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March 1, 2018

Mr. Allan Cleiren, CA, ICD.D
Chair
Automobile Insurance Rate Board
#2440 Canadian Western Place
10303 Jasper Avenue
Edmonton, AB T5J 3N6

Dear Mr. Cleiren,

Thank you for the opportunity to participate in the AIRB's semi-annual review of auto insurance trends and rates for basic and additional coverage. IBC retained Dr. Ron Miller to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2017 Private Passenger Vehicles*. The following commentary reflects Dr. Miller's review:

Dr. Miller notes that the recent Ministerial Order to cap rate increases to 5% for the period from November 1, 2017 to November 30, 2018, is unfair to companies. Current loss trends indicate that some companies would be justified in increasing rates beyond the 5% cap, yet are not permitted to do so. For this reason, the adopted benchmark trends will be less pertinent to insurer filings than they otherwise would be.

We focus our commentary on the loss development factors and future loss cost trend rates, the health cost recovery, catastrophe provision, investment income on cash flow, and operating expenses.

Loss Development and Future Loss Cost Trend Rates

With a few exceptions, most of Oliver Wyman's estimated ultimate accident half-year loss costs are within 1% those of Dr. Miller for the coverages and sub-coverages shown below. The table below shows the future loss cost trend rates by coverage and sub-coverage from Oliver Wyman (OW) and Dr. Miller (RM).

Future Loss Cost Trend Rates by Sub-Coverage

	OW	RM
TPL-BI	+7.5%	+4.89%/9.3%
PD	+1.5%	+0.97%
AB-MR	+3.5%	+5.05%
AB-DI	+6.5%	+2.19%
COLL	+3.0%	+3.93%
COMP	+5.5%	+6.67%

IBC table with data from Oliver Wyman, Dr. Ron Miller

For this review, Dr. Miller found that there was a statistically significant reduction in the TPL-BI loss cost trend beginning in accident half-year 2015-1, and fitted a future loss cost trend rate of +4.89%. However, Dr. Miller also noted that using his model from the last review, with a slightly poorer overall fit, would yield a future loss cost trend rate of 9.3%. Given the wide range of reasonable estimates and significant uncertainty around TPL-BI trend rates, Dr. Miller considers Oliver Wyman's trend rate of +7.5% to be reasonable.

Dr. Miller's future loss cost trend rate for AB-DI is lower than Oliver Wyman's because it is coupled with a fitted 19.3% level increase at accident half-year 2015-1. Oliver Wyman selected no level change here.

Health Cost Recovery

Oliver Wyman selected a health levy loading factor of 5.67% to reflect the 2017 target levy increase to $155 million. Dr. Miller suggested that a 7% load factor based on this size of target levy is more realistic given GISA's recent average TPL written premium levels. The Alberta Ministry of Health recently announced that the 2018 health levy will increase to $159.6 million, which IBC has suggested translates to a loading factor of 7.04% of TPL premiums. This figure is very close to Dr. Miller's estimated loading factor of 7%.

Dr. Miller continues to advise that because of the size of the recent increases, it is appropriate for the AIRB to permit insurers to account for a higher levy which may be appropriate for policies written at rates approved between April 1, 2018 and October 31, 2018.

Catastrophe Provision

Dr. Miller believes that Oliver Wyman's proposed catastrophe provision of 65% is reasonable at this time. Given the increasing frequency of catastrophic weather events in the province, this provision may need to increase over time.

Investment Income on Cash Flow

Oliver Wyman selected an average investment rate of 2.50%. We consider this to be a reasonable estimate.

Operating Expenses

Oliver Wyman selected an operating expenses ratio of 27.8% based on the GISA Industry Expense Report, and made IBC's recommended adjustment to use earned premiums instead of written premiums in the calculation. However, Oliver Wyman only made this adjustment for the general expenses component of the operating expenses ratio, and not for the other components. Dr. Miller applied this adjustment consistently across all operating expenses components, resulting in a total operating expenses ratio of 28.2%, 0.4% higher than Oliver Wyman's estimate.

Again, thank you for the opportunity to provide input for the semi-annual review. We hope that our commentary assists the AIRB in its deliberations. Please do not hesitate to contact me should you wish to discuss the contents of this letter.

Sincerely,

William A. Adams

cc: Del Dyck, Executive Director, AIRB