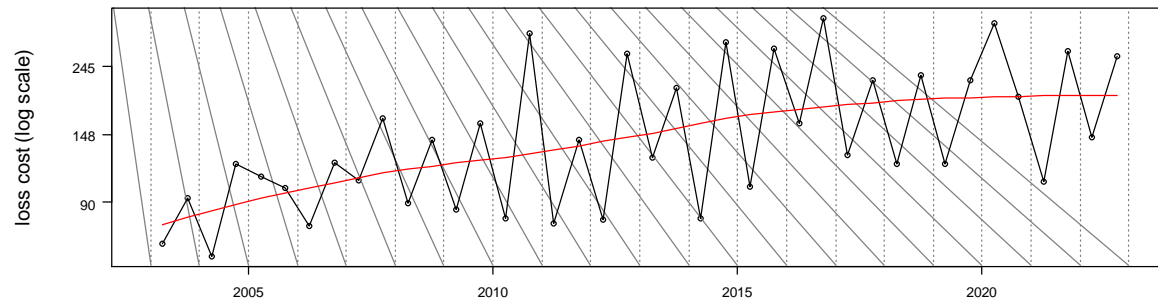
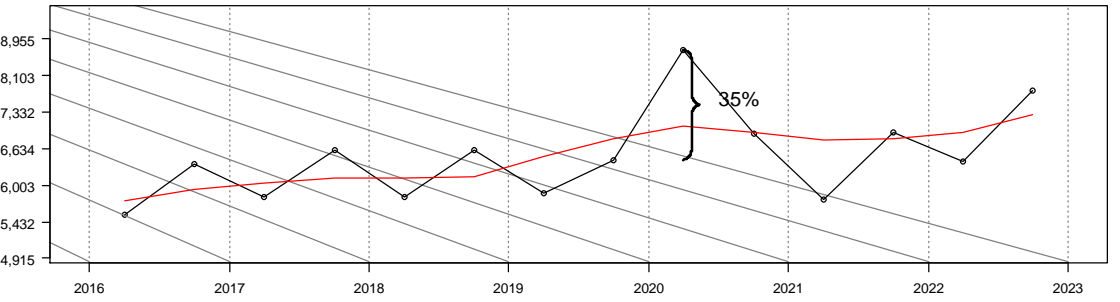
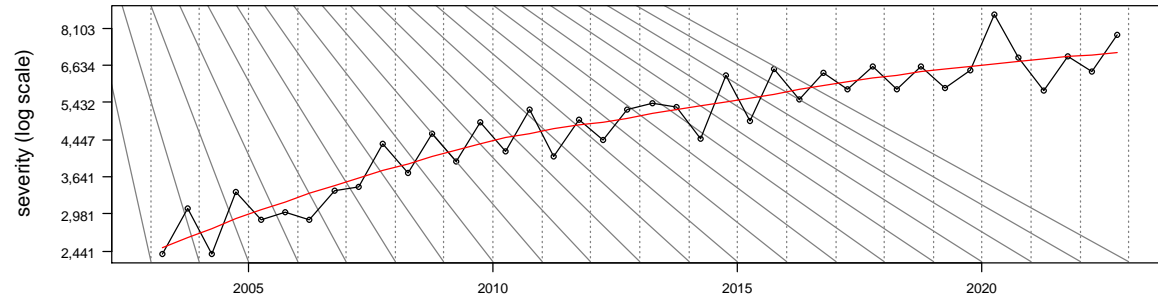
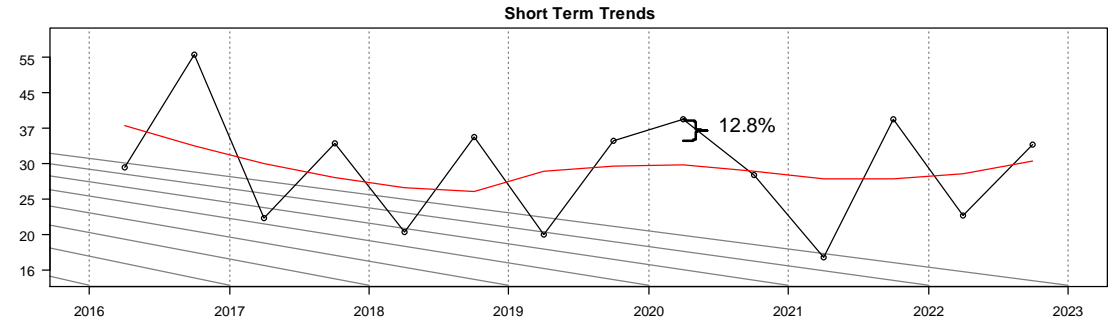
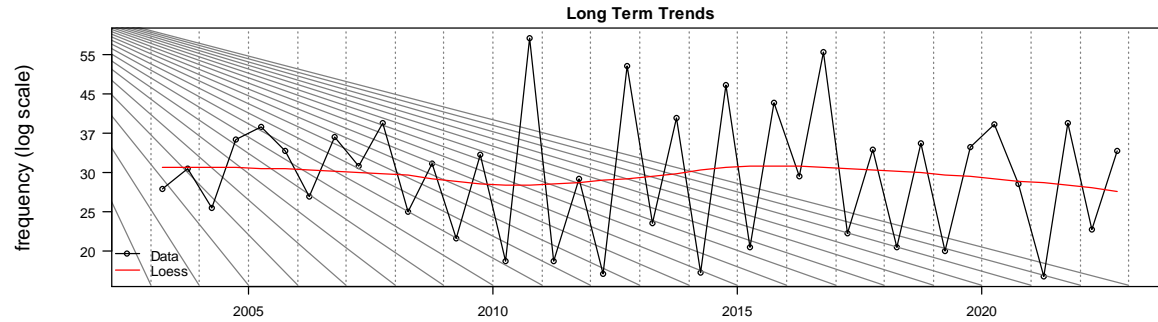
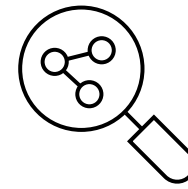
ACCIDENT BENEFITS



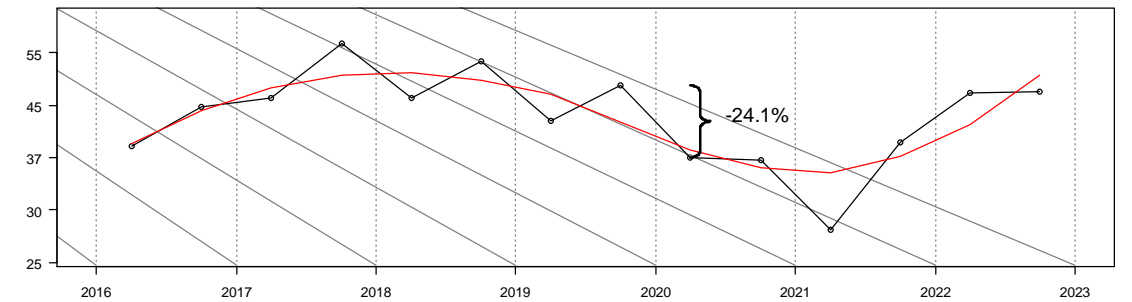
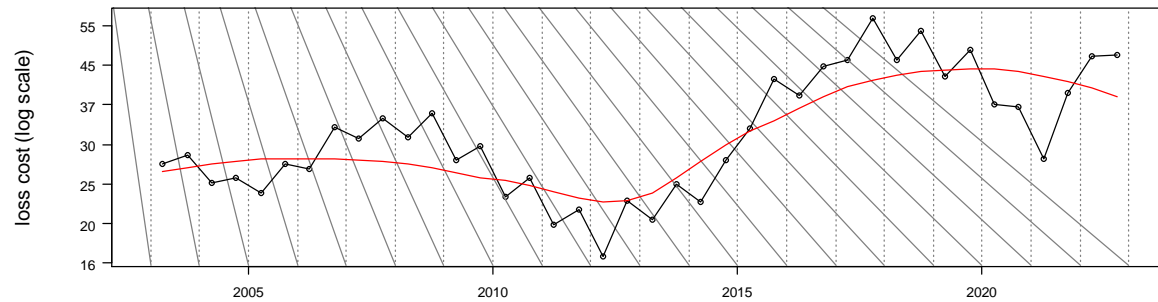
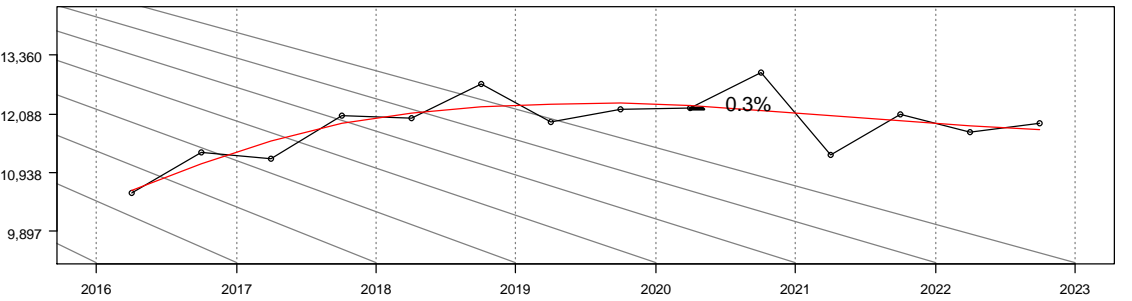
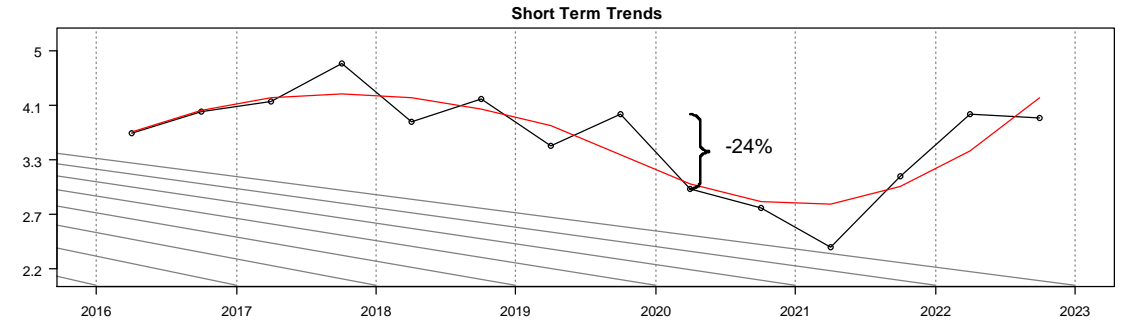
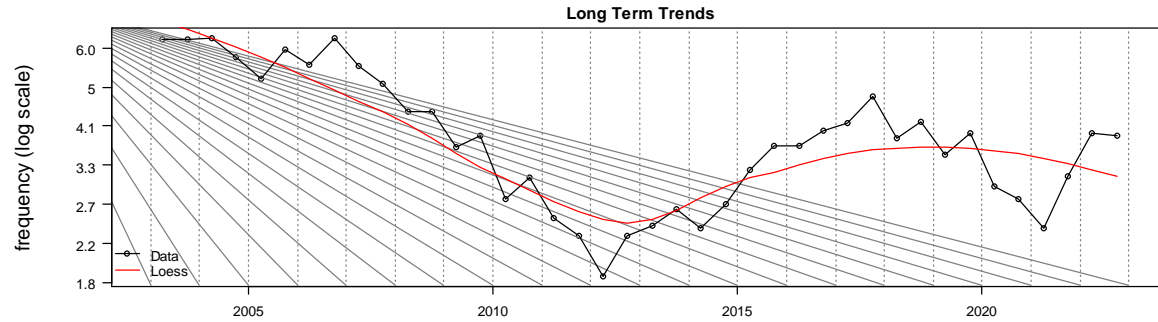
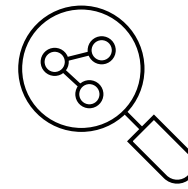
COLLISION



COMPREHENSIVE



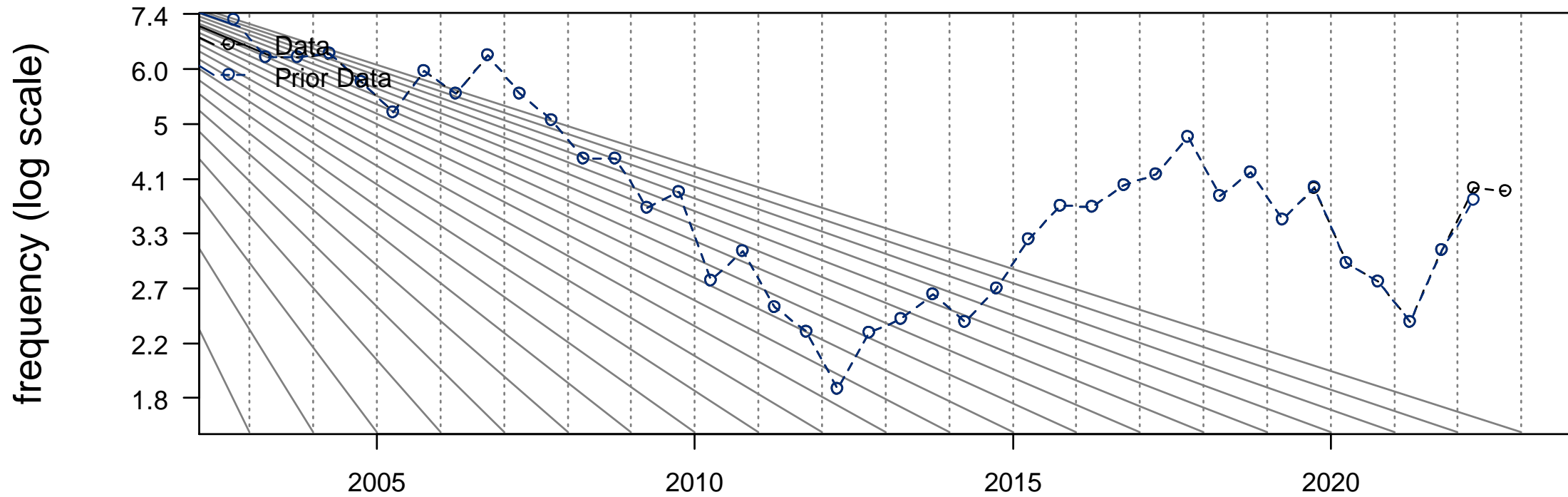
COMPREHENSIVE - THEFT



THEFT CLAIMS

Stakeholder Comments

- Alberta auto theft claims are not as high as Ontario, but AIRB should be aware of the impact if the trend spreads to Alberta.
- Observes an increase in theft losses and monitoring if this is connected to the increase in theft losses across the country.

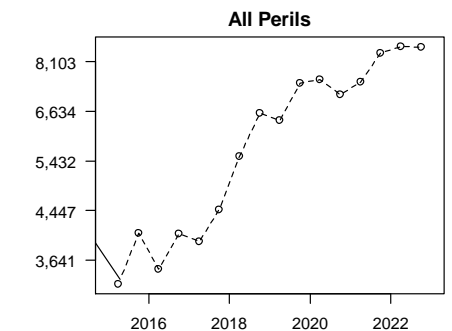
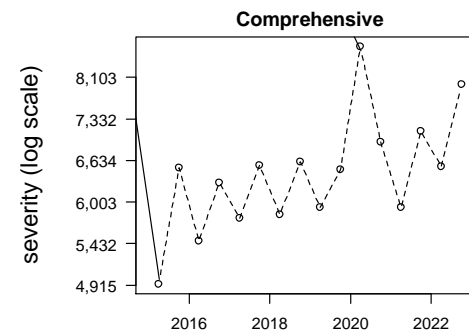
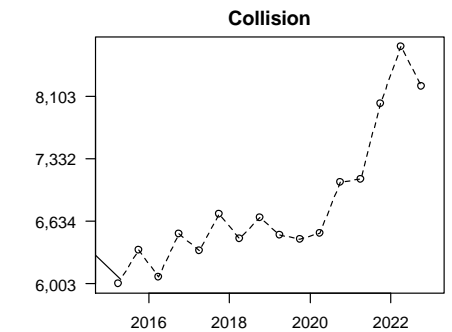
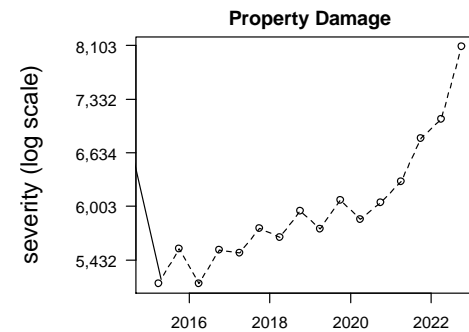
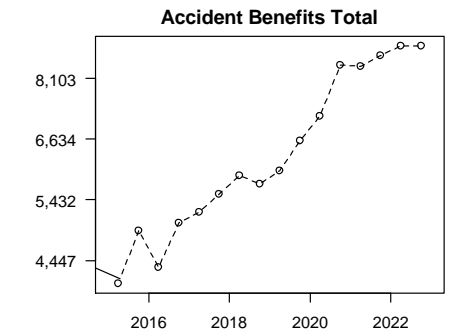
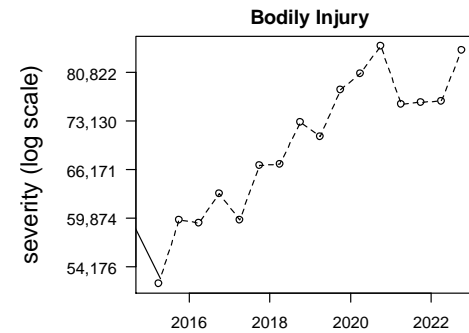


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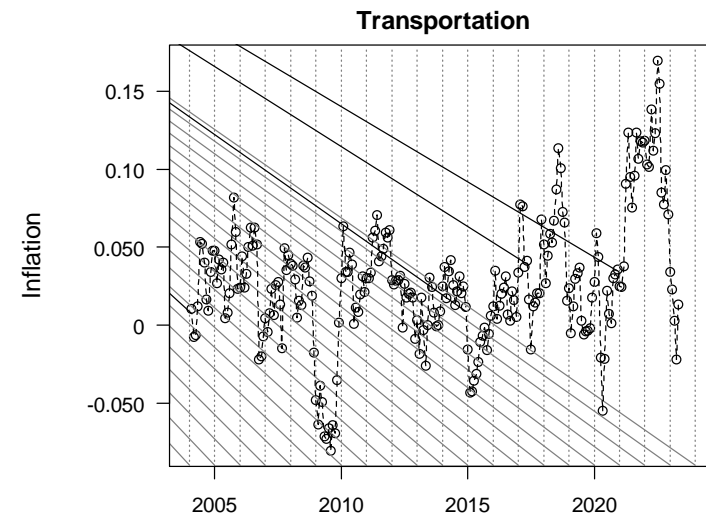
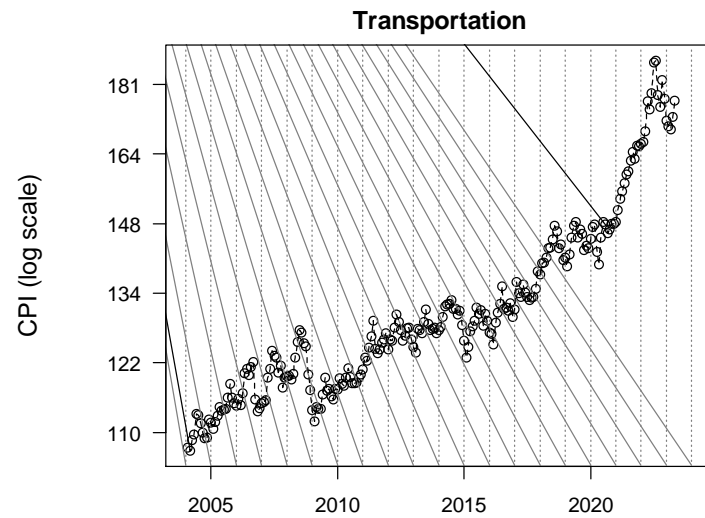
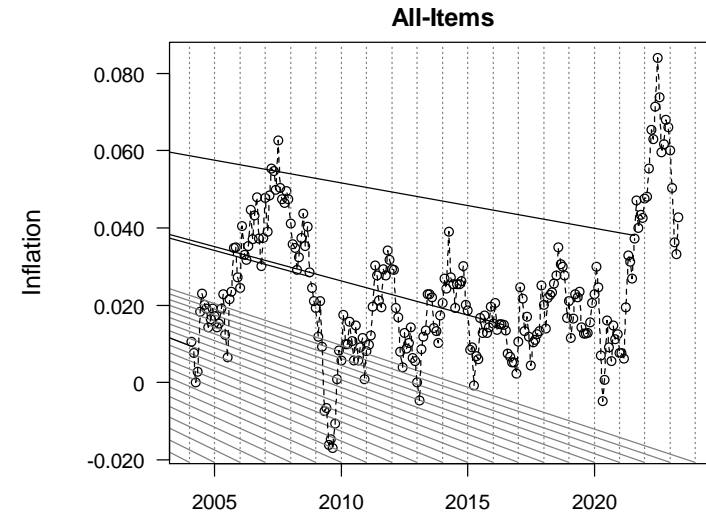
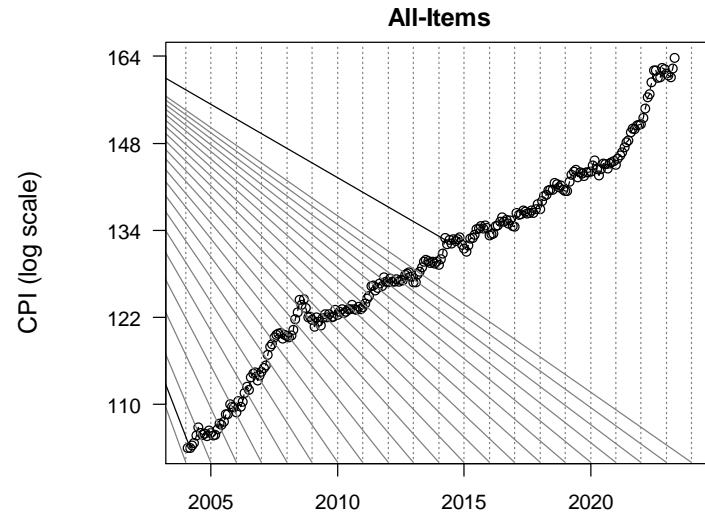
Inflation

PAST LOSS TREND CONSIDERATIONS

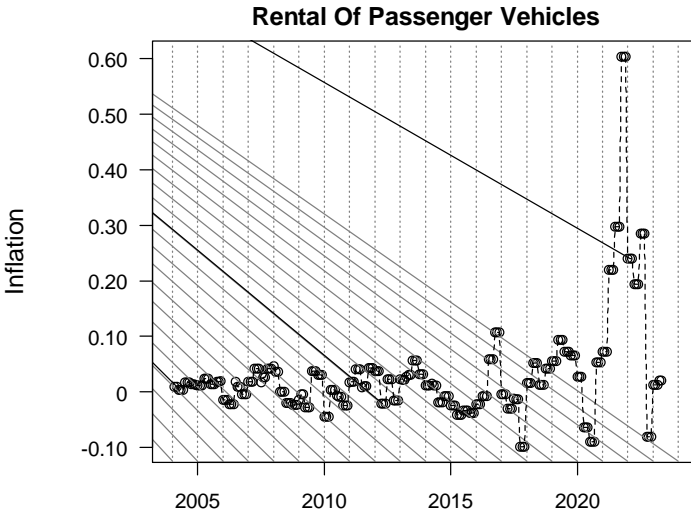
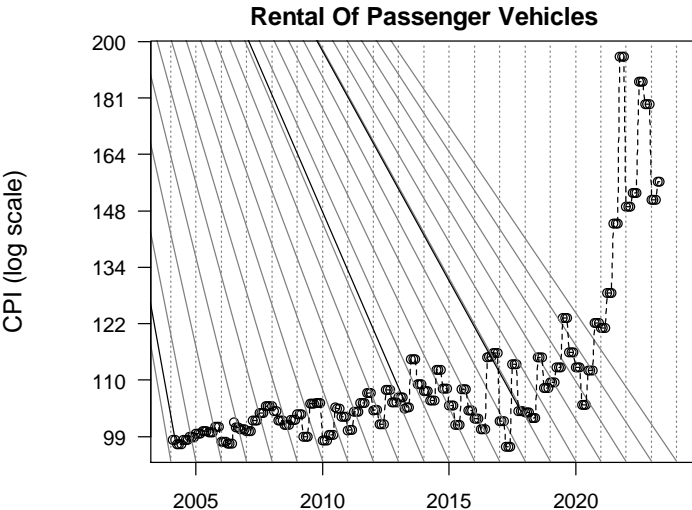
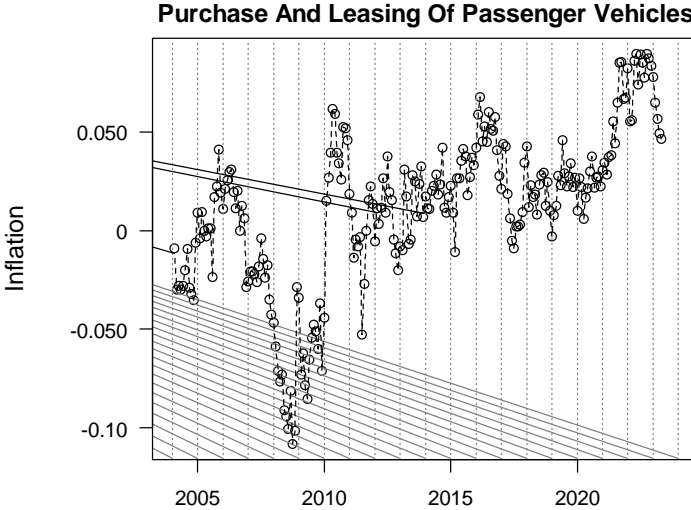
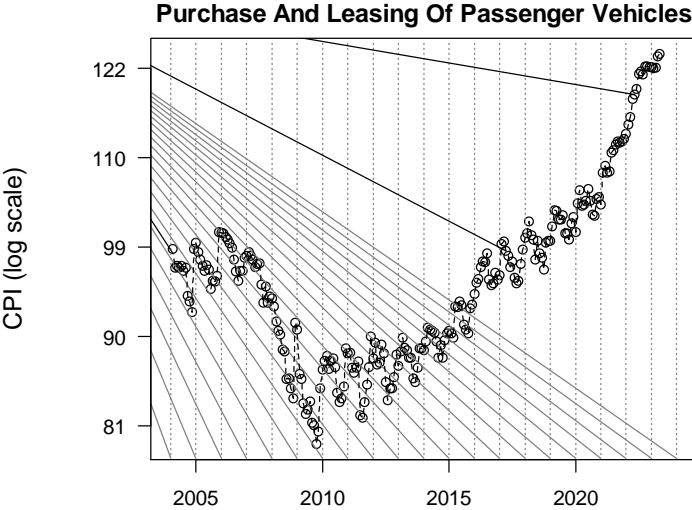
- Supply chain disruption, chip shortages, labour shortages, pent-up consumer demand have resulted in a recent increase in inflation.
- Significant increase in property damage and collision severity coincident with the inflation spike, affecting the latest observations in the experience period for our past loss trend
- An additional scalar parameter in the model isolates and quantifies the change in severity level to the extent that the change is apparent and statistically significant for a specific coverage.
- Inflationary pressures on physical damage coverages (e.g., vehicle purchase, rentals and passenger vehicle parts, maintenance and repair costs) have resulted in the highest inflation levels in the last 10 years.
 - Showing signs of moderation in 2023.
- Inflationary pressures on Health Care costs appear to have lagged the physical damage coverages, with a more modest rise beginning later in 2022.



CONSUMER PRICE INDEX & INFLATION

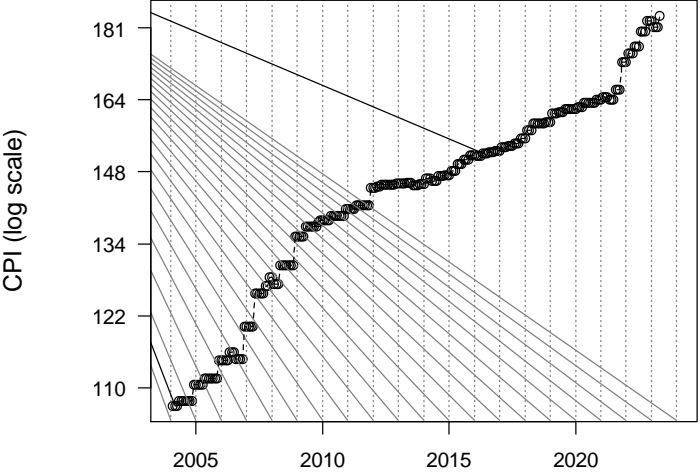


CONSUMER PRICE INDEX & INFLATION

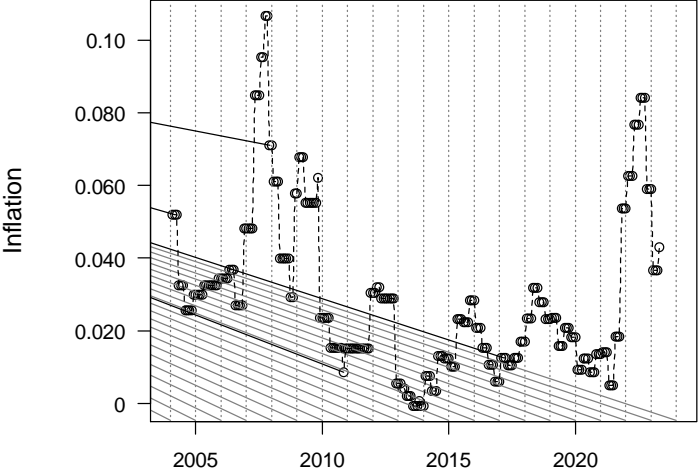


CONSUMER PRICE INDEX & INFLATION

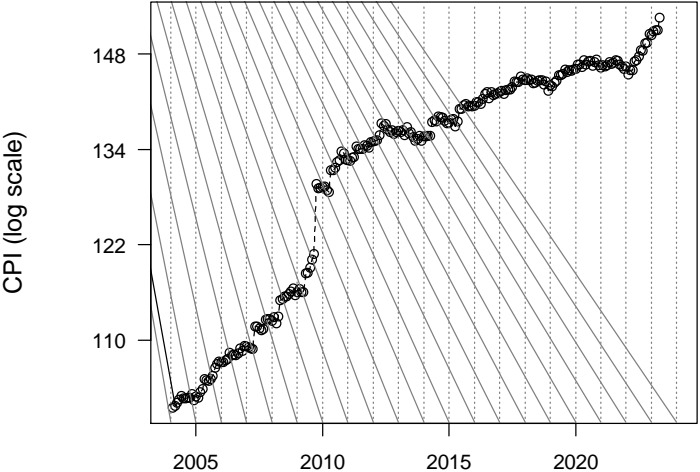
Passenger Vehicle Parts, Maintenance And Repairs



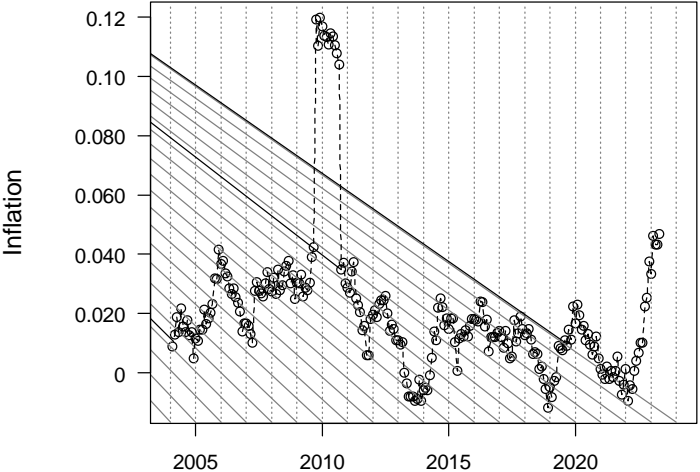
Passenger Vehicle Parts, Maintenance And Repairs



Health Care



Health Care



FUTURE LOSS TREND CONSIDERATIONS

- Selected future loss trend rates consider both the cost level changes that occurred in the past (i.e., past trend) and the likelihood that those patterns may change.
 - In the absence of a significant change in experience, we find it is most reasonable to assume the past loss trend will persist into the future resulting in equivalent past and future trend rates.
 - However, inflation is rapidly changing. Future inflation may be different than historical inflation in our models up to **December 31, 2022**.
 - **Inflation may stabilize, fall or rise...**
 - To the extent that an insurer finds an alternative trend rate more reasonable for the future, we recommend the insurer fully explain and provide support based on the most recent data available at the time of filing.
- Future trend begins at the mid-point of the latest accident half-year considered in the model that supports the selected loss trend rates.
 - The selected trends include the impact of changes in cost through the trend date.
- **We recommend flexibility for future period trend rates;** and this will include consideration of the inflation information available at the time of filing, along with the most recent experience data available.

FUTURE LOSS TREND CONSIDERATIONS – STAKEHOLDER COMMENTS

- Inflation will likely continue to be higher than pre-2021 levels, and insurers should have flexibility in adjusting future trend rates.
- Insurers should be able to continue adjusting for inflation in severity estimates.
- Insurers should be able to include applicable CPI changes to amend future trend rates.
- Flexibility should be considered for future trend rates
- Oliver Wyman does not recommend an inflation adjustment for future trend rates.
 - We recognize that inflation adjustment may be deemed necessary.
 - We expect insurers to estimate and **fully justify** inflation adjustments at the time of filing. Adjustment should be supported by the recent data available (e.g., CPI and internal claims data)

3

Policy Reform

REFORMS

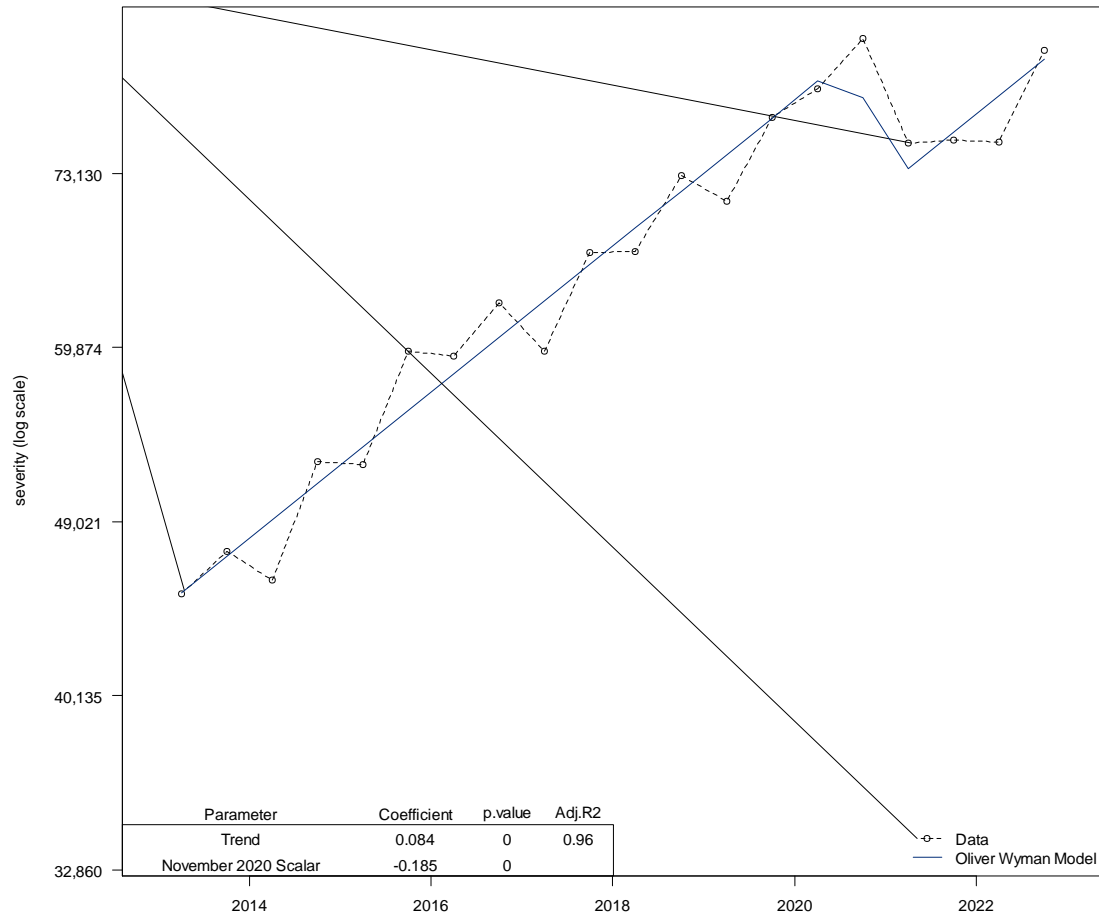
- Bodily injury and accident benefits severity models include an additional (scalar) parameter to measure the reform impact.
 - Bodily injury severity has decreased, and the accident benefits severity has increased.
 - The magnitudes of these changes are relatively consistent with our preliminary estimates for bodily injury and accident benefits of -18% and +8%, respectively.
- Bill 41 may also influence frequency as a policyholder may be more/less likely to pursue a claim under the higher/lower benefits available. See earlier BI Frequency slide.
- DCPD was introduced in the Province on January 1, 2022
 - Due to a lack of data, DCPD and TPL-PD trend selections are based on the combined experience
 - There is some evidence that claims shifted from collision to DCPD

Stakeholder Comments

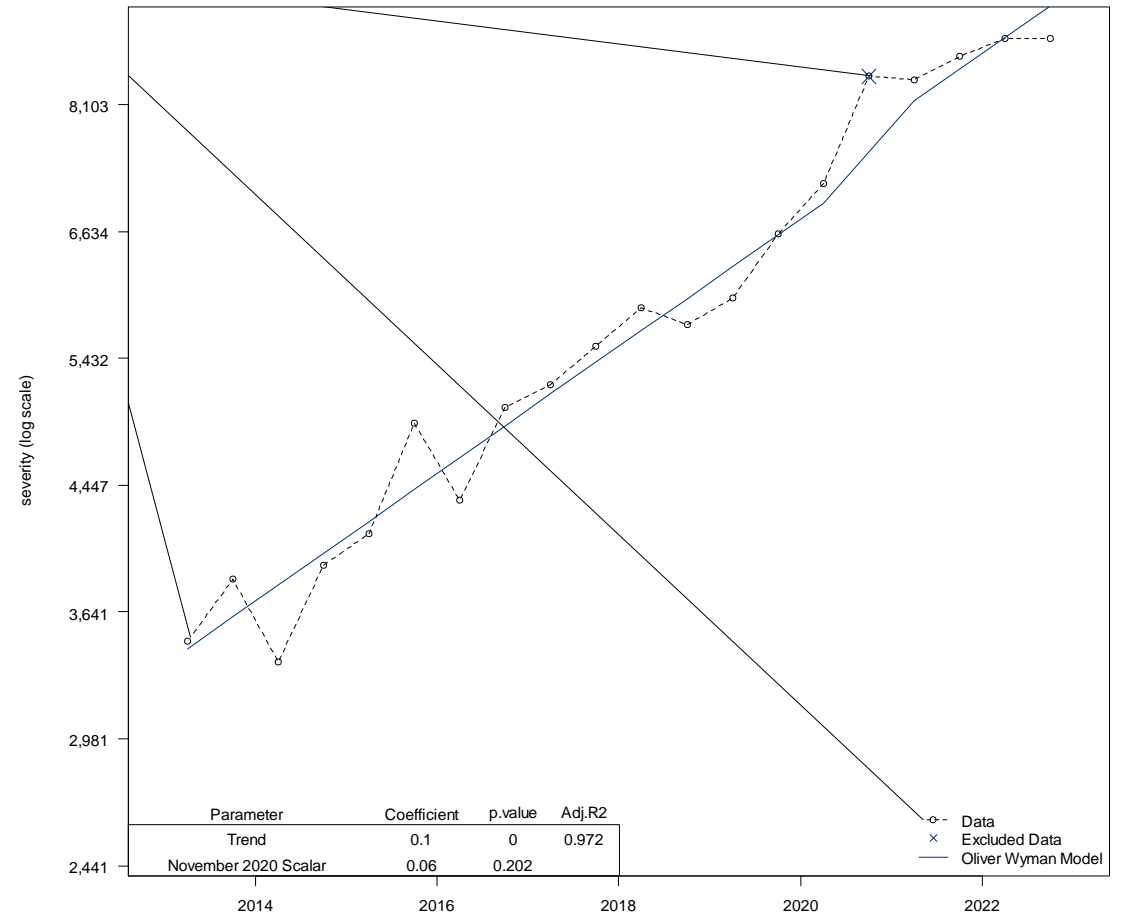
- Uncertainty if the -18% adjustment to Bodily Injury will materialize fully
- Large shift upward in DCPD frequency should be monitored.

SEVERITY MODELS – REFORM IMPLICATIONS

Bodily Injury



Accident Benefits

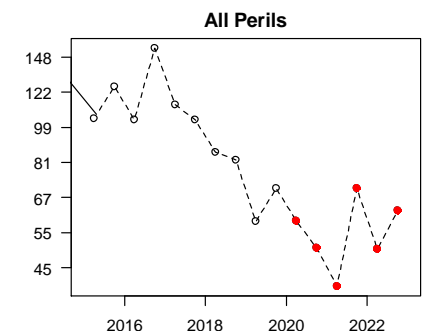
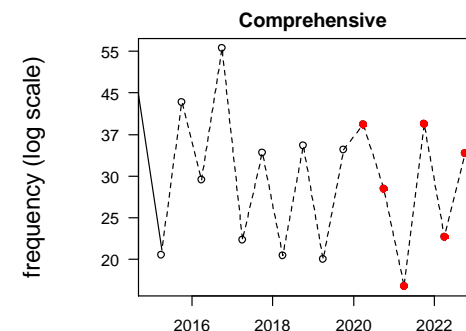
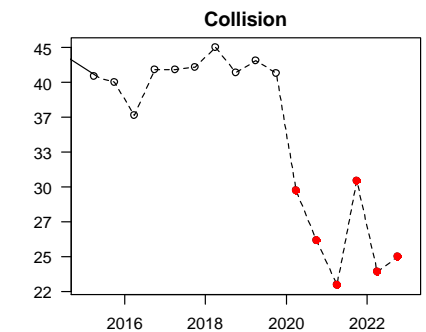
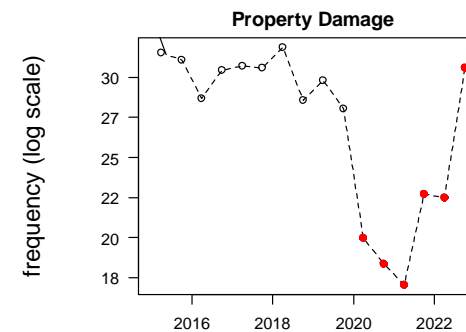
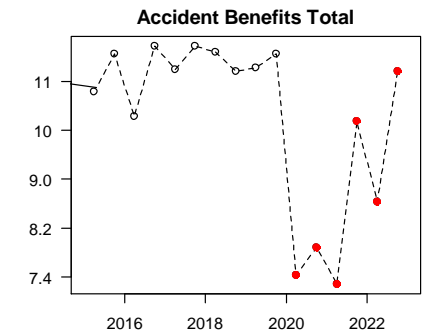
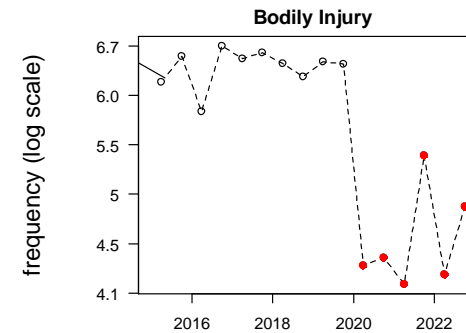


4

COVID-19 / New Normal Considerations for Insurer Rate Applications

PAST LOSS TREND CONSIDERATIONS - COVID-19

- “Stay-at-home” orders introduced to control the spread of COVID-19 dramatically reduced traffic compared to pre-pandemic levels.
- There is a significant reduction to reported frequency in 2020, 2021, and 2022 for most coverages.
- Our frequency trend selections are based on models that exclude the pandemic affected data where appropriate.
- We separately quantify the impact of the pandemic on each coverage using our selected frequency trend models and IHME’s mobility composite metric for Alberta.



POST COVID-19 “NEW NORMAL” FREQUENCY LEVEL

- In calculating rate indications: adjust claims experience for the effect of the COVID-19 pandemic
 - *Fully remove or unwind the impact of the pandemic on the historical data*
 - *Apply an adjustment for the impact the pandemic is expected to have on the loss experience during the proposed rating program*
- Remains uncertainty as to the new normal traffic patterns and claims frequency levels.
- We consider the 2022-2 period to be a **potential** starting point for the post-pandemic period or the “new normal”
 - Despite a return to mobility levels **near** pre-pandemic levels during the second half of 2022, frequency appears lower than pre-pandemic levels.
- We quantify the reduction in the trended industry claims frequency between 2019-2 and 2022-2 for all coverages.
 - Measures the combined frequency impact of post-pandemic driving behaviours, November 2020 reforms, and DCPD introduction
 - May represent an appropriate expectation for the frequency level during the prospective period.

Stakeholder Comments

- Alberta may not experience the post-COVID reduction in frequency due to the types of major sources of employment in the province.
- Do not agree with Oliver Wyman that 2022-2 frequency is a “new normal”.
 - We consider the 2022-2 to be an early **indicator** that frequency will not fully recover to pre-pandemic levels.
 - Insurers should consider the most recent information available at the time of filing in order to determine an appropriate “new normal” adjustment. (e.g., monthly claims frequency metrics)

GOOGLE MOBILITY DATA

Residential areas: How did the time spent at home change relative to before the pandemic?



This data shows how the number of visitors to residential areas has changed relative to the period before the pandemic.



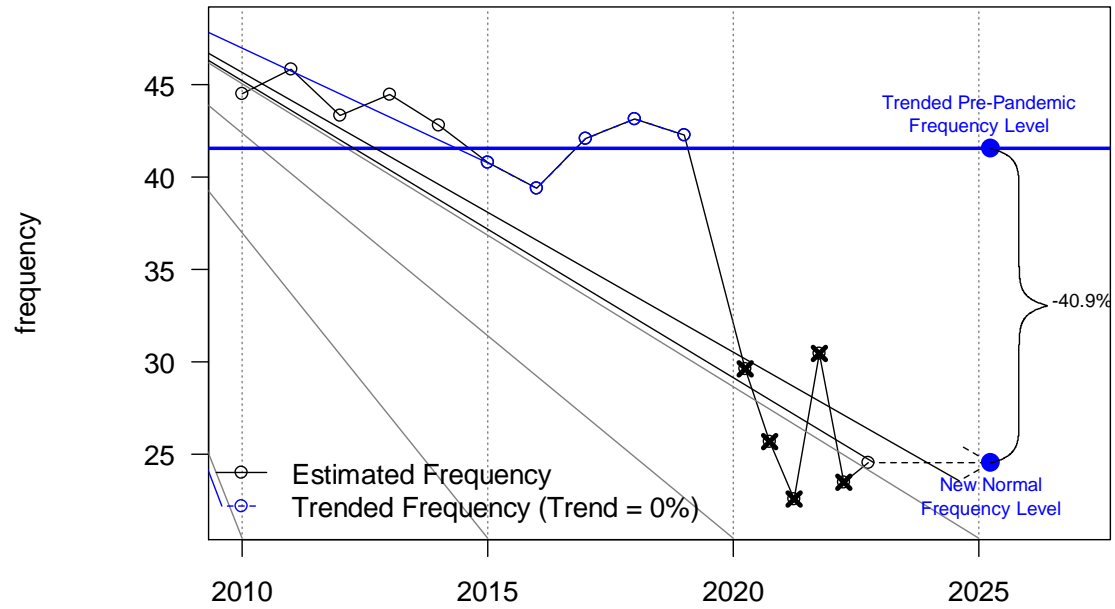
Source: Google COVID-19 Community Mobility Trends – Last updated 21 October 2022

OurWorldInData.org/coronavirus • CC BY

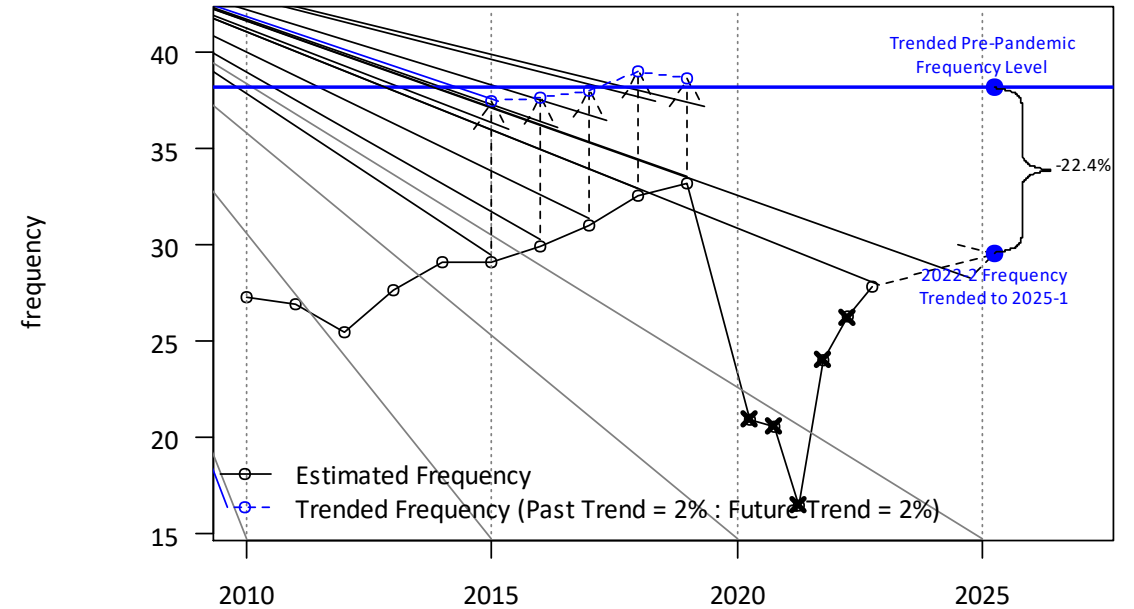
Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.

COLLISION

Alberta



Ontario



5

Profit

PROFIT

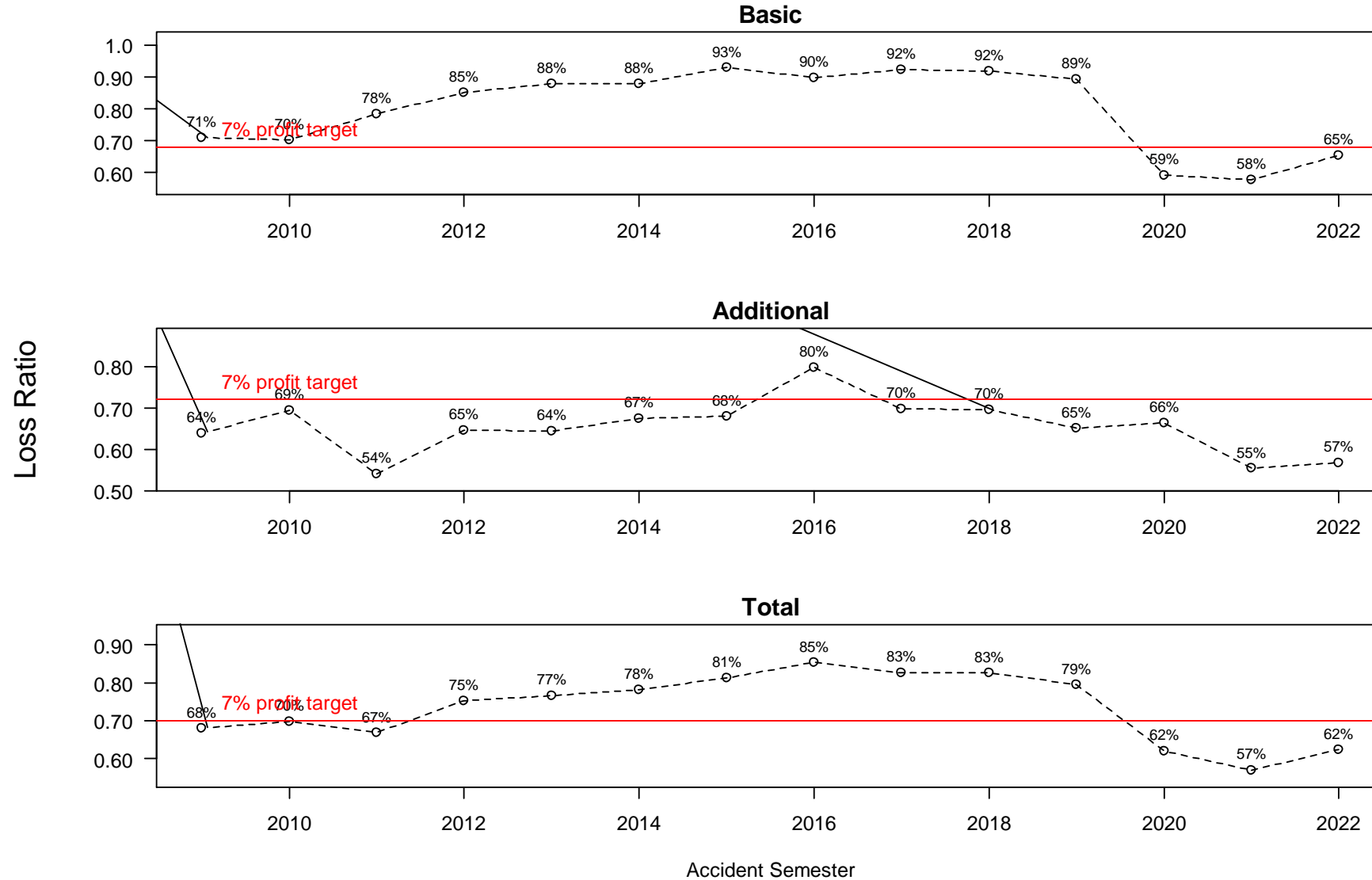
- The 2020-2022 profit results were exceptional and unexpected due to the COVID-19 pandemic.
 - 2020-2022 profit levels are not representative of profit levels achieved prior to 2020.
- On January 25, 2023, the Alberta government ordered the AIRB to pause new rate approvals that increase premium for Albertans. This order is in place until December 31, 2023

Stakeholder Comments

- Insurers have realized higher than the 7% of premium profits prior to 2020
 - We estimate insurers were generally unprofitable prior to the pandemic
- Concern that insurers may realize high profits in 2023
 - We find there is significant uncertainty regarding 2023 profits (impact of inflation offset by reduced post-Covid frequency levels)
 - Trending in the right direction (2022 industry profits were closer to AIRB's 7% POP target)
- “The seven percent profit target for insurance companies is appropriate if calculated with inclusion of investment income on capital”
 - The 7% is set by the Board with consideration that there is additional investment income on capital

HISTORIC PROFITABILITY

Estimated Loss Ratios



RECENT PROFITABILITY

Accident Year	Estimated Loss & LAE Ratio	Discount Factor	Health Levy as % of Total EP	Expense Ratio	Estimated Profit Provision
2018	82.6%	0.954	1.8%	26.2%	-6.8%
2019	79.5%	0.916	1.8%	25.7%	-0.3%
2020	61.9%	0.917	1.3%	25.6%	16.3%
2021	56.9%	0.945	0.8%	27.8%	17.6%
2022	62.6%	0.998	1.0%	27.5%	9.0%

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