2024 MARKET & TRENDS

MID YEAR REPORT

Alberta airb Automobile Insurance Rate Board

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Executive Summary

Auto insurance affordability continues to be a top priority for Albertans and our government. Given the increasing public spotlight on Alberta private passenger vehicle trends and results we find it increasingly important to ensure factual information is available to all Alberta drivers and government decision makers.

The AIRB has published an annual market and trends report since 2020 based on the annual data published by the General Insurance Statistical Agency (GISA) providing important background and trends in auto insurance premiums, claims, and profitability. This 2024 mid-year Market and Trends report is the first time the AIRB has published a mid-year report, which includes some data reported on a semi-annual basis [1] as well as some annual data or analysis which was not available at the time the annual Market and Trends report was published.

With affordability top of mind, Albertans often ask what they can do to reduce their premiums. This report includes an observed trends section illustrating trends on choices some drivers can make to reduce their premiums including coverage, deductible and distance driven. These are a few of the ways Alberta drivers can reduce their premiums. To find out more about other ways refer to the infographics on our website.

It is important to remind readers of the time lag in both reporting of data and the flow of any approved rate change through an entire renewal cycle. The AIRB obtains data from a variety of sources but primarily relies on GISA for premium and claim data. This data is not available for six to eight months following the end of a semi-annual period, which delays the ability to provide data to interested parties on a timelier basis.

Although the Government announced a rate pause in January 2023 many drivers saw a rate increase throughout the year because of rate changes approved prior to the announcement. The rate pause prevented the AIRB from approving any rate change which would result in an increase in premium to any individual driver, but did not prevent changes previously approved, or increases as a result to aging of the driver or the vehicle from being charged to Albertans. Auto insurance rating programs are highly complex algorithms, and a change benefiting one segment of drivers can have unintended consequences for other drivers.

Key statistics from the mid-year 2023 data include:

- The overall change in the full coverage premium was $1,636 in the first half of 2023, up 5.1% from the first half in 2022. This was in-line with inflation, as the CPI adjusted premiums did not increase.
- The industry private passenger vehicle loss ratio was 59% in 2023 H1, compared to 57% in 2022 H1, indicating loss ratios are slowly returning to pre-pandemic levels, but may be settling into a new normal.
- Alberta loss costs for full coverage were $960, below Ontario's $996 in 2023 H1, and the first time Alberta loss costs were below Ontario's in the past two years.
- Alberta's vehicle theft frequency was 23 claims per 10,000 vehicles, well below Ontario at 34 claims per 10,000 vehicles in 2023 H1.
- The proportion of drivers taking comprehensive coverage decreased from 86% to 81% between 2018 H1 and 2023 H1.
- The proportion of drivers taking a $1,000 deductible for collision coverage rose from 21% to 34%, while the standard $500 deductible has fallen from 62% to 46% between 2018 H1 and 2023 H1.

Readers may notice the absence of consumer trends in this report. This remains a top priority and focus for the AIRB. The latest results from our 2024 consumer perception survey will be shared in the Consumer Representative's draft report in late June 2024.

[1] H1 is January – June, and H2 is July – December

Background

Introduction

The AIRB's vision is for automobile insurance to be accessible, equitable and sustainable for all Albertans. The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure access to a robust automobile insurance marketplace. The AIRB monitors industry trends and developments to inform its board members, the Government of Alberta, and other industry partners. Further, the AIRB evaluates affordability, accessibility, and service quality by monitoring relevant indicators influenced by competition, consumer knowledge, and industry trends. This report mainly focuses on competition, affordability, accessibility, and industry trends. Private Passenger Vehicles (PPV) policies make up 77% [2] of Alberta's automobile insurance market by vehicle count. The remaining 23% of vehicles consist of commercial, motorcycles, all-terrain, snow, and other miscellaneous classes. Alberta has a competitive private automobile insurance market providing coverage for 2.9 million vehicles. This report examines the market for PPV only. Although the AIRB conducts a semi-annual review on PPV each year, and conducts internal analysis, this is the first Market and Trends report published on a semi-annual basis. Readers should note some of the data included is on a semi-annual basis up to June 2023, whereas other data is based on 2022 annual results not available when the 2023 Market and Trends report was published. Readers should be advised the data is from various sources but is mainly from the General Insurance Statistical Agency (GISA) and Statistics Canada. Sources for certain data may have changed from previous Market and Trends reports, and therefore, some data may not be directly comparable.

Affordability

The AIRB is concerned about the affordability of automobile insurance for Alberta drivers. Following the pandemic, insurers sought approval for changes to their rating programs in mid to late 2022 to address inflation challenges. Given these rate changes were implemented later in 2022, most policyholders saw a rate change at renewal in 2023 [3]. The overall rate change in the industry was +5.1% , increasing the average premium from $1,556 as of June 2022 to $1,636 in June 2023.

During their last mandate, the government was concerned about the affordability and sustainability of auto insurance. One of the ways they sought to address the rising claim costs and related impact on premiums coming out of the previous rate cap was to introduce legislative changes. The Government of Alberta passed legislation, which included changes to lessen the impact of bodily injury costs and to enhance the care and treatment of injured Alberta drivers. These reforms were intended to ensure automobile insurance remained affordable for Albertans. Bodily injury claims often take many years to fully resolve, so the cost reduction of this change remains unclear. Estimates from Oliver Wyman, the AIRB's consulting actuary, suggest finalized severity will be $85,133 for 2023 H1, down slightly from $86,465 in 2022 H1. They indicate the frequency will increase from 4.2 to 4.6. Typically, claims for any given accident year take about 3-5 years to settle 90%, and 10 years to settle virtually all claims. The AIRB will continue to monitor the data for evidence to evaluate the effectiveness of the reforms.

The AIRB reminds Albertans they can ensure their insurance remains affordable by shopping the market. With a competitive marketplace, there is a range of premiums which vary by insurer.

This report includes observed trends on choices some drivers may make to have more control over their premium they are charged such as choice of deductible or coverages purchased.

[2] Based on 2022 annual data
[3] Refer to Rate Pause on page 4 of this report

Accessibility

The AIRB monitors the industry to ensure coverage is accessible to Albertans. Although we have a competitive marketplace and insurers have reported profits since the start of the pandemic after several years of losses, the uncertainty of future mobility and the impacts from inflation and supply chain challenges led insurers to seeking moderate rate increases after the rate pause expired.

In the past, when insurers believed they did not have an adequate price for their policies, they made business decisions negatively impacting customer service and accessibility, including refusing to offer payment plans, requiring signed renewal forms, refusing to offer additional coverages often required for leasing or financing, and cancelling broker contracts. The government took steps in 2023 to ensure these practices were not re-introduced, most recently amending the Automobile Insurance Premiums Regulation to include payment plans.

Rate Pause

Effective January 25, 2023, the President of Treasury Board and Minister of Finance issued a Ministerial Order preventing the AIRB from approving changes in insurers' PPV rating program resulting in an increase greater than zero for any individual policyholder until after December 31, 2023. The rate pause meant insurers could not receive approval for new increases to Albertans' auto insurance premiums until January 1, 2024. However, it did not mean Alberta drivers would not see their auto insurance premiums increase in 2023. Based on previously approved rate increases, Alberta drivers were told they may experience a premium increase at renewal, or if, since the last renewal, the driver had a new at-fault claim, traffic violation, vehicle, and/or home address.

This report shows the results of data and trends collected during the first five months following the issuance of the Ministerial Order.

Rate Cap for Good Drivers

On November 1, 2023, the government announced it is evaluating options to address the cost pressures leading to rising insurance premiums. Minister Horner announced the government wants to ensure any future long-term reforms are effective and sustainable and therefore they commissioned an external consultant conduct a study of long-term reform options.

In the short term to address affordability challenges Albertans are facing the government implemented short-term reforms to assist Alberta drivers when the rate pause expires on December 31, 2023. The short-term reforms include a cap on "Good Drivers".

The Ministerial Order defines a "Good Driver" as a driver who, irrespective of their number of years of driving experience, on the inception date of the renewal of their auto insurance policy, does not have:

- Any at-fault claims in the previous six years,
- Any criminal code convictions in the previous four years,
- Any major convictions in the previous three years; and
- More than one minor conviction in the previous three years.

It is important to note the implementation of the Good Driver rate cap requires an insurer to file and receive approval to change their rating program, and until they implement the change the rate cap is not applied to renewal policies. Insurers will all implement on different dates, which will be disclosed on the AIRB website under Rate Changes. Most Alberta drivers will not see the benefits of this short-term reform measure until the Spring of 2024.

To protect Alberta drivers both those meeting the definition of Good Driver and those excluded from this protection due to exceptions in the Ministerial Order, in late November the AIRB announced they would not approve any rate increase greater than ten percent overall. The AIRB also informed industry of expectations for policyholder communications related to the Good Driver protection and its implementation.

Uncertainty

The AIRB employs a data-based approach to reviewing loss trends, frequency, and severity by coverage. When reviewing the trends illustrated in this report, it is important to consider the likelihood of trends changing in the future. There are external forces making the use of past results to predict the future more challenging. The AIRB is evaluating the impact of:

- Early evidence suggests the reforms may have (i) impacted a claimant's inclination to pursue a bodily injury claim and (ii) shifted claims from collision to DCPD;
- Current mobility projections indicate a return to pre-pandemic levels in the second half of 2022. However, with remote and hybrid work, driving patterns and vehicle usage may have changed;
- Inflationary impact on claim severity - a significant increase in physical damage claim costs coincided with the late 2021 increase in Consumer Price Index, for categories directly impacting these claim costs; and
- General inflation and /or recession may cause consumers to do less, resulting in a reduction of change in vehicle usage.

We continue to review the data on historical trends to inform how they may influence future trends – however, we caution readers of the uncertainty on estimations of future trends, given the events of the past few years.

Legislative Reforms

In late 2020, Bill 41 Insurance (Enhancing Driver Affordability and Care) Amendment Act was passed to amend the Insurance Act and the province's automobile insurance framework. The amendments applied to claims occurring on or after the date specified and included:

- **Insurance Act** - Prejudgment Interest (Effective upon Royal Assent, December 9, 2020): Prejudgment Interest paid on non-pecuniary damages was previously fixed at 4% and was changed to fluctuate with current interest rates.
- **Minor Injury Regulation** (Effective for accidents occurring on or after November 1, 2020) - Updated the definition of a "minor injury" and added dentists as eligible health professionals able to act as certified examiners.
- **Automobile Accident Insurance Benefits Regulation** (Effective October 29, 2020) - Benefit amounts available to claimants increased for new and existing claims.
- **Diagnostic and Treatment Protocols Regulation** (Effective October 29, 2020) - Dentists, psychologists and occupational therapists are now considered adjunct therapists with a maximum benefit for treatment by any combination of these adjunct therapists of $1,000.
- **Introduction of Direct Compensation Property Damage** (Effective January 1, 2022) - Separated DCPD from third-party liability premiums.

The AIRB monitors data and trends for evidence these reforms are reducing or at least stabilizing premiums for Alberta drivers, as intended. There is insufficient data to evaluate the effectiveness of reforms fully. In addition, both the pandemic and recent inflation have impacted our ability to evaluate the impact of reforms independently.

Automobile Insurance Approval & Rate Regulation

The AIRB approves or rejects automobile insurers' filings for rate changes with the authority granted by the Insurance Act and regulations. The AIRB reviews rate filings in detail to ensure all Albertans have access to a fair and affordable premium. Each aspect of a rate filing is scrutinized, including, but not limited to, proposed rating variables, discounts, surcharges, and rating models. Like all businesses, insurers must charge enough to cover operating and claims costs to earn a reasonable profit. Part of the AIRB's review includes examining their experience and related premium adequacy due to market conditions.

To address market challenges when making decisions, the AIRB continuously monitors the automobile insurance market, including loss trends, availability, affordability, and consumer perceptions. We further discuss these topics with stakeholders and industry experts to stay informed and ensure proactive decision-making.

The AIRB also regularly reviews its filing guidelines to reduce regulatory burden and encourage more frequent filings to avoid large rate increases for Alberta drivers.

Albertans can review rate changes as they are approved for every automobile insurer in Alberta on our website.

Trend Highlights

5 Years Ago
45%
Have Less Than 5 km Commute

Now
57%
Have Less Than 5 km Commute

Insurers Between 2018 to 2023 With...

$1,000 Collision Deductible
21% to 34%

$500 Collision Deductible
62% to 46%

Average Premium in the First 6 Months of 2023

1.7%

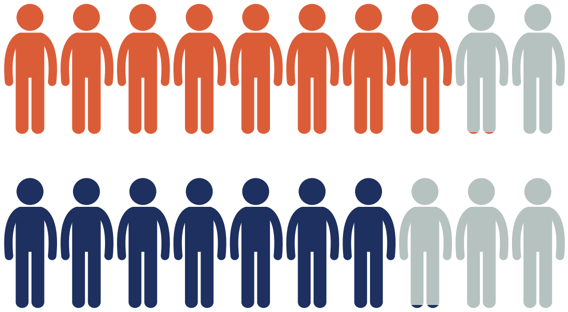
59%

PPV Loss Ratio at June of 2023

Intact Financial Insurance Group
24%
Rural Market Share in 2022

TD Insurance Group
25%
Urban Market Share in 2022

Vehicles With Optional Coverage at June of 2023



81%
Comprehensive Coverage

72%
Collision Coverage

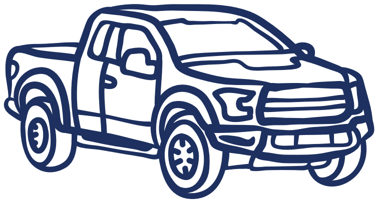
Zero Dollar Collision Claims

13,559
In 2018

1,580
In 2023

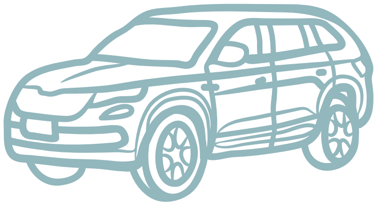
$960
Loss Cost at June of 2023

Most Stolen Vehicle in 2022



2014 Dodge RAM
1300 Series

Least Stolen Vehicle in 2022



Acura MDX

57¢
Of Every $
Of Premium

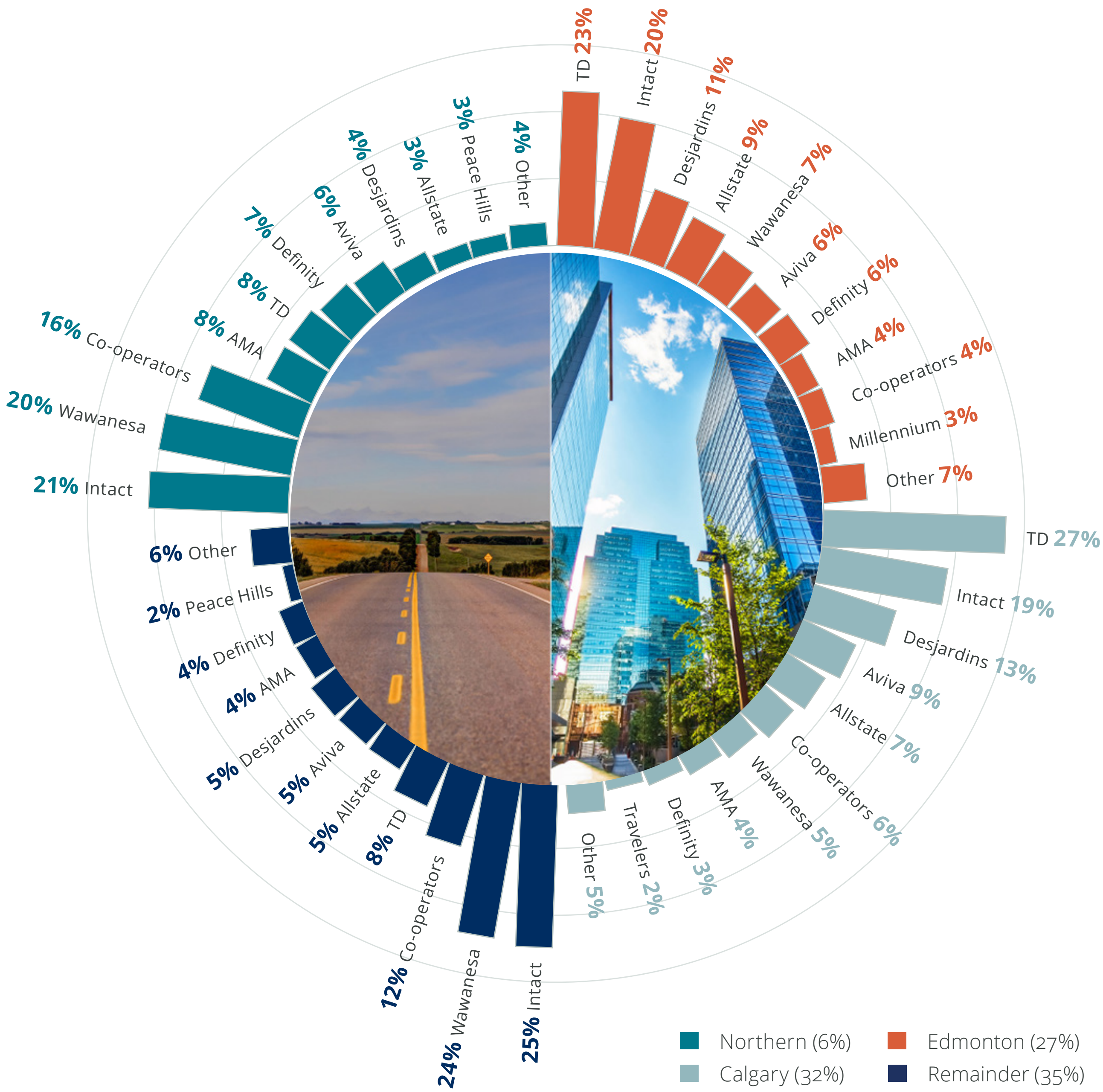
61¢
Of Every $
Of Claims

Goes to Third-Party Liability
as of June 2023

Private Passenger Vehicle Market Trends

Market Share by Territory

Insurer Group[4] Market Share by Territory (2022)[5]



[4] Insurer Groups: Allstate Canada Insurance Group (Allstate), Alberta Motor Association Insurance Company (AMA), Aviva Canada Inc. Insurance Group (Aviva), The Co-operators Insurance Group (Co-operators), Definity Insurance Group (Definity), Desjardins General Insurance Group (Desjardins), Intact Financial Insurance Group (Intact), Millennium Insurance Corporation (Millennium), Peace Hills General Insurance Company (Peace Hills), TD Insurance Group (TD), Travelers Insurance Group (Travelers), and The Wawanesa Mutual Insurance Company (Wawanesa)

[5] Source: General Insurance Statistical Agency Auto 3091

Overall, Intact Group, TD Insurance Group, and Wawanesa remain the three largest PPV insurers in the province with market shares of 21%, 18% and 13%, respectively. When this is broken down by GRID rating territory, we see each territory has varying degrees of competition.

Overall, TD holds a majority market share in urban markets (Calgary and Edmonton) at 25%. Intact, the largest insurer overall holds 19%, and Wawanesa only six percent of the urban market. When looking at rural territories (Remainder and Northern), TD holds only eight percent, while Intact and Wawanesa hold 24% and 23% respectively.

On a provincial basis, Alberta has a competitive marketplace, and this holds true in a majority of the territories within it. However, Calgary is the most concentrated territory with TD writing 27% of the market, more than its closest competitor, Intact, at 19%. The top three insurers in Calgary hold a 59% market share, and the top ten hold 95%.

Insurers employ rating territories in order to price their customers, and therefore insurers can, in some ways, cater towards certain geographic regions. Some insurers may choose a lower differential on urban areas than other insurers feel is appropriate to gain market share in urban areas, and likewise for rural.

Insurance Premium Trends

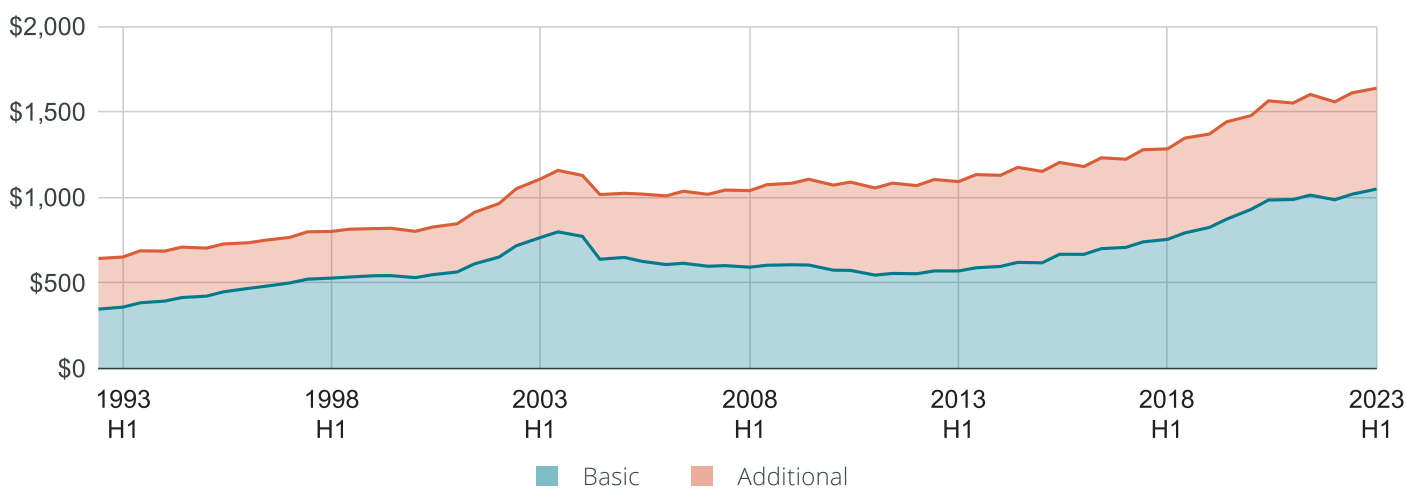
Average Premiums

The change in average premiums is an important indicator of affordability within the market. Over the last 30 years, premiums have increased from $652 in July of 1993 to $1,639 in July of 2023, an increase of 251%. However, when adjusting for inflation based on the Alberta all-item consumer price index (CPI), the increase is only 28% above inflation, from $1,315 to $1,687. Therefore, full coverage has seen premiums rise by 0.9% per year above inflation since 1993. Current full coverage premiums remain below prices seen in January of 2020, when adjusted for inflation.

The 30 year increase in prices comes almost entirely from basic coverage. CPI adjusted additional premiums are exactly equal to their values 30 years ago, while basic coverages have rose by 52% above inflation over the same period.

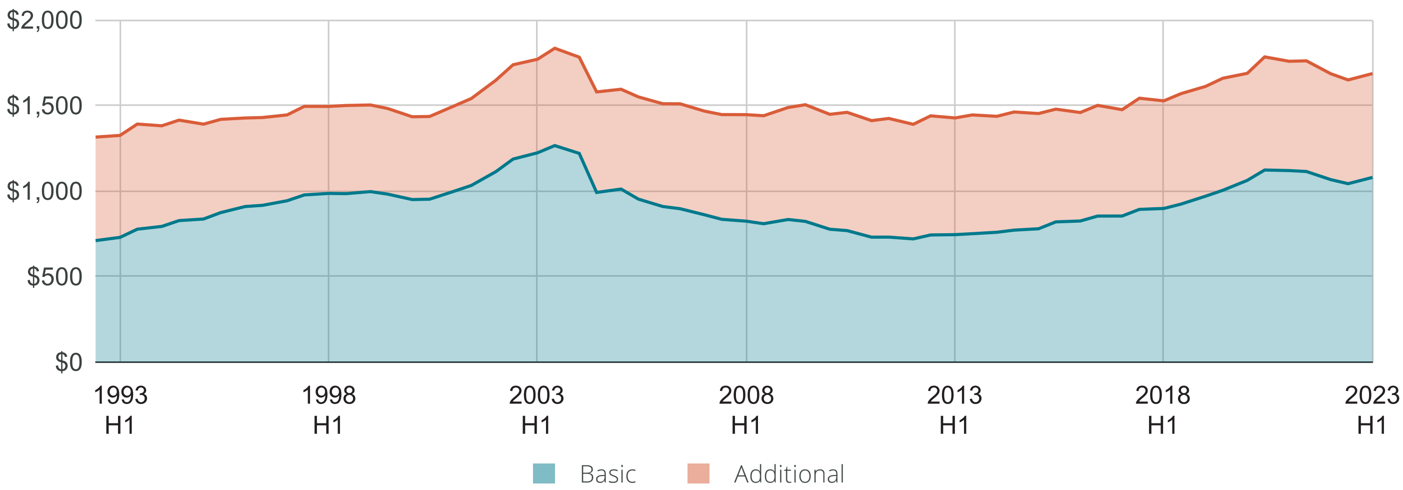
Over the past five years, the CPI adjusted premium has increased ten percent, indicating growth above the all-item inflation rate. This represents decreased market affordability for Albertans. Generally, our past research suggested Albertans can tolerate a 10% increase on renewal, therefore insurers filing regularly to adjust their rates in response to cost pressures are less likely to see their policyholders shop the market or change insurers.

Average Written Premiums Basic & Additional[6]



[6] Source: General Insurance Statistical Agency Auto 7501

Average Written Premiums Basic & Additional - CPI Adjusted[7]



How Do Our Premiums Compare?

The AIRB benchmarks Alberta's premiums against other provinces to provide a broader context. The AIRB recognizes while each province carries more or less the same coverages, the smaller details such as injury definitions, benefits, and benefit limits vary by province. In our annual Market and Trends report we include provinces with public delivery models, such as British Columbia, Manitoba, Saskatchewan, and Quebec, but they only provide information on an annual basis as part of their fiscal reporting. In this mid-year report, we only present data from select GISA jurisdictions: Alberta, Ontario, Price Edwards Island, New Brunswick, Newfoundland, and Nova Scotia.

Overall, Alberta premiums are the second highest of GISA jurisdictions at $1,636, lower than Ontario's $1,758, and noticeably higher than the Atlantic provinces, of which the highest premium is paid by Newfoundlanders at $1,306.

However, when looking at the loss cost, the cost per vehicle only resulting from claims, Alberta vehicles are more expensive to insure than all provinces with lower premiums. In particular, Ontario's five year average loss costs are $1,070, compared to Alberta's $1,030. The Atlantic provinces pay a lower premium as their five year average loss cost is just $731. The difference between Newfoundland premiums and Alberta premiums in 2023 H1 was $330, almost the exact difference in loss costs between the two provinces.

Some selected data points could be driving the difference in loss costs are:

1. Alberta has some of the highest instances of weather catastrophes. The loss cost for comprehensive coverages for weather claims were $65, $15, and $10 for Alberta, the Atlantics, and Ontario respectively.
2. The Atlantics don't have population centres comparable to Edmonton, Calgary, Toronto, Ottawa, and others. Vehicle density was 4.4, 7.6, and 3.3 insured vehicles per square kilometer for Alberta, Ontario, and the Atlantics respectively.
3. Vehicle theft rates are exploding in Ontario. The loss cost for comprehensive coverages due to vehicle theft alone are $132 in 2023 H1, compared to $17 for Alberta and the Atlantics.

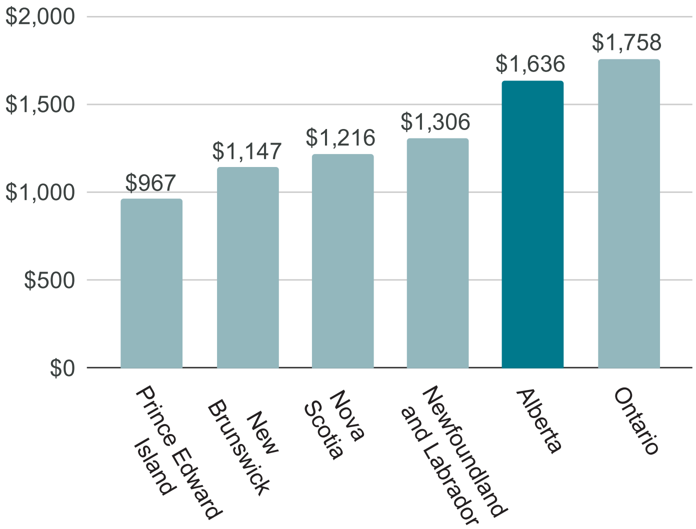
Other factors influencing the price of insurance are:

- Type of coverage purchased;
- Prevalence of telematics offered;
- Driving location;
- Driver demographics;
- Vehicles driven;
- Accident rates; and
- Vehicle repair costs;

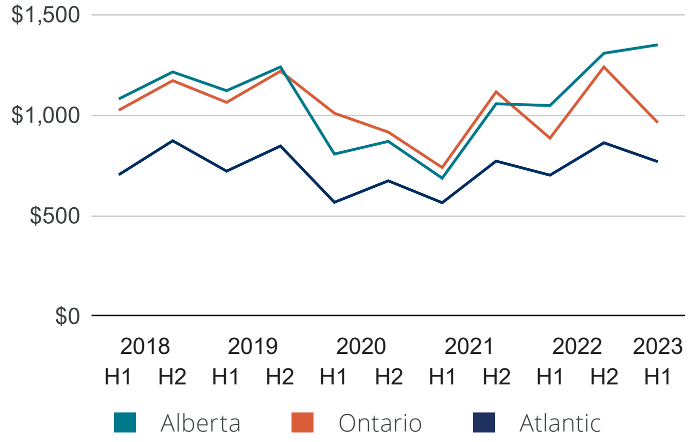
Overall, the loss ratios suggest, while premiums are high, they are actuarially justified and in order for lower rates to materialize, efforts must be taken to reduce loss costs, such as government reform and better driving behaviour.

[7] Source: General Insurance Statistical Agency Auto 7501

Average Premium by Province[8]



Provincial Full Coverage Loss Costs[8]



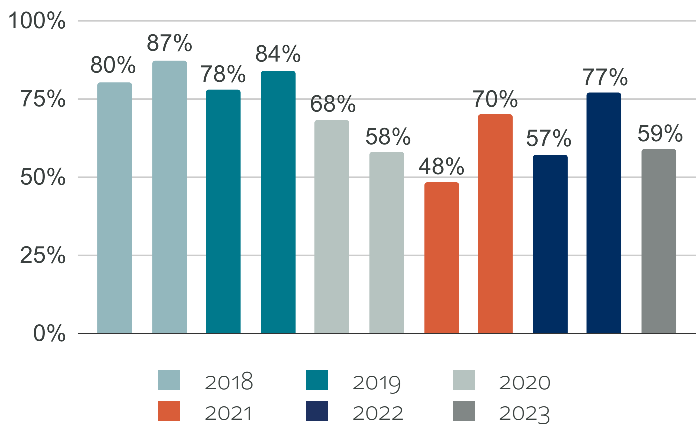
Automobile Insurance Claim Trends

Loss Ratio

The changes in driving habits due to the pandemic observed in 2020 continued in 2023 but are starting to return to pre-pandemic levels. Generally, premiums are consistent and rise over time, but claim costs are volatile and depend on a variety of factors. The first half of the year, from January to June, typically sees a lower loss ratio due to lower claim costs in the period. The second half of the year sees higher claim costs, perhaps due to drivers readjusting to winter driving.

In the years emerging from the pandemic, we see 2023 has the highest loss ratio for the first half of the year, at 59% compared to 57% and 48% for 2022 and 2021 respectively. This suggests we are continuing to return to post-pandemic levels, but for now losses remain below those levels. It is unclear whether we will return to pre-pandemic levels or if we will settle in to a "new normal."

PPV Industry Loss Ratio[8]



An increase in loss ratios over time suggests claims costs are increasing faster than rates. The claim frequency, or claims per 100 vehicles, for full coverage rose from 1.32 to 1.56, and 1.64 in 2021, 2022, and 2023 respectively. This is due in large part to emerging from the pandemic, where, as restrictions eased, traffic density started to increase and return to normal. The claim severity, or the cost per claim, rose from $12,300 to $12,500, and finally to $13,000 in 2021, 2022, and 2023 respectively. This large increase between 2022 and 2023 is due to inflationary pressures felt across the country. In particular, vehicle prices and vehicle repair prices grew much higher than all-item inflation, leading to a large strain on the insurance industry.

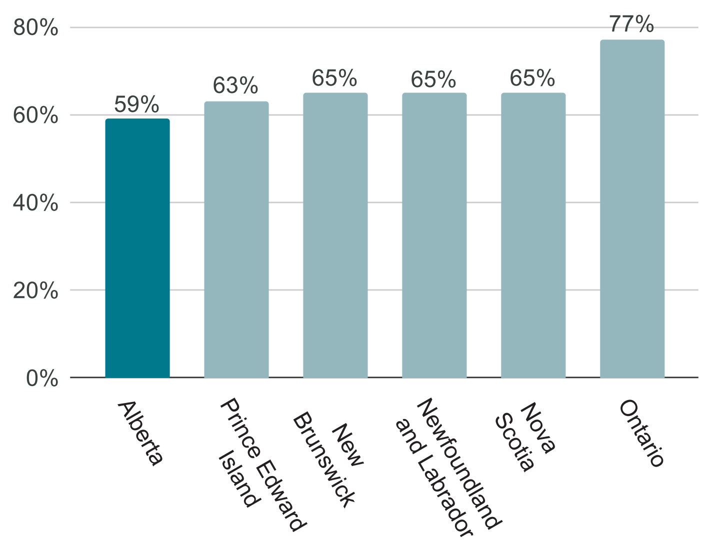
[8] Source: General Insurance Statistical Agency Auto 1005

The AIRB monitors the loss ratio as it is an important measure of sustainability for the industry. An insurer who consistently writes policies at a loss may choose not to offer automobile insurance in the future or at the least request to increase rates for coverages with an inadequate premium. The AIRB's mandate is ensuring insurance premiums are affordable and accessible. The mandate is therefore a balancing act, as we must ensure insurers maintain a healthy profit level to continue writing in Alberta and attract new insurers which will increase competition and keep prices low, while making sure high profit levels don't negatively impact consumers. Insurance is not like other products, as Alberta mandates a certain level of insurance coverage to use a vehicle. As the use of a vehicle is highly correlated to positive economic outcomes (can choose a higher paying job further away, can get jobs requiring a vehicle, etc), the affordability of auto insurance can have a large impact on the economic well being of the province.

The industry standard for profitability is a loss ratio of 70%; as shown the loss ratios of Alberta before the pandemic have been consistently above the threshold. With notable premium increases in late 2019, the PPV industry loss ratio was expected to improve, even without the reduction in claims frequency in 2020. The 2023 reporting shows, from 2018 to 2019, the loss ratio was stable, averaging ten percentage points above what was considered profitable and 10-20% points below 2020 to 2023. The written incurred loss ratio does not account for expenses beyond the cost of claims, such as rent and some general staffing costs. The Alberta PPV industry average for expenses was 26% of earned premiums in 2022.

In 2023 H1, Alberta experienced the lowest loss ratio at 59%, 11 points more favorable than the AIRB's benchmark for profitability of 70%. If expenses remain consistent with previous years, this indicates insurers are making a healthy profit. Based on 2022 financial data, Alberta had the lowest profit per vehicle of all provinces at $80. Over the past 5 years, the profit per vehicle drops to $27, and over the past ten years, is negative four dollars per vehicle. The Atlantics made-up places two through five, with loss ratios ranging from 63% to 65%. Ontario's loss ratio remains elevated, seven points less favorable than the profitability benchmark. This could be due in part to the massive increase in vehicle theft, as loss costs have been increasing rapidly; from $41 in 2021 H1 to $84 in 2022 H1 to $132 in 2023 H1.

Loss Ratio by Province[9]



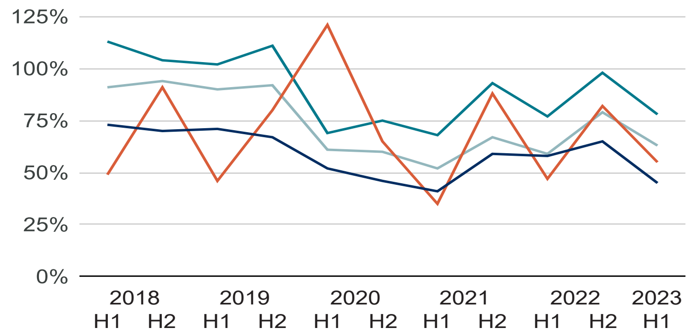
Insurer loss ratios for a given accident half year can fluctuate significantly, depending on the losses incurred. For instance, one province may be hit with a catastrophic weather event while the others are not. Therefore, to get a better understanding, a five year loss ratio, between 2018 H1 and 2023 H1 is utilized. The five year loss ratios for each province are 69%, 66%, and 68% for Alberta, Ontario, and the Atlantics respectively. On a five year basis, Alberta insurers are barely meeting the profitability threshold, even when including highly profitable years during the pandemic.

[9] Source: General Insurance Statistical Agency Auto 1005

How Does the Loss Ratio for Each Coverage Type Compare?

Claims are a significant cost for insurers, and COVID-19 brought uncertainty to their ability to price for the expected claim frequency and severity. The graph illustrates the loss ratios by coverage. From 2018 to 2019, the loss ratios for the mandatory coverages (accident benefits and third-party liability coverages) were well above the profitable threshold. In 2020, the loss ratios for all coverages decreased, except for comprehensive. This is partly due to the Calgary hailstorm in June of 2020 and possible increases in crime from the unemployment spike during the COVID-19 pandemic. In 2021, 2022, and 2023 comprehensive coverage returned to pre-pandemic levels, as it is dependant not on vehicle mobility, but rather on crime and weather conditions. All other coverages remain below pre-pandemic levels. Collision looks to be settling into a "new normal," while third-party liability and accident benefits are still climbing. Increases in accident benefits were expected because of increased benefit levels implemented under the changes from Bill 41 in late 2020.

Loss Ratio by Coverage[10]



Third-Party Liability - Bodily Injury

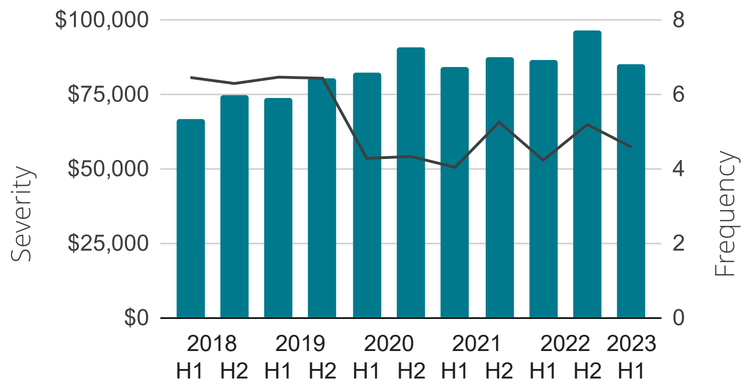
Third-party liability covers policyholders if they are liable for bodily injury or damage to another person's property. Bodily injury is a significant component of third-party liability coverage and the most significant cost pressure in recent years. Bodily injury claims often involve a lengthy litigation process, and therefore can take many years to be settled and paid out. As a result of this, we use data from Oliver Wyman, our consulting actuary, who project losses to the finalized value.

Claims frequency remained stable from 2018-2019 before dropping during the pandemic due to fewer accidents caused by reduced mobility. Claims severity rose at an unsustainable rate before a slight decrease in 2021, before increasing again in 2022. Insurers cite the following reasons for increased bodily injury claims costs:

- Fewer claimants captured within the minor injury definition than in the past;
- Changes in the mix of injury types claimants report;
- Larger claim settlements; and
- Increased legal representation.

The government implemented a change in the minor injury definition in late 2020. Given the long-term nature of this claim type and the effect of the pandemic on claims frequency and severity, it is too early for the data to show if this change has addressed the cost pressure as anticipated, as these claims often take years to settle. The AIRB will continue to monitor for signs of reduced cost pressure. The early indications and projected values indicate the severity is slowing down, countering rapid growth between 2018 and 2019.

Third-Party Liability - Bodily Injury[11]



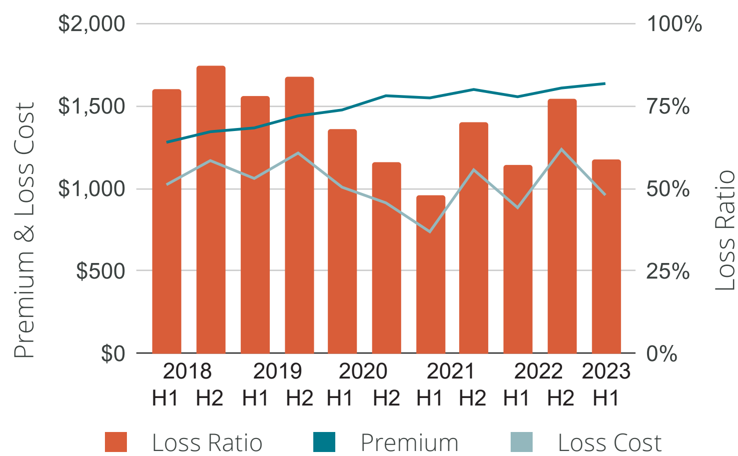
[10] Source: General Insurance Statistical Agency Auto 1005

[11] Source: 2023 Oliver, Wyman Limited Annual Review Report

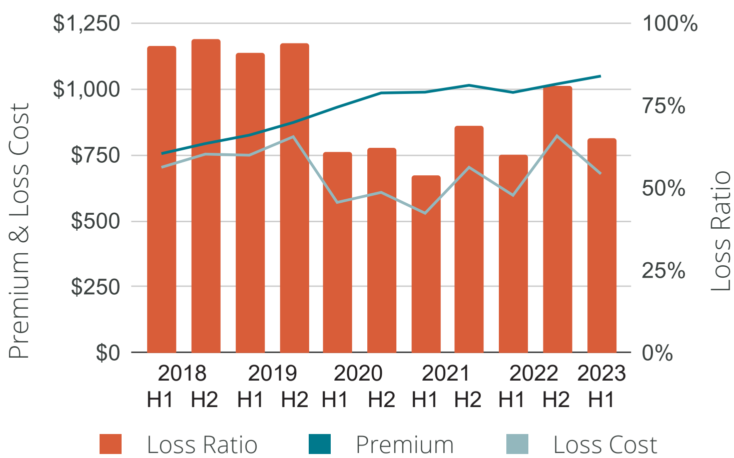
Average Premium & Claims by Coverage

For all coverages, premiums have increased consistently since January of 2018, while loss costs have been more volatile. Pre-pandemic, loss costs led to loss ratios consistently above the profitable 70% benchmark. The pandemic caused loss costs to fall dramatically but have been trending upwards in a volatile pattern since the bottom in July 2021. It is unclear if claim costs will return to pre-pandemic levels or if they will settle into a "new normal." Claim frequencies remain noticeably below pre-pandemic levels and have been relatively consistent for two years. The increase in loss cost has been caused by increases in claim severity led by inflation. Therefore, as inflation cools, claim costs may decrease and we settle into our new normal.

Premium & Loss - All Coverages[12]



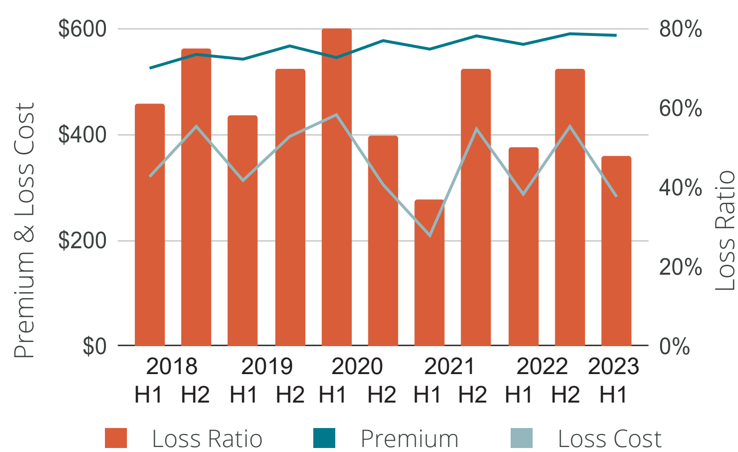
Premium & Loss - Basic Coverages[12]



Basic coverage follows a similar but exaggerated pattern. The drop due to the pandemic is much more severe and abrupt, with loss costs falling from $819 in 2019 H2 to $570 in just six months. The decreased loss cost between 2020 H1 and 2023 H1 is due almost entirely to a reduction in claim frequency, from 2.31 in 2019 H2, to 1.54 in 2020 H2, 1.9 in 2021 H2, and 2.0 in 2023 H1. The claim severity has followed an interesting trend, falling between 2019 H2 and 2023 H1. In particular, from $17.7 thousand in 2019 H2 to $19.7 thousand in 2020 H2 to $18.5 thousand in 2021 H2 and finally at $17.0 thousand in 2023 H1.

For additional coverages, the premium has been remarkably consistent, only increasing 12% compared to 39% for basic coverage. There is not a clear pre and post pandemic like other coverage levels, primarily due to comprehensive. As other coverages were dropping in the first half of 2020, the Calgary hailstorm occurred, which is the fourth largest catastrophe in Canada by insurance payouts. While the first halves of the year remain lower than pre-pandemic levels, the second halves are spiking up to levels similar to pre-pandemic.

Premium & Loss - Additional Coverages[12]



[12] Source: General Insurance Statistical Agency Auto

Individual Coverage

We examine claims frequency and severity separately for the other four coverage types.

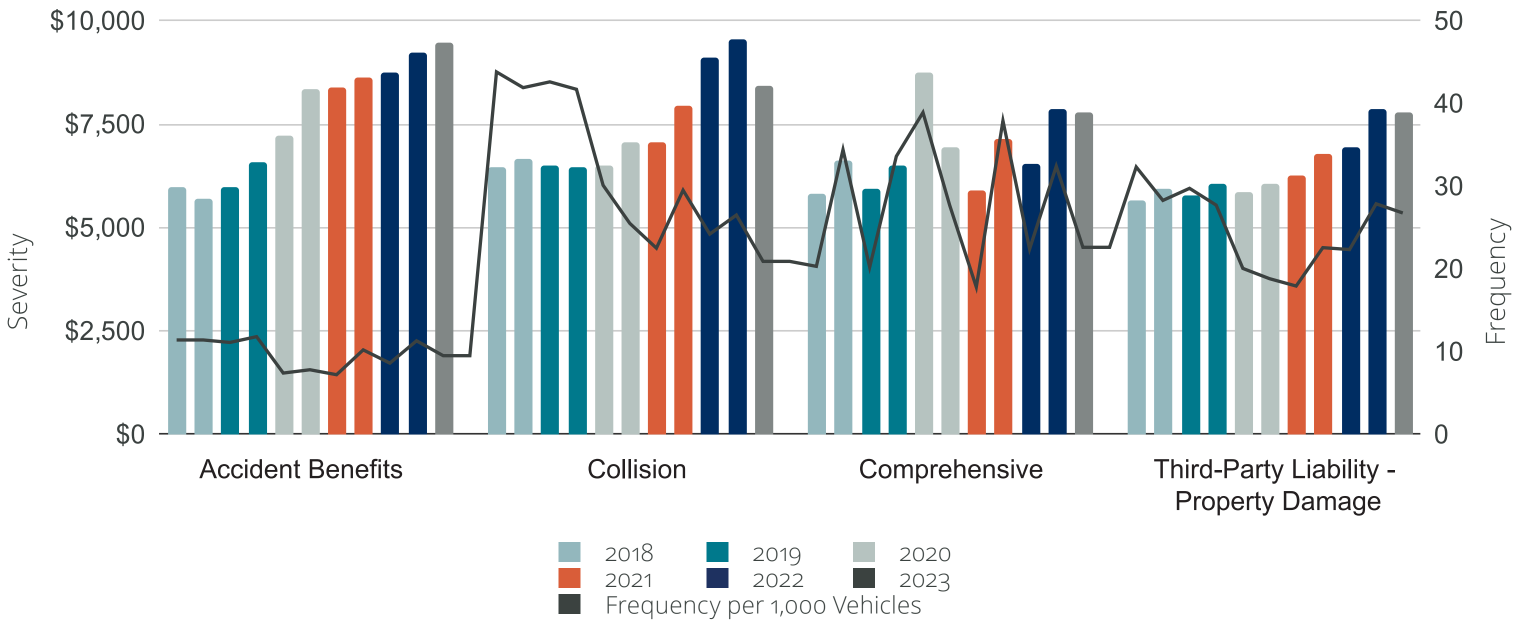
Accident benefits coverage compensates those injured in vehicle collisions for medical and rehabilitation services not covered under third-party liability coverage, regardless of fault. The frequency of accident benefits has decreased by 16% since 2018. For severity, the upward trend continued in 2023, mainly due to the enhanced coverage limits introduced with the reforms implemented at the end of 2020. The severity of accident benefits has increased by 59% since 2018 and eight percent between July 2022 and July 2023.

Increased automation and new safety features are attractive to consumers but expensive to repair in case of a claim. Although these advancements may reduce the frequency of collisions, they increase diagnostic and repair costs, which is why the severity of physical damage claims has been trending upward over the last ten years. As more vehicles are equipped with safety features, the slightly increasing severity and decreasing frequency trends are expected to continue.

Physical damage coverages pay to repair or replace the policyholder's vehicle if it is damaged in an accident. Third-party liability property damage will cover the cost if the driver is not at fault, whereas collision will provide coverage when the driver is at fault. While claim frequency for collision coverage continues to fall, third-party liability has increased, returning to near pre-pandemic levels. Alongside rising claim frequencies, the claim severity, or cost per claim, has risen dramatically. Between 2022H1 and 2023H1, the severity increased by 11.9% due to inflationary pressures.

Comprehensive coverage pays to repair or replace the policyholder's vehicle if it is stolen or damaged in an incident which is not a collision, such as weather. This coverage's claims frequency and severity are driven less by mobility and more by other factors such as theft and severe weather, so little has changed throughout the pandemic. Alberta has a significant number of vehicle theft claims each year. Insurers have indicated theft claims are increasingly contributing to the cost of comprehensive coverage. Severe weather also remains an issue in Alberta, and although previous years have demonstrated sustainable frequency trends in comprehensive coverage, the unpredictability contributes to higher premiums.

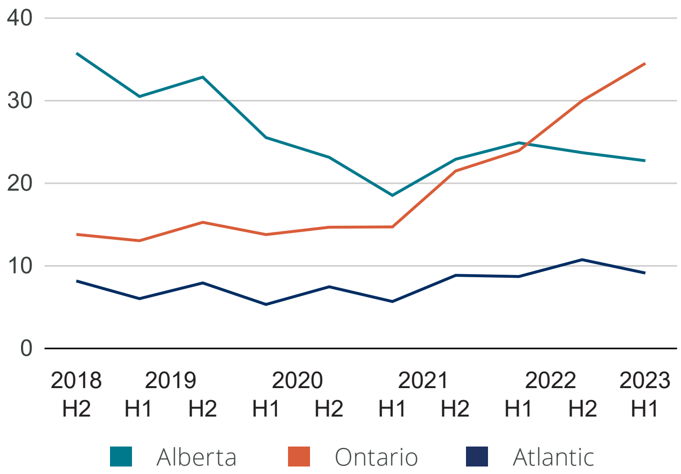
Claims Severity by Coverage [13]



[13] Source: 2023 Oliver, Wyman Limited Annual Review Report

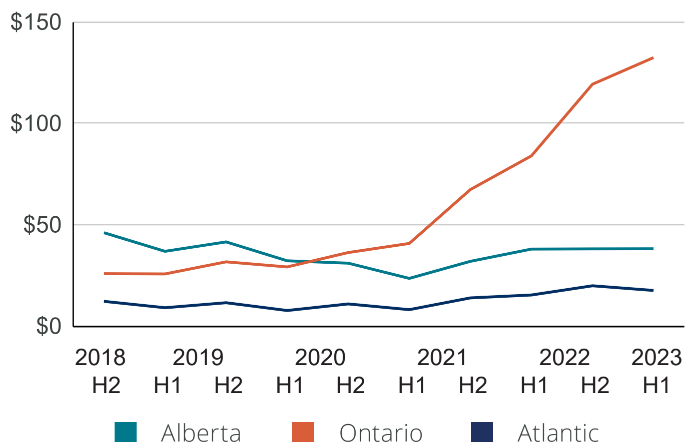
Claim Trends - Theft

Theft Claims per 10,000 Vehicles[14]



Vehicle theft is a crime affecting many Canadians, both directly and indirectly. According to the Équité Association, on average, a vehicle is stolen every seven minutes in Canada. In the first half of 2023, there were 23 vehicle theft claims per 10,000 written vehicles with comprehensive, specified perils, or all perils coverages in Alberta. While this is a 36% decrease from four and a half years ago, it remains 250% higher than the Atlantic provinces, where claim frequency is just nine claims per 10,000 vehicles. However, we remain below Ontario in 2023 H1, as they experienced 34 theft claims per 10,000 vehicles. We had the highest occurrences of theft between 2018 H2 and 2022 H1, but this has been reversed as auto theft explodes in Ontario. Their vehicle theft frequency has increased 151% between 2018 H2 and 2023 H1.

Theft Claims Costs per Coverage per Vehicle[14]



While Alberta frequencies are high, our severity is lower than other provinces, leading to an overall loss cost similar to the Atlantics. Meanwhile, Ontario's average vehicle theft claim severity in 2023 H1 was $38.4 thousand, compared to $19.3 thousand in the Atlantics, and $16.8 thousand in Alberta. In Ontario, vehicle theft loss costs are $132 per vehicle, with Alberta and the Atlantics at just $38 and $17 per vehicle respectively. In response to this, many insurers in Ontario have been requiring vehicle tracking, subsidized by the insurer. There are currently no plans for this in Alberta.

It's important to distinguish vehicle theft claims and thefts reported to police. Individuals may not make a claim if they receive the vehicle back quickly and in sound condition, but this will show up in policing data.

Each year, the Équité Association publishes a list of the most and least stolen vehicles in the province. For 2022, the list was topped by the Ford F-250, which was stolen 106 times out of 7,196 vehicles, for a frequency of 1.5%, the highest in the province. Vehicles one through eight are all pick-up trucks, and generally older models ranging from 2001 to 2018. This differs significantly from the Canada wide most stolen vehicles, which are primarily 2020 and newer SUV's.

The least stolen vehicle in the province, with at least 10,000 vehicles and newer than 2010, is an Acura MDX. The top three are rounded out by the Toyota RAV4 and the Toyota 4Runner. A majority of these vehicles are sedans and SUVs, and this matches trends seen in the Canada wide least stolen vehicles. Canada wide the three least stolen vehicles are the Chevy Volt, Cadillac XT5, and Kia Niro.

[14] Source: General Insurance Statistical Agency Auto 7501

Top 10 Most Stolen Vehicles (2022) by Frequency[15]

	Make/ Model	Type	Model Year	Vehicles Insured	Vehicle Thefts	Theft Frequency
1	Ford F250	Truck	2007	7,196	106	1.5%
2	Ford F350	Truck	2005	22,527	289	1.3%
3	Chevrolet Silverado/ GMC Sierra 2500 Series	Truck	2006	37,685	349	0.9%
4	Dodge RAM 2500 Series	Truck	2001	20,683	119	0.6%
5	Chevrolet Silverado/ GMC Sierra 3500 Series	Truck	2005	12,344	66	0.5%
6	Dodge RAM 1500 Series	Truck	2018	91,771	373	0.4%
7	Dodge RAM 3500 Series	Truck	N/A	23,362	85	0.4%
8	Chevrolet Silverado/ GMC Sierra 1500 Series	Truck	2004	95.362	336	0.4%
9	Jeep Grand Cherokee	SUV	2011	32,231	106	0.3%
10	Ford Focus	Sedan	2013	17,701	56	0.3%

Top 10 Least Stolen Vehicles (2022) by Frequency[16]

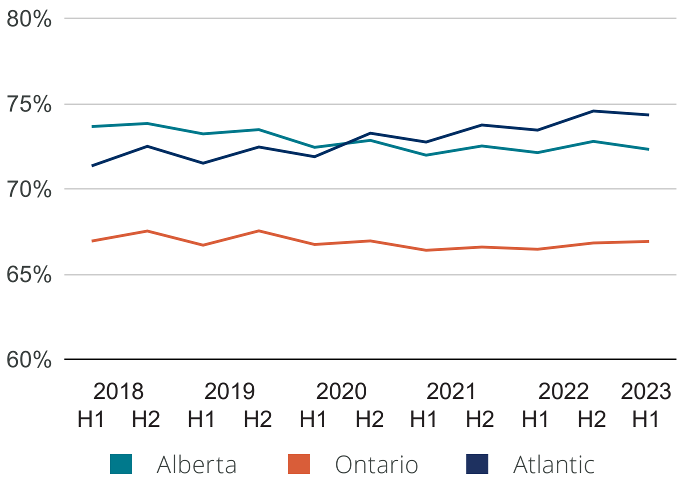
	Make/ Model	Type	Vehicles Insured	Vehicle Thefts	Theft Frequency
1	Acura MDX	SUV	10,460	9	0.086%
2	Toyota RAV4	SUV	58,180	54	0.093%
3	Toyota 4Runner	SUV	14,130	14	0.099%
4	Honda CR-V	SUV	38,629	41	0.106%
5	Nissan Murano	SUV	15,892	17	0.107%
6	Chevrolet Equinox/ GMC Terrain	SUV	37,086	49	0.132%
7	Jeep Wrangler	SUV	19,659	28	0.142%
8	Nissan Pathfinder	SUV	11,209	16	0.143%
9	Honda Pilot	SUV	11,522	17	0.148%
10	Toyota Highlander	SUV	22,200	33	0.149%

[15] Source: Équité Association Top 10 Most Stolen Vehicles of 2022 (The minimum threshold is 50 thefts per make/model)
[16] Source: Équité Association Top 10 Most Stolen Vehicles of 2022 (The minimum threshold is 10,000 insured vehicles of a specific make/model, newer than 2010)

Observed Trends

Proportion Taking Additional Coverage

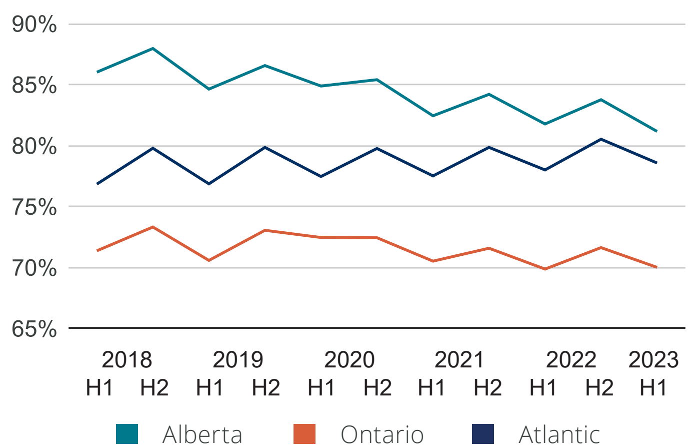
Proportion Taking Collision Coverage by Province [17]



The full coverage premium can change for a variety of reasons. Typically, we assume year over year there cannot be a change in the proportion of risks such as the premium changes due to the underlying risks. For instance, if next year everyone drove older cars, the full coverage premium should drop despite no differences in insurer pricing.

Another factor which may change is the proportion taking additional coverages. Many Albertans choose to lease or finance the cost of a vehicle. When a vehicle financed the lender often requires the driver purchase full coverage – i.e., collision and comprehensive coverage. When the vehicle is not financed or is older, a driver may opt not to purchase these coverages as one way to control their overall premiums. By not purchasing collision coverage the driver is assuming the financial cost of repairing the vehicle if they are involved in an at fault accident.

Proportion Taking Comprehensive Coverage by Province [17]



As we can see, the proportion of drivers taking both collision and comprehensive coverages is decreasing in Alberta. For collision, the proportion has dropped slightly, from 74% in 2018 H1 to 72% in 2023 H1. For comprehensive, there is a much larger decrease from 86% to 81% over the same period. All else being equal, these results would lead to additional coverages contributing less to the full coverage premiums. Therefore, it is likely the stability of additional coverage premiums is at least partially influenced due to less drivers taking the coverage.

While fewer Alberta drivers are taking optional coverages, we have the highest proportion of drivers taking comprehensive coverage, likely due to traditionally high vehicle theft and severe weather. We have been overtaken by the Atlantics for collision coverage, where they overtook us in 2020 H2. In Ontario and Alberta, the proportions are decreasing, while the Atlantics are seeing the proportion increasing, particularly for collision coverage. This could indicate Albertans and Ontarians feel their premiums are unaffordable and opt against getting additional coverages. Many policyholders may be unable to afford the monthly payments on a policy with additional coverages. Unfortunately, this expands their risk and opens them up to a large loss if their vehicle is involved in a collision or comprehensive claim.

[17] Source: General Insurance Statistical Agency Auto 1105

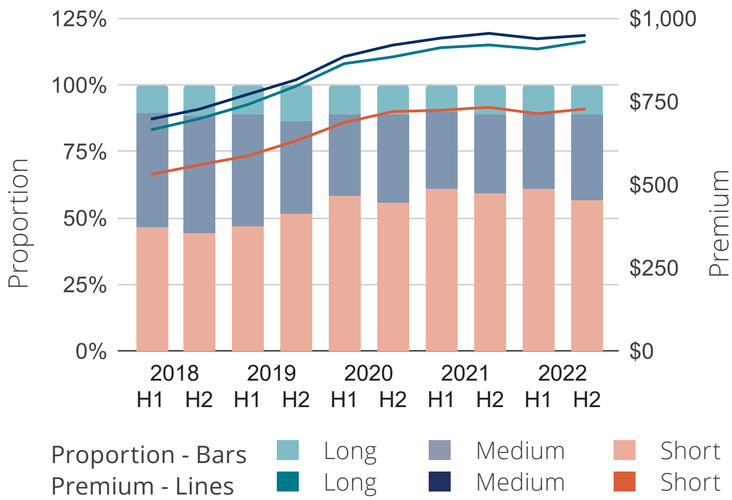
Commuting Distance

An important factor for insurance is determining how frequently you use the vehicle, which is typically priced by commuting distance and annual mileage. Often, insurers price these variables differently from each other. For instance numerous insurers do not surcharge for commutes less than five kilometer, while others may.

GISA's 1501 exhibit classifies drivers into the following categories based on commuting distances:

- Short commuters have a commute less than five kilometer, and annual mileages under 16,000 km.
- Medium length commuters have a commute less than 16 km, with any annual mileage.
- Long commuters have a commute over 16 km, with any mileage.

Premium by Commute Distance - Third-Party Liability [18]

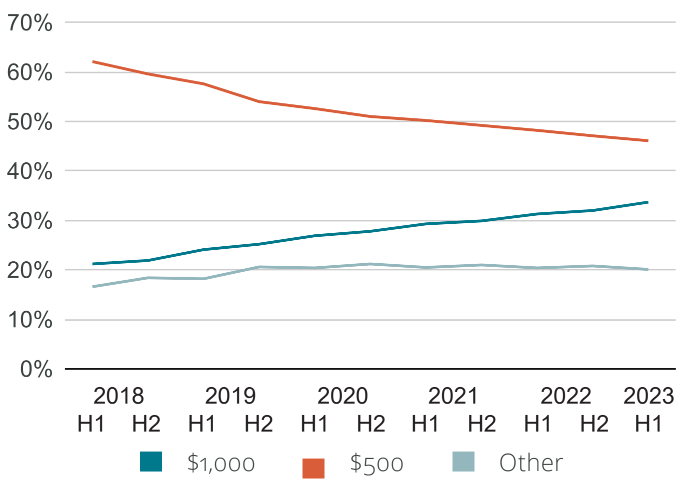


As the figure shows, the premium difference between medium and long commutes is not particularly significant, while the difference between those two and the short commute is significant. However, as these classifications are created by GISA, the short commuter will also contain drivers with a zero kilometer commute, which could drag down the premiums for this category.

Since 2018, the proportion of drivers with a short commute has increased from 47% to 57%. This has been transferred entirely from medium length commuters, as they fell from 43% to 32%, while long distance commuters have remained unchanged at 11%.

Change in Deductible Taken

Proportion by Deductible - Collision Coverage [19]



Another factor influencing additional coverages which does not affect basic coverage, aside from the liability limit for third party liability (TPL) coverage, is the policyholder can choose the deductible. The deductible is the amount the policyholder is willing to assume in the event they make a claim. Policies with higher deductible are less likely to make a small value claim and would only claim losses sufficiently higher than their deductible.

While $500 remains the standard deductible for collision coverages, the proportion taking it has decreased from 62% in 2018 H1 to 46% in 2023 H1. Meanwhile, the proportion with the $1,000 deductible has increased from 21% to 34% over the same period. All other deductible have seen modest growth, from 17% to 20%. Other deductible growth has primarily occurred in the >$1,000 deductible, while the $250 deductible has shrunk. This is mainly due to the levels of deductible offered by insurers, and many have removed the option for lower dollar value deductible.

[18] Source: General Insurance Statistical Agency Auto 1501
[19] Source: General Insurance Statistical Agency Auto 1105

Size of Loss Change

So far, we have only presented the average claim severity, but it is important to understand the distribution of claim severity and how this evolves over time. For instance, an increase in claim severity could be caused by a universal shift upwards, a reduction in low loss claims, or an addition of high-loss claims.

Understanding this distribution is key to implementing potential reforms. For instance, previous reforms to accident benefits coverage expanded the minor injury definition, in an effort to reduce low severity bodily injury claims and move them into accident benefits. Bodily injury claims typically take longer and have higher expenses due to legal involvement, and therefore this relieved some cost pressures in the system.

We highlight the claim severity distribution for accident benefits and collision claims specifically, but we monitor the loss distribution for all coverages. We highlight the accident benefits claims as they highlight the outcome of the product reforms; an entire change in the loss distribution. For collision coverage, we wanted to highlight the reduction in low value (between zero dollar and $1,000) claims. These claims had high expenses, and for a $1,000 loss, nearly 10% could be attributed to the adjustment expenses related to the claim. For zero dollar losses in particular, these expenses were $200 per claim. The number of claims fell from 13,559 to just 1,580, a potential savings of $2.4 million.

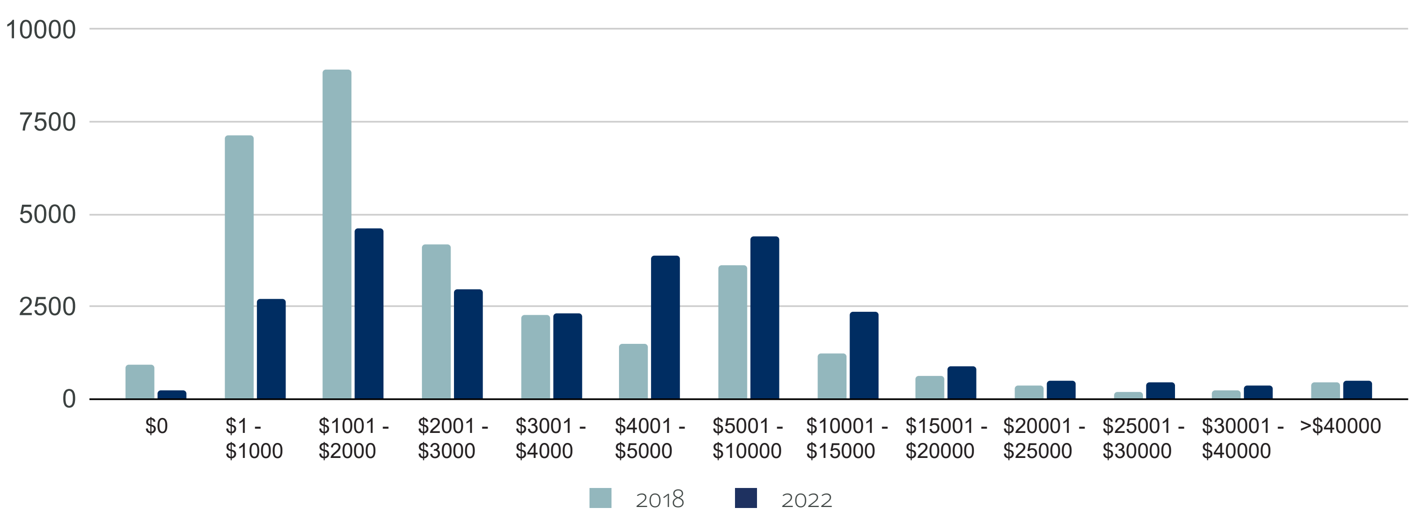
Accident Benefits

For accident benefits coverage, we compare the distribution of claims by loss range between 2018 and 2022. As mentioned, in 2020 the government expanded the minor injury definition in order to remove low-value claims from bodily injury coverage, reducing the odds of litigation and the related expenses. This impact is seen clearly in the figure, with 2018 having their distribution centered in the $1,001-$2,000 range, while 2022 has three peaks, at $1,000-$2,000, $4,001-$5,000, and $5,001-$10,000.

Both years have a clear difference between "minor" and "major" claims. Both years have the same peak for the most minor claims, at $1,001-$2,000, and the same peak for the more severe claims at $5,001-$10,000. However, the added volume in the $4,001-$5,000, and $10,000-$15,001 ranges could be due to the previously mentioned product reforms. Therefore, there has been a fundamental shift in the distribution, as expected.

Another factor to monitor is the expense cost per claim. Claims of zero dollar have an expense of approximately $1,000 per claim in 2022. In order for an insurer to deny a claim, it likely involves a lengthy investigation process as the burden of proof for denying a claim is high in Alberta. The reduction of these unnecessary claims is a social good, as it reduces unnecessary expense by the insurer and therefore keeps accident benefits coverage affordable.

Change in Size of Loss Distribution - Accident Benefits Coverage [20]



[20] Source: General Insurance Statistical Agency Auto 5001

Collision

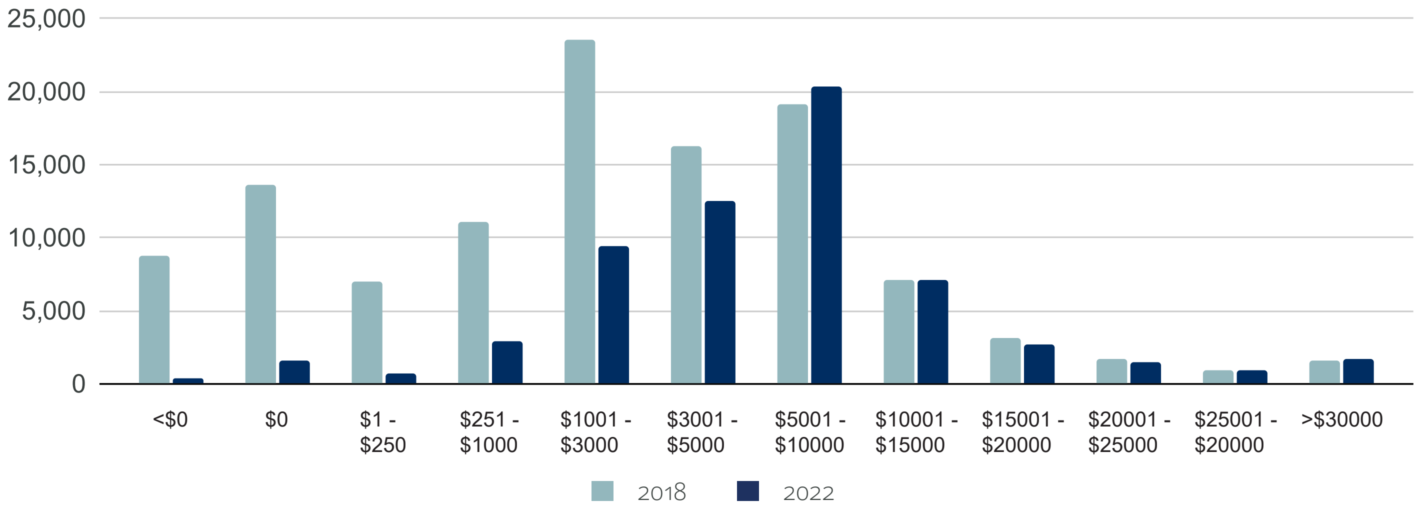
Unlike accident benefits, there has not been any significant reforms to collision coverage, and therefore there is not a significant difference in the distribution.

However, as mentioned in the previous section, the deductible has been increasing steadily from 2018 to 2022. In particular, the $500 collision deductible has decreased from 62% of drivers with collision down to 46%, replaced almost entirely by the $1,000 deductible, which has risen from 21% to 32% in the same time frame. Therefore, we would expect the lower value claims to decrease as the average deductible has risen, without significant impact on higher value claims, where the claim becomes worth it as the loss is much larger than the deductible. As shown in the figure, this ideology matches up nearly perfectly. In particular, the number of claims at zero dollar or less have decreased dramatically, and a similar reduction in other small-value losses between zero dollars and $1,000.

Unlike accident benefits coverage which cost around $1,000 per zero dollar claim, collision expenses for this kind of loss is $230. As mentioned, with a reduction of 11,979 zero dollar claims, this saves $2.4 million in expenses alone. The burden of proof for injury related matters is of course, much higher than the burden of proof for physical damage, and therefore the expenses are much higher for bodily injury claims than property claims. Claims cannot be easily denied by insurers in the province, and therefore a majority of these claims are likely to be frivolous, and not a result of overly stingy insurers. Therefore, the reduction in these claims is a social good for the insurer market.

Overall, the claim distribution has shifted upwards and become more bell-like than the 2018 distribution. The reduction in low loss heavy expense claims is good for the coverage, as it ensures people are protected against large losses without a large number of frivolous claims which drive up the expense costs, leading to higher premiums for everyone.

Change in Size of Loss Distribution - Collision Coverage [21]



[21] Source: General Insurance Statistical Agency Auto 5001

Financial

Below is a figure demonstrating how each dollar of premium was allocated by insurers based on their financial reporting to GISA. We categorize the costs into four categories:

1. General expenses incurred by an insurer such as staffing costs (for non-adjusters), office building costs, and other.
2. Acquisition expenses incurred in the distribution of a policy through agents or brokers commissions, premium taxes, and other expenses incurred writing policies.
3. Losses incurred by an insurer to settle claims, include costs allocated to a specific claim including adjusting and direct claim expenses.
4. Profit or loss earned based on the portion of premiums not allocated to expenses, acquisition costs, or losses.

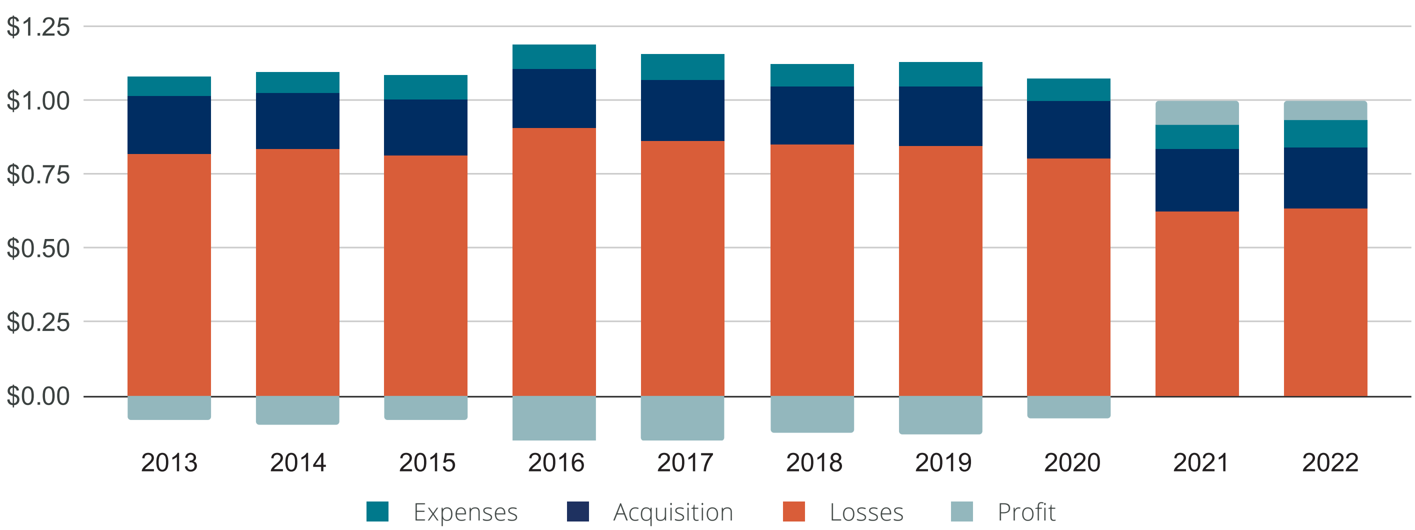
The data is provided on a financial year basis, unlike previous figures which are on an accident year basis. In an accident year, a claim which occurred in 2019 and settled in 2022 is added to the 2019 data in future submissions. On a financial year basis, the paid claim in 2022 would show up in the 2022 financial year.

Between 2013 and 2020, a net loss was earned by the industry by writing premiums. Their situation was typically improved by investing premiums collected to generate a revenue stream, but the policies themselves were sold at a loss. The return on equity, which accounts for this income stream, remained negative for these years.

The ability for insurers to generate profit in 2021 and 2022 was due to lower claim costs, which decreased from 80% in 2020 to 63 and 64% in 2022 and 2021 respectively. However, acquisition expenses and general expenses have been increasing, by 1.2 and 2.3 percentage points respectively.

Advertising costs, which are not shown in the figure, have doubled since 2013, from 0.5 percent to one percent. Advertising is highly targetable and more cost efficient than ever due to machine learning and AI models. Therefore, there seems to be a sizable push by insurers to expand advertising. The increase in advertising intensity suggests insurers were actively competing and wanting to write new business, a healthy sign for the marketplace. As the industry writes more policies directly, we can expect the advertising costs to increase as they must rely on their own marketing instead of relying on brokers to, effectively, advertise for them.

Where Each Portion of One Dollar Earned Goes [22]



[22] Source: General Insurance Statistical Agency Auto 9501

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