2024 MARKET & TRENDS

Alberta airb Automobile Insurance Rate Board 20 YEARS

Table of Contents

Executive Summary

The 2024 Market and Trends Report provides important background and information on key trends in auto insurance premiums and claims. At the Automobile Insurance Rate Board (AIRB), we continue to be concerned about auto insurance affordability for drivers as well as longer term stability and viability of our competitive market. Affordability concerns have been raised about most products and services post pandemic, and auto insurance is no different. Inflation and supply chain issues have increased the cost of repairing vehicles which resulted in most insurers increasing premiums. The rising cost of auto insurance gained increased attention since 2022, and we have noted heightened awareness of consumers following the announcements by government to assist Alberta drivers with the cost of insurance and implementation of the rate pause in 2023 and Good Driver Rate Cap in 2024.

Inflation continues to impact household budgets and many Albertans who are sensitive to price fluctuations are looking for information on why their premiums have gone up as well as how to save money.

This report shares a number of key statistics from the latest 2023 data including:

- The overall change in the average written premium was +5.2% compared to the prior year.
- The average Alberta premium went from $1,587 in 2022 to $1,669 in 2023, reflecting approved rate increases post COVID, where few rate adjustments were made, as well as changes to Alberta's composition of drivers and vehicles.
    - There were previously approved rate increases still being implemented in the market. Rate approved in late 2022 was still being implemented during 2023; it takes twelve months for rate to fully flow through to all customers.
    - Premiums were impacted during the rate pause if the policyholder had a new at-fault claim, a new traffic violation added to their driving record, changed vehicle, added a new driver to the policy, and/or changed their home address. These actions, taken by the policyholder, can have an impact on the premium charged.
    - Individuals with out of country experience are generally rated as new drivers. With recent immigration numbers skyrocketing, the Alberta fleet is effectively getting younger, and therefore premiums increased.
- The industry loss ratio for private passenger vehicles (PPV) was 68%, highlighting the rate taken was appropriate given the frequency and severity of accidents with the new mobility post pandemic.
    - When compared to loss ratio in other provinces, Alberta is the third lowest.
- Both bodily injury and accident benefits saw modest increases to claim severity of 1.7% and 0.1% respectively.
- Albertans pay 3.1% of average after tax income on auto insurance premiums, this is lower than Nova Scotia, Newfoundland and Labrador, and Ontario.

Each year this report is written to provide a snapshot of relevant trends and information. New to the Market and Trends Report this year are sections on:

- Market share for miscellaneous vehicles (motorcycles, ATVs, and snow vehicles),
- Advanced discussion of marketplace competition for private passenger and commercial vehicles,
- Relationship between losses and economic variables in expanded economic trends,
- Explanation on the need for statistical data,
- A provincial comparison on vehicles per capita,
- Explanation of the transition to IFRS 17, and absence of insurer profitability,
- Commentary on the complexity driving up repair costs, and
- Five-year average comparison of vehicle theft by FSA.

Trend Highlights

Market by Vehicle Type[5]

78%	8%	5%	4%	2%	3%
Private Passenger	Commercial	Motorcycle	All Terrain	Snow	Other

Top 5 Insurance Groups

70%
Of Market

57¢
Of Every $
Of Premium

61¢
Of Every $
Of Claims

Goes to Third-Party Liability Coverage

68%

PPV Written
Loss Ratio

$1,669
Average Written
Premium

5.2%

Background

Introduction

The AIRB's vision is for automobile insurance to be accessible, equitable and sustainable for all Albertans. We independently regulate automobile insurance rating programs and educate consumers to ensure access to a robust automobile insurance marketplace. We monitor industry trends and developments to inform our board members, the government, and other industry participants. Further, we evaluate 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. Private Passenger Vehicle (PPV) policies make up 78% of Alberta's auto insurance market by vehicle count, with the other main vehicle types being commercial (8%), motorcycles (5%), ATVs (4%), and snow vehicles (2%). The remaining 3% of vehicles consist of antiques, motorhomes, taxis, and other miscellaneous classes. On a premium written basis, PPV maintains a 78% market share, but commercial increases to 15%, due to their premiums being substantially higher than other vehicle classes. Motorcycles (1%), taxis (1%) and others make up the remainder.

Alberta has a competitive private auto insurance market providing coverage for nearly three million PPV. 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 and a list of all the sources is located in the bibliography on page 34 of this report.

Affordability & Value for Money

We are concerned about the affordability of auto insurance for Alberta drivers. While premiums continue to rise for Alberta drivers, they are still inadequate to cover the costs incurred by insurers in delivering on their promise to pay claims in the event of an accident.

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 3.1% of their after-tax income on PPV premiums, above the Canadian average of 2.8%, but lower than Ontario (3.7%), Newfoundland (3.5%), and Nova Scotia (3.2%).

The government has elected to manage affordability of auto insurance by implementing rate pauses and caps. Although these help some drivers in the short term, once these measures are removed premiums will rise – as we saw when the previous rate cap was removed in 2019. Insurers are unable to make smaller adjustments to their premiums to reflect cost pressures under a rate restraint; resulting in larger increases than most Alberta drivers expect or can budget for, when the cap is lifted. However, government recognizes rate caps do nothing to lower costs within the system and understand the current product in Alberta needs significant reform to ensure long term affordability for drivers and sustainability for the insurers who operate in our province. We are working directly with government to find reforms to address this complex challenge but there are no silver bullets – if there was an easy fix it would have been implemented years ago. Albertans need to understand long term reforms will take time to implement – and the savings they seek could be a few years away.

An alternative to focusing on the affordability of auto insurance in the province is to look at the value Albertans get for the policy they pay. Each province's auto policy offers different coverage limits and rights. In Alberta, we largely have a tort system which means you have the right to sue in event of an accident. This right comes with a higher premium than is seen in provinces without tort.

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

Accessibility

We monitor the industry to ensure coverage is accessible to every Albertan. When insurers are unable to price their policies to cover their costs, they will often make business decisions and change the rules for what coverages they will write and under what circumstances. Changes which negatively impact customer service and accessibility, include requiring signed renewal forms, refusing to offer additional coverages (often required for leasing or financing), and cancelling broker contracts. In late 2023, the government made regulatory changes to ensure Albertans had access to payment plans, as this was a lever used by insurers to reduce availability in the past.

In mid-2024, two insurers notified the Superintendent of Insurance they would be withdrawing from the market by the end of the calendar year. While these insurers represent less than 1.3% of the PPV market, their customers will have to find a new insurer for their auto insurance needs. Under the Good Driver Rate Cap, moving to a new insurer means you are no longer protected by the 3.7% rate cap. Overall, these insurers exiting will not significantly affect the overall accessibility of the market in the short term. However, this is a worrying trend which if continued, would threaten the accessibility of the marketplace.

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 programs resulting in an increase greater than zero percent for any individual policyholder until after December 31, 2023. However, it did not mean Alberta drivers did not see their auto insurance premiums increase in 2023. Based on previously approved rate increases, some Alberta drivers experienced a premium increase at renewal. They also experienced a rate change if, since the last renewal, the driver had a new at-fault claim, traffic violation, vehicle, and/or home address.

This report is mainly based on data and trends collected during the period the Ministerial Order was in effect.

Good Driver Rate Cap

Effective January 1, 2024, the President of Treasury Board and Minister of Finance issued a Ministerial Order implementing a Good Driver Rate Cap. This rate cap meant the AIRB could not approve any change to an insurer's PPV rating program unless Good Drivers did not see an increase greater than the rate of inflation as of September each year. For 2024, the Good Driver Rate Cap is set at 3.7%. While the data in this report does not reflect the impact of the Good Driver Rate Cap, it is important to consider how it will impact future trends and individual premiums for drivers, especially those drivers who would meet the definition of Good Driver but are excluded from the cap due to change in vehicle, address, or addition of a higher risk driver to their policy.

Need for Statistical Data

The Government of Alberta appointed the General Insurance Statistical Agency (GISA) as its statistical agent. GISA collects auto insurance experience data, as well as financial information, to ensure premium and claim information used to justify, develop, and support fair rates is available for the AIRB, insurers, consultants, and other interested parties. The collection and reporting of this statistical data support our work to:

- Monitor the adequacy of rates to ensure they are not excessive or unfairly discriminatory,
- Monitor market competition, and take steps, if necessary, to restore competition or remedy problems caused by market instability,
- Inform and justify pricing decisions by insurers,
- Conduct economic analysis into matters such as the GRID, competition, affordability, and others, and
- Monitor financial performance of insurers.

Auto Insurance Approval & Rate Regulation

We approve or reject auto insurers' filings for rate changes within the authority granted by the Insurance Act and regulations. We review rate filings in detail and balance the desire for all Albertans to have access to a fair and affordable premium with the need for insurers to cover their costs to remain in the market serving Alberta drivers. Each aspect of a rate filing is scrutinized, including, but not limited to, proposed rating variables, discounts, surcharges, rating models and how insurers communicate changes to their policyholders. Part of our review includes examining their recent experience; particularly if their premiums were sufficient to cover claim costs and other expenses.

To address market challenges when making decisions, we continuously monitor the auto insurance market, including loss trends, availability, affordability, and consumer perceptions. We further discuss these topics with insurers, brokers, and other industry experts to stay informed and ensure proactive decision-making. Albertans can review rate changes as they are approved for every auto insurer in Alberta on our website.

Uncertainty

We recognize there is heightened uncertainty in the Alberta auto insurance market as the government considers longer term reforms to make auto insurance more affordable for Alberta drivers. At the same time, there is also the inherent uncertainty present in the business of insurance. Insurers price their product based on estimates of the future, and therefore are an industry which is very sensitive to uncertainty. The introduced regulatory uncertainty is a challenge to insurers in the short term, but we believe long term reforms will have a positive effect on both Alberta drivers and insurers.

This report considers what the data and trends were at a point in time. While we do provide year over year comparisons, we want to remind readers we employ a data-based approach to reviewing loss trends, frequency, and severity by coverage. We typically review more metrics than we can present in the Market and Trends Report each year. When reviewing the trends illustrated, it is important to also consider the likelihood of past trends changing in the future.

Insurers use their knowledge and experience to inform assumptions of future costs in setting premiums. Unlike other goods and services Albertans purchase, the actual cost an insurer will incur is not known at the time of sale, and often not known for several years in the future – by nature this brings uncertainty. While both insurers and regulators do their best to ensure auto insurance policies are priced accurately, reflecting the risks while enabling the insurer to make a reasonable profit, sometimes the actual results are not as expected.

In addition to government interventions over the past couple of years, there have been several external forces making the use of past results to predict the future more challenging. When reviewing the trends and information in this report, it is important to consider how these external forces could be affecting results:

- Previous legislative reforms* and their impact on both frequency and severity for third-party liability bodily injury, direct compensation for property damage and accident benefits claims,
- COVID-19 pandemic impact on claims frequency for 2020, 2021 and 2022,
- Settling into a "new normal" post-pandemic, with a change in driving behavior and impacting both frequency and severity of claims,
- Frequency of catastrophic loss events, and
- Inflationary impact on claims severity for all coverages.

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.

* Changes to the minor injury definition and prejudgment interest calculation, increases to the benefit amounts available to claimants for new and existing claims and the introduction of direct compensation for property damage.

Private & Public Delivery Systems in Canada

Auto insurance is mandatory to operate a motor vehicle in Canada. However, the rules, regulation, and product can vary significantly between provinces. Even jurisdictions operating a privately delivered, tort based system, such as Ontario, have significantly different benefits on the same coverages. Due to these differences, areas such as underwriting, pricing, documentation, and others are handled differently depending on province.

Regardless of delivery structure*, premiums for all auto individually rated vehicles are regulated in Canada (except for the Territories). Both public and private insurers must have their rates approved by the regulator responsible for auto insurance pricing.

As shown, British Columbia, Saskatchewan and Manitoba have public delivery through a crown corporation, and Quebec has a hybrid model with mandatory bodily injury coverage delivered through a public insurer while private insurers compete for the physical damage coverages. The remaining provinces operate through private delivery.

There are some key differences between public and private delivery - including:

- Ownership and structure,
- Competition and market presence,
- Pricing and premiums,
- Coverages and services, and
- Accountability and regulation.

Alberta currently has a private delivery system, and insurer rating programs are regulated by the AIRB. While Alberta's premiums are often compared to our western Canada counterparts, the delivery mechanism (private vs public) is not the only driver of lower premiums in provinces with public insurance. Another critical difference is the compensation system afforded to drivers following an auto accident. The most common systems are:

- A care based system with all necessary benefits for recovery for all injured claimants, without access to tort (ability to sue),
- A restricted or limited access to tort combined with care benefits; the care benefits can vary by the injury type, providing recovery assistance without the need for tort for most claimants, and
- A tort system with limited care benefits.

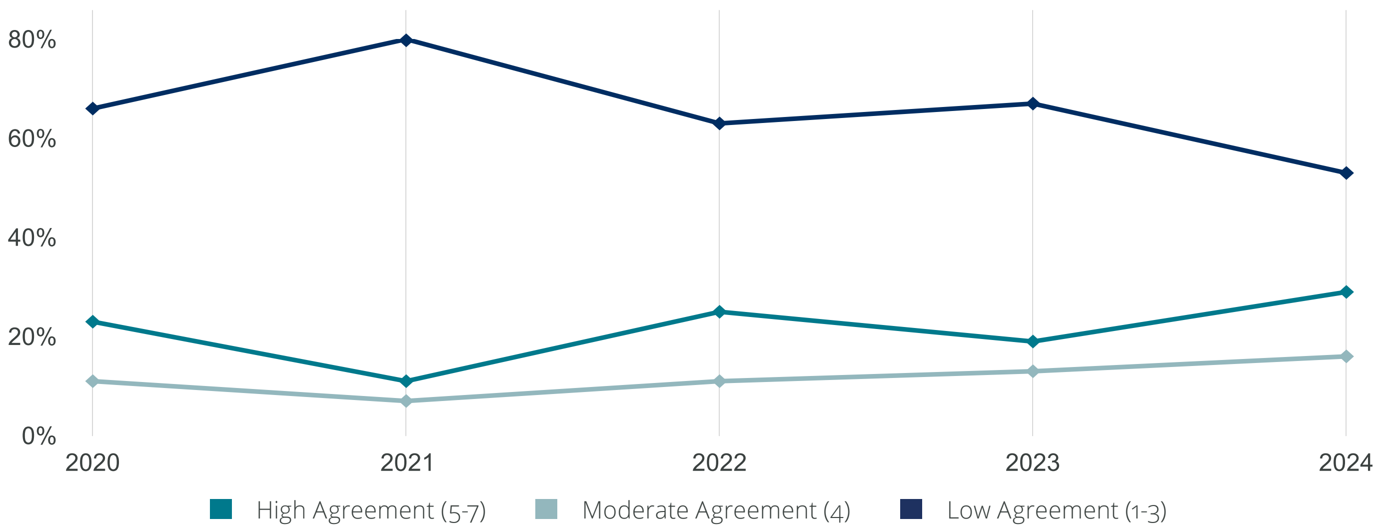
* Public auto is delivered by Government, private auto is delivered by for profit companies.

Consumer Trends

The Consumer Representative's 2024 survey found affordability remains Alberta consumers' top concern about auto insurance. This has been an overriding concern for the last few years as consumers faced rising inflation while aiming to balance cost, coverage and peace of mind.

Each year the survey asks respondents their level of agreement with the statement **"Automobile insurance premiums are fair and reasonable."** We found the percentage of consumers surveyed who indicated a high level of agreement with their premiums are fair and reasonable has increased significantly since 2023. The 10% improvement may be the result of government efforts on affordability such as the rate pause and the good driver rate cap.

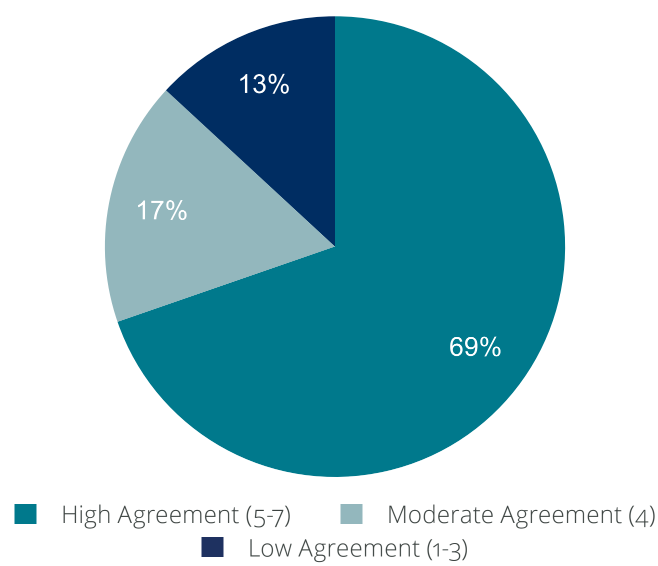
Auto Insurance Premiums are Fair & Reasonable[2]



A new question added to the survey this year is **"How confident are you about making purchasing decisions regarding automobile insurance?"** This self-assessment question found 69% of respondents have high confidence. Men are more likely to be completely confident (22%) compared to women (12%). Confidence helps you make informed decisions at the time of purchase.

While confidence in one's ability to purchase insurance is relatively high, when asked a specific question about part of the insurance product introduced two years ago, direct compensation for property damage (DCPD), most respondents had never heard of it. This brings up the question about whether some respondents are overly confident without completely understanding the product they are purchasing.

Confidence in Auto Insurance Purchase Decision[2]



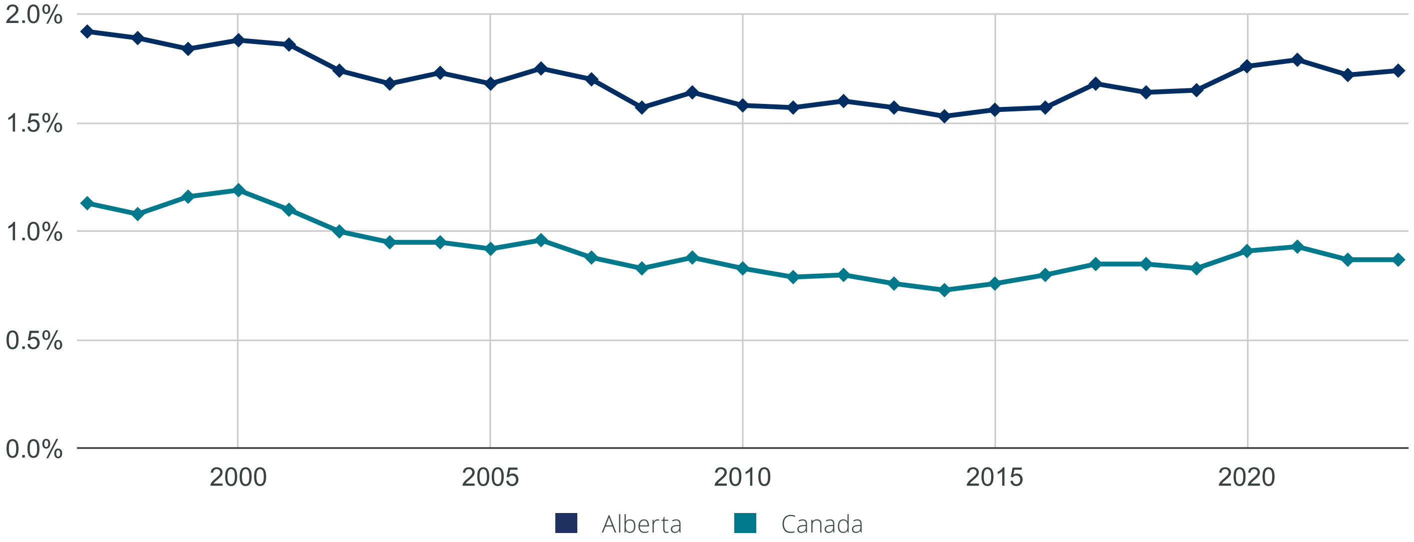
For more information on consumer trends, read the [2024 Consumer Perspective on Automobile Insurance report].

Economic Trends

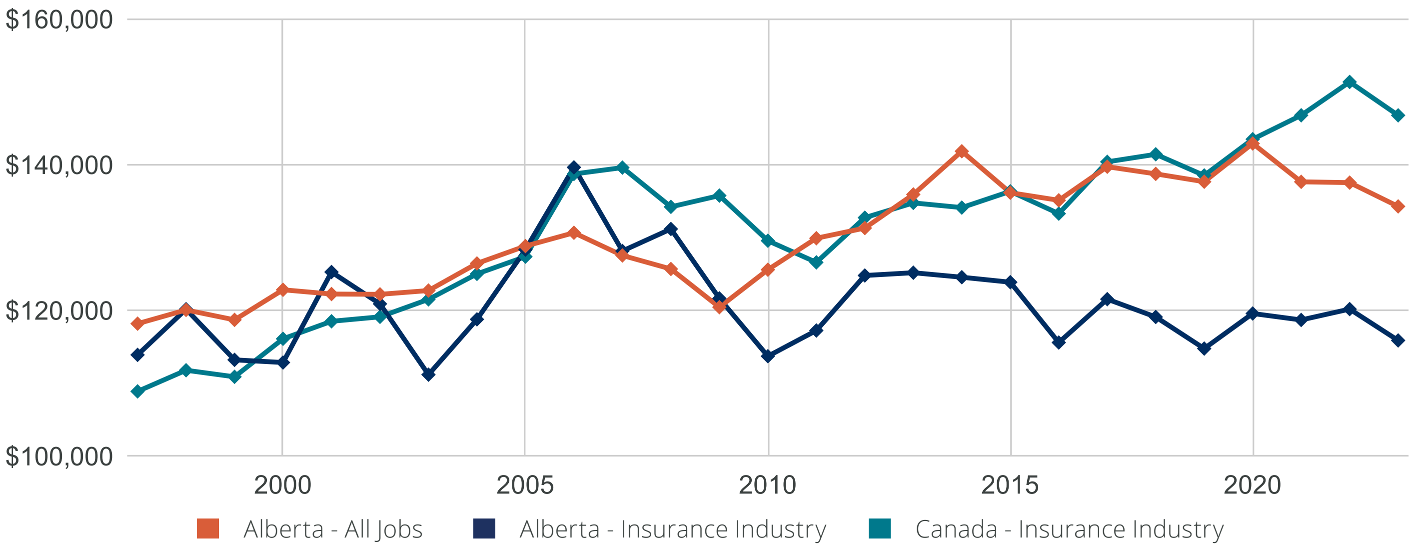
Background

Insurers, like all other business, operate within their economic environment. Therefore, to understand their performance and operating results, an understanding of key economic variables is important. For instance, insurers have little control over claim costs rising due to inflation (measured by price indices) and their investment returns may increase if bond yields, the usual investment for insurers, are high.

Insurance Industry Contribution to GDP by Geography[19]



GDP per Job in the Insurance Industry (2017 Dollars)[19/20]



Starting with economic impact, the insurance industry contributed $38 billion dollars (inflation adjusted to 2017 dollars) to the Canadian economy in 2023, or approximately 1.7% of the total GDP. In Alberta, they contributed $3.0 billion, or 0.9% of our GDP. This has fallen from a high of 1.2% in 2000. Of the 2.5 million jobs in the province [20], 1.0% are within the insurance industry. The GDP per insurance industry worker in Alberta was $116,000 in 2023; following inflation closely as the value in 1997 was $114,000 when adjusted for inflation. Meanwhile, the Canadian insurance industry as a whole rose from $109,000 in 1997 to $147,000 in 2023 despite inflation adjustments. Overall, the two productivities were following each other closely until the mid 2000's where the rest of Canada's insurance industry outgrew inflation while Alberta stagnated. Alberta's GDP per worker for all jobs has come in higher than GDP per worker for the insurance industry since 2010, with the gap at $18,000 as of 2023.

However, this severely understates the economic impact of the insurance industry. The previous metrics highlight the direct contribution of the industry only, but insurance as a product allows businesses to undertake higher-risk and therefore higher return activities. It also provides businesses greater certainty as it caps their downside risk; both of which lead to higher investment levels across the country. For personal auto, consumers pay a modest premium to ensure they are financially protected from up to millions of dollars in liability, which few consumers could afford to pay.

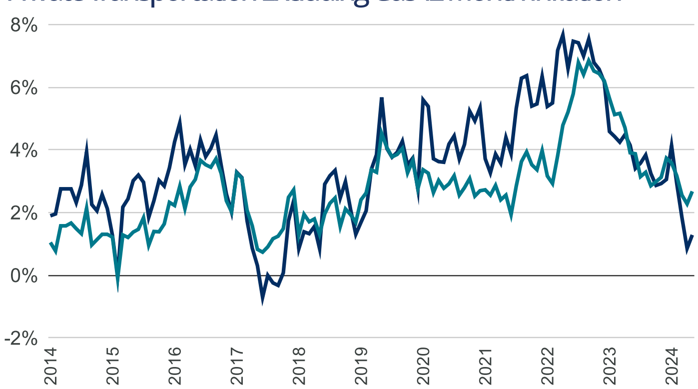
Inflation

Below we present four consumer price indexes year over year change, as these are important to both insurers and consumers. We plot both Alberta and Canada-wide results to provide a better context of Alberta inflation in relation to the rest of Canada.

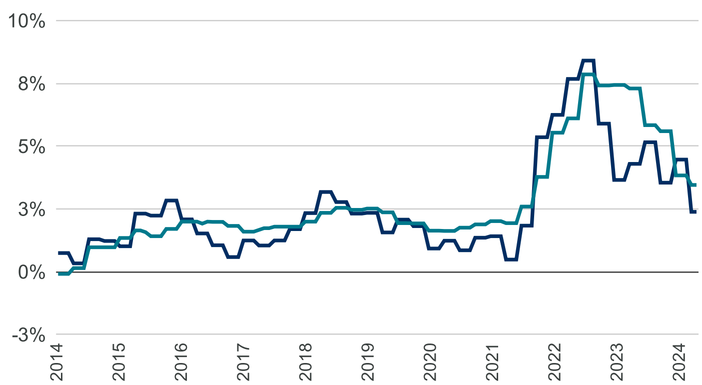
Beginning with private transportation, this includes the costs of insurance, registration, vehicles, and everything else related to transportation, excluding gasoline due to its volatility. Overall, the two indices followed each other quite closely before Alberta began to outpace in early 2020 but has since come down significantly from the peak in late 2022 and now sits at an inflation of just 1.3% year over year, compared to the Canada wide value of 2.7%.

Focusing on parts and maintenance, a major contributor to collision coverage, we see Alberta spiked first and early, but remained above Canada for a relatively short while, now coming in at just 2.4% as of May 2024 compared to Canada wide value of 3.5%.

Private Transportation Excluding Gas 12 Month Inflation [17]



Vehicle Parts and Maintenance 12 Month Inflation [17]

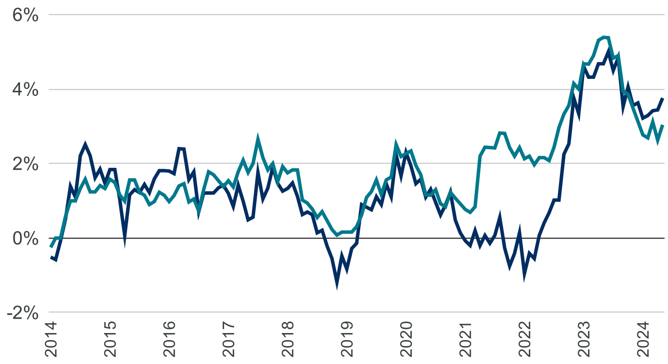


Alberta Canada

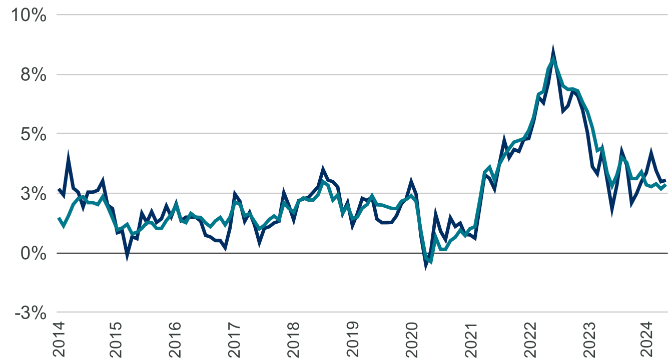
Healthcare is an important component of the accident benefits coverage, and here we see one of our largest deviations from Canada as a whole. In late 2020 we see a period where Alberta even entered a small deflationary period, where prices came down, while Canada-wide the cost of healthcare was increasing dramatically. However, it appears Alberta is entering a lagged period of inflation, but it has already begun to fall relative to its peak in late 2022.

Finally, all-item inflation, which the Good Driver Rate Cap is based on, was 3.7% in September 2023 and has decreased to 3.1% for May 2024, compared to the Canada-wide value of 2.9%. As inflation continues to trend downwards, we expect the new rate limit for the Good Driver rate cap, if continued, to be lower than 3.7%.

Healthcare 12 Month Inflation [17]



All Items 12 Month Inflation [17]



Alberta Canada

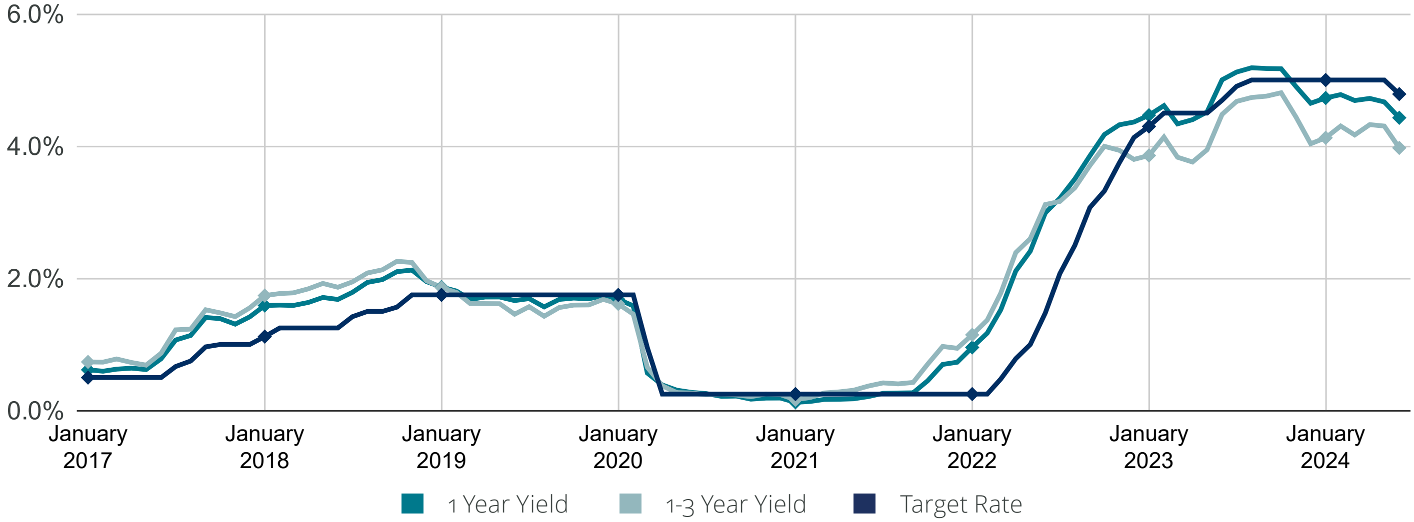
Bond Yields

Bond yields are important to the investment return of an insurer. An insurer typically invests in short term bonds (less than three years). These bonds are more stable than traditional equities while being just as liquid. This allows the insurer to make investment income while having cash on hand to settle claims. In Alberta, the average claim takes about 2.5 years to settle, therefore insurers can be investing portions of the premium within this time. This provides income to the insurer without making consumers worse off, and this is why we choose to regulate only on the profit of selling the coverage, and do not consider investment returns. Regulation by the Office of the Superintendent of Financial Institutions (OSFI) and Alberta's Superintendent of Insurance ensures insurers have the capital to pay claims and are not taking too much risk in their investment strategy.

We plot the Bank of Canada's target policy rate, along with the yield on a one-year treasury bill, and a composite collection of one-to-three-year bonds. As we can see, the bond yields follow the target closely, as intended. Typically, bond yields are above the target rate, as investors must hold the bonds for some time and are therefore rewarded above the target rate due to added risk. However, since mid 2022, the one-to-three-year yields have been below the target rate, and since late 2023 for the one-year yield. This indicates investors believe the target rate will be falling between now and those time periods. Generally, the "x" year yield represents what investors think the target rate will be in "x" years, plus a risk premium which increases with the length of the bond.

With yields the highest they have been since 2017, we see the reason recent investment returns were higher than normal, was due to the increase in bond yields. Going forward, we see yields lowering in 2024 with the market predicting the target rate to be about 3.75-4.25% by June of 2025.

Target Rate Month Year[12]



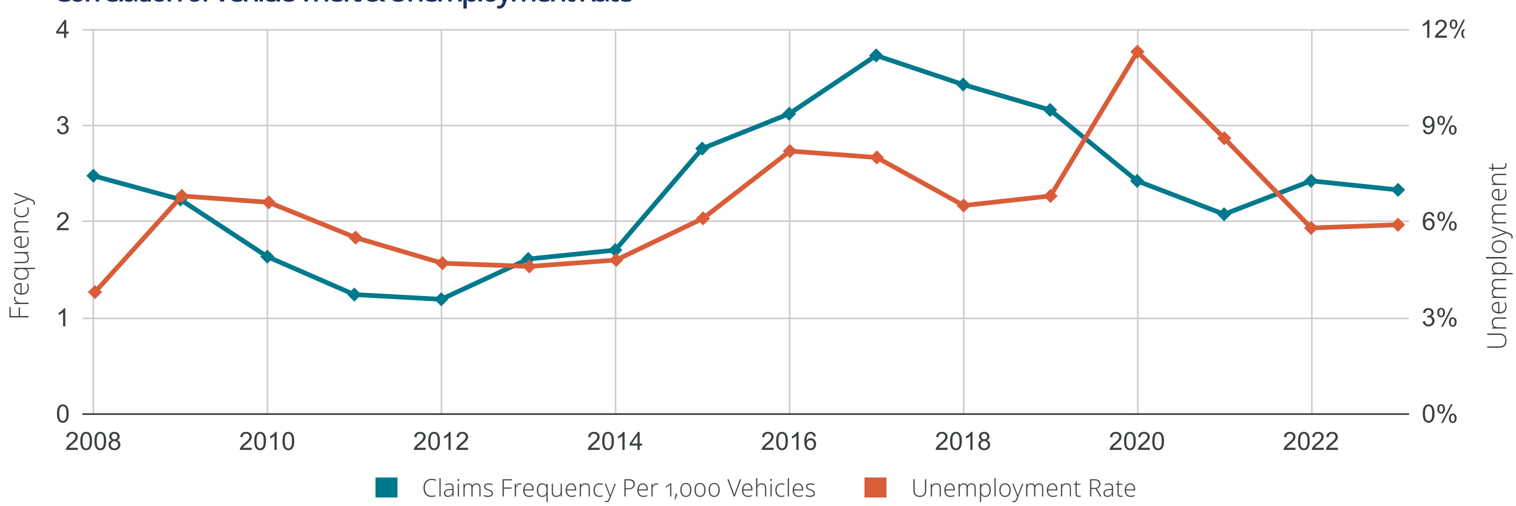
Claim Frequency & Unemployment Rate

It is often theorized high periods of unemployment cause some of those individuals to pursue crime as a means of surviving economically. In auto insurance, some common targets could be auto theft, theft of vehicle contents. Alongside this, consumers may be unable to afford their auto premiums and may choose to drive without insurance, therefore raising the instances of uninsured motorist claims.

Here we present vehicle theft only, but we may present different claim types in future reports. Overall, the correlation coefficient is 0.40, but it has been as high as 0.65 in the period from 2008 to 2017. The high unemployment spike in 2020 due to the pandemic without a corresponding spike in theft caused it decrease to the 0.40 correlation. In fact, we see vehicle theft go down in 2020 despite the unemployment rate.

Overall, we conclude there is weak, if any evidence of a correlation between the unemployment rate and vehicle theft. However, we will continue to monitor this trend.

Correlation of Vehicle Theft & Unemployment Rate[11/14]



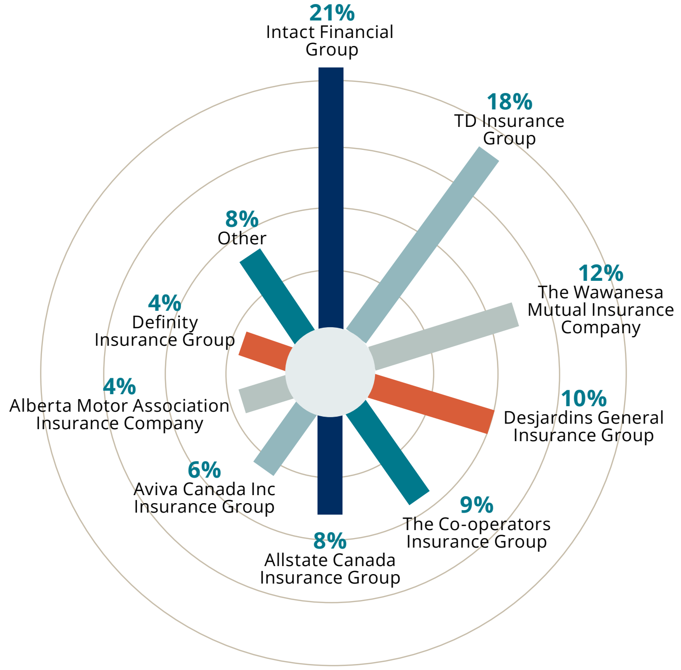
Private Passenger Vehicle Trends

Competitive Marketplace

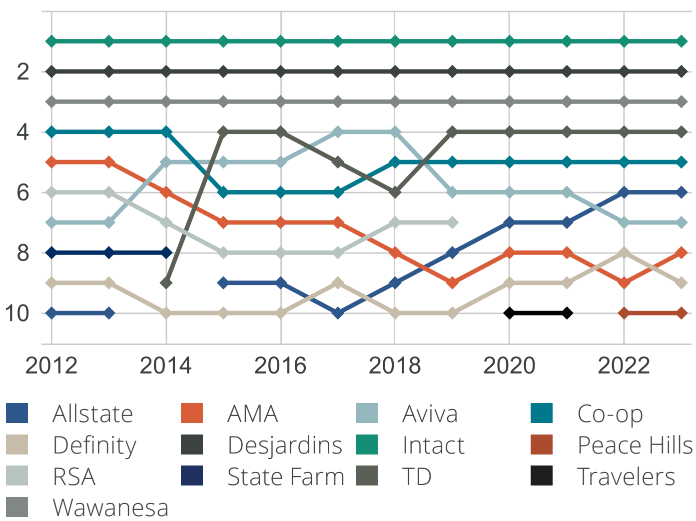
Alberta is fortunate to have a competitive marketplace for auto insurance. There are currently nine groups with 19 insurers, and seven individual insurers, for a total of 26 insurers actively writing PPV insurance in the province. This excludes several insurers licensed in the province but not actively seeking new business.

Based on 2023 direct written premiums, the top three insurer groups represent 51.2% of the market, down from 52.7% in the prior year. In particular, Intact fell from 21.3% to 20.6%, TD had a marginal increase, and Wawanesa fell from 13.2% to 12.3%. Overall, the top ten insurers had a market share of 94.2%, up slightly from the previous years 94.0%. Since 2012, market concentration in the top 10 increased significantly from 87.7%. Market share for the top three firms has increased from 50.7% to 51.4%, and the top five increased from 66.5% to 69.8%.

Top PPV Insurance Groups (2023)[5]



Insurer Groups Market Ranking Over Time*[8]



We can see since 2012, the top three insurers have not traded their market rank. Below the top three, four different insurers have held the fourth largest rank. Since 2019, Desjardins has been the fourth largest insurer, in part due to their acquisition of State Farm in 2015. Previous holders of the fourth rank are Co-operators, who are now the fifth largest, and Aviva, who are now the seventh largest after a tightening of their underwriting rules and a lack of appetite for new business. Since 2022, Allstate has become the sixth largest insurer, increasing from tenth back in 2012. Unlike other insurers who gained market share through acquisitions, Allstate's growth has been organic as they historically appeared to be targeting the youth demographic, who are often priced out at other insurers.

* Allstate Canada Insurance Group (Allstate), Alberta Motor Association Insurance Company (AMA), Aviva Canada Inc. Insurance Group (Aviva), The Co-operators General Insurance Group (Co-op), Definity Insurance Group (Definity), Desjardins General Insurance Group (Desjardins), Intact Financial Insurance Group (Intact), Peace Hills General Insurance (Peace Hills), Royal & Sun Alliance Insurance Company of Canada (RSA), State Farm Insurance Company (State Farm), TD Insurance Group (TD), Travelers Insurance Company of Canada (Travelers), and The Wawanesa Mutual Insurance Company (Wawanesa)

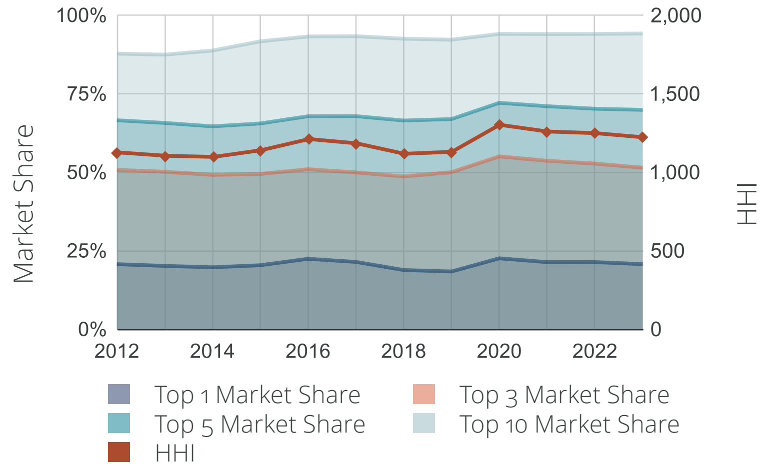
In order to foster a competitive marketplace, we must balance affordability and accessibility. Affordability is the idea Albertans find the price commensurate with the value they are receiving from their insurance policy, and accessibility is the ability to find the coverage you need from a choice of insurers. To ensure premiums are affordable, we review rate filings for all insurers and conduct actuarial analysis to ensure larger increases are justified or as required every three years. To ensure there is sufficient competition, we allow insurers to earn a modest return on premiums of 6%. In general, more insurers mean more competition, and therefore lower prices. However, to attract and retain insurers, insurers need to remain profitable. Therefore, we maintain a balancing act in which insurers are fairly compensated for their risk while offering their policyholders an affordable premium.

Each year, the level of competition within the market changes, as insurers exit, acquire, or grow. For simplicity, we calculate a Herfindahl-Hirschman Index (HHI) for each year. Values below 1500 indicate a competitive market, values above 1500 but below 2500 indicate moderate concentration, and values above 2500 are thought to be greatly concentrated. In general, the HHI calculation places a "higher weight" on the activities of large insurers. An exit of a small insurer will not impact HHI significantly, but the merger of two large insurers would. An important caveat is some industries, despite high HHIs, are not able to set prices at a profitable level.

In 2023, we see the market is more concentrated than it was between 2012 and 2019. However, with a value of 1223, the Alberta PPV market remains solidly in the "competitive" range of the HHI index. We see the HHI has dropped for the third year in a row, from its high in 2020 of 1302, following the merger of Intact and Royal Sun Alliance, which raised the HHI 172 points. Some other notable events are the merger of Desjardins and State Farm in 2015, and Travelers acquisition of Dominion of Canada in 2015.

Alongside HHI to measure competition, we also consider innovation within the market, as highly concentrated markets do not feel pressure to innovate. In last year's Artificial Intelligence (AI) and Machine Learning (ML) survey, nine of twelve insurers surveyed (> 90% market share) indicated they currently use or plan to use advanced modelling in business areas such as pricing, fraud detection, claims, and others. Alongside advancements in modelling, The Alberta Motor Association Insurance Company introduced the first "pay-as-you-drive" program in Alberta, and several insurer groups have indicated they are open to adding usage-based insurance (UBI) programs they currently have in other provinces.

PPV Competition Overview[8]



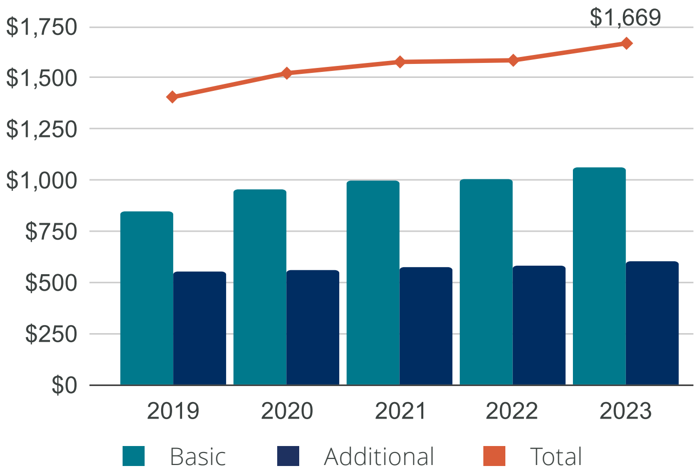
Unfortunately, in 2024 two insurers decided to leave the province, Sonnet Insurance Company, and S&Y Insurance Company, which are parts of the Definity and Aviva groups, respectively. While these insurers are leaving, at least one other insurer in their groups, remain in the province. In particular, neither of these companies are the largest in their group. Together, these insurers represented 1.26% and 0.03% of the market in 2023 respectively. Depending on where these policyholders go, we may see an increase, or even a decrease, in the HHI for 2024. Currently, the Definity group overall has a market share of 3.9%. If the Sonnet policyholders leave to a smaller insurer, the HHI would decrease, while it would increase if they went to a larger insurer, and would remain the same if they moved to a different company in the Definity group.

Insurance Premium Trends

Average Premiums

The annual change in average premium 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 25%, down from last years 30%. Additional coverage (collision, comprehensive, specified perils, and all perils) increased by 8%, the same rate as last years. The total average premium increased by 19% over the past five years, down from 21%. Following a modest increase of just 0.6% in 2022, premiums increased 5.2% in 2023, despite the Ministerial Order preventing Albertans from seeing a price increase due to a rate filing*.

Average Written Premiums [6]



Importantly, Alberta's fleet of drivers and vehicles changes year over year, and therefore, changes in the average premium reflect both a change in fleet and change in prices overall. If everyone kept their old vehicles, and/or the population got older, we should expect (even without rate change) the average premium to drop, and vice versa. Recent immigration trends saw Alberta's population rise significantly, mostly from those out of country [16]. Most out of country drivers are rated as new drivers, and therefore drive average premiums up. As well, the proportion of people taking a two million dollar liability limit increased from 40.0% in 2022H2 to 43.1%, while the proportion taking a one million dollar liability limit decreased from 59.6% to 56.1% during the same time. Generally, increasing from a one million dollar million liability to a two million dollar liability increases TPL premiums by approximately 9%.

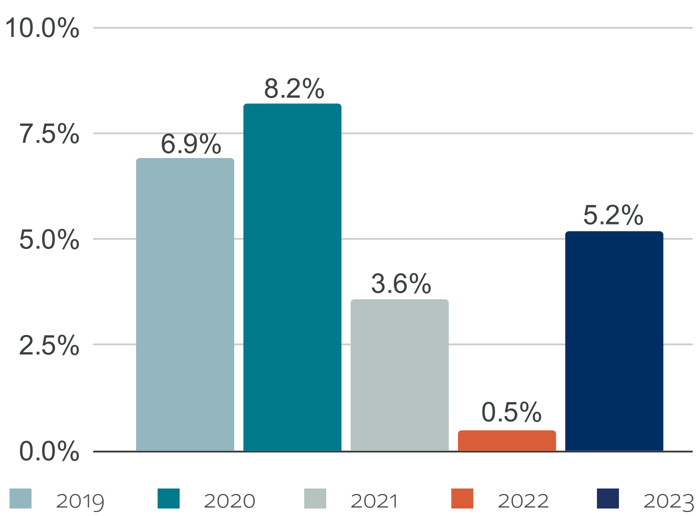
We reviewed and approved 77 PPV filings through 2023, and the premium change (weighted by market share), was slightly below zero percent, as we followed the Ministerial Order. Therefore, we know this increase in premium comes directly from a change in the composition of Alberta's vehicles and drivers.

Year-Over-Year Change

Before the pandemic in 2019 and 2020, premiums grew more than 6% per year, as insurers struggled to attain profitability coming out of rate caps implemented by the former government. Following the pandemic, claim costs fell significantly as the amount of vehicles on the road dropped. As previously mentioned, the 5.2% year over year increase in 2023 occurred as a result of a change in the composition of Alberta drivers and vehicles.

The current Good Driver Rate Cap does not reduce costs for insurers. At some point, the cap will come off, and insurers will have suppressed rate and need to file for increases. Unfortunately, while premiums are unaffordable for many Albertans, the premiums are also inadequate for insurers. Due to this reason, the government is currently exploring long-term reforms to address concerns about the viability of the auto insurance market in Alberta.

Yearly Change in Total Average Premiums [6]

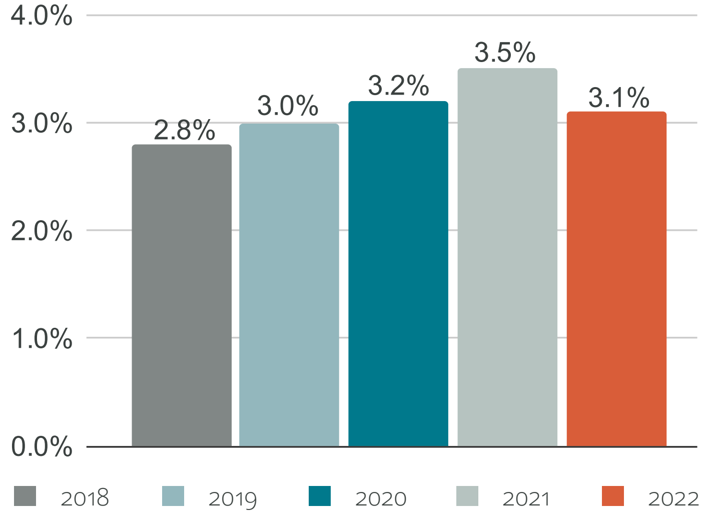


* Premium could still increase if they changed vehicles, had a conviction, at-fault accident, or other factors about their policy changed.

Change in Income Spent on Auto Insurance

Our preferred method of tracking affordability of auto insurance is considering the ratio of average premium to the average after-tax income in Alberta. Unfortunately, income data from Statistics Canada lags our premium data by a year, so we can only present 2022 results. The result in 2022 came in 0.4 percentage points lower than 2021, at 3.1%. Both premiums and income came in favorable compared to the previous year to achieve this reduction. Premiums grew just 0.5% in 2022, and incomes grew from $45,700 to $51,000; an increase of 11.6%. With premiums growing 5.2% and inflation lowering, therefore lowering wages, we would expect this to come in higher than 3.1% next year.

Average After-Tax Income Spent on Auto Insurance 6/13



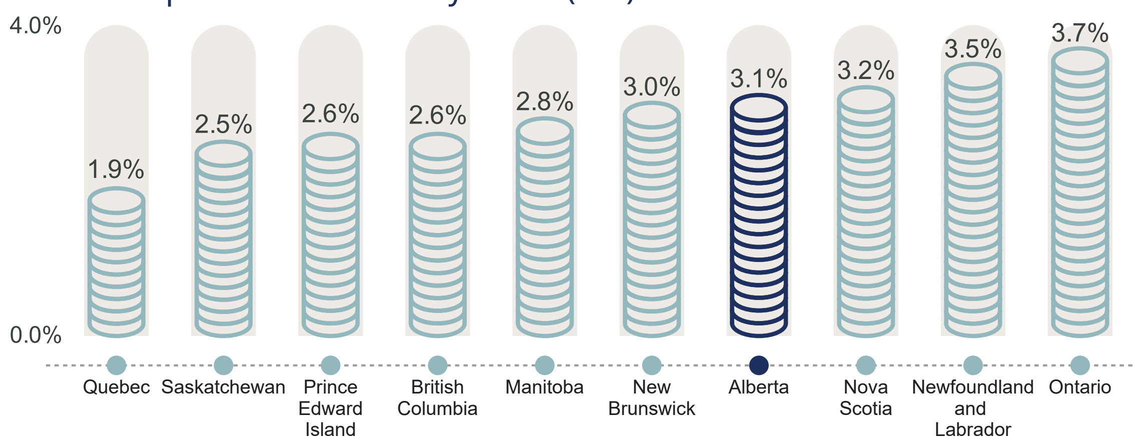
How Do Our Premiums Compare?

We benchmark the percentage of after-tax income Albertans spend on average for auto insurance with data from other provinces. We recognize the coverage varies by province, and premiums are not all on a common basis*. 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,
- Tax-payer subsidized expenses for public auto provinces,
- Commission structure,
- Demographics,
- Vehicles driven,
- Accident rates,
- Traffic density,
- Vehicle repair costs,
- Vehicle theft, and
- Population density.

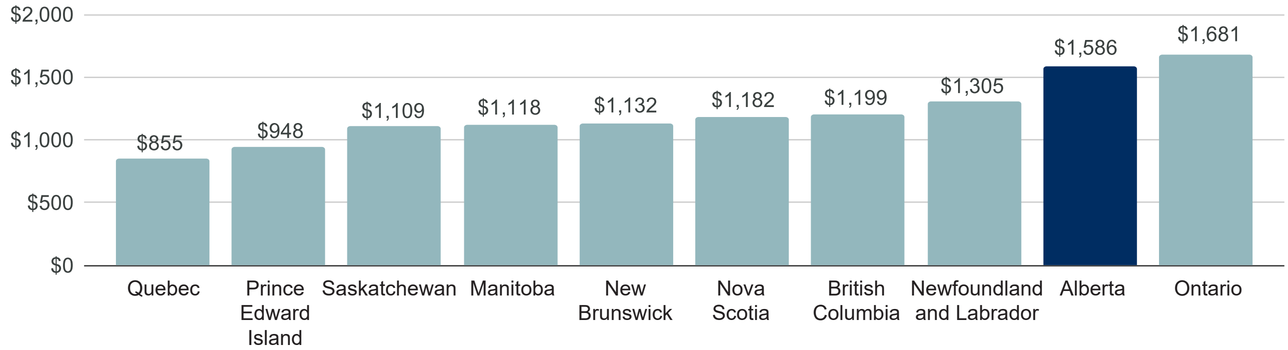
Our results considered the average premium paid without reflecting any jurisdictional differences in coverage. Average premiums by province will reflect the factors listed above. Among the provinces evaluated, the average percent of after-tax income spent on the average premium in 2022 was 3.1% in Alberta, above the simple average of 2.9%. Alberta moved from the third highest in Canada to the fourth, after being surpassed by Nova Scotia and Newfoundland. Despite premiums of $1,182 and $1,305 respectively, the lower incomes in these provinces offset the premium difference. British Columbia was previously less affordable than us, but with their implementation of a care based system their premium dropped significantly, and they are now the fourth most affordable in Canada.

Average After-Tax Income Spent on Auto Insurance by Province (2022) 6/13



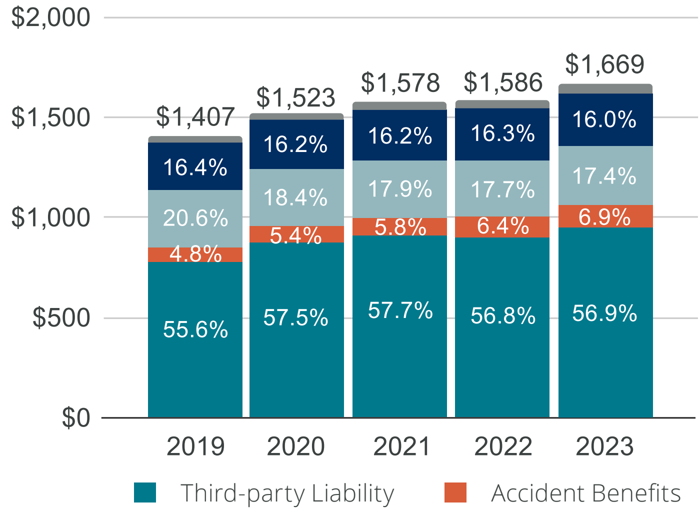
* All private delivery jurisdictions are reported on same basis through GISA, public delivery provinces differ by only reporting on an earned basis not a written basis. Premium taken from annual report or rate filings for public auto provinces.

Average Premium by Province (2022)[6]

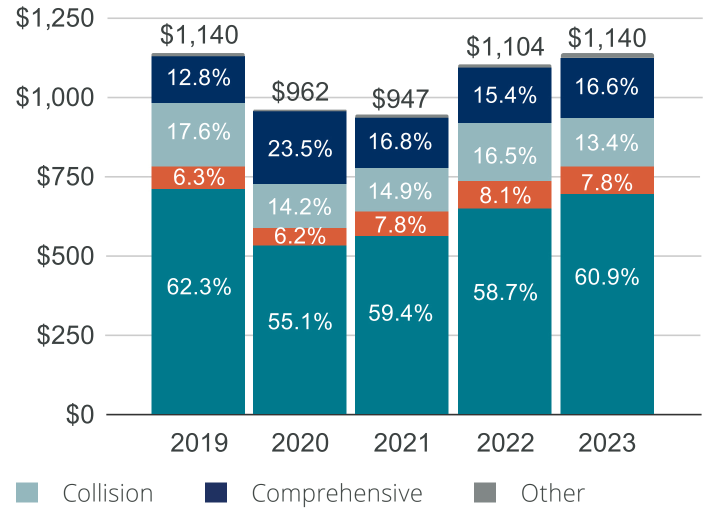


Average Premium & Loss Cost by Coverage

Average Premium by Coverage[6]



Average Loss Cost by Coverage[6]



Focusing on premiums only, the portion of premiums going towards third-party liability (TPL)* has increased from 55.6% to 56.9% between 2019 and 2023. Meanwhile, accident benefits increased dramatically, with its share increasing from 4.8% to 6.9%, an increase of 44%. Collision saw its portion drop from 20.6% to 17.4%, and comprehensive saw little change. Together, mandatory coverages account for 63.8% of premiums, up from 60.4% in 2019.

Focusing now on losses, we see the portion of losses going to TPL was 60.9%, down from the 62.3% in 2019, but up significantly from the 2020 value of 55.1%. Accident benefits saw their share of losses increase from 6.3% to 7.8%. Together, mandatory coverages account for 68.7% of losses incurred by insurers. Compared to the share of premium at 63.8%, mandatory coverages are less profitable for insurers.

The share of losses for collision have fallen from 17.6% to 13.4%, while the share of losses for comprehensive have increased from 12.8% to 16.6% on the back of catastrophic weather and heightening vehicle theft in the province.

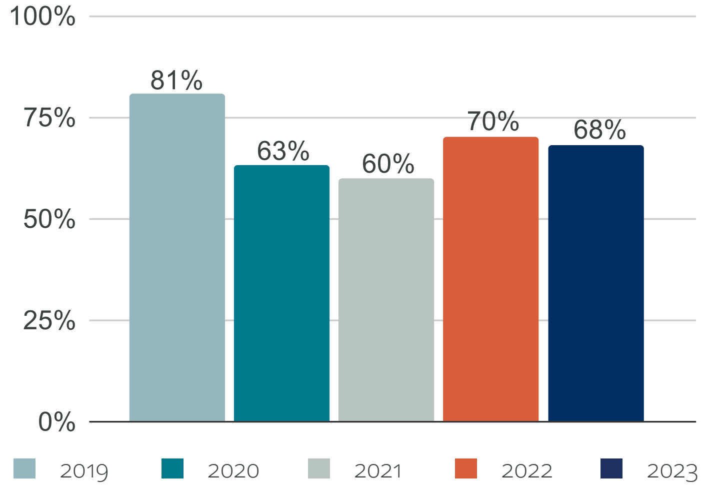
* Which includes bodily injury (BI), direct compensation for property damage (DCPD), and property damage tort (PD).

Auto Insurance Claim Trends

Loss Ratio

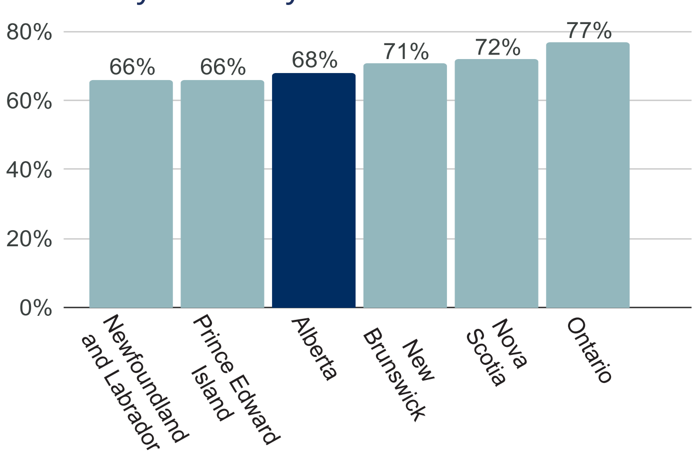
Loss data is collected by GISA on an **accident year** basis. This means a claim submitted in 2019 and settled in 2022 will have its losses attributed to the 2019 accident year in the 2022 version of the data. Since claims take, on average, 2.5 years to settle, this means "development factors" are applied to the claims submitted so far, to project them to their finalized values, when all claims are submitted. GISA follows actuarial best practices in their projections, but ultimately are subject to revision as new data comes in.

PPV Industry Loss Ratio [6]



Overall, the loss ratio came in slightly below last years, with a value of 68%. This means for each dollar in premium earned by an insurer, 68 cents are paid in claims alone. This does not account for staffing, commissions, and other expenses. The claims settled in this period saw the loss ratios revised upwards for several accident years. The smallest change is the 2019 loss ratio increasing by two percentage points to 81%. This makes sense as it's the oldest period in our data and therefore the most developed. Most significantly, the 2022 accident year was revised upwards to 70%, from 63% in the prior year. Therefore, given the seven-percentage point upward revision, it may be likely the 68% projected could ultimately land higher once more claims are closed.

PPV Industry Loss Ratio by Province [6]



The industry standard for profitability on an accident year basis is a loss ratio of 70%. In this round of data, all accident years except 2019, before the pandemic, were below this threshold. Since these loss ratios are sensitive to data developments, we publish them regularly in both our annual and mid-year Market and Trend Reports.

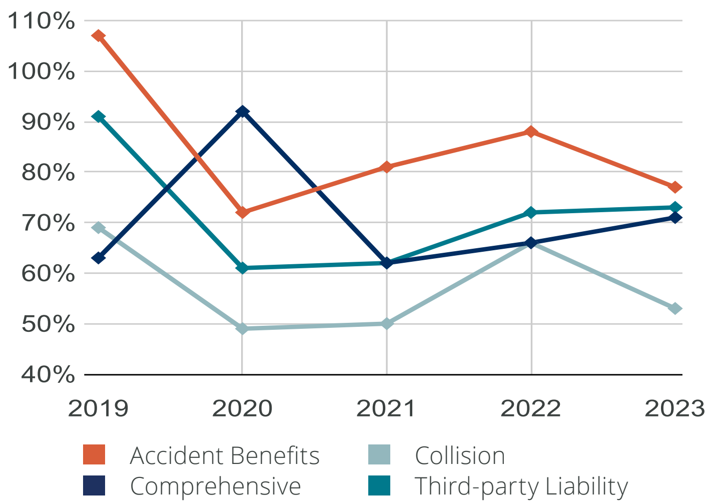
Looking across the country, the Alberta loss ratio was at the third lowest. The only provinces to have a lower loss ratio is Newfoundland and PEI. Notably, Ontario had the highest loss ratio at 77%, despite an average premium of $1,824 compared to Alberta's at $1,669. Overall, each province ranked exactly where they did in 2022 for their loss ratios, but every province saw a higher loss ratio.

How Does the Loss Ratio for Each Coverage Type Compare?

Claims are the single largest expense for insurers, and the profitability varies by line. As previously shown, mandatory coverages are generally less profitable for insurers compared to the additional coverages. The graph illustrates the loss ratio for the major coverages from 2019 to 2023.

As we see, accident benefit's loss ratio remains elevated above the rest, except for the 2020 accident year where significant catastrophic weather claims elevated comprehensive coverage above it. In 2023, the accident benefits loss ratio decreased for the first time since the pandemic, as losses did not see a significant increase, while premiums were raised. The next least profitable coverage is third-party liability, where we have seen significant increases in bodily injury claims due to increased litigation and inflation in settlement values for pain and suffering. Collision was consistently profitable for insurers, generally sitting below 60%, and even around 70% before the pandemic reduced mobility across the province.

Loss Ratio by Coverage[6]



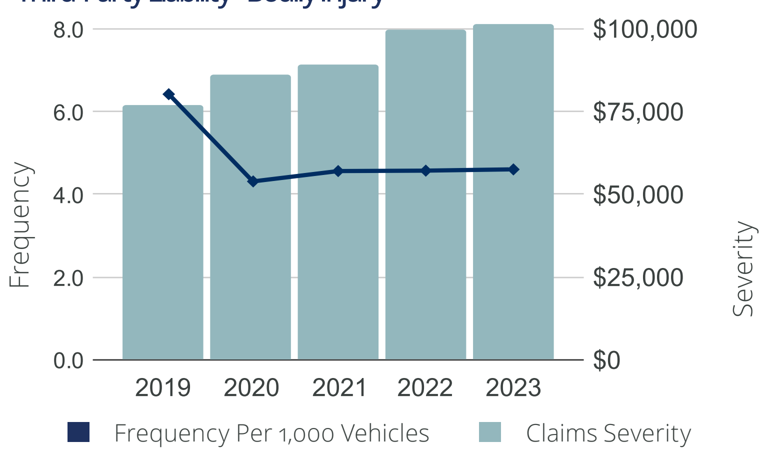
Third-Party Liability - Bodily Injury

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 has remained relatively stable since the pandemic, with the most recent three accident periods all within four hundredths of each other. However, claim severity is increasing significantly; an increase of 31.5% since 2019. We are happy to see it has risen just 1.7% between 2022 and 2023. 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 type claimants report,
- Increased legal representation, and
- Larger claim settlements.

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. Our latest indications suggest the initial estimates for the reduction in bodily injury claims were overstated, and the movement of these claims to accident benefits saw accident benefits claims rise above expectations as well.

Third-Party Liability - Bodily Injury[1]



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

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

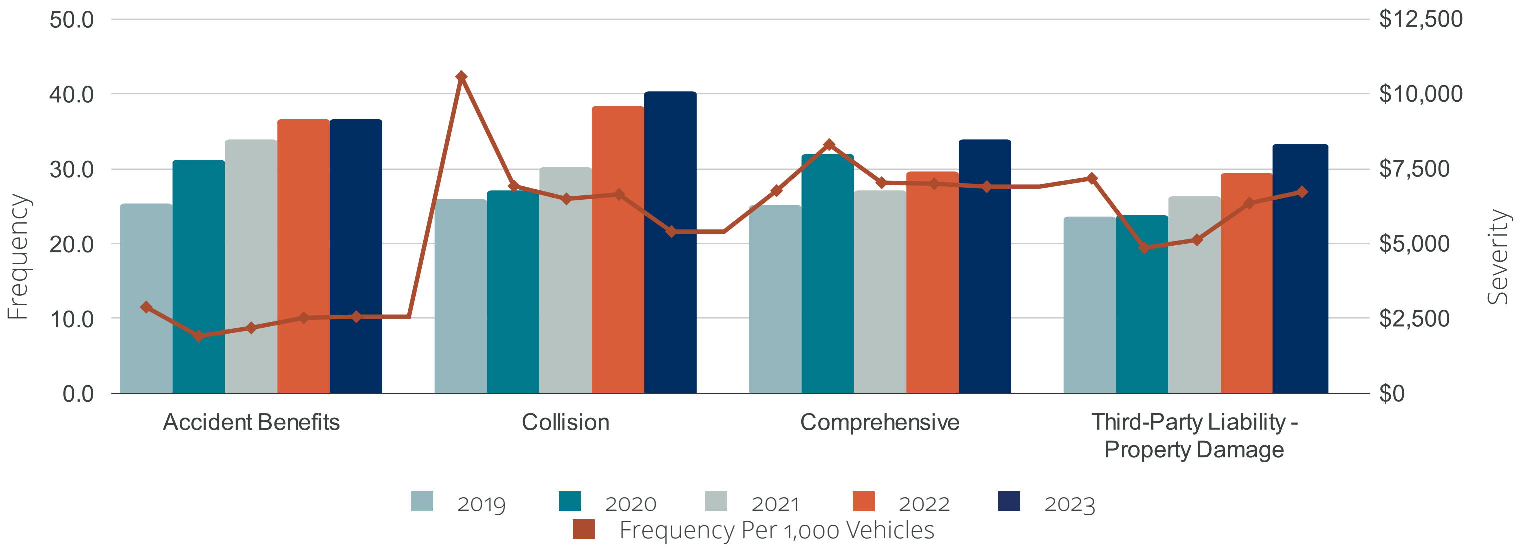
Accident benefits coverage compensates those injured in vehicle collisions for medical and rehabilitation services not covered under third-party liability coverage, **regardless of fault**. The frequency of accident benefits has decreased by 11% since 2019. However, the severity of accident benefits has increased by 44% since 2019. Promisingly, there was not a meaningful increase in severity or frequency between 2022 and 2023. Accident benefits has been growing rapidly over the years, and it is encouraging to see a reprieve in its growth.

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 part of the reason 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. Collision saw its severity increase by 55.5%, while the frequency has fallen 48.9%.

Third-party liability property damage includes both DCPD and property damage tort. DCPD was introduced in 2022 and covers the cost of fixing a not-at-fault drivers vehicle, while property damage covers the cost of property, aside from a vehicle, for a not-at-fault driver. Overall, these claim costs have increased 40.7%, with a decrease of 6.3% in frequency since 2019.

Comprehensive coverage pays to repair or replace the vehicle if it is stolen or damaged in an incident which is not a collision, such as weather and theft damages. This coverage's claims frequency and severity are driven less by mobility and more by other factors such as crime and weather, so little has changed throughout the pandemic. Alberta has a significant number of vehicle theft claims each year, and 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 and volatility of the coverage contributes to higher premiums. The Calgary hailstorm in June 2020 was one of the top ten catastrophes in Canada and is the main cause of the spike in frequency in 2020. In 2023, the frequency remained at pre-pandemic levels.

Claims Frequency & Severity by Coverage[1]



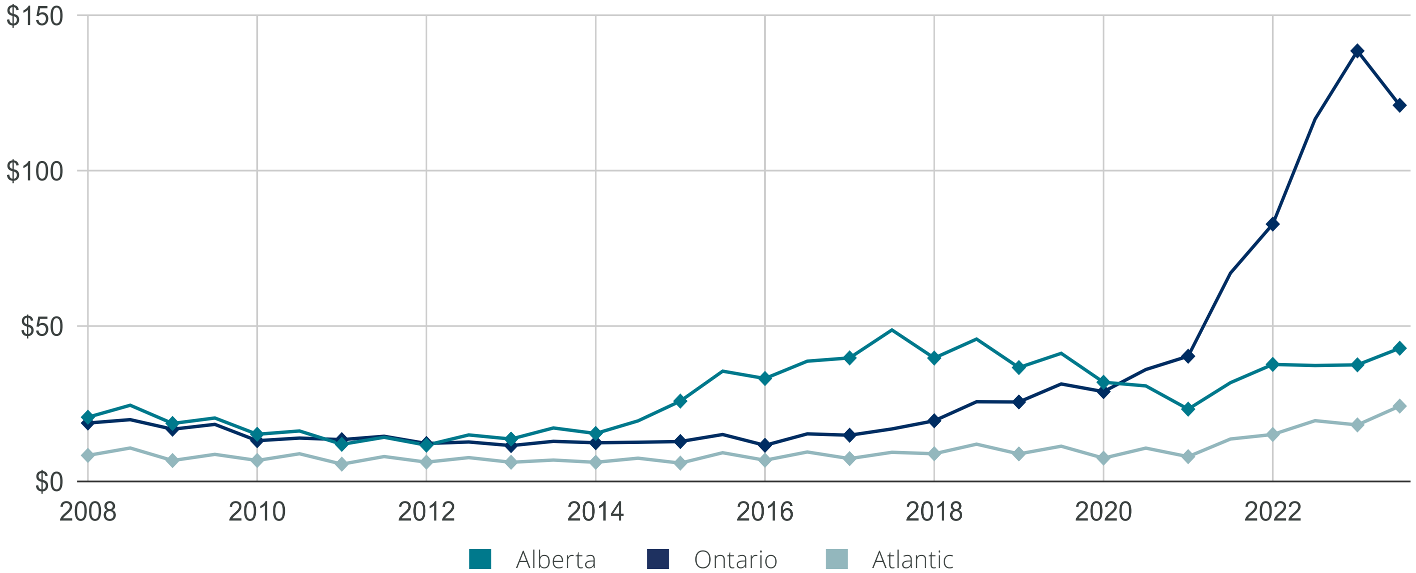
Theft

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.

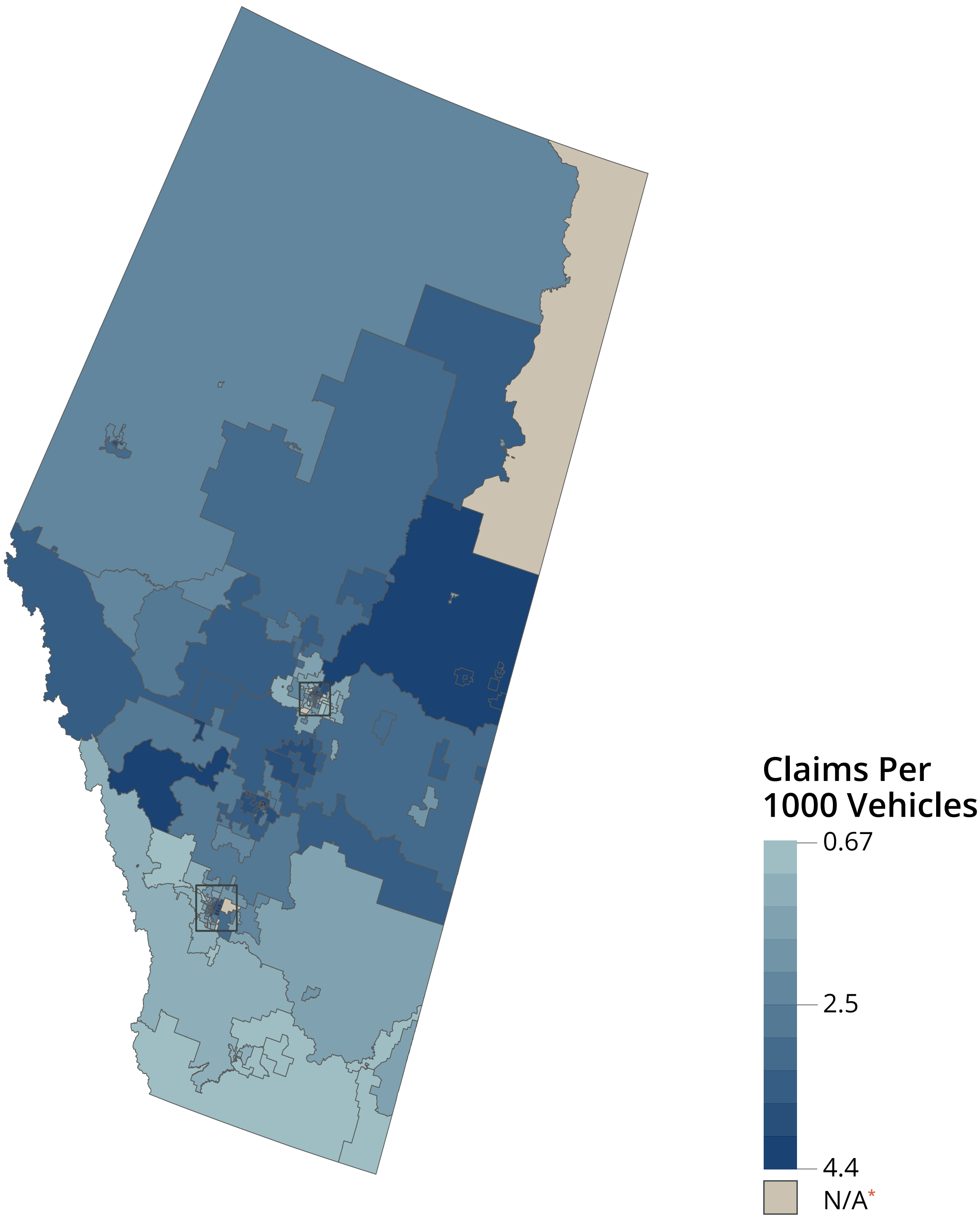
We have developed our own loss development factors to present a provincial comparison, as there are no estimates for vehicle theft available from either Oliver Wyman or GISA. Generally, this coverage does not see significant development as claims are resolved quickly, and therefore our loss development factors are quite small.

In the second half of 2023, the loss cost for each comprehensive/all perils/specified perils policy related to vehicle theft in Alberta was $43, compared to $24 and $121 for the Atlantic provinces and Ontario respectively. While this is lower than the value five years ago in the second half of 2018 by three dollar, it's an increase of $20 since the low in the first half of 2021. 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 high vehicle theft rates, a significant amount of these costs will be experienced within the province.

Vehicle Theft Loss Cost[11]



Vehicle Theft in Alberta by FSA Over 5 Years (2019 - 2023)[4]



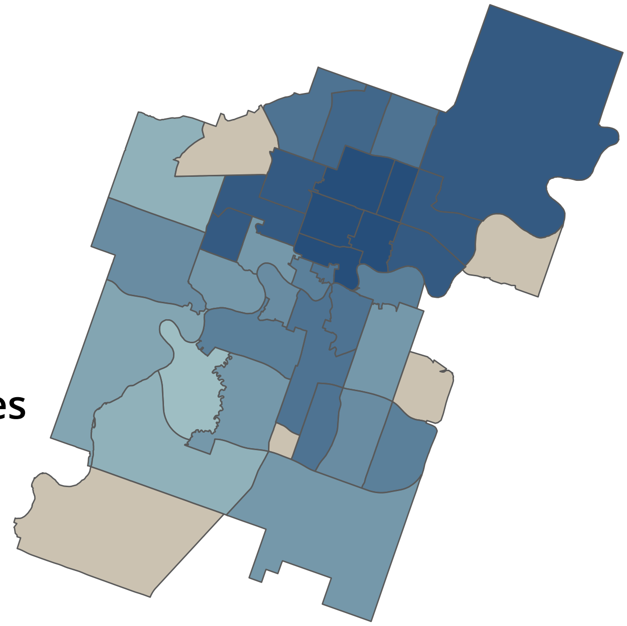
* Any area with fewer than 10,000 vehicles in the five year period (2019-2023).

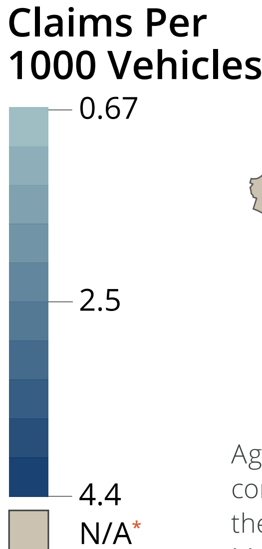
Thefts by FSA

This year, we received a special exhibit from GISA which allows us to view the vehicle theft claims by Forward Sortation Area (FSA)** in Alberta. The maps in this section present the claim frequency by each FSA in the province, with the exception of areas with few vehicles. We do not present the claim frequency for any FSA which has had less than 10,000 vehicles in the past five years; this removes just 10 FSAs from Alberta's 156. These FSAs are removed as the low sample size makes them prone to fluctuations year to year and are not credible.

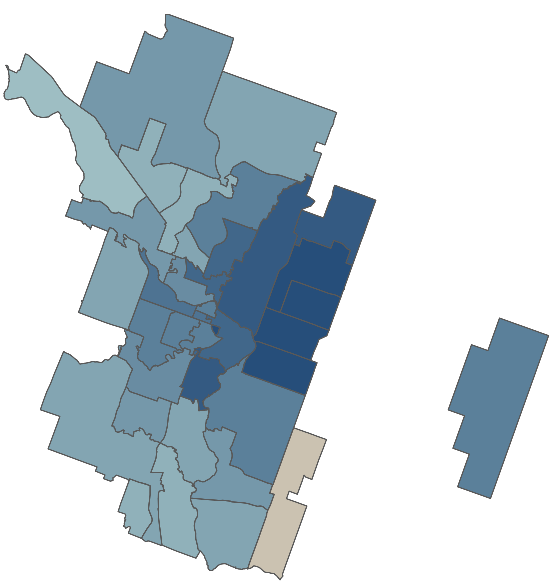
Excluding these FSAs, the FSA with the highest claim frequency is Edmonton's T5H, at 6.8 vehicle theft claims per 1,000 vehicles, which is part of North Downtown. Followed closely in second place is Edmonton's T5G, another neighbourhood in the Central North of Edmonton. In third, we have T4N, which is Central Red Deer, with 4.5 claims per 1,000 vehicles. The lowest claim frequency is in T1M (Coaldale), T1L (Banff), and T1B (South Medicine Hat).

Vehicle Theft in Edmonton by FSA Over 5 Years (2019 - 2023)[4]





Vehicle Theft in Calgary by FSA Over 5 Years (2019 - 2023)[4]



Aggregating the claims to the community level, the community with the highest instances of vehicle theft is Cold Lake at 5.3, Bonnyville at 4.5, and Rocky Mountain House at 4.4. The provinces largest cities, Calgary, and Edmonton, come in at just 2.7, and 2.9 respectively.

These data points highlight the variability in theft, even within the same community. Edmonton has the top two FSAs by vehicle theft, yet as a community, is below average for theft. When we look at the map, we see a significant concentration of vehicle theft in the Northeast portion of the city, with average values in the South and Southwest. For Calgary, we see a similar story with significant theft frequency in the Northeast, and lower frequency to the West side of the city.

Typically, these locations correspond with the downtown core having higher theft while areas outside are lower. However, some rural areas have significant levels of theft, such as Cold Lake and Bonnyville as noted previously.

* An FSA is the first three letters of an addresses postal code.
** Any area with fewer than 10,000 vehicles in the five year period (2019-2023).

Vehicles per Capita

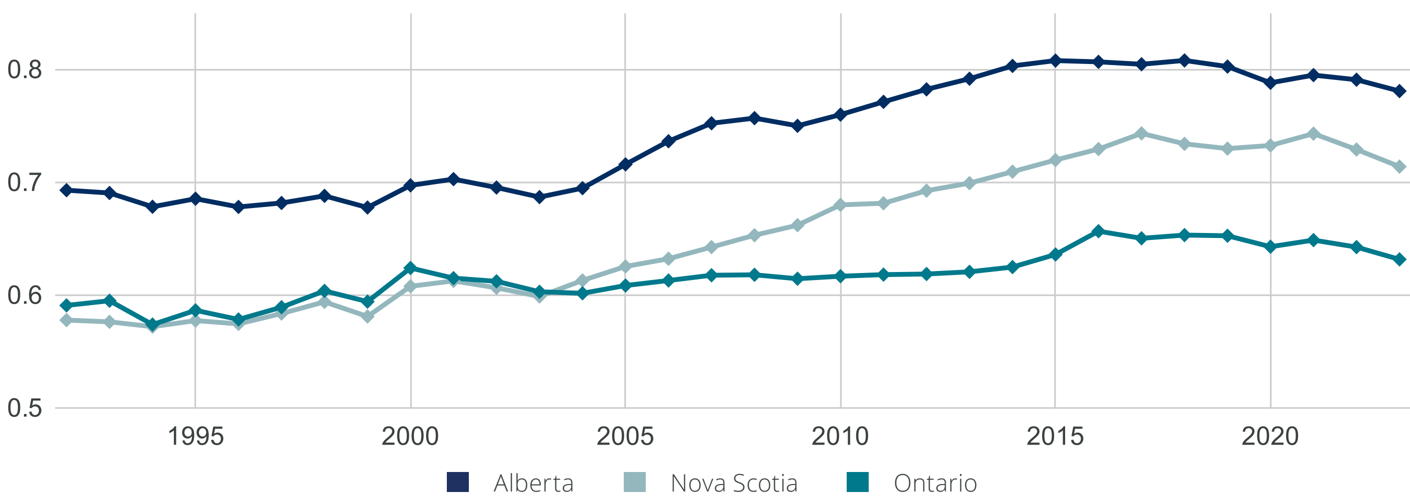
Compared to Ontario and Nova Scotia, Alberta has the most vehicles per capita. Alberta has distinctly been above both provinces since data began in 1992 but has risen from 0.70 [11/15] vehicles per person aged over 16, to just under 0.80 in 2023. We saw steady growth between the early 2000's to 2015 but have since seen steady or negative growth year over year.

While Ontario and Nova Scotia remained close until the early 2000's, Nova Scotia saw significant growth and is now closer to Alberta than Ontario. Ontario meanwhile has seen the smallest growth overall, increasing from about 0.60 to 0.65.

The intensity of vehicle usage is correlated with the availability, accessibility, and performance of public transportation. As well, each provinces unique geographies, urban and economic zone density, and walkability contribute to the need for a vehicle. Focusing on public transit, Statistics Canada began collecting ridership by municipal transit agency monthly, starting in 2023. For 2023, transit service in Edmonton and Calgary saw 53.4 [18] and 90.0 million riders, respectively, which includes both bus and LRT. In Toronto, the number of rides was 393.6 million, and 6.8 million in Halifax. Dividing the number of yearly trips by the population, we see Edmontonians take approximately 34.2 trips per person per year, and Calgarians take 53.5. Out east, Torontonians take the highest at 57.8 trips, and Halifax at 36.7. While there are numerous factors at play, the higher intensity of transit usage in the Toronto area, a major population center in Ontario, may have an impact on the decision to drive.

Vehicles per capita does not correlate with vehicle density, as Nova Scotia is by far the densest, at 11.7 vehicles per square km, with Ontario and Alberta in second and third at 7.7 and 4.5, respectively as of 2023.

Vehicles per Person Over 16 [11/15]



Health Levy

Over the last year there has been increased attention on the health levy and calls for the government to pause or remove it from auto insurance to give relief to the rising cost of auto insurance.

In accordance with the Crown's Right of Recovery Act the province recovers from wrongdoers the Crown's cost of health services provided to Alberta Health Care recipients who have suffered a personal injury due to the wrongful act or omission of a third-party.

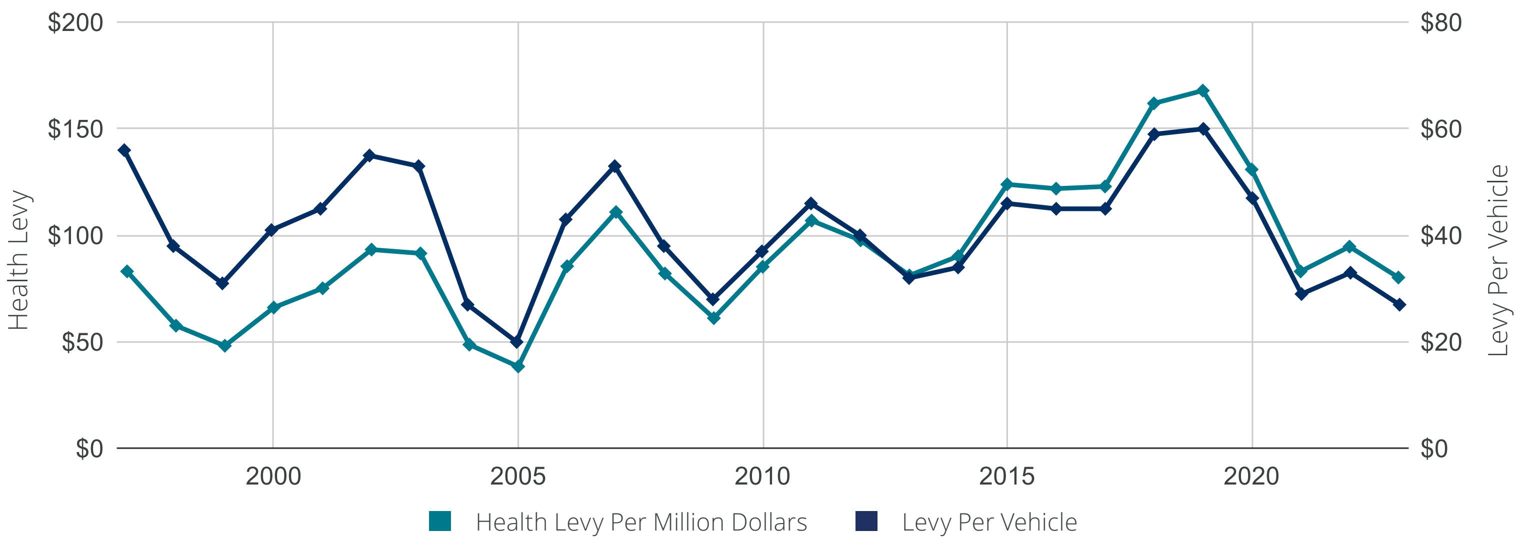
There are two components to the Crown's right of recovery:

1. Claim-by-claim recoveries. Examples: occupier's liability, medical malpractice, product liability, commercial/social host, dog bites, assaults, etc.
2. The aggregate assessment. The aggregate assessment is a lump sum amount which is the Minister's estimate of the Crown's health care costs incurred to treat the victims of wrongdoing in the use or operation of Alberta-insured automobiles. The aggregate assessment is payable by Alberta auto insurers and replaces claim-by-claim recovery in most motor vehicle situations.

Under the Health Cost Recovery Program, auto insurers remit an amount for each calendar year representing their proportionate share of the total estimated Crown cost of those health services. A new special notice is issued annually to include the new assessment factor for the year. As shown the assessment factor changes each year based on the best estimate of the Crown's healthcare costs incurred due to motor vehicle accidents.

In 2023, the estimated health levy was $80.3 million, which is determined by multiplying third-party liability premiums by the health levy amount; 2.86% for 2023. The graphic below presents the aggregate estimate as well as the cost per vehicle. All numbers are inflation adjusted to 2023 dollars. As we can see, the highest aggregate assessment came in 2019, and has been below pre-pandemic amounts as claims have come down. The highest amount, per vehicle, came in the first year of the health levy in 1996, when it sat at $84 per vehicle in 2023 dollars, today, it is just $27.

Estimated Health Levy (2023 Dollars)[11/17]



Insurer Profitability

The insurance industry implemented the International Financial Reporting Standard (IFRS) 17 in 2023. The new global standard replaced IFRS 4, which had been in place since 2004. IFRS 4 was consistently applied in Canada's property and casualty (P&C) insurers, aside from using different assumptions on reserving inputs inherent in actuarial practice. Most P&C insurers reported liabilities the same way, with an unearned premium and an incurred claims provision including case reserves and incurred-but-not-reported claims. Many of the key performance indicators were also aligned across all insurers, internationally. This was not true for the life insurance industry and long duration contracts, which did not consistently apply IFRS 4 globally.

The aim of IFRS 17 is to provide consistent, transparent principles for all aspects of accounting, as well as deeper insights into an insurer's financial health. The new standard also increases comparability between insurers, and lines of business, by fostering greater global consistency. Here are some of the key differences for the P&C insurance industry.

- Onerous contracts: Insurance contracts are grouped where insurance risks are managed together (e.g., provincial, line of business), and profitability is grouped in a similar way under IFRS 17. If a group of contracts is expected to lose money (without considering investment returns or reinsurance), the loss is recognized up front as an onerous contract. This is different from the previous premium deficiency requirements, resulting in some policies or books of business having more up front losses.
- Insurance income versus financing: IFRS 17 fundamentally changes how earnings are presented on the income statement. The insurance financing impacts (i.e., accretion on reserves) and investment income will be presented separately from insurance performance. The discount rate on liabilities no longer reflects asset yields, but instead is based on a risk-free rate plus illiquidity premium based on insurance contract characteristics. Investment spreads from credit risk and other market risks will show as profit from investment activities.
- Change to financial metrics: Insurers continue to monitor gross written premiums and the combined ratio, among other items reported under IFRS 4. Some of the reportable data elements under IFRS 17 are expected to result in differing ratios and metrics. For example, expenses are now allocated between insurance results and non-insurance operating expenses, affecting the combined ratio. Equity may have transition adjustments, thus impacting the return on equity. Insurers can differ in their interpretation of IFRS 17, which may impact ratios between companies. It is important to understand the source of the changes in combined ratio when evaluating differences under IFRS 17.
- Data to source disclosures: There is an increase in disclosure around movements in the reserves, causing more complexity in sourcing data from new reporting systems.
- Two important changes to note include: "Gross Premiums Earned" under IFRS 4 has been replaced under IFRS 17 by "Total Insurance Revenue," defined as the amount earned for providing insurance coverage, and "Insurance Service Results" – defined as "Total Insurance Revenue" minus "Insurance Service Expenses" and "Net Expenses from Reinsurance".

With only one year of data, the new key performance metrics and related benchmarks are still emerging. We are reviewing the results alongside GISA, and considering the impacts from the change in how financial results are now reported. IFRS 17 results are not directly comparable to IFRS 4 results. Therefore, the profitability results we had been monitoring and trending over the past decade are no longer comparable to future results. It will take several years to identify new trends for insurer profitability.

Commercial Vehicle Trends

Commercial Market

Although this report mainly focuses on PPV, we also review and approve rating programs for other types of vehicles, including individually rated commercial vehicles and monitor the commercial vehicle market. We do not regulate rates for fleet-rated vehicles, of any vehicle type.

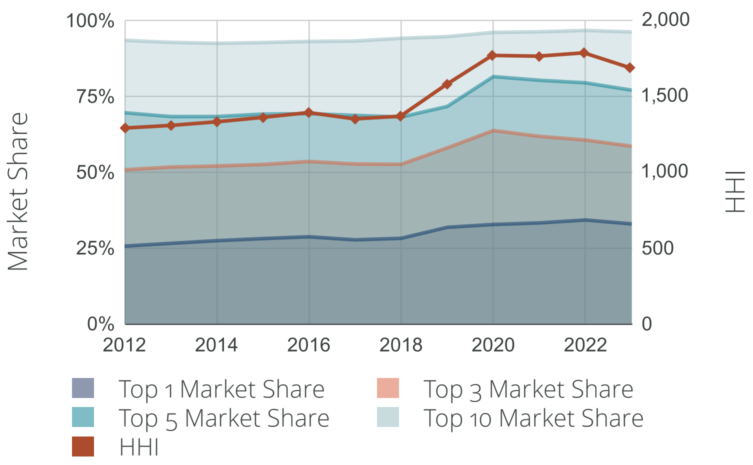
We have noted some pressures in the accessibility of insurance for commercial vehicles such as increased placement in the Facility Association Residual Market (FARM). The FARM is supposed to be the "insurer of last resort", but now has the third largest market share. This suggests a real strain as most insurers do not want to write this business. Also, rising cost pressures like those seen under PPV, also affect the commercial market to varying degrees.

Competitive Marketplace

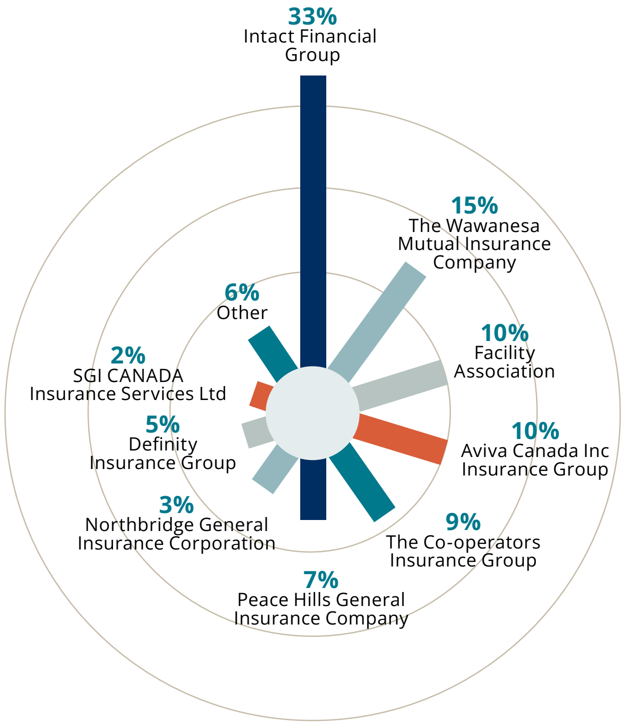
The commercial vehicle market in Alberta is less competitive than our PPV market. Based on written premiums, the largest insurer, Intact, holds a 33% market share in commercial vehicles within the province, and the top three together hold 58%, compared to 51% in PPV. The top five insurers have market shares of 77% and 70% for commercial and PPV, respectively.

The market share of the Facility Association represents the market share of the residual market. With 2023, they have passed Aviva as the third largest insurer, with a market share of 10.3%, compared to its low of 3.9% in 2017. We monitor the market share of the residual market as it forms one factor we use to assess the viability of the commercial market.

Commercial Competition Overview[8]



Top Commercial Insurance Groups (2023)[5]



Looking at this years HHI and previous levels of competition, we see the HHI was above 1500 in 2023, therefore the commercial market is "moderately concentrated". However, the HHI of 1688 is lower than the previous three years, though remains higher than all years before 2020. Big changes in the level of competition acquired in 2020 when Intact bought RSA. At the time, RSA was the seventh largest commercial insurer with a market share of 6.8%. Since 2019, Northbridge appeared to be softly exiting the market, as they dropped from an 8.8% market share in 2018 to just 3.0% in 2022, but appear to be writing new business again, as they increased to 4.5% in 2023. Other insurers who saw their market share lowered are Definity (7.6% in 2016, now 3.0%), and Chubb (2.1% in 2017, now 0.1%).

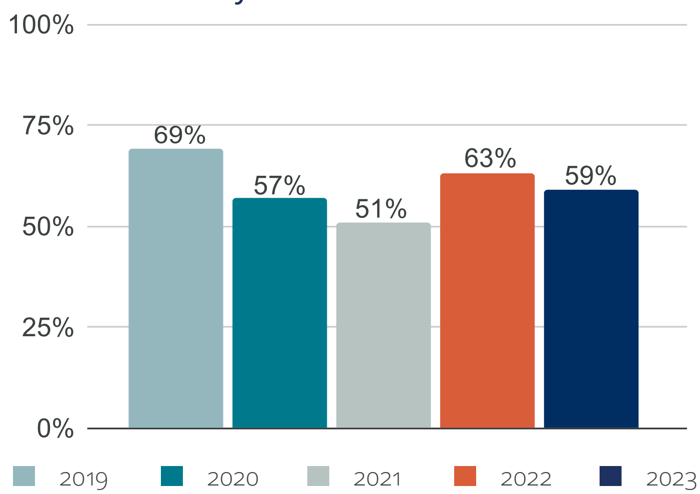
Overall, the top insurers market share insurer has increased 7.3% since 2012, while other insurers in the top five saw similar market shares. However, insurers with market share ranks of six to ten saw their market share decrease by 4.7%, and those outside the top ten saw it decrease by 2.8%. This represents a consolidation of the market towards the five largest insurers in the marketplace.

Commercial Claim Trends

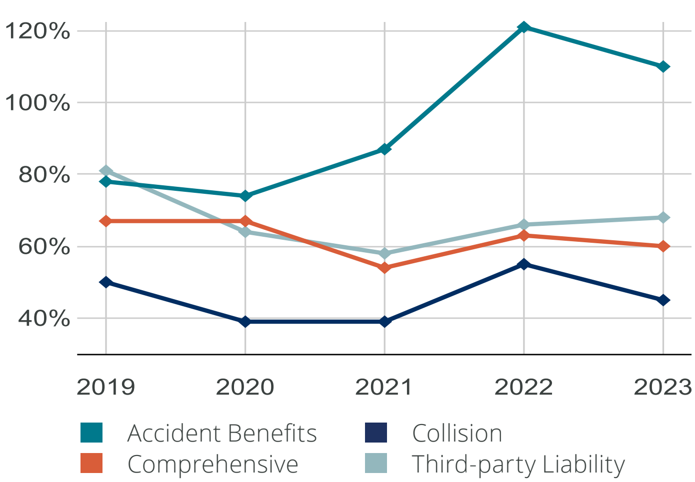
Loss Ratio

Another year away from the pandemic, the loss ratio has continued to increase as we return to our new normal. This year's loss ratio came in at 59%, however, last years loss ratio initially came in at 51% and now sits at 63%, an upward revision of 12 percentage points. A similar revision here would put our loss ratio at 71%, which is above our profitable threshold and higher than the loss ratio pre-pandemic in 2019. Compared to PPV, the loss ratio is nine percentage points more favourable. GISA collects data on commercial vehicles premiums and claims, which include fleet rated vehicles. The number of exposures written for fleets is not collected.

Commercial Industry Loss Ratio[7]



Commercial Loss Ratio by Coverage[7]



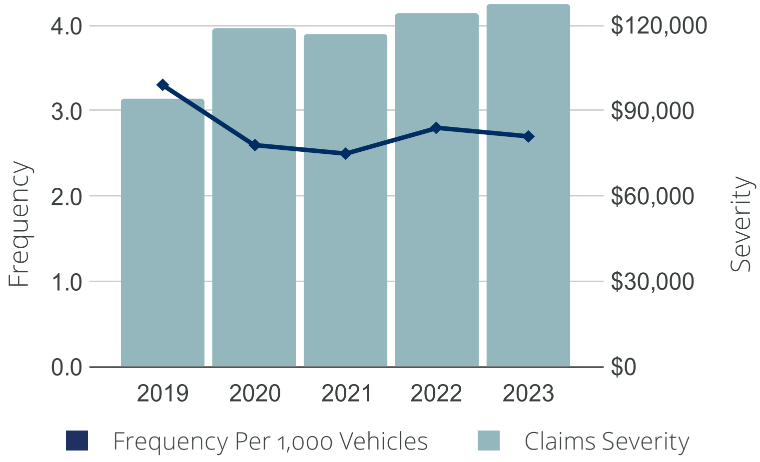
Looking at the loss ratio by coverage, we see a similar story to the corresponding PPV loss ratios. For both vehicle types, accident benefits remain the least profitable, but by a wider margin for commercial, where it currently sits at a loss ratio of 110%. This means for every one dollar earned in premium for accident benefits coverage, they're paying out $1.10 in claim costs. This is a decrease from the previous years 121% and represents the first decrease in the loss ratio in three years. Meanwhile, collision is quite profitable, with its highest loss ratio in 2022 at just 55%. Third-party liability coverage sits closely with comprehensive coverage and does not appear to be less profitable than other coverages like it is with PPV.

Third-Party Liability - Bodily Injury

Similar to PPV, bodily injury claim frequency has remained steady since 2020, hovering near 2.6 claims per 1,000 vehicles, compared to 4.5 for PPV. However, the claim severity for 2023 is projected to be $127,000 per claim, compared to $101,000 for PPV. This is likely due to the fact commercial vehicles are larger and heavier, and therefore more destructive in a collision.

Like PPV, we are happy to see the claim severity remains relatively steady compared to 2022, growing just 2.5%, compared to 1.7% for PPV.

Third-Party Liability - Bodily Injury[1]



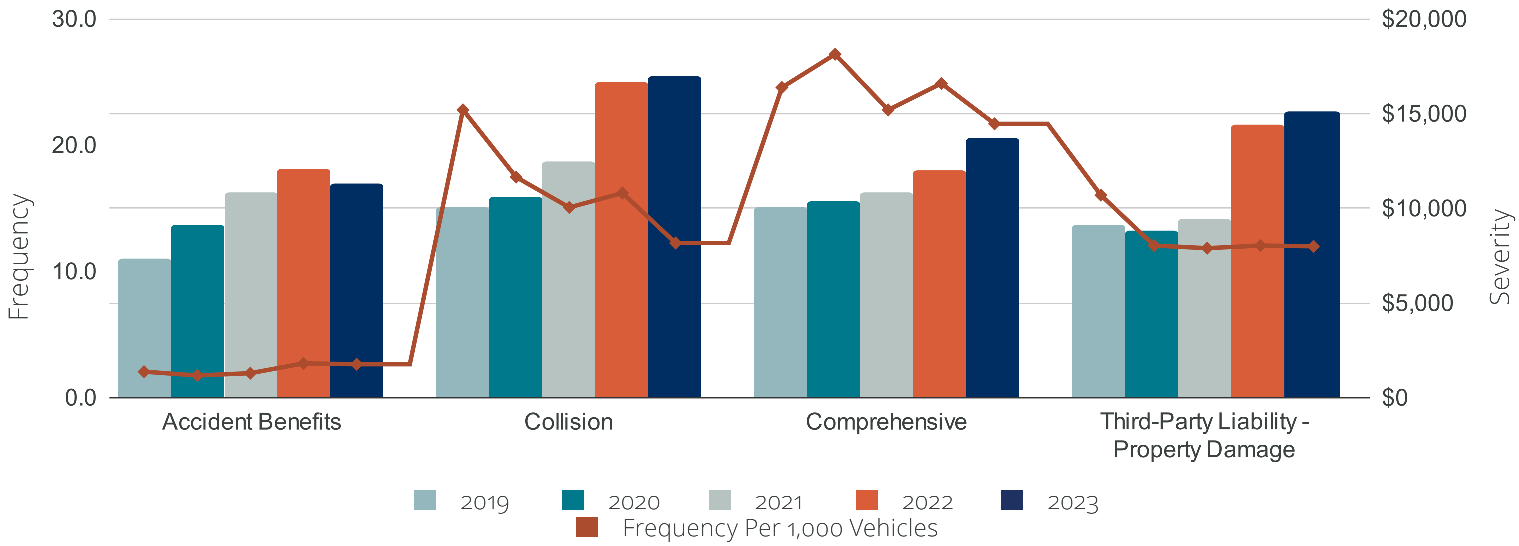
Accident Benefits, Collision, Comprehensive & Third-Party Liability Property Damage

Since 2019, accident benefits saw severity increase 53% since 2019, from $7,300 to $11,300, as well as a 29% increase in frequency. Promisingly, accident benefits saw a decline in both severity and frequency between 2022 and 2023.

Collision saw a significant reduction in frequency from 16 to 12 claims per 1,000 vehicles, and has overall fallen 46% since 2019, where it sat at 23. However, claim severity has been trending upwards, up 69% since 2019, but up just 1.8% between 2022 and 2023. The largest leap occurs between 2021 and 2022 as we entered the high inflationary period which caused significant stress on insurer claim costs.

Comprehensive coverage has seen little movement between pre and post pandemic, as this coverage does not depend on the frequency of driving. Claim severity, like collision, has increased following the period of high inflation.

Claims Frequency & Severity by Coverage[1]



Miscellaneous Vehicle Trends

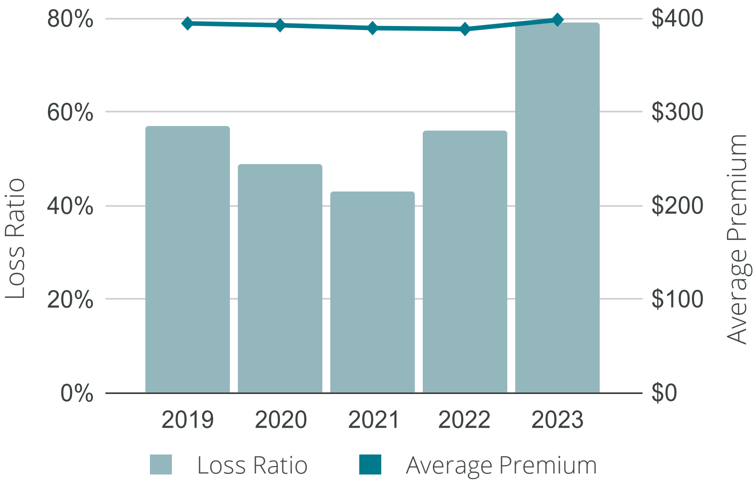
Motorcycles

Motorcycle vehicle counts increased to 175,000 in 2023, representing 4.6% of the auto insurance market by vehicle count, and 1.1% by premium count, due to a much lower average premium compared to PPV. This is up marginally from the 173,000 motorcycles insured in 2022.

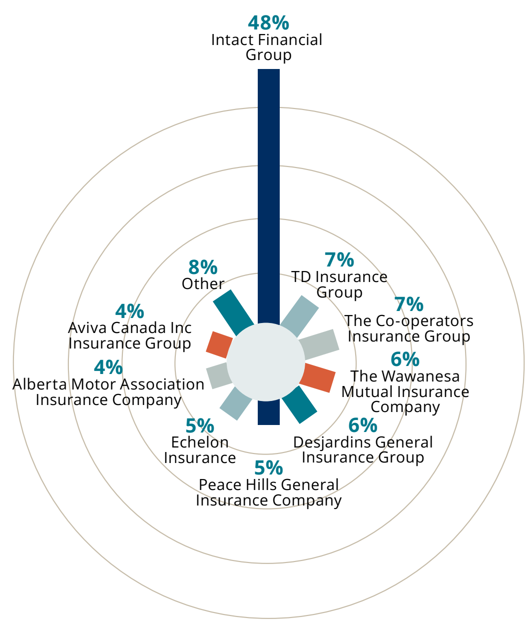
The average premium was $399, up 2.5% from last years $389. However, losses per policy increased from $220 to $316, or nearly 44%. This led to an unfavorable increase to the loss ratio of 23 percentage points. A leading cause was accident benefit loss costs increasing 56%. The number of motorcycles increased to 174,500, up from 172,400 the prior year.

Overall, Intact as the largest insurer of this vehicle type represented 48.3% of the market, with TD and the Co-operators tied at 7.2% as second and third largest respectively. Overall, the motorcycle class has an HHI of 2602, therefore classifying it as “highly concentrated”.

Motorcycles Loss Ratio & Average Premium [9]



Top Motorcycle Insurance Groups (2023) [5]



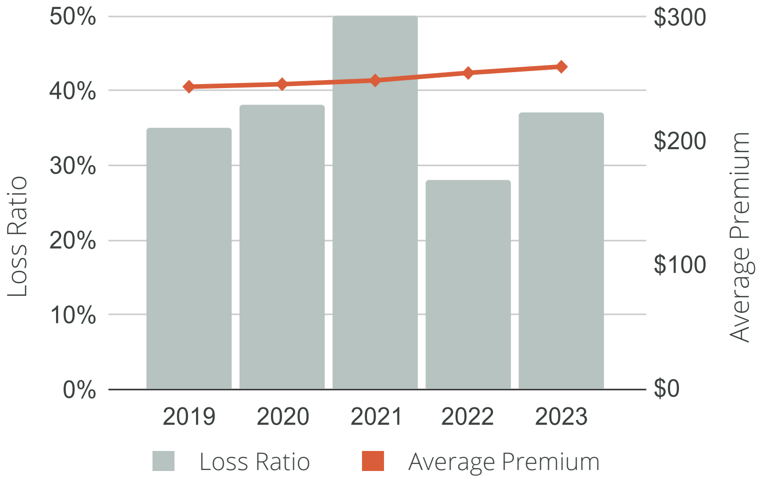
ATVs

Similarly, ATV vehicle counts were essentially unchanged, at 159,000 up from 158,000. ATV still represents 4% of the market by vehicles but fell 0.1 percentage points as the number of PPV vehicles grew 3.1%.

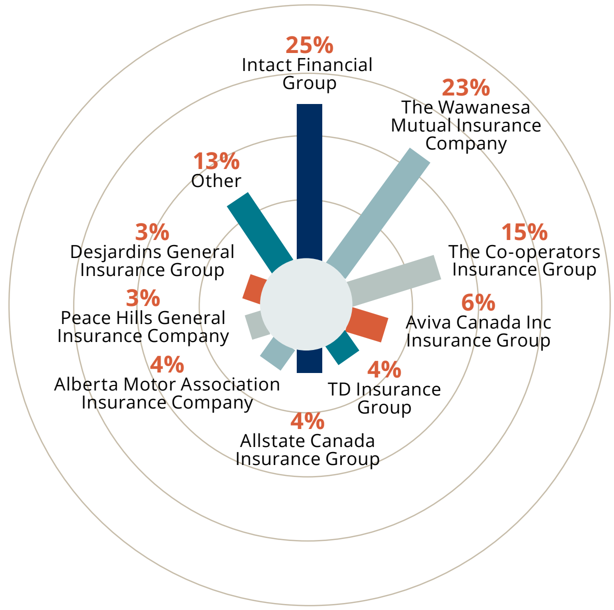
The number of ATVs in the province fell slightly from 159,700 to 158,900. The average premium increased 1.9% to $259, with loss costs increasing to $94 from $71 in the prior year; an increase of 32%. Overall, this led to a nine point unfavourable change in the loss ratio. However, the loss ratio remained well below our 70% benchmark, at just 37%.

Overall, as with other vehicle classes, Intact leads the market with a 25.3% market share, followed by Wawanesa at 22.5%, and Co-operators at 15.1%. As a whole, the ATV market had an HHI of 1499; down from 1527 in 2022. Overall, this market is moderately concentrated.

ATV Loss Ratio & Average Premium[9]



Top ATV Insurance Groups (2023)[5]

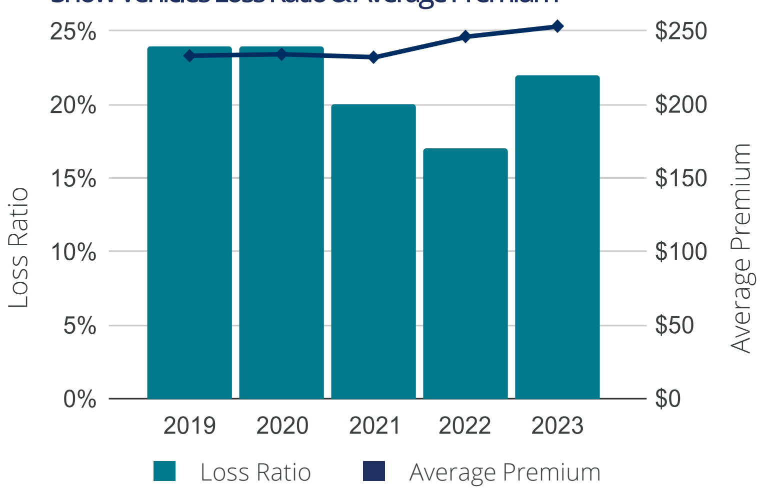


Snow Vehicles

2023 saw 61,000 snow vehicles insured in the province, virtually unchanged from the previous year. While they represent 1.6% of the market by vehicle, they represent just 0.3% by premium, as the average premium of just $250 is much lower than the average premium of other vehicle classes.

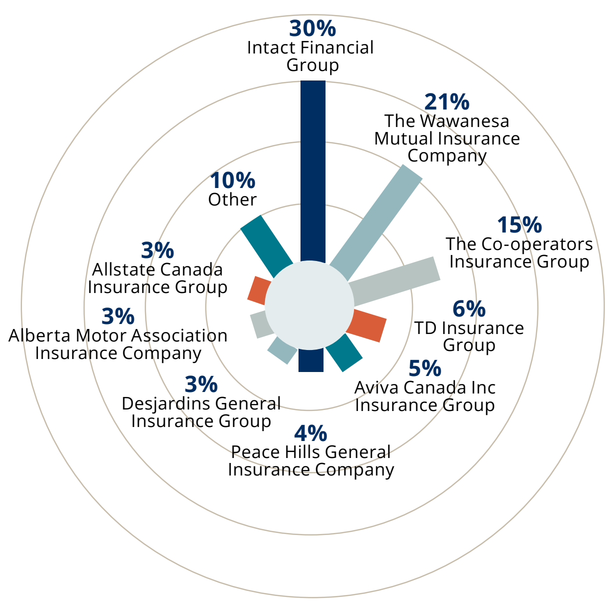
Snow vehicles saw a similar small decline in the number of vehicles written, from 122,700 to 121,700. The average premium increased 2.9% from $245 to $254, while costs per vehicle increased from $43 to $54. Overall, snow vehicles have the best loss ratio of the three highlighted in this section, at just 22% in 2023.

Snow Vehicles Loss Ratio & Average Premium[9]



Overall, the snow vehicle HHI was 1692, compared to 1697 the previous year. Intact continues to lead the market with a market share of 30.2%, with Wawanesa and Co-operators rounding it out with 20.9% and 14.8% respectively.

Top Snow Vehicles Insurance Groups (2023)[5]



Other Trends

Severe Weather & Catastrophic Losses

Canada's Insured Catastrophic Losses in 2023[3]

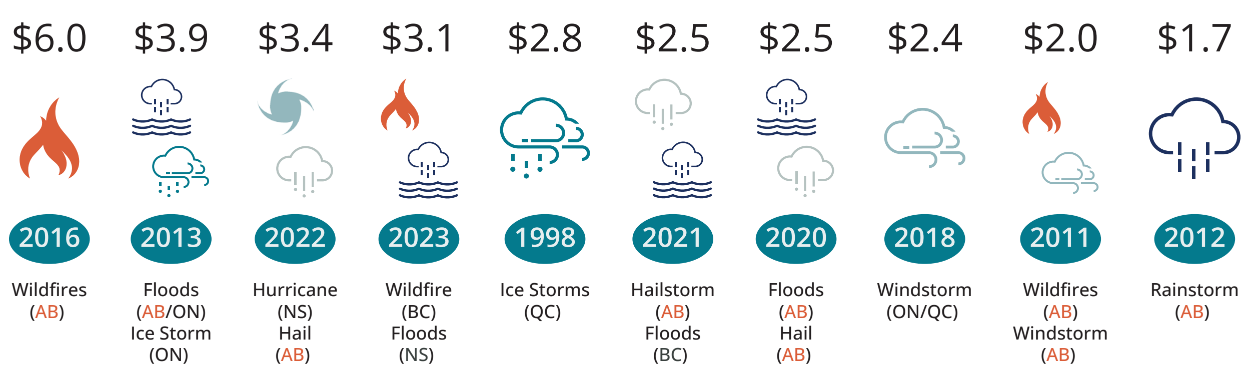
1	BC	August/ September	Wildfire	$720 Million
2	ON	July/ August	Severe Storms	$340 Million
3	ON/QC	April	Ice Storm	$330 Million
4	NS	July	Flooding	$170 Million
5	NS	May/ June	Wildfire	$165 Million
6	MB	August	Hailstorm	$140 Million
7	Atlantic	February	Cold Snap	$120 Million
8	AB	July	Hailstorm	$110 Million
9	AB/SK	July	Severe Storms	$100 Million
10	NWT	August/ September	Wildfire	$60 Million
11	AB	June	Flooding	$40 Million
12	Central	July	Severe Storms	$40 Million
13	QC	October	Flooding	$40 Million

In general, Alberta has experienced more catastrophic events than other provinces in recent years. The increasing frequency and severity of catastrophic losses has an impact on the premium insurers charge, as they add a provision for catastrophic losses in determining the premium required to cover expected costs. Our consulting actuary estimates a catastrophe factor annually for comprehensive coverage (hail, fire and flooding claims are covered by comprehensive coverage) based on industry data. This factor changes annually and can be volatile year-over-year depending on the events in the prior periods.

The impact of these events varies greatly amongst insurers due to differences in the distribution of risks (i.e., some insurers have greater exposure in rural vs urban areas), and insurers use their own experience in determining the expected costs for future periods, which may be different from the results based on industry data.

We closely monitor the trends for severe weather events nationally, as Alberta has dominated the severe weather events for more than a decade. Of note, wildfires have been increasing across the country. While fire typically impacts property insurance more than auto, the events of the 2016 wildfire in Fort McMurray had a significant impact on auto losses.

Canada's Top Ten Highest Insured Severe-Weather Loss Years (in 2022 dollars)[3]

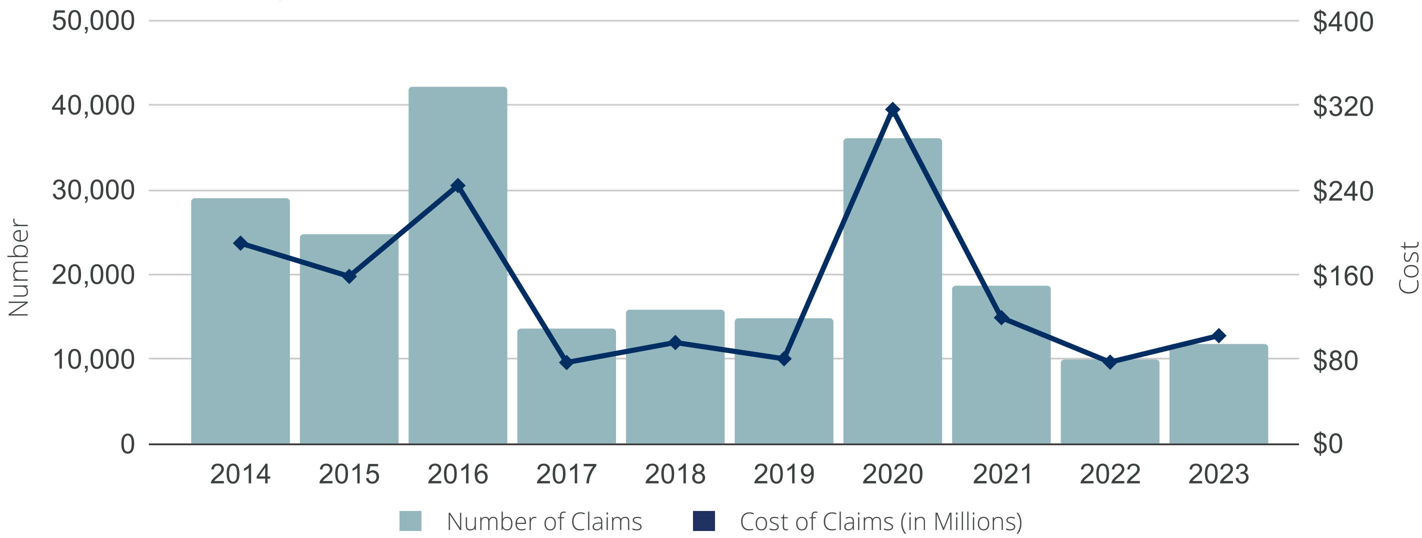


Severe weather continues to be a concern for insurers. Comprehensive loss ratios are influenced year-over-year by severe weather event claims. With the frequency and severity of weather events increasing yearly due to climate change, pricing comprehensive coverages becomes increasingly difficult. With the added uncertainty, drivers pay more for coverages to be certain insurers have sufficient capital to cover all claims resulting from a potential large catastrophic loss. Catastrophic losses due to severe weather contribute significantly to claims costs. In 2023, a small spike in catastrophic events compared to 2022. The number of CAT claims increased 18% to 11,724, while the inflation-adjusted CAT losses increased 27% to $102 million. Per vehicle, the losses due to CATs alone was $41 for all comprehensive coverages. The most significant weather event in the 2023 accident year occurred between June 15 and June 17, where a hailstorm affected Calgary, Edmonton, and central Alberta, and caused 8,200 claims (70% of this year's claims), and $77 million in losses (75% of this year's losses).

Overall, despite increases in the number of claims and losses since 2022, 2023 had the second lowest incidences of CAT claims, and the fourth lowest inflation-adjusted CAT losses. Looking forward, the 2024 wildfire season saw unfortunate and significant damage to the town of Jasper. While it's too early to say, a significant event like this may push the 2024 results higher than they have fortunately been in recent years.

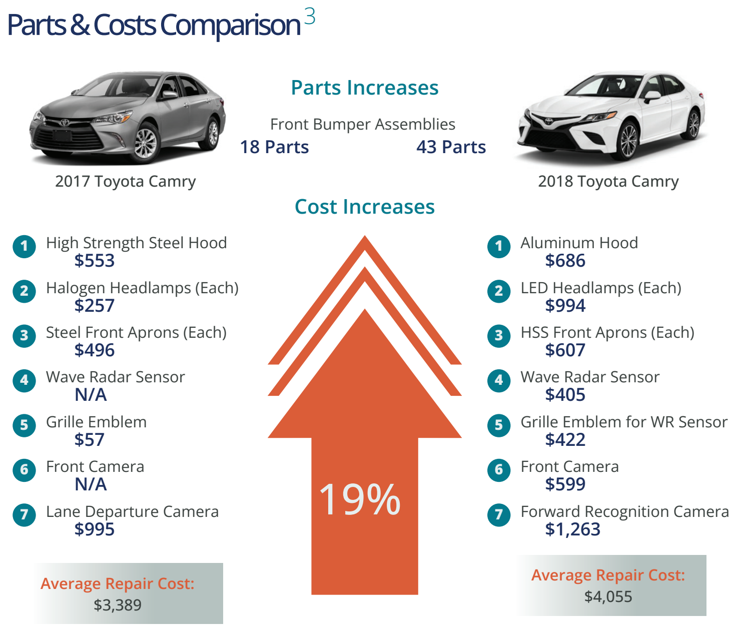
Weather-related catastrophes include ice, flood, hail, wind, and fire. Alberta has experienced four of the top ten catastrophes in Canada since 1998, with three of the four most expensive insurance costs. Natural catastrophes are a global concern, and regulators across Canada are working to improve consumer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

Severe Weather Claiming Trends[10]



Complexity Driving Up Repair Costs

Vehicle manufacturers are making substantive generational changes to newer models to make them safer for drivers. Many changes made to increase crash avoidance, which lower claim frequency, are increasing the number and complexity of parts, which increase claim severity. There is no such thing as a “little fender bender” anymore, as many bumpers in newer vehicles now contain sensors and cameras, which adds to the cost of repairs.



An example of the increase in parts is shown when comparing a 2017 and 2018 Toyota Camry. Despite the similar age of the vehicles, there are subtle changes resulting in increased costs to repair, and therefore higher claim severity:

- The material used for the hood was changed. The 2017 model had a steel hood, and it was replaced by an aluminum hood for the 2018 model. Car manufactures have found automotive aluminum has a similar strength and durability profile when compared to steel yet can fold more predictably in a collision allowing for enhanced crumple zones and better crash absorption. The enhanced crash absorption is safer for the driver, however, results in the hood being replaced more often following an accident.
- The increased use of cameras in a vehicle. The older model did not have a front camera, which was added for the 2018 model.
- The emblem on the grill has changed. In 2017, it was just an emblem and inexpensive to replace, in 2018 a sensor was added to the emblem, requiring recalibration in event of a collision.
- Halogen headlights have been replaced with more expensive LED headlights.

The cost to repair a 2017 vs a 2018 model year Toyota Camry increased 19% due to increased complexity. The new features added to vehicles increase the safety of the driver by reducing the chance of getting into a collision. However, for those vehicles involved in a crash the increased requirement for calibrations coupled with changes in construction and parts & labor inflation are pushing claims costs higher and leading to higher insurance premiums for physical damage coverages.

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