Impact of a Rate Freeze on Auto Insurance Rates in Alberta

Prepared for the Insurance Bureau of Canada

August 2023

Contents

Executive Summary

The COVID-19 pandemic has had a dramatic impact on drivers and auto insurers in Alberta. Public health restrictions in response to the COVID-19 pandemic resulted in reductions in mobility and saw many Albertans driving less, with a corresponding reduction in the number of claims through 2021. This reduction in claims led to an improvement in financial results for the province's auto insurance industry which, prior to this, had experienced significant underwriting losses related to auto insurance in each of the previous seven years. In turn some insurers reduced premiums for mandatory products.[1]

By the end of 2022 mobility patterns had returned to pre-pandemic levels.[2] Increases in vehicle usage are likely to lead to an increase in claims relative to 2020 and 2021, which would increase costs for insurers at a time when they are unable to adjust premiums due to a rate pause ordered by the provincial government on January 26, 2023. The rate pause order extends through December 2023.[3]

To inform discussions on how to ensure long-term sustainability in the auto insurance market in Alberta, the Insurance Bureau of Canada ("IBC") engaged MNP to assess the potential impact of rate caps on auto insurance in Alberta.

Trends

Between 2012 and 2019 the number of claims was relatively consistent, while total claim costs increased by 53.6 percent from $2.02 billion in 2012 to $3.11 billion in 2019. The **average total claim cost** (which includes third-party liability, accident benefits, collision, and comprehensive) **grew by 47 percent, from approximately $7,500 in 2012 to $11,000 in 2019**.

Changes in mobility patterns during COVID-19 led to significant reductions in claims and total claim costs. However, **average claim costs continued to rise, and in 2021 were $11,800**.

A key factor in the escalation in claim costs was the **cost of settling bodily injury claims and the cost of accident benefits**. There has also been increases in the cost of repair for newer vehicles due to more complex technologies being embedded in their design.

---

[1] AIRB *Approved Automobile Insurance Rate Board Filings 2021 and 2022*. https://airbfilings-app.alberta.ca/reportapp/quarterlyRateFilings.

[2] OliverWyman. 2023 Annual Industry Review Preliminary Findings Private Passenger Automobile. *Presentation to the Automobile Insurance Rate Board.* August 17, 2023. Retrieved from: https://albertaairb.ca/wp-content/uploads/2023/08/Oliver-Wyman-2023-Annual-Review.pdf

[3] AIRB. *What does the auto insurance rate pause mean for Albertans.* https://albertaairb.ca/ratepause/

Between 2012 and 2019 loss ratios for insurers in Alberta were above 80 percent. In 2020 and 2021, the pandemic-induced reduction in claims resulted in declines in loss ratios; however, **by the end of 2022 loss ratios had increased to above 70 percent**. A loss of ratio of 70 percent for auto insurance is generally where an insurer is achieving a level of profitability consistent with financial sustainability.

Learnings from Past Rate Interventions

2013 to 2018

2017 to 2019

2020 to 2022

Past experience with price caps on insurance rates in Alberta and other jurisdictions has not achieved the desired long-term outcomes. That experience has shown that:

- **Capping or freezing rates does not prevent rate increases from occurring, particularly in the near term.** Changes in rates are subject to a regulatory process which involves insurers filing a submission with the AIRB. Once approved, changes are applied on renewals and new policies as of a specified date. That date may be in the future. Rate caps and rate freezes are implemented though limitations on future rate filings and do not apply to rate increases that were approved prior to the freeze. Consequently, it typically takes a minimum of 12 months following the announcement of a freeze on rates for consumer premiums to be impacted.
- **Capping rates is likely to reduce** consumer choice and the insurance **options available to drivers.** When insurers are unable to adjust prices in response to changes in costs, they are forced to look at options for reducing costs that are within their control, such as changes to their product offerings. This may include not offering payment plans which may make it more difficult for some consumers to be able to purchase insurance or limiting the availability of optional coverages so consumers may not be able to purchase their desired level of insurance. This can create challenges for consumers with leased or financed vehicles which are a required to have specific levels of coverage.
- **Capping rates leads to a deterioration of financial performance for insurers and withdrawal or change in services.** The single biggest factor impacting insurance premiums is claims cost. As these grow under a rate cap or rate freeze, it leads to a deterioration in the financial health of insurers. In competitive markets, insurers withdraw services in order to remain viable if they are not able to achieve sustainable financial results. In the case of public provision of auto insurance, attempts to maintain affordability through rate caps have led to deterioration in financial performance that negatively impacted provincial government finances and created significant risks for taxpayers until significant changes to the insurance model were made.

Our review suggests that a rate freeze or cap on auto insurance rates will have negative consequences for consumers and insurers. The key to achieving long-term stability in auto insurance rates is to address rising cost pressures through product reform. The cost of settling bodily injury claims has been a significant contributor to rising claims costs. The Government of Alberta has attempted to address this through changes to its minor injury definition in an effort to address these cost pressures. In addition, in early 2022, limits on the number of experts involved in injury claim lawsuits and direct compensation for property damage for not-at-fault drivers came into effect. These changes are intended to allow claims to be resolved more quickly and reduce the associated costs. At present, it is too early to determine the impact of these changes on claim costs due to the longer-term nature of injury claims and the relatively recent changes to the handling of property damage claims.

In the short-term changes to levies or taxes on insurance could be considered. These are calculated as a percentage of insurance premiums and increase as insurance premiums increase.

Rate Freezes – What Can We Expect

On January 26, 2023 the Government of Alberta announced that no new rate increases for auto insurance would be approved in 2023.* In addition, the Superintendent of Insurance issued two bulletins notifying insurers that they were required to continue to offer premium payment plans for private passenger vehicle insurance and could not change their underwriting rules that were in place January 25, 2023 pertaining to Section C coverage (collision and comprehensive).**

What can we expect:

- Rates will continue to increase as a number of insurers had rate increases approved in late 2022 that come into effect in 2023.
- The cost of claims will continue to rise.
- Insurers financial performance will deteriorate.
- There will be fewer options for consumers.

Without significant product reform to address cost pressures **the rate freeze will not result in stable and sustainable insurance premiums** for consumers in the longer term.

Source: *Government of Alberta *Taking action on insurance.* Available here: https://www.alberta.ca/release.cfm?xID=86430539E81E8-B056-AB15-DCD31D672FF9E9DE

**Superintendent of Insurance Interpretation Bulletin 01-2023 and Interpretation Bulletin 02-2023

1. Introduction

Background and Purpose

Prior to the COVID-19 pandemic auto insurers in Alberta were facing cost pressures due to increasing costs of injury claims and material damage claims. Between 2018 and 2020 there have been several changes made to the definition of minor injuries and clarification of what is included in an effort to address cost pressures associated with bodily injury claims.[4] In addition, in early 2022 limits on the number of experts involved in injury claim lawsuits and direct compensation for property damage for not-at-fault drivers came into effect. These changes are intended to allow claims to be resolved more quickly and reduce the associated costs.

Public health restrictions during the pandemic led to a dramatic reduction in driving and a corresponding reduction in the number of claims. As public health restrictions were lifted there is some indication that driving returned to pre-pandemic levels in 2022 and that the volume of claims increased.

To inform discussions on how to ensure long-term sustainability in the auto insurance market in Alberta, the Insurance Bureau of Canada ("IBC") commissioned MNP to assess the potential impact of rate caps on auto insurance in Alberta.

Approach

The approach to the study encompassed:

- Gathering relevant data and information from IBC, General Insurance Statistical Agency (GISA), the Superintendent of Insurance and publicly available sources.
- Identifying gaps in data and information and developing strategies to fill those gaps.
- Reviewing the financial performance of auto insurers in Alberta between 2012 and 2021 and the factors influencing costs.
- Reviewing the historical experience of rate interventions in Alberta and other jurisdictions to identify the impact of rate caps on consumers and insurers' financial performance.

[4] Alberta Treasury Board and Finance, "Clarification of Minor Injury Regulation". Retrieved from: https://open.alberta.ca/dataset/80b795f6-c781-4268-9da2-f21e1d3cc338/resource/97f1dc5d-d715-45e0-b92c-5b38320387f2/download/superintendent-of-insurance-2018-04-notice.pdf and Government of Alberta. "Auto Insurance Reform". Retrieved from: https://www.alberta.ca/auto-insurance-reform.aspx

Structure of the Report

The remaining sections of this report are organized as follows:

- Section 2 provides an overview of auto insurance in Alberta.
- Section 3 provides an overview of the financial performance of insurers in Alberta
- Section 4 uses examples to demonstrate the impact of price controls on consumers
- Section 5 reviews the impacts of previous auto insurance rate freezes or caps in Alberta and two other jurisdictions
- Section 6 provides a summary of the study findings.

Limitations

This report is provided for information purposes and is intended for general guidance only. It should not be regarded as comprehensive or as a substitute for personalized, professional advice.

We have relied upon the completeness, accuracy, and fair presentation of all information and data obtained from IBC, General Insurance Statistical Agency (GISA), the Superintendent of Insurance and other public sources, believed to be reliable. The accuracy and reliability of the findings and opinions expressed in this document are conditional upon the completeness, accuracy, and fair presentation of the information underlying them. As a result, we caution readers not to rely upon any findings or opinions expressed for business or investment decisions and disclaim any liability to any party who relies upon them as such. Before taking any particular course of action, readers should contact their own professional advisor to discuss matters in the context of their particular situation.

Additionally, the findings and opinions expressed in the presentation constitute judgments as of the date of the presentation and are subject to change without notice. MNP is under no obligation to advise of any change brought to its attention which would alter those findings or opinions.

2. Overview of Auto Insurance in Alberta

Insurance Model and Regulatory Environment

Insurance Model

Alberta operates under a tort-based insurance system whereby not-at-fault drivers involved in an accident are able to sue for pain and suffering, and economic damages. Like most tort-based auto insurance jurisdictions in Canada, Alberta has a definition of minor injuries and a cap on payments for pain and suffering associated with minor injuries.

Regulatory oversight is provided through:

- **Automobile Insurance Rate Board ("AIRB") –** The AIRB regulates auto insurance rates in the province. Its primary role is to regulate auto insurance rating programs for vehicles for both basic and optional coverage.
- **Office of the Superintendent of Insurance ("OSI") –** The OSI regulates and creates policy for the insurance market. It is responsible for creating policy and monitoring the effectiveness of the businesses providing auto insurance in Alberta.

Distribution Network

Approximately 65 insurance companies offer both basic and optional auto insurance for private passenger vehicles in Alberta. As of 2022, private passenger vehicle insurance policies account for approximately 76 percent of Alberta's auto insurance market. The remaining 24 percent of policies pertain to commercial, motorcycles, all terrain, snow, and other miscellaneous vehicles.

Customers have three different options through which to purchase auto insurance:[5]

- **Agent:** An insurance agent sells the products offered by one insurance company.
- **Direct Writer:** A direct writer insurance company has its own sales employees to sell its products through an office or call centre.
- **Broker:** An insurance broker has contracts to sell insurance for more than one insurance company.

Insurance Coverage

All motor vehicles registered in Alberta are required to have basic auto insurance which is provided through a competitive insurance market. Basic auto insurance includes a minimum of $200,000 third-party liability and accident benefits coverage. In addition, optional coverage (e.g., collision, comprehensive and extended liability) may be purchased. *Table 1* shows features of basic insurance coverage in Alberta.

[5] Alberta Automobile Insurance Rate Board, Insurance Providers, Retrieved from: https://albertaairb.ca/for-drivers/purchasing-insurance/

Table 1: Features of Basic Insurance Coverage

Coverage	Description
Third-party Liability	Third-party liability covers bodily injury or property damage to other parties caused by the insured. The minimum requirement is $200,000. Within this amount, property damage is capped at $10,000.
Accident Benefits	Accident benefits compensates those injured in vehicle collisions for medical and rehabilitation services not covered through third-party liability coverage, regardless of fault.

Source: Insurance Bureau of Canada.[6]

Optional auto insurance coverage is additional protection beyond the minimum required by law that can be added to a basic auto insurance policy. It typically includes coverage options such as collision, comprehensive, rental car reimbursement, and roadside assistance. It can also provide coverage for specific types of damage, such as damage from natural disasters or theft that may not be covered by a basic policy. *Table 2* shows features of optional insurance coverages offered in Alberta.

Table 2: Features of Optional Insurance Coverage

Coverage	Description
Third-party Liability Coverage above $200,000	Optional third-party liability provides coverage of more than $200,000. Approximately 98 percent of vehicles have at least $1,000,000 of third-party liability coverage.
Collision	Collision coverage pays for the repair of the vehicle if the vehicle is damaged in an accident even if the policyholder is at fault.
Comprehensive	Comprehensive provides coverage for damage resulting from incidents other than a collision, such as hail, vandalism, theft or fire.
Specified Perils	Specified Perils coverage is a more limited version of comprehensive that covers damage arising from named perils of fire, lightning, theft, etc.
Endorsements	An endorsement is an attachment to a standard auto policy that increases or reduces coverage under the standard policy. For example, the Comprehensive Cover Limited Glass endorsement limits the coverage on a vehicle's glass for a reduced premium.

Source: Alberta Automobile Insurance Rate Board.[7]

[6] Insurance Bureau of Canada. "2018 Facts of the Property and Casualty Insurance Industry in Canada". Retrieved from: http://assets.ibc.ca/Documents/Facts%20Book/Facts_Book/2018/IBC-Fact-Book-2018.pdf

[7] Alberta Automobile Insurance Rate Board, "Getting Insurance", Retrieved from: https://albertaairb.ca/for-drivers/purchasing-insurance/. January 12, 2023.

Rate Setting

To change rates, insurers file a submission with the AIRB outlining their request and the rationale. The AIRB has the authority to approve, reject or require changes.[8]

Calculation of Insurance Premiums

Insurance companies use a risk-based model to determine auto insurance premiums. The OSI specifies the factors insurance companies may use to assess risk, and individual insurance companies choose which of the specified factors they will use to set rates.

Access to Insurance

The "Take All Comers Rule" in Alberta ensures that all drivers have access to basic insurance. Under this rule, insurers cannot refuse third-party liability and accident benefits coverage to any new applicant or existing policyholder unless there has been non-payment of premiums or failure to provide information on who the principal driver is.[9]

The maximum insurance premiums that companies can charge for basic coverage are determined through the Grid rating program. Insurance companies are required to charge the lesser of the premium under their current rating program and the Grid premium. Approximately 93 percent of the drivers do not pay Grid premiums.[10]

Drivers that are unable to obtain insurance through voluntary insurance markets are insured through the residual market mechanism administered by the Facility Association.[11] The Facility Association is a non-profit organization established to ensure that auto insurance is available to all drivers eligible to obtain it. Insurance companies providing insurance in Alberta are required to be members of the Facility Association.

---

[8] Alberta Automobile Insurance Rate Board, "Auto Insurance Regulation", Retrieved from: https://albertaairb.ca/for-industry/auto-insurance-regulation/. January 12, 2023.

[9] Alberta Automobile Insurance Rate Board, "Frequently Asked Questions", Retrieved from: https://airb.alberta.ca/drivers/faq.aspx. January 12, 2023.

[10] Alberta Automobile Insurance Rate Board, Auto Insurance Grid Calculator, Retrieved from: https://airb-applications.alberta.ca/Grid. January 12, 2023.

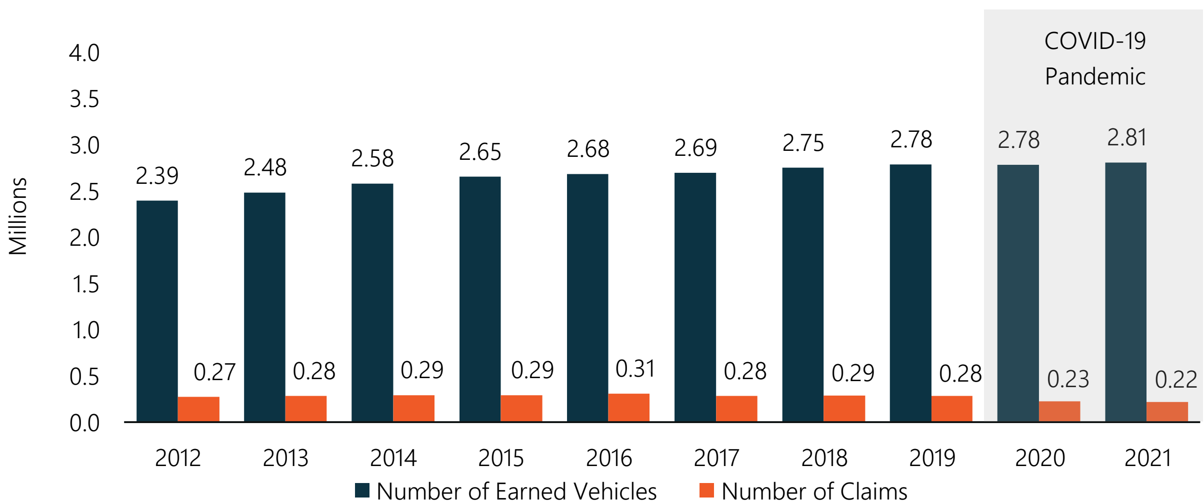
[11] The residual market mechanism involves select insurance companies acting as "servicing carriers", who carry out the functions of providers for high-risk drivers on behalf of the association. These companies are compensated for losses from the residual market pool paid into by all insurance companies. – The Facility Association, About Us., Retrieved from: https://www.facilityassociation.com/Home/AboutUS. January 12, 2023.

Trends in Alberta

Between 2012 and 2021, the total number of earned vehicles has increased by 17.4 per cent from 2.39 million to 2.81 million (*Figure 1*). Earned vehicles increased at a rate of approximately 3.5 percent each year between 2012 and 2015 before slowing to a rate of 1.0 percent annually between 2016 and 2021.

The number of claims increased faster than the number of earned vehicles in 2012 and 2016 as a result of weather and fire events, namely the Calgary and Edmonton hailstorms and windstorms (2012) and the Fort McMurray wildfires (2016). Excluding those years, claims have been growing at a rate below the growth in earned vehicles. In 2020, the number of claims fell by 20.1 per cent, year-over-year, and in 2021 claims fell by 3.1 per cent. The declines in claims in 2020 and 2021 were due to public health restrictions related to the COVID-19 pandemic that reduced mobility and impacted driving patterns. By the end of 2022 mobility levels returned to near pre-pandemic levels.[12] At present, it is unclear how driving patterns will affect claims in the longer-term; however, increased vehicles usage is likely to lead to increases in the number of collisions relative to 2020 and 2021.

Figure 1: Number of Earned Vehicles and Number of Claims, 2012-2021

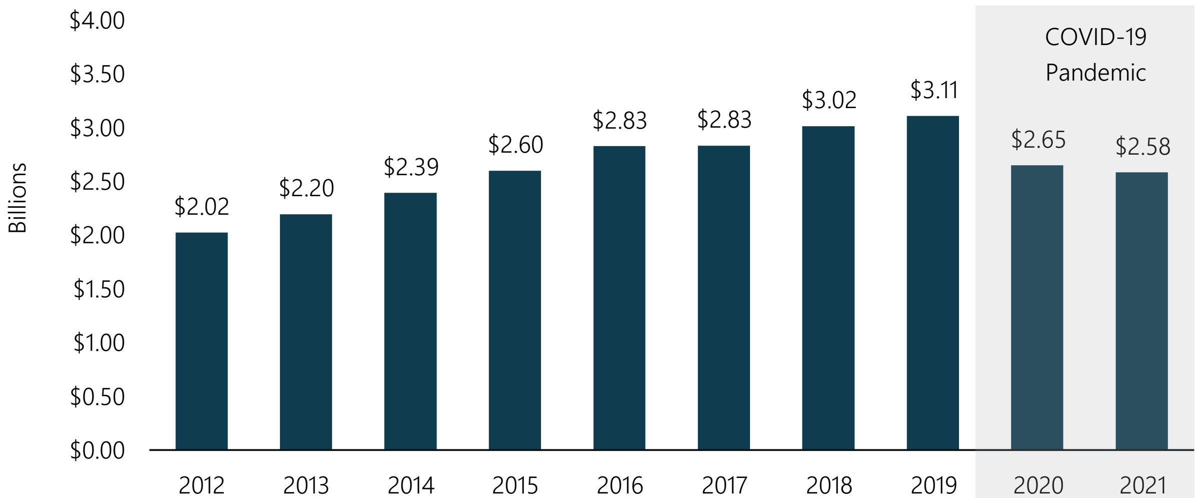


Source: GISA Exhibit: AUTO1005-AB.

Figure 2 shows growth in total claim costs. Between 2012 and 2019 total claim costs grew by 54 percent, with the majority of this increase occurring between 2012 and 2016. Over the period total claim costs have risen at a significantly faster rate than the number of claims. In 2020, reductions in the number of claims due to changes in driving patterns resulted in total claim costs falling significantly relative to 2019. Claim costs continued to decline in 2021.

[12] OliverWyman. 2023 Annual Industry Review Preliminary Findings Private Passenger Automobile. *Presentation to the Automobile Insurance Rate Board.* August 17, 2023. Retrieved from: https://albertaairb.ca/wp-content/uploads/2023/08/Oliver-Wyman-2023-Annual-Review.pdf

Figure 2: Total Claim Costs Incurred, 2012-2021



Source: GISA Exhibit: AUTO1005-AB.

Figure 3 shows an index of the total claim costs by type of coverage relative to their respective levels in 2012. The increases in total claim costs between 2012 and 2019 were mainly driven by an increase in third-party liability claim costs, which includes bodily injury claims and property damage. Between 2012 and 2019, bodily injury claim costs increased at an annual rate of 10.2 per cent, while property damage claim costs increased at an annual rate of 3.4 per cent.[13] On average, third-party liability claim costs account for approximately 57.7 percent of annual total claim costs.

From 2012 to 2019, accident benefits increased by 10.4 percent each year and have risen in proportion to total claim costs (making up 6.5 percent of total claim costs in 2019 relative to 5.0 percent in 2012). Claim costs for collision and comprehensive coverage also increased between 2012 and 2019. Over the period collision claim costs rose by an average annual rate of 4.8 percent and comprehensive claim costs rose by an average of 1.0 percent annually.

Rising Cost of Vehicle Repair

Between 2016 and 2021:

The average property damage claim increased by

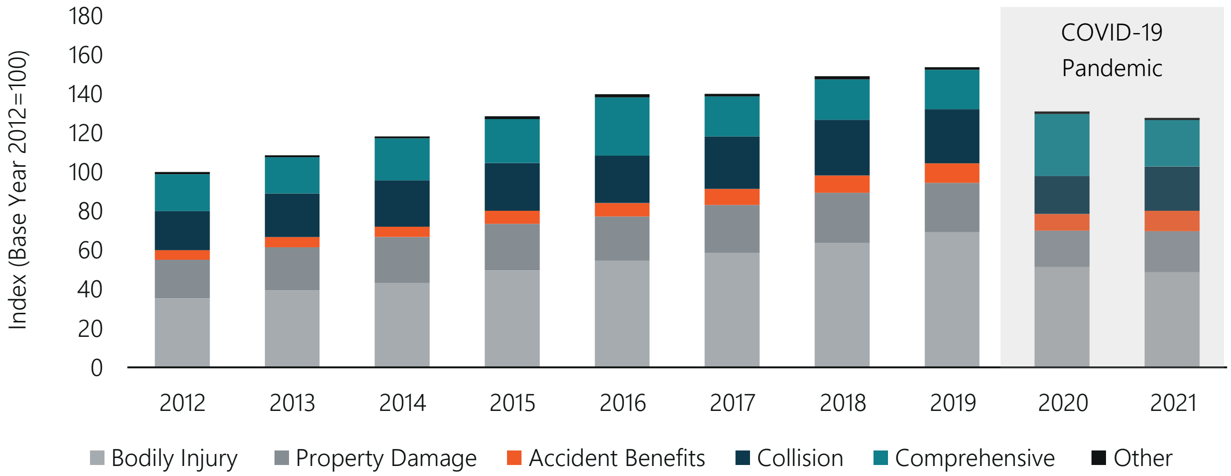
21%

The average collision repair claim increased by

33%

[13] The increase in bodily injury claim costs is linked to a reduction in the number of claims being classified as minor following a 2012 court case and a 2015 court case which resulted in many jaw strains or sprains, and sprains or strains with psychological and/or pain conditions not being subject to the minor injury cap. *Sparrowhawk v. Zapoltinsky,* Alberta Court of Queen's Bench, 2012, ABQB 34 and *McLean v. Parmar,* Alberta Court of Queen's Bench, 2015, ABQB 62.

Figure 3: Index of Total Claim Costs by Type of Coverage, 2012-2021



Source: GISA Exhibit: AUTO1005-AB.

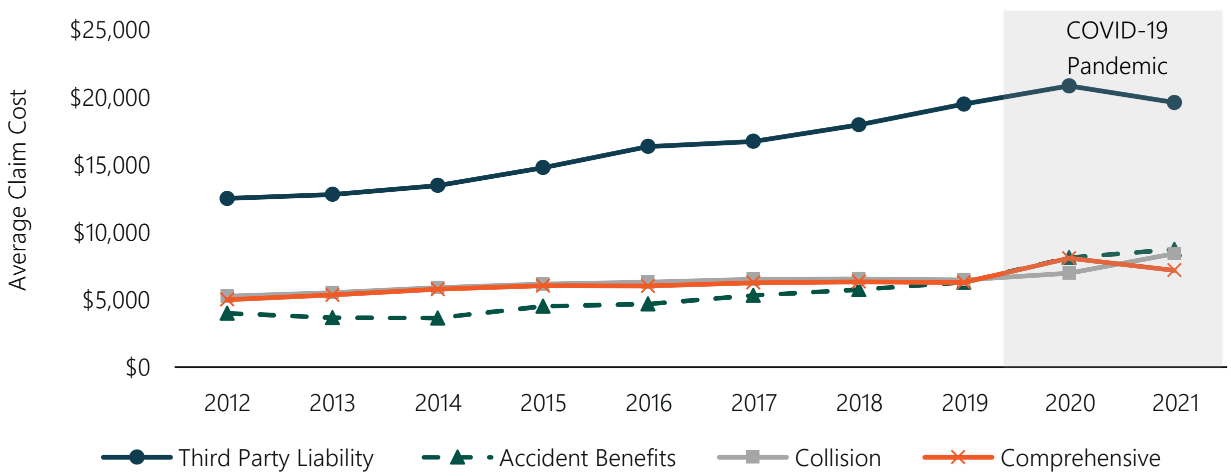
Note: Bodily injury costs reported here do not include annual Health Care Levies. Between 2012 and 2021, Health Care Levies have accounted for up to 4.5 percent of total third-party liability claim costs.

Health Care Levies

Health care levies are payments made by insurance companies to the provinces to compensate for the use of the public health system for acute care services provided to individuals who have been injured in a motor vehicle accident. These levies are intended to cover the cost of medical treatments and other expenses related to the care of crash victims.

The total average claim cost (which includes third-party liability, accident benefits, collision, and comprehensive) has consistently increased year-over-year from approximately $7,500 in 2012 to $11,800 in 2021. *Figure 4* shows the trends in the average cost per claim by type of coverage from 2012 to 2021. The average cost per claim for third-party liability coverage has been consistently increasing year-over-year from approximately $12,500 in 2012 to a peak of $20,800 in 2020, followed by a slight decline to $19,600 in 2021 (56.9 percent in total or an average of 5.8 percent annually). Between 2012 and 2021, the average cost per claim for accident benefits increased from approximately $4,000 to slightly over $8,700 (118.2 percent in total or 9.5 percent annually). Over the same period, the average cost per claim for collision increased from approximately $5,900 to $8,400 (40.0 percent in total or 5.6 percent annually) and the average cost per claim for comprehensive coverage increased from approximately $5,000 to $7,200 (43.9 percent in total or 5.0 percent annually).

Figure 4: Average Claim Costs by Type of Coverage, 2012-2021



Source: GISA Exhibit: AUTO1005-AB.

Factors contributing to increasing claim costs include:

- **Rising costs of repair due to advances in vehicle technology.** Advanced safety systems such as backup cameras, blind-spot detection sensors, and anti-lock brakes now come standard in many new vehicles. These systems include fragile sensors that can be easily damaged and require trained technicians who use special instrumentation to replace and calibrate them correctly. As a result of more complex vehicle technology, vehicle repairs now take longer to complete, require more parts, and are more expensive. *Table 3* illustrates how the increase in technology on newer models of a vehicle increases repair costs. In this example, a 2022 Toyota RAV4's bumper costs 49.7 percent more to repair than the 2017 version of the same vehicle as a result of the technology integrated into the 2022 model.

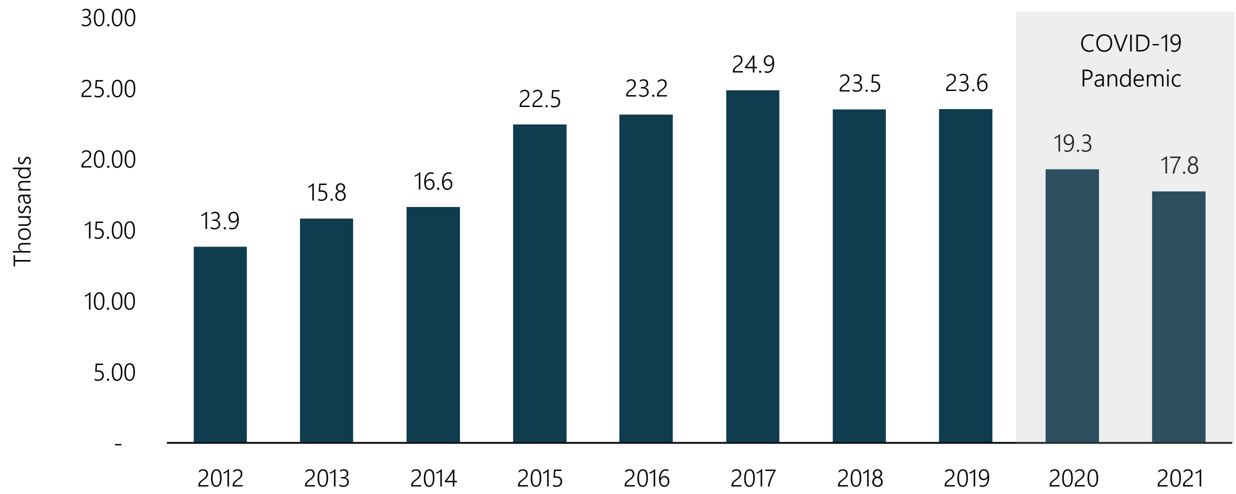
Table 3: Cost to Repair, Same Vehicle Comparison

Vehicle Year, Make, and Model	Number of Parts	Cost to Repair
2017 Toyota RAV4	17	$2,769
2022 Toyota RAV4	39	$4,144
Percentage Increase	*129.4%*	*49.7%*

Source: Alberta Automobile Insurance Rate Board. Market & Trends Report, 2022.

- **Rising number of vehicle thefts (Figure 5).** Between 2012 and 2017, Alberta has experienced a 57.1 percent increase in the number of incidents of motor vehicle thefts. Theft incidents stabilized in 2018 and 2019 but remained relatively elevated in comparison to levels experienced between 2012 and 2014.

Figure 5: Total Number of Motor Vehicle Thefts Incidents in Alberta, 2012-2021



Source: Statistics Canada. Table 35-10-0183-01 Incident-based crime statistics, by detailed violations, police services in Alberta.

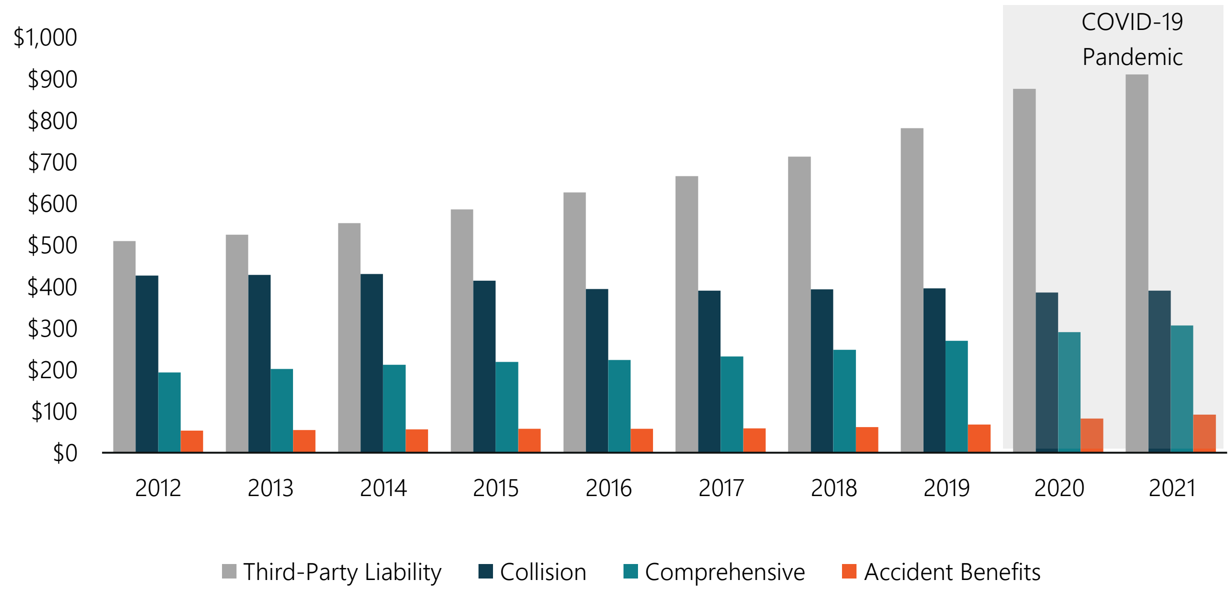
Other Contributing Factors:

More frequent severe weather events and catastrophes are contributing to increased volatility in claim numbers in Alberta. Claims related to extreme weather events (such as hailstorms and wildfires), have an impact on insurers' comprehensive loss ratios. As a result of climate change, weather events are anticipated to occur more frequently and with higher severity. With greater uncertainty surrounding the magnitude of severe weather events, pricing comprehensive coverage is more challenging.

Between 2012 and 2021, total average written premiums (which includes all forms of coverages) rose by 45.2 percent from $1,087 to $1,578. ***Figure 6*** shows the trends in average written premium for third-party liability, collision, comprehensive, and accident benefits coverages. Third-party liability written premiums consistently increased year-over-year between 2012 and 2019 by an average of 5.8 percent each year. Written premiums continued to rise throughout 2020 and 2021 by 12.1 percent and 3.9 percent, respectively. Collision written premiums have declined by an average of 0.8 percent each year, while written premiums for comprehensive coverage increased at an average annual rate of 3.6 percent between 2012 and 2017 before increasing at an average of 7.3 percent annually between 2018 and 2021.

Written premiums for accident benefits were relatively stable and gradually increasing at an average annual rate of 2.2 percent from 2012 to 2017. In 2018, premiums rose by 4.5 per cent followed by an increase of 10.7 percent in 2019, 22.0 percent in 2020 and 10.7 percent in 2021.

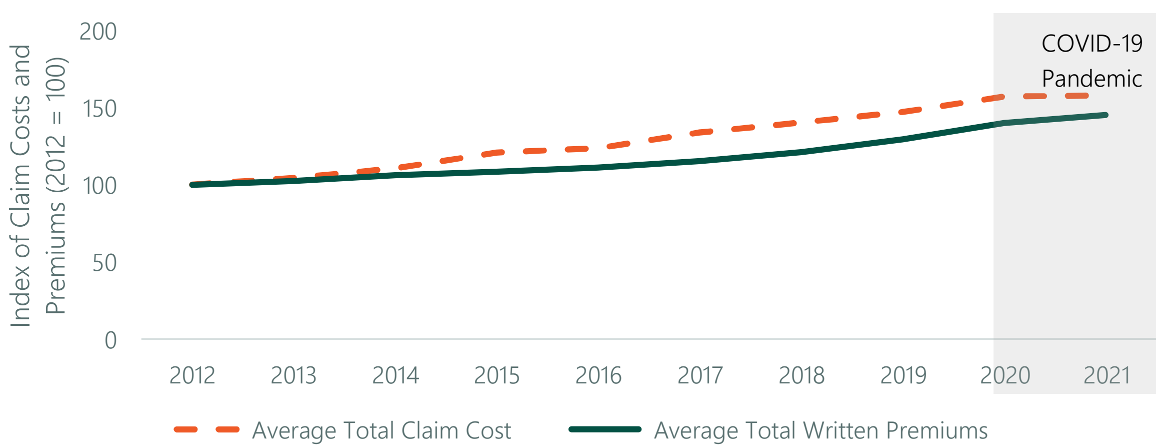
Figure 6: Average premiums written by type of coverage, 2012-2021



Source: GISA Exhibit: AUTO1005-AB.

Figure 7 compares total average claim costs and total average written premiums. Between 2012 and 2017, growth in the total average claim cost increased faster than the rate of total average written premiums. From 2018 to 2020, total average claim cost steadily grew by 5.5 percent each year before falling to 0.6 percent in 2021. Over the same period, the annual rate of growth in total average written premiums outpaced total average claim costs, increasing by 6.8 percent per year before slowing to 3.6 percent in 2021.

Figure 7: Total average claim cost and total average written premiums, 2012-2021



Source: GISA Exhibit: AUTO1005-AB.

Key Findings

- Between 2013 and 2019, the number of claims filed was relatively consistent, ranging between 280,000 and 290,000 per year, with the exception of 2016, when claims increased significantly to around 310,000 claims, due to the Fort McMurray wildfire.
- Total claim costs increased by 53.6 percent from $2.02 billion in 2012 to $3.11 billion in 2019. Increases in total claim costs were mainly driven by an increase in third-party liability claim costs, which includes bodily injury claims and property damage.
- The cost of repairing vehicles and medical treatments have been rising, which has led to higher payouts for insurers. The total average claim cost (which includes third-party liability, accident benefits, collision, and comprehensive) has consistently increased year-over-year from approximately $7,500 in 2012 to $11,800 in 2021.

3. Financial Performance of Alberta Auto Insurers

Insurers offering auto insurance generate income from three sources:

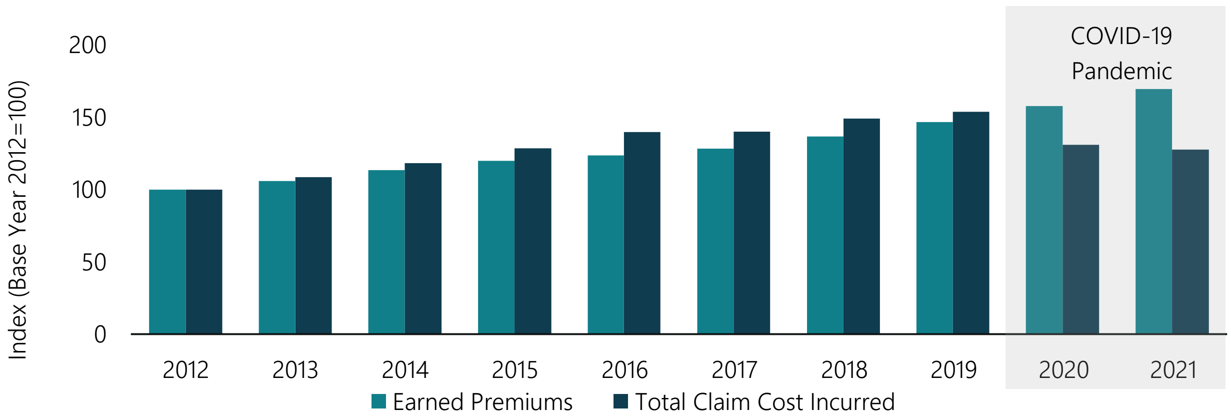
- **Premiums:** The main source of income for auto insurance companies is the collection of premiums from policyholders. Premiums are determined by the types of coverage and the expected costs of claims.
- **Investments:** To maintain their capital requirements and manage risk, insurers invest a portion of their premiums. The income generated from these investments helps to offset the cost of paying claims and contributes to an insurance company's financial stability. The income generated is typically a secondary source of income for insurers.
- **Other income and service fees:** Some insurance companies may also generate income from other sources such as services provided to policyholders (e.g., roadside assistance or rental car coverage). Some auto insurance companies may also charge additional fees for certain services, such as policy changes or late payments.

Loss ratios measure the percentage of premiums paid out in claims. A loss of ratio of 70 percent for auto insurance is generally where an insurer is achieving a level of profitability consistent with financial sustainability.[14]

Figure 8 compares the growth in earned premiums and total claim costs from 2012 to 2021. Between 2012 and 2016 total claim costs rose between 8.5 percent and 16.5 percent year-over-year while earned premiums increased between 3.1 percent to 7.1 percent year-over-year. Beginning in 2017 the gap between growth in claim costs and growth in premiums narrowed as growth in claim costs slowed to between 0.1 percent and 6.4 percent and growth in premiums continued to be in the range of 3 percent to 7 percent through 2019. In 2020 the reduction in claims led to a decline in claim costs of 14.8 percent year-over-year and in 2021 claim costs declined 2.5 percent year-over-year.

[14] Alberta Automobile Insurance Rate Board. Market & Trends Report. Retrieved from: https://albertaairb.ca/wp-content/uploads/2022/09/2022-Market-and-Trends-Report.pdf. January 12, 2023

Figure 8: Index of Earned Premiums and Total Claim Cost Incurred, 2012-2021



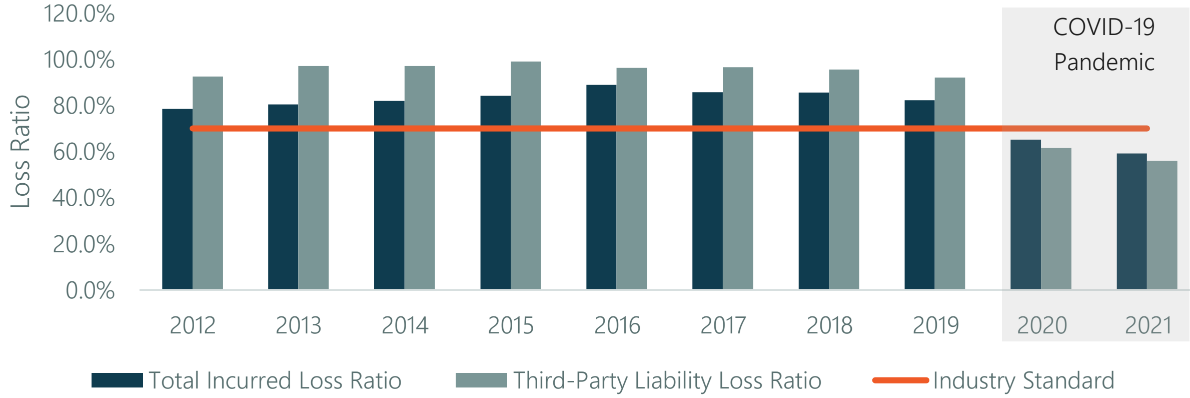
Source: GISA Exhibit: AUTO1005-AB.Quarter 3 and Quarter 4 2022 financial results for Canadian insurers suggest that as people have begun to drive more loss ratios have increased and are above 70 percent.

Figure 9 compares the total loss ratio and the third-party liability loss ratio with the 70 percent industry standard from 2012 to 2021.[15] Loss ratios were consistently above the industry standard from 2012 to 2019. Between 2012 and 2016, the total incurred loss ratio rose from 78.5 percent to 88.8 percent, while the loss ratio for third-party liability increased from 92.4 percent to 96.3 percent. Between 2017 and 2019, both loss ratios declined marginally as claim numbers declined from 2016 levels. Significant declines in claim numbers due to changes in driving patterns during the COVID-19 pandemic led to loss ratios falling below 70 percent in 2020. Loss ratios continued to fall in 2021 and were below 60 percent. It is important to note that it is not clear what longer-term trends in loss ratios will be as mobility patterns continue to evolve following the COVID-19 pandemic. Quarter 3 and Quarter 4 2022 financial results for Canadian insurers suggest that as people have begun to drive more loss ratios have increased and are above 70 percent.[16]

[15] Alberta Automobile Insurance Rate Board. Market & Trends Report. Retrieved from: https://albertaairb.ca/wp-content/uploads/2022/09/2022-Market-and-Trends-Report.pdf. January 12, 2023.

[16] Desjardins Group's Q3 Financial Interim Financial Report (Available here: https://www.desjardins.com/ressources/pdf/d50-rapport-trimestriel-mcd-2022-3-e.pdf?resVer=1668102361000)reports that claims and loss ratios were up relative to Q3 2021 for auto insurance (74% in 2022 vs 62% in 2021). Intact Financial Corporation's Management's Discussion and Analysis for 2022 reports a claims ratio of 72% for Q4 2022 compared with 63% in Q4 2021, and an overall 2022 claims ratio of 68.8% compared with 61% for 2021. (Available here: https://s1.q4cdn.com/321139868/files/doc_financials/2022/q4/Q4-2022-MD-A-Final.pdf)

Figure 9: Incurred Loss Ratios (Total and Third-Party Liability), 2012-2021

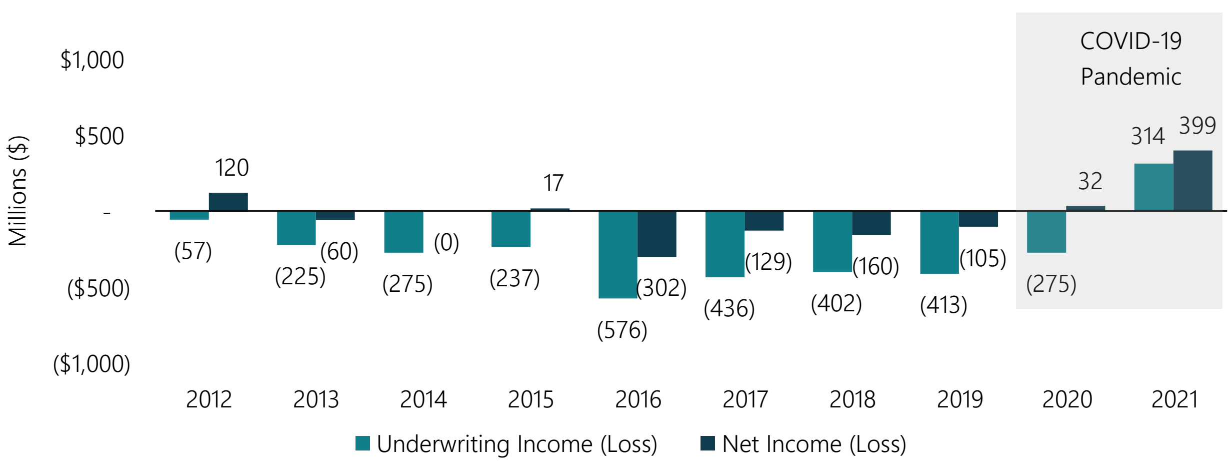


Source: GISA Exhibit: AUTO1005-AB

Figure 10 shows the trend in underwriting income and net income for auto insurers between 2012 and 2021. Underwriting income is earned premiums less claims and expenses incurred. Net income is underwriting income and income from investments and other revenue less associated expenses and taxes attributable to business operations. Prior to COVID-19 Alberta insurers, in aggregate, experienced losses from underwriting activity and in most years also had negative net income.

Between 2012 and 2015, the average annual loss from underwriting activity was approximately $198 million and this increased to an average of $417 million between 2017 and 2019. Over the same period, net income went from close to zero in 2012 through 2015 to a net loss of $131 million between 2017 and 2019. In 2020, net income was approximately $32 million, despite losses in underwriting income of approximately $275 million. In 2021, both underwriting income and net income were positive for Alberta auto insurers.

Figure 10: Underwriting Income (Loss) and Net Income (Loss), 2012-2021

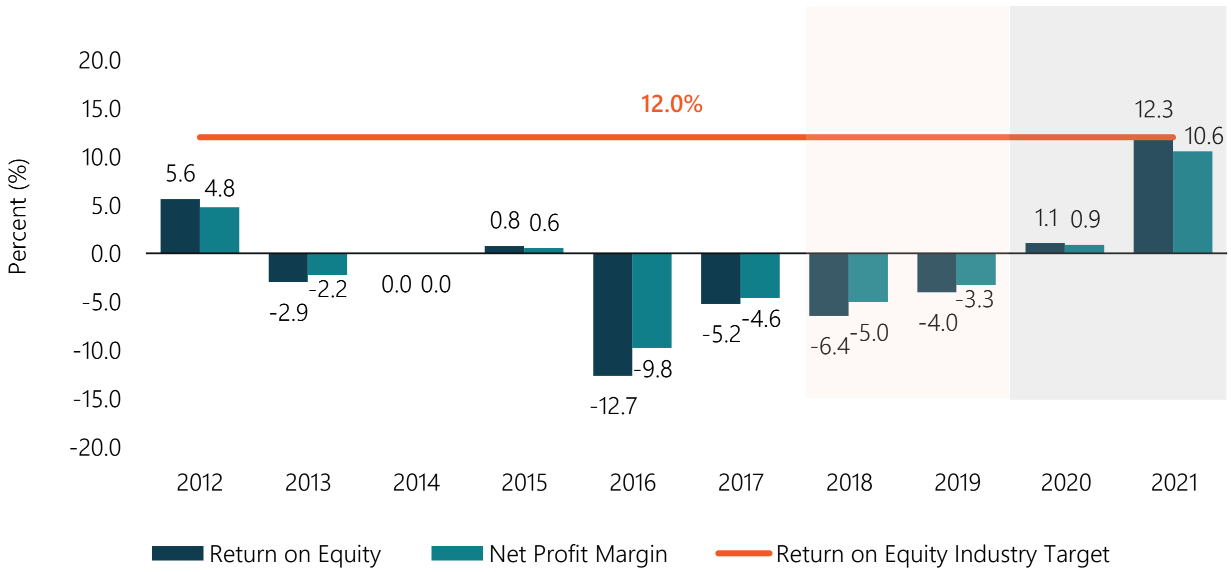


Source: GISA Exhibit: AUTO9501-AB.

Return on equity is a measure of profitability and how efficiently profits are generated. The industry target return on equity for auto insurance companies in Alberta is 12 percent each year.[17] Between 2012 and 2021, the return on equity for Alberta auto insurance industry, in aggregate, has been below the target level each year, with the exception in 2021 where it was in line with the target, at 12.3 percent (***Figure 11***).

The return on equity trend between 2012 and 2021 mirrors the trend in net income, where negative or inconsistent profits result in negative rates of return on equity. Net profit margin is represented as the ratio of net earned premiums and net income. Between 2012 and 2021 the net profit margin was negative for six years out of the ten years.

Figure 11: Return on Equity and Net Profit Margin, 2012-2021



Source: GISA Exhibit: AUTO9501-AB, MNP.

[17] Alberta Automobile Insurance Rate Board. Market & Trends Report, 2022.

Key Findings

- Between 2012 and 2019, net premiums earned in the Alberta auto insurance industry, in aggregate, increased by 27.6 percent from approximately $2.52 billion to $3.22 billion. Over the same period, claim and operating expenses incurred increased by 40.8 percent from approximately $2.58 billion in 2012 to $3.63 billion in 2019.
- Prior to COVID-19 loss ratios consistently exceeded 80 percent for auto insurers. In 2020 and 2021 loss ratios fell below the industry standard 70 percent. However, 2022 third quarter results for insurers suggest that loss ratios have increased and are above 70 percent again.
- Between 2012 and 2019, Alberta insurers, in aggregate, experienced losses from underwriting activity. Alberta insurers had an annual average underwriting loss of $198 million from 2012 to 2015 and this increased to an average of $417 million between 2017 and 2019.
- Net income was close to zero between 2012 and 2015. Between 2017 and 2019, net income was negative, average approximately -$131 million. Net income was positive in 2020 and 2021 with approximately $32 million and $399 million, respectively.
- Return on equity was below target for nine out of ten years, and was negative for six years.

4. Impact of Price Controls on Markets and Consumers

Impact of Price Controls on Markets

Rate caps are a form of price control intended to limit the impact of price increases on consumers. There is a significant body of evidence that shows price controls do benefit consumers in the short run but are detrimental over the longer period as they lead to reduced availability of the controlled good or service and higher prices.

To illustrate how price controls affect consumers we reviewed the effect of rent control on the availability of rental housing and affordability.

Rent Control

Governments have placed restrictions on rents in an effort to control the markets in cities where rents have increased substantially over time, such as Vancouver, Toronto, New York, and San Francisco.

Rent control provides insurance to tenants against rent increases, potentially limiting displacement. Affordable housing advocates argue that these insurance benefits are valuable to tenants. For example, if long-term tenants have developed neighborhood-specific capital, such as a network of friends and family, proximity to a job, or children enrolled in local schools, then tenants face large risks from rent appreciation.[18]

However, while rent control appears to help current tenants in the short run, it can create negative consequences in the long run. Such consequences can include less affordability, more gentrification, and reduction in the desirability of surrounding neighborhoods. When rent control is in place, the following has been observed:[19]

- **Reduction of rental supply** – landlords sell their rental properties to owner-occupants so they can still earn the market price.
- **Inefficient allocation of housing** – a "mismatch" between tenants and units can result and tenants may not choose to move in the future and give up rent-controlled units, even if their housing needs change. This can lead to inefficient allocations and renters consuming excessive quantities of housing (e.g., retired couples living in three-bedroom apartments and young families in small studios).

---

[18] Diamond, Rebecca. What does economic evidence tell us about the effects of rent control? The Brookings Institution. October 18, 2018. https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/

[19] Ibid.

- **Lower levels of investment** – landlords invest little or nothing in maintenance because they cannot recoup their costs by raising rents and, as a result, buildings decay.

Case Study: Rent control in San Francisco[20]

In 1979, San Francisco introduced rent control on existing buildings with five or more apartments, while smaller multi-family buildings were exempted. The exemption for smaller family buildings was lifted in 1994. A 2019 study by Diamond, McQuade and Quian found that that this policy change resulted in:

- **Less Migration -** Between five and ten years after the law change, the beneficiaries of rent control were 19 percent less likely to have moved to a new address, relative to the migration rate of renters living in small multi-family housing built between 1980 and 1990.
- **Reduced Supply of Rental Housing** - To mitigate their rental losses, many landlords evicted tenants by converting properties to owner-occupied condos and replacing existing structures with new construction. Rent-controlled buildings were eight percent more likely to convert to a condo than buildings not under rent control. This led to a 15 percent decline in the number of renters living in small multi-family apartment buildings and a 25 percent reduction in the number of renters living in rent-controlled units, relative to 1994 levels.

The reduction in rental supply likely led to rent increases in the long run as the rental supply was replaced with condos or higher-end rental housing stock catering to individuals with higher income levels. This suggests that rent control operated as a transfer from the future renters of San Francisco (who would pay these higher rents due to lower supply) to the renters living in San Francisco in 1994 (who benefited directly from lower rents).

The effects of San Francisco's policy change suggest that rent control contributed to the gentrification of the city, the exact opposite of the policy's intended goal. By simultaneously preventing displacement, reducing supply, and attracting higher income residents, in the long-term, rent control has contributed to widening income inequality and less affordability.

Source: Diamond, Rebecca. What does economic evidence tell us about the effects of rent control? The Brookings Institution. October 18, 2018. https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/

The case of rent control illustrates how price controls reduce the ability of service providers to respond to market conditions and the importance of service providers being able to generate sufficient revenues to continue to offer services. In markets where revenues are not adequate to cover costs and provide a reasonable rate of return services are often reduced or withdrawn as illustrated by the *Case Study: Withdrawal of Services by Airlines*.

[20] "What does economic evidence tell us about the effects of rent control?" Diamond, Rebecca. The Brookings Institution. October 18, 2018. https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/.

Case Study: Service Withdrawals by Airlines

In February 2019, Air Canada reduced its regional service in Western Canada by cancelling service between Cranbrook, BC and Calgary, AB. The airline stated it was a commercially based decision and that, "The Cranbrook-Calgary route did not perform at a level that would make commercial sense for us to continue operating."[21]

Virgin Australia removed four intrastate routes in Australia in 2017. The company explained the operation of services on regional routes is more challenging than on routes between capital cities, mainly due to difficulties in achieving economies of scale in regional markets. The sustainability of regional services relies heavily on the airline's ability to match its capacity with the demand for flights, and on effective management of costs.[22]

Impact of Price Controls on Consumers

The impacts of rent control on rental supply and affordability, and the withdrawal of service by airlines from routes that are not economically viable suggests that rate caps/freezes on auto insurance intended to maintain affordability may have unintended consequences. Rate caps/freezes limit the ability of insurers to respond to market conditions and may affect the commercial viability of providing services. The next section reviews the experience of rate interventions in auto insurance markets.

[21] Hoggan, Kyra. Air Canada's cancellation of Cranbrook/Calgary flights may be boon for Castlegar. The Castlegar Source. February 14, 2019. https://castlegarsource.com/news/air-canadas-cancellation-cranbrookcalgary-flights-may-be-boon-castlegar#.XQEbUlxKi71

[22] Senate Rural and Regional Affairs and Transport References Committee. Inquiry into the Operation, Regulation and Funding of Air Route Service Delivery to Rural, Regional and Remote Communities. Virgin Australia. February 2018.

5. Lessons Learned from Past Rate Interventions in Auto Insurance Markets

Capping or freezing auto insurance rates to maintain affordability has been attempted in a number of jurisdictions. Here we review the past experience with capping rates in Alberta, the experience with rate smoothing in British Columbia and the experience in California with freezing rates during the pandemic.

Alberta's Rate Cap on Auto Insurance Premiums

In December 2017, the Government of Alberta introduced a cap on auto insurance rate increases of five percent due to concerns about the impact significant increases s could have on consumer premiums. Initially, the cap applied to rate increases approved between November 1, 2017 and November 30, 2018. In November 2018, the cap was extended to August 31, 2019. When the cap expired, it was not renewed.

When the cap was introduced, the AIRB reported that prior to 2017, a number of insurance companies filed for rate increases significantly lower than their rate indications, and in 2017 there were a number of filings for double digit rate increases. [23] In an effort to mitigate the impact on consumers, the AIRB announced in August 2017 that it would be unlikely to approve private passenger vehicle rate increases greater than 10 percent over a cumulative 12 month period. It also encouraged insurers to file more regularly to ensure timely implementation of rate requirements and to minimize rate shock to consumers.

The five percent cap applied to the overall rates for all coverages, not individual policies or coverages.

The Effect of the Cap

While the rate cap was in effect:

- **Claim costs continued to rise.** The total cost of claims is determined by the number of claims and the average cost of those claims. In 2018, the number of claims increased by 1.6 percent and the average cost of claims increased by 4.8 percent resulting in an increase in total claim costs of 6.4 percent. The following the year (2019) the number of claims declined by 1.8 percent while the average claim cost rose by 5 percent. This resulted in total claim costs rising by 3.1 percent.
- **Insurers experienced higher underwriting losses.** Over the period from 2012 to 2019, Alberta insurers, in aggregate, experienced losses from underwriting activity (see Section 3). Between 2012 and 2017, Alberta auto insurers experienced an annual underwriting loss of $301 million per year, on average. In 2018 annual underwriting losses were $402 million and in 2019 underwriting losses were $413 million.

[23] Alberta Automobile Insurance Rate Board. Notice 05-2017. December 14, 2017. *5% Limitation on Private Passenger Rate Increases.* https://albertaairb.ca/wp-content/uploads/2022/07/Notice-05-2017-Dec-13-2017-5-Ministerial-Order.pdf

- **Consumers had fewer options.**[24] The cap limited what insurers could do in response to rising claim costs. As a result, insurers reduced the options available for consumers with respect to optional coverages and payment plans. Specifically, optional products, like collision and comprehensive coverages, grew harder for consumers to find. In particular, owners of leased vehicles faced challenge securing the required coverages. This included only offering mandatory coverage to some consumers and not allowing payment to be made in installments.

British Columbia's Rate Smoothing Mechanism

The Insurance Corporation of British Columbia (ICBC) is the government-owned and operated auto insurer in British Columbia. All vehicles registered for driving in British Columbia are required by law to be covered by ICBC's Basic Autoplan, which includes third-party legal liability, underinsured motorist protection, accident benefits, hit-and-run protection, and inverse liability. In addition to the mandatory Basic insurance, BC drivers also have the option to purchase additional coverage, such as extended liability, collision, and comprehensive insurance, from either ICBC or private insurance companies at their own discretion.

In 2013, the BC Government directed ICBC to develop a Basic Capital Management Plan to improve ICBC's ability to provide more stable and predictable rates for mandatory insurance.[25] At the time, bodily injury claim costs were rising and rates had increased by 11.2 percent in 2012.[26] Under the rate smoothing framework rates for mandatory insurance policies could only change by 1.5 percent from the previous rate change. In 2013, an increase in the rates for mandatory insurance of 4.9 percent was approved and ICBC indicated that this was less than the actual rate indication.[27]

Under this framework, between fiscal year 2013 and fiscal year 2017/18, earned premiums increased by approximately 37 percent, while claim costs increased by approximately 70 percent. The increase in claim costs was driven by increases in both the number of claims and the average cost of settling claims.[28]

As shown in ***Figure 12***, between 2012 and 2019, claim and operating expenses incurred were greater than income from total earned revenues (income generated from earned premiums and service fees and other associated income net of rebates and refunds and ceded premiums to reinsurers). Claim and operating expenses incurred increased by 88.6 percent from approximately $3.93 billion to $7.42 billion from 2012 to 2019. Total earned revenues increased at a slower rate (66.5 percent) between 2012 and 2019 from approximately $3.87 billion to $6.43 billion.

---

[24] MNP. *Effects of a Cap on Auto Insurance Rates in Alberta.* August 2019.

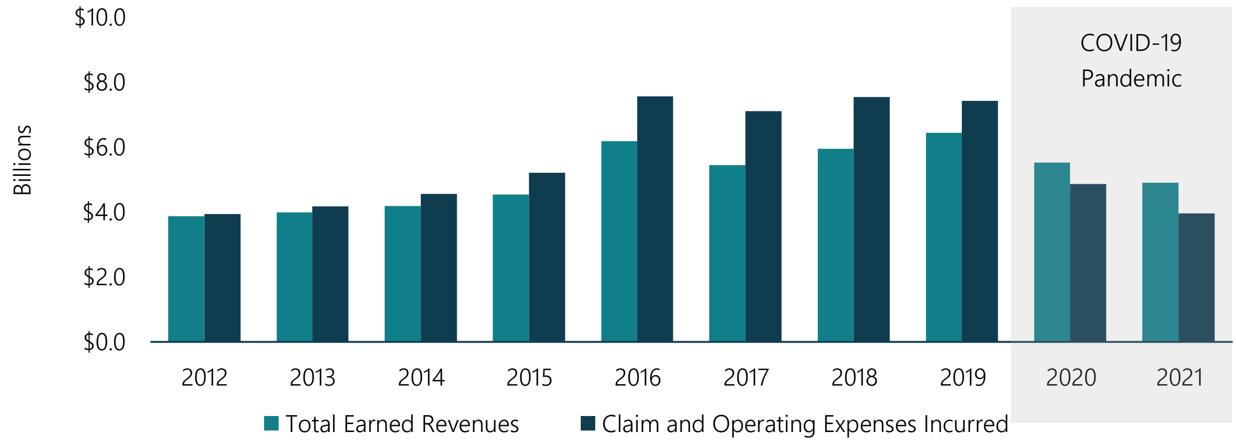
[25] Province of British Columbia. Order of the Lieutenant Governor in Council. Government Directive Related to Rate Smoothing. March 18, 2013. Available here: https://www.bclaws.gov.bc.ca/civix/document/id/oic/arc_oic/0153_2013.

[26] Ministry of Finance. *Review of the Insurance Corporation of British Columbia.* 2012. Available here: https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/icbc-review.pdf

[27] ICBC. *Annual Service Report. 2013.* Available here: https://www.icbc.com/about-icbc/company-info/documents/ar13.pdf

[28] EY. *Affordable and effective Auto Insurance – A new road forward for British Columbia.*

Figure 12: Total Earned Revenues and Claim and Operating Expenses Incurred in British Columbia, 2012-2021



Source: Insurance Corporation of British Columbia, Annual Service Plan Report.

Between 2014 and 2016 ICBC's total net income decreased by $1.3 billion. It reported a loss of $913 million in the fiscal year ending March 31, 2017[29], and an additional $1.3 billion in the fiscal year ending March 31, 2018.[30] In 2019, in an effort to address ICBC's financial situation, the BC Government, introduced a series of reforms that culminated with introduction of a no-fault insurance model in May 2021. ICBC's total losses in the five fiscal years prior to the introduction of no-fault insurance were $3.8 billion.[31]

California's Freeze on Auto Insurance Rate Filings

A government policy decision to cap or freeze auto insurance rates can limit an insurer's ability to respond to market conditions. In circumstances where the insurer is experiencing upward cost pressures (such as rising costs of repairing vehicles), an imposed rate cap or freeze constrains their ability to cover their costs. This often results in negative impacts to customer service. With persistent cost pressures increasing and premiums kept at a constrained range, the insurer effectively experiences an underwriting loss from providing insurance coverage to clients. Without profitability or sufficient income levels to cover costs, insurers may decide to shut down or limit their operations, reduce coverage options or implement other changes that negatively impact the consumer, all in an effort to maintain a sustainable level of profits. Auto insurance providers and customers in the state of California recently experienced these challenges.

---

[29] ICBC Annual Service Plans 2015 and 2016/17

[30] ICBC 2017/18 Annual Service Plan Report. Available here" https://www.icbc.com/about-icbc/company-info/Documents/ar-18.pdf

[31] Government of British Columbia. *Stronger Together: Budget and Fiscal Plan 2022/23 – 2024/25* https://www.bcbudget.gov.bc.ca/2022/pdf/2022_Budget_and_Fiscal_Plan.pdf

In April of 2020, California's insurance commission ordered insurers to provide refunds to policy holders in response to decreases in driving levels as a result of the COVID-19 pandemic.[32] In addition, California's insurance commissioner did not approve any private auto insurance rate increases filed between April, 2020 and October 2022, effectively freezing premiums for nearly 30 months. As traffic levels returned to pre-pandemic levels and accidents and claims increased, premiums were not sufficient to cover claim costs in many cases. The result has been many insurers reporting loss ratios of over 100 percent in California and adjusting their business operations to reflect this[33].

Several examples of these changes have had impacts on consumers in the state. GEICO insurance has closed all brick-and-mortar store fronts in the state and no longer sells insurance over the phone[34]. For many, the ability to only purchase insurance online from GEICO will present challenges. Progressive Insurance, another major provider in the state, said it would refrain from writing additional auto business in California until it received a sufficient rate increase.[35] Progressive's CEO noted that the moratorium that existed on rate increases did not serve the customers of California, and the company would be forced to slow growth[36]. In response to rising repair costs and prior year losses, Allstate insurance implemented underwriting restrictions in underperforming states and reduced their advertising spend.[37] Overall, in response to the rate freeze in California, many consumers are seeing reduced options for coverage, and less assistance and stricter policies.

---

[32] Bulletin 2020-3 Re: Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic. Ricardo Lara, California Insurance Commissioner. https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Bulletin_2020-3_re_covid-19_premium_reductions-2.pdf

[33] June Sham. California rate filing freeze starts to thaw. Bankrate.com. December 1, 2022. https://www.bankrate.com/insurance/car/california-rate-filing-freeze-causes-unrest/#what-are

[34] Goldberg, Noah. Want Geico Insurance in California? You have to get it online or on an App now. The Los Angeles Time. August 3, 2022. https://www.latimes.com/California/story/2022-08-02/geico-closes-all-california-locations-lays-off-more-than-100

[35] Woleban, Jason and Jacobs, Tom. Calif. Regulators finally sign off on new private auto rate increase. S&P Global Market Intelligence. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/calif-regulators-finally-sign-off-on-new-private-auto-rate-increase-72909079

[36] Progressive Q2 Earnings Call Transcript. https://www.fool.com/earnings/call-transcripts/2022/08/03/progressive-pgr-q2-2022-earnings-call-transcript/

[37] Hemenway, Chad. Allstate "further accelerating' rate hikes following Q2 loss. Insurance Journal. https://www.insurancejournal.com/news/national/2022/08/04/678743.htm

Key Findings

- Rate interventions provided short-term relief for consumers from significant price increases. However, in jurisdictions with competition consumers had reduced options and in some cases it became more difficult to obtain insurance as insurers stopped offering installment payment options and withdrew optional insurance products.
- Claim costs continued to rise and insurers financial performance deteriorated. In the case of ICBC which has a monopoly on mandatory auto insurance, financial performance deteriorated to the point that changes to the insurance model were made. In competitive markets insurers withdrew services.

6. Summary of Findings

This study focused on examining the trends in Alberta's auto insurance industry between 2012 and 2021 to inform future policy considerations and decisions. Our analysis of trends in the Alberta auto insurance market found that:

- **The number of claims has not been growing significantly.** Between 2012 and 2019 the number of claims has consistently been between 280,000 and 290,000, with the exception of 2016 when the number of claims was over 300,000 due to losses related to the Fort McMurray wildfires.
- **Claim costs are rising.** Between 2012 and 2019 total claim costs rose by 53.6 percent. Increases in the costs of bodily injury and accident benefits claims accounted for approximately 60 percent of the growth. Costs for property damage, collision repair and comprehensive have also increased; however, the rate of growth in these claim costs has been lower than that of bodily injury and accident benefits.
- **Loss ratios for insurers are not sustainable.** A loss ratio of approximately 70 percent on auto claims is where insurers are financially sustainable. In Alberta loss ratios were consistently above 80 percent prior to the COVID-19 pandemic and profit margins were negative. There is some indication that in 2022 loss ratios are once again above 70 percent.
- **Driving patterns changed during the COVID-19 pandemic and it is not clear what future patterns will be.** As a result of public health restrictions related to COVID-19 there was a reduction in commuting to work and other movement which led to a significant reduction in claims in 2020 and 2021. At present, it is unclear the extent to which mobility will return to pre-COVID patterns and what the implications for the number of claims will be.

Past experience with price caps on insurance rates in Alberta and other jurisdictions has not achieved the desired long-term outcomes. That experience has shown that:

- **Capping rates will not reduce claim costs or improve loss ratios for insurers.** Claim costs are determined by the number of claims and the cost of settling those claims, not what customers pay for insurance. Consequently, loss ratios will not improve for insurers unless there is a decline in the number of claims, the costs of settling claims declines or revenues increase.
- **Capping rates is likely to reduce options for consumers.** When insurers are unable to adjust prices in response to changes in costs, they will look at options for reducing costs that are within their control such as changes to their product offering or the channels through which insurance may be purchased. This reduces options available to consumers and come consumers may not be able to purchase their desired level of insurance.
- **Capping rates leads to a deterioration of financial performance for insurers and withdrawal or change in services.** In competitive markets insurers withdraw services if they are not able to achieve sustainable financial results. In the case of public provision of auto insurance, attempts to maintain affordability through rate smoothing led to deterioration in financial performance to the point that changes to the insurance model were made.

Our review suggests that **achieving long-term stability** in insurance rates **requires product reform** to **address cost pressures** which are increasing claim costs. The cost of settling bodily injury claims has been a key factor in the increased cost of claims. Between 2018 and 2020 there have been several changes made to the definition of minor injuries and clarification of what is included in an effort to address these cost pressures. In addition, in early 2022 limits on the number of experts involved in injury claim lawsuits and direct compensation for property damage for not-at-fault drivers came into effect. These changes are intended to allow claims to be resolved more quickly and reduce the associated costs. At present, it is too early to determine the impact of these changes on claim costs due to the longer-term nature of injury claims and the relatively recent changes to property damage claims.

In the short-term changes to levies or taxes on insurance could be considered. Taxes are calculated as a percentage of insurance premiums and the cost of these increase as premiums increase.

About MNP

For over 60 years, MNP has proudly served and responded to the needs of clients in the public, private and not-for-profit sectors. Today, MNP is the fifth largest Chartered Professional Accountancy and business consulting firm in Canada and is the only major accounting and business consulting firm with its head office located in Western Canada. MNP has more than 100 locations and 7,000 team members across the country.

MNP Consulting Services

MNP Consulting provides a broad range of business and advisory services to clients including:

- Strategy Development and Planning
- Stakeholder Engagement
- Performance Measurement
- Economic Analysis
- Research
- Data and Analytics
- Business Plans and Feasibility Studies
- Performance Improvement
- Financial Analysis

About MNP's Economics and Research Practice

Economic and industry studies are carried out by MNP's Economics and Research practice. The Economics and Research practice consists of a team of professionals that has a successful track record of assisting clients with a wide variety of financial and economic impact studies. Our work has encompassed a wide range of programs, industries, company operations and policy initiatives, and has helped clients with decision-making, communication of economic and financial contributions, documentation of the value of initiatives and activities, and development of public policy.

MADE IN CANADA

And proud of it!

At MNP we’re proud to be the national accounting, tax and business consulting firm that is 100% Made in Canada.

Why is this important? Because it defines who we are and our approach to business. It has helped shape our values, our collaborative approach and the way we work with our clients, engaging them every step of the way.

Our history gives us a unique perspective. We know Canada because we are a part of Canada. All of our decisions are made here – decisions that drive Canadian business and help us all further achieve success.

And the sense of strong Canadian commitment, being a part of every community we live and work in, and always being there through prosperous and challenging times.

Being 100% Canadian is something we wear proudly because we know the great opportunities that exist here. The opportunities that have been afforded to our firm, the same opportunities that we deliver to our clients.