

# Automobile Insurance Rate Board

BUSINESS PLAN 2008-10

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## **ACCOUNTABILITY STATEMENT**

The business plan for the three years commencing April 1, 2008 was prepared under my direction. All of the Board's policy decisions as of March 28, 2008, with material economic or fiscal implications of which I am aware have been considered in preparing the business plan. During 2007 the Superintendent of Insurance completed a Premiums Regulation review. The Board along with other stakeholders was involved with this review and provided input and recommendations for amendments. At the time this document was developed, the Government was in the process of drafting amendments to the Premiums Regulation. This Business Plan is based on our understanding of these new regulations. Should the amendments not be adopted, the Board will be required to review and amend this plan accordingly. While it is expected that the vision, mission and goals would remain the same, strategic priorities one and two along with a number of the strategies within goal one would change.

The Board's priorities outlined in the business plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this business plan.



Alf Savage, *Chair*  
March 28, 2008

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## GOVERNANCE

The Minister of Finance and the Government of Alberta, through legislation (*Insurance Act*), established the Alberta Automobile Insurance Rate Board (AIRB or the Board) as an independent, quasi-judicial regulator. In this capacity, the AIRB is responsible for regulating automobile insurance premiums in Alberta. The Board, through its functions and statutory duties and responsibilities, serves all Albertans – members of the general public, industry and Government.

Board decisions regarding applications, premium levels and other related areas are made independently of Government and pursuant to the AIRB's enabling legislation.

The Board's governance practices are in keeping with the recently approved *Public Agencies Governance Framework* and, as such, in 2007, the Board completed a self-assessment, a peer review and developed a Board Skills Matrix and Charter of Expectations.

The AIRB mandate has two aspects: the regulation of automobile insurance premiums and the provision of information and educational materials to enable consumers to make informed choices. In anticipation of revisions to the *Automobile Insurance Premiums Regulation*, the AIRB is developing a "Threshold Rating System" for rate regulation that would achieve a better balance between competition and rate protection. Where insurers require an increase in premium, this system would establish a threshold to allow increases up to an inflationary level to be expedited, thereby, encouraging innovation and competition. Where insurers request increases above the threshold, full actuarial analyses and justifications would be required. In addition, on a regular basis the Board would require a full actuarial review to ensure that rates are fair to both the consumer and industry. As noted in the statement of accountability, should the proposed amendments to the Premiums Regulation not be adopted, the threshold rating system will not be implemented.

## VISION

An efficient and effective automobile insurance market with fair and predictable rates.

## MISSION

As an independent body, the AIRB will regulate rating programs of Alberta automobile insurers to ensure premiums are fair and predictable. The Board will also ensure consumers have access to information to facilitate informed choices.

## VALUES

RESPECT	We foster an environment where consumers, industry, government and Board/staff members are valued and heard
ACCOUNTABILITY	We are accountable for our actions and to contribute to the efficacy of the auto insurance system
INTEGRITY	We behave ethically and are open, honest and fair in our dealings
EXCELLENCE	We use innovation and continuous improvement to achieve excellence

## LINK TO THE GOVERNMENT OF ALBERTA STRATEGIC BUSINESS PLAN

### Alberta Finance Business Plan Goals

Goal 6: Effective regulation of private sector pension, insurance and financial products

### AIRB Goals

#### Core Business One: Regulation of Automobile Insurance Premiums

Goal 1: Encourage an efficient and effective market that allows for fair and predictable rates

Goal 2: Responsive to rating programs that support fairness by accurate assessment of risk and price and, thereby, fostering healthy competition.

#### Core Business Two: Provision of Automobile Insurance Information and Education

Goal 3: Ensure consumers are heard and have ready access to sound information and educational resources

Goal 4: Maintain a strong working relationship with Stakeholders

Goal 5: Maintain a strong working relationship with Government and Rate Regulators across Canada

## SIGNIFICANT OPPORTUNITIES AND CHALLENGES

The endeavour to achieve fair and predictable premiums and accessible automobile insurance in Alberta presents many challenges. Changing economic conditions, an evolving competitive market and increasing public expectations will continue to impact automobile insurance in Alberta. These factors have financial consequences that affect the level of premiums and need to be considered to ensure an efficient and effective automobile insurance market exists.

The automobile insurance reform in 2004 enabled the insurance industry to reduce claim costs for specified types of injuries. This reform, when combined with decreasing accident frequency resulted in rates being reduced on average by 18% over 4 years. In 2007, a court challenge to Government's *Minor Injury Regulation* was heard. February 2008, the judge ruled that the CAP discriminated against a specific group of injured Albertans by limiting their ability to recover damages and struck down the regulation that capped payouts at \$4,000 (plus an annual adjustment for inflation) for less serious sprains and strains. While it is expected that the Government will appeal this decision, insurance payouts are expected to increase resulting in upward pressure on premiums should the appeal fail. For 2008, the Board's most significant challenge will be the determination of a fair rate as significant uncertainty now exists in the market, not knowing the outcome of the appeal.

During 2007, the Superintendent of Insurance initiated and led a review of the Premiums Regulation. One of the most significant outcomes and opportunities from this review was the establishment of various task forces drawn from the various stakeholders. The AIRB is working towards ongoing regular meetings with Government and stakeholders to ensure all parties understand the implications and benefits of any future changes to the automobile insurance system in order to ensure changes are in the best interest of consumers while being fair to industry.

In 2007, the Minister of Finance granted a Board request to extend their mandate to include public education and information related to automobile insurance. The Board believes that this will provide a significant opportunity to help inform and educate the public regarding premiums and rating programs.

Stable premiums, that is, no extraordinary increases will likely continue to be a priority for Albertans. Sound data on financial and claims experience in the automobile insurance market are critical to the Board's operation. Available data to enable the Board to determine profitability continues to be a challenge. Notwithstanding the data issues, the AIRB is committed to its vision of fair and predictable rates and will be diligent in its efforts to avoid exacerbating the rate cyclicity inherent in the insurance industry.

## STRATEGIC PRIORITIES 2008-10

*Through the Board's review of environmental factors, the strategic priorities described below have been identified. These are in addition to the important ongoing core activities of the Board.*

1. **Changing Auto Insurance Environment**
  - Develop a new regulatory framework "Threshold Rating System" to address the changing environment
  - Engage with stakeholders to better understand industry dynamics

**Linkage: Goals #1 & 4**

2. **New Automobile Insurance Premiums Regulation**
  - Transition from the Industry-wide adjustment to new Threshold Rating System
  - Establish minimum wait times for simplified and full filings to encourage timely approval and implementation of new rates

**Linkage: Goals # 1 & 2**

3. **Public information & education**
  - Develop improved public information and education resources to include the AIRB website redevelopment.

**Linkage: Goal # 3**

4. **Affiliation with Canadian rate regulators**
  - Establish improved linkage with Canadian Auto Insurance Regulators through hosting the 2008 CARR conference
  - Partner with Canadian Automobile Insurance Regulators to establish a formal association

**Linkage: Goal #5**

5. **Data collection and analysis**
  - Work with GISA and stakeholders to improve data collection and enable improved insight to the current position of and future outlook for automobile insurance.

**Linkage: Goal #5**

# CORE BUSINESSES, GOALS, STRATEGIES & PERFORMANCE MEASURES

## Core Business One: Regulation of Automobile Insurance Premiums

GOAL ONE

# 1

### Encourage an efficient and effective market that allows for fair and predictable rates

#### What it means

Premium stability with fair and predictable pricing is an integral objective of the automobile insurance system for consumers, insurance providers and Government. The AIRB oversees rating programs for private passenger vehicles for existing and new automobile insurers entering Alberta. The Board analyzes industry experience for changes in claim frequency and severity to determine the appropriate adjustment. The AIRB ensures companies are adhering to the requirements of the *Insurance Act* and *Automobile Insurance Premiums Regulation* as it relates to premiums while monitoring rate change in the market. In addition, the Board uses a company's claims experience to determine whether their premium level is adequate to support their future claim cost requirements. This aids in the sustainability of automobile insurance companies in Alberta's market.

#### Strategies

- 1.1 Complete a survey and analysis of Threshold Rating Systems in other jurisdictions in North America
- 1.2 Develop a Threshold Rating System that encourages competition.
- 1.3 Establish a threshold limit that balances competition with consumer protection.
- 1.4 Establish minimal wait times to allow for timely rate changes.
- 1.5 Establish a balance between the need for full and simplified filings.
- 1.6 Review and amend Fees Regulation to better suit application processing and funding.

Performance Measures		Last Actual 2007	Target 2008	Target 2009	Target 2010
1.4a	Percentage of full filing decisions issued in 60 days or less from the application date.	n/a	95%	95%	95%
1.4b	Percentage of simple filing decisions issued in 30 days or less from the application date. (where applications are complete with no further external actuarial analysis required)	n/a	95%	95%	95%

(Timeliness of decisions<sup>1</sup>)

<sup>1</sup> Decisions are in respect to applications under sections 6, 10 and 19 of the *Automobile Insurance Premiums Regulation*. Under section 6 applications, insurers apply to the Board for an adjustment to rating programs for basic coverage for private passenger vehicles. Under section 19 applications, insurers apply to the Board to establish or revise rating programs for basic coverage for other than private passenger vehicles. Under section 10 of the passenger vehicles.

## 2 Responsive to rating programs that support fairness by accurate assessment of risk and price and, thereby, fostering healthy competition.

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### What it means

In fulfilling this goal, the Board strives to ensure consumers have ready access to just and reasonable insurance premiums and the automobile insurance industry secures a fair recovery of costs. The Board administers this mandate by maximizing the role of the private sector in providing competitive insurance premiums, while regulating maximum premium levels.

This goal aims to ensure the Board in its review of rating programs is encouraging and supportive of rating programs which demonstrate creativity and innovation in addressing fair premiums and premiums that reflect risk.

In its review of rating programs the Board will not support programs that demonstrate unfair socio-economic rating criteria.

The Board will continue to fulfill its mandate and administer the annual adjustment by analyzing the industry-wide experience and determining whether premiums need to be uniformly adjusted. For 2008, assuming approval of the new Premiums Regulation, this adjustment will relate to the Grid only.

The AIRB commits to considering all relevant information from all parties to make an accountable and equitable decision.

### Strategies

- 2.1 Monitor the Grid and non Grid pools.
- 2.2 Develop acceptable criteria by which the Board may review all applications

Performance Measures	Last Actual 2007	Target 2008	Target 2009	Target 2010
Annual Grid adjustment process review and analysis	August 1	August 1	October 1	October 1
Annual Grid adjustment implemented	November 1	November 1	January 1	January 1

## Core Business Two: Provision of Automobile Insurance Information and Education

GOAL THREE

# 3

### Ensure consumers are heard and have ready access to sound information and educational resources

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#### What it means

This goal aims to ensure that consumers are given opportunity to be heard. The ways in which consumers can voice their concerns are:

- Through the independent Consumer Representative appointed by the Minister of Finance.
- Email through the Board's website
- Telephone contact directly to the AIRB office

The AIRB regularly makes decisions and administers board orders that directly affect automobile insurance consumers in Alberta. These decisions should reflect and consider the experience of consumers in the automobile insurance market to ensure a fair and equitable decision process that considers all the possible consequences.

The AIRB is further committed to increasing consumer awareness and understanding of their rights and responsibilities regarding the purchase of the automobile insurance product. Using technology to support this goal, the AIRB will ensure the most recent information is available to all stakeholders via the AIRB website. The AIRB also commits to provide assistance and advice to consumers on issues regarding their policy, the premium structure and other issues related to automobile insurance in Alberta. The AIRB will continue to encourage consumers to shop for prices.

#### Strategies

- 3.1 Redevelop the AIRB's existing website to provide comprehensive consumer information, educational resources and results of Board decisions.
  - 3.2 Maintain an online calculator for automobile insurance premiums on the Grid.
  - 3.3 Review the feasibility of implementing an insurance premium comparison calculator or alternatively publish premiums for selected profiles.
  - 3.4 Support the Consumer Representative in consulting with members of the general public regarding the consumer experience within industry.
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## 4

## Maintain a strong working relationship with Stakeholders

**What it means**

This goal aims to ensure that the AIRB maintains a good understanding of the insurance industry and issues that may be on the horizon. It also aims to provide opportunities for insurance providers, other industry professionals and stakeholders to provide input on industry-wide decisions and to have access to the most recent and comprehensive information on Board decisions, activities and orders. Using technology to support this goal, the AIRB will ensure the most recent information is available to all stakeholders via the AIRB's website. Regular opportunities for dialogue with stakeholders will enable the AIRB to make informed and sound decisions as it reviews rate applications and information pertaining to the Grid adjustment.

**Strategies**

- 4.1 Consult with automobile insurance providers and other stakeholders on industry-wide decisions.
- 4.2 Provide regular opportunities for automobile insurance providers and other stakeholders to meet with the Board.
- 4.3 Ensure information relating directly to insurance companies' rating programs will be readily available and accessible to all stakeholders.
- 4.4 AIRB presence with stakeholders on committees.

Performance Measure	Last Actual 2007	Target 2008	Target 2009	Target 2010
4.3 Board decisions posted on a quarterly basis. Decisions implemented in any quarter posted within 15 business days of the end of that quarter.	n/a	100%	100%	100%

# 5

## Maintain a strong working relationship with Government and Rate Regulators across Canada

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### What it means

The AIRB is accountable to the Minister of Finance for the regulation of automobile insurance rates and for the provision of information and education to consumers. Accountability for these operations is accomplished through the AIRB's Business Plan which lays out how the Board intends to meet its mandate and the Annual Report which identifies what the Board has done to advance its mandate and whether it has met its targets. With a new Minister of Finance in 2008, it is even more critical that the Board develop a strong relationship to maintain its accountability and provide the Minister with updates on any issues that the Board may foresee.

The automobile insurance system itself is regulated by Government through the Superintendent of Insurance. Changes the Government introduce through legislation and regulations affects consumers, stakeholders and the AIRB as it carries out its mandate. As a result a strong working relationship will be maintained to ensure that issues raised by the AIRB are heard and understood.

In addition to government, there are rate regulatory bodies in most provinces. A strong working relationship developed within this group will improve the AIRB's understanding of broader automobile insurance issues and may in some instances allow for harmonization of processes, thereby reducing regulatory costs in the automobile insurance system.

### Strategies

- 5.1 Host annual meeting with the Minister.
- 5.2 Liaise regularly with the Superintendent of Insurance.
- 5.3 Develop and host 2<sup>nd</sup> annual rate regulators conference.
- 5.4 Take leadership role in developing a Canadian rate regulators association.
- 5.5 Develop a more comprehensive annual report with broader distribution.