
Bulletin 08-16

September 26, 2016

To: Commercial Vehicle Automobile Insurers

Subject: Commercial Vehicles Industry Benchmark Schedule – October 1, 2016

The Automobile Insurance Rate Board is issuing this Bulletin to advise all commercial vehicle automobile insurers operating in Alberta that the AIRB's 2016 review of commercial vehicle experience has been completed based on data to December 31, 2015. The Commercial Vehicles Industry Benchmark Schedule effective October 1, 2016 has been approved by the Board. The Schedule and the related actuarial report have been posted on the AIRB website (<http://airb.alberta.ca/bulletins/>). Insurers in preparation of filings should incorporate the most current Industry Benchmarks to the extent that their own data is not fully credible. The Commercial Industry Benchmarks will also be used as the basis of the Board's review of Commercial Vehicle filings submitted on or after October 1, 2016.

Background:

The Insurance Act Section 602(1) requires that all insurers' rating programs and changes thereto be approved by the AIRB. Prior to 2015, the Board reviewed commercial vehicle trend rates on an annual basis for internal use in the review of Commercial filings. At its meeting of October 23, 2015, the Board decided to provide greater transparency by placing the approved Benchmark Schedule and the actuarial report on the AIRB website (<http://airb.alberta.ca/filing-guidelines/>). Based on the industry feedback, an open but simplified process for Commercial vehicle experience review is preferred. As a result, the Board invited written submission from the industry this year and will continue this process.

The Process:

All filings received on or after October 1, 2016, should incorporate the most current Industry Benchmarks to the extent that the insurer's own data is not fully credible. The Board will use this schedule as a basis for its review of Commercial filings. If you have any questions, please contact the Board at 780-427-5428 or by email vivian.cao@gov.ab.ca or kimberley.kern@gov.ab.ca.

Attachment:

2016 Annual Review Industry Benchmarks Schedule – Commercial - Effective October 1, 2016

Sincerely,

"Original signed"

Del Dyck CPA, CMA, CLGM
Executive Director

2016 Annual Review

Industry Benchmarks Schedule - Commercial

Effective Date: For Basic and/or Additional coverage rate filings submitted on or after October 1, 2016

Loss Development Factors

The Board approved benchmark loss development factors for use by insurers in developing filings are outlined in Attachment #1.

Loss Trends

The Board approved benchmark trend rates for use by insurers in developing filings:

| Coverage | Past/Future Trend Rates |
|-----------------------|-------------------------|
| TPL - Bodily Injury | +5.0% |
| TPL - Property Damage | +5.5% |
| TPL – Subtotal | +5.25% |
| Accident Benefit | +0.0% |
| Collision | +5.0% |
| Comprehensive | +1.0%/+5.0%* |
| Specified Perils | +1.0%/+5.0%* |
| All Perils | +5.0% |
| Underinsured Motorist | +5.0% |

* Level change factor of 1.12 at 2015.1

The Board acknowledges that insurers may select different trend rates based on their own claim experience. Insurers have the option to (a) use their own experience where it is fully credible; (b) use their own experience to the extent credible and apply the Board's accepted industry benchmark trend rates without adjustment as the complement of credibility; or (c) apply the Board's accepted industry benchmark trend rates without adjustment. The trend rates are updated on an annual basis.

Catastrophe Loading

The Board approved Catastrophe Loading is 20%. Where insurers' own claim experience differs from industry and is credible, the Board acknowledges that insurers may select a different catastrophe loading based on their own claim experience. The Catastrophe Loading is updated on an annual basis.

Investment Income Rate

The Board approved risk-free rate for all coverage is 0.65%. Insurers must use a risk-free rate that is no lower than 0.65% when discounting claims in the filings submitted with the Board. This rate is updated on a semi-annual basis.

Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)

The Board approved expense ratio is 25.4% based on 2014 AIFI results; and the approved ULAE factor is 1.103 based on the published GISA accident year 2015 ULAE provision. The ratios are updated annually based on GISA's publication schedule.

Insurers' own experience should be used when filing with the Board.

Health Cost Recovery

Health Cost Recovery is a component of claims costs reported by insurers. Insurers must use the most current percentage published on the Minister of Finance's website: http://www.finance.alberta.ca/publications/tax_rebates/healthcostsrecovery/. The factor is updated on an annual basis and the 2016 assessment factor is 5.90%.

Profit

The Board approved 7% of premium as a target pre-tax profit provision for all coverage.

**Oliver Wyman Selected Age-to-Ultimate Development Factors
As of December 31, 2015
Alberta
Commercial Vehicles**

**As of 2015-2
Age-to-Ultimate Factors
Incurred Claim Amount**

| | Bodily Injury | Property Damage | Accident Benefits | Collision | Comprehensive | Specified Perils | All Perils |
|---------|--------------------------|----------------------------|------------------------------|------------------|----------------------|-----------------------------|-------------------|
| 180-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 174-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 168-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 162-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 156-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 150-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 144-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 138-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 132-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 126-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 120-Ult | 1.000 | 1.000 | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 |
| 114-Ult | 1.004 | 1.000 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 108-Ult | 1.015 | 1.000 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 102-Ult | 1.008 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 96-Ult | 1.016 | 1.001 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 90-Ult | 1.031 | 0.997 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 84-Ult | 1.041 | 0.997 | 0.997 | 1.000 | 1.000 | 1.000 | 1.000 |
| 78-Ult | 1.053 | 0.997 | 0.996 | 1.000 | 1.000 | 1.000 | 1.000 |
| 72-Ult | 1.061 | 0.996 | 1.008 | 1.000 | 1.000 | 1.000 | 0.998 |
| 66-Ult | 1.036 | 0.998 | 1.025 | 1.000 | 1.000 | 1.000 | 0.997 |
| 60-Ult | 1.043 | 0.998 | 1.018 | 1.000 | 1.000 | 1.000 | 0.996 |
| 54-Ult | 1.083 | 0.994 | 1.037 | 1.000 | 1.000 | 1.000 | 0.996 |
| 48-Ult | 1.126 | 0.996 | 1.069 | 1.000 | 1.000 | 1.000 | 0.994 |
| 42-Ult | 1.190 | 0.991 | 1.066 | 0.997 | 1.000 | 1.000 | 0.994 |
| 36-Ult | 1.245 | 0.994 | 1.066 | 0.996 | 1.000 | 1.000 | 0.993 |
| 30-Ult | 1.370 | 0.989 | 1.045 | 0.993 | 0.998 | 1.000 | 0.988 |
| 24-Ult | 1.560 | 0.983 | 1.064 | 0.981 | 0.997 | 1.000 | 0.978 |
| 18-Ult | 1.754 | 1.007 | 1.085 | 0.954 | 0.995 | 0.997 | 0.959 |
| 12-Ult | 2.019 | 1.068 | 1.094 | 0.861 | 0.985 | 0.991 | 0.913 |
| 6-Ult | 2.655 | 1.528 | 1.009 | 0.786 | 1.076 | 0.992 | 1.090 |

**Oliver Wyman Selected Age-to-Ultimate Development Factors
As of December 31, 2015
Alberta
Commercial Vehicles**

**As of 2015-2
Age-to-Ultimate Factors
Incurred Claim Count**

| | Bodily Injury | Property Damage | Accident Benefits | Collision | Comprehensive | Specified Perils | All Perils |
|---------|--------------------------|----------------------------|------------------------------|------------------|----------------------|-----------------------------|-------------------|
| 180-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 174-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 168-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 162-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 156-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 150-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 144-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 138-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 132-Ult | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 126-Ult | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 120-Ult | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 114-Ult | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 108-Ult | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 102-Ult | 0.997 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 96-Ult | 0.996 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 90-Ult | 0.992 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| 84-Ult | 0.990 | 1.000 | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 |
| 78-Ult | 0.988 | 1.000 | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 |
| 72-Ult | 0.984 | 1.000 | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 |
| 66-Ult | 0.980 | 1.000 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 60-Ult | 0.976 | 1.000 | 0.999 | 1.000 | 1.000 | 1.000 | 1.000 |
| 54-Ult | 0.969 | 1.000 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 48-Ult | 0.963 | 1.000 | 0.998 | 1.000 | 1.000 | 1.000 | 1.000 |
| 42-Ult | 0.954 | 1.000 | 0.997 | 1.000 | 1.000 | 1.000 | 1.000 |
| 36-Ult | 0.948 | 1.000 | 0.995 | 1.000 | 1.000 | 1.000 | 1.000 |
| 30-Ult | 0.928 | 0.998 | 0.989 | 0.998 | 1.000 | 1.000 | 0.997 |
| 24-Ult | 0.900 | 0.996 | 0.982 | 0.992 | 1.000 | 1.000 | 0.991 |
| 18-Ult | 0.878 | 1.007 | 0.974 | 0.974 | 1.000 | 0.995 | 0.969 |
| 12-Ult | 0.853 | 1.010 | 0.947 | 0.903 | 0.990 | 0.978 | 0.928 |
| 6-Ult | 1.074 | 1.150 | 0.801 | 0.714 | 0.935 | 0.957 | 0.834 |