



# Annual 2023 Review Report



## Automobile Insurance Rate Board 2023 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 Automobile Insurance Rate Board (AIRB) conducted its annual review of industry loss experience as of December 31, 2022. It establishes industry benchmarks for private passenger vehicles, considered when the AIRB evaluates insurers' rate filings received after October 1, 2023. The AIRB only uses industry benchmarks when insurers do not have sufficient data to support the reasonableness of their own assumptions in rate filings.

The annual review started with the AIRB's consulting actuary, Oliver Wyman Limited (Oliver Wyman), preparing a preliminary report on their review of industry loss experience. This preliminary report was published on June 23, 2023, inviting stakeholders to comment through written submission and verbal presentations at the annual review open meeting held on August 17, 2023. The AIRB received and reviewed the data and submissions related to the benchmarks. This year, stakeholders raised concerns about inflation and its potential impact on future loss trend rates and the "new mobility".

The 2023 annual review confirmed industry benchmark loss trends remained consistent with those stated in the 2023 semi-annual review. The other benchmarks were adjusted including the profit provision. The AIRB lowered the profit provision used in rate indications to determine the level of premium, a benchmark which has previously been consistent since 2006. The decision to lower the profit provision was made after considerable discussion over several board meetings and analysis of economic models and stakeholder views.

In addition to the loss trends and other benchmarks, the final report by the AIRB's consulting actuary, Oliver Wyman, shows insurers reported profits for a third consecutive year in 2022. These unprecedented profit levels were due to reduced mobility since the start of 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 mobility changes impact frequency and severity of claims, the result can be unexpected profits. We continue to monitor trends to confirm if they will continue in this "new normal" or return to pre-pandemic levels.

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 change 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. Uncertainty was noted related to the legislation passed in late 2020 where the government took steps toward ensuring auto insurance remained affordable for Albertans. One of the measures introduced was Direct Compensation Property Damage (DCPD), which took effect on January 1, 2022. With only one year of data since this change took effect it is too early to see trends or impacts, however, the AIRB is paying close attention and continues to analyze data, for impacts on loss trends and overall insurer profitability.

This report concludes the 2023 annual review process. The report includes the release of industry benchmarks, an overview of the annual review participants, Oliver Wyman's Final Review of Industry Experience report and the Consumer Representative's perception survey findings.

# Industry Experience Report

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

On June 23, 2023, the AIRB released the preliminary report, “Review of Industry Experience as of December 31, 2022 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 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, 2022. This preliminary report is posted on the AIRB website.

On September 22, 2023, Oliver Wyman’s final report was presented to the AIRB. This report’s Appendix A considered comments arising from the open meeting in August 2023. 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 1, 2023.

## 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 should only 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 the first three rate making components, 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.

The fourth component health cost recovery is to be used by insurers to calculate their rate indications, and the fifth component is the maximum profit provision 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, 2022, 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                                 | 2022<br>Semiannual<br>Review<br>(As of 06/30/2021) | 2022<br>Annual<br>Review<br>(As of 12/31/2021) | 2023<br>Semiannual<br>Review<br>(As of 06/30/2022) | 2023<br>Annual<br>Review<br>(As of 12/31/2022) |
|-------------------------------------------|----------------------------------------------------|------------------------------------------------|----------------------------------------------------|------------------------------------------------|
| Third Party Liability (TPL) Bodily Injury | 6.5%/5.0%                                          | 7.0%/5.0%                                      | 7.0%/5.0%                                          | 8.0%/5.0% <sup>1</sup>                         |
| TPL Property Damage                       | 1.5%                                               | 1.5%                                           | 1.5%                                               | 1.0%                                           |
| Direct Compensation Property Damage       | 1.5%                                               | 1.5%                                           | 1.5%                                               | 1.0%                                           |
| Accident Benefits                         | 1.0%/12.0%                                         | 1.0%/12.0%                                     | 1.0%/12.0%                                         | 1.0%/11.0% <sup>2</sup>                        |
| Collision                                 | 2.5%                                               | 2.5%                                           | 3.0%                                               | 2.0%                                           |
| Comprehensive                             | 5.0%/3.5%                                          | 4.0%                                           | 4.0%                                               | 4.0%                                           |
| All Perils                                | 2.5%                                               | 2.5%                                           | 2.5%                                               | 0.0%                                           |
| Specified Perils                          | 3.0%                                               | 3.0%                                           | 3.0%                                               | 3.0%                                           |
| Underinsured Motorist (SEF 44)            | 2.0%                                               | 2.0%                                           | 1.5%                                               | 1.5%                                           |

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. 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, 2023.

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

<sup>1</sup> Future trend rate begins November 1, 2020, consistent with recent reforms

<sup>2</sup> 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 ratio 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.

| Expense Category      | AIRB Selections   |
|-----------------------|-------------------|
| Total Commission      | 13.5%             |
| Premium Taxes         | 3.7% <sup>3</sup> |
| All Other Expenses    | 10.4%             |
| <b>Total Expenses</b> | <b>27.6%</b>      |
| ULAE                  | 12.3%             |

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

## 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 2023 assessment factor is 2.86%.

## Profit

The AIRB sets a target pre tax profit benchmark for all coverages and vehicle types. The AIRB reviews the profit benchmark annually to determine a reasonable profit level considering a number of factors including stakeholder feedback. The profit benchmark sets a fair return to compensate insurers for the level of risk assumed by writing auto insurance in Alberta. When an insurer issues an insurance policy, they assume the risk premiums may not be sufficient to pay claims and expenses. The insurer supports this risk by maintaining capital for which they expect to earn a return.

In 2023, the AIRB conducted an economic analysis and lowered the benchmark effective October 1, 2023. The profit benchmark has been lowered from 7.0% of premium to 6.0% of premium. Stakeholders are reminded, like all benchmarks this benchmark may be updated annually.

**6** <sup>3</sup> 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 23, 2023, the AIRB advised stakeholders of the dates related to the 2023 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, 2023.

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 four industry stakeholders in addition to Oliver Wyman and the Consumer Representative. In addition, three written submissions were received and considered.

## Open Meeting

AIRB held a virtual open meeting on August 17, 2023. 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
- ✿ Consumer Representative
- ✿ Insurance Bureau of Canada
- ✿ Facility Association
- ✿ Alberta Civil Trial Lawyers Association
- ✿ Aviva Canada Inc.

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.



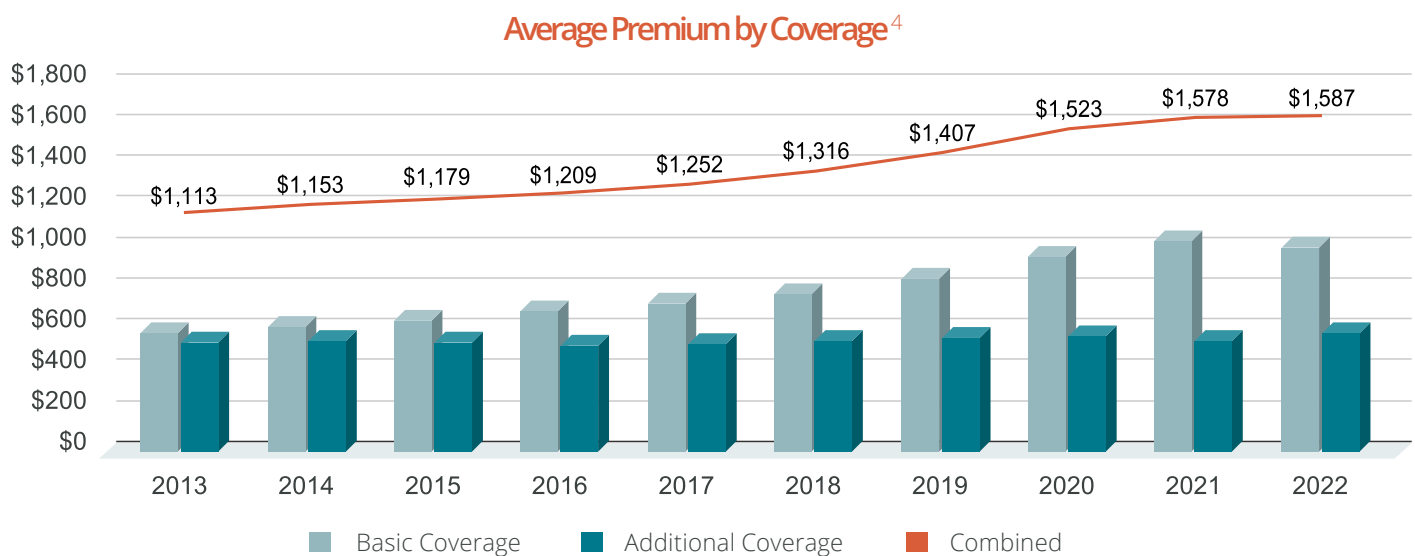
# Industry Premium & Claim Trends

## 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.



Since 2013, premiums for combined coverage have increased from \$1,113 to \$1,587, an average of 4.3% 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 129.1 in December 2013 to 160.8 in December 2022, an average increase of 2.5% per year. Since 2013, premiums for basic coverage have increased an average of 6.9% 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

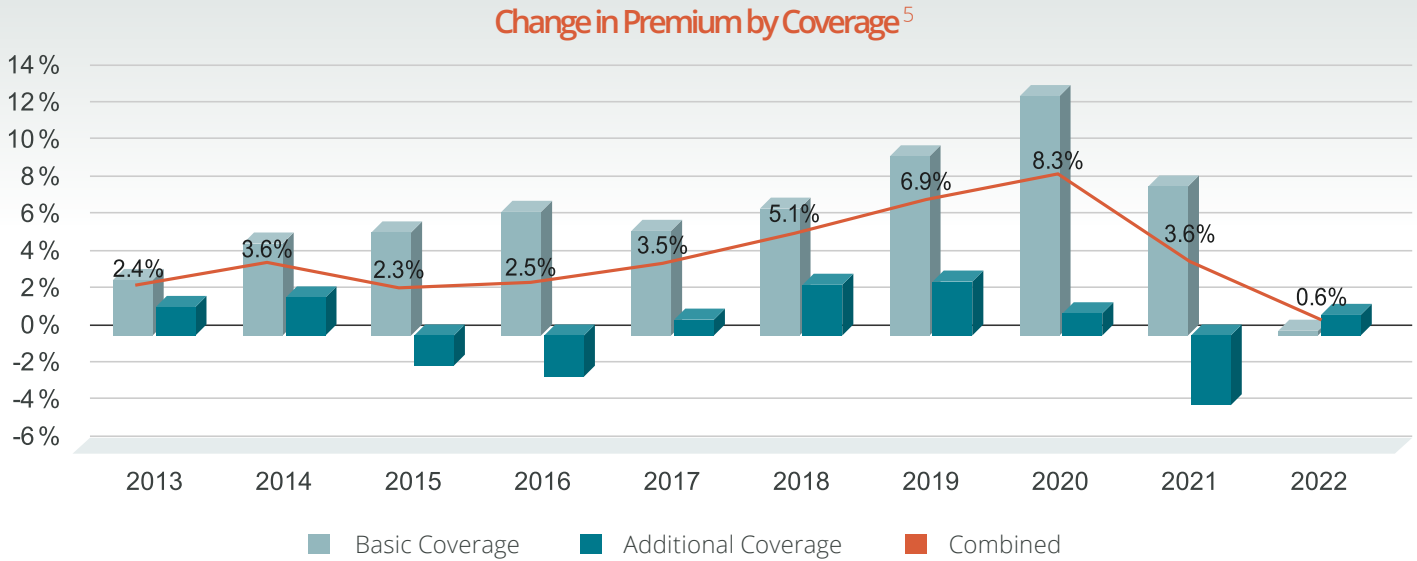
Temporomandibular Joint Syndrome (TMJ). They are also seeing claims for new heads of damage. This, combined with increased claims litigation, low investment returns, and a longer treatment period, results in increased claims costs and, ultimately, premiums. The Government recognized the number of claims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

Since 2013, premiums for additional coverage have increased an average of 0.9% 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.

## 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

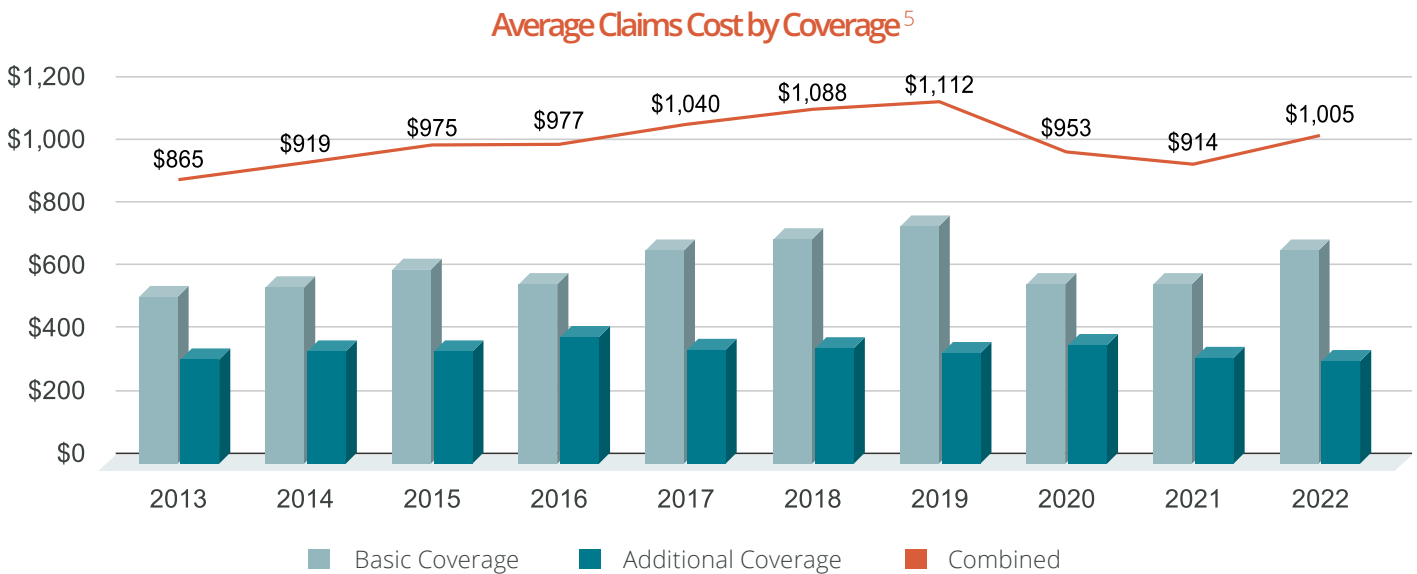
this coverage's rating program. The premium increase in 2020 reflects rate changes approved following the expiry of the rate cap.



## Private Passenger Vehicle Average Claim 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

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



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

<sup>5</sup> 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 pools <sup>6</sup>. In late 2020, the Government introduced reforms through Bill 41, which included the implementation of Direct Compensation Property Damage (DCPD). The interaction of DCPD with the Grid base premiums was unique to Alberta. After thoughtful consideration, the President of Treasury Board and Minister of Finance confirmed DCPD premiums are mandatory coverage but are excluded from the AIRB's calculation of Grid premium for basic coverage. Currently, the Grid caps only 10.3% <sup>7</sup> of all Alberta drivers. Insurers must compare the premium for basic coverage (third party liability bodily injury, property damage tort and accident benefits) 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.

Effective January 1, 2022, the AIRB set a base premium for third-party liability, property damage tort and accident benefits, and insurers used their market rate for DCPD. The Grid base premium is 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. Normally the AIRB makes the final decision for the Grid base premium adjustment no later

than October 1. With the Ministerial Order prohibiting the approval of any change resulting in an increase to any private passenger vehicle policyholder, the AIRB has deferred the decision on the Grid rating program's rate adequacy until after the expiry of the rate pause.

The AIRB will give 90 days notice in advance of any change to the Grid rating program based premium or the relativity between grid steps.

The AIRB will use 2022 data in our analysis of Grid base premium adequacy. Due to the data credibility of the Grid-only risks, the AIRB will accept 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.



<sup>6</sup> 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.

<sup>7</sup> Based on 12 months rolling average as of July 2023.

# Legislation

## Legislation & 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 auto trends 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<sup>8</sup>, 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<sup>9</sup>, 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.

On December 9, 2020, Bill 41, Insurance (Enhancing Driver Affordability and Care) Amendment Act received royal assent, 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.

<sup>8</sup> 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.

<sup>9</sup> 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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