



August 2017

Introduction

Thank you for the opportunity to present at the Open Meeting of the Alberta Insurance Rate Board. We are grateful for our long-standing positive relationship with the AIRB.

Peace Hills General Insurance Company has been serving western Canada since 1982. Our head office is located in Edmonton with branches in Calgary and Vancouver. We currently employ about 200 staff, and are represented by almost 500 independent broker offices across the four western provinces and three northern territories.

Our organization was founded in a unique situation and we continue to be a one-of-a kind insurance company. We are proudly owned by Samson Cree Nation, who were looking for a new venture in which to invest their oil and gas royalties in the early 1980's.

Peace Hills ranked 13th in Alberta in direct written premium for auto in 2016, with a total volume of \$76m and a market share of 1.8%.

At the meeting, we will be represented by our head pricing actuary, Brant Wipperman and our auto claims manger, Matthew Land.

BI severity

Back in 2009, 10% of total payments arising from BI claims made in that year were going to claims which settled below the minor injury regulation cap amount. And as recently as 2013, close to half of BI cases were still being settled below the minor injury regulation cap amount. Since 2014, there has been significant growth in the size-of-loss categories between \$10,000 and \$50,000.

There has been an increasing propensity towards BI claimants having legal representation. It is difficult to project the ultimate representation rate for recent years as counsel may be retained at any time during the claim life cycle. However, if the historical rate of increase continues, it is expected that 45-50% of BI claimants will ultimately become represented.

Represented claims take three times longer on average to settle (about three years vs. about one year), and end up costing five to ten times more. Claims build-up is very high during that critical time period (of the second and third year).



Comp trends

The rate of vehicle theft has increased over the last five years (by 165%), and in particular during the last three years (>25% in 2015, >30% in 2016, and projected based on seasonal patterns to be 32% in 2017).

Peace Hills defines catastrophic losses for the purpose of automobile insurance as anything weather-related (i.e. hail, wind, flood or forest fire). The last five years have seen a new level of cat auto losses, due to the increasing frequency and severity of hail storms, the unprecedented flooding in southern Alberta in 2013, and the world's second most destructive wildfire on record in Fort McMurray last year. Therefore, weather-related losses now account for nearly half of comprehensive loss payments (notwithstanding the large increase in theft frequency). Our cat load based on the last five years is 90%.

Adverse development

The loss development in the most recent years for BI was greater than expected. Over a 12 month period, Peace Hills' selected loss development factors have increased by .091 for 12 months to ultimate, and .057 for 24 months to ultimate. Alternatively stated, in the 12 to 24 month period alone, the loss development factor has increased by .018. This corresponds to the start of the crucial build-up period for claims which are not settled within their first year after occurring.

An industry analysis by Dr. Ron Miller (see Appendix 1) supports these findings. His BI loss cost estimate for 2015 increased by almost 9% from 2016 to 2017, and the 2014 estimate also increased by 8%. His AB loss cost estimate for 2015 increased by 16% from 2016 to 2017.

Anecdotally, some reasons for this adverse development may be that patients are now approaching caregivers looking for a level 3 whiplash diagnosis. New conditions such as sleep apnea are being attributed to the already long list of whiplash-associated disorders. The frequency of both TMD and psychological injuries appears to have returned to levels not seen in over a decade. And represented claimants tend to report more symptoms with greater severity; the list of symptoms also tends to increase after legal representation. Any number of these and other factors may be contributing to adverse development on bodily injury claims.

Duration also seems to be lengthening for Section B claims. The bar is being briefed on maximizing accident benefits in order to provide a better foundation for eventual litigation.



External influences

Weather is a very important driver of automobile claims frequency. The question comes down to which data elements (e.g. temperature, precipitation) and weather stations to use. A significant proportion of Alberta's annual precipitation falls in the form of snow, so it makes sense to focus on that. The number of days with snowfall (above a threshold amount) would be a possible variable but because snow tends to remain on the ground, the overall amount of snow is a simpler choice.

Alberta's two largest cities, Calgary and Edmonton, represent over half of its total population. The modeling could be simplified by relying on observations from only these two weather stations. However, this raises the issue of whether these two locations would be a reasonable proxy for conditions across the province.

A study conducted in British Columbia in 2010 addressed this same concern. This was [referenced](#) in response to a question from the regulator of automobiles rates in that jurisdiction, the BC Utilities Commission, in 2012. Essentially, precipitation in Vancouver was found to be highly correlated with almost all regions in the province.

Given the central location of Calgary and Edmonton relative to the rest of Alberta's population and the assumption that weather patterns are at least as homogeneous in Alberta as BC, we believe that total semi-annual snowfall amounts in Calgary and Edmonton would be a very reasonable and helpful variable in modeling automobile claims frequencies. The latter point is evidenced by the 14% improvement in adjusted R^2 for the BI frequency model.

The remaining challenge is then to make an appropriate snowfall forecast. We believe it would be prudent to use a medium to long-term average amount. This is analogous to how the catastrophic benchmark loading is determined.

Economic variables such as unemployment and GDP growth have also been demonstrated to correlate very well with automobile claims frequency. This is evidenced by an 8% improvement in adjusted R^2 for the BI frequency model.

Our suggestion would be to use GDP growth rather than unemployment rate as the explanatory economic factor. Unemployment rates vary significantly within the province (see Appendix 2) whereas output is generally measured using at least a provincial level. There is also perhaps more precision in GDP forecasts as various entities such as major banks expend significant effort on predicting provincial economic growth.



Competitive inequities

The four territory system for automobile insurance rating has persisted for far too long. It is not too difficult to find examples of large differences in loss costs within each of the four territories. In urban areas, our data indicates a spread of 50-100% for liability, up to 50% for collision, and as much as 300% for comp. The situation is worse in rural areas. For example, in the extremely heterogeneous “rest of Alberta” territory, we found two towns whose loss costs for section C coverage differed by almost \$250.

Besides the inherent subsidization in the current structure, several companies have long been allowed to maintain more than four territories for mandatory coverage. This only exacerbates the situation for companies who are not permitted to do this.

Conclusion

These are frightening times for the automobile insurance industry in Alberta. According to data from the Insurance Bureau of Canada, industry loss ratios for private passenger auto insurance in this province have increased at an alarming rate since 2009 (see Appendix 3). After flattening out at 80% from 2013-15, they again jumped (to 88%) in 2016. This is clearly not a sustainable situation for the industry.

And the outlook is not rosy. Oliver Wyman’s preliminary Annual Review suggests a benchmark BI loss cost trend of +7.75%. This is approximately 20 times the current annual rate of inflation for Alberta. Meanwhile, in the first half of 2017, now fewer than six companies (representing over 28% of the market) have been approved for rate increases of at least 7%.

With escalating cost pressures and persisting competitive inequalities, it will be extremely challenging for a local insurer to survive and thrive. We look forward to an engaging discussion in response to our presentation and all the others on August 15th.

Sincerely,

Kathy Boychuk, President & CEO, Peace Hills Insurance



Appendix 1

Analysis	Loss Cost TPL BI		Severity TPL BI		Loss Cost AB	
	2016	2017	2016	2017	2016	2017
2011	250	250	41,739	41,562	39	39
2012	274	278	46,421	46,875	42	42
2013	290	306	49,719	51,974	41	41
2014	313	338	54,651	57,425	41	41
2015	342	372	62,945	64,842	44	51
2016		339		64,257		48

Source: **Comparison of Analysis** (2016 Report to 2017 Report). [PH 2017 AIRB Presentation](#) (Ind PP LC), *Baron Insurance Services*, August 2017.

Appendix 2

Economic Region	2016
Wood Buffalo-Cold Lake	9.3%
Edmonton	7.4%
Red Deer	8.6%
Rockies-Peace River	6.9%
Calgary	9.2%
Camrose-Drumheller	7.8%
Lethbridge-Medicine Hat	6.9%

Source: **2016 Annual Alberta Regional Labour Market Review**. [Figure 5: Unemployment Rate, Alberta's Economic Regions](#) (2015 and 2016), *Alberta Ministry of Labour*, February 2017.



Appendix 3

Year to Date	Automobile		
	Direct Written Premium (\$'000)	Direct Earned Premium (\$'000)	Direct Earned Loss Ratio (%)
2006-Q4/T4	2,509,766	2,396,344	64.4
2007-Q4/T4	2,784,847	2,709,791	62.5
2008-Q4/T4	2,937,244	2,878,829	75.3
2009-Q4/T4	3,012,083	2,973,945	55.2
2010-Q4/T4	3,069,941	3,058,341	61.3
	Automobile - Private Passenger		
2011-Q1/T1	512,799	596,911	75.8
2011-Q2/T2	1,188,818	1,174,687	66.5
2011-Q3/T3	1,851,924	1,808,126	65.5
2011-Q4/T4	2,452,764	2,418,360	68.9
2012-Q1/T1	566,825	631,905	65.1
2012-Q2/T2	1,300,277	1,249,707	64.4
2012-Q3/T3	2,021,085	1,933,197	74.0
2012-Q4/T4	2,665,153	2,588,972	79.3
2013-Q1/T1	592,145	672,342	74.2
2013-Q2/T2	1,368,866	1,345,425	76.5
2013-Q3/T3	2,137,718	2,008,894	80.3
2013-Q4/T4	2,887,987	2,757,728	81.3
2014-Q1/T1	639,061	714,834	81.7
2014-Q2/T2	1,487,670	1,447,096	74.0
2014-Q3/T3	2,153,711	2,049,551	80.1
2014-Q4/T4	3,045,788	2,917,744	84.0
2015-Q1/T1	681,417	756,177	87.8
2015-Q2/T2	1,546,119	1,528,065	75.0
2015-Q3/T3	2,400,866	2,307,698	78.2
2015-Q4/T4	3,189,143	3,108,284	82.4
2016-Q1/T1	701,642	782,998	75.0
2016-Q2/T2	1,590,845	1,573,307	77.9
2016-Q3/T3	2,498,515	2,391,525	90.7
2016-Q4/T4	3,241,155	3,165,093	93.1
2017-Q1/T1	704,694	790,932	83.2

Source: **Industry Loss Ratio Report** (First Quarter 2017). Exhibit 9: Province of Alberta (Automobile - Private Passenger), *Insurance Bureau of Canada*, May 2017.