

Market & Trends REPORT

2019

October 2019



Automobile Insurance Rate Board — 2019 Market and Trends

October 2019



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AUTOMOBILE INSURANCE MARKET

Executive Summary

Alberta's automobile insurance market is facing issues with both sustainability and accessibility. During the 5% rate limitation, from 2017 to 2019, the average premium increased more than the prior eight years and cost increases resulted in increased premiums for Albertans. The Alberta Automobile Insurance Rate Board (AIRB) monitors the market to foresee emerging cost trends and to evaluate the efficiency of the automobile insurance market systematically. Currently, the market trends for bodily injury claims and comprehensive claims are unsustainable.

The AIRB welcomes the opportunity to work with government and industry stakeholders to review the system and evaluate options to make a change for the future of Alberta's automobile insurance system.

Preface

Seventy-three percent of Alberta's automobile insurance market is comprised of policies for private passenger vehicles (PPV); the remaining twenty-seven percent consists of motorcycles, commercial, all terrain, snow, farm and miscellaneous vehicles. Alberta has a competitive private automobile insurance market that provides coverage for over 2.75

million vehicles. This report on the automobile insurance market examines, and is mainly pertinent to, the market for PPV, given its size relative to other vehicle types, except where noted. Readers are advised data is sourced from a variety of sources including: the General Insurance Statistical Agency, and MSA Research. Some data is used to illustrate trends for five years, while in other cases ten years is presented.

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 there is access to a robust automobile insurance marketplace. The AIRB monitors industry trends and developments to inform its board members and the Government of Alberta. Further the AIRB evaluates affordability, accessibility, and service quality by monitoring relevant indicators which are influenced by competition, consumer knowledge, and industry trends. This report mainly focuses on competition, affordability, accessibility and industry trends.



During 2018, Alberta's Automobile Insurance Market Covered More Than 2.75 Million Vehicles

PREMIUMS COLLECTED

\$3,500,000,000+

In 2018, automobile insurers collected over \$3.5 billion in premiums.



COST OF CLAIMS

\$2,900,000,000+

In 2018, automobile insurers paid over \$2.9 billion in claims.



Vehicles by Class

PRIVATE PASSENGER



73%

COMMERCIAL



10%

ALL TERRAIN



4%

MOTORCYCLE



4%

SNOWMOBILE



3%

MISCELLANEOUS & OTHER



6%

Industry Trends

\$70,000+

BODILY INJURY CLAIMS

The average cost of a bodily injury claim was over \$70 thousand for insurers in 2018.

34+

STOLEN VEHICLES PER DAY

In Alberta, an average of 34 vehicles are stolen each day.

Industry Statistics

287,000+

CLAIMS PER YEAR

Albertans made over 287 thousand claims in 2018.

69

COMPANIES

In Alberta, automobile insurance is provided by 69 different companies.



\$1,316

YEARLY PREMIUMS

Albertans spent an average of \$1,316 on automobile insurance coverages in 2018.

3%

COST TO ALBERTANS

In 2018, Albertans spent an average of 3% of their after-tax income on automobile insurance.

How Is the Automobile Insurance Market Changing?

MINOR INJURY REGULATION



USAGE BASED INSURANCE



CANNABIS



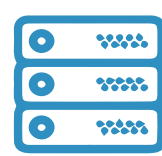
SEVERE WEATHER



DISTRACTED DRIVING



TECHNOLOGY



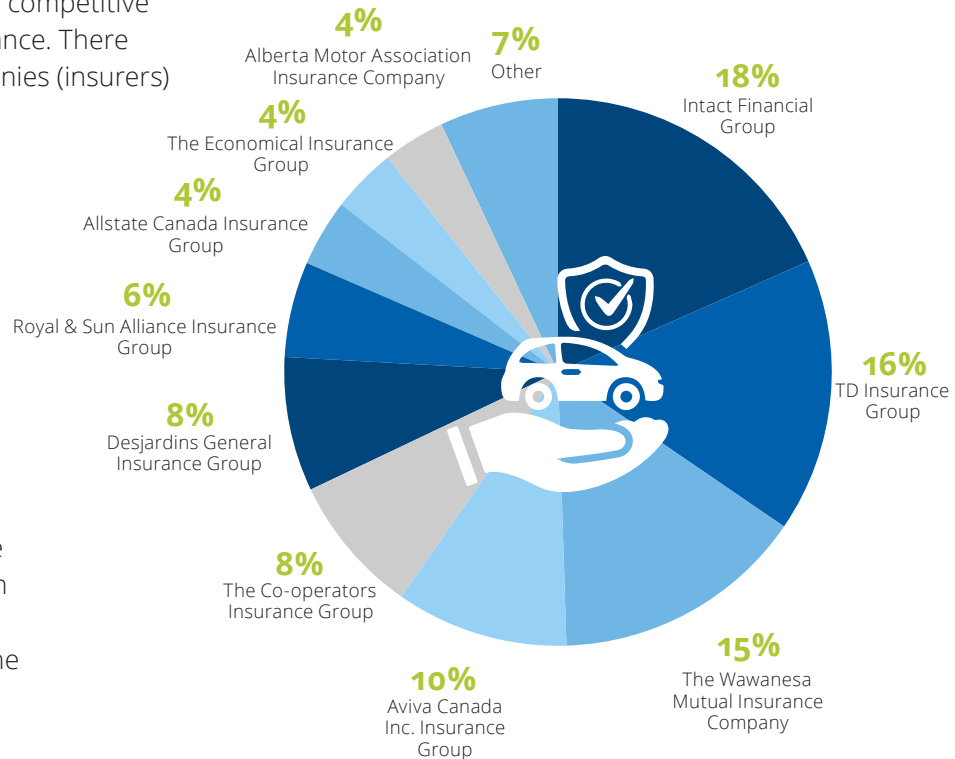
Competitive Marketplace

Alberta is fortunate to have a competitive market for automobile insurance. There are over 69 insurance companies (insurers) willing to offer at least one class of vehicle insurance.

Based on 2018 direct written premiums¹, the top ten insurer groups in Alberta represented 93% of the PPV market share, with 46 individual insurers writing PPV insurance.

A competitive market allows insurers to compete on price and service. Consumers have the ability to choose between different insurers, and no single insurer dictates how the market operates.

2018 Top Ten Private Passenger Insurance Groups

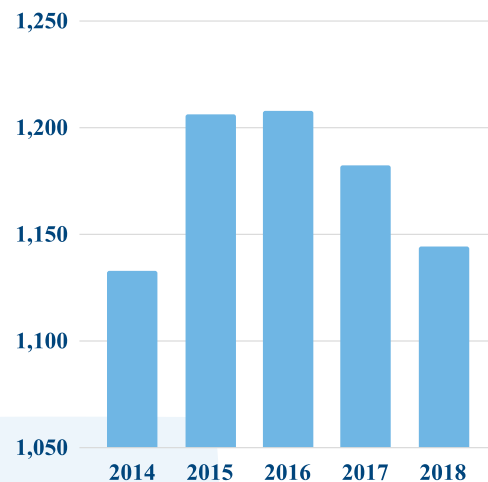


MARKET CONCENTRATION

The AIRB monitors the Herfindal-Hirschman Index (HHI) as a tool for measuring market concentration. Although Alberta has a competitive marketplace, merger and acquisition activity has increased, and with over 90% of the market represented by ten insurer groups, it is prudent to monitor the level of concentration to ensure consumers still have choice and assess to the insurance they require. HHI is used to determine the level of competition within a market. The market's HHI score proves useful because a higher weight is placed on insurers with a larger market share. Scores can range from 0 to 10,000, with 0 indicating perfect competition and 10,000 representing a monopoly. As the score decreases, competition within the market increases. The HHI of Alberta's automobile insurance market is well within the limits that

indicate a healthy level of competition. When evaluating the scores for the past five years, the market's HHI score has only increased by 11, indicating no change to market concentration.

Herfindal-Hirschman Index Score



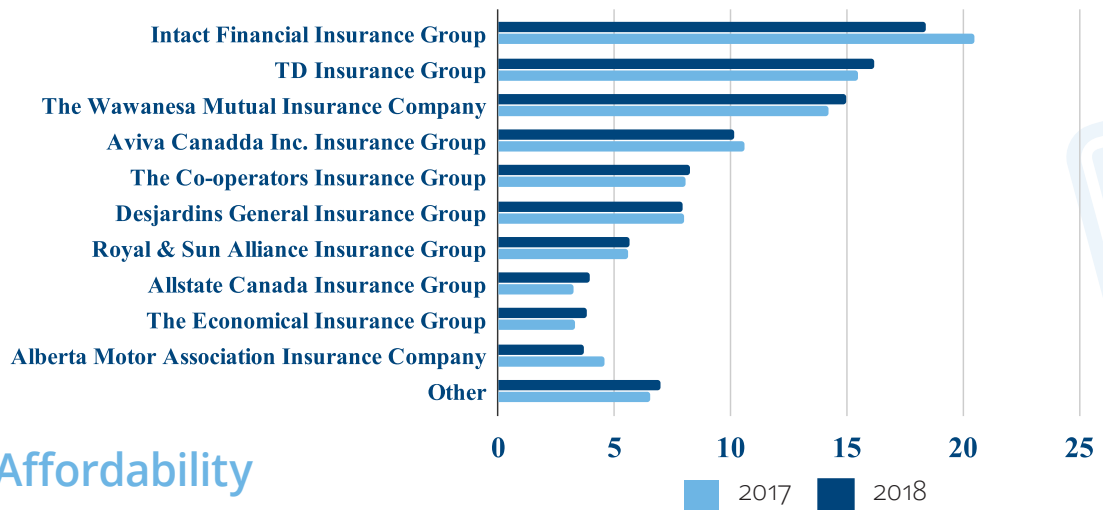
¹ Based on MSA Research data.

CHANGES IN MARKET SHARE

In 2018, while insurers were unable to receive an overall rate change greater than 5% for PPV, the AIRB saw a significant increase in segmentation filings, where the overall rate change was 0%. Increased segmentation, can result in higher rates for some insureds causing them to shop the market. Over the first full year of the Ministerial Order, some insurers decreased their market share while others

increased. As market share moves from larger to smaller insurers, the HHI score decreases indicating increased competition. The AIRB also monitors year-over-year changes in market share by insurer group, as shown below, to understand changes in the accessibility of insurance. If an insurer withdraws or significantly reduces their market share, accessibility could become an issue.

Private Passenger Market Share by Company 2017 - 2018



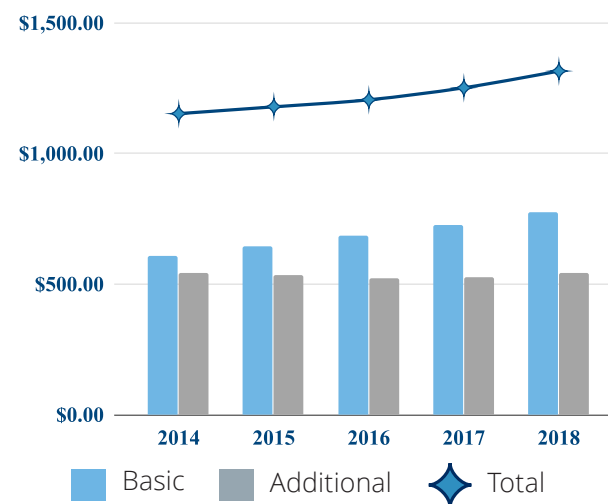
Affordability

AVERAGE PREMIUMS

The annual change in average premiums is an important indicator of affordability in the market. Over the last five years, the average premiums for basic coverage (third party liability and accident benefits) increased by 27% and additional coverage (collision, comprehensive, specified perils and all perils) dropped by 1%. The total average premium increased by 14% over the five-year period. The increases in total average premium over the reporting period are well above rates of inflation and represent decreased affordability in the market. Consumers can budget for regular rate increases; our consumer research has found increases up to 10% to be generally accepted. When an insurer files regularly to adjust their rates in response to cost pressures with modest increases, consumers are less likely to shop the market and switch insurers.

The trend for increases in basic coverage is an indicator of rate inadequacy, which will be demonstrated later in the report.

Average Written Premiums - Basic & Additional

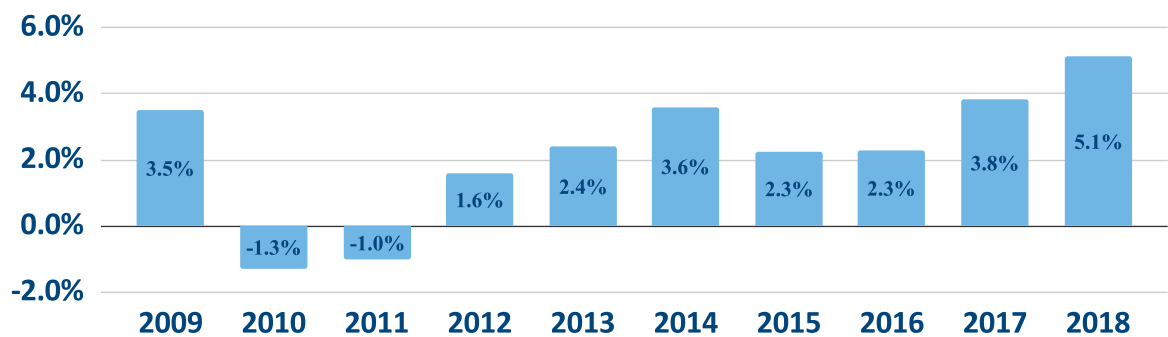


YEAR-OVER-YEAR CHANGE

In 2018, Alberta's automobile insurance market had the highest year-over-year increase in average premiums in the past ten years. In 2018, overall rate increases was limited to 5% on an insurer's overall premiums, yet the average policyholder increase was just above 5%. This is partially due to rate changes approved prior to the Ministerial Order and not fully implemented until 2018. The year-over-year change in average

premiums does not always correspond with the increasing costs insurers are facing. Insurers may increase premiums less than required in order to maintain market share or other internal business reasons. In addition, some smaller insurers do not file for rate changes as frequently due to technology or other internal resource restraints; this is not often in the best interest of the policyholder and the overall affordability of the premiums.

Yearly Change in Average Premiums

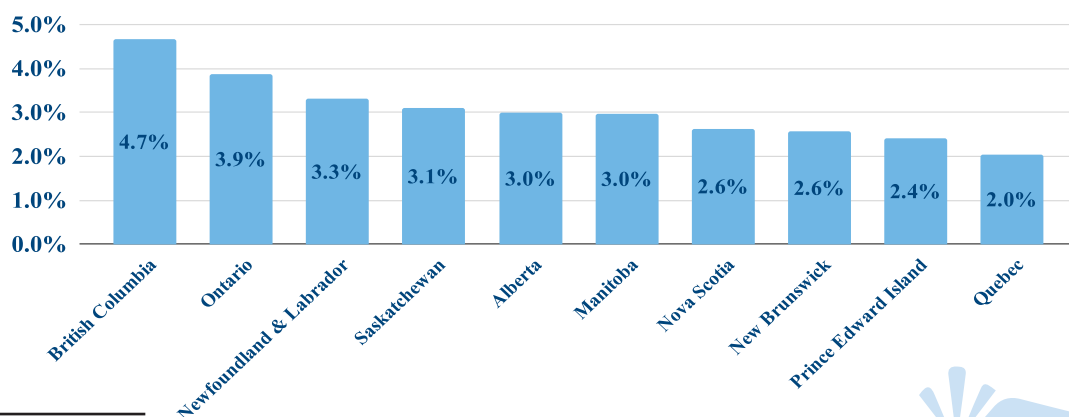


HOW DO OUR PREMIUMS COMPARE

The AIRB benchmarks the percentage of after-tax income Albertans spend on the average insurance premium with data from other provinces². The AIRB recognizes there are differences between each province's automobile insurance systems³, however, for this analysis considers only what is paid for automobile insurance coverage not reflecting any differences in coverage. This does not account for the vehicle

type driven which also varies by province, and income level of the policyholders. Among the provinces evaluated, the average percent of after-tax income spent on the average premium was 3.1%. Albertans spend slightly below the average, at 3.0% of after-tax income. Based on this measure, Albertans spend a similar amount of income as their counterparts in Saskatchewan and Manitoba, where the Government provides insurance.

Average After-tax Income Spent on Automobile Insurance



² After-tax Income data sourced from Statistics Canada. Average premium data sourced from the Insurance Bureau of Canada.

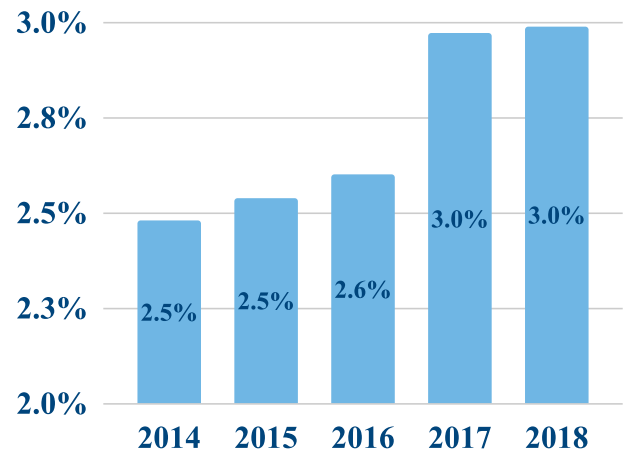
³ Not only is there a difference between public and private delivery systems, but the insurance products and regulations can vary by province. Fault systems, coverage scope and limitations on payouts can all influence the cost of automobile insurance.



CHANGE IN INCOME SPENT ON AUTOMOBILE INSURANCE

The average premium expressed as a percentage of after-tax income is also benchmarked against previous years in Alberta. From 2016 to 2017, Albertans saw an increase of 0.4% on after-tax income spent on automobile insurance. The increase seen between these two years is primarily a result of decreased rates of after-tax income in Alberta. The percentage of after-tax income spent on automobile insurance has remained stable over the previous two years, at 3.0%.

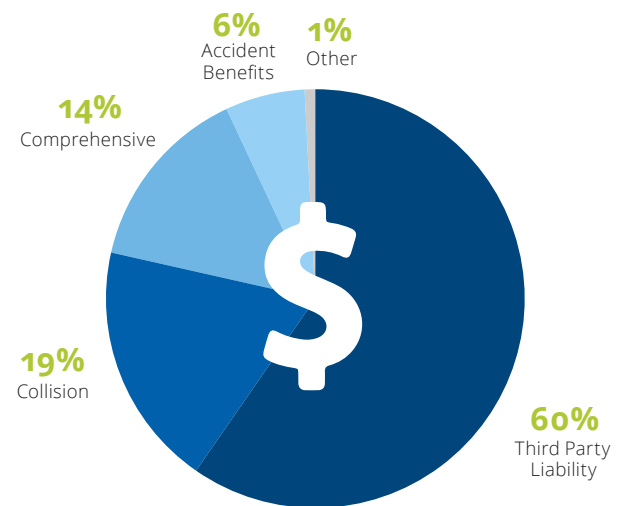
After-tax Income Spent on Automobile Insurance



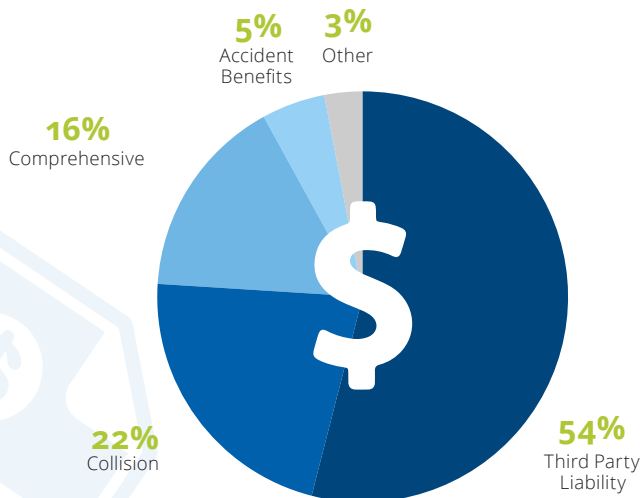
AVERAGE PREMIUM BY COVERAGE

Drivers are required to carry insurance for basic coverage and have the option to purchase additional coverage. Premium is determined and paid for the individual coverages the policyholder purchased, and reflects the cost of the coverage. More than 50% of the total premiums paid in Alberta are for third party liability coverage, which is expected given all drivers are required to purchase this coverage. The chart highlights the percentage of premium allocated to the other coverages, highlighting that collision is the second highest, which is an optional coverage, although often required when financing a vehicle.

Claims and Adjustment Expenses By Coverage



Written Premium By Coverage



AVERAGE CLAIM COSTS BY COVERAGE

Given claims are the most significant cost for automobile insurers, and how the premiums breakdown, it is not surprising to see 60% of all claims paid out by insurers in 2018 attributed to third party liability coverage. The second highest was collision, followed by comprehensive. Comprehensive claims have been increasing in recent years due mainly to increased theft and weather related claims in Alberta. The similar distribution by coverage for premiums and claims indicates insurers are refining the alignment of premiums to the costs of the coverage; however, based on 2018 data, not all coverages are adequately priced.



Automobile Insurance Claim Trends

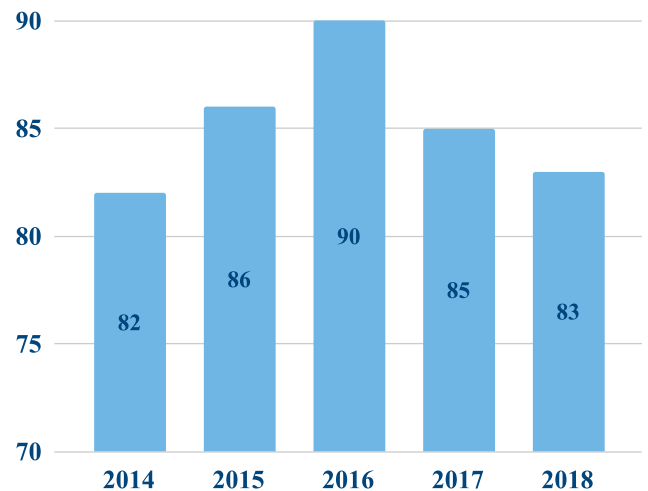
LOSS RATIO

Insurers collect 54 cents of every dollar in premiums for third party liability coverage; however, insurers are paying 60 cents of every dollar collected towards the cost of claims. The claims paid also exceed the premiums collected for accident benefits coverage. The AIRB is monitoring the claims loss ratios⁴, which is an important measure of sustainability for the industry. An insurer who consistently writes 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 industry standard for profitability is a loss ratio of 70%, as shown; loss ratios in Alberta have been consistently above that threshold. Over the most recent 5-year period, the earned incurred loss ratio increased by 1%. Over the two most recent reported years, the earned incurred loss ratio dropped 7%. The earned incurred loss ratio does not account for

expenses beyond the cost of claims. The AIRB industry benchmark for expenses is 27.8%, which when added to the 83% loss ratio in 2018 results in insurers incurring costs of 1.11 for every dollar in premium, thus operating at a loss.

Private Passenger Industry Loss Ratio

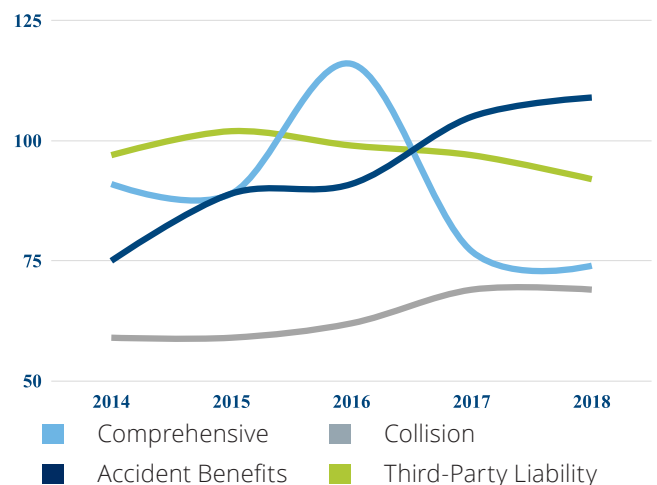


HOW DOES THE LOSS RATIO FOR EACH COVERAGE TYPE COMPARE?

The cost of claims is the most significant cost pressure insurers are facing. The graph illustrates the loss ratios by coverage. Over the past five years, the loss ratio for third party liability coverage remained consistent, trending downward in 2018. Comprehensive coverage protects the policyholder against events like fire, theft, vandalism and hail, and therefore, is volatile depending on the year's events. The peak in 2016 is mainly attributed to the Fort McMurray fires, but overall the coverage's loss ratio is still trending downwards. Accident benefits is a small portion of the overall premium; however, has shown an upward trend since 2016. Collision has been increasing related to the increased cost of repairs to vehicles as

they include more sensors and automated features aimed at protecting the driver and passengers.

Loss Ratio by Coverage



⁴ Earned incurred loss ratio.



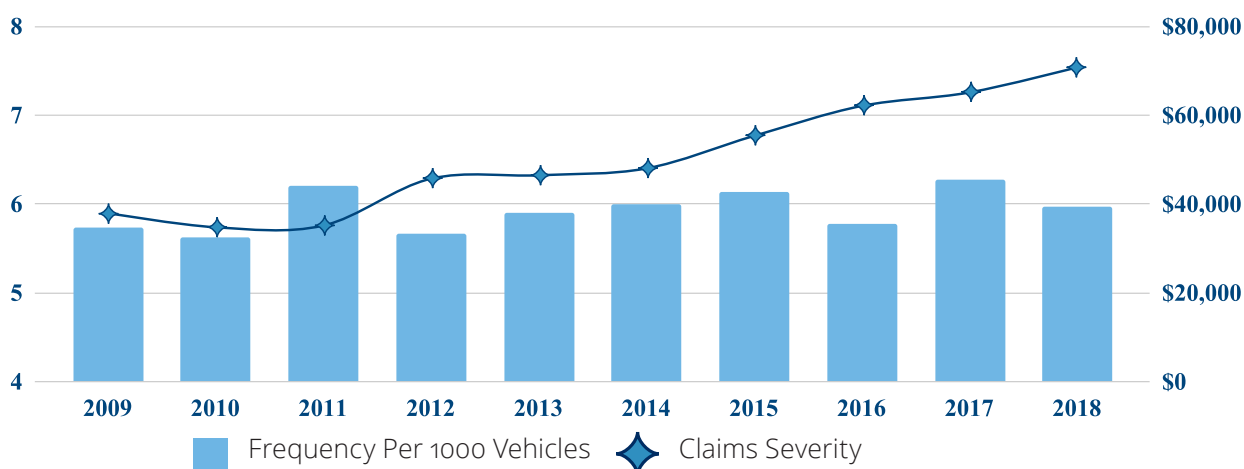
THIRD PARTY LIABILITY - BODILY INJURY

Bodily injury is a significant component of the third party liability coverage, and the most significant cost pressure in recent years. This graph illustrates the increased severity in ultimate claim payout amounts over the last 10 years. The severity of bodily injury costs has increased 86% from 2009 – 2018, with ultimate loss cost estimates increasing from \$37,957 in 2009 to \$70,742 in 2018. All of the yearly

increases in claims bodily injury claims severity were experienced after 2012. Insurers cite the following reasons for increases in claims costs:

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

Bodily Injury

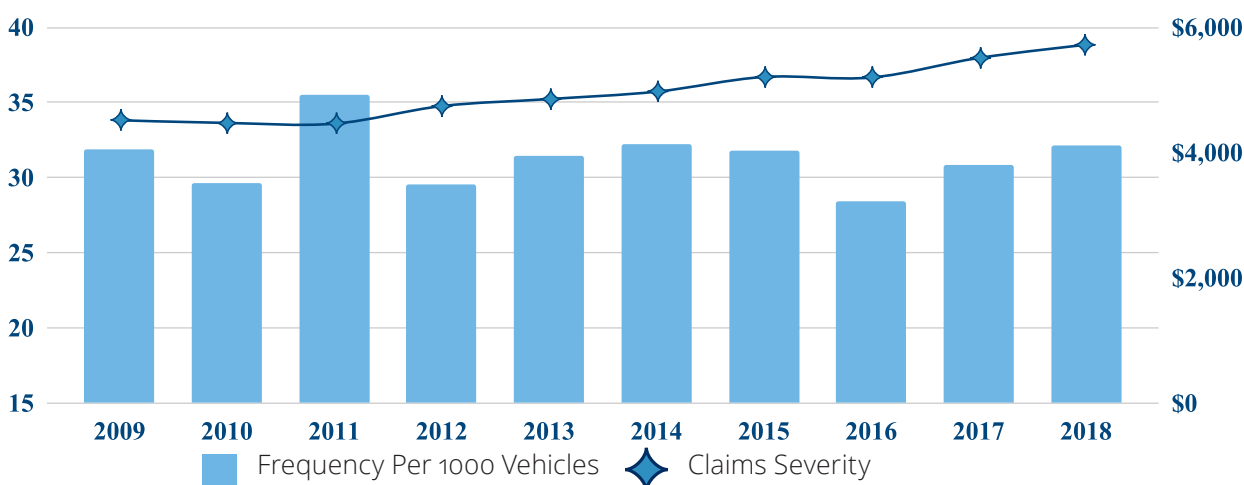


THIRD PARTY LIABILITY - PROPERTY DAMAGE

Increased automation, new features and sensors are attractive to vehicle purchasers, but are expensive to repair in the event of a collision. Increasing repair costs are the main reason the severity of property damage claims

has been trending upwards in recent years. Claims frequency has remained fairly constant since 2012. The trends observed, in both claims frequency and severity are expected to continue.

Property Damage

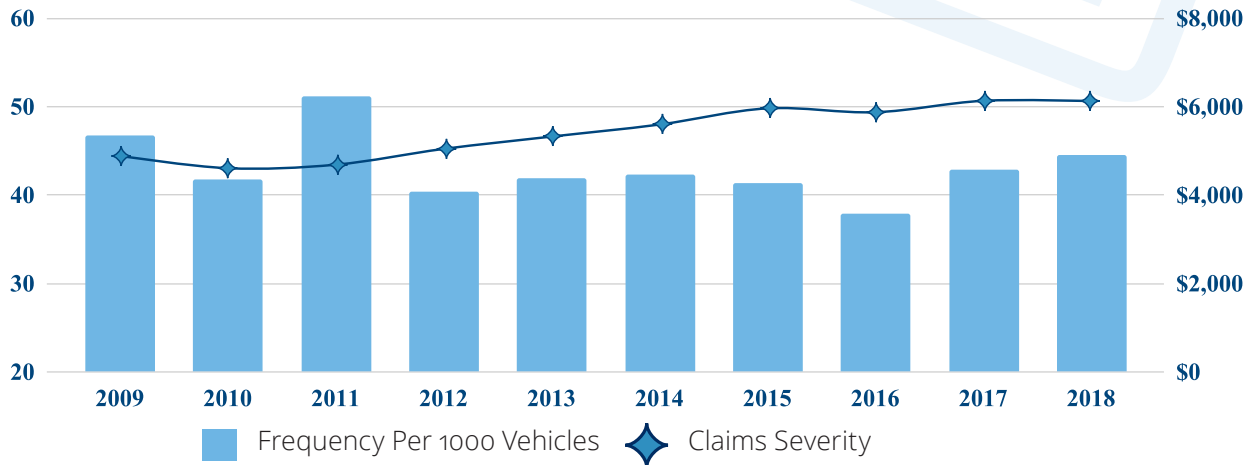


COLLISION

The average cost per collision claim has trended upwards since 2009, partially offset by the frequency trending downwards. The increase in automation in today's vehicles may contribute to a reduction in the frequency of accidents and the severity of injuries sustained; however, the cost of repairing vehicles continues to rise. As more safety technology is added to vehicles, the cost to repair minor vehicle

damages also increases. What used to be a "small fender bender", can now be a significant claim. Replacement parts are becoming more expensive, and labour requirements are increasing due to increased complexity and the need for recalibration of sensors. The trends observed, in both claims frequency and severity are expected to continue as vehicles become safer unless the cost of replacement parts for safety features is addressed.

Collision

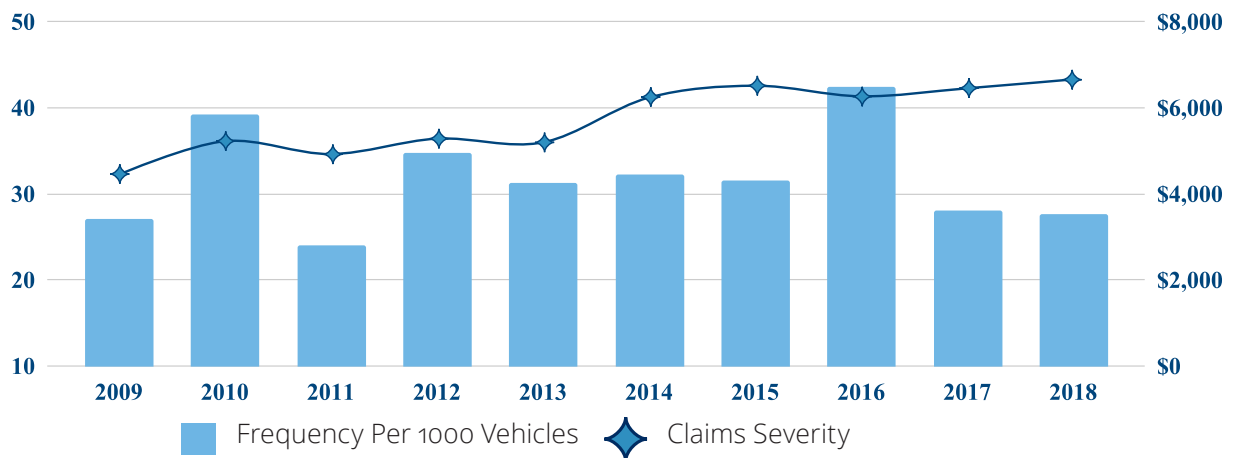


COMPREHENSIVE

Alberta leads the country in the number of vehicle theft claims. Insurers have indicated in the last four years they have seen a \$200 increase in the yearly average of the cost per claim related to theft. The graph below illustrates the trends in both claims

frequency and severity for comprehensive coverage. The graph outlines that the severity of comprehensive claims is trending upwards. Comprehensive coverage also covers the policyholder for weather related events like hail or fire. As the frequency and severity of these events increase, so do the costs.

Comprehensive



Accessibility

The AIRB continues to monitor the industry to ensure coverage is accessible to Albertans. Although we have a robust and competitive market, rising claims costs and a rate limitation in place from November 1, 2017 to August 31, 2019 put pressure on insurers. During the rate limitation, the number of insurers submitting multiple filings increased in 2018, with an increase in segmentation filings, focused on changes to rating programs to ensure each individual risk is as adequately priced as possible. Segmentation filings increased over 16% from the period before the rate limitation

to the second year of rate limitation. In addition to rating program changes, several insurers adjusted their underwriting rules and made business decisions that negatively influenced customer service and accessibility, such as: declining to offer payment plans, requiring signed renewal forms, declining to offer additional coverages and cancelling broker contracts. As the rate limitation has since expired and insurers are able to get more adequate rates, the AIRB expects insurers to reconsider business decisions that could negatively affect accessibility and customer service.

Monitoring Emerging Trends/ Market Issues

Each year, the AIRB consults with the industry to receive feedback during the Annual Review process. All stakeholders are invited to provide comments on the impact of several emerging trends and issues. The AIRB values the insight of stakeholders as part of its ongoing evaluation of the trends impacting the insurers and consumers.

that resolve with those injuries, are considered minor injuries and should be treated as such. During its Annual Review process, the AIRB received comments on the clarification to the regulation and generally, insurers indicated, although a step towards ensuring affordable and sustainable automobile insurance in Alberta, the definition has not been effective at reducing the severity of bodily injury claims. Insurers also noted other issues arising around bodily injury claims, such as the length of time required to reach a settlement. Given 2018 results only include seven months post clarification in the definition, this will be monitored in future periods.



MINOR INJURY REGULATION CLARIFICATION

A leading cost pressure faced by automobile insurers is the increase in bodily injury claims, and the frequency of those claims falling outside the cap for minor injuries, made prominent by court cases like the McLean v. Parmar⁵ and Sparrowhawk⁶ decisions. In May 2018, the Government of Alberta announced a clarification to the Minor Injury Regulation (regulation), taking effect June 1, 2018. The clarification makes it evident that some injuries, such as physical or psychological conditions or symptoms arising from sprains, strains and whiplash injuries and



CANNABIS

Going into the legalization of recreational cannabis with no accurate data, the AIRB was uncertain of the affect to the automobile insurance market. The dangers of cannabis impaired driving are well understood; data from a recent study conducted at McGill University suggests the probability of an accident is increased even five hours after



⁵ The McLean v. Parmar ruling indicated that all soft tissue claims lasting longer than three months fall outside the minor injury cap.

⁶ In Sparrowhawk Temporomandibular Joint Disorder was determined not to be a "minor injury".



cannabis consumption. Although these dangers are well understood, the AIRB could not find conclusive evidence rates of cannabis impaired driving increased after the legalization of recreational use. After consulting with insurers and reviewing data from states with legal recreational cannabis use, the AIRB issued a bulletin to ensure transparency of its position, rate level cannot be adjusted as a result of the legalization of cannabis. Insurers and regulators will continue to monitor the risks associated with recreational cannabis consumption and the affects on both claims frequency and severity. Recent data shared in the media suggests driving with cannabis is up 70% post legalization; however, enforcement challenges limit the actual data to support these claims. The AIRB will be monitoring the results of Canadian data and future publications to understand the impact on the market and rate setting.



TECHNOLOGY IN THE INDUSTRY

Looking beyond the impact technology is having on accident frequency and severity, technology used by insurers have the potential to change the market. Data used to maintain efficient rating programs is transitioning from historical to real-time, with the implementation of technology like telematics devices. Further, insurers are recruiting more diverse roles to process and report on claims data. New artificial intelligence technology has the potential to give insurers an algorithm that has the ability to shape and monitor itself real-time. As a result, it is expected Insurers will have the capacity to update rating programs more frequently. Regulators will need to adjust their processes to accommodate changes at a faster rate. Further, regulatory frameworks will



need to be more proactive and responsive to a market that is experiencing an increasing rate of change. The AIRB supports the development of technology that enables insurers to make better decisions, and actively engages with stakeholders to further innovations in rating.

USAGE BASED INSURANCE

Usage based Insurance (UBI) is a product offered in Alberta that offers the driver the opportunity to receive discounts based on certain measures of driving data. UBI offers drivers an opportunity to reduce their insurance premiums by practicing safer driving habits. The driver maintains a base rate; however, the driver's premium may be reduced based of parameters such as: time driven, kilometers driven, GPS data, speed, and time of day. In the Consumer Representative's Report, he suggest many Albertans were open to trying UBI. Currently, only a small number of insurers in Alberta offer UBI; however, on October 4, 2019, the Superintendent of Insurance issued a bulletin outlining the UBI implementation process, while widening the number of rating factors an insurer can use in their rating for a UBI program. The AIRB continues to monitor UBI to maintain an understanding of how it affects the market, and if more insurers introduce this option in Alberta.

SEVERE WEATHER

Severe weather continues to be a large concern for the industry and all stakeholders. Comprehensive loss ratios are influenced year-over-year by severe weather event claims. With both the frequency and severity of severe weather events increasing in Alberta, pricing comprehensive coverage becomes increasingly difficult. With the added uncertainty, consumers pay more for the coverage. At the 2019 AIRB's Annual Review, severe weather was noted as increasingly concerning to insurers.





One recent example of the severity of weather related events is the hailstorm that hit west Edmonton and surrounding area causing nearly \$50 million in hail damage to vehicles alone.

DISTRACTED DRIVING

Drivers are twenty-three times more likely to be involved in a collision if texting while driving and four times more likely if talking on a cellphone (hand-held or hands-free) while driving⁷. Although convictions for distracted driving have been trending downwards since 2016⁸, distracted driving was raised as a significant concern by many stakeholders at

the AIRB's Annual Review meeting. With over 23,000 convictions for distracted driving in Alberta in 2018⁹ and over 75% of Canadians admitting they have driven distracted, a measurable portion of accidents, contributing to unsustainable claims trends, are likely a result of distracted driving. Insurers in Alberta advocate for a more comprehensive UBI system, namely surcharges for poor driving behaviour and distracted driving, in order to combat the rate of distracted driving in Alberta.

Consumer Education

With the expiry of the Ministerial Order in August 2019, insurers are submitting requests for rate increases, trying to address the rate deficiency which developed over the period of rate restraint. There is a need for increased communications to ensure consumers understand why their insurance premiums are increasing.

Under the Ministerial Orders, the Government restrained the AIRB's ability to approve rates greater than 5% on the overall rate level for each insurer. Although the overall rate level was constrained, in many cases the rates of individual policyholders exceeded the 5% limit. Insurers increasingly focused on segmentation, and as a result, many Albertans received increases greater than 5% during the Ministerial Orders. In some cases, consumers saw greater rate increases than they may have otherwise received in the absence of the Ministerial Orders. As some insurers segmented risks ensuring they were more adequately priced, and at times encouraged policyholders to shop the market, the premium dislocation impacts

increased.

Given the number of consumers getting increases greater than 5%, the AIRB is increasing its attention on consumer education. The results of the AIRB's Consumer Perception Survey show over 51% of Albertans believe their insurance premiums are not fair or reasonable. As a result, the AIRB is working with stakeholders to increase efforts towards educating consumers on the costs of providing automobile insurance. Recently, they published a list of the top ten reasons why insurance premiums are increasing, which are often not sufficiently explained or understood by consumers.

Insurers and industry stakeholders can all improve their communication to consumers on why the rates are increasing, especially for a policyholder with no convictions or claims. The AIRB is taking steps to increase communication, educating consumers on automobile insurance and how they can lower their rates, shopping the market and becoming more aware of what costs are increasing in the system, resulting in higher premiums.

⁷ Sourced from Virginia Tech Transportation Institute.

⁸ Sourced from Alberta Transportation.

⁹ Sourced from The Insurance Bureau of Canada.



Commercial Insurance

Although the report mainly focused on PPV, the AIRB also reviews and approves rating programs and monitors the commercial vehicle market. The AIRB has noted changes in the accessibility of insurance through increased placement in the Facility Association Residual Market. In addition cost pressures are rising, as indicated by the increasing trends in some of the coverages, similar to those in PPV.

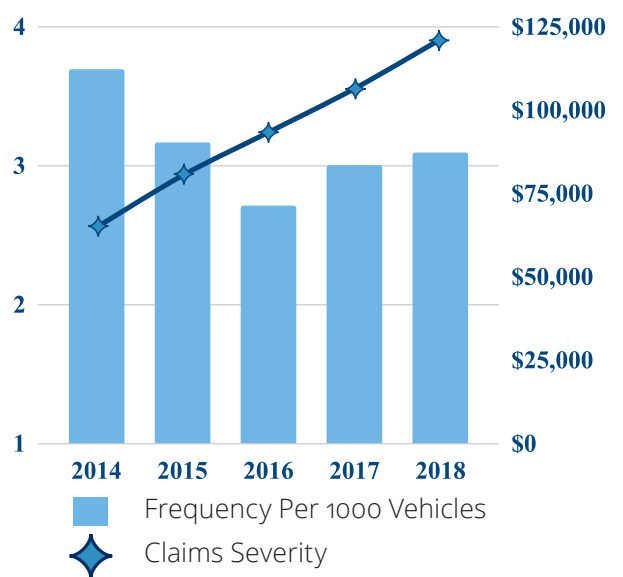
The commercial vehicle market has seen similar bodily injury trends as the PPV market. Claims severity remains a prevalent issue. Over the past five years claims severity nearly doubled, increasing from \$64,720 to \$121,236.

In 2018, the interurban vehicles made up the majority of the Facility Association Residual Market's (FARM) market share (37%), an increase from 15% in 2017. The Facility Association is the insurer of last resort, providing insurance when the regular market has no capacity or risk appetite to underwrite the risk. When the market share in the FARM increases, it is a signal of issues in the marketplace including underpricing and lack of accessibility.

The Canadian Trucking Association has alerted regulators to a number of issues related to commercial trucking coming to the forefront.

Some of the issues are inadequate disclosure of where the vehicle is garaged and if it travels within Canada or enters the United States. Other issues include varying risk management practices of the commercial trucking companies. The risk appetite in the market has contracted following the Humboldt accident, and although the Government has taken steps to ensure adequate training and licensing, the market is slow to respond with capacity. The AIRB is monitoring the Facility Association's work on these issues, and the potential impacts to accessibility and affordability.

Commercial - Bodily Injury



Conclusion

The insurance industry has been signalling a crisis for the past few years, and the rate limitation coupled with the need to find a solution to significantly control bodily injury claims costs created circumstances for insurers to take adverse actions negatively affecting Alberta drivers. The data demonstrates a review of the system is warranted, and the AIRB welcomes the opportunity to work with government and industry stakeholders to review the system and evaluate options to make a change for the future of Alberta's

automobile insurance system.

AIRB actively monitors the trends and risks in the marketplace, and will continue to inform stakeholders, including the Government of the impacts these trends have on the sustainability of the market, and the accessibility and fairness of rates for policyholders in Alberta.





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