

Consumer Perspectives on Automobile Insurance

Presentation to the Alberta Automobile Insurance Rate Board

**August 18, 2015
Edmonton, Alberta**

Submitted by:

Chris Daniel, Consumer Representative
Alberta Automobile Insurance Rate Board

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

Dear Mr. Clerien;

As part of the Consumer Representative's responsibilities, I conducted an independent and impartial review of consumer opinions and perspectives on Automobile Insurance in the province of Alberta. The purpose of my review was to ensure Alberta consumers were appropriately and adequately represented in the Annual Review process that establishes industry benchmarks for the Board's use in its review of insurer filings.

The review encompassed a variety of relevant issues pertaining to the availability and affordability of Automobile Insurance.

In my role as the Consumer Representative it is fundamental that the consumer has a right to be heard and represented in the decision making process that affects the Grid and the industry benchmarks that will be used to review insurers' rate filings.

The views expressed in this presentation are that of my own and those of Alberta consumers.

Please accept the following as my presentation to the Board and I look forward to providing any further explanations that may be required on Tuesday, August 18th, 2015 in Edmonton at the Annual Review.

Sincerely,

Chris Daniel
Consumer Representative

Attachments

My Role as the Consumer Representative

Chris Daniel was appointed to the Automobile Insurance Rate Board in March 2011. After serving a 3 year term he was appointed to the position of Consumer Representative for a 3 year term expiring September 2017. The role of the Consumer Representative is to reflect the interests of consumers at the Board level. Consistent with this role and as per legislation, Chris worked independently to collect consumer comments and concerns to report back to the Board during its consultation meeting. The information collected from consumers across Alberta is reflected in this report.

Mr. Daniel is a retired senior insurance executive with over 35 years' experience in the insurance industry, most recently with TD Insurance Meloche Monnex. He has dealt with consumer organizations and has developed programs for their members. Mr. Daniel co-chaired the provincial "no fault" automobile insurance debate. His Board experience includes serving as a Director of the Insurance Brokers Association and several other community boards, including Wellspring Edmonton, Compassion House Foundation and Wizard Lake Watershed and Lake Stewardship Association. His passion to make a difference in the community and his focus on fairness and consumer satisfaction was acknowledged when he was awarded with the Queens Golden Jubilee Medal for service to the community. Prior to joining the insurance profession Mr. Daniel served with the London, U.K. and Toronto police forces.

Background

The Government of Alberta regulates automobile insurance premiums with the goal of providing consumers with an efficient and effective automobile insurance market with fair and predictable premiums. The regulatory framework has four key features: Grid rating program, an all-comers rule, a cap on pain and suffering awards for minor injuries, and the regulation of rating programs for basic and additional coverage by the AIRB. In July 2014, the AIRB moved to a file and approve process which requires the review of rating programs and the resulting change in premiums on a company by company basis. Details of these features are included as Attachment #1.

How I Connected with Consumers

I contracted an independent marketing research company to conduct a telephone survey of 800 insurance consumers across the province 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 how insurance premiums in Alberta compare to other provinces
- 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 and increased fines for distracted driving
- Organized crime and automobile insurance fraud, and
- Their views on the Government’s traffic safety program.

Similar surveys were conducted in 2005 and annually since 2008; several questions were replicated to allow for comparison to responses from year to year.

I personally contacted 42 individuals who were included in the initial survey, representing communities around the province, to further discuss their automobile insurance experience. The individuals were contacted either through focus groups held in Edmonton and Calgary or by telephone in communities outside of Edmonton

and Calgary. In addition, this year I added a “Seniors” dimension and conducted a special discussion with this group.

In July a notice was placed on the AIRB website informing the public of the August 18th Annual Review and inviting consumers to submit their comments or concerns to the Consumer Representative.

I reviewed the number of calls to the Office of the Superintendent of Insurance and the AIRB from consumers and the nature of the issues that were raised over the past year. I also surveyed board members of the Insurance Brokers Association of Alberta and Canadian Association of Direct Relationship Insurers to determine any issues that their customers have had in obtaining auto insurance over the past year.

Expectations of Consumers

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

- **Affordable rates.** Driving a vehicle is a necessity for many Albertans and therefore they need to be able to insure their vehicle for a fair and reasonable premium.
- **Stable rates.** Most households count on expenses being reasonably predictable so they can manage within their budget. A large increase in automobile insurance premiums in one year can disrupt household budgets.
- **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.
- **Service.** While new drivers tend to choose their insurance provider based on price, experienced drivers also consider service related to their purchase and claims experience and they will stay with their insurer as a result of good service.

What I Found

Focus Groups (In-depth Interview Results)

The Focus Groups comprised a total of 42 participants; Calgary 11, Edmonton 9, 10 in-depth phone surveys in rural Alberta and 12 from the *SouthWest Edmonton Seniors Association*.

Consumer Voice – A robust consumer voice is vital to the accountable and efficient delivery of Automobile Insurance. To this end, not only are 800 individuals surveyed by phone but focus groups are conducted on a face to face basis including in-depth phone interviews providing an opportunity to further explore consumer attitudes towards Automobile Insurance to ensure fairness, affordability and accessibility. The following is a synopsis of their opinions:

- The majority would like to see increased discounts for better drivers
- Greater and more severe penalties for distracted driving
- Greater emphasis on enforcement and detection of individuals that operate vehicles in a manner that reflects law breaking driving situations e.g. distracted driving
- Better consistency for road signs, left and right turn signals, stop signs, road conditions, signs that display driver's speed at high collision locations.
- An improved education system to reduce poor driving habits

A few individuals suggested that Alberta could benefit from other countries' signage, speed enforcement penalties (average speed between point A and B), etc.

The Insurance Institute for Highway Safety (IIHS) indicates that a downward shift in crashes and deaths for older drivers, which started in the mid 1990's, has continued in 2012. Approximately 9% of the U.S. population is over 70 years of age (11% of all drivers). With this in mind I introduced a new Seniors Focus Group, to include their valued opinions.

The group of 12 were engaged and offered many recommendations as evidenced by the following synopsis:

- Introduction of Usage Based Insurance for all seniors with greater discounts
- Systems that deactivate cell phones while driving (except 911)
- Vehicle unable to start without seat belt engaged
- Winter driving course for new drivers
- Signs that display driver's speed at high collision areas

- Greater penalties for subsequent offences, i.e. cascading fines.
- Improved road markings, that clearly define turn lanes etc.

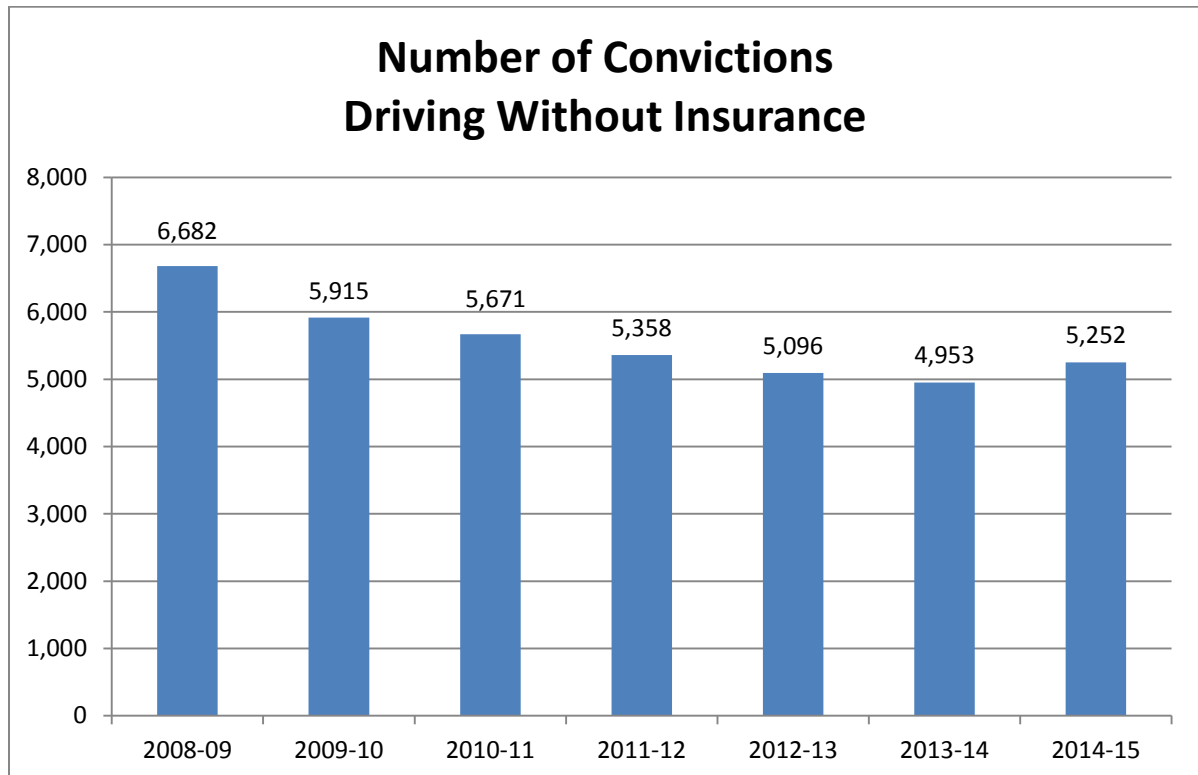
Premiums

Of the consumers surveyed by telephone, 59% agreed with the statement that 'Insurance premiums are fair and reasonable'. This compares to 57% who agreed with the statement when the survey was conducted in 2014. 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 and would like to see more discounts offered through programs such as Usage Based Insurance (UBI).

The average premium in 2005 in Alberta, for basic and additional coverage was \$1,023. The average premium in 2014 was \$1,154 an increase of 3.7% over 2013 (\$1,113). Premiums have increased by \$131 since 2005, an average increase of 1.3% per year.

Availability of Insurance

Automobile insurance continues to be readily available. From the telephone survey, less 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 drivers without insurance has decreased 26% since 2008-09 through 2013-14. In 2014-15, this trend reversed with an increase of 6% over the prior year.



Source: Alberta Transportation

Premiums for 'High Risk Drivers'

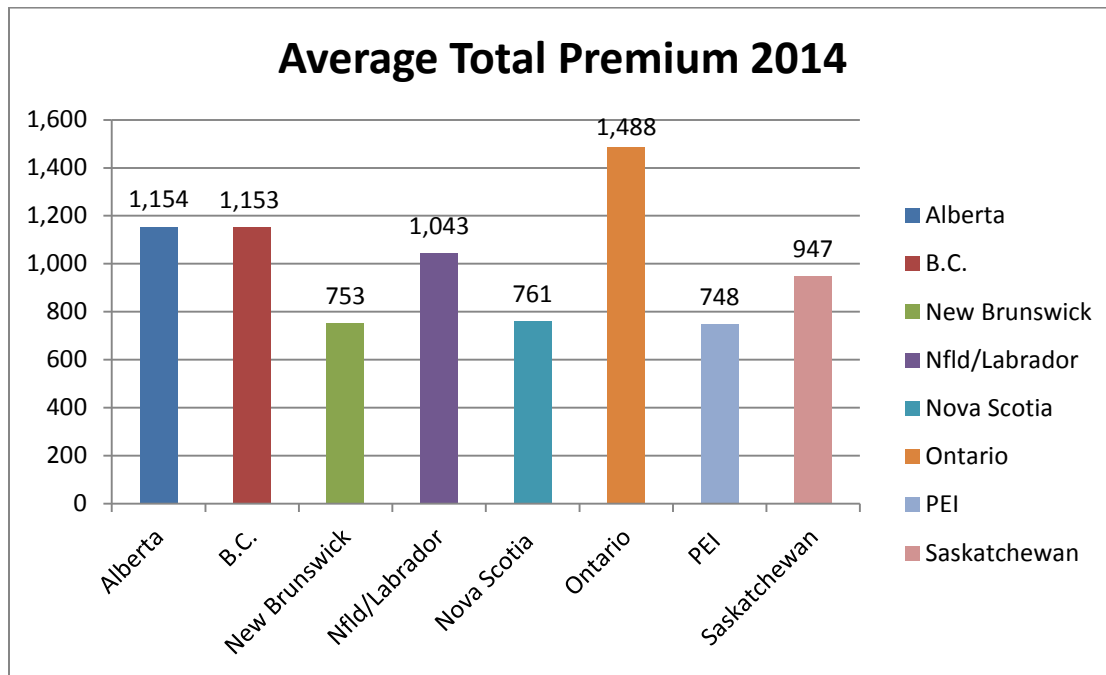
Virtually all of the consumers, who I consulted, feel that "high risk" drivers deserve to pay high premiums. There is, however, a risk that when the premium becomes too high, individuals will drive without insurance as the enforcement and fines are inadequate to deter them from doing so. I have talked 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 may make a claim from the Motor Vehicle Accident Claims Fund for bodily injuries but do not receive the full benefits of the Minor Injury and Diagnostic Treatment Protocol Regulations.

The “all-comers rule” and the Grid rating program are important features of the Alberta insurance regulatory model that encourage drivers to carry insurance. The Grid sets a maximum premium for basic coverage that limits the premium for new drivers or drivers with a history of ‘at fault’ claims or driving convictions.

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”.

Comparing Premiums to Other Provinces¹

The average written premium for private passenger vehicles in Alberta for 2014 was \$1,154. Alberta’s average premium was lower than Ontario at \$1,488, but was higher than the average premium in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Ontario has richer accident benefits coverage than Alberta which largely explains the higher premiums in that province. The average premium in Saskatchewan for 2014 was significantly lower than Alberta at \$947. 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 \$947 for Saskatchewan includes both private passenger and light commercial vehicles so is not directly comparable. The average premium for the majority of B.C. drivers for both private passenger and commercial vehicles was almost the same as Alberta at \$1,153.



¹ Sources: General Insurance Statistical Agency (GISA), SGI in Saskatchewan, ICBC Service Plan
 All provinces are based on written premium except B.C. which is based on earned premium.
 The premium for Underinsured Motorist coverage has been removed from all applicable provinces.

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 2013 indicates that the number of injury accidents on a per capita basis have been trending downward over the past decade. From 2012 to 2013, the number of injuries increased slightly by 2.4%. Our survey showed that 86% of the respondents agreed that traffic safety should be a priority and 58% agreed that Alberta is taking the right approach to traffic safety.

Distracted Driving

The penalty for distracted driving is a fine of \$287 but there are no demerit points recorded for the infraction at this time. 84% of survey respondents and all of the focus group participants felt that 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, 98% had not received a conviction for distracted driving. One individual in the focus group meetings felt that the distracted driving law was far too lenient and should be much more punitive.

Competition

Our telephone survey indicated that 27% of consumers polled obtained a competitive quote for insurance over the past 2 years. This was slightly higher than survey results of the past two years. Of the consumers who obtained a competitive quote, 89% of consumers stayed with their existing insurer. 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 moderate reductions in their premiums. A number of respondents shopped around but were not able to obtain a lower premium as a result. The most common method of obtaining a quote involved consumers calling their broker or direct writer to obtain a quote (60% of respondents). In the Edmonton and Calgary Focus Groups, participants who had obtained an on-line quote found that they were unable to

purchase insurance without a discussion with an agent so viewed on-line quoting as having limited value.

Usage Based Insurance

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 and “high risk” drivers in particular, who are alerted to their bad driving habits by evidence-based routine reporting and choose to improve their driving behaviour.

Usage based insurance may result in increased segmentation of the market. Drivers with riskier driving behaviours or those drivers that choose not to use Usage Based Insurance could pay more than they currently do. The survey response and our discussions with focus group participants indicated a level of skepticism with Usage Based Insurance. Of those surveyed, 55% agreed that the government should allow insurance companies to provide Usage Based Insurance as an optional feature. The focus groups identified questions or issues with reliability of data, privacy issues, how the data would be used, and the implications on premiums for those who choose not to use Usage Based Insurance. The insurance brokers (IBAA) indicated their preference for a universal platform for Usage Based Insurance 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.

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. In 2013, the survey indicated that 74% of consumers supported the regulation of mandatory and additional coverage. The report in 2013 also indicated that the rates for additional coverage were too high relative to claims cost, while there was inadequacy in the rates for basic coverage the rates for additional coverage were more than adequate to provide industry with an adequate loss ratio. This legislative change has resulted in a rebalancing of rates between mandatory and additional coverage.

Organized Crime

New to the 2015 survey, respondents were asked how concerned they were regarding the occurrence of organized staged collisions. 71% indicated a high level of concern, 9% were moderately concerned, and 20% indicated a low level of concern.

In addition, they were asked to what level they would support the pooling of industry-wide insurance data for the purpose of detecting and preventing organized automobile fraud. 82% of the respondents were in support of this initiative, 9% were neutral or indicated moderate levels of support or opposition and 9% were opposed.

My Observations

The Board has embarked on a new process for the 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 adjustments and changes to the Grid, it must consider consumers' need for stable rates. If rate inadequacy indicates a rate increase, a smoothing of rate adjustments would allow consumers time to accommodate any indicated rate increase.

With respect to Usage Based Insurance, there is a risk that if Usage Based Insurance causes increased segmentation of the market it may eventually lead to unaffordable rates for some drivers for additional coverage that is not capped by the Grid. The AIRB should closely monitor this element.

Rates need to be affordable rather than punitive. While consumers feel that rates for drivers with a poor driving record should be higher, the concept of insurance is to spread the risk over many. Rates should not be so high that drivers are unable to purchase insurance. Drivers that do not carry insurance create an unfair liability for the insured driver who has an accident with an uninsured driver. The role of the AIRB is to regulate rating programs of Alberta Automobile Insurance to ensure premiums are fair and predictable.

The level of satisfaction in general with consumers during the past 2 years has increased with respect to affordability, stability, availability and service.

Attachment 1**Features of the Alberta Automobile Insurance Legislation and Regulations****1. Grid Rating Program**

All insurance companies are subject to the Grid rating program, which establishes a base premium for third party liability and accident benefits coverage. The base premium is subject to discounts determined by the number of accident free driving years. Surcharges may be applied based on driving convictions and the number of at-fault claims. 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 risk sharing pools. There is no limit to the number of Grid rated risks that can be ceded to the Grid risk sharing pool, though companies are limited to 4 percent of their portfolio for non-Grid risks that can be ceded to the non-Grid risk sharing pool.

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 (\$4,892 as of January 1, 2015). 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 responsible party.

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 insurers rating programs and resultant premium level for basic and additional coverage, and to review and approve private passenger rating programs for new insurers.

The AIRB focuses on the following core areas:

- **Annual Review:** Conducts an annual review to establish industry benchmarks 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 or existing insurers entering a new section of the market.