

# Annual Report

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For the Year Ending December 31, 2005.

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## **Introduction**

The Alberta Automobile Insurance Rate Board, constituted under subsection 653(1) of the *Insurance Amendment Act, 2003 (No. 2)*, is empowered under section 654 to exercise the powers and carry out the duties conferred on the Board under the *Insurance Act*, the *Automobile Insurance Premiums Regulation* and any other powers and duties assigned by the Minister.

This annual report documents the activities of the Automobile Insurance Rate Board during the period of January 1, 2005 to December 31, 2005.

## **The Alberta Automobile Insurance Rate Board**

Board Members are drawn to represent various geographical regions of the province and for a range of expertise they bring to the organization.

### **Mr. Alfred H. Savage, Chair**

Mr. Savage possesses over 30 years of private and public sector experience as a senior executive within some of the most progressive organizations in Canada and the United States. He has held senior positions in various municipalities in Alberta and Ontario and such U.S. cities as New York and Chicago. Now retired, Mr. Savage devotes his time to board and community work. He was a Board Member and Chair of the Olds College from 1997-2003 and is currently an Officer for the Alberta Municipal Government Board. Additional community involvement has included volunteering for the 1987 Commonwealth Games and the 1998 World Student Games and serving as Director of the Calgary Downtown Rotary Club.

### **Mr. Dennis Gartner**

Mr. Gartner is the Assistant Deputy Minister of Alberta Finance and Superintendent of Financial Institutions and is an ex-officio member of the Board. Born and raised in Saskatchewan, Mr. Gartner started his public service career with the Government of Saskatchewan in 1972. In 1979 he got a job as a program consultant in health and social services with the Alberta Government. Since that time he has worked in various

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government departments. In 2002, Mr. Gartner was appointed Assistant Deputy Minister of Finance and Superintendent of Financial Institutions.

**Mr. Harry Gough, Q.C.**

Mr. Harry Gough, QC is a partner with Schumacher, Gough & Pederson in Drumheller and has been practicing law since 1975. Mr. Gough was a member of the Alberta Auto Insurance Board from 1997 – 2004. His community involvement includes member of the Criminal Law Practice Advisory Committee and member of the Custody and Mediation Committee with the Alberta Law Society. Through his involvement with the former Alberta Auto Insurance Board, Mr. Gough has gained a strong knowledge of the various insurers across Alberta.

**Ms. Patti Grier**

Ms. Grier is the Executive Director, Office of the CEO and Government Relations for the Calgary Health Region. She was a Trustee and Vice Chair with the Calgary Board of Education from 1992-95 and served as Alderman, Ward 13 in the City of Calgary from 1995-2000. Ms. Grier has sat on a number of private, provincial and municipal boards and committees both through her professional work as well as through her personal commitment to the community.

**Mr. Jack Halpin, FCA, Vice-Chair**

Mr. Halpin is a Chartered Accountant working for Meyers Norris Penny, LLP in Calgary. His current board appointments include: ATB Financial, Alberta Cancer Board and Mancal Trust Company. He is a Committee Member of the Provincial Government Internal Audit Committee. Previously Mr. Halpin has been Chairman of the Calgary General Hospital Board, the Holy Cross Hospital Disposition, and the Finance Committee - Mayor of Calgary.

**Mr. Lewis Klar, Q.C.**

Prof. Klar is currently a Professor within the University of Alberta's Faculty of Law. He served as Dean of the Faculty from 1997 – 2002. His major teaching and research interests are in Tort Law and Insurance Law. Prof. Klar is a non-practicing member of the Alberta Law Society and was appointed Queens Counsel in 2002. He was recently elected to the American Law Institute, one of a very small number of Canadians who are members of this advisory body. He has also written advisory reports for the Alberta Law Reform Institute.

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**Mr. William Moore**

Mr. Moore is a Fellow of both Canadian Institute of Actuaries and the Society of Actuaries. He is also a member of the American Academy of Actuaries. Prior to joining Towers Perrin, Bill practiced for 20 years as a consulting actuary to public and private sector pension plan sponsors in Western Canada. Prior to that time, Bill worked in the insurance industry in Canada and the United States. He continues to provide consulting services to clients in both the public and private sector, particularly assisting these clients with strategic management of their pension plans.

**Ms. Merle Taylor, CMA, Consumer Representative**

Ms. Merle Taylor is a partner in the consulting firm of Keefe Taylor & Associates. She has expertise in policy, operational and organizational reviews in the public and non-profit sectors. In addition to her work as a management consultant, Ms. Taylor has held several leadership positions with a range community and not-for-profit volunteer organizations.

**Mr. David White**

Mr. White has diverse experience in the insurance brokerage industry and was co-owner of a full services life, disability and group insurance company for 10 years. He has served on various boards and planned and facilitated policy workshops. He has a good financial management background and a facilitative style of leadership. Board experience includes, Lethbridge Youth Foundation, Lethbridge Family YMCA and the City of Lethbridge Standing Committee on Transportation, Utilities and the Environment.

## **Statement Of Purpose**

The purpose of the Automobile Insurance Rate Board (the Board) is to regulate premiums for basic automobile insurance in Alberta and to monitor the rates for optional coverage for private passenger vehicles. With respect to private passenger vehicles, the Board approves the rating programs of new insurers, reviews and approves changes to an existing insurer's rating plan at the request of the Superintendent of Insurance and accepts notices of revenue-neutral changes to rating variables within an insurers rating plan.

The Board is further mandated to fulfill the functions and responsibilities of the former Alberta Automobile Insurance Board for non-private passenger vehicles, which includes accepting and reviewing rates and rating programs for all other classes of automobile insurance besides private passenger vehicles.

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## **Year In Review**

The year 2005 marked the Board's first full year of operation. The Board fulfilled its mandate as prescribed under legislation, as well as some transitional duties.

### **Annual Adjustment**

The Board is required under section 656 of the *Insurance Act* and Section 4 of the *Automobile Insurance Premiums Regulation* to complete the annual adjustment; a process that uses the industry-wide experience to determine whether premiums for basic coverage on private passenger vehicles should be adjusted. The Board asked its actuary, Mercer Oliver Wyman (MOW) to complete an analysis on the industry-wide experience in the past year. Stakeholders were given the opportunity to respond to the MOW analysis at the public hearings that were held over four days from June 27 to June 30 in Edmonton and Calgary. During the public hearings, nineteen stakeholders presented to the Board and three written submissions were given to the Board.

The Board considered the information received submissions and the public meetings in conjunction with the MOW analysis and, on July 27, 2005, issued Order 1-05 for a 4% decrease to premiums for basic coverage on private passenger vehicles in Alberta. The adjustment was to be implemented by all insurance companies by November 1, 2005.

### **Consumer Representative**

The Consumer Representative, Ms. Merle Taylor, conducted an independent and impartial study on consumer's thoughts and perspectives on automobile insurance in Alberta and presented her findings to the AIRB at the public meetings in June 2005. Ms. Taylor captured consumer response and feedback by ensuring she was publicly available to receive comments and feedback as well as meet with members of the general public to discuss their experience in the market. In addition, she commissioned a consulting and marketing firm to run a random telephone survey of 600 Albertans.

### **Geographical Differential Adjustment**

On August 2, 2005, the Board issued Order 2-05 reducing the differential in the grid base premiums between Edmonton and Calgary by 40% as directed by Schedule 3, Section 2(2)(a) and adjusting premiums in compliance with Schedule 3, Section 2(3) of the *Automobile Insurance Premiums Regulation*, effective November 1, 2005.

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## Board Applications

As required under the *Automobile Insurance Premiums Regulation*, the Board reviews applications under section 6, 10 and 19 of the Regulation. Under section 6, insurers may apply to the Superintendent for a review of their private passenger rating program for basic coverage, which are directed to the Board for review. Section 10 of the Regulation requires new insurers entering Alberta to submit and obtain the prior approval of the Board for their rating programs for any class of risk as they relate to third party liability and accident benefits coverage. Section 19 is a transitional provision from the former *Insurance Act* that requires insurers to obtain prior approval for changes to rating programs as they relate to third party liability and accident benefits coverage for other than private passenger vehicles. Under section 6, 13 companies made an application to the Board, 4 companies made an application under section 10 and 2 companies applied under section 19, providing the following results:

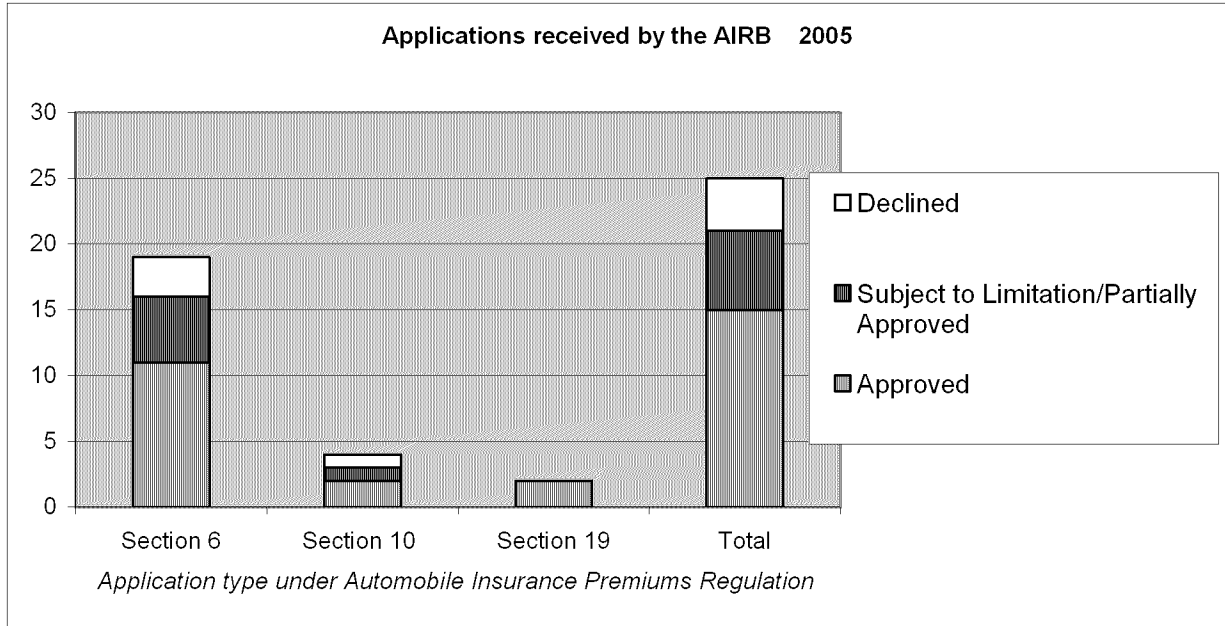
	<b>Approved</b>	<b>Subject to Limitation/Partially Approved</b>	<b>Declined</b>	<b>Total</b>
Section 6	11	5	3	19
Section 10	2	1	1	4
Section 19	2	0	0	2
<b>Total</b>	<b>15</b>	<b>6</b>	<b>4</b>	<b>25</b>

*\*A single insurance company may have made two applications to the Board under the same section.*

Section 6 - Application for Review of Rating Program for Basic Coverage – Private Passenger Vehicles

Section 10 - Application for New Entrant to Automobile Insurance.

Section 19 – Change to a non-private passenger Automobile



Under Section 5 of the Regulation, insurance companies are required to send a written notice to the Board if the company adjusts rating variables for basic coverage on private passenger vehicles. The overall adjustment must be revenue neutral with the increase for any one policyholder not exceeding 10%. The Board received two Section 5 notices in 2005.

The Board received seven Section 9 notices in 2005. Under Section 9 of the Regulation, insurance companies must send written notice to the Board of changes to the rating program for additional coverage.

### **Rates**

Insurers conducting business in Alberta are required by the *Insurance Act* to report their experience to a Canadian statistical plan. The results are compiled annually in the Insurance Bureau of Canada published statistical exhibits that are then analyzed by the Board's actuarial consultant. The most recent available results are for 2004. With the expiration of the Freeze Order on November 1, 2005, these analyses are again used in weighted proportions with the insurers' own statistics in considering proposals for rate changes.

Claims experience was unfavourable for a number of years into the early 2000s, particularly for private passenger vehicles. The phenomenon was attributed to the growth in compensation for bodily injury claims under third party liability and, to some extent in

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later years, under accident benefits coverage. Premiums for third party liability and accident benefits rose steadily through the 1990s due to rising claim costs, though competition moderated the process until 2001. Pricing for all categories of general insurance hardened in the latter part of 2001 and that course continued through 2002 until October 30, 2003 when rates were frozen for automobile insurance. Though the freeze only ended in November 1, 2005, the improved business results for the general insurance industry including automobile insurance suggests there will be no immediate pressure on premiums.

### **Market**

Until the Freeze Order, premiums for third party liability and accident benefits on Private Passenger vehicles continued to increase in response to claims experience. The escalation in premium level abated somewhat during 1999 and 2000 but insurers strove for premium adequacy from the latter part of 2001 until the Government imposed rate freeze of October 30, 2003. Collision and comprehensive coverage have yielded satisfactory results since the mid 1990's. This in part offset adverse results for third party liability and accident benefits.

A modest improvement in results for third party liability on private passenger vehicles emerged in 2001 and 2002. A continued and more apparent improvement was evident with the results for 2003 with that trend continuing through 2004.

Third party liability encompasses bodily injury and property damage. The area of concern for many years was the escalation in both average cost and frequency of bodily injury claims. After a steady spiral that peaked in 1998, frequency finally showed some modest declines since 1999 with the most significant changes in 2003 and 2004. The sustained decline in frequency since 1999 lends credibility to a positive outlook in which frequency will continue to fall, albeit more slowly, or at least stabilize well below the levels of the mid to late 1990s.

It takes a number of years for third party liability bodily injury claims incurred in a given year to mature. Therefore, results for recent years are projected to their expected ultimate values based on historical observations of the maturation of such claims. Expectations are that over the five years ending in 2004, the average compensation for a bodily injury claim will have increased 28% while frequency of this type of claim will have decreased by 31%. The climb in settlement amounts and decline in frequency combines for a 12% increase in the claim cost per vehicle insured. In comparison, the average property damage claim will have increased by 32% while frequency of this type of claim will have actually fallen by



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19%. For property damage, the claim cost per vehicle insured will have increased by 7%. Figures 1 and 2 (on page 9) track changes in average claim costs and frequency of claims for bodily injury and property damage for a longer period of ten years ending in 2004. Figure 3 (on page 10) displays loss costs per vehicle insured, which are total losses divided by the number of vehicles insured. The figure relates the combined effect of average claim cost and frequency. Declining frequency has in part offset increasing average claim costs.

Over the past five years, the overall effect for third party liability coverage is an 18% growth in the average claim size while frequency will have declined 23%. The claim cost per vehicle insured will have increased by 9%. Bodily injury is expected to comprise 80% of total third party liability claim costs for 2004. Figure 4 (on page 10) shows the change in average claim costs and frequency of third party liability claims over a longer ten-year period.

Rising average claim costs has affected accident benefits in recent years. In the five years ending in 2004, the average claim cost will have increased by 33% while frequency of this type of claim decreased by 25%, having moderated since peaking in 1998. The claim cost per vehicle insured is stable. Figure 5 (on page 11) shows the change in average claim costs and frequency of claims over a longer ten-year period. Compensation available under accident benefits coverage doubled for losses occurring as of October 1, 1995, contributing to increased average claim costs since 1996. Changes to accident benefits provisions effective October 1, 2004 are expected to increase average claim costs for future years. This increase should be partially offset as the compensation is deducted from any third party liability claim.

Frequency for collision claims diminished for a number of years but has shown some fluctuation over the past five years. Frequency of comprehensive claims continued to diminish until 2003 but stabilized in 2004. Over the same five-year period, the average claim cost for collision will have increased by 19% while frequency will have decreased 4%. The claim cost per vehicle insured will have increased by 14%. The average claim cost for comprehensive will have increased by 87% while frequency will have dropped 28%. The claim cost per vehicle insured will have increased by 36%. There have not been any weather related catastrophes that significantly impacted results. Figures 6 and 7 (on page 11 and 12) show the change in average claim costs and frequencies of claims over a longer ten-year period. In summary, Figure 8 (on page 12) shows loss costs per vehicle insured for each coverage. All costs are in nominal dollars (unadjusted for inflation).

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Traditionally, the standard market's criteria for acceptable risks responded to results. As loss experience improved, underwriting criteria relaxed and more drivers gained access to the standard market. Conversely, criteria became more stringent as results deteriorated. Drivers that were deemed undesirable by the standard market were directed to insurers that operated in the residual or non-standard markets at higher premiums. The Facility Association was the industry's mechanism for providing insurance to those consumers who were refused coverage elsewhere.

As of October 1, 2004, that model was replaced for private passenger vehicles by a take-all-comers rule and a Grid rating program that sets maximum premiums for basic coverage (third party liability and accident benefits) for any driver profile. The Facility Association continues to operate as the industry's mechanism for providing insurance to those consumers who are refused coverage elsewhere for other than private passenger vehicles.

Figure 1

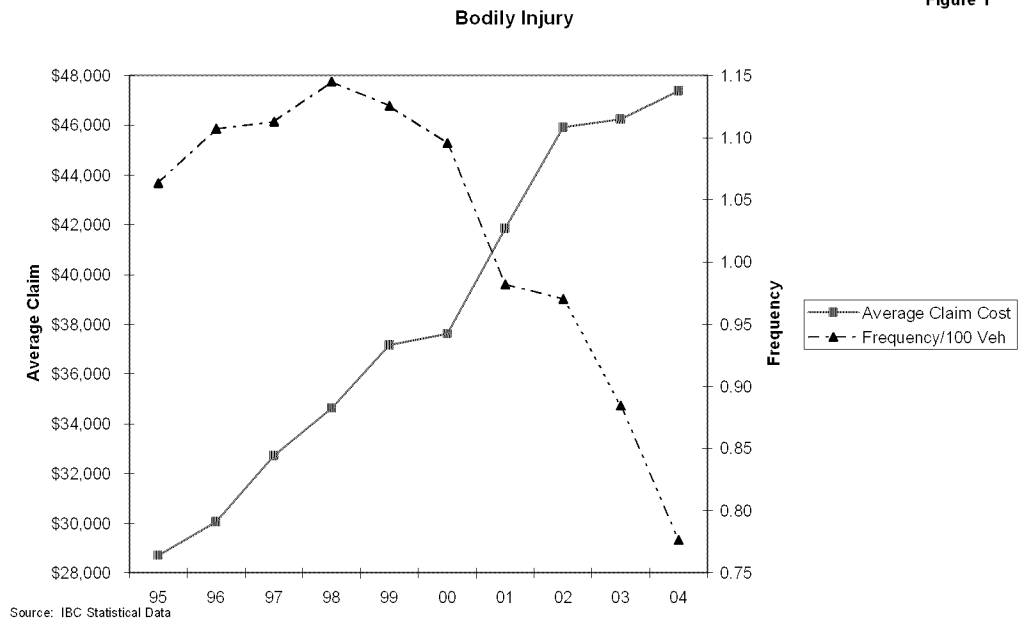
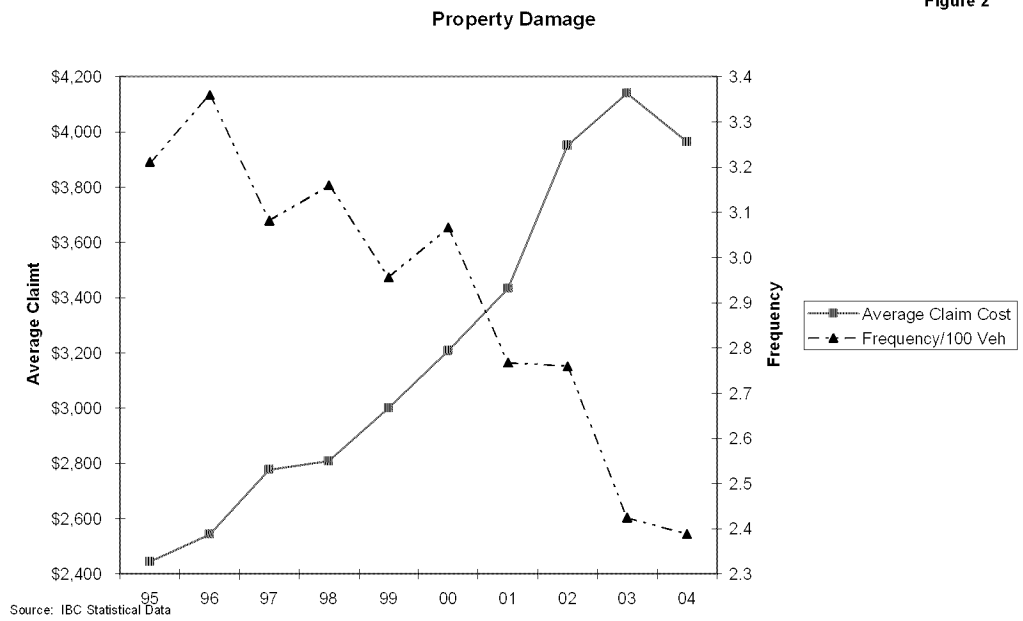
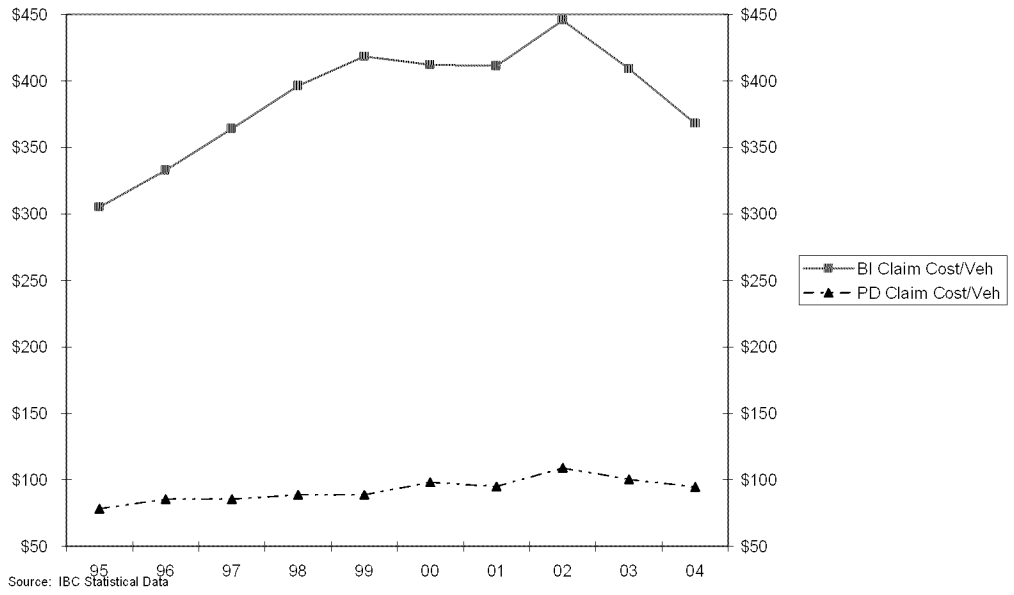


Figure 2



Bodily Injury & Property Damage

Figure 3



Third Party Liability

Figure 4

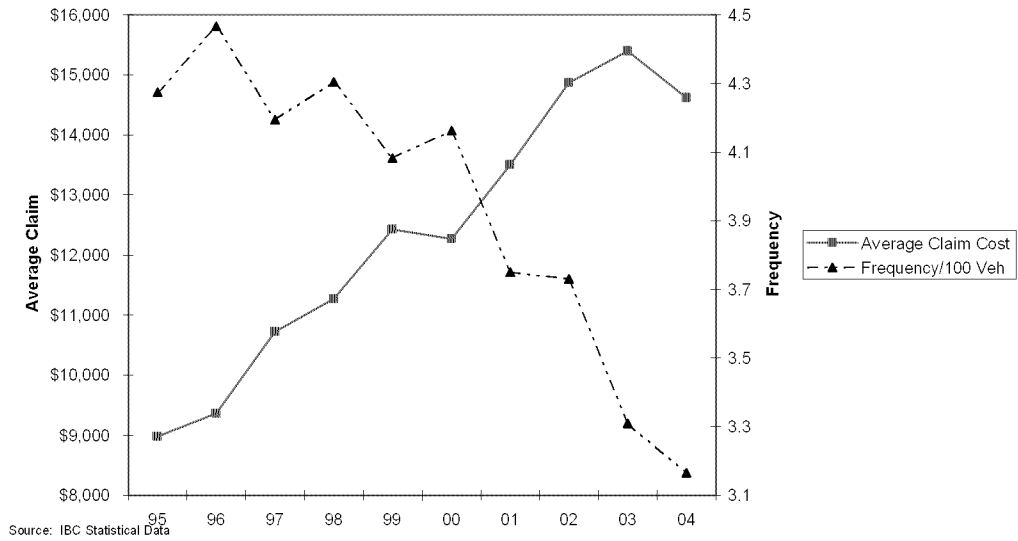


Figure 5

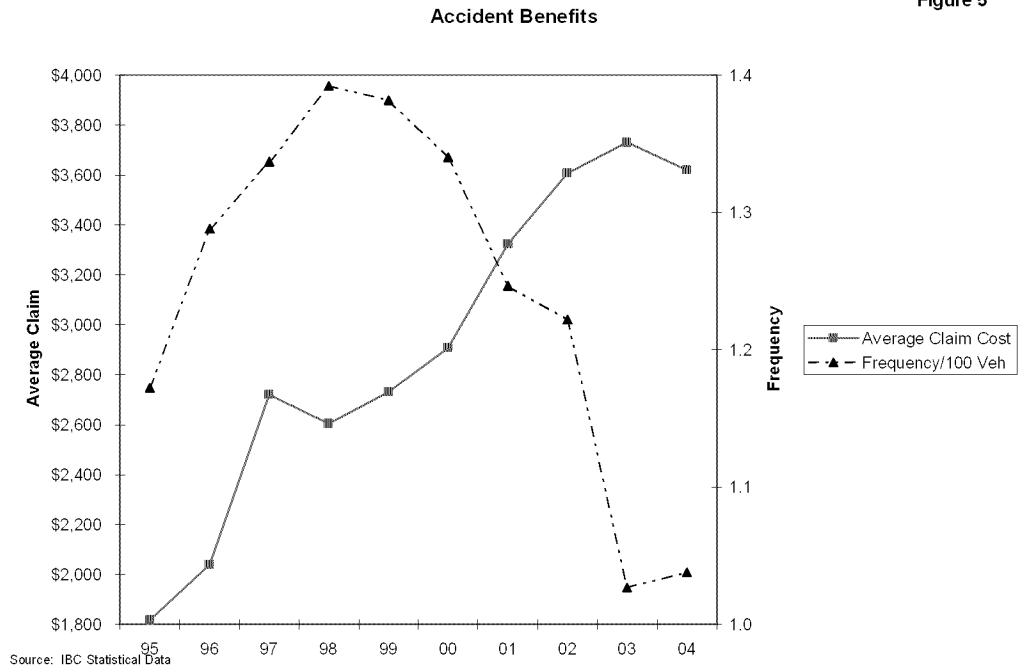


Figure 6

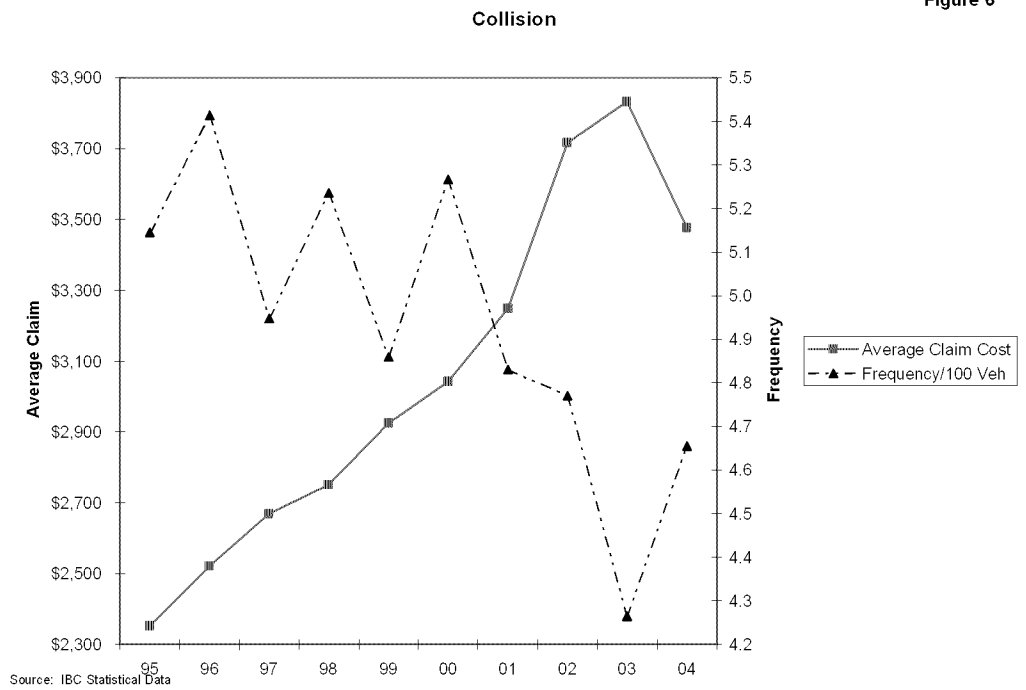


Figure 7

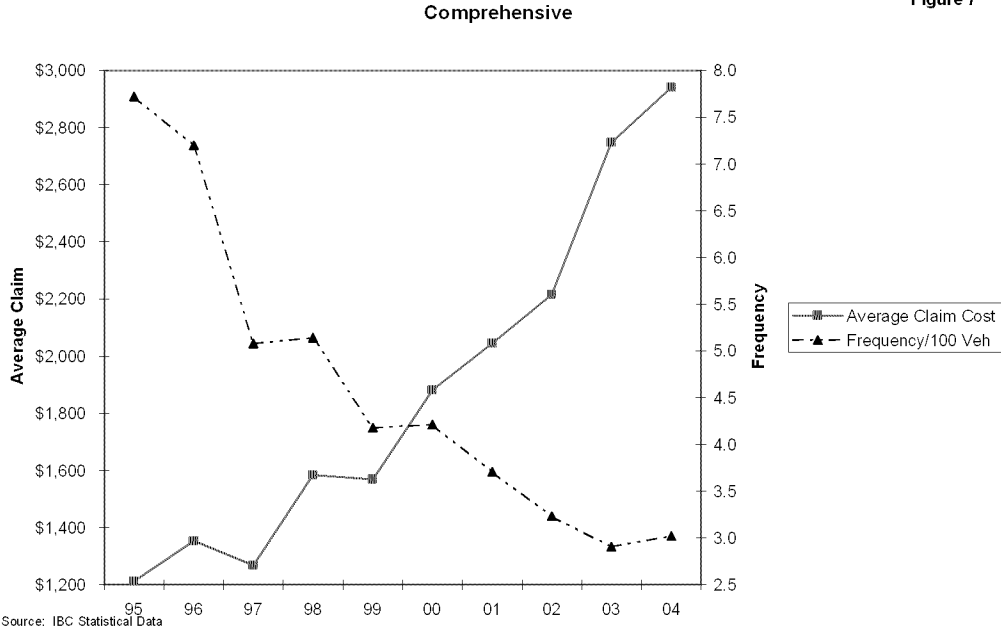
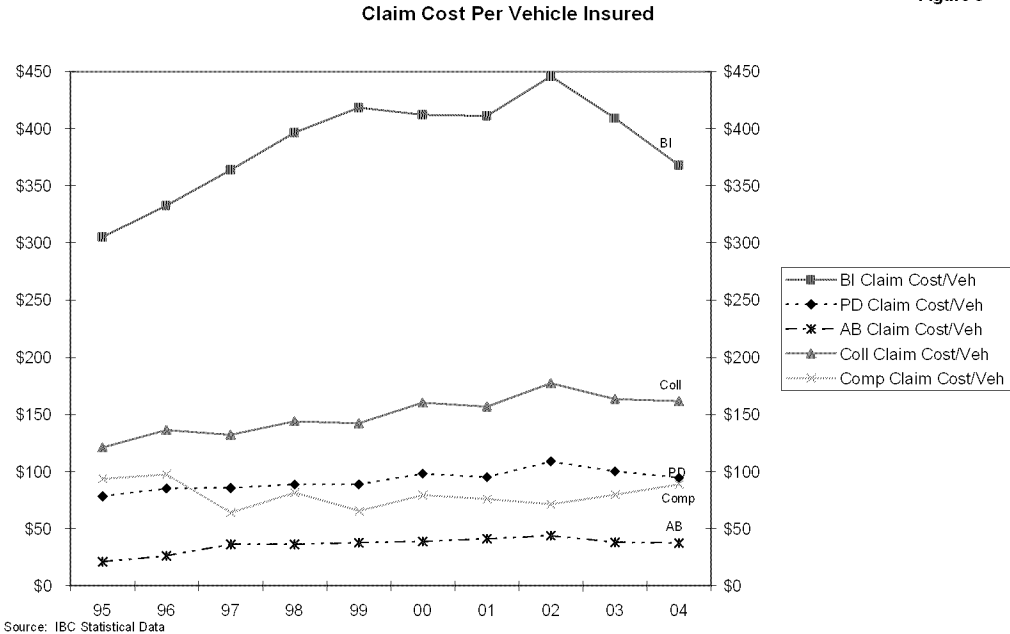


Figure 8



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## **Meetings**

The Board held 12 meetings in 2005 to deal with administrative issues of the Board and otherwise exercise its mandate.