

Rate Increases for Bodily Injury Claims Unnecessary

Developments Since the AIRB 2018 Annual Report in the Severity and Cost per Vehicle of Bodily Injury Coverage for Alberta Private Passenger Vehicles

Craig A. Allen, FCIA, FCAS, January 20, 2020

I have reviewed the 2018 Annual Report of Alberta's Auto Insurance Rate Board (AIRB) and the semi-annual reports of Oliver Wyman, commissioned by the AIRB. I have also conducted my own analysis of insurance-industry-wide ("industry") statistics for Alberta provided by the General Insurance Statistical Agency (GISA).

My findings are as follows:

- The rise in bodily injury claims costs in recent accident years is now estimated to be lower than estimated at the time of the AIRB 2018 Annual Report.
- Bodily injury claims costs per vehicle have levelled off since 2016, and actually declined in the last year.
- Allowable rate levels since late 2017, based on AIRB benchmarks and the immediate prior bodily injury claims costs for the industry, provide more than adequate amounts for the estimated bodily injury claims costs that have subsequently emerged. For insurers that have kept up to date with their rate changes, further rate increases for bodily injury coverage appear to be unnecessary at present and for a period into the future.

These analyses address the estimated cost per vehicle of the following:

- Losses, comprised of settlements and awards paid to claimants as compensation for bodily injuries suffered in automobile accidents.
- Loss adjustment expenses, which are defined here as costs incurred in resolving bodily injury claims. These include "allocated" expenses (i.e. billed to the insurance company and earmarked for a specific claim) and "unallocated" expenses (including the portion for claims handling of salaries, rent and other overhead paid by insurance companies). Allocated loss adjustment expenses include legal fees and fees paid to independent claims adjusters.

These amounts are examined here for the insurance coverage, for bodily injuries, that makes up part of the "Basic Coverage" that is required of all Alberta motorists. Bodily Injury coverage compensates not-at-fault drivers for loss of income, for the costs of care, and for pain and suffering. It is distinct from coverage for damage to vehicles.

The combined total of bodily injury losses and loss adjustment expenses, per vehicle is given here the term "BI claims cost."

Finding 1: Reductions in Bodily Injury Claims Costs Estimates

In its 2018 Annual Report, the AIRB reported a significant increase in the severity of BI claims, with more recent accidents generating higher-severity claims. The AIRB cited an average severity per claim of \$72,963 for accidents in 2017 (corresponding to a BI loss cost of \$439.97).

The severity estimate quoted above and the corresponding BI claims cost, are based on an analysis by Oliver Wyman, dated September 19, 2018, supported by GISA statistics as of year-end 2017.

Note that an analysis of this type is performed every six months by Oliver Wyman for the AIRB. Each such analysis re-evaluates the not-yet-finalized claims from each accident year, using the best available information at the time. Over time, the processes of investigation, negotiation, and legal procedures lead to a more refined estimate of the BI claims cost for any given accident year.

A more recent installment of the regular analyses by Oliver Wyman, based on year-end 2018 statistics, reduced the estimate for 2017 accidents from \$439.97 to \$433.61. A further analysis that I performed based on June 2019 statistics, using methods similar to those used by Oliver Wyman, supports a further reduction to \$427.62, for a total percentage reduction of 2.8% from the 2017 analysis. Steeper decreases of between 8.3% and 8.4% were found for accidents that occurred in 2015 and 2016.

Chart 1 below illustrates the reduction in estimated BI claims cost between the 2017 and 2019 analyses, for each accident year 2008 through 2017. The chart shows that the reductions are generally greater for more recent accident years. These accident years were identified in the AIRB 2018 Annual Report as having the highest claim severity.

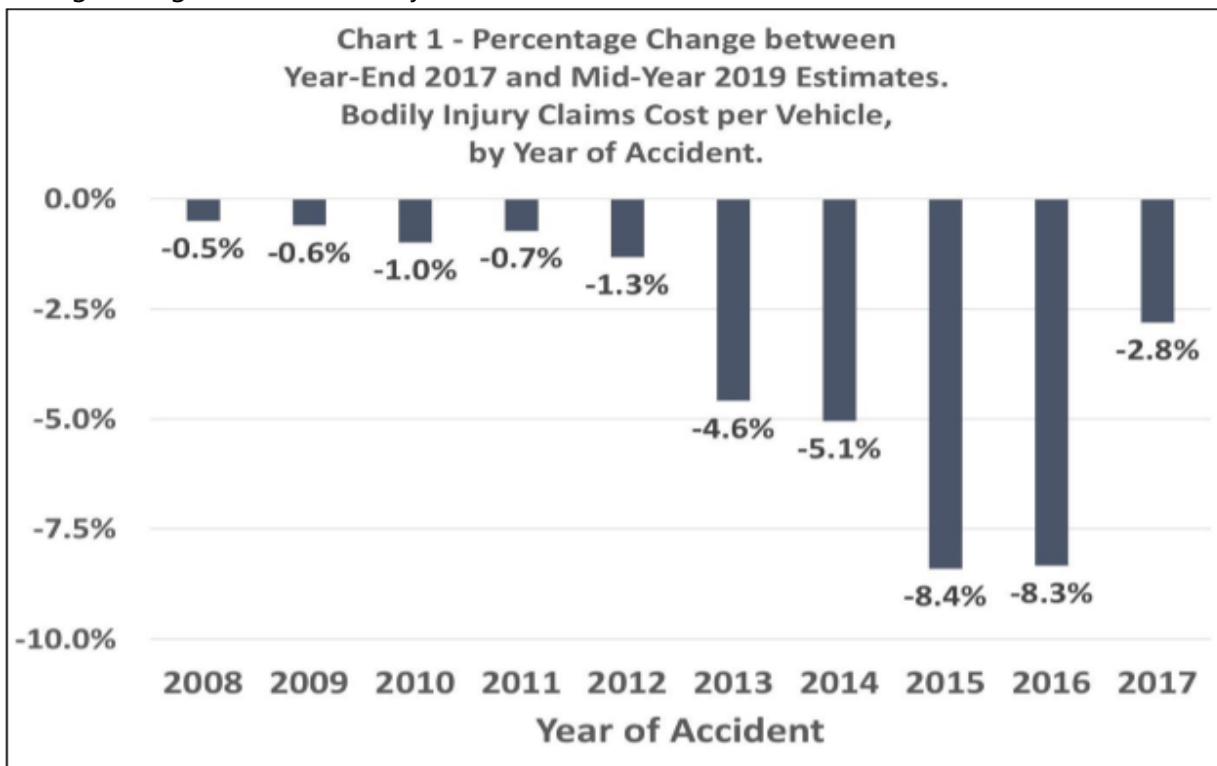


Chart 1 – The Growth in Bodily Injury Claims Cost between 2008 and 2017 has been Updated, and it is Lower than was Feared.

These reductions in the estimated BI claims cost, as a result of more recent data and analysis, indicate that the rise in BI claims cost in recent accident years is lower than had been perceived and reported upon in the AIRB 2018 Annual Report.

Finding 2: The End of Growth in Bodily Injury Claims Cost for Recent Accidents

The AIRB 2018 Annual Report reported an increase in bodily injury claim severity for each accident year since early this decade.

However, a more up-to-date analysis, based on data through June 30, 2019, shows that annual increases in BI claims cost have ceased, beginning in 2016. This is particularly the case where general inflation is removed from the analysis, with BI claims cost stated in 2016 dollars.

Chart 2 shows the BI claims cost is at a relatively constant level over the last three accident years (where accidents are grouped on a July 1 to June 30 frame), with the 2018-2019 year even showing a slight decrease from the previous accident year.

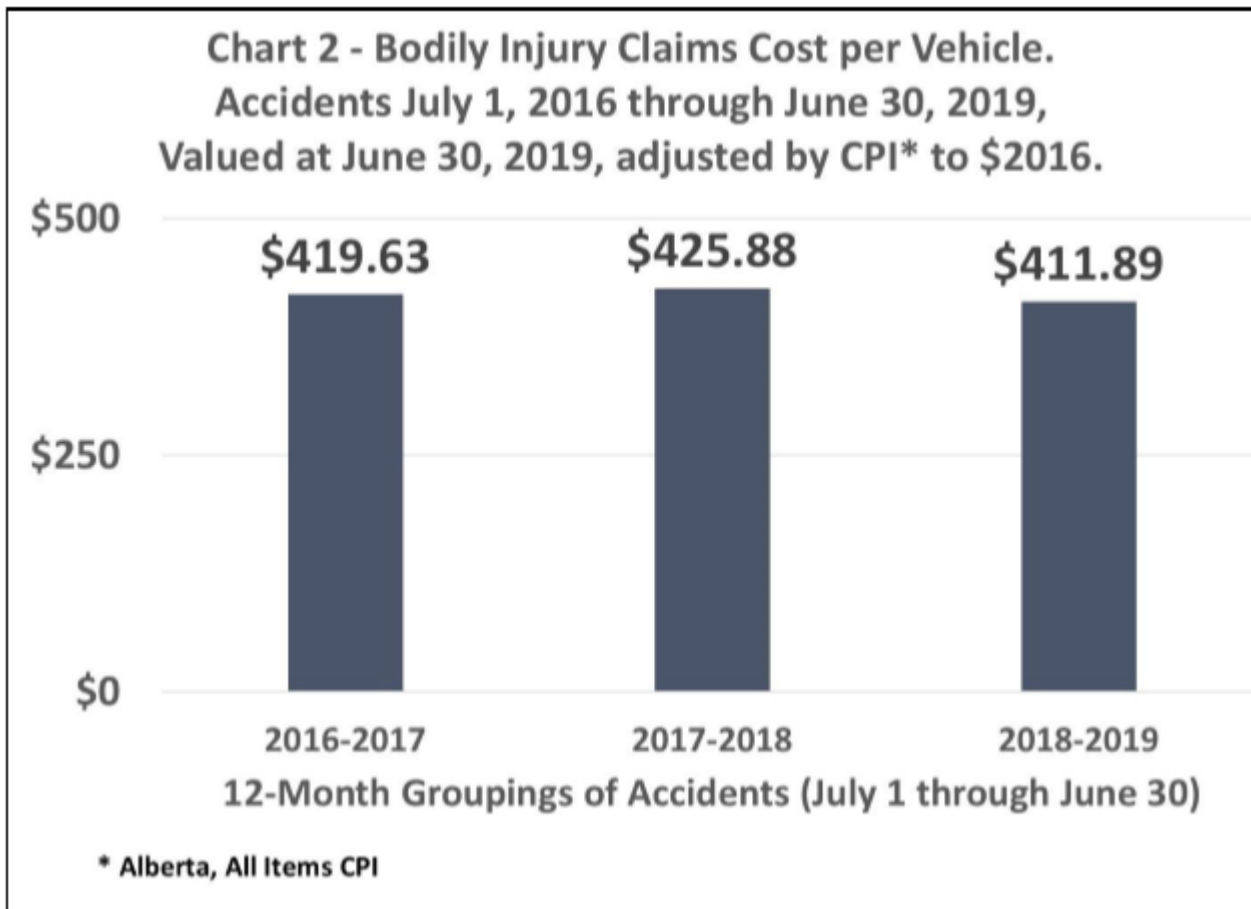


Chart 2 – Bodily Injury Claims Costs per Vehicle Have Stabilized

Chart 3 below shows the average projected underlying BI claims cost associated with three notional rate change filings, submitted in late 2016, late 2017 and late 2018.

The notional filings are built upon BI claims cost data from the most recent three accident years prior to the filing date (bars with upward sloping stripes). Factors provided by the AIRB benchmarks, current at the time of the notional filing, are then applied to the claims data. The AIRB benchmarks include factors for loss development, an annual trend of between 7% and 8.5%, and internal insurance company claims adjustment expenses (unallocated loss adjustment expenses) of between 8.5% and 10.3%. The claims data, with the benchmark factors applied, then forms a projection of the BI claims cost (dark solid bars). This projected BI claims cost is then compared to the value of the actual emerged BI claims cost following the rate filing (bars with downward sloping stripes). If the emerged BI claims cost is greater than the projection, there is a shortfall. And if the emerged BI claims cost is less than the projection, there is a redundancy.

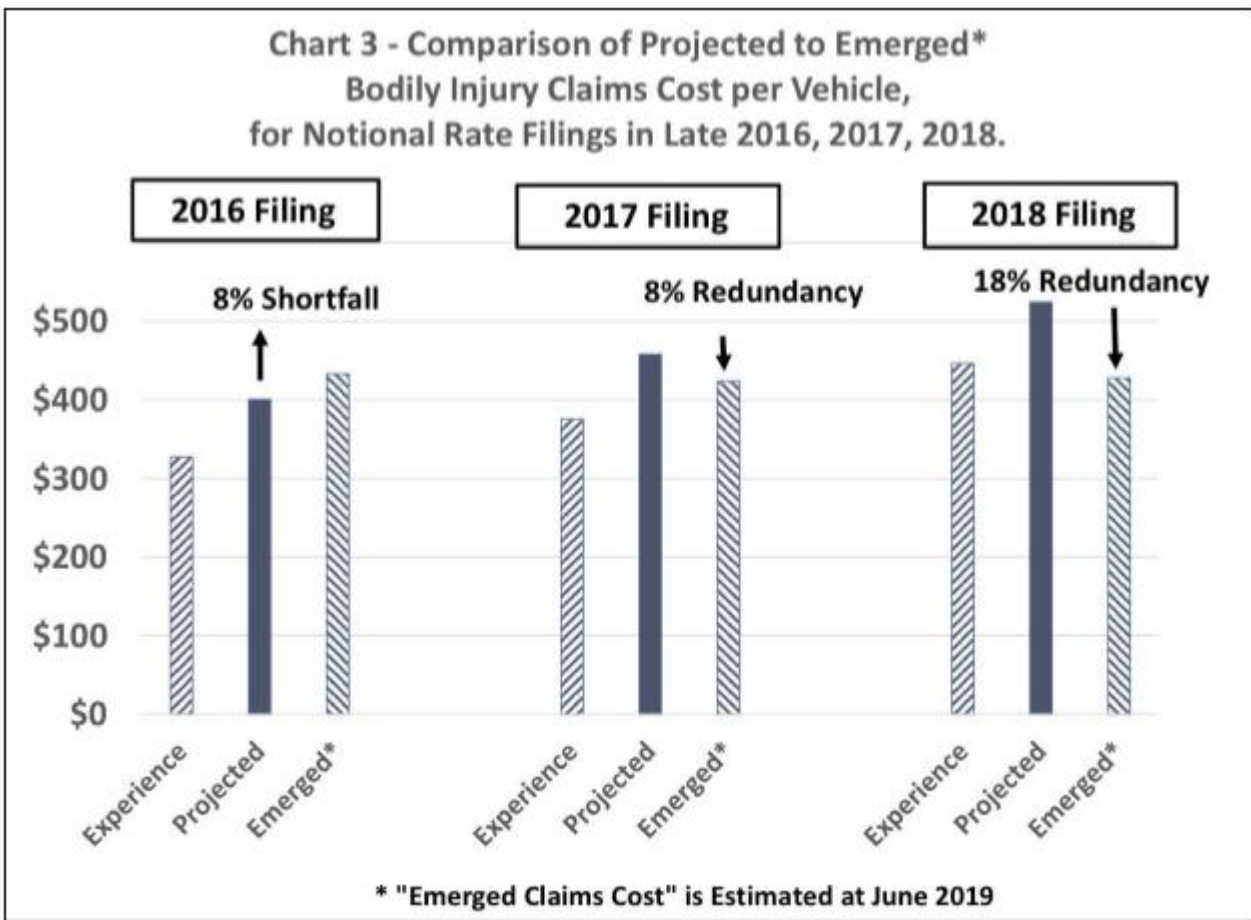


Chart 3 – Further Bodily Injury Premium Increases are Not Indicated by Recently Emerged Claims

It can be seen that for filings notionally submitted in late 2016, the emerged BI claims cost for the policy year after the filing is 8% higher than the projected amount, with the result that the rate change submitted would not provide fully for the actual claims costs.

However, this situation turned around from shortfall to redundancy by late 2017. An increase in the estimated BI claims cost for the three prior accident years led to a higher projected BI claims cost than for the 2016 filing. However, the BI claims cost that actually emerged is almost unchanged from that of the 2016 filing. The result is that the emerged BI claims cost is 8% below the amount requested in the filing.

For the 2018 notional filing, the redundancy grows from 8% to 18%.

Based on these findings, assuming that companies are applying for the full BI claims cost indicated by the industry average claims experience, the average rate filing for Alberta bodily injury coverage made since late 2017 is providing more premium for BI claims cost than has proved to be necessary for the actual claims that have emerged.

About the Author

Craig A. Allen is a consulting actuary, based in New York, NY, who has practiced both independently and for property/casualty insurance companies in Canada and the U.S. for more than 30 years. Since 2015, he has served as chair of the Actuarial Evidence Committee of the Canadian Institute of Actuaries. He also served a 3-year term as Eastern Vice President of the National Association of Forensic Economics in 2014-2017.

He brings a broad knowledge of the applications of actuarial science. In addition to his insurance company experience, he has expertise in the actuarial evidence field, which quantifies adequate and not excessive compensation of pecuniary loss in personal injuries.