

Notice to All Stakeholders

Review of Insurer Communication to Policyholders

Notice 09-2023

September 25, 2023

Purpose

The Automobile Insurance Rate Board (AIRB) is issuing this notice to announce the publication of our findings from our review of insurer communications to policyholders.

Background

The AIRB conducted a review of insurer communications to policyholders in response to feedback from Albertans in the Consumer Representative's Consumer Perception Survey. The review focused a consumer lens on insurer communication to better understand the reason for increased frustration and misunderstanding experienced at renewal.

As part of the review the AIRB requested eleven insurance groups to provide:

- 1 A sample of the insurer's Alberta auto insurance renewal letter explaining changes to a policyholder's premium, year-over-year;
- 2 Any materials provided to the insurer's Alberta distribution channel (agent or broker) to aid in their service to policyholders regarding premium changes; and
- 3 Consumer information on the insurer's website related to understanding changes in Alberta auto insurance products.

In addition, the AIRB reviewed insurer websites and spoke to brokers and agents to ensure a balanced perspective of the challenges with communications to policyholders.

Action Required

Insurers are expected to review the findings in the Consumer Experience at Renewal Report and consider how to improve communications to policyholders. Insurers are required to share how they communicate changes to their rating program, under Section 9 of the filing guidelines.

Should you have any questions relating to this Notice, please contact our office at (780) 427-5428 or by email: airb@gov.ab.ca.

Laurie Balfour, MBA, CPA, CMA
Executive Director

Attachment

1. Consumer Experience at Renewal



Consumer Experience at Renewal



Automobile Insurance Rate Board

2023 Consumer Experience at Renewal



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AIRB Mandate

The Automobile Insurance Rate Board (AIRB) is a regulatory agency established by the President of Treasury Board and Minister of Finance in accordance with section 599 of the Insurance Act.

The AIRB is responsible for:

- ✱ Reviewing and approving auto insurance rating programs for all vehicle types;
- ✱ Making rules governing the approval of rating programs;
- ✱ Computing the annual Grid Rating System premium;
- ✱ Conducting an annual review of auto insurance trends and rates, including receiving feedback from stakeholder such as auto insurers, the Consumer Representative and Albertans, as well as holding an open meeting; and

- ✱ Providing consumer education and information related to auto insurance on an ongoing basis.

The goal of the AIRB's consumer education mandate is to ensure Albertans are empowered auto insurance consumers. An empowered insurance consumer is an individual who possesses the knowledge, understanding, and confidence necessary to make informed decisions about their insurance coverage and effectively navigate the insurance process.

Review of Insurer Communication to Policyholders

The Consumer Representative's Consumer Perception survey has indicated consumers have not been happy with the explanations on changes to premiums for several years. In addition, the AIRB had concerns with how changes to individual auto insurance premiums were communicated to policyholders during the pandemic. In response to these concerns, the AIRB added a filing requirement to report on how changes to a rating program would be communicated to policyholders.

This section of our filing guidelines is more subjective than the quantification of rating algorithm changes, but equally important to the AIRB, and responses for this section have lacked in the robustness we expected from insurers. In the last year, auto insurance affordability has been in the spotlight which in turn reiterates the need for increased consumer education and understanding on the factors influencing how their premiums are calculated.

The Government of Alberta announced a "rate pause" on January 26, 2023, to address rising public concerns and to allow government the time to study longer-term solutions to cost pressures.

Many Albertans believed the rate pause would prevent any premium increase at renewal during 2023. However, previously approved rate changes were still working through the system and consumer confusion and frustration led to a dramatic increase in consumer calls to the AIRB.

The purpose of the review was to focus a consumer lens to insurer communications to better understand the reason for increased frustration and misunderstanding at policy renewal time.

This report identifies gaps in information, highlights best practices and makes other recommendations as warranted to improve communication to Alberta policyholders both through their broker or agent and directly from their insurer.

95%
Of Market
Participated
in Review



Regulator Expectations

In Canada, insurance regulators like the AIRB emphasize the importance of clear and transparent communication between insurer and policyholders. Effective communication helps ensure policyholders are well-informed about their insurance policies, coverage, and rights.

The AIRB Filing Guidelines include Section 9, “Communication to Policyholders” and require insurers to file copies of formal policyholder communications. The Filing Guidelines state the AIRB’s expectation of

“...clear communication to consumers about premium changes. Insurers will provide simple, adequate, and effective notice to consumers, as well as agents and brokers, of upcoming premium changes so consumers can make an informed decision regarding their coverage.”

The insurance industry association, Insurance Bureau of Canada, has advocated for Section 9 be removed from the Filing Guidelines; an indication to the industry does not feel the need to assist customers in this way.

Insurers are encouraged to provide policyholders with clear, concise, and easy-to-understand information about their policies, including coverage, exclusions, and limitations. Any technical terms or jargon should be explained in simple language.

The Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) adopted “Fair Treatment of Customers Guidance” for insurers and their intermediaries. Alberta’s Superintendent of Insurance adopted this guidance in 2019:

Disclosure to Customer¹

Insurers and Intermediaries² ensure that Customers are appropriately informed about a product, before and at the point of sale, to enable them to make an informed decision about the proposed product.

The information provided is sufficient to enable Customers to understand the characteristics of the product they are buying and help them understand whether and how it may meet their needs. To this end, the level of information required will tend to vary according to the knowledge and experience of a typical Customer for the product in question and the product’s overall complexity.

CCIR and CISRO expect a Customer is given appropriate information in order to make an informed decision before entering into a contract.

Disclosure to Policyholder

CCIR expects that the disclosure processes established by Insurers allow policyholders to determine whether the product continues to suit their needs and expectations and as the case may be, remind them in a timely manner of options that can be exercised from time to time.

In addition to regulator expectations, the property and casualty insurance industry, through the Insurance Bureau of Canada, created a Code of Consumer Rights and Responsibilities which including industry’s agreement a consumer has the right to be informed about their insurance:

Right to be Informed

You have the right to an easy-to-understand explanation of how insurance works and how insurers calculate price based on relevant facts. You can expect to access clear information about your policy, your coverage and the claims settlement process. Under normal circumstances, insurers will advise an insurance customer of changes to, or the cancellation of, a policy at least 30 days prior to the expiration of the policy. Your insurer is required to provide you with the renewal terms of your policy at least 30 days prior to the expiration of the policy...

You have the right to know how your broker or agent is compensated, and if they have any conflicts of interest.

¹ Guidance Conduct of Insurance Business and Fair Treatment of Customers, CCIR and CISRO.

² “Intermediary is given a broad meaning encompassing agents and representatives and distribution firms authorized to distribute insurance products and services.”

Consumer Expectations

For many Albertans, their only touchpoint with their automobile insurer may be at annual policy renewal, unless they have made a claim. This makes the renewal transaction even more important for consumer confidence and insurer reputation.

Other than regulators’ expectations for policyholder communication, insurers are guided by the Certificate of Automobile Insurance (Owner’s Form S.P.F. No. 1) form approved by the Superintendent of Insurance.

Consumers expect clear and transparent communication from their insurance provider. Consumers want plain language resources. This includes explaining any changes to the policy, outlining reasons for premium changes, and offering assistance in understanding the policy terms and conditions.

One of the most significant reasons for frustration is the direct financial impact of premium increases. When insurance premiums go up, policyholders must allocate more money from their budgets to cover the

increased cost. This can strain personal finances and disrupt financial planning. Insurance policyholders receive 45 days notice of a premium change, which is often insufficient to adjust personal finances when the increase is larger than anticipated.

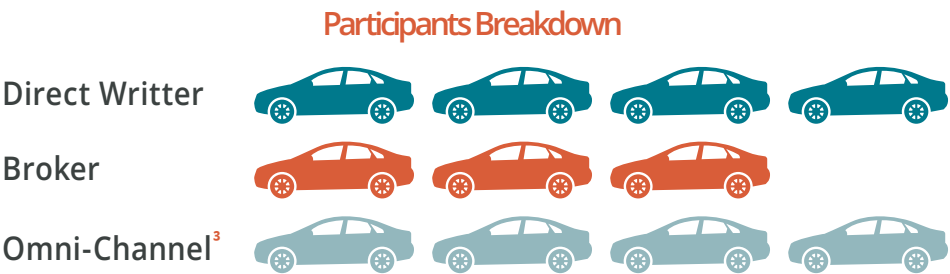
Consumers feel frustrated if they don’t receive a clear and understandable explanation for why their premiums are increasing. Without proper communication from the insurer about the factors driving the increase, policyholders may perceive the change as arbitrary or unfair.

Not all Albertans understand how insurance works, how it is a pooling of funds from all drivers to pay for the claims of the few, nor how premiums are calculated. If a policyholder has not filed any claims or had any at-fault accidents, they often view a premium increase as unfair. They could feel penalized for events beyond their control, such as overall market trends or the actions of other policyholders.

Information Requested

Under the AIRB’s authority to require any information the AIRB considers necessary in accordance with Section 11 of the Automobile Insurance Premiums Regulation, a review was conducted in June 2023 to the eleven largest insurer groups, by market share, offering automobile insurance in Alberta. All eleven insurer groups responded to the request to provide:

- 1. A sample of the insurer’s Alberta auto insurance renewal letter explaining changes to a policyholder’s premium, year-over-year;
- 2. Any materials provided to the insurer’s Alberta distribution channel (agent or broker) to aid in their service to policyholders regarding premium changes; and
- 3. Consumer information on the insurer’s website related to understanding changes in Alberta auto insurance products.



Findings

Insurers largely rely on intermediaries to communicate reasons for premium changes.

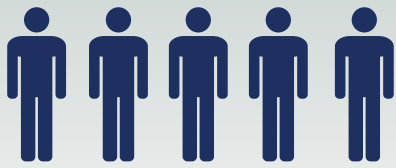
All the insurers reviewed indicated they rely on brokers and agents to explain premium changes to their consumers.

The role of a broker or agent in educating their customers about why premiums are increasing is crucial for maintaining transparency, managing client

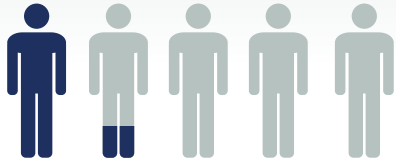
expectations, and building trust. Brokers and agents serve as intermediaries between insurance companies and their customers, helping customers find the most suitable coverage and navigate the complexities of insurance policies. When premiums increase, brokers and agents play a vital role in explaining the reasons behind the increase to their clients.

³ Omni-channel insurers utilize both agents and brokers.

Asking for Explanation for Why Premiums Increased



62%



Contacted Broker/Agent ⁴



Satisfied With Explanation



24%



Insurer comments included:

"We provide information about premium changes to our intermediaries that enables them to give customers timely and accurate guidance about their renewals."

"We work closely with our distribution partners; they are our primary contact for our customers to assist them in explaining changes that may have impacted their automobile coverage, including premium changes."

"...customers can also reach out to their broker with any questions."

"Due to the individual differences of each policy, we use the broker as the primary contact to explain any rate changes or premium increases."

"The broker receives separate renewal reports to inform them of their customers' premium changes year-over-year prior to the effective renewal date."

Brokers/agents are provided with some information about changes to the consumer's premium, but the same information is not shared in the renewal package. This places the onus on the consumer, or the broker/agent, to reach-out and discuss the consumer's premium.

Anecdotally, brokers we have talked to indicate it is often difficult to obtain specific information about their customer's premiums. Many brokers only have time to handle the incoming call volume and the pro-active outreach to customers can be very difficult. Some, not all, brokers reach out to their customers at renewal for thorough discussions about coverage and premium changes.

However, we know, through the Consumer Representative's survey, Albertans are not satisfied with the information about premium changes currently provided by brokers and agents. Anecdotally, many calls to the AIRB about premium changes follow extensive back-and-forth between the consumer and their broker/agent and/or the insurer. These consumers receive vague, non-personal information about what "might" be causing the premium to increase. Consumers are looking for concrete answers – whether they be related to their personal situation or to overall company rate changes. Based on the information provided in this survey, limited information is provided to brokers/agent on overall market trends which is an obvious education gap.

Another result of the Consumer Representative's survey outlines an education gap when it comes to coverage. Only 39% of respondents had heard about Direct Compensation for Property Damage (DCPD), a mandatory coverage at the time of the survey. If consumers hadn't heard of DCPD then how much do they know about what they're paying for?

The AIRB publishes an annual [Market and Trends Report](#), and expects insurers, brokers and agents to remain current on market events and trends to provide consumers with more information on the market which is affecting their coverage or their premiums. Brokers and agents should strive to educate themselves on these current issues.

⁴ Source: Consumer Representative Report

Two insurers stood out in the review for providing superior information to their customers. The information provided explicitly referenced market trends putting pressure on premiums and at the same time provided options to lower or manage insurance premiums.

Insurer Communication Direct to Policyholder

64%

Provide a
Cover Letter



Most insurers provided a basic cover letter at renewal outlining some options and providing a contact for follow-up questions but most lack personalized content about the customer's premium change. A few insurers provided additional information about managing the insurance contract, and as mentioned above, two insurers provided comprehensive information on industry cost pressures and ways to save money.

A basic question which comes to mind when faced with a renewal premium is "what did I pay last year?" yet this information did not appear on any of the reviewed materials. This requires the consumer to remember how much they paid, or find their previous year's paperwork to make a basic comparison.

Insurer comments:

"[Insurer] does not usually issue letters at renewal discussing rate changes."

Some insurers provide up-front information on how to save money on auto insurance.

27%

Provide
Cost Savings
Information



A small number of insurers provide information on cost saving opportunities. This is certainly an area for improvement. Almost every insurer has messaging about saving money on their website but again, the onus is on the consumer to find the information and it is not always prominent on their website. Some consumers confuse their broker with their insurer and would not necessarily know the appropriate website to visit.

Whether or not an insurer provides a cover letter to their renewal package, most insurers indicated they have the ability to include additional material on specific issues (i.e, when DCPD was introduced in Alberta).

There is existing opportunity to provide information to consumers in their renewal packages on how to save money on their insurance.

Insurers do provide helpful information on their websites but the information is not always easy to find.

Many insurers have significant consumer education information housed on their websites. Information is found in FAQs, blogs, and webpages. The search functions of these websites do not always help with navigation.

There is limited information on market trends and cost pressures (only three insurers) on websites, but every insurer provides information about how to save money. Especially during periods of concern about affordability and inflation, it would be advantageous to put the links to this information in a prominent spot of the homepage.

Recommendations

1. Change the SPF 1 form to include previous years' premium for comparison.

Comparing your previous year's insurance premium with your renewal allows you to stay informed, avoid potential cost overruns, and ensure your coverage remains suitable for your needs. It empowers you to make informed decisions about your insurance and take actions aligned with your financial and coverage goals.

2. Insurers should provide a detailed explanation if premium increase is more than 5%.

To mitigate frustration related to insurance premium increases, insurers should prioritize transparent communication at renewal, explain the reasons behind the changes, and offer options for policyholders to review their coverage and explore potential discounts. Policyholders can also take proactive steps such as shopping around for competitive quotes, reviewing their coverage needs, and maintaining good driving records to potentially mitigate the impact of premium increases.

3. Insurers should provide more information to their brokers and agents to support premium conversations at renewal.

The Alberta insurance market can experience cost pressures impacting premiums. Your broker or agent can help navigate these changes and provide insights into the current market conditions. By discussing your policy with your broker or agent, you might discover opportunities to optimize your coverage while still managing costs. They can help find discounts, adjust coverage limits, or even explore other insurers if it's beneficial.

4. The AIRB should explore additional opportunities to further engage and educate brokers and agents on market trends through seminars, stakeholder and consumer advisory committees and the publishing of reports and research.

The AIRB should look at ways to share market trends information with brokers and agents on through seminars, stakeholder and consumer advisory committees and the publishing of reports and research.

5. Insurers should provide information on how to manage premiums in a prominent area of their website and include this information with their renewal letters.

Most of this information already exists on insurer websites but it can be difficult for a consumer to locate. Insurers should review tier websites to improve accessibility of key consumer information.



Conclusion

Customers demand greater control in their coverage and information is key to control. In essence, transparency creates a sense of openness, fosters communication, and aligns a company's actions with its words. It's not just about sharing information, but also about demonstrating integrity, accountability, and a genuine concern for customer well-being.

The AIRB plans to connect with the Superintendent of Insurance to discuss the potential change to the

SPF 1 to assist consumers. The AIRB will also ensure clear expectations are communicated to the insurance industry when it comes to policyholder communications at renewal.

A one-day educational seminar for brokers and agents is planned for November 2023 with a focus on the cost pressures driving auto insurance premiums. A plan to establish advisory committees is underway with the beginning of recruitment planned for fall 2023.



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