



2024 ANNUAL REVIEW REPORT





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Executive Summary

The Automobile Insurance Rate Board (AIRB) conducted its annual review of industry loss experience as of December 31, 2023. This review establishes industry benchmarks for private passenger vehicles, considered when the AIRB evaluates insurers' rate filings received on or after October 1, 2024. Insurers are expected to use their own data and only consider the AIRB industry benchmarks when they lack sufficient data to support the reasonableness of their own assumptions in rate filings. The AIRB uses benchmarks as a comparison when opining on the assumptions individual insurers make in their 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 21, 2024, and the AIRB invited interested parties to comment through written submission and verbal presentations at the annual review open meeting held on August 15, 2024. The AIRB received and reviewed the data and submissions related to the benchmarks.

This year, those who presented or made a written submission shared their views about the loss cost trends and other AIRB benchmarks.

The 2024 annual review confirmed industry benchmark loss trends changed slightly compared to those stated in the 2024 semi-annual review.

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. Insurers use past results to predict claims costs in the future, and this uncertainty is considered when determining future loss cost trend rates in each semi-annual review as well as in each insurer rate filing. Oliver Wyman's report highlights heightened uncertainty around current trends due to several factors including:

- ▶ COVID-19's impact on driving patterns and related change in claims frequency,
- ▶ The legislative changes under Bill 41, announced in November 2020 which expand accident benefit limits and change the definition of minor injury, and

- ▶ Significant increase in physical damage claim costs coincident with the late 2021 rise in Consumer Price Index for categories directly impacting physical damage claim costs (vehicle parts, replacement vehicles, rental fees, maintenance, and repair costs).

Oliver Wyman's report comments on other factors influencing the loss cost trends including:

- ▶ The growth of insured vehicles. Since 2014, the number of private passenger vehicles in Alberta has generally increased, with volatility over the most recent three years, likely due to the COVID-19 pandemic. The number of insured vehicles per semi-annual period rose from approximately 1.31 million in the first six months of 2014 to 1.51 million in the second half of 2023.
- ▶ The purchase of additional coverages. Over the last ten years there is a decreasing percentage of risks with comprehensive coverage and a modest decrease in the percentage of risks with collision coverage.
- ▶ The level of deductible. They noted a consistent shift toward higher deductibles for collision and comprehensive coverages over the last ten years, with the shift more noticeable in recent years. This trend is expected to be a result of the insurer's increase in deductible levels offered and not the policyholders desire to assume greater risk.

This report concludes the 2024 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, and the Consumer Representative's report on Perspectives on auto insurance.

Annual Review

Industry Experience Report

On a semi-annual basis, the AIRB requests its consulting actuary, Oliver, Wyman Limited (Oliver Wyman), review the industry experience for private passenger vehicles and provide information and professional advice on automobile trends and premiums.

On June 21, 2024, the AIRB released the preliminary report, “Review of Industry Experience as of December 31, 2023, 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. 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, 2023. This preliminary report was posted on the AIRB [website](#).

On September 27, 2024, Oliver Wyman’s final report was presented to the AIRB. The Oliver Wyman Report (Appendix A) considered comments arising from the open meeting held in August 2024. The report includes recommendations to the AIRB on the Industry Benchmarks to be considered in reviewing and opining on assumptions made in rate filings submitted on or after October 1, 2024, when the insurer does not have sufficient data or is unable to support their assumptions. The AIRB accepted Oliver Wyman’s recommendations.

Open Meeting

According to the Automobile Insurance Premiums Regulation (Premiums Regulation), the AIRB must conduct an annual review for private passenger vehicles and hold an open meeting as part of the annual 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.

On June 21, 2024, the AIRB advised the dates related to the 2024 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 5, 2024.

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

The notice was posted on the AIRB [website](#).

During the open meeting, the AIRB heard presentations from two industry representatives, Oliver Wyman, and the Consumer Representative. In addition, one written submission was received and considered.

AIRB held a virtual open meeting on August 15, 2024. 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
- ▶ Alberta Civil Trial Lawyers Association
- ▶ Insurance Bureau of Canada

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](#).

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.

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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.

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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.

Loss Development Factors

Historical claim count and amounts must be projected to expected 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

The AIRB publishes benchmarks for the following rate making components, which under the AIRB's filing guidelines, must be considered in all full filings:

1. Loss Development Factors
2. Loss Cost 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 listed above, 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.

based on Alberta industry data as of December 31, 2023, 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. Insurers are reminded to use their own data where credible and supported.

Loss Trends

Loss cost trends are projections of future accident losses based on the analysis of historical loss patterns. Insurers consider how their own data compared to these factors in estimating the future costs for claims.

Coverages	2023 Semiannual Review (As of 06/30/2022)	2023 Annual Review (As of 12/31/2022)	2024 Semiannual Review (As of 06/30/2023)	2024 Annual Review (As of 12/31/2023)
Third Party Liability (TPL) Bodily Injury	7.0%/5.0%	8.0%/5.0%	8.7%/5.0%	8.7%
TPL Property Damage	1.5%	1.0%	1.8%	1.6%
Direct Compensation Property Damage	1.5%	1.0%	1.8%	1.6%
Accident Benefits	1.0%/12.0%	1.0%/11.0%	3.8%/10.9%	2.2%/13.2%/4.1% ¹
Collision	3.0%	2.0%	2.3%	2.4%
Comprehensive	4.0%	4.0%	4.0%	5.1%
All Perils	2.5%	0.0%	2.2%	2.7%
Specified Perils	3.0%	3.0%	3.3%	3.7%
Underinsured Motorist (SEF 44)	1.5%	1.5%	4.4%	4.4%

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 and comments, Oliver Wyman selected loss trend rates for each coverage.

The AIRB accepts Oliver Wyman's selected trend rates as the 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, 2024 when opining on the reasonableness of assumptions used by insurers in rate filings.

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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.

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¹+13.2% trend rate begins January 1, 2015 and ends October 29, 2020 with a +4.17% trend beginning October 29, 2020.

Administrative Expenses & ULAE

In Alberta, all insurers offer the same auto policy and coverages. One way insurers can differentiate their pricing is their administrative expenses. 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.

Administrative expenses are non-claims related, usually composed of the following:

- ▶ **Acquisition Costs** include the compensation paid to agents and brokers for selling insurance policies. Brokers are usually compensated on a percentage of premium basis, referred to as standard commissions. In addition, brokers may receive contingent commission based on growth of business or meeting profit targets.
- ▶ **Premium Taxes** are assessed by government as a percentage of premiums.
- ▶ **Administrative Expenses** include policy processing costs such as underwriting, information technology, actuarial and general insurer management costs.

Unallocated loss adjustment expense (ULAE) is the claim and settlement related expense not associated directly with individual claims.

The AIRB accepts the industry average expense ratio and the ULAE ratio for Alberta presented in the GISA exhibit as the benchmark, 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.

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 2024 assessment factor is 2.94%.

Expense Category	AIRB Selections
Aquisition Costs (Commission)	13.2%
Premium Taxes	3.8% ²
Administrative Expenses	10.7%
Total Expenses	27.7%
ULAE	12.3% ³

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The AIRB expects insurers to use their own experience where it is credible.
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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 feedback from interested parties. 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 from 7.0% to 6.0% of premium October 1, 2023. In 2024, the AIRB has maintained the profit benchmark at 6.0%.

² 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.
³ The ULAE selected is the same as 2023 due to implementation of IFRS 17 on a best efforts basis.

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 pools⁴. 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. 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.

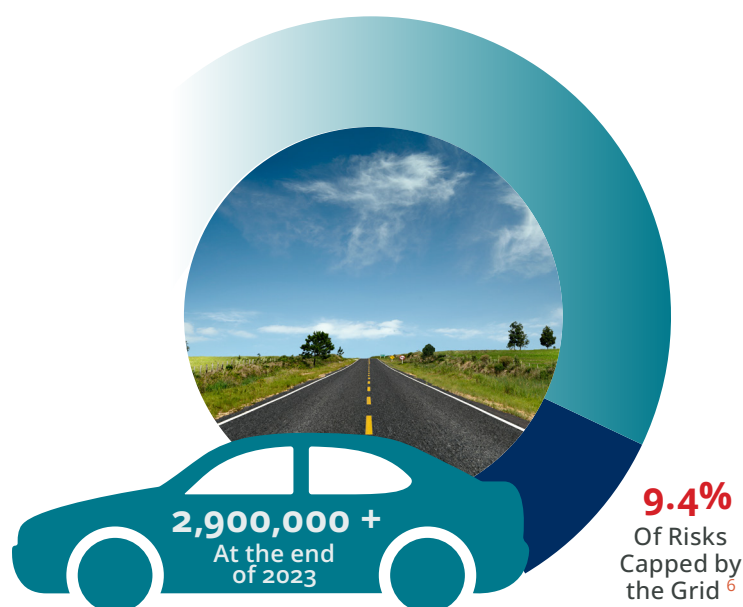
Since January 1, 2022, the AIRB sets a base premium for third-party liability, property damage tort and accident benefits, and insurers used their market rate for DCPD. The Grid base premium is the total of the AIRB set base premium plus the market rate for DCPD.

The Grid premium adjustment is made following the annual review, based on the analysis of the Grid claims experience using the most current information on trends available. The AIRB advises its final decision for the Grid base premium adjustment no later than October 1, giving 90 days notice in advance of the changes effective January 1.

The AIRB used 2023 data to analyze the 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;
- ▶ Current Alberta market environment; and
- ▶ Time since last rate change⁵.

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 can change significantly, which suggests the setting of the Grid premium level needs to be an ongoing process.



⁴ Coverage for insureds 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

⁵ The 2024 Grid premium adjustment was effective May 1, 2024 due to the Ministerial Order prohibiting the AIRB from approving any change resulting in an increase greater than zero to any individual policyholder

⁶ As of December 31, 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, 2004⁷, 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 protocols⁸, 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.

On November 1, 2023, the Premiums Regulation was amended giving the AIRB authority to:

- ▶ Order an insurer to file changes to a rating program to reflect changes in legislation, the market or operating environment.
- ▶ Require insurers to return excess premiums to policyholders.

Appendices

- A. Oliver Wyman Review of Industry Experience
- B. Industry Benchmarks Schedule

- C. Consumer Representative's Report

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 \$5,48



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