

Alberta

Automobile Insurance Rate Board – 2009 Annual Report

For the Year Ended December 31, 2009

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**Automobile Insurance Rate Board – 2009 Annual Report**  
For the Year Ended December 31, 2009



## LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Ted Morton  
Minister of Finance and Enterprise  
409 Legislature Building  
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2009 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, 2009. All significant decisions, events and identified risks as of December 31, 2009 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 2009 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 Section 658(1) of the *Insurance Act*, I am pleased to submit the fifth Annual Report of the Alberta Automobile Insurance Rate Board, for the year ended December 31, 2009.

Sincerely,

### **Original signed by:**

Alfred Savage  
Chair  
Automobile Insurance Rate Board

(AIRB)

# AUTOMOBILE INSURANCE RATE BOARD

## Automobile Insurance Rate Board

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9515 - 107 Street  
Edmonton, AB T5K 2C3

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## 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.

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## CHAIR'S MESSAGE



Alfred Savage, Chair

2009 proved to be a challenging year with continued problems in the financial markets impacting auto insurers' capital and reducing their investment income. In addition, companies were faced with pricing a product with the ongoing uncertainty around the minor injury cap that was put in place to limit non-economic damages for injuries defined as minor under the *Minor Injury Regulation*.

The Board too had its challenges in setting rates, as in early 2008 the Court of Queen's Bench struck down the minor injury cap, only to be followed in June 2009 with the Court of Appeal's unanimous decision to uphold the cap. This announcement came just days prior to the Board's public meetings. In what seems to be the final chapter on this issue, the Plaintiff's requested leave to the Supreme Court was denied in December 2009, thereby affirming the 2009 cap of \$4,504 on minor injuries.

While this decision of the Supreme Court ends the uncertainty regarding payouts for minor injury claims, companies applied differing methods to reserve for these potential claims. These variations in reserving practices compromise the current industry-wide rate setting process, which adds support to the Board's position to move away from an industry-wide process that treats all companies as operating under identical circumstances.

In 2009, the Board forwarded a recommendation to the Minister of Finance and Enterprise recommending that the regulation be changed from the current industry-wide process to a "File and Approve" system. The Board believes this system where each company is dealt with on its merits will provide for better regulation, thereby reducing uncertainty in the market which in turn fosters greater competition for consumers over the longer term.

The AIRB redeveloped its website to assist consumers in their understanding of auto insurance and the fact that there are options and choices to be made. Our new website was launched in June 2009. For 2010, the Board's focus will be on improving access to consumer information in an effort to help consumers better understand the issues around auto insurance.

It has been a privilege for me to serve another year as Chair of the Automobile Insurance Rate Board and I would like to offer my thanks to all Board members for their ongoing leadership and insight and to our staff for their ongoing dedication and support. I look forward to 2010 as we remain committed to our vision of an efficient and effective automobile insurance market with fair and predictable rates.

On behalf of the Board,

### **Original signed by:**

Alfred Savage

Chair

Automobile Insurance Rate Board

# REPORT FROM THE EXECUTIVE DIRECTOR

2009 was a busy year for the AIRB with the completion of its 5th annual industry-wide adjustment, a recommendation to the Minister for a new automobile insurance regulatory model that if accepted will improve the Board's ability to more fairly regulate auto insurance rates, the launch of our new website that now provides drivers and consumers with a wealth of useful information, our involvement with the General Insurance Statistical Agency in a review of regulatory data requirements along with our ongoing review of rating programs and applications. In an effort to remain current with issues within the industry, the Board on a monthly basis invited individual insurers to provide updates to the Board. We have found this to be very helpful as we carry out our mandate.

## 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 2008. Stakeholders were given the opportunity to respond to the analysis at public meetings that were held over two days, June 16 and 17, in Edmonton. During the public meetings, the consumer representative and ten stakeholders presented to the Board. In addition, the Board received four written submissions.

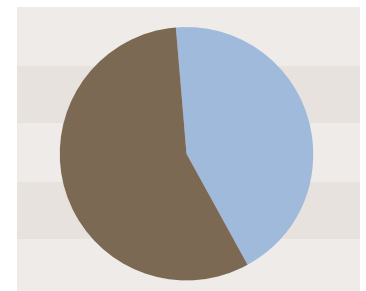
The determination of premiums is a very complex process with insurance experts and actuaries reviewing past data and trends related to the frequency and severity of accidents, expected rate of return on investment, the economy and other factors to estimate the likelihood and cost of future claims. The goal is a reasonable estimate of the premium required to compensate claimants and provide companies with a fair rate of return. While opinion will always vary, in 2007, 08 and 09 insurers had to also factor in the uncertain future of the minor injury cap. The question of whether the cap would apply made rate setting during this period particularly challenging. The Board considered the information received through submissions and public meetings in conjunction with its actuarial analysis. Based on this input, the Board issued Order 01-09 on July 29, 2009 that required all insurers to reduce their premiums for basic automobile insurance in Alberta by 5% effective November 1, 2009. This essentially reversed a 5% increase granted for November 1, 2008. Following the public meetings in June, the Board decided to withdraw any provision for a possible adverse decision on the constitutional challenge, which proved appropriate with the Supreme Court's subsequent denial of the appeal.

The chart shows the average written premium for 2008 as reported by the General Insurance Statistical Agency (GISA) statistical data broken out by basic and additional coverage. See page 5 for explanation of the Board's role in regulating and monitoring premiums.



Del Dyck, Executive Director

### 2008 Average Private Passenger Premium



- Board Regulates Basic Coverage \$596
- Board Monitors Additional Coverage \$455

Source: GISA statistical data

## Proposed New Premiums Regulation

This past year, the Board reviewed the work it had completed on a proposed new automobile insurance regulatory model. On March 30, 2009 a recommendation was forwarded to the Minister, requesting a change in the way premiums are regulated from an annual “one-size-fits-all” industry-wide adjustment to an individual company application or “File and Approve” process which is expected to reduce market uncertainty and provide quicker response times to rate applications, thereby, fostering greater competition which will benefit consumers. With this new regulation, 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.

## New Website Launched

In late 2007, the Minister of Finance extended the mandate of the AIRB to include public education and information related to automobile insurance. Government saw an obligation to inform consumers on the subject of automobile insurance and to encourage consumers to shop to ensure that they were obtaining competitive rates along with the type and level of service they require. The AIRB accepted this expanded mandate and developed a two stage process, firstly, to build a new website to provide significantly improved consumer automobile insurance information and, secondly, to market our website.

In June 2009, the Board launched its new website, one that is more consumer focused, in an effort to help consumers better understand a product for which a large portion of the public has a need. Albertans currently insure over 2 million private passenger vehicles. Drivers and consumers can now find a wide range of consumer information on our website such as getting insurance, factors that effect your premiums, ways to lower your premiums, insurance providers, comparing rates, the grid calculator, the drivers handbook, road conditions, route planning, fuel efficiency and carbon footprint. Our new website can be accessed at [www.airb.alberta.ca](http://www.airb.alberta.ca).

## Statistical Data Requirements

Board staff was involved both as participants and chairs of various statistical plan committees established by the General Statistical Agency (GISA) in an effort to review the current data needs of Regulators across Canada. The mandate was to ensure that the data needs of both Superintendents and rate regulators are being met. With 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.

## Prohibited Rating Factors

In support of the Superintendent’s office, the Board completed a review of various rating factors. While there are no prohibited rating factors specifically spelled out in regulation in Alberta, in practice a number of factors have been disallowed. The Board recommended that a number of factors such as those relating to personal finances should be prohibited. This recommendation is currently under review by the Superintendent’s office.





## 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<sup>1</sup>, which may be directed to the Board for review. Only one section 6 application was received in 2009.
- **Section 10** requires new insurers entering Alberta to obtain the prior approval of the Board for their private passenger rating programs for basic coverage. There was one Section 10 application in 2009.
- **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 25 applications under Section 19 in 2009.

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 per cent. The Board received 19 Section 5 notices in 2009.
- **Section 9** requires written notice to the Board of changes to their rating programs for additional coverage<sup>2</sup>. The Board received 44 Section 9 notices in 2009. While this represents a 44% decrease over 2008, it compares closely to section 9 notices received in 2007. The significant increase in 2008 resulted from an increase in new marketing strategies around discounts and endorsement packages.

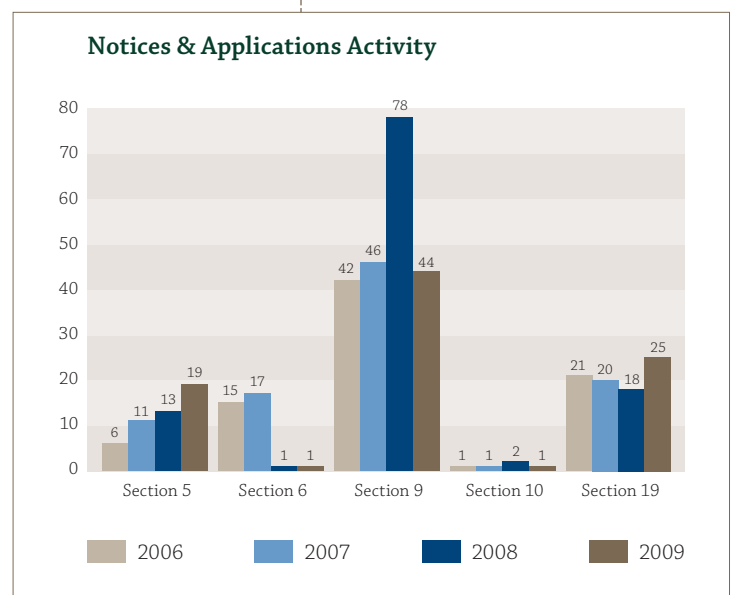
See Appendix II for more information on applications.

## Fiscal

The AIRB's fiscal period is that of Government, April 1 to March 31. For the fiscal period April 1, 2008 to March 31, 2009, Board operations resulted in a surplus of \$307,234 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. Based on the Fees Regulation, the accumulated surplus in the amount of \$432,042 was returned to industry as an offset to their 2009 industry assessment. Further financial information is available under Statement of Operations and Surplus (see page 8).

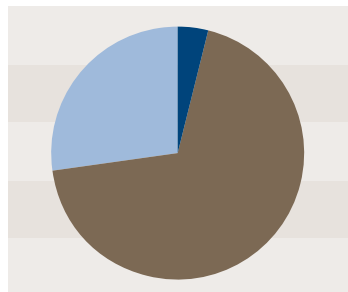
<sup>1</sup> Basic coverage is third party liability and accident benefits coverage.

<sup>2</sup> Additional or optional coverage includes collision, comprehensive or specified perils and all endorsements including underinsured motorist coverage



Source: Superintendent of Insurance

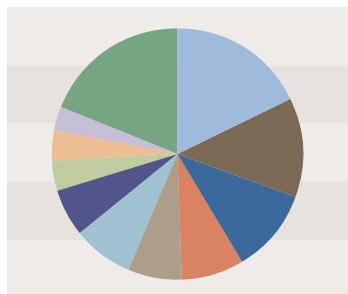
**Distribution of Premium Dollar for 2008 Private Passenger Vehicles**



- Underwriting Profit 4%
- Administrative Expenses 27%
- Estimated Claims 69%

Source: GISA statistical data and IBC Automobile Expense Survey

**2008 Market Share of Total Automobile Insurance Premium**



- Intact Financial Group 18%
- Wawanesa Mutual Insurance Company 13%
- TD Insurance 11%
- Co-operators Group 8%
- Aviva Canada 7%
- Royal & Sun Alliance Canada 7%
- Alberta Motor Association Insurance Company 6%
- State Farm Mutual Automobile Insurance Company 4%
- Economical Mutual Insurance Company 4%
- Dominion of Canada General Insurance Company 3%
- Remainder 21%

Source: Superintendent of Insurance 2008 Annual Report

**Rates**

Insurers conducting business in Alberta are required under the Insurance Act to report their experience to an Alberta 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 2008.

The results for basic coverage are relatively stable. Frequency of third party liability bodily injury claims continues to decrease, offsetting increases in severity. Frequency for 2008 was lower than at any point since 1986 when third party liability results were first broken out by bodily injury and property damage. Having reached historically low levels, there is speculation on whether or how long it can continue to decrease. Frequency of property damage claims has been creeping up after bottoming out in 2005; severity is also on the rise.

The average premium for basic coverage on private passenger vehicles as shown in Appendix III has decreased each year since 2004, while the average premium for additional coverage has increased. The average total premium decreased from \$1,074 in 2004 to \$1,032 in 2007 but increased to \$1,052 in 2008.

**Consumer Representative**

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

**Market**

In 2008, the automobile insurance industry collected \$3.05 billion in written premium from which they expect to pay \$2.00 billion in claims.

Based on the 2008 Alberta Superintendent of Insurance Annual Report, the most recent data available, 70 automobile insurers were operating in Alberta. Four insurer groups represented 50% of all written premium, unchanged from 2007 and up from 44% in 2004. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2008 (some corporations operate more than one insurer).

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

The February 2008 Court of Queen’s Bench decision that the cap on non-economic damages for minor injuries as defined under the Minor Injury Regulation was unconstitutional was overturned by the Alberta Court of Appeal in June 2009. In December 2009, the Supreme Court of Canada denied the Plaintiff’s request for leave to appeal, thereby finalizing the matter. The cap was confirmed, ending the uncertainty that hampered the market for the past few years. A stable product and predictable environment are conducive to a competitive market for the future.

## Looking Ahead to 2010

The AIRB will:

- Focus on the development of a marketing program that will assist consumers to better understand the auto insurance product and that auto insurance is a competitive market and as a result it pays to shop, keeping in mind both price and service.
- Work towards the implementation of a new regulatory model which if approved by Government will move Alberta away from an annual industry-wide rate adjustment process to a file and approve process under which the Board will review companies' rating programs on an individual basis to determine if rate changes are appropriate and fair.
- Continue its work with the General Insurance Statistical Agency to improve the collection of data that forms part of the Automobile Statistical Plan. With insurers becoming more and more innovative in their rating programs, regulators will require additional data to review these programs. The AIRB supports innovation and competition but at the same time will require increased access to data in order to review these new rating programs.

Develop a marketing program to assist consumers in understanding the automobile insurance product.

I would like to express my appreciation and thanks to our Chair, Board members, staff and consulting actuaries for their leadership, oversight and support. It's only through a committed team like ours working with industry that we can provide effective regulation of auto insurance rates that are fair to both consumers and industry.

Sincerely,

### Original signed by:

Del Dyck

Executive Director  
Alberta Automobile Insurance Rate Board

# STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2008 to March 31, 2009

	<b>2008-09 Budget</b>	<b>2008-09 Actual</b>	<b>2007-08 Actual</b>
Revenue:			
Annual Industry Levy	\$1,261,000	\$1,199,500	\$1,123,000
- less accumulated surplus	0	432,042	0
	<hr/>	<hr/>	<hr/>
Net Annual Industry Levy	1,261,000	767,458	1,123,000
Actuarial Services	55,000	56,654	31,402
Application Fees	10,000	6,000	13,500
Other	0	0	9,906
	<hr/>	<hr/>	<hr/>
	<b>1,326,000</b>	<b>830,112</b>	<b>1,177,808</b>
Expense:			
Operations	710,000	552,145	486,978
Actuarial and Contract Services	401,000	256,151	232,162
Board Honoraria and Expenses	215,000	146,624	152,117
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	<b>1,326,000</b>	<b>954,920</b>	<b>871,257</b>
Surplus/(Shortfall)	\$0	-\$124,808	\$306,551
Accumulated Surplus Beginning	—	432,042	125,491
Accumulated Surplus End	—	307,234	432,042

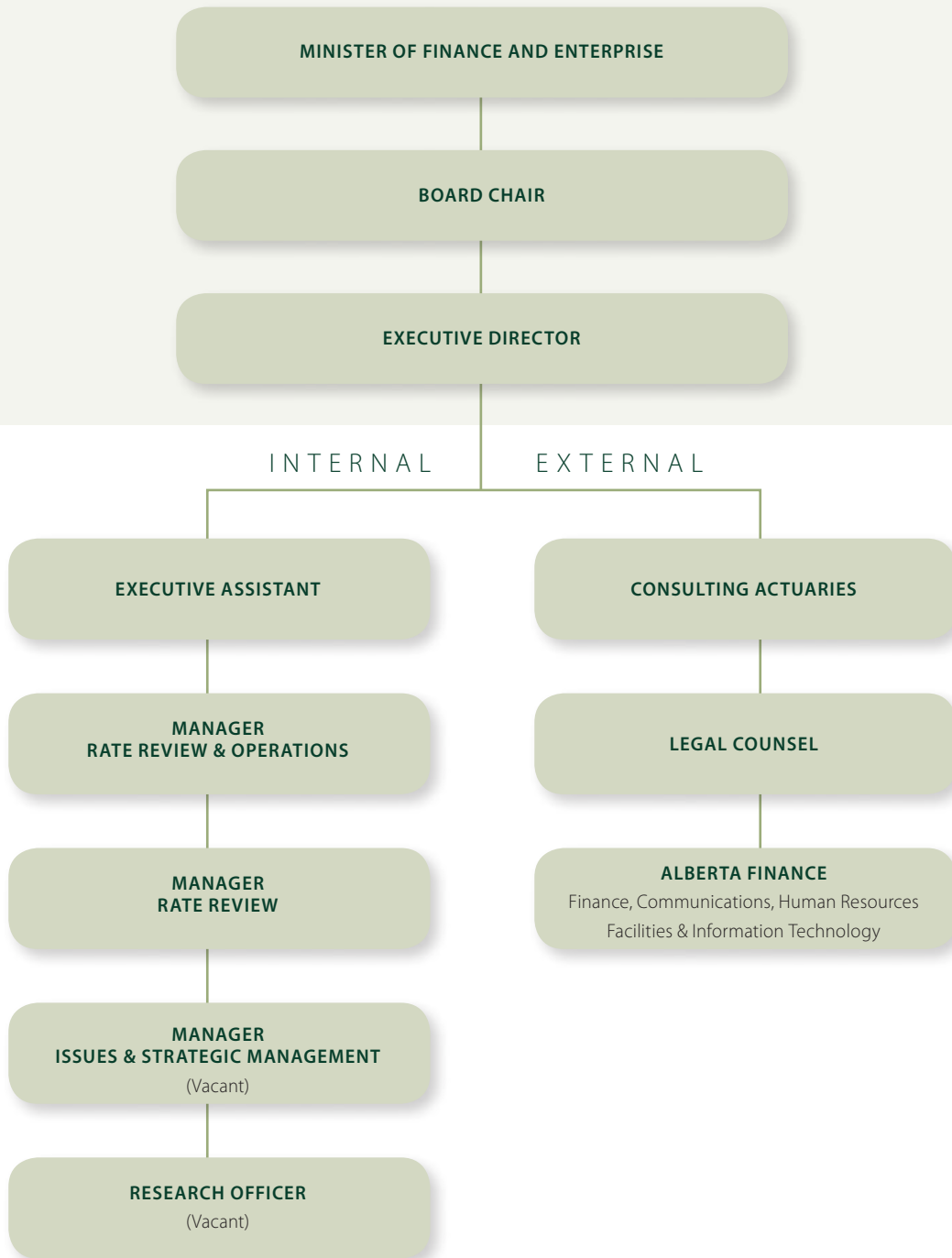
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is funded by industry in the following three ways:

- Annual Industry Levy which represents the Board's annual budget less an amount estimated for recovery of actuarial costs, application fees and prior years accumulated surplus or shortfall. The annual industry levy is shared by each insurer based on their actual direct premiums written 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.

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 2009



The AIRB operates as an independent Board, with 6 approved staff 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, quasi-judicial regulator. In this capacity, the AIRB is responsible for regulating automobile insurance premiums in Alberta. The Board, through its functions and statutory duties and responsibilities, serves all Albertans – 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 related areas 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, review and rule on insurer rate applications and otherwise exercise its mandate. In addition, it holds public meetings for the annual industry-wide adjustment process.

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

## Code of Conduct

The Code of Conduct (Code) for the Automobile Insurance Rate Board (AIRB) applies to all members and employees. The Code reflects a commitment to the agency's values and provides a framework to guide ethical conduct. Members and employees are expected to behave in a way that supports this Code. To demonstrate commitment to transparency and accountability this Code can be viewed on our website.

## 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 are 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

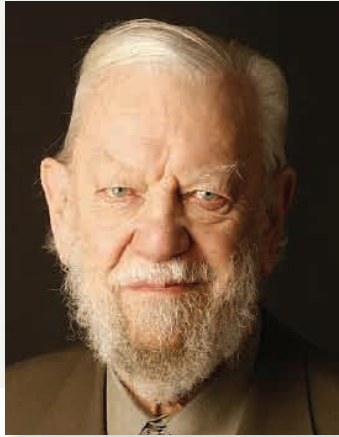
All candidates for Board member shall be respected in his/her field, have a proven track record of achievement in their field, and shall most likely have had previous direct experience with boards and governance. The board shall be diverse in its membership representing the community it serves.

## 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 2009 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  
Edmonton**

### *Vice Chair*



*Harry Gough*

**Lawyer, Private Practice  
Drumheller**



*David G. Marshall*

**Chartered Accountant  
Calgary**



*William Moore*

**Staff Actuary, Finance and Enterprise  
Calgary**





*Patti Grier*

**Vice President, Strategic Partnerships  
Alberta Children's Hospital Foundation  
Calgary**



*Lewis Klar*

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



*David White*

**Financial Advisor  
Edmonton**



*Dennis Gartner*

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

*Consumer  
Representative*



*Merle Taylor*

**Management Consultant  
Edmonton**

# APPENDIX I MARKET

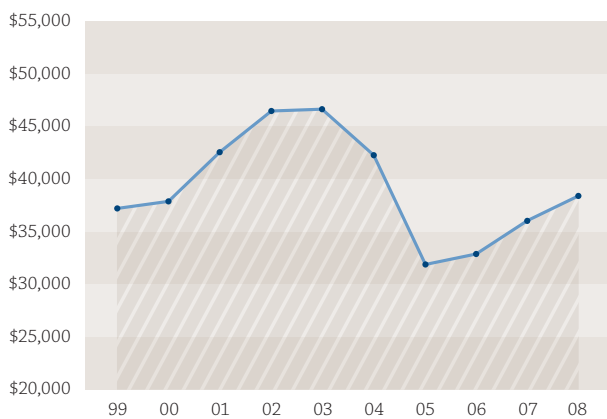
In 2008, the automobile insurance industry collected \$3.05 billion in written premium from which they expect to pay \$2.00 billion in claims. A major portion, \$2.30 billion of that premium is attributable to private passenger vehicles that will incur an estimated \$1.56 billion in claims.

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 2008. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

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, 1999 to 2008. 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. There is a drop to \$42,000 for 2004 and then to \$32,000 for 2005, but resurges to \$38,000 for 2008. 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. There are upticks for 2007 and 2008 which could be at least partially attributable to ordinary inflation. There is some concern with the reliability of the figures for recent years because of the diversity in reserving practices in response to the uncertainty brought about by the constitutional challenge to the cap on non-economic damages under the Minor Injury Regulation, an issue discussed more fully at the end of this section.

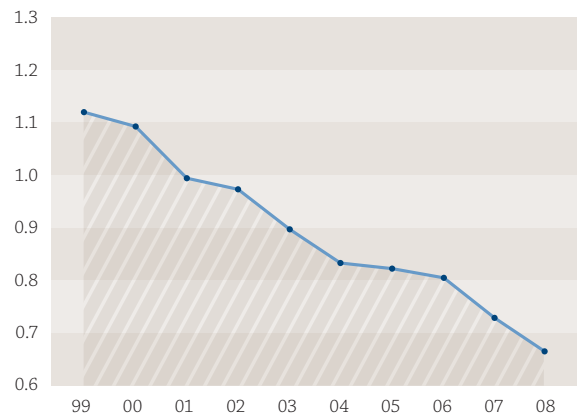
Figure 2 addresses how many claims occurred for each 100 vehicles insured. After a long, steady climb, frequency of injury claims started its decline in 1999. There are noticeable drops in frequency in 2001, 2003, 2004 and then again in 2007 and 2008. The decreases in frequency that predate the changes to the automobile insurance product occurred across North America. There has been speculation as to the reasons though the phenomenon is not clearly understood.

**Figure 1 – Bodily Injury Severity**



Source: GISA Statistical Exhibit

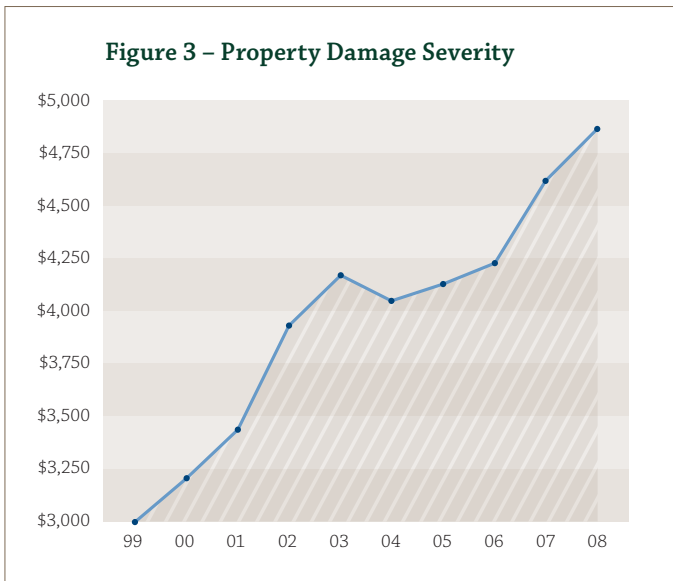
**Figure 2 – Bodily Injury Frequency**



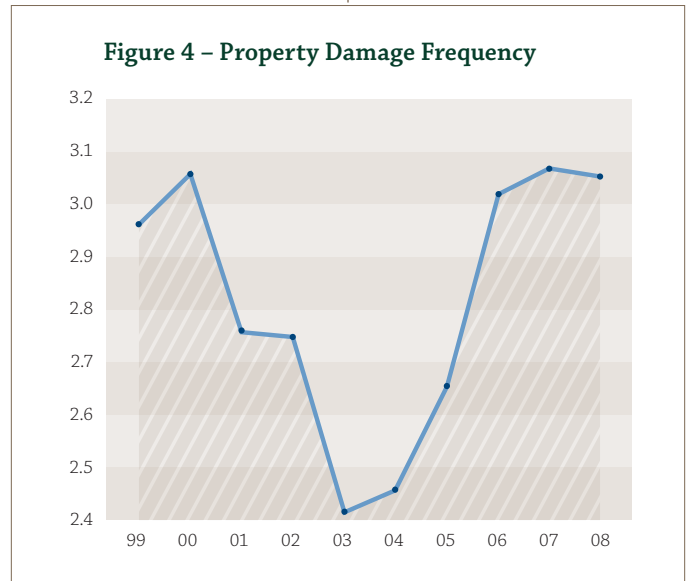
Source: GISA Statistical Exhibit

Bodily injury claims made up over 80% of third party liability claim costs by the end of the 1990s but settled back to 59% by 2008.

Figure 3 shows that property damage average claim costs increased steadily through 2003, then stabilized through 2006 at \$4,100 to \$4,200 before steadily increasing to \$4,850 by 2008. 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 and 2008. The increase in frequency of bodily injury claims that might be expected to follow the increase in property damage claims has not materialized.



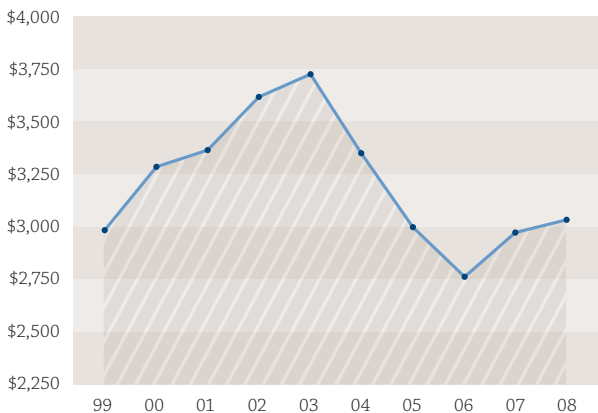
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

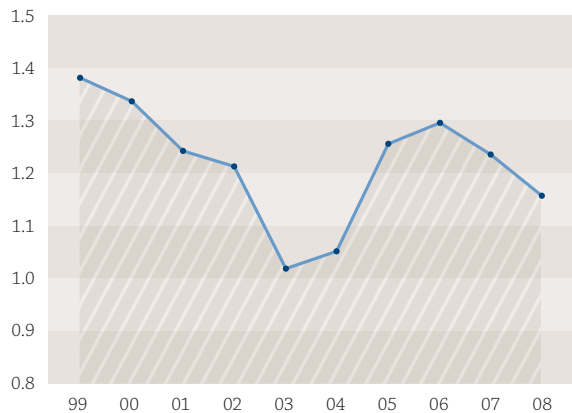
Accident benefits are the other coverage that relates to bodily injury; it responds to a vehicle occupant's or pedestrian's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006 with slight increases occurring for 2007 and 2008. 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. The cause of decreases again for 2007 and 2008 is unknown, though 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

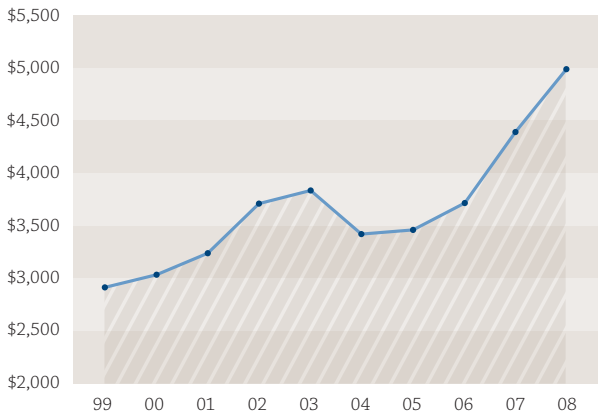
**Figure 6 – Accident Benefits Frequency**



Source: GISA Statistical Exhibit

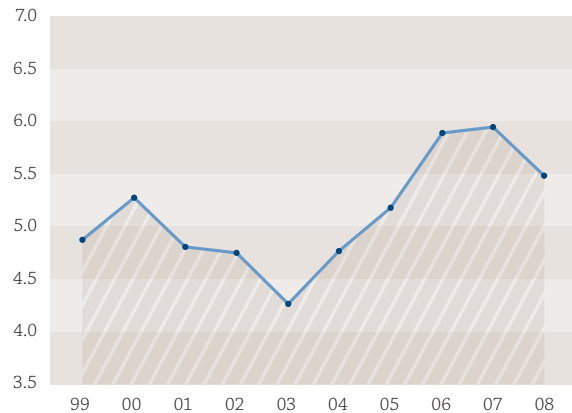
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily until 2003 and after some relief over the subsequent two years, again increased to reach another high for 2008. Claim severity 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 with a slight reversal again in 2008.

**Figure 7 – Collision Severity**



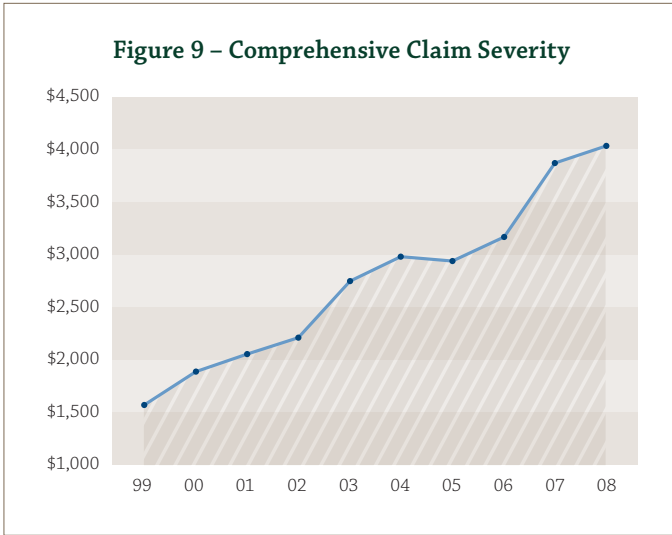
Source: GISA Statistical Exhibit

**Figure 8 – Collision Frequency**

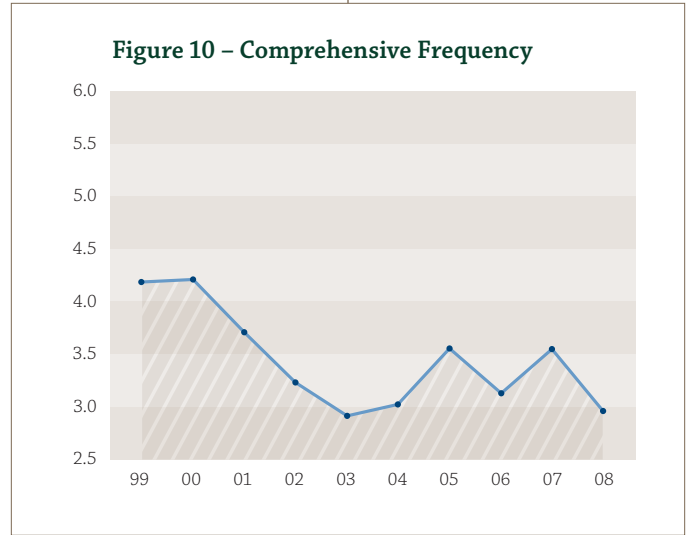


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has continuously moved upward to over \$4,000 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.

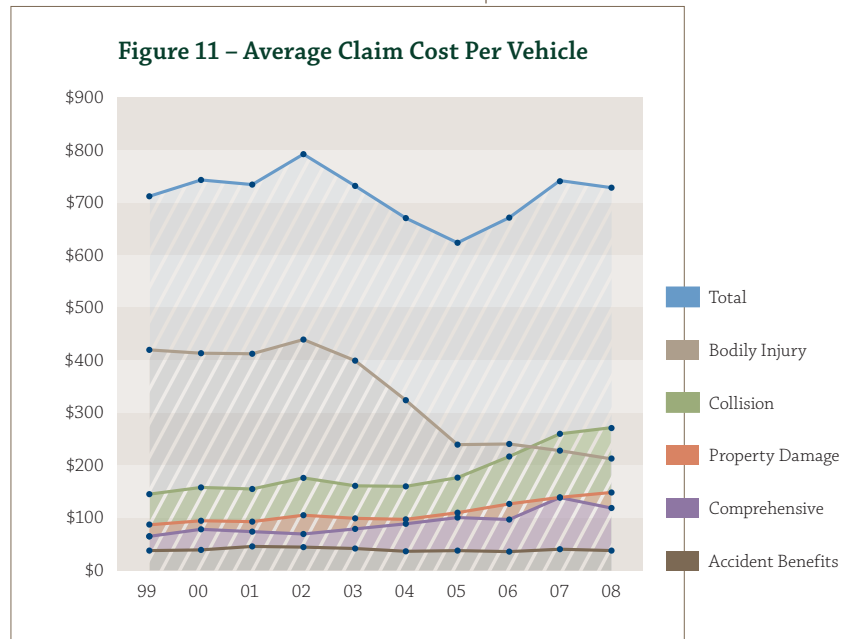


Source: GISA Statistical Exhibit



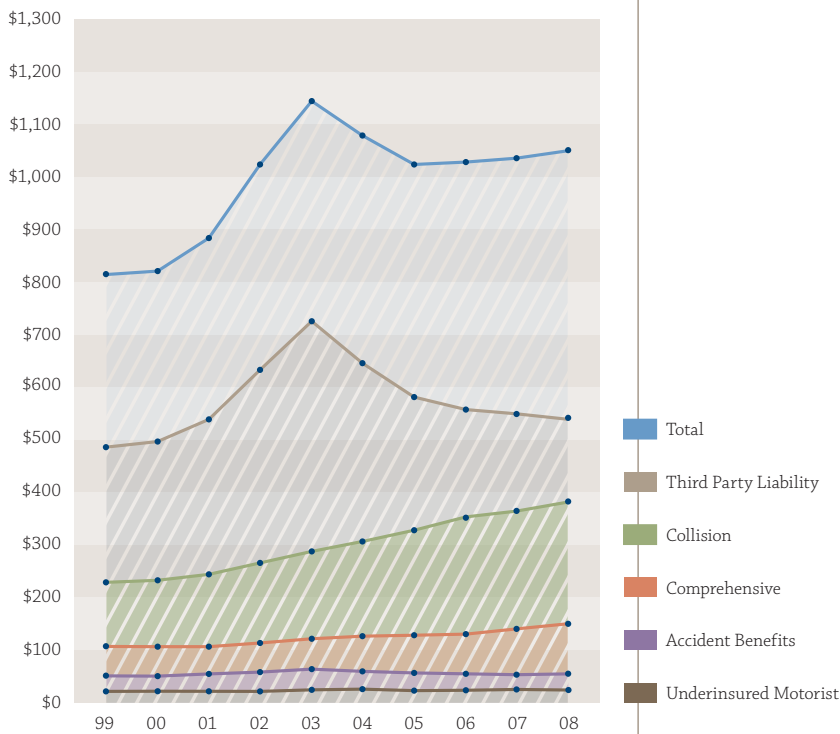
Source: GISA Statistical Exhibit

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 continued to be whether drivers with accidents and convictions are paying sufficient premium 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 that the cap was unconstitutional was subsequently overturned by the Alberta Court of Appeal in June 2009, a decision that restored the cap. An application to the Supreme Court of Canada was denied in December 2009, ending the legal challenge and restoring certainty to the market. The cap was adjusted to \$4,504 as of January 1, 2009.

The industry experience for 2008 was not considered completely reliable as insurers dealt with the uncertainty of the cap in different ways. Insurers were obliged to make provisions for the increased cost of bodily injury claims in the event

the courts had ruled against the cap. Some insurers made provision on case reserves that would reflect in the industry experience while others made provision through a lump sum in their financial statements. The inconsistency in reserving practices makes it impossible to adjust the bodily injury claim figures to reflect the final outcome that restores the cap. It will likely take until 2010 industry data for results that remove any reserves for an adverse decision on the cap. There may also be some improvement in the closure rate of injury claims in 2010.

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 5% on or after November 1, 2008. The Court of Appeal’s decision that restored the cap prompted the Board to withdraw any provision for an adverse decision even though an application to the Supreme Court of Canada was expected. The Board ordered insurers to reduce premium level for basic coverage by 5% as of November 1, 2009.

Premiums edged upwards for additional coverage in 2009 and that could continue into the coming year. Frequency has continued to decrease for bodily injury claims, contrary to expectations that the trend will level off or start to increase. Severity has been increasing for property damage and collision claims as described in connection with Figures 3 and 7 while frequency abated somewhat in 2008 as shown in Figures 4 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	1	0	0	1
Section 10	1	0	0	1
Section 19	22	3	0	25
<b>Total</b>	<b>24</b>	<b>3</b>	<b>0</b>	<b>27</b>

**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
AXA Pacific Insurance Company	23 - Oct - 2009	0.0%

**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*
Arch Insurance Company	27 - Feb - 2009

## 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.

**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.

Company	Class	Decision Date	Average Change
Co-operators General Insurance Company	C	23 - Jan - 2009	-1.1%
Co-operators General Insurance Company	PPM	23 - Jan - 2009	+3.4%
Federation Insurance Company	PPM	23 - Jan - 2009	New
Arch Insurance Company	C, CM, PPM	27 - Feb - 2009	New
Pembridge Insurance Company	PPM	27 - Mar - 2009	New
RBC General Insurance Company/RBC Insurance Company of Canada	PPM	27 - Mar - 2009	+18.5%
Kingsway General Insurance Company	CM	27 - Mar - 2009	0.0%
Alberta Motor Association Insurance Company	C	27 - Mar - 2009	+14.0%
Alberta Motor Association Insurance Company	PPM	27 - Mar - 2009	+33.6%
Echelon Insurance Company	PPM	24 - Apr - 2009	0.0%
SGL Canada Insurance Services Limited	CM	24 - Apr - 2009	New
Dominion of Canada General Insurance Company	PPM	22 - May - 2009	0.0%
Economical Mutual Insurance Company	C, CM	20 - Jul - 2009	0.0%
Optimum West Insurance Company	PPM	20 - Jul - 2009	+16.1%
Markel Insurance Company	C, CM	18 - Sep - 2009	+8.5%
Dominion of Canada General Insurance Company	C	18 - Sep - 2009	-9.5%
Intact Insurance Company	CM	18 - Sep - 2009	-54.9%
Intact Insurance Company	C	18 - Sep - 2009	-12.5%
Facility Association	CM	23 - Oct - 2009	+1.9%, +4.9, +6.2%
Jevco Insurance Company	C	23 - Oct - 2009	+19.6%
Intact Insurance Company	CM	23 - Oct - 2009	-5.4%
Intact Insurance Company	CM	23 - Oct - 2009	-8.8%
Aviva Insurance Company of Canada	C, CM	23 - Oct - 2009	0.0%
Federated Insurance Company of Canada	C	27 - Nov - 2009	-0.5%
Pembridge Insurance Company	PPM	27 - Nov - 2009	0.0%



## APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

**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
AXA Pacific Insurance Company	19 - Feb - 2009	- 1.9%
Aviva Insurance Company of Canada	8 - Apr - 2009	0.0%
Traders General Insurance Company	8 - Apr - 2009	0.0%
AXA Pacific Insurance Company	27 - May - 2009	0.0%
Economical Mutual Insurance Company	8 - Jul - 2009	0.0%
Waterloo Insurance Company	8 - Jul - 2009	0.0%
RBC General Insurance Company	17 - Jul - 2009	0.0%
RBC Insurance Company of Canada	17 - Jul - 2009	0.0%
Intact Insurance Company	27 - Aug - 2009	- 1.9%
Novex Insurance Company	27 - Aug - 2009	- 2.0%
Trafalgar Insurance Company of Canada	27 - Aug - 2009	- 1.9%
Certas Direct Insurance Company	8 - Sep - 2009	- 2.0%
The Personal Insurance Company	8 - Sep - 2009	- 2.0%
Dominion of Canada General Insurance Company	10 - Sep - 2009	0.0%
SGL Canada Insurance Services Ltd.	17 - Sep - 2009	0.0%
Co - operators General Insurance Company	8 - Oct - 2009	0.0%
Intact Insurance Company	19 - Oct - 2009	- 0.3%
Novex Insurance Company	19 - Oct - 2009	- 0.2%
Trafalgar Insurance Company of Canada	19 - Oct - 2009	- 0.1%

**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
Allstate Insurance Company of Canada	7 - Jan - 2009	10.2%
Wawanesa Mutual Insurance Company (The)	7 - Jan - 2009	9.4%
Personal Insurance Company (The)	21 - Jan - 2009	0.0%
Certas Direct Insurance Company	21 - Jan - 2009	0.0%
CUMIS General Insurance Company	27 - Jan - 2009	3.8%
AXA Pacific Insurance Company/AXA Canada	11 - Feb - 2009	- 0.9%
Optimum West Insurance Company	11 - Mar - 2009	1.9%
Economical Mutual Insurance Company	16 - Mar - 2009	15.9%
Waterloo Insurance Company	16 - Mar - 2009	6.2%
Portage la Prairie Mutual Insurance Company	24 - Mar - 2009	0.0%

*Continued on next page.*

## APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

*Continued from previous page.*

Aviva Insurance Company of Canada	8 - Apr - 2009	13.0%
Traders General Insurance Company	8 - Apr - 2009	8.4%
Pembridge Insurance Company	4 - May - 2009	13.8%
AXA Pacific Insurance Company/AXA Canada	27 - May - 2009	3.6%
Peace Hills General Insurance Company	4 - Jun - 2009	8.4%
SGL Canada Insurance Services Ltd.	9 - Jun - 2009	1.9%
The Guarantee Company of North America	9 - Jun - 2009	0.7%
Economical Mutual Insurance Company	8 - Jul - 2009	6.1%
Waterloo Insurance Company	8 - Jul - 2009	1.1%
Royal & Sun Alliance Insurance Company of Canada	14 - Jul - 2009	0.1%
Portage la Prairie Insurance Company	15 - Jul - 2009	19.4%
RBC General Insurance Company	17 - Jul - 2009	10.3%
RBC Insurance Company of Canada	17 - Jul - 2009	10.3%
Alberta Motor Association Insurance Company	12 - Aug - 2009	1.7%
TD Home and Auto Insurance Company	13 - Aug - 2009	5.0%
Security National Insurance Company	13 - Aug - 2009	5.0%
Primum Insurance Company	13 - Aug - 2009	5.0%
Intact Insurance Company	27 - Aug - 2009	0.0%
Novex Insurance Company	27 - Aug - 2009	0.0%
Trafalgar Insurance Company of Canada	27 - Aug - 2009	0.0%
Certas Direct Insurance Company	8 - Sep - 2009	- 2.0%
The Personal Insurance Company	8 - Sep - 2009	- 2.0%
Dominion of Canada General Insurance Company	10 - Sep - 2009	2.4%
Zurich Insurance Company Ltd.	15 - Sep - 2009	0.7%
SGL Canada Insurance Services Ltd.	17 - Sep - 2009	11.7%
Co - operators General Insurance Company	8 - Oct - 2009	0.0%
Intact Insurance Company	8 - Oct - 2009	3.6%
Novex Insurance Company	8 - Oct - 2009	3.0%
Trafalgar Insurance Company of Canada	8 - Oct - 2009	1.5%
Alberta Motor Association Insurance Company	14 - Oct - 2009	3.9%
Pembridge Insurance Company	12 - Nov - 2009	0.0%
Royal & Sun Alliance Insurance Company of Canada	2 - Dec - 2009	3.0%
Peace Hills General Insurance Company	10 - Dec - 2009	0.0%
Dominion of Canada General Insurance Company	16 - Dec - 2009	1.6%

# APPENDIX III STATISTICS

## Automobile Insurance Fact Page

	2004	2005	2006	2007	2008	2009
Active Insurance Companies <sup>3</sup>	69	69	67	69	70	—
<b>Market Share for Largest Insurer Groups<sup>3</sup></b>						
Intact Financial Group	15.4%	15.9%	18.5%	18.2%	18.4%	—
Wawanesa Mutual Insurance Company (The)	10.5%	14.2%	13.3%	13.1%	12.9%	—
TD Insurance	9.3%	10.0%	11.0%	11.1%	11.1%	—
Co-operators Group	8.3%	7.6%	8.0%	8.1%	8.0%	—
Total	43.5%	47.7%	50.8%	50.5%	50.4%	—
<b>Written Premium<sup>4</sup></b>						
Total Premium (ooos)	\$2,522,452	\$2,573,729	\$2,759,690	\$2,936,390	\$3,048,220	—
Private Passenger (ooos)	\$1,909,139	\$1,928,677	\$2,053,784	\$2,179,229	\$2,303,602	—
<b>Average Written Premiums for Private Passenger Vehicles<sup>4</sup></b>						
Basic Coverage	\$706	\$689	\$612	\$600	\$596	—
Additional Coverage	\$368	\$384	\$411	\$432	\$455	—
Total	\$1,074	\$1,023	\$1,023	\$1,032	\$1,051	—
% change from prior year	—	-4.8%	0.1%	0.8%	1.9%	—
<b>Written Private Passenger Vehicles<sup>4</sup></b>						
Non Grid	—	94.1%	89.4%	90.7%	91.8%	—
Grid	—	5.9%	10.6%	9.3%	8.2%	—
# Vehicles Insured	1,777,804	1,886,073	2,006,527	2,112,463	2,190,766	—
% change from prior year	—	6.1%	6.4%	5.3%	3.7%	—
<b>Estimated Total Claims<sup>4</sup></b>						
All Automobile (ooos)	\$1,473,810	\$1,458,495	\$1,685,038	\$1,942,559	\$1,985,603	—
Private Passenger (ooos)	\$1,161,746	\$1,130,794	\$1,290,237	\$1,515,122	\$1,555,951	—
Private Passenger Loss Ratio	59.3%	60.0%	65.1%	71.7%	69.4%	—
% change from prior year	—	1.2%	8.4%	10.2%	-3.2%	—
<b>Minor Injury Cap<sup>3</sup></b>	\$4,000	\$4,000	\$4,000	\$4,144	\$4,339	\$4,504
<b>Other</b>						
Health Cost Recovery (Millions) <sup>3</sup>	\$60	\$60	\$75	\$80	\$85	\$85
Board Adjustments to Basic Coverage	—	-4%	-3%	0%	+5%	-5%

<sup>3</sup> Source: Superintendent of Insurance (most recent available data for 2008)

<sup>4</sup> Source: GISA Statistical Exhibits (most recent available data for 2008)

## Board Applications

	2005	2006	2007	2008	2009
<b>Section 6 – Private Passenger Rating Program Review</b>					
Approved	11	7	10	0	1
Modified	5	3	3	1	0
Declined	3	5	4	0	0
<b>Total</b>	<b>19</b>	<b>15</b>	<b>17</b>	<b>1</b>	<b>1</b>
<b>Section 10 – Private Passenger Rating Program New Entrant</b>					
Approved	2	0	1	2	1
Modified	1	1	0	0	0
Declined	1	0	0	0	0
<b>Total</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>
<b>Section 19 – Other Than Private Passenger Rating Program Review/New Entrant</b>					
Approved	2	17	14	16	22
Modified	0	3	5	2	3
Declined	0	1	1	0	0
<b>Total</b>	<b>2</b>	<b>21</b>	<b>20</b>	<b>18</b>	<b>25</b>

## Board Notices

	2005	2006	2007	2008	2009
<b>Section 5 – Basic Coverage</b>	2	2	11	13	19
<b>Section 9 – Additional Coverage</b>	7	7	46	78	44

# APPENDIX IV ACTIVE INSURERS

## List of Active Automobile Insurers and Direct Written Automobile Premium for 2008

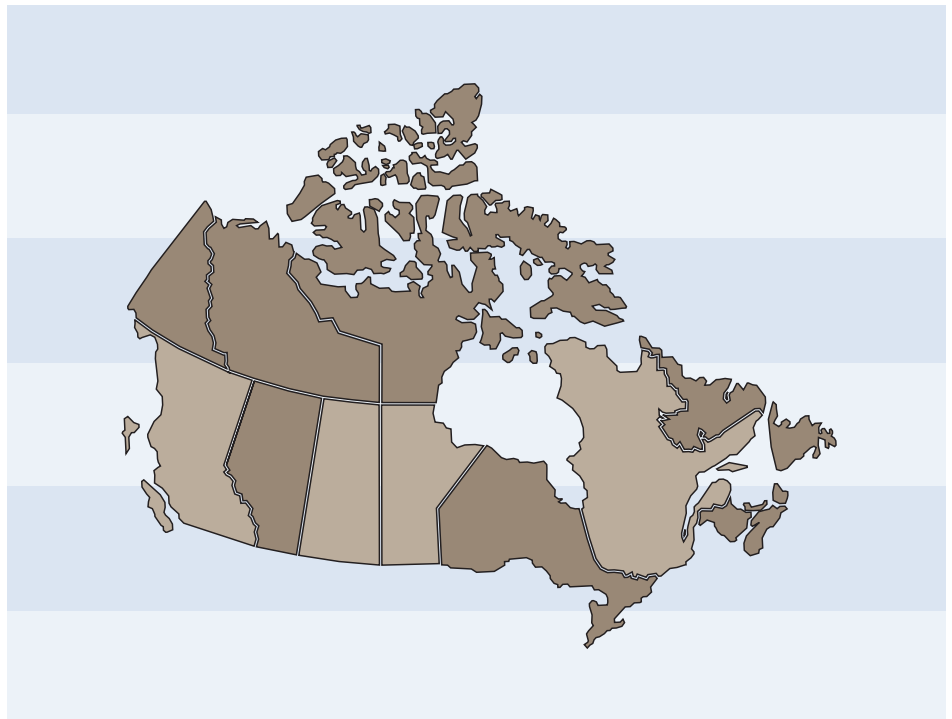
Name of Company	2008 (thousands)		
ACE INA Insurance	14,584	Intact Financial Group	
Alberta Motor Association Insurance Company	183,152	Intact Insurance Company	506,277
Allianz Global Risk US Insurance Company	8,352	Novex Insurance Company of Canada	54,402
Allstate Canada		Trafalgar Insurance Company of Canada	14,039
Allstate Insurance Company of Canada	62,364	Kingsway Financial Services Inc.	
Pembroke Insurance Company	6,317	Jevco Insurance Company	13,749
American International Companies (AIG)		Kingsway General Insurance Company	25,028
AIG Commercial Insurance Company of Canada	9,086	Liberty Mutual Insurance Company	8,817
American Home Assurance Company	3,876	Lloyd's Underwriters	3,528
American Road Insurance Company	1,305	Millennium Insurance Corporation	17,541
Aviva Canada Inc.		Motors Insurance Corporation	1,484
Aviva Insurance Company of Canada	170,276	Northbridge Financial Corporation	
Elite Insurance Company	15,404	Federated Insurance Company of Canada	20,842
Scottish & York Insurance Co. Limited	4,803	Lombard General Insurance Company of Canada	30,649
Traders General Insurance Company	21,924	Lombard Insurance Company	30
AXA Pacific Insurance Company	75,491	Markel Insurance Company of Canada	30,573
Canadian Direct Insurance Incorporated	38,383	Zenith Insurance Company	940
Chrysler Insurance Company	2,625	Old Republic Insurance Company of Canada	6,004
Chubb Canada		Optimum West Insurance Company	4,458
Chubb Insurance Company of Canada	1,455	Peace Hills General Insurance Company	64,595
Federal Insurance Company	16	Portage La Prairie Mutual Insurance Company (The)	19,787
The Co-operators		Protective Insurance Company	98
Co-operators General Insurance Company	266,958	RBC Insurance	
Coseco Insurance Company	11,227	RBC General Insurance Company	21,153
Sovereign General Insurance Company (The)	11,489	RBC Insurance Company of Canada	797
Continental Casualty Company	5,675	Royal & Sun Alliance Insurance Group	
Cumis General Insurance Company	3,113	Royal & Sun Alliance Insurance Company of Canada	69,529
Desjardins General Insurance Group		Unifund Assurance Company	142,560
Certas Direct Insurance Company	4,081	Sentry Insurance A Mutual Company	91
Personal Insurance Company (The)	31,022	SGI CANADA Insurance Services Ltd.	14,799
Dominion of Canada General Insurance Company (The)	82,902	St. Paul Fire and Marine Insurance Company	15,933
Echelon General Insurance Company	719	State Farm Mutual Automobile Insurance Company	115,969
The Economical Insurance Group		Sumitomo Marine and Fire Insurance Company Limited (The)	550
Economical Mutual Insurance Company	114,902	TD Meloche Monnex	
Federation Insurance Company of Canada	9	Primum Insurance Company	75,961
Missisquoi Insurance Company	1	Security National Insurance Company	247,671
Perth Insurance Company	1	TD Home and Auto Insurance Company	24,520
Waterloo Insurance Company	7,564	Tokio Marine & Nichido Fire Insurance Co. Ltd.	199
Electric Insurance Company	113	Wawanesa Mutual Insurance Company (The)	404,782
Fortress Insurance Company	919	XL Insurance	
GCAN Insurance Company	1,723	XL Insurance Company Limited	37
Guarantee Company of North America (The)	833	XL Reinsurance America Inc.	123
Hartford Fire Insurance Company	83	Zurich Insurance Company	56,633

Source: Superintendent of Insurance 2008 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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