

Market & Trends REPORT

2020

November 2020

Alberta
airb
Automobile Insurance
Rate Board



Automobile Insurance Rate Board — 2020 Market & Trends Report
November 2020



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TABLE OF CONTENTS

INTRODUCTION 2

PPV MARKET STATISTICS 3

COMPETITIVE MARKETPLACE 4

AFFORDABILITY 5

INSURER PROFITABILITY 8

CLAIMS TRENDS 8

ACCESSIBILITY 12

EMERGING TRENDS 12

COMMERCIAL INSURANCE 15

AUTOMOBILE INSURANCE MARKET

Executive Summary

Alberta's automobile insurance market is facing issues with both sustainability and accessibility. Moving past the volatile rates experienced as a result of the rate cap, the market is still exhibiting unsustainable trends. Claims severity for third party liability remains the largest issue and continued to rise in 2019, for both bodily injury and property damage claims. Accident benefit claims trends are also increasing at unsustainable rates. Beyond the sustainability of claims trends, accessibility remains an issue. Research from our Consumer Representative suggests, Albertans are finding it more difficult to shop for automobile insurance. 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 are unsustainable.

The AIRB is supportive of the Government's action taken towards the automobile insurance product reforms and welcomes the opportunity to continue working with the 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-seven percent of Alberta's automobile insurance market is comprised of policies for private passenger vehicles (PPV); the remaining twenty-three 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 2.8 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. It is important to note, the axis on some graphs presented in this report are truncated to allow for trends to be displayed in a more visible manner.

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, the Government of Alberta, and other industry stakeholders. 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 2019, Alberta's Private Passenger Automobile Insurance Market Covered More Than 2.8 Million Vehicles

PREMIUMS COLLECTED

\$3,900,000,000+

In 2019, private passenger automobile insurers collected over \$3.9 billion in premiums.



COST OF CLAIMS & EXPENSES

\$3,900,000,000+

In 2019, private passenger automobile insurers paid over \$3.9 billion in claims and expenses.



Industry Trends

\$74,000+

BODILY INJURY CLAIMS

The average cost of a bodily injury claim was over \$74 thousand for insurers in 2019.

34+

STOLEN VEHICLES PER DAY

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

Industry Statistics

285,000+

CLAIMS PER YEAR

Albertans made over 285 thousand claims in 2019.

\$1,406

YEARLY PREMIUMS

Albertans spent an average of \$1,406 on automobile insurance coverages in 2019.



44

INSURERS

In Alberta, private automobile insurance is provided by 44 different companies.

3.1%

COST TO ALBERTANS

In 2019, Albertans spent an average of 3.1% of their after-tax income on automobile insurance.

How Is the Automobile Insurance Market Changing?

COVID-19



PRODUCT REFORMS



USAGE BASED INSURANCE



SEVERE WEATHER



DISTRACTED DRIVING



CONSUMER CONFIDENCE



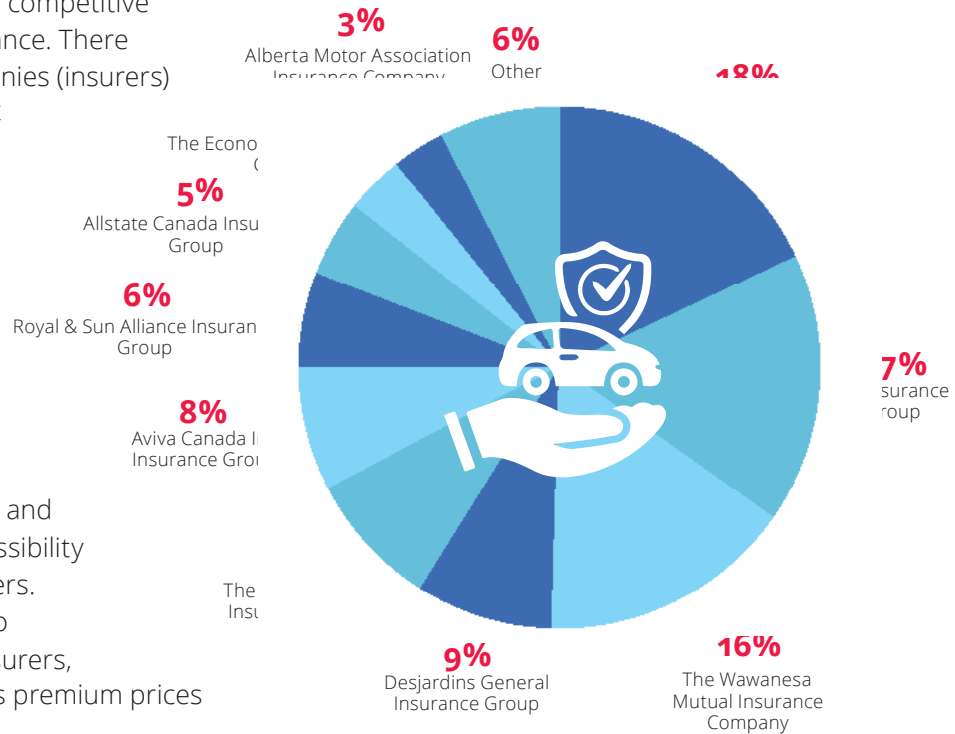
Competitive Marketplace

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

Based on 2019 direct written premiums, the top ten insurer groups in Alberta represented 94% of the PPV market share, with 44 individual insurers writing PPV insurance.

A competitive market allows insurers to compete on price and service and contributes accessibility and affordability for consumers. Consumers have the ability to choose between different insurers, and no single insurer dictates premium prices or how the market operates.

2019 Top Ten Private Passenger Insurance Groups ¹

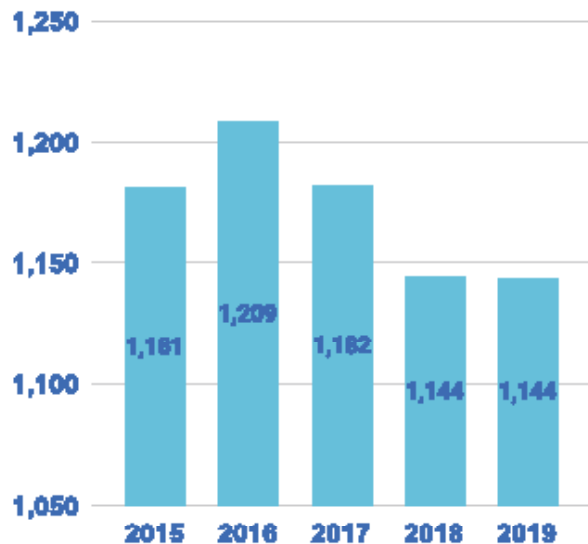


MARKET CONCENTRATION

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 some insurers are withdrawing from Alberta. 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 access 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. Moving from 2018 to 2019, the HHI of Alberta's automobile insurance market exhibited no change, and remains well

within the limits that indicate a healthy level of competition. When evaluating the HHI score over the past five years, trends suggest market competition is increasing.

Herfindhal-Hirschman Index Score



¹ Source: MSA Research.



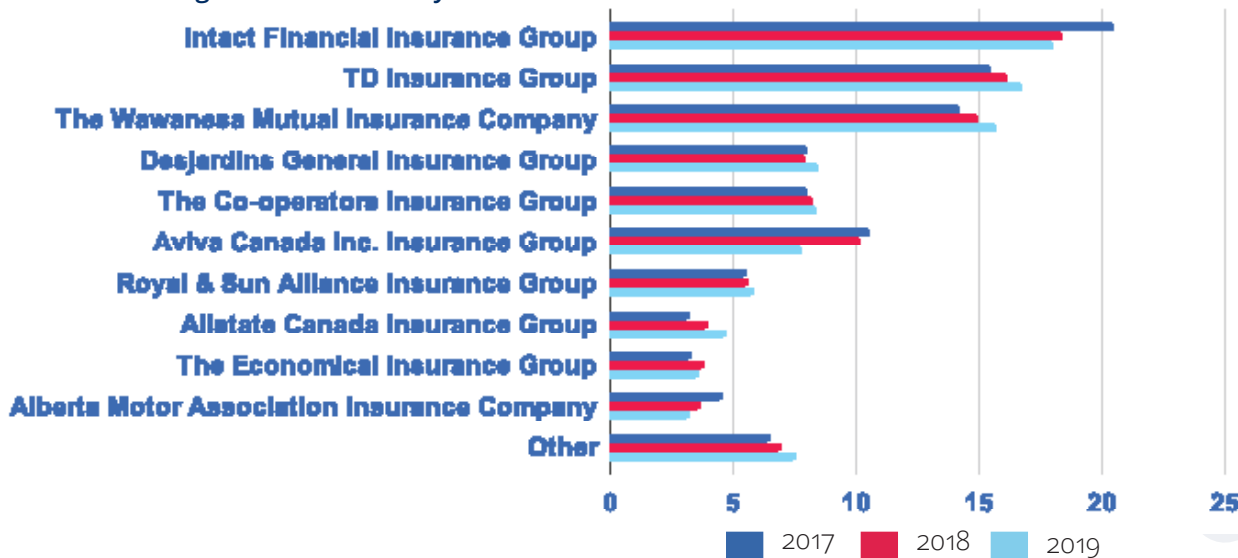
CHANGES IN MARKET SHARE

The AIRB monitors year-over-year changes in market share by insurer group, to understand changes in the accessibility of insurance. If an insurer withdraws or significantly reduces their market share, accessibility could become an issue. From late 2017 to 2019, while insurers were limited to an overall rate increase of 5%, the AIRB saw a significant increase in segmentation filings, where the overall rate

change was 0%. These changes resulted in higher premiums for some and lower premiums for others, causing policyholders to shop the market.

In 2019, the AIRB continued to observe changes in market share, with large insurers both acquiring and shedding market share and insurers outside the top 10 continuing to grow.

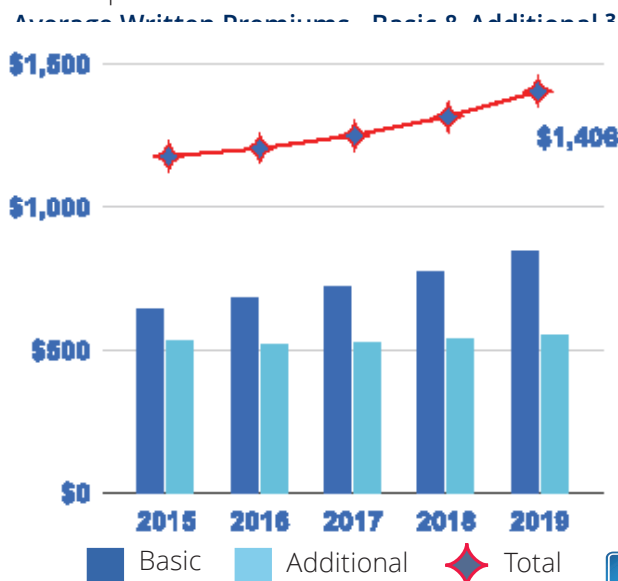
Private Passenger Market Share by Insurer 2017 - 2019 ²



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 32% and additional coverage (collision, comprehensive, specified perils and all perils) dropped by 4%. The total average premium increased by 19% 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% annually 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 change insurers. The trend of increases in basic coverage is an indicator of rate inadequacy, which will be demonstrated later in the report.



² Source: MSA Research.

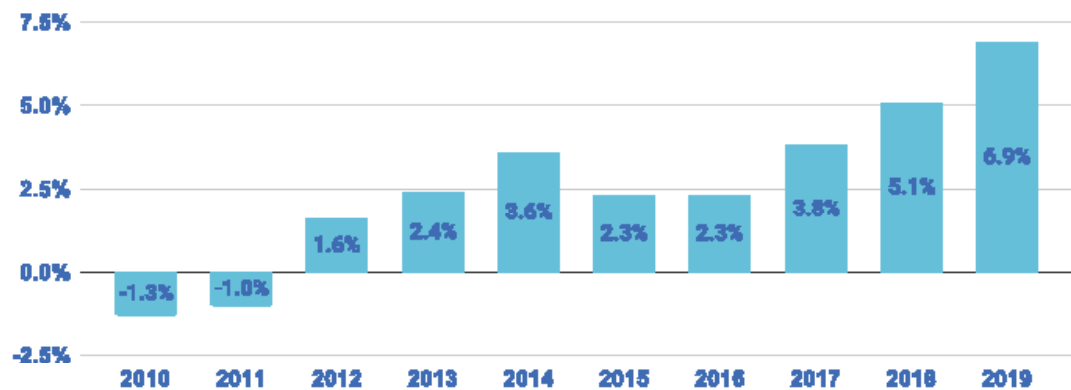
³ Source: General Insurance Statistical Agency.

YEAR-OVER-YEAR CHANGE

In 2019, Alberta's automobile insurance market had the highest year-over-year increase in average premiums in the past ten years. In 2019, the cap on an insurer's overall PPV insurance rates was lifted and, many insurers pressured by the limitation filed and received rate increases. The AIRB considered these requests with the intent to return to a competitive market and stop actions which limited access to insurance. The effect of rate increases, approved in the fall of 2019, will not be seen in the data until 2020 due to timing of

implementation. The year-over-year change in average premiums does not always correspond with the increasing costs insurers are facing. Insurers also adjust premiums to influence their market share or to support other internal strategic business decisions. In addition, some insurers do not file for rate changes as frequently due to technology, cost, or internal resource restraints; this can result in higher rate increases and is not in the best interest of the policyholder and the overall affordability of the premiums.

Yearly Change in Average Premiums 4

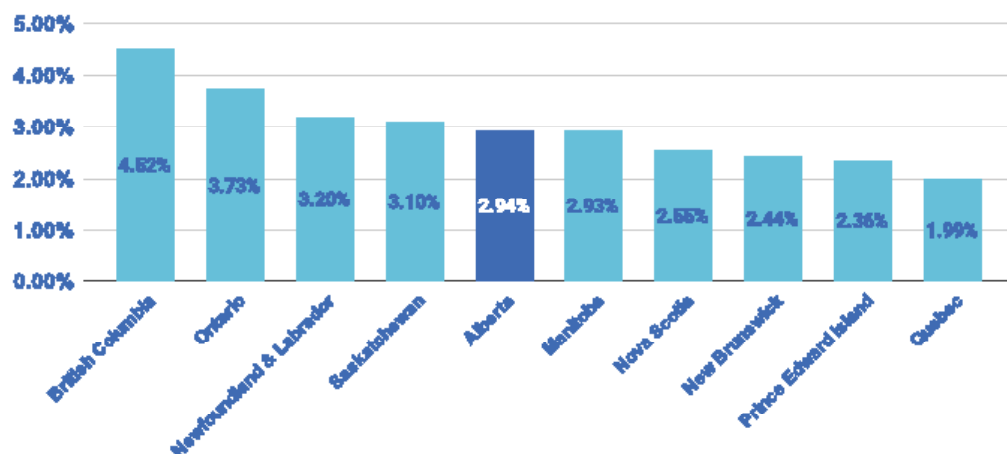


HOW DO OUR PREMIUMS COMPARE?

The AIRB benchmarks the percentage of after-tax income Albertans spend on the average insurance premium with data from other provinces. The AIRB recognizes there are differences between each province's automobile insurance system, however, for this analysis considers only what is paid for

automobile insurance coverage not reflecting any differences in coverage. Among the provinces evaluated, the average percent of after-tax income spent on the average premium in 2018 was 2.98%. Albertans spend slightly below the average, at 2.94% of after-tax income.

Average After-tax Income Spent on Automobile Insurance (2018) 5



4 Source: General Insurance Statistical Agency.

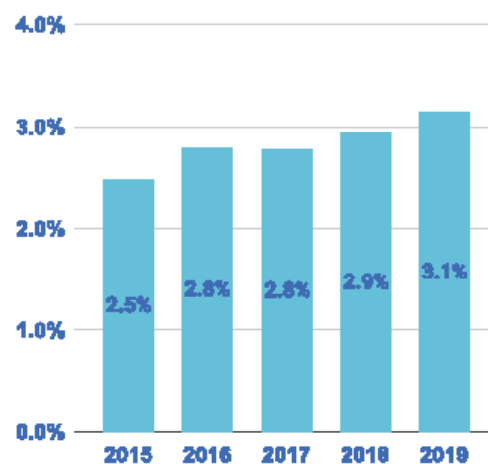
5 Source: Insurance Bureau of Canada & Statistics Canada.



CHANGE IN INCOME SPENT ON AUTOMOBILE INSURANCE

The average premium expressed as a percentage of after-tax income is benchmarked against previous years. From 2015 to 2019, Albertans saw an increase of 0.6% on after-tax income spent on automobile insurance. The percentage of after-tax income spent on automobile insurance is expected to continue increasing, due to rate increases and reduced income levels in 2020.

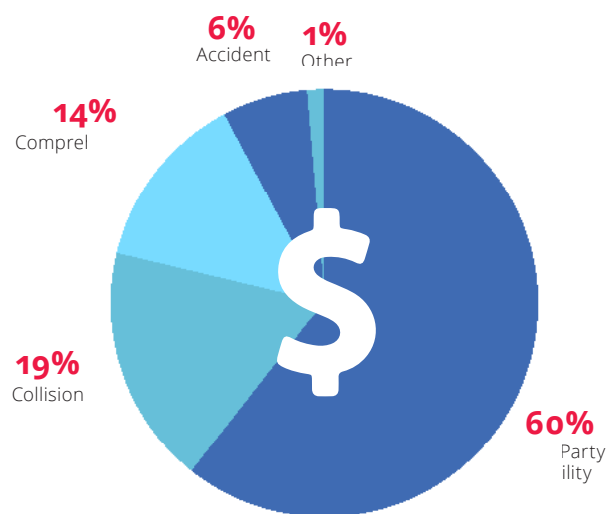
After-tax Income Spent on Automobile Insurance ⁶



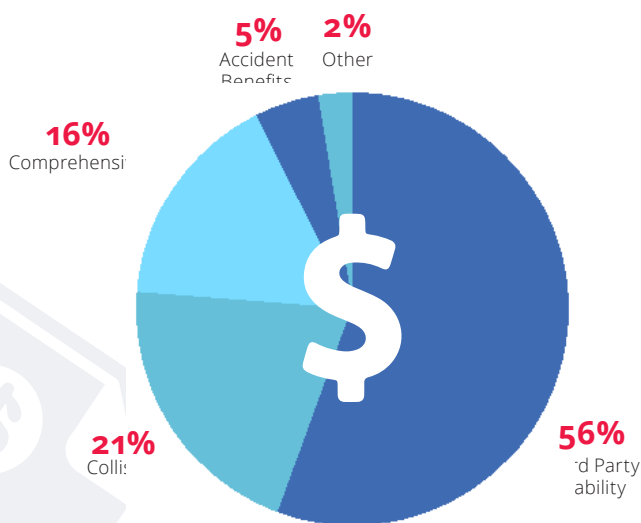
AVERAGE PREMIUM BY COVERAGE

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 purchases and is reflected in the total cost of the coverage. More than 55% of the total premiums paid in Alberta are for third party liability coverage, which is expected given it is a mandatory coverage. The chart highlights the percentage of premium allocated for all coverages; collision is the second highest, which is an additional coverage, although often required when financing a vehicle.

Claims & Adjustment Expenses By Coverage ⁸



Written Premium By Coverage ⁷



AVERAGE CLAIM COSTS BY COVERAGE

Given claims are the most significant cost for automobile insurers, and how the premiums breakdown by coverage, it is not surprising to see over 60% of all claims paid out by insurers in 2019 attributed to third party liability coverage. The second highest was collision, followed by comprehensive. Third party liability and accident benefits premiums remain inadequate, and continue to be subsidized by other, notably additional coverages. 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 2019 data, not all coverages are adequately priced.

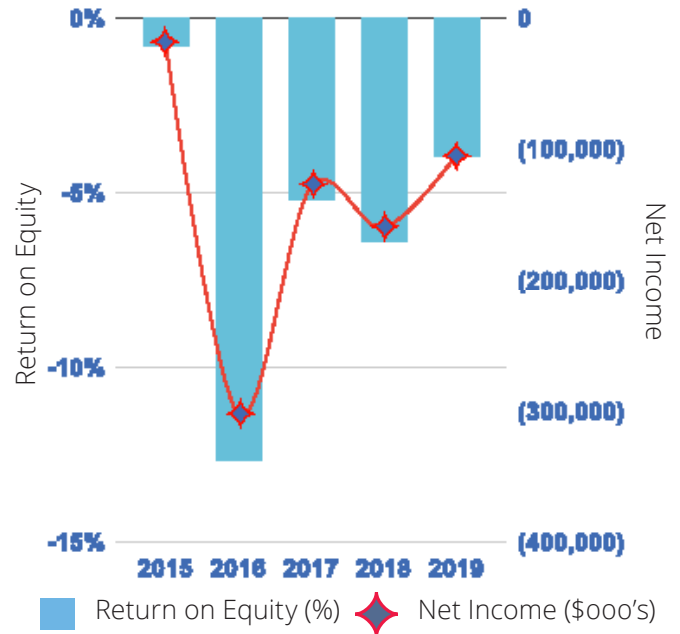
⁶ Source: General Insurance Statistical Agency & Statistics Canada.

^{7,8} Source: General Insurance Statistical Agency.

Insurer Profitability

Although some insurers have reported profits in their corporate financial statements in recent years, in many cases it is a result of performance in other lines of business and other provinces. When looking specifically at the results for PPV in Alberta, it is clear the product has not been profitable in a number of years. With a consistent negative return on equity, the risk appetite of insurers writing PPV in Alberta may decrease, and accessibility could be negatively affected as a result. For insurers to maintain sustainable returns on equity on their total book of business, other lines of business in environments without rate regulation need to be priced higher to compensate for losses in the automobile market.

Private Passenger Industry Return on Equity & Net Income (\$'000's)⁹



Automobile Insurance Claim Trends

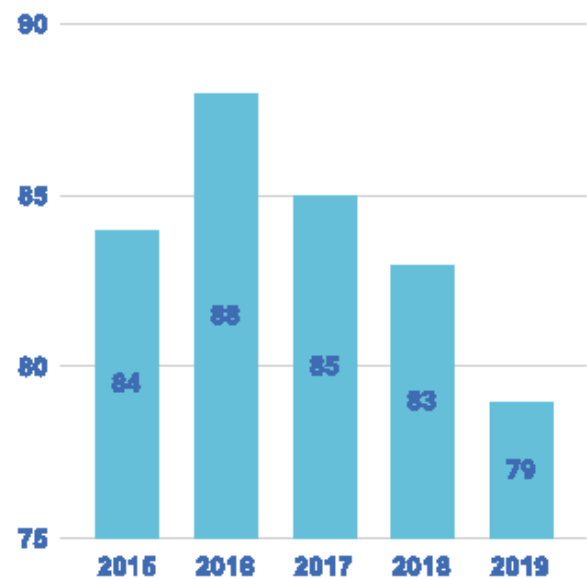
LOSS RATIO

Insurers collect 56 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 costs also exceed the premiums collected for accident benefits coverage. The AIRB is monitoring the claims loss ratio, 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 has decreased by 5%. Since 2016, the earned incurred loss ratio has dropped by 9%, an improvement, but still above a profitable level. The earned incurred

loss ratio does not account for expenses beyond the cost of claims. The Alberta PPV industry average for expenses is 26.7%, which when added to the 79% loss ratio in 2019, results in insurers incurring costs of \$1.06 for every dollar in premium collected.

Private Passenger Industry Loss Ratio¹⁰



⁹ Source: General Insurance Statistical Agency.

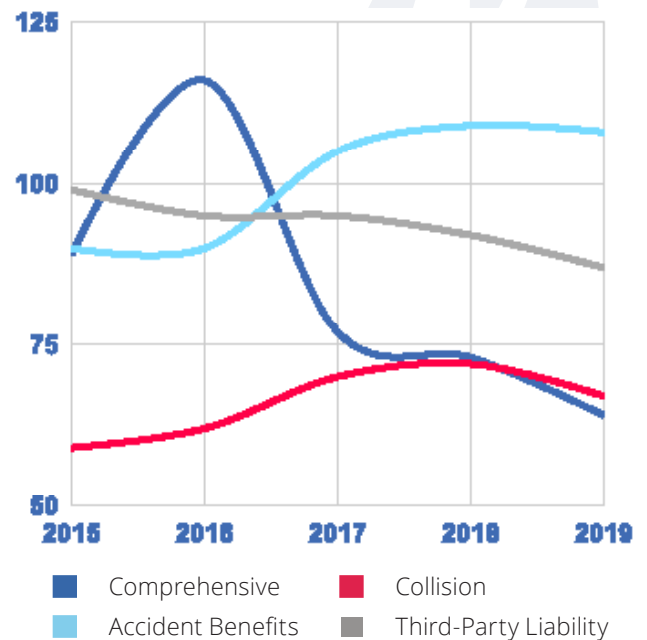
¹⁰ Source: General Insurance Statistical Agency.



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, continuing to trend downward in 2019. Comprehensive coverage protects the policyholder against events like fire, theft, vandalism and hail, and therefore, may be volatile depending on the year's events. The peak for comprehensive coverages in 2016 is primarily 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. The loss ratio for collision demonstrated increases over the previous five years, but showed a slight decrease moving from 2018 to 2019.

Loss Ratio by Coverage ¹¹

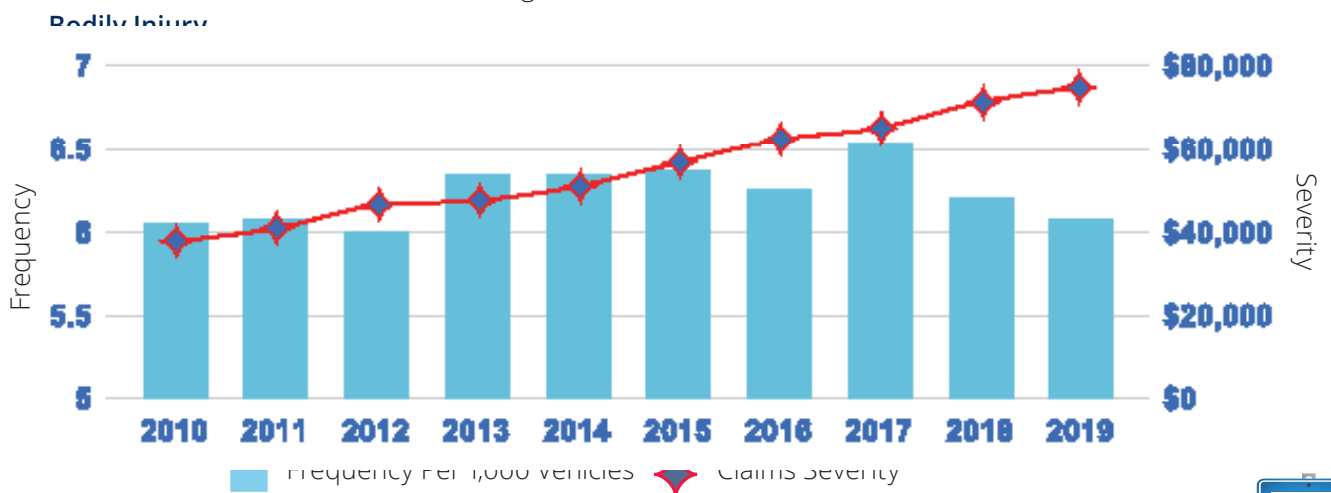


THIRD PARTY LIABILITY - BODILY INJURY

Third party liability covers policyholders if they are liable for a bodily injury or damage to someone else's property. Bodily injury is a significant component of the third party liability coverage, and the most significant cost pressure in recent years. While claims frequency remains stable, claims severity has continued to rise at unsustainable rate over the last ten years. The severity of bodily injury costs has increased 98% from 2010 – 2019, with ultimate loss cost estimates increasing from

\$37,809 in 2010 to \$74,760 in 2019. Insurers cite the following reasons for increased claims costs:

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



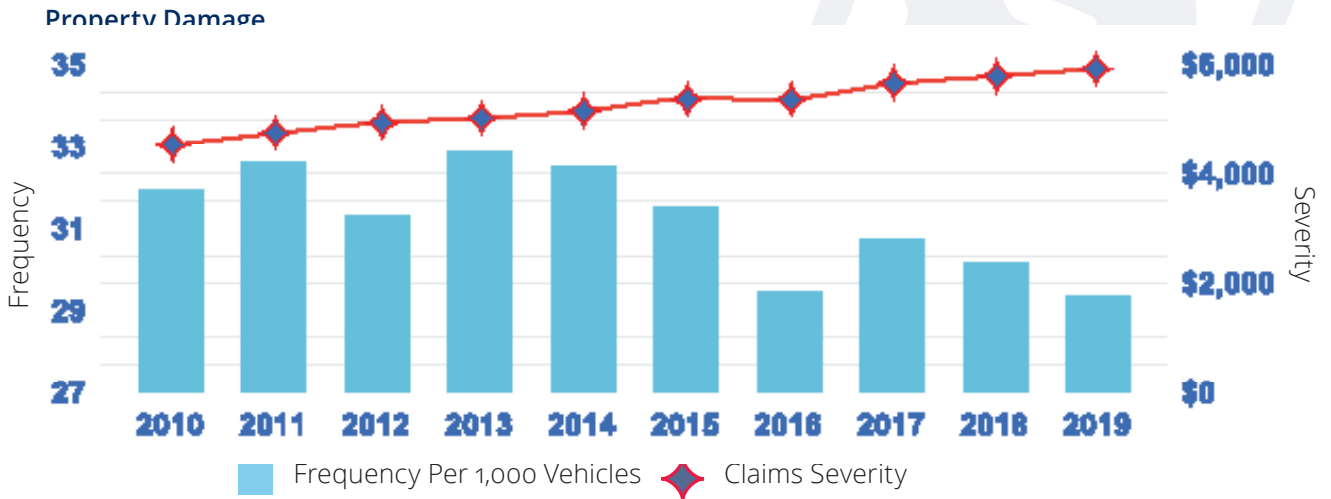
¹¹ Source: General Insurance Statistical Agency.

*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

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 claim. Although these advancements may reduce the frequency of collisions, increasing repair costs are the main reason the severity

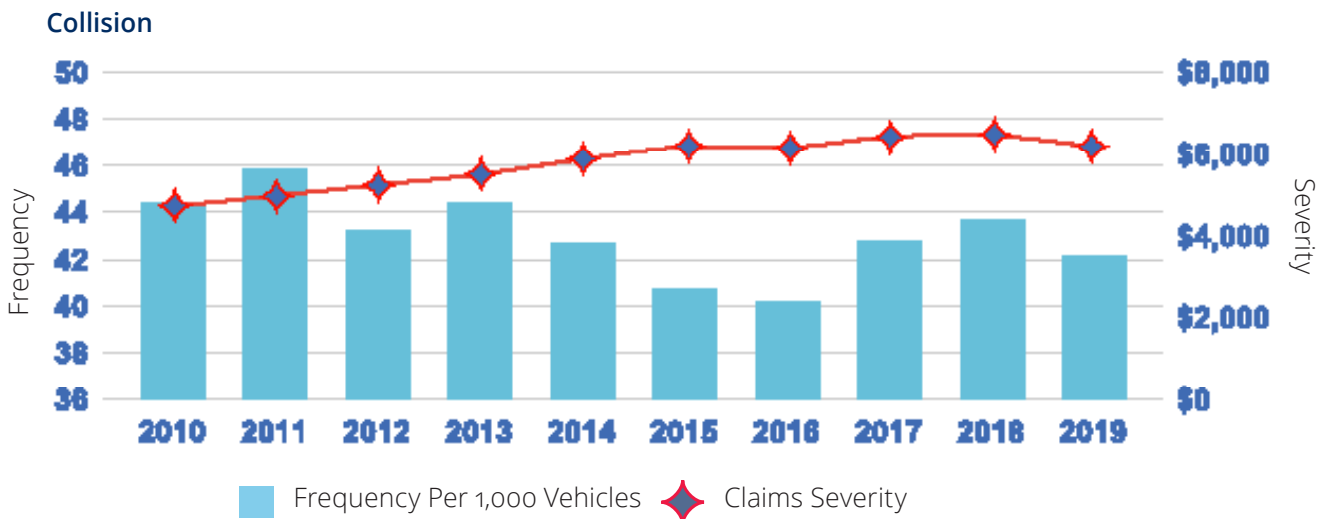
of property damage claims has been trending upwards over the last ten years. As more vehicles are equipped with safety features, the trends observed, of slightly increasing severity and decreasing frequency, are expected to continue.



COLLISION

Collision coverage pays to repair or replace the policyholders vehicle in the event it is damaged in a collision. The average cost per collision claim trended upwards from 2010 to 2018, with a slight decrease in 2019. Increased automation in vehicles may have contributed to a reduction in the frequency of accidents and the severity of injuries sustained; however, similar to property damage, the cost of repairing vehicles

caused increases in collision claims severity since 2010. The decreases being observed in 2019 claims frequency may suggest increased repair costs due to automated features have been experienced and the severity trends for collision claims may become more sustainable. The trends observed in claims frequency are expected to continue as vehicles and roads become safer.

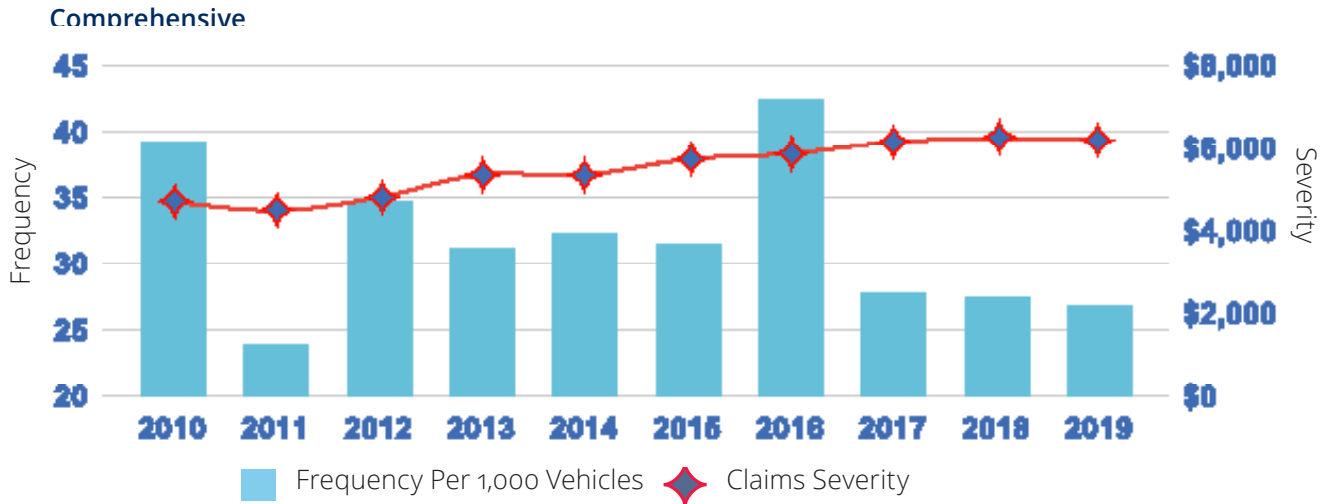


*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

COMPREHENSIVE

Comprehensive coverage pays to repair or replace the policyholders vehicle if it is stolen or damaged in an incident that is not a collision. 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

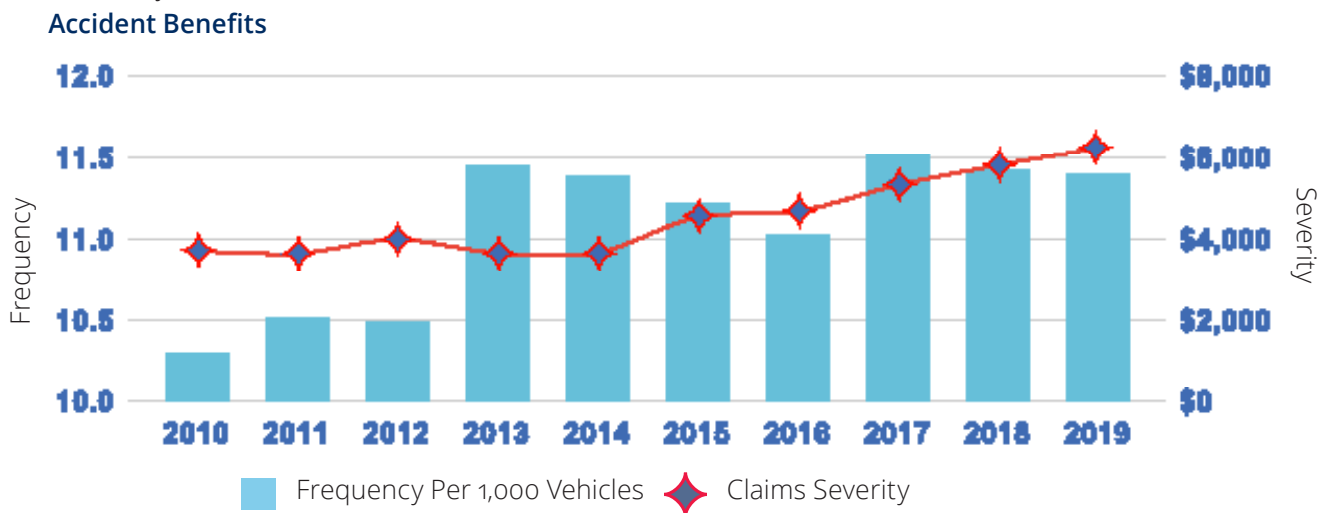
also remains an issue in Alberta, and although previous years have demonstrated positive frequency trends in comprehensive coverage, the unpredictability contributes to higher premiums. The data from the most recent years suggests the severity of comprehensive claims is stabilizing.



ACCIDENT BENEFITS

Accident benefits compensates those injured in vehicle collisions for medical and rehabilitation services not covered through third party liability coverage, regardless of fault. Since 2013, the market has seen significant increases in claims severity and modest increases in claims

frequency for accident benefits coverage. After remaining stable from 2010 - 2014, the severity of accident benefits claims has increase 70%, from \$3,671, to \$6,230. The trends monitored in claims severity for accident benefits coverage is unsustainable.



*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

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 previous rate limitations put pressure on insurers with inadequate rate levels. Insurers are increasing their focus on price accuracy and it is resulting in some policyholders experiencing large fluctuations in premiums. In addition to rating program changes, several insurers adjusted their underwriting rules and made business decisions negatively influencing customer

service and accessibility, such as: declining to offer payment plans, requiring signed renewal forms, declining to offer additional coverages and cancelling broker contracts. With the approval of rate increases in 2019, the AIRB expected these business decisions to change; however, some consumers are still facing accessibility issues. Accessibility concerns cited by consumers include slow response times from brokers and agents, difficulty obtaining quotes especially online, and difficulty understanding coverages.

Monitoring Emerging Trends/ Market Issues

Each year, the AIRB consults with industry stakeholders to receive feedback during the Annual Review process. All stakeholders are invited to provide comments on the impact of 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.

COVID-19

The COVID-19 pandemic has brought changes to the automobile insurance industry. With less people commuting due to increased unemployment rates and work-from-home arrangements, many expect a reduction in driving frequency will have a positive effect on claims frequency; however, making predictions about claims costs is more difficult when external factors influence the market. Although Albertans are commuting less, uncertainty among claims cost remains as anecdotal evidence suggests some Albertans could be avoiding the use of public transportation



and air travel and opting to drive instead due to safety concerns surrounding COVID-19. Currently, it is too early to make any conclusions about how the COVID-19 pandemic will influence claims frequency and severity in Alberta's automobile insurance market.

Beyond the impact on claims costs COVID-19 brings, the economic factor is another concern in the market. With many Albertans facing temporary unemployment or a reduction in income, insurers need to make considerations for the financial situation of Albertans. The AIRB supports the use of premium relief measures during the COVID-19 pandemic and many insurers in Alberta have implemented premium relief measures. Currently, 18 insurers in Alberta have implemented rating changes, such as postponing rate increases previously approved, and 36 insurers implemented other premium relief measures, such as offering payments/rebates, endorsement discounts for those driving less, waiving non-sufficient funds fees, and offering payment plans or payment deferrals.





ALBERTA AUTOMOBILE INSURANCE PRODUCT REFORMS

In December 2019, the Alberta Government formed an advisory committee to consider reforms required for Alberta’s automobile insurance system. The committee was tasked with engaging Albertans, the insurance industry, and other stakeholders to gather information and develop recommendations on how to stabilize or reduce the costs of automobile insurance. The Committee’s report was released on October 29, and the President of Treasury Board and Minister of Finance announced immediate measures to stabilize automobile insurance rates, enhance medical care and benefits and reduce red tape. The AIRB is supportive of the Government’s consideration of automobile insurance product reforms and welcomes the opportunity to continue working with stakeholders to implement short term reforms and consider longer term changes to Alberta’s current automobile insurance system.



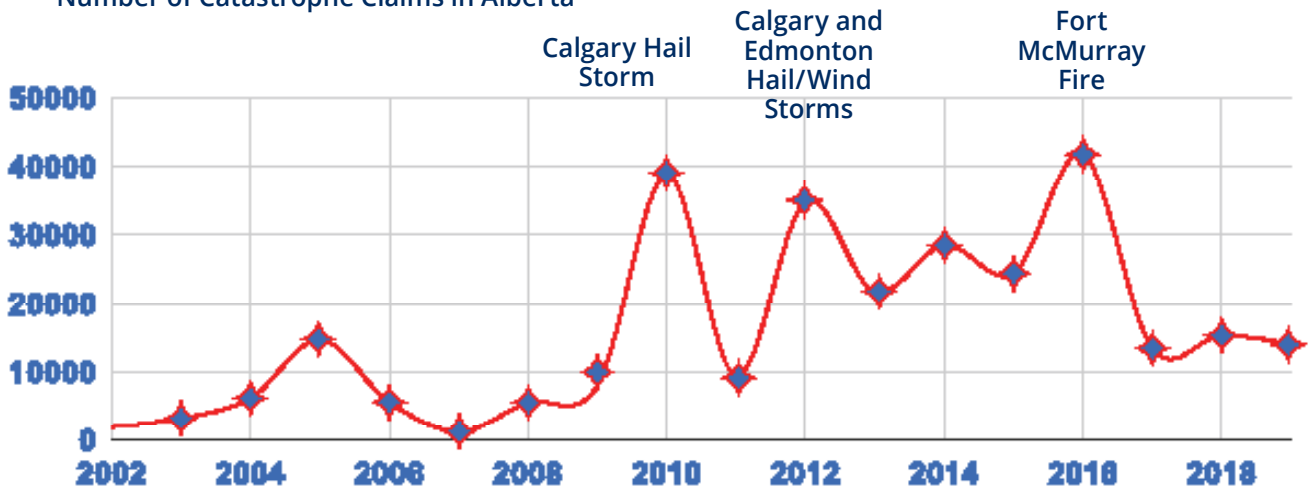
SEVERE WEATHER

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 weather events increasing each year due to global warming, pricing comprehensive coverage becomes increasingly difficult. With the added uncertainty, consumers pay more for coverages. Catastrophic losses due to severe weather contribute significantly to claims costs; and in recent years, Alberta has experienced some of the largest catastrophic losses in the country. The latest catastrophic loss data indicate this trend will continue through 2020. Canadian Underwriter refers to Alberta as the epicenter of catastrophic losses in 2020, and suggests insured damages for all coverages could exceed \$2 billion. Some of the notable catastrophic events occurring recently in Alberta include:

- ◆ Flooding near Fort McMurray caused by an ice jam on the Athabasca River in April 2020, an event causing significant losses and resulted in the evacuation of 13,000 people.
- ◆ A hailstorm in Calgary and surrounding communities, with loss estimates suggesting it could be the most expensive hailstorm in Canadian history and the fourth most expensive catastrophic loss in Canada overall.

Number of Catastrophe Claims in Alberta ¹²



¹² Source: General Insurance Statistical Agency.

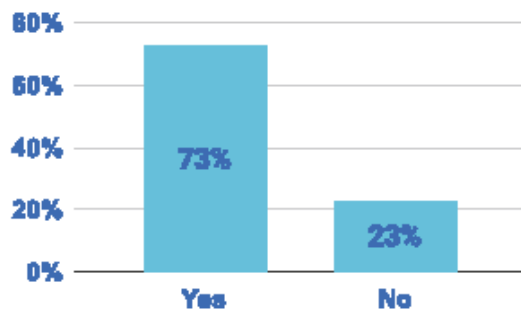




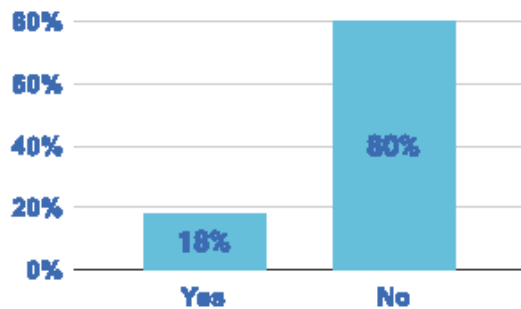
CONSUMER CONFIDENCE

Albertans expect automobile insurance to be affordable, stable, and accessible. They also expect insurers, brokers, and agents to provide sufficient customer service. In recent years, these expectations have not been met. With 2019 experiencing the highest increase in average premiums in the last ten years, affordability is decreasing and the level of rate increases are not sustainable. On the customer service side, consumers are looking for answers, but are unable to find the information they are looking for. When surveyed for the Consumer Representative's survey in 2020, 73% percent of consumers who experienced premium increases contacted their broker or agent for an explanation. Of the 73% that contacted their broker or agent, only 18% felt their broker or agent provided a satisfactory explanation as to why their premiums increased.

Consumers That Contacted Their Broker Or Agent For An Explanation As To Why Their Premiums Increased



Consumers That Felt Their Broker Or Agent Provided A Satisfactory Explanation As To Why Their Premiums Increased



Data suggests consumers are losing confidence with the automobile insurance market in Alberta. In 2020, only 23% of consumers surveyed had a high level of agreement with the statement, "Your vehicle insurance premiums are fair and reasonable, and reflect your driving habits and type of vehicle driven," a significant decrease from 60% in 2017. With reduced confidence in the market, data suggests consumers are shopping the market more frequently and are becoming less likely to try alternative coverage options, such as Usage Based Insurance (UBI).



DISTRACTED DRIVING

Although convictions for distracted driving in Alberta have decreased in recent years, insurers still cite distracted driving as a significant cost driver each year. With distracted driving implicated in 21% of fatal accidents and 27% of serious injury collisions, distracted driving is a relevant issue in Alberta's automobile insurance market. Research suggests Canadians understand and worry about distracted driving, yet continue to drive distracted.

The primary cause for concern regarding distracted driving in recent years is advancements in technology, both cellphones/ electronic communications devices and advanced driver assistance systems (ADAS). In Alberta, over the last 5 years, convictions for use of mobile phones and electronic communications devices accounted for 97% of all distracted driving convictions.¹³ Drivers with experience using ADAS, like adaptive cruise control and lane-keeping assist, were nearly twice as likely to engage in distracted driving while using the systems compared to when they were driving without ADAS.¹⁴

Insurers in Alberta advocate for a more comprehensive UBI system, namely surcharges for poor driving behavior and distracted driving,

¹³ Source: Alberta Transportation.

¹⁴ Source: Canadian Automobile Association.





in order to combat the rate of distracted driving in Alberta.

USAGE BASED INSURANCE

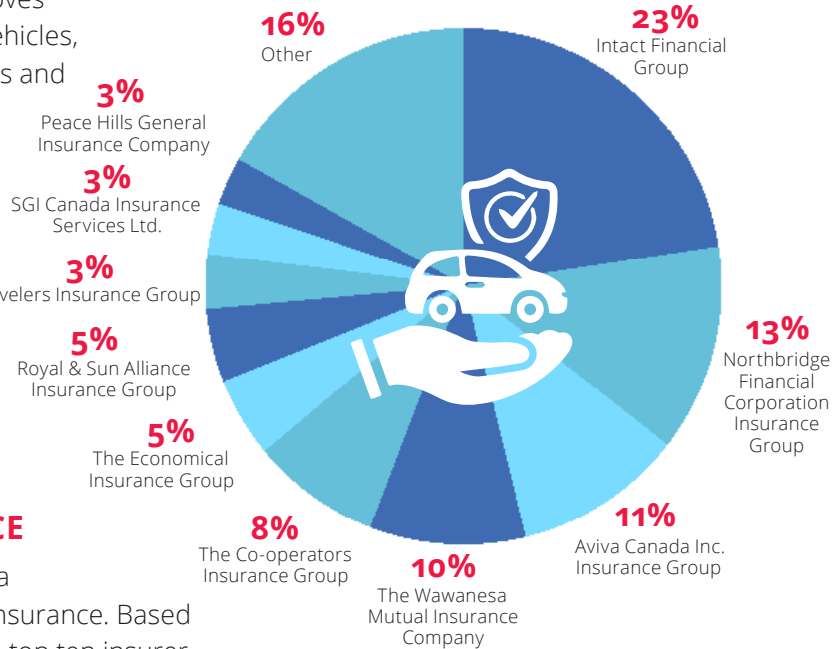
UBI is a product offering the driver the opportunity to receive discounts based on certain measures of driving behavior. UBI gives drivers the ability to reduce their insurance premiums by practicing safe driving habits. The driver maintains a base rate; however, the driver's premium may be reduced based of parameters such as: time driven, kilometers driven, GPS data, speed, and time of day. Currently, only a small number of insurers in Alberta offer UBI. On October 4, 2019,

the Superintendent of Insurance issued a bulletin outlining the UBI implementation process, and widening the number of rating factors an insurer can use in their rating for a UBI program. While progress has been made towards expanding the use of UBI insurance products, Albertans are becoming less interested. In the 2020 Consumer Representative's survey data suggests only 37% of Albertans would consider signing up for a UBI product, a decrease from 57% in 2017. The AIRB continues to monitor UBI to maintain an understanding of how it affects the market, and what changes are needed for more insurers introduce this option in Alberta.

Commercial Market

Although this report mainly focuses on PPV, the AIRB also reviews and approves rating programs for other types of vehicles, individually rated commercial vehicles 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.

2019 Top Ten Commercial Insurance Groups ¹⁵



COMPETITIVE MARKETPLACE

As with the PPV market, Alberta has a competitive market for commercial insurance. Based on 2019 direct written premiums, the top ten insurer groups in Alberta represented 94% of the commercial vehicle market share, with 58 individual insurers writing commercial insurance, including some insurers writing commercial fleet business only. 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.

¹⁵ Source: MSA Research.



During 2019, Alberta's Commercial Automobile Insurance Market Covered More Than 330 Thousand Vehicles

PREMIUMS COLLECTED

\$476,000,000+

In 2019, commercial automobile insurers collected over \$476 million in premiums.



COST OF CLAIMS & EXPENSES

\$373,000,000+

In 2019, commercial automobile insurers paid over \$373 million in claims and expenses.



Vehicles by Class

PRIVATE PASSENGER



77%

COMMERCIAL



9%

MISCELLANEOUS & OTHER



4%

MOTORCYCLE



4%

ALL TERRAIN



4%

SNOWMOBILE



2%

Industry Statistics

58 COMPANIES

In Alberta, commercial automobile insurance is provided by 58 different companies.



\$103,000+

BODILY INJURY CLAIMS

The average cost of a bodily injury claim was over \$103 thousand for commercial automobile insurers in 2019.

How Is the Commercial Automobile Insurance Market Changing?



INADEQUATE DISCLOSURE RISK



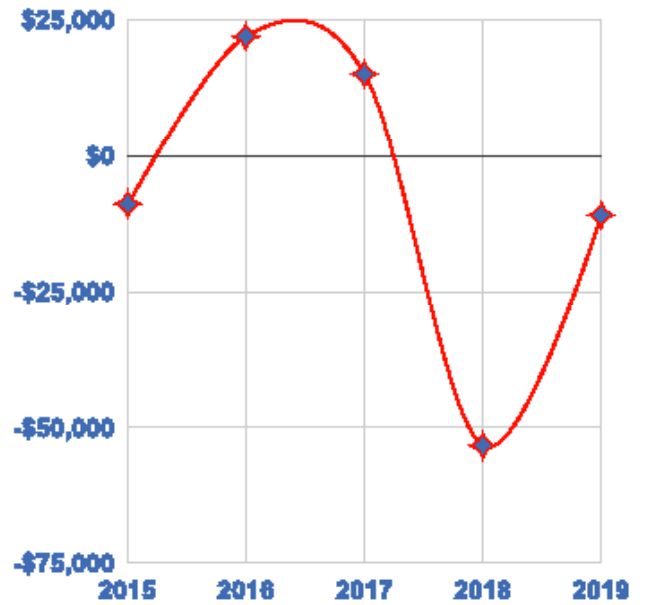
LARGE LOSSES AND RISK APPETITE FOR INTERURBAN VEHICLES



Insurer Profitability

As with the profitability measures observed in the PPV market, Alberta's non-PPV insurance market data suggests profit levels in the non-PPV market are not sustainable. In the previous two years, Insurers writing non-PPV reported losses of over \$60 million. Consistent with the PPV market, it is expected that other lines of business and business in other provinces helps compensate for the losses observed in the non-PPV automobile market. In 2019, the results for non-PPV appear to have improved, after hitting a low in 2018. The AIRB continues to monitor profitability as a key indicator for availability. Without an all comers rule, as in the PPV market, commercial policyholders can face more challenges when trying to find automobile insurance

Non-PPV Industry Net Income (\$000's) ¹⁶



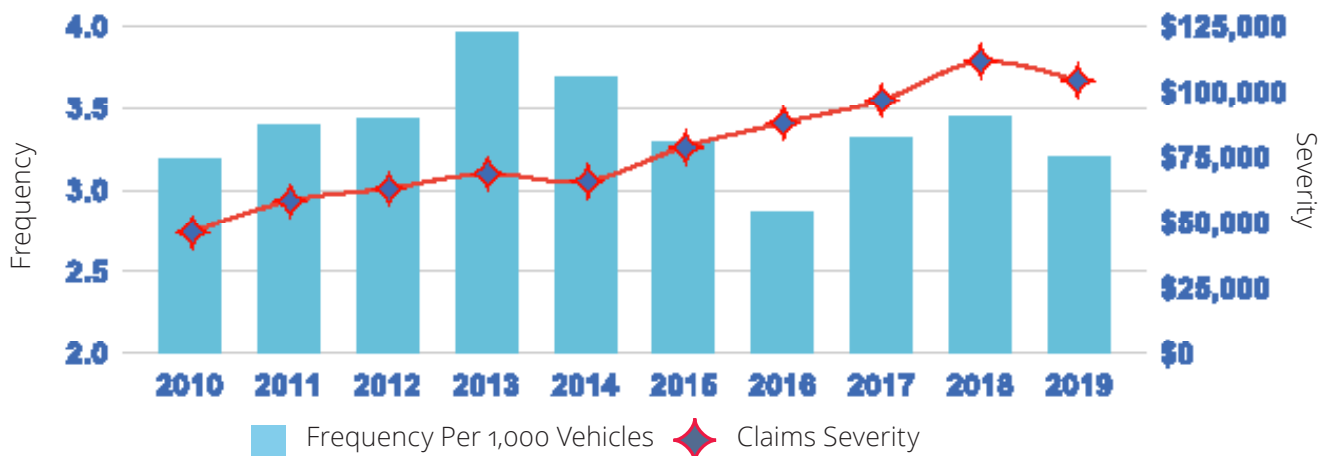
Commercial Claim Trends

THIRD PARTY LIABILITY - BODILY INJURY

Although claims frequency is much lower than the PPV market, the commercial market has seen similar bodily injury trends with the same factors influencing large increases in claims severity in previous years. Although

claims severity saw a slight improvement in 2019, it remains a prevalent issue. Since 2014 claims severity increased 58%, increasing from \$65,753 to \$103,887.

Bodily Injury



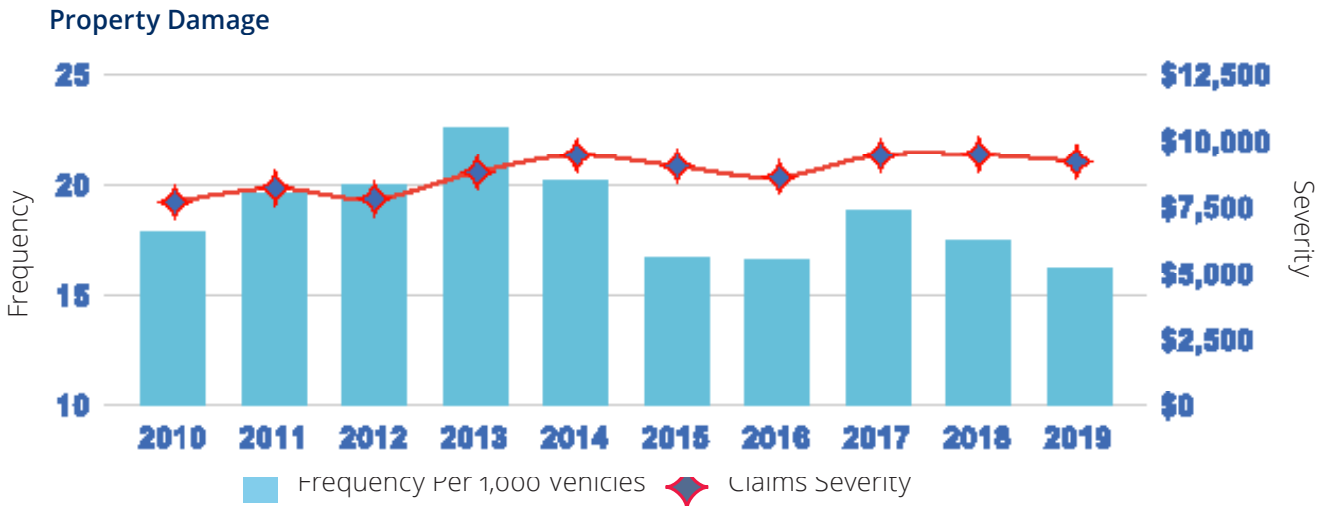
¹⁶ Source: General Insurance Statistical Agency.

*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

THIRD PARTY LIABILITY - PROPERTY DAMAGE

As with the PPV market, new features and safety technology on vehicles are reducing accident frequency and increasing the repair costs in the event of a claim. Increasing repair costs are the primary reason the severity of property damage claims has been trending

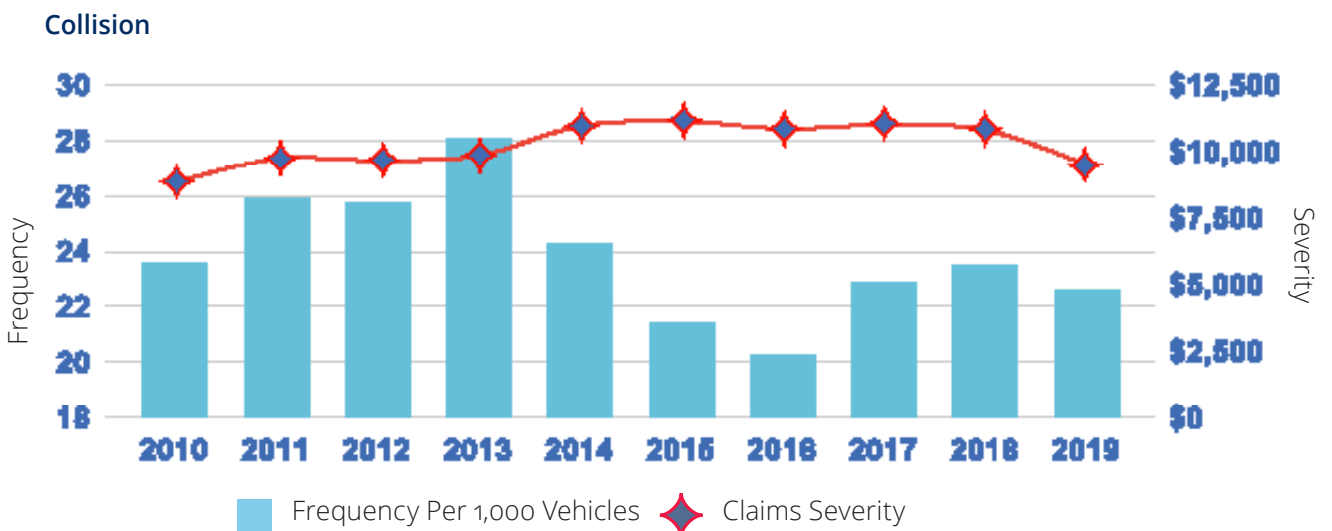
upwards. Claims frequency has experienced a slight decline since 2010, while claims severity experienced a 20% increase over the previous ten years. The trends observed in both claims frequency and severity are expected to continue.



COLLISION

Collision trends in the commercial vehicle market exhibit similar trends to third party liability property damage claims and PPV collision claims. Trends show a sustainable steady increase in claims severity, offset by a

steady reduction in the frequency of claims. Since 2010, claims severity has only increased 8%. During the same period, the frequency of claims, dropped by 4%.



*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

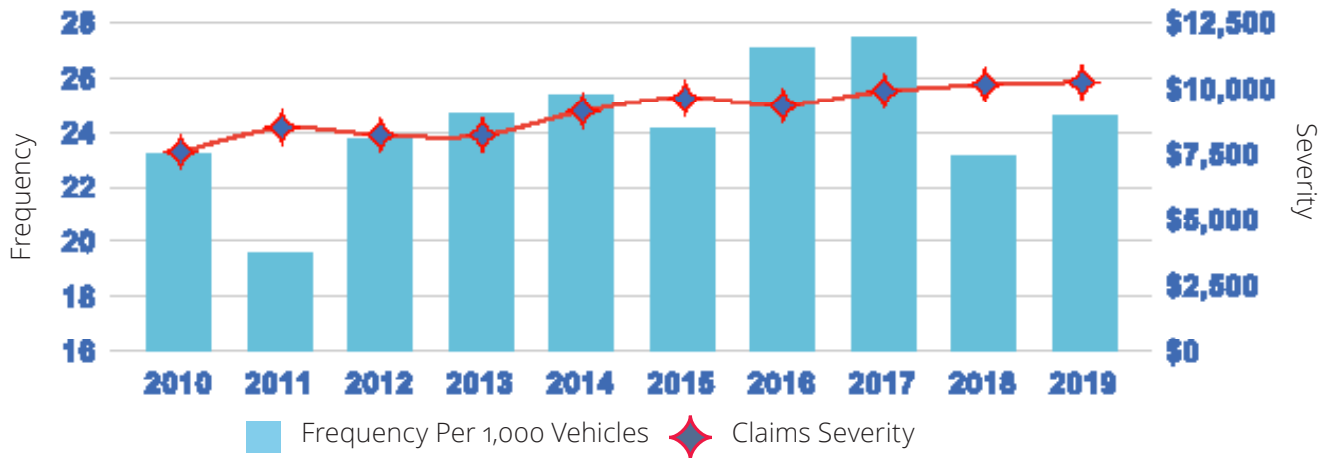


COMPREHENSIVE

Consistent with PPV comprehensive claims, claims frequency on the commercial side for comprehensive coverages remains volatile and partially dependent on the severe weather events occurring in the Alberta each year. Trends show a gradual steady increase in

both claims frequency and severity over the previous ten years, with theft rates primarily contributing to the increases in frequency and comprehensive claims for events other than theft contributing to the increased severity.

Comprehensive

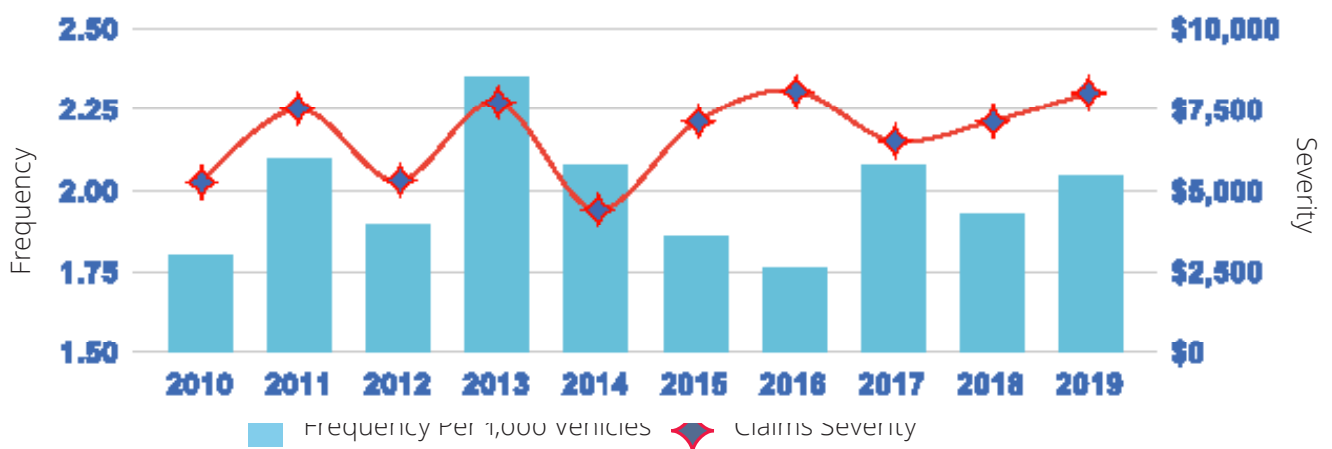


ACCIDENT BENEFITS

Although more volatile, accident benefits claims trends for commercial coverages appear more sustainable than those demonstrated in the PPV market. Frequency has increased 14% over the previous ten years and severity has increased 53%. Although the severity change

over ten years may seem unsustainably high, it appears somewhat inflated due to the volatility of accident benefits claims severity. If only the last nine years were considered, the increase in severity would only amount to 7%.

Accident Benefits



*Claims frequency and severity data was sourced from the General Insurance Statistical Agency.



Monitoring Emerging Trends/ Market Issues - Commercial Market

The AIRB also monitors emerging trends and market issue in the commercial vehicle market. Along with many of the emerging trends outlined previously in the PPV section, the commercial market faces some specific market issues, beyond many of those experienced by the PPV market.



LARGE LOSSES AND RISK APPETITE FOR INTERURBAN VEHICLES

In 2018, interurban vehicles accounted for a large portion of the Facility Association Residual Market's (FARM) market share (37%), an increase from 15% in 2017. In 2019, this trend continues, as interurban vehicles now account for 44% of FARM market share. 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. FARM data suggests the risk appetite for interurban vehicles in the commercial vehicle market is decreasing, likely due to a number of large losses, including the Humboldt accident. These large losses are difficult to account for in actuarial models and can significantly influence the performance of a book of business. Although the Government

has taken steps to ensure adequate training and licensing, the market has not responded, and the risk appetite for interurban vehicles continued to decrease in 2019.

The AIRB is monitoring the Facility Association's work on these issues, and the potential impacts to accessibility and affordability.

INADEQUATE DISCLOSURE OF RISK

Another trend stakeholders have brought to the AIRB's attention, is the trend of inadequate disclosure of rating variables in the commercial market; a trend that is likely contributing to the risk appetite for interurban vehicles as well. Inadequate disclosure of where the vehicle is garaged and if it travels within Canada or enters the United States can significantly change the premium required to underwrite the risk. Vehicles travelling in the United States face a much higher risk of lawsuits following an accident and garage location can significantly influence premiums for certain coverages. Stakeholders suggest claims from vehicles travelling in the United States without adequate disclosure or vehicles garaged in a different province they are insured in can result in large losses which are not accounted for when pricing the policy.



Conclusion

The automobile insurance industry in Alberta has been signaling 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 product reforms are warranted, and the AIRB welcomes the opportunity to work with government and

industry stakeholders to implement short term reforms and further evaluate long term options to make improvements to 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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