Market & Trends Report

2023

Alberta
airb Automobile Insurance Rate Board

Automobile Insurance Rate Board
2023 Market & Trends Report

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Executive Summary

The 2023 Market and Trends Report provides important background on trends in auto insurance premiums, claims, and profitability. This report also considers the issue of insurance affordability. This has been a subject of concern from Albertans over the last two years and gained significant media attention in 2022 and 2023. With inflation putting pressure on household budgets, Albertans are sensitive to price fluctuations and are looking for information on why their premiums have gone up as well as how to save money.

A significant portion of consumers looked to their broker or agent to provide information as to why their premiums were increasing. However, the 2023 Consumer Representative's survey results indicated the information provided by brokers and agents was not sufficient. In 2023's survey, of those respondents who experienced rate increases, 62% contacted their broker or agent for an explanation and only 24% of those individuals felt they received a satisfactory explanation. While this is improvement over 2022, the results indicate Albertans are not satisfied with the information received from their broker or agent.

Key statistics from the latest 2022 data:

- The overall rate change in the industry was +0.6% compared to the prior year. This was expected as generally insurers did not increase rates during the pandemic.
- The average Alberta premium went from $1,578 in 2021 to $1,587 in 2022, showing stabilization.
- The industry loss ratio for private passenger vehicles (PPV) was 63%, highlighting reduced frequency of accidents.
- Profit per vehicle, is $79 in Alberta, lower than anywhere else in Canada (with private auto insurance delivery).
- Claims severity is up for third-party liability – bodily injury and accident benefits.

New to the Market and Trends Report this year are sections on:

- Miscellaneous Vehicles (motorcycles, ATVs, and snow vehicles);
- Mobility, and
- Insurers use of artificial intelligence and machine learning (AI/ML).

The inclusion of three popular Miscellaneous Vehicles highlights premium stability on vehicles used as "toys", one area where inflation is not yet having an effect. The AIRB monitors trends in all vehicle types.

The pandemic changed Albertans' driving habits and we have not returned to pre-pandemic levels of claims frequency due to more employers adopting hybrid work location policies. The change in mobility had a positive impact in some areas – such as lowering the frequency of accidents – yet there was a decrease in road safety as empty streets encouraged dangerous driving increasing the severity of collisions. The second half of 2022 may indicate a "new normal" of claims frequency level.

Globally, insurers are adopting AI/ML to price insurance and the AIRB survey was to determine the extent of its use in Alberta. We will continue to monitor the use of AI/ML in Alberta auto insurance and may develop guidance if warranted in the future.

Overall, there is lingering uncertainty about some future trends and whether we have reached the "new normal." The AIRB will continue monitoring mobility and inflation over the next year to ensure affordable and accessible auto insurance rates for all Albertans.

Background

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 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 influenced by competition, consumer knowledge, and industry trends. This report mainly focuses on competition, affordability, accessibility, and industry trends. PPV policies make up 77% of Alberta's automobile insurance market by vehicle count. The remaining 23% of vehicles consist of commercial, motorcycles, all-terrain, snow, and other miscellaneous classes. Alberta has a competitive private automobile insurance market providing coverage for 2.9 million vehicles. This report primarily examines the market for PPV, given its size relative to other vehicle types, except where noted. Be advised the data is from various sources but is mainly from the General Insurance Statistical Agency (GISA) and Statistics Canada. Sources for certain data may have changed from prior year Market and Trends reports, and therefore, some data may not be directly comparable.

Affordability

The AIRB is concerned about the affordability of automobile insurance for Alberta drivers. Following the pandemic, insurers sought approval for changes to their rating programs in mid to late 2022 to address their inflation challenges. Given these rate changes were implemented later in 2022, most policyholders saw a rate change at renewal in 2023. The overall rate change in the industry was just +0.6%, increasing the average premium from $1,578 in 2021 to $1,587 in 2022.

One of the ways we measure affordability is by benchmarking the cost of auto insurance against after-tax income. The data available from Statistics Canada lags a year behind, but still provides an indicator of how Alberta drivers' portion of income is spent on auto insurance compared to their peers in other provinces. In 2022, Albertans spent 3.5% of their after-tax income on PPV premiums, above the Canadian average of 3.0%, but lower than Ontario (3.8%) and narrowly lower than British Columbia (3.5%).

During their last mandate, the government was concerned about the affordability and sustainability of auto insurance. One of the ways they sought to address the rising claim costs and related impact on premiums coming out of the previous rate cap was to introduce legislative changes. The Government of Alberta passed legislation, which included changes to lessen the impact of bodily injury costs and to enhance the care and treatment of injured Alberta drivers. These reforms were intended to ensure automobile insurance remained affordable for Albertans. Bodily injury claims often take many years to fully resolve, so the cost reduction of this change remains unclear. Bodily injury has seen a 43% reduction in claim severity, decreasing from $61,377 in the second half of 2020 to $31,024 in the second half of 2022, but only 6% of claims have been paid for this period in 2022. Models from the AIRB's consulting actuary suggest the final value for second half of 2020, once all claims are settled, will have a severity of around $84,000. However, this amount remains uncertain due to the reforms and long-tailed nature of the claim type. The AIRB will continue to monitor the data for evidence to evaluate the effectiveness of the reforms.

The AIRB reminds Albertans they can ensure their insurance remains affordable by shopping the market. With a competitive marketplace, there is a range of premiums which vary by insurer.

Accessibility

The AIRB monitors the industry to ensure coverage is accessible to Albertans. Although we have a competitive marketplace and insurers have reported profits since the start of the pandemic after several years of losses, the uncertainty of future mobility and the impacts from inflation and supply chain challenges led insurers to seek moderate rate increases during the second half of 2022.

In the past, when insurers believed they did not have an adequate price for their policies, they made business decisions negatively impacting customer service and accessibility, including refusing to offer payment plans, requiring signed renewal forms, refusing to offer additional coverages often required for leasing or financing, and cancelling broker contracts.

The government took steps in 2023 to ensure these practices were not re-introduced. In 2022, the AIRB updated its filing guidelines to reduce regulatory red tape and create a more responsive and competitive market, while expecting all insurers to ensure their actions do not negatively affect the accessibility of automobile insurance to Alberta drivers.

Uncertainty

The AIRB employs a data-based approach to reviewing loss trends, frequency, and severity by coverage. When reviewing the trends illustrated in this report, it is important to consider the likelihood of past trends changing in the future. There have been several external forces making the use of past results to predict the future more challenging. The AIRB is evaluating the impact of the:

- Legislative reforms on both frequency and severity,
- COVID-19 pandemic on claims frequency, and
- Inflationary impact on claims severity.

We continue to review the data on historical trends to inform how they may influence future trends – however, we caution readers of the uncertainty on estimations of future trends, given the events of the past few years.

Rate Pause

Effective January 25, 2023, the President of Treasury Board and Minister of Finance issued a Ministerial Order preventing the AIRB from approving changes in insurers' PPV rating program resulting in an increase greater than zero for any individual policyholder until after December 31, 2023. The rate pause means insurers cannot receive approval for new increases to Albertans' auto insurance premiums until 2024. However, it does not mean Alberta drivers did not see their auto insurance premiums increase in 2023. Based on previously approved rate increases, Alberta drivers may experience a premium increase at renewal. They may also experience a rate change if, since the last renewal, the driver has a new at-fault claim, traffic violation, vehicle, and/or home address.

This report is mainly based on data and trends collected before issuing the Ministerial Order. While the data does not reflect the impacts of the rate pause, it is important to consider how it will impact future trends and individual premiums for drivers. With the changes to the filing guidelines in mid-2022, insurers did not implement rate changes on renewal customers until the last third of 2022. Therefore, while the industry-wide rate change was low in 2022, it is expected to be higher in 2023 despite no further rate approvals, as all policy renewals will receive rate changes approved before the rate pause.

Legislative Reforms

In late 2020, Bill 41 Insurance (Enhancing Driver Affordability and Care) Amendment Act was passed to amend the Insurance Act and the province's automobile insurance framework. The amendments applied to claims occurring on or after the date specified and included:

- **Insurance Act** - Prejudgment Interest (**Effective upon Royal Assent, December 9, 2020**): Prejudgment Interest paid on non-pecuniary damages was previously fixed at 4% and was changed to fluctuate with current interest rates.

- **Minor Injury Regulation (Effective for accidents occurring on or after November 1, 2020)** - Updated the definition of a "minor injury" and added dentists as eligible health professionals able to act as certified examiners.
- **Diagnostic and Treatment Protocols Regulation (Effective October 29, 2020)** - Dentists, psychologists and occupational therapists are now considered adjunct therapists with a maximum benefit for treatment by any combination of these adjunct therapists of $1,000.
- **Automobile Accident Insurance Benefits Regulation (Effective October 29, 2020)** - Benefit amounts available to claimants increased for new and existing claims.
- **Introduction of Direct Compensation Property Damage (Effective January 1, 2022)** - Separated DCPD from third-party liability premiums.

The AIRB monitors data and trends for evidence these reforms are reducing or at least stabilizing premiums for Alberta drivers, as intended. There is insufficient data to evaluate the effectiveness of reforms fully. In addition, both the pandemic and recent inflation have impacted our ability to evaluate the impact of reforms independently.

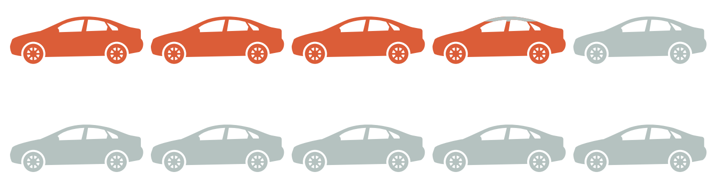
Direct Compensation for Property Damage

Direct Compensation for Property Damage (DPCD) replaced the property damage portion of the third-party liability coverage on a driver's auto insurance policy, effective January 1, 2022. DCPD provides Alberta drivers with an efficient way to process vehicle damage claims. When an accident occurs, drivers work directly with their insurance company to process the claim. DCPD changes who pays, not what is paid for.

The change to DCPD was announced in late 2020 with legislative reforms to automobile insurance in Alberta. However, during our Consumer Representative's survey in both 2022 and 2023, we found low awareness of DCPD among Albertans.

Insurance companies were required to implement DCPD in 2021 on a revenue-neutral basis, carving out the premiums from third-party liability property damage into its coverage. Inflation challenges in 2022 created pressure on physical damage coverages, including DCPD which increased premiums in 2022.

Have You Heard About DCPD? [1]



Only 39% Have

Automobile Insurance Approval & Rate Regulation

The AIRB approves or rejects automobile insurers' filings for rate changes with the authority granted by the Insurance Act and regulations. The AIRB reviews rate filings in detail to ensure all Albertans have access to a fair and affordable premium. Each aspect of a rate filing is scrutinized, including, but not limited to, proposed rating variables, discounts, surcharges, and rating models. Like all businesses, insurers must charge enough to cover operating and claims costs to earn a reasonable profit. Part of the AIRB's review includes examining their experience and related premium adequacy due to market conditions.

To address market challenges when making decisions, the AIRB continuously monitors the automobile insurance market, including loss trends, availability, affordability, and consumer perceptions. We further discuss these topics with stakeholders and industry experts to stay informed and ensure proactive decision-making.

Albertans can review rate changes as they are approved for every automobile insurer in Alberta on our website.

[1] Source: 2023 Consumer Representative Report

Trend Highlights

$79
Profit Per Vehicle

$1,587
Average Premium

0.6%

57¢
Of Every $
Of Premium

55%
Purchased
Auto Insurance
Through a Broker

59¢
Of Every $
Of Claims

Goes to Third-Party Liability

76%
Unsatisfied with
Explanation as to
Why Premiums Increased

Market by Vehicle Type[2]

77%	8%	5%	4%	2%	4%
Private Passenger	Commercial	Motorcycle	All Terrain	Snow	Other

[2] Source: General Insurance Statistical Agency

Number of Catastrophes by Type (2013-2022)[3]

1	1	2	17	57
Fire	Flood	Windstorm	Thunderstorm	Hailstorm

Top 5 Insurance Groups

69%

Of Market

63%

PPV Loss Ratio

6.8%

Return on Equity Earned by Industry on PPV

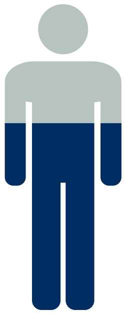
3.5%

After-tax Income Spent on Auto Insurance

12 Months Later

61%

Of Consumers Have Not Heard of DCPD



Every **7 Minutes** A Vehicle is Stolen in Canada

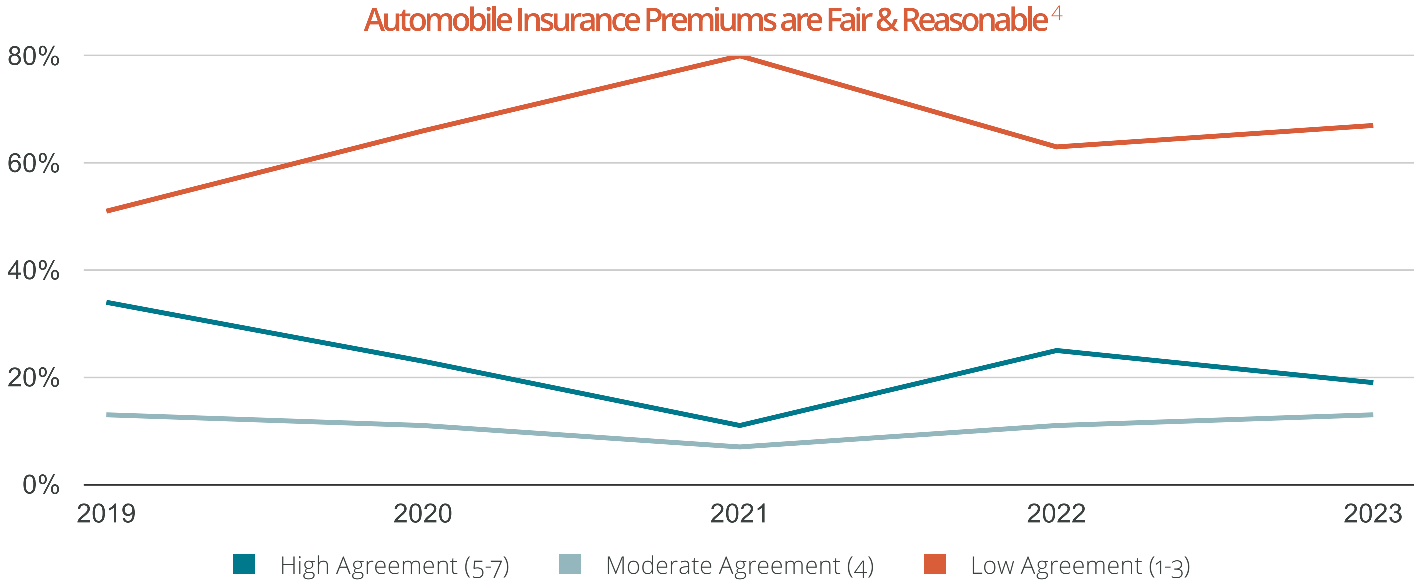
[3] Source: General Insurance Statistical Agency Auto 6001

Consumer Trends

Consumer Confidence

As Canadians battled high inflation, affordability unsurprisingly became a major concern for consumers throughout the last year. Albertans do not have the option of choosing not to insure a vehicle to save money, as automobile insurance is required by law, so there is high sensitivity to price volatility.

In the 2023 Consumer Perspectives report only 19% of Alberta consumers agreed their insurance premiums were fair and reasonable. This was a six-point decrease in consumer confidence since 2022. Discontent with the rising cost of mandatory products like automobile insurance, has fueled frustration and skepticism of the insurance industry.



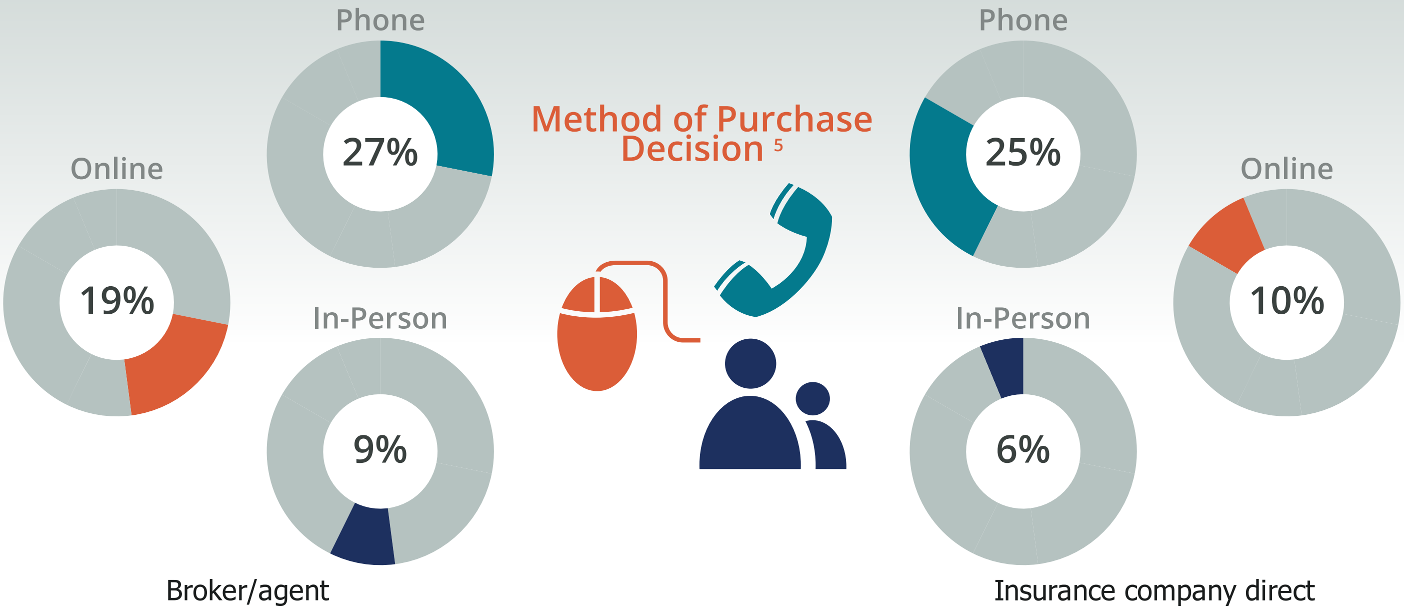
In particular, Alberta consumers reported unexpected increases in their automobile insurance rates (59% of those surveyed) despite not having a new claim or conviction. Phone calls to the AIRB also dramatically increased in 2023 with questions about the rate pause. Many consumers incorrectly believed the rate pause meant they would not see any rate increases at all in 2023 but previously approved rate increases are still working their way through the market and impacting renewals.

While generally frustrated with the insurance purchasing experience, most Albertans (54%) sought competitive quotes in the last two years. Of those who changed insurers, 89% did so for a lower premium. Insurers compete for Alberta business, and they can be hundreds or thousands of dollars apart for the same coverage, depending on their unique claims experience. The AIRB continues to educate and encourage consumers to shop the market each year before renewal.

The AIRB's Rate Comparison Tool can help point Albertans to insurers who may fit their budget and coverage needs. For example, the insurance rates for an Edmonton woman, aged 35, driving a 2017 Honda Civic can see a $1,600 difference between the lowest and highest quote for full automobile insurance coverage. It pays to shop the market.

[4] Source: 2023 Consumer Representative Report

The most common methods for obtaining automobile insurance quotes were calling brokers and visiting websites. We continue to see a trend of more Albertans looking for insurance information online. However, regarding to the purchase decision, most consumers spoke to their insurance broker or agent by phone (52%).



Despite this reliance on agents and brokers, consumers do not feel their sales representative provided a satisfactory explanation as to why their premiums increased.

In order to support consumer education, the AIRB launched social media channels (Facebook, Instagram, LinkedIn and YouTube) in 2023. Follow us for consumer advice and tips on purchasing and managing automobile insurance.

[5] Source: 2023 Consumer Representative Report

Private Passenger Vehicle Market Trends

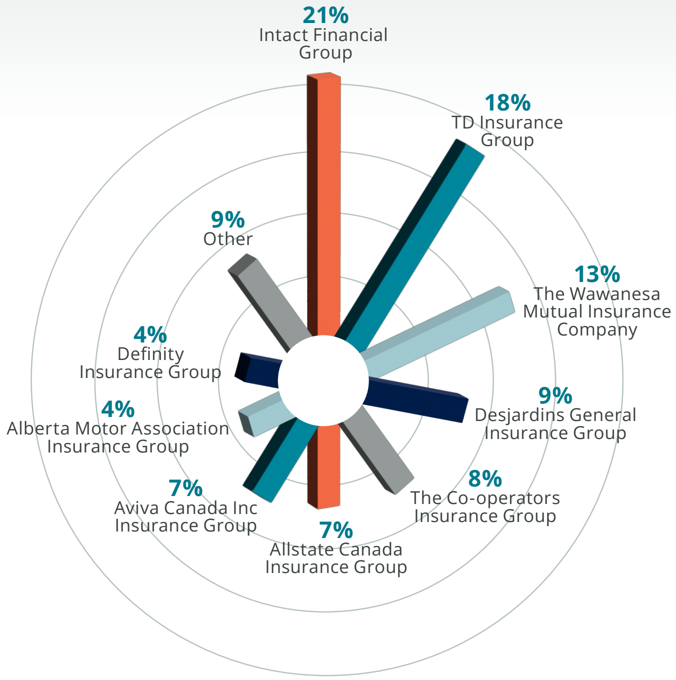
Competitive Marketplace

Alberta is fortunate to have a competitive market for automobile insurance. There are ten insurance groups with 29 companies [6], and eight insurers with only one, for a total of 37 companies writing insurance for PPV in 2022.

Based on 2022 direct written premiums, the top three insurer groups in Alberta represented 52% of the market, with the top nine representing 91% of the market.

A competitive market allows insurers to compete on price and service and contributes to accessibility and affordability for consumers. Consumers can choose between different insurers; no single insurer has sufficient market power to dictate premium levels or how the market operates. However, given the nature of the market we closely monitor the idea of tacit collusion [7], where the market follows a price leader, typically a large company. For this strategy to be profitable, the industry must generally have a high chance of company cooperation. If a company does not cooperate, each company will lower prices in intense competition as they return to a competitive marketplace. The auto insurance market in Alberta is susceptible to collusion, as all insurers sell the same product, and understand the cost structures of each other.

Top PPV Insurance Group (2022) [8]



Secondly, the market does not frequently change so minimal communication is required. Thirdly, all rate change percentages are posted online so any insurer can check the behaviour of another. Finally, these insurers compete on other insurance coverages such as property insurance. Together, these conditions make the industry susceptible to collusion, tacit or otherwise. To counter this, we look closely at any large insurer applying for significant rate changes, followed by others.

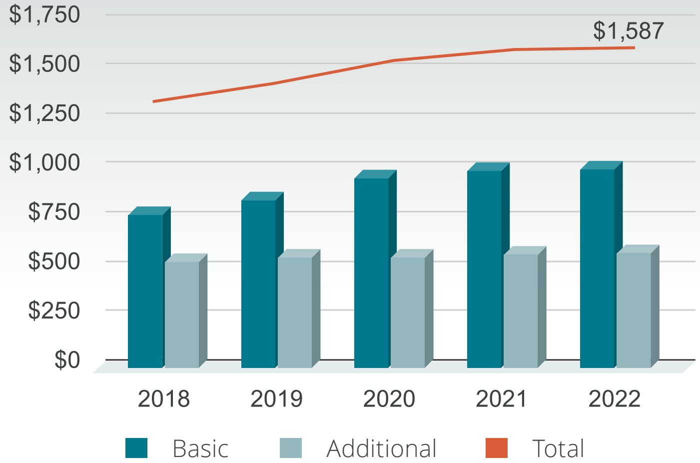
[6] Despite being under the same parent company, different companies may compete in different segments of the market.
[7] This is when a group of companies collude without direct communication with one another and is not strictly prohibited by the Competition Bureau of Canada.
[8] Source: General Insurance Statistical Agency

Insurance Premium Trends

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 30%, and additional coverage (collision, comprehensive, specified perils and all perils) increased by 8%. The total average premium increased by 21% over the past five years. However, the average premium increased by only 0.6% between 2021 and 2022. The increases in total average premium over the five year reporting period are well above inflation rates and represent decreased market affordability. Albertans can budget for regular rate increases; our research has found they generally tolerate increases up to 10% annually. When an insurer files regularly to adjust their rates in response to cost pressures with modest increases, Albertans are less likely to shop the market and change insurers.

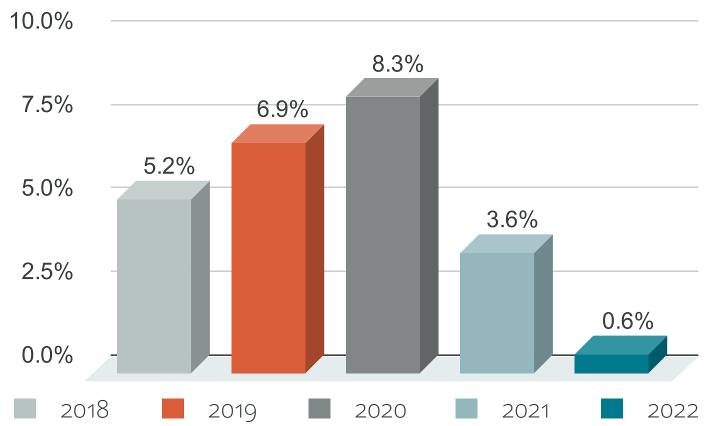
Average Written Premiums Basic & Additional[9]



Year-Over-Year Change

In 2020, premiums jumped 8.3% over 2019, but had been increasing at a stable rate year over year. In 2021, the year-over-year average premium change decreased to 3.6% and has further decreased to 0.6% in 2022. The average premium levels increased during 2018 and 2019 while the cap on insurers' overall PPV insurance rates was in place. The rate cap did not allow insurers to address cost pressures resulting in actions which limited access to the required insurance for many Albertans from both availability and affordability perspectives. The cap was lifted in late 2019, and insurers pressured by the limitation filed and received rate increases to return to a competitive marketplace and stop actions restricting market access. The rate increases approved in the fall of 2019 were implemented throughout 2020, and are reflected in the peak of year-over-year rate changes shown.

Yearly Change in Total Average Premiums[9]



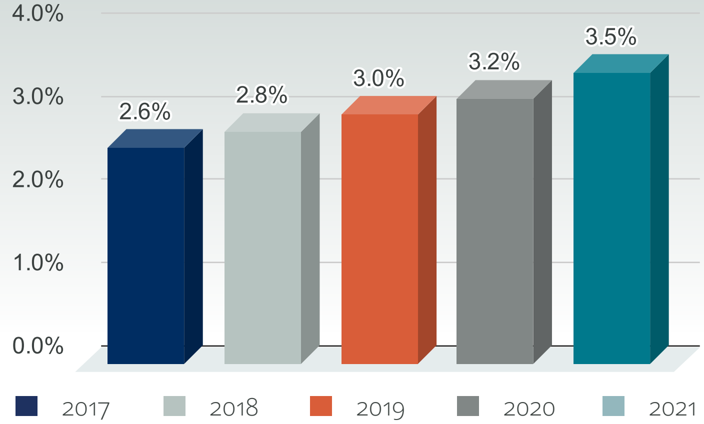
The year-over-year change in average premiums does not always correspond with insurers' increasing costs, as insurers adjust premiums to influence their market share or support other internal strategic business decisions. In addition, some insurers do not file for rate changes as frequently due to technology, cost, or internal resource restraints; this can result in infrequent, higher rate increases and is not in the policyholder's best interest. The AIRB updated its filing guidelines in July 2022 to encourage frequent filings to enable insurers to maintain their rating programs, with the goal of reducing the volatility of premiums for Alberta drivers.

[9] Source: General Insurance Statistical Agency Auto 1005

Change in Income Spent on Automobile Insurance

Another way to evaluate the affordability of automobile insurance is to consider the average premium expressed as a percentage of after-tax income, in 2021 constant dollars. From 2017 to 2021, Albertans saw the share of their income spent on PPV premiums increase by 0.9 percentage points, from 2.6% in 2017 to 3.5% in 2021. While premiums are the major contributor, increasing 26% over time, after tax income has also decreased from $47,600 to $45,700 in real terms, a reduction of 4%. With premium growth at 0.6% between 2021 and 2022, a strong economic year could increase affordability for next year.

Average After-Tax Income Spent on Automobile Insurance[10]



How Do Our Premiums Compare?

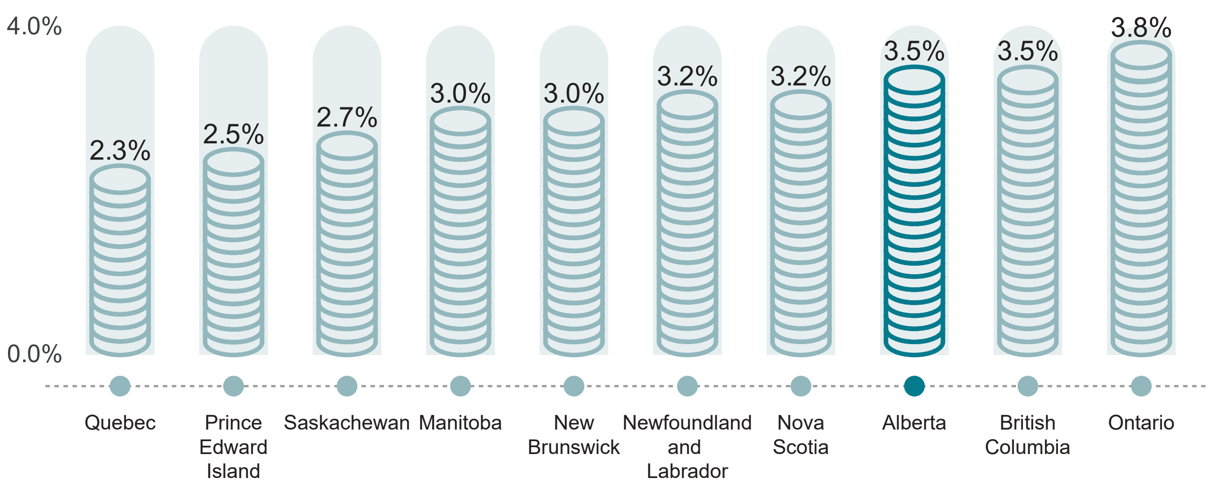
The AIRB benchmarks the percentage of after-tax income Albertans spend on average for automobile insurance with data from other provinces. The AIRB recognizes the coverage varies by province, and premiums are not all on a common basis[11]. There are several factors contributing to the difference in average premiums written, which include, but are not limited to:

- Type of coverage purchased;
- Prevalence of telematics offered;
- Weather;
- Driving location;
- Demographics;
- Vehicles Driven;
- Accident rates;
- Traffic density;
- Vehicle theft;
- Vehicle repair costs; and
- Population density.

The AIRB's analysis considered the average premium paid without 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 2021 was 3.5% in Alberta, above the simple average of 3.0%.

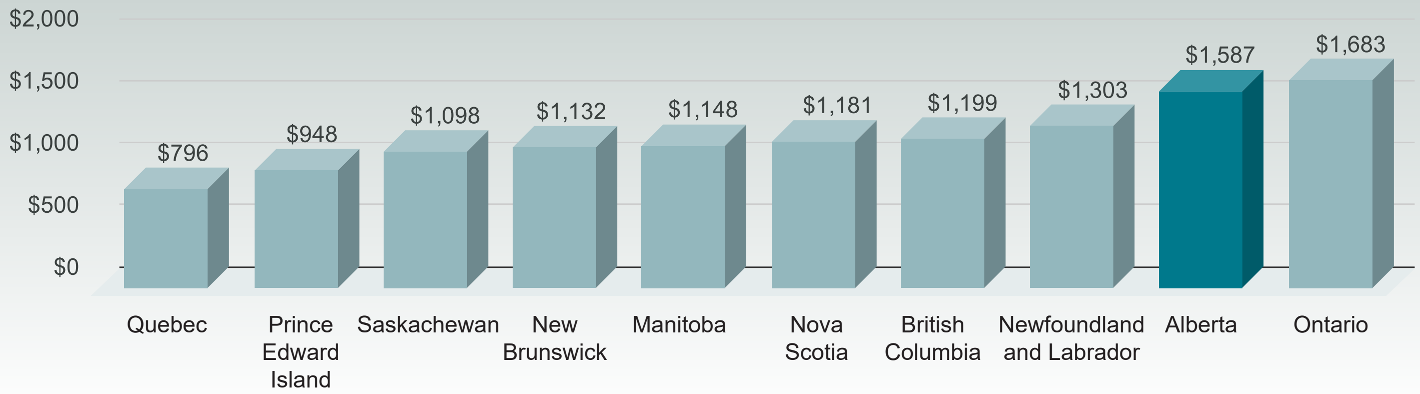
Alberta moved up from the 4th highest share of income to the 3rd in 2021, after Newfoundland saw their after-tax income increase by 6% in real terms. Despite this, Alberta saw the lowest profit per vehicle of all provinces (excluding BC, Saskatchewan, Manitoba, and Quebec), suggesting while prices are high, they are actuarially supported, and mark-ups remain low in Alberta.

Average After-Tax Income Spent on Automobile Insurance (2021)[10]



[10] Source: Statistics Canada Vector V96414644
[11] All private delivery jurisdictions are reported on same basis through GISA, public delivery provinces differ by only reporting on an earned basis not a written basis

Average Premium by Province[12]

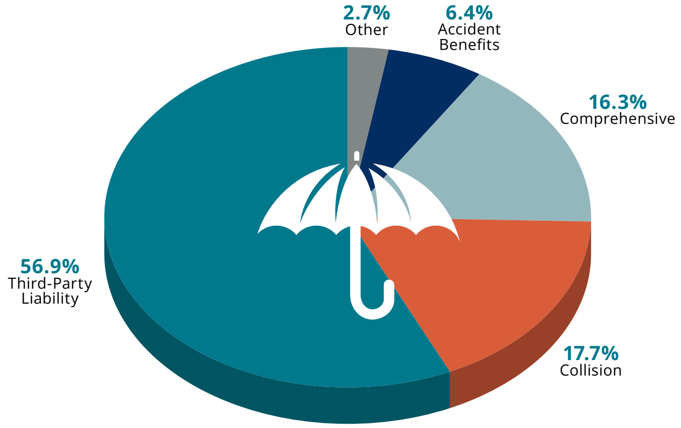


Average Premium & Claims by Coverage

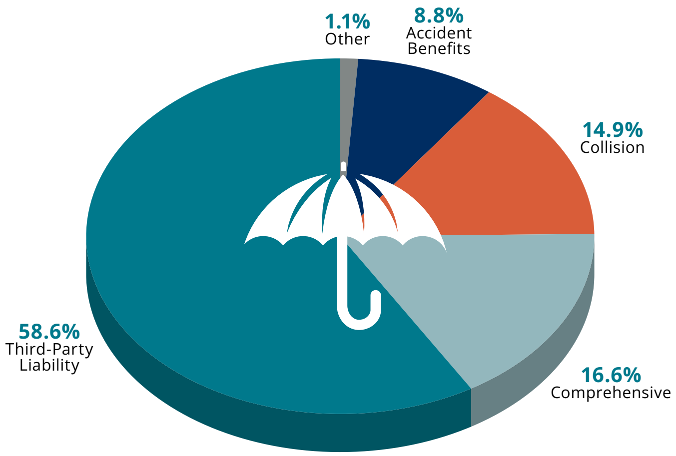
Average Premium by Coverage

Drivers are required to carry insurance for basic coverage (third-party liability and accident benefits) and have the option to purchase additional coverage, like collision and comprehensive. The individual coverages a policyholder purchases determine the premium amount, and it reflects the total cost of the coverage. Nearly 65% of the total premiums paid in Alberta are for mandatory coverages, which is expected, as every driver in Alberta has these coverages. The next largest component of premiums is collision, which is purchased by about 75% of the market, and is often required when financing a vehicle. Finally, comprehensive represents about 16% of all premiums paid, with about 85% of consumers purchasing this coverage. The other 2.7% is for coverages such as specified perils, which may cover the vehicle from risks like theft, but at a reduced price compared to comprehensive.

Written Premium by Coverage[12]



Claims & Adjustment Expenses by Coverage[12]



Average Claim Costs by Coverage

Given claims are the highest cost for automobile insurers and the breakdown of premiums by coverage, it is unsurprising to see third-party liability and accident benefits making up nearly 70% of all claims paid out by insurers in 2022. The second highest was comprehensive due to a recent uptick in vehicle thefts, followed by collision coverage, which had reduced frequencies in 2022. When the coverage losses exceed the premiums, they are subsidized by more profitable coverages. In general, mandatory coverages are less profitable and subsidized by additional coverages such as comprehensive and collision.

[12] Source: General Insurance Statistical Agency Auto 1005

Insurer Profitability

Insurers set premiums prospectively, they cannot recoup prior year losses or reduce premiums for unexpected profits. Auto insurance policies are generally issued for twelve months, and renewal notices are issued up to six weeks in advance. When considering policy duration, submission, AIRB review, and approval timelines, insurers must estimate costs up to 18 months in the future when determining premiums.

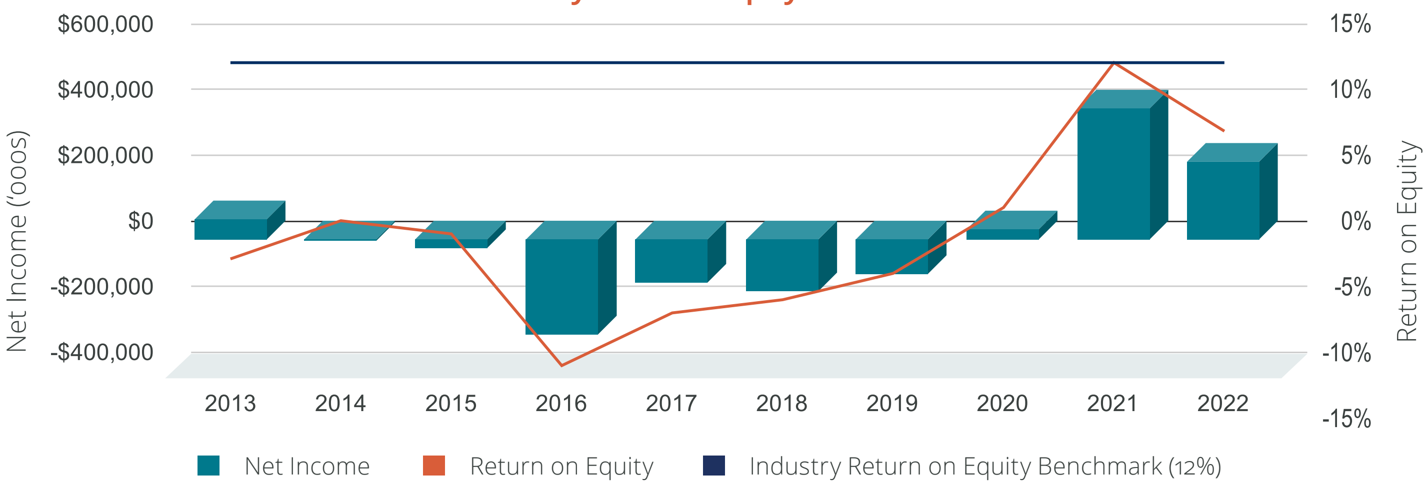
The ability to estimate future costs with the uncertainty of mobility and claims frequency throughout the pandemic was challenging. In 2021, the industry attained unprecedented profitability, with a return on equity of 12.3% or a return on earned premiums of 10.5%. GISA has collected and reported net income for PPV by province since 2013. A common benchmark for most businesses is to strive for a 12% return on their capital (equity) each year. Insurers have achieved this once in the past ten years. Before the COVID-19 pandemic, insurers saw six straight years of losses from 2014 to 2019. Over the past ten years, insurers have lost $111 million insuring PPV in Alberta.

The AIRB does not consider the recent unprecedented profit levels in evaluating rate adequacy for future periods. When submitting a request for change to the rating program, the AIRB permits the inclusion of a profit provision no greater than 7% of premium. This is not a guarantee of profit. A return on premium differs from a return on equity and only considers the return on the insurance transaction, not the insurer's entire investment portfolio.

Return on Premium considers the underwriting profit and the investment return on cash flow expressed as a percentage of premium. It does not explicitly consider investment return on capital or shareholder equity.

Return on Equity considers all three sources of profit (underwriting profit, investment income on cash flow and investment income on capital) and is expressed as a percentage of the insurer's equity.

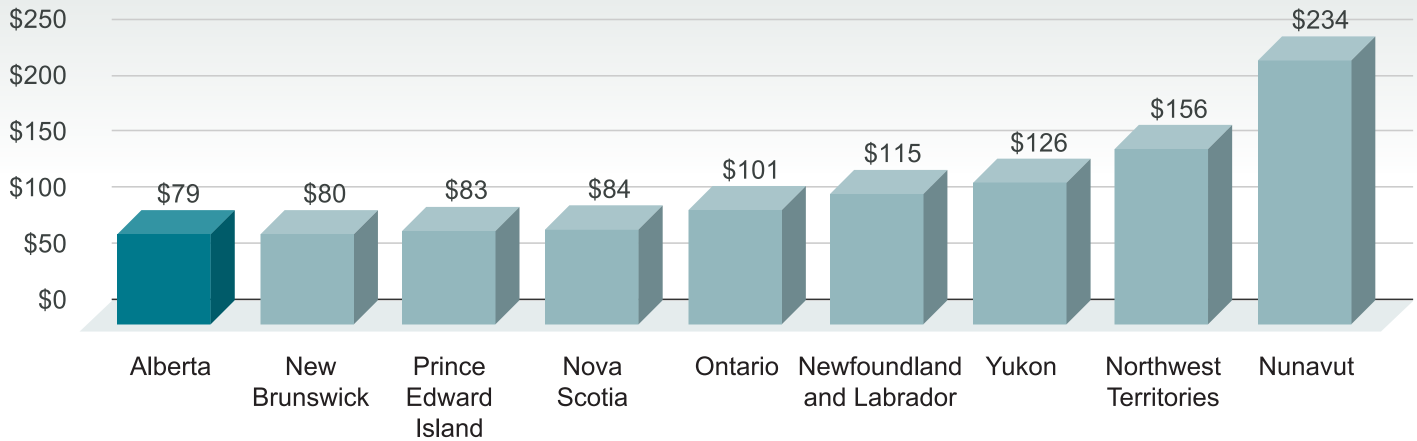
PPV Industry Return on Equity & Net Income[13]



[13] Source: General Insurance Statistical Agency Auto 9552

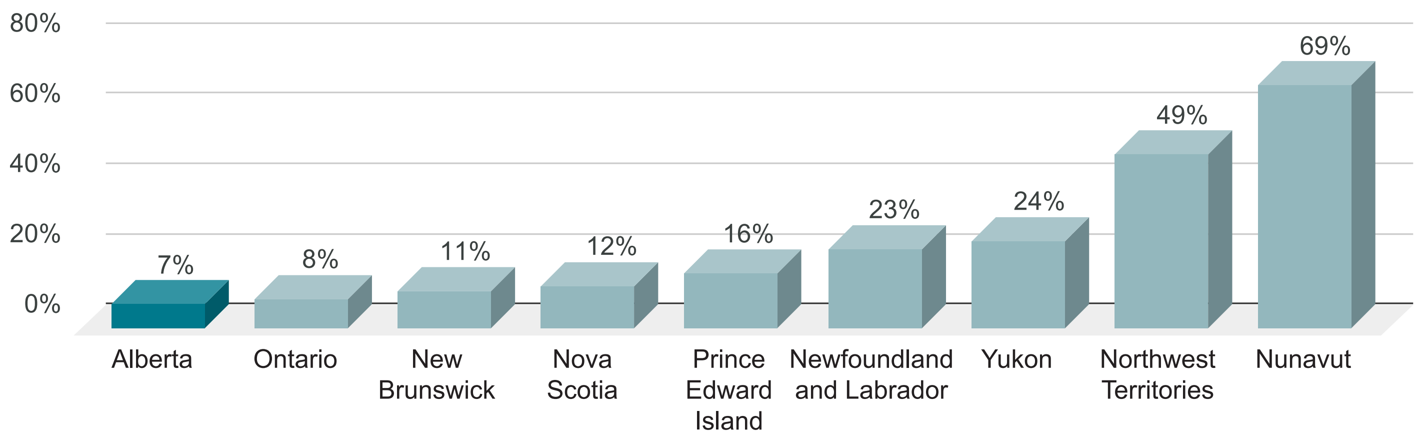
The AIRB recognizes the industry has made profit in recent years, but it is important to put the amount of profit into perspective for each vehicle insured. When we compare the profits nationally per vehicle, Alberta is the lowest of all GISA jurisdictions, with profits averaging $79 per vehicle. Other jurisdictions, such as New Brunswick, PEI, and Nova Scotia, typically had lower premiums, but are much more profitable due to lower claim costs. Therefore, the markup in Alberta is lower than in other provinces and closer to the actual cost of coverage.

Insurer Profit per Written Vehicle (2022)[14]



GISA reports insurer profitability on a return on equity basis. When comparing the return on equity by province Alberta had the lowest return, other provinces achieved a much higher return, including Canada's largest automobile insurance market of Ontario, where the return on equity was one percent higher than Alberta, and has been much higher historically.

Insurer Return on Equity per Province (2022)[14]

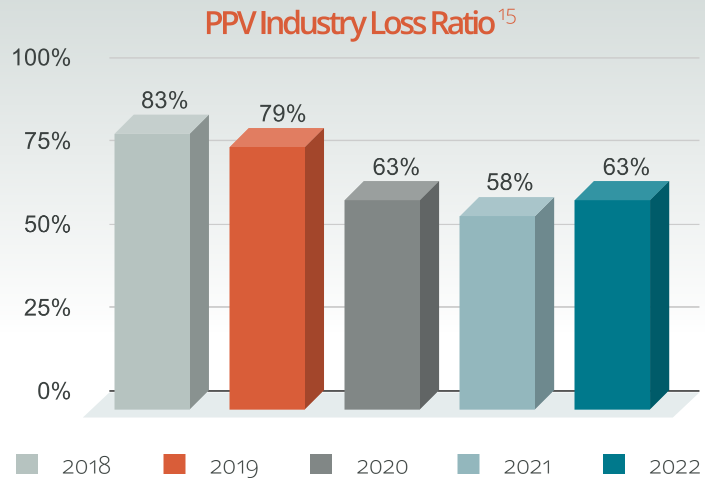


[14] Source: General Insurance Statistical Agency Auto 9552

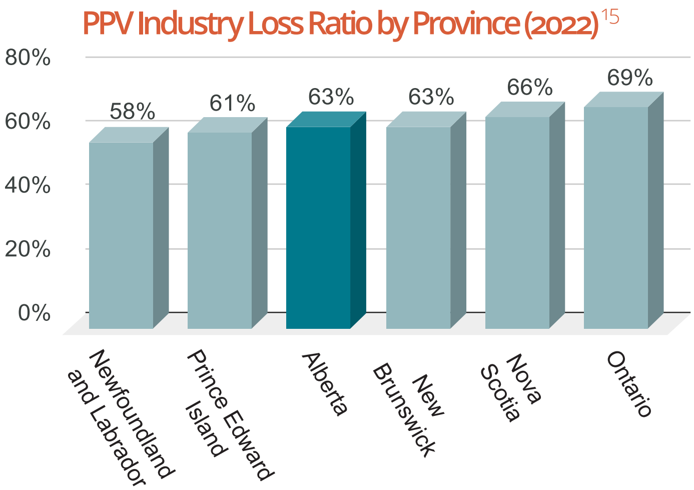
Automobile Insurance Claim Trends

Loss Ratio

The changes in driving habits due to the pandemic observed in 2020 continued in 2021 but are starting to change as mobility increases. When setting premiums for 2022, insurers were not increasing rates as much as in previous years, anticipating a continued reduction in mobility. However, claim costs increased by 10% (severity increasing by 3.4% and frequency by 6.5%) and were not offset as premiums increased by only 0.6%. Despite this, as previously shown, the industry earned a return on equity of 6.8% or a return on premiums of 6.4%. The AIRB monitors the loss ratio, 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. In late 2021 and throughout 2022, the inflationary pressures on physical damage claims eroded any benefits hybrid mobility was expected to have on claims frequency.



The industry standard for profitability is a loss ratio of 70%, as shown; the loss ratios of Alberta before the pandemic have been consistently above the threshold. With notable premium increases in late 2019, the PPV industry loss ratio was expected to improve, even without the reduction in claims frequency in 2020. The 2022 reporting shows, from 2018 to 2019, the earned incurred loss ratio was stable, averaging ten percentage points above what was considered profitable and 10% points below 2020 to 2022. The written incurred loss ratio does not account for expenses beyond the cost of claims, such as rent and some general staffing costs. The Alberta PPV industry average for expenses was 26% of earned premiums in 2022.



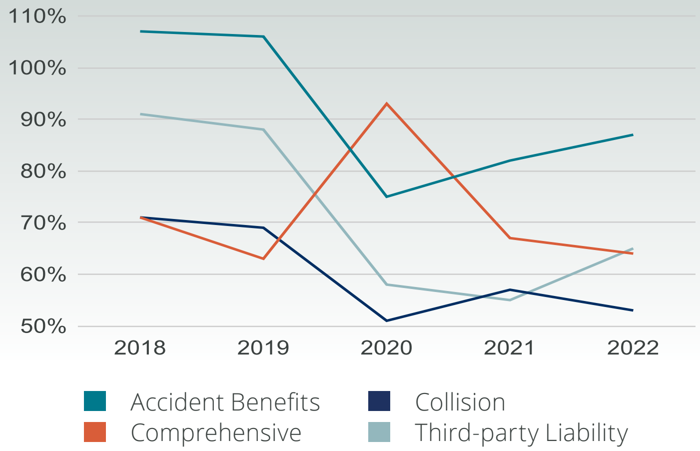
In 2022, Alberta's loss ratio was more favourable than the industry standard for profitability. Still, it was consistent with the loss ratios in other Canadian provinces with private delivery automobile insurance. Only Newfoundland and Price Edward Island had lower loss ratios than Alberta. Although each province handled the COVID-19 pandemic differently, like the durations of lock downs, which impacted mobility, the effect of the pandemic on automobile loss ratios was consistent nationally. The loss ratios for all coverages are the main factor leading to increases in overall profitability. While other provinces had less favourable loss ratios, Alberta had the lowest profit level per vehicle among provinces with private delivery models.

[15] Source: General Insurance Statistical Agency Auto 1005

How Does the Loss Ratio for Each Coverage Type Compare?

Claims are a significant cost for insurers, and COVID-19 brought uncertainty to their ability to price for the expected claim frequency and severity. The graph illustrates the loss ratios by coverage. From 2018 to 2019, the loss ratios for the mandatory coverages of accident benefits and third-party liability coverages were well above the profitable threshold. In 2020, the loss ratios for all coverages decreased, except for comprehensive. This is partly due to the Calgary hailstorm in June of 2020 and possible increases in crime from the unemployment spike during the COVID-19 pandemic. In both 2021 and 2022, comprehensive coverage returned to pre-pandemic levels, as it is depends not on vehicle mobility, but rather on crime and weather conditions. All other coverages remain below pre-pandemic levels. Collision looks to be settling into a "new normal," while third-party liability and accident benefits are still climbing. Increases in accident benefits were expected because of increased benefit levels implemented under the changes from Bill 41 in late 2020.

Loss Ratio by Coverage[16]



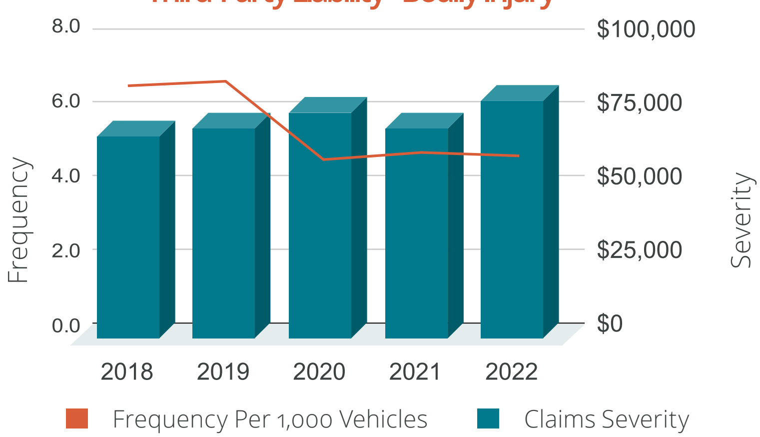
Third-Party Liability - Bodily Injury

Third-party liability covers policyholders if they are liable for bodily injury or damage to another person's property. Bodily injury is a significant component of third-party liability coverage and the most significant cost pressure in recent years. Claims frequency remained stable from 2018-2019 before dropping during the pandemic due to fewer accidents caused by reduced mobility. Claims severity rose at an unsustainable rate before a slight decrease in 2021, before increasing again in 2022. Insurers cite the following reasons for increased bodily injury claims costs:

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

The government implemented a change in the minor injury definition in late 2020. Given the long-term nature of this claim type and the effect of the pandemic on claims frequency and severity, it is too early for the data to show if this change has addressed the cost pressure as anticipated, as these claims often take years to settle. The AIRB will continue to monitor for signs of reduced cost pressure.

Third-Party Liability - Bodily Injury[17]



[16] Source: General Insurance Statistical Agency Auto 1005
[17] Source: 2023 Oliver, Wyman Limited Annual Review Report

Collision, Comprehensive, Accident Benefits & Third-Party Liability Property Damage

We examine claims frequency and severity separately for the other four coverage types.

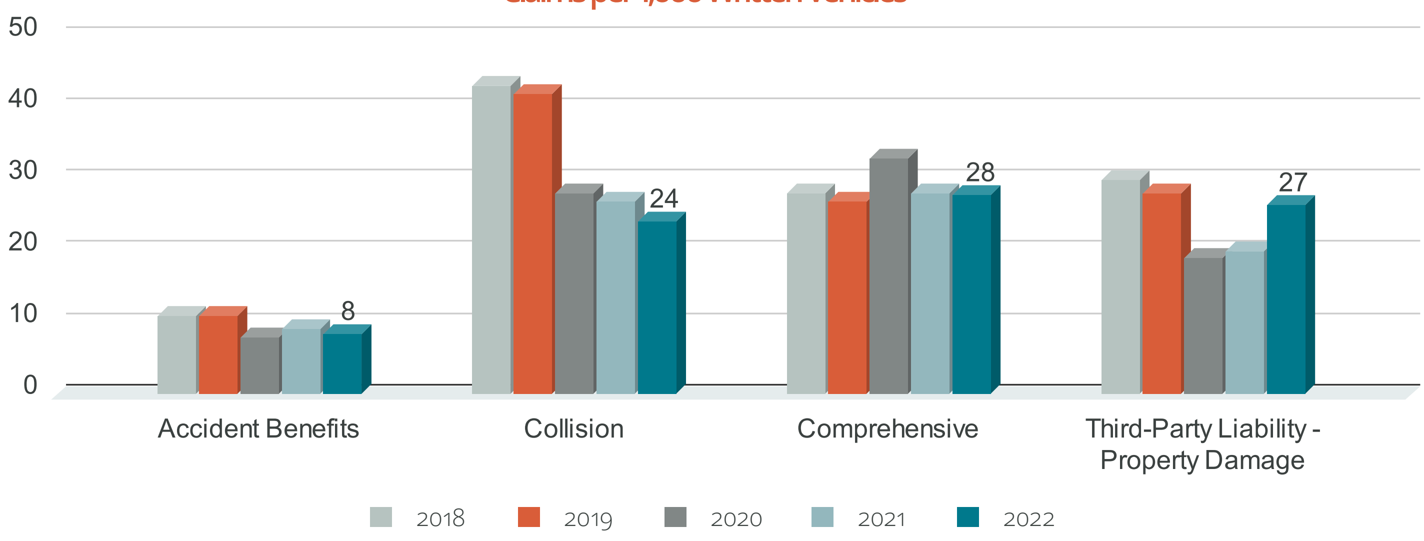
Accident benefits coverage compensates those injured in vehicle collisions for medical and rehabilitation services not covered under third-party liability coverage, regardless of fault. The frequency of accident benefits has decreased by 13% since 2018. For severity, the upward trend continued in 2022, mainly due to the enhanced coverage limits introduced with the reforms implemented at the end of 2020. The severity of accident benefits has increased by 56% since 2017 and 7% between 2021 and 2022.

Increased automation and new safety features are attractive to consumers but expensive to repair in case of a claim. Although these advancements may reduce the frequency of collisions, they increase diagnostic and repair costs, which is why the severity of property damage claims has been trending upward over the last ten years. As more vehicles are equipped with safety features, the slightly increasing severity and decreasing frequency trends are expected to continue.

Physical damage coverages pay to repair or replace the policyholder's vehicle if it is damaged in an accident. Third-party liability property damage will cover the cost if the driver is not at fault, whereas collision will provide coverage when the driver is at fault. While collision frequency has fallen for the fifth straight year, third-party liability has increased, returning to near pre-pandemic levels. Third-party liability property damage had a greater spike in claims severity in 2022, which was due to the increased cost of repairing vehicles with more automated features.

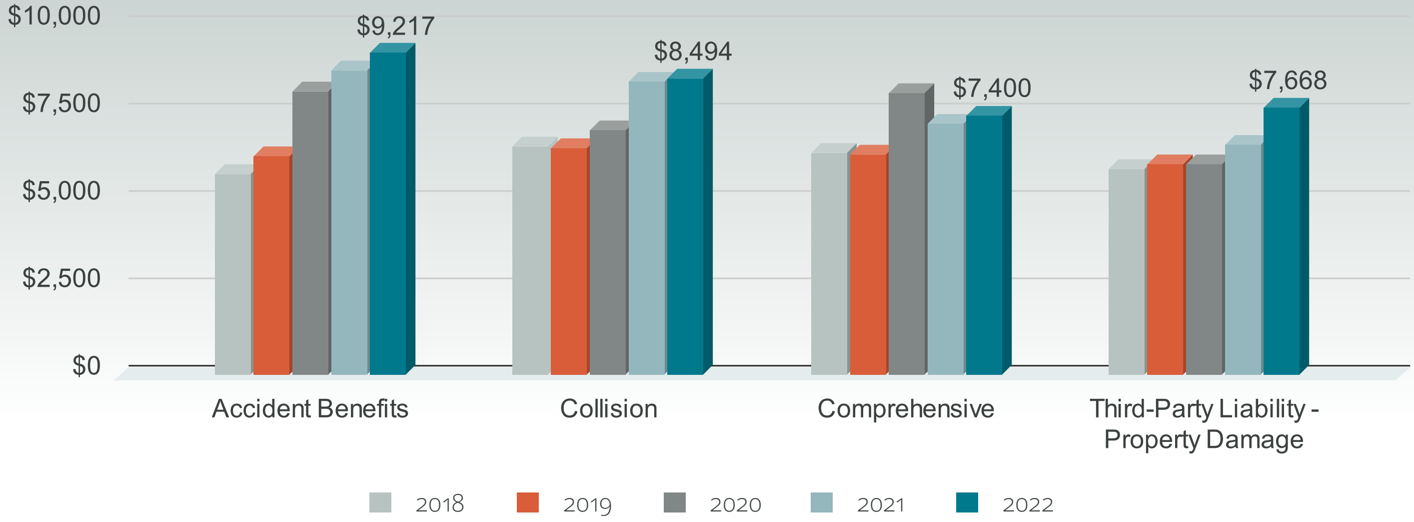
Comprehensive coverage pays to repair or replace the policyholder's vehicle if it is stolen or damaged in an incident which is not a collision, such as weather. This coverage's claims frequency and severity are driven less by mobility and more by other factors such as theft and severe weather, so little has changed throughout the pandemic. 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. The Calgary hailstorm in June 2020 was one of the top 10 catastrophes in Canada and is the main cause of the spike in frequency in 2020. In 2022, the frequency remained at pre-pandemic levels.

Claims per 1,000 Written Vehicles [18]



[18] Source: 2023 Oliver, Wyman Limited Annual Review Report

Claims Severity[19]

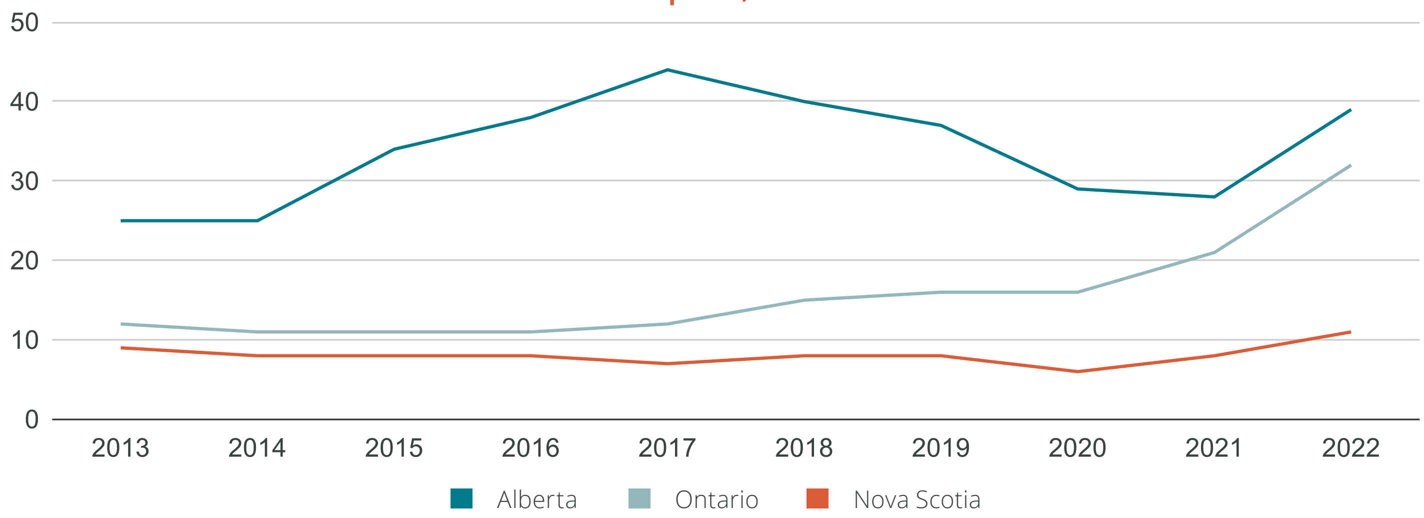


Theft

Vehicle theft is a crime affecting many Canadians, both directly and indirectly. According to the Équité Association, on average, a vehicle is stolen every seven minutes in Canada. In 2022, there were 38.8 theft claims per 10,000 written vehicles with comprehensive coverage in Alberta. While this is a 3% decrease from five years ago, it is still 22% higher than Ontario and 269% higher than Nova Scotia in 2022.

Vehicle theft is a significant cost driver for comprehensive coverage premiums. The Équité Association has estimated the financial cost to consumers, police, insurers, and governments to be more than one billion dollars annually. With Alberta's disproportionately high vehicle theft rates, a significant amount of these costs will be experienced within the province.

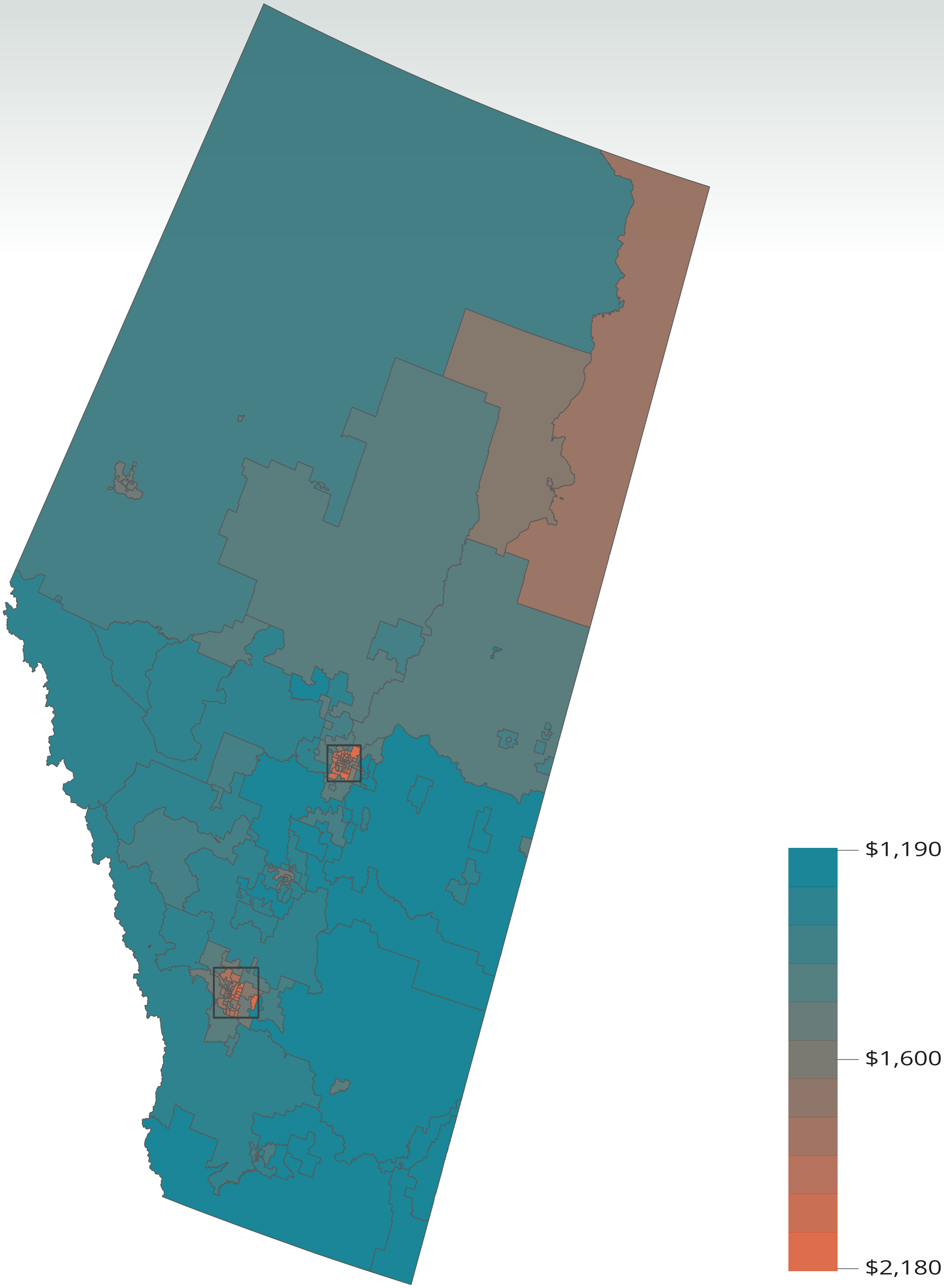
Theft Claims per 10,000 Vehicles[20]



[19] 2023 Oliver, Wyman Limited Annual Review Report
[20] Source: General Insurance Statistical Agency Auto 7001

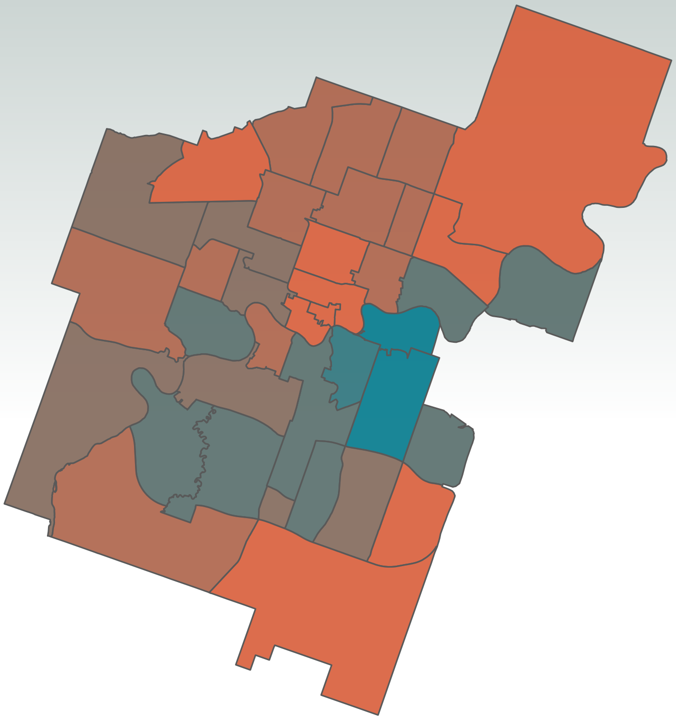
Rating Territories

Average Premium in Alberta[21]



[21] Source: General Insurance Statistical Agency Auto 1085

Average Premium in Edmonton[22]



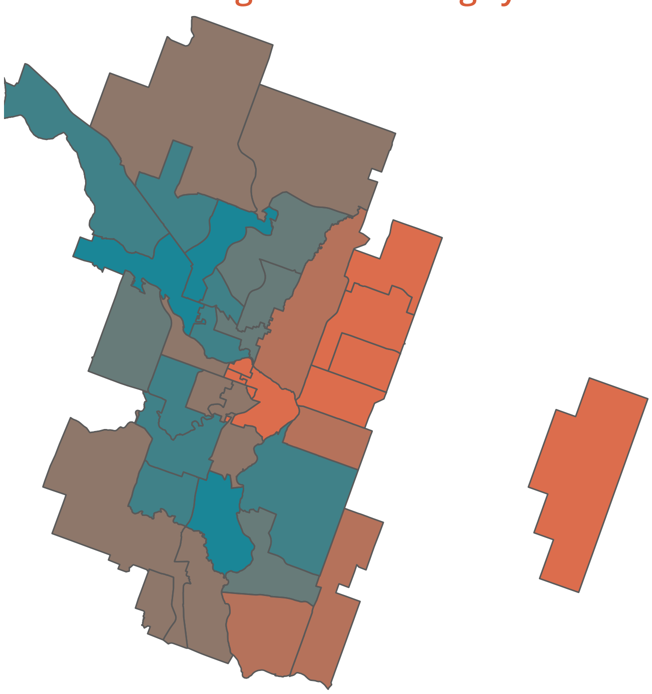
Rating Territories Maps

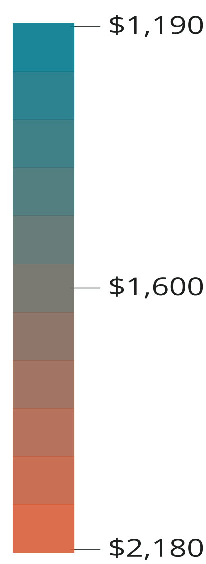
In late 2020, the Superintendent of Insurance issued Notice 05-2020 revoking restrictions on the number of rating territories for mandatory coverage, allowing all insurers to expand the number of rating territories beyond the previous maximum of four. This change levelled the playing field for the market, where over 50% of insurers used more than four territories when the Superintendent originally imposed the restriction. In March 2021, the AIRB updated its filing guidance to include criteria for expansion of rating territories. Insurers changing their rating territory definitions must provide actuarial support to determine how many territories are statistically credible. Like any change to a rating variable, an insurer is required to file with the AIRB. To manage the premium impact Albertans may see because of changes to territory definitions, the AIRB has limited the change in relativity for any one territory to a maximum of 10% per year.

The rating territories maps for both Edmonton and Calgary indicate the wide range of premiums paid by city residents. Generally, the highest premiums are in the downtown core, where vehicle density and crime are highest. Lower premiums are in residential areas near the outskirts of the city. In Calgary, drivers living in the northeast also have a higher average premium due to recent weather-related events.

The AIRB is closely monitoring the fairness of territorial rating to ensure automobile insurance is affordable no matter where you live in the province.

Average Premium in Calgary[22]





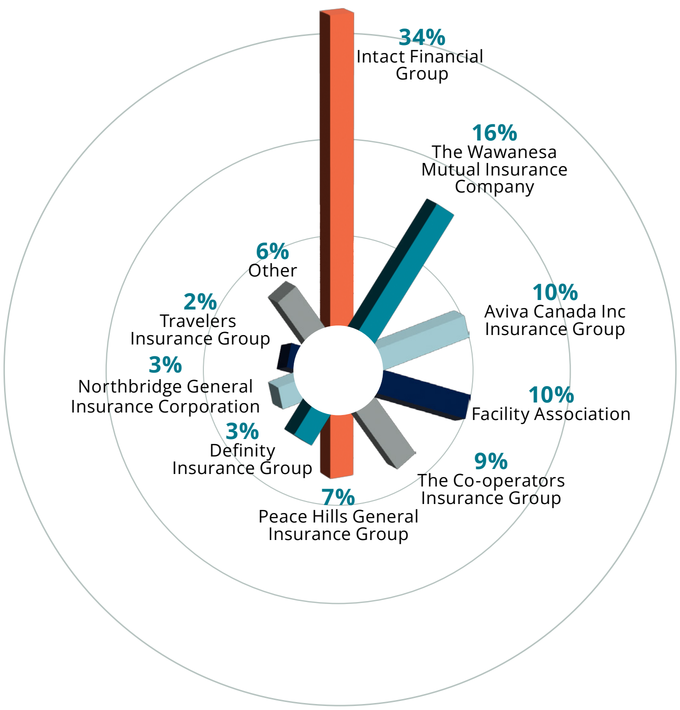
[22] Source: General Insurance Statistical Agency Auto 1085

Commercial Vehicle Market Trends

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. Also, rising cost pressures like those seen under PPV, indicate increasing trends in some commercial coverages.

Top Commercial Insurance Groups (2022)[23]



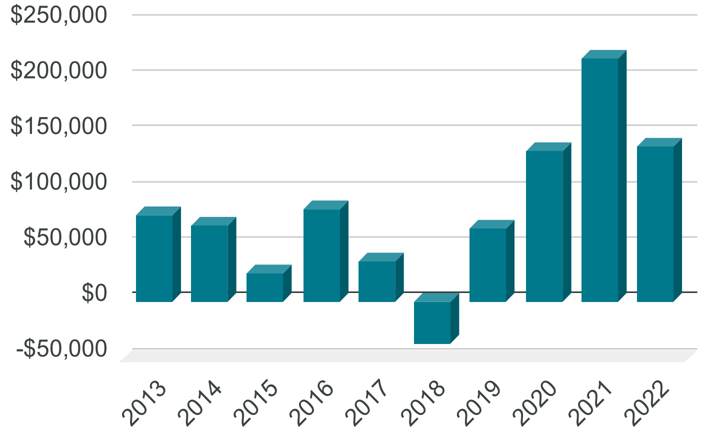
Competitive Marketplace

Like the PPV market, Alberta has a competitive market for commercial vehicle insurance. Based on 2022 direct written premiums, the top insurer groups in Alberta represented 94% of the commercial vehicle market share. A competitive market allows insurers to compete on price and service. Consumers can choose between different insurers, and no single insurer dictates how the market operates.

Insurer Profitability

Alberta's non-PPV insurance data suggests profit levels are much more sustainable than PPV. In the previous three years, insurers writing non-PPV reported over $492 million in net income. The increase in net income observed since 2020 is attributed to the impacts of the COVID-19 pandemic and reduced mobility. The AIRB continues to monitor profitability as a key indicator for availability. Unlike in the PPV market, commercial and miscellaneous vehicle policyholders without an all-comers rule can face more challenges when finding automobile insurance.

Non-PPV Industry Net Income[24]



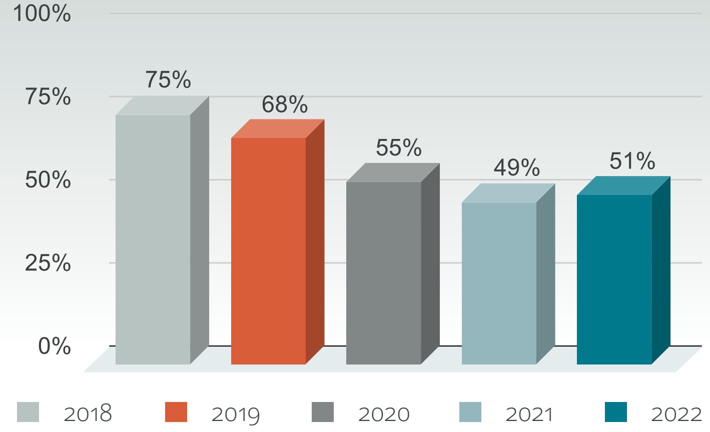
[23] Source: General Statistics Agency
[24] Source: General Insurance Statistical Agency Auto 9511 (Includes commercial and miscellaneous vehicles such as all terrain, snow and motorcycle)

Commercial Claim Trends

Loss Ratio

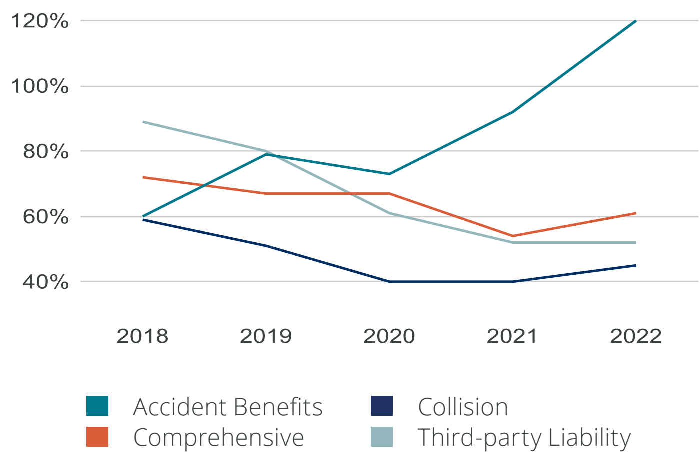
As we emerge from the COVID-19 pandemic, we have seen loss ratios start to increase for commercial vehicles. However, this increase is lower than we see for PPV, at only +2% between 2022 and 2021, compared to +5% for PPV. The loss ratio does not account for expenses beyond the cost of claims, and the Alberta industry average for expenses is 26% of written premiums.

Commercial Industry Loss Ratio[25]



Looking at the loss ratio by coverage, we see basic coverages are the least profitable for insurers, whereas additional coverages are more profitable. In 2022, the accident benefits coverage saw losses exceeding premiums, with a loss ratio of 120%, up from 92% in 2021. Adding 26% for other expenses, 2018 is likely the only year accident benefits coverage was profitable. The increase in loss cost is attributed partially to the increased benefit levels from legislative reforms effective January 1, 2021. Third-party liability saw no change from 2021, with a 2022 loss ratio of 52%. This is well below pre-pandemic levels, where it averaged 85%. For collision, we see a slight uptick from 40% in 2021 to 45% in 2022, nearing the pre-pandemic levels of around 50%. Finally, comprehensive has seen no variation due to the COVID-19 pandemic, as it is not a coverage affected by mobility. The loss ratio has remained steady at around 65%.

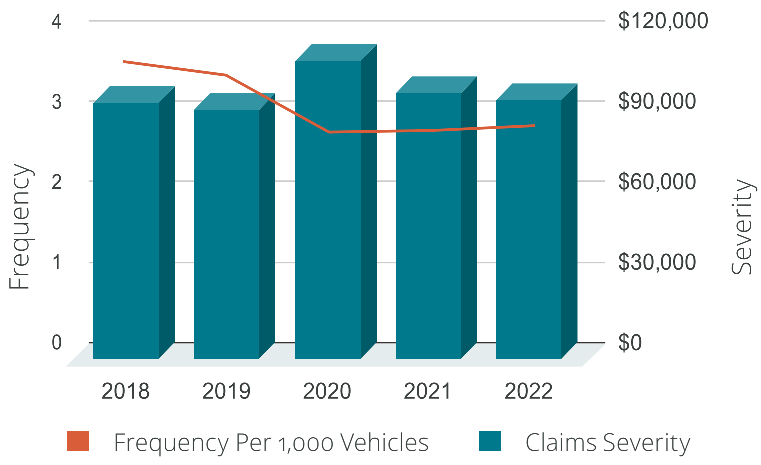
Commercial Loss Ratio by Coverage[25]



Third-Party Liability - Bodily Injury

Like the loss ratio, bodily injury claim frequency has increased slightly, from 2.6 to 2.7 claims per 1,000 vehicles, but this remains below the pre-pandemic levels of approximately 3.4 claims per 1,000 vehicles. Claim severity has decreased by 3% from $99,000 to $96,000. Bodily injury claims take the longest to settle, with around 25% of claims settling within a year, 75% within 2.5 years, and 95% within five years.

Third-Party Liability - Bodily Injury[26]



[25] Source: General Insurance Statistical Agency Auto 1010
[26] Source: 2023 Oliver, Wyman Limited Annual Review Report

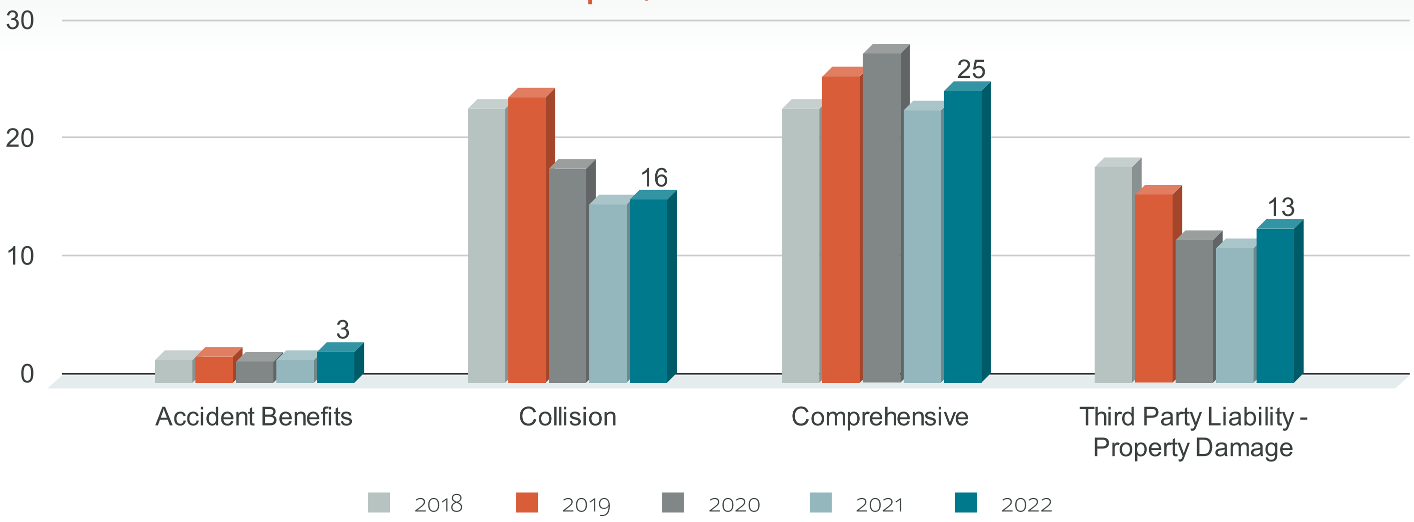
Accident Benefits, Collision, Comprehensive & Third-Party Liability Property Damage

Accident benefits had a 35% increase in claim frequency, accompanying a 4% increase in claim severity, leading to a 40% increase in the cost of this coverage. Collision coverage had no increase in frequency, remaining at the same levels as seen during the pandemic. With the recent inflation of auto parts and maintenance, the claim severity has increased by 11%.

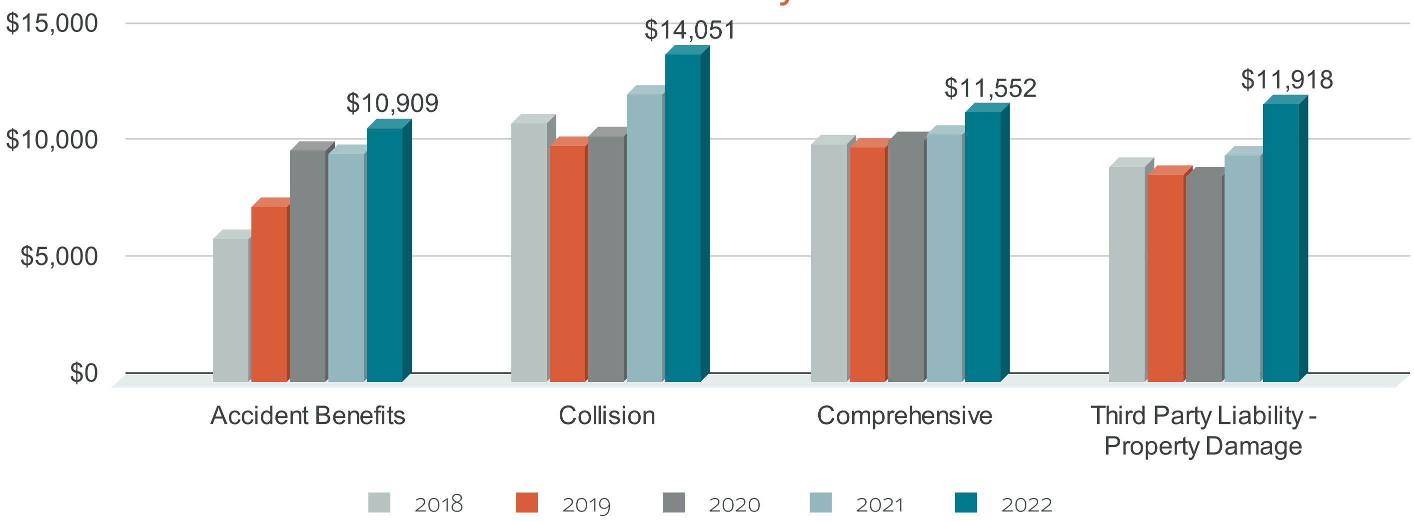
Comprehensive coverage had no reduction during the pandemic, as it covers the vehicle when it is not moving; this has remained steady for the last five years. The claim severity for comprehensive coverage experienced a 7.8% increase.

Finally, property damage frequency went up 12.9%, and severity up 22.2%, driven by increased repair costs like PPV.

Claims per 1,000 Written Vehicles[27]



Claims Severity[27]



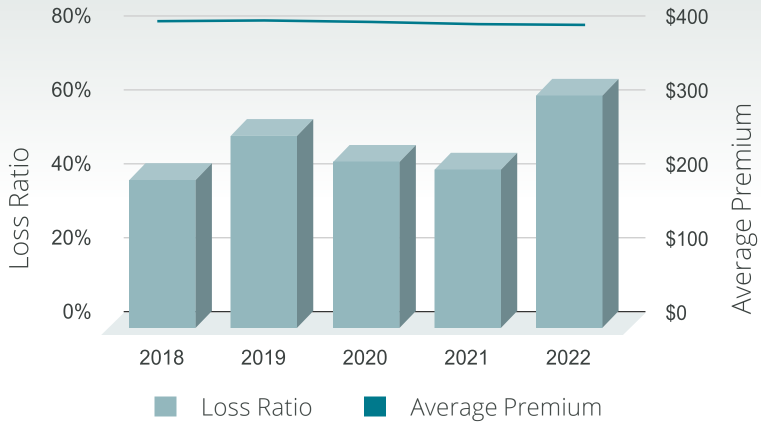
[27] Source: 2023 Oliver, Wyman Limited Annual Review Report

Miscellaneous Vehicle Market Trends

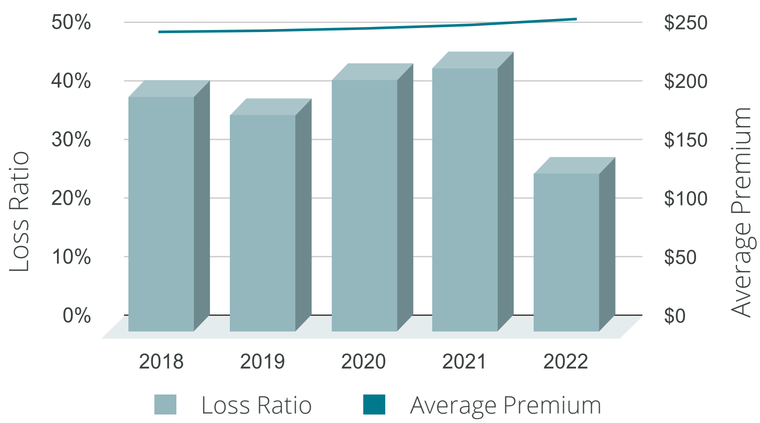
Motorcycles

The number of insured motorcycles increased from 162,000 in 2019 to 171,000 in 2020, the largest increase in the past five years. The number of motorcycles used for commuting during this time decreased, and the usage of pleasure vehicles increased during the pandemic. Premiums have remained steady at around $390, with the 2022 loss ratio climbing above pre-pandemic levels.

Motorcycles - Loss Ratio & Average Premium[28]



ATV - Loss Ratio & Average Premium[28]



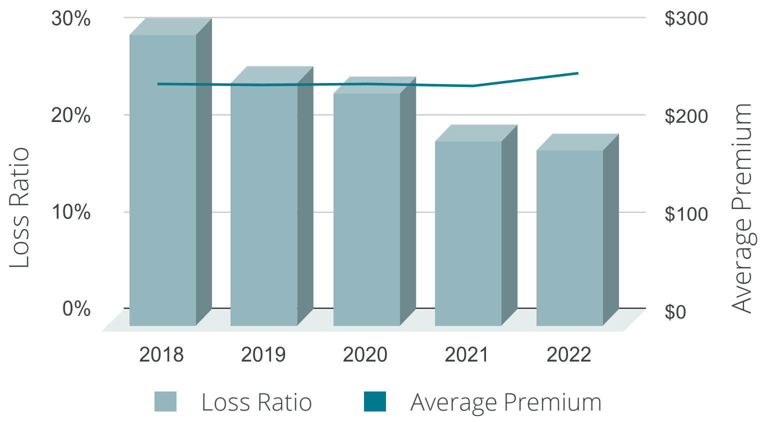
ATVs

Unlike motorcycles, ATVs had minimal growth in 2020 compared to 2019 (+1,000) and declined in 2022, bringing them to a five-year low. The premium has been stable, increasing only 4.5% in the past five years. Loss ratios remain consistently below 50%, with the most recent year having a five year low at 27%.

Snow Vehicles

There has been little change in the number of snow vehicles insured, with a slight trend downwards from 124,000 in 2018 to 122,000 in 2022. Like ATVs, premiums have been stable, up only 4.6% in the past five years. Loss ratios are the lowest for snow mobiles out of these three miscellaneous vehicles, with the five year high being only 30%.

Snow Vehicles - Loss Ratio & Average Premium[28]



[28] Source: General Insurance Statistical Agency Auto 1101

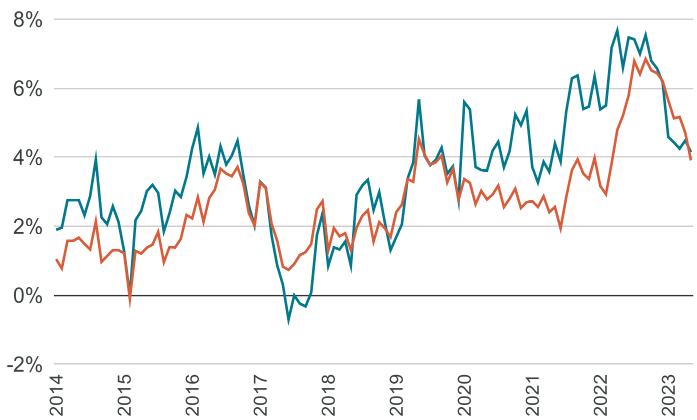
Economic & Industry Trends

Economic Trends

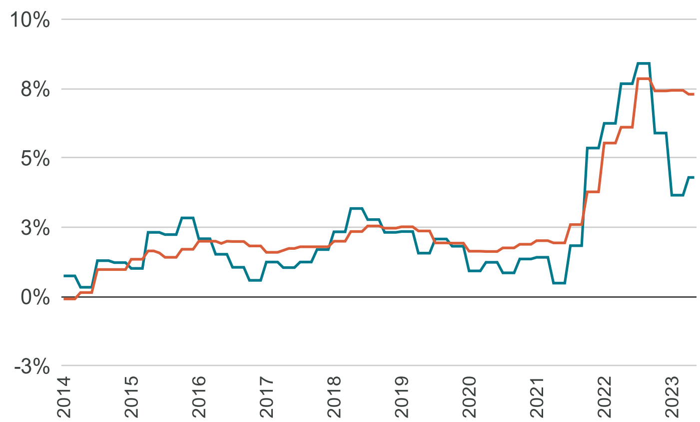
The Consumer Price Index (CPI) measures the average change over time in the prices consumers pay for a selected basket of goods, therefore, providing a measure of inflation. We are monitoring both the Canada and Alberta CPI for trends impacting the costs for insurers to deliver automobile insurance. We consider the private transportation CPI, specifically excluding gasoline due to its volatility, as it includes the cost of private passenger vehicle insurance premiums and purchasing, registering, repairing, or renting a vehicle.

We also monitor the costs of all-items, healthcare, vehicle parts, and public transportation CPIs. All-items is the common inflation measure used by Statistics Canada. Healthcare costs relate to the severity of accident benefits and bodily injury claims, and parts maintenance relate to property damage claims. Most CPIs peaked between June and September of 2022; however, healthcare costs are still climbing significantly as of the most recent data. This indicates property damage claims may decrease or stay consistent in severity, while accident benefits and bodily injury claim severity are likely to rise in 2023. These cost reductions help to ease the pressure on Albertans and may be translated into another year of stable premiums.

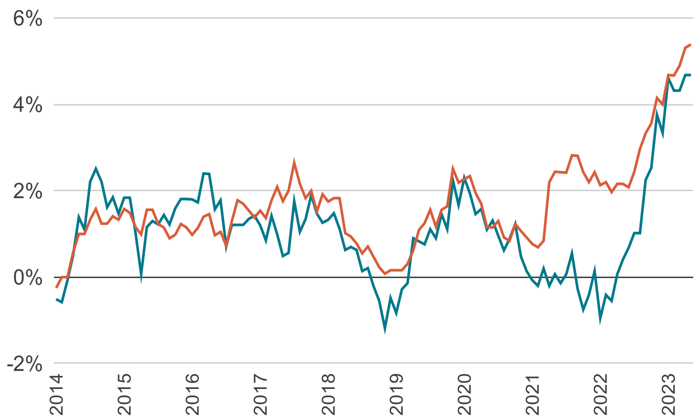
Private Transportation Excluding Gas
12 Month Inflation [29]



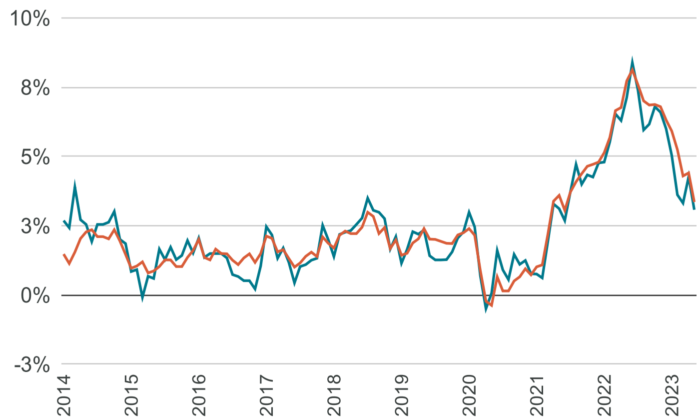
Vehicle Parts and Maintenance
12 Month Inflation [30]



Healthcare
12 Month Inflation [31]



All Items
12 Month Inflation [32]



Alberta Canada

[29] Source: Statistics Canada Vector V43972172 & V43972163
[30] Source: Statistics Canada Vector V41692402 & V41691137
[31] Source: Statistics Canada Vector V41692412 & V41691154
[32] Source: Statistics Canada Vector V41692327 & V41690973

Industry Trends - Private Passenger Vehicle

The AIRB consults with industry stakeholders yearly to receive feedback during the Annual Review process. The AIRB invites stakeholders to comment on the impact of emerging trends and issues. It also values stakeholders' insights as part of an ongoing evaluation of the trends impacting the insurers and drivers. In addition to stakeholder feedback, the AIRB monitors several market trends and issues.

Mobility

The COVID-19 pandemic significantly changed driving habits in Alberta from March 2020 to spring 2023. The number of car commuters in Alberta dropped by 13.7% [33] during the pandemic. As more employees worked from home and public health orders limited some retail and recreational activities, the decrease in driving activity impacted the claims frequencies for most auto insurance coverages. Oliver Wyman's report for the AIRB's 2023 Annual Review suggests the second half of 2022 may be the "potential starting point for the 'new normal' claims frequency level."

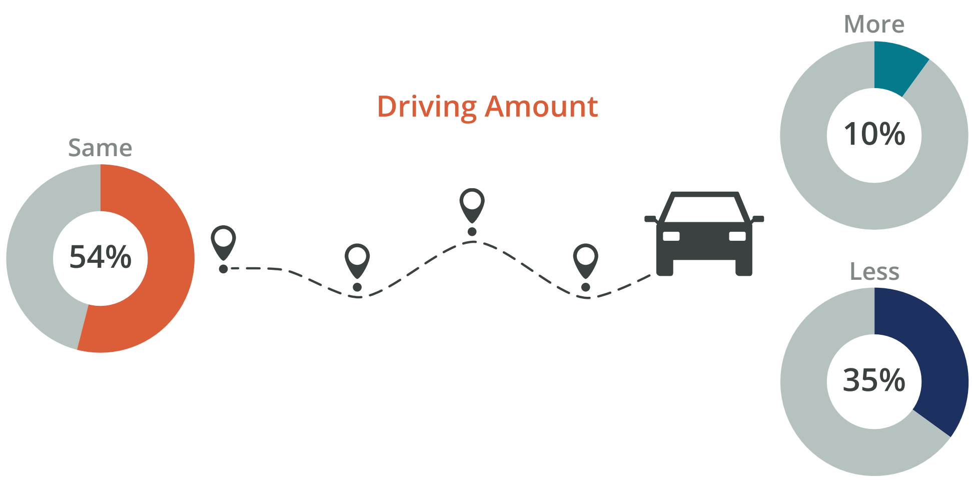
Commercial vacancy rates in downtown Edmonton and Calgary remained high in 2022, as many Alberta employers offered hybrid work arrangements. Employers seek to balance employee expectations with facility costs, impacting long-term mobility. When asked, 82% of Albertans say, "flexible work policies impact whether they stay at or leave a job." [34]

In addition to decreased commuter traffic, changes in work location have caused peak traffic hours to shift. Some urban centres experienced more dispersed traffic patterns rather than "rush hour traffic."

While traffic collisions in 2020 decreased by 28.1% [35] from 2019, there was also a notable change in road safety over the course of the pandemic. Some drivers took advantage of empty streets leading to more dangerous driving incidents. Numerous media reports in Alberta highlighted speeding, road racing, and aggressive driving incidents. These dangerous driving incidents may have increased the severity of claims, even though the overall frequency of claims declined.

The AIRB's annual Consumer Perceptions survey asked: "Since COVID-19 restrictions were lifted, are you driving the same amount, less, or more, than before the start of the pandemic in March 2020." 35% of survey respondents indicated they are driving less, while 10% are driving more.

Since Pandemic Restrictions Have Lifted [36]



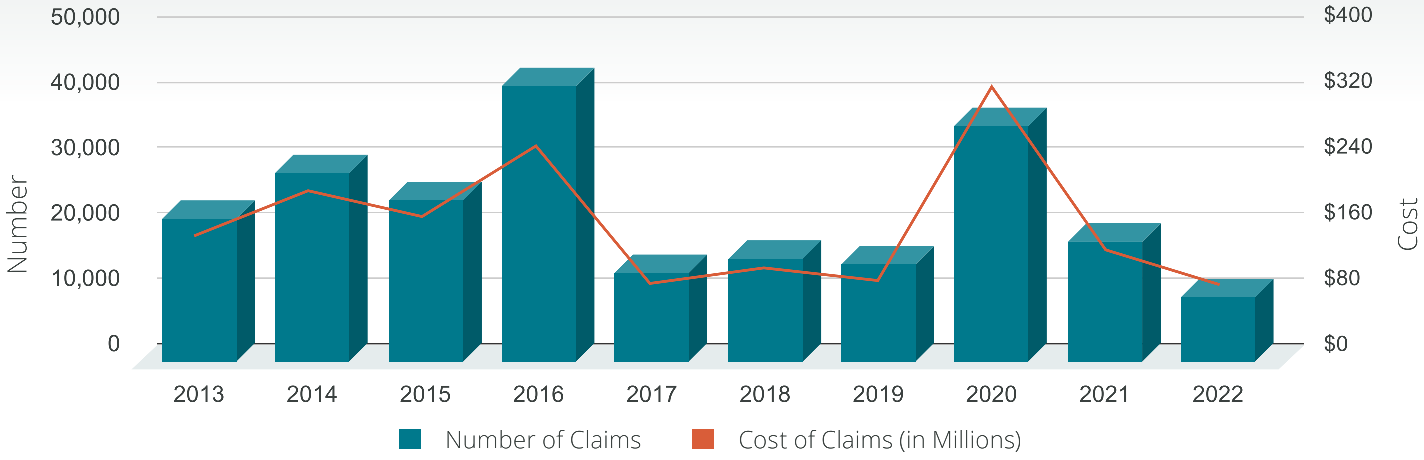
We will continue to watch mobility trends to indicate if we have reached the "new normal" baseline for future mobility.

[33] Source: Statistics Canada
[34] Source: Cisco Canada 2023 Hybrid Work Study
[35] Source: Alberta Traffic Collision Statistics 2020
[36] Source: 2023 Consumer Representative Report

Severe Weather

Severe weather continues to be a concern for insurers. Comprehensive loss ratios are influenced year-over-year by severe weather event claims. With the frequency and severity of weather events increasing yearly due to global warming, pricing comprehensive, specified perils and all perils coverages becomes increasingly difficult. With the added uncertainty, drivers pay more for coverages. Catastrophic losses due to severe weather contribute significantly to claims costs. In 2022, Alberta experienced the lowest amount of catastrophe claims and losses since 2013. However, there have been several prominent catastrophe in 2023 such as the Nova Scotia floods, that will increase this number for next year.

Severe Weather Claiming Trends[37]



Weather-related catastrophes include ice, flood, hail, wind, and fire. Alberta has experienced four of the top ten catastrophes in Canada since 1998, with three of the four most expensive insurance costs. Natural catastrophes are a global concern, and regulators across Canada are working to improve consumer awareness of these events to ensure adequate, appropriate coverage is purchased to protect their property if event they have a claim.

Artificial Intelligence & Machine Learning Survey

Not many years ago, auto insurance premiums could be easily calculated and clearly communicated to policyholders. This is not the case today, as we are seeing an increase in the adoption of advanced tools to price auto insurance policies, serve their policyholders, and reduce costs. Given the advancements in these technologies, we conducted an industry-wide survey on the usage of Artificial Intelligence (AI) and Machine Learning (ML) to inform us of how it is used today and understand where insurers are looking to employ them in the future. For the purpose of the survey, we defined AI and ML as tools utilizing neural networks and other deep-learning algorithms, such as tree-based decision models, large language models, etc.

The intention of this survey was to have a conversation directly with the industry about how and where they are using these models, and if they have adequate governance over their use. As a principles-based regulator, we do not plan to implement any specific rules in this area. Still, we will continue to monitor the use through surveys and may develop guidance if warranted in the future. We are sharing some of the questions we posed in the survey to share insights into how AI and ML are being used by insurers today. The survey results indicate while only a few companies are currently using these models in specific areas, a substantial number of models are being explored or developed, indicating the industry here in Alberta is in the early stages of transitioning to these models.

[37] Source: General Insurance Statistical Agency Auto 6001

We received responses from twelve insurer groups, representing over 90% of the PPV market in Alberta. Of the twelve insurer groups who responded:

- Nine indicated they are using or plan to use AI or ML in some form.
- Three insurers indicated they do not use AI/ML, citing lack of resources and insufficient data volumes
- All three insurers who indicated no usage had market shares below 2%, with the nine insurers who indicated usage had market shares above 4%.

75%

Of Insurers Using AI/ML

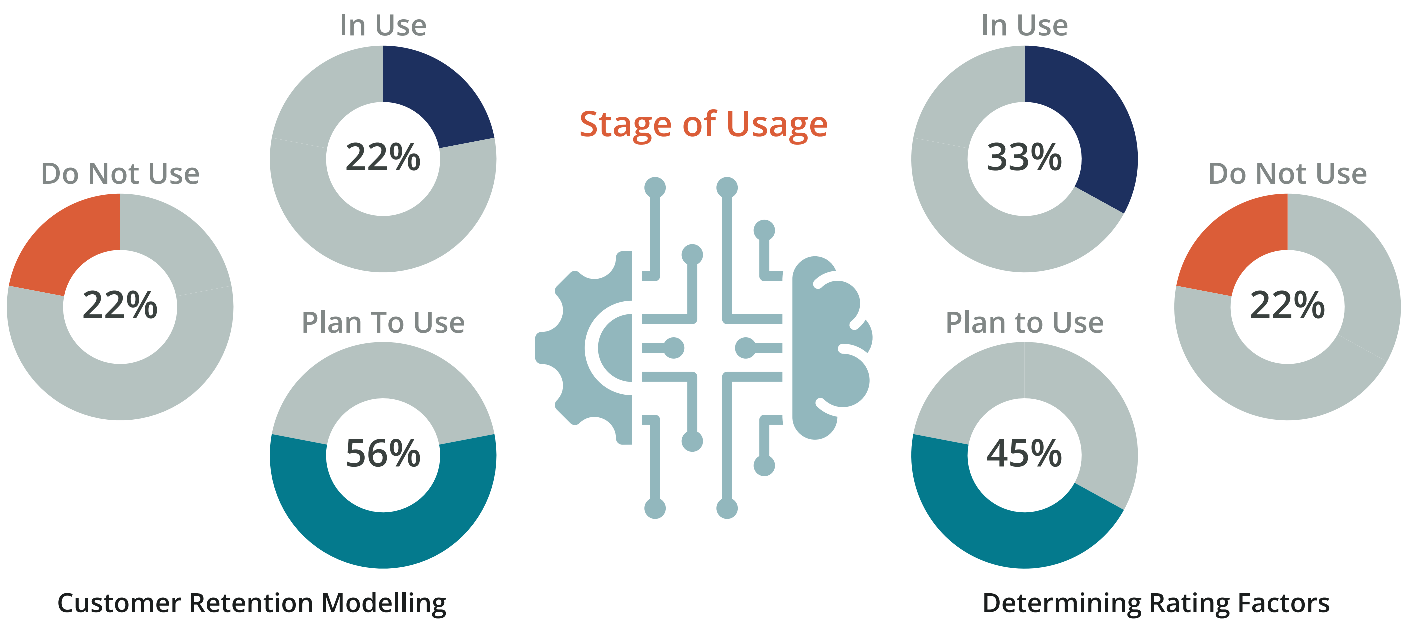
Of the nine insurers using AI/ML, all are using or planning to use it for pricing. The most common usages in pricing are for:

1. Determining the pricing impact of rating variables based on claims data, and
2. Estimating the effect of a company's rate change on their current policyholders.

Regarding the first point, insurers believe these models are more powerful than traditional rating models, allow greater ability to understand the risk of a policy, and charge a premium adequate for the risk.

Therefore, improved segmentation lets them charge more competitive rates to some consumers at the cost of higher rates for more risky policies.

Regarding the second usage in pricing, insurers operate within a competitive marketplace and are aware their efforts to raise prices could lead to policyholders shopping the market and switching insurers. Some insurers may choose to offer undisclosed discounts to consumers after a rate change to ensure they can retain those customers who are most likely to leave.



89%

Of Insurers Using AI/ML Use for Claims & Fraud

Finally, eight of nine insurers indicated they are using or plan to use AI/ML in the claims and fraud experience to make the company more efficient and streamlined. All companies indicated models in these areas aided workers instead of automating them. Fraud is a large component of higher rates, and claims are the largest component of an insurer's cost. Therefore, improving these areas allow a competitive insurer to lower their rates and compete more vigorously within the market.

Usage Based Insurance

Usage Based Insurance (UBI) is a voluntary program offered by some insurance companies as a way for drivers to have greater control over their auto insurance premiums. Drivers enrolled in UBI are charged a premium depending on how they drive. A driver's premium may be increased or decreased depending on their driving behaviour – safe drivers will be eligible for a discount, and unsafe drivers may pay more.

In addition, allowing drivers to reduce their insurance premiums by practicing safe driving habits, UBI promotes traffic safety and provides coaching to drivers who may be unaware of their unsafe behaviours. Generally, UBI programs collect data such as time driven, kilometres driven, GPS location, speed, and time of day using an app on the driver's phone.

On top of pay-as-you-drive (UBI) insurance, Alberta insurers are permitted to offer pay-per-kilometre rating programs. These programs may benefit people who do not use their vehicles to commute to school or work or generally drive less.

Drivers should speak to their broker or agent to find out if UBI is an option for them and find out more about options to reduce their premiums.

Industry Trends - Commercial Market

The AIRB monitors emerging trends and issues specific to the commercial vehicle market.

Fraud

Fraud has been a concern in the commercial vehicle market for several years. An increasing number of truck owners and operators registered their vehicles in one province and operated primarily in another to obtain a lower premium. The premium differences between provinces provided an incentive for this fraudulent activity on interurban vehicles. The price differences were one factor leading to the inadequate disclosure of where the risk is garaged, which may not represent the risk of where the vehicle is driven. The risk of fraud is increased further when a vehicle enters the United States, where there is a more litigious society, resulting in increased claim payouts, ultimately impacting Alberta's affordability and availability of inter-urban vehicle insurance.

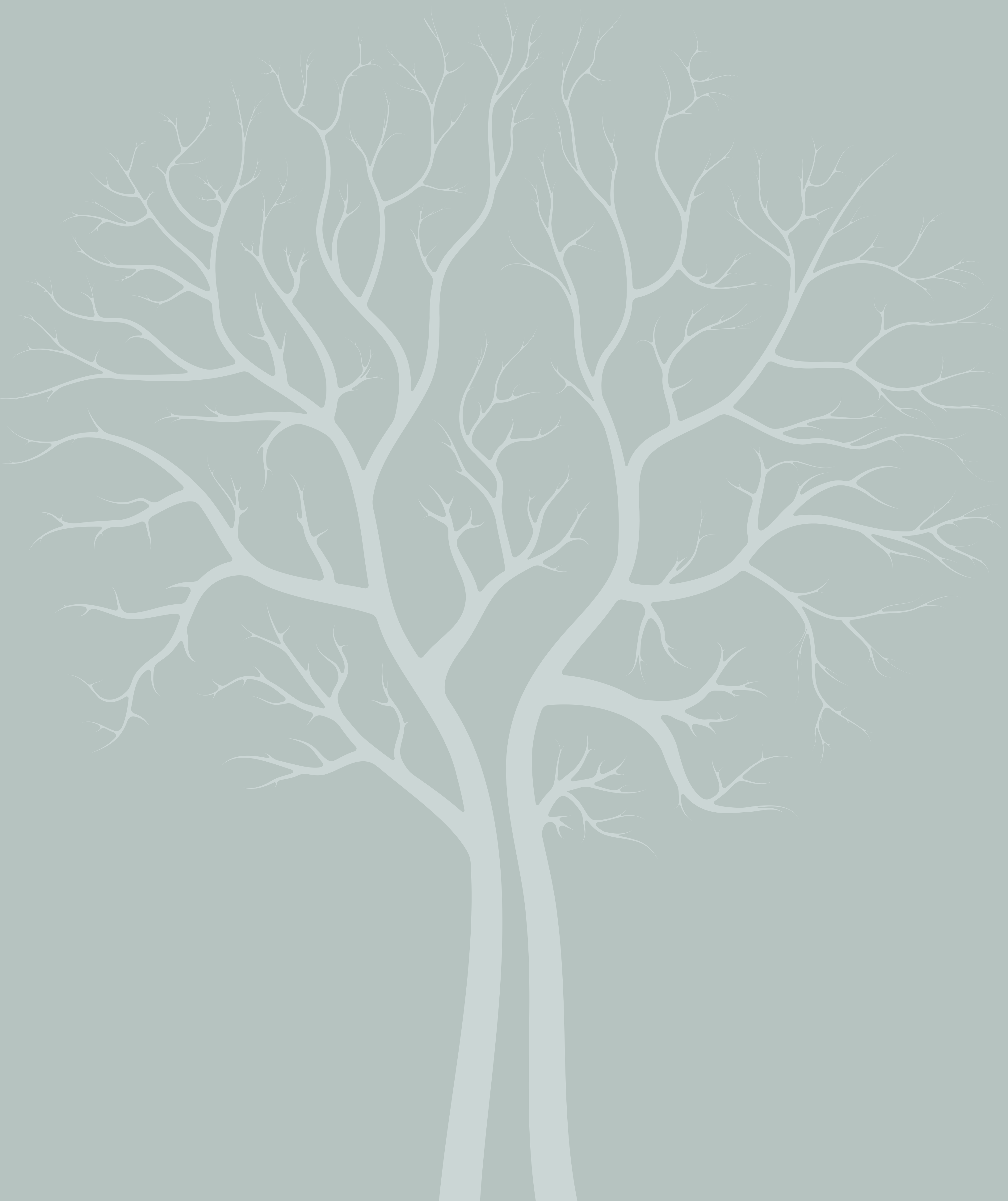
In the fall of 2022, the Facility Association adopted a new interurban rating matrix to apply a discount or surcharge based on the jurisdiction where the vehicle mainly operates, as evidenced by reporting required under the International Fuel Tax Agreement. The matrix applies to third-party liability coverage only. This change was made to level the playing field for local operators who are following the rules and are subsidizing the actions of those who are not.

Telematics Program for Truck Drivers

In recent years, the insurance industry has reduced its capacity and risk appetite for underwriting commercial vehicles. Unlike PPV, there is no all-comers rule for commercial vehicles, and insurers can choose not to write a policy based on their internal risk appetite or underwriting guidelines. This has resulted in an increase of vehicles written through the Facility Association.

In February 2023, the Facility Association launched a telematics program for truck drivers in Alberta. The program was aimed at helping drivers improve their driving habits and correct poor driving behaviours through a video-enabled telematics device. Enrolment in the program is voluntary, and participants are eligible for a premium reduction of up to 8%. Through this program, participants who can demonstrate safe driving behaviours may qualify for coverage in the standard market, where they will have access to more potential providers and lower premiums.

The AIRB continues to monitor the availability and affordability of commercial vehicle insurance. Ensuring capacity for this sector is important to the continued economic growth in the province. We continue to work with government and industry stakeholders to seek solutions to enable stability in the future.



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