

Automobile Insurance Rate Board

BUSINESS PLAN 2009-12

ACCOUNTABILITY STATEMENT

The business plan for the three years commencing April 1, 2009 was prepared under my direction. All of the Board's policy decisions as of March 31, 2009, 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. This Business Plan is based on an alternative regulatory model that the Board continues to refine in anticipation of implementation. 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.



Alfred Savage, *Chair*
May 22, 2009

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GOVERNANCE

The Minister of Finance and Enterprise and the Government of Alberta, through legislation (*Insurance Act*), established the Alberta Automobile Insurance Rate Board (AIRB or the Board) as an independent 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 Board will repeat the self-assessment and peer review process in 2009 as well as complete a Mandate and Roles document and develop a Code of Conduct.

The AIRB mandate has two aspects: the regulation of automobile insurance premiums and the provision of information to enable consumers to make informed choices. In anticipation of revisions to the *Automobile Insurance Premiums Regulation*, in early 2009 the AIRB recommended a new regulatory model "Threshold Rating System" to the Minister. Though the amendment of the *Insurance Premiums Regulation* has been delayed, the Board remains committed to the adoption of the proposed regulatory model and continues to make preparations for the transition. As to the second aspect of the mandate, the website is the principle tool for imparting information to consumers.

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 contributing 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 and Enterprise Business Plan Goals

Goal 6: Effective regulation of financial products and services

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

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

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. 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.

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. In 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 *Minor Injury Regulation* that capped payouts for non-economic damages at \$4,000 (plus an annual adjustment for inflation) for less serious sprains and strains. The appeal was heard in September of 2008 though the Court of Appeal has yet to release their decision. Again in 2009, 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 and what might ensue regardless of the outcome, i.e., a further appeal to the Supreme Court of Canada.

During 2007, the Superintendent of Insurance initiated and led a review of the Premiums Regulation. The challenge to the *Minor Injury Regulation* has impeded progress with the amendment of the Premiums Regulation though the Board developed an alternative regulatory model that has been recommended to the Minister. The timeline for any implementation remains uncertain.

In 2007, the Minister of Finance granted a Board request to extend their mandate to include consumer information related to automobile insurance. The Board believes that this will provide a significant opportunity to help inform the public regarding premiums and rating programs. The website will be the principle communication tool as it has the potential to reach a wide audience and provides the most opportunity for an innovative and cost effective approach.

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 cyclicalities inherent in the insurance industry.

STRATEGIC PRIORITIES 2009-12

Through the Board's review of significant opportunities and challenges,, 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**
 - Encourage adoption and implement new regulatory model "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 a new regulatory model in accordance with the regulations as approved by government

Linkage: Goals # 1 & 2

3. **Driver information**
 - Improve driver information resources:
 - Automobile insurance information
 - Safety tips
 - Driver tools, e.g., route planning, road conditions, carbon footprint

Linkage: Goal # 3

4. **Affiliation with Canadian rate regulators**
 - Continue to provide leadership to the Canadian Auto Insurance Rate Regulators Association
 - Ensure that the Canadian Automobile Insurance Rate Regulators Association succeeds in delivering benefits to its members

Linkage: Goal #5

5. **Data collection and analysis**
 - Work with GISA, IBC and other stakeholders to improve data collection to enable improved insight to the current position 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 Revamp application forms to reflect new regulatory model
- 1.2 Communicate new regulatory model changes to industry
- 1.3 Modify in-house procedures to accommodate new regulatory model
- 1.4 Establish Board committee structure to expedite simplified applications
- 1.5 Establish actuarial consultation process with industry to develop guideline ratemaking factors
(subject to Government approval of new regulatory model)

| Performance Measures | | Last Actual 2008/09 | Target 2009/10 | Target 2010/11 | Target 2011/12 |
|----------------------|--|------------------------|-------------------|-------------------|-------------------|
| 1.1 | Percentage of simple filing decisions issued in 30 days or less from the application date. | n/a | 95% | 95% | 95% |
| 1.1 | Percentage of full filing decisions issued in 60 days or less from the application date. (where applications are complete with no further external actuarial analysis required) | n/a | 95% | 95% | 95% |

Core Business One: Regulation of Automobile Insurance Premiums

GOAL TWO

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

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 and providing useful consumer information.

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 2010, assuming approval of the new regulatory model, 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, Grid and non Grid risk sharing pools
- 2.2 Monitor industry profits on a semi-annual basis by Basic, Additional and all coverage
- 2.3 Analysis of Grid experience to determine fairness of the distribution of premium
- 2.4 Make recommendations regarding Prohibited Rating Factors
- 2.5 Receptive to "Unbundled" rating programs, which better match premium with risk

| Performance Measures | | Last Actual 2008/09 | Target 2009/10 | Target 2010/11 | Target 2011/12 |
|----------------------|---|------------------------|------------------------|------------------------|------------------------|
| 2.1 | Monitor Grid, Grid RSP & RSP on a quarterly basis | Jan | Apr, Jul, Oct & Jan | Apr, Jul, Oct & Jan | Apr, Jul, Oct & Jan |
| 2.2 | Monitor Industry Profits | May | Jun & Feb | Jun & Feb | Jun & Feb |
| | Annual Grid adjustment 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

3

Ensure consumers of Private Passenger auto insurance are heard and have ready access to accurate information

What it means

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

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

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 service and price.

Strategies

- 3.1 Further enhancement of the AIRB's website with a focus on consumer information and driver safety in conjunction with the Consumer Information Committee
 - 3.2 Evaluate the AIRB website's success in providing comprehensive consumer information
 - 3.3 Re-develop a more accurate web calculator for automobile insurance premiums on the Grid
 - 3.4 Develop web links to show consumers the range of options in the marketplace
 - 3.5 Support the Consumer Representative in consulting with members of the general public regarding the consumer experience within industry
-

Core Business Two: Provision of Automobile Insurance Information

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 2008/09 | Target 2009/10 | Target 2010/11 | Target 2011/12 |
|---|--------------------------------|---------------------------|---------------------------|---------------------------|
| 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. | 100% | 100% | 100% | 100% |

Core Business Two: Provision of Automobile Insurance Information

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

What it means

The AIRB is accountable to the Minister of Finance and Enterprise for the regulation of automobile insurance rates and for the provision of insurance information 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. It is critical that the Board demonstrate accountability and maintain its strong relationship with the Minister through regular updates on topical issues.

The automobile insurance system itself is regulated by Government through the Superintendent of Insurance. Changes the Government introduces through legislation and regulations affect consumers, stakeholders and the AIRB as it carries out its mandate. The AIRB must maintain a strong relationship to ensure issues deemed critical 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 Meet regularly with the Minister to review issues and activities of the Board
- 5.2 Submit Business Plan and Annual Report to Minister
- 5.3 Liaise regularly with the Superintendent of Insurance
- 5.4 Completion of Mandate and Roles document for approval by the Minister and posting to the AIRB's website
- 5.5 Develop a Code of Conduct document
- 5.6 Support the 3rd annual rate regulators conference
- 5.7 Maintain a leadership role in the Canadian rate regulators association

| Performance Measures | | Last Actual 2008/09 | Target 2009/10 | Target 2010/11 | Target 2011/12 |
|----------------------|---------------------------------------|------------------------|-------------------|-------------------|-------------------|
| 5.2 | Annual Report to Minister for tabling | Spring session | Spring session | Spring session | Spring session |
| 5.2 | Business Plan to Minister | April | May | May | May |