2025 ANNUAL INDUSTRY REVIEW PRELIMINARY FINDINGS PRIVATE PASSENGER AUTOMOBILE

PRESENTATION TO THE AUTOMOBILE INSURANCE RATE BOARD

14 August 2025

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A business of Marsh McLennan

AGENDA

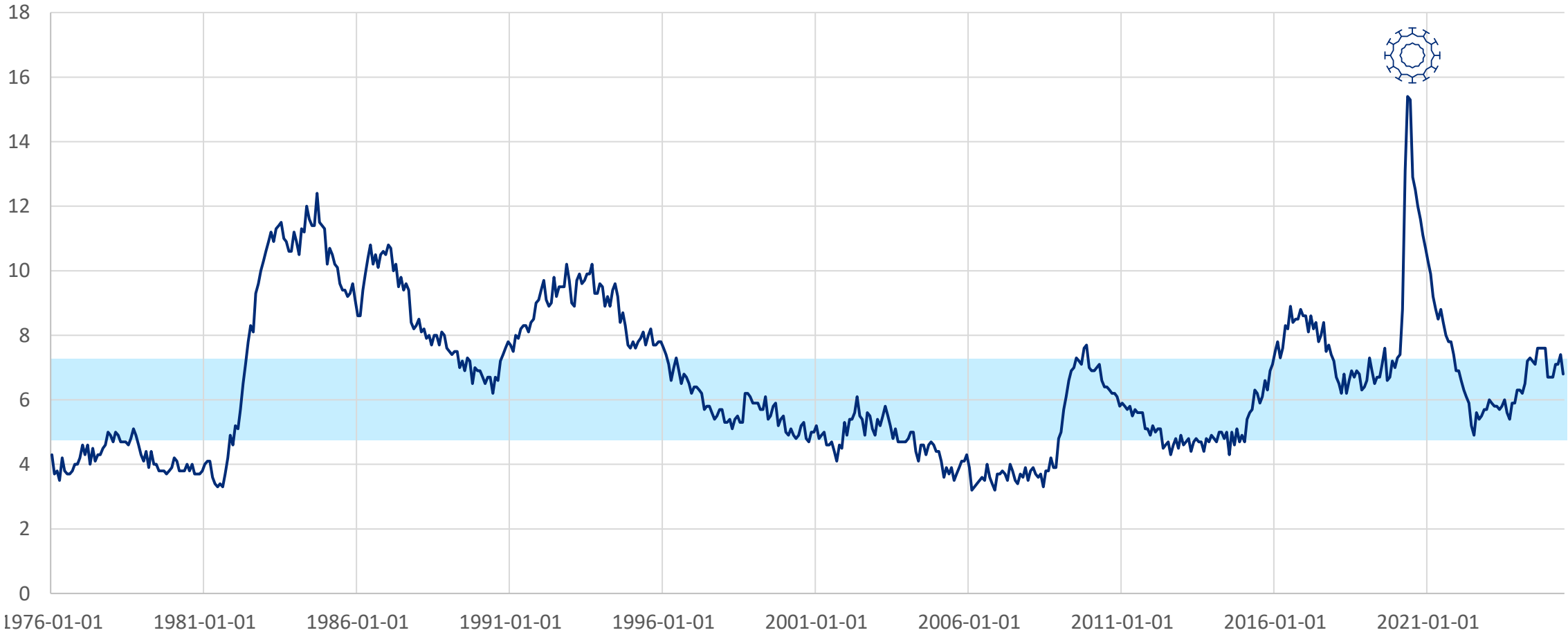
1. Economic Indicators
2. Industry Benchmarks
3. Loss Trend Benchmarks
4. Inflation
5. Combined New Normal

CHANGE IN ECONOMIC CONDITIONS

	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Latest
Alberta Unemployment Rate	6.7%	15.2%	8.8%	5.2%	5.8%	7.2%	6.8%
Alberta CPI (All-items, 2011-100)	142.7	145.0 (+2%)	148.9 (+3%)	161.4 (**+8%**)	164.4 (+2%)	169.4 (+3%)	172.3 (+1.7%)
Alberta CPI (ex. Energy)	141.3	143.7 (+2%)	145.4 (+1%)	153.7 (**+6%**)	159.4 (+4%)	164.7 (+3%)	169.3 (+2.8%)
Alberta Gasoline CPI	159.8	145.4 (-9%)	197.9 (**+36%**)	289.0 (**+46%**)	218.9 (**-24%**)	234.3 (**+7%**)	200.1 (**-15%**)
Natural Gas Prices ($/GJ)	$0.55	$1.65 (+200%)	$2.78 (+68%)	$6.53 (+135%)	$1.94 (-70%)	$0.78 (-60%)	$1.65 (+112%)
3 Year Canada Benchmark Bond Rates	1.43%	**0.30%**	**0.65%**	3.14%	4.21%	3.83%	2.77%
Population (millions)	4.34	4.41 (+1.6%)	4.43 (+0.5%)	4.48 (+1.1%)	4.64 (**+3.6%**)	4.84 (**+4.3%**)	4.98 (+2.9%)

ALBERTA UNEMPLOYMENT RATE

https://economicdashboard.alberta.ca/dashboard/unemployment-rate/



BOND YIELDS

https://www.bankofcanada.ca/terms/

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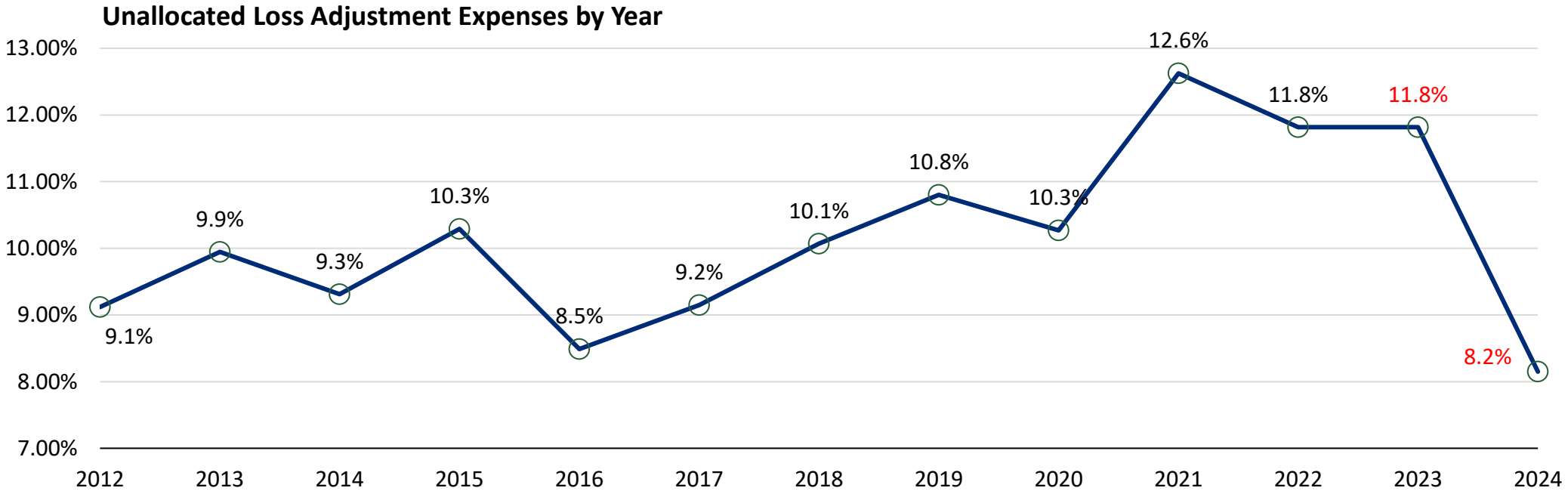
INDUSTRY BENCHMARKS

- 2025 Annual Review Benchmarks can be applied in rate filings submitted between October 1, 2025, and March 31, 2026.
- The 2025 Annual Review Benchmarks are based on an analysis of insurance industry private passenger vehicles loss and expense experience in Alberta reported as of December 31, 2024.
- Insurers using their company data may support loss trend rates that reflect the characteristics of their portfolio of risks.

UNALLOCATED LOSS ADJUSTMENT EXPENSES

- In determining their rate level needs, insurers should include provisions for loss adjustment expenses (LAE) that are based on their experience.
  - Allocated loss adjustment expenses (ALAE): legal expenses associated with an individual claim settlement
  - Unallocated loss adjustment expenses (ULAE): the claim and settlement-related expense that cannot be associated directly with an individual claim.
  - For the analysis we perform of loss development factors, ALAE is included with the reported Industry loss data.
- For the analysis we perform of trends, ALAE is included with the loss experience, and we provide for ULAE through the application of accident year factors that are published by GISA in the Automobile Insurance Statistical Plan Exhibits.



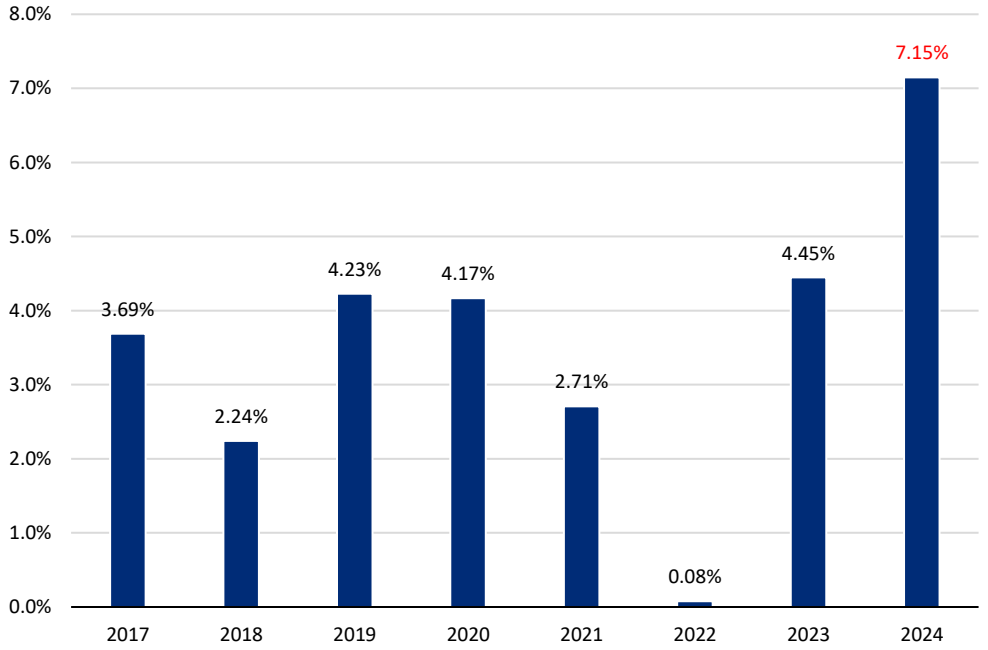
INVESTMENT INCOME RATE

- Insurers discount cash flow to account for the expected investment income on policyholder-supplied funds.
  - Premium paid at policy inception (time = 0)
  - Expenses recognized at policy inception & during policy period (time < 1)
  - Claims may be settled several years after policy inception (t >> 0)
- Insurers to use their own expected investment return when discounting cash flow in the filings submitted to the AIRB.

Premium Weighted Average Investment Return

8-year	3.68%
5-year	3.81%
3-year	4.05%

Industry Average Pre-Tax ROI



HEALTH COST RECOVERY

- The AIRB's position has been to accept the Government's most recent health cost recovery assessment as its Benchmark.
- The current Benchmark is based on the Government's 2025 assessment rate: 1.94%

NON-CLAIM EXPENSES

- The AIRB's position has been to accept the latest Industry average operating expense ratio as published by GISA as the Benchmark for assessing the reasonableness of an insurer's expense provision.
- The current Benchmark, 27.8%, is based on GISA's 2022 expense report, with the general expense component based on a percentage of the earned premiums and other components as a percentage of written premiums.
- GISA did not release a 2023 Expense Report due to reporting issues related to IFRS17 transition issues, and the 2024 Expense Report has not yet been released.
- Oliver Wyman Preliminary Recommended Benchmark: **27.8%** *is based on GISA's 2022 expense report.*

Expense Component	Current Benchmark (2025 SAR)	Recommended Benchmark (2025 AR)
Direct Commissions	11.7%	11.7%
Contingent Commissions	1.4%	1.4%
Total Commissions	13.1%	13.1%
Premium and Fire Taxes	3.8%	3.8%
Other Acquisition Expenses	3.0%	3.0%
General Expenses	7.8%	7.8%
Total Expenses	27.8%	27.8%

PROFIT

- The Board’s current position remains unchanged at 6% of premium.
- Oliver Wyman presents a Preliminary Recommended Benchmark that is consistent with the Board’s current position.

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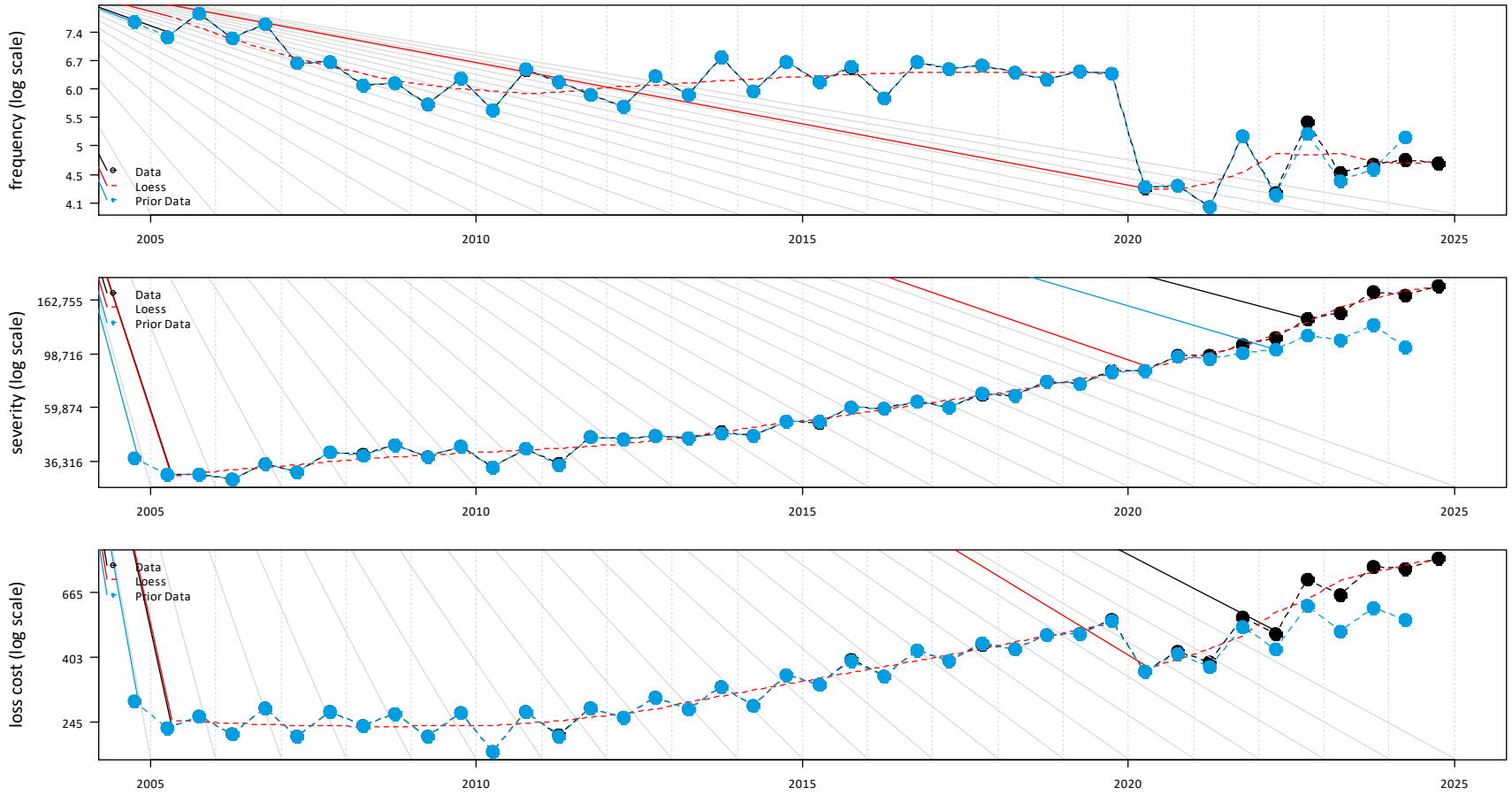
INDUSTRY BENCHMARKS – TREND RATES CHANGES SINCE PRIOR REVIEW

Coverages	2025 SAR 6/2024 Data	2025 AR 12/2024 Data	Differences
Bodily Injury	**+9.1%**	**+8.7%[3]**	Higher development in recent accident semesters have increased severity trend
Property Damage	**+1.5%/+10.3% [1]**	**+1.6%[3]**	Treatment of inflation
DCPD	**+1.5%/+10.3% [1]**	**+1.6%[3]**	Treatment of inflation
Accident Benefits – Total	**+12.0%/+5.5% [2]**	**+11.9%/+7.0% [2]**	Higher development in recent accident semesters have increased severity trend
Collision	**+2.5%/+16.7% [1]**	**+2.4%[3]**	Treatment of inflation
Comprehensive	**+5.1%**	**+5.1%**	
All Perils	+3.2%	+3.7%	
Specified Perils	+4.9%	+5.3%	
Underinsured Motorist	+4.9%	+4.6%	

1. Change in trend rate begins July 1, 2021, coincident with rise of inflation.
2. Change in trend rate begins October 29, 2020.
3. Subject to excess inflation

BODILY INJURY

- Our estimates using data as of June 30, 2024 (blue line) showed a flatter trend in the recent bodily injury severity estimates
- Our estimates using data as of December 31, 2024 (black line) have increased, and we observe a steeper trend.



BODILY INJURY LOSS DEVELOPMENT

- Recent diagonal loss development factors exceed historical factors
- Prior review noted high loss development factors, but no explicit adjustment were made

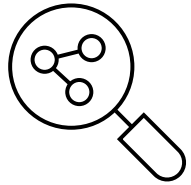
- Review of individual large insurers identified two insurers as the cause
- These two insurers represent a significant portion of industry written premium

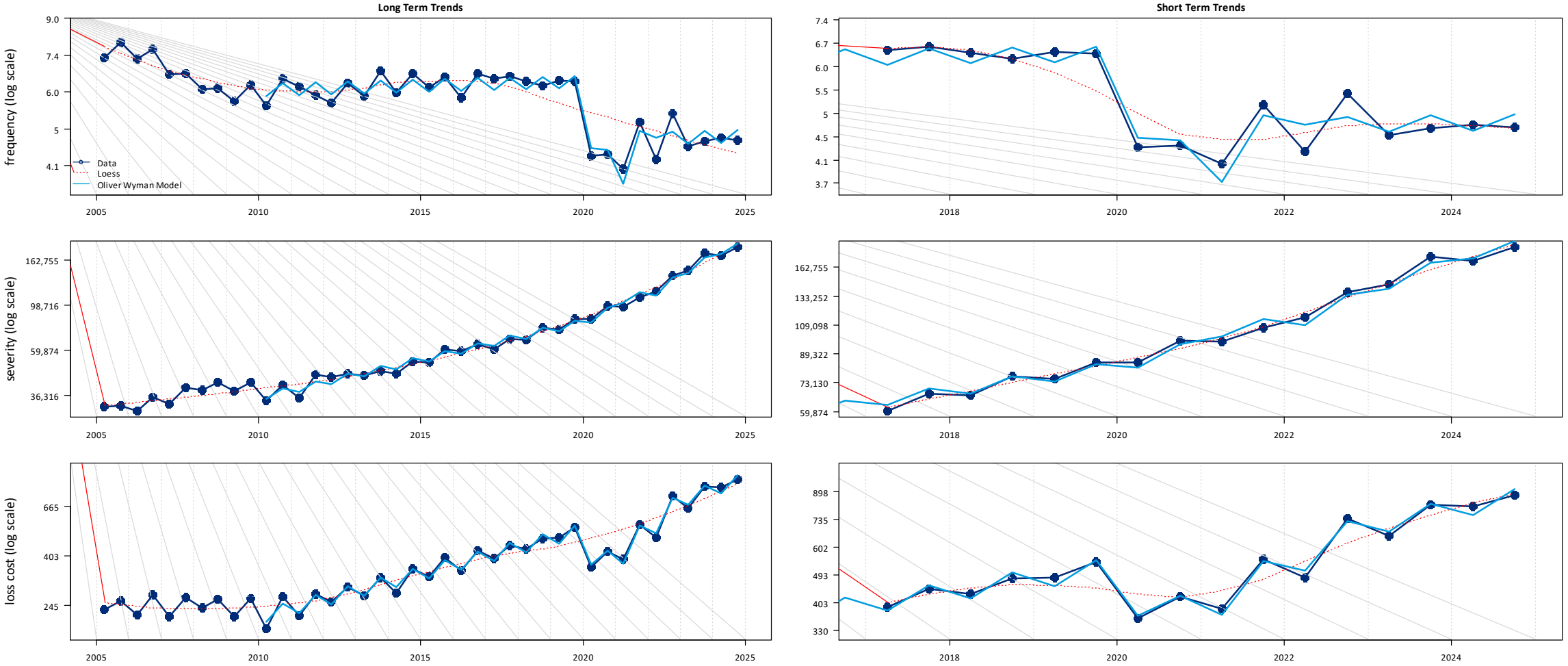
- Decision made to adjust industry ultimate losses rather than exclude these insurers due to their market share

- Estimate ultimate loss for industry excluding the two insurers
- Estimate ultimate loss for each of the two insurers separately

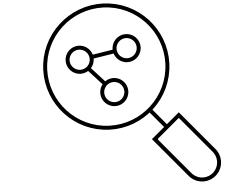
- Combine the estimated ultimates above to estimate ultimate loss for total industry used for loss trend modeling

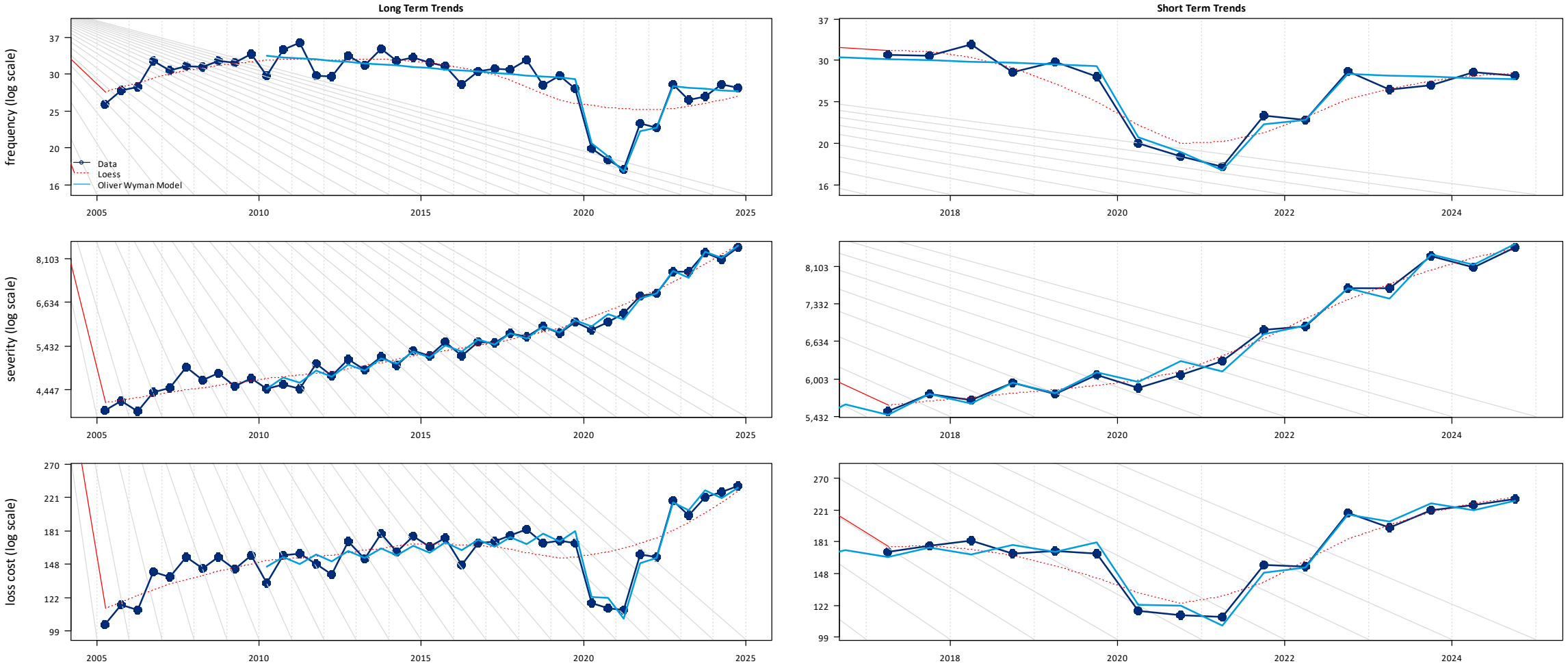
BODILY INJURY





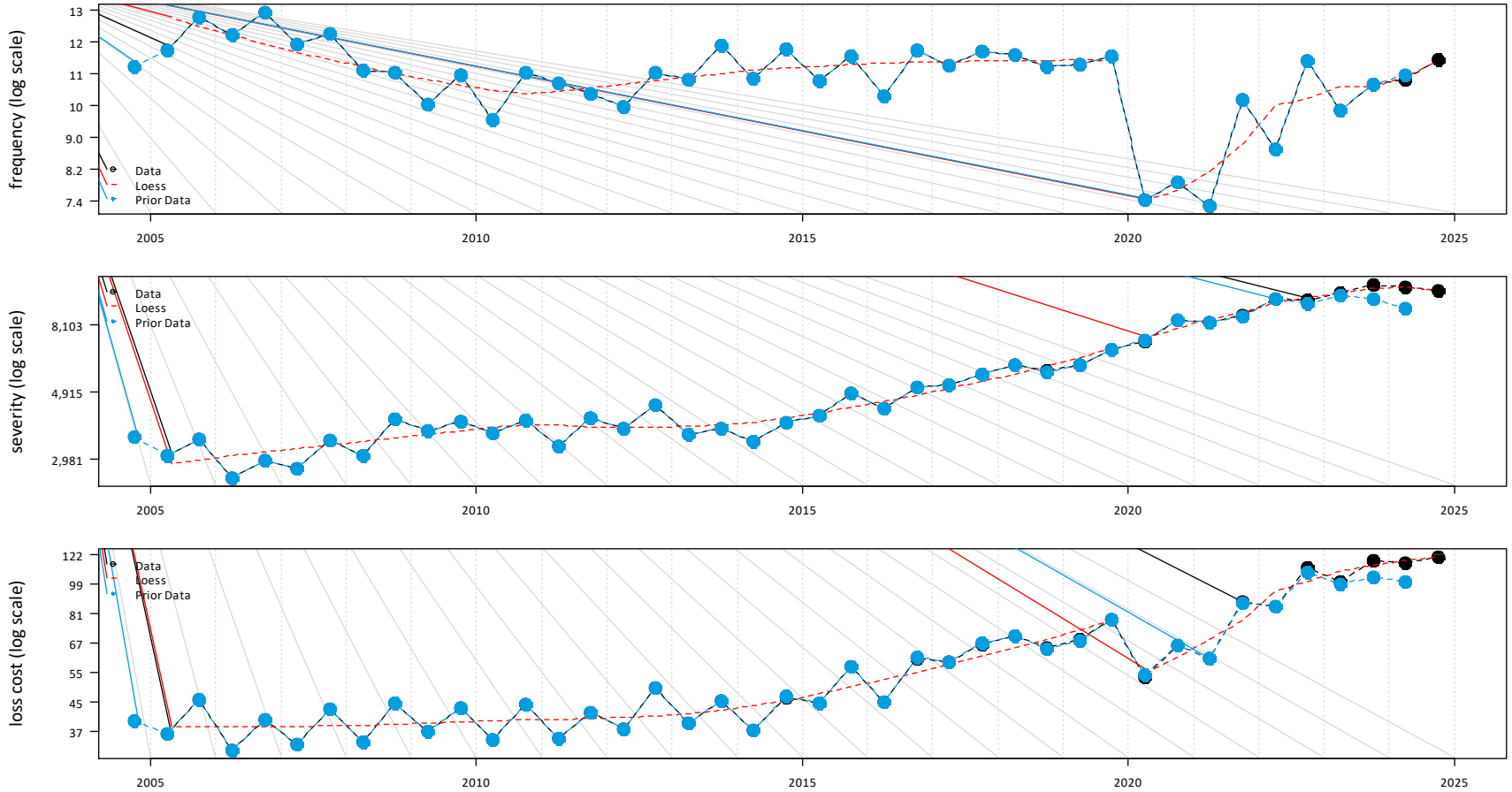
PROPERTY DAMAGE



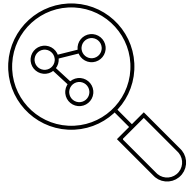


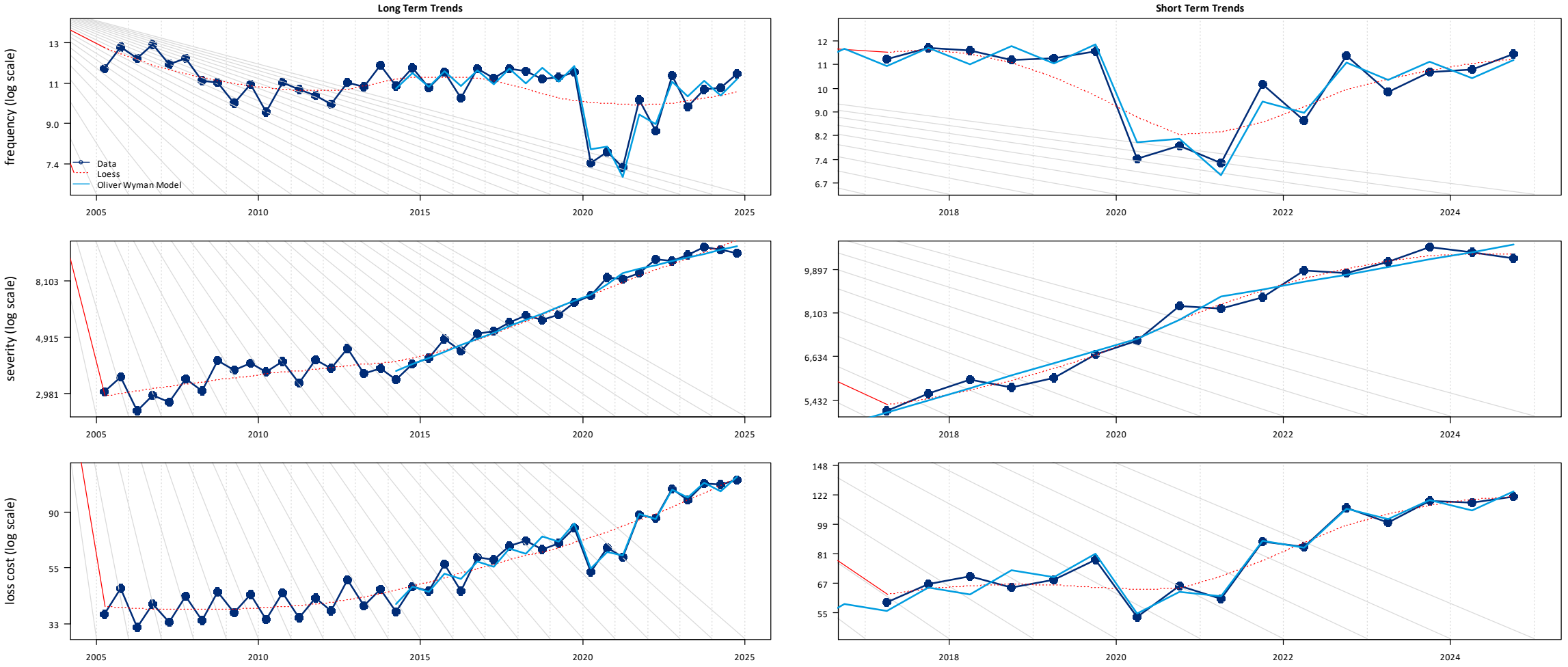
ACCIDENT BENEFITS

- Our estimates using data as of June 30, 2024 (blue line) showed a flatter trend in the recent accident benefits severity estimates.
- Our estimates using data as of December 31, 2024 (blue line) have increased, and the post-reform trend has slightly increased.

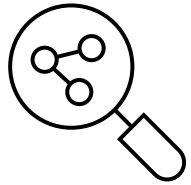


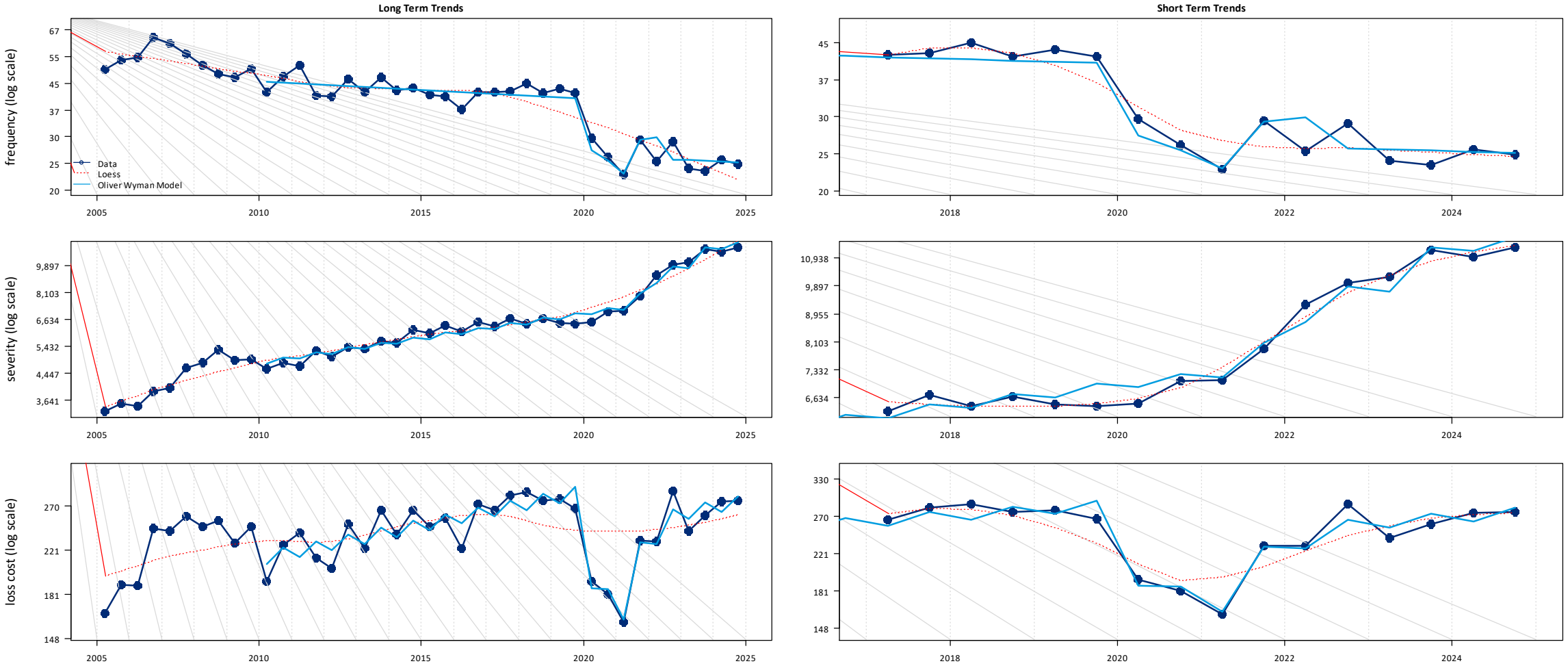
ACCIDENT BENEFITS



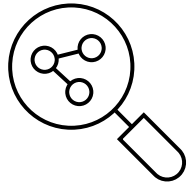


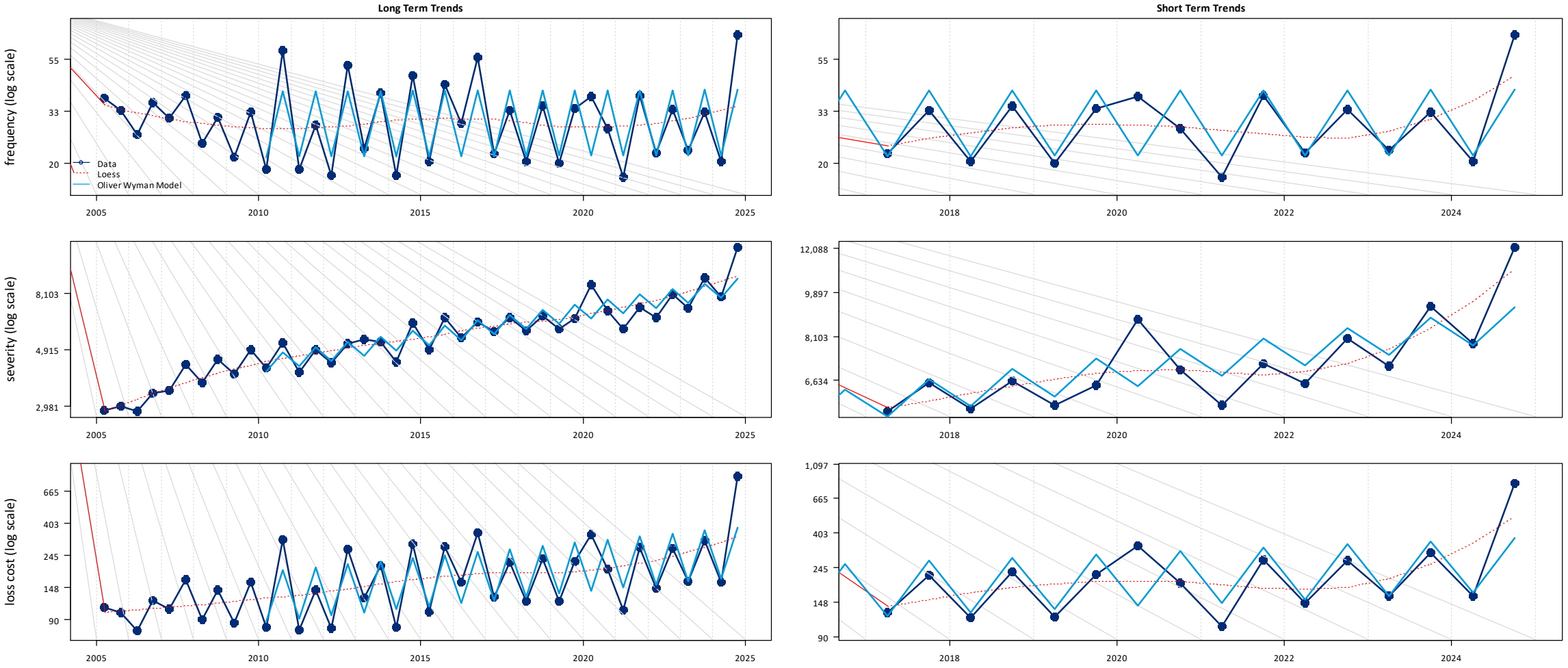
COLLISION



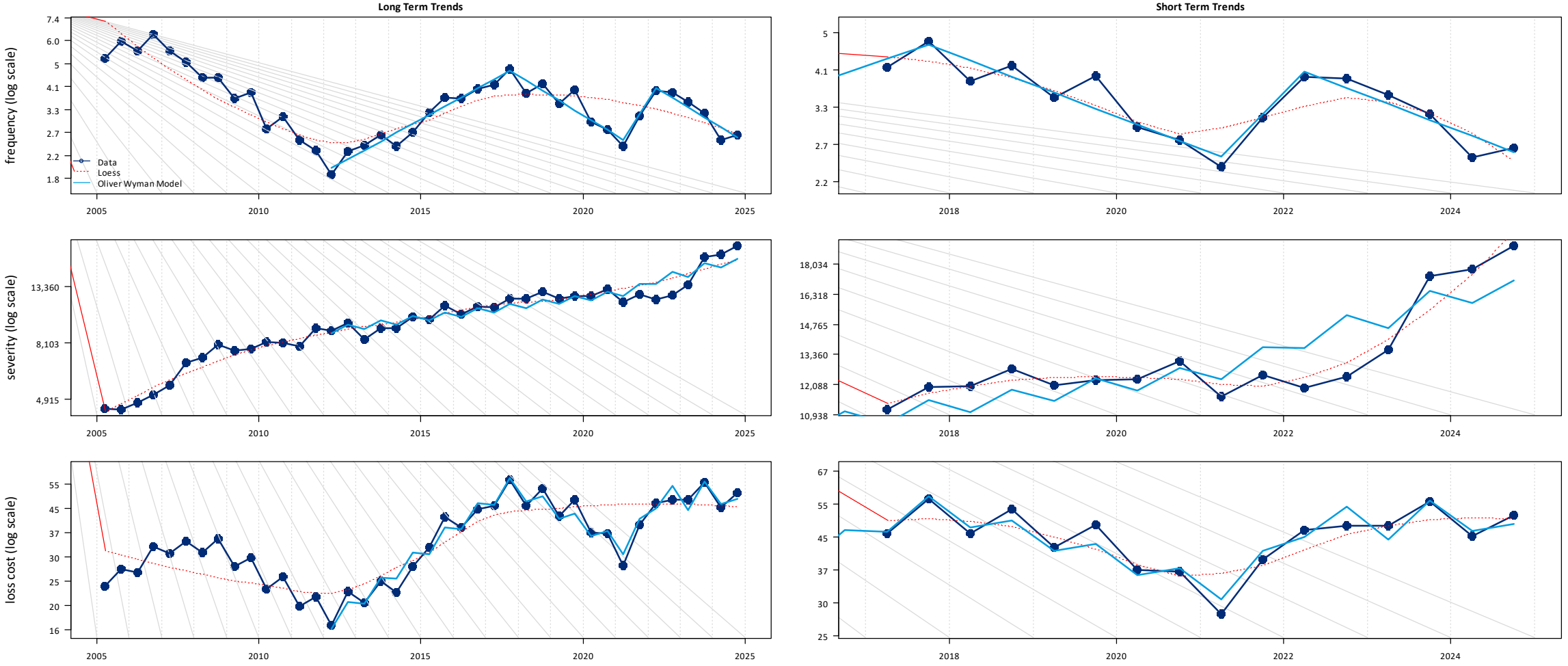


COMPREHENSIVE





COMPREHENSIVE - THEFT



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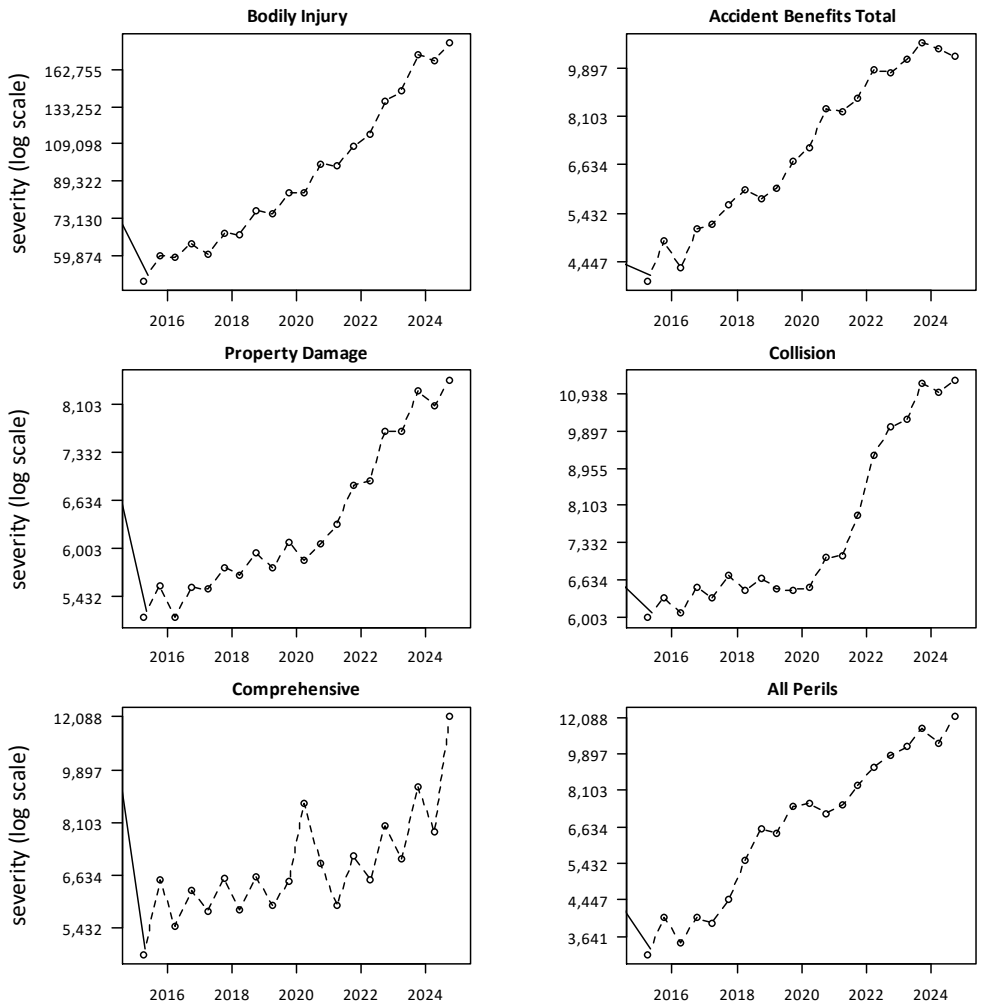
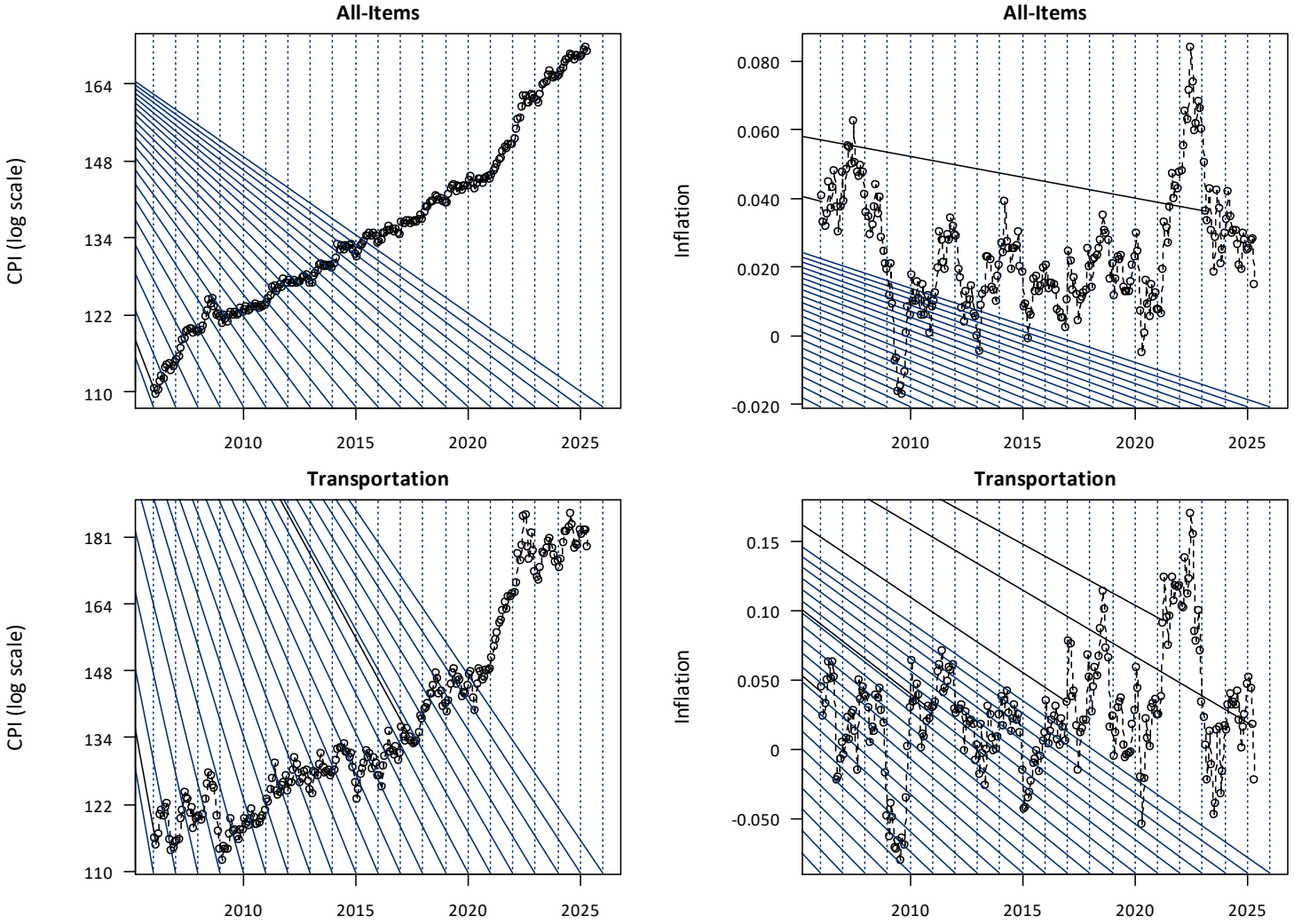
PAST LOSS TREND CONSIDERATIONS

- Supply chain disruption, chip shortages, labour shortages, pent-up consumer demand resulted in increased inflation.
- Significant increase in property damage and collision severity coincident with the inflation spike, affecting the latest observations in the experience period for our past loss trend
- An additional parameter in the model isolates and quantifies the change in severity level to the extent that the change is apparent and statistically significant for a specific coverage.
- Inflationary pressures on physical damage coverages (e.g., vehicle purchase, rentals and passenger vehicle parts, maintenance and repair costs) have resulted in the highest inflation levels in the last 10 years.
  - Showing signs of moderation beginning 2023.
- Inflationary pressures on Health Care costs appear to have lagged the physical damage coverages, with a more modest rise beginning later in 2022.



CONSUMER PRICE INDEX & INFLATION



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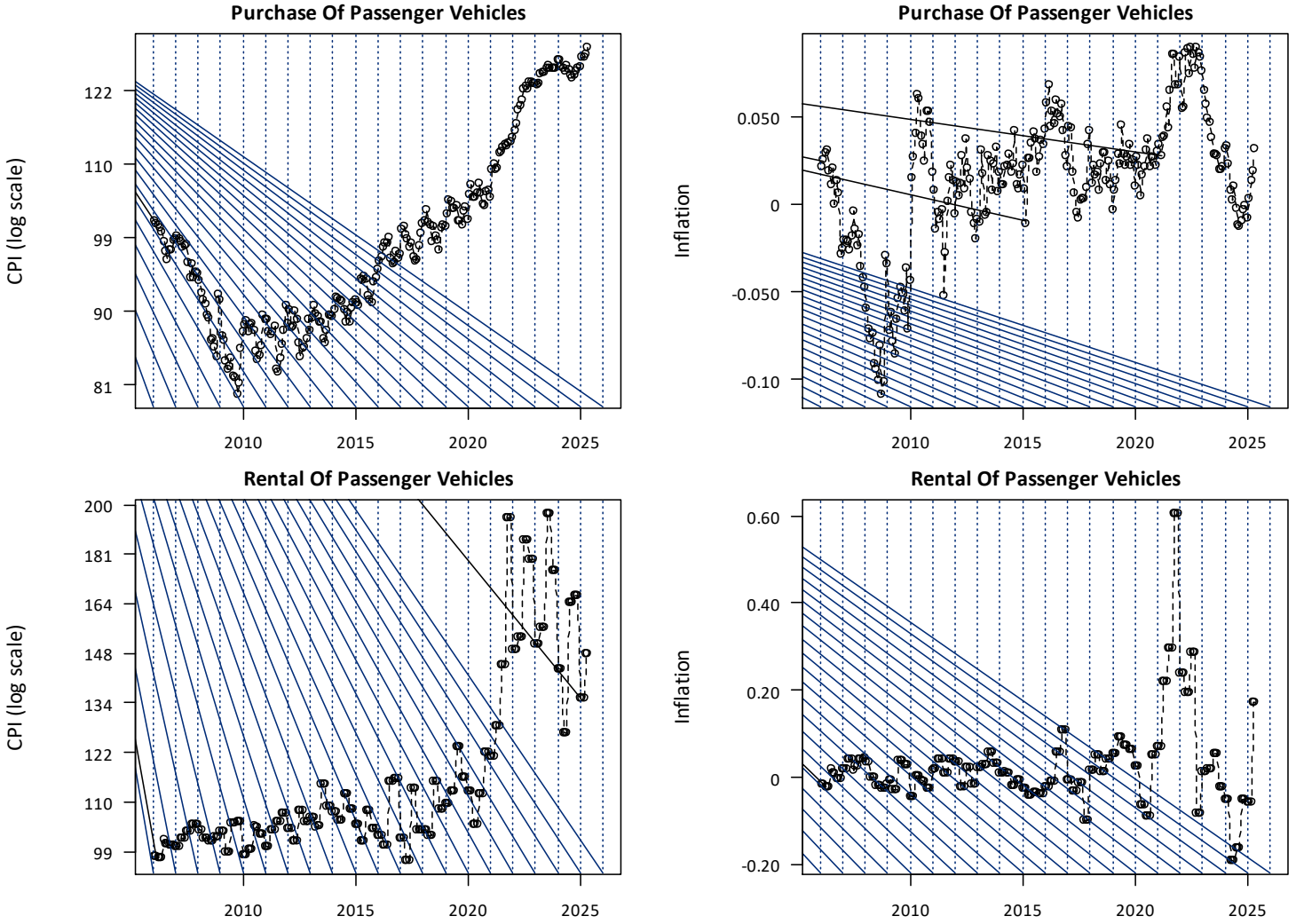
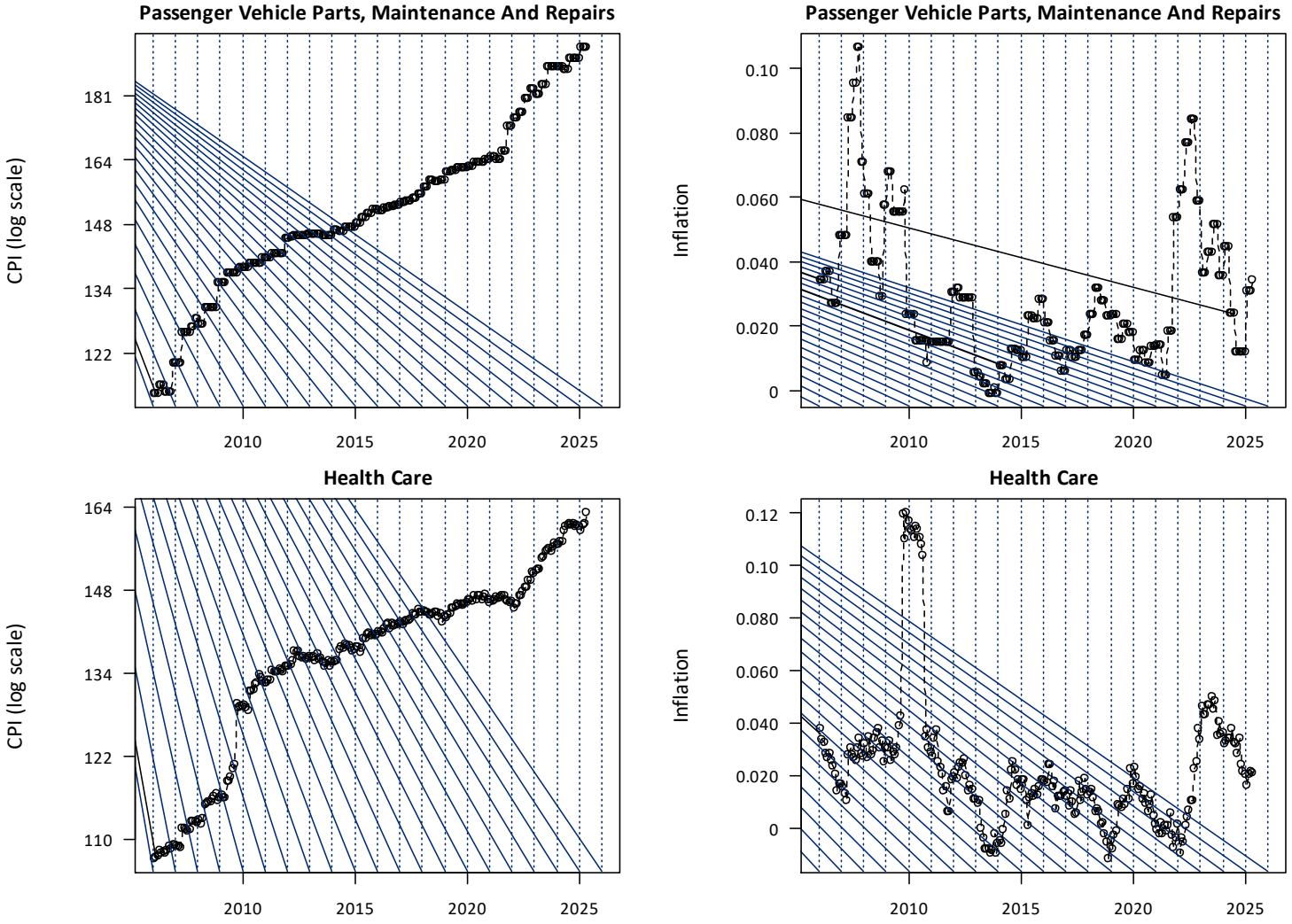
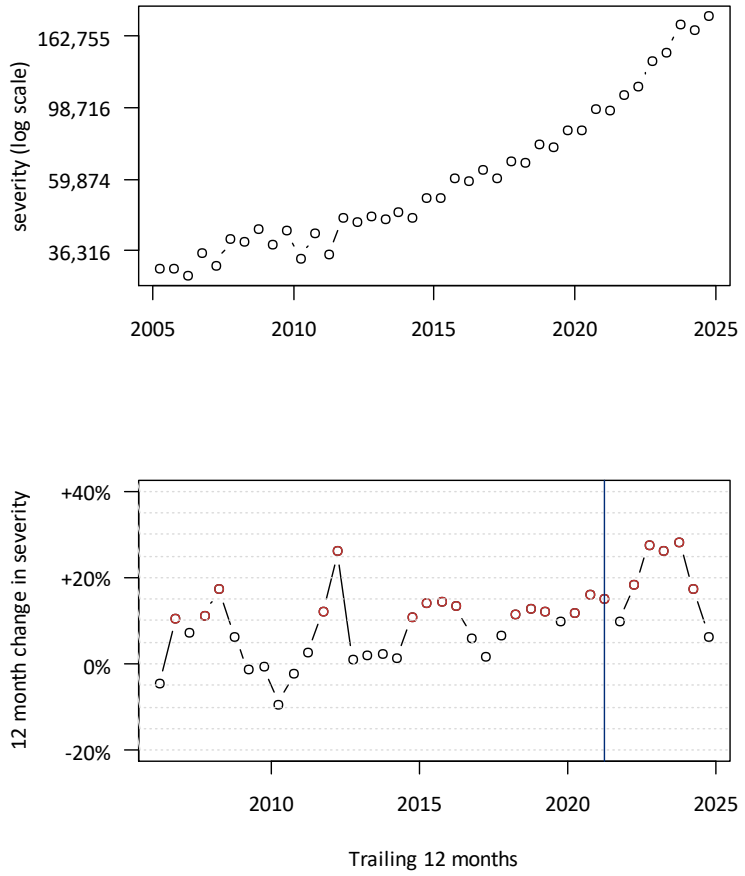


CONSUMER PRICE INDEX & INFLATION

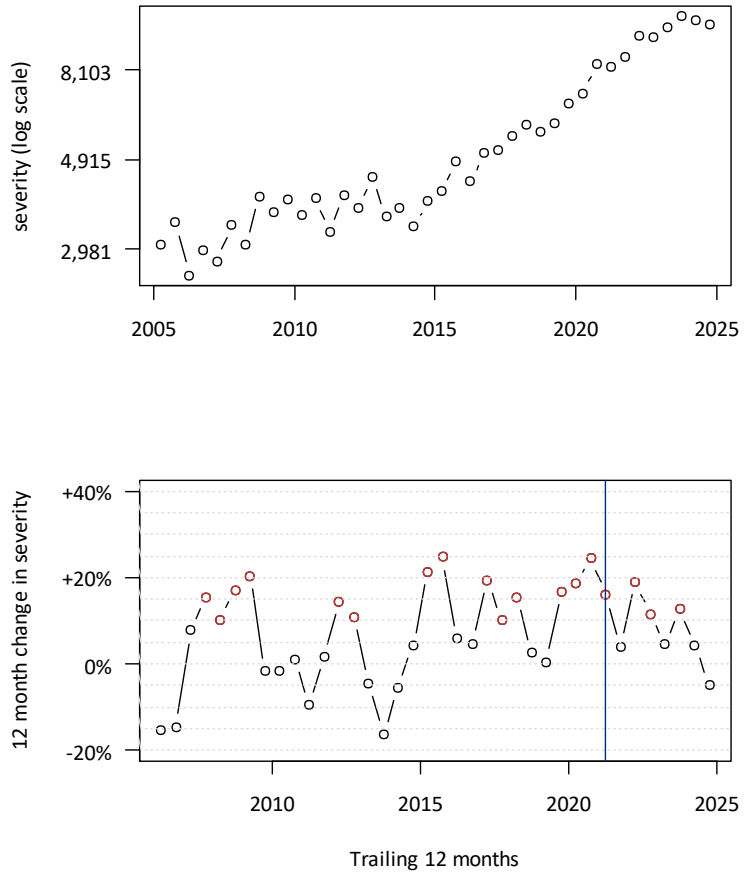


OBSERVED SEVERITY CHANGES

Bodily Injury

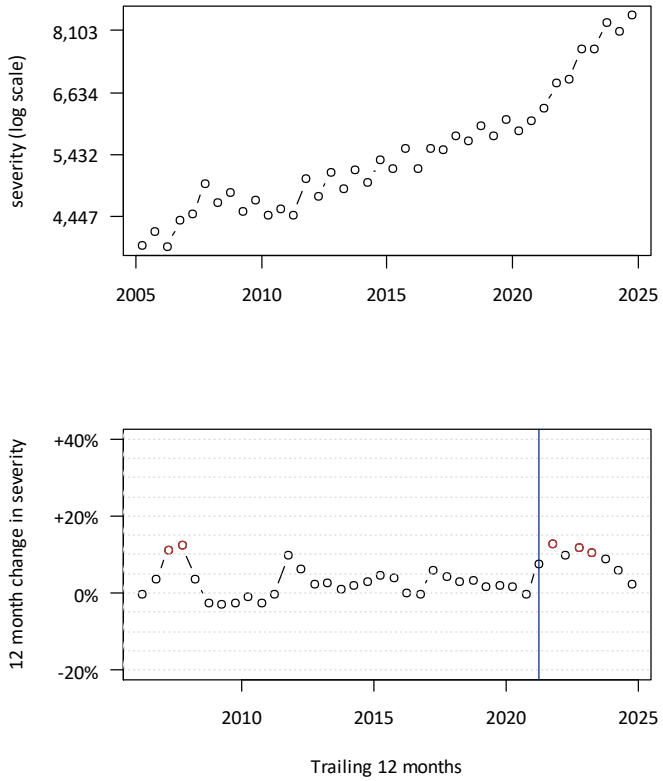


Accident Benefits

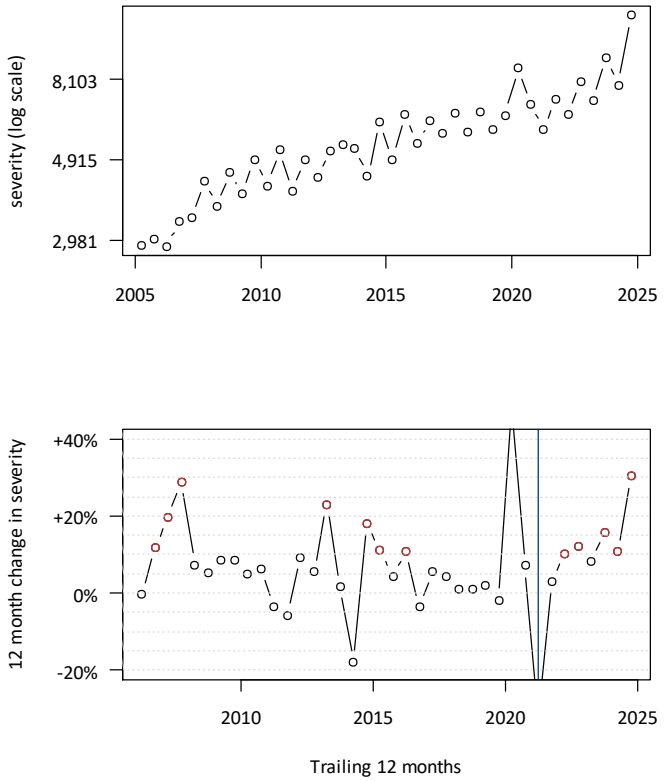


OBSERVED SEVERITY CHANGES

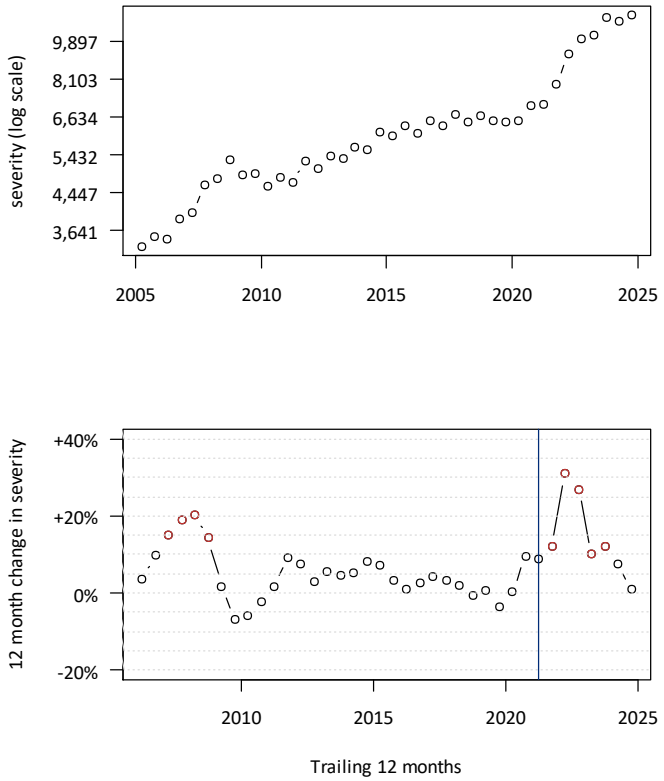
Property Damage



Comprehensive



Collision



EXCESS INFLATION MODELING

Excess Inflation Parameter

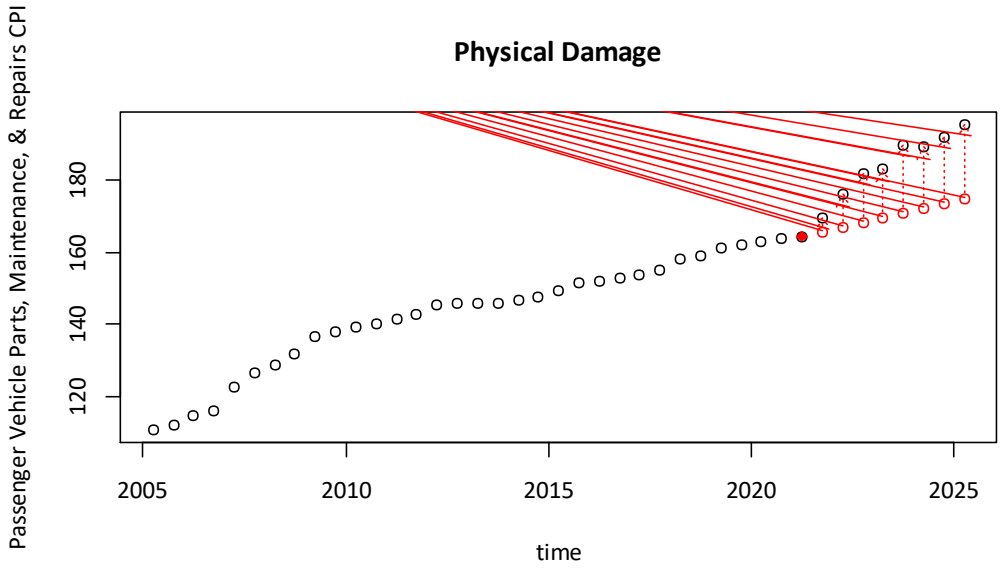
- Inflation parameter that measures the excess inflation based on CPI data.
- Similar to the mobility parameter used to measure the reduction in frequency during the pandemic

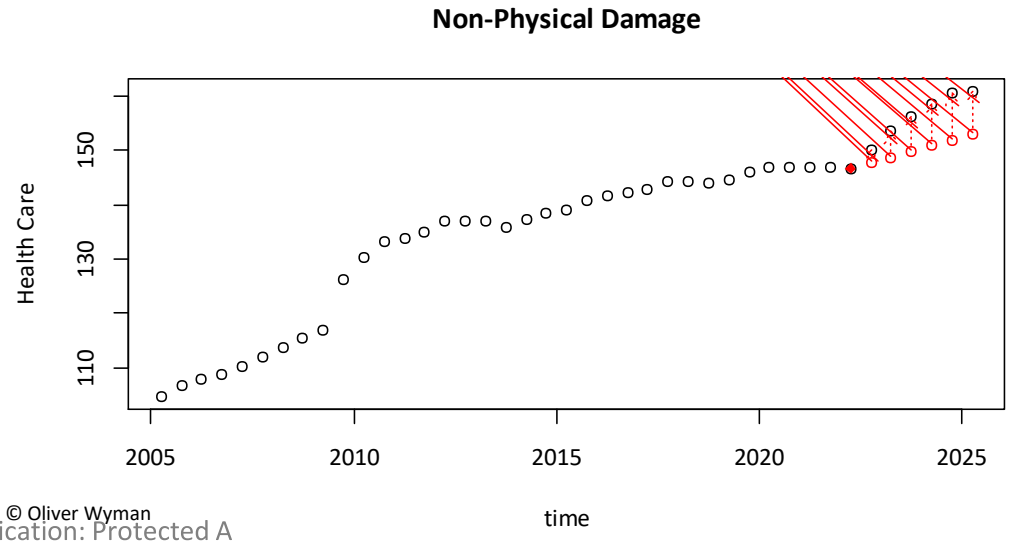
Other Methods of Modeling Inflation

- "single-period" and "multi-period" scalars
  - Aligns with view that effect is temporary.
  - Assumes excess inflation level is constant during the single/muti periods.

- Additional trend parameter
  - Aligns well with compounding effect of inflation
  - Assuming high inflationary environment will persist into the future may not be reasonable.

EXCESS INFLATION PARAMETER





Excess Inflation Adjustment Factors

Accident Semester	Bodily Injury (+8.7%)	Total PD (+1.6%)	Collision (+2.4%)
2019-2	1.344	1.218	1.407
2020-1	1.331	1.210	1.391
2020-2	1.329	1.209	1.389
2021-1	1.335	1.213	1.396
2021-2	1.337	1.214	1.399
2022-1	1.344	1.218	1.407
2022-2	1.227	1.146	1.267
2023-1	1.136	1.089	1.159
2023-2	1.070	1.046	1.081
2024-1	1.000	1.000	1.000
2024-2	1.000	1.000	1.000

FUTURE LOSS TREND CONSIDERATIONS

- Selected future loss trend rates consider both the cost level changes that occurred in the past (i.e., past trend) and the likelihood that those patterns may change.
  - In the absence of a significant change in experience, we find it is most reasonable to assume the past loss trend will persist into the future resulting in equivalent past and future trend rates.
  - Based on CPI information through April 2025, inflation appears to have returned approximately to pre-2021 levels.
  - To the extent that an insurer finds an alternative trend rate more reasonable for the future, we recommend the insurer fully explain and provide support based on the most recent data available at the time of filing.

- Future trend begins at the mid-point of the latest accident half-year considered in the model that supports the selected loss trend rates.
  - The selected trends include the impact of changes in cost through the trend date.

- **Insurers should not extrapolate excess inflation in application of future trend**

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BILL 41

Bodily Injury

- Severity model includes an additional (scalar) parameter to measure the reform impact.
  - Severity has increased since the prior 2024-1 analysis
- Bill 41 may also influence frequency as a policyholder may be less likely to pursue a claim under the benefits available.
  - We include a scalar in our bodily injury frequency model.
  - Frequency appears to have stabilized below pre-COVID levels
- Due to higher than expected severity, loss cost has increased
  - Combined model suggests a reform scalar of +9.7%
  - Due to nature of reforms, increase is not expected and scalar is not significant so we select a reform scalar of +0.0%
  - Prior review resulted in a reform scalar of -4.7%

Accident Benefits

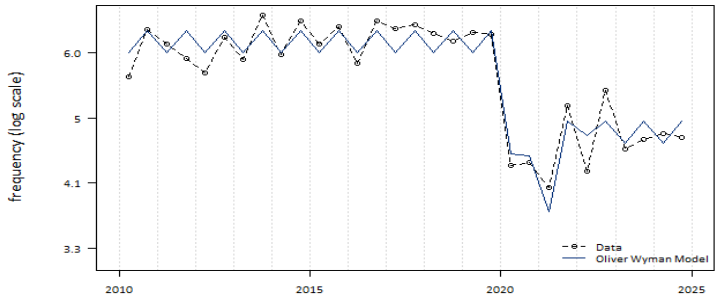
- Severity model includes an additional (scalar) parameter to measure the reform impact.
- Loss cost has been increasing due to frequency increase and return to pre-COVID levels
  - Combined model suggests a reform scalar of +11.6%
  - Prior review estimated reform scalar of +16.0%

DCPD

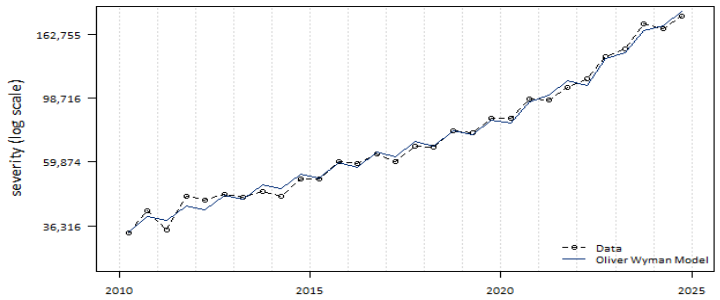
- Coverage introduced January 1, 2022
- Due to a lack of data, DCPD and TPL-PD trend selections are based on the combined experience
- There is some evidence that claims shifted from collision to DCPD

BILL 41 REFORM IMPLICATIONS

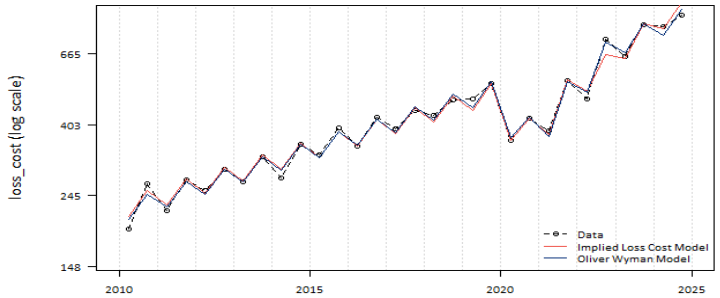
Bodily Injury



Parameter	Coefficient	p.value	Adj.R2
Mobility	0.014	0	0.891
Seasonality	0.069	0.002	
New Normal Scalar	-0.232	0	
2020 Reform Scalar	-0.046	0.377	
Trend Rate	0.0%		

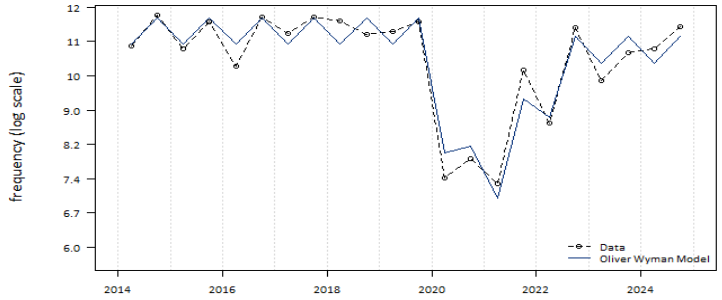


Parameter	Coefficient	p.value	Adj.R2
Trend	0.084	0	0.992
Seasonality	0.075	0	
2020 Reform Scalar	0.138	0	
Excess Inflation	0.296	0	
Trend Rate	+8.7%		

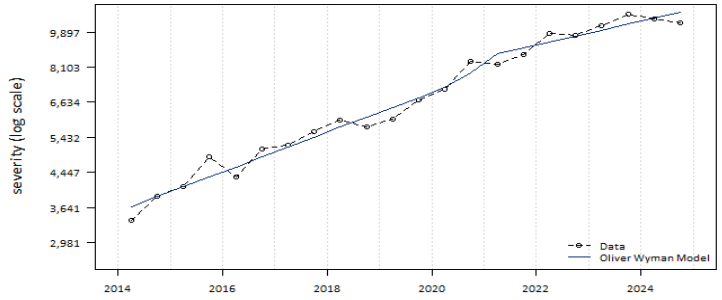


Parameter	Coefficient	p.value	Adj.R2
Trend	0.088	0	0.99
Mobility	0.014	0	
Seasonality	0.138	0	
New Normal Scalar	-0.053	0.419	
2020 Reform Scalar	0.046	0.232	
Excess Inflation	0.077	0.26	
Trend Rate	+9.2%		

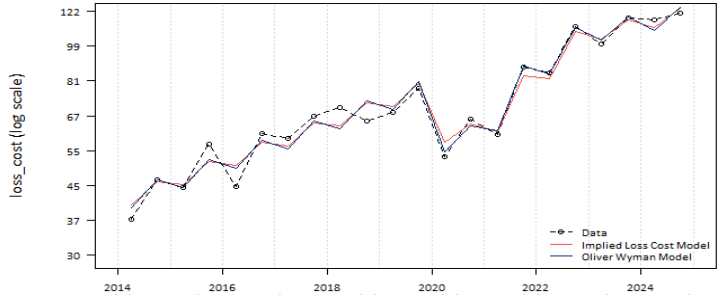
Accident Benefits



Parameter	Coefficient	p.value	Adj.R2
Mobility	0.014	0	0.91
Seasonality	0.078	0.001	
New Normal Scalar	-0.055	0.038	
Trend Rate	0.0%		

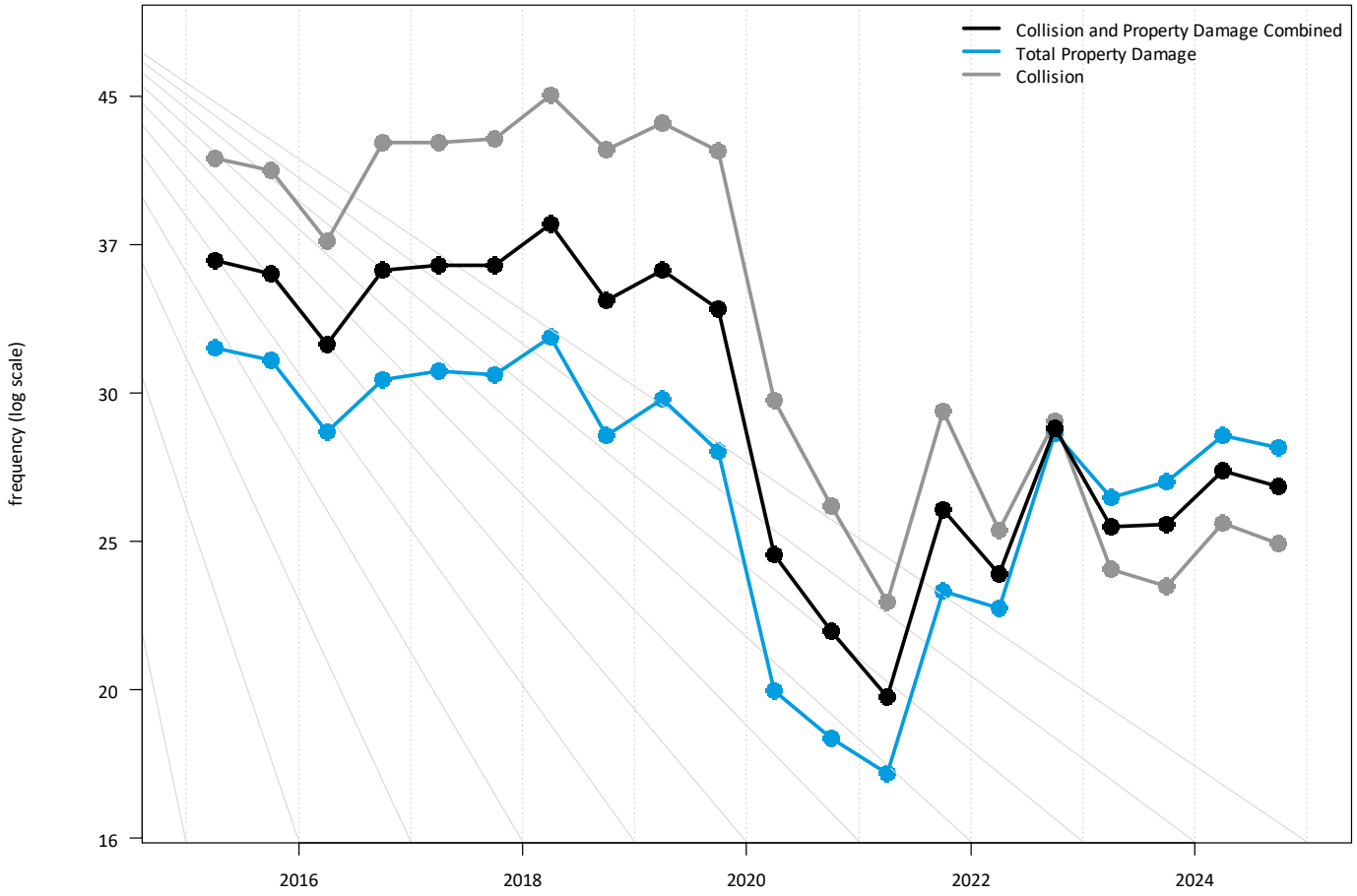


Parameter	Coefficient	p.value	Adj.R2
Trend	0.113	0	0.978
2020-2 Reform Scalar	0.11	0.059	
2020 Trend Change	-0.045	0.022	
Trend Rate (Period 1)	+11.9%		
Trend Rate (Period 2)	+7.0%		



Parameter	Coefficient	p.value	Adj.R2
Trend	0.113	0	0.962
Mobility	0.016	0	
Seasonality	0.104	0.003	
New Normal	-0.105	0.304	
2020-2 Reform Scalar	0.195	0.034	
2020 Trend Change	-0.054	0.213	
Trend Rate (Period 1)	+11.9%		
Trend Rate (Period 2)	+6.0%		

INTRODUCTION OF DCPD



- We observe a lower post-pandemic new normal frequency for the combined collision and total property damage experience
- Total property damage has returned approximately to the pre-pandemic level, but the collision frequency level is significantly lower than the pre-pandemic level
- Pre-reform, property damage frequency was lower than collision frequency; post-reform, property damage frequency exceeds collision frequency.

COMBINED EFFECT OF COVID-19 AND REFORMS ON CLAIMS COST

"Stay-at-home" Orders

- Significant reduction to reported frequency in 2020, 2021, and 2022. Apparent lower post-COVID frequency level starting in the second half of 2022
- No material impact on reported severity apparent

Bill 41 Reforms (Bodily Injury and Accident Benefits)

- Expected reduction in bodily injury and expected increase in accident benefits frequency

Introduction of DCPD

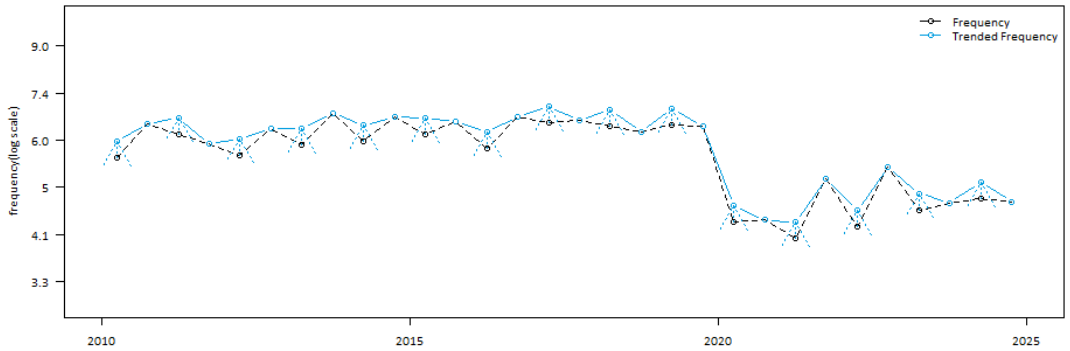
- Since the introduction of DCPD in January 2022, there has been an apparent shift of claims from collision to DCPD. Resulting in an increase in the property damage (including DCPD) frequency and a reduction in the collision frequency.

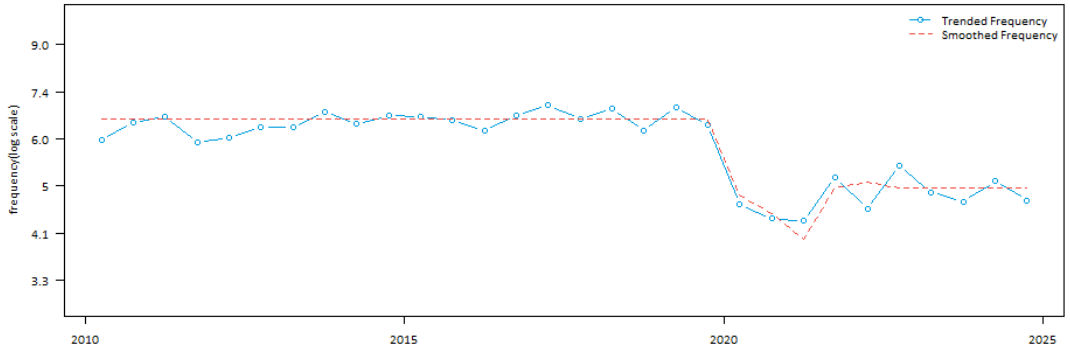
Claims Experience Considerations

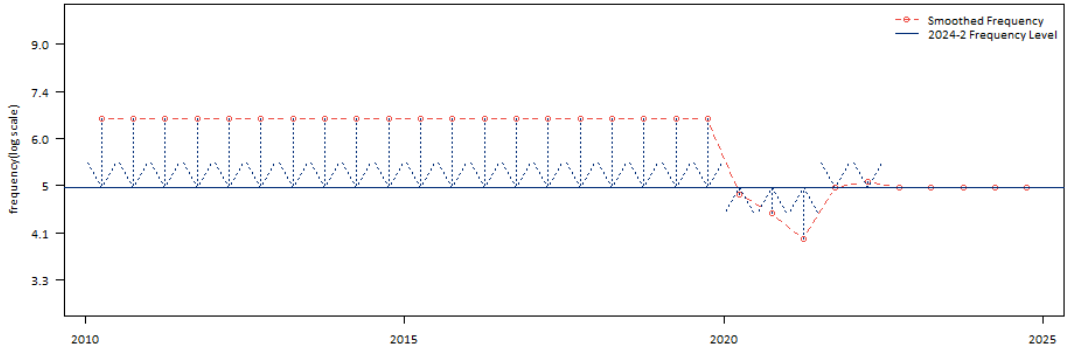
- The impact of COVID-19 pandemic on frequency
- The November 2020 reforms
- Commonplace hybrid and remote work options whereby post-COVID traffic patterns are different from pre-COVID patterns, resulting in lower frequency

We refer to this combination of adjustments as the "**Combined New Normal**" factor.

BODILY INJURY

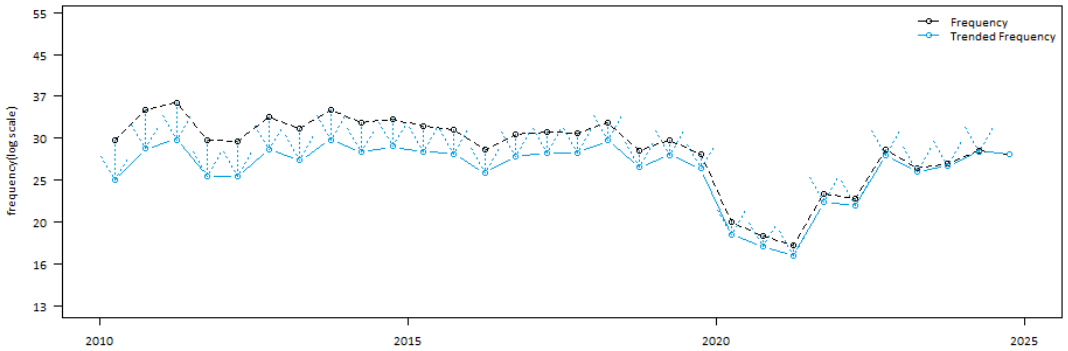


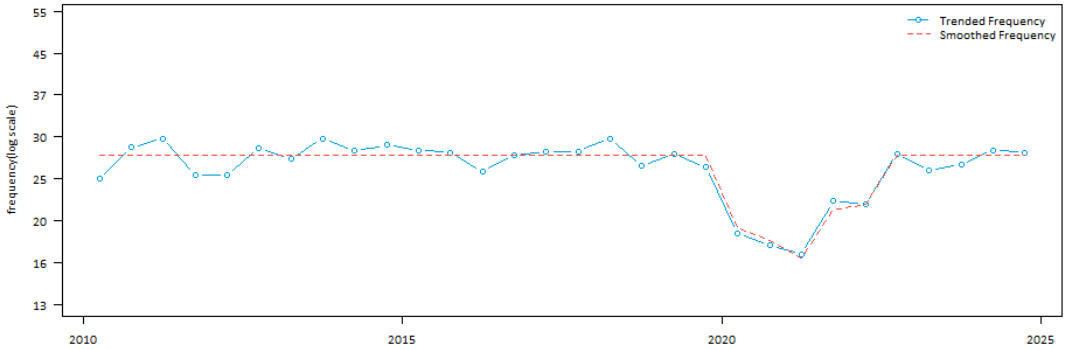


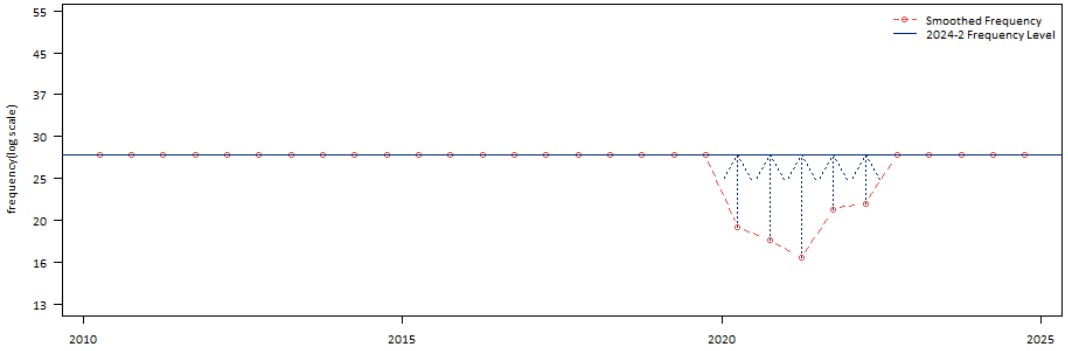


Accident Semester	Combined New Normal Factor
Prior	0.747
2020-1	1.030
2020-2	1.112
2021-1	1.239
2021-2	0.999
2022-1	0.974
2022-2	1.000
2023-1	1.000
2023-2	1.000
2024-1	1.000
2024-2	1.000

TOTAL PROPERTY DAMAGE

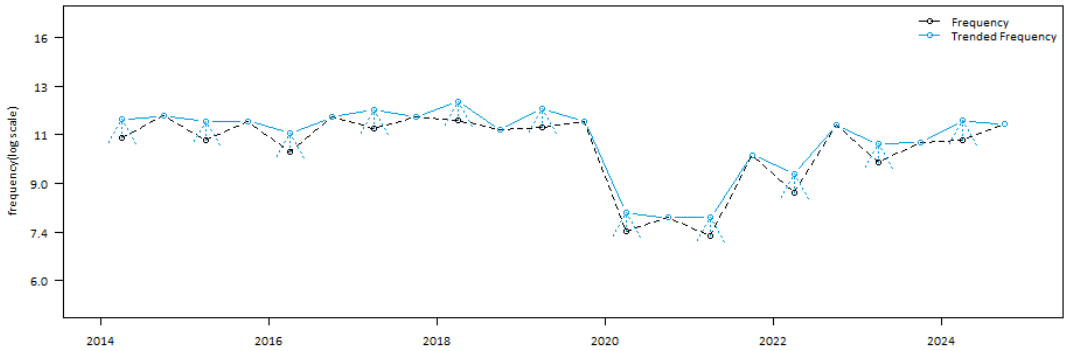


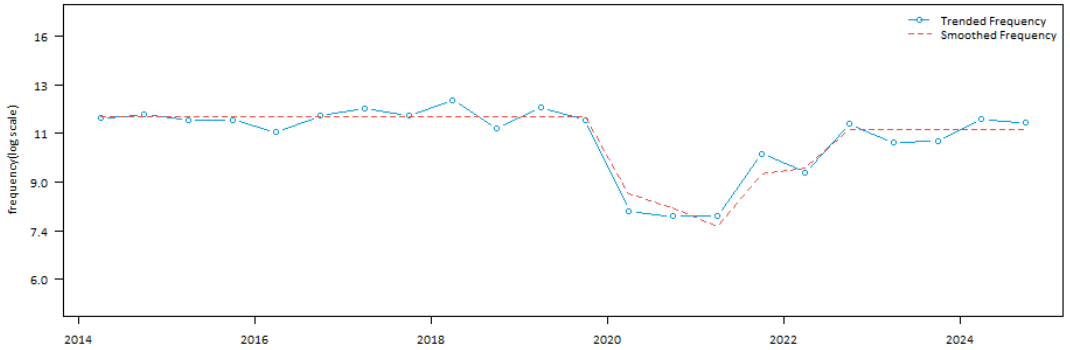


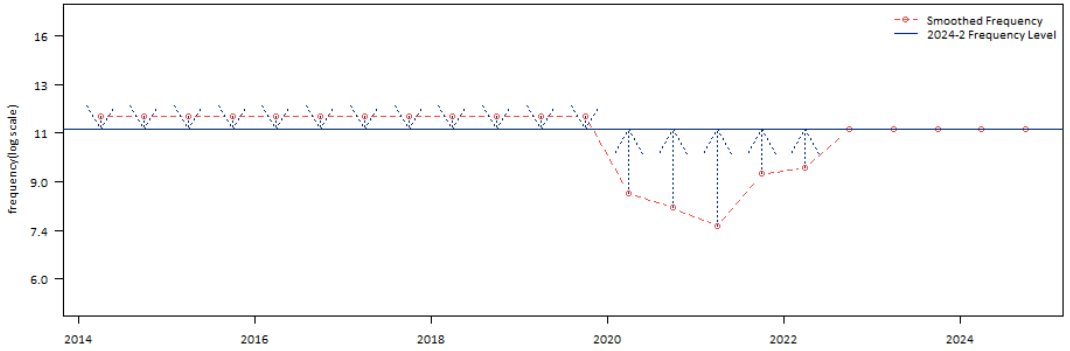


Accident Semester	Combined New Normal Factor
Prior	1.000
2020-1	1.409
2020-2	1.503
2021-1	1.629
2021-2	1.294
2022-1	1.260
2022-2	1.000
2023-1	1.000
2023-2	1.000
2024-1	1.000
2024-2	1.000

ACCIDENT BENEFITS TOTAL

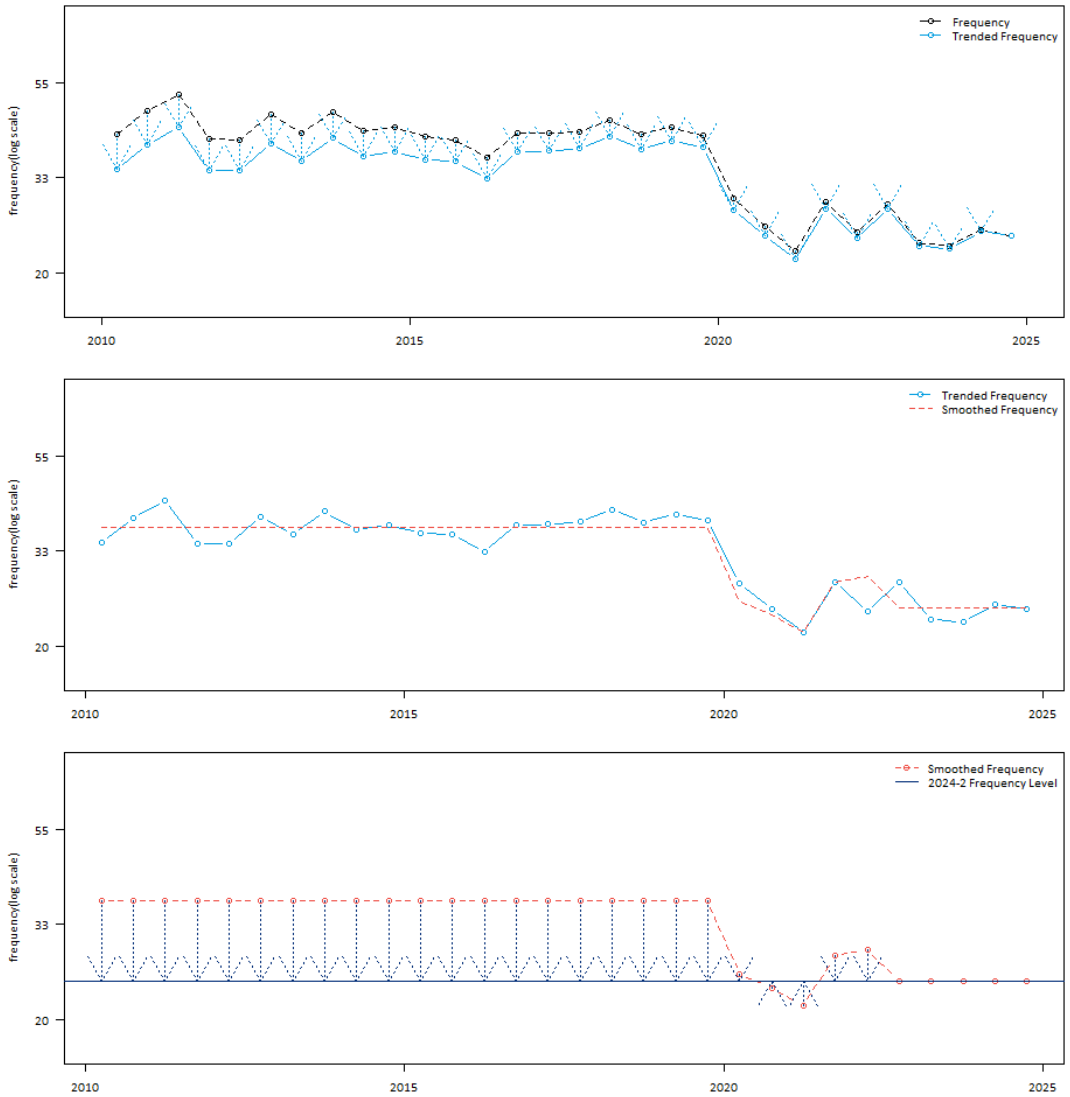






Accident Semester	Combined New Normal Factor
Prior	0.947
2020-1	1.299
2020-2	1.378
2021-1	1.484
2021-2	1.200
2022-1	1.171
2022-2	1.000
2023-1	1.000
2023-2	1.000
2024-1	1.000
2024-2	1.000

COLLISION



Accident Semester	Combined New Normal Factor
Prior	0.656
2020-1	0.965
2020-2	1.038
2021-1	1.136
2021-2	0.877
2022-1	0.850
2022-2	1.000
2023-1	1.000
2023-2	1.000
2024-1	1.000
2024-2	1.000

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