



July 22, 2024

Mr. Jamie Hotte
Chair, Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

RE: AIRB 2024 Annual Review

Dear Mr. Hotte,

Thank you for the opportunity to participate in the AIRB's Annual Review of auto insurance trends and rates for basic and additional coverage. Consistent with our approach from previous years, Insurance Bureau of Canada (IBC) consulted with its member companies to review Oliver Wyman's report, *Annual Review of Industry Experience as of December 31, 2023, Private Passenger Vehicles*. The commentary contained in this letter reflects the views of insurers operating in Alberta's private passenger vehicle (PPV) insurance market.

State of the Industry

Alberta's auto insurance market is in crisis. Ongoing rate intervention has created an unsustainable operating environment for Alberta's auto insurers. With claims costs growing far in excess of the premiums carriers are able to charge, insurers are scaling back their products in order to remain viable. In fact, several carriers have been forced to abandon the province entirely. For consumers, such actions are resulting in less choice, less competition and, in many cases, more expensive coverage.

Last year's rate pause has had a devastating impact on the health of Alberta's auto insurance marketplace. It has resulted in a situation where in the first quarter of this year, carriers have incurred 10% more in claims and expenses than they earned in premiums. This situation will only be further strained and challenged by the 'good driver' rate cap, impacting roughly three-quarters of their books of business.

In the Annual Review report, Oliver Wyman projects claims costs for injury coverages to once again increase significantly. In particular, Oliver Wyman selects a trend factor of +8.7% for bodily injury claims and +13.2% for accident benefit claims. Oliver Wyman also projects that comprehensive claim costs will continue to rise by +3.6%. These trend factors exceed the current rate of inflation in Alberta, and notably, injury claims costs exceed the rate cap, further signaling that the rap cap is not sustainable and does not allow insurers to keep pace with rising – and mounting – system cost pressures. In addition:

- Legal costs now account for a greater portion of the auto insurance premiums drivers pay in Alberta than anywhere else in Canada. Lawsuits and legal costs associated with insurance claims have soared 31% in Alberta since 2018 and now account for 20% of mandatory premiums;
- Over the last three years, spending on vehicle parts and repairs was up 15%, while the cost of new vehicles has increased 12.7% in December 2023;
- The cost of vehicle theft is increasing. Since 2021, the cost of vehicle thefts is up 55% across Alberta;



- The Alberta health care levy on auto insurance premiums increased 28.2% in 2023;
- Cash settlements for minor injuries under Alberta’s Minor Injury Regulation went up 4.2% in 2023.

The data presented in this Annual Review confirms there remains claims costs pressures in Alberta’s auto insurance system that are unsustainable. To mitigate further deterioration of the market, the AIRB must be prepared to accept actuarially justified rate filings. This would also support the Vision and Mandate of the AIRB calls for a “sustainable” and “robust automobile auto insurance marketplace.”

To achieve this, the AIRB must rescind Bulletin 10-2023 (‘the Bulletin’), which states the AIRB will not approve a rate change greater than 10% – effectively introducing a rate ceiling that is in direct contradiction with the spirit and stated intent of government direction. The Bulletin states the AIRB simply will not consider an insurer application for a rate increase of more than 10%. This is an arbitrary benchmark above which the AIRB has pre-emptively decided – by policy – not to apply its statutory discretion to assess the individual merits of each application and consequently constitutes an abuse and fettering of discretion.

This Bulletin has created an additional pressure in the market, which runs contrary to our shared goal of a robust auto insurance marketplace for Alberta’s drivers. As many carriers were not rate adequate prior to the implementation of the rate pause, they have been unable to obtain rate during the rate pause and now under the rate cap, despite the AIRB’s consulting actuary confirmation of growing claims costs pressures for many coverages – particularly injury claims coverages. IBC emphasizes that it is reasonable for carriers to account for these cost pressures in their rate filings. Limiting their ability to do this through this 10% rate cap runs counter to the “reasonableness” with which the AIRB is expected to review rate filings.

We strongly urge the AIRB to remove this Bulletin immediately. It is clear, consistent government intervention in the market has led to carriers needing to take steps to reduce consumer offerings and some exiting the marketplace altogether.

Commentary on Loss Cost Analysis

For this year’s Annual Review, Oliver Wyman projected that several coverages, particularly those related to injury claims, will increase considerably over the next year. The table below highlights projected future trend rates outlined in this Annual Review.

Future Loss Cost Trend Rates

| Basic Coverage | | | Additional Coverage | |
|----------------|-----------------|-------------------|---------------------|---------------|
| Bodily Injury | Property Damage | Accident Benefits | Collision | Comprehensive |
| +8.7% | +1.6% | +13.2% | +2.4% | +3.6% |

IBC with data from Oliver Wyman.

Consistent with previous reviews, claims costs for bodily injury and accident benefits claims are projected to increase significantly. However, in this Annual Review, Oliver Wyman projects a higher bodily injury trend rate than previous reviews, of +8.7%. This trend rate reinforces the need for immediate action to address rising legal costs in the system. Similarly, accident benefits claims costs are expected to rise by +13.2%. These selections indicate that under the current product, injury claims costs will continue to rise significantly.



Again, Oliver Wyman projects moderate vehicle damage increases, with property damage and collision future trend rates of +1.6% and +2.5%, respectively. However, the Annual Review also states ‘inflationary pressures on physical damage coverages have resulted in the highest inflation levels in the last 10 years.’ In light of this, IBC recommends the AIRB permit insurers to consider Statistics Canada data elements in all future rate filings to adequately capture changes in CPI, where applicable, and if the insurer believes it is necessary based on their individual experience. Such elements include:

- The value of new and used vehicles, which are directly related to the actual cash value for the one-quarter of vehicles that are considered total loss after a collision;
- Vehicle parts, accessories and supply costs;
- Private passenger vehicle lease costs; and
- Rental of passenger vehicle costs.

Comprehensive claims costs are also projected to rise, by +3.6%. However, the selected comprehensive severity trend rate of +4.3% does not fully account for recent inflation, which is accounted for in the loss trends of several other coverages as a scalar. We suggest a selection of a higher comprehensive severity trend for recent years would better reflect the future expected loss costs for this coverage.

Oliver Wyman also notes that ‘the large increase in the number of theft claims since 2011 contributes to the higher comprehensive loss costs.’ Auto theft is a national crisis, and in Alberta, auto theft claims costs have increased by 55% since 2021. Tackling the auto theft issue requires a whole-of-society approach. IBC recommends the Alberta government:

1. Provide more resources for coordinated, inter-agency enforcement;
2. Bolster enforcement capacity by creating provincial auto theft teams with dedicated prosecutorial support to strengthen provincial capacity to police and deter organized crime’s involvement in auto theft, as was recently done in Ontario; and
3. Through Service Alberta, eliminate the current VIN override policy to ensure registrations cannot be issued if a VIN fails to conform to VIN verification databases.

We urge the AIRB to educate government on the impact of auto theft losses on the auto insurance industry.

Finally, similar to previous reviews, Oliver Wyman “suggests the Board consider the reasonableness of additional information provided by interested parties as it may provide more insight into the industry private passenger vehicle claim experience that has emerged or is expected to emerge.” Oliver Wyman also “suggests the Board consider that the experience of one insurer may not be representative of the experience of the industry.” Given this, IBC strongly recommends the AIRB consider the approval of insurer rate filings based on the reasonableness of those filings. In order to do so, the AIRB must act swiftly to remove the Bulletin in place that has created an additional rate ceiling for insurers. We have seen the negative effects of reduced competition and consumer choice that government intervention on auto insurance rates, and we strongly urge the AIRB to remove this barrier to prevent further market interference.



Catastrophe Provision

Oliver Wyman notes they are no longer approving a benchmark for the catastrophe provision. IBC supports this decision, as it allows insurers to select their own catastrophe provision based on their individual loss experience caused by significant weather events in the province.

Health Cost Recovery

Consistent with the 2024 Health Cost Recovery Assessment recommended benchmark from the Alberta Treasury Board and Finance, Oliver Wyman agrees that insurers should reflect the health levy of 2.94 % in their 2023 filings. IBC believes this is a reasonable provision.

Operating Expenses

Oliver Wyman selected an operating expense ratio of 27.8% based on the GISA Industry Expense Report. IBC considers this to be reasonable.

Investment Income on Cash Flow

In July 2019, the AIRB updated its Guidelines to allow insurers to use their individually-selected investment income rate in their rate applications. IBC continues to support this decision to let insurers select their expected investment income rate based on their own individual experiences.

Profit Provision

Last year, the AIRB lowered the profit provision in Alberta from 7% to 6%. When combined with government rate intervention, this action is having a negative impact on insurer capacity in the marketplace, to the detriment of Alberta's drivers.

According to data from GISA's Industry Profit and Loss Report, over the past decade, Alberta PPV auto insurers have paid out more in claims costs, operating expenses and premium taxes than they earned in premiums and investment income. The Superintendent's Annual Report, published in September 2023, further noted that 17 insurers lost money on the sale of auto insurance in 2022, proving how challenging the market is for the majority of carriers operating in the province. The most recent data from MSA reconfirms these challenges and shows that in the first quarter of 2024, Alberta's private passenger auto insurance service ratio was 110%.

In this environment, it is hardly surprising that two carriers have exited the market in recent weeks, with others implementing restrictions on the sale of coverages in order to remain viable. To mitigate such trends, the AIRB should do more to attract capacity back to the marketplace and promote greater choice for consumers. To do so, IBC strongly recommends the AIRB return its profit benchmark back to 7%.

Conclusion

IBC appreciates the opportunity to provide input for the 2024 Annual Review. The current state of the auto insurance market in Alberta has presented significant challenges for insurers operating in this space, and the trend factors put forward by Oliver Wyman highlight the growing pressures that are mounting under the rate cap. It is critical the AIRB work with government to inform and educate them of these system pressures and place urgency on the removal of the rate cap.



IBC looks forward to working with government and the AIRB on improvements to support the province's 3 million drivers. Thank you for the opportunity to provide input for this year's Annual Review. We look forward to virtually meeting with the AIRB on August 15.

Sincerely,

Aaron Sutherland
Vice President, Western and Pacific
Insurance Bureau of Canada