

AIRB 2017 Annual Review

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ibc.ca



Annual Review 2017

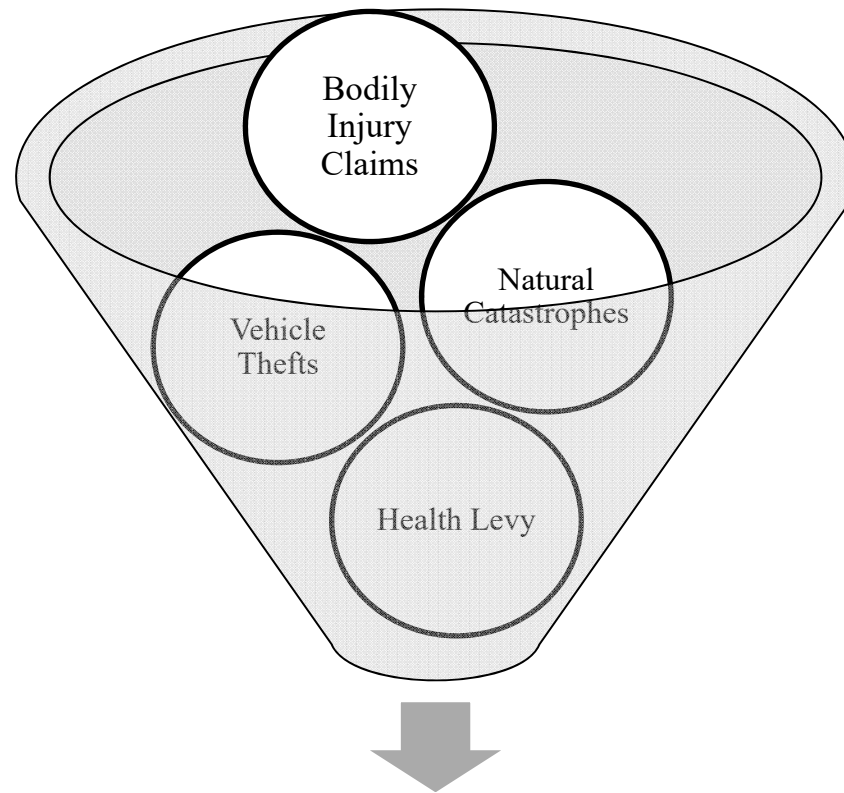
Agenda

Overview of Alberta's auto insurance market

Analysis of bodily injury claims

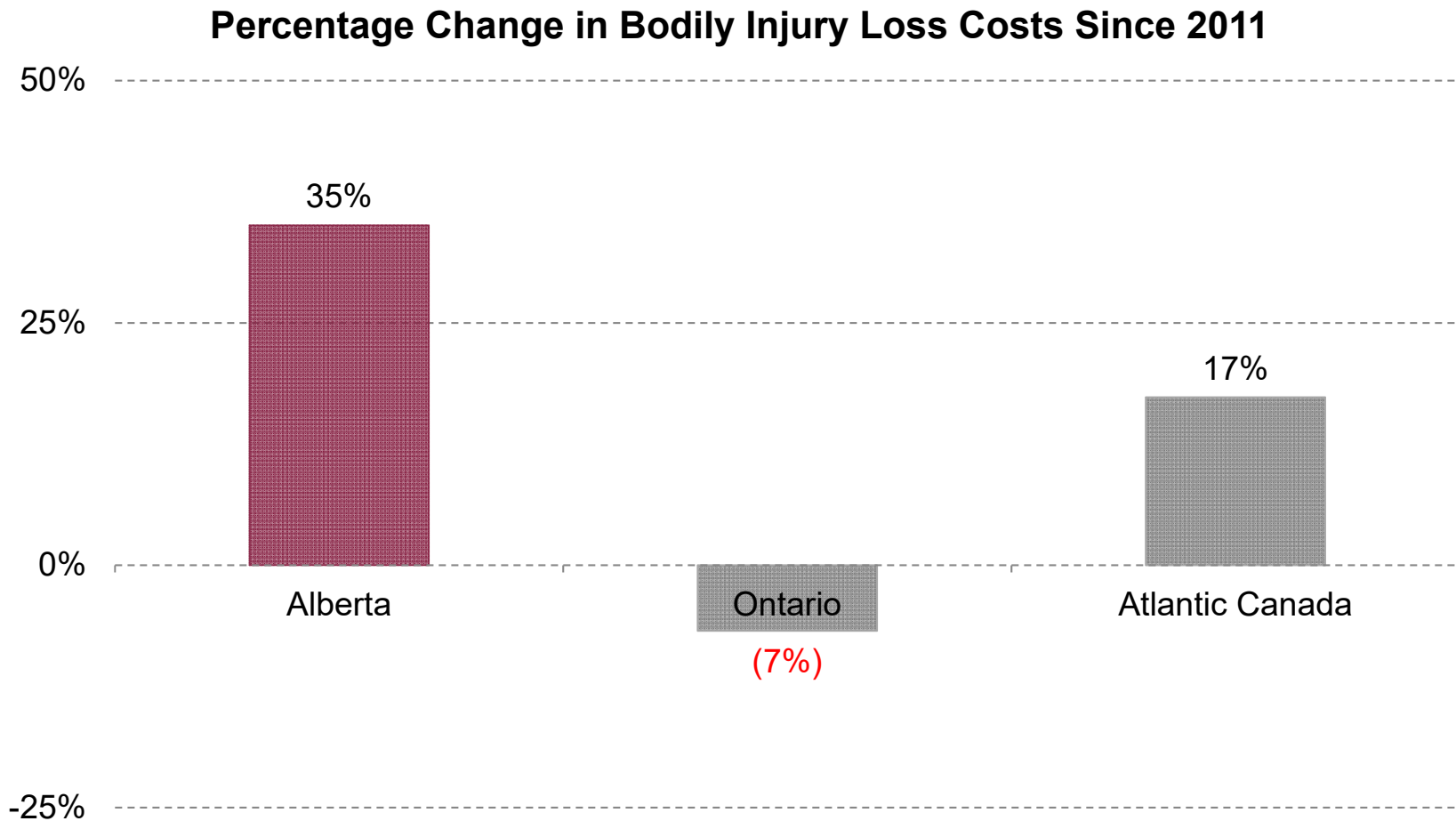
Review of grid population's loss experience

Overview of Auto Insurance Market (1/6)



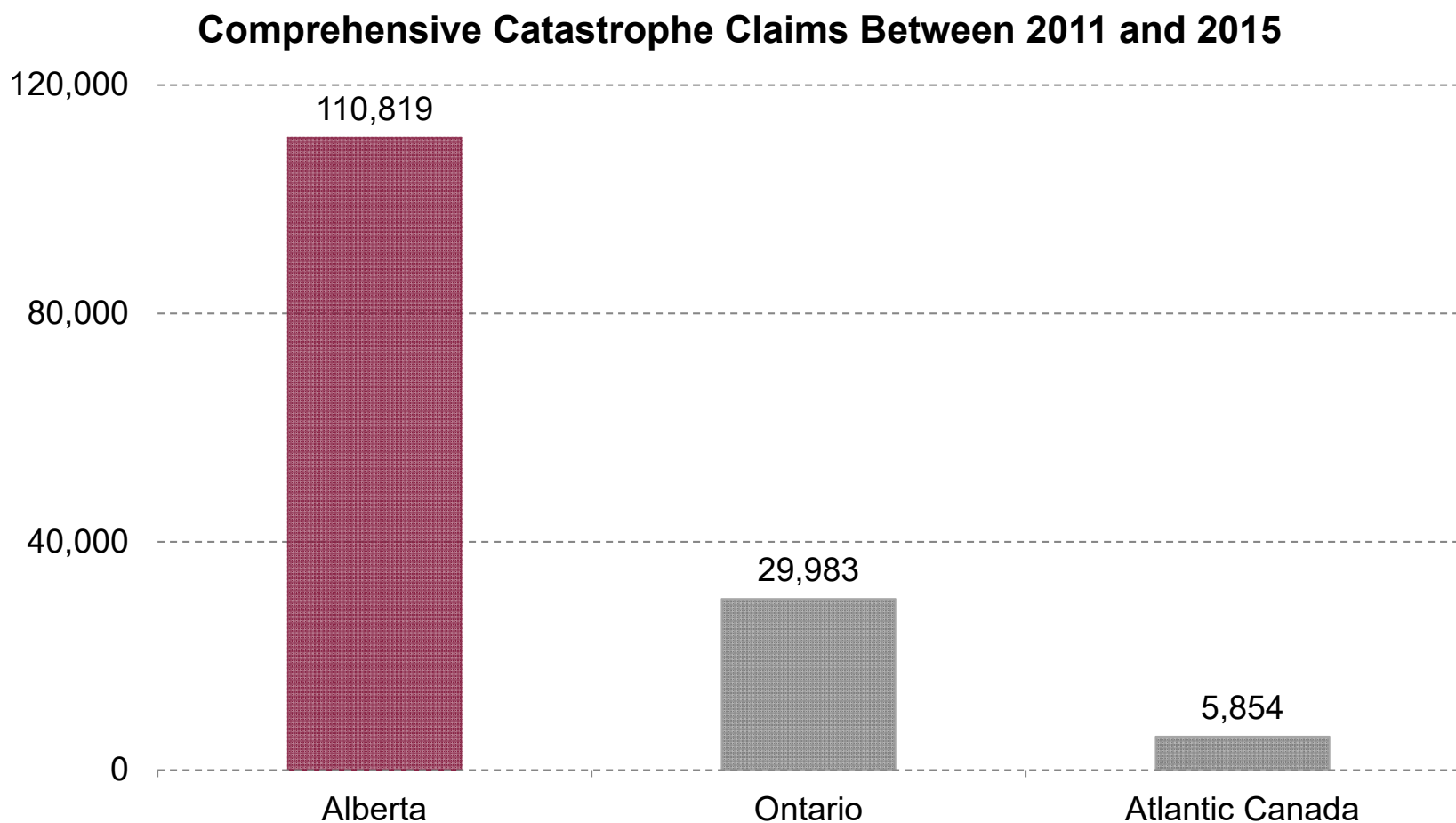
Deteriorating auto insurance market

Overview of Auto Insurance Market (2/6)



Source: IBC graph with data from Dr. Ron Miller for Alberta and from GISA for Ontario and Atlantic Canada.

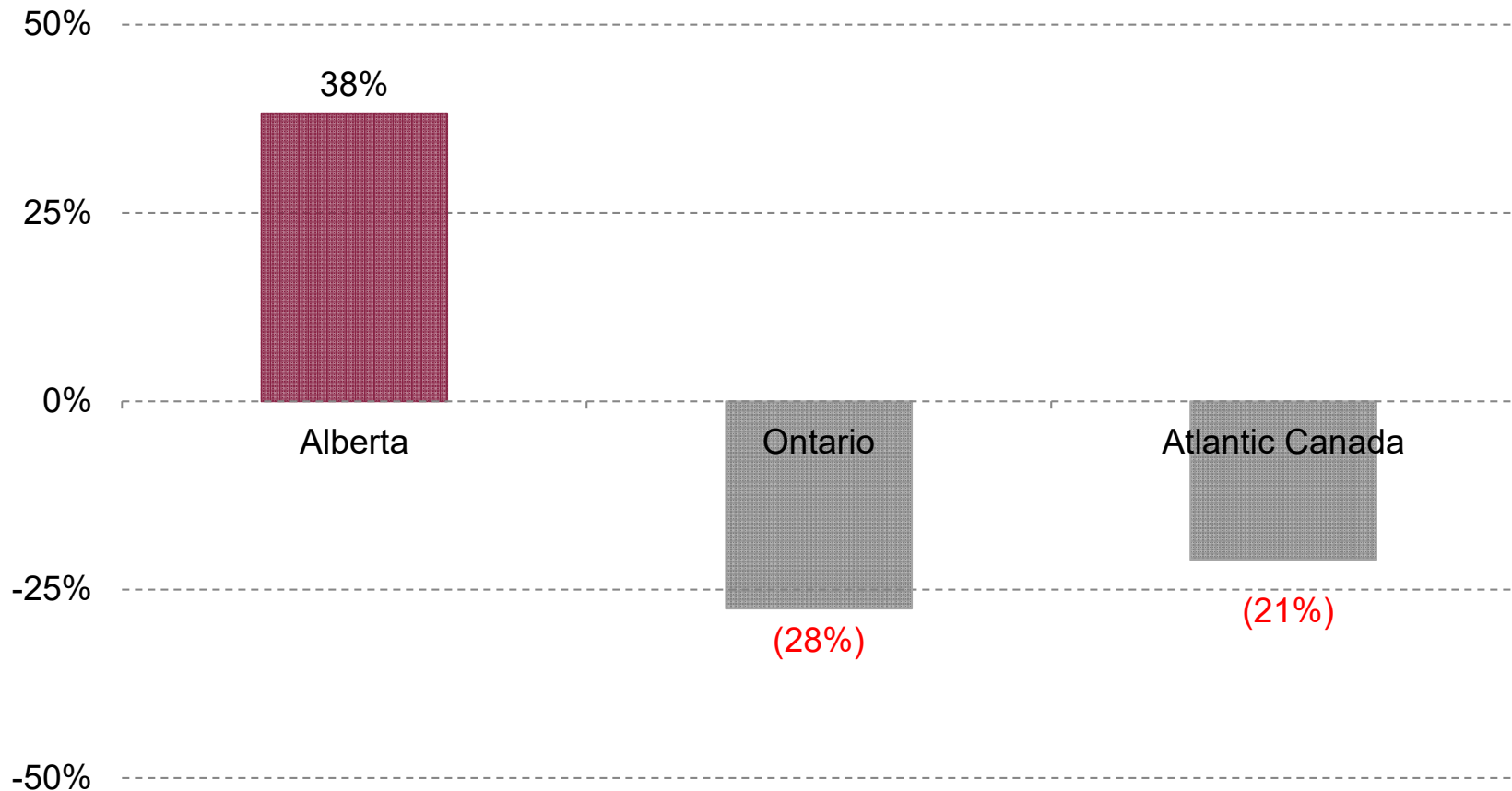
Overview of Auto Insurance Market (3/6)



Source: IBC graph with data from GISA.

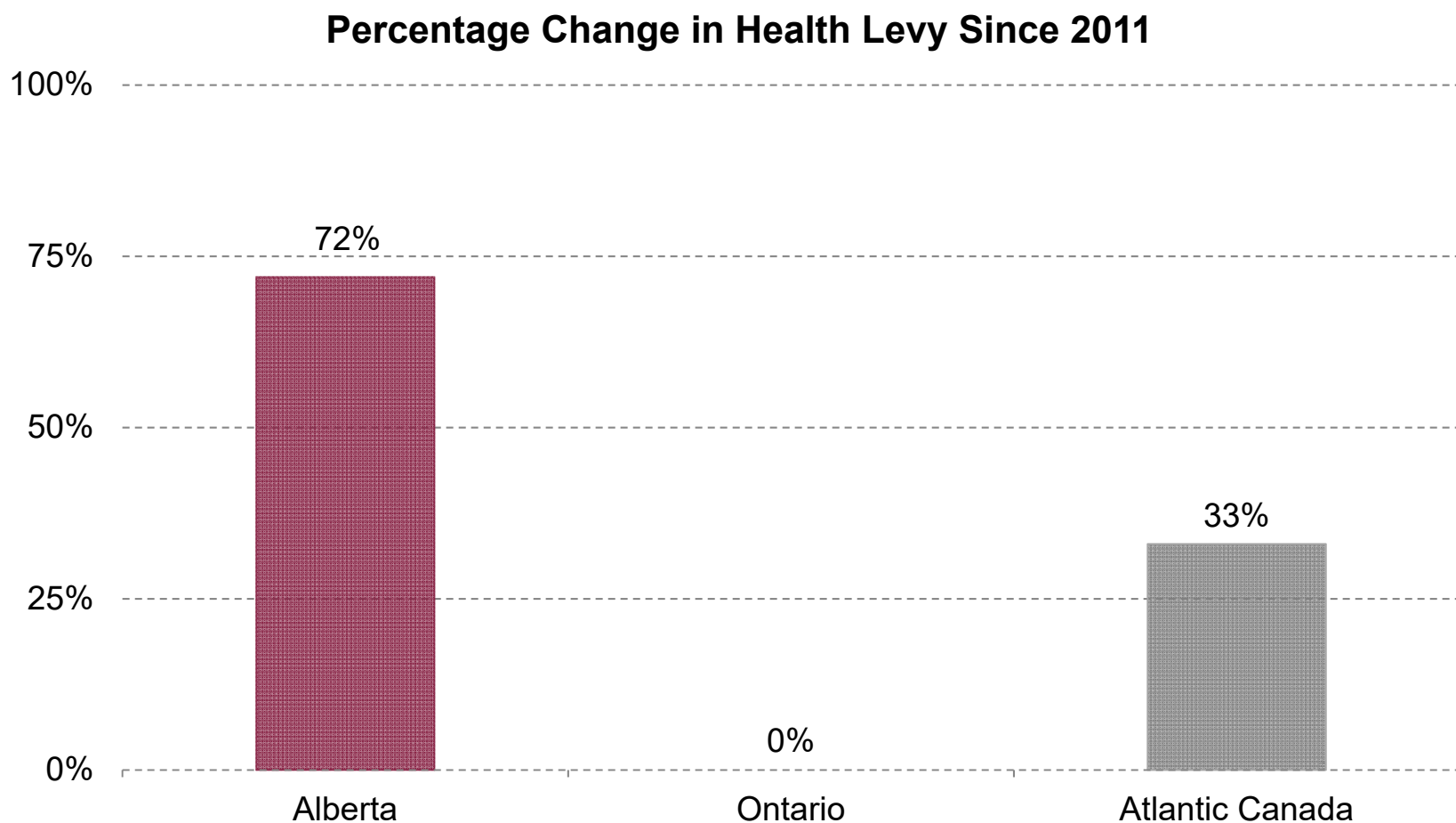
Overview of Auto Insurance Market (4/6)

Percentage Change in Theft Claims Frequency Since 2011



Source: IBC graph with data from GISA. Based on claims at the six-month development level.

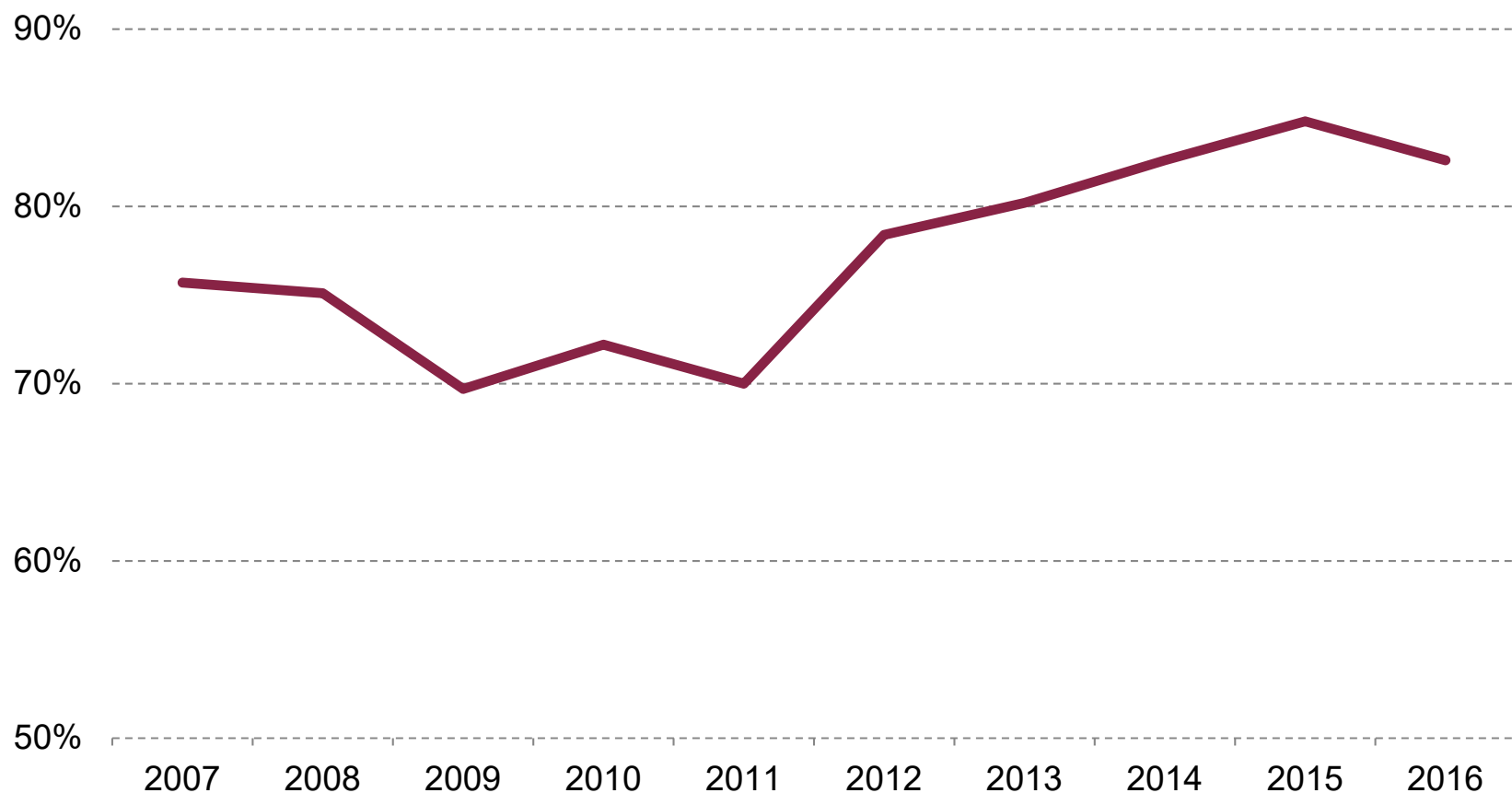
Overview of Auto Insurance Market (5/6)



Source: IBC graph with data from Alberta government and GISA.

Overview of Auto Insurance Market (6/6)

Alberta Private Passenger Vehicle Loss Ratio



Source: IBC graph with data from Dr. Ron Miller. Includes the health levy.

Analysis of Bodily Injury Claims (1/9)

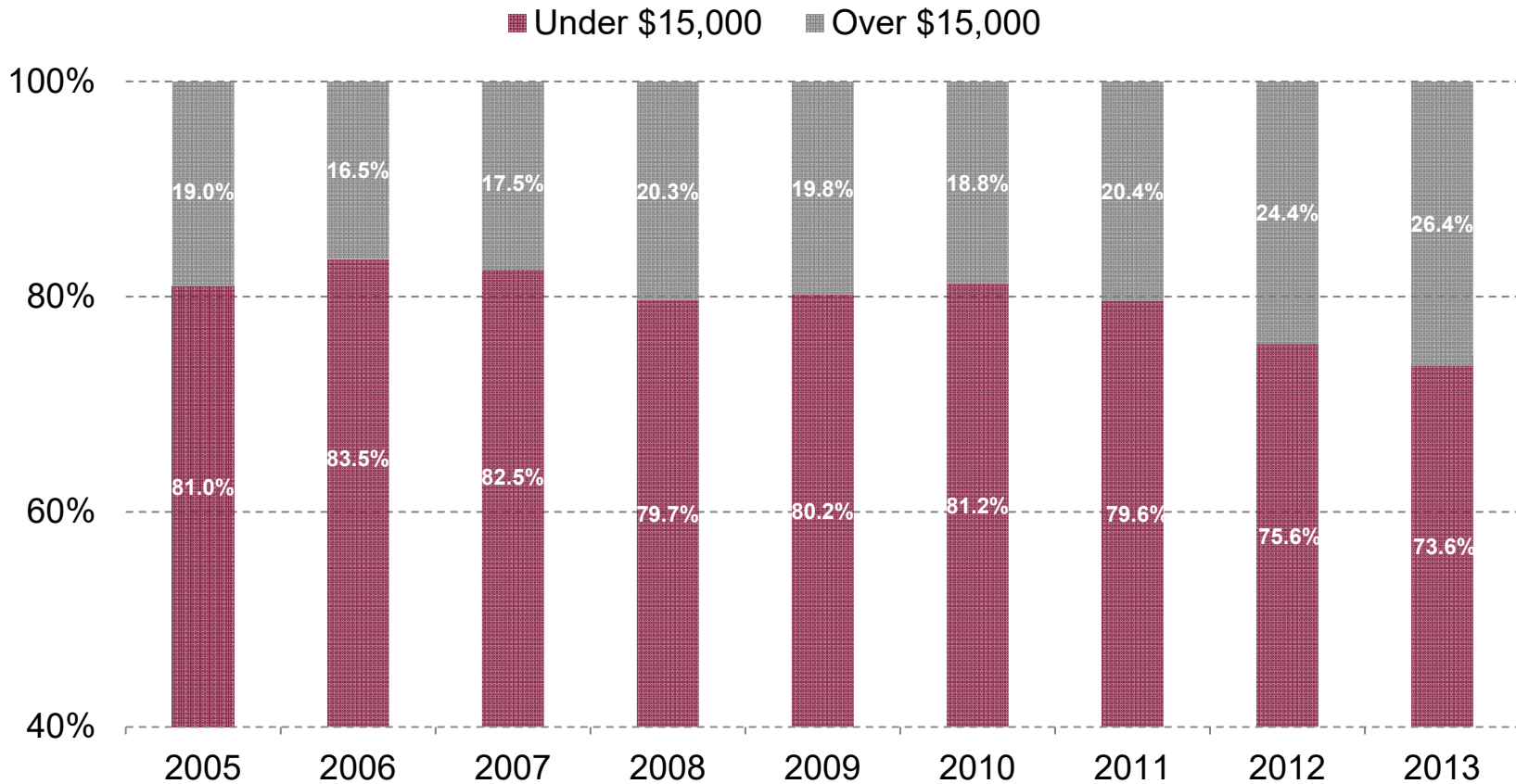
Bodily Injury Claims Experience by Accident Year

	Claims per 100 Vehicles	Average Claim Cost	Loss Cost
2011	0.60	\$41,523	\$250
2012	0.59	\$46,856	\$278
2013	0.59	\$51,950	\$306
2014	0.59	\$57,376	\$338
2015	0.57	\$65,098	\$372
2016	0.52	\$64,387	\$337
Annual Change	(2.7%)	9.2%	6.2%

Source: IBC table with data from Dr. Ron Miller.

Analysis of Bodily Injury Claims (2/9)

Bodily Injury Claims Size Distribution by Accident Year



Source: IBC graph with data from GISA. GISA does not develop the size of claim distribution exhibits to ultimate values. The estimates are based on claims at the most up to date three-year development level.

Analysis of Bodily Injury Claims (3/9)

Average Settlement for Claimants with Minor Physical Injuries

	Claimant Count	Non-Pecuniary	Total Settlement
Minor Injury Only	1,210	\$3,603	\$5,419
Minor Injury with Ancillary Condition (capped)	24	\$4,678	\$8,439
Minor Injury with Ancillary Condition (not capped)	186	\$23,658	\$42,432

Source: IBC bodily injury closed claims study. All claimant files closed in early 2014 or late 2013.

Analysis of Bodily Injury Claims (4/9)

Potential
Factors

Change in insurers' reserving practices

Change in auto insurance liability limits

Increase in health care costs and/or wages

The effect of prejudgment interest

Increase in legal costs

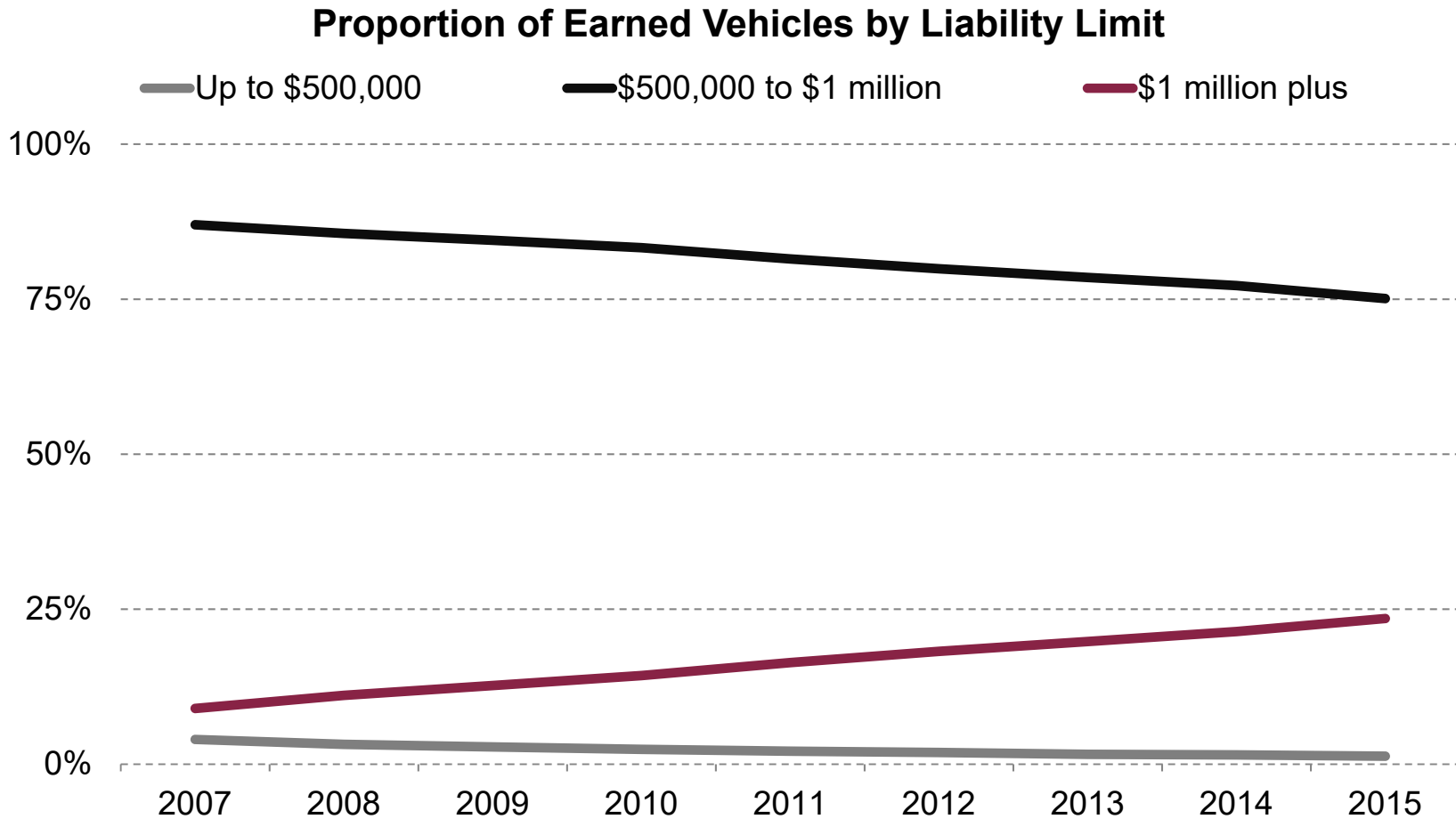
Analysis of Bodily Injury Claims (5/9)

Average Ratio of Outstanding Losses to Incurred Losses

	2007 to 2011	Since 2012
6 Months	96.9%	97.2%
12 Months	88.4%	88.7%
18 Months	80.2%	81.0%
24 Months	73.3%	73.0%
36 Months	65.1%	63.3%

Source: IBC table with data from GISA. Percentages in column 2 are an average of the five-year period.
Percentages in column 3 are an average of the applicable development months.

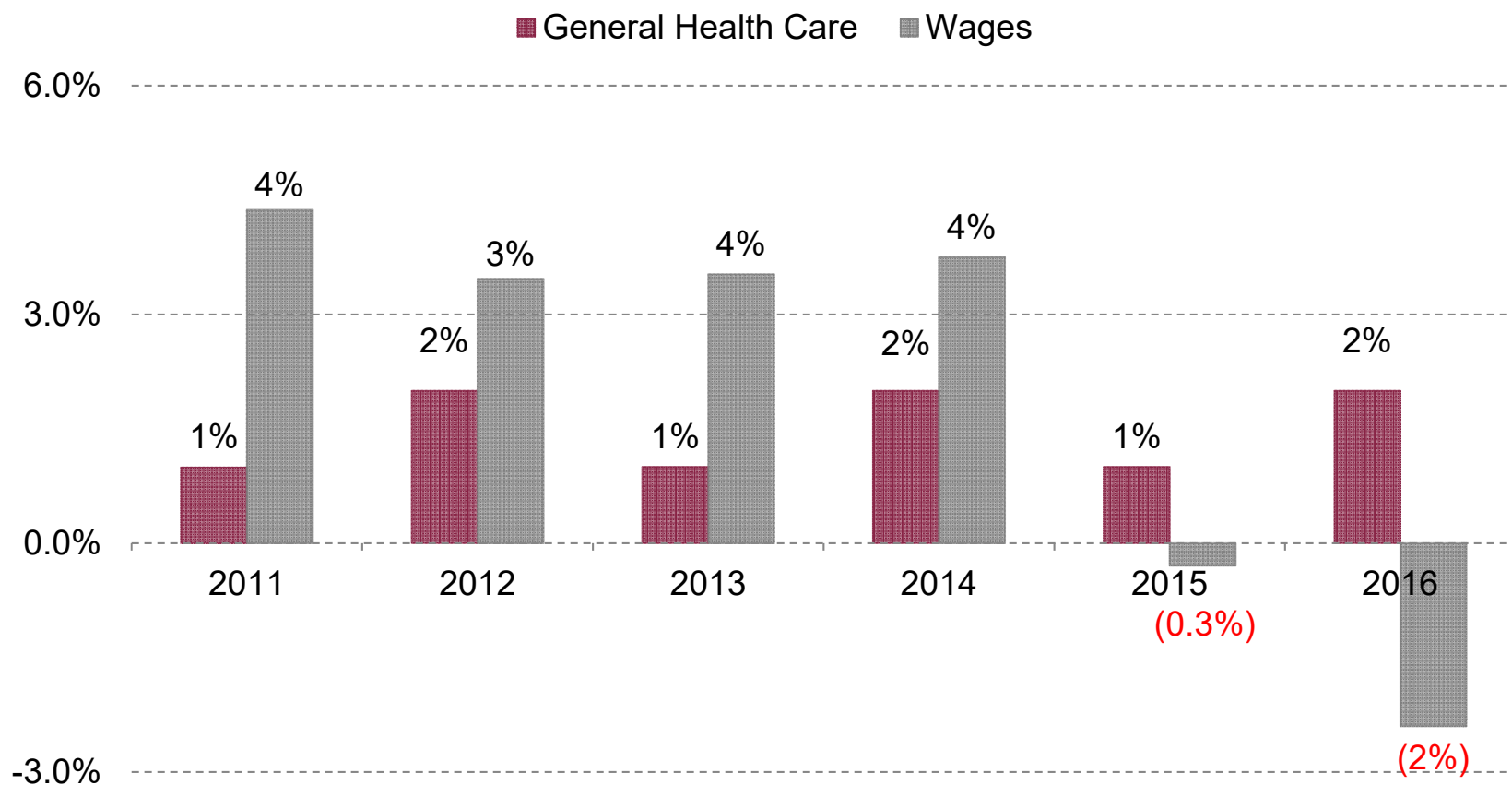
Analysis of Bodily Injury Claims (6/9)



Source: IBC graph with data from GISA.

Analysis of Bodily Injury Claims (7/9)

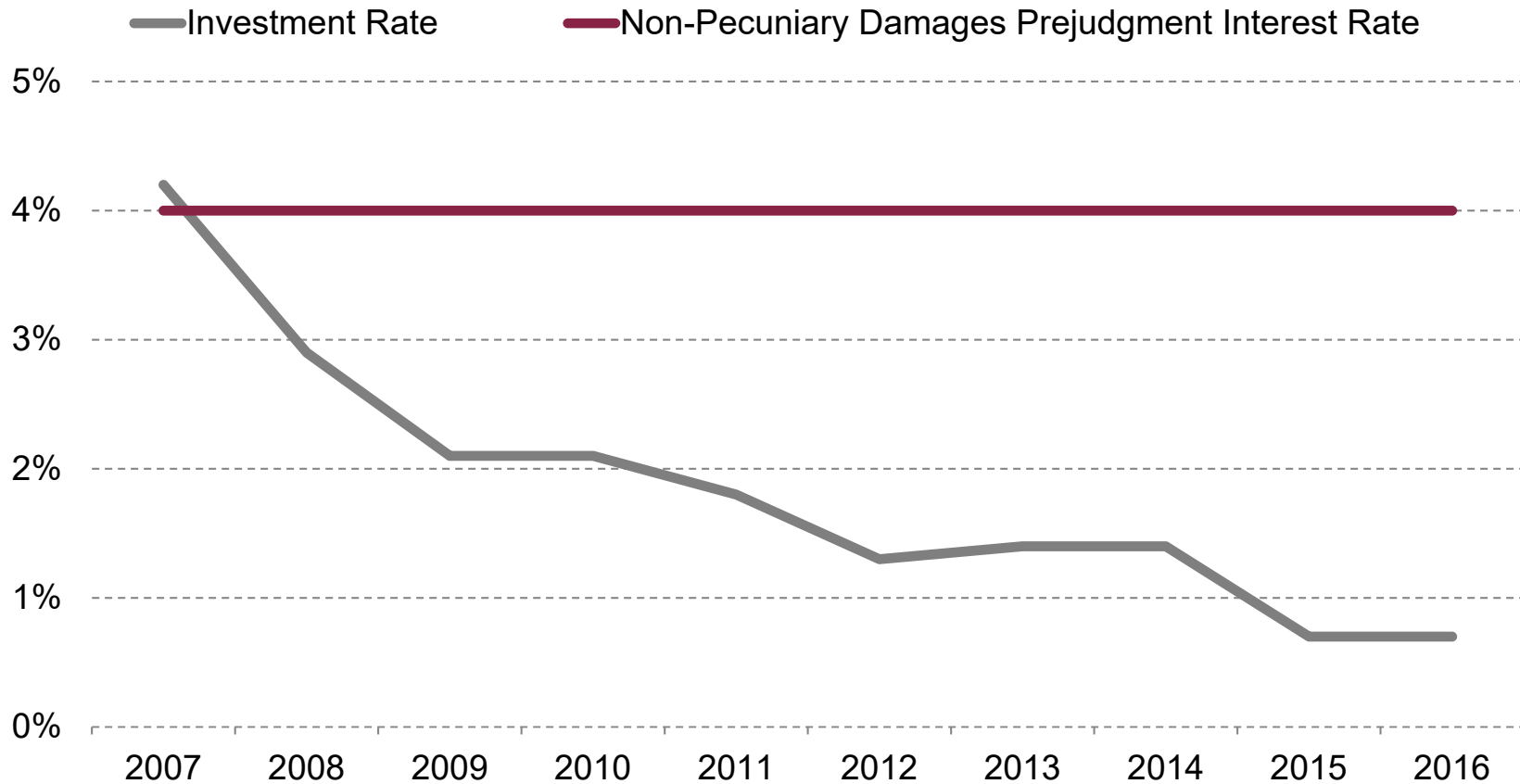
Annual Increases in General Health Care Spending and Wages



Source: IBC graph with data from the Canadian Institute for Health Information and Statistics Canada.

Analysis of Bodily Injury Claims (8/9)

Investment Rate and Prejudgment Interest Rate



Source: IBC graph with data from the Bank of Canada. The investment rate is an average of 3-year and 5-year Government of Canada bonds. Values are annual averages of average monthly yields.

Analysis of Bodily Injury Claims (9/9)

Analysis

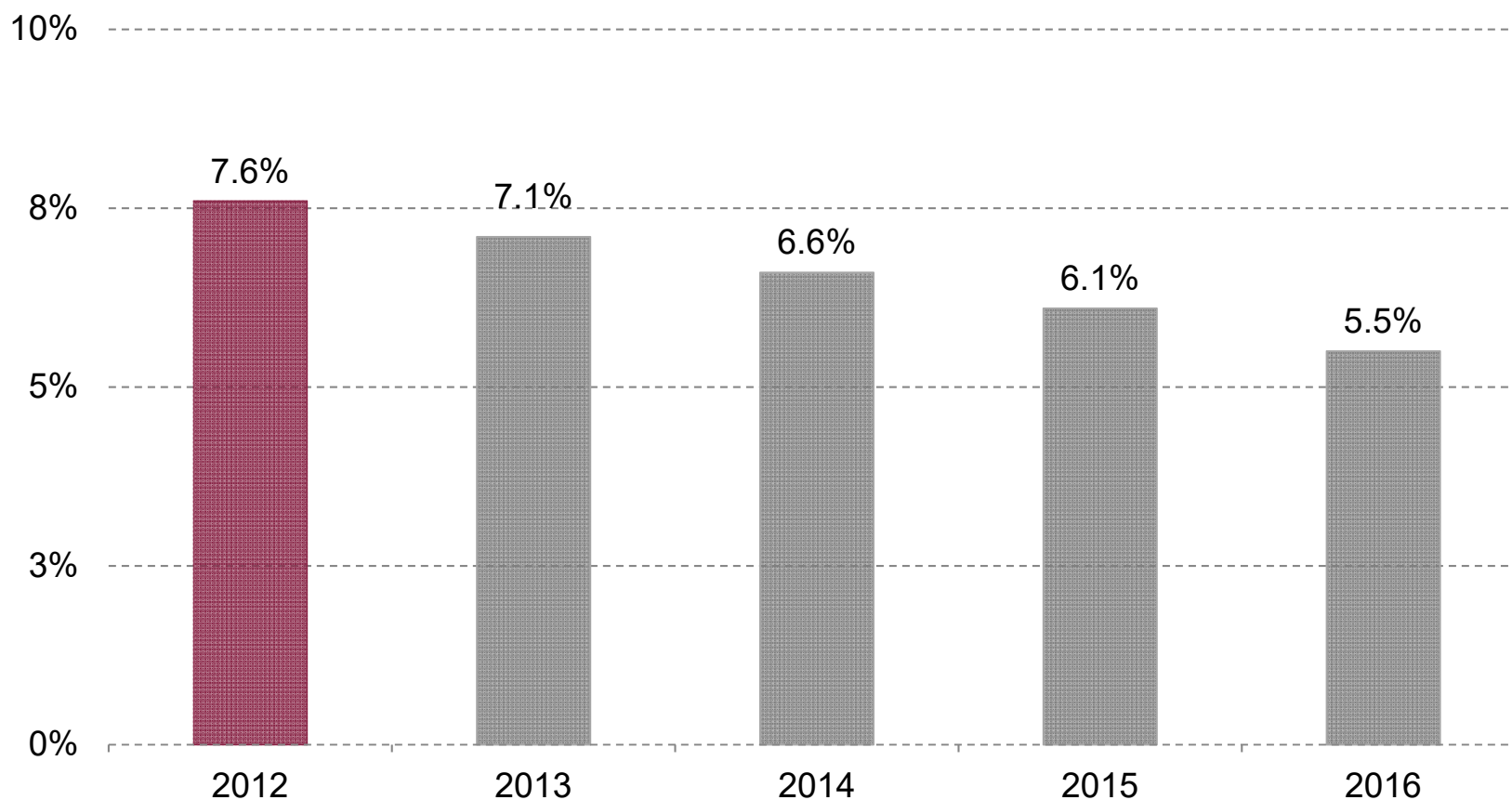
Sparrowhawk v. Zapoltinsky decision caused the bodily injury claim cost trend to change

Bodily injury claims costs are projected to continue increasing at a high rate

Regulatory reform is needed to reduce and contain bodily injury claims costs

Grid Loss Experience (1/8)

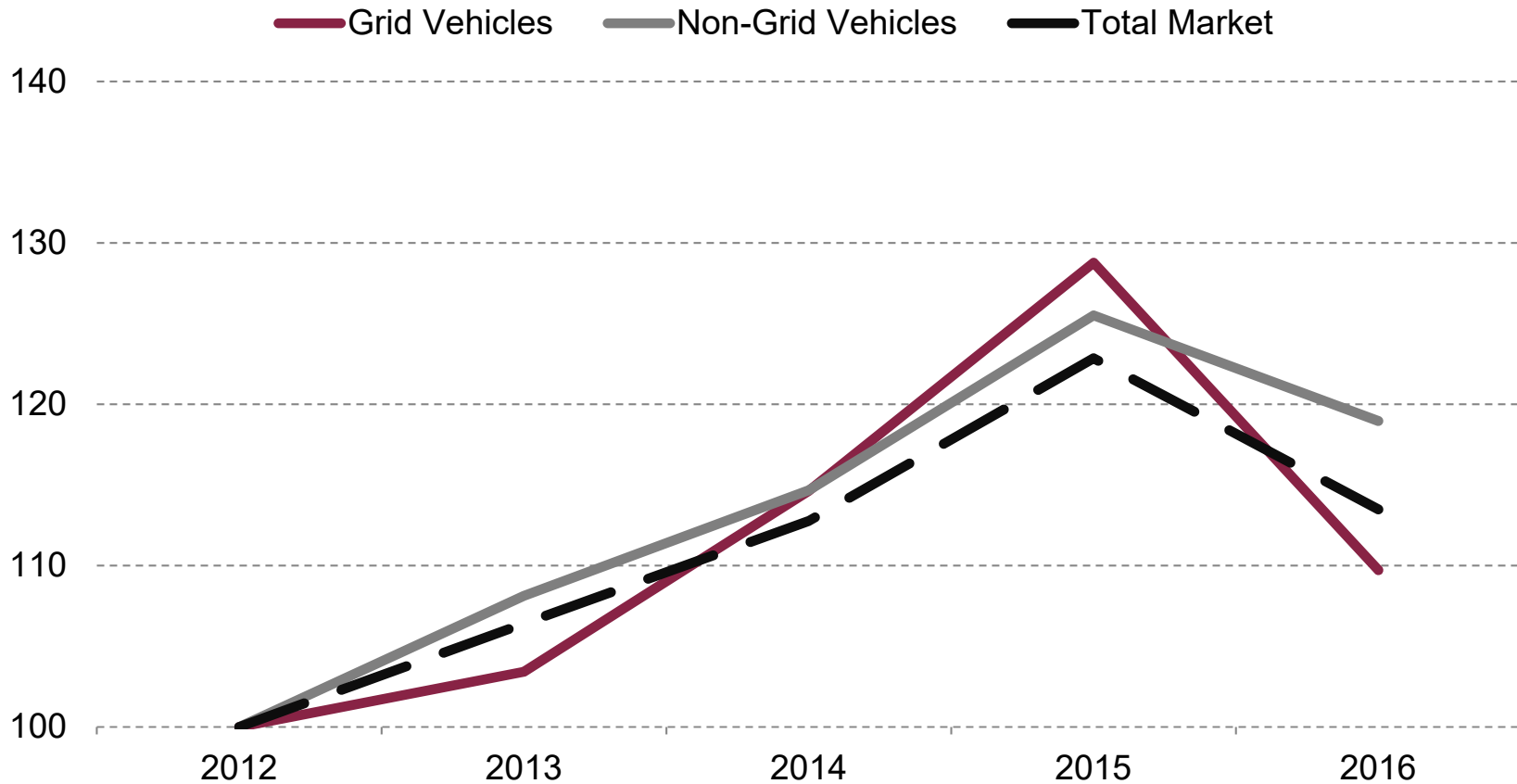
Market Share of Grid Vehicle Population



Source: IBC graph with data from Dr. Ron Miller. Based on car-years earned exposure.

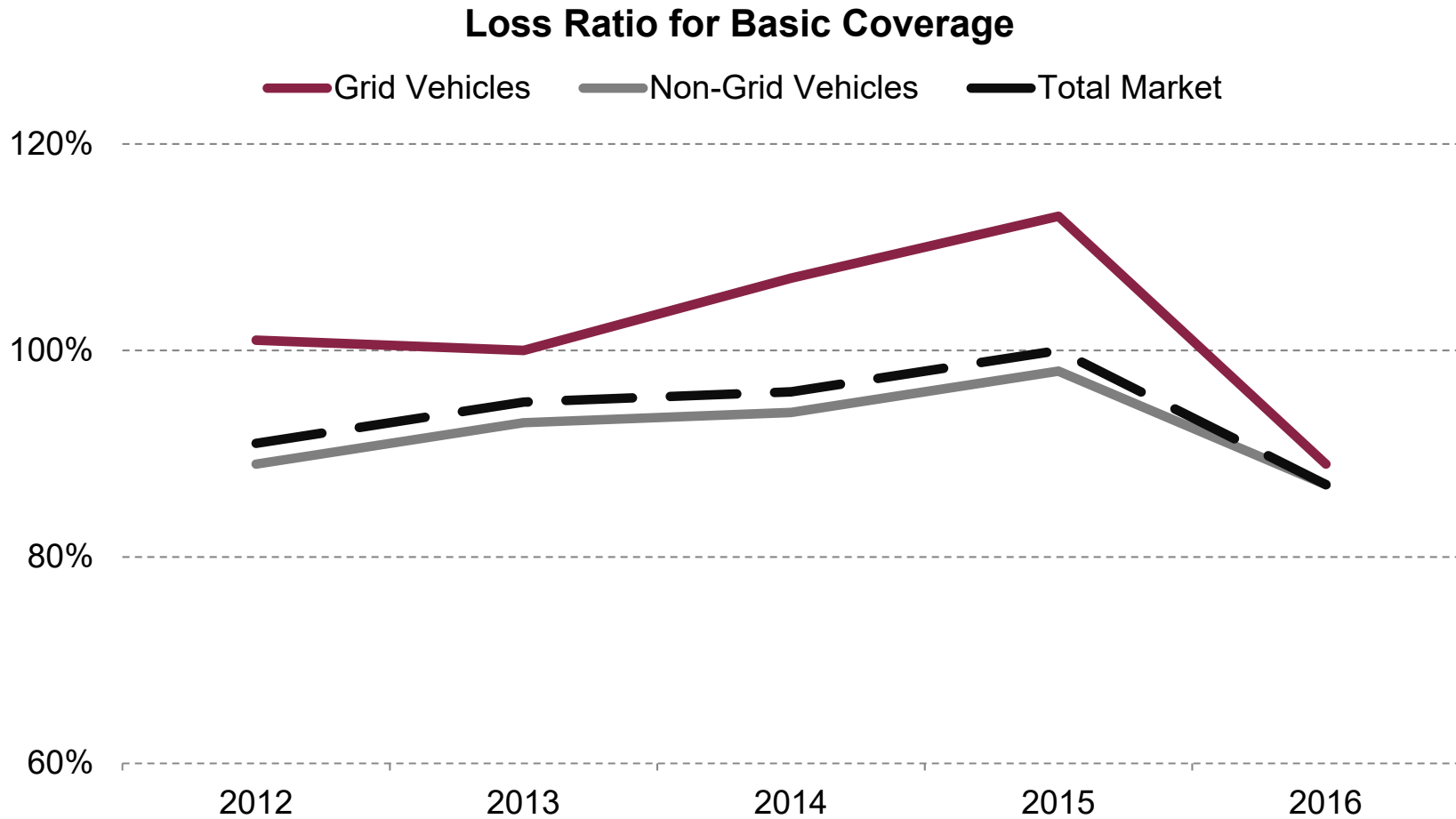
Grid Loss Experience (2/8)

Loss Cost Movement for Basic Coverage, Indexed to 2012



Source: IBC graph with data from Dr. Ron Miller. Includes the health levy.

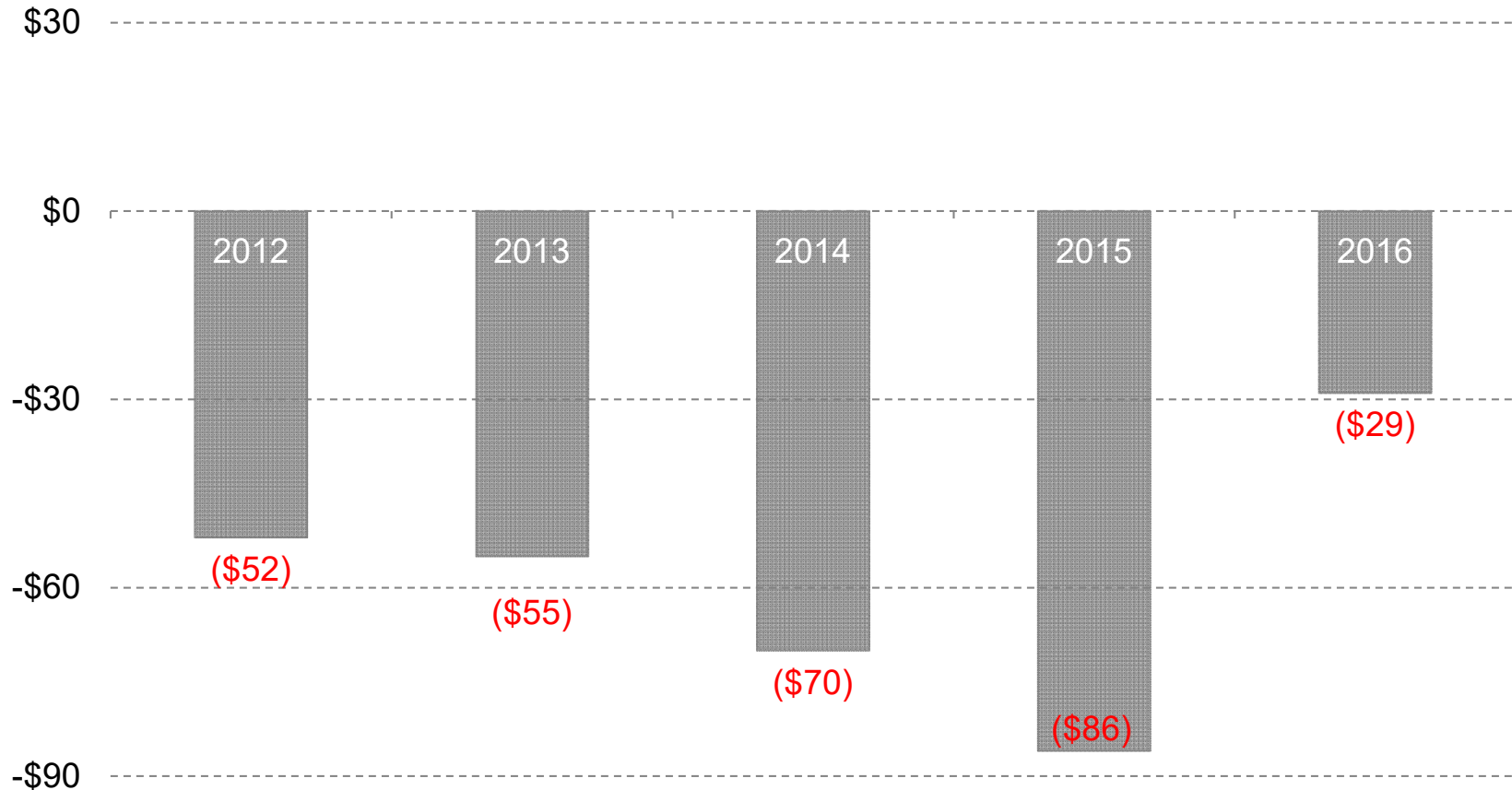
Grid Loss Experience (3/8)



Source: IBC graph with data from Dr. Ron Miller. Includes the health levy.

Grid Loss Experience (4/8)

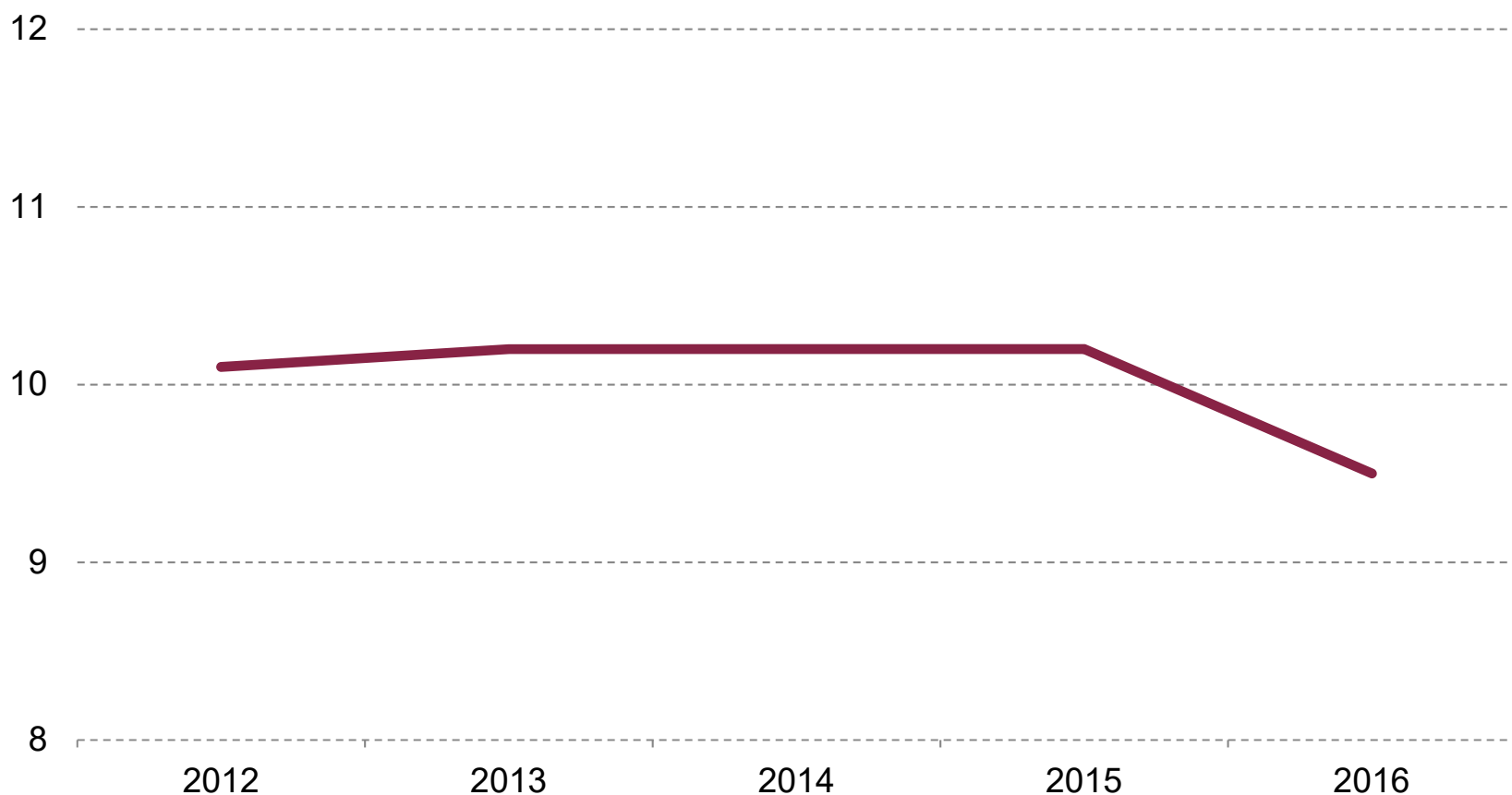
Grid Underwriting Results for Basic Coverage (\$ millions)



Source: IBC graph with data from Dr. Ron Miller. Includes the health levy. Operating expenses were estimated based on data from GISA and Dr. Miller.

Grid Loss Experience (5/8)

Grid Basic Coverage Claim Frequency per 100 Vehicles



Source: IBC graph with data from Dr. Ron Miller.

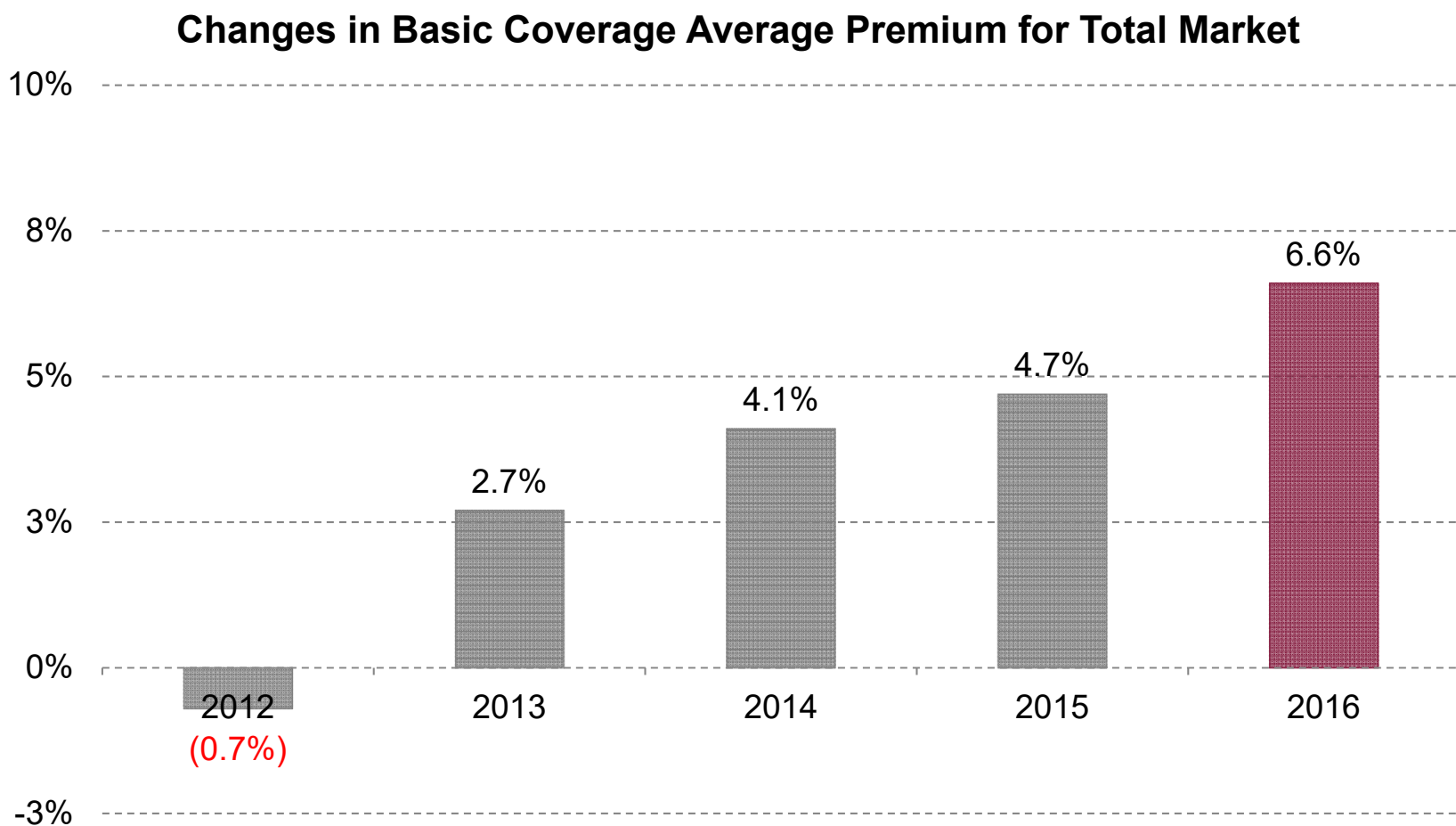
Grid Loss Experience (6/8)

Future Loss Cost Trend Rates for Basic Coverage

	Oliver Wyman	Dr. Ron Miller	Difference
Bodily Injury	+7.75%	+6.67%	(1.08 p/p)
Property Damage	+1.50%	+2.83%	1.33 p/p
Med/Rehab	+3.50	+4.32%	0.82 p/p
Disability Income	+4.50%	+3.98%	(0.52 p/p)

Source: IBC table with data from Dr. Ron Miller.

Grid Loss Experience (7/8)



Source: IBC graph with data from Dr. Ron Miller.

Grid Loss Experience (8/8)

Analysis

The low 2016 claim frequency rate is not indicative of a new trend

Claims costs are increasing at a higher rate than in the past and premiums are rising

An increase to the grid by a greater amount than the previous adjustment of 8% is warranted

Conclusion

Overview

The auto insurance market continues to deteriorate

No indication of government reforms to reduce and contain bodily injury claims costs

Difficult decisions on the grid and insurer rating programs have become the norm
