

Consumer Perspectives on Automobile Insurance

Submission to the Alberta Automobile Insurance Rate Board

**August, 2014
Edmonton, Alberta**

Submitted by:

Merle Taylor, Consumer Representative
Alberta Automobile Insurance Rate Board

Alfred Savage, Chair
Automobile Insurance Rate Board
Suite 2440, 10303 Jasper Avenue
Edmonton, AB T5J 3N6

Dear Mr. Savage;

At the request of the Alberta Automobile Insurance Rate Board, I undertook an independent and impartial review of consumer thoughts and perspectives on automobile insurance in the province of Alberta. The mandate of my review was to ensure Alberta consumers were appropriately and adequately represented in establishing parameters for the file and approve process for 2014-15.

My review considered a number of relevant issues related to the pricing of automobile insurance.

In my role as the Consumer Representative, I believe that it is important that the Board consider the interests of consumers along with the interests of all other stakeholders before arriving at its decision as to changes to the grid and parameters that will be used to review insurers' rate filings.

The views expressed in this presentation are my own and those of Alberta consumers – they do not represent those of the Board.

Please accept the following as my presentation to the Board. I look forward to answering any questions that you may have in Edmonton on August 19, 2014.

Sincerely,

Merle Taylor
Consumer Representative

Role of the Consumer Representative

Merle Taylor was appointed to the Automobile Insurance Rate Board (AIRB) as the Consumer Representative for a third term in March, 2011 and was selected according to the criteria set out in the *Insurance Act*. The role of the Consumer Representative is to reflect the interests of consumers at the Board level. Consistent with this role, the Board asked Merle to work independently to collect consumer comments and concerns and report back to the Board during its consultation meeting. The information collected from consumers across Alberta is reflected in this report and will be presented to the Board.

Merle has a Bachelor of Arts (Economics) and is a Certified Management Accountant. Merle has extensive experience as a business consultant, working on a range of projects involving business issues, organizational issues, strategic planning, and project management. Prior to entering the consulting field, Ms. Taylor was employed by Alberta Treasury, working in increasingly responsible senior and executive positions. In addition to her work as a management consultant, Ms. Taylor has held several leadership positions with a range of community and not-for-profit volunteer organizations.

Background

The Government of Alberta regulates automobile insurance premiums with the goal of providing consumers with affordable and predictable premiums. The regulatory framework has four key features: a premium grid, an all-comers rule, a cap on pain and suffering awards for minor injuries, and regulation of premium increases on basic and additional coverage by the AIRB. With the enactment of the *Enhancing Consumer Protection in Auto Insurance Act*, the AIRB is moving to a file and approve process for approving premium increases on a company by company basis. This review will include both basic and additional coverage. Details of these features are included as Attachment 1.

Expectations of Consumers

Consumers have several concerns with respect to automobile insurance. These include:

- **Affordable rates.** Driving a vehicle is a necessity for many Albertans and they need to be able to insure their vehicle for a reasonable premium.
- **Stability of rates.** Most households count on expenses being reasonably predictable so they can live within their budget. A large increase in automobile insurance premiums in one year can disrupt their budget planning.
- **Availability.** Insurance for young drivers and drivers with a series of 'at fault accidents' or demerit points needs to be available and premiums cannot be so high that these drivers fail to carry insurance.

What I did

I contracted with an independent marketing research company to conduct both a telephone survey with 800 insurance consumers across the province and a web survey with 200 insurance consumers regarding:

- Their experience in obtaining insurance

- Whether they 'shop around' for rates
- Their collision history and experience in resolving any damages
- Their impression of the level of premiums for the type of coverage they carry
- Their views on whether the Province should allow insurers to provide usage based insurance as an optional feature to their customers
- Their views on implementing demerits for distracted driving, and
- Their views on the Government's traffic safety program.

Similar surveys were conducted in 2005 and annually since 2008 and several questions were replicated to allow for comparisons to responses from year to year. The web survey is a tool to connect to consumers that do not have telephone landlines. The complete survey results are appended to this report.

I personally contacted 25 of the individuals who were included in the initial survey, representing communities around the province, to further discuss their experience with automobile insurance. Chris Daniel, who is a member of the AIRB contacted an additional 5 individuals. We contacted these individuals either through a focus group in Edmonton and in Calgary or by telephone in communities outside of Edmonton and Calgary.

In addition, a newspaper ad was placed in daily newspapers throughout Alberta informing the public of the upcoming review and inviting them to submit their comments or concerns to the consumer representative.

Over 50 consumers wrote to the Premier with a copy to the AIRB consumer representative regarding their dissatisfaction with the current cap on non-economic damages for minor injuries and the provisions of the *Diagnostic Treatment Protocol Regulation (DTPR)*. The Superintendent of Insurance is currently conducting a comprehensive review of the minor injury cap and the provisions of the *DTPR*. The Superintendent's review includes consultations with stakeholder groups and claimants so I did not undertake to do any further research on these issues. Any changes to these provisions will have implications for premiums so it will be important that the Board consider these implications in future deliberations.

I contacted the Office of the Superintendent of Insurance to determine the number of calls from consumers and the nature of the issues that have been raised over the past year. I also surveyed board members of the Insurance Brokers Association of Alberta to hear of any problems that their customers have had in obtaining appropriate insurance over the past year.

What I Found

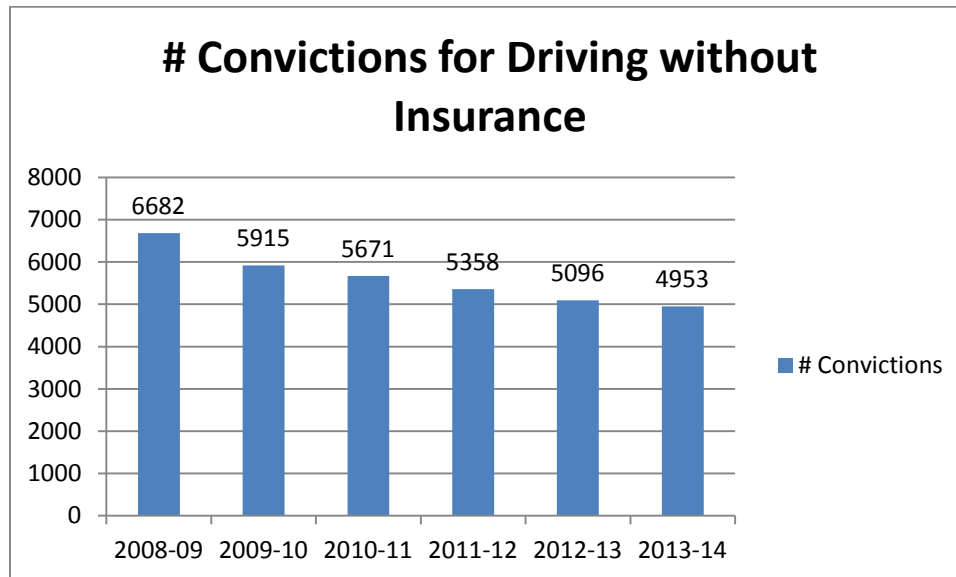
Premiums

Of the consumers surveyed by telephone and web survey, 57% (telephone survey) and 55% (web survey) agreed with the statement that 'Insurance premiums are fair and reasonable'. This compares to 55% (59% web survey) who agreed with the statement when the survey was conducted in 2013. When this question was asked of survey respondents in 2005, 46% agreed with this statement. A consistent message from consumers is that good drivers with an accident-free history pay too much for premiums.

The average premium in 2005 in Alberta, including basic and additional coverage was \$1023. Since 2005, average premiums have been increasing even though the portion for basic (mandatory) coverage has been decreasing. The average premium in 2013 was \$1113, which was an increase of 2.4% from 2012. Premiums have increased by \$89 since 2005, an increase of 9% over 8 years or slightly over 1% per year. This overall increase resulted from **decreases** to mandatory coverage of 9% and **increases** to additional coverage of 39%.

Availability of Insurance

Automobile insurance continues to be readily available. From the telephone and web survey, fewer than 1% of the respondents indicated that they were refused insurance. This is consistent with survey results from prior years. The number of convictions for uninsured drivers has decreased steadily from 2008-09 through 2013-14.



Source: Alberta Transportation

Premiums for 'Bad Drivers'

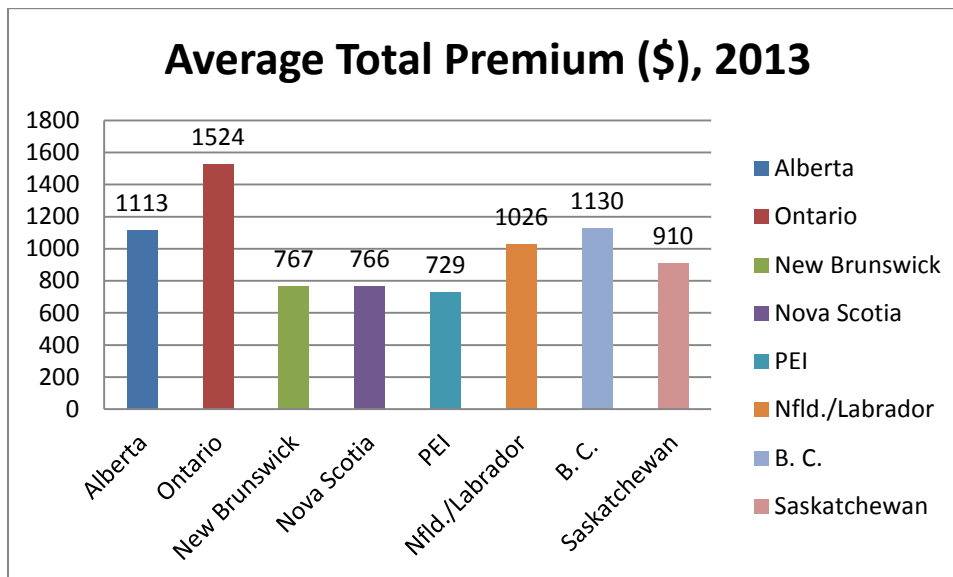
Virtually all of the consumers who I consult with feel that 'bad' drivers deserve to pay high premiums. There is, however, a risk that when the premium becomes too high, individuals will drive without insurance as the enforcement and fines are inadequate to deter them from doing this. I have talked to consumers who have had an accident with an uninsured driver. If they did not carry collision coverage, they were obliged to pay the cost of damages to their vehicle, even if they were not at fault. They can make a claim from the Motor Vehicle Accident Claims Fund for bodily injuries but do not get the full benefits of the Minor Injury and Diagnostic Treatment Protocol Regulations.

The 'all-comers rule' and the grid system are important features of the Alberta insurance regulatory model that encourage drivers to carry insurance. The grid sets a maximum premium that limits the premium for new drivers or drivers with a history of 'at fault' claims or demerit points.

The premiums paid by drivers with a history of 'at fault' claims and demerit points **that are not on the grid** are inadequate to cover the loss costs. This represents the majority of the 'bad drivers'. There are however, approximately 800 vehicles that are placed on the grid at higher grid levels (+6 and up) representing drivers with a history of at fault accidents and/or serious driving violations. The premiums for **basic insurance** for these vehicles are between \$4000 and \$7000. The small numbers of claims that arise from so few drivers do not produce credible data but there is some evidence that the actual loss cost for vehicles **on the grid** does not justify the very high grid premiums that are charged to these drivers.

Comparing Premiums to Other Provinces¹

The average written premium for private passenger vehicles in Alberta for 2013 was \$1113. Alberta’s average premium was lower than Ontario at \$1524, but was higher than the average premium in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Ontario has much richer accident benefits coverage than Alberta which largely explains the higher premiums in that province. The average premium in Saskatchewan for 2013 was significantly lower than Alberta at \$910. The majority of drivers in Saskatchewan choose insurance coverage that does not provide the right to sue for damages. This would explain in part, the significant differential in rates between Saskatchewan and Alberta. The average rate of \$910 for Saskatchewan includes both private passenger and light commercial vehicles so is not directly comparable. The average premium for B.C. for both private passenger and commercial vehicles was slightly higher than Alberta at \$1130. Younger drivers that have carried insurance in B.C. indicate to me that they pay lower premiums in B.C. than Alberta.



¹ Sources: General Insurance Statistical Agency (GISA), SGI in Saskatchewan, ICBC Annual Report

Consumer Complaints

The Office of the Superintendent of Insurance indicates that the volume of calls from consumers regarding automobile insurance has not increased and that many of the calls are seeking information rather than making a complaint.

Traffic Safety

The most effective way to reduce automobile insurance premiums is to reduce the number and severity of traffic collisions. Data from Alberta Transportation for 2012 indicates that the number of injury accidents on a per capita basis continues to decrease although the decrease from 2011 to 2012 is less than 1%. The incidence of reported property damage collisions also decreased from 2011 to 2012. Our survey showed that 86% of the respondents agreed that traffic safety should be a priority and 56% agreed that Alberta is taking the right approach to traffic safety.

Distracted Driving

Currently the penalty for distracted driving is a fine of \$172 but there are no demerit points recorded for the infraction. 83% of the survey respondents and all of the focus group participants felt that the penalties for distracted driving are inadequate and agreed that compliance with the law would increase if the infraction resulted in demerit points. Of those who responded, 99% (96% web) had not had a conviction for distracted driving. I spoke to one driver who was hit by a distracted driver when he was driving his motorcycle. This individual sustained life-altering injuries and understandably had strong opinions about the need for greater enforcement of distracted driving laws.

Competition

Our telephone and web survey indicated that 35% of the consumers polled obtained a competitive quote for insurance over the past 2 years. This was slightly higher than survey results from the past two years. Of the consumers who obtained a competitive quote, 86% of consumers stayed with their existing insurer (89% web survey). This was consistent with survey results for the past five years. This compares to the 2005 survey where 58% obtained a competitive quote and 84% stayed with their existing insurer. Of the consumers whom I spoke to, those who had switched insurers reported that they received substantial reductions in their

premiums. A number of respondents shopped around but were not able to obtain a lower premium as a result. Both the telephone and web surveys indicate that consumers most commonly call their broker or direct writer to obtain a quote. (telephone survey 66%, web survey 73%). In the Edmonton focus group, participants who had obtained an on-line quote found that they were unable to purchase the insurance without a discussion with an agent so viewed the on-line quoting as having limited value.

Usage Based Insurance and Unbundling of Rates

The use of telematics to monitor vehicle usage is being introduced in other jurisdictions and insurers are exploring the opportunity for introducing these technologies to the Alberta market. For 'good drivers' and those drivers that use their vehicle very little, there are potentially significant opportunities to reduce insurance premiums. It can also be motivational to younger drivers in particular, who are alerted to their bad driving habits by evidence-based routine reporting.

Usage-based insurance (UBI) can result in an increased segmentation of the market. Drivers with riskier driving behaviours or those drivers that choose to not use UBI, could pay much more than they currently do. The survey response and our discussions with focus group participants indicated a level of skepticism with UBI. In the survey, 56% (60% web survey) agreed that the government should allow insurance companies to provide UBI as an optional feature. The focus groups identified questions or issues with reliability of data, privacy issues and how the data would be used, and the implications on premiums for those who choose to not use UBI. The insurance brokers (IBAA) indicated their preference for a universal platform for UBI that provides portable data that could be used by all insurers, regardless of the distribution method – similar to the Motor Vehicle Registration (MVR) and Autoplus reports. The IBAA emphasized the need for protection of privacy and consumer consent as to the use of the data.

It is essential that the grid continue to effectively limit the premiums that drivers pay for basic premiums as the pricing of insurance becomes more sophisticated. If grid rates are not held to reasonable maximums, there is an increased risk that some groups will elect to forego purchase of insurance and 'take their chances'.

Changes to the Regulatory Process

The Government has passed the *Enhancing Consumer Protection in Auto Insurance Act* which now gives the AIRB authority to regulate both mandatory and additional coverage under a company by company file and approve process. Last year, my survey indicated that 74% of consumers supported the regulation of mandatory and additional coverage. My report last year also indicated that the rates for additional coverage were too high relative to the loss cost, while there was inadequacy in the rates for basic coverage the rates for additional coverage were adequate to provide industry with an adequate loss ratio. This legislative change allows industry and the AIRB to more easily rebalance rates between mandatory and additional coverage.

My Observations

The Board is embarking on a new process for approval of rates. From my conversations with consumers, the change to regulating both mandatory and additional coverage is a welcome change and one that should allow companies and the AIRB to ensure that the rates for basic and additional insurance align more closely with the loss costs for those types of coverage.

As the Board is evaluating rate increases and changes to the grid, it must consider consumers' need for stable rates. If rate inadequacy indicates a rate increase, a smoothing of rates over more than one year would allow consumers time to make adjustments to accommodate a rate increase.

With respect to UBI, the increased segmentation of the market can lead to unaffordable rates for some drivers for additional coverage that is not capped by the grid. This is also the case for rates for vehicles at the higher end of the grid. Rates need to be affordable rather than punitive. While consumers feel that rates for drivers with a poor driving record should be higher, insurance is a risk-sharing product and rates cannot be so high that drivers are unable to purchase the product, creating an unfair liability for the insured driver who has an accident with an uninsured driver.

Attachment 1

Features of the Alberta Automobile Insurance Legislation and Regulations

1. *Premium Grid*

All insurance companies are subject to the premium grid, which sets a base premium for third party liability and accident benefits coverage. The base premium is subject to discounts, which are dependent on the number of accident free driving years or surcharges, which are dependent on the number of at-fault claims. Premiums are subject to adjustment for traffic-related convictions. Insurance companies are required to compare a policyholder's grid premium to the premium under the insurer's rating program, and apply the lesser of the two, subject to exceptions that relate to poor driving record.

2. *The All-Comers Rule*

The all-comers rule requires insurance companies that are licensed to sell automobile insurance, to accept all applications for automobile insurance subject to the limited exceptions permitted under the *Insurance Act* and the *Adverse Contractual Action Regulation*. High-risk policies may be ceded to a risk sharing pool. There is no limit to the number of Grid rated risks that can be ceded, though companies are limited to 4 percent of their portfolio for non-Grid risks that can be ceded to the risk sharing pools.

3. *Awards for Pain and Suffering*

Pain and suffering awards for minor injuries as a result of an automobile accident after October 1, 2004, were capped at \$4,000 (increased to \$4,777 as of January 1, 2014). If an injury is classified as a minor injury, as defined by legislation, the injured party cannot collect an award for pain and suffering that is greater than the cap amount that is annually adjusted for inflation. Injured persons with minor injuries may however, recover the full extent of damages for lost income, future income, medical and rehabilitation costs, and any other out-of-pocket expenses from the wrongdoer.

4. The Automobile Insurance Rate Board (AIRB)

The AIRB is an independent body that operates at arm's length from Alberta Treasury Board and Finance. The AIRB's mandate is to regulate the premium level for basic coverage and additional coverage, and to review and approve private passenger rating plans of new insurers and new and revised rating programs for other than private passenger vehicles for third party liability and accident benefits coverage.

The AIRB focuses on the following core areas:

- **Annual Review:** Conduct an annual review to establish guidelines for ratemaking factors to be used in the review of insurer filings for basic and additional coverage and adjust premium level for basic coverage under the grid rating program.
- **Existing Insurers:** Review and approve proposed revisions to insurers' existing rating programs.
- **New Insurers:** Review and approve proposed rating programs for new insurers entering the Alberta market.