



2024 DISCUSSION ON GRID RATING SYSTEM REFORM



Preface

The AIRB has considered reforms to the Grid Rating Program (Grid) and engaged with several insurers to collect data to enable modeling and evaluation of different scenarios, as well as general feedback on reform proposals. Based on our analysis we are proposing several changes to the Grid to return it to its original intent, of protecting inexperienced drivers. We would like to thank those insurers who have taken the time to support the work to date on this important initiative.

Background on the Grid

In 2004 the Government implemented changes to the automobile insurance system based on three guiding principles:

1. There must be a reasonable entry level premium,
2. The system must be stable and transparent, and
3. Insurance is directly tied to personal responsibility behind the wheel.

The implementation of the Grid addressed the first principle. The Government created the Grid with the goals of rewarding safe drivers, penalizing those drivers demonstrating poor driving behavior and giving new drivers fair opportunity to prove themselves.

The Grid is a sophisticated capping mechanism to protect new drivers and ensure affordability for mandatory insurance coverage with predictable and stable premiums. It currently caps the rate on mandatory coverages of third-party liability (bodily injury and property damage tort) and accident benefits coverages. Policyholders pay the lower of the insurer premium and the Grid premium.

The AIRB is issuing this discussion paper to share proposals on Grid Rating System Reform, solicit feedback from insurers and other interested parties on both the proposed changes and implementation timing.

The Grid premiums are determined based on a simplistic rating algorithm, considering the years of driving experience, traffic convictions, at-fault-claims, and rating territory. The Grid does not differentiate between age, gender or vehicle driven which are common characteristics in an insurer's rating program.

However, in practice the Grid is unnecessarily complicated to administer and limits the flexibility of insurers to distribute their premiums, resulting in unnecessary protection for more experienced drivers which could be redistributed to good, safe drivers who are not currently Grid capped. The AIRB strives to ensure the Grid continues to protect new drivers and offer them protection as they develop their driving history.

History of Changes to the Grid Rating Program

From implementation in 2004 to December 1, 2020, the AIRB only had the authority to adjust the base premium uniformly across all Grid steps each year.

Reforms under Bill 41 effective January 1, 2021, gave authority for maintaining the Grid Rating System to the AIRB. For clarity, the AIRB does not have the authority to eliminate the Grid, only to adjust to ensure it is meeting its intended outcomes.

From October 1, 2004, to December 31, 2021, the Grid base premium calculated by the AIRB included third party liability bodily injury, third party liability property damage and accident benefits coverages. Effective January 1, 2022, with the

implementation of direct compensation for property damage (DCPD). DCPD was removed from the AIRB's calculation of Grid premium. DCPD is calculated based on the insurers rating program and added to the AIRB's premium for third party liability bodily injury, property damage tort and accident benefits to form the Grid premium.

In addition, effective January 1, 2022, the AIRB reduced the Grid base premiums to reflect the anticipated impact of the reforms announced by government in Bill 41.

Challenges with the Grid

Assigning Grid Step

The Grid assigns each driver a "Grid step", which is the Grid's equivalent of driving experience. A driver is initially set at Grid step 0 and moves down one Grid step for each year they have a valid license and do not make an at-fault-claim, until they reach Grid step -15. For drivers licensed after 2004, the insurer determines the number of years they have been licensed before they first apply for coverage, and then moves the driver down a Grid step for each additional year of clean driving experience.

This process is further complicated by at-fault-claims moving a driver up five Grid steps as a surcharging mechanism. As well, if the policyholder had coverage on or before September

30, 2004, then that date is used instead of the first insured date. Finally, driver training affords drivers two years of driving experience immediately and freezes a driver's Grid step for two years.

This means insurers must track experience and at-fault-claims indefinitely to correctly place a driver on the Grid. On top of this, information is not verifiable by an insurer, as Service Alberta does not provide the date licensed on a drivers abstract. Therefore, insurers rely on the memory and honesty of the policyholder to report the date they were licensed/insured.

Relevant Date - October 1, 2004

When the Grid was established its implementation date, October 1, 2004, became the relevant date. Establishing a Grid step requires the insurer to consider the drivers experience and at fault accidents since they were licensed, and if the driver was licensed prior to the relevant date, then six years prior to it.

Given the Grid was implemented nearly 20 years ago, continuing to use the relevant date, especially for experienced drivers who relocate to our province is an unnecessary complication and confusion for insurance professionals and consumers seeking to correctly establish a Grid Step.

At Fault Claim Surcharge Mechanisms

A driver moves up five Grid steps for an at-fault-claim. This corresponds to roughly a 35% surcharge, with the driver returning to the pre-at-fault-level within six years. However, they can be effectively surcharged 35% for many years, as they remain five Grid steps above where they would have been, without the accident, if they have the at-fault early in their driving history.

Territory Definitions

The Grid has four rating territories: Edmonton, Calgary, Northern, and Remainder. The simplest territory is Calgary, which assigns all drivers with “Calgary” in their address to the Calgary territory. However, Edmonton is defined as:

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Township Roads 52, 53, 54, and Range Roads 23, 24, and 25, all west of the 4th meridian, which includes the City of Edmonton, St. Albert, Clover Bar, Sherwood Park, Lancaster Park, Namao, and Winterburn.

”

Majority of the Grid is Composed of Experienced Drivers

The original intent of the Grid was to provide premium relief for new drivers while they earn driving experience, in which point they would naturally return to the market. However, by numbers the -15 Grid step, composed of drivers who have been licensed at least 15 years, is the largest. By proportion they remain the lowest Grid step, but this has increased rapidly.

Overall, -15 accounted for 40% of the Grid population as of December 31, 2022. These drivers have had at least fifteen

years of driving history and remain capped. These policies typically, but not always, have at-fault-claims, convictions, or are seniors.

On top of this, drivers with more than one at-fault-claim are also surcharged directly, with the second at-fault-claim moving you up five more Grid steps and carrying a 30% surcharge for three years. Overall, this means at-fault-claims need to be tracked for the drivers entire driving history and obscure the relationship between Grid step and experience.

For many, this is not an intuitive definition. In fact, many addresses with the city name of “Edmonton” are outside this territory. This leads to inconsistencies among insurers, with some following this definition strictly, while some insurers simply assign all Edmonton addresses to the Edmonton territory, as they do with Calgary.

The Northern territory is defined as all policies above the 55th latitude, and the Remainder is all those not in the previous three territories. The definitions of the Edmonton and Northern territory necessitate insurers convert a policyholders address into coordinates and determine which territory they fall into, and therefore is not intuitively determined and requires a relatively complex IT implementation.

Many insurer rating algorithms have premiums declining with age/experience, before increasing due to old age leading to slower reaction times, reduced sight/hearing, etc. This is not reflected in the Grid, and therefore causes the insurer premium to increase while the Grid premium does not, as it does not reflect age of driver.

Recommended Reforms to the Grid Rating System

Based on information received from insurers, brokers, and agents there are two issues with the Grid.

1. It is unnecessarily complex, and changes should be made to ensure it is easier to understand and administer. The Grid step is often incorrectly calculated and difficult for brokers and agents to have corrected when the policyholder switches insurers.
2. The Grid population has grown beyond its original intent and action is required to re-align the Grid to protect new, inexperienced drivers, opening an avenue for premium redistribution, therefore offering premium relief for safe drivers.

To Simplify

To **simplify** the Grid, we propose the following:

1. **Move from years licensed to years insured and use first insured date as experience.**

Under the proposed system, insurers only need the policyholders first insured date, which can be obtained through motor vehicle reports or Auto Plus, or the insurer can continue to ask the policyholder directly, if they choose to. The number of years between the first insured date and the date they apply for coverage can be calculated and rounded down to provide the Grid step. For instance, a driver taking coverage on October 1, 2023, who was first insured on October 1, 2022, has a Grid step of -1¹. This change will make the Grid easier for consumers to understand and navigate.

2. **Assign rating territories based on FSA, alter territory definitions, and add a new territory.**

Using FSA to define territories ensures all insurers use the same definition, and removes the need for a complex mapping tool, replaced instead by a simple look-up table. We will alter the current Edmonton definition to be all FSAs belonging to Edmonton (including St. Albert and Sherwood Park), and the northern territory to all FSAs north of Edmonton. We also propose adding a new territory, "Between Edmonton and Calgary", to further differentiate risks. Finally, we will adjust relativities for the territories. More detail can be found in the excel file on our website.

3. **Replace Grid movement with a flat surcharge for at-fault-claims.**

Eliminating the Grid movement for at-fault-claims means there is no need for positive Grid steps, and ensures the Grid Step equals years insured, which is more transparent and easier to administer. We proposed a 25% surcharge for six years on the first at-fault claim, followed and for all subsequent at faults calculating as $1.35^{(At-Faults)}$, or an 82% surcharge for the second, 146% for the third, etc.

4. **Replace driver training Grid movement with a flat discount.**

A flat discount for driver training maintains the relationship between Grid step and years insured and simplifies the establishment of a Grid step. We will not be expanding the driver training discount. Effectively this amounts to an administrative change only.

To Re-Align

To **re-align** the Grid population, we propose a combination of the following actions:

1. Limit the number of years Grid protection is provided to a policyholder.

This will focus the Grid on providing new drivers rate protection while they establish their driving experience. After ten years of experience drivers will be rated solely on the insurers premium. Premium will reflect their driving experience.

2. Alter assignment of offences between major and minor convictions.

The AIRB will alter the definitions of minor convictions to include infractions with less than four demerit points, and major convictions to those above four demerits. Therefore, some minor convictions will be reclassified to major convictions.

These offences are:

- ▶ Exceeding speed limit by more than 30 kph (Traffic Safety Act (TSA) sections **115(2)(p)**, **115(2)(p.1)**, **115(2)(p.2)**, **115(2)(t)**, **53(5)(c)**),
- ▶ Following too close (Rules of the Road Regulation (ROR) section **18**),
- ▶ Passing a vehicle stopped at a crosswalk (ROR section **41(2)**), and
- ▶ Failing to yield to a pedestrian in a crosswalk (ROR section **41(1)**).

We also propose classifying stunting, TSA section 115(2)(f), as a major conviction despite it is three demerit points due to the risk of this behavior resulting in an accident.

To Refocus

To **refocus** the Grid on new drivers and limit the number of years the Grid is applicable for any driver, we are proposing to rebrand the Grid – at implementation every driver will be assigned a new Grid Step. Grid step will be calculated based on the number of years' experience only.

We propose the Grid step will represent the remaining number of years Grid protection a driver has, and act as a count down. For instance, a newly insured driver, first insured on October 10, 2026, will have a Grid step of 10, showing ten

years of Grid protection. Whereas someone first insured October 10, 2019, would be Grid step 3 as of October 10, 2026, regardless of driver training or at fault claims, as they have seven years of experience, and only three years of Grid protection remaining. Any driver with ten or more years driving experience would have a Grid step of 0, representing they are not eligible for the Grid premium. After ten years, a driver has had the opportunity to develop safe driving habits and will be rated by their insurer.

Implementation Timeline

The AIRB proposes the new Grid Rating System will be effective January 1, 2026.

This gives insurers time to implement the changes in their system, while also allowing time to retrain brokers, agents, and Alberta drivers as to the changes and impacts to their premium.

Between 2024 and 2026, the AIRB will take the following steps to reduce the impact to drivers at implementation:

1. **Raise the Grid base rates, to ensure the Grid premium is not too competitive with the industry.**

The AIRB adjusted the Grid base premium effective January 1, 2022, to reflect the reforms implemented in January 2021, insurers did not respond with similar rate reductions, this resulted in the Grid premium being too competitive for some Grid steps and increased the overall Grid population. Over the next two years the Grid premium will be adjusted to ensure it reflects the loss experience of Grid rated drivers.

2. **Raising the differential for the lowest Grid steps.**

The AIRB has adjusted the differentials for Grid steps -15 to -11 effective May 1, 2024, and will take further steps effective January 1, 2025, to gradually reduce the number of experienced drivers on the Grid and reintegrated them on the insurer's premium.

Interaction with Future Reforms

We know the Government is considering longer term reform options, and while it is important, we understand how the Grid would fit into reform, we are continuing to move forward

with Grid reform to implement improvements for insurers, brokers & agents, and Alberta drivers as soon as possible, in the event future reforms do not remove the Grid.

Consultation Scope & Timelines

The AIRB is interested in views, feedback and comments on the proposed changes and implementation timeline. We are available to meet with industry associations or interested parties to walk them through our analysis and findings, if interested please e-mail airb@gov.ab.ca to make arrangements.

The AIRB will accept written submissions to airb@gov.ab.ca on this topic **until May 31, 2024**, and will announce final changes to the Grid and implementation timing once longer-term reform impacts are known.

We look forward to receiving your comments!

Thank
You



Automobile Insurance Rate Board

Canadian Western Bank Place
#2440, 10303 Jasper Avenue
Edmonton, AB T5J 3N6

Phone: 780.427.5428

Email: airb@gov.ab.ca

albertaairb.ca

