



2022 ANNUAL REVIEW REPORT



Automobile Insurance Rate Board

2022 Annual Review Report



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VISION

Automobile insurance is accessible, equitable and sustainable for all Albertans.



MISSION

The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure Albertans have access to a robust automobile insurance marketplace.



VALUES

Accountability
Integrity
Excellence

EXECUTIVE SUMMARY

The 2022 Automobile Insurance Rate Board's (AIRB) annual review confirmed industry benchmark loss trends remained consistent with those stated in the 2022 semi-annual review. The AIRB bases its industry benchmarks on aggregated insurance industry data. The benchmarks are used when insurance companies (insurers) do not have sufficient data to support the reasonableness of their rate filings.

As the AIRB reviewed the data and submissions related to the benchmarks, stakeholders raised concerns about inflation's recent sudden rise and its potential impact on future loss trend rates. In 2021, the average premium increased by 3.6%, well below the inflation rate. However, in June 2022, inflation in Alberta reached a 30-year high of 8.4%. The AIRB is closely watching this inflationary trend.

The final report by the AIRB's consulting actuary, Oliver Wyman Limited (Oliver Wyman), shows insurers reported profits for a second consecutive year in 2021. These unprecedented profit levels were due to reduced mobility during the COVID-19 pandemic, resulting in fewer claims. It is important to remember rate setting is prospective, and insurers do not know the actual costs of their policies at the time of sale. Insurers do their best to anticipate future costs when filing for changes to their rating programs. Still, when events like COVID-19 last longer than expected, the result can be unexpected profits.

Oliver Wyman's report highlights a heightened uncertainty around current trends due to several factors, including:

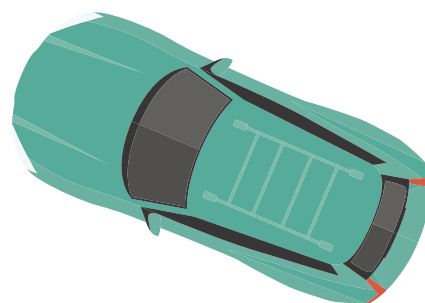
- COVID-19's impact on mobility and the related decline in claims frequency;
- The November 2020 legislative changes expanding accident benefits limits and the definition of a minor injury; and
- Rising inflation with vehicle parts and repair costs, starting in late 2021.

Uncertainty is not new, and contributing factors may change over time. Still, there is always some uncertainty when predicting what will happen in the future – this is considered when determining the future loss cost trend rates during each review.

The AIRB conducted this annual review of industry loss experience as of December 31, 2021. It establishes industry benchmarks for private passenger vehicles, considered when the AIRB evaluates insurers' rate filings received after October 1, 2022. It starts with the AIRB's consulting actuary, Oliver Wyman, preparing a preliminary report on their review of industry loss experience. This preliminary report was published on June 24, 2022, inviting stakeholders to comment through written submission and verbal presentations at the annual open meeting held on August 18, 2022.

In late 2020, the Government of Alberta passed legislation intended to ensure auto insurance remained affordable for Albertans. One of the measures introduced was Direct Compensation Property Damage (DCPD), which took effect on January 1, 2022. The AIRB will pay close attention to data, analyzing it for early signs of the legislation's impact on loss trends.

This report concludes the 2022 annual review process. It includes the release of industry benchmarks, an overview of the annual review participants, Oliver Wyman's Final Review of Industry Experience report, the decision on the Grid's rate change, and the Consumer Representative's perception survey findings.



INDUSTRY EXPERIENCE REPORT

Each year, the AIRB requests its consulting actuary, Oliver Wyman, to review the industry experience for private passenger vehicles.

On June 24, 2022, the AIRB released the preliminary report, “Review of Industry Experience as of December 31, 2021 Private Passenger Vehicles” (Oliver Wyman Report). The Oliver Wyman Report includes their analysis and findings about the private passenger vehicle insurance industry claims experience for basic and additional coverage. The AIRB requested Oliver Wyman to provide information and professional advice on automobile trends and premiums for private passenger vehicles. Oliver Wyman based its analysis and findings on data for all insured vehicles in Alberta, including those

in the Facility Association and the Risk Sharing Pools. The Oliver Wyman Report includes claim data provided by the General Insurance Statistical Agency (GISA) as of December 31, 2021. This preliminary report is posted on the AIRB website.

On September 23, 2022, Oliver Wyman’s final report was presented to the AIRB. This report’s Appendix A considered comments arising from the open meeting in August 2022. The Oliver Wyman Report includes recommendations to the AIRB on the Industry Benchmarks to be considered in reviewing rate filings submitted on or after October 2022.

INDUSTRY BENCHMARKS

The AIRB expects insurers to use their data in rate filings to the extent possible, reflecting their mix of business and unique circumstances.

Insurers may use the AIRB Industry Benchmarks when they do not have sufficient data or are unable to support the reasonableness of their assumptions.

The AIRB and its consulting actuary use the Industry Benchmarks as a reference when reviewing individual insurer’s filings and opining on the assumptions’ reasonableness. The insurer’s data must support assumptions, which vary significantly from industry experience.

The AIRB publishes benchmarks for the following rate making components, which under the AIRB’s Filing Guidelines, must be considered in all full actuarial filings:

1. Loss Development Factors
2. Loss Trends
3. Administrative Expense & Unallocated Loss Adjustment Expense (ULAE)
4. Health Cost Recovery
5. Profit

The Oliver Wyman Report estimates rate making components 1, 2, and 3, which should be based on each insurer’s experience to the extent they are deemed credible when used in rate filings. However, suppose an insurer needs to calculate industry loss costs to serve as a credibility complement, in that case, the AIRB approved benchmarks for each rate making component are expected to be used.

Component 4 is to be used by insurers to calculate their rate indications, and component 5 is the maximum permitted to be used by insurers.

Loss Development Factors

Historical claim count and amounts must be projected to expect ultimate values by coverage and sub-coverage. Prior years' experience provides insight into how the number and amount of claims tend to develop from initial reporting. Insurers are expected to select and support claim count and amount development factors based on their experience calculating their rate level indications.

The AIRB's consulting actuary, Oliver Wyman, analyzed industry claim count and amount development patterns based on Alberta industry data as of December 31, 2021, and considered industry comments regarding the loss development selections.

The AIRB accepts Oliver Wyman's selected development factors as a benchmark for insurers to use to the extent industry claim experience is a consideration in developing their rate level indications.

Loss Trends

Coverages	2021 Semiannual Review (As of 06/30/2020)	2021 Annual Review (As of 12/31/2020)	2022 Semiannual Review (As of 06/30/2021)	2022 Annual Review (As of 12/31/2021)
Third Party Liability (TPL) Bodily Injury	7.0%/5.0%	7.0%/5.0%	6.5%/5.0%	7.0%/5.0% ¹
TPL Property Damage	1.5%	1.5%	1.5%	1.5%
Direct Compensation Property Damage	N/A	N/A	1.5%	1.5%
Accident Benefits	0.0%/11.5%	1.0%/11.5%	1.0%/12.0%	1.0%/12.0% ²
Collision	1.5%/1.0%	2.5%	2.5%	2.5%
Comprehensive	6.5%	5.0%/3.5%	5.0%/3.5%	4.0%
All Perils	3.0%	2.5%	2.5%	2.5%
Specified Perils	4.0%	4.0%	2.0%	3.0%
Underinsured Motorist (SEF 44)	4.0%	4.0%	2.0%	2.0%

Trending is a means of evaluating how changes over time affect claim costs and the development of claims. Loss trends vary by coverage and sub-coverage.

Based on the industry analysis, Oliver Wyman selected loss trend rates for each coverage. Stakeholders commented on the loss trends for bodily injury, accident benefits and collision coverages. Oliver Wyman has considered industry comments in their final recommendations.

The AIRB accepts Oliver Wyman's selected trend rates as an industry benchmark. The industry trend rates developed by Oliver Wyman will serve as a point of reference in the review of filings received on or after October 1, 2022.

The AIRB expects insurers to select trend rates based on their claim experience and use the industry benchmarks to supplement only where their data is not credible.

¹ Future trend rate begins November 1, 2020, consistent with recent reforms.

² Future trend rate begins January 1, 2015; most rate applications will only consider data from 2015 and onward.

Administrative Expenses & Unallocated Loss Adjustment Expense

Administrative expenses are non-claims related, usually composed of commission, taxes, and other expenses. Unallocated loss adjustment expense (ULAE) is the claim and settlement related expense not associated directly with individual claims.

GISA publishes the Automobile Insurance Financial Information exhibit, establishing industry averages for administrative expenses on a direct written premium basis. GISA also publishes automobile industry exhibits where ULAE ratios are incorporated.

The AIRB accepts the industry average expense ratios and the ULAE ratio for Alberta presented in the GISA exhibit as the benchmarks, after adjusting to reflect as a percent of direct earned premium. They are used in the Grid analysis and are reference points when considering administrative expenses and ULAE in reviewing individual insurer filings.

The AIRB expects insurers to use their experience where it is credible.

Expense Category	AIRB Selections
Total Commission	13.1%
Premium Taxes	3.8% ³
All Other Expenses	10.2%
Total Expenses	27.1%
ULAE	12.6%

Health Cost Recovery

Under Alberta legislation, insurers pay a levy to achieve a target amount set by Government. The levy is calculated as a percentage of earned third-party liability premiums using GISA data. The Government has no subrogation rights against the at-fault parties with third-party liability coverage. The President of Treasury Board and Minister of Finance annually publishes the levy percentage applied to third-party liability written premiums.

The AIRB accepts the Health Cost Recovery as a component of claims costs reported by insurers. Insurers must use the most updated percentage published on the President of Treasury Board and Minister of Finance's website. The 2022 assessment factor is 3.55%.

Profit

The AIRB has established 7% of the premium as a target pre-tax profit provision for all coverages. The AIRB reviews and determines the premium percentage representing a reasonable profit level for insurers for all coverages annually.

This benchmark is the maximum profit target an insurer can use in developing rate indications.

³ Oliver Wyman acknowledges the premium tax rate in Alberta is 4%. Oliver Wyman assumes the reported total expense ratio is correct in aggregate, and accepts some misallocations in reporting amongst components, therefore the difference in selection.

ANNUAL REVIEW OPEN MEETING

Regulatory Requirements

According to the Automobile Insurance Premiums Regulation (Premiums Regulation), the AIRB conducts an Annual Review for private passenger vehicles and an open meeting as part of the review. The meeting is the AIRB's opportunity to receive comments from

the auto insurance industry, the Consumer Representative, and the public. The AIRB considers the feedback received through written submissions and presentations in finalizing the Industry Benchmarks Schedule and any adjustment to the Grid base premiums.

Notice of Open Meeting

On June 24, 2022, the AIRB advised stakeholders of the dates related to the 2022 open meeting to review Alberta industry loss experience for private passenger vehicles. The AIRB invited all interested parties to submit a letter of intent to participate in the open meeting by July 6, 2022.

Stakeholders had the option to make a written submission if they chose not to present.

The notice was posted on the AIRB website.

Presentations & Written Submissions

During the open meeting, the AIRB heard presentations from five industry stakeholders in addition to Oliver Wyman and the Consumer

Representative. In addition, two written submissions were received and considered.

Open Meeting

AIRB held a virtual open meeting on August 18, 2022. The Board Members were assisted by the AIRB's Consulting Actuary, Oliver Wyman and AIRB staff.

The following parties made presentations at the open meeting:

- Oliver Wyman
- Facility Association
- Insurance Bureau of Canada
- Consumer Representative
- Alberta Civil Trial Lawyers Association
- Aviva Canada Inc
- Desjardins General Insurance Group

All information submitted to the AIRB as part of the open meeting process, including the video files of the open meeting, are available on the AIRB website. The recording of the open meeting includes comments from the AIRB's consulting actuary and Board Members on industry stakeholder feedback.



INDUSTRY PREMIUM & CLAIM TRENDS

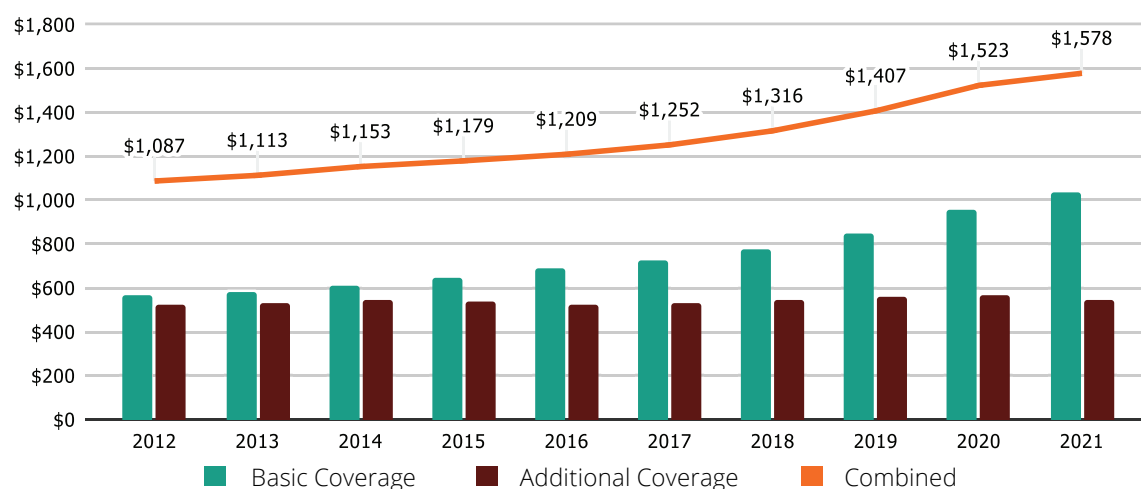
Private Passenger Vehicle Average Premium History

Drivers purchase both, basic and additional coverages. Basic coverage is mandatory and includes third-party liability and accident benefits; additional coverage is optional and includes collision and comprehensive. From 2004 to 2013, premiums for basic coverage were adjusted through an industry-wide adjustment process, and the AIRB did not regulate premiums for additional coverage.

Insurers used additional coverage premiums to offset basic coverage premium deficiencies. In 2014, the Government of Alberta expanded the AIRB's authority to regulate rating programs for additional coverage.

The average written premium for basic coverage has gradually increased, whereas the average premium for additional coverage has remained fairly flat, as shown below.

Average Premium By Coverage ⁴



Since 2012, premiums for combined coverage have increased from \$1,087 to \$1,578, an average of 4.52% per year, which is greater than the rate of inflation measured by the Alberta Consumer Price Index (CPI). During the same 10-year period, the CPI went from 126.5 in December 2012 to 151.7 in December 2021, an average increase of 1.99% per year. Since 2012, premiums for basic coverage have increased an average of 8.38% per year. One of the main factors contributing to premium increases is adverse claims development on bodily injury claims. Insurers reported an increased proportion of claims with injuries falling outside the definition of minor injury and, therefore, outside of the minor injury cap. Insurers indicate claimants present increasing incidences of chronic pain, psychological injury,

and Temporomandibular Joint Syndrome (TMJ). They are also seeing claims for new heads of damage. This, combined with increased claims litigation, low investment returns, and a longer treatment period, results in increased claims costs and, ultimately, premiums. The Government recognized the number of claims settled outside the minor injury definition was a factor causing increased claims costs and introduced reforms in late 2020.

Since 2012, premiums for additional coverage have increased an average of 0.34% per year. These increases are mainly due to severe weather events such as hailstorms and flooding, the rising cost to repair vehicles due to vehicle automation features, more expensive materials, higher labour costs, and increases in vehicle theft.

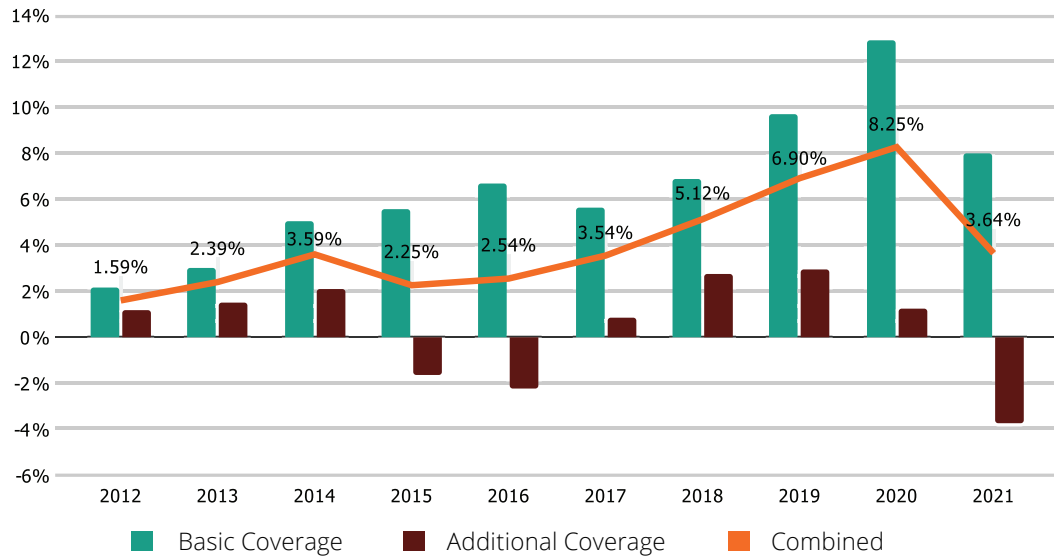
⁴ Source: General Insurance Statistics Agency

Average Change in Premiums By Coverage Type

The graph below highlights the volatility in the percentage change for auto insurance premiums over the past 10 years. The additional coverage premiums decreased

in 2015 and 2016 following the regulation of this coverage's rating program. The premium increase in 2020 reflects rate changes approved following the expiry of the rate cap.

Premium % Change By Coverage ⁵

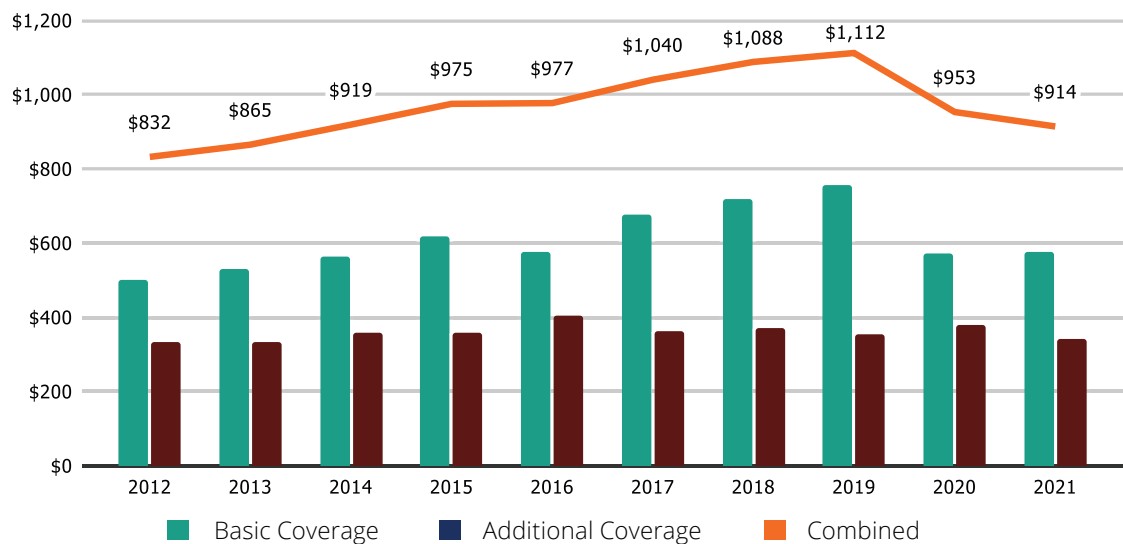


Private Passenger Vehicle Average Claims History

The COVID-19 pandemic resulted in a decline in driving and fewer accidents in 2020 and 2021, shown by the decreases in basic claims costs.

The additional claims appear consistent due to hail storms in 2020 and 2021, offsetting the effect of the low claims frequency.

Average Claims Cost By Coverage ⁵



For further analysis and insights into trends impacting auto insurance premiums, refer to the AIRB Market and Trends Reports on our website.

⁵ Source: General Insurance Statistics Agency.

GRID RATING PROGRAM

In October 2004, the Government introduced the Grid rating program to set maximum premiums insurers can charge for basic coverage for any driver profile and established two risk-sharing pools⁶. Currently, the Grid caps only 10.1% of all Alberta drivers. Insurers must compare the premium for basic coverage under their current rating program to the Grid premium and charge the lesser of the two premiums with exceptions under Section 8(2) of the Premiums Regulation.

In late 2020, the Government introduced automobile reforms through Bill 41, which included the introduction of Direct Compensation Property Damage (DCPD). The interaction of DCPD with the Grid base premiums is unique to Alberta. After thoughtful consideration, the President of Treasury Board and Minister of Finance has confirmed DCPD premiums are mandatory coverage but will be excluded from the AIRB's calculation of Grid premium for basic coverage.

Therefore, starting January 1, 2022, the AIRB sets a base premium for third-party liability, property damage tort and accident benefits, and insurers use their market rate for DCPD. The Grid base premium will be the total of the AIRB set base premium plus the market rate for DCPD.

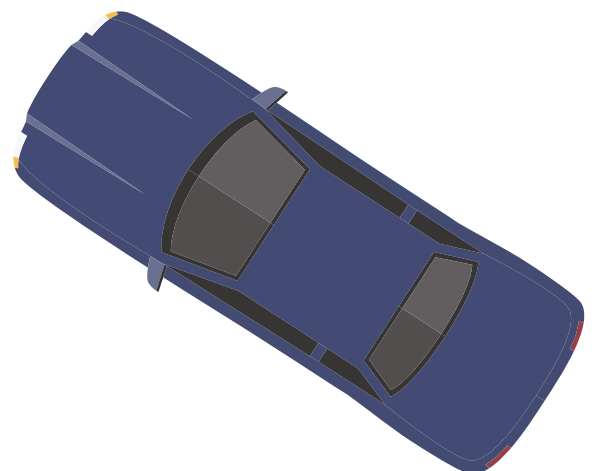
The Grid premium adjustment is usually made following the annual review, based on the analysis of the Grid claims experience using the most current information on trends available. The AIRB used 2021 data in our analysis of Grid base premium adequacy. Due to the data credibility of the Grid-only risks, The AIRB accepted industry benchmarks without adjustment used for the analysis.

- Premium stability;
- Subsidization by the competitive market;
- Risk sharing pool size and profitability;
- Impact on Grid population;
- Impact of the premium change on the Grid; and
- Current Alberta market environment.

Given the nature of the Grid rating program, simply increasing the Grid premium will not bring the Grid rates to an adequate level. As premium levels increase, some risks will leave the Grid rating program; hence the selected premium increase will not be fully realized for Grid-rated drivers. Moreover, the risk make-up of the Grid will change significantly, which suggests the setting of the Grid premium level needs to be an ongoing process.

Under the Premiums Regulation, the AIRB will make the final decision for the Grid base premium adjustment no later than October 1. The AIRB decided on the Grid adjustment on September 23 and published the decision in AIRB Order 01-2022.

The Order can be viewed on the AIRB website. The approved Grid adjustment is effective January 1, 2023.



⁶ Coverage for insures whose premium for basic coverage is limited by the Grid can be ceded to the Grid risk sharing pool. Insurers may voluntarily cede up to 4% of their insured vehicles rated below the Grid through a Non-Grid risk sharing pool.

LEGISLATION

Legislative & Regulatory Authority

On October 1, 2004, the Government of Alberta established the AIRB under Section 599(1) of the *Insurance Act* (the Act).

The Act and the Premiums Regulation define the AIRB's mandate, which includes, among other things, the duty to:

1. Review and approve all rating programs for insurers licensed to transact auto insurance in Alberta;
2. Conduct an annual review of autotrends and premiums relating to basic and additional coverage for private passenger vehicles; and
3. Conduct an open meeting as part of the annual review to receive comments from the auto insurance industry, the Consumer Representative and the public.

Legislative History

On October 1, 2004 ⁷, the Government of Alberta introduced significant changes to auto insurance in the province. Some of these changes included introducing a “take all comers” rule and a \$4000 cap on pain and suffering for minor injuries, diagnostic and treatment protocols ⁸, and the implementation of an industry wide adjustment process for basic coverage on private passenger vehicles and the Grid.

On July 1, 2014, subsequent amendments to the Act and Premiums Regulation came into effect. This included expanding the AIRB's mandate to regulate additional coverage, discontinuing the industry-wide adjustment process, and implementing a “file and approve” model whereby insurers must individually file for revisions to their rating programs.

Bill 41, Insurance (Enhancing Driver Affordability and Care) Amendment Act received royal assent on December 9, 2020, updating the Act. The amendments limited the number of experts involved in traffic injury lawsuits to reduce costs and speed up resolution and, starting January 1,

2022, enabled direct compensation for property damage. They also made the pre-judgement interest rate on pain and suffering damages a floating rate, which begins to accumulate when written notice of an injury claim is given to an insurer or when a Statement of Claim is served.

In addition, there were several regulatory amendments to address cost pressures and expand the authority of the AIRB. The following four regulations were amended: Minor Injury Regulation; Diagnostic and Treatment Protocols Regulation; Automobile Accident Insurance Benefits Regulation; and Premiums Regulation.

The changes granted the AIRB full authority over elements such as rating factors and the Grid rating program. These changes help the AIRB to respond better to consumer and industry needs, modernize Alberta's system for setting insurance premiums, and grant the authority to establish guidelines and rules followed by the industry.

⁷ The reforms set out in Bill 53, the Insurance Amendment Act, were effective October 1, 2004, except for considering collateral sources and determining wage loss based on net, rather than gross, wages, which was effective January 26, 2004.

⁸ The Minor Injury Regulation allows for an annual adjustment to the amount of the cap on non-pecuniary damages recoverable for minor injuries based on the Consumer Price Index for Alberta. On January 1, 2022, the amount increased to \$5,488.

CONSUMER REPRESENTATIVE

Following the Premiums Regulation, the Annual Review includes a report from the Consumer Representative.

On behalf of the Consumer Representative, Mr. Mathew Wesolowski, the AIRB contracted an external vendor to survey consumers' perceptions of auto insurance in Alberta. Discussions were held with other stakeholders,

including the Insurance Brokers Association of Alberta, the Insurance Bureau of Canada and the Superintendent of Insurance. As part of his process, he also reviewed data from other provinces, traffic safety trends, and complaints reported.

His report presents his findings (Appendix C).

APPENDICES

- A.** Oliver Wyman Review of Industry Experience
- B.** Industry Benchmarks Schedule
- C.** Consumer Representative's Report





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