

Alberta Civil
Trial Lawyers
Association
(ACTLA)

Presentation to the Alberta
Automobile Insurance Rate Board
(AIRB)

2021 Annual Review - August 19th 2021

Submission Summary

Recommendation:

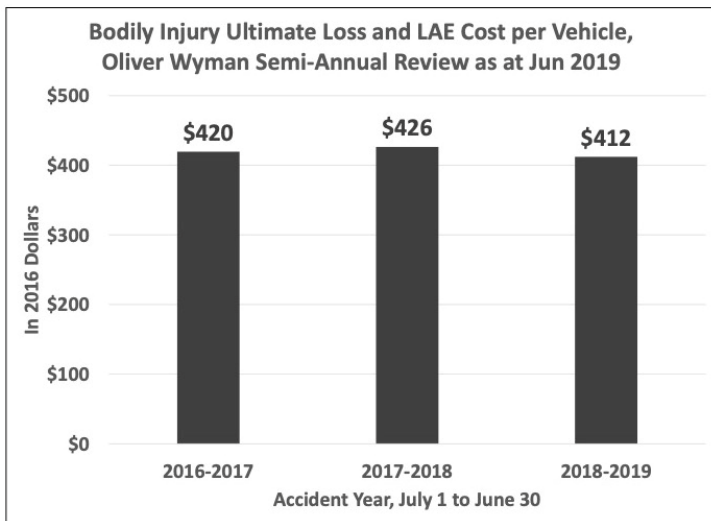
There should not be rate increases to premiums for basic and additional coverage for private passenger vehicles in 2021.

Rationale:

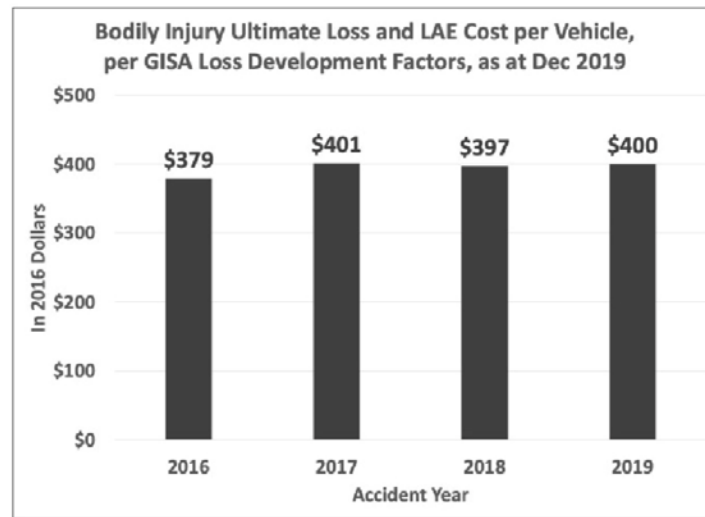
1. Inflation-adjusted bodily injury claims costs and claims costs for all coverages are stable.
2. Consumer premiums have increased since 2016, while claims payouts have stabilized.
3. COVID-19 has resulted in significant savings for the insurance industry, but these are underappreciated in Oliver Wyman's trend factors.
4. Bill 41 has resulted in further savings for industry. The effects of which have not been considered in Oliver Wyman's trend factors.
5. Projected Alberta automobile insurance pre-tax profits are over \$1.7 billion dollars for 2020 and 2021 combined.



Inflation-adjusted bodily injury claims costs and claims costs for all coverages are stable.



The 2020 Semi-Annual Review analysis of Oliver Wyman showed stability in the inflation-adjusted loss cost projections for accident years beginning at June 30, 2016.



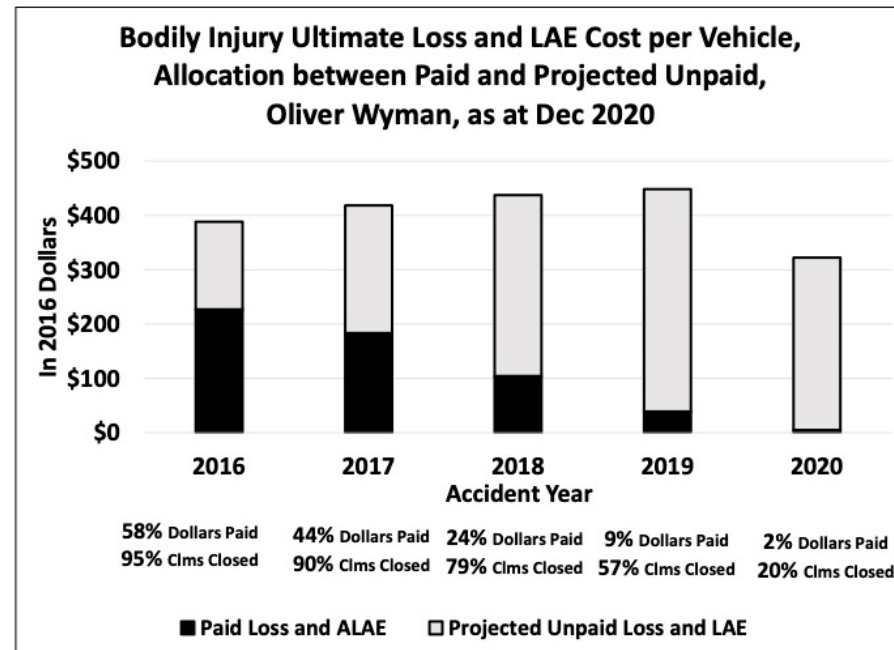
GISA's June 2020 Actual Loss Ratio Exhibit as of December 2019, also showed stability in its inflation-adjusted loss costs following 2016.



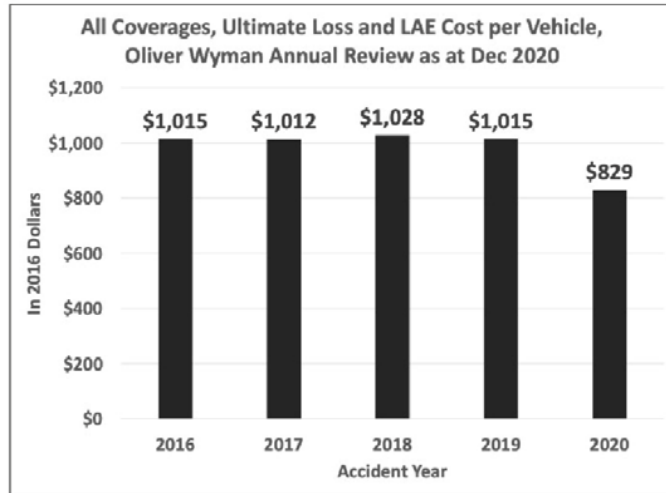
Inflation-adjusted bodily injury claims costs and claims costs for all coverages are stable.

A critical reason for the divergence between the bodily injury trend rate for 2021 and our analysis is the fact Oliver Wyman has not recognized the 2017 changes in claims handling and reserve practices.

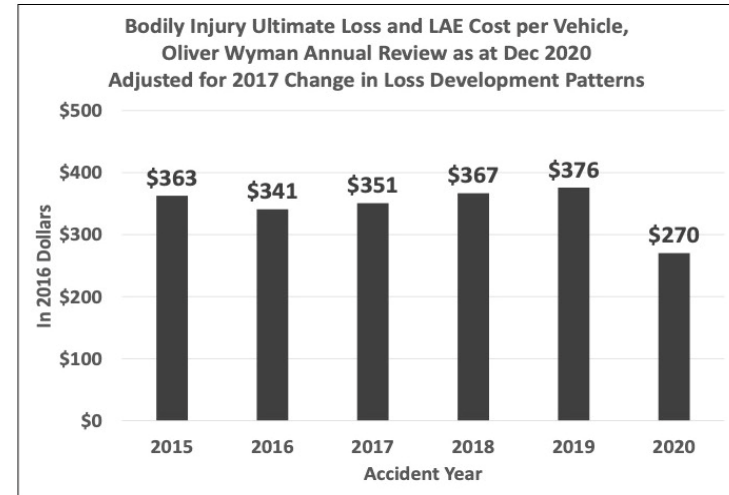
There is significant uncertainty in relation to reserve practices. The vast majority of claims account for a very small percentage of the payouts.



Inflation-adjusted bodily injury claims costs and claims costs for all coverages are stable.



Adjustments for reserve practices notwithstanding, the Oliver Wyman report shows the inflation adjusted ultimate loss cost per vehicle for all coverages remained stable from 2016 to 2019 and dropped in 2020.



When reasonable and appropriate adjustments are made for the change in loss development patterns, the inflation adjusted bodily injury loss cost has remained essentially stable since 2015 and dropped significantly in 2020.



Consumer premiums have increased since 2016, while claims payouts have stabilized.

While claims costs have levelled off since 2016, the trend rates for bodily injury coverage as forecast by Oliver Wyman have projected increases on an annual basis since 2016 of between 6 to 8.5%.

Projected trend rates for bodily injury claims cost have been used to rationalize significant automobile insurance premium increases for Albertans.

The effect of increased premiums, stable claims costs, and significant COVID-19 cost savings has been increased profits for insurance companies.

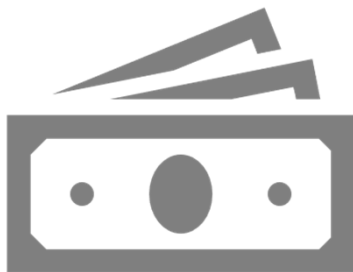
Effective Date	Past Trend Rate	Future Trend Rate	12-Month Increase in CPI ¹
April 1, 2015	+2.0%	+2.0%	1.7%
Oct. 1, 2015	+4.5%	+4.5%	1.5%
April 1, 2016	+6.0%	+6.0%	1.3%
Oct. 1, 2016	+6.0%	+6.0%	1.0%
April 1, 2017	-1.0%	+7.5%	0.4%
Oct. 1, 2017	+7.5%	+7.5%	2.0%
April 1, 2018	+7.5%	+7.5%	2.8%
Oct. 1, 2018	+8.5%	+7.5%	2.1%
April 1, 2019	+8.5%	+7.5%	1.4%
Oct. 1, 2019	+8.5%	+7.5%	2.3%
April 1, 2020	+8.0%	+7.0%	1.6%
Oct. 1, 2020	+7.0%	+6.0%	0.8%
April 1, 2021	+7.0%	+5.0%	2.7%



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COVID-19 has resulted in significant savings for the insurance industry, but these are underappreciated in Oliver Wyman's



The COVID-19 pandemic dramatically reduced the amount of driving by auto insurance policyholders and can be expected to have ongoing impacts on driving patterns.

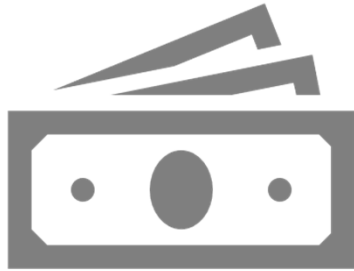
While Oliver Wyman has projected the 2020 claims costs with reference to COVID-19, they have not provided any guidance to the AIRB on what COVID-19 related adjustments should be moving forward.

Individual insurers applying for a rate change are asked to determine the expected impact of COVID-19 changes to claim costs.

This is in contrast to the analysis performed by JS Cheng and Partners Inc. in its May 27, 2020 report proposed claims cost reduction of 5% for 2021 and the smaller reduction of 2.5% for 2022.



Bill 41 has resulted in further savings for industry. The effects of which have not been considered in Oliver Wyman's



In addition to underappreciating COVID-19 effects, Oliver Wyman made no adjustment for Bill 41 cost savings.

Cost savings in relation to Bill 41 are ascertainable and should be accounted for when assessing trend factors in relation to bodily injury claims costs.

Changes to pre-judgment interest are expected to save the insurance industry **over \$40 million a year**, based on Insurance Bureau of Canada (IBC) estimates.

The definition change to minor injury which will take effect for claims after January 1, 2021, will lead to a further estimated savings of **approximately \$215 million a year**.

Projected Alberta automobile insurance pre-tax profits of over \$1.7 billion dollars for 2020 and 2021

Automobile insurers in Alberta have reaped a significant windfall due in large part to the effects of COVID-19, but also due to increasing premiums and stabilizing claims costs. The further cost-saving measures brought about by Bill 41 will only serve to solidify these cost savings for insurers.

Uses Cheng's method with adjustments for the 2017 loss development pattern change made to claims costs and trends from the Oliver Wyman Dec. 2020 analysis, a projection for 2020 and 2021 pre-tax profits is 1.733 billion.

	Actual 2020	Projected 2021*	Total
Premium	\$4,071,500	\$4,386,100	
Less: Claims Costs	\$2,332,500	\$2,996,200	
Less: Expenses	\$1,058,600	\$1,140,400	
Less: Health Cost Recovery	\$115,800	\$74,200	
Plus: Investment Income	\$368,300	\$344,000	
Total Profit, Pre-Tax, Excl. Bill 41	\$932,900	\$519,300	\$1,452,200
Plus: Bill 41 Change in MIR Definition		\$212,600	\$212,600
Plus: Bill 41 Reduction in PJI	\$26,200	\$42,000	\$68,200
Total Profit, Pre-Tax, Incl. Bill 41	\$959,100	\$773,900	\$1,733,000

Conclusion



Recommendation: There should not be rate increases to premiums for basic and additional coverage for private passenger vehicles in 2021.

ACTLA believes the above evidence is sufficient to support our recommendation that no rate increases to premiums for basic and additional coverage for private passenger vehicles be granted in 2021.

The combined impacts of recent premium increases, COVID-19, Bill 41 cost savings, and industry profits support this recommendation.

At minimum, a period of evaluation should occur to allow the effects of Bill 41 and the long-term impacts of COVID-19 to be observed in the industry before any further premium increases are permitted.



Thank you!

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