

Alberta

Automobile Insurance Rate Board – 2008 Annual Report

For the Year Ended December 31, 2008

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For the Year Ended December 31, 2008



LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Iris Evans
Minister of Finance and Enterprise
408 Legislature Building
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2008 Annual Report of the Alberta Automobile Insurance Rate Board (AIRB) was prepared under the Board's direction. The information presented reflects the actual activities, results and performance of the AIRB for the year ended December 31, 2008. All significant decisions, events and identified risks as of December 31, 2008 have been considered in preparing this report.

As Chair, I am accountable for the contents of this report, where this report contains estimates and interpretive information it represents the best judgment of management.

Overall I am pleased with our performance in 2008 and we pledge our continued support to your office in pursuing the successful administration of the legislation as it relates to the Board.

On behalf of the Board and staff of the AIRB and pursuant to the *Insurance Amendment Act (No. 2)*, 2003, section 658(1), I am pleased to submit the fourth Annual Report of the Alberta Automobile Insurance Rate Board, for the year ended December 31, 2008.

Sincerely,

Alfred Savage

Chair
Automobile Insurance Rate Board

(AIRB)

AUTOMOBILE INSURANCE RATE BOARD

Automobile Insurance Rate Board

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For an electronic copy of this report,
please visit: www.airb.alberta.ca



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 for contributing to the efficacy of the auto insurance system.

- **Integrity**

We behave ethically and are open, honest and fair in our dealings.

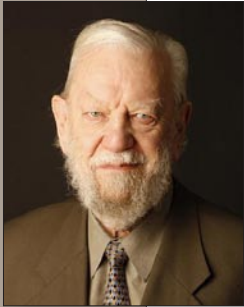
- **Excellence**

We use innovation and continuous improvement to achieve excellence.

TABLE OF CONTENTS

i	LETTER OF TRANSMITTAL AND ACCOUNTABILITY
ii	VISION, MISSION & VALUES
2	CHAIR'S MESSAGE
3	REPORT FROM THE EXECUTIVE DIRECTOR
8	STATEMENT OF OPERATIONS AND SURPLUS
9	ORGANIZATION CHART
10	CORPORATE GOVERNANCE
12	BOARD MEMBERS
14	APPENDIX I MARKET
19	APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES
23	APPENDIX III STATISTICS
25	APPENDIX IV ACTIVE INSURERS

CHAIR'S MESSAGE



Alfred Savage, Chair

On behalf of the Alberta Automobile Insurance Rate Board (AIRB), I am pleased to present our 2008 Annual Report.

In October of 2008, the Board hosted the 2nd annual Canadian Automobile Insurance Rate Regulators conference in Banff, Alberta. The conference was another success, the highlight of which was the formation of the Canadian Automobile Insurance Rate Regulators Association (CARR). The association was formed with regulators from British Columbia to Newfoundland with the AIRB Vice-chair, Harry Gough, as Chair. The mission of the Association of Canadian Automobile Insurance Rate Regulators (CARR) is to provide a forum where members can share best practices, identify key issues and learn through educational opportunities so that they are better informed and able to fulfill their jurisdictional mandates.

The Board continued to play a key role in the Government's Premiums Regulation review and is in the process of forwarding to the Minister a recommendation that if accepted will change the current industry-wide process to a file and approve system. The Board believes that this new system, will reduce uncertainty in the market and, thereby, support greater competition resulting in improved premiums for consumers over the longer term.

As an independent Board, we adjust the rates on an annual basis for basic coverage. To this end, the Board continued with the industry-wide adjustment process, meeting with stakeholders and hearing from consumers.

In early 2008 just prior to the start of our industry-wide process, the Court of Queen's Bench struck down the cap on non-economic damages on minor injuries that was implemented as part of the 2004 reforms. The decision is now before the Alberta Court of Appeal. The Board's consulting actuary estimated the impact of this decision, were it to succeed, could result in a \$120 (20%) increase to the average consumer. The challenge the Board faced during its review was the estimated success of this appeal. The Board decided that industry should share in the uncertainty with the consumer and approved one half of the estimated increase for 2008. At the time of writing, the appeal had been heard, but no decision announced.

The uncertainty that remains pending the outcome of this appeal and possible subsequent appeal to the Supreme Court will continue to pose uncertainty in pricing and will present an ongoing challenge to the Board as it meets with stakeholders and consumers in 2009 as part of its process to adjust rates.

With the strong leadership of our Board and the dedication of our knowledgeable staff we remain committed to our vision of an efficient and effective automobile insurance market with fair and predictable rates.

Sincerely,

Alfred Savage

Chair
Automobile Insurance Rate Board

REPORT FROM THE EXECUTIVE DIRECTOR

2008 was another strong year for the AIRB as the Board completed its annual industry-wide adjustment process, revised its fees regulation, hosted the second annual Canadian Auto Insurance Rate Regulators forum and the formation of the new Canadian Auto Insurance Rate Regulators Association (CARR), completed a branding exercise giving the AIRB a new look and continued work on a new automobile insurance regulatory model that if accepted will improve the Boards ability to more fairly regulate auto insurance rates.

Annual Industry-wide Rate Adjustment

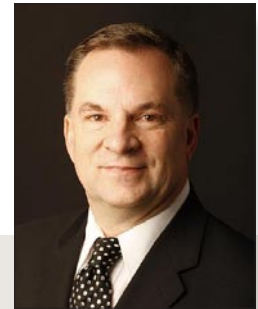
The Board is required under Section 656 of the *Insurance Act* and Section 4 of the *Automobile Insurance Premiums Regulation* to conduct an annual adjustment process that uses the industry-wide experience to determine whether premiums for basic coverage on private passenger vehicles should be adjusted. The Board requested its actuary, Oliver Wyman, to complete an analysis of the industry-wide experience for 2007. Stakeholders were given the opportunity to respond to the analysis at public meetings that were held over two days, June 17 and 18, in Calgary. During the public meetings, the consumer representative and twelve stakeholders presented to the Board. In addition, the Board received three written submissions.

For 2008, the rate adjustment process was more complex as the Board was required not only to deal with the normal annual rate adjustment related to experience, i.e., changing frequency and severity of claims but also the impact of the minor injury cap which was removed in a court decision released in February 2008. The Board considered the information received through submissions and the public meetings in conjunction with its actuarial analysis. Based on this input, the Board issued Order 1-08 on July 31, 2008, permitting insurers to increase premiums for basic automobile insurance in Alberta by up to 5% on or after November 1, 2008. This decision was based on a rate level indication of a minus 5% mainly due to the continued downward trend on the frequency of bodily injury claims offset by a 10% increase resulting from the removal of the minor injury cap. The Board's actuary indicated that removal of the cap would result in an average increase of 20% on basic premiums. As the decision on the minor injury cap was under appeal, the Board felt that both industry and the consumer should share equally in the uncertainty at this time and, therefore, only applied half of the estimated 20%. The previous adjustment ordered for November 1, 2007 held rates at their 2006 level.

The chart shows the average written premium for 2007 as reported by the General Insurance Statistical Agency (GISA) broken out by basic and additional coverage. See page 5 for explanation of the Board's role in regulating and monitoring premiums.

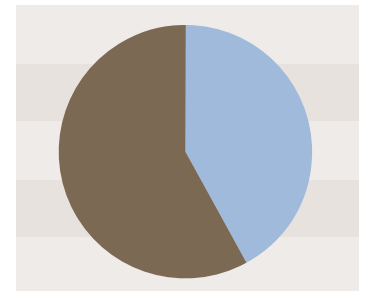
Fees Regulation Revision

In July 2008, at the Board's request, the AIRB's Fees Regulation was amended to eliminate the \$500 application fee for insurer requested rate changes. The Board felt that insurer applications formed part of its core business and, therefore, should not result in additional application fees. A second more significant change was made relating to full cost recovery of the Boards



Del Dyck, Executive Director

2007 Average Private Passenger Premium



Source: GISA statistical data

operations. This change allows the Board to adjust its annual operating levy to industry by the prior years' surplus or shortfall. In 2008, this enabled the AIRB to return \$429,043 in prior years' operating surpluses to industry.

Formation of the Canadian Automobile Insurance Rate Regulators Association

In October 2008, the AIRB hosted the second annual Canadian Auto Insurance Rate Regulators Conference in Banff, Alberta. While the purpose of the conference is to provide a forum where members can share best practices, identify key issues and learn through educational opportunities so that they are better informed and able to fulfill their jurisdictional mandates, the highlight this year was the formation of the Canadian Automobile Insurance Rate Regulators Association (CARR). Harry Gough, vice-chair of the AIRB was nominated as chair of the new association. CARR's vision is "To be a recognized inter-jurisdictional Canadian association for automobile insurance rate regulators working together to improve the rate regulation process." CARR's executive committee is active and expects this association to be a major networking component for rate regulators.

New Branding

Organizations use branding as part of their market strategy in order to be recognized as a distinct entity that differs from others in the market. In 2008, the Board completed a branding exercise in order to reinforce the Board's role as a rate regulator that is independent from government and industry. The Board completed this exercise resulting in the development of its own logo and identity.

Website Redevelopment

The AIRB has two main clients, drivers or consumers of insurance products and insurance companies. A review of the current website found that while industry was able to access application forms and Board decisions readily, drivers or consumers were not finding the information they needed on our site. With the Minister's expansion in 2007 of the Board's mandate to include consumer education/information related to automobile insurance, the Board decided to address this through the establishment of two committees, the first around website redevelopment and the second on consumer education/information. The consumer education/information committee's work determined that its best option to address its mandate would be through an enhanced website with greater emphasis and support towards the consumer. The Website Redevelopment Committee's work is nearing completion with an expected launch in May 2009.

Premiums Regulation Review

A major focus was the development of a new automobile insurance regulatory model. If accepted, this model will change the way premiums are regulated from an annual "one-size-fits-all" industry-wide adjustment to an individual company application process which is expected to reduce market uncertainty, provide quicker response times to rate applications and lower rates over the long term. With this new model the Board would maintain its approval authority; however, it would be able to respond in a timelier manner to changes in market conditions and the needs of a competitive market place.



Statistical Data Requirements

With the ongoing innovations in automobile insurance rating programs the need for sound data in greater detail has increased. As a result, the current Automobile Statistical Plan that has provided data support to regulators across Canada for many years has come under review. In 2008, AIRB staff had the privilege of working with the General Statistical Agency (GISA) data rationalization team and industry to review data requirements on a go forward basis that will better assist all rate regulators in their decision making processes.

Board Applications

As required under the *Automobile Insurance Premiums Regulation*, the Board reviews and rules on applications under Sections 6, 10 and 19.

- **Section 6** allows insurers to apply to the Superintendent of Insurance for a review of their private passenger rating program for basic coverage,¹ which may be directed to the Board for review. Only one section 6 application was received.
- **Section 10** requires new insurers entering Alberta to obtain prior approval of the Board for their private passenger rating programs for basic coverage. There were two Section 10 applications.
- **Section 19** is a transitional provision from the former *Insurance Act* that requires insurers to obtain prior approval to establish new or revise existing rating programs as they relate to third party liability and accident benefits coverage for other than private passenger vehicles. There were a total of 18 applications under Section 19.

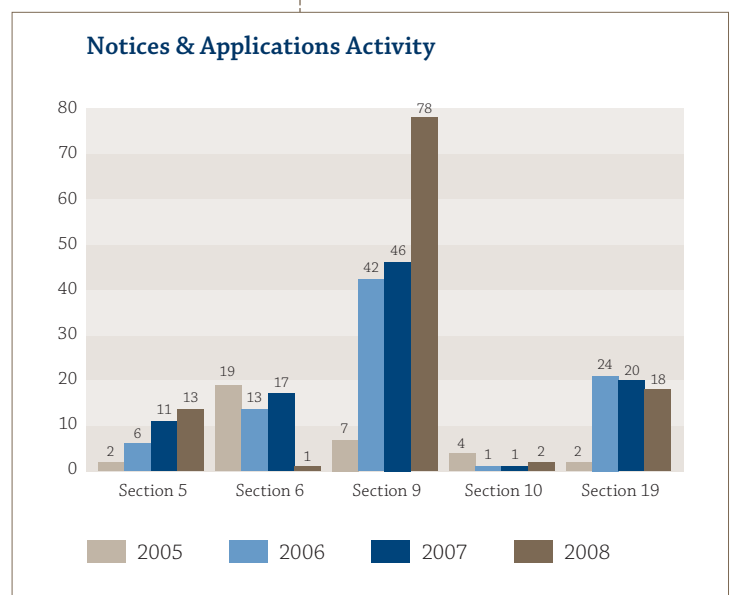
As required under the *Automobile Insurance Premiums Regulation*, the Board receives written notice for Sections 5 and 9.

- **Section 5** requires written notice to the Board if the company adjusts rating variables for basic coverage on private passenger vehicles. The overall adjustment must be revenue neutral with no relativity increasing by more than 10% and the increase for any one policyholder not exceeding 10% in an annual period. The Board received 13 Section 5 notices.
- **Section 9** requires written notice to the Board of changes to their rating programs for additional coverage.² The Board received 78 Section 9 notices. This represented a 70% increase over 2007. During the first three quarters the revisions were mainly due to new marketing strategies including discounts for hybrid cars and packaging of endorsements to provide increased discounts. During the last quarter of 2008 revisions related more to the deteriorating profitability on additional coverage.

See Appendix II for more information on applications.

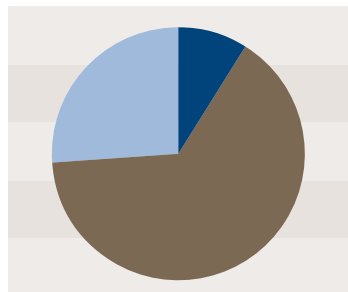
¹ Basic coverage is third party liability and accident benefits coverage.

² Additional or optional coverage includes collision, comprehensive or specified perils and all endorsements including underinsured motorist coverage.



Source: Superintendent of Insurance

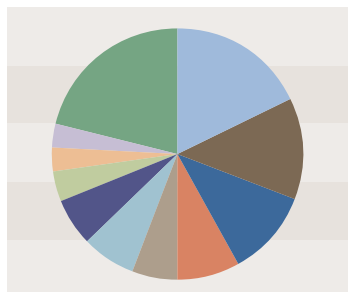
Distribution of Premium Dollar for 2007 Private Passenger Vehicles



- Underwriting Profit 9%
- Administrative Expenses 26%
- Estimated Claims 65%

Source: GISA statistical data and IBC Automobile Expense Survey

2007 Market Share of Total Automobile Insurance Premium



- ING Canada 18%
- Wawanesa Mutual Insurance Company 13%
- TD Meloche Monnex 11%
- Co-operators Group 8%
- Aviva Canada 6%
- Royal & SunAlliance 6%
- Alberta Motor Association Insurance Company 6%
- Economical Insurance Group 4%
- Dominion of Canada 3%
- State Farm 3%
- Remainder (59) 21%

Source: Superintendent of Insurance

Fiscal

The AIRB’s fiscal period is that of Government, April 1 to March 31. For the fiscal period April 1, 2007 to March 31, 2008, Board operations resulted in a surplus of \$306,551 mainly due to vacant positions and reduced requirements for external consulting services. The Board is fully funded by industry through an annual assessment to insurance companies provided under the Fees Regulation. As a result of the amended Fees Regulation this surplus formed a part of the \$429,043 which was returned to industry as an offset to their 2008 industry assessment. Further financial information is available under Statement of Operations and Surplus (see page 8).

Rates

Insurers conducting business in Alberta are required under the *Insurance Act* to report their experience to a Canadian statistical plan. The results are compiled annually in the General Insurance Statistical Agency (GISA) published statistical exhibits that are then analyzed by the Board’s consulting actuary. The most recent available results are for 2007.

Claims experience was unfavourable for a number of years into the early 2000s, particularly for private passenger vehicles. The phenomenon was attributed to the growth in compensation for bodily injury claims under third party liability and, to some extent in later years, under accident benefits coverage. Premiums for third party liability and accident benefits rose in response to rising claim costs. Pricing for all categories of general insurance hardened in the latter part of 2001 and that course continued until October 30, 2003 when rates were frozen for automobile insurance. The freeze ended on November 1, 2005.

The average premium for basic coverage on private passenger vehicles as shown in Appendix III has decreased each year since 2003, while the average premium for additional coverage has increased. The average total premium decreased from \$1,139 in 2003 to \$1,032 in 2007.

Consumer Representative

The Consumer Representative, Ms Merle Taylor, contracted a survey on consumers’ perspectives on automobile insurance in Alberta and conducted follow up interviews with a number of participants. She presented her findings to the AIRB at the public meetings in June. Ms Taylor also met with insurance brokers to discuss their experience in the market. Consumers also contacted her by e-mail and letter with their specific concerns. Her report can be found on the AIRB website.

Market

In 2007, the automobile insurance industry collected \$2.90 billion in written premium from which they expect to pay \$1.85 billion in claims.

Based on the 2007 Alberta Superintendent of Insurance Annual Report, the most recent data available, 69 automobile insurers were operating in Alberta. Four insurers represented 50% of all written premium, virtually unchanged from 2006 and up from 41% in 2003. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2007 (some corporations operate more than one insurer).

It is a useful exercise to review market conditions for recent years in order to formulate expectations for the immediate future. A series of graphs along with comments have been provided in Appendix I.

Currently, the issues at the forefront of the market include high risk pricing and the Minor Injury Regulation. It is yet undetermined whether or not those drivers with claims and convictions are priced adequately. The February 2008 Court of Queen's Bench decision ruling that the cap is unconstitutional is under appeal to the Alberta Court of Appeal. The eventual Court of Appeal decision could be appealed to the Supreme Court of Canada. Until the final outcome is known, there will be continued uncertainty that could impact competition.

Looking Ahead to 2009

The AIRB will be:

- Working towards improved public information on our website to help consumers better understand the auto insurance product and to be able to make informed decisions on the selection of their insurer and coverage.
- If approved by Government, working on the implementation of a new regulatory model which will move Alberta away from an annual industry-wide rate adjustment process to a file and approve process where the Board will review companies on an individual basis to determine if rate changes are appropriate and fair.
- Continuing to work towards improved data collection through the General Insurance Statistical Agency to support evidence based decision making.

For 2009, the most pressing issue will be the impact of the repeal of the cap on the AIRB decision for the industry-wide adjustment and, ultimately, on premium stability.

Pending Issues

The Court's decision in February 2008 to remove the minor injury cap on non-economic damages that was implemented as part of the 2004 reforms continues to be the most pressing issue the Board faces in 2009. As of the date of this report, a decision from the subsequent appeal heard in September 2008 had not been announced. The Board anticipates any decision on the Minor Injury Regulation will go to the Supreme Court and therefore will continue to result in uncertainty in the auto insurance market. The implementation of the minor injury cap in 2004 was a major contributor to the reduction in premiums for basic coverage over the past four years.

Loyal and committed staff are behind any successful organization and the AIRB is no exception and for that I would like to express my thanks and appreciation to our staff and to our consulting actuaries who continue to provide the Board and myself with the support and expertise needed to succeed.

Sincerely,

Original signed by:

Del Dyck

Executive Director
Alberta Automobile Insurance Rate Board

STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2007 to March 31, 2008

	2007-08 Actual	2006-07 Actual
Revenue:		
Annual Industry Levy	\$1,123,000	\$962,538
Actuarial Services	31,402	91,955
Application Fees	13,500	23,000
Other	9,906	7,441
	1,177,808	1,084,934
Expenses:		
Operations	486,978	435,744
Actuarial and Contract Services	232,162	413,351
Board Honoraria and Expenses	152,117	68,256
	\$871,257	\$917,351
Surplus	\$306,551	\$167,583

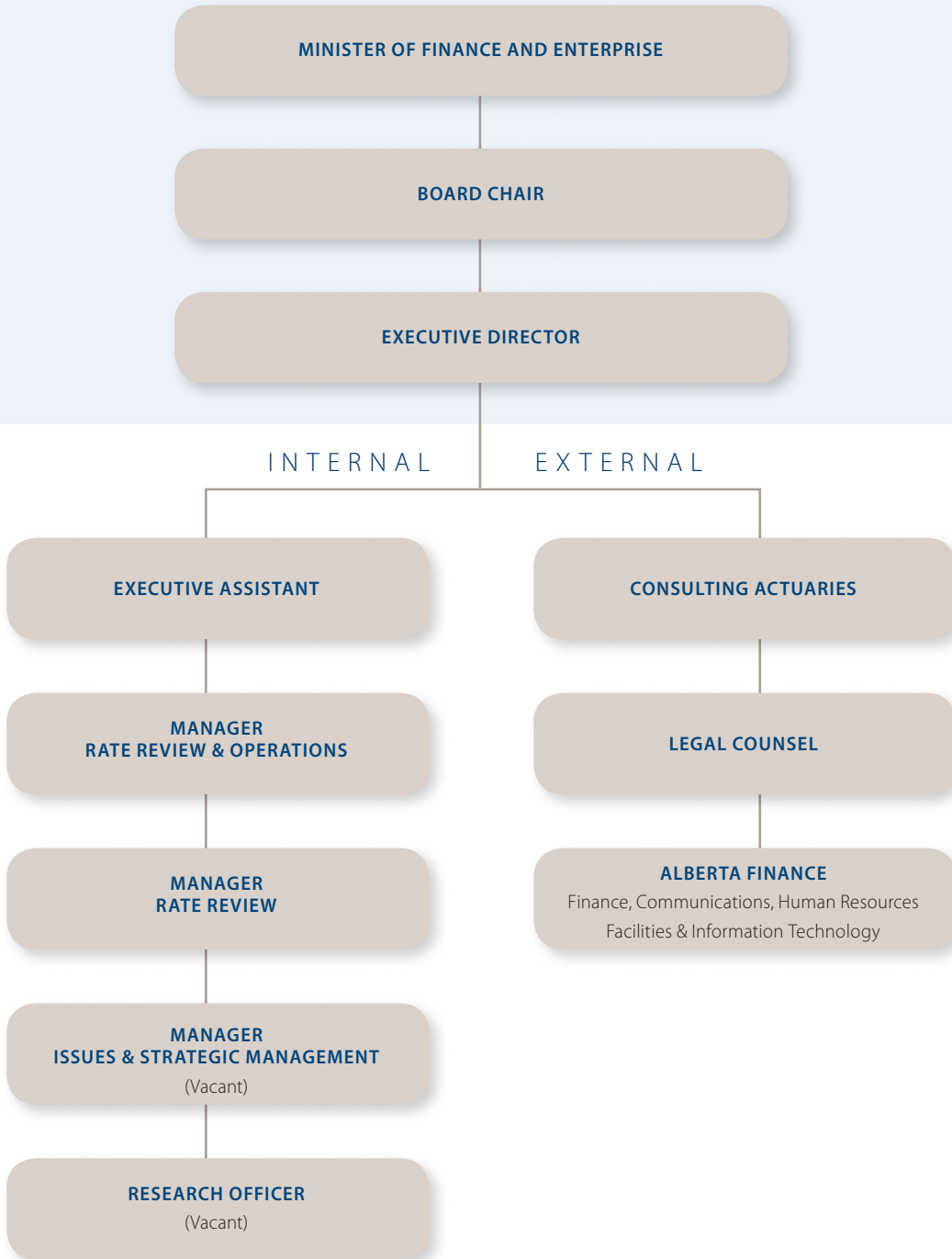
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is funded by industry in the following three ways:

- Annual Industry Levy which represents the Board's annual budget less an amount estimated for application fees and recovery of actuarial costs. The annual industry levy is shared by each insurer based on their actual direct written premiums in the prior year.
- Actuarial Services which are charged to the insurer as a recovery of specific actuarial services that are contracted in order to complete the analysis of an application.
- Application Fees which until July 2008 were charged to the insurer at a rate of \$500 per application.

Board honoraria were remunerated in accordance with Schedule 1 of the Part-Time Committee Remuneration Order in Council 466/2007. Expenses were remunerated in accordance with Corporate Human Resources directive on subsistence and travel expenses.

ORGANIZATION CHART

Alberta Automobile Insurance Rate Board 2008



The AIRB operates as an independent Board, with 6 approved support positions. The Board's actuarial and legal consulting services are provided through external contracts. Operational support in the form of financial, communications, human resources, facility and information and technology services are provided through Alberta Finance and Enterprise.

CORPORATE GOVERNANCE

Governance defines the roles, relationships, powers and accountability between the Government, the Board and Management.

Relationship to Government

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) in October, 2004 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 – the public, industry and Government. In addition, the Board must exercise and perform any other powers and duties assigned to it by the Minister or prescribed by the regulations.

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

As part of Government's "Tools for Accountability" the AIRB is required to submit this Annual Report along with its Business Plan to the Minister on an annual basis.

Board Governance

The Board approves the corporate vision, mission, values, strategic priorities and goals that guide the AIRB. The Board sets goals for performance as part of the business planning process and these goals are the basis upon which accountability and performance is evaluated.

The AIRB's membership consists of 7 members appointed by the Lieutenant Governor in Council, a consumer representative appointed by the Minister, and the Superintendent of Insurance who is a non-voting member of the Board. In total the AIRB Board consists of 9 members with a broad range of expertise and experience. A Board member's term of office must not exceed 3 years; however, a Board member may be reappointed for 2 additional terms.

The *Insurance Act* provides for a chair and a vice-chair as appointed by the Lieutenant Governor in Council. The Board holds regular monthly meetings to deal with administrative issues of the Board and otherwise exercise its mandate. In addition, it holds public meetings for the annual industry-wide adjustment process.

The Board's governance processes outlining how the Board will carry out its duties are in keeping with the Alberta Government, Agency Governance Secretariat's framework.

Charter of Expectations

The following guiding principles provide an understanding of the roles, expectations and responsibilities of each Board member.

- Assume with other Board members the stewardship role of supervising the management and business affairs of the AIRB.
- Act in the highest ethical manner and with integrity in all personal, business and professional dealings.
- Become knowledgeable about the AIRB's business, the environment in which it operates and the emerging trends and issues in the automobile insurance industry.
- Commit enough time and sufficient attention to the work of the AIRB as may be required from time to time.
- Act in a way that contributes to the effective operation of the Board.

Skills Matrix

The following sets out the skills and experience that is required within the group to effectively carry out the Board's mandate.

Specialty Skills (one or more individuals bring these skills to the Board)

- Governance
- Insurance industry expertise
- Financial expertise
- Legal expertise
- Actuarial expertise
- Consumer relations

All candidates for Board member shall be respected in his/her field, have a proven track record of achievement, and shall most likely have had previous direct experience with boards and governance. The board shall be diverse in its membership representing the community it serves.

BOARD MEMBERS

Board members are drawn to represent various geographical regions of the province and for a range of expertise they bring to the organization.

The Board held 9 regular meetings in 2008 to deal with insurer applications and administrative issues of the Board. In addition, there were two days of public meetings related to the annual industry-wide rate adjustment process and other special meetings to deal with business planning and Board training.

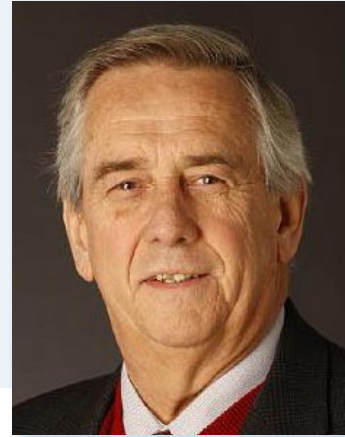
Chair



Alfred H. Savage

**Retired, Senior Executive
Calgary**

Vice Chair



Harry Gough

**Lawyer, Private Practice
Drumheller**



David G. Marshall

**Chartered Accountant
Calgary**



William Moore

**Staff Actuary, Finance and Enterprise
Calgary**



Patti Grier

**Chief of Staff, Board Secretariat ,
Alberta Health Services Calgary**



Lewis Klar

**Professor, Faculty of Law
University of Alberta
Edmonton**

*Consumer
Representative*



David White

**Financial Advisor
Edmonton**



Dennis Gartner

**Superintendent of Insurance
Edmonton
Non-voting member**



Merle Taylor

**Management Consultant
Edmonton**

APPENDIX I MARKET

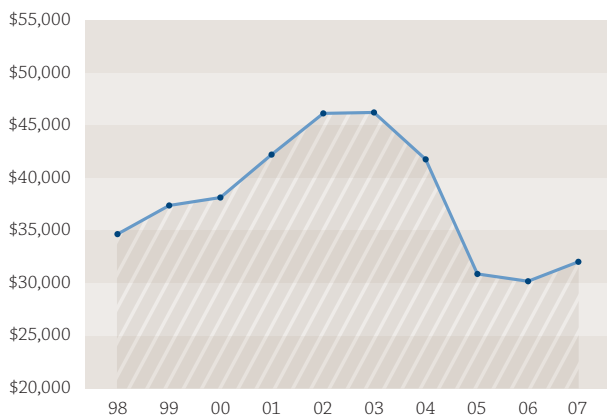
In 2007, the automobile insurance industry collected \$2.90 billion in written premium from which they expect to pay \$1.85 billion in claims. A major portion, \$2.10 billion of that premium is attributable to private passenger vehicles that will incur an estimated \$1.44 billion in claims.

It is a useful exercise to review market conditions for recent years in order to formulate expectations for the immediate future. A series of graphs complement the review. The most recent complete data available is for 2007. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

Prior to the Freeze Order in October 2003, premiums for third party liability and accident benefits on private passenger vehicles were increasing in response to claims experience. Collision and comprehensive coverage generally performed satisfactorily, which in part offset adverse results for third party liability and accident benefits.

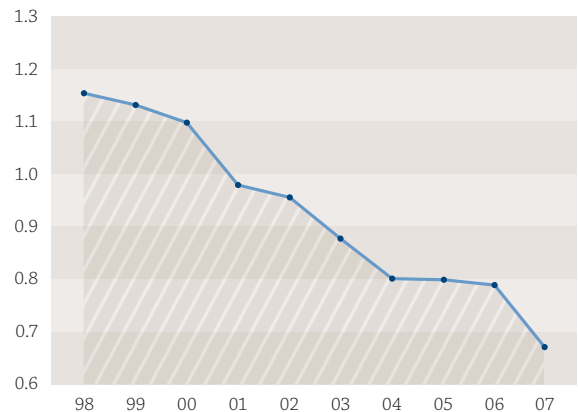
Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period 1998 to 2007. Bodily injury claims can take five or more years to finalize and, therefore, the figures for more recent years are best estimates. After an almost steady upward spiral dating back to the mid 1980s, the average cost of bodily injury claims peaked in 2002 and 2003 at over \$46,000. The average bodily injury claim dropped to \$42,000 for 2004 and then to 30,000 by 2006 but resurged to \$32,000 for 2007. The cap on non-economic damages for minor injuries came into effect for the fourth quarter of 2004, having some impact on average claims for that year and then a greater impact in 2005, the first full year of operation. The slight uptick for 2007 could be attributed to ordinary inflation. Figure 2 addresses how many claims occurred for each 100 vehicles insured. After a long, steady climb, frequency of injury claims peaked in 1998. There are noticeable drops in frequency in 2001 and then in 2003, 2004 and again in 2007. The decreases in frequency that predate the changes to the automobile insurance product occurred across North America. There has been speculation as to the reasons though the phenomenon is not clearly understood. The unexpected and unexplained reversal in claim frequency contributed to recent industry profits.

Figure 1 – Bodily Injury Severity



Source: GISA Statistical Exhibit

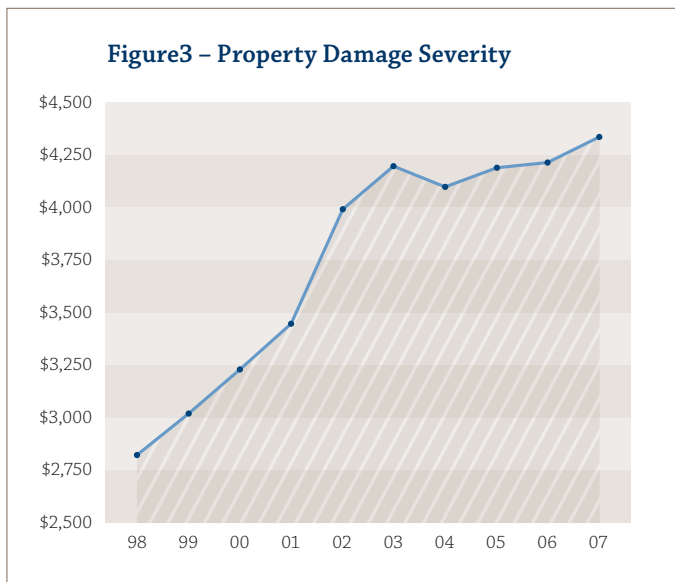
Figure 2 – Bodily Injury Frequency



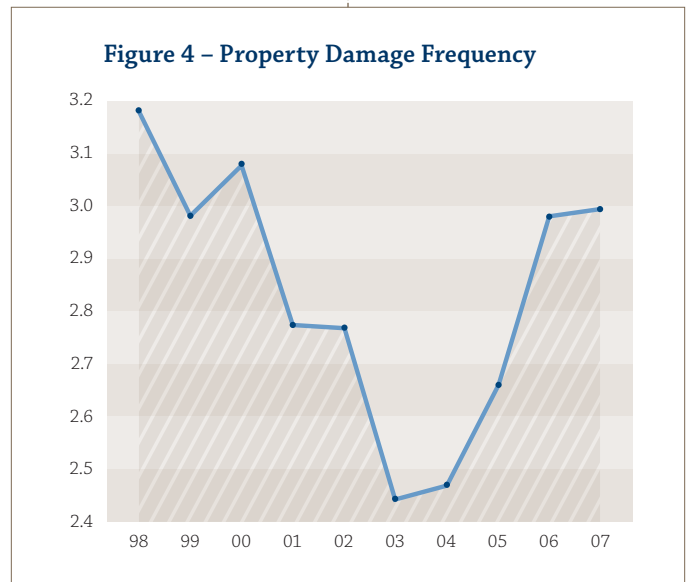
Source: GISA Statistical Exhibit

Bodily injury claims made up over 80% of third party liability claim costs by the end of the 1990s but settled back to 61% by 2007.

Figure 3 shows that property damage average claim costs increased steadily through 2003 and then stabilized through 2006 at \$4,100 to \$4,200 before increasing to \$4,350 for 2007. Figure 4 shows an overall decline in claim frequency through 2003 that would offset the increasing severity of claims. However, 2005 and 2006 show sharp increases in frequency of claims that levelled off for 2007. The increase in frequency of bodily injury claims that might be expected to follow the increase in property damage claims has not materialized.



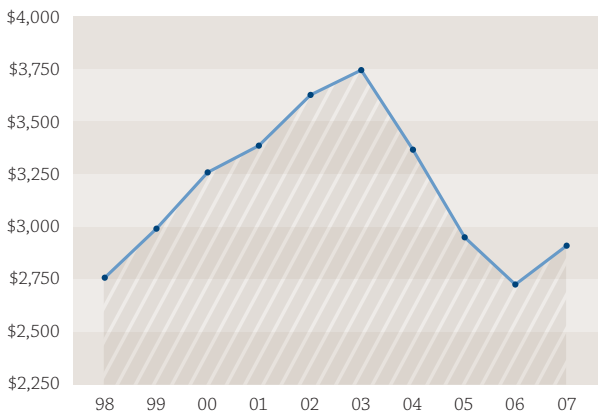
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

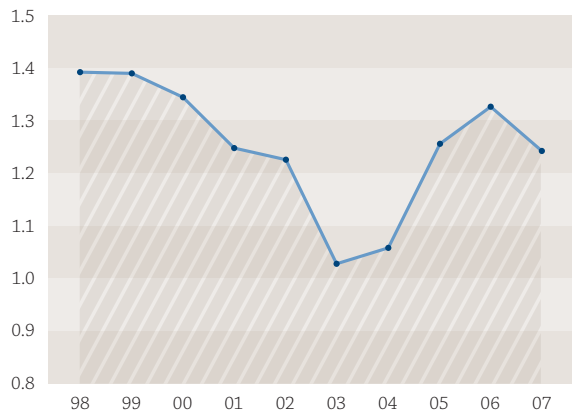
Accident benefits is the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006 with a slight increase occurring for 2007. The recent decline is counter to expectations as the changes to coverage as of October 2004 increased medical coverage and made benefits more accessible. Figure 6 relates to the frequency of claims per 100 vehicles insured; there is a decline though 2003 followed by increases 2004 through 2006 that could reflect increased accessibility. Frequency dropped in 2007 which may be an anomaly or may be consistent with the continuing decreases in frequency of third party liability bodily injury claims.

Figure 5 – Accident Benefits Severity



Source: GISA Statistical Exhibit

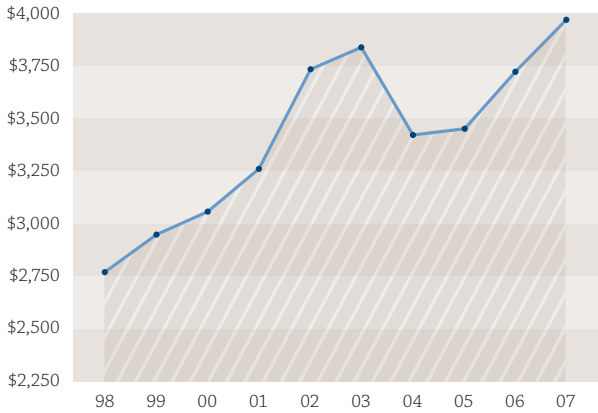
Figure 6 – Accident Benefits Frequency



Source: GISA Statistical Exhibit

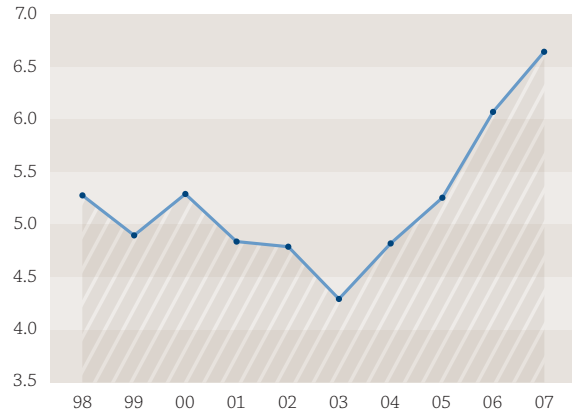
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily until 2003 and after some relief over the subsequent two years, again increased to reach another high for 2007. Claim severity that started to climb again in 2006 has been attributed to increases in labour rates for body shops and delays in repairs resulting in higher costs for rental of substitute vehicles. Figure 8 relates to the frequency of collision claims for each 100 insured vehicles. There is some fluctuation over the early years shown; after bottoming in 2003, there has been a steady increase through 2007. Frequency began to creep up in other jurisdictions in recent years but the magnitude of increases for the most recent couple of years was peculiar to Alberta.

Figure 7 – Collision Severity



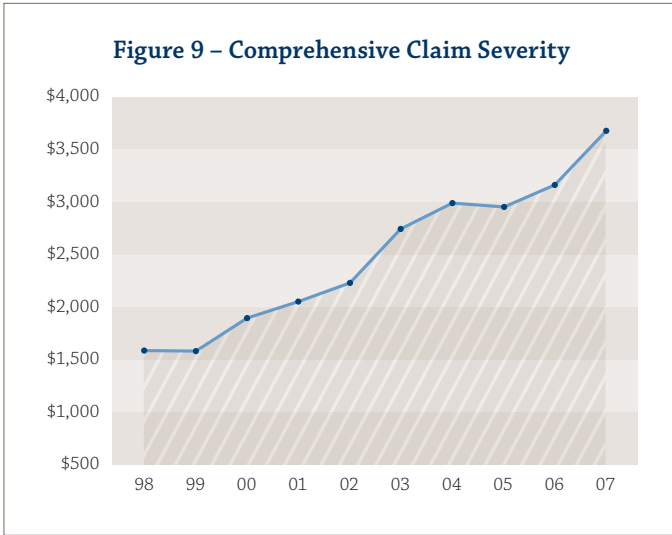
Source: GISA Statistical Exhibit

Figure 8 – Collision Frequency

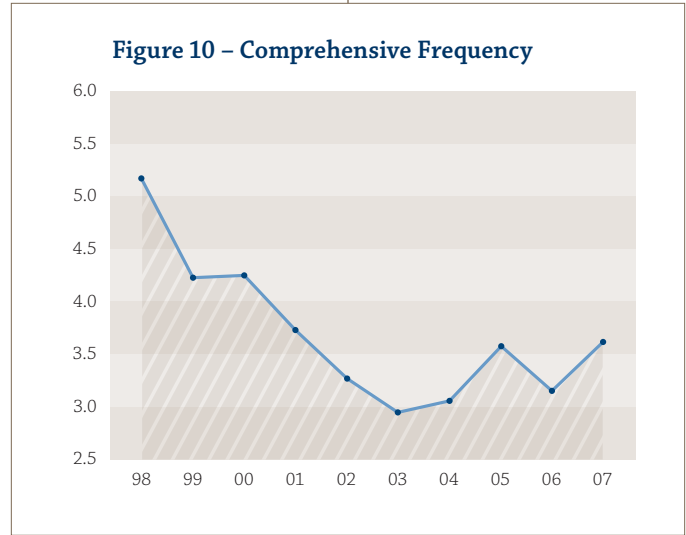


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has continuously moved upward to over \$3,600 as shown in Figure 9. Figure 10 shows a fluctuating frequency of claims in recent years that has remained below 2001 and prior levels that to some extent has offset the impact of increasing severity.

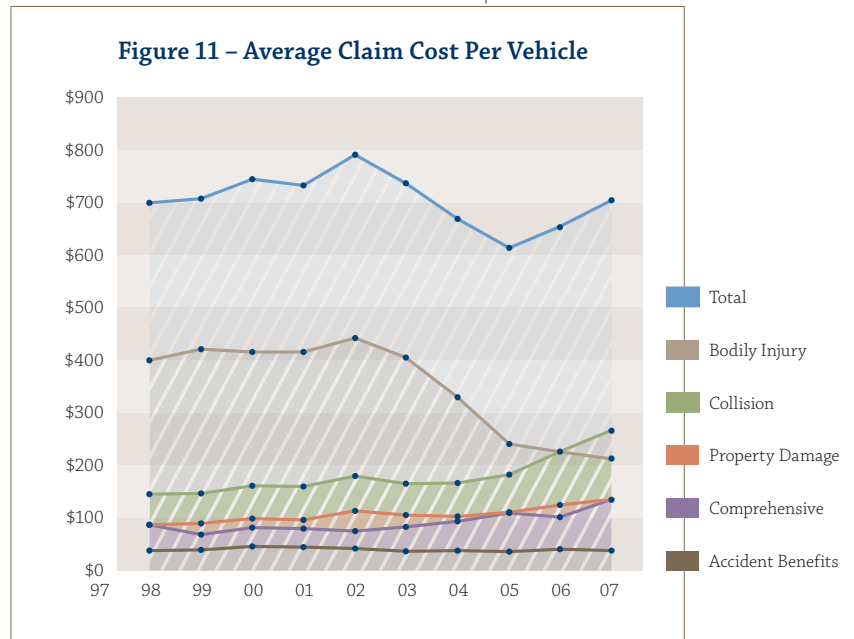


Source: GISA Statistical Exhibit



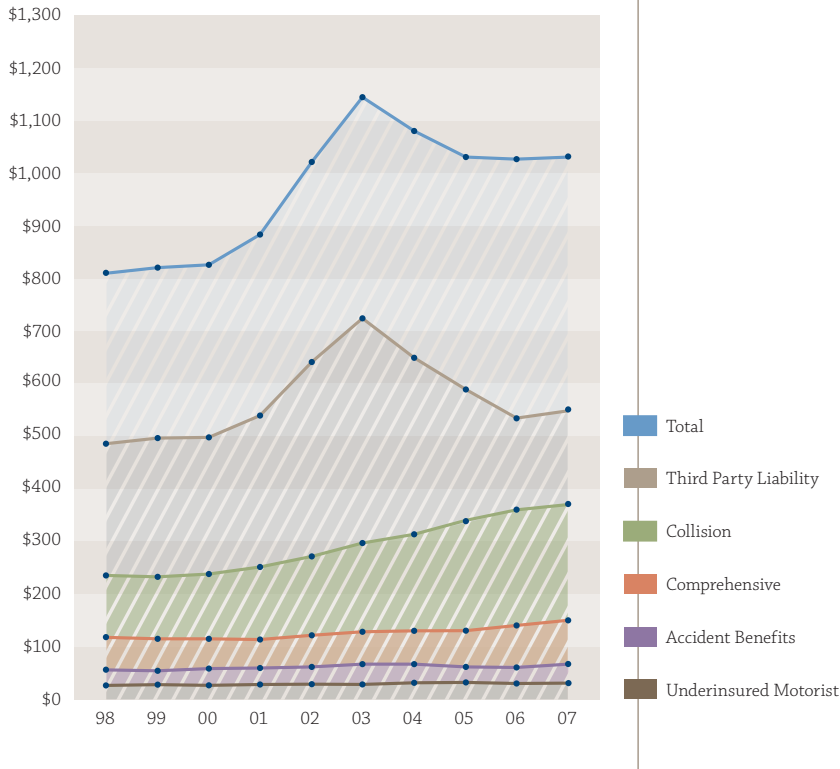
Source: GISA Statistical Exhibit

The next graph, Figure 11, shows the average claim cost per vehicle insured, which is the estimated total claims for each coverage and all coverage combined divided by the number vehicles insured. Average claim cost per vehicle insured reflects the combined effects of severity and frequency of claims.



Source: GISA Statistical Exhibit

Figure 12 – Average Premiums By Coverage



Source: GISA Statistical Exhibit

Finally, Figure 12 shows the average premiums by coverage and in total. The average premiums are the totals for each coverage and all coverage combined divided by the number of vehicles insured; they do not reflect premiums for any particular driver profile or any individual insurer.

The principal issues in the market continue to be whether drivers with accidents and convictions are paying sufficient premium under the Grid and the outcome of the constitutional challenge to the Minor Injury Regulation that limits non-economic (often referred to as ‘pain and suffering’) awards for less severe sprains and strains. The Court of Queen’s Bench decision ruling that the cap is unconstitutional is under appeal to the Alberta Court of Appeal. Indications are that premium level for basic coverage would have to increase by about 20% if the cap is removed. The Board made a partial allowance for the potential elimination of the cap on non-economic damages with the 2008 industry-wide adjustment ruling that insurers could increase premium level for basic coverage by up to 5% on or after November 1, 2008. The Court of Appeal decision could be appealed to the Supreme Court of Canada. Until the final outcome is known, there will be continued uncertainty that could impact competition.

Premiums could increase for both basic and additional coverage over the coming year. Pricing tends to lag experience and some increase could be expected to reflect the inflation in claim costs for damage to vehicles shown in 2007 experience. The change in the economic climate may have limited impact on experience for 2008 as the downturn in Alberta took hold late in the year. Any impact might not be evident until 2009. While frequency has continued to decrease for bodily injury claims, there is continuing expectation that situation will change and follow the increasing trend that has emerged for third party liability property damage and collision claims. If so, that will place further upward pressure on premiums. Both frequency and severity have been increasing for property damage and collision claims as described in connection with Figures 3, 4, 7 and 8.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Applications for Private Passenger Vehicles

Premiums Regulation	Approved	Subject to Limitation/ Partial Approval	Declined	Total Applications
Section 6	0	1	0	1
Section 10	2	0	0	2
Section 19	16	2	0	18
Total	18	3	0	21

Applications under Section 6 of the *Automobile Insurance Premiums Regulation* to revise rating programs for private passenger vehicles with respect to basic coverage (third party liability and accident benefits).

Company	Decision Date*	Average Change*
RBC General Insurance Company	May 23, 2008	1.60%

Applications under Section 10 of the *Automobile Insurance Premiums Regulation* to establish rating programs for private passenger vehicles with respect to basic coverage (third party liability and accident benefits).

Company	Decision Date*
AIG	April 18, 2008
RBC Insurance Company of Canada	May 23, 2008

Applications under Section 19 of the *Automobile Insurance Premiums Regulation* to establish new or revise existing rating programs for other than private passenger vehicles with respect to third party liability and accident benefits coverage.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Legend

C – Commercial

CM – Commercial Miscellaneous refers to interurban vehicles, public transportation vehicles, garage risks

PPM – Private Passenger Miscellaneous refers to mopeds, motorcycles, all terrain vehicles, snow vehicles, motor homes.

*Decision Date is date of Board decision, not effective date of rating program. Average Change is for third party liability and accident benefits combined; does not reflect impact on individual policies.

Company	Class	Decision Date	Average Change
Co-operators General Insurance Company	C	January 18, 2008	+4.4%
The Guarantee Company of North America	PPM	January 18, 2008	New
AXA Pacific Insurance Company	PPM	February 22, 2008	New
Elite Insurance Company	PPM	February 22, 2008	-0.2%
Jevco Insurance Company	PPM	April 18, 2008	+20.0%
American Home Assurance Company/ Commerce and Industry Insurance Company	C, CM, PPM	March 28, 2008	New
RBC Insurance Company of Canada	PPM	May 23, 2008	New
AXA Pacific Insurance Company	PPM	July 25, 2008	0.0%
Sovereign General Insurance Company	C, CM	July 25, 2008	C - +1.0%
Allstate Insurance Company of Canada	PPM	July 25, 2008	-3.5%
Pembridge Insurance Company	PPM	July 25, 2008	New
Dominion of Canada General Insurance Company	PPM	July 25, 2008	0.0%
Markel Insurance Company of Canada	C, CM	July 25, 2008	+8.7%
Federated Insurance Company of Canada	C	July 25, 2008	+10.7%
Royal & SunAlliance Insurance Company of Canada	C	July 25, 2008	+1.4%
Co-operators General Insurance Company	C, PPM	October 24, 2008	0.0%
ING Insurance Company of Canada	C	November 28, 2008	-0.3%
Federated Insurance Company of Canada	CM	November 28, 2008	-14.9%

Notices under Section 5 of the *Automobile Insurance Premiums Regulation* to revise rating programs for private passenger vehicles with respect to basic coverage (third party liability and accident benefits). Revisions under Section 5 are revenue neutral or occasionally generate a decrease in average premium level.

Company	Review Date	Average Change*
Aviva Insurance Company of Canada	April 28, 2008	0.0%
Traders General Insurance Company	April 28, 2008	-0.3%
The Portage la Prairie Mutual Insurance Company	May 2, 2008	0.0%
AXA Pacific Insurance Company	May 5, 2008	-2.3%
Aviva Insurance Company of Canada	May 29, 2008	0.0%
Traders General Insurance Company	May 29, 2008	0.0%
Scottish & York Insurance Co. Ltd.	May 29, 2008	0.0%
Wawanesa Mutual Insurance Company	August 29, 2008	0.0%
Co-operators General Insurance Company	November 18, 2008	0.0%
Alberta Motor Association Insurance Company	November 20, 2008	0.0%
ING Insurance Company of Canada	December 10, 2008	0.0%
Novex Insurance Company of Canada	December 10, 2008	0.0%
Trafalgar Insurance Company	December 10, 2008	0.0%

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Notices under Section 9 of the *Automobile Insurance Premiums Regulation* to revise rating programs for private passenger vehicles with respect to additional coverage (all perils, collision, comprehensive, underinsured motorist endorsement and other endorsements).

Company	Review Date	Average Change*
The Guarantee Company of North America	January 2, 2008	0.0%
Alberta Motor Association Insurance Company	January 9, 2008	+0.2%
Allstate Insurance Company of Canada	January 22, 2008	+5.5%
Alberta Motor Association Insurance Company	January 24, 2008	+0.6%
Federated Insurance Company of Canada	February 28, 2008	-1.6%
Royal & SunAlliance Insurance Company of Canada	February 28, 2008	0.0%
SGL Canada Insurance Services Limited	March 4, 2008	0.0%
RBC General Insurance Company	March 19, 2008	+0.8%
AXA Pacific Insurance Company	March 26, 2008	0.0%
Pembridge Insurance Company	April 15, 2008	+8.2%
SGL Canada Insurance Services Limited	April 16, 2008	0.0%
Traders General Insurance Company	April 28, 2008	-0.3%
Aviva Insurance Company of Canada	April 28, 2008	0.0%
Optimum West Insurance Company	April 28, 2008	-17.3%
Security National Insurance Company	May 5, 2008	0.0%
Primum Insurance Company	May 5, 2008	0.0%
TD Home and Auto Insurance Company	May 5, 2008	0.0%
AXA Pacific Insurance Company	April 30, 2008	0.0%
AXA Pacific Insurance Company	May 5, 2008	-2.7%
Royal & SunAlliance Insurance Company of Canada	May 7, 2008	-2.8%
Security National Insurance Company	May 14, 2008	0.0%
Primum Insurance Company	May 14, 2008	0.0%
TD Home and Auto Insurance Company	May 14, 2008	0.0%
Aviva Insurance Company of Canada	May 29, 2008	+0.4%
Traders General Insurance Company	May 29, 2008	+0.4%
Scottish & York Insurance Co. Ltd.	May 29, 2008	+0.7%
SGL Insurance Services Limited	June 19, 2008	+2.0%
Guarantee Company of North America	June 23, 2008	+1.8%
Optimum West Insurance Company	July 7, 2008	-0.3%
Economical Mutual Insurance Company	July 10, 2008	0.0%
Waterloo Insurance Company	July 10, 2008	0.0%
Economical Mutual Insurance Company	July 18, 2008	+3.1%
Waterloo Insurance Company	July 18, 2008	+3.7%
Co-operators General Insurance Company	July 23, 2008	+1.6%
Facility Association	July 23, 2008	+1.6%
Coseco Insurance Company	August 13, 2008	-1.2%
Security National Insurance Company	August 13, 2008	+0.8%
Primum Insurance Company	August 13, 2008	+0.3%

Continued on next page.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Continued from previous page.

TD Home and Auto Insurance Company	August 13, 2008	+0.1%
ING Insurance Company of Canada	August 26, 2008	+1.5%
Novex Insurance Company of Canada	August 26, 2008	+1.4%
Trafalgar Insurance Company	August 26, 2008	+1.6%
Aviva Insurance Company of Canada	August 19, 2008	0.0%
Traders General Insurance Company	August 19, 2008	0.0%
Scottish & York Insurance Co. Ltd.	August 19, 2008	0.0%
Coseco Insurance Company	August 19, 2008	-1.9%
Security National Insurance Company	August 29, 2008	+5.0%
Primum Insurance Company	August 29, 2008	+5.0%
TD Home and Auto Insurance Company	August 29, 2008	+5.0%
Kingsway General Insurance Company	August 29, 2008	+2.3%
The Dominion of Canada General Insurance Company	September 3, 2008	+6.4%
Co-operators General Insurance Company	September 5, 2008	0.0%
Lombard General Insurance Company of Canada	September 9, 2008	+1.5%
Zenith Insurance Company	September 9, 2008	+0.6%
York Fire & Casualty Insurance Company	September 8, 2008	+1.4%
Canadian Direct Insurance	September 17, 2008	+13.6%
Wawanesa Mutual Insurance Company	September 17, 2008	+1.0%
SGI Canada Insurance Services Ltd.	September 25, 2008	+12.9%
RBC General Insurance Company	September 30, 2008	+5.5%
RBC Insurance Company of Canada	September 30, 2008	+5.5%
State Farm Mutual Automobile Insurance Company	September 30, 2008	0.0%
The Portage la Prairie Mutual Insurance Company	October 9, 2008	0.0%
Aviva Insurance Company of Canada	October 22, 2008	+7.7%
Traders General Insurance Company	October 22, 2008	+3.5%
AXA Pacific Insurance Company/AXA Canada	October 31, 2008	+5.4%
Alberta Motor Association Insurance Company	November 4, 2008	+1.7%
Allstate Insurance Company of Canada	November 4, 2008	+2.5%
Pembridge Insurance Company	November 18, 2008	+2.1%
Co-operators General Insurance Company	November 5, 2008	+15.7%
CUMIS General Insurance Company	November 14, 2008	+3.8%
Alberta Motor Association Insurance Company	November 20, 2008	+3.4%
ING Insurance Company of Canada	November 25, 2008	+5.7%
Novex Insurance Company of Canada	November 25, 2008	+5.6%
Trafalgar Insurance Company	November 25, 2008	+4.6%
RBC General Insurance Company	December 3, 2008	0.0%
RBC Insurance Company of Canada	December 12, 2008	0.0%
The Guarantee Company of North America	December 10, 2008	-9.57%
Allstate Insurance Company of Canada	December 11, 2008	0.0%

*Average Change does not reflect impact on individual policies.

APPENDIX III STATISTICS

Automobile Insurance Fact Page

	2003	2004	2005	2006	2007
Active Insurance Companies ³	76	69	69	67	69
Market Share for Largest Insurer Groups³					
ING Canada	15.8%	15.4%	15.9%	18.5%	18.2%
Wawanesa	10.1%	10.5%	14.2%	13.3%	13.1%
TD Meloche Monnex*	7.1%	9.3%	10.0%	11.0%	11.1%
The Co-operators	8.4%	8.3%	7.6%	8.0%	8.1%
Total	41.4%	43.5%	47.7%	50.8%	50.5%
Written Premium⁴					
Total Premium (oos)	\$2,545,943	\$2,522,208	\$2,573,169	\$2,759,809	\$2,904,752
Private Passenger (oos)	\$1,961,508	\$1,908,903	\$1,928,133	\$2,053,752	\$2,170,832
Average Written Premiums for Private Passenger Vehicles⁴					
Basic Coverage	\$786	\$706	\$639	\$612	\$600
Additional Coverage	\$353	\$367	\$384	\$411	\$431
Total	\$1,139	\$1,074	\$1,023	\$1,023	\$1,032
% change from prior year	—	-5.7%	-4.8%	0.1%	0.8%
Written Private Passenger Vehicles⁴					
Non Grid	—	—	94.0%	89.3%	90.6%
Grid	—	—	6.0%	10.7%	9.4%
# Vehicles Insured	1,722,351	1,777,755	1,885,588	2,006,663	2,104,360
% change from prior year	—	3.2%	6.1%	6.4%	4.9%
Estimated Total Claims⁴					
All Automobile (oos)	\$1,576,398	\$1,473,901	\$1,438,641	\$1,665,078	\$1,847,711
Private Passenger (oos)	\$1,256,277	\$1,163,923	\$1,113,776	\$1,273,718	\$1,442,925
Private Passenger Loss Ratio	67.2%	59.4%	59.1%	64.2%	68.3%
% change from prior year	—	-11.7%	-0.5%	8.7%	6.3%
Minor Injury Cap³	\$0	\$4,000	\$4,000	\$4,144	\$4,504
(effective October 1, 2004)					

³ Source: Superintendent of Insurance (most recent available data for 2007)

⁴ Source: GISA Statistical Exhibits (most recent available data for 2007)

Board Applications

	2002	2003	2004	2005	2006	2007
Section 6 – Private Passenger Rating Program Review						
Approved	n/a	n/a	n/a	11	7	0
Modified	n/a	n/a	n/a	5	3	1
Declined	n/a	n/a	n/a	3	5	0
Total				19	15	1
Section 10 – Private Passenger Rating Program New Entrant						
Approved	n/a	n/a	n/a	2	0	2
Modified	n/a	n/a	n/a	1	1	0
Declined	n/a	n/a	n/a	1	0	0
Total				4	1	2
Section 19 – Other Than Private Passenger Rating Program Review/New Entrant						
Approved	n/a	n/a	n/a	2	17	16
Modified	n/a	n/a	n/a	0	3	2
Declined	n/a	n/a	n/a	0	1	0
Total				2	21	18
Board Notices						
Section 5 – Basic Coverage	n/a	n/a	n/a	2	6	13
Section 9 – Additional Coverage	n/a	n/a	n/a	7	42	78

APPENDIX IV ACTIVE INSURERS

List of Active Automobile Insurers and Direct Written Automobile Premium for 2007

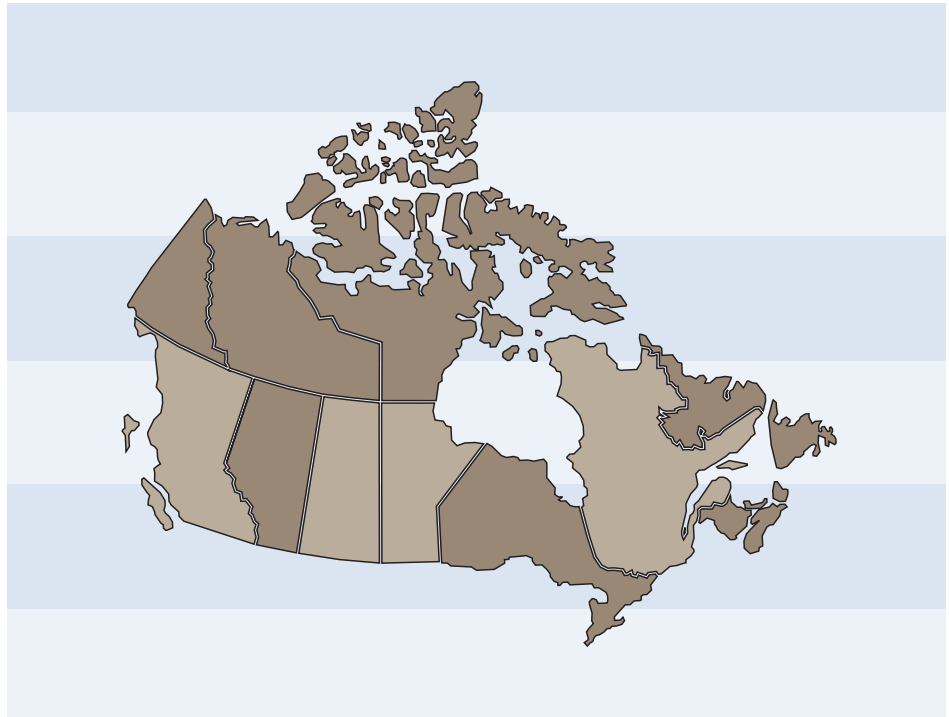
Name of Company	2007 (thousands)		
Alberta Motor Association Insurance Company	164,322	Trafalgar Insurance Company of Canada	13,423
Allianz Global Risk US Insurance Company	6,868	Innovative Insurance Corporation	4,266
Allstate Canada		Kingsway Financial Services Inc.	
Allstate Insurance Company of Canada	11,209	Jevco Insurance Company	10,150
Pembridge Insurance Company	2,578	Kingsway General Insurance Company	26,370
American International Companies (AIG)		York Fire & Casualty Insurance Company	6,973
AIG Commercial Insurance Company of Canada	380	Liberty Mutual Insurance Company	8,388
American Home Assurance Company	11,209	Lloyd's Underwriters	4,440
American Road Insurance Company	1,357	Mennonite Mutual Insurance Co (Alberta) Ltd	19
Aviva Canada Inc.		Millennium Insurance Corporation	15,760
Aviva Insurance Company of Canada	152,831	Mitsui Sumitomo Insurance Company Limited	669
Elite Insurance Company	12,460	Motors Insurance Corporation	1,691
Scottish & York Insurance Co. Limited	4,111	Northbridge Financial Corporation	
Traders General Insurance Company	19,525	Federated Insurance Company of Canada	20,164
AXA Pacific Insurance Company	75,513	Lombard General Insurance Company of Canada	31,806
Canadian Direct Insurance Incorporated	36,487	Lombard Insurance Company	32
Canadian Farm Insurance Corp.	20	Markel Insurance Company of Canada	31,004
Chubb Insurance Company of Canada	1,349	Zenith Insurance Company	908
The Co-operators		Old Republic Insurance Company of Canada	8,115
Co-operators General Insurance Company	217,809	Optimum West Insurance Company	3,386
Coseco Insurance Company	10,946	Peace Hills General Insurance Company	62,116
Sovereign General Insurance Company (The)	13,581	Portage La Prairie Mutual Insurance Company (The)	19,533
Continental Casualty Company	4,267	Protective Insurance Company	290
Cumis General Insurance Company	4,618	RBC General Insurance Company	19,621
DaimlerChrysler Insurance Company	2,291	Royal & SunAlliance Insurance Group	
Desjardins General Insurance Group		Royal & SunAlliance Insurance Company of Canada	73,093
Certas Direct Insurance Company	3,881	Unifund Assurance Company	133,445
Personal Insurance Company (The)	29,300	Sentry Insurance A Mutual Company	83
Dominion of Canada General Insurance Company (The)	86,722	SGI CANADA Insurance Services Ltd.	7,735
Echelon General Insurance Company	554	St. Paul Fire and Marine Insurance Company	17,179
The Economical Insurance Group		State Farm Mutual Automobile Insurance Company	97,704
Economical Mutual Insurance Company	106,054	TD Meloche Monnex	
Federation Insurance Company of Canada	10	Primum Insurance Company	71,360
Waterloo Insurance Company	7,430	Security National Insurance Company	234,521
Fortress Insurance Company	963	TD Home and Auto Insurance Company	24,228
Guarantee Company of North America (The)	583	Tokio Marine & Nichido Fire Insurance Co. Ltd.	203
Hartford Fire Insurance Company	113	Wawanesa Mutual Insurance Company (The)	389,197
ING Canada		XL Insurance Company Limited	46
ING Insurance Company of Canada	477,429	Zurich Insurance Company	59,989
ING Novex Insurance Company of Canada	53,296		

Source: Superintendent of Insurance 2007 Annual Report

NOTES:

- Province of Quebec and British Columbia have mixed systems.
- Province of Quebec has public delivery system for bodily injury coverage and private delivery system for other coverage.
- British Columbia has public delivery system for third party liability and accident benefits coverage. Consumers can choose between public and private delivery systems for optional coverage.

Automobile Insurance Delivery Systems at a Glance



- Private Delivery System
- Public Delivery System

Alberta



Automobile Insurance Rate Board

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9515 - 107 Street
Edmonton, AB T5K 2C3

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