



# System Costs and Auto Insurance Premiums

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Prepared for the Insurance Bureau of Canada

Final Report

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# 1 Executive Summary

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To understand system trends and the factors affecting systems cost for private passenger automobile insurance in tort-jurisdictions in Canada, the Insurance Bureau of Canada (IBC) engaged MNP LLP (MNP), to conduct a review of cost drivers for auto insurance claims with a focus on Alberta.

## 1.1 Key Findings

The review found that claim costs have been rising and this is having a direct impact on premiums. Key factors in the increase in costs are:



**Claim frequencies have been stable or declining across Canada, while claim severity is increasing.**

- The average size of third-party liability (bodily injury) claims increased by 70 percent in Alberta, compared with 35 percent or less in other jurisdictions.
- Over the last decade, the average size of accident benefit claims increased by 147 percent in Alberta, compared with 53 percent or less in other jurisdictions.
- The average size of comprehensive claims increased between 40 percent and 60 percent in Alberta, compared to 45 percent or less in other jurisdictions.

In Alberta claim frequencies tend to be higher. It has consistently had the highest claims frequency for third-party liability, accident benefits, and collision coverages.



**Vehicle repair costs are increasing due to the increasing complexity of repairs and longer repair times.** The cost of labour, vehicle parts, and vehicles has increased since 2020 and repair times have been extended due to supply chain issues. Longer repair times have also contributed to increased expenses associated with rental vehicles.



**The frequency of legal representation for bodily injury claims is increasing.** In Alberta between 2018 and 2022 the frequency with which those injured in collisions sought legal representation and pursued a bodily injury claim increased 48 percent. This is leading to fewer injury claims being subject to the minor injury cap and increasing claim severity.



**Litigation costs to settle bodily injury claims rose from 17.5 percent of bodily injury claim costs to almost 27 percent in 2022 in Alberta.** While the number of total claims temporarily fell during the pandemic, the number of represented claims increased. This resulted in the cost of litigation rising from \$213 million in 2018 to \$279.7 million in 2022, a 31 percent increase.

**Over \$1.2 billion dollars was spent on costs associated with litigation for bodily injury claims between 2018 and 2022.** These costs include legal fees and disbursements for claimants as well as legal costs incurred by insurers.

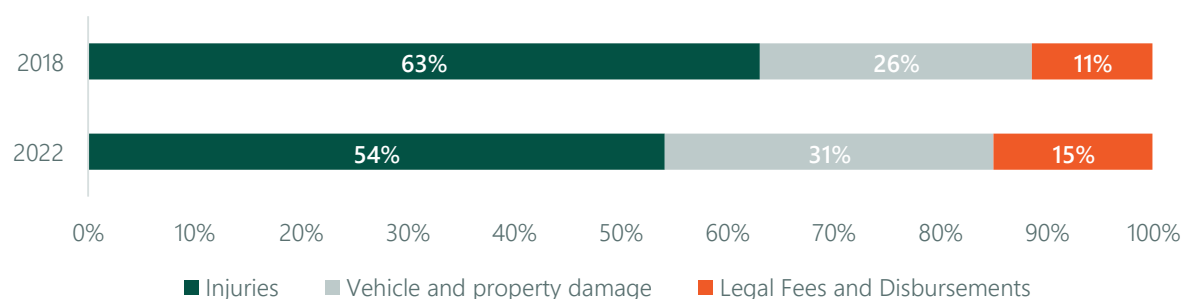
Table A shows the estimated distribution of costs associated with a claim by a claimant who was injured in an accident caused by another driver and has legal representation. Settlement costs account for approximately 88 percent of total costs. Of these approximately half go to the claimant to cover costs associated with care, rehabilitation, income loss (40.7 percent) and vehicle repairs (7.2 percent). Approximately 38 percent goes to legal costs charged by the claimant's lawyers and the remaining 15 percent goes to the claimant in the form of a cash payment for pain and suffering.

**Table A: Distribution of Costs for a Claim with Legal Representation**

Total Claim Cost = \$119,600	Settlement Amount = \$105,600	Expense Category	Value	Percentage of: Settlement Cost	Total Claim Cost
		Reimbursement for care, rehabilitation costs and income loss, etc.	\$43,000	40.7%	36.0%
		Vehicle repair	\$7,600	7.2%	6.4%
		Payments to claimant for damages	\$15,660	14.8%	13.1%
		Fees Earned by Claimant Lawyers	\$32,340	30.6%	27.0%
		Payments for costs of expert witness reports and other legal expenses	\$7,000	6.6%	5.9%
	Insurer costs = \$14,000	Internal legal costs	\$7,000		5.9%
		Payments for costs of expert witness reports and other legal expenses	\$7,000		5.9%

As shown in Figure A, between 2018 and 2020 the share of claim costs that are paid to claimants has fallen while the share of claim costs that goes to litigation expenses has risen. Over the period, drivers paid an average of between \$160 and \$197 annually as part of their premiums to cover the costs associated with litigation. This is equivalent to between 7 percent and 10 percent of total premiums and approximately 20 percent of premiums for mandatory coverages.

**Figure A: Distribution of Estimated Claim Costs, 2018 and 2022**



## 2 Introduction

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### 2.1 Background and Purpose

Premiums for auto insurance have been increasing across Canada. To understand system trends and the factors affecting systems cost for private passenger automobile insurance in tort-jurisdictions in Canada, the Insurance Bureau of Canada (IBC) engaged MNP LLP (MNP) to conduct a review of cost drivers for auto insurance claims with a focus on Alberta.

### 2.2 Approach

The approach to the study encompassed:

- Gathering relevant data and information on insurance products, drivers, claims, premiums, and industry financials from IBC and other publicly available data sources.
- Conducting interviews with several private passenger automobile insurance providers operating in Alberta.
- Analyzing and summarizing trends in claim costs, premiums, and financial performance of the private passenger automobile insurance industry in Alberta.
- Identifying significant factors driving the costs of bodily injury and material damage claims.
- Developing draft and final reporting.

### 2.3 Structure of the Report

The remaining sections of this report are organized as follows:

- Section 3 provides an overview of insurance systems, including details related to insurance models, types of coverage, and setting of premiums.
- Section 4 describes claim costs and financial performance, including coverage levels, and trends in claim costs, premiums, insurer income, and insurer return on equity.
- Section 5 provides cost drivers, including for bodily injury and material damage claims.
- Section 6 outlines the conclusions of the report.

### 2.4 Report Limitations

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

We have relied upon the completeness, accuracy, and fair presentation of all information and data obtained from IBC, through interviews with industry representatives and 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 report constitute judgments as of the date of this report 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.

## 2.5 Data Sources

Data used in the study were gathered from a combination of primary and secondary sources. Interviews were conducted with insurance providers to gather information on claims trends and cost drivers in Alberta. The interviewees represented organizations that collectively have approximately 80 percent of the private passenger automobile market in Alberta.

The sources for secondary research used in the study are outlined in Table 1.

**Table 1. Secondary Data Sources**

Data	Source(s)
<b>Claims, premiums, and industry financial performance.</b>	General Insurance Statistical Agency (GISA) Industry Exhibits, IBC, Government publications
<b>Market Trends, coverage levels, insurance systems.</b>	Industry and Government publications: annual reports, rate filing, applications, and academic literature.
<b>Vehicle, parts, maintenance, and repairs price index and health care services price index</b>	Statistics Canada

## 3 Overview of Insurance Systems

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When considering the costs of an automobile insurance system, it is critical to consider the differences in each jurisdiction, including the coverages provided to drivers. Each jurisdiction operates with different rules and regulations, meaning that what is covered and the amount that can be received in the event of a claim can vary. This section provides an overview of insurance models, types of coverage, and how premiums are set across Canada.

### 3.1 Insurance Models

Insurance models vary by jurisdiction in terms of both the level of competition and the type of model (i.e., tort-based vs no-fault). Table 2 summarizes the insurance model used in each province. In six provinces all insurance is provided through a competitive market, while in three provinces all mandatory insurance is provided publicly through a single crown corporation. In Quebec, injury coverage is provided through a public monopoly and material damage and third-party liability coverages are provided through a competitive market.

Five provinces operate a tort-based system which allows not-at-fault drivers to sue for pain and suffering as well as for economic damages resulting from injuries. In most provinces with tort-based systems there is a cap on awards for pain and suffering related to minor injuries.

Three provinces have no-fault systems in which drivers and passengers that are injured in accidents are primarily compensated by the drivers' own insurance company.

A hybrid of both these systems is one that allows for drivers to pursue legal action for injuries only in certain circumstances. In some hybrid jurisdictions, the injuries and economic damages must exceed a certain dollar amount for legal action to be pursued. Other hybrid jurisdictions have mandatory no-fault coverage but allow drivers to purchase optional tort-based coverage and the right to sue for damages if they choose. Two provinces operate under hybrid systems.

**Table 2. Insurance Systems in Canadian Jurisdictions**

Jurisdiction	Competitive Environment	Tort	No-Fault	Hybrid
<b>Alberta</b>	Competitive market where all insurance products are provided by private insurers.	√		
<b>Newfoundland and Labrador</b>	Competitive market where all insurance products are provided by private insurers.	√		
<b>New Brunswick</b>	Competitive market where all insurance products are provided by private insurers	√		
<b>Prince Edward Island</b>	Competitive market where all insurance products are provided by private insurers.	√		
<b>Nova Scotia</b>	Competitive market where all insurance products are provided by private insurers	√		
<b>British Columbia</b>	Public monopoly on basic products. Private insurers are permitted to offer optional products.		√	
<b>Manitoba</b>	Public monopoly on basic products. Private insurers are permitted to offer optional products.		√	
<b>Quebec</b>	Public monopoly on injury insurance. Competitive market for material damage insurance provided by private insurers.		√	
<b>Ontario</b>	Competitive market where all insurance products are provided by private insurers.			√
<b>Saskatchewan</b>	Public monopoly on basic products. Private insurers are permitted to offer optional products.			√

## 3.2 Types of Coverage

Automobile insurance policies provide coverage for damage and injuries caused by the insured. In every province there are mandatory coverages which specify the minimum level of coverage. Typically, mandatory coverages include medical expenses and property damage caused by the insured. Each province regulates the minimum coverage levels and drivers have the option of purchasing additional coverage with higher limits or which provides additional protection (e.g., collision).

The type of coverage and policy limits determine what is covered when a claim is made and the level of applicable reimbursements.

Definitions of common automobile coverage types are provided in Appendix A.



### 3.3 Setting of Premiums

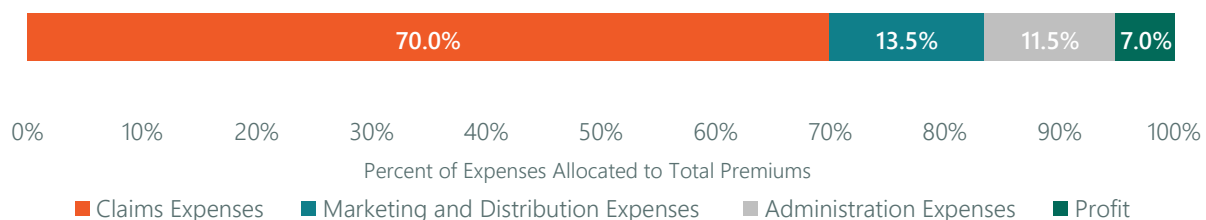
To maintain a viable business model, insurers must collect enough premiums to cover their expenses. The primary expenses incurred by insurers regardless of the market structure are:

- **Claims expenses:** Expenses paid to policyholders for claims and expenses paid by the insurer for staff responsible for handling the claim.
- **Marketing and distribution expenses:** Expenses paid by the insurer for advertising and commission paid to brokers or writers for distributing the insurers products.
- **Administration expenses:** Expenses paid to maintain supporting departments (i.e., accounting, legal, actuarial) and all other expenses, such as building maintenance, tax, or licensing fees.

The largest expense insurers face are claims expenses. These are also the most difficult to predict. Insurers use predictive modelling to forecast their future claims expenses. When forecasting future claims expenses, insurers look at their historic data to understand trends in the number of claims and the amount paid in claims; insurers also use this data to predict each unique driver's likelihood of making a claim, based on the vehicle they drive, their driving history, and their claims/automobile insurance history.

At the time purchase, insurers have developed a prediction for their claims expenses over the course of the insurance policy year for each driver and vehicle. To determine the premiums charged, insurers take the predicted claims expenses and add additional amounts to cover their marketing and distribution expenses, their administration expenses, and profit. Figure 1, shows the estimated amount of each driver's insurance premiums allocated to insurer expenses, based on industry standard benchmarks.

**Figure 1. Automobile Insurance Premiums as Allocated to Estimated Insurer Expenses**



It is important to note that premiums for mandatory insurance products are regulated in each province. Insurers are required to make a submission to the rate regulator who then conducts a review of the claims cost forecast, the data used to develop the forecast, and the assumptions in each submission to determine if the forecast justifies the changes to insurance premiums.

Rate regulators also develop industry benchmarks, which are figures that are required to be used in the development of automobile insurance premiums. In Alberta, an example of this is the profit provision. The Alberta Automobile Insurance Rate Board (AIRB) monitors each insurers forecasted future claims costs and only approves changes to insurance premiums that are predicted to result in 7 percent profit or less.<sup>1</sup>

<sup>1</sup> AIRB, 2021 Annual Report.

## 4 Claim Costs and Financial Performance

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This section provides an overview of coverage levels for mandatory products, and trends in claim rates, claim costs, and financial performance in jurisdictions where insurance is provided by private insurers based on tort or hybrid models across Canada. No-fault jurisdictions have not been included as insurance in these provinces is provided by publicly owned insurers with a monopoly on mandatory products that do not report comparable data on claim rates, claim severity or premiums. Where information was available, we have included commentary on how trends compare with no-fault jurisdictions.

### 4.1 Coverage Levels

Table 3 provides mandatory coverages for the five tort-based jurisdictions and one hybrid (Ontario) with competitive insurance markets. Mandatory third-party liability coverage levels are similar, with five provinces requiring a minimum of \$200,000 and one requiring \$500,000. All provinces have a direct compensation program covering vehicle damage which means that repairs to the vehicle of a not-at-fault driver are handled by the driver's own insurance company. There is also a cap on payments for pain and suffering for minor injuries which varies by province. In Ontario there is a deductible for non-pecuniary damages under a specified threshold, which is not the case in other provinces. Coverage levels for other benefits vary by province. Optional coverages that may be purchased include additional third-party liability, collision and comprehensive. Most drivers purchase additional third-party liability, collision, and comprehensive insurance.<sup>2</sup>

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<sup>2</sup> GISA data indicate that over 75 percent of policies include comprehensive and over 70 percent include collision coverage.

**Table 3. Mandatory Coverage Levels for Bodily Injury and Material Damage Liability in Tort-based Jurisdictions**

Coverage	Alberta <sup>3</sup>	Ontario <sup>4</sup>	Newfoundland and Labrador <sup>4</sup>	New Brunswick, Prince Edward Island, and Nova Scotia <sup>5</sup>
<b>Third-Party Liability</b>	<p>Not-at-fault claimants can sue for damages caused by a third-party.</p> <p>Coverage limit of \$200,000 for any one accident.</p> <p>Compensation for vehicle damage is provided directly by the insured insurer in the event of a not-at-fault claim.</p>	<p>Coverage limit of \$200,000 for any one accident.</p> <p>Compensation for vehicle damage is provided directly by the insured insurer in the event of a not-at-fault claim.</p>	<p>Not-at-fault claimants can sue for damages caused by a third-party.</p> <p>Coverage limit of \$200,000 for any one accident</p> <p>Compensation for vehicle damage is provided directly by the insured insurer in the event of a not-at-fault claim.</p>	<p>Not-at-fault claimants can sue for damages caused by a third-party.</p> <p>Coverage limit of \$200,000 for any one accident in New Brunswick and Prince Edward Island and \$500,000 in Nova Scotia.</p> <p>Compensation for vehicle damage is provided directly by the insured insurer in the event of a not-at-fault claim.</p>
<b>Legal Action: Bodily Injury</b>	<p>Not-at-fault victims can sue for damages.</p> <p>Minor injury limit of \$5,817.</p>	<p>Not-at-fault claimants can sue for non-economic damages subject to a threshold of death or permanent and serious disfigurement or permanent and serious impairment of an important physical, mental or psychological function.</p>	<p>Not-at-fault victims can sue for damages.</p> <p>Deductible of \$5,000 for all tort awards.</p>	<p>Not-at-fault victims can sue for damages.</p> <p>Limits ranging from \$9,094-\$10,000.</p>
<b>Medical Coverage</b>	To the limit of \$50,000 per person.	\$65,000 for non-catastrophic injuries. \$1,000,000 for catastrophic injuries.	To the limit of \$25,000 per person.	To the limit of \$50,000 per person.

<sup>3</sup> Alberta Insurance Act.

<sup>4</sup> FSRAO, What is in a standard automobile policy? And Minor Injury Guideline

<sup>5</sup> Provincial Standard Automobile Policies.

Coverage	Alberta <sup>3</sup>	Ontario <sup>4</sup>	Newfoundland and Labrador <sup>4</sup>	New Brunswick, Prince Edward Island, and Nova Scotia <sup>5</sup>
<b>Funeral Expense Benefits</b>	Funeral service expenses up to the amount of \$6,150 in respect of the death of any one person.	Maximum \$6,000 funeral benefits.	To the limit of \$1,000 per person.	To the limit of \$2,500 per person.
<b>Disability Income Benefits</b>	The lesser of \$600 per week or 80% of earnings.	Seventy percent of gross income up to \$400 per week.	The lesser of \$140 per week or 80% percent of the insured's gross weekly income.	The lesser of \$250 per week or 80% percent of the insured's gross weekly income.
<b>Impairment</b>	To the limit of \$50,000 per person.	\$1,000,000 for catastrophic injuries.	To the limit of \$25,000 per person.	To the limit of \$50,000 per person.
<b>Death Benefits</b>	Base amount determined by the status and age of the deceased ranging from \$0- \$10,000; increased by \$15,000 for the first dependent household member and by \$4000 for subsequent household members and increased by 20% for each household dependent other than the first.	\$25,000 lump sum to an eligible spouse; \$10,000 lump sum to each dependent.	Amount determined by household status; \$10,000 if the deceased is the head of household or spouse of the head of household; \$2,000 if the deceased is a dependent.	\$25,000 - \$50,000, paid if the deceased person is the head of household of the spouse of the head of household. \$5,000 if the deceased person is a dependent.
<b>Grief Counselling</b>	Up to the amount of \$500 per family in respect of the death of any one person.	No coverage specified.	No coverage specified.	No coverage specified.

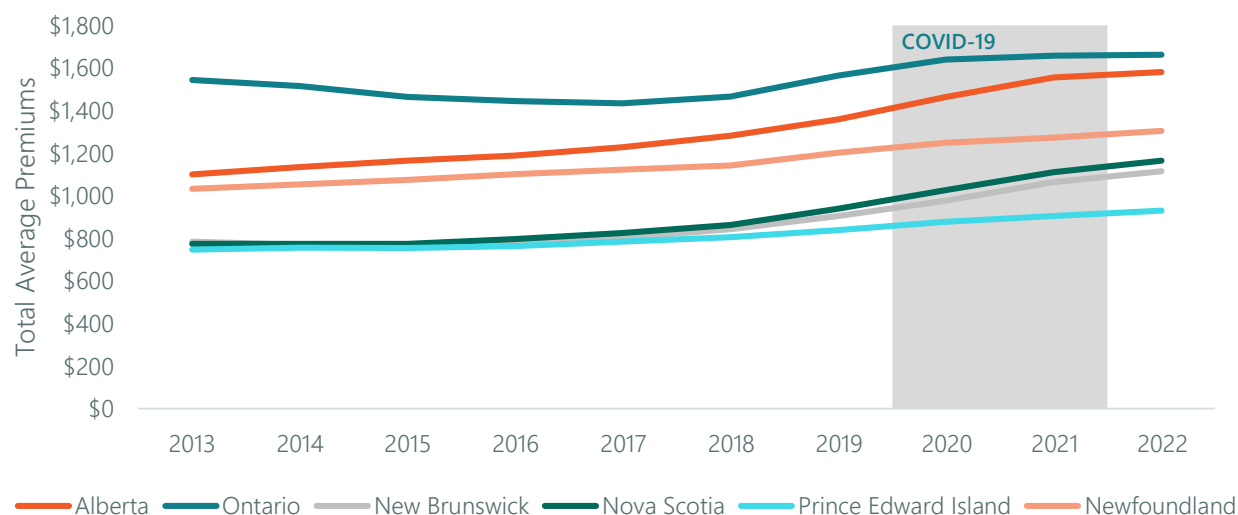
Sources: Cited in footnotes.

## 4.2 Trends in Premiums

Figure 2 shows the trend in total average private passenger automobile insurance premiums between 2013 and 2022 in the selected jurisdictions. Ontario has the highest premiums, followed by Alberta and Newfoundland. Over the period, premiums rose in all jurisdictions. Alberta (44 percent), Nova Scotia (50 percent), and New Brunswick (42 percent) had the largest increases in average premium, while premium increases in Ontario (8 percent) were less than in other jurisdictions. Premiums reported in the annual reports of public insurers in no-fault jurisdictions indicate that premiums have risen by between 14

percent and 35 percent between 2016 and 2022.<sup>6</sup>

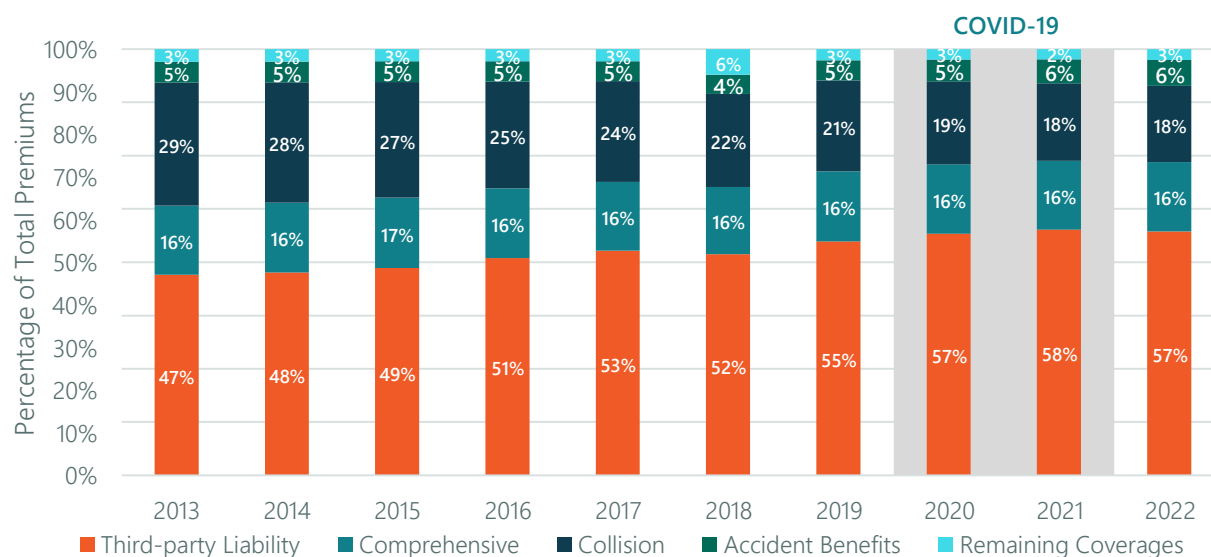
**Figure 2. Total Average Premiums in Selected Jurisdictions**



Source: GISA Auto1005 Exhibits

Figure 3 shows the composition of total premiums in selected jurisdictions by type of coverage between 2013 and 2022. Third-party liability accounts for the largest component of premiums and this has grown over time. The share of premiums attributable to collision coverage has fallen while the share of premiums for other coverages has been relatively stable.

**Figure 3. Composition of Total Premiums by Coverage, Selected Jurisdictions**



Source: GISA Auto1005 Exhibits

<sup>6</sup> Range is based on Quebec and Manitoba. Premiums for Quebec were estimated based on the average premium for civil liability, comprehensive and collision reported by GAA and total insurance contributions divided by the number of vehicles in SAAQ's annual reports. Premiums for Manitoba were estimated based on earned premiums and number of policies reported in Manitoba Public Insurance's Annual Reports.

A detailed comparison of the premiums charged for each coverage type by jurisdiction is included in Appendix C.

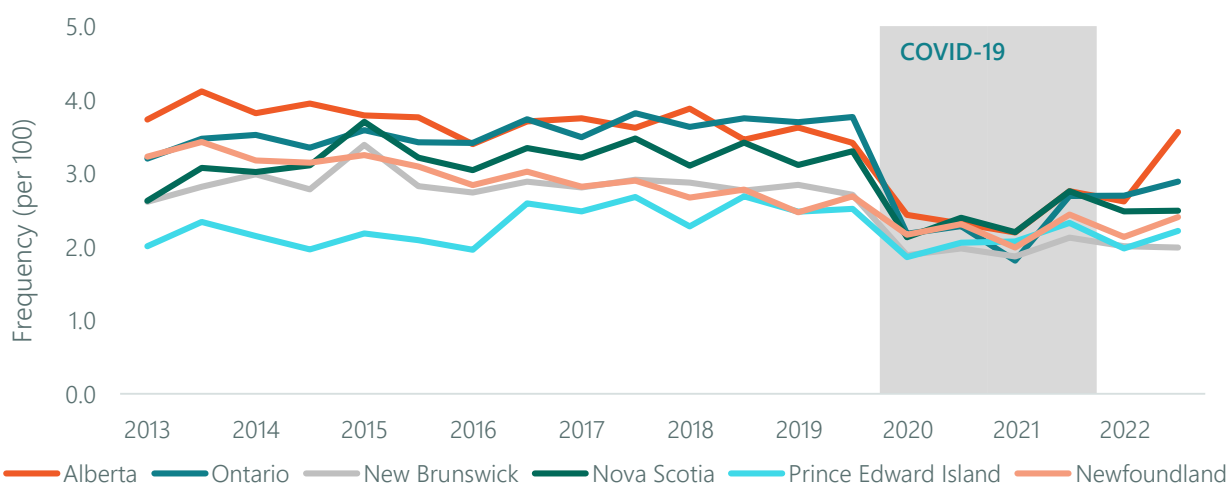
## 4.3 Trends in Claim Costs

This section compares trends in claim costs across selected jurisdictions between 2013 and 2022. When reviewing the trends in this section, it is important to note that public health restrictions in place in 2020 and 2021 related to the COVID-19 pandemic reduced mobility and impacted driving patterns. By the end of 2022, mobility levels had returned to near pre-pandemic levels.<sup>7</sup> At this time, it is unclear how driving patterns will affect claims and claim costs in the long-term; however, increases in automobile usage will likely lead to an increased number of collisions compared with 2020 and 2021.

### Third-party Liability

Figure 4 shows trends in third-party liability claims. This includes claims for bodily injury and property damage. Between 2013 and 2016 Alberta and Newfoundland experienced a decrease in the frequency of third-party liability claims, while all other jurisdictions experienced increases. Claim frequencies were relatively stable in most jurisdictions between 2016 and 2019 before declining during the pandemic. In 2021 and 2022, claim frequencies increased in both Ontario and Alberta, which have the highest frequencies amongst the selected jurisdictions.

**Figure 4. Third-party Liability Claims Frequency (per 100 vehicles) Selected Jurisdictions**



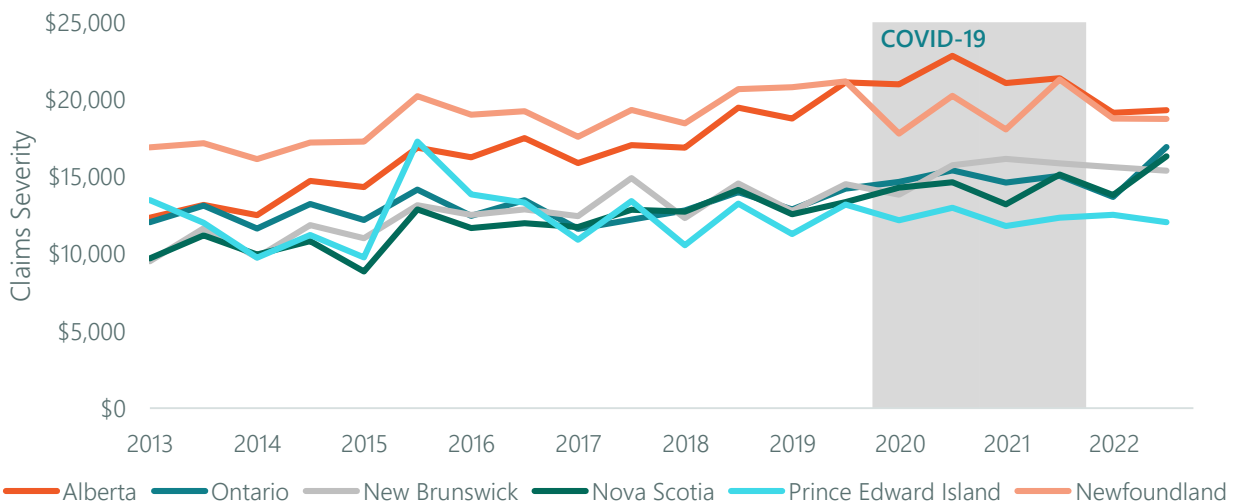
Source: GISA Auto1005 Exhibits

Claim frequency measures the number of claims, while severity measures the cost of a claim. As shown in Figure 5, while claim frequency for third-party liability was decreasing, claim severity was increasing in all jurisdictions except Prince Edward Island. Over the period 2013 to 2022, claim severity in Alberta

<sup>7</sup> Oliver Wyman. 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>

grew at a faster rate than in other jurisdictions. Between 2013 and 2019 claim severity in Alberta grew by almost 70 percent. Claim severity increased through the 2021 before declining and in 2022 was 46 percent above 2013 levels. Increases in other jurisdictions between 2013 and 2019 were less than 35 percent.

**Figure 5. Third-party Liability Claims Severity in Selected Jurisdictions**

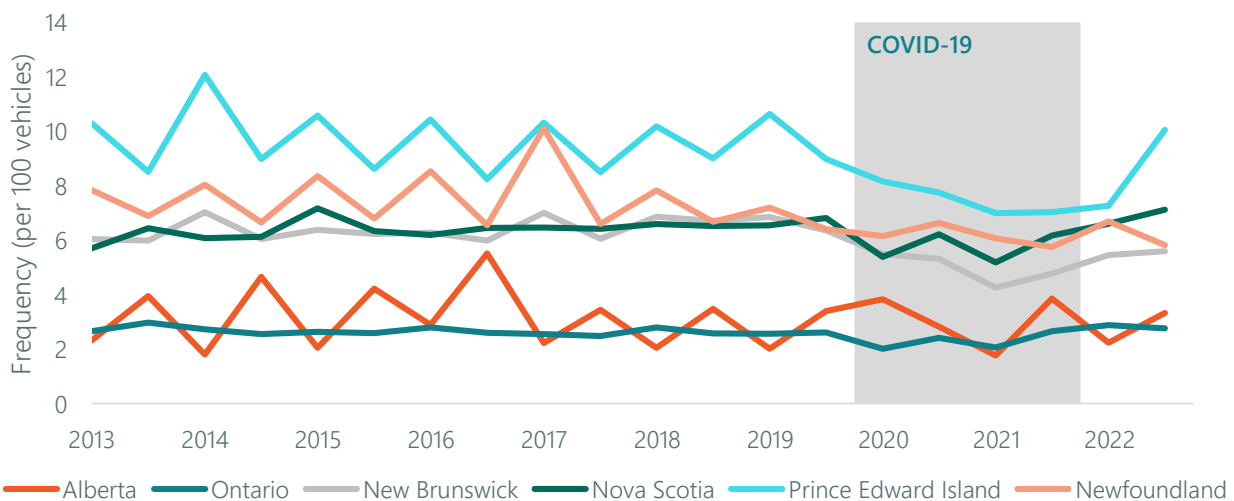


Source: GISA Auto1005 Exhibits

## Comprehensive

Figure 6 shows trends in comprehensive claim frequencies between 2013 and 2022. Claim frequencies decreased slightly in the Maritime Provinces over the period and were relatively stable in Alberta and Ontario. The Maritime Provinces had higher claim frequencies than in Alberta or Ontario.

**Figure 6. Comprehensive Claims Frequency (per 100 vehicles) in Selected Jurisdictions**

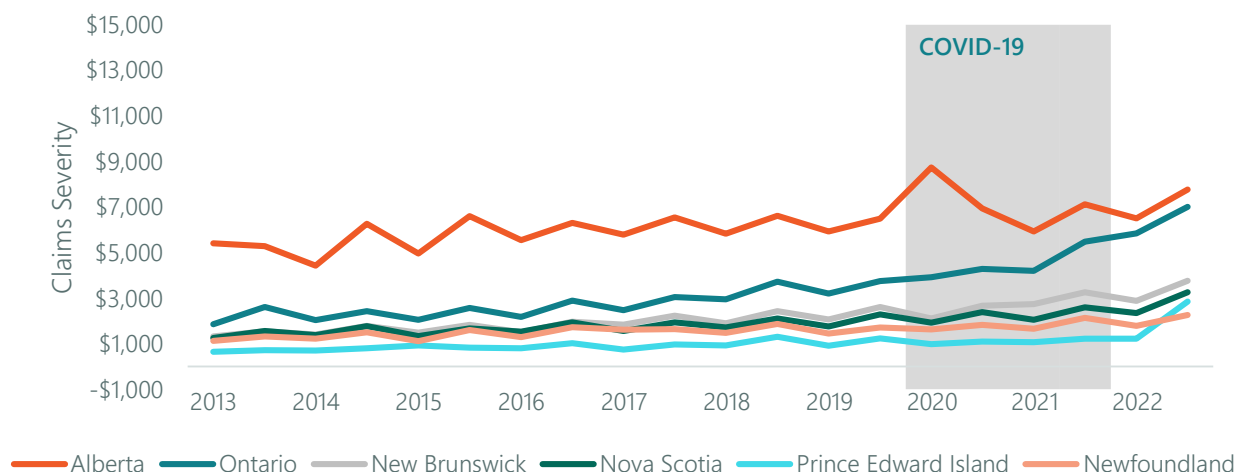


Source: GISA Auto1005 Exhibits

As shown in Figure 7, while comprehensive claim frequency was decreasing, the severity of claims was

increasing. Alberta has a significantly higher severity of comprehensive claims than in other jurisdictions.

**Figure 7. Comprehensive Claims Severity in Selected Jurisdictions**

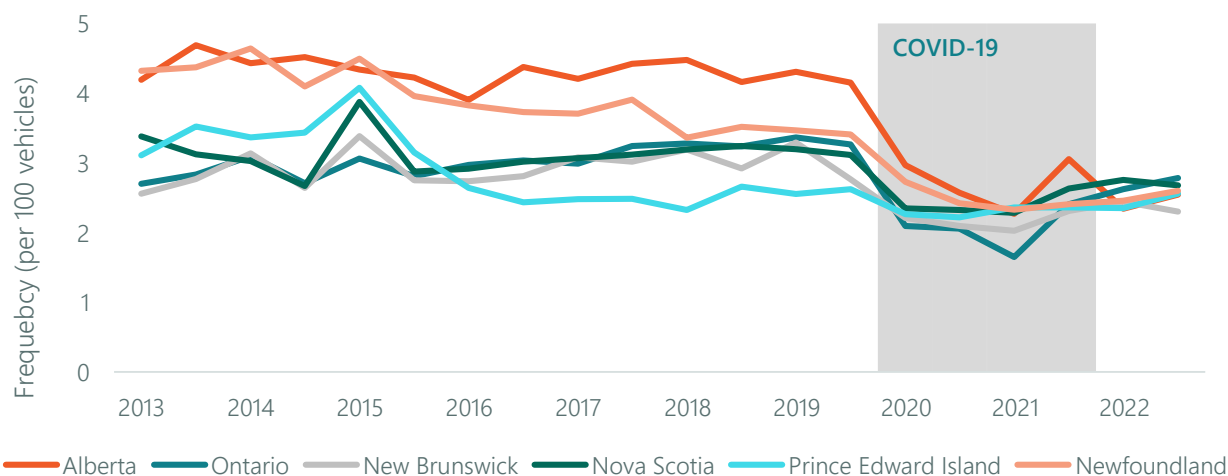


Source: GISA Auto1005 Exhibits

## Collision

Figure 8 shows trends in collision claims. Between 2013 and 2022 all jurisdictions experienced decreasing frequency for collision claims. Additionally, all jurisdictions experienced notable decreases in collision claims frequency throughout the pandemic. From 2013 to 2019, Alberta had the highest collision claims frequency followed by Newfoundland. For most jurisdictions, the frequency of collision claims remained well-below pre-pandemic levels in 2022.

**Figure 8. Collision Claims Frequency (per 100 vehicles) in Selected Jurisdictions**

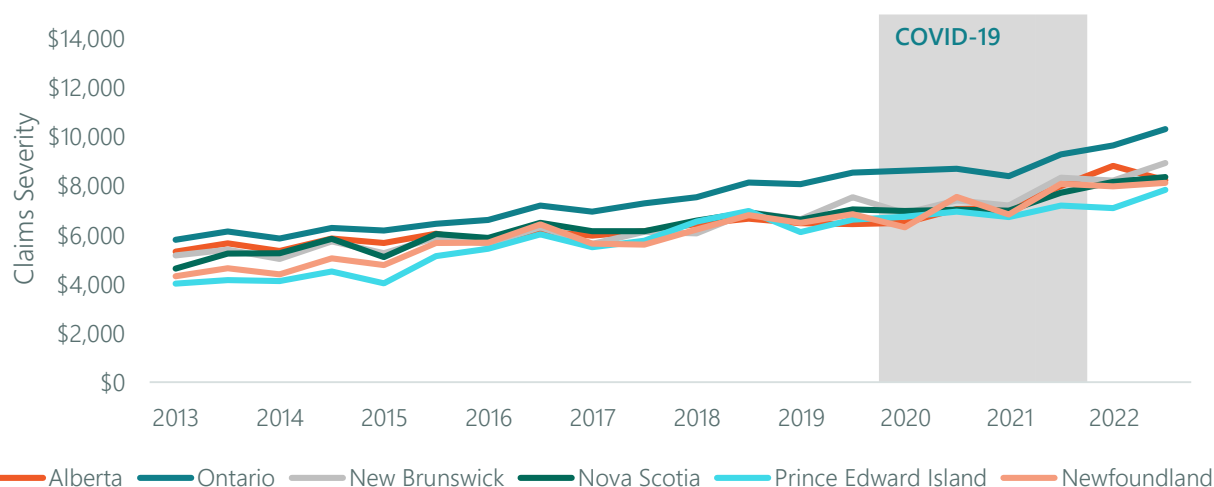


Source: GISA Auto1005 Exhibits

As shown in Figure 9, while collision claim frequency was decreasing, claim severity was increasing in all jurisdictions. Claim severity in Ontario is higher than in other jurisdictions. In Alberta claim severity increased by approximately 45 percent between 2013 and 2022, while in other jurisdictions increases were above 60 percent.



**Figure 9. Collision Claims Severity in Selected Jurisdictions**

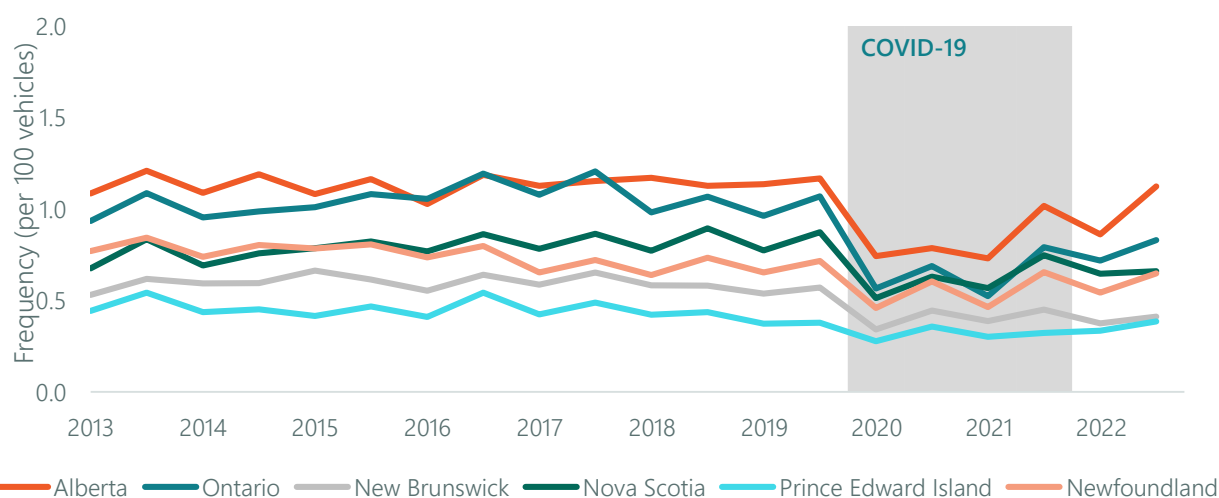


Source: GISA Auto1005 Exhibits

### Accident Benefits

Accident benefits provide reimbursement for medical care, income loss and other services for those injured in a collision. Figure 10 shows trends in claim frequency for accident benefits. Over the period 2013 to 2019, the frequency of accident benefit claims was relatively stable. In 2020 and 2021 claim rates declined before increasing in 2022. Despite the increases, in most jurisdictions claim rates remained below pre-pandemic levels. Alberta and Ontario tend to have the highest frequency of accident benefits claims.

**Figure 10. Accident Benefits Claims Frequency (per 100 vehicles) in Selected Jurisdictions**

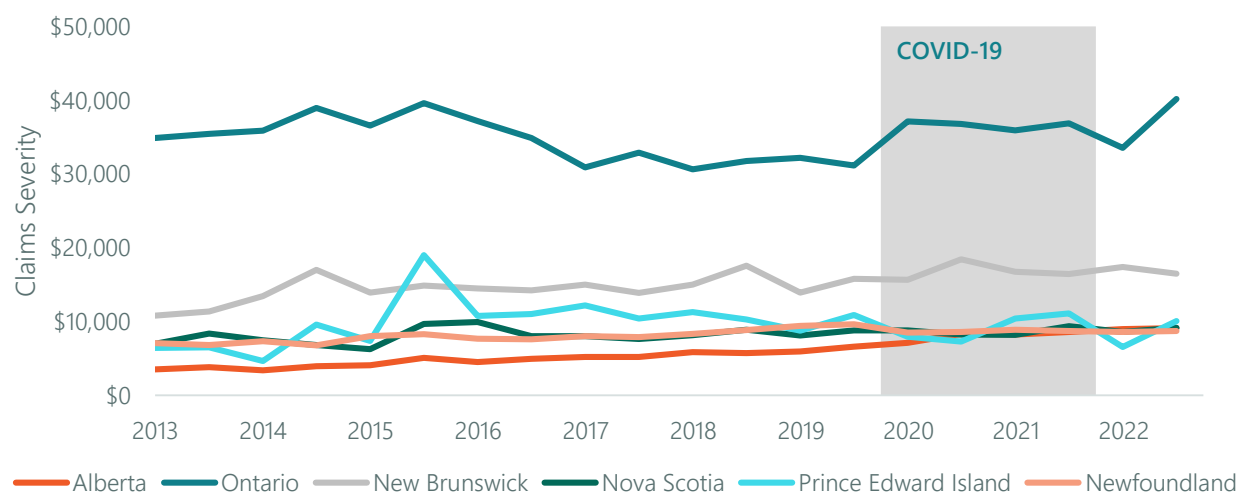


Source: GISA Auto1005 Exhibits

As shown in Figure 11 between 2013 and 2022, most jurisdictions experienced increases in the severity of accident benefit claims. However, the magnitude of the increases varied by province. Ontario, which has the highest severity, saw severity decline between 2013 and 2019. Beginning in 2020 severity

increased and in 2022 it was 13 percent above 2013 levels. Severity in Alberta more than doubled over the over the period, while other provinces had increases of between 9 percent and 55 percent.

**Figure 11. Accident Benefits Claims Severity in Selected Jurisdictions**



Source: GISA Auto1005 Exhibits

## 4.4 Trends in Financial Performance

Insurers offering private passenger automobile insurance generate income from three sources:

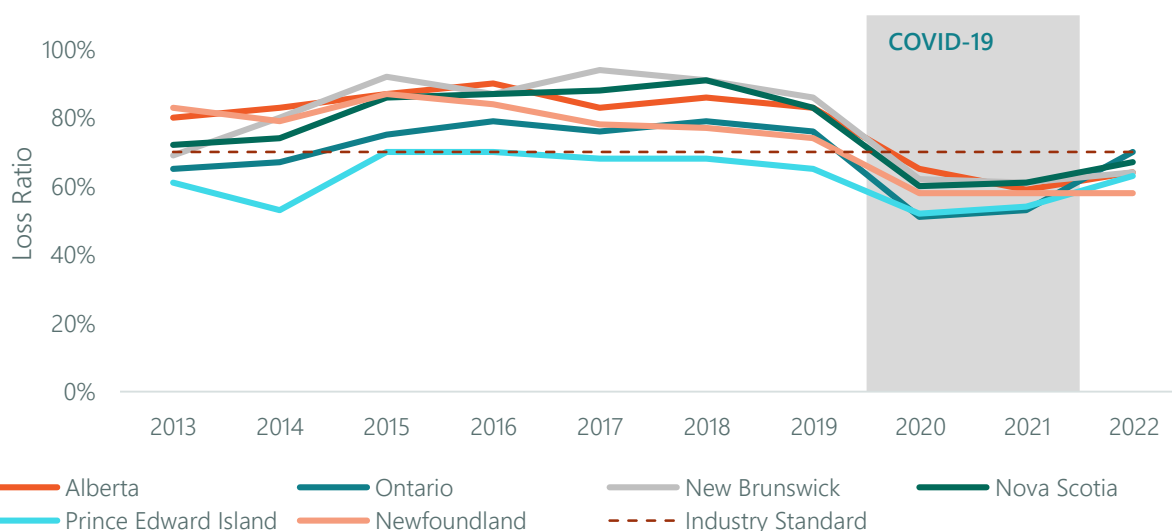
- **Premiums:** The main source of income for auto insurance companies is the collection of premiums from policyholders. Premiums are determined by the types of coverage and the expected costs of claims.
- **Investments:** To maintain their capital requirements and manage risk, insurers invest a portion of the premiums they collect. 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 (i.e., 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 are a common benchmark used by insurers to monitor performance. Loss ratios measure the percentage of collected premiums that are paid out in claims. A lower loss ratio is more favourable for insurers. For example, a loss ratio above 100 percent would indicate that insurers are paying out more in claims than they are collecting in premiums. A loss of ratio of 70 percent for private passenger automobile insurance is generally where an insurer is achieving a level of profitability consistent with financial sustainability.<sup>8</sup>

<sup>8</sup> Alberta Automobile Insurance Rate Board. Market & Trends Report. Retrieved from: <https://albertaaairb.ca/wp-content/uploads/2022/09/2022-Market-and-Trends-Report.pdf>.

Figure 12 shows trends in total loss ratios for the private passenger automobile insurance between 2013 and 2022. Prior to 2020 all jurisdictions except Prince Edward Island had total loss ratios exceeding 70 percent. In 2020 and 2021 total loss ratios decreased before increasing again in 2022. In 2022 loss ratios increased in most jurisdictions and were approaching 70 percent. Loss ratios for third-party liability, comprehensive and accident benefits were consistently above 80 percent in most jurisdictions, while loss ratios for collision varied. Loss ratios for each type of coverage are provided in Appendix D.

**Figure 12. Total Loss Ratio in Selected Jurisdictions**

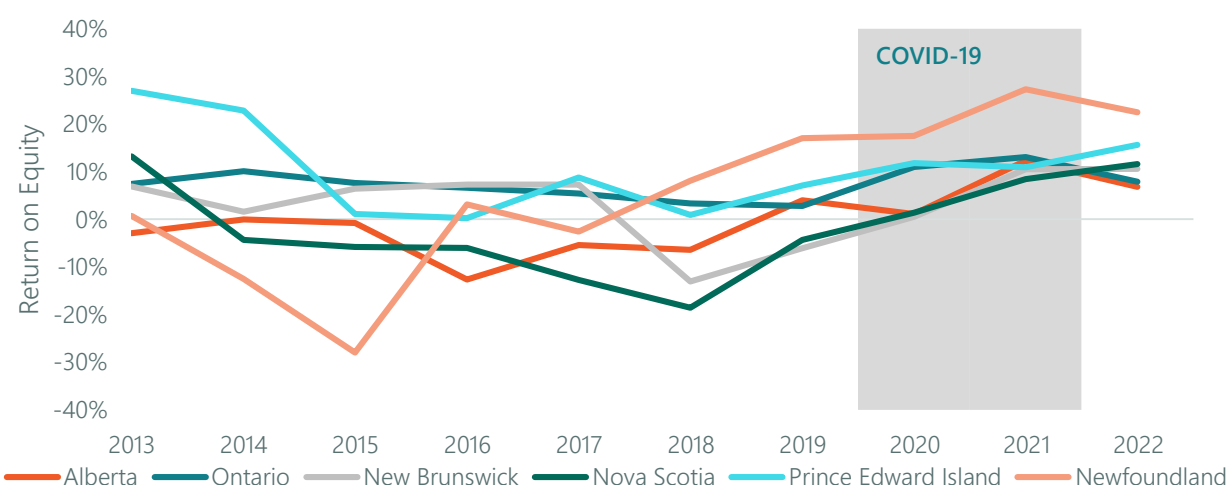


Source: GISA Auto1005 Exhibits

Return on equity is a measure of profitability and how efficiently profits are generated. Figure 13 shows insurers' return on equity between 2013 and 2022. All jurisdictions except Ontario and Prince Edward Island experienced years with a negative return on equity. Insurers in Newfoundland have had the highest return on equity since 2017. The return on equity for insurers in Alberta was among the lowest of all, with an average return on equity below 0 percent. The industry target return on equity for automobile insurance companies in Alberta is 12 percent each year.<sup>9</sup>

<sup>9</sup> Alberta Automobile Insurance Rate Board. *Market & Trends Report, 2022*.

Figure 13. Return on Equity in Selected Jurisdictions



Source: GISA Auto9501 Exhibits

## 4.5 Summary of Findings

The analysis of claims costs and financial performance found that:

- Premiums have been increasing.** Between 2013 and 2022 premiums increased by between 8 percent (Ontario) and 50 percent (Nova Scotia). Increases were 44 percent in Alberta, 42 percent in New Brunswick and around 25 percent in Prince Edward Island and Newfoundland.
- Prior to the pandemic claim frequencies were stable or declining while claim severity was increasing.** Third-party liability claim frequencies declined between 2013 and 2016 and were relatively stable between 2016 and 2020. Comprehensive and accident benefits claim frequencies were relatively stable between 2013 and 2020, while collision claim frequencies were declining. Over the same period the severity of third-party liability claims increased by 70 percent in Alberta and up to 35 percent in other jurisdictions. Increases in the severity of comprehensive claims were between 40 percent and 60 percent, while the severity of collision claims increased by over 45 percent in all jurisdictions.
- Decreased driving levels during the pandemic resulted in reduced claims frequencies.** There was a significant reduction in mobility throughout the pandemic due to public health measures. This resulted in reduced claims frequencies for third-party liability, accident benefits, and collision in all jurisdictions.
- Alberta tends to have higher claim frequencies than other provinces.** Between 2013 and 2022, Alberta consistently had the highest claims frequency for third-party liability, accident benefits, and collision coverages. While comprehensive claim frequencies tend to be lower than in other jurisdictions, the severity of comprehensive claims is significantly higher.
- Decreased driving levels during the pandemic improved the financial performance of private passenger automobile insurers.** Between 2013 and 2020 loss ratios for auto insurance consistently exceeded 70 percent and the return on equity was negative for five years in Alberta and six years in Nova Scotia. In other provinces return on equity was positive in most years. In

2020 and 2021, reductions in claim frequencies due to public health measures resulted in insurers in all the jurisdictions experiencing increases in return on equity.

## 5 Cost Drivers

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The analysis of claim costs and financial performance in Section 4 suggests that while claim frequencies are stable or decreasing, claim costs are rising and this is leading to significant increases in premiums. To identify the factors contributing to increased claim costs we gathered information on trends in Alberta and interviewed insurers comprising of the majority of market share providing coverage in the province. Alberta was chosen as it has had some of the largest increases in claim costs and there are indications that the financial performance of insurers in the province is not sustainable.

Claim costs can be separated into two categories: payments made to fix or replace a vehicle or other property (material damage) and payments made to compensate an injured party for expenses or pain and suffering as a result of their injuries (bodily injury). While both collision and comprehensive coverages only cover material damage, third-party liability covers both material damage and bodily injury.

MNP estimated total system costs based on data from GISA and the *Annual Review of Industry Experience, Preliminary Report As of December 31, 2022* authored by Oliver Wyman for the AIRB 2023 Annual Review. Table 4 shows the estimated total system costs between 2018 and 2022. Claim costs were estimated to account for approximately 70 percent to 75 percent of total costs. Between 2018 and 2019 claim costs increased by approximately three percent. Bodily injury claim costs rose by nine percent while material damage claim costs decreased by approximately three percent. In 2020 and 2021 claim costs declined as a result of lower claim frequency during the pandemic when public health measures restricting mobility were in place. In 2022 claim costs rose but remained below 2019 levels. Bodily injury claim costs were 16 percent below 2019 levels, while material damage claim costs were three percent above 2019 levels.

Table 4. Total System Costs, 2018 to 2022 (\$ millions)

Category	2018	2019	2020	2021	2022
<b>Bodily Injury</b>					
Third-party Liability	\$1,223	\$1,338	\$998	\$1,013	\$1,039
Accident benefits	\$182	\$200	\$164	\$207	\$255
<b>Material Damage</b>					
Collision	\$575	\$560	\$380	\$413	\$428
Third-party Liability	\$482	\$472	\$321	\$155	\$578
Comprehensive	\$421	\$409	\$630	\$448	\$478
All Perils	\$11	\$10	\$9	\$12	\$16
Specified Perils	\$1	\$1	\$2	\$2	\$2
<b>Other</b>					
Uninsured Motorist	\$15	\$16	\$14	\$16	\$15
<b>Total Claim Costs</b>	<b>\$2,910</b>	<b>\$3,006</b>	<b>\$2,518</b>	<b>\$2,266</b>	<b>\$2,811</b>
Commissions	\$444	\$487	\$508	\$607	\$611
Premium Tax	\$133	\$139	\$150	\$165	\$166
All other Expenses	\$345	\$340	\$382	\$445	\$462
<b>Total Non-claim Costs</b>	<b>\$922</b>	<b>\$966</b>	<b>\$1,040</b>	<b>\$1,217</b>	<b>\$1,239</b>
<b>Total Costs</b>	<b>\$3,832</b>	<b>\$3,972</b>	<b>\$3,558</b>	<b>\$3,483</b>	<b>\$4,050</b>

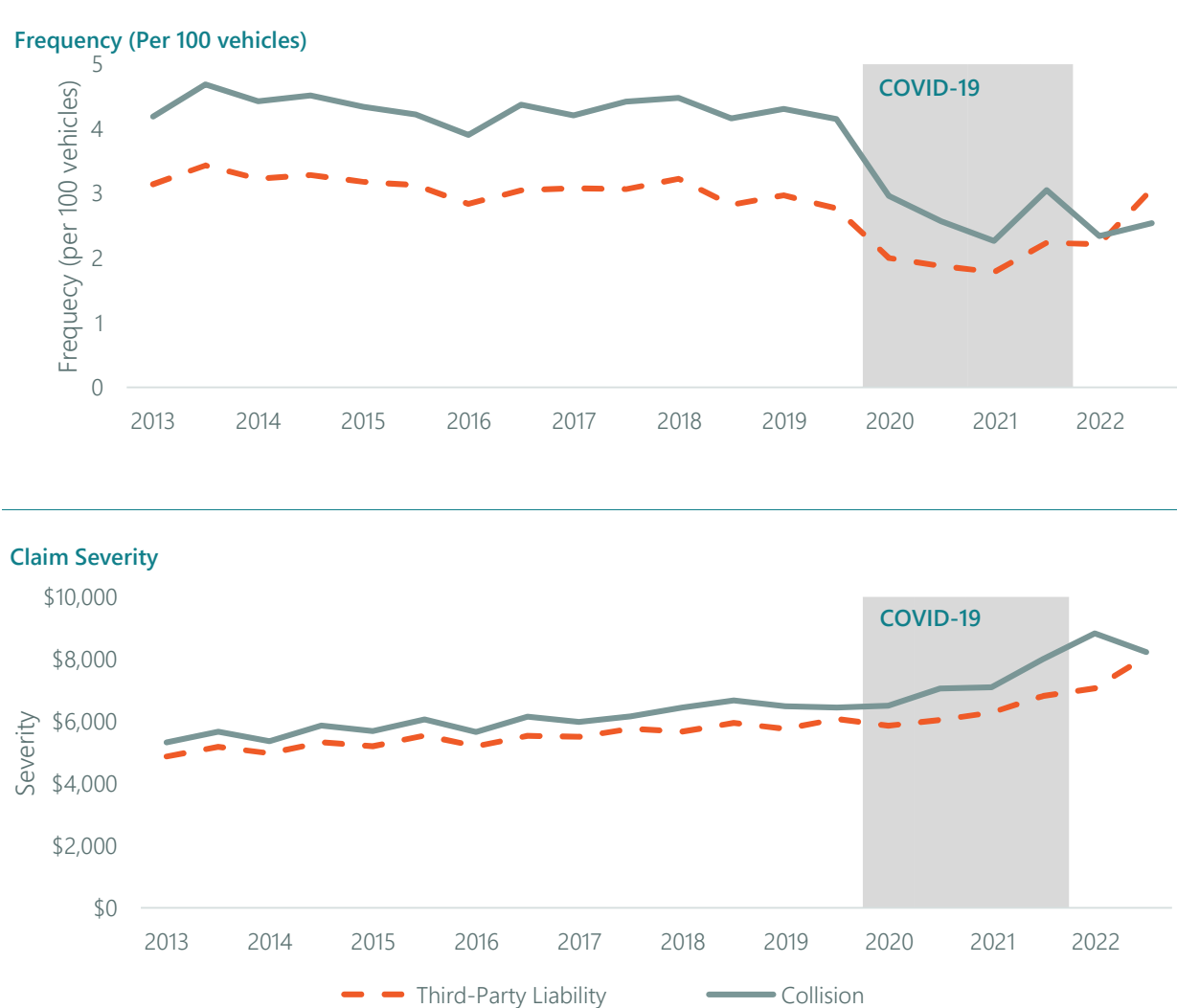
## 5.1 Material Damage Claims

Material damage claims accounted for approximately half of claim costs between 2018 and 2022. These claims are covered through third-party liability, collision, and comprehensive. While third-party liability provides coverage for all types of property, the vast majority of material damage claims are related to vehicle repair and maintenance.

Material damage claims arising from auto accidents are covered through third-party liability for the not-at-fault party and collision for the at-fault party. Comprehensive coverage covers material damage arising from events not related to accidents (i.e., theft, vandalism, weather events). This suggests that trends in third-party liability claim frequencies and severity associated with material damage would be similar to those for collision.

Figure 14 compares claim frequency and claim severity for material damage covered through third-party liability and collision between 2013 and 2018. Collision claims have a higher frequency and the severity is slightly higher than third-party material damage claims; however, both collision and third party claim frequency have declined over the period, while severity has been increasing. Between 2013 and 2019 severity increased by approximately 32 percent and between 2019 and 2022 severity increased by 38 percent.

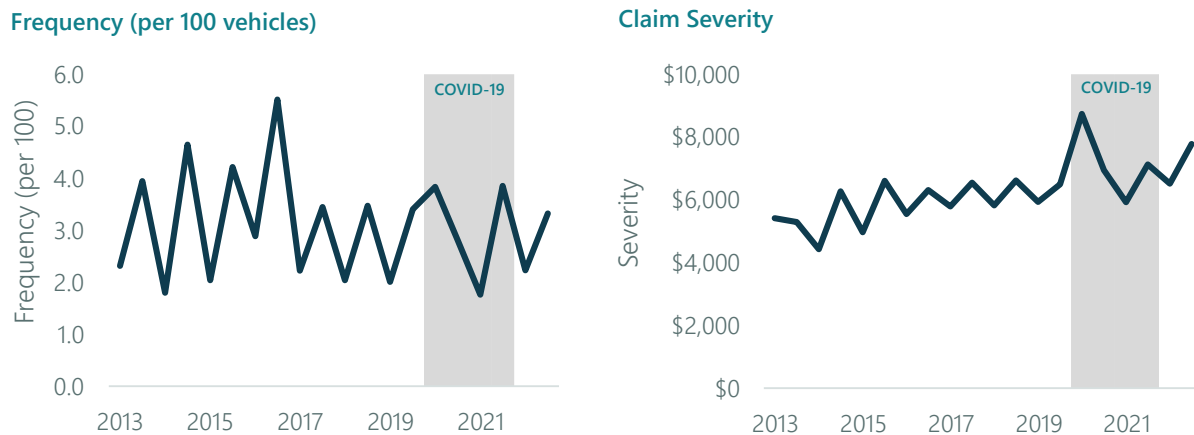
Figure 14. Trends in Material Damage Claims in Alberta, Collision and Third-party Liability



Source: Oliver Wyman Canada – Annual Review of Industry Experience, Preliminary Report (2023) and GISA Auto1005 Exhibits

As shown in Figure 15 the trends in severity of comprehensive claims are similar to that for collision and third-party liability, while the frequency is relatively stable with some variation year to year. This suggests that the increase in claim cost for material damage is related to increases in the cost of repairs and the value of vehicles.

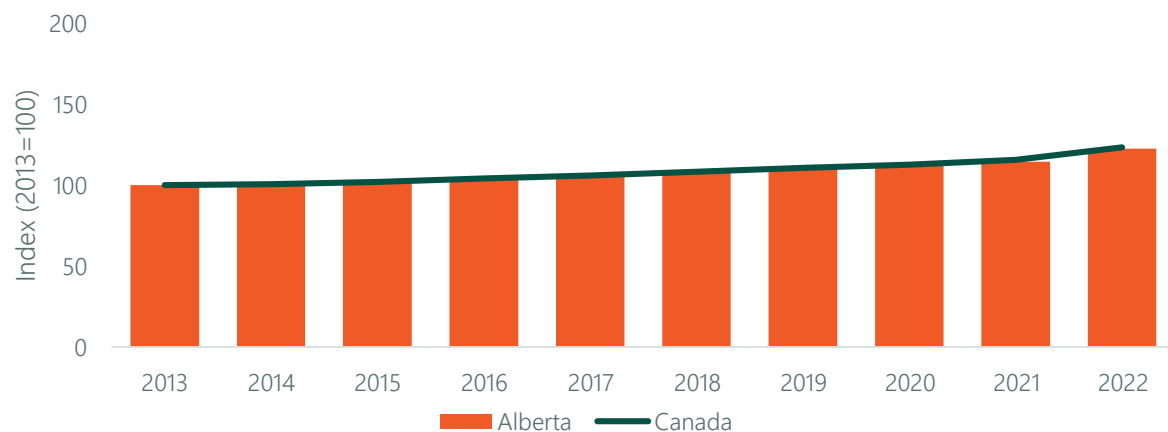
**Figure 15. Trends in Material Damage Claims in Alberta, Comprehensive**



Source: GISA Auto1005 Exhibits

The Passenger Vehicle Parts, Maintenance and Repair Index measures the cost of purchasing parts and repair services for vehicles and is part of Statistics Canada's Consumer Price Index. Figure 16 compares the vehicle parts and repair index for Canada with that in Alberta. From 2013 to 2022, the price index in Alberta increased at a rate comparable to that in Canada overall. Between 2013 and 2022 the cost of vehicle repairs and maintenance increased by 23 percent and over half of that growth in costs has occurred since 2019.

**Figure 16. Passenger Vehicle Parts, Maintenance, and Repairs Price Index (2013 = 100)**



Source: Statistics Canada Consumer Price Index

While the primary expenses incurred during a material damage claim account for vehicle parts, repair labour, and replacement costs, there are other associated expenses with these coverages as well. Some coverages offer vehicle rentals while the claimant's vehicle is being repaired, and the time required to complete the repair may significantly impact an insurers rental vehicle expenses.



## 5.1.1 What We Heard about Material Damage

To better understand the factors contributing to material damage claims trends, interviewees were asked to share their experience and observations on material damage claims in Alberta. The following observations related to material damage claims were reported:

- **Above average inflation levels are increasing the claim severity for material damage claims.** Interviewees reported that repair labour, vehicle parts, and vehicles have experienced above- average inflation levels since 2020, resulting in increasing material damage claim severities.
- **Supply chain issues resulted in longer repair times.** Interviewees reported that supply chain issues since 2020 caused significant disruptions to vehicle parts manufacturing and distribution channels. These challenges resulted in above average vehicle repair times and increases in rental vehicle expenses.
- **Increasing use of like kind (i.e., aftermarket) vehicle parts has helped manage claim severity.** To reduce vehicle repair times or to complete vehicle repairs in the event the required parts are unavailable, the use of like kind parts has increased. Like kind parts are parts that have not been manufactured by the original equipment manufacturer (OEM) and are often cheaper and more readily available. The use of these parts shortens repair times which lowers rental vehicle expenses, and the lower price of the part helps to manage increases in claim severity.
- **New vehicles have become more complex, which increases repair costs.** Vehicles are becoming increasingly complex as they incorporate additional sensors and safety technology. Interviewees reported increasing repair costs because of this, resulting from both the replacement costs of complex parts and increased complexity of repairs.
- **Water and storm damage to vehicles has increased.** Interviewees reported increased instances of water and storm damage in Alberta, particularly damage caused by hail. It was reported that the severity of comprehensive claims is significantly impacted by the increase in hail damage claims.
- **The impact of improved vehicle safety features on accident rates is uncertain.** Some interviewees reported that while they have seen an increase in vehicle safety technology, they have not seen a significant impact to claims.

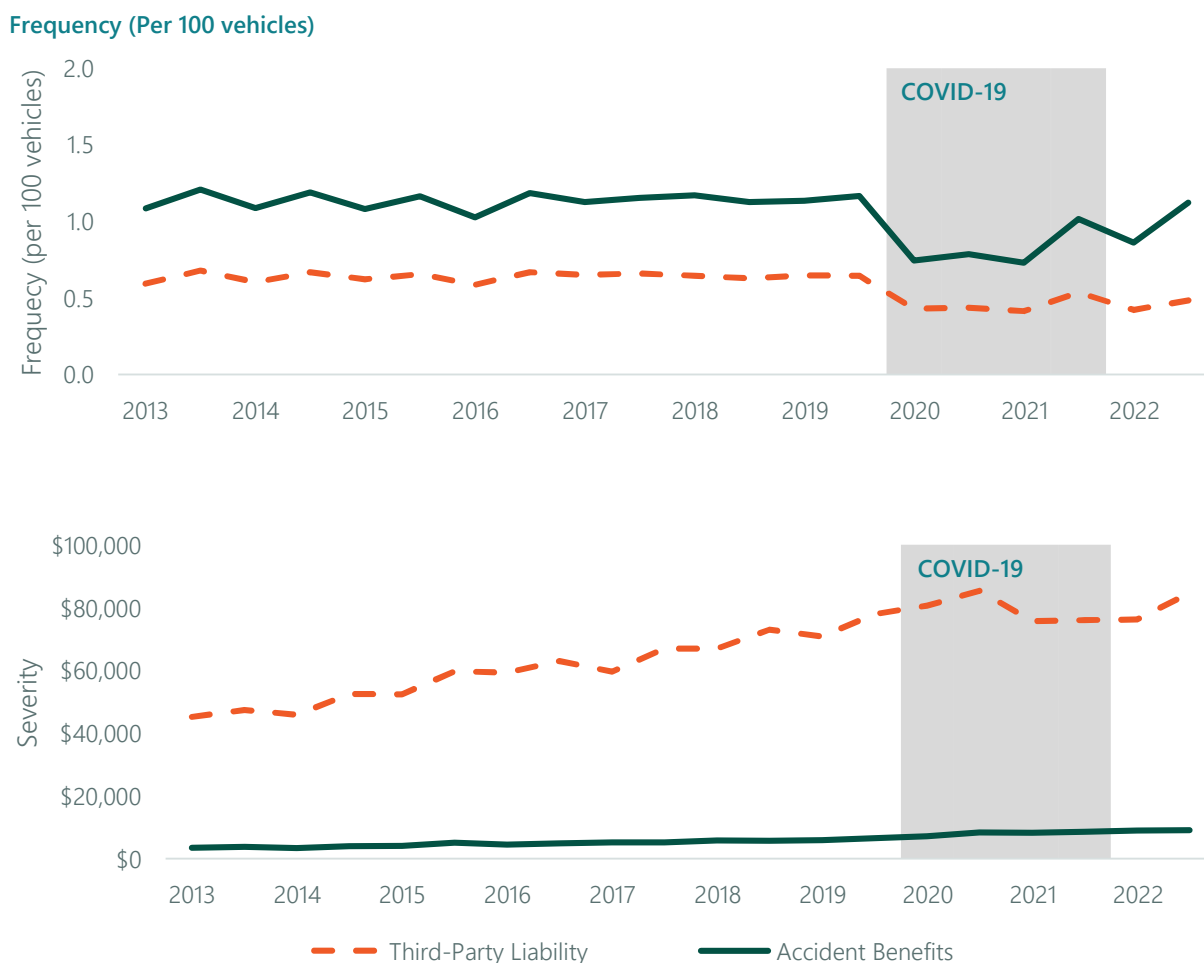
## 5.2 Bodily Injury Claims

Bodily injuries accounted for approximately half of claim costs between 2018 and 2022 and there is some indication that this was growing prior to the pandemic. However, it is not clear what future trends are as there may be changes in mobility patterns following the pandemic that affect claim frequency or severity.

Bodily injuries are covered through third-party liability and accident benefits. Third-party liability coverage includes both reimbursement for expenses, as well as compensation for non-economic damages. Accident benefits reimburse expenses and economic damages only.

Figure 17 compares trends in third-party liability and accident benefit claims between 2013 and 2020. The frequency of accident benefits claims is higher, while the claim severity is significantly lower. Over the period frequency trends were similar, while the severity of third-party liability claims increased by 74 percent and accident benefits increased by over 100 percent.

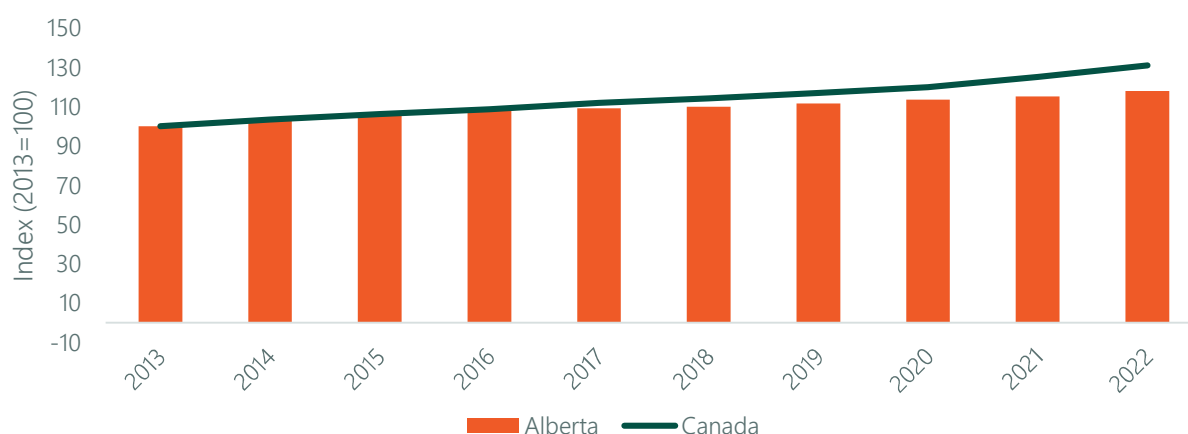
**Figure 17. Trends in Bodily Injury Claims in Alberta, Third-party Liability and Accident Benefits**



Source: Oliver Wyman Canada – Annual Review of Industry Experience, Preliminary Report (2023) and GISA Auto1005 Exhibits

The Health Care Services Price Index measures the cost of health care services and is part of Statistics Canada's Consumer Price Index. Figure 18 compares trends in the cost of health care services (e.g., physiotherapy, pharmacy) in Alberta and Canada. From 2013 to 2022, the price of health care services in Alberta grew at a slower rate than the cost of health care services in Canada. Over the period the price of health care services increased by approximately 18 percent in Alberta and 31 percent in Canada overall. This is significantly below the rate of increase in bodily injury claim severity.

**Figure 18. Health Care Services Price Index (2013 = 100)**



Source: Statistics Canada Consumer Price Index

## 5.2.1 What We Heard about Bodily Injury Claims

To better understand the factors contributing to bodily injury claims trends, interviewees were asked to share their experience and observations on bodily injury claims in Alberta. The following observations related to bodily injury claims were reported:

- **The impact of improved vehicle safety features on bodily injuries is uncertain.** Some interviewees reported, that while there has been an increase in vehicle safety technology, they have not seen a significant impact to claims data.
- **The percentage of bodily injury cases with legal representation has increased significantly.** Interviewees consistently reported an increasing trend in legal representation for bodily injury claims. Interviewees cited increasing numbers of bodily injury lawyers in the province, increased advertising for bodily injury legal services, and an increasing number of material damage claims converting to bodily injury claims as factors in the increase in representation.
- **The claims expenses for a bodily injury claim with legal representation are significantly higher than those without legal representation.** Interviewees consistently reported significantly higher claims expenses for represented bodily injury claims than unrepresented claims.
- **Case law is evolving.** Several recent cases in Alberta have affected whether or not an injury claim is subject to the minor injury cap. This has meant that an injury claim that may have been considered minor is now no longer subject to the minor injury cap. This is often the case with injuries involving chronic pain, psychological injuries, dental injuries, and concussions.

- **Legal representation increases the likelihood of specific injuries being included in a claim.** Represented claims frequently utilize chronic pain and/or anxiety/depression (injuries that rely on plaintiff self-reporting) to exceed the minor injury cap.
- **There is an increasing trend in the amounts being pursued by plaintiff counsel.** Interviewees reported more aggressive plaintiff counsels that are seeking higher damages and more types of damage (i.e., housekeeping or care costs).
- **Cases take a notably long time to make it to trial.** Interviewees consistently reported that there are significant wait times to reach trial and that it can take between four and seven years from the date of loss for a case to reach trial.

### 5.3 Assessment of the Impact of Legal Costs on System Costs

The review of factors influencing the cost of claims suggests that rising material damage claim costs are related to increases in the complexity of vehicle repairs, increases in vehicle values, and longer repair times due to lack of available parts. For bodily injury claims factors influencing claim costs that were identified are increases in the cost of health care services and increases in legal representation. Claim costs for bodily injury have increased at a significantly faster rate than the price of health care services which suggests that this is only one factor in observed increases.

To understand the impact of legal representation on claim costs we used data provided by insurers on claim costs, legal representation rates and trends, and data from GISA and the AIRB to estimate the value of represented claims, the value of non-represented claims and how much of the costs are related to legal expenses between 2018 and 2022.

Figure 19 shows the trends in legal representation between 2015 and 2023. Over the period, the percentage of third-party bodily injury claims with legal representation was estimated to have increased from 18 percent in 2015 to 40 percent in 2023.

**Figure 19. Estimate of Third-Party Bodily Injury Representation Rate in Alberta**

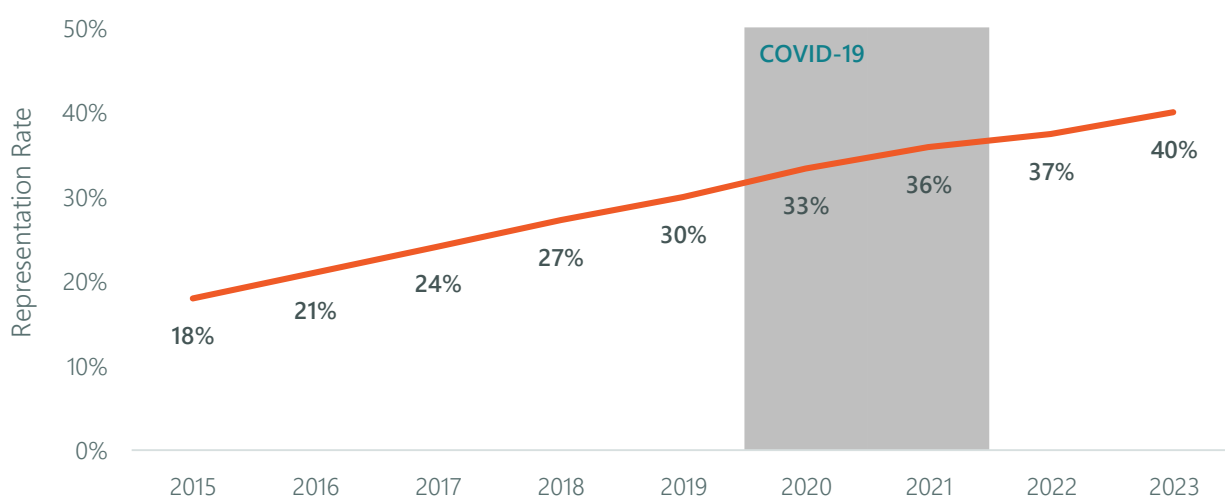
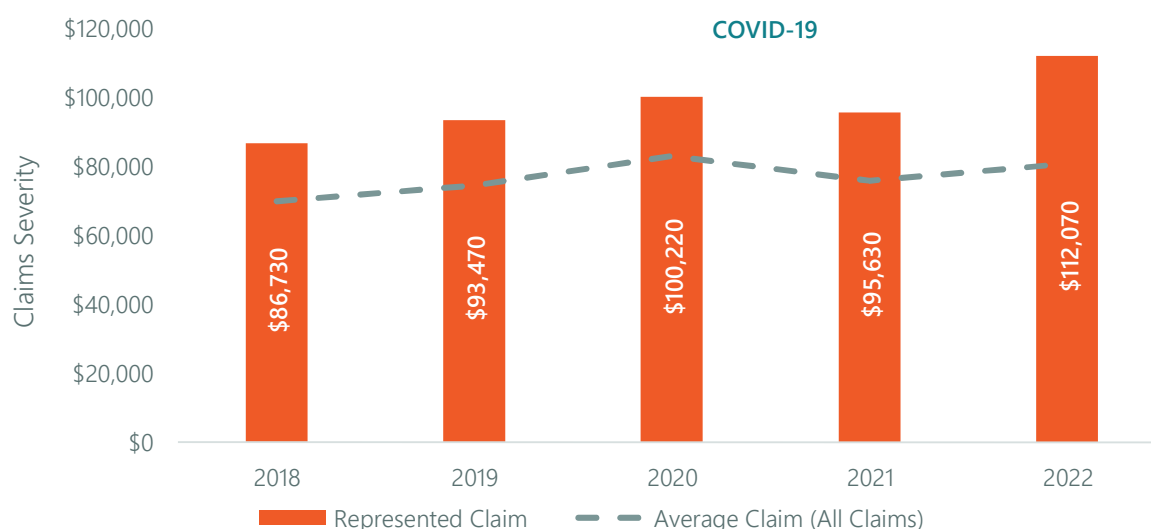


Figure 20 compares the estimated severity of a represented bodily injury claim with the average of all bodily injury claims between 2018 and 2022. Over the period the severity of third-party bodily injury

claims with legal representation was estimated to have increased by approximately 30 percent while the average value of all claims has increased by approximately 15 percent. This suggests that the value of claims with legal representation have been increasing significantly faster than the value of claims which do not have legal representation. It is important to note that represented claims may involve more severe injuries than unrepresented claims and more severe injuries would have higher costs. Consequently, not all of the difference in costs would be attributable to legal representation. Data were not available to assess how much of the difference in severity is attributable to differences in the type of injuries.

**Figure 20. Bodily Injury Claims Severity - Represented and Average**



To illustrate the breakdown of costs associated with a represented claim, MNP developed expense estimates for an average represented third-party bodily injury claim. The estimates were based on a scenario where a driver is at-fault for a vehicle collision resulting in material damage to the drivers' vehicle and to a third party's vehicle. The collision also resulted in injuries to the driver and injuries to the third party.

At the time of the collision, the driver had an active private passenger automobile insurance policy which included the coverages purchased by most drivers in Alberta: third-party liability, collision, comprehensive, accident benefits, and uninsured motorist protection.

As a result of the collision, a claim is made to the driver's insurer for the damage to the driver's vehicle, the third party's vehicle and for the bodily injuries sustained by the driver and the third-party. Table 5 outlines the coverages that were used in the claim against the driver's insurer.

**Table 5. Coverages and Losses Covered, Modelled Claim**

Coverage Type	Description of Coverage
<b>Third Party Liability Bodily Injury</b>	Third party liability bodily injury covers expenses incurred from the drivers' legal liability to compensate and cover the third party's (plaintiff) expenses resulting from injuries they sustained in the collision.
<b>Third Party Liability Material Damage</b>	Third party liability material damage covers expenses incurred by the third party to repair damage to their vehicle that resulted from the collision. <sup>10</sup>
<b>Accident Benefits</b>	Accident benefits will cover certain expenses incurred by claimants as a result of the injuries they sustained in the collision.
<b>Collision</b>	Collision will cover expenses incurred by the driver for repairing the damage to their vehicle that resulted from the collision.

Based on data provided by insurers operating in Alberta and publicly available industry data the expenses incurred by the driver's insurer for each coverage were estimated. Table 6 summarizes the total claim cost as a result of the collision. The insurer paid out a total of \$123,100 to the parties involved in the collision. Of this, 54 percent went to the injured third party, and 32 percent was paid to the legal firm representing the injured third party. The remaining 14 percent was paid to the at-fault driver. In addition to these costs the insurer was estimated to have incurred internal litigation related costs of approximately \$14,000.

**Table 6. Claims payments by Coverage Type and Receiving Party, Modelled Claim**

Coverage Type	Amount Paid to At-Fault Driver	Amount Paid to Third Party	Amount Paid to Third Party's Legal Firm	Total
Third Party Liability Bodily Injury	\$0	\$58,660	\$39,340	\$98,000
<i>Payments for pain and suffering and loss of enjoyment of life.</i>	<i>\$0</i>	<i>\$15,660</i>	<i>\$32,340</i>	<i>\$48,000</i>
<i>Reimbursement of costs for rehabilitation expenses and payment for future care, etc.</i>	<i>\$0</i>	<i>\$43,000</i>	<i>\$0</i>	<i>\$43,000</i>
<i>Disbursements for expert witness reports, etc.</i>	<i>\$0</i>	<i>\$0</i>	<i>\$7,000</i>	<i>\$7,000</i>
Third Party Liability Material Damage	\$0	\$7,600	\$0	\$7,600
Accident Benefits	\$9,000	\$0	\$0	\$9,000
Collision	\$8,500	\$0	\$0	\$8,500
<b>Total Payout (\$)</b>	<b>\$17,500</b>	<b>\$66,260</b>	<b>\$39,340</b>	<b>\$123,100</b>
<b>Distribution of Payout (%)</b>	<b>14%</b>	<b>54%</b>	<b>32%</b>	<b>100%</b>

<sup>10</sup> For the purposes of this report, third-party liability material damage includes all material damage liability, including direct compensation coverage. For the purposes of understandability, the details of direct compensation coverage being paid by the third party's insurer is excluded in the claims modelling description.

To estimate the percentage of total system costs attributable to legal fees we estimated the share of injury claims that are represented and the cost of those claims based on the average cost of a represented claim (see Figure 20). We then applied the share of total claim bodily injury costs paid to the legal firm from Table 6 to estimate the total payments for legal fees for the third party. We then developed estimates of the insurers' legal costs.<sup>11</sup> Table 7 shows the estimated costs associated with litigation between 2018 and 2022 and their contribution to claim costs. Between 2018 and 2022 the number of total claims fell from 17,491 to 12,861, while the number of represented claims was relatively stable at around 4,800. Claim costs associated with represented claims grew from \$412.5 million to \$539.3 million and accounted for 51.9 percent of bodily injury claim costs and 19.2 percent of total claim costs in 2022. This was up from 33.7 percent of bodily injury claim costs in 2018 and 14.2 percent of total claim costs in 2018. Estimated legal fees rose from \$214 million in 2018 to \$279.7 million in 2022, a 31 percent increase.

**Table 7. Percentage of Claims Costs Estimated to be Attributable to Litigation**

Category	2018	2019	2020	2021	2022
Total Claim Costs (\$ millions)*	\$2,911	\$3,006	\$2,517	\$2,265	\$2,810
Total Bodily Injury Claim Costs	\$1,223	\$1,338	\$998	\$1,013	\$1,039
Total Number of Bodily Injury Claims	17,491	17,969	12,014	13,340	12,861
Representation Rate	27.2%	29.9%	33.3%	35.8%	37.4%
Number of Represented Claims	4,757	5,372	4,000	4,775	4,810
Total Cost of Represented Claims (\$ millions)	\$412.5	\$503	\$401.6	\$457.8	\$539.3
Percentage of Bodily Injury Claim Costs	33.7%	37.6%	40.3%	45.2%	51.9%
Percentage of Total Claim Costs	14.2%	16.7%	16.0%	20.2%	19.2%
Litigation Costs Associated with Represented Claims (\$ millions)					
Payments to lawyers representing claimants	\$160.4	\$195.5	\$156.1	\$177.9	\$209.6
Disbursements	\$32.6	\$39.7	\$31.7	\$36.2	\$42.6
Insurers litigation costs	\$21.0	\$25.7	\$20.5	\$23.3	\$27.5
Total Litigation Costs Associated with Represented Claims	\$214.0	\$260.9	\$208.3	\$237.4	\$279.7
Percentage of Bodily Injury Claim Costs	17.5%	19.5%	20.9%	23.4%	26.9%
Percentage of Total Claim Costs	7.4%	8.7%	8.3%	10.5%	10.0%

*\*includes mandatory and optional coverages*

It is important to note that the estimates presented in Table 7 compare litigation costs to claim

<sup>11</sup> Insurers legal costs only include those costs that can be allocated to a claim. They do not account for unallocated loss expenses.

payments for all coverages. In Alberta collision and comprehensive coverages are optional products, while all drivers are required to have a minimum level of third-party liability coverage and accident benefits coverage.<sup>12</sup> Data were not available on the value of third-party liability claim payments associated with coverage over the minimum. However, based on the information provided by insurers the majority of third-party liability claims would be expected to fall within the minimum required coverages.

Figure 21 shows the estimated distribution of claim costs for third-party liability and accident benefits between 2018 and 2022. Over the period the percentage of claim costs attributable to legal fees has grown, while the percentage of claim costs that is going to claimants has declined. Payments to injury claimants have fallen from 63 percent of claim costs to 54 percent over the period, while the cost of repairing vehicles and other property damage has increased from 26 percent of claim costs to 31 percent of claim costs.

**Figure 21. Estimated Distribution of Claim Costs for Third-Party Liability and Accident Benefits, 2018 and 2022**

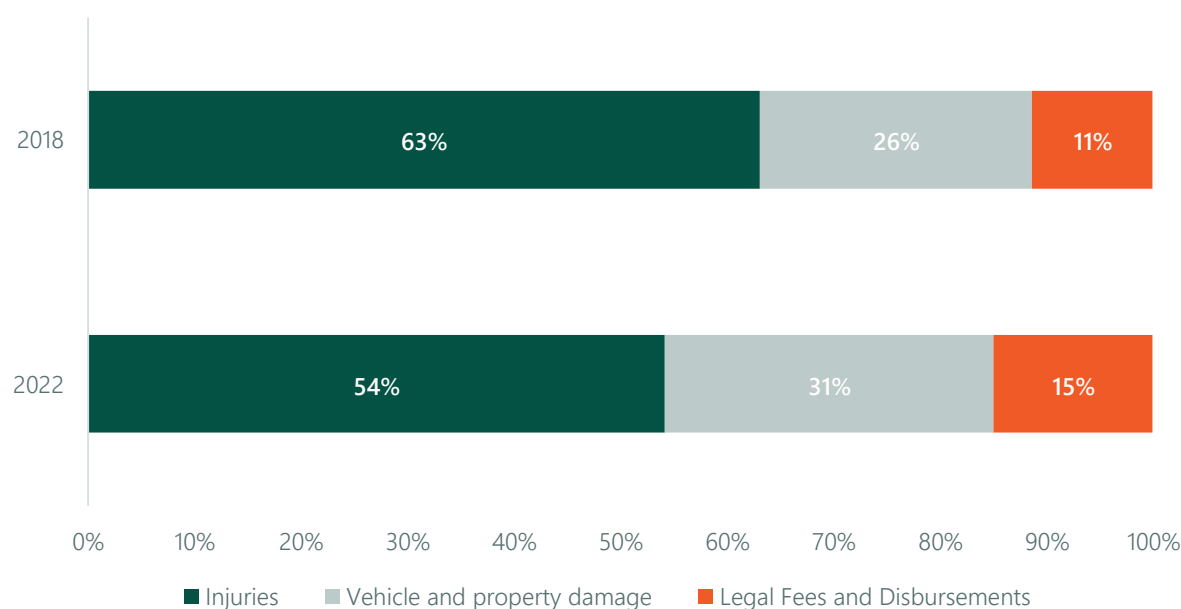
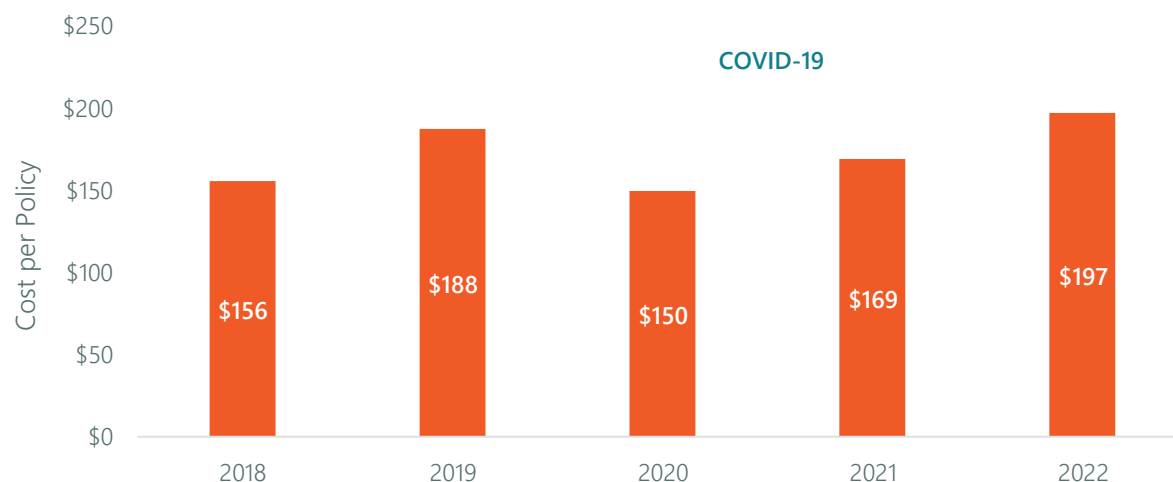


Figure 22 shows the average costs associated with legal fees and disbursements per policy. Between 2018 and 2022 Alberta drivers paid an average of between \$156 and \$197 in premiums to cover litigation expenses. This is equivalent to approximately 10 percent of the average premium and 20 percent of third-party liability premiums over the period.

<sup>12</sup> As of January 1, 2022 basic insurance also includes direct compensation for property damage.

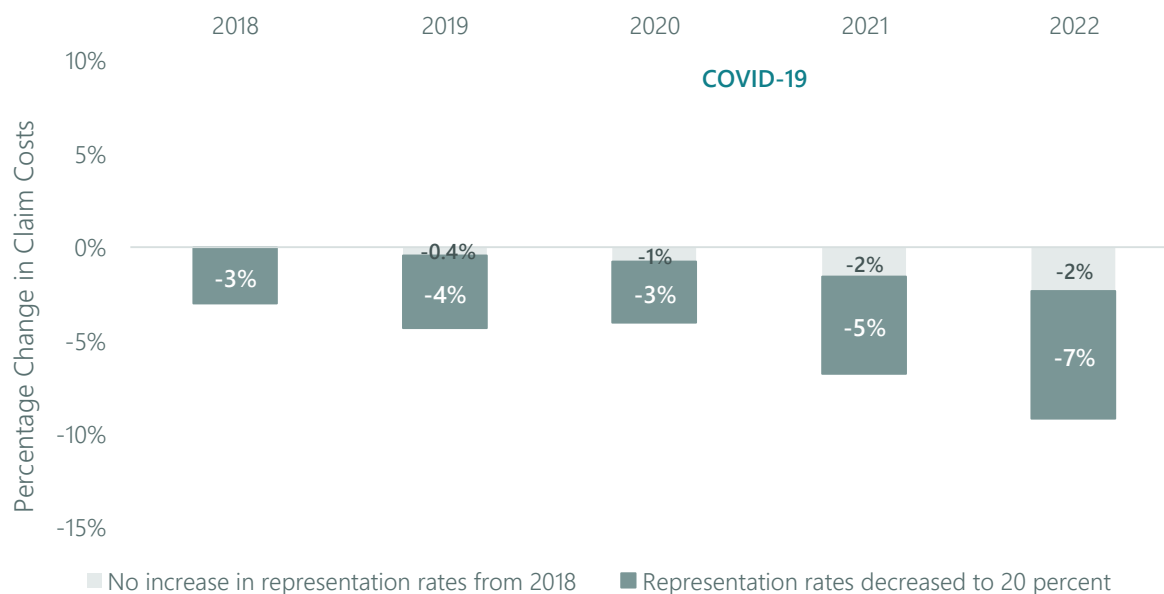


**Figure 22. Estimated Cost of Legal Fees and Disbursements per Policy**



To illustrate how reducing the number of represented claims could affect claim costs, MNP estimated the decrease in claim costs if representation had remained at 2018 levels (27 percent) and if representation declined to 20 percent. As shown in Figure 23 reducing representation was estimated to reduce claim costs by between one and seven percent. Over the period 2018 to 2022 this would have resulted in total savings of between \$100 million and \$600 million.

**Figure 23. Estimated Percent Reduction in Claim Costs from Decreases in Legal Representation**



## 5.4 Summary of Findings

Our review factors influencing claim costs found:

- **Material damage claim costs are increasing due to increasing complexity of repairs and longer repair times.** The cost of labour, vehicle parts, and vehicles has increased since 2020 and repair times have been extended due to supply chain issues. Longer repair times have contributed to increased expense associated with rental vehicles.
- **The severity of bodily injury claims has been rising faster than the cost of health care services.** Between 2013 and 2022 the severity of bodily injury claims increased by between 74 percent and 100 percent. Over the same period the price of health care services increased by approximately 18 percent.
- **Legal representation rates for bodily injury claims in Alberta are increasing quickly.** Between 2018 and 2022 the rate of legal representation increased from 27 percent to over 40 percent. Legal representation increases the severity of third-party liability bodily injury claims significantly. Between 2018 and 2022 the severity of represented claims was estimated to be between 40 percent and 80 percent higher than an unrepresented claim.
- **The likelihood of an injury being considered minor is decreasing, resulting in increases in bodily injury claims severity.** A number of recent legal decisions have affected whether or not an injury is subject to the minor injury cap. Legal representation increases the likelihood of an injury being considered a major injury, as chronic pain and/or anxiety/depression (injuries that rely on self reporting from the plaintiff) are being pursued more frequently by represented plaintiffs.
- **Cases take a notably long time to make it to trial.** Interviewees consistently reported that there are significant wait times to reach trial and that it can take between four and seven years from the date of loss for a case to reach trial. Limited court access and long legal processes increase systems costs and prevent the evolution of case law in response to regulatory changes.
- **Over \$1.2 billion dollars was spent on costs associated with litigation for bodily injury claims between 2018 and 2022.** These costs include legal fees and disbursements for claimants as well as legal costs incurred by insurers.
- **Claimants are receiving a smaller share of the overall settlement.** Between 2018 and 2022 the share of claim costs paid to claimants fell while the share going to legal costs and disbursements rose.
- **Legal fees and disbursements account for approximately 10 percent of total premiums and 20 percent of premiums for mandatory coverages.** Between 2018 and 2022 drivers paid an average of between \$160 and \$197 annually as part of their premiums to cover the costs associated with litigation.

## 6 Conclusion

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Automobile insurance premiums have been increasing across Canada in both tort jurisdictions and no-fault jurisdictions. Premium increases are linked to increases in claim costs for both injuries and property damage. Our review of cost drivers in Alberta found that:

- **Vehicle repair costs are increasing due to increasing complexity of repairs and longer repair times.** The cost of labour, vehicle parts, and vehicles has increased since 2020 and repair times have been extended due to supply chain issues. Longer repair times have contributed to increased expenses associated with rental vehicles.
- **The cost of bodily injury claims has been rising faster than the cost of health care services.** Between 2013 and 2022 the severity of bodily injury claims increased between 74 percent and 100 percent. Over the same period the price of health care services increased by approximately 18 percent.
- **Legal representation for bodily injury claims is increasing.** Between 2018 and 2022 the rate of representation for bodily injury claims in Alberta increased from 27 percent to over 40 percent. This is leading to fewer injury claims being subject to the minor injury cap and increasing claim severity.
- **Over \$1.2 billion was spent on litigation costs settle bodily injury claims between 2018 and 2022 in Alberta.** On an annual basis litigation costs grew from 17.5 percent of injury claim costs in 2018 to 27 percent of injury claim costs in 2022.

Increases in claim costs are passed on to drivers in the form of higher premiums. Between 2018 and 2022 drivers in Alberta were estimated to have paid between \$160 and \$197 annually to cover legal costs for those injured by at-fault drivers. If trends in claim costs continue that value is expected to increase.

# Appendices

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## 6.1 Appendix A: Common Automobile Insurance Coverage Types

This appendix provides an overview and description of the coverage types available in Alberta and most other provinces in Canada:

- **Accident benefits:** This type of coverage provides financial protection to occupants of a vehicle or pedestrians in the event they are injured in an accident. Accident benefits are paid regardless of which driver is at fault.
- **Third-party liability:** This type of coverage provides financial protection in the event a driver is considered liable for material damage or bodily injury. There are three types of third-party liability coverage:
  - **Bodily injury:** This type of coverage provides financial protection to the policyholder for their liability to compensate third parties for injuries sustained because of an accident where the policyholder is deemed at fault.
  - **Direct compensation for material damage:** This type of coverage provides financial protection for damage to the policyholder's vehicle or damage to the contents of their vehicle resulting from an accident where the policyholder is not at fault. If both drivers are determined to each be partially at fault for the accident, the policyholder is covered for a percentage of the repair or replacement, based on the percentage of the accident they were not at fault for.
  - **Material damage:** This type of coverage provides financial protection to the policyholder for their liability to compensate third parties for non-vehicle damage resulting from an accident where the policyholder is deemed at fault.
- **Collision:** This type of coverage provides financial protection to the policyholder for damage to the policyholder's vehicle or damage to the contents of their vehicle resulting from an accident with another vehicle or object where the policyholder is at fault.
- **Comprehensive:** This type of coverage provides financial protection to the policyholder for damage to the policyholder's vehicle or damage to the contents of their vehicle resulting from a non-collision event, such as vandalism, hail, theft, or fire.
- **All perils:** This type of coverage includes both collision and comprehensive coverage, as well as added coverages for theft or vehicle damage with certain circumstances that are not typically covered under collision and comprehensive.
- **Specified perils:** This type of coverage is a limited version of comprehensive coverage and provides financial protection to the policyholder for damage to the policyholder's vehicle or damage to the contents of their vehicle resulting from specific non-collision events listed in the policy.
- **Uninsured motorist:** This type of coverage provides financial protection to the policyholder for damage to the policyholder's vehicle or damage to the contents of their vehicle resulting from

collision where the policyholder is not at fault and the at-fault party does not have insurance.

## 6.2 Appendix B: No Fault Coverage

Table B.1 outlines the coverages for the four no-fault jurisdictions in Canada. In all four jurisdictions, public insurers have a monopoly on providing mandatory injury coverage. All systems offer similar levels of coverage with respect to accident benefits and rehabilitation expenses. Manitoba and B.C. have higher limits on income replacement and personal care assistance than Quebec and Saskatchewan. Funeral and death benefits vary by jurisdiction.

**Table B.1. Coverage Levels for Mandatory Bodily Injury and Material Damage Liability in No-Fault Jurisdictions**

Coverage	British Columbia <sup>13</sup>	Saskatchewan <sup>14 15</sup>	Manitoba <sup>16</sup>	Quebec <sup>17</sup>
<b>Third-Party Liability</b>	\$200,000 is available for a claim. This includes coverage for vehicle damage when the other driver is at-fault and damage and injuries caused by the insured outside of British Columbia.	\$200,000 is available per claim. This covers the cost of damage and injuries caused by the insured both within Saskatchewan and outside of Saskatchewan. However, if a claim involving bodily injury and material damage reaches this amount, a maximum of \$10,000 will be given for material damage.	\$500,000 is available per claim. In Manitoba this covers material damage caused by the insured. Outside of Manitoba, it covers injuries or material damage caused by the insured. However, if a claim involving bodily injury and material damage reaches this amount, a maximum of \$20,000 will cover material damage.	Minimum required is \$50,000. In Quebec this covers material damage caused by the insured. Outside of Quebec it covers damage and injuries caused by the insured.
<b>Legal Action: Bodily Injury</b>	Not-at-fault victims can sue for certain damages if the at-fault driver is convicted of certain criminal offences.	Only in a few limited circumstances such as those involving impaired driving or criminal negligence.	In some circumstances, drivers involved in a collision can sue each other for liability and the deductible. MPI will try to settle the case.	No claims against the at-fault party.
<b>Medical Coverage</b>	No time or amount limits.	No-fault coverage provides up to a maximum of \$7,819,241 per person. If this coverage does not	No time or amount limits.	There is no time or amount limit. The insurance plan does not cover medical consultations,

<sup>13</sup> ICBC website. Your guide to Enhanced Accident Benefits.

<sup>14</sup> Government of Saskatchewan, Auto Insurance Limits.

<sup>15</sup> SGI Guide to Choosing Personal Auto Injury Insurance, 2023.

<sup>16</sup> MPI Personal Injury Protection Plan.

<sup>17</sup> SAAQ website. Compensation Table for 2023

Coverage	British Columbia <sup>13</sup>	Saskatchewan <sup>14 15</sup>	Manitoba <sup>16</sup>	Quebec <sup>17</sup>
		cover all medical and rehabilitation costs, the driver may sue those responsible for any costs above the benefits.		radiological examinations, or surgery, as they are covered through Quebec's public health plan.
<b>Funeral Expense Benefits</b>	Up to \$9,386 per deceased.	Up to \$11,726 per deceased.	Up to \$9,851 per deceased.	Up to \$7,988 per deceased.
<b>Disability Income Benefits</b>	Enhanced Accident Benefits replaces up to 90 percent of the victim's income, minus any amounts payable from other sources, up to a maximum of \$105,500 in gross income.	Ninety percent of net income, based on a maximum gross salary of \$108,253. Coverage starts after the first seven days of disability. Unless catastrophically injured.	Ninety percent of net income up to \$110,500 per year. Coverage starts after the first seven days of disability.	Ninety percent of net income, up to \$90,500 per year.
<b>Impairment</b>	Up to \$271,834 for a catastrophic injury.  For a non-catastrophic injury, the maximum payment is \$172,154.	Up to \$224,073 per person for non-catastrophic injury.  Up to \$273,673 per person for catastrophic injury. <sup>18</sup>	From \$902 per week to a maximum of \$180,674 for non-catastrophic injury.  Up to \$285,287 for catastrophic injury.	Up to \$283,225 for permanent impairment.  Up to \$1,619 Indemnity for injury.  Injuries sustained in a traffic accident preventing the victim from resuming employment or regular activities may entitle them to other compensation while the disability persists.
<b>Death Benefits</b>	The minimum lump sum payment to a surviving spouse or partner is \$68,863.  Enhanced Accident Benefits pay a dependent \$32,708 to	Forty-five percent of the deceased's net income to a maximum gross salary of \$108,253 is provided to the spouse.  Five percent of	The minimum payment for a spouse or common-law partner depends on the wage and the age of the deceased. The minimum is \$72,271 and the maximum is	A lump-sum death benefit is paid to the victim's surviving spouse. That sum ranges from \$38,363 to \$70,677 determined by the age if the

<sup>18</sup> SGI website. Basic auto damage insurance.

Coverage	British Columbia <sup>13</sup>	Saskatchewan <sup>14 15</sup>	Manitoba <sup>16</sup>	Quebec <sup>17</sup>
	<p>\$61,680, depending on age at the time of the death.</p> <p>Disabled dependents are entitled to an additional payment of \$30,127.</p> <p>If the deceased had no dependents, spouse, or common-law partner, parents and non-dependent children will each receive a lump sum of \$15,336.</p>	<p>calculated death benefits are provided to each dependent child.</p> <p>If a victim dies and has no surviving spouse, dependent, parent, or non-dependent child, their estate is entitled to a lump-sum benefit of \$17,295.</p>	<p>\$552,500.</p> <p>Dependents receive an additional \$31,618 and non-dependent children or parents receive \$16,094.</p>	<p>dependent.</p> <p>Each dependent is paid a lump-sum death benefit, determined by age at the time of death. Those 16 years or older receive \$36,022.</p> <p>If the victim does not have a spouse or dependents, \$60,787 is paid to the victim's mother and father or the successor.</p>
<b>Personal Care Assistance</b>	<p>Non-catastrophic injuries: up to \$5,174 per month.</p> <p>Catastrophic injuries that do not require 24-hour care: up to \$6,187 per month.</p> <p>Catastrophic injuries that do require 24-hour care: up to \$10,280 per month.</p>	<p>Included in medical and rehabilitation coverage.</p>	<p>Personal care assistance expenses for non-catastrophic injuries are capped at \$5,419 per month.</p> <p>Personal care assistance expenses for the catastrophically injured are capped at \$6,480 per month.</p>	<p>\$351 to \$437. Amount is determined by the number of caregivers.</p>
<b>Recreational Benefit</b>	<p>Up to \$4,112 every two years for catastrophic injuries.</p>	<p>No coverage information found.</p>	<p>\$530 to \$4,240 every two years, determined by the severity of the injuries sustained.</p>	<p>No coverage information found.</p>
<b>Grief Counselling</b>	<p>Each family member is entitled to up to \$3,925 per deceased for grief counselling.</p>	<p>Not specified.</p>	<p>Up to an additional \$4,119 for accommodations, meal expenses and travel expenses where the individual is required to travel more than 100 km to attend counseling.</p>	<p>No coverage information found.</p>

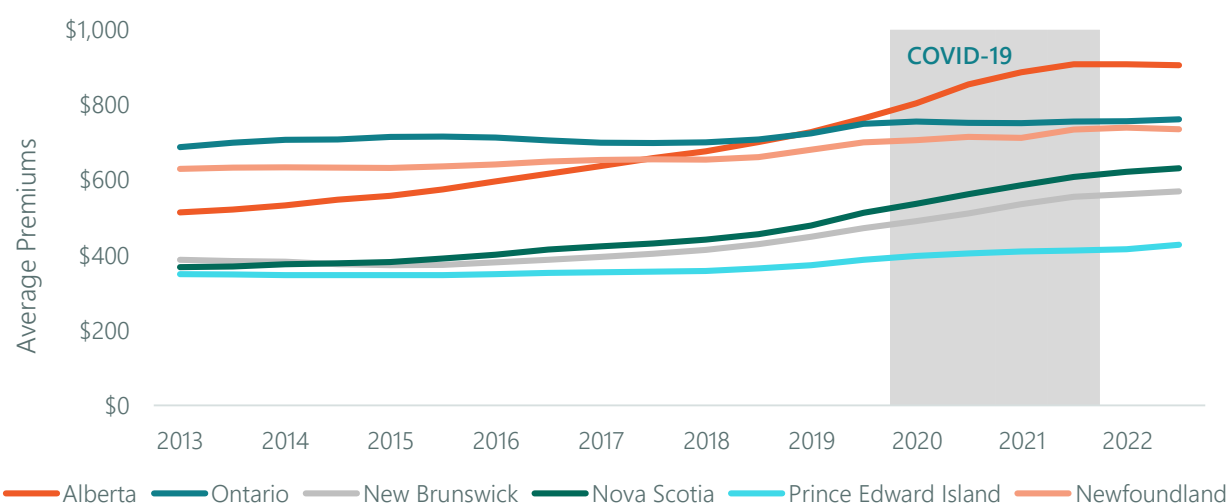
Sources: Cited in footnotes.

## 6.3 Appendix C: Premiums by Coverage Type

This appendix provides a detailed review of the premiums charged for third-party liability, comprehensive, collision, and accident benefits across Canadian tort jurisdictions.

Over the ten-year period observed (2013-2022), jurisdictions experienced significantly different trends for the average premiums collected for third-party liability, as shown in Figure C.1. Insurers in Alberta, have the highest average premiums for third-party liability coverage. Throughout the ten-year period, Alberta experienced the highest increase in average third-party liability premiums of all jurisdictions.

**Figure C.1. Average Third-Party Liability Premiums in Tort-based Jurisdictions**

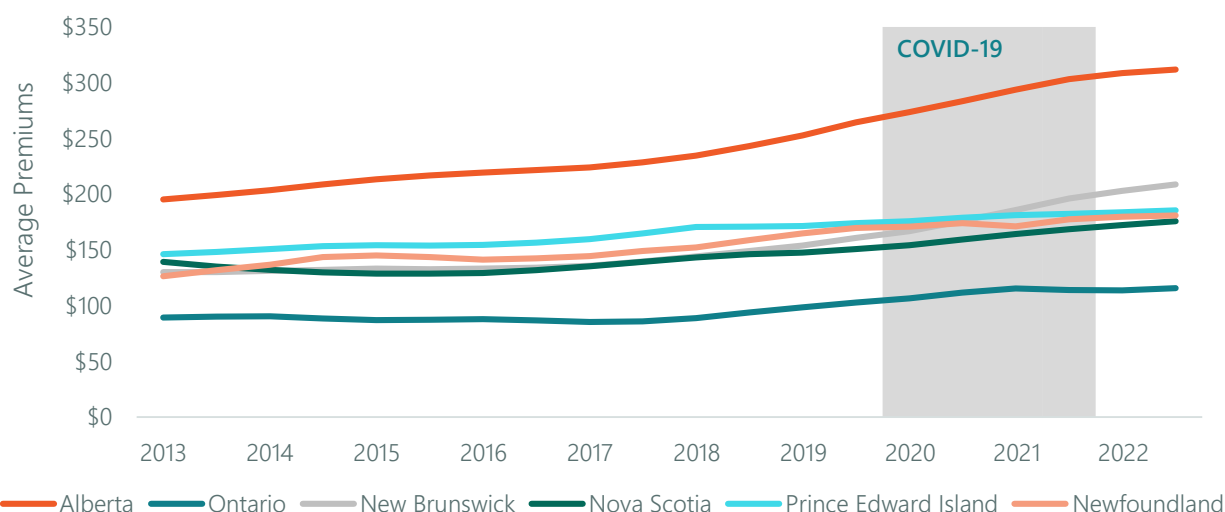


Source: GISA Auto1005 Exhibits

Over the ten-year period observed (2013-2022), all jurisdictions experienced a slight to moderate increase in the average premiums for comprehensive coverage, as shown in Figure C.2. Insurers in Alberta have the highest average premiums for comprehensive coverage. Throughout the ten-year period, Alberta and New Brunswick experienced the largest increases in average comprehensive premiums.



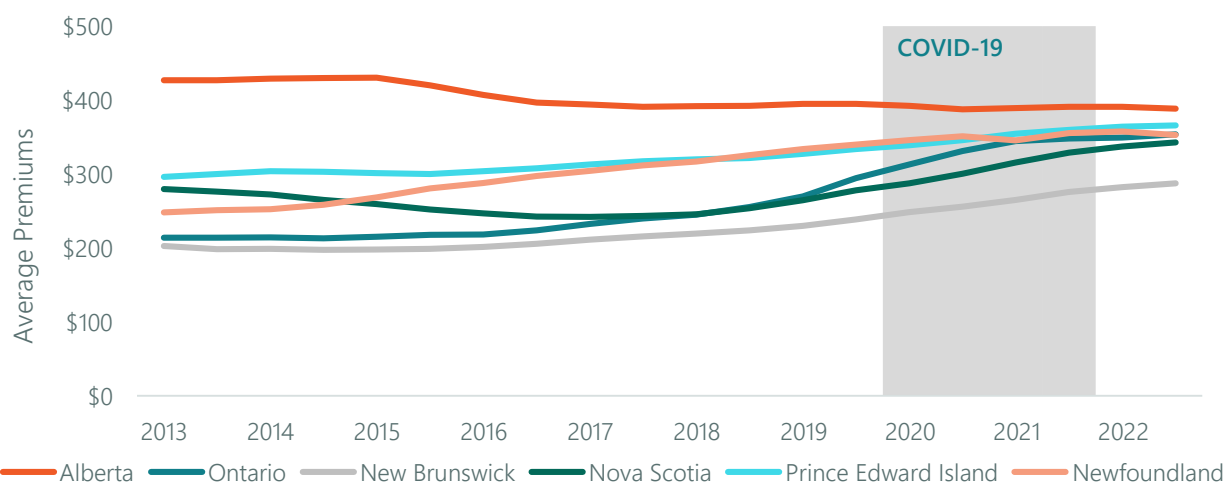
**Figure C.2. Average Comprehensive Premiums in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

Over the ten-year period observed (2013-2022), all jurisdictions except Alberta experienced a slight to moderate increase in the average premiums for collision coverage, as shown in Figure C.3. While insurers in Alberta have the highest average premiums for collision coverage, Alberta was the only jurisdiction to experience a decrease in the average premiums charged for collision coverage over the ten-year period.

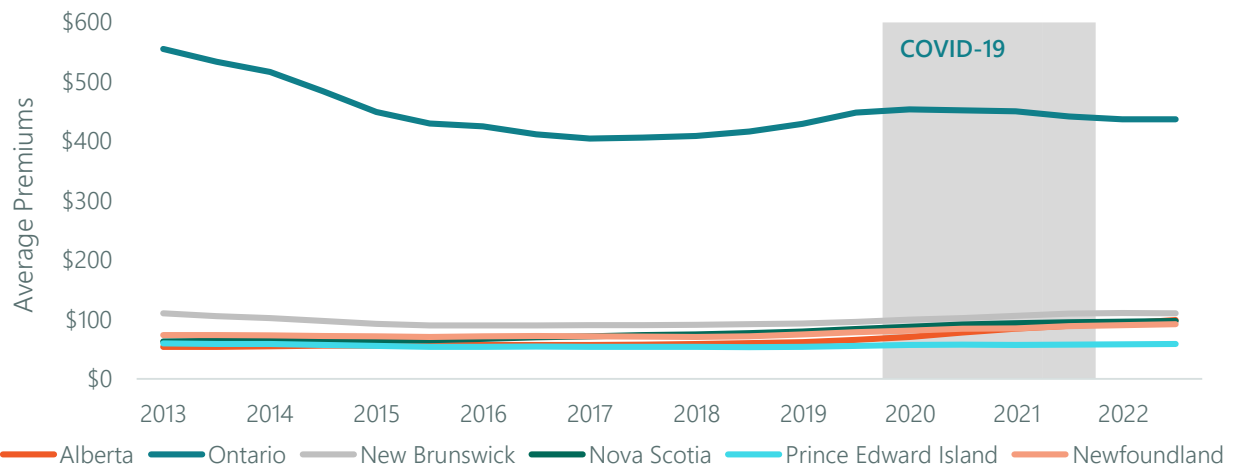
**Figure C.3. Average Collision Premiums in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

Over the ten-year period observed (2013-2022), jurisdictions experienced significantly different trends for the average premiums collected for third-party liability, as shown in Figure C.4. Insurers in Ontario have much higher average premiums for accident benefits than all other jurisdictions. Alberta is among the middle, in terms of accident benefits premiums, but experienced the largest increase over the ten-year period.

**Figure C.4. Average Accident Benefits Premiums in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

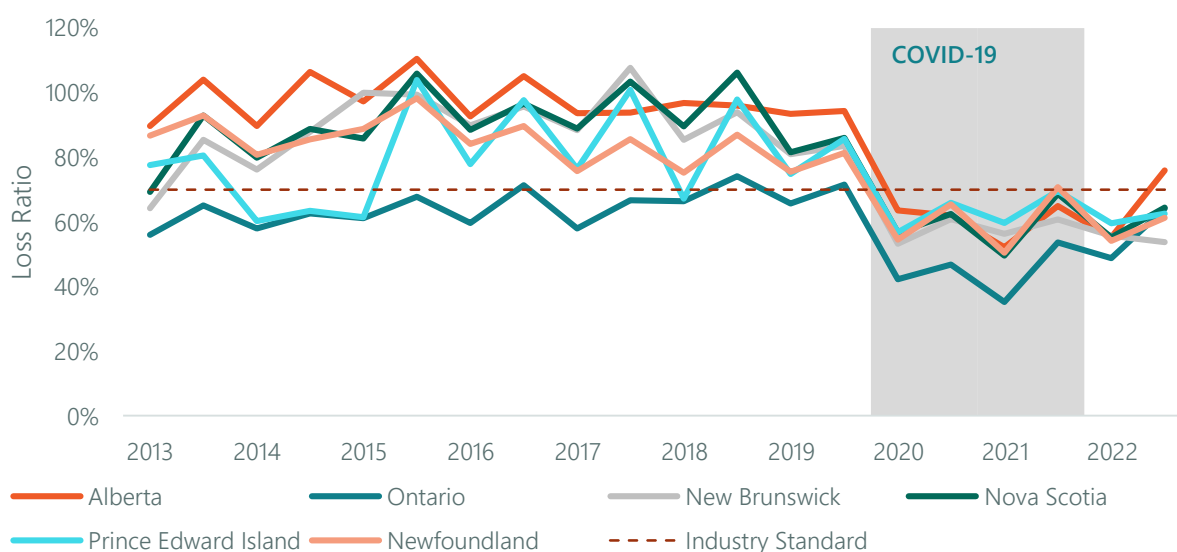
For the total average private passenger automobile insurance premiums over the ten-year period observed (2013-2022), all jurisdictions experienced increases. Alberta, Nova Scotia, and New Brunswick experienced the largest increases in average premium. Ontario experienced a much smaller increase in average insurance premiums than all other jurisdictions. Alberta's average premiums are among the highest of the jurisdictions observed throughout the ten-year period.

## 6.4 Appendix D: Loss Ratios by Coverage Type

This appendix shows a series of figures with trends in loss ratios. All figures in this appendix a reference to the 70 percent target loss ratio is displayed in red.

Over the ten-year period observed (2013-2022), all jurisdictions experienced decreases in third party-liability loss ratios, as shown in Figure D.1. All jurisdictions experienced significant decreases in third-party liability loss ratios throughout the pandemic. Throughout the ten-year period, Alberta is among the highest for third-party liability loss ratio. In 2022, Alberta was the only insurer to have a loss ratio exceeding 70 percent.

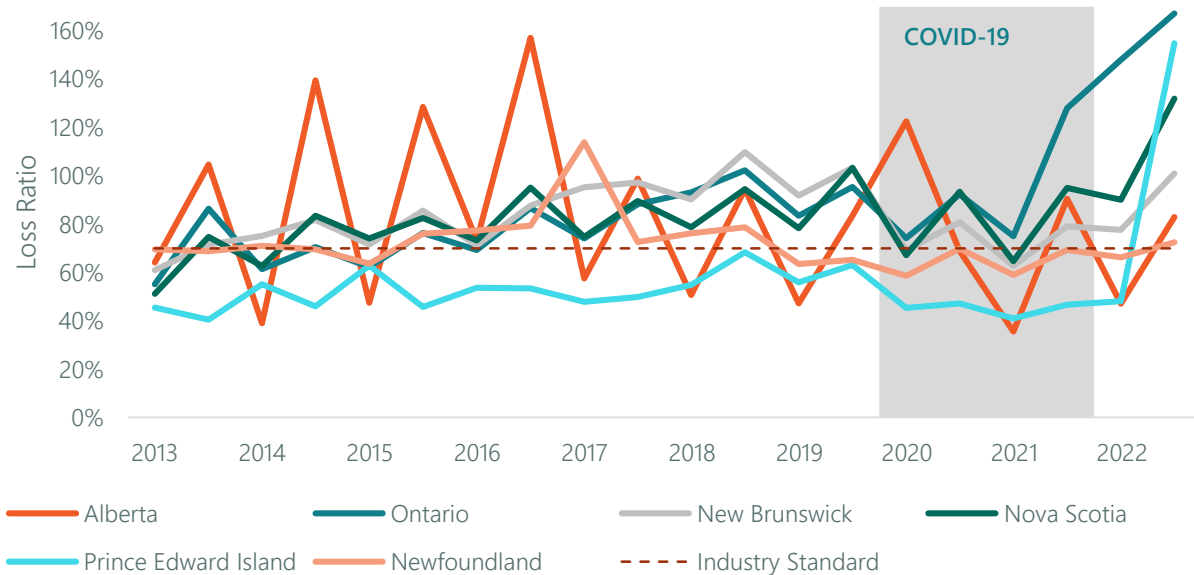
**Figure D.1. Third-party Liability Loss Ratio in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

Over the ten-year period observed (2013-2022), all jurisdictions except Prince Edward Island experienced a significant number of years with a comprehensive loss ratio exceeding 70%, as shown in Figure D.2. Many of the highest comprehensive loss ratio half-years observed occurred in Alberta.

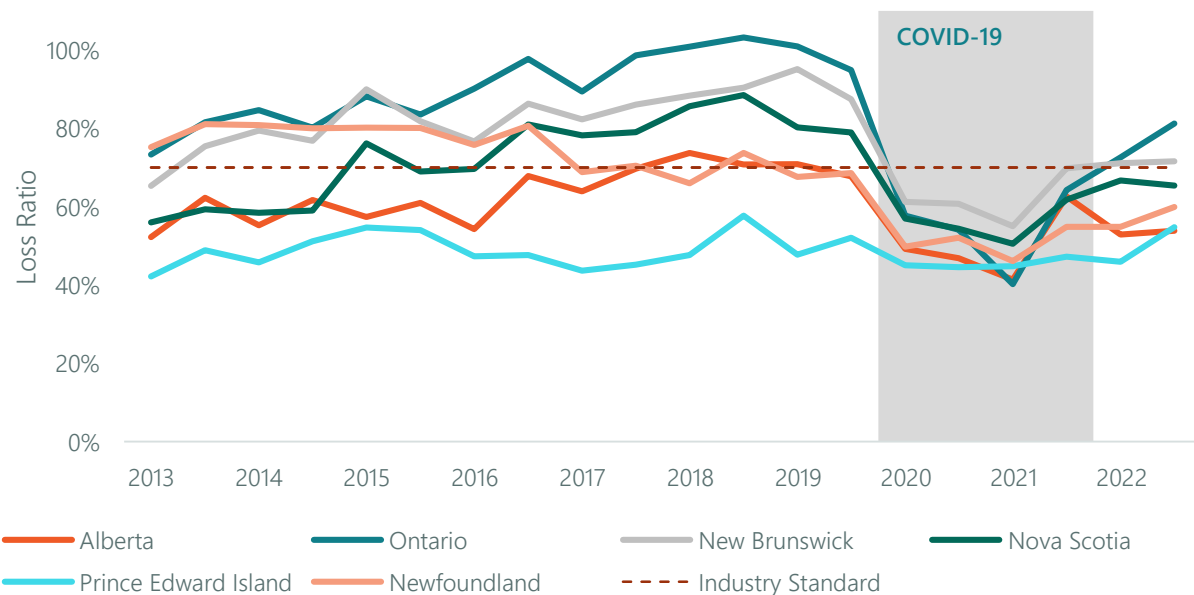
**Figure D.2. Comprehensive Loss Ratio in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

Over the ten-year period observed (2013-2022), jurisdictions experienced both increases and decreases for collision loss ratios, as shown in Figure D.3. All jurisdictions experienced decreases in collision loss ratios throughout the pandemic. Throughout the ten-year period, collision loss ratios in Alberta have generally remained below 70%.

**Figure D.3. Collision Loss Ratio in Tort-based Jurisdictions**

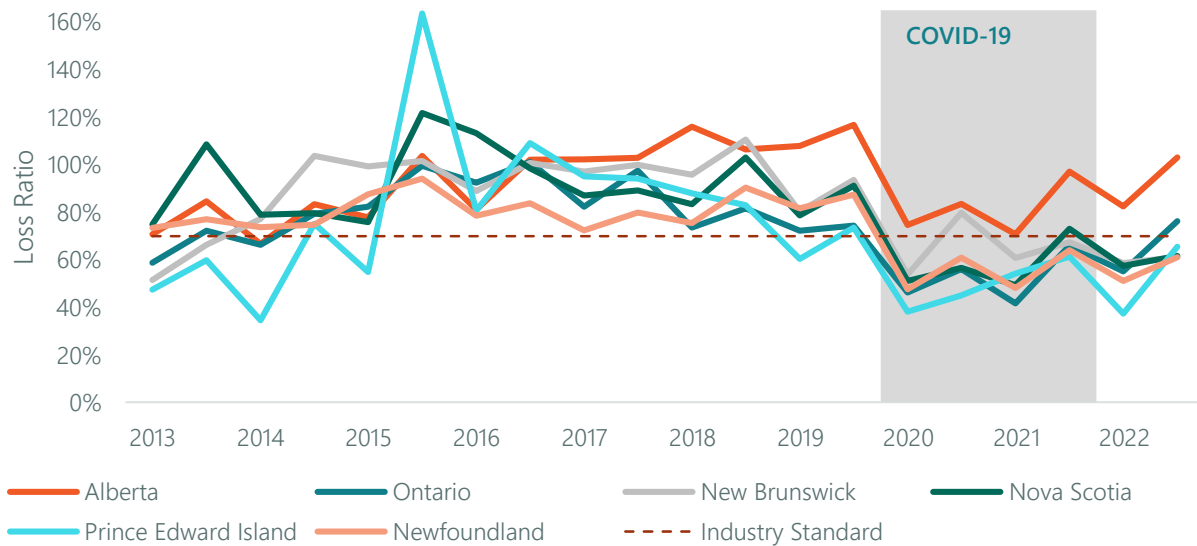


Source: GISA Auto1005 Exhibits

From 2013 to 2015, all jurisdictions experienced increases in accident benefits loss ratios, as shown in

Figure D.4. From 2015 to 2019, accident benefits loss ratios remained relatively stable among all jurisdictions, with the exception of notable increases observed in Alberta. All jurisdictions experienced decreases in accident benefits loss ratios throughout the pandemic. In recent years, Alberta has had the highest accident benefits loss ratio among all jurisdictions.

**Figure D.4. Accident Benefits Loss Ratio in Tort-based Jurisdictions**



Source: GISA Auto1005 Exhibits

## 6.5 Appendix F: 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 117 locations and over 7,100 team members across the country. In Ontario, MNP has more than 2,000 team members located in 36 offices. We have over 350 partners in the province who support businesses ranging from small and medium enterprises to large public companies.



### 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 with a successful track record of assisting clients with various 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.



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