

February 19, 2021

Ms. Charlene Butler  
Chair, Automobile Insurance Rate Board  
#2440 Canadian Western Place  
10303 Jasper Avenue  
Edmonton, AB T5J 3N6

Dear Ms. Butler,

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. The Insurance Bureau of Canada (IBC) retained Dr. Ron Miller to review Oliver Wyman's report, *Semi-Annual Review of Industry Experience as of June 30, 2020 Private Passenger Vehicles*. The following commentary reflects IBC's and Dr. Miller's review.

IBC applauds the Alberta government for taking action to curb rising premium trends by introducing reforms that will help stabilize premiums for Alberta's 3 million drivers. These reforms are also an important first step in transforming the province's regulatory environment to create an auto insurance system that fosters choice and innovation, and is more responsive to consumers' needs.

Last year's reforms gave the AIRB the opportunity to transform the current outdated regulatory environment into one that is best-in-class. We encourage the AIRB to act boldly in developing a new regulatory framework which will encourage innovation among Alberta's insurers and offer consumers greater product choice.

We focus our remaining commentary on future loss cost trend rates, the health cost recovery factor, catastrophe provision, operating expenses, and the impact of the COVID-19 pandemic.

#### **Future Loss Cost Trend Rates**

According to both Oliver Wyman and Dr. Miller, trend rates for several coverages are significant. The table on the next page highlights future loss cost trend rates from Oliver Wyman and Dr. Miller.

Future Loss Cost Trend Rates

	<b>Oliver Wyman</b>	<b>Dr. Miller</b>
<b>Bodily Injury</b>	+5.0%	+3.76%
<b>Property Damage</b>	+1.5%	+0.20%
<b>Accident Benefits</b>	<b>+11.5%</b>	<b>+12.64%</b>
<b>Collision</b>	+1.0%	+2.07%
<b>Comprehensive – Total</b>	+6.5%	+1.68%
<b>Comprehensive – Theft</b>	N/A	-6.70%
<b>Total Coverages</b>	+4.54%	+3.36%

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

Oliver Wyman and Dr. Miller selected future total coverages trend rates that exceed inflation, at +4.54% and +3.36%, respectively. However, these should be treated with caution as neither actuary was able to fully account for the impact of last year's reforms.

The highest future trend rate is for accident benefits. Oliver Wyman and Dr. Miller project that accident benefits costs will increase by rates far exceeding inflation, by +11.5% and +12.64%, respectively. This is particularly concerning for several reasons:

These trend rates, while high, do not yet include potential impacts of the 2020 reforms. Given the reforms increased several med/rehab and income replacement entitlements, the actual increases could be even higher than the trend rates presented here;

Accident benefits trend rates have been increasing rapidly. For example, at the 2018 Annual Review, Dr. Miller's selected accident benefits trend rate was +5.46%. The accident benefits trend rate has doubled in just over two years.

Without specific accident benefits reforms, it is likely these trends will continue, putting increased pressure on rates in the future.

There is a divergence between Oliver Wyman and Dr. Miller for comprehensive claims costs. While both actuaries analyzed theft claims, Oliver Wyman picked its final trend rate based on overall comprehensive trends which puts less focus on the theft portion. It is important to note that even with Dr. Miller's negative future theft trend rate, theft claims costs per vehicle are still considerably higher than they were in recent years and higher than anywhere else in Canada.

Finally, as highlighted, neither Oliver Wyman nor Dr. Miller fully accounted for the impact of last year's reforms in their selected future trend rates. Given the reforms were intended to address skyrocketing bodily injury claims costs, selected bodily injury future trend rates are

representative of a bodily injury claims environment that no longer exists. For this reason, IBC recommends the AIRB not select a mandatory bodily injury trend rate.

### **Health Cost Recovery**

Oliver Wyman recommends using the government mandated 2021 health levy loading factor of 2.94% to reflect the target aggregate recovery amount of \$140.1 million. IBC considers this to be reasonable.

Additionally, Dr. Miller notes the COVID-19 pandemic could impact the government's target aggregate recovery amount for 2022. IBC recommends government monitor how the COVID-19 pandemic may impact the target aggregate recovery amount so excessive health levy costs are not passed on to consumers.

### **Catastrophe Provision**

Oliver Wyman's analysis of the catastrophe provision mirrors its analysis to the 2020 annual review. Dr. Miller believes Oliver Wyman's proposed catastrophe provision of 51% is within a reasonable range at this time.

As noted in IBC's 2020 Annual Review submission, when selecting this benchmark, IBC recommends the AIRB consider the substantial losses from catastrophic events that are not reflected in Oliver Wyman's catastrophe provision. Dr. Miller and IBC believe this could necessitate a higher catastrophe provision.

### **Operating Expenses**

Oliver Wyman selected an operating expense ratio of 26.0% based on the GISA Industry Expense Report, using earned premiums as opposed to written premiums in the calculation. However, Oliver Wyman only used earned premiums for the general expenses component of the operating expenses ratio and not for other components. Dr. Miller applied this adjustment consistently across all operating expenses components, resulting in a total operating expense ratio of 26.9%, 0.9% higher than Oliver Wyman's estimate. IBC believes Dr. Miller's selected operating expense ratio of 26.9% is reasonable.

### **COVID-19 Impact**

Driving behaviours and trends have shifted significantly due to the COVID-19 pandemic. Oliver Wyman noted stay-at-home orders and commercial shutdowns resulted in people driving less, leaving fewer vehicles on the roads. Dr. Miller similarly indicated the COVID-19 pandemic had a significant impact on the claims experience in the first half of 2020. However, it is too early to determine COVID-19's long-term impact on claims costs. There are several other variables to consider, including:

There has been a claim frequency decrease, but there is preliminary evidence of a claim severity increase due to a greater incidence of speeding and distracted driving;

There is the potential for an increase in collisions as the economy returns to normal and many drivers need to 're-learn' safe driving habits after having spent so long working from home;

There is the potential for increased fraud and theft, which historically increases during economic downturns; and

There is considerable uncertainty over longer-term driving habits in a post-COVID world, and how this compares to pre-pandemic levels.

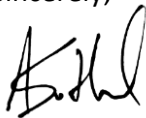
There are many insurers operating in the Alberta automobile insurance market, all of which saw differing claims experience since the pandemic began and provided consumer relief in different ways. Some insurers have a greater share of its consumers living in Calgary or Edmonton and may have seen claims drop by a larger proportion. Other insurers may target seniors or rural consumers and as a result, have barely seen any change in claims costs.

This competitive market is a tremendous benefit to consumers, who have the ability to shop around for a product that best meets their unique needs. However, the diversity of insurers operating in the province also means the impact of COVID-19 on claims costs has been unique to each as well. IBC strongly recommends insurers be permitted the flexibility to bring their own COVID-19 claims experience and related actuarial analysis as it relates to their future rate indications.

Lastly, the process of ratemaking involves looking at past claims cost trends in order to try to predict future trends. While full-year accident year 2020 data is not yet available, IBC recommends during future Annual and Semi-Annual Reviews, the AIRB place a lesser weight on accident year 2020 claims data when predicting future trends.

IBC appreciates the opportunity to provide input for the 2021 Semi-Annual Review. We hope this 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,



Aaron Sutherland,  
Vice-President, Western  
Insurance Bureau of Canada

CC. Laurie Balfour, Executive Director, AIRB