

MARKET & TRENDS REPORT

2021

PUBLISHED OCTOBER 2021

Automobile Insurance Rate Board — 2021 Market & Trends Report

Published October 2021



#2440, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428

Fax: 780.638.4254

Email: airb@gov.ab.ca

TABLE OF CONTENTS

2 | EXECUTIVE SUMMARY

4 | PRIVATE PASSENGER VEHICLE
MARKET STATISTICS

15 | ECONOMIC & EMERGING TRENDS

20 | COMMERCIAL VEHICLE MARKET
STATISTICS

EXECUTIVE SUMMARY

Executive Summary

In recent years, Alberta's automobile insurance market has faced issues with both sustainability and accessibility. Moving past the volatile rates experienced as a result of the rate cap, the market continued to exhibit unsustainable trends in rising claims costs. In late 2019, insurers were able to adjust rates closer to rate adequacy, although the effect of the rate changes is not fully reflected in the 2020 data due to timing of implementation and policy renewal dates. Reduced mobility brought on by the pandemic provided insurers with some relief in claims costs, claims frequency for the costliest coverages, decreased significantly in 2020.

In recent years, accessibility has also been an issue. With improved industry loss ratios in 2020, the Alberta Automobile Insurance Rate Board (AIRB) anticipates insurers to be more willing to remain active in the market. The AIRB monitors the market to foresee emerging cost trends and to evaluate the efficiency of the automobile insurance market systematically. Though the current market trends exhibit more sustainability, due to the reduced mobility in 2020, uncertainty remains. Pandemic restrictions have acted as a significant external force on the automobile insurance market and will only provide temporary relief to insurers. In October 2020, the Government introduced the automobile insurance product reforms which are not reflected in the 2020 data.

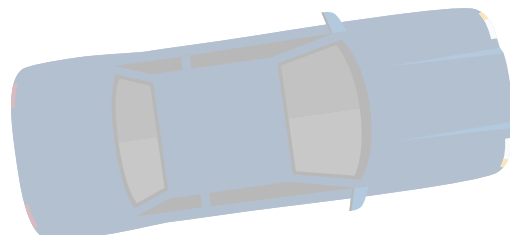
The AIRB is supportive of the Government's product reforms and welcomes the opportunity to continue working with the Government and industry stakeholders to evaluate the impact of reforms and further options to ensure sustainability of Alberta's automobile insurance system.

Preface

Seventy-eight percent of Alberta's automobile insurance market is comprised of policies for private passenger vehicles (PPV); the remaining twenty-two percent consists of motorcycles, commercial, all terrain, snow, farm and miscellaneous vehicles. Alberta has a competitive private automobile insurance market providing 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 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, 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 2020, Alberta's Private Passenger Vehicle Insurance Market Covered More Than 2.8 Million Vehicles

PREMIUMS WRITTEN

\$4,200,000,000+

In 2020, private passenger vehicle insurers wrote over \$4.2 billion in premiums.



CLAIMS & EXPENSES PAID

\$3,300,000,000+

In 2020, private passenger vehicle insurers paid over \$3.3 billion in claims and operating expenses.



How Is the Automobile Insurance Market Changing?

COVID-19



DIRECT
COMPENSATION FOR
PROPERTY DAMAGE



CONSUMER
CONFIDENCE



INCREASED
MANDATE FOR
THE AIRB



SEVERE
WEATHER



USAGE BASED
INSURANCE



Industry Trends

\$77,000+

BODILY INJURY CLAIMS

The average cost of a private passenger vehicle bodily injury claim was over \$77 thousand for insurers in 2020.

52+

STOLEN VEHICLES PER DAY

In Alberta, an average of 52 vehicles were stolen each day.

Industry Statistics

226,000+

CLAIMS PER YEAR

Albertans made over 226 thousand private passenger vehicle claims in 2020.

\$1,514

YEARLY PREMIUMS

Albertans spent an average of \$1,514 on private passenger vehicle insurance in 2020.

45

INSURERS

In Alberta, private passenger vehicle insurance is provided by 45 different insurers.

3.3%

COST TO ALBERTANS

In 2020, Albertans spent an average of 3.3% of their after-tax income on private passenger vehicle insurance.



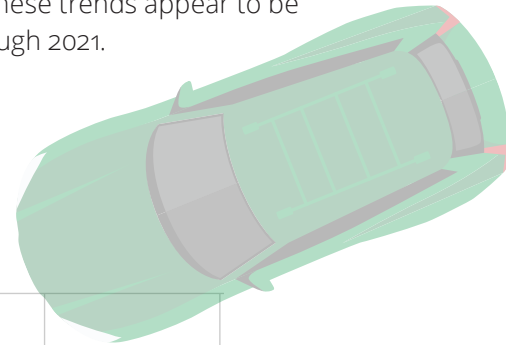
PRIVATE PASSENGER VEHICLE MARKET STATISTICS

Mobility

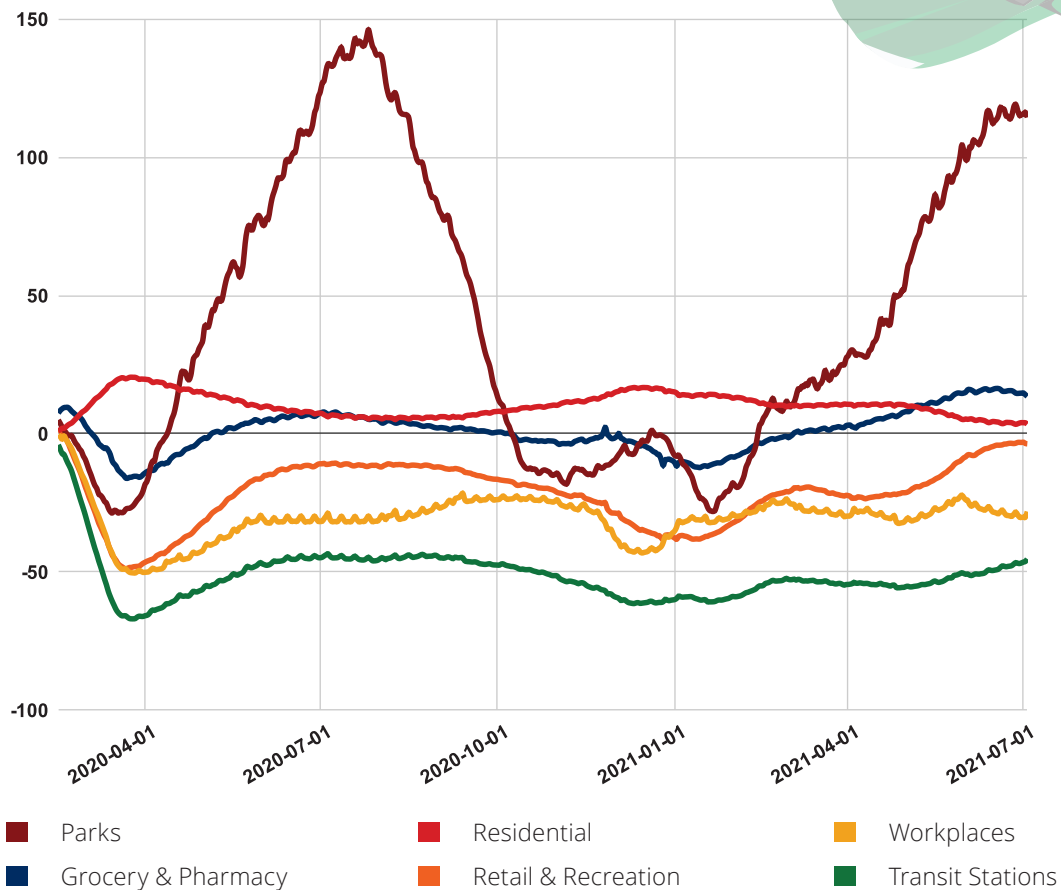
In 2020, the pandemic changed driving habits in Alberta. Claims frequencies for most coverages reflect a significant decrease in driving levels overall. To stay informed on the pandemic's impact on driving habits in current and future years the AIRB monitors a mobility index based on travel to the following places:

- > parks;
- > residential;
- > workplaces;
- > grocery and pharmacy;
- > retail and recreation; and
- > transit stations.

The mobility index highlights how the pandemic significantly decreased mobility to transit stations, workplaces, and retail & recreation. While mobility to transit stations and workplaces remains low, the data suggest mobility to retail & recreation has been returning to pre-pandemic levels. The index also shows a significant increase to mobility in Alberta parks, and a slight increase in residential. These trends appear to be continuing through 2021.



ALBERTA MOBILITY INDEX (MONTHLY ROLLING AVERAGE) ¹



¹ Source: Google Maps. Baseline mobility values were established during the 5-week period of January 3rd to February 6th, 2020.

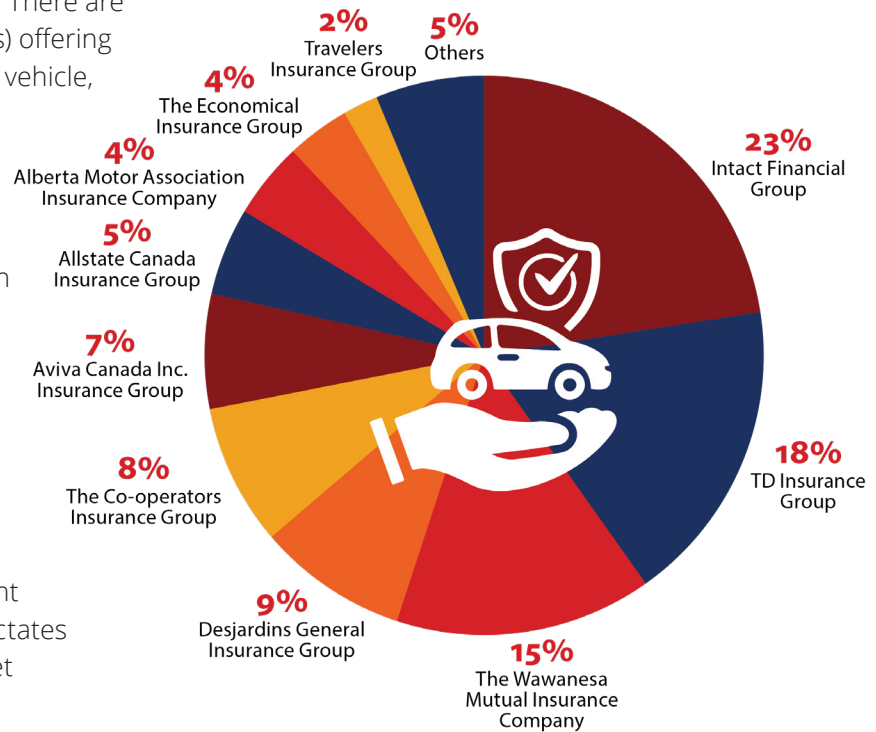
Competitive Marketplace

Alberta is fortunate to have a competitive market for automobile insurance. There are 66 insurance companies (insurers) offering insurance for at least one type of vehicle, both individually rated and fleet.

Based on 2020 direct written premiums, the top ten insurer groups in Alberta represented 95% of the PPV market share, with 45 individual insurers writing PPV insurance in 2020.

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

2020 TOP 10 PRIVATE PASSENGER INSURANCE GROUPS ²

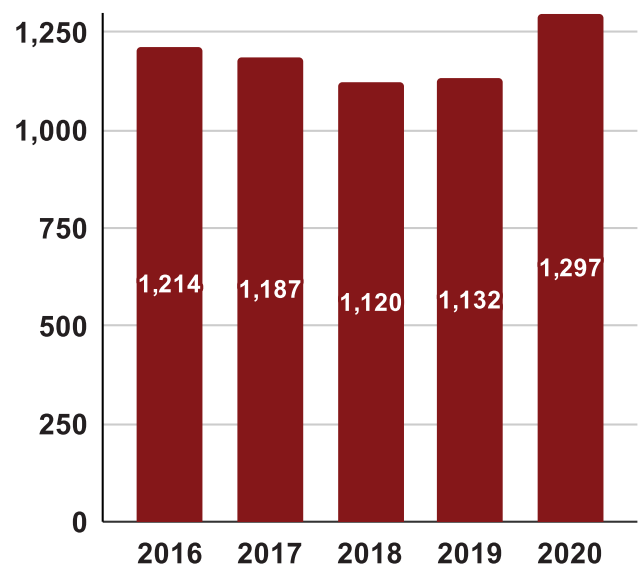


MARKET CONCENTRATION

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. In the last five years, the HHI of Alberta's automobile insurance market has remained stable and experienced a slight increase in 2020. While the HHI remains well

within the limits that indicate a healthy level of competition, the data suggests market competition decreased in 2020.

HERFINDAL-HIRSCHMAN INDEX SCORE



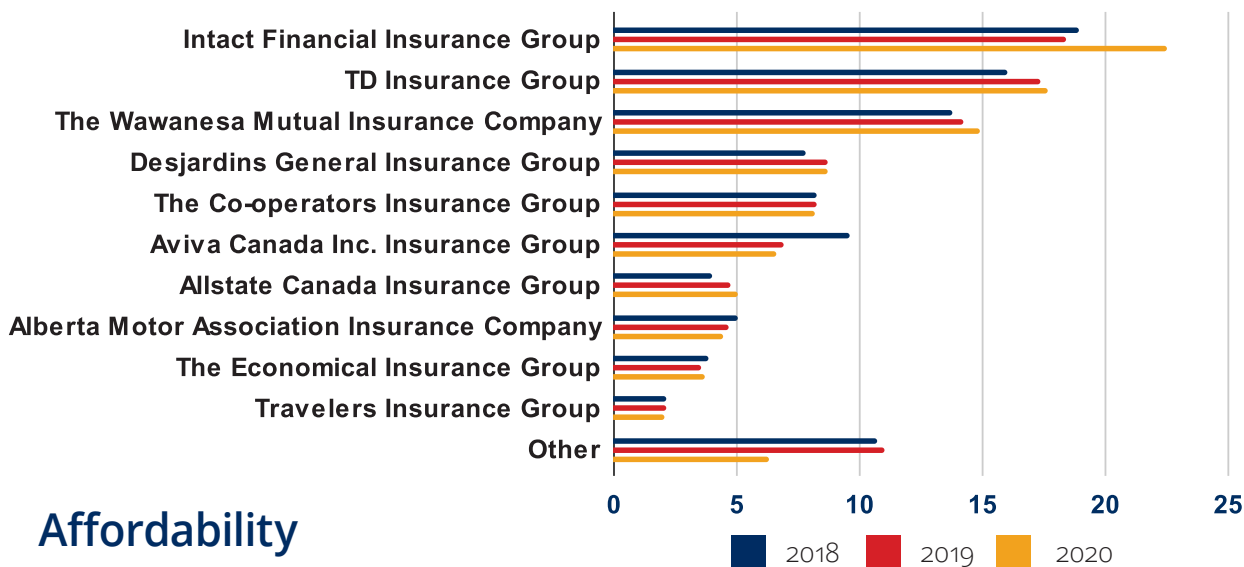
² Source: General Insurance Statistical Agency.

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. As a result of premium increases in recent years, more consumers are shopping the market.

In 2020, the AIRB continued to observe changes in market share, the three largest insurer groups continued to acquire market share, while the insurance groups outside of the top-ten insurers saw a significant decrease in market share.

PRIVATE PASSENGER MARKET SHARE BY INSURER GROUP 2018 - 2020 ³

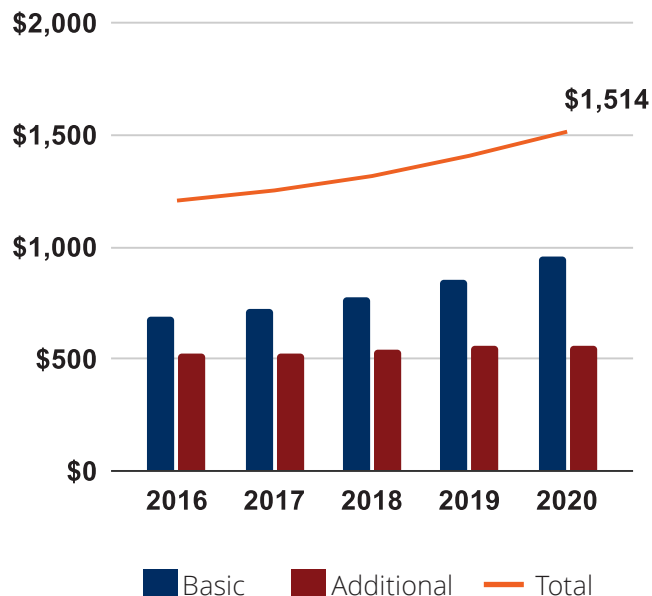


Affordability

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 39% and additional coverage (collision, comprehensive, specified perils and all perils) increased by 7%. The total average premium increased by 26% 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 tolerated. 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.

AVERAGE WRITTEN PREMIUMS - BASIC & ADDITIONAL ³



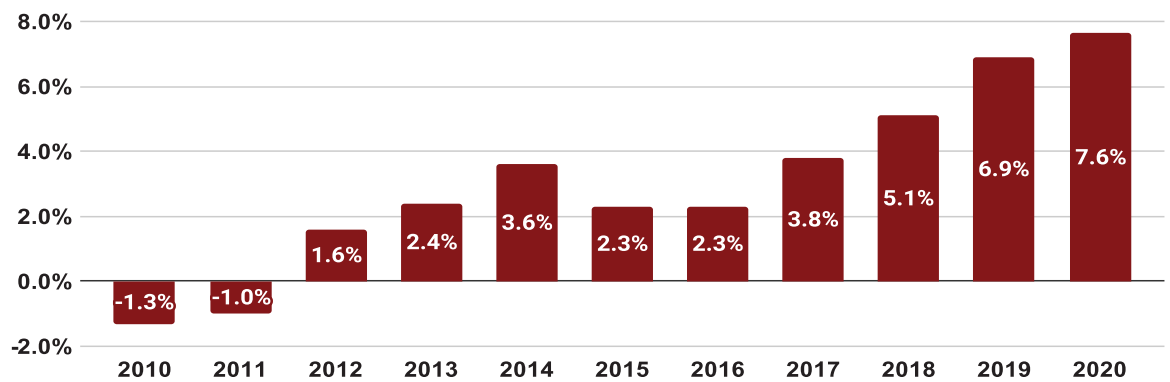
³ Source: General Insurance Statistical Agency.

YEAR-OVER-YEAR CHANGE

In 2020, 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, are reflected in the 2020 data due to timing of implementation

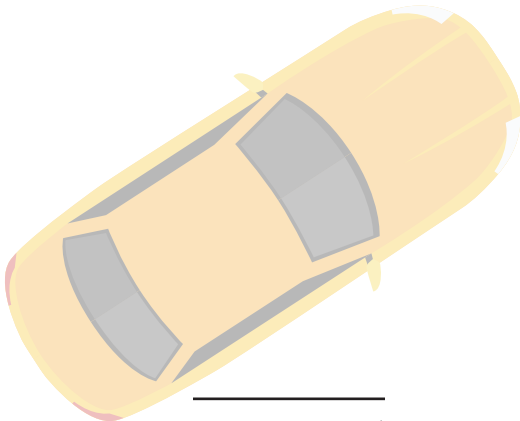
and policy renewal dates. The year-over-year change in average premiums does not always correspond with the increasing costs insurers are facing. Insurers also adjust premiums to influence their market share or to support other internal strategic business decisions. In addition, some insurers do not 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 for consumers.

YEARLY CHANGE IN AVERAGE PREMIUMS ⁴

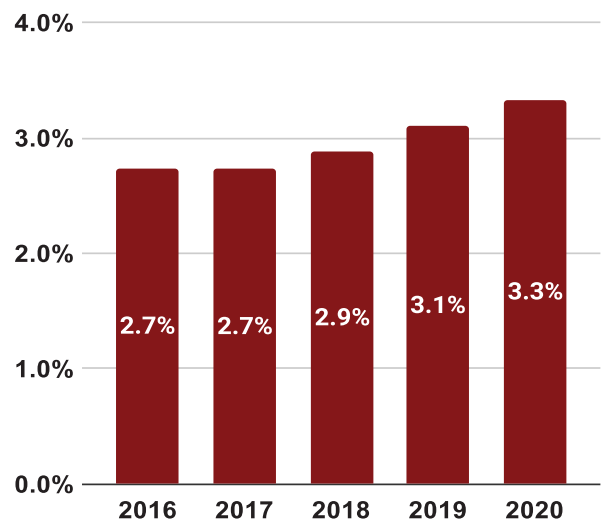


CHANGE IN INCOME SPENT ON AUTOMOBILE INSURANCE

The average premium expressed as a percentage of after-tax income is benchmarked against previous years. From 2016 to 2020, Albertans saw an increase of 0.6% on after-tax income spent on automobile insurance. The rise in this benchmark is a result of increased premiums.



AFTER-TAX INCOME SPENT ON AUTOMOBILE INSURANCE (2020) ⁵



⁴ Source: General Insurance Statistical Agency.

⁵ Source: General Insurance Statistical Agency & Statistics Canada.

HOW DO OUR PREMIUMS COMPARE?

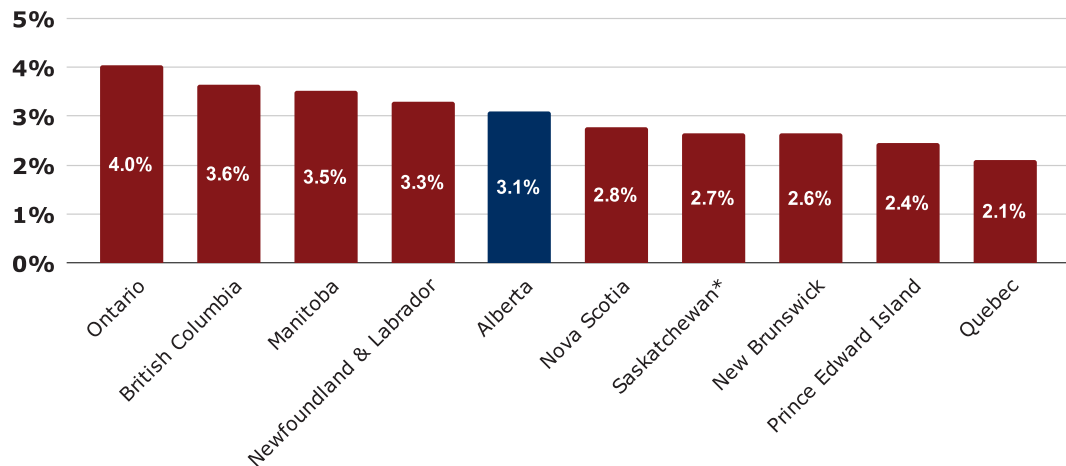
The AIRB benchmarks the percentage of after-tax income Albertans spend on average for automobile insurance with data from other provinces. The AIRB recognizes the coverage varies by province. There are several factors contributing to the difference in average premiums, which include, but are not limited to:

- Type of coverage purchased
- Prevalence of telematics offered
- Weather
- Driving location
- Accident rates
- Traffic density
- Vehicle theft
- Vehicle repair costs
- Population density

The AIRB's analysis has considered the average premium paid for basic coverage, not reflecting any jurisdictional differences in coverage. Average premiums by province will reflect the factors listed.

Among the provinces evaluated, the average percent of after-tax income spent on the average premium in 2019 was 3.0%. Albertans spend slightly above the average, at 3.1% of after-tax income.

AVERAGE AFTER-TAX INCOME SPENT ON AUTOMOBILE INSURANCE (2019)

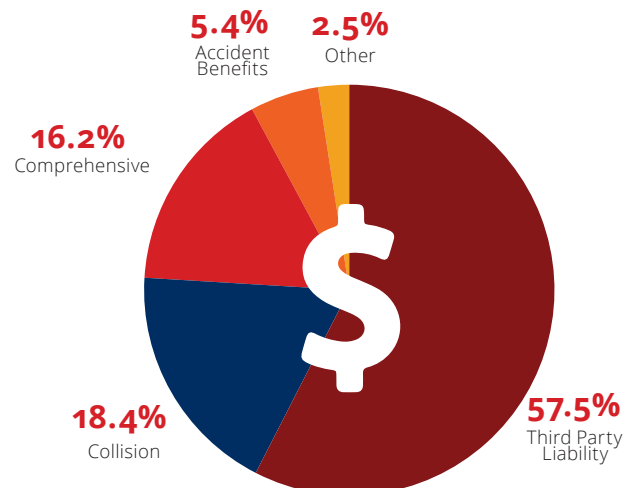


* Note: Saskatchewan is: "Based on basic coverage only"

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 half 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, often required when financing a vehicle.

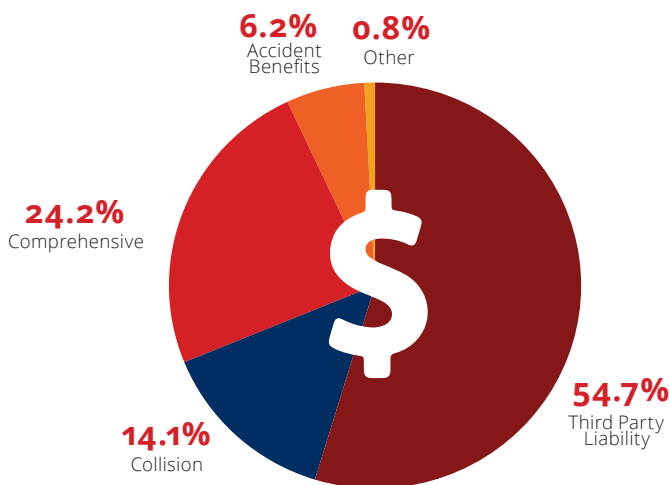
WRITTEN PREMIUM BY COVERAGE



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 54.7% of all claims paid out by insurers in 2020 attributed to third party liability coverage. The second highest was comprehensive, followed by collision coverage. Comprehensive and accident benefits premiums demonstrate inadequacy, being subsidized by the other 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 2020 data, not all coverages are adequately priced.

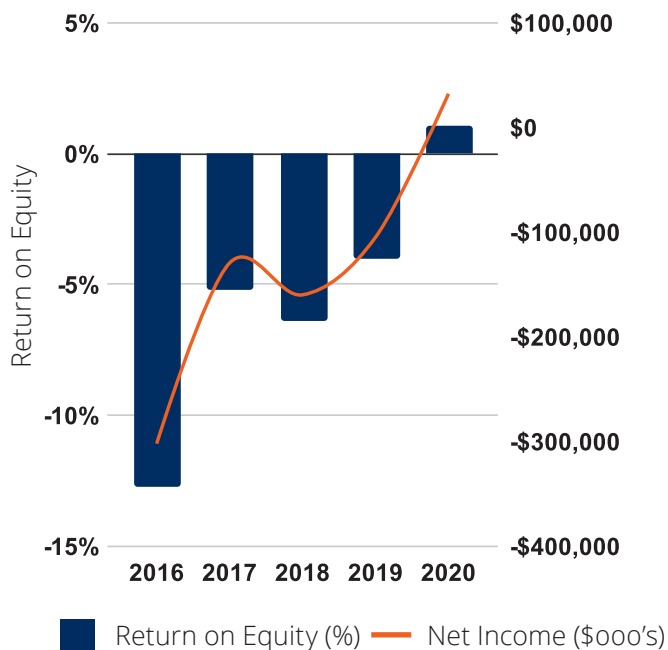
CLAIMS AND ADJUSTMENTS EXPENSES BY COVERAGE



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 before the pandemic, it is clear the product was not profitable for a number of years. The reduction in claims frequency in 2020 provided insurers with some relief; however, return on equity and net income numbers remain under sustainable levels. With the full effect of the premium increases in 2020, yet to be reflected in the profitability benchmarks and the uncertainty of claims frequency as pandemic restrictions are eased, the AIRB will monitor these results in future years.

PRIVATE PASSENGER INDUSTRY RETURN ON EQUITY & NET INCOME (\$000's)



Automobile Insurance Claim Trends

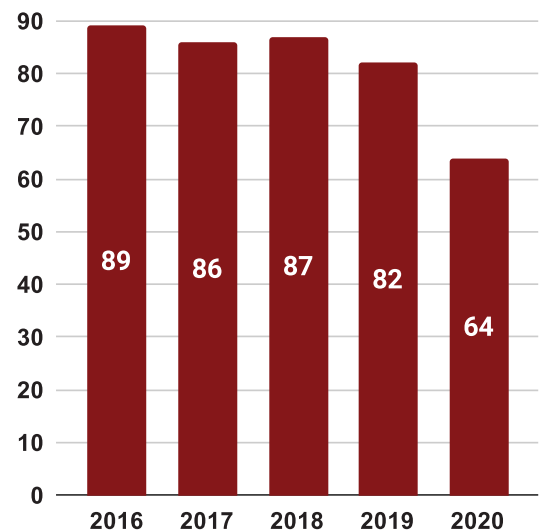
LOSS RATIO

Unforeseen changes in driving habits brought on by the pandemic in 2020 created unexpected results for insurers. With a significant external force on the market and the timeline required to adjust premiums; collected premiums did not align with claims expenses in 2020. Premiums collected for third party liability and collision coverages greatly exceeded claims expense, while premiums for comprehensive coverage were insufficient. The AIRB is monitoring the loss ratio, which is an important measure of sustainability for the industry. An insurer who consistently writes policies at a loss may choose not to offer automobile insurance in the future, or at the least request to increase rates for coverages with an inadequate premium.

The industry standard for profitability is a loss ratio of 70%, as shown; loss ratios in Alberta before the pandemic have been consistently above that threshold. With notable premium increases in late 2019, it would be expected the PPV industry loss ratio would improve, even without the reduction in claims frequency in

2020. The 2020 reporting shows, from 2016 to 2019, the earned incurred loss ratio dropped by 7%, 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% of earned premiums.

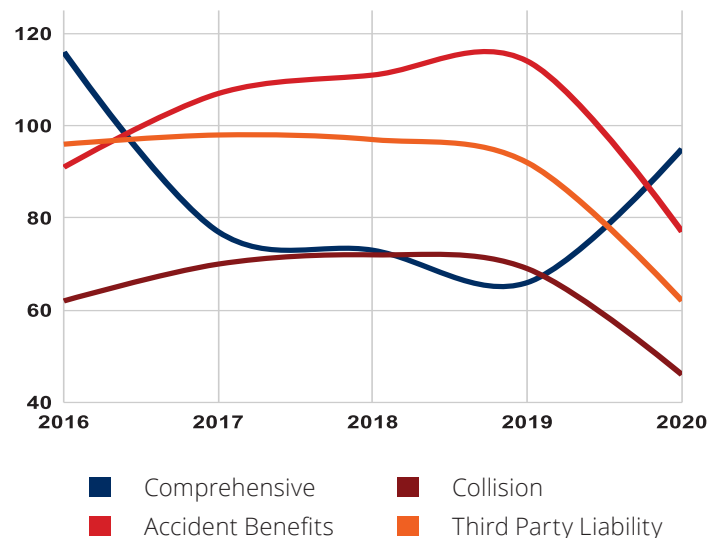
PRIVATE PASSENGER INDUSTRY LOSS RATIO ⁶



HOW DOES THE LOSS RATIO FOR EACH COVERAGE TYPE COMPARE?

Claims are a significant cost pressure insurers have been facing in recent years. The graph illustrates the loss ratios by coverage. From 2016 to 2019, it can be noted the loss ratios for accident benefits and collision coverages were increasing. The data shows insurers favor more competitive rates for basic coverages than additional coverages. In 2020, loss ratios for all coverages, except for comprehensive, experienced significant improvements due to of the pandemic. Comprehensive coverage protects the policyholder against events like fire, theft, vandalism and hail, and therefore, are impacted by catastrophes and are volatile regardless of the changes in driving habits experienced in 2020.

LOSS RATIO BY COVERAGE



⁶ Source: General Insurance Statistical Agency.

THIRD PARTY LIABILITY - BODILY INJURY

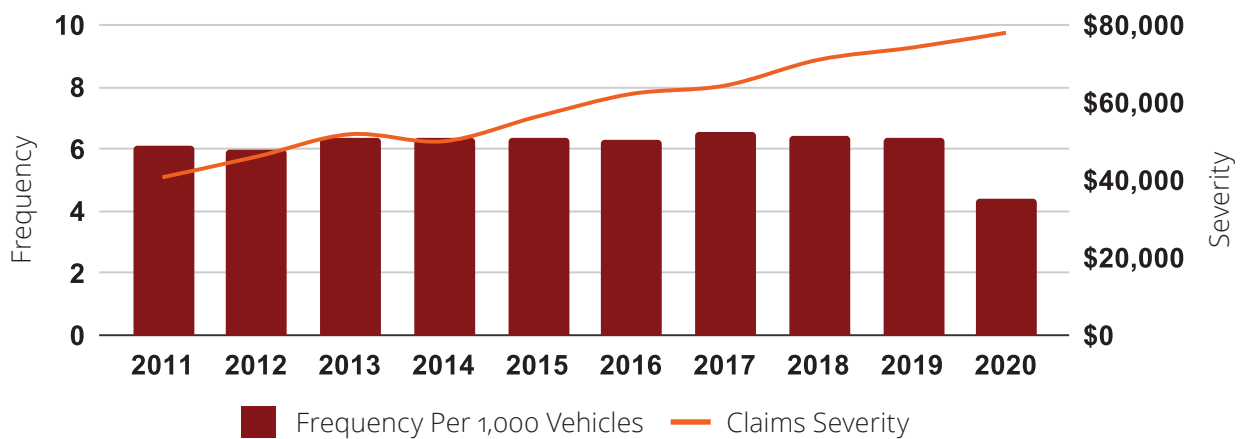
Third party liability covers policyholders if they are liable for a bodily injury or damage to another person or their property. Bodily injury is a significant component of the third party liability coverage, and the most significant cost pressure in recent years. While claims frequency remains stable, claims severity has continued to rise at an unsustainable rate over the last ten years. The severity of bodily injury costs has increased 92% from 2011 – 2020, with ultimate loss cost estimates increasing from \$40,720 in 2011 to \$77,983 in 2020. 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; and
- > increased legal representation.

As a result of the pandemic, claims frequency for bodily injury claims experienced a 31% year-over-year decrease in 2020.

BODILY INJURY ⁷

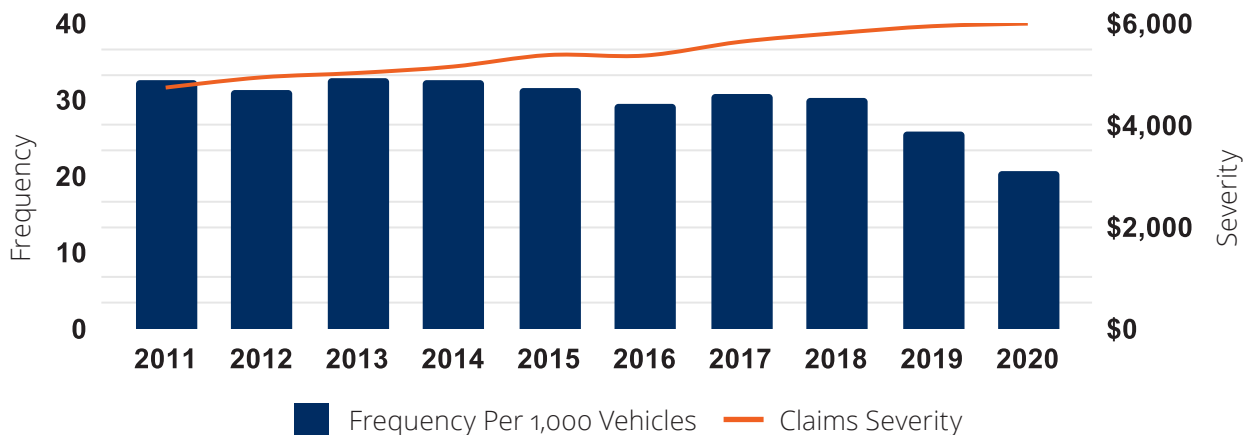


THIRD PARTY LIABILITY - PROPERTY DAMAGE

Increased automation and new safety features are attractive to consumers but are expensive to repair in the event of a claim. Although these advancements may reduce the frequency of collisions, increasing diagnostic and repair costs are the primary 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. In 2019, claims frequency for property damage experienced a notable decrease of 14%, a trend that continued into 2020 as a result of the pandemic.

PROPERTY DAMAGE ⁷



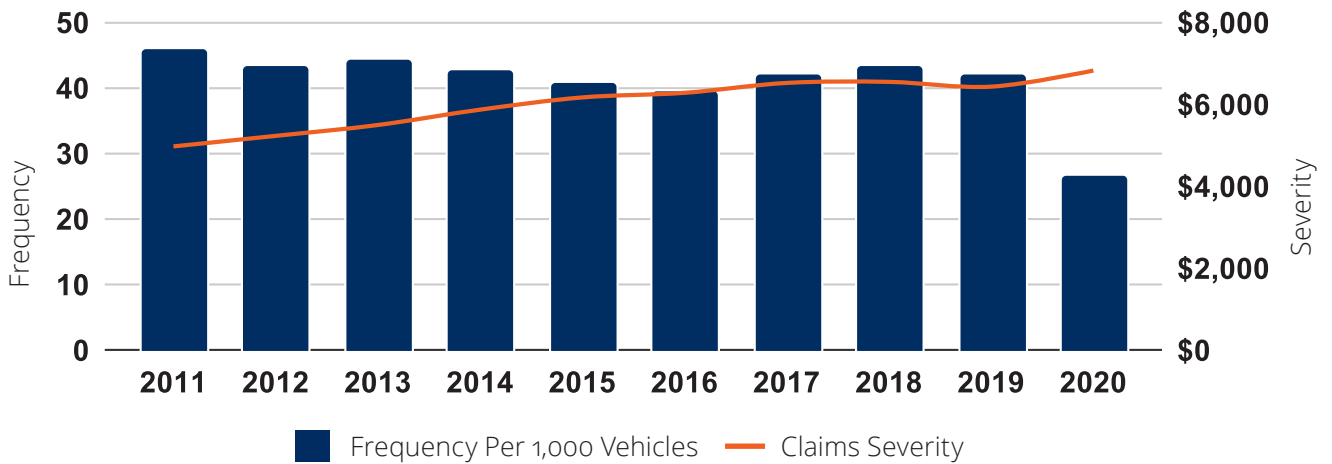
⁷ Source: General Insurance Statistical Agency.

COLLISION

Collision coverage pays to repair or replace the policyholder's vehicle in the event it is damaged in an accident. The average cost per collision claim trended upwards from 2011 to 2020. 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 in the last

ten years. The slight downward trend observed with claims frequency from 2011 to 2019, along with sustainable increases in claims severity, may suggest increased repair costs due to automated features have been experienced and the severity trends for collision claims may become more sustainable. As a result of the pandemic, claims frequency experienced a 37% year-over-year decrease in 2020.

COLLISION ⁸

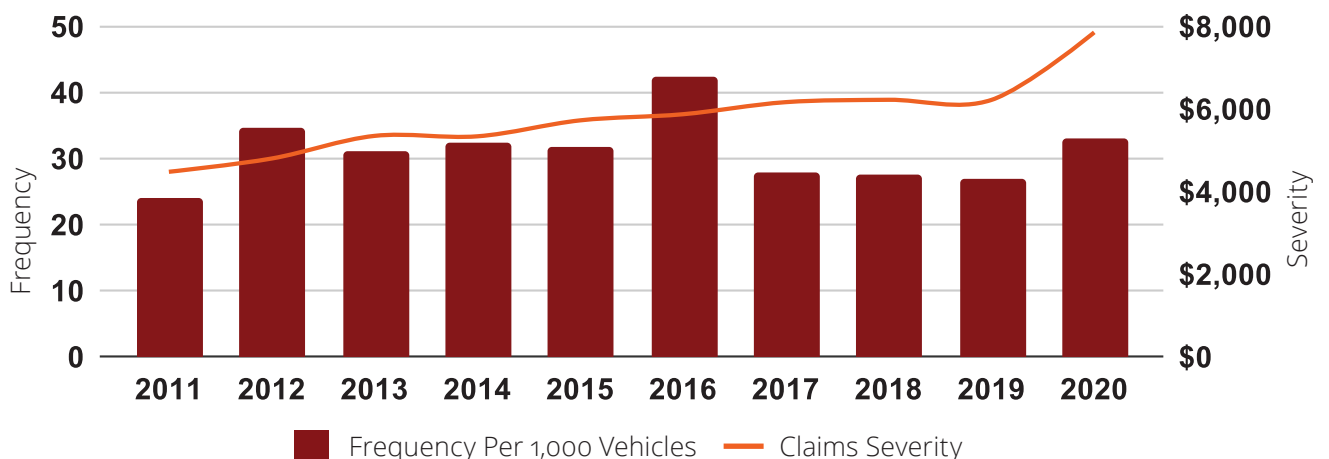


COMPREHENSIVE

Comprehensive coverage pays to repair or replace the policyholder's vehicle if it is stolen or damaged in an incident which is not a collision. Alberta has a significant number of vehicle theft claims each year. Insurers have indicated theft claims are increasingly contributing to the cost of comprehensive

coverage. Severe weather also remains an issue in Alberta, and although previous years have demonstrated sustainable frequency trends in comprehensive coverage, the unpredictability contributes to higher premiums. In 2020, both the frequency and severity experienced notable increases.

COMPREHENSIVE ⁸



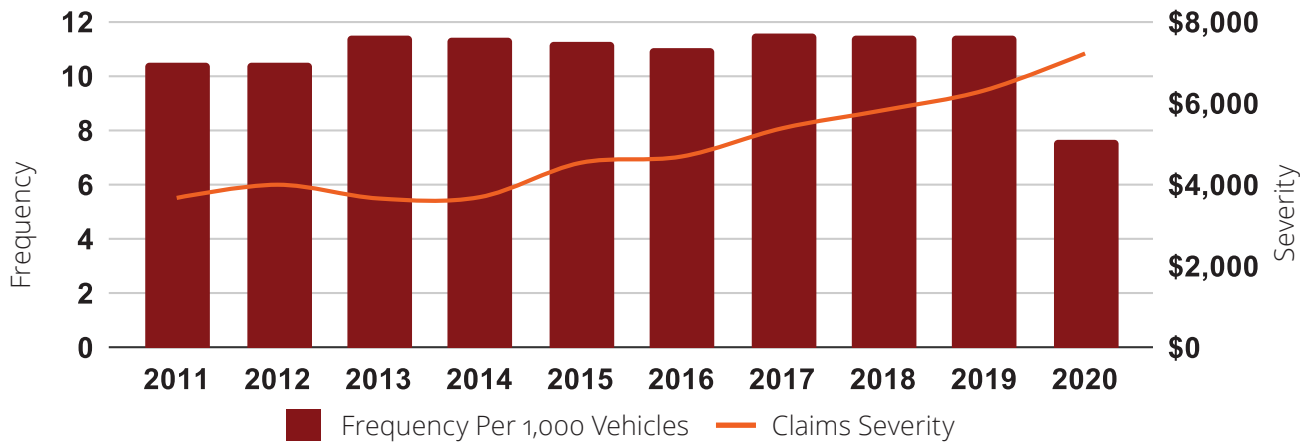
⁸ Source: General Insurance Statistical Agency.

ACCIDENT BENEFITS

Accident benefits coverage compensates those injured in vehicle collisions for medical and rehabilitation services not covered under 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 2011 - 2014, the severity of accident benefits claims has increased 95%, from \$3,692, to \$7,223. The trends monitored in claims severity for accident benefits coverage remain unsustainable. As a result of the pandemic, claims frequency experienced a 34% year-over-year decrease in 2020.

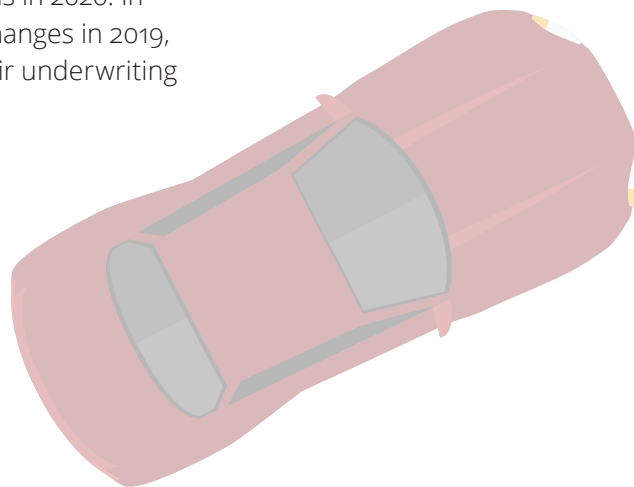
ACCIDENT BENEFITS ⁹



Accessibility

The AIRB monitors 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. In recent years insurers have increased their focus on price accuracy, and due to the timeline of premium implementation it is resulting in some policyholders experiencing large fluctuations in premiums in 2020. In addition to rating program changes in 2019, 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 significant rate increases materializing in 2020 and the significant improvement in industry loss ratios in 2020 it is anticipated consumers will be less likely to face these accessibility hurdles.



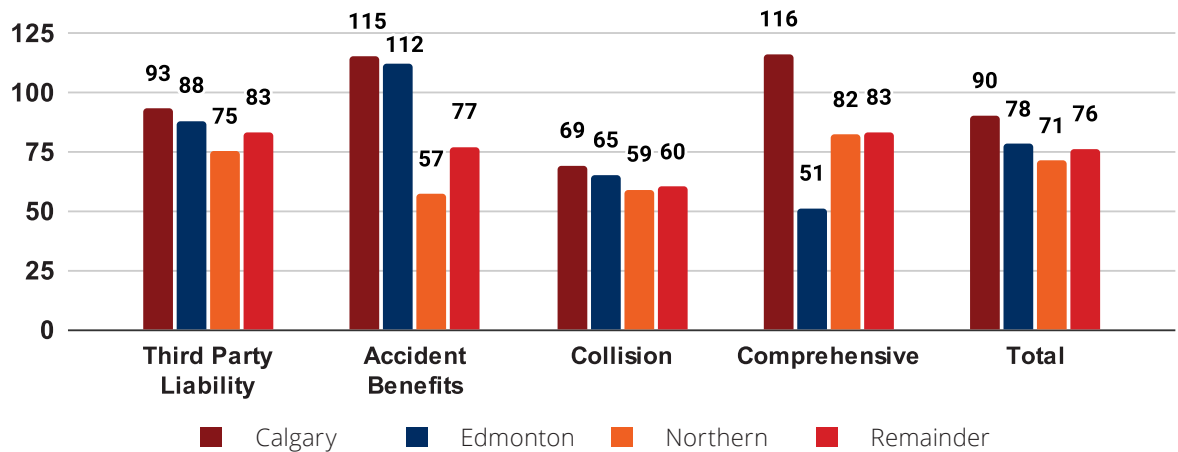
⁹ Source: General Insurance Statistical Agency.

Rating Territories

With greater authority over rating variables, the AIRB has monitored trends in the four previously mandated rating territories. The average loss ratio, over five years by coverage and territory, shows a significant difference between large city accident benefit loss ratios and the rest of Alberta. It can also be noted that the comprehensive loss ratio for Calgary is

much higher than the rest of Alberta. As total loss ratios are influenced the most from third-party-liability, it is not surprising that Calgary has the highest loss ratio in both categories. The total loss ratio for Edmonton, northern, and the remainder of the province remain close, between 71 and 78.

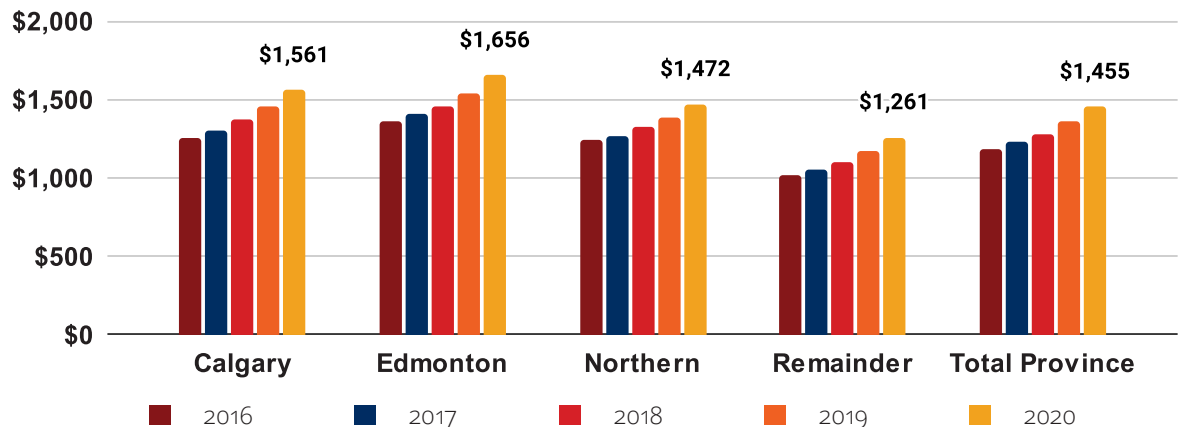
AVERAGE FIVE-YEAR LOSS RATIO BY TERRITORY



The average earned premium by year shows larger insurance premiums in large cities, when compared to the rest of the province. All jurisdictions, except the remainder of Alberta have an average earned premium greater than then average in the province.

With the change in authority over rating variables, including territories, the AIRB expects insurers to file for increased segmentation of rating territory.

AVERAGE EARNED PREMIUM BY TERRITORY



ECONOMIC & EMERGING TRENDS

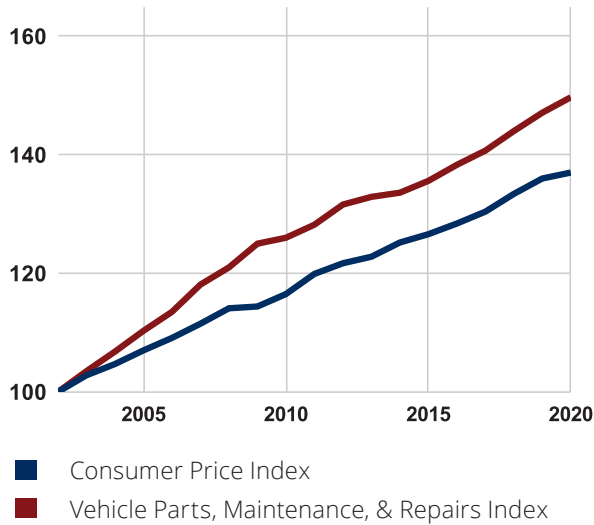
Economic Trends

The AIRB monitors both, the Consumer Price Index (CPI), and the Vehicle Parts, Maintenance, and Repairs Index (PMRI) in Alberta and Canada to stay informed on other cost pressures consumers are facing and changes to vehicle repair costs. It can be noted in both, Canada

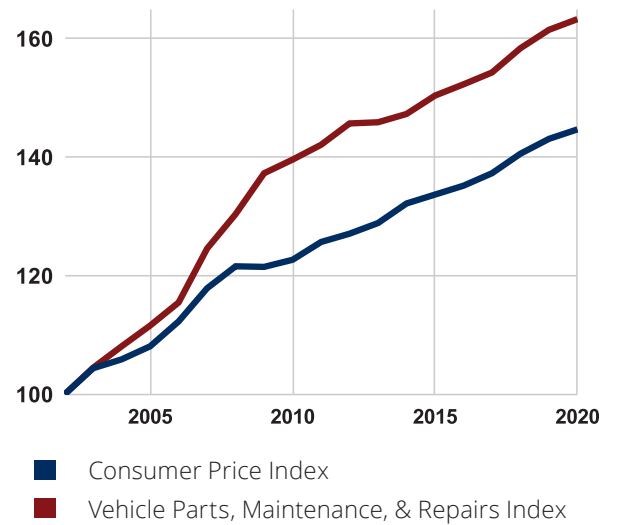
and Alberta, the PMRI has exceeded CPI since 2002. It can also be noted Alberta experienced larger increases to CPI and PMRI since 2002 than the rest of Canada.

CONSUMER PRICE INDEX & VEHICLE PARTS, MAINTENANCE, AND REPAIR INDEX ¹⁰

CANADA



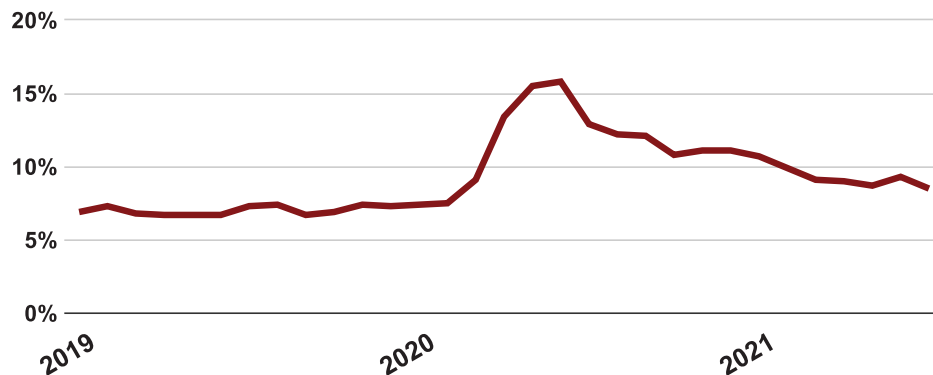
ALBERTA



Another pressure consumers have faced in 2020 and 2021, is increased unemployment caused by the pandemic. The income level of Albertans is one factor considered when measuring affordability. During the pandemic,

the unemployment rate in Alberta increased to over 15%, more than double the pre-pandemic unemployment rates in Alberta, which hovered around 7%. Moving through 2021, the unemployment rate continues to improve, but remains above pre-pandemic levels.

ALBERTA UNEMPLOYMENT RATE



¹⁰ Source: Statistics Canada.

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. In addition to stakeholder feedback the AIRB also monitors several market trends and issues.

COVID-19

The COVID-19 pandemic has impacted the automobile insurance industry. With less people commuting due to increased unemployment rates and work-from-home arrangements, a reduction in driving frequency was expected. The 2020 data confirms significant decreases in claims frequency for all coverages except for comprehensive. Many sources suggested, with less drivers on the road, claims severity would increase, however only comprehensive claims severity experienced a notable increase. Due to the nature of comprehensive claims this increase cannot be definitively linked to the pandemic. Forecasting the effect of



the pandemic in 2021 and future years remains a challenge; however, the AIRB expects the reduction in claims frequency to continue into 2022.

Beyond the impact on claims COVID-19 brings, the socioeconomic factors are another concern in the market. When many Albertans faced temporary unemployment or a reduction in income, many insurers made considerations for the financial situation of Albertans. The AIRB supported the industry's use of premium relief measures during the COVID-19 pandemic.

The effects of COVID-19 on claims frequency and industry loss ratios resulted in premium adequacy in the market, which significantly influenced the AIRB's decisions on rate changes.



DIRECT COMPENSATION FOR PROPERTY DAMAGE

Direct Compensation for Property Damage (DCPD) coverage was one of the changes to Alberta's automobile insurance announced in the fall of 2020 as part of Bill 41: Insurance (Enhancing Driver Affordability and Care) Amendment Act. DCPD will come into force for vehicle claims occurring on or after January 1, 2022.

Most Canadian jurisdictions already have DCPD for vehicle claims. Consistent with other provinces, DCPD will be a mandatory automobile coverage in Alberta, along with third party liability bodily injury and property damage tort as well as accident benefits.

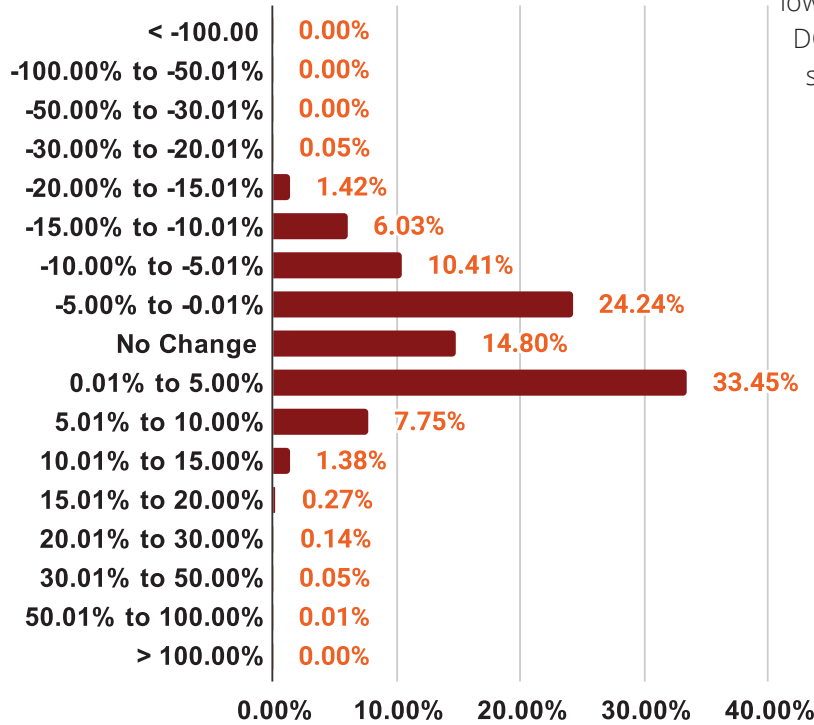
DCPD does not change your automobile coverage, only who pays for the damage. DCPD means drivers work directly with their own insurer instead of another driver's insurer with respect to claims for damage to their vehicle to the extent the driver is not at fault.

DCPD Impact to Insurer Rating Programs and Policyholder Premiums

The implementation of DCPD requires a change to insurer rating programs for all classes of vehicles. The AIRB issued a file and use implementation filing guideline to facilitate the transition of their current rating program to one inclusive of DCPD. Filings were received for private passenger, individually rated commercial and interurban and miscellaneous vehicles including motorcycles, snow vehicles, motorhomes, all terrain vehicles, campers and trailers.

One change from the current rating program for third party liability coverage with the implementation of DCPD coverage is the inclusion of vehicle rate groups as a rating variable. The current third party liability property damage coverage does not consider the vehicle driven. Vehicle rate groups classify

DCPD IMPACT ON PPV PREMIUMS



vehicles based on the price of repairs and the likelihood of being involved in an accident. The lower the vehicle rate group, the lower the DCPD premium. As a result of this change, some policyholders will see a decrease in their premiums while others may see an increase.

All DCPD implementation filings were required to be revenue neutral. Based on the filings, if policyholders choose a zero deductible for their DCPD coverage, the majority of PPV premiums will change from - 5% to +5% depending on the vehicle they drive. Several insurers will also offer deductible options as a way for policyholders to reduce their premiums.

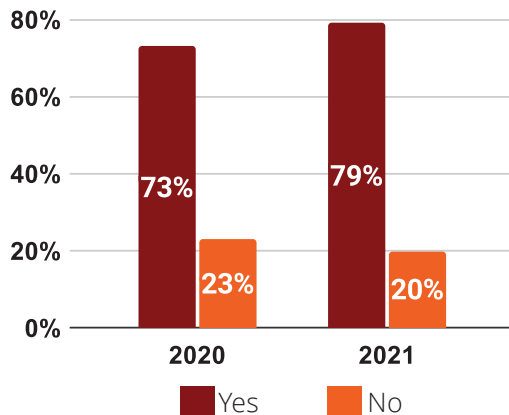


CONSUMER CONFIDENCE

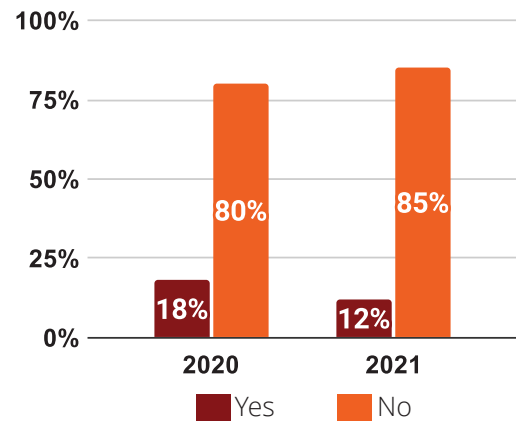
Albertans expect automobile insurance to be affordable, stable, and accessible. They also expect insurers, brokers, and agents to provide sufficient customer service. In recent years, these expectations have not been met. On the customer service side, consumers are looking for answers, as to why their premiums have increased but are unable to find the information they are looking for. When asked

for the Consumer Representative's survey in 2021, 79% percent of consumers who experienced premium increases contacted their broker or agent for an explanation. Of the 79% who contacted their broker or agent, only 12% felt their broker or agent provided a satisfactory explanation as to why their premiums increased.

CONSUMERS WHO CONTACTED THEIR BROKER OR AGENT FOR AN EXPLANATION AS TO WHY THEIR PREMIUMS INCREASED



CONSUMERS WHO FELT THEIR BROKER OR AGENT PROVIDED A SATISFACTORY EXPLANATION AS TO WHY THEIR PREMIUMS INCREASED



Note: Some responded with *Don't Know*



INCREASED MANDATE FOR THE AIRB

In the fall of 2020 the AIRB's authority was expanded as part of Bill 41: Insurance (Enhancing Driver Affordability and Care) Amendment Act. The amendments to the Automobile Insurance Premiums Regulation gave the AIRB authority:

- over the Grid Rating Program;
- to permit pay per kilometer rating programs and allow insurers to surcharge in their usage based insurance and pay per kilometer programs, subject to guidelines developed by the AIRB;
- to implement file and use filing guidelines as appropriate; and
- to require or prohibit use of any rating variable.

Grid Rating Program

The AIRB implemented Grid Guidance, replacing the information previously included in the Automobile Insurance Premiums Regulation. The Grid base premiums were required to be modified to include the adoption of direct compensation for property damage effective January 1, 2022. In adjusting the base premiums, the AIRB also took the opportunity to adjust the relativities between Grid steps to ensure the premiums reflected the risk and adjusted the relativities between urban and rural territories. The AIRB is considering whether any structural changes are required to ensure the Grid Rating Program continues to operate as it was intended to – ensuring a reasonable entry level premium for Alberta drivers.

File and Use

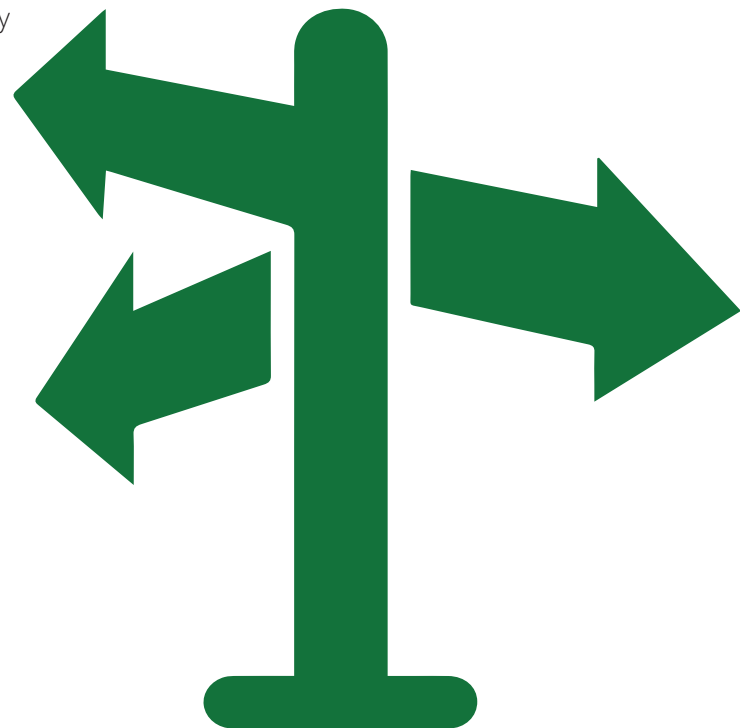
Since 2014, a file and approve system for changes to rating programs has been in effect. Insurers were required to file and receive approval prior to implementing any change. With the ability to implement a file and use framework where appropriate, the AIRB has supplemented the existing filing guidelines with a file and use framework for adoption of CLEAR Rate Group Tables and the implementation of direct compensation for property damage.

The AIRB will be looking at other opportunities to promote rate stability for policyholders through more regular maintenance of insurer rating programs.

Rating Variables

The authority to prohibit a rating variable was transferred from the Superintendent of Insurance to the AIRB, effective January 1, 2021. The AIRB is developing principles-based guidance for the insurers on the approval of new rating variables.

In addition, this new authority included the oversight over rating territories. The AIRB has implemented principles-based guidance on changes to the rating territories for all coverages.

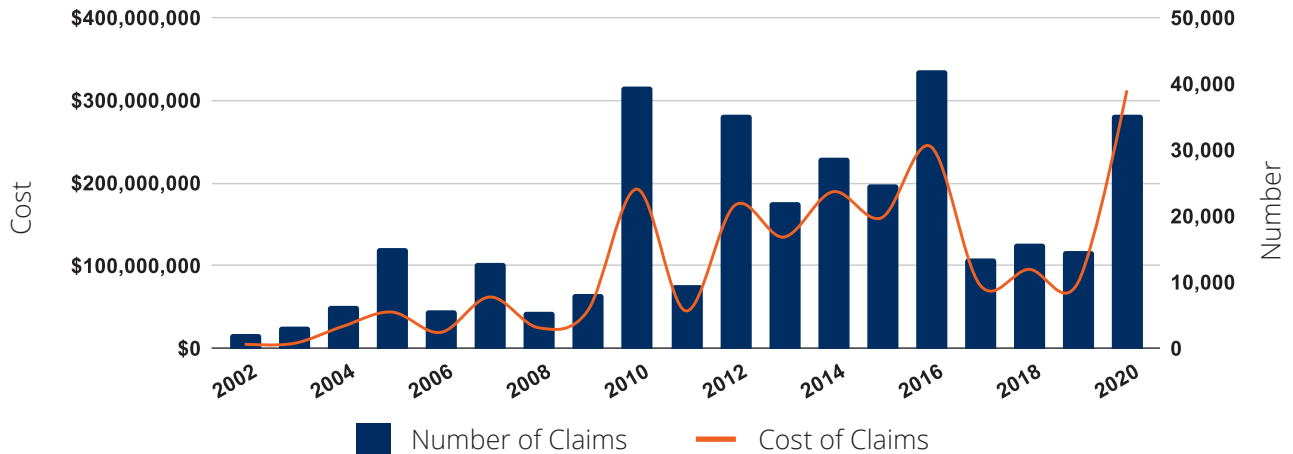




SEVERE WEATHER

Severe weather continues to be a large concern for all industry stakeholders. Comprehensive loss ratios are influenced year-over-year by severe weather event claims. Moving from 2019, to 2020, the severity of comprehensive claims increased over 26%. 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 2020, Alberta experienced the costliest year for catastrophic claims to date. The catastrophic loss data indicates the long-term upward trend of catastrophic event claims cost will continue.



USAGE BASED INSURANCE

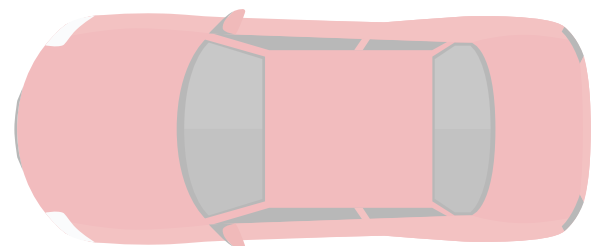


Usage Based Insurance (UBI) is a product offering the driver the opportunity to receive discounts based on certain measures of driving behavior. UBI gives drivers the ability to reduce their insurance premiums by practicing safe driving habits. The driver maintains a base rate; however, the driver’s 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 2021 Consumer Representative’s survey data suggests only 35% of Albertans would consider signing up for a UBI product, a decrease from 54% in 2018.

Following the reforms in late 2020, authority for UBI was transferred to the AIRB. The AIRB adopted principles based guidance effective April 1, 2021, aimed at encouraging more insurers to offer innovative options to their policyholders. The AIRB looks forward to reviewing submissions from insurers offering options for Albertans to have more control over their automobile insurance premiums.

We added a new section under “For Drivers” on our website, specific on UBI to assist consumers – it includes what is Usage Based Insurance, privacy and information on data collection, pay as you drive and a link to other options to lower your premiums.



COMMERCIAL VEHICLE MARKET STATISTICS

Commercial Market

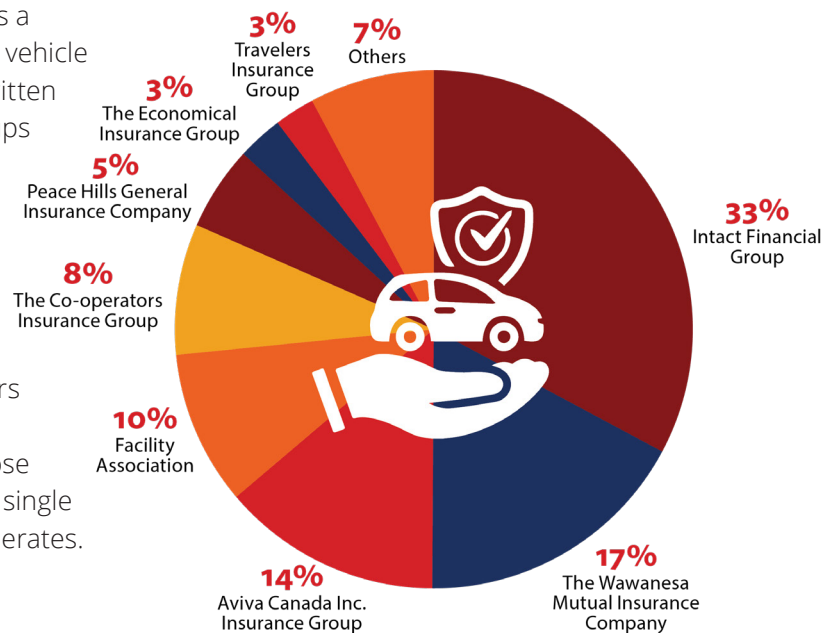
Although this report mainly focuses on PPV, the AIRB also reviews and approves rating programs for other types of vehicles, including individually rated commercial vehicles and monitors the commercial vehicle market. The AIRB has noted changes in the accessibility of

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.

COMPETITIVE MARKETPLACE

As with the PPV market, Alberta has a competitive market for commercial vehicle insurance. Based on 2020 direct written premiums, the top ten insurer groups in Alberta represented 93% of the commercial vehicle market share, with 55 individual insurers writing commercial vehicle 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.

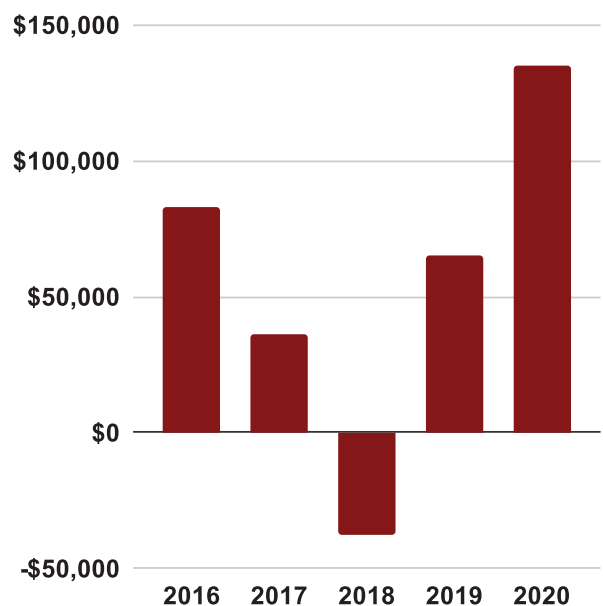
2020 TOP 8 COMMERCIAL INSURANCE GROUPS ¹¹



Insurer Profitability

Alberta's non-PPV insurance data suggests profit levels are much more sustainable than PPV. In the previous two years, insurers writing non-PPV reported almost 200 million in net income. In 2019 and 2020, the results for non-PPV appear to have improved significantly, after hitting a low in 2018. The increase in net income observed in 2020, can be partially attributed to impacts of the pandemic. 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



¹¹ Source: General Insurance Statistical Agency.

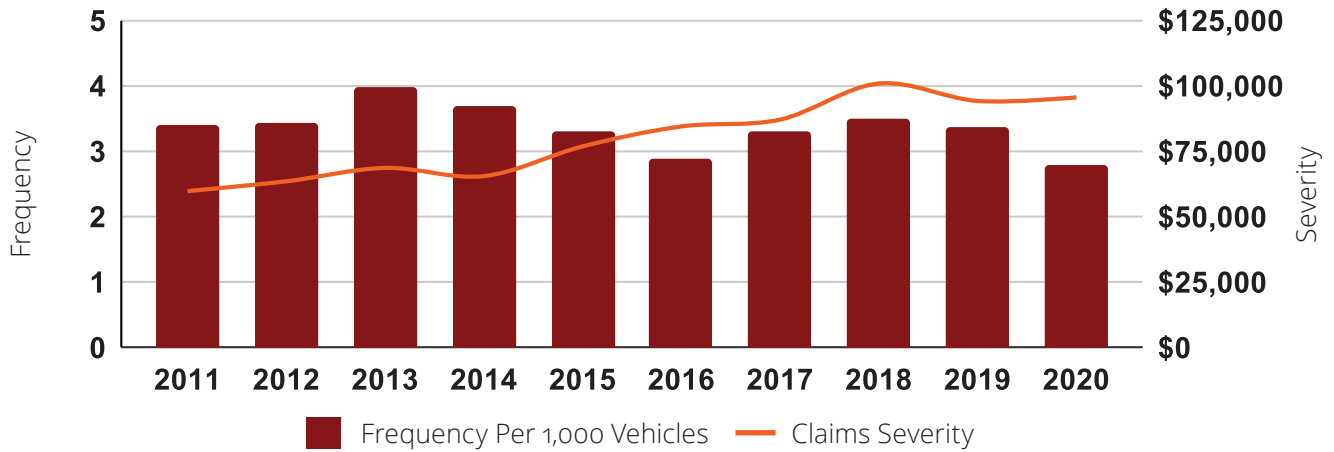
Commercial Claim Trends

THIRD PARTY LIABILITY - BODILY INJURY

Although claims frequency for bodily injury claims is lower than the PPV market, the commercial vehicle 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 \$65,508 to \$95,602.

BODILY INJURY ¹²

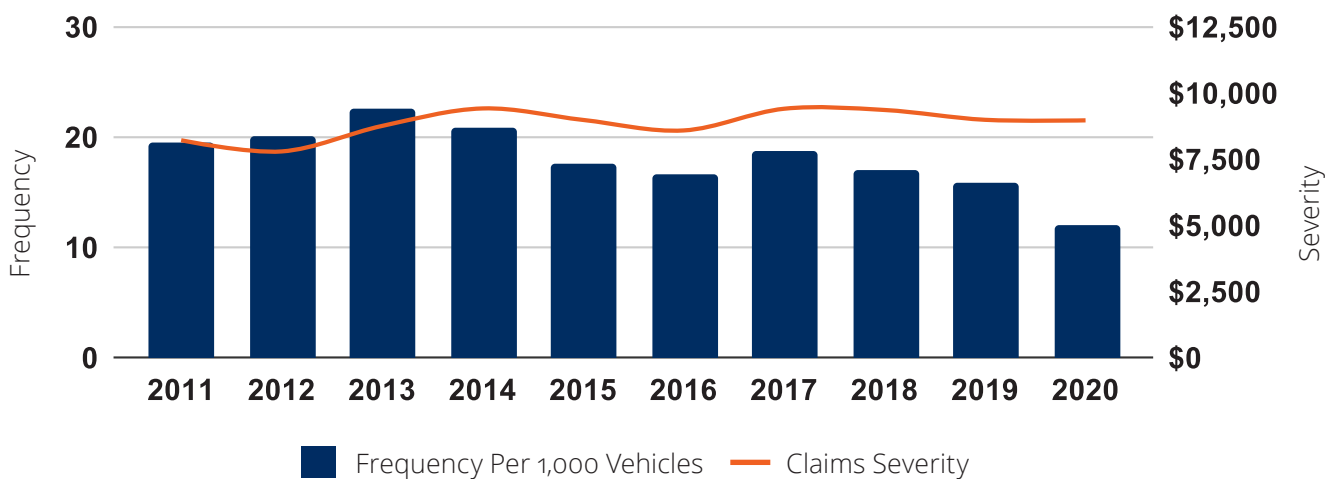


THIRD PARTY LIABILITY - PROPERTY DAMAGE

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 have slightly trended

upwards in recent years; though, severity appears to be stabilizing. Claims frequency has experienced a slight decline since 2011, with a notable decrease in 2020 as a result of the pandemic.

PROPERTY DAMAGE ¹²



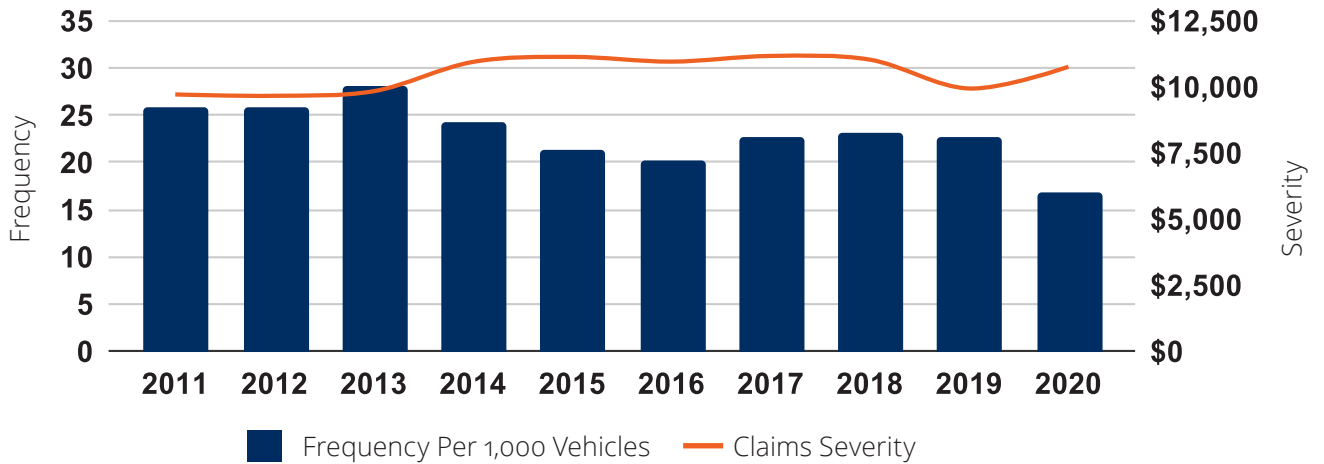
¹² Source: General Insurance Statistical Agency.

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 slight increase in claims severity, offset by a

steady reduction in the frequency of claims. Since 2011, claims severity has only increased 11%. As a result of the pandemic, claims frequency experienced a 25% year-over-year decrease in 2020.

COLLISION ¹³

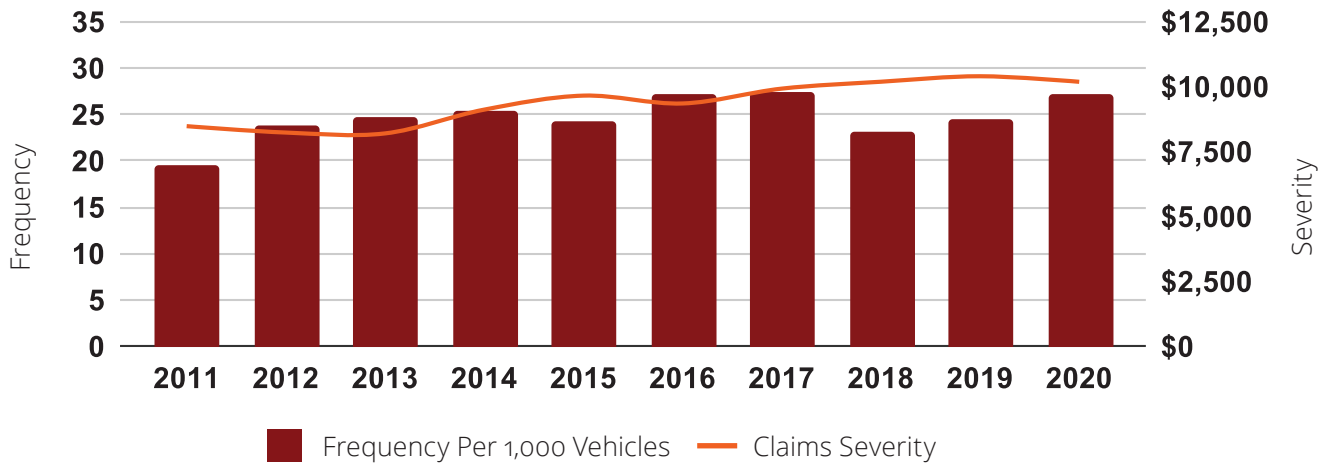


COMPREHENSIVE

Consistent with PPV comprehensive claims, frequency on commercial vehicles for comprehensive coverages remains volatile and partially dependent on the severe weather events occurring in the Alberta. 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 ¹³



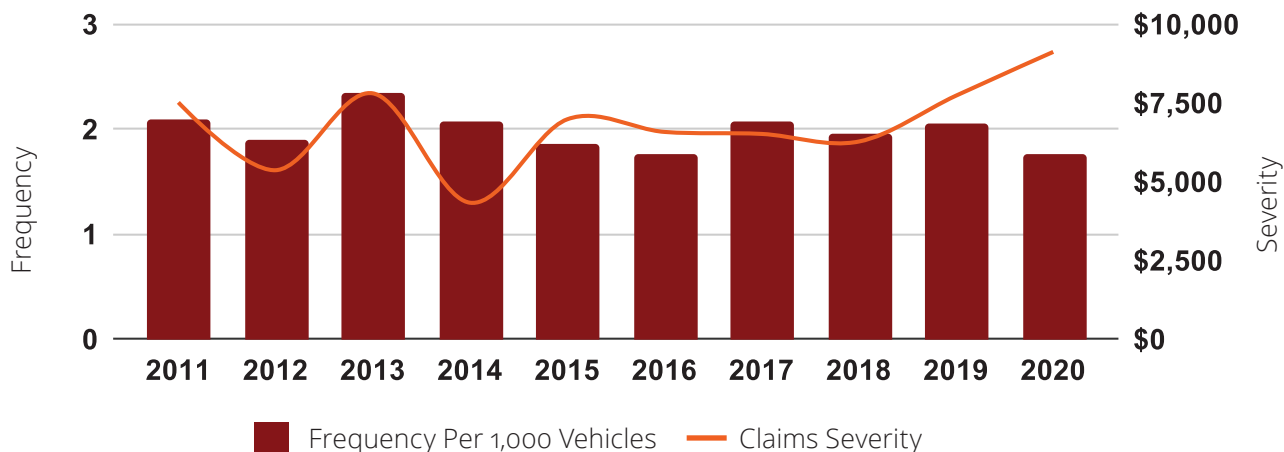
¹³ Source: General Insurance Statistical Agency.

ACCIDENT BENEFITS

Although more volatile, accident benefits claims trends for commercial vehicle coverages appear more sustainable than those demonstrated

in the PPV market. Frequency has declined over the previous ten years and severity has increased 21%.

ACCIDENT BENEFITS ¹⁴



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 vehicle market faces some specific market issues.



FRAUD

Fraud continues to be an issue in the commercial vehicle market. There can be a significant difference in the premium charged by province for inter-urban vehicles. A policy in Alberta will have a premium nearly one third of what the same policy would cost in Ontario. This price difference is one factor leading to the inadequate disclosure of where the risk is garaged, which may not represent the risk of where the vehicle is actually driven.

The risk is increased further when a vehicle enters the United States, where there is a more litigious society, resulting in increased claim payouts, which ultimately impacts the affordability and availability of inter-urban vehicle insurance in Alberta.

LARGE LOSSES AND RISK APPETITE FOR COMMERCIAL VEHICLES

In the past few years the industry has reduced its capacity and risk appetite for underwriting commercial vehicles. Unlike PPV, there is no all comers rule for commercial vehicles. An insurer can choose not to write a particular policy based on their internal risk appetite or underwriting guidelines. Although loss experience and inadequate risk disclosure continue to be issues, there are other concerns impacting the availability of coverage including the training and risk management practices of the insured.



The AIRB will continue to monitor developments in this vehicle segment, as Government and industry stakeholders review the issues and develop solutions to ensure capacity for this sector which is important to the recovery of the Alberta economy.

¹⁴ Source: General Insurance Statistical Agency.

During 2020, Alberta's Commercial Automobile Insurance Market Covered More Than 300 Thousand Vehicles

PREMIUMS COLLECTED

\$439,000,000+

In 2020, commercial automobile insurers collected over \$439 million in premiums.



COST OF CLAIMS & EXPENSES

\$241,000,000+

In 2020, commercial automobile insurers paid over \$241 million in claims and expenses.



Industry Statistics

55

COMPANIES

In Alberta, commercial automobile insurance is provided by 55 different companies, including those who write fleet business only.



\$95,000+

BODILY INJURY CLAIMS

The average cost of a bodily injury claim was over \$95 thousand for commercial automobile insurers in 2020.

Conclusion

The automobile insurance industry in Alberta has signaled a crisis in recent years. Pressured by unsustainable bodily injury claims costs, insurers made business decisions that negatively affected Alberta drivers over the past couple of years. Pandemic restrictions provided relief for insurers in 2020, a trend that will continue into 2021, but uncertainty remains.

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.

Vehicles by Class

PRIVATE PASSENGER



78%

COMMERCIAL



8%

MOTORCYCLE



5%

ALL TERRAIN



5%

SNOWMOBILE



2%

MISCELLANEOUS & OTHER



2%

Automobile Insurance Rate Board

#2440, Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428

Fax: 780.638.4254

Email: airb@gov.ab.ca

www.airb.alberta.ca

