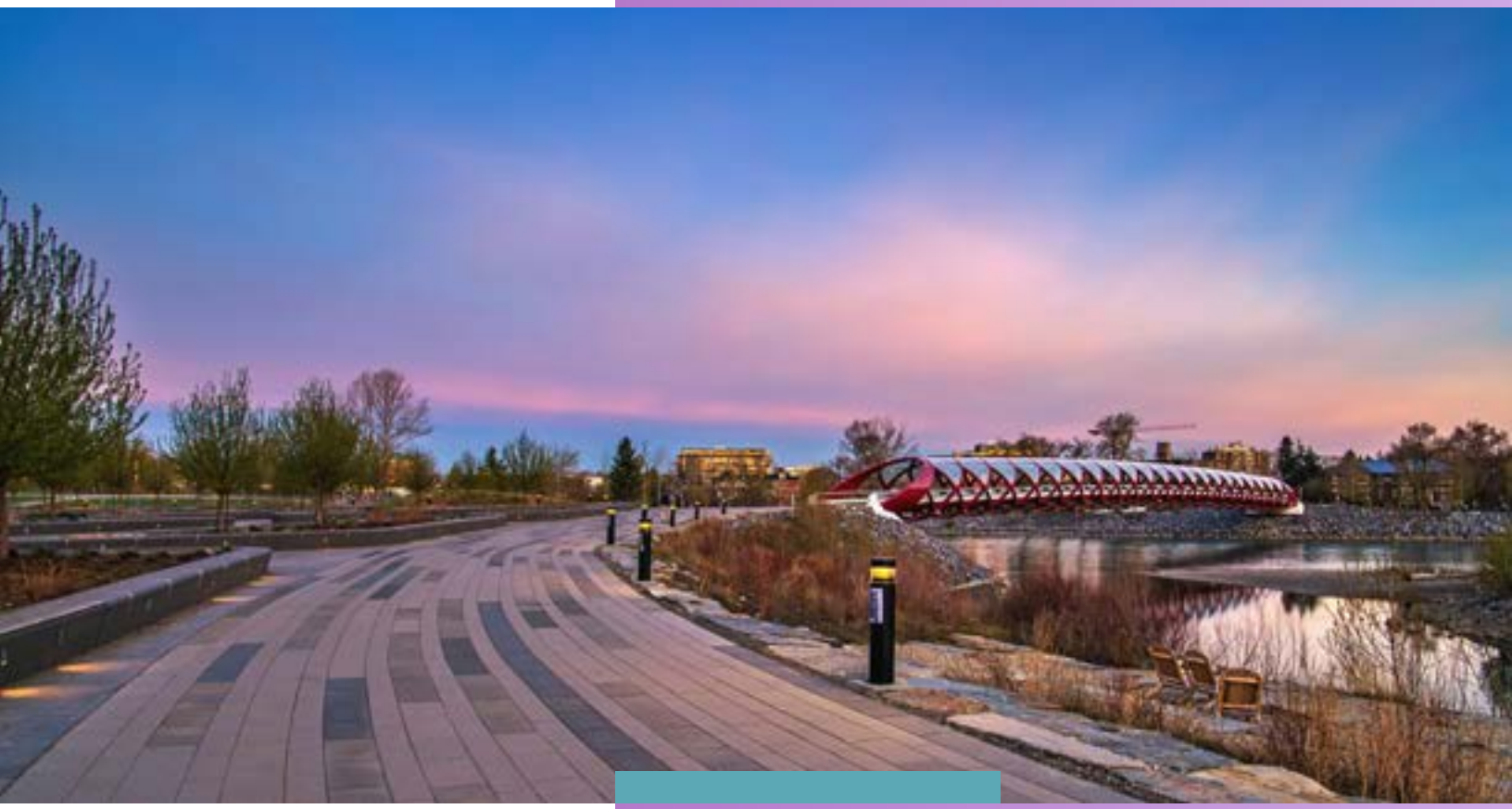
2025

EXCESS PROFIT REVIEW RESULTS



AIRB AUTOMOBILE INSURANCE RATE BOARD

CONTENT

EXECUTIVE SUMMARY

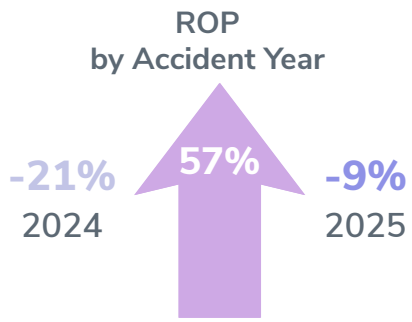
The Automobile Insurance Rate Board (AIRB) has implemented a policy to measure excess profit in accordance with section 9.1, Returning Excess Premiums, of the Automobile Insurance Premiums Regulation. Insurer profitability has been a discussion for many years. Prior to the pandemic, insurers continually incurred financial losses on auto insurance in Alberta. There was a shift during the pandemic, where driving was reduced and many Albertans worked remotely, which brought a spotlight to industry profitability on a financial year basis. Financial year reporting measures profits on a return on equity or ROE basis, reflecting the return made for shareholders.

The Automobile Insurance Premiums Regulation requires the AIRB to ensure the premiums collected by an insurer do not exceed the target for profitability established by the AIRB. The annual review establishes several benchmarks for insurers to compare their rating programs against when establishing premiums for a given period. The AIRB also establishes' a return on premium or ROP, which reflects the maximum provision for profit an insurer is permitted to include in their rating program. The AIRB regulates on a ROP basis instead of a ROE basis because an excessively high ROP means insurance is unaffordable, while a high ROE could be due to high investment returns.

The AIRB assesses excess premiums on an accident year basis,[1] consistent with how rates are established in insurer rating programs. An insurers rating program is a complex algorithm used to establish an individual policyholder's premium, and any changes consider results in prior accident years to predict expected costs in future accident year periods.

All insurers who wrote more than 15,000 PPV (Private Passenger Vehicle) exposures in 2025 were required to submit the profit and loss (P&L) report. In total 23[2] insurers representing 99.0% of the market submitted their P&L report, and 16 insurers who did not meet the 15,000 vehicle threshold, representing the remaining 1.0% of the market, requested and were granted an exemption for 2025 reporting.

Overall, the industry weighted average return on premium (ROP) was -8.8% for the 2025 accident year, a marked improvement from -21.4% in the 2024 accident period. Industry profits peaked in 2021 at 9.0% return on premium and have decreased steadily since. While we collected data on the prior five accident years (2021 through 2025), we may only enforce a return of premiums for accident years 2024 and onwards, as section 9.1 of the Automobile Insurance Premiums Regulation cannot be applied retroactively to years in which it was not in force.



The improvement in return on premium for 2025 was not unexpected. The 2024 accident year had significant catastrophic events and insurers were under a much stricter Good Driver Rate Cap of 3.7%. In 2025, there were no significant weather events, and the Good Driver Rate Cap increased to 7.5%.

As we typically mandate a return on premium only for the most recent accident period, there are inherent difficulties as it is the most volatile accident period. Several coverages like accident benefits and bodily injury can have claims which take several years to settle. As these claims settle, estimates of the ultimate values will change. For several years now, we have seen adverse development in bodily injury losses. A key assumption in rate making is past data is a good predictor of the future, and we are seeing this assumption break down as there appears to be changes in claimant behaviour making the estimation of ultimate losses difficult.

With this in mind, we allowed insurers to achieve profits 3.0% greater than our ROP prior to requiring return of excess profits, consistent with the prior year's review. In 2025, there were no excess profits to return. As a sensitivity test, we estimated the level of premium increase insurers would need to have earned a 6.0% ROP in 2025. We found the premium level would need to increase by approximately 20.6% to achieve the 6.0% ROP on an industry-wide basis, but results vary by insurer.

[1] "Accident year" refers to the year in which a loss occurred, regardless of when payments are made, which leads to more accurate rate making estimates and therefore profitability.
[2] A decrease of two compared to 2024, as two companies with small market share went into run-off.

POLICY

BACKGROUND

Following amendments to the Automobile Insurance Premiums Regulation in 2023, specifically the addition of section 9.1 – Returning Excess Premiums, the AIRB was required to develop a policy to measure excess profit, in relation to our target profitability, which was a 6.0% return on premium (ROP) for the 2025 accident year, which was set in October 2024.

In November 2024, the AIRB approved Policy Po7 – Return of Excess Premiums, outlining the authority and procedures for the submission of data in the profit and loss (P&L) report, exemptions, how the threshold would be determined, and reporting timelines.

PROFIT & LOSS REPORT

Each year during the Annual Review process, the AIRB determines the ROP for industry for the period commencing October 1. The ROP had been steady at 7.0% for many years, until the AIRB lowered it to 6.0% in 2023 (effective January 1, 2024) based on the construction of a capital asset pricing model which supported lowering the overall profit level. The same approach was used in Ontario to justify their decrease to a 5.0% ROP many years ago. The needed ROP to justify insurers risk was higher in Alberta than Ontario primarily due to volatility in profitability due to the increased number and severity of catastrophic events in Alberta compared to Ontario.

The data we require to evaluate profit on a return on premium basis by accident year is not currently available through other sources or regulatory reporting. Historically, our only window into an insurer's profitability was through General Insurance Statistical Agency (GISA) financial exhibits, or Office of the Superintendent of Financial Institutions (OSFI) financial data.

Therefore, we needed to collect new data to evaluate an insurer's profitability in compliance with the regulation and the AIRB's policy. Whether the data comes from GISA or OSFI, ultimately all regulator data is based on an insurer's submission. Therefore, we chose to require each insurer to submit a P&L report to provide the required data and evaluate their profitability.

The P&L report contains six sections:

1. **Premiums & Losses**
   - Insurers submit their premiums and losses related to paying out for accidents. Insurers submit their incurred losses, which must be factored to ultimate values.[3] It also includes unallocated loss adjustment expenses (ULAE[4]) and the Alberta health levy[5]. Insurers also submit their prior year estimate of each accident year's ultimate losses so we can evaluate year-over-year development.
2. **Claim Discounting**
   - Insurers submit the average time it takes them to settle and pay a claim. This is important because the longer a claim takes to close, the longer the insurer is likely to be earning investment income on the losses it will eventually pay and therefore increase their profit level.
3. **Premium Delay**
   - For policyholders who do not pay annually, the insurer faces some delay in receiving the premium. This is time when the insurer cannot invest the premium collected and therefore lowers their profit level.

[3] See Loss Development Factoring section in the Appendix.
[4] ULAE is all costs related to handling losses but cannot be attributed to a single claim. For instance, IT costs of a insurers claim handling system.
[5] The Alberta health levy is legislated under the Crown's Right of Recovery Act. The health levy recovers from automobile insurers the Government's cost of health services provided to victims of automobile accidents.

4. **Expenses**
   - Settling claims is not an insurer's only incurred expense. They must also pay brokers or agents' commissions to write their policies to Albertans, they must pay rent on buildings, pay for office supplies and technology and a variety of other factors. All the non-loss related expenses are collected here.

5. **Results**
   - This section compiles all the results in sections one through four and calculates the relevant profit levels, so the insurer understands how we calculate their profitability.

6. **Certification**
   - We require each P&L report to be attested by a licensed actuary,[6] who is ultimately responsible for ensuring the information submitted is complete and accurate. The person must be licensed in good standing and cannot be an executive of the insurer. Actuaries who submit false information can face significant sanctions and have their credentials revoked.

ENSURING INSURERS ARE NOT EXCESSIVELY PROFITABLE

Our policy requires we mandate insurers to return premiums from the most recent accident year. As we show in the Loss Development Factoring section in the Appendix, the most recent accident year is the most volatile year in our reporting period. Insurers have only received a handful of the total number of claims they will, let alone fully paid these claims. It is not unexpected for estimates of ultimate losses to differ by ±10.0% between the first and second year of estimation.

Therefore, we do not want to encounter the scenario where an insurer is deemed excessively profitable, only for their losses to end up being higher than expected which with this new data, we would deem not excessively profitable.

To ensure this does not happen, we have two mechanisms within the P&L report to provide a buffer.

1. We define excessive profit as an amount, to be specified each year, above the profit threshold. In the 2025 P&L report, we define this amount as 3.0% above the threshold. This means insurers would have to return premiums if their ROP was 9.0% or greater in the 2025 accident year.
2. Insurers must also be above the profit benchmark over the past five years. This ensures the profitable year was not an anomaly they are counting on to stay in the market and compete.
3. We consider prior adverse development. If losses are adversely developing[7] over years, then insurers may receive an additional buffering mechanism.

Therefore, for an insurer to be mandated to rebate profit in 2025, they must meet the following criteria:

1. They must have a ROP, after considering prior adverse development patterns, above the profit threshold of 6.0%, plus an additional buffer of 3.0%, for a total of 9.0%.
2. Their five-year weighted ROP exceeds the profit threshold without including any buffers, which is approximately 6.5%.

HOW ARE THEY STILL IN BUSINESS?

While these results may not make sense to Albertans, it's important to remember insurers typically operate multiple lines of business across multiple provinces. Anyone who has been to Costco may be familiar with a "loss leader," the idea a business takes a loss on a certain, popular item to gain customers for items with higher margins. For instance, insurers often encourage bundling your home and auto insurance. Home insurance premiums are not regulated and therefore are typically more profitable than auto. Additionally, there are discounts for bundling with other auto lines like your motorcycle, motorhome, and others. While these classes are also regulated, they're less exposed to bodily injury risk and do not have rate caps. Therefore, insurers have been able to file for rates which keep up with claim costs, leading to these lines being generally more profitable.

[6] An actuary is a professional who manages and assesses financial risks for an insurer.

[7] Adverse development is where losses are estimated to be larger than they were previously thought. This happens when new claim patterns are emerging differently from historical data, which we are seeing in Alberta, and seem to be caused by reforms, changes in claimant and reserving behaviour, and other factors.

Without the auto insurance line, by far one of the most common types of insurance bought, consumers may not be aware of the insurer and not purchase their home insurance through them. Additionally, they earn investment income on premiums (see Return on Premium Versus Return on Equity (ROE) section in the Appendix) which will also help offset some of the loss.

ARE THEY NOT JUST SELF REPORTING?

While we understand some readers may be hesitant to evaluate an insurer's profit based on their own submission, we have several protections to ensure what an insurer submits is accurate.

For instance, some of the most important variables in the P&L report are premiums and incurred losses by accident year. We have access to extremely granular data from GISA and can verify most of the insurers' P&L report submission against their GISA data. While GISA data is also submitted by the insurer, it is a vital resource to the insurance industry and any data manipulation would hurt the insurer and industry itself significantly, as they rely on the data for setting prices. Additionally, the data is submitted on a very granular transactional level and manipulation of data at this level would be extremely difficult.

In general, we have a comparison for nearly every value an insurer submitted to the AIRB, and we thoroughly vet any discrepancies. Even for calculated fields such as loss development factors and claim duration, we have constructed reference ranges based on our data and follow up with insurers if their submission is outside our reference range. If an insurers submission is outside the reference range, particularly for calculated values like loss development factors, we require the insurer to provide a complete set of information including all data and formulas documenting each step in how they calculated a value.

As part of the review process, the AIRB can require the insurers to correct their submission if it is deemed necessary. If an insurer is unable to support any points of their submission and their submission deviates from our reference points, we will alter their submission and use our reference points. Additionally, the certification section ensures one employee, who is not an executive, signs off on the data, recognizing any false information could lead to significant sanctions from their respective professional body.

More details on our comparison data are found in the next section.

WHY DOESN'T THE AIRB CALCULATE IT?

While we have reference points, it would be inappropriate for us to set values on behalf of insurers, as they know their business best. For instance, an insurer might change their policy on how much money they set aside when a claim comes in (reserving). Changes in reserving can cause distortions in the data which must be accounted for to ensure the data year over year remains comparable. If we were to try to determine their loss development factors ourselves, we may not appropriately handle this as we are not aware of changes to their reserving practices.

Additionally, insurers can use more complicated methods to determine some of their values such as their loss development factors. In this case, these methods require significantly more information than we're able to produce ourselves.

EXEMPTIONS

For consistency, the threshold for exemptions was set at the same level as the exemption threshold for full filings under the AIRB's filing guidelines. This level recognizes insurers with less than 15,000 PPV exposures are likely to have extremely volatile earnings, where they oscillate between extremely profitable and extremely unprofitable years which equal out to acceptable profit levels over a very long-time horizon. To promote market entry and encourage competition, we grant exceptions to these small insurers.

KEY RESULTS

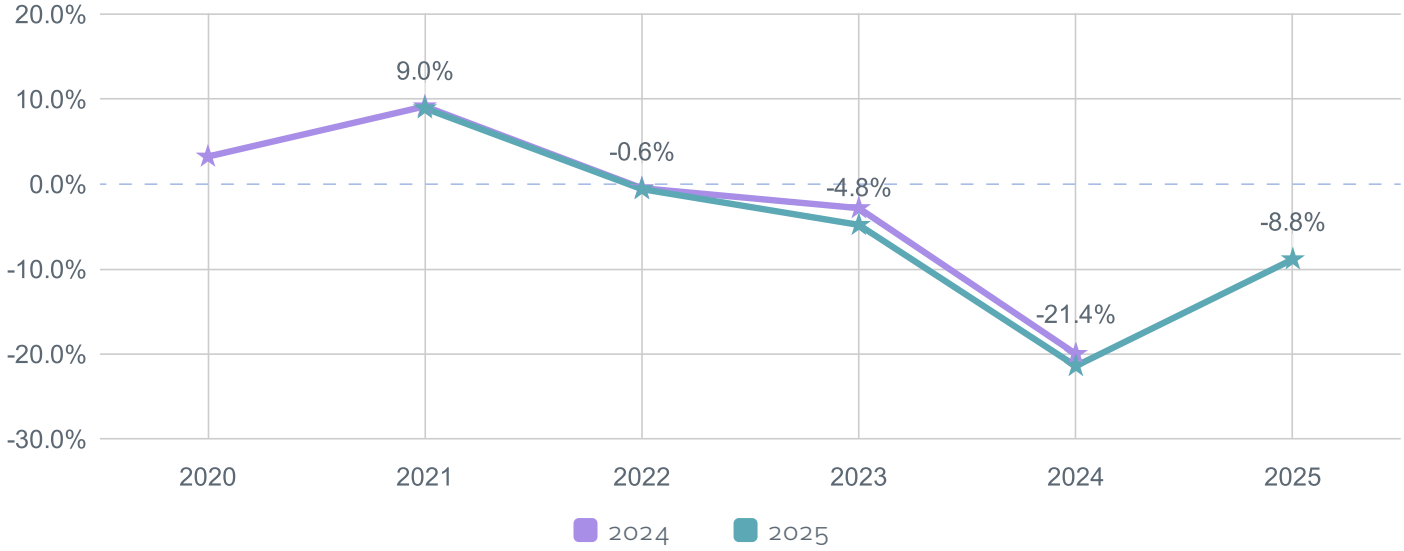
SUMMARY

All insurers who wrote more than 15,000 PPV exposures in 2025 were required to submit the P&L report. In total 23 insurers representing 99.0% of the market[8] submitted their P&L report, and 16 insurers who did not meet the 15,000 vehicle threshold, representing the remaining 1.0% of the market, requested and were granted an exemption for 2025 reporting. Of those 23 submissions, 10 required a revision which changed their profit level.

The industry weighted average ROP was -8.8% for the 2025 accident year, up from -21.4% in 2024. Industry profits peaked in 2021 at 9.0% return on premium and had decreased steadily since. While we collected data on the prior five accident years (2020 through 2024), we are only able to enforce a return of premiums for accident years 2024 and onwards, as section 9.1 of the Automobile Insurance Premiums Regulation is not applied retroactively to accident years in which it was not in force.

The chart shows the industry return on premium by accident and P&L reporting year.[9] For the years each P&L template has in common, 2021 to 2024, we see each accident year has seen adverse development after having an additional year's worth of data. In general, this amount of development is typical, with the largest differences in the latest accident period of 2024, and smallest differences in the oldest which have had multiple years to develop.

Industry ROP by Accident & P&L Reporting Year



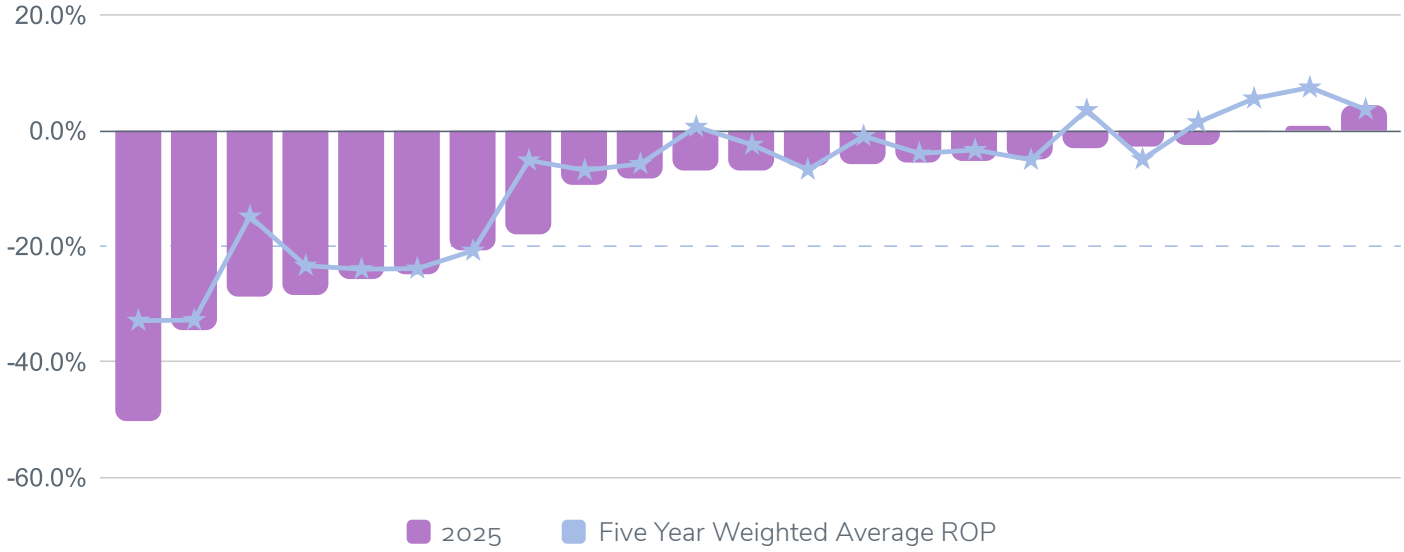
We plot the 2025 return on premium and five year weighted return on premium between 2021 and 2025 by anonymized insurer. Overall, Alberta has a competitive marketplace, with each insurer targeting different segments of consumers or areas of the province. In addition, not all insurers were adequately priced following the pandemic when driving mobility started to increase and claims started to increase back to the pre pandemic levels.

With the rate pause in 2023 followed by a rate cap in 2024, most insurers could not take the required rate action to return to profitability, and overall, we expected the industry would not be profitable when looking at the 2025 accident year for Alberta private passenger vehicles only.

[8] Some insurers with less than 15,000 vehicles submitted the P&L report as they were part of a larger insurer group. While they had the option to request an exemption, many insurers chose to submit P&L reports.

[9] As each P&L follows the past five rolling accident periods, we do not have an updated ROP for 2020.

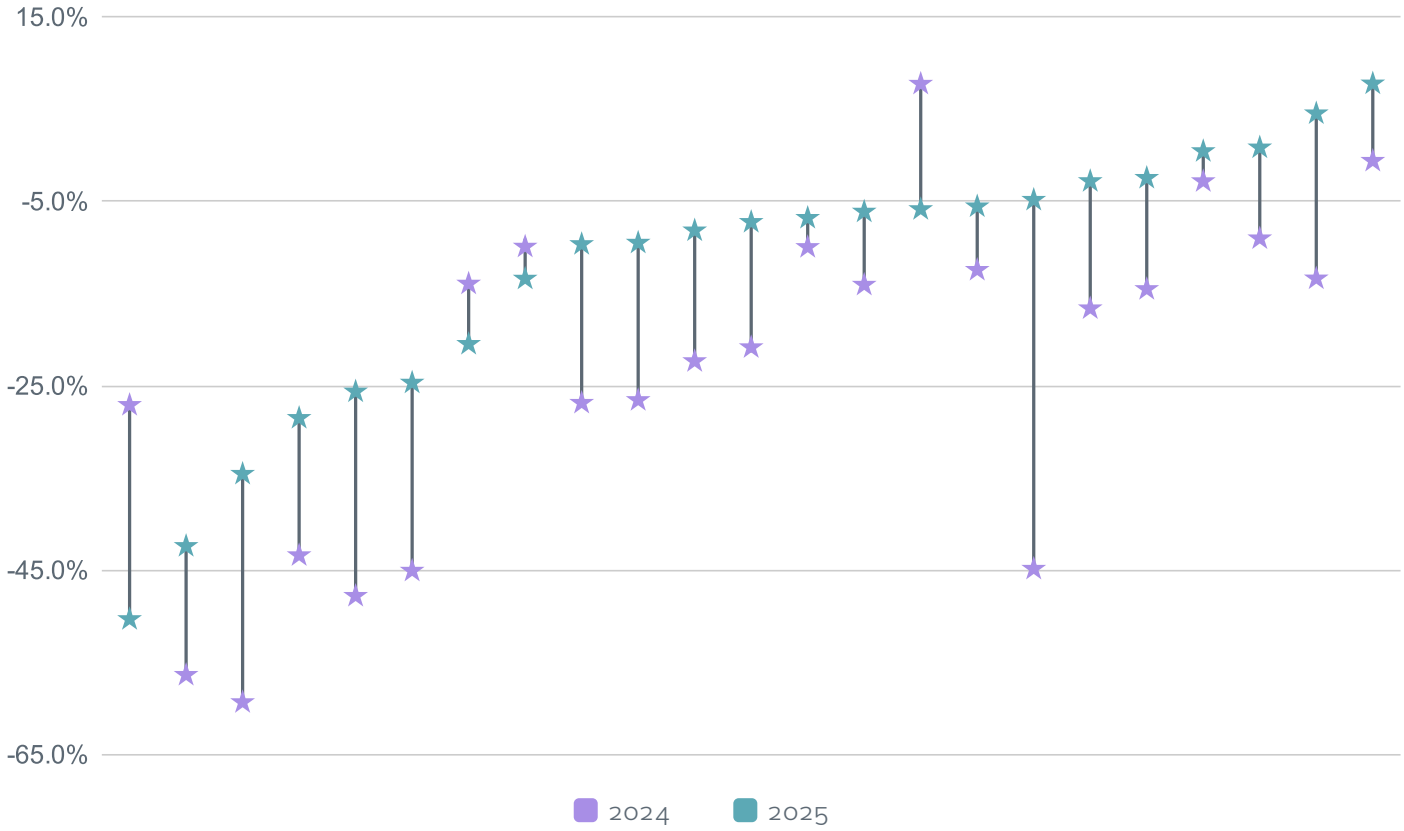
ROP by Insurer



We also include a chart showing the change in return on premium for each insurer between 2024 and 2025, based on the 2025 P&L report. It is encouraging to see insurers who reported the worst performance in 2024 now showing the highest increase in profitability in 2025.

These insurers are still significantly underpriced but an improving financial situation allows them to remain in the market and compete. For the most part, all insurers saw an increase in ROP, with only four of 23 companies reporting a decrease in their profitability.

Change in ROP by Accident Year



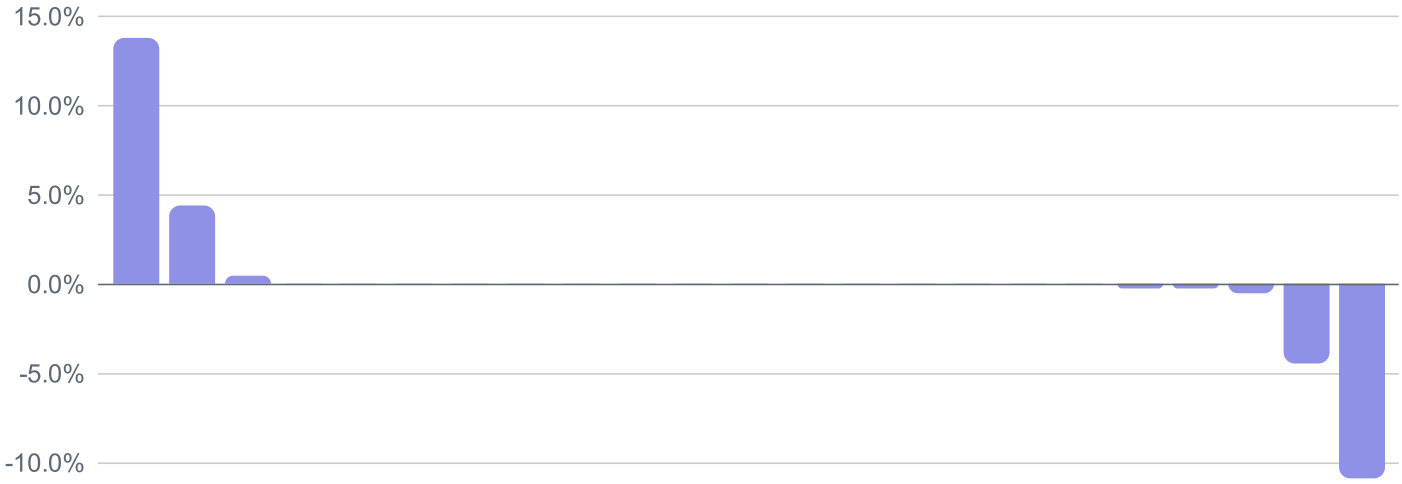
CHANGES TO ROP AFTER SUBMISSION CONSIDERATION

After initial review, all submissions required some level of follow-up with the submitter. Following their responses, ten insurers were either required or volunteered to submit a revision. Most of these revisions were to ensure insurers were all submitting their data on the same basis, aligning on a calculation, or identifying an error in their submission.

For instance, some insurers interpreted our definition of claim duration differently than the rest, resulting in much lower loss ratios when compared to their peers if submitted on the same basis. Other changes were small but included adjustments to the methodology used to allocate expenses to Alberta PPV, altering of the class of vehicles submitted, and other changes.

The graph below demonstrates the impact on submitted P&L report realized profit levels after insurer revisions. Unless indicated, all figures and references to data are based on the final submissions. Positive figures indicate the 2025 return on premium was higher on their final submission than original, and negative figures indicate return on premium was lower in their final submission than original.

Difference Between Final & Initial ROP by Insurer



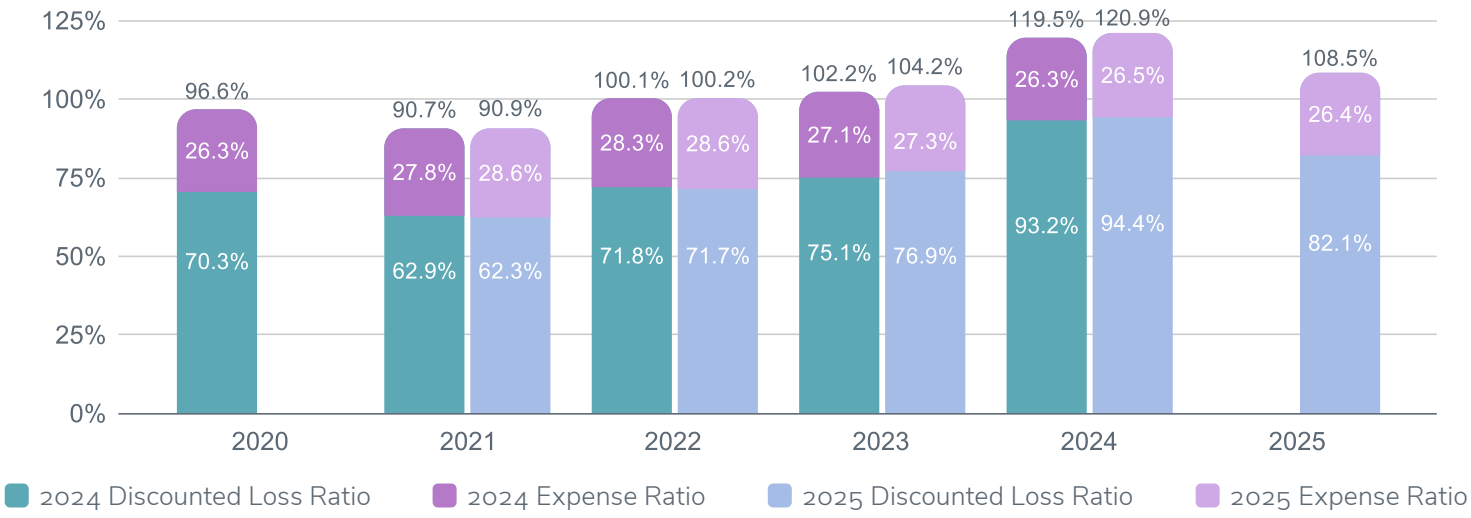
LOSS & EXPENSE RATIOS

An insurer's costs can be broken down into losses and expenses. Losses are the costs of settling and paying claims, and expenses are the cost of day-to-day operations like staffing, office space, etc. The graph shows the loss[10] and expense ratios for the industry.

In 2025, a sizeable decrease in losses was seen, particularly but not entirely, due to the lack of severe weather events, like the hailstorm in Calgary in the 2024 accident period. In general, as we continue to emerge from the pandemic loss ratios continue to trend upwards as more workers return to office. This has been a slow process, with some return to office mandates being put forward as recent as 2026, such as the Government of Alberta.

[10] Losses include the Health Levy and ULAE costs.

Loss & Expense Ratios

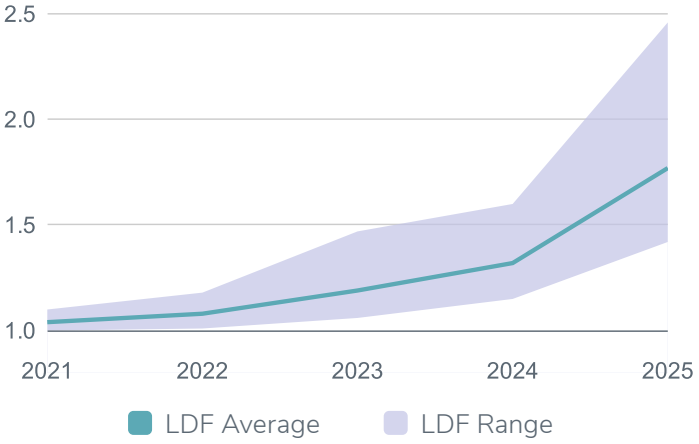


LOSS DEVELOPMENT

As we have discussed, not all claims are in and settled for each accident year. The process to estimate the difference from current losses (incurred) to final losses (ultimate) is touched on briefly in the loss development factoring section in Appendix. On a technical level, there are many ways to calculate these factors, and each insurer will have their own view on what is a reasonable formulation.

To give a broad sense, the graph shows the Loss Development Factors (LDFs) for each accident year, including a shaded region corresponding to a 95th percentile for the industry. As we can see, the LDFs are highest in 2025, as expected, at around 1.77, with fifth and 95th percentiles of 1.42 and 2.46, respectively.

Industry Loss Development Factors (LDFs)



Many insurers submitted loss development factors matching our reference range for 2021 to 2024, but submitted losses were often higher for 2025. For each insurer where this was true, we sought additional support. Many insurers provided their full appointed actuary's report (AAR)[11] where they pull their loss development factors.

In reviewing each insurer's AAR, we acknowledge the intention to be adequately reserved. Therefore, it is appropriate for the reserving in financial results to err on the side of caution and be conservative in their estimate of losses. Insurers will often have more aggressive and less conservative estimations of their losses in a rate filing, where the pressure is to compete with other insurers and offer competitive rates. Additionally, the AAR typically combines multiple vehicle classes and regions which are expected, but not confirmed, to develop similarly.

Based on these factors, we are considering the appropriateness of allowing the AAR to be used for the selection of loss development factors in future P&L reports.

[11] This report is submitted to the Office of the Superintendent of Financial Institutions (OSFI) annually alongside their financial statements. It is reviewed by OSFI to ensure insurers are adequately reserved and able to pay out their liabilities under stress testing.

DIFFERENCES TO OTHER DATA SOURCES

A variety of organizations report on insurer profits, but one common feature is they are all on a financial year basis. As shown in Accident Year Versus Financial Year section in the Appendix, losses paid out in a financial year cannot be attributed to their respective accident year which can cause issues. For instance, when we lowered the ROP from 7.0% to 6.0% for the 2024 accident year, financial results from 2024 are paying a mixture of primarily 2023 claims, but also some from 2024 and some from before 2023. In this case, it's unclear whether we should apply a 6.0% or 7.0% threshold.

As stated in Return on Premium Versus Return on Equity (ROE) section in the Appendix, financial reporting is on an ROE basis, which our profitability metric does not apply to. We regulate return on premium as it protects Albertans.

Superintendents Report

The Superintendent of Insurance publishes an annual report using data collected by the Office of the Superintendent of Financial Institutions, which is an independent agency of the Government of Canada, and data collected directly from provincially incorporated insurers. Generally, this data is primarily for all lines of business Canada wide, but they do have some limited data for Alberta auto class of insurance, which the Superintendent's office uses in their report. This report evaluates on a financial basis and is generally not as sophisticated or applicable as the P&L report.

General Insurance Statistical Agency (GISA)

Similar to the Superintendent's report, GISA's financial information is a financial year-based source of data. However, it provides a picture of profitability at the Alberta PPA level. PPA includes PPV like the P&L, but includes other classes like motorcycles and other personal use vehicles.

Earning Calls

There is a disconnect for consumers when they hear about insurer earnings calls in the news. When they hear their insurer earned a healthy profit, they default to their interaction with the insurer, their auto insurance. However, earnings are often presented insurer-wide, incorporating many lines of business in many provinces, and in some cases even many countries. The profit an insurer earns across these lines and geographies can vary significantly. For some insurers which break down their earnings, auto insurance is generally not a significantly profitable line.

COMPARISON DATA

DATA SOURCE

For the loss ratio tab, we can extensively vet any information provided by insurers with GISA data from our Point in Time (PIT) database. This is a very granular data stream we receive directly from GISA and has all the required premium, vehicle and loss information.

Additionally, we review the companies' GISA financial information submissions, whose format is used for the expenses section.

PREMIUM & LOSSES

For premiums and incurred losses,[12] we use our PIT data. This forms the bedrock of the P&L report, as there are no adjustments made to this data from GISA. We expect each insurer's submission should match data from the PIT, and any deviations are investigated.

LOSS DEVELOPMENT FACTORS

Perhaps the most significant data point and the most unique to each insurer in the P&L report are LDFs, as we have discussed earlier. This can increase the size of losses from anywhere between 1.1 and 2.0 times, depending on the insurer. Theoretically, an overestimation of the LDFs could be used to hide excess profit.

Knowing this, we construct loss triangles[13] with our PIT data for each insurer. Selecting LDFs is an "art," but with this data we can tell if an insurer is consistent with the data. In selecting LDFs, actuaries use their best judgement, where in multiple steps throughout the process they make judgmental selections. While it is inappropriate for us to make those selections, we can construct a reference range by considering what the LDFs would be if actuaries chose the highest or lowest selections at each step.

For example, we may calculate a reference range of 1.3 to 1.6. Any submitted LDF above 1.6 would require further support to staff to be approved. There are many valid reasons why the LDF would be higher than our reference range, so it is not necessarily bad when this occurs, it just requires further proof with all data and calculations provided.

[12] Incurred losses are all losses which have either been paid or set aside.
[13] Loss triangles are a way to track estimated losses over time for each accident period and are used to calculate the loss development factors we have mentioned.

APPENDIX

DEFINITIONS

Accident Year Versus Financial Year

An accident year is the calendar year in which an accident occurs. For instance, a claim which occurs in 2023 and is paid in 2025 has all payments attributed to the 2023 accident year and is available in the 2025 release of data. This compares to a financial year, which attributes losses to the year in which they are paid. Consider a simple example of a claim which ultimately costs $50,000 is paid out in 2025.

The claim occurs in 2023, and the insurer initially sets aside $10,000 in 2023, also known as a reserve. The following year, the claim is still open, and the injuries are not recovering as initially estimated, so the insurer increases the reserve to $30,000. The following year, the claim closes and the insurer pays the full $50,000. The tables below presents how this is reported in accident year basis, compared to a financial year basis. Accident year results are presented on a cumulative basis, while financial results are presented incrementally.

Accident Year	2023 Calendar Year	2024 Calendar Year	2025 Calendar Year
2023	$10,000	$30,000	$50,000
2024	$0	$0	$0
2025	$0	$0	$0

Financial Year	2023 Calendar Year	2024 Calendar Year	2025 Calendar Year
2023	$10,000	$0	$0
2024	$0	$20,000	$0
2025	$0	$0	$20,000

From the data, we know it takes about one to two years to settle most claims. Therefore, in a given financial year, most losses paid out are for losses occurring one to two years ago, including long lengthy claims from more than two years ago, and short speedy claims less than one year ago.

Loss Development Factoring

As losses are reported on an accident year and it may take several years for the claims to settle, insurers must apply a LDF to take the incurred losses to the final (ultimate) value. In the simple example from above where the ultimate value is known, the insurer would have an LDF of 5.00 in 2023, 1.67 in 2024, and 1.00 in 2025. When multiplying the incurred losses by these factors, you would have the ultimate value.

The more recent the accident period, the less time it has had to mature and settle the claims, and therefore these results are quite volatile. You can see this in the LDFs as they are very high at the start indicating a majority of claims have not been settled, and approach one over time, the LDF when every claim is settled and paid.

Insurers do not know what the final values of claims will be but are able to estimate what is statistically likely based on historical data patterns. When the predicted values are lower than the actual values, we refer to this as adverse development, and when the predicted values are too high, we call this favorable development.

Return on Premium Versus Return on Equity

Our profitability metric is ROP. It is the amount of profit an insurer makes from the premium you pay. For instance, if their average premium is $1,500 and all their costs total to $1,450, then they earn a return on premium of 3.45%.

In financial reporting, the profitability metric is often ROE. There are two differences between these metrics:

1. ROP calculates profit relative to premium, while ROE calculates profit relative to equity.
   - Insurers assign a certain amount of equity, or capital to support Alberta PPV, such as in paying for claims and other expenses. This is akin to an investor buying shares in a insurer.
2. ROE considers investment income made by the insurer.
   - Insurers invest the premiums they are paid. Imagine the insurer invests in a low risk asset and earns 3% returns. Then with the $1,500 premium which was paid, they will earn $45 of investment income. The $45 of investment income is not harmful to the consumer at all, and the insurers continues to earn a return on premium of 3.45%, but earns a return on equity of 6.55%.

In this way, it becomes clear the two ways an insurer makes money is the premium they charge and the investment income they earn. We choose to focus on ROP as a high ROP can be harmful to consumers, while a high ROE due to investment returns does not harm consumers and can in fact introduce more competition as insurers compete for premiums which allow their investments to grow.

PREMIUM REQUIRED FOR 6% ROP CALCULATION

We can write many variables in the return on premium profit formula as a ratio of premiums or losses.

We assume ultimate losses[14] remained the same as they did in 2025, as did the loss discount factor. The ULAE ratio is related to losses and not premiums, so it would remain constant as well. Finally, the health levy ratio is chosen so the Government of Alberta recovers all the expenses to treat auto accidents, since the losses are the same, we would expect the health levy to stay the same.[15] This means only expenses should be scaled with premiums.

> *ROP =*
> *Earned Premium * (Premium Delay Factor) -*
> *Ultimate Losses * (Loss Discount Factor) -*
> *Health Levy Ratio * Earned Premium -*
> *ULAE Ratio * Ultimate Losses -*
> *Expense Ratio * (Earned Premium)*

Therefore, to calculate the premium required for insurers to hit 6.0% ROP, we solve the following equation:

$$0.06p = 0.9885p - \$4{,}113{,}994 - \$397{,}651 - 0.2641p$$

Where p is premiums, 0.9885 is the industry weighted average premium delay factor, $4,113,994 is the discounted losses, $397,651 are the ULAE and Health Levy expenses, and 0.2641 is the industry weighted expense ratio.

Solving for p, we get:

$$\$4{,}511{,}645 = 0.6644p$$

or

The required premiums are $6.80 billion

However, the expense ratio is made up of fixed and variable expenses. Things like broker commissions are variable, as they are charged as a percentage of each policy. Therefore, higher premium means higher expenses. Other expenses are fixed, like IT costs, which would not change with premium volume.

When we consider only the variable portion of expenses (20.34%), we solve the following updated equation:

$$0.06p = 0.9885p - \$4{,}113{,}994 - \$397{,}651 - 0.2034p - \$349{,}026$$

Where $349,026 are general expenses which are assumed to be fixed. Solving for p we get:

$$\$4{,}860{,}671 = 0.7251p$$

or

Required premiums would be approximately $6.70 billion

Compared to the premium actually earned in 2025 of $5.56 billion, insurers would have required a rate increase of 20.6% to have earned the 6.0% return on premium benchmark in the 2025 accident period.

[14] For more information on what ultimate losses are, see Loss Development Factoring section.
[15] Technically, if premiums were to increase, the health levy assessment rate would decrease and result in the same overall charge to the industry as its based on claims, not premium.

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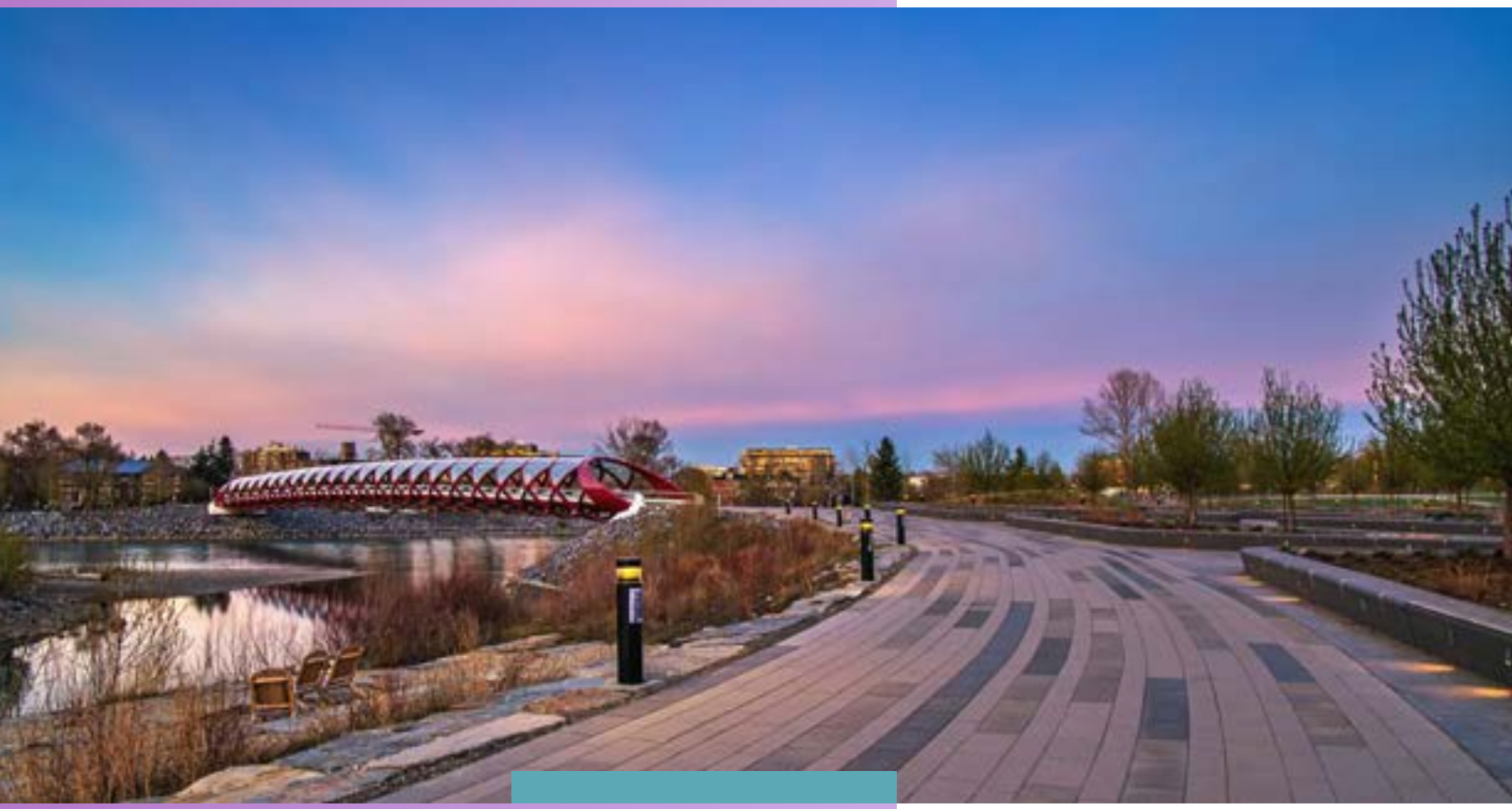

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