



February 23, 2024

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

Delivered via email: airb@gov.ab.ca

Attention: Mr. Jamie Hotte, FCIP, Chair

RE: FA Written Submission in regards to the Alberta Automobile Insurance Rate Board's Semi-Annual Review of Automobile Insurance Loss Experience: AIRB Draft Review of 2023-H1 Industry PPV Experience

Dear Mr. Hotte,

Please find enclosed Facility Association's (FA) submission to the Alberta Automobile Insurance Rate Board's Semi-Annual Review of Automobile Insurance Loss Experience. Our submission is in two parts. The first section provides FA's perspective on the current state of the insurance market in the province. The second section, addresses the draft Oliver Wyman ("OW") report entitled "*Semi-Annual Review of Industry Experience – Preliminary Report as of June 30, 2023 Private Passenger Vehicles*" dated January 12, 2024 ("OW Report").

Sincerely,

A handwritten signature in blue ink, appearing to read 'Philippe Gosselin', with a long horizontal flourish extending to the right.

Philippe Gosselin
VP Actuarial & CRO

Encl.

c.c.: Karen Dyberg, Facility Association Board Chair
Saskia Matheson, Facility Association President & CEO

INTRODUCTION

FA's purpose is to ensure the availability of Automobile Insurance, and it is our continued position that this is best achieved through the availability of automobile insurance in the voluntary market in Alberta, providing consumers a choice in terms of both insurance provider and type and amount of coverage available¹. We believe this aligns with the Alberta Automobile Insurance Rate Board ("AIRB") vision of fostering an efficient and effective automobile insurance market with fair and predictable rates. Availability, and a sustainable market with access for Albertans to the automobile insurance they need is the focus of our submission.

We continue to be concerned with potential availability issues in Alberta. We note that, except for 2020 to 2023-1, the OW estimates of PPV loss ratios (indemnity, ALAE, and ULAE) have persisted at only a marginal improvement from their peak in 2016, and have remained well above the 64% level we estimate would be consistent with the proposed benchmarks as per the OW Reports. This long-term high loss ratio environment since 2013 is confirmed in the OW report. The lower loss ratios of 2020 to 2023-1 cannot be expected to continue as the pandemic restrictions and their economic impact recede.

While it was reasonable at the time to assume that the introduction of reforms in the last quarter of 2020 would have positively impacted the experience for 2020 to 2023, an accurate delineation of what resulted from product reform, and what resulted from the temporary impact of the pandemic and its economic consequences remains unclear.

It is challenging to promote both fairness and predictability in automobile insurance rates at a time when the underlying costs of benefits provided by the insurance product are very difficult to predict, as stated in several passages of the OW Reports. In light of this, we believe it is important to reiterate our longstanding position that the AIRB should use the benchmarking exercise to inform its considerations of rate filings, rather than to set specific targets, caps, or floors with respect to any one particular assumption. We appreciate that the AIRB has in fact moved to this approach in a number of rate filing aspects, and we urge the Board to continue.

This approach opens the opportunity for insurers to reflect their own experience, and their own assessment of future costs in providing their product/ service to the consumer. Opening this door further would allow insurers to set their rates based on their assessment of the competitive market in which they operate. It is our view that this approach results in the greatest consumer choice in both providers and products, while maintaining fairness to all parties in a healthy competitive market.

In contrast, setting specific values, floors or caps adversely impacts availability of voluntary automobile insurance, to the extent that capital providers in the voluntary market take an adverse view of their ability to charge rates that they have assessed relative to the future costs and risk of providing insurance.

In recent years, the Board has taken important positive actions, such as the new filing guidelines which permits the 'file and use filing' and a 'non-actuarial prior approval (Full) filing,' where the insurer has submitted a filing

¹Consumers in Alberta are required to purchase \$200,000 of third party liability protection. However, it is clear that consumers see value in broader insurance coverage to protect them and their financial wellbeing, as only 0.1% of individually-rated private passenger vehicles were insured for the required minimum third party liability limit, according to 2023 half year data found in GISA industry data (the AUTO7501). Further, 73% purchased protection for their vehicle against collision/upset, and 84% purchased protection for their vehicle against theft and non-collision damage. We believe these statistics show a clear consumer appetite in the province for automobile insurance across many of the perils to which owning or operating an automobile exposes consumers.

with rate indications for each coverage within the last three years², and the recent expansion of file and use filings for PPV and motorcycles for an increase in overall rate level of no more than +10.00% in one policy year³.

However, the rate pause during 2023 for PPV constituted a drastic form of closing the door on the very flexibility we believe is critical to ensure long-term availability and a healthy voluntary market.

In addition, effective October 1, 2023, AIRB adjusted benchmark profit provision allowed in the rate application from 7% to 6%. In November 2023, the Government of Alberta announced short term reforms to the auto insurance system, and Order 38/2023 prohibits the AIRB from approving a change to a rating program which results an increase greater than +3.7% at renewal for Good Drivers. These changes may have unfavorable impact on the voluntary market, and raises concerns on profitability and availability.

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

- Selection of industry ultimate claim counts and amounts supporting their analyses (including trend analyses);
- Selection of trend models (including the underlying methodology and approach) and associated estimates of trends or other changes to claims metrics;
- Operational expenses; and
- Profit provisions (in terms of both the metric to use, and the level to target).

We believe it is important to protect the foundation for a flexible future system, where insurers would be able to include their best estimates of future costs based on their own assumptions, judged by the AIRB on their own merit and the basis of reasonableness, considering prediction uncertainty.

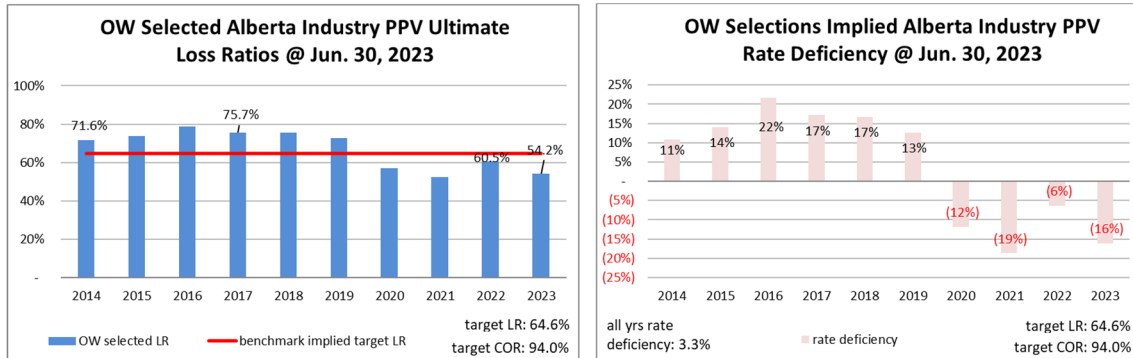
In considering these areas of potential flexibility, it is important to recognize the extent of the current estimated rate deficiency in the province. Based on our interpretation, the proposed benchmark assumptions would indicate a target indemnity and claims expense ratios of approximately 65% for PPV. The chart on the top of next page summarize the estimated rate deficiencies for PPV, by accident year, relative to this target level.

It is important to note that these are not estimates of actual hindsight rate deficiencies, nor do they represent FA models of required profitability. This is rather the estimated rate deficiency when applying the OW benchmark assumptions per the current preliminary benchmark reports. We have not attempted to put claims or premium amounts "on-level" (i.e. adjusted claims for trends/reforms over time; adjusted premium levels for premium trend and rate changes).

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

³ AIRB bulletin 01-2024.

Industry Alberta PPV @ June 30, 2023 - OW selected indemnity, ALAE, ULAE LRs and implied rate deficiencies on basis of OW selected current benchmarks⁴



For PPV, if we exclude 2020 to 2023-1, the deficiencies range from 11% (2014) to 22% (2016), with a weighted average rate deficiency of 15.5% or **greater than \$3.0 billion in PPV premium shortfall over that 6-year period**. If we were to include 2020 to 2023-1, the weighted average rate deficiency would decrease to 3.3% or **greater than \$1.0 billion in PPV premium shortfall over that 9.5-year period**. Thus even with the full impact of the reduced claims from the pandemic on costs, there remains a shortfall in the long-term industry’s profitability.

GROWTH IN RSP MARKET SHARE

As has been mentioned in previous submissions as well as discussions with AIRB, the significant growth of the grid-capped portion of the market, as well as with the correlated significant growth in the Grid Risk Sharing Pool (“Grid RSP”) was a concern throughout 2022. The AIRB’s reduction of the Grid base premiums by 11.4% effective January 1st 2022 reflected the Board’s estimated impact of reforms implemented by the Government in 2020. However, as we have seen in the emerging experience, this was not mirrored by the industry in its expectations of impact to that portion of the market. This resulted in a much larger number of risks being subject to the grid cap.

Our review of industry wide data shows that by December of 2022, the percentage of vehicles subject to the Grid cap grew at an unprecedented pace and reached an historical high of 11.65% in December 2022. A similar trend was observed for the market share of the Grid RSP, which increased more than 70% in just 12 months and reached a peak of 4.73% in December 2022. Over the same period, the Non-Grid RSP remained more stable at approximately 3.0% market share. The net result was that the RSPs total market share increased at a steady pace through 2022.

Subsequently, with Grid base premium increasing by 10% effective January 1, 2023, coinciding with rate increase pause effective January 26, 2023 on private passenger vehicles until end of 2023, the percentage of vehicles subject to the Grid cap has declined from its peak of 11.65% in December 2022, to 9.43% in December 2023 and similarly the market share of the Grid RSP declined during the same period from 4.73% to 3.74%.

⁴ It is based on benchmarks from OW report, with industry 2022 return on investment of 0.08%, 6% profit provision, 27.6% operating expense and 2.86% health levy, where AIRB adjusted profit provision from 7% to 6% effective October 1, 2023.

Rolling 12 month BI/TPL Written Vehicles

(simulating an annual vehicle count up to the displayed entry month)

	AB			RSP Grid		RSP Non-Grid		RSP Total	
	Total PPxF	Grid Capped	% of Grid	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share
2020-12	2,785,997	197,423	7.09%	66,575	2.39%	69,346	2.49%	135,921	4.88%
2021-01	2,784,584	197,360	7.09%	66,606	2.39%	68,500	2.46%	135,106	4.85%
2021-02	2,785,136	197,459	7.09%	66,695	2.39%	68,189	2.45%	134,884	4.84%
2021-03	2,798,828	198,527	7.09%	66,680	2.38%	66,929	2.39%	133,609	4.77%
2021-04	2,816,246	201,034	7.14%	68,004	2.41%	66,969	2.38%	134,973	4.79%
2021-05	2,814,441	200,456	7.12%	69,542	2.47%	68,192	2.42%	137,734	4.89%
2021-06	2,814,412	200,047	7.11%	71,834	2.55%	72,011	2.56%	143,845	5.11%
2021-07	2,860,386	199,712	6.98%	72,845	2.55%	75,608	2.64%	148,453	5.19%
2021-08	2,864,257	198,640	6.94%	73,501	2.57%	78,707	2.75%	152,208	5.31%
2021-09	2,814,455	195,387	6.94%	74,244	2.64%	80,690	2.87%	154,934	5.50%
2021-10	2,816,427	193,124	6.86%	75,127	2.67%	82,335	2.92%	157,462	5.59%
2021-11	2,819,922	193,579	6.86%	76,423	2.71%	83,539	2.96%	159,962	5.67%
2021-12	2,822,004	194,433	6.89%	76,802	2.72%	84,816	3.01%	161,618	5.73%
2022-01	2,821,301	202,663	7.18%	81,012	2.87%	84,045	2.98%	165,057	5.85%
2022-02	2,823,522	211,696	7.50%	85,462	3.03%	83,192	2.95%	168,654	5.97%
2022-03	2,823,416	223,467	7.91%	91,361	3.24%	83,855	2.97%	175,216	6.21%
2022-04	2,823,666	235,948	8.36%	96,412	3.41%	82,957	2.94%	179,369	6.35%
2022-05	2,830,412	249,673	8.82%	101,590	3.59%	82,586	2.92%	184,176	6.51%
2022-06	2,831,101	262,907	9.29%	106,496	3.76%	82,038	2.90%	188,534	6.66%
2022-07	2,832,227	275,660	9.73%	111,534	3.94%	82,337	2.91%	193,871	6.85%
2022-08	2,840,645	289,772	10.20%	116,512	4.10%	83,714	2.95%	200,226	7.05%
2022-09	2,849,049	303,457	10.65%	121,778	4.27%	85,396	3.00%	207,174	7.27%
2022-10	2,854,706	316,570	11.09%	126,430	4.43%	86,095	3.02%	212,525	7.44%
2022-11	2,862,379	326,878	11.42%	131,484	4.59%	87,475	3.06%	218,959	7.65%
2022-12	2,868,453	334,140	11.65%	135,625	4.73%	88,776	3.09%	224,401	7.82%
2023-01	2,876,588	330,564	11.49%	133,710	4.65%	91,052	3.17%	224,762	7.81%
2023-02	2,885,418	327,175	11.34%	131,175	4.55%	95,011	3.29%	226,186	7.84%
2023-03	2,894,495	323,016	11.16%	126,978	4.39%	96,822	3.35%	223,800	7.73%
2023-04	2,902,498	318,025	10.96%	123,039	4.24%	97,160	3.35%	220,199	7.59%
2023-05	2,908,746	312,806	10.75%	119,945	4.12%	94,930	3.26%	214,875	7.39%
2023-06	2,916,292	307,501	10.54%	117,355	4.02%	93,496	3.21%	210,851	7.23%
2023-07	2,920,627	302,319	10.35%	114,867	3.93%	92,419	3.16%	207,286	7.10%
2023-08	2,929,319	296,673	10.13%	113,339	3.87%	92,336	3.15%	205,675	7.02%
2023-09	2,933,404	290,448	9.90%	112,589	3.84%	93,084	3.17%	205,673	7.01%
2023-10	2,942,602	285,593	9.71%	112,238	3.81%	94,740	3.22%	206,978	7.03%
2023-11	2,948,995	281,436	9.54%	111,126	3.77%	95,745	3.25%	206,871	7.01%
2023-12	2,955,457	278,710	9.43%	110,516	3.74%	97,254	3.29%	207,770	7.03%
Min 2018-2023			5.65%		2.27%		2.38%		4.77%
Max 2018-2023			11.65%		4.73%		3.35%		7.84%

Effective in May 2024, the Grid base premium increase by 12% and steps differentials increases will serve to further close the gap between the industry’s assessment of this market segment and the appropriate price to charge, and all else being equal, we expect these changes will result in a further decrease in the Grid market. While movement between the Alberta RSPs due to the shift in Grid pricing may be masking some growth, it appears that to date, there has been only slight increase of the Non-Grid market share from 3.09% to 3.29%.

With the introduction of Good Driver Rate 3.7% rate increase cap in 2024, in conjunction with residual impact from rate increase pause in 2023, we anticipate growth in the Non-Grid RSP. As with the Grid RSP market share, we will continue to closely monitor the situation and will keep AIRB informed of any development.

While there is no preset optimal market share for residual risks, the RSPs across Canada managed by the FA have been harmonized to an upper bound of not more than 5% of a member’s written car years (excluding the Grid Pool, which has no upper bound). It is the view of FA that this represents the maximum RSP market share

sustainable before the impact and burden of the RSP to members becomes a significant strategic and operational burden.

The recent growth in the Alberta Pools, with the decreasing trend seen in 2023 still putting the market share % higher than seen in 2021, are especially concerning as they have the potential to mask underlying market problems. Growth in the FARM is of concern to the public, and to the industry, but FARM market share growth, where rates are permitted to respond to the risk level, is at least balanced by the design of the mechanism to be cost neutral. The danger of a large market share in RSP is that because the mechanism is designed to be subsidized, the cost burden of a large RSP will have a potential impact on market availability for the industry.

As clearly illustrated in 2023, with price misalignment between industry and the regulator driven by Grid and rate increase pause, the market will react quickly to such misalignments, and the consequence is that the cost of the RSPs to the industry can become an important strategic consideration and work against the spirit of a healthy and competitive insurance market.

SPECIFIC COMMENTS REGARDING THE ANNUAL REVIEW OF INDUSTRY EXPERIENCE

This document represents the Facility Association (“FA”) written submission to the Alberta Automobile Insurance Rate Board (“AIRB”) with respect to the Oliver Wyman reports entitled “*Semi-Annual Review of Industry Experience – Preliminary Report as of June 30, 2023 Private Passenger Vehicles*” dated January 12, 2024 (“OW Report”).

We appreciate the opportunity to provide feedback, and we have focused our comments on the following areas:

- Selection of ultimates and valuation methodologies;
- Use of indemnity + ALAE + ULAE vs use of indemnity alone;
- Reforms and Impact;
- Post-Pandemic Frequency Level and Combined New Normal Factors; and
- Selection of loss trend rates and Uncertainty.

Summary of Selection

Our position has not changed that:

For each coverage, there are many possible models for frequency, severity, and loss costs that are valid and reasonable. The ultimate selection of models by insurers in developing their rates is a matter of judgment and interpretation that can differ among actuaries even when modeling the same data. Differences should be expected and be seen as healthy in a competitive environment. It is the nature of the actuarial science.

Specifically, we feel it is important for the Board to consider that valid differences in actuarial judgment and opinion can lead to different selections of ultimates, and different trend results. Indeed, different models can fit actual results equally well, and yet, due to their structure (i.e. the selected parameters included in each), result in divergent forecasts.

We also believe the Board should allow the applicant to set their prices and market share on their views of ultimates and their selections of models describing frequency/severity/loss costs over time and as projected into the future. The rate review process should focus on whether the filing insurer’s process to arrive at their forecast was reasonable (and consistent with the insurer’s previous views / process / approach unless an explanation is provided as to what has changed and why). If so satisfied, we believe the Board should accept the filing insurer’s view, even if it differs from the view of the Board’s actuary.

Forcing all participants in the insurance market place to adopt a single view introduces systemic risk and potentially detracts from the competitive marketplace should certain participants reduce their risk appetite where they do not agree with the imposed view. This can lead to an overly prescriptive regulatory environment, which we believe is not the intention of the Board.

1. Selection of ultimates and valuation methodologies

For all coverages, the OW selection of ultimates (counts / amounts) is based on the selection of loss development factors (chain ladder method) using industry data through June 30, 2023.

We believe it is uncommon practice in Canada for a valuation actuary to rely on a single valuation **methodology in completing a valuation** as this introduces significant model risk (the risk that the model

employed is not appropriate or has significant shortcomings for the experience being projected). To minimize model risk it is common to employ different models.

The selection of ultimates is a critical and foundational input of the loss trend analysis and this is acknowledged in the OW Report when they mentioned that *“We note that the selection of development factors influences the selected loss trend rates”*. We believe there are a number of factors contributing to the uncertainty in estimating Alberta Industry ultimates and that the “range of reasonable” valuation estimates is wide which subsequently leads to a wide range of reasonable trend estimates.

As an example, we believe that the Covid pandemic and the current macroeconomic environment are affecting claims development pattern and therefore, the loss development method would be unduly affected.

As the AIRB’s vision is for fair and predictable rates, the accuracy of the predictions used for setting benchmarks should be assessed as part of the annual process.

2. Use of indemnity + ALAE + ULAE vs use of indemnity alone

OW uses indemnity plus allocated loss adjustment expense (ALAE) plus unallocated loss adjustment expense (ULAE) as the basis for loss amounts in their trend analysis.

Even though we understand that the combined indemnity and expense data is the norm in the industry, we would like, once again, to emphasize that the indemnity and expense data, as well as the underlying development and trend may be significantly different. Consequently, we should consider this if the analysis is based on the combination of both.

If the objective is to minimize any impacts or distortions in the data that may arise from insurers changing their mix of ULAE and ALAE over time, this can be achieved by modeling indemnity only data and recognizing that individual insurers are in a much better position to make direct adjustments for any shifts in their usage of ULAE vs ALAE over time, as they deem appropriate.

FA is analyzing the Alberta Industry PPV trends on an indemnity basis only and as explained above, this could result in different selections than those made by OW.

3. Reforms and Impact

The OW PPV Report stated *“In this review, we consider the data that has emerged since these reforms were implemented and estimate the actual impact of these reforms to the extent possible – as a preliminary assessment”* and estimated a -13.9% impact on bodily injury loss cost and +9.1% on accident benefits loss cost.

The current FA’s trend analysis based on PPV Industry Experience as of June 30, 2023 also estimates the actual reform impacts based on the data that has emerged since these reforms were implemented, where the FA’s reform impact estimate is -10.6% on bodily injury severity, but the reform impact on accident benefit severity is not statistically significant.

In 2020, Bill 41 amended the *Insurance Act* of Alberta to change the prejudgment interest (PJI) on general damages from a flat 4% to now having its rate tied to the PJI prescribed by the regulation, which follows changes in bank rates. At the time of the amendment, PJI was 1.5%, dropping over the next two years closed to 0%, thus lowering insurer’s exposure to PJI. However, in 2023 the PJI rate jumped

significantly, effectively undoing any benefit Bill 41 provided to insurers regarding PJI. With the rate now subject to the adjustments under the Regulation, further increases by the Bank of Canada will actually result in Bill 41's amendments causing higher exposure to insurers on PJI for general damages, which is the opposite of what Bill 41 intended.

We agree that rather than having a prescribed benchmark for reform adjustment factor, each insurer should have the ability to determine the appropriate adjustment factor based on emerging data with actuarially sound methods.

4. Post-Pandemic Frequency Level and Combined New Normal Factors

The OW report states: *“Insurers should consider the degree to which the post-pandemic “new-normal” is expected to impact claim cost during the proposed rate program”.*

OW presents Combined New Normal Factor for the change in frequency level for each major coverage that reflects the combination of (1) unwinding the influence of the COVID-19 pandemic, (2) to the cost level under Bill 41 and introduction of DCPD and (3) “new normal” of the post-pandemic era (see summary table below from OW Report Section 9, page 78 to 81).

Accident Semester	Combined New Normal Factor			
	BI	PD & DCPD	AccBen	Collision
201801	0.7432	0.9590	0.8730	0.6170
201802	0.7432	0.9590	0.8730	0.6170
201901	0.7432	0.9590	0.8730	0.6170
201902	0.7432	0.9590	0.8730	0.6170
202001	1.0476	1.3710	1.2610	0.9090
202002	1.1354	1.4660	1.3500	0.9780
202101	1.2714	1.5930	1.4700	1.0700
202102	1.0100	1.2540	1.1500	0.8250
202201	0.9832	1.2190	1.1180	0.8010
202202	1.0000	1.0000	1.0000	1.0000
202301	1.0000	1.0000	1.0000	1.0000

As OW report has not provided additional information regarding the Combined New Normal Factors, we first tested OW frequency models for BI and Accident Benefit to gain more insight on the Combined New Normal Factors.

Model Output – OW PPV BI Frequency Model (with time, seasonality, mobility⁵, 2020 Reform Scalar, and New Normal Scalar) applied to FA BI data set - based on 2010-H1 to 2023-H1 data.

FITTED TREND STRUCTURE REGRESSION STATISTICS						
Multiple R	R ²	Adjusted R ²	S.E. of Estimate	# of Obs.	# of Obs. Excluded	# parameters
0.9560	0.9140	0.8935	0.0526	27	13	6

RESIDUALS RUNS RANDOM ; residuals normal						
Runs-Test Result: 1.2701						
# parameters with p-value >5%: 2						
Coefficients	S.E.	t-Stat	p-value	C.I. Lower	C.I. Upper	Selected
Intercept	(8.491)	7.924	(1.072)	29.6%	(24.970)	7.988 (8.491) 6
Season	0.079	0.021	3.810	0.1%	0.036	0.121 0.079 5
All Years	0.005	0.004	1.298	20.8%	(0.003)	0.013 0.005 4
Scalar 1	0.014	0.002	6.436	0.0%	0.009	0.018 0.014 3
Trend 1	-	-	n/a	-	-	- 0
Scalar 2	(0.067)	0.054	(1.239)	22.9%	(0.180)	0.046 (0.067) 2
Trend 2	-	-	n/a	-	-	- 0
Scalar 3	(0.240)	0.070	(3.454)	0.2%	(0.385)	(0.096) (0.240) 1
Trend 3	-	-	n/a	-	-	- 0
Scalar 4	-	-	n/a	-	-	- 0
Trend 4	-	-	n/a	-	-	- 0

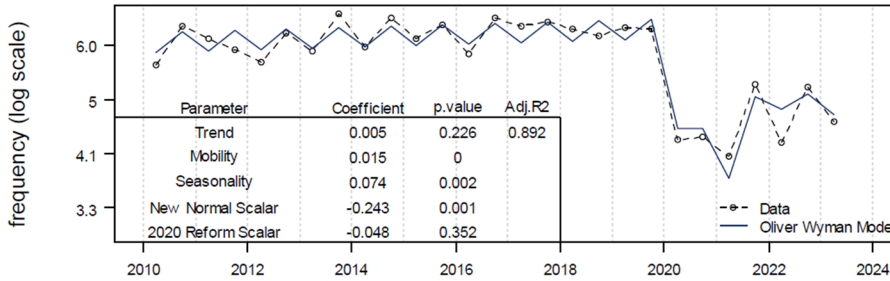
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Scalar 4	-	-	n/a	-	-	- 0
Trend 4	-	-	n/a	-	-	- 0

Cumulative Trends (summed coefficients)						
AY	fitted coeff	S.E.	t-Stat	p-value	C.I. Lower	C.I. Upper
All Yrs or AY	0.005	0.004	1.298	20.8%	(0.003)	0.013
AY+1	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3	n/a	n/a	n/a	n/a	n/a	n/a
AY+1+2+3+4	n/a	n/a	n/a	n/a	n/a	n/a

⁵ Include mobility variables of -22.164, -26.318, -31.492, -16.634, and -14.899 for 2020-H1 to 2022-H1 from 2023 OW report.

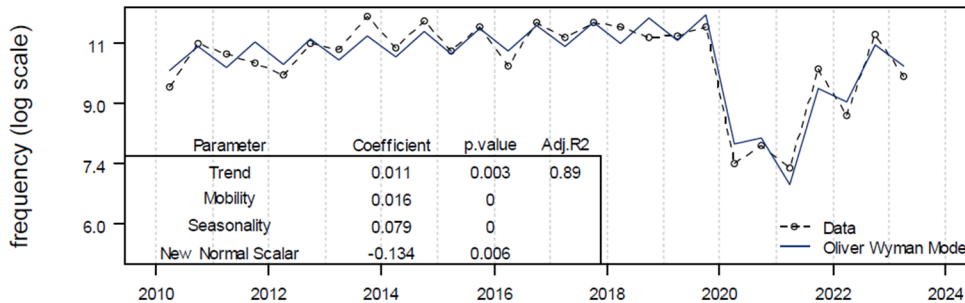
The model outputs based on FA BI data set are consistent with the results from OW report figure 14 (see below).



Model Output – OW PPV AccBen Frequency Model (with time, seasonality, 2015 trend change, mobility⁶, and New Normal Scalar) applied to FA AccBen data set - based on 2010-H1 to 2023-H1 data

FITTED TREND STRUCTURE REGRESSION STATISTICS							SELECTED TREND STRUCTURE REGRESSION STATISTICS										
Multiple R	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p	Multiple R	R ²	Adjusted R ²	S.E. of Estimate	# of Obs. n	# of Obs. Excluded	# parameters p				
0.9517	0.9057	0.8886	0.0474	27	13	5	0.9517	0.9057	0.8886	0.0474	27	13	5				
Runs-Test Result: 0.7739 RESIDUALS RUNS RANDOM ; residu NOT normal							Runs-Test Result: 0.7739 RESIDUALS RUNS RANDOM ; residu normal										
# parameters with p-value >5% 0 (intercept specifically not included)							selected = fitted										
Coefficients		S.E.	t-Stat	p-value	C.I. Lower	95% Upper	Selected	Fitted Annual Selected		Previous Selected	Selected Annual	past		future			
Intercept	(20.652)	6.977	(2.960)	0.7%	(35.121)	(6.182)	(20.652) 5										
Season	0.079	0.018	4.318	0.0%	0.041	0.118	0.079 4										
All Years	0.011	0.003	3.299	0.3%	0.004	0.019	0.011 3										
Scalar 1	0.016	0.001	11.986	0.0%	0.013	0.019	0.016 2										
Trend 1	-	-	-	n/a	-	-	- 0										
Scalar 2	(0.156)	0.045	(3.455)	0.2%	(0.249)	(0.062)	(0.156) 1										
Trend 2	-	-	-	n/a	-	-	- 0										
Scalar 3	-	-	-	n/a	-	-	- 0										
Trend 3	-	-	-	n/a	-	-	- 0										
Scalar 4	-	-	-	n/a	-	-	- 0										
Trend 4	-	-	-	n/a	-	-	- 0										
Cumulative Trends (summed coefficients)							C.I. 95% Selected										
fitted coeff		S.E.	t-Stat	p-value	Lower	Upper	Coeff.	All Yrs or AY		AY+1		AY+1+2		AY+1+2+3		AY+1+2+3+4	
	0.011	0.003	3.299	0.3%	0.004	0.019	0.011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

The model outputs are consistent with the results from OW report figure 18 (see below).



While we agree that adjustment factors are necessary to account for the uncertainties as OW described, it is difficult to evaluate the reasonableness of these Combined New Normal Factors without the analysis behind the derivation of these factors.

In the most recent OW Annual Review, Covid 19 Adjustment Factors were used in their loss trend analysis, which are now replaced by Combined New Normal Factors in Semi-Annual Review; it would have been helpful to have a bridging analysis from using those Factors in the last Annual Review to using Combined New Normal Factors in the current Semi-Annual Review to evaluate the volatility and appropriateness of these New Normal Factors.

⁶ Include mobility variables of -22.164, -26.318, -31.492, -16.634, and -14.899 for 2020-H1 to 2022-H1 from 2023 OW report.

On page 26, OW states: “Therefore, we include a mobility parameter for the observations in our regression models for the coverages that experienced a significant reduction in claims frequency coincident with COVID-19 pandemic.” We continue to question the usage of the mobility parameter similar to our past written submissions.

We would appreciate if OW provides more detailed information associated with the calculation of the Combined New Normal Factors and how they interact with mobility parameters.

5. Selection of Trends Rates and Uncertainties

Since we have completed our own trend analysis using PPV Industry Experience as of June 30, 2023, we would like to provide the Board with a summary of our selections of the future trends and how they compared with the preliminary selections from the OW Report. Please note that our areas of focus detailed above can partially explain the differences between the two sets of selections.

Alberta Industry PPV Trends as at June 30, 2023

Alberta PPV Trends at 2023-06				Alberta PPV OW Future Trend at 2023-06 Compare to AIRB Future Trend at 2022-12			
Coverage	FA selection	OW selection	difference between	Coverage	OW selection at 2023-06	AIRB selection at 2022-12	difference between
	future Trend	future Trend	FA and OW		future Trend	future Trend	OW and AIRB
BI	9.4%	5.0%	4.4%	BI	5.0%	5.0%	-
PD	2.2%	1.8%	0.4%	PD	1.8%	1.0%	0.8%
AccBen (indivis)	12.7%	10.9%	1.8%	AccBen (indivis)	10.9%	11.0%	(0.1%)
UM	-	4.4%	(4.4%)	UM	4.4%	1.5%	2.9%
CL	3.4%	2.3%	1.1%	CL	2.3%	2.0%	0.3%
CM	3.8%	4.0%	(0.2%)	CM	4.0%	4.0%	-
SP	4.4%	3.3%	1.1%	SP	3.3%	3.0%	0.3%
AP	0.2%	2.2%	(2.0%)	AP	2.2%	-	2.2%

We estimate that the OW future trend selections at the coverage level will translate to an overall loss cost future trend rate of 4.2% for private passenger vehicles, while the FA estimated overall loss cost future trend rate is 6.3% for private passenger vehicles.

We agree with OW statement that “*The recent claim experience is exceptional due to the COVID-19 pandemic, the introduction of reforms in the last quarter of 2020, and the recent rise in inflation. Uncertainty surrounding future inflation adds uncertainty around selecting an appropriate future trends rate.*”

Finally, we appreciate the OW Report’s mention regarding heightened uncertainty due to COVID 19, Bill 41 Reforms and rising inflation as well as OW’s recommendation that on OW PPV Report page 4:

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

- *The correlation of the historical CPI index with historical claim cost changes; and any recent changes to the CPI – stabilizing, rising or falling.*
- *The actual change in claim costs data that has emerged during the recent high inflationary period.*
- *The anticipated future CPI during the rating program period given the Federal Government’s actions to curb inflation through higher interest rates.*
- *The impact of economic conditions and general high inflation on vehicle usages.*”

As such, the projection of future rate needs is subject to considerable uncertainty and the AIRB should consider this when review individual rate filings.

Any questions related to this submission may be directed to Philippe Gosselin by email at pgosselin@facilityassociation.com or by phone at 416-644-4968.