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February 22, 2024

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

RE: AIRB 2024 Semi-Annual Review

Dear Mr. Hotte,

Thank you for the opportunity to participate in the AIRB's semi-annual review of auto insurance trends and rates for basic and additional coverage. Consistent with our approach from previous years, Insurance Bureau of Canada (IBC) consulted with its member companies to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2023 Private Passenger Vehicles.*

State of the Industry

For a second year in a row, insurers operating in Alberta's auto insurance market are subject to government intervention on rates. In 2023, the mandated auto insurance rate pause that was in place for the year did not allow insurers to set rates that reached their actuarially justified levels. Today, insurers are subject to a 3.7% rate cap for the vast majority of their books of business, while the government explores product reform options. With continuous government intervention, cost pressures continue to grow in the system:

- Legal costs now account for a greater portion of the auto insurance premiums drivers pay in Alberta than anywhere else in Canada. Lawsuits and legal costs associated with insurance claims have soared 31% in Alberta since 2018 and now account for 20% of mandatory premiums;
- According to Stats Canada, spending on vehicle parts and repairs was up 5.6% in December 2023;
- The cost of vehicle theft is increasing. In the last year alone, the cost of vehicle thefts is up 39% across Alberta;
- The Alberta health care levy on auto premiums went up 28.2% in 2023;
- Cash settlements for minor injuries under Alberta's Minor Injury Regulation went up 4.2% in 2023.

In the semi-annual review report, Oliver Wyman indicates that accident benefits and bodily injury claims costs are expected to once again increase significantly, by 10.9% and 5.0%, respectively. Comprehensive claims costs are also expected to continue to rise, by 4.0%. These trend factors all exceed the 3.7% rate cap (based on September 2023 inflation) implemented by the government, further signaling that the 3.7% rate cap that applies to 80% of drivers is not sustainable.

The information and data presented in this semi-annual review confirms there are persisting claims costs pressures in Alberta's auto insurance system. However, government's continuous rate interventions is hindering insurers' ability to keep pace with rising claims costs, threatening the viability of companies operating in the province's auto insurance market.

Last year, a carrier exited the market due to the challenging regulatory environment and the inability to obtain actuarially justified rate changes, leaving over 16,000 drivers without coverage and some insurers taking action to restrict their offerings to remain viable. Now with the rate cap in place, the viability of insurers operating in Alberta's auto insurance market continues to be at risk, and the attractiveness of operating in the province diminishes.

As proven with the previous provincial rate cap from 2017 to 2019, and as most recently demonstrated by California's rate freeze followed by a rate cap, government rate interventions lead to mounting system cost pressures and do not address the root cause of rising claims costs. In California, the state saw at least 10 insurers close their offices, restrict coverages across multiple lines, or leave the state entirely. Despite the historical evidence that government rate interventions diminish consumer choice while in effect and typically result in significant premium increases once removed, the Alberta government still opted to pursue a similar approach as California, disregarding the significant consumer challenges encountered there.

Product Reform

Industry recognizes that government's intent is to keep the 3.7% rate cap in effect until it concludes its analysis of reform options and announces its decision. As such, Alberta's Minister of Finance announced that Oliver Wyman has been commissioned to conduct an analysis and costing of long-term reform options, which includes IBC's *Enhancing Care & Expanding Choice* proposal. IBC continues to recommend *Enhancing Care & Expanding Choice* proposal as the best bath forward for product reform in Alberta that will provide consumers with greater choice, enhanced benefits, and notably, savings back in their pockets. Under IBC's *Enhancing Care & Expanding Choice* proposal:

- Drivers could choose to pay a lower premium by waiving the ability to receive financial compensation for pain and suffering if they sustain a minor injury;
- Injuries sustained in a collision would be eligible for twice the amount of pre-approved treatment than received today, including specific programs of care based on the most up to date medical literature; and
- If an injury is serious in nature, everyone would continue to have legal recourse after an accident, just like today.

With cost pressures from inflation and continued growth in bodily injury and accident benefit costs, IBC's proposal would greatly improve the affordability of coverage and provide significant premiums savings for consumers, of up to $200, on average.

While this proposal can be achieved in the short term, it will require 18 months to implement following necessary legislative changes. With the rising affordability crisis in the province and keeping consumers top of mind, the AIRB has an opportunity to urge government to take immediate action and implement short-term changes that can take effect now and put money back into the pockets of the province's 3 million drivers. Some of these include:

- Pause or eliminate the 4% Insurance Premium Tax ($67 savings);
- Pause or eliminate the provincial health levy ($30 savings);
- Introduce a cap on income replacement for tort awards ($20 savings).

Combined, these changes could bring nearly $120, on average, in premium relief for drivers while long-term changes are introduced. IBC strongly urges the AIRB to encourage government to action these changes to improve affordability for the province's 3 million drivers.

Regulatory Improvements

IBC commends the AIRB for its recent efforts to enhance Alberta's regulatory system through the expansion of file-and-use up to 10% for PPV and motorcycles. Despite the challenges posed by the current regulatory environment, this development marks a positive move toward a regulatory framework that is both more efficient and effective. We encourage the AIRB to continue introducing regulatory improvements, such as:

- Look to transition to a use-and-file framework;
- Improve the filing guidelines:
    - Increase the threshold for dislocation changes to a 15% increase, after capping, to match Ontario regulations; further increase or remove threshold within three years.
    - Remove the dislocation threshold for non-PPVs.
    - Develop reporting practices on market competitiveness to inform the future level of regulation oversight.
    - Provide a more detailed description of the requirements for the non-actuarial full filing option;
- Reform the province's Grid rating system to refocus the framework to better align with its original intent (see section below for further details).

Grid Vehicle Framework

In addition to regulatory improvements, it is critical the AIRB prioritize reforms to the Grid framework to reduce its associated - and unnecessary - costs on drivers. Alberta's Grid framework has not been aligned with its original intent of providing new and inexperienced drivers with affordable, entry-level premiums for a long time. It now caps rates for many experienced drivers with a history of accidents and infractions, penalizing the province's low-risk drivers by forcing them to pay higher premiums to subsidize premiums of high-risk drivers. This has been made clear in the Deloitte report IBC shared with your office in 2022.

Last month, IBC was pleased to see the AIRB take steps to improve the Grid framework by announcing a 12% increase in Grid base premiums and updating Grid steps -15 and -14 differentials to align with Grid step -13. While these are important measures to the AIRB's eventual phasing out of these steps, there is a critical need for further reform, as the added costs shouldered by low-risk drivers is adding to higher premiums.

IBC reiterates its recommendation for government to eliminate the Grid and implement mandatory discounts for new drivers, akin to practices in other jurisdictions, to ensure more affordable premiums for them. Although this is a longer term initiative, IBC looks forward to the AIRB's decision on larger, more significant changes and reforms to the Grid framework following the February AIRB Board meeting.

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

Commentary on Loss Cost Analysis

According to Oliver Wyman, trend rates for several coverages are significant, signaling that claims costs are projected to continue to increase in the near-term. Consistent with last year's review, claims costs for injury claims are projected to increase considerably, with accident benefits and bodily injury costs increasing by 10.9% and 5.0%, respectively.

Notably, Oliver Wyman now projects a steep deterioration in the pre-2020 reform injury claims environment. In its 2023 annual review, Oliver Wyman projected bodily injury claims costs that took place prior to the 2020 reforms to increase by 8.0%, and accident benefits to increase by 1.0%. In this semi-annual review, published just six months later, Oliver Wyman now projects greater increases of 8.7% and 3.8% for past bodily injury and accident benefits claims, respectively. While loss trend factors were unchanged for the post-reform period, the broad similarities in the injury claims environment between the two periods suggests that current injury claims could develop to be more expensive than anticipated.

As highlighted above, IBC's *Enhancing Care & Expanding Choice* proposal has the ability to decrease injury claims costs, provide drivers with more choice, and increase the care they receive after an accident, all while reducing the price they pay for coverage. Implementing this proposal would minimize many consumers' need to wait for a lengthy tort settlement, reducing injury claims costs that are currently adding pressure in the system.

Similar to the past reviews, Oliver Wyman projects moderate vehicle damage increases, with property damage and collision future trend rates of +1.8% and +2.3%, respectively. However, it also notes inflationary pressures on physical damage coverages have resulted in the highest inflation levels in the last 10 years. As such, IBC recommends insurers be permitted to consider Statistics Canada data elements in all future rate filings to adequately capture changes in CPI where applicable and if the insurer believes it is necessary based on their individual experience. Such elements include:

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

Catastrophe Provision

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

Investment Income on Cash Flow

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

Health Cost Recovery

Consistent with the 2024 Health Cost Recovery Assessment recommended benchmark from the Alberta Treasury Board and Finance, Oliver Wyman agrees that insurers should reflect the health levy of 2.86% in their 2023 filings. IBC believes this is reasonable.

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

Profit Provision
Last year, the AIRB lowered the profit provision in Alberta from 7% to 6%; yet, the auto insurance market in the province has not been profitable for insurers. According to data from GISA's Industry Profit and Loss Report, over the past decade, Alberta PPV auto insurers have paid out more in claims costs, operating expenses and premium taxes than they earned in premiums and investment income. The 2023 Superintendent's Annual Report also noted that 17 insurers lost money on the sale of auto insurance in 2022, proving how challenging the market is for the majority of carriers.

The most recent data from MSA highlights a similar story. For the first 9 months of 2023, Alberta's private passenger auto insurance service ratio was 93.0%. Given this figure does not include certain additional insurer underwriting expenses, Alberta insurers have been earning less than the AIRB-permitted 6% underwriting profit.

Within this context, IBC recommends any additional profit provision reflect the future actual profit long-term levels of Alberta's auto insurers rather than results from a single year. The deterioration in pre-2020 bodily injury and accident benefits claims highlighted by Oliver Wyman as part of this Review underscore that actual claims costs and, by extension, profitability, are often very different once claims have fully developed.

Conclusion
IBC appreciates the opportunity to comment on the 2024 semi-annual review. The current state of the auto insurance market in Alberta has presented significant challenges for insurers, and the trend factors put forward by Oliver Wyman confirm the pressures that were growing under the rate pause and now under the rate cap. IBC strongly recommends the AIRB prioritize work around reforming the Grid framework, revising its filing guidelines, and recommend government implement short-term changes that can bring immediate relief to consumers, including pausing or removing the health levy and insurance premium tax.

We hope this commentary assists the AIRB in its deliberations. If you would like to discuss this further, please do not hesitate to reach out to me at 1-604-349-8046 or Asutherland@ibc.ca.

Sincerely,

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