

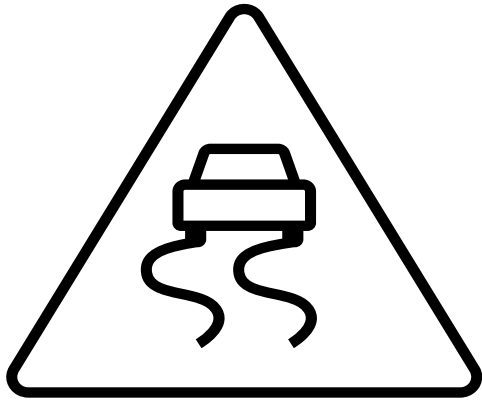
# Alberta Civil Trial Lawyers Association

## Presentation to the Alberta Automobile Insurance Rate Board (AIRB) 2024 Annual Review

INSURANCE

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## **Alberta's Trial Lawyers Perspective:**

- We believe Albertans deserve more affordable auto insurance premiums, expanded consumer choices, and a fairer system generally.
- We believe that to address the challenge of auto insurance affordability, it is crucial to recognize and understand the actual profitability and cost dynamics within the industry.
- A clear comprehension of these factors is essential for developing effective policies and reforms that will ensure fair and reasonable premiums for Albertans.

# Submission Summary

## Observations:

1. Both Oliver Wyman and Mr. Allen project healthy pre-tax profits for the auto insurance sector
2. Bodily injury claim costs continue a trajectory of stability
3. Acquisition and operating costs of the insurance industry continue to increase
4. 'New normal' driving pattern multipliers are not sufficiently considered with the trend factors when evaluating the state of bodily injury loss costs
5. Property damage claims costs per vehicle continue to rise

## Recommendations:

Review draft benchmarks to account for trends in driving patterns, bodily injury loss costs, and property damage loss costs

Conduct a critical assessment of operating expenses and acquisition costs submitted by insurers to determine if proposed rate filings are justified



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# Both Oliver Wyman and Mr. Allen project healthy pre-tax profits for the auto insurance sector

Year	Oliver Wyman Realized Profit Provision, plus Investment Income Earned on Capital, (000s)	Allen, per Cheng Method, (000s)
2019	(\$15.1 million)	\$67.0 million
2020	\$715.9 million	\$791.2 million
2021	\$718.4 million	\$1,145.8 million
2022	\$60.6 million	\$503.0 million
2023	\$442.4 million	\$715.9 million
Proj 2024	\$459.3 million	\$867.1 million
<b>Total 2019-2023</b>	<b>\$2.381 million</b>	<b>\$4.090 million</b>

The auto insurance industry in Alberta achieved pre-tax profits in 2023 of \$442.4 million to \$715.9 million, depending on the calculation method used.

No matter which method is used, Alberta's auto insurance sector, on an industry-wide basis, was profitable and comfortably so in 2023.



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# Both Oliver Wyman and Mr. Allen project healthy pre-tax profits for the auto insurance sector

Year	Oliver Wyman Realized Profit Provision	Allen Realized Profit Provision
2019	-2.5%	-1.0%
2020	15.5%	16.7%
2021	15.1%	24.2%
2022	1.3%	11.0%
2023	7.1%	13.2%
Proj 2024	--	15.8%

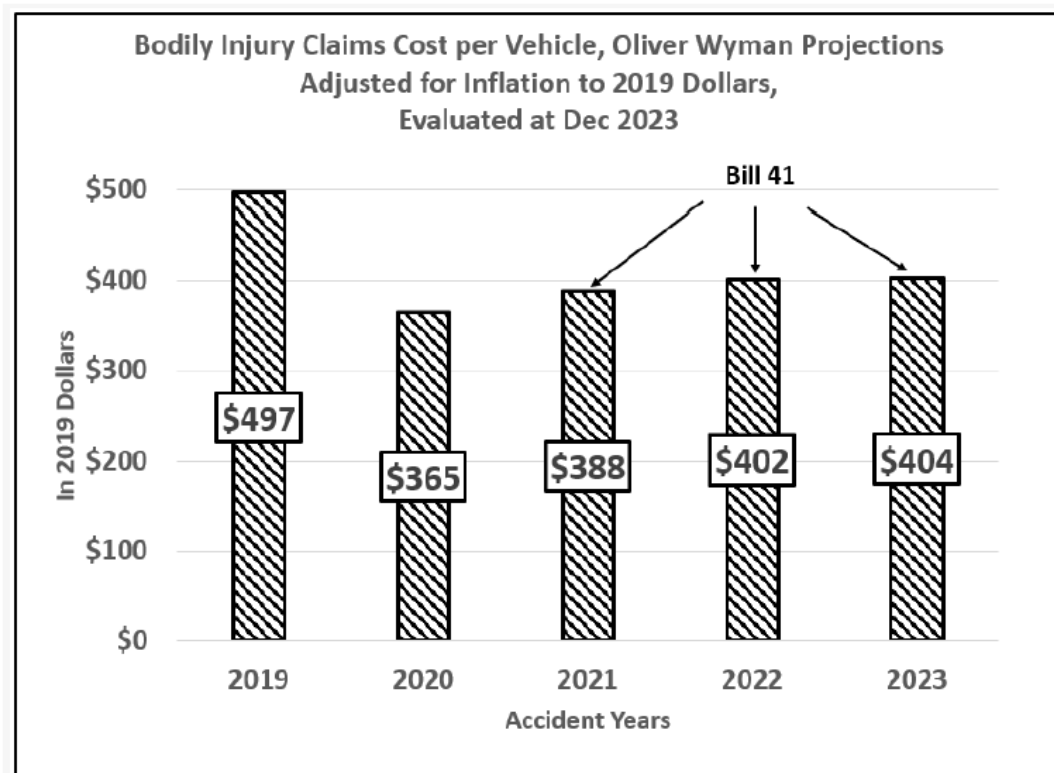
Profits experienced by the industry exceeded the 6% profit benchmark in 2023 with the industry achieving between 7.1% (Oliver Wyman) and 13.2% (Allen) of pre-tax profits.



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# Bodily injury claim costs continue a trajectory of stability



Since 2019, the costs associated with bodily injury claims per vehicle have declined and stabilized.

Specifically, the data shows that bodily injury loss and LAE costs per vehicle have been consistently below the 2019 levels throughout the subsequent years.

The implementation of Bill 41 reforms in late 2020, which addressed bodily injury compensation, we believe is also contributing to this trajectory of stability.



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# Acquisition and operating costs of the insurance industry continue to increase

Year	Earned Premium (000s)	No. of Vehicles	Operating Expense Pct	Operating Expenses (000s)	Operating Expenses (000s) 2019\$	Operating Expenses per Vehicle 2019\$
2014	\$2,923,181	2,576,725	24.2%	\$707,410	\$765,157	\$297
2023	\$4,731,253	2,907,861	27.6%	\$1,305,826	\$1,136,640	\$391
% Increase				85%	49%	32%
\$ Increase				\$598,416	\$371,483	\$94

From 2014 to 2023, total operating expenses rose from \$707 million to \$1.306 billion. This rise is partly due to general inflation. When adjusting for inflation to 2019 dollars, the real increase in annual operating costs is 49%, translating to an increase of \$371 million.

Another factor contributing to the higher costs is the growth in the number of insured vehicles, which went from 2.6 to 2.9 million. Adjusted for inflation, annual operating expenses per vehicle increased by 32%.



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# Acquisition and operating costs of the insurance industry continue to increase

Year	Earned Premium (000s)	No. of Vehicles	Acquisition Costs Pct	Acquisition Costs (000s)	Acquisition Costs (000s) 2019\$	Acquisition Costs per Vehicle 2019\$
2014	\$2,923,181	2,576,725	15.1%	\$441,400	\$477,433	\$185
2023	\$4,731,253	2,907,861	16.4%	\$775,926	\$675,395	\$232
% Increase				76%	41%	25%
\$ Increase				\$334,525	\$197,962	\$47

Acquisition costs, which include commissions and other expenses related to acquiring new customers, also increased from \$441 million in 2014 to \$775 million in 2023, a 76% rise, or \$335 million more annually.

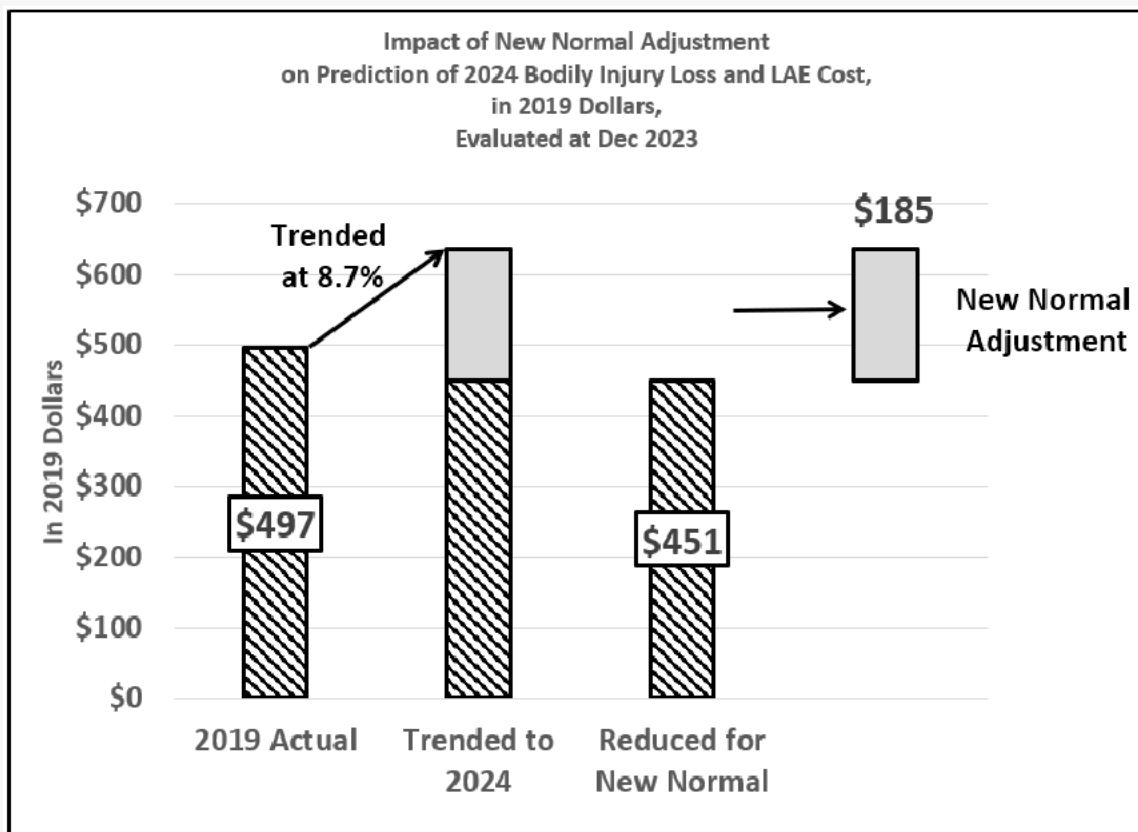
Adjusting for inflation, the real increase in annual acquisition costs is 41%, which amounts to an additional \$198 million in 2019 dollars.

Understanding these cost increases is crucial for addressing the challenge of making auto insurance premiums more affordable for consumers.





# 'New normal' driving pattern multipliers are not sufficiently considered with the trend factors when evaluating the state of bodily injury loss costs



The 'new normal' driving patterns emerged during the pandemic, characterized by reduced commuting and increased remote work, have been seen in the reduced bodily injury loss costs that have persisted since 2020.

Oliver Wyman has put forth multipliers to adjust pre-pandemic claims experience to the level that is expected in this 'new normal' environment. These multipliers provide a steep and permanent reduction in the level of claims costs.

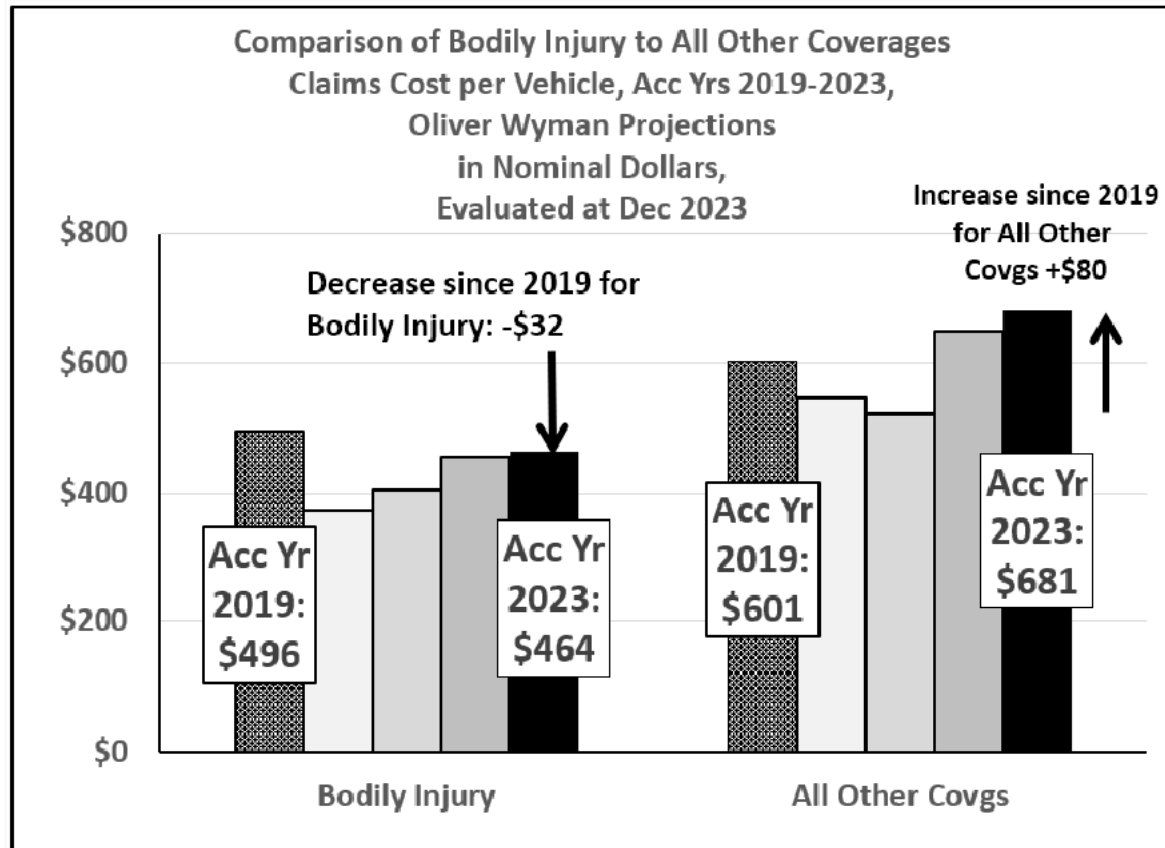
A complete assessment of the situation requires that the trend rate must be considered in tandem with the offsetting sharp reduction provided by the new normal multiplier.



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# Property damage claims costs per vehicle continue to rise



From 2019 to 2023, the total loss cost per vehicle for coverages other than bodily injury have increased. This trend is evident in both nominal and inflation-adjusted terms. In contrast, the loss cost for bodily injury coverage remains below the 2019 level.

This indicates that the rising costs associated with property damage claims are the main contributors to the overall increase in sector costs, rather than bodily injury claims.

Understanding this distinction is crucial for accurately addressing the factors influencing affordability challenges within the Alberta market.



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# Conclusion

## **Recommendations:**

### **1. Review draft benchmarks to account for observed trends in driving patterns, bodily injury loss costs, and property damage loss costs**



The "new normal" driving patterns post-pandemic, together with Bill 41, have resulted in stable bodily injury loss costs that are consistently below pre-pandemic levels. Meanwhile, property damage claims costs per vehicle have continued to rise. To ensure a fair and affordable auto insurance system for Albertans, it is essential for the AIRB to incorporate these current and accurate trends into their benchmark calculations.

### **2. Conduct a critical assessment of the operating expenses and acquisition costs submitted by insurers to determine if proposed rate filings are justified**

Even when adjusted for inflation and the growth in the number of vehicles in Alberta, operating expenses have risen 32% in the last decade, while acquisition costs have risen 25%, claiming a larger share of household budgets and becoming less affordable.



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## Thank you!

