

Alberta

Automobile Insurance Rate Board – 2010 Annual Report

For the Year Ended December 31, 2010

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Automobile Insurance Rate Board – 2010 Annual Report
For the Year Ended December 31, 2010



LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Lloyd Snelgrove
Minister of Finance and Enterprise
and President of Treasury Board
204 Legislature Building
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2010 Annual Report of the 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, 2010. All significant decisions, events and identified risks as of December 31, 2010 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 2010 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 sixth Annual Report of the Alberta Automobile Insurance Rate Board, for the year ended December 31, 2010.

Sincerely,

[Original signed by Alfred H. Savage]

Alfred H. 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**

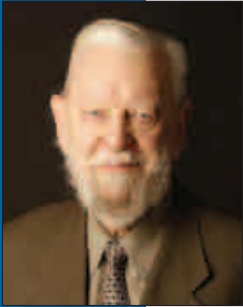
We use innovation and continuous improvement to achieve excellence.

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CHAIR'S MESSAGE



Alfred Savage, Chair

The year 2010 marked an improvement in the Alberta automobile insurance market. Last year's message commented on the challenges facing the Board in its rate setting process given the turmoil in the financial markets which was impacting automobile insurers' capital and reducing their return on investment. The constitutional challenge to the minor injury cap that was put in place to limit non-economic damages for injuries defined as minor under the *Minor Injury Regulation* further complicated the rate setting process. However, 2010 has been a good news story with the partial recovery of investment returns and resolution of the court challenge providing for greater certainty in pricing the automobile insurance product.

With those obstacles behind us and what appears to be a stable market in Alberta, the Board is now looking forward to working with Government and Industry to review the Premiums Regulation with the view to moving away from the current industry-wide adjustment process to a file-and-approve system. The Board believes a model that deals with each company on its own merits will provide for more efficient and effective regulation, which in turn should foster greater competition for consumers over the longer term.

The Automobile Insurance Rate Board is in its seventh year of operation and as is the case with all Government Boards, a renewal process is underway. In 2010, a consulting agency was contracted to locate qualified candidates. The agency along with the Superintendent of Insurance and I, interviewed qualified candidates and presented a slate from which the Minister of Finance and Enterprise is expected to appoint four new members. The new members could be in place in early 2011.

Once again, I can say that I have enjoyed serving as Chair of the Automobile Insurance Rate Board and 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 2011 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 H. Savage]

Alfred H. Savage
Chair
Automobile Insurance Rate Board

REPORT FROM THE EXECUTIVE DIRECTOR

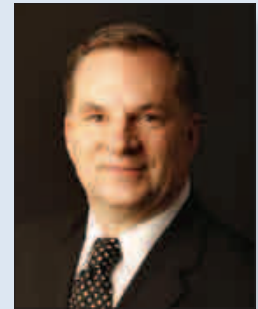
With the uncertainty of the minor injury cap behind us and the economy beginning to recover, Alberta's environment for automobile insurers to provide competitive products and services bodes well for consumers. The year 2010 saw the completion of our 6th annual industry-wide adjustment resulting in a further 5% reduction in premium level for basic insurance, ongoing improvements in consumer information on our website and our continued involvement with the General Insurance Statistical Agency (GISA) in their review of regulatory data requirements. The Board continued its efforts to remain current with industry issues by meeting with individual insurers, the Insurance Bureau of Canada (IBC), the Insurance Brokers Association of Alberta (IBAA), and other interested stakeholders. As well, the Board continued with its leadership role in the Canadian Automobile Insurance Rate Regulators Association (CARR) and participation in its training and networking opportunities.

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 2009. Stakeholders were given the opportunity to respond to the analysis at a public meeting held on June 15th, in Calgary. The consumer representative and five stakeholders presented to the Board. In addition, the Board received seven written submissions.

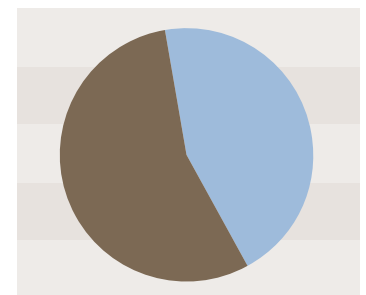
The determination of premiums is a very complex process with insurance experts and actuaries reviewing past data related to the frequency and severity of claims, expected rate of return on investment, the economy and other factors to estimate the likelihood and cost of future claims. The goal is a reasonable estimate of the premium required to compensate claimants and provide companies with a fair rate of return. The Board considered the information received through submissions and the public meeting in conjunction with its actuarial analysis. Based on this input, the Board issued Order 01-10 on July 30, 2010 that required all insurers to reduce their premiums for basic automobile insurance in Alberta by 5% effective November 1, 2010.

The chart shows the average written private passenger premium for 2009 as reported by the General Insurance Statistical Agency (GISA) broken out by basic and additional coverage. See pages 4 and 5 for an explanation of the Board's role in regulating and monitoring premiums.



Del Dyck, Executive Director

2009 Average Private Passenger Premium



■ Board Regulates Basic Coverage **\$605**
■ Board Monitors Additional Coverage **\$488**

Source: GISA statistical data

Rates

As noted above, the 2010 Industry-wide Adjustment process resulted in the Board ordering a 5% reduction in premium level for basic coverage on private passenger vehicles effective November 1, 2010. The average premium for basic coverage on private passenger vehicles as shown in Appendix III decreased annually from \$639 in 2005 to \$596 in 2008. In 2009, it increased slightly to \$605. This increase in average premium for basic coverage that was in effect from November 1, 2008 to October 31, 2009 is attributable to the +5% increase permitted under the 2008 industry-wide adjustment in response to developments with regard to the constitutional challenge. The upward trend in average premium for basic coverage should turn around when the impact of the 2009 and 2010 industry-wide adjustment orders for reductions become evident.

The average premium for additional coverage has increased annually from \$384 in 2005 to \$488 in 2009. The average total premium increased from \$1,054 for 2008 to \$1,092 for 2009. While the total premium has increased from \$1,023 in 2005, the increase remains well below the rate of inflation for this same period.

Board Applications

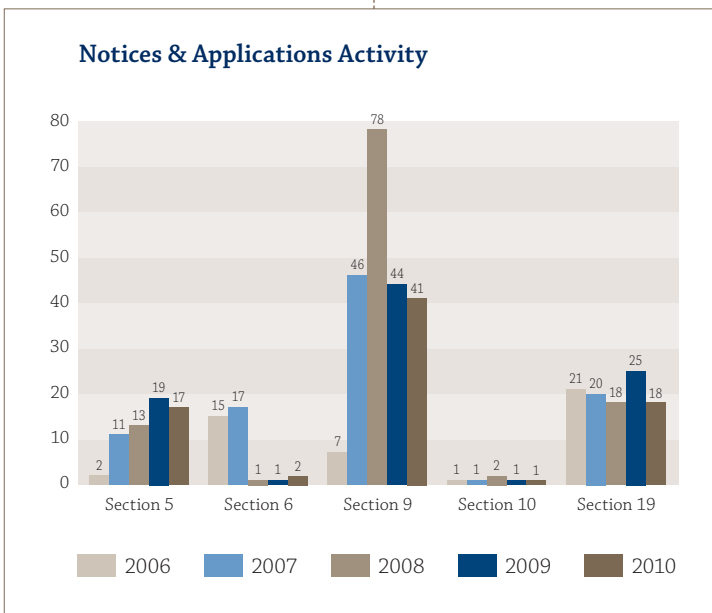
As required under the *Automobile Insurance Premiums Regulation*, the Board reviews and rules on applications under Sections 6, 10 and 19.

- **Section 6** allows insurers to apply to the Superintendent of Insurance for a review of their private passenger rating program for basic coverage¹, which may be directed to the Board for review. Two section 6 applications were received in 2010.
- **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 2010.

- **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 in 2010.

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 in an annual term. The Board received 17 Section 5 notices in 2010.



Source: Superintendent of Insurance

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

- **Section 9** requires written notice to the Board of changes to their private passenger rating programs for additional coverage². The Board received 41 Section 9 notices in 2010. 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.

Statistical Data Requirements

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.

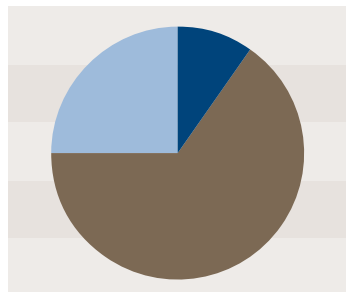
GISA was appointed in 2006 to carry out the responsibilities of a statistical agent on behalf of participating insurance regulatory authorities across Canada; GISA's role is to make available, required statistical information to support a healthy, accessible and responsive marketplace for property and casualty insurance. As part of its strategic planning process in 2007, GISA took on the initiative to "rationalize" data captured and reported in its statistical plans. In 2010, Board staff continued their involvement both as participants and chairs of various statistical plan committees established by GISA in an effort to review the current data needs of regulators across Canada. The mandate is 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.

Consumer Information

A feature of private delivery systems such as we have in Alberta is that drivers have choice and flexibility over their coverage and the price they pay for insurance. In 2010, staff began development of a comprehensive interactive rate comparison tool that once implemented in mid 2011, will allow drivers to compare insurance rates by company for a sample number of driving profiles and geographical locations. While this tool will not provide pricing for a specific driver, its purpose is to demonstrate the wide range of premiums that is available for the same coverage and that shopping for rates may result in a lower premium. In addition to this new tool, drivers and consumers can 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. This information can be accessed at www.airb.alberta.ca.

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

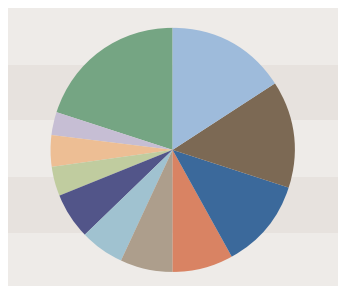
Distribution of Premium Dollar for 2009 Private Passenger Vehicles



- Underwriting Profit **10%**
- Administrative Expenses **25%**
- Estimated Claims **66%**

Source: GISA statistical data and IBC Automobile Expense Survey

2009 Market Share of Total Automobile Insurance Premium



- Intact Insurance Company **16%**
- Wawanesa Mutual Insurance Company (The) **14%**
- TD Insurance **12%**
- Co-operators Group **8%**
- Aviva Canada **7%**
- Royal & Sun Alliance Canada **6%**
- Alberta Motor Association Insurance Company **6%**
- State Farm Mutual Automobile Insurance Company **4%**
- Economical Insurance Group **4%**
- AXA Pacific Insurance Company **3%**
- Remainder **20%**

Source: Superintendent of Insurance 2008 Annual Report

Consumer Representative

The Consumer Representative, Ms Merle Taylor, contracted a consulting and research firm to conduct her annual telephone and on-line survey on consumers’ perceptions of automobile insurance in Alberta. Ms Taylor conducted focus groups in Edmonton and Calgary as well as follow up interviews with a number of participants located elsewhere in the province and met with insurance brokers to discuss their experience in the market. Consumers also contacted her by e-mail and letter with their specific concerns. The results of her findings included the following;

- 70% of consumers surveyed agreed that premiums are ‘fair and reasonable’ down slightly from 75% in the prior year.
- Many drivers with no ‘at-fault claims’ still feel that they pay too much and that the difference in premium between good drivers and poor drivers is not large enough.
- 35% of consumers polled obtained a competitive quote for insurance and of these, 89% stayed with their existing insurer, unchanged from the prior year. Those that switched claimed to see substantial reductions.
- There has been no increase in calls to the Superintendent of Insurance.

These findings were presented to the AIRB at its public meeting in June. Ms Taylor’s report can be viewed in more detail on the AIRB website.

Proposed Amendments to the Automobile Premiums Regulation

In early 2009, a recommendation was forwarded to the Minister recommending a change in the way automobile insurance premiums are regulated in Alberta. If approved, rate regulation would change from an annual “one-size-fits-all” industry-wide adjustment process to an individual company application or “File and Approve” model. The Board also recommended that additional coverage be regulated. With this new regulation, the Board would be able to respond in a timelier manner to changes in market conditions and the needs of a competitive market place.

Market

Based on the Alberta Superintendent of Insurance Annual Report, 74 active automobile insurance companies operated in Alberta in 2009, an increase of four insurers over 2008. Of these companies, four insurer groups represented 50% of all written premium, which is unchanged from 2008. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2009 (corporations may operate more than one insurer).

In 2009, the automobile insurance industry collected \$3.18 billion in written premium from which they expect to pay \$1.95 billion in claims. The overall private passenger loss ratio in Alberta for 2009 was 66%, down slightly from 69% in 2008.

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. In summary, bodily injury claims frequency continued to decrease in 2009 although the trend appears to be levelling off. This trend in bodily injury claim frequency along with the implementation of the minor injury cap have been the key contributors to the continued

REPORT FROM THE EXECUTIVE DIRECTOR

decrease in basic coverage premiums since 2004. Property damage loss costs continued their slight trending upward and while collision and comprehensive claims severity has been increasing, the impact has been offset by a continued decline in frequency.

With the constitutional challenge for the cap on non-economic damages under the Minor Injury Regulation behind us, consumers should benefit from a stable and competitive market.

Fiscal

The AIRB's fiscal period is that of Government, April 1 to March 31. For the fiscal period April 1, 2009 to March 31, 2010, Board operations resulted in a surplus of \$75,737. 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 AIRB's prior years accumulated surplus in the amount of \$307,234 was returned to industry as an offset to their 2010 industry assessment, thereby reducing the annual industry levy requirement from \$1,266,000 to \$958,766. Further financial information is available under Statement of Operations and Surplus (see page 8).

Looking Ahead to 2011

The AIRB will:

- Continue its involvement with the General Insurance Statistical Agency and regulators across Canada to ensure that data needs are addressed that will enable regulators to better oversee the new innovative rating programs that are being introduced in Canada. While the AIRB supports innovation and competition, at the same time it will require increased access to data to facilitate review of these new rating programs.
- 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" model under which the Board will review companies on an individual basis to determine if rate changes are appropriate and fair. The AIRB would also regulate additional coverage.
- Continue its work in the area of consumer information and transparency so that consumers are better able to understand their auto insurance pricing and product.
- Move into its new premises at the Canadian Western Bank Place located at 10303 Jasper Avenue in Edmonton.

“...ensure that data needs are addressed that will enable regulators to better oversee the new innovative rating programs that are being introduced in Canada.”

I would like to express my appreciation and thanks to our Chair and Board members, for their leadership and our staff and consulting actuaries for their diligence and support. It's this ongoing commitment as a team working with all stakeholders that we provide effective regulation over auto insurance premiums that are fair to both consumers and industry.

Sincerely,

[Original signed by Del Dyck]

Del Dyck

Executive Director

Alberta Automobile Insurance Rate Board

STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2009 to March 31, 2010

	2009-10 Budget	2009-10 Actual	2008-09 Actual
Revenue:			
Annual Industry Levy	\$ 1,266,000	\$ 1,266,000	\$ 1,199,500
– less accumulated surplus	—	307,234	432,042
	<hr/>	<hr/>	<hr/>
Net Annual Industry Levy	1,266,000	958,766	767,458
Actuarial Services	60,000	18,735	56,654
Application Fees	—	—	6,000
	<hr/>	<hr/>	<hr/>
	\$ 1,326,000	\$ 977,501	\$ 830,112
Expense:			
Operations	684,700	489,877	552,145
Actuarial and Contract Services	421,300	307,212	256,151
Board Honoraria and Expenses	220,000	104,675	146,624
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	\$ 1,326,000	\$ 901,764	\$ 954,920
Surplus/(Shortfall)	—	75,737	(124,808)
Accumulated Surplus Beginning	—	307,234	432,042
Accumulated Surplus End	—	382,971	307,234

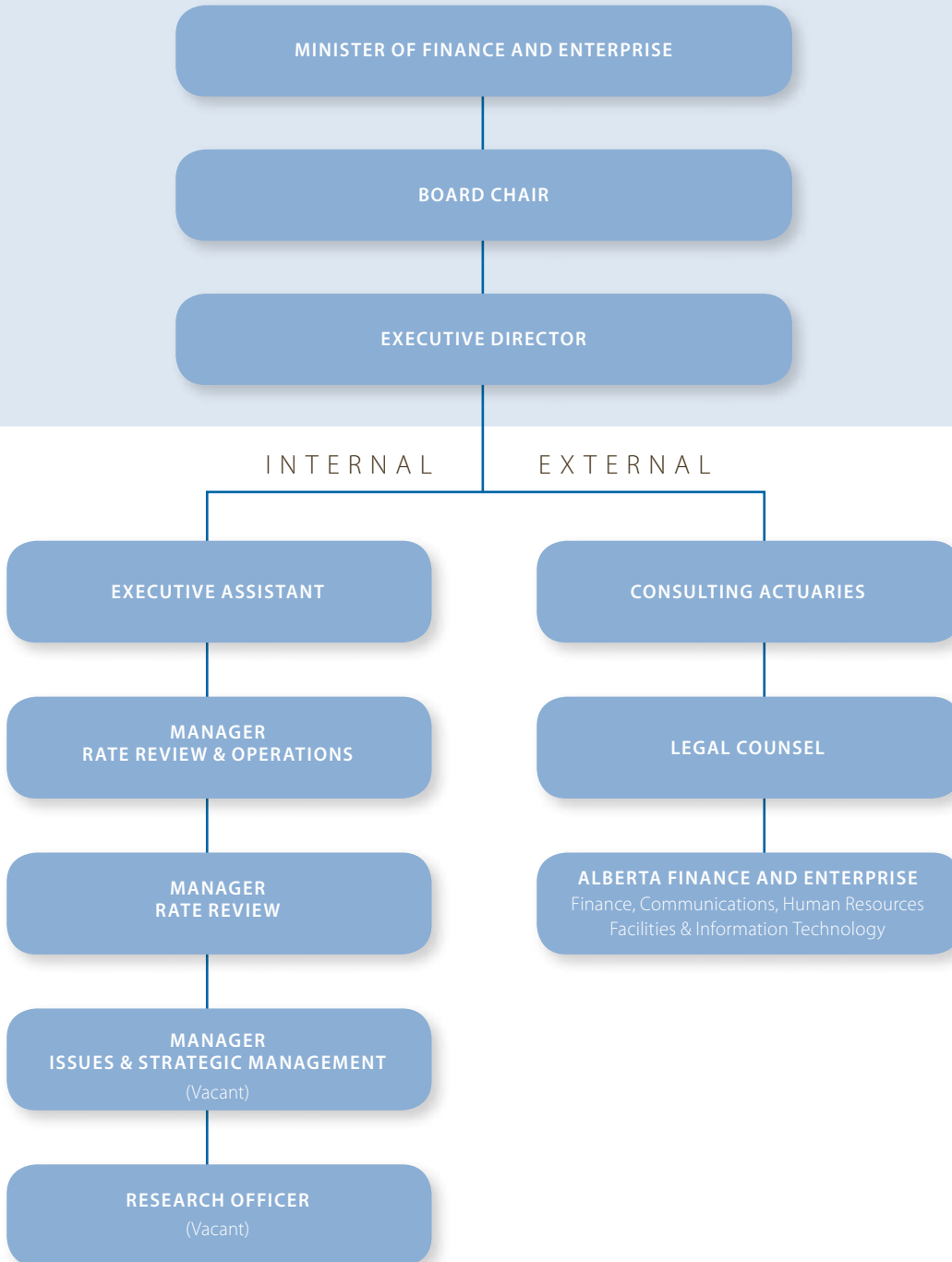
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is fully funded by industry in the following ways:

- 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 actual direct premiums written in the prior year.
- Actuarial Services which are charged to individual insurers for actuarial services related to the analysis of an insurers application.

Board honoraria were remunerated in accordance with Schedule 1 of the Part-Time Committee Remuneration Orders in Council 103/2006 and 466/2007. Expenses were remunerated in accordance with Corporate Human Resources directive on subsistence and travel expenses.

ORGANIZATION CHART

Alberta Automobile Insurance Rate Board 2010



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 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 Board consists of up to 9 members with a broad range of expertise and experience. A Board member's term of office may not exceed 3 years; however, a Board member may be reappointed for up to 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 Board to effectively carry out its 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 10 regular meetings in 2010 to deal with insurer applications and administrative issues of the Board. In addition, there was 1 public meeting related to the annual industry-wide rate adjustment process and other special meetings to deal with business planning and Board training.

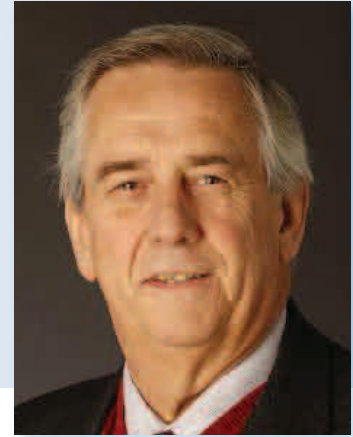
Chair



Alfred H. Savage

**Retired, Senior Executive
Edmonton**

Vice Chair



Harry Gough

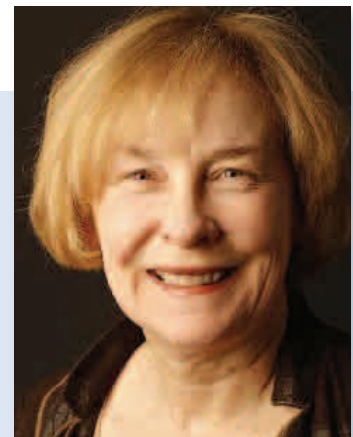
**Lawyer, Private Practice
Drumheller**

Consumer Representative



William Moore

**Staff Actuary, Finance and Enterprise
Calgary**



Merle Taylor

**Management Consultant
Edmonton**



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**

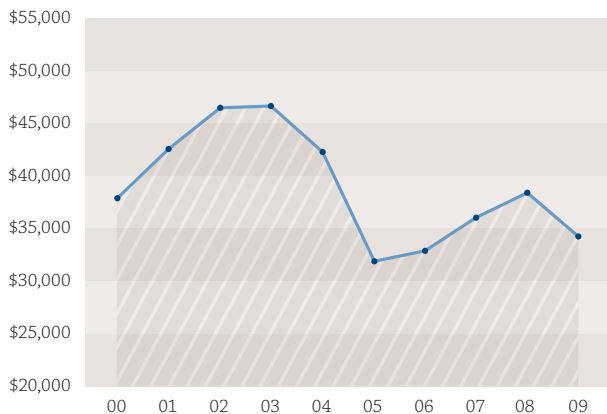
APPENDIX I MARKET

In 2009, the automobile insurance industry collected \$3.18 billion in written premium from which they expect to pay \$1.95 billion in claims. A major portion, \$2.43 billion of that premium is attributable to private passenger vehicles that will incur an estimated \$1.56 billion in claims.

A review of market conditions in recent years provides a foundation to formulate expectations for the immediate future. A series of graphs complement the review. The most recent complete data available is for 2009. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

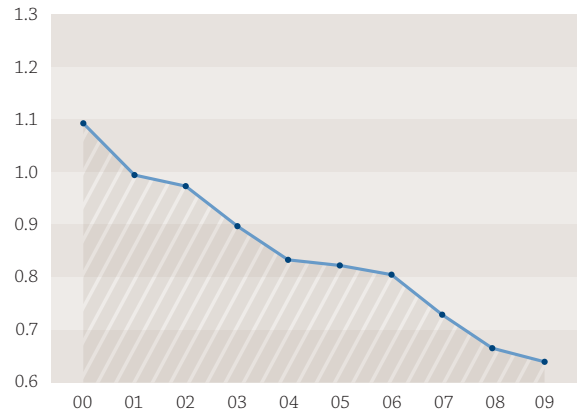
Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period, 2000 to 2009. Bodily injury claims can take five or more years to finalize 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 increases slightly to \$34,500 for 2009. 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 subsequent upticks for 2007 and 2008 but some abatement in 2009. Figure 2 addresses how many claims occurred for each 100 vehicles insured. After a long, steady climb, frequency of bodily injury claims started its decline in 1999. There are noticeable drops in frequency in 2001, 2003, 2004 and then again for 2007 through 2009. Decreases in frequency occurred across North America. There has been speculation as to the reasons though the phenomenon is not fully understood. There is some concern with the reliability of the bodily injury claims data 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. That constitutional challenge was resolved at the end of 2009 and it is expected that the exhibits issued for 2010 experience will provide further clarity on bodily injury claim costs.

Figure 1 – Bodily Injury Severity



Source: GISA Statistical Exhibit

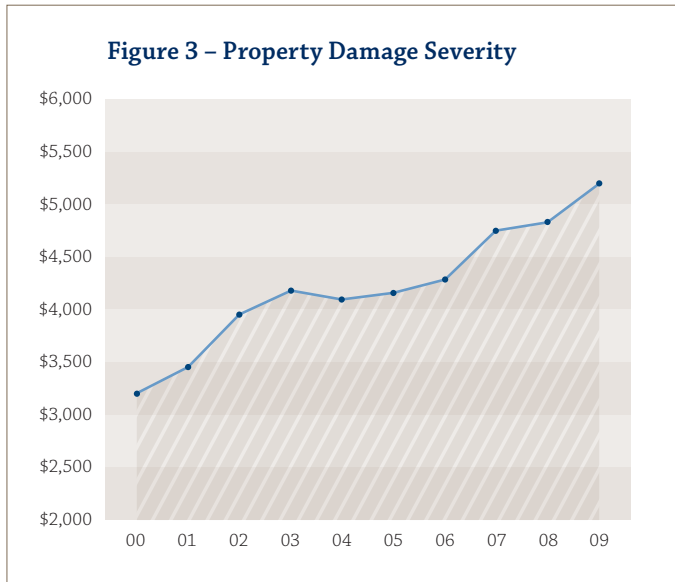
Figure 2 – Bodily Injury Frequency



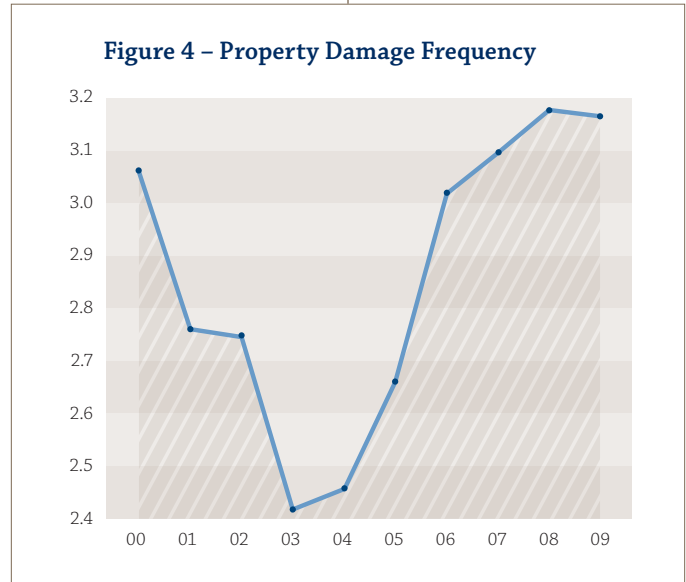
Source: GISA Statistical Exhibit

Bodily injury claims made up over 80% of third party liability claim costs by the end of the 1990s but settled back to 56% in 2009.

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 close to \$5,200 by 2009. 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 slowed for 2007 and 2008 and levelled off in 2009.



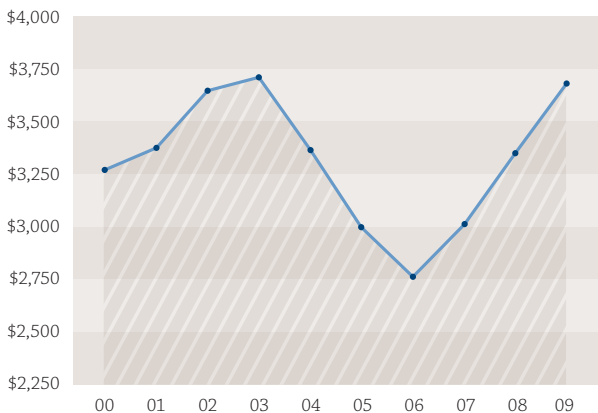
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

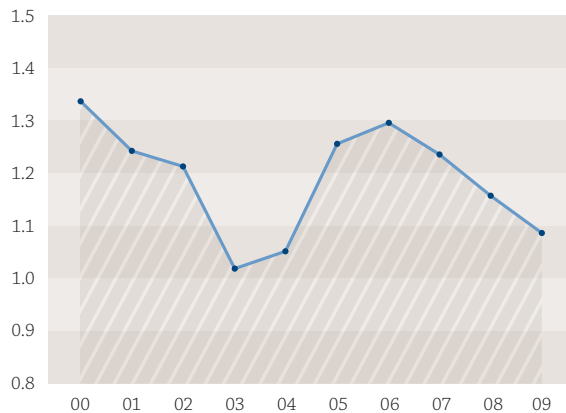
Accident benefits is the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006 with increases occurring for 2007 through 2009 that put the average cost at about the 2003 level. 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 through 2009 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

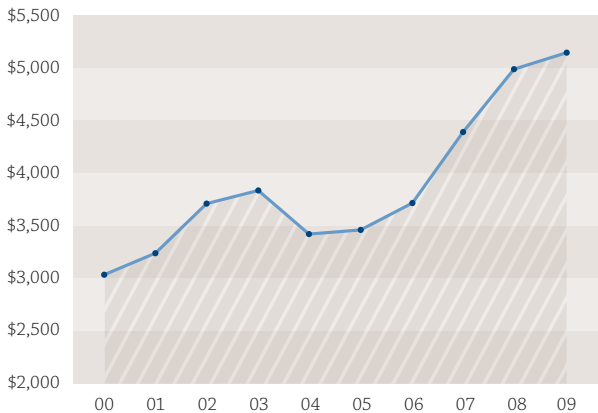
Figure 6 – Accident Benefits Frequency



Source: GISA Statistical Exhibit

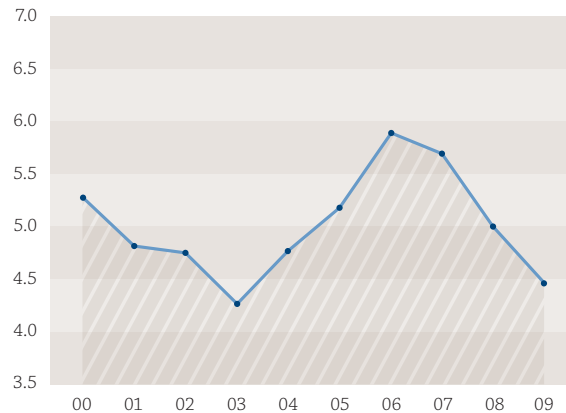
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily until 2003 and after some relief over the subsequent two years, again increased to reach another high for 2009. Claim severity that started to climb again in 2006 has been partially 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 years shown; after bottoming in 2003, there was a steady increase through 2006 with a reversal over the three most recent years.

Figure 7 – Collision Severity



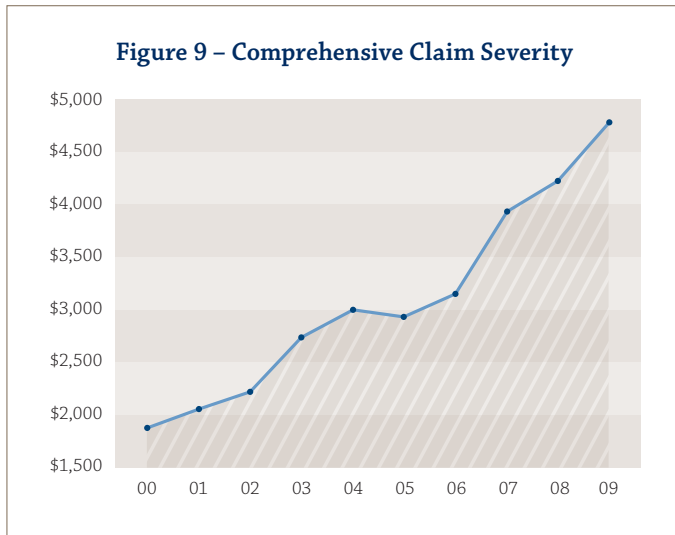
Source: GISA Statistical Exhibit

Figure 8 – Collision Frequency

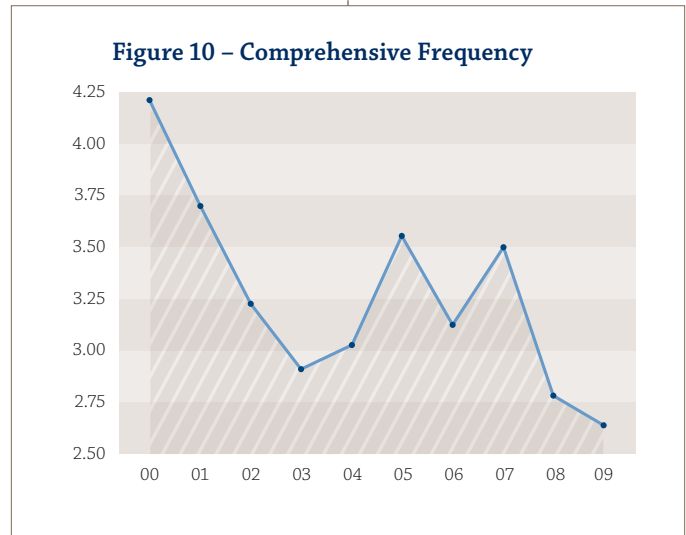


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has continuously moved upward to just under \$4,700 as shown in Figure 9. Figure 10 shows a fluctuating frequency of claims in recent years that has remained below 2000 and prior levels that to some extent has offset the impact of increasing severity.

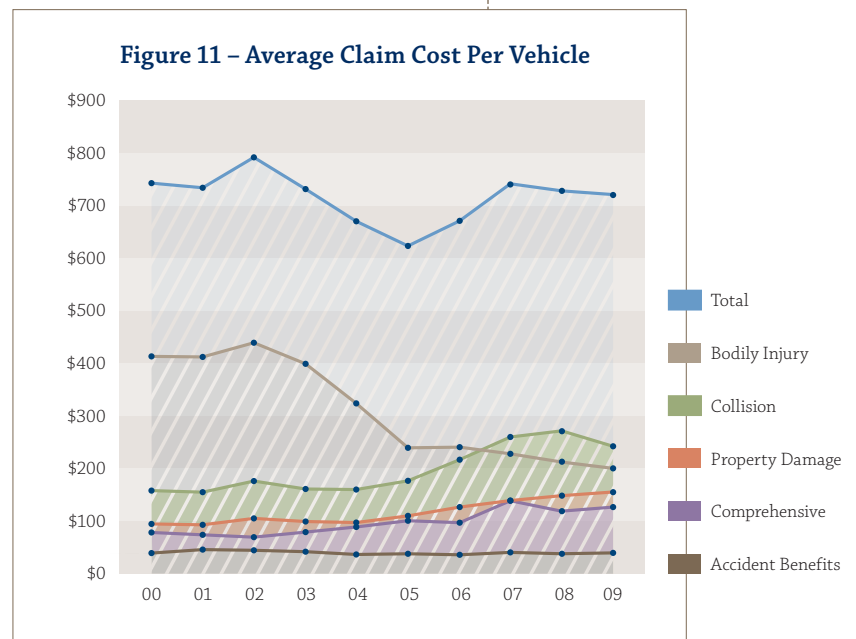


Source: GISA Statistical Exhibit



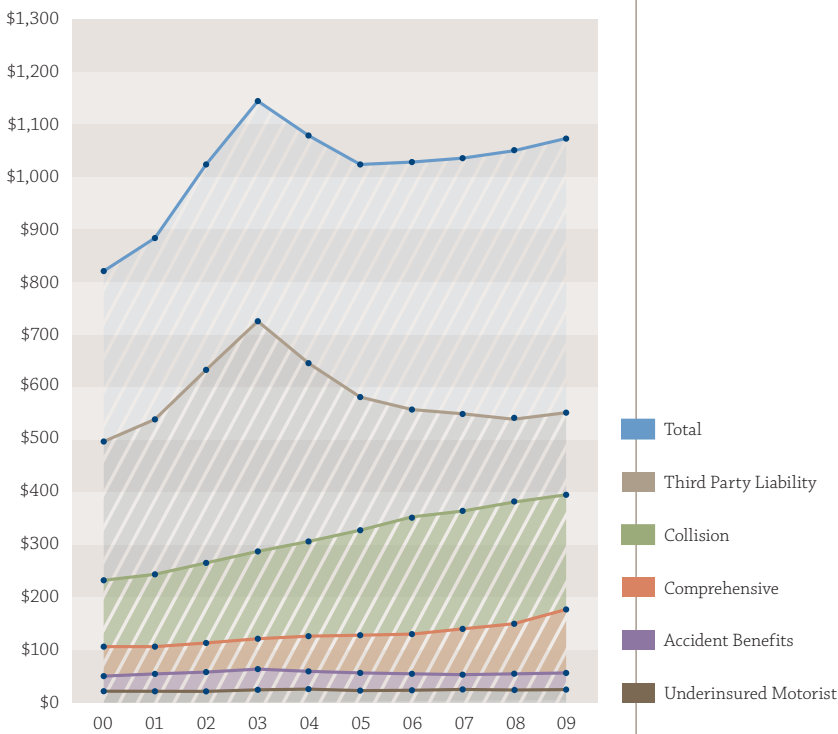
Source: GISA Statistical Exhibit

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 resolution of the constitutional challenge to the Minor Injury Regulation at the end of 2009 removed a major source of uncertainty. The cap was adjusted to \$4,518 as of January 1, 2010.

The industry experience for 2008 and 2009 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 made it impossible to accurately adjust the bodily injury claim figures to reflect the final outcome that restores the cap. The 2010 industry data would

remove reserves for an adverse decision on the cap and could largely resolve questions as to how the constitutional challenge affected severity and reported frequency of bodily injury claims. There could be some improvement in the closure rate of injury claims in 2010.

The 2010 Industry-wide Adjustment process resulted in the Board ordering a 5% reduction in premium level for basic coverage on private passenger vehicles effective November 1, 2010. That followed a 5% decrease ordered in 2009 that was effective November 1, 2009.

Premiums edged upwards for basic and additional coverage in 2009 (see Appendix III). The increase in average premium for basic coverage is attributable to the +5% increase permitted under the 2008 industry-wide adjustment that was in effect from November 1, 2008 to October 31, 2009 in response to developments with regard to the constitutional challenge. The upward trend in average premium for basic coverage should turn around as the impact of the 2009 and 2010 industry-wide adjustment orders work their way into the system. Frequency has continued to decrease for bodily injury claims, contrary to expectations that the trend would 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 2009 as shown in Figures 4 and 8.

The industry has expectations that a project to amend the *Automobile Insurance Premiums Regulation* that was shelved during the course of the constitutional challenge will be revived. There continue to be concerns with the “one-size-fits-all” approach of the industry-wide adjustment where decisions are based on average performance. The preference is for a “file and approve” model that recognizes the individual performance of insurers.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Applications

Premiums Regulation	Approved	Subject to Limitation/ Partial Approval	Declined	Total Applications
Section 6	2	0	0	2
Section 10	1	0	0	1
Section 19	16	2	0	18
Total	19	2	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
Allstate Insurance Company of Canada	26 - Feb - 2010	0.0%
AXA Pacific Insurance Company/AXA Canada	19 - Jul - 2010	+1.1%

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*
Chubb Insurance Company of Canada	19 - Jul - 2010

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
Jevco Insurance Company	PPM	26 - Mar - 2010	+5.4%
Royal & Sun Alliance Insurance Company of Canada	C	26 - Mar - 2010	-8.0%
Markel Insurance Company of Canada	CM	26 - Mar - 2010	New
Allstate Insurance Company of Canada	PPM	26 - Mar - 2010	-2.2%
AXA Pacific Insurance Company/AXA Canada	C	26 - Mar - 2010	-5.2%
Temple Insurance Company	C, CM	23 - Apr - 2010	New
Millennium Insurance Corporation	C	19 - Jul - 2010	New
Peace Hills General Insurance Company	C	19 - Jul - 2010	-4.9%
Chubb Insurance Company of Canada	PPM	19 - Jul - 2010	New
Economical Mutual Insurance Company	C, CM	19 - Jul - 2010	-16.1%
Canadian Direct Insurance Inc.	PPM	17 - Sep - 2010	New
SGI Canada Insurance Services Limited	PPM	17 - Sep - 2010	0.0%
Federation Insurance Company	PPM	17 - Sep - 2010	-0.7%
Intact Insurance Company	C	17 - Sep - 2010	-6.6%
Intact Insurance Company	CM	18 - Nov - 2010	0.0%
Royal & Sun Alliance Insurance Company of Canada	C	18 - Nov - 2010	-3.0%
Peace Hills General Insurance Company	C	18 - Nov - 2010	0.0%
State Farm Mutual Automobile Insurance Company	C, CM, PPM	17 - Dec - 2010	-0.6%, +0.4%, 1.8%

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
The Personal Insurance Company	12 - Mar - 2010	-1.83%
Certas Direct Insurance Company	12 - Mar - 2010	-2.17%
Aviva Insurance Company of Canada	22 - Mar - 2010	-2.50%
Co-operators General Insurance Company	4 - May - 2010	-1.80%
Aviva Insurance Company of Canada	10 - May - 2010	0.00%
Traders General Insurance Company	10 - May - 2010	0.00%
Intact Insurance Company	21 - May - 2010	0.00%
Novex Insurance Company	21 - May - 2010	0.00%
Trafalgar Insurance Company of Canada	21 - May - 2010	0.00%
Economical Murtual Insurance Company	10 - Aug - 2010	-4.20%
Waterloo Insurance Company	10 - Aug - 2010	-3.00%
Intact Insurance Company	26 - Aug - 2010	-2.10%
Novex Insurance Company	26 - Aug - 2010	-1.50%
Trafalgar Insurance Company of Canada	26 - Aug - 2010	-2.30%
SGL Canada Insurance Services Ltd.	31 - Aug - 2010	0.00%
Peace Hills General Insurance Company	31 - Aug - 2010	0.00%
The Dominion of Canada General Insurance Company	14 - Sep - 2010	0.00%

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
Optimum West Insurance Company	18 - Jan - 2010	10.79%
Wawanesa Mutual Insurance Company	14 - Jan - 2010	1.72%
Security National Insurance Company	20 - Jan - 2010	0.60%
TD Home and Auto Insurance Company	20 - Jan - 2010	0.60%
Primum Insurance Company	20 - Jan - 2010	1.20%
Zenith Insurance Company	25 - Jan - 2010	0.13%
Lombard Canada	25 - Jan - 2010	0.63%
York Fire & Casualty Insurance Company	1 - Feb - 2010	0.00%
The Co-operators General Insurance Company	1 - Feb - 2010	2.20%

Continued on next page.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Continued from previous page.

Pembridge Insurance Company	17 - Feb - 2010	1.46%
Allstate Insurance Company of Canada	17 - Feb - 2010	1.22%
AXA Pacific Insurance Company/AXA Canada	23 - Feb - 2010	1.63%
Allstate Insurance Company of Canada	23 - Feb - 2010	0.00%
The Personal Insurance Company	12 - Mar - 2010	0.00%
Certas Direct Insurance Company	12 - Mar - 2010	0.00%
Facility Association	30 - Mar - 2010	2.51%
Co-operators General Insurance Company	4 - May - 2010	-7.92%
Aviva Insurance Company of Canada	10 - May - 2010	-1.50%
Traders General Insurance Company	10 - May - 2010	-1.54%
Intact Insurance Company	21 - May - 2010	0.00%
Novex Insurance Company	21 - May - 2010	0.00%
Trafalgar Insurance Company of Canada	21 - May - 2010	0.00%
AXA Pacific Insurance Company/AXA Canada	27 - May - 2010	0.50%
The Portage la Prairie Mutual Insurance Company	10 - Jun - 2010	11.79%
Royal & Sun Alliance Insurance Company of Canada	13 - Jul - 2010	-9.37%
Chubb Insurance Company of Canada	14 - Jul - 2010	0.00%
Economical Murtual Insurance Company	10 - Aug - 2010	-5.02%
Waterloo Insurance Company	10 - Aug - 2010	-1.62%
Peace Hills General Insurance Company	18 - Aug - 2010	0.80%
Intact Insurance Company	26 - Aug - 2010	-0.39%
Novex Insurance Company	26 - Aug - 2010	1.32%
Trafalgar Insurance Company of Canada	26 - Aug - 2010	-0.79%
SGL Canada Insurance Services Ltd.	31 - Aug - 2010	1.53%
Jevco Insurance Company	31 - Aug - 2010	0.20%
Peace Hills General Insurance Company	31 - Aug - 2010	2.33%
The Dominion of Canada General Insurance Company	14 - Sep - 2010	2.40%
Pembridge Insurance Company	14 - Sep - 2010	0.00%
Unifund Assurance Company	18 - Oct - 2010	4.94%
Alberta Motor Association Insurance Company	3 - Nov - 2010	2.21%
AXA Pacific Insurance Company/AXA Canada	30 - Nov - 2010	0.00%
AXA Pacific Insurance Company/AXA Canada	22 - Dec - 2010	0.00%

APPENDIX III STATISTICS

Automobile Insurance Fact Page

	2005	2006	2007	2008	2009	2010
Active Insurance Companies ³	69	67	69	70	74	—
Private Passenger Market Share for Largest Insurer Groups³						
Intact Financial Group	15.9%	18.5%	18.2%	18.4%	18.6%	—
TD Insurance	10.0%	11.0%	11.1%	11.1%	15.2%	—
Wawanesa Mutual Insurance Company (The)	14.2%	13.3%	13.1%	12.9%	13.6%	—
Co-operators Group	7.6%	8.0%	8.1%	8.0%	8.4%	—
Total	47.7%	50.8%	50.5%	50.4%	55.8%	—
Written Premium⁴						
Total Premium (000s)	\$2,563,317	\$2,748,238	\$2,943,644	\$3,096,508	\$3,182,509	—
Private Passenger (000s)	\$1,928,694	\$2,054,255	\$2,179,576	\$2,316,063	\$2,427,468	—
Average Written Premiums for Private Passenger Vehicles⁴						
Basic Coverage	\$639	\$612	\$600	\$596	\$605	—
Additional Coverage	\$384	\$411	\$431	\$458	\$488	—
Total	\$1,023	\$1,023	\$1,031	\$1,054	\$1,093	—
% change from prior year	—	0.1%	0.8%	2.2%	3.7%	—
Written Private Passenger Vehicles⁴						
Non Grid	94.1%	89.4%	90.7%	91.7%	92.8%	—
Grid	5.9%	10.6%	9.3%	8.3%	7.2%	—
# Vehicles Insured	1,886,074	2,006,918	2,112,868	2,197,713	2,222,120	—
% change from prior year	—	6.4%	5.3%	4.0%	1.1%	—
Estimated Total Claims⁴						
All Automobile (000s)	\$1,461,080	\$1,685,411	\$1,972,480	\$1,997,741	\$1,950,060	—
Private Passenger (000s)	\$1,136,500	\$1,291,573	\$1,533,282	\$1,551,075	\$1,560,532	—
Private Passenger Loss Ratio	60.3%	65.1%	72.5%	68.9%	65.6%	—
% change from prior year	—	8.0%	11.4%	-4.9%	-4.8%	—
Minor Injury Cap (effective October 1, 2004) ³	\$4,000	\$4,000	\$4,144	\$4,339	\$4,504	\$4,518
Other						
Health Cost Recovery (Millions) ³	\$60	\$75	\$80	\$85	\$90	\$90
Board Adjustments to Basic Coverage	-4%	-3%	0%	+5%	-5%	-5%
Industry Levy	\$1,065,226	\$962,538	\$1,123,000	\$766,458	\$958,766	\$921,029

³ Source: Superintendent of Insurance (most recent available data for 2008)

⁴ Source: GISA Statistical Exhibits (most recent available data for 2008)

Board Applications

	2006	2007	2008	2009	2010
Section 6 – Private Passenger Rating Program Review					
Approved	7	10	0	1	2
Modified	3	3	1	0	0
Declined	5	4	0	0	0
Total	15	17	1	1	2
Section 10 – Private Passenger Rating Program New Entrant					
Approved	0	1	2	1	1
Modified	1	0	0	0	0
Declined	0	0	0	0	0
Total	1	1	2	1	1
Section 19 – Other Than Private Passenger Rating Program Review/New Entrant					
Approved	17	14	16	22	16
Modified	3	5	2	3	2
Declined	1	1	0	0	0
Total	21	20	18	25	18

Board Notices

	2006	2007	2008	2009	2010
Section 5 – Basic Coverage	2	11	13	19	17
Section 9 – Additional Coverage	7	16	78	44	41

APPENDIX IV ACTIVE INSURERS

List of Active Automobile Insurers and Direct Written Automobile Premium for 2009

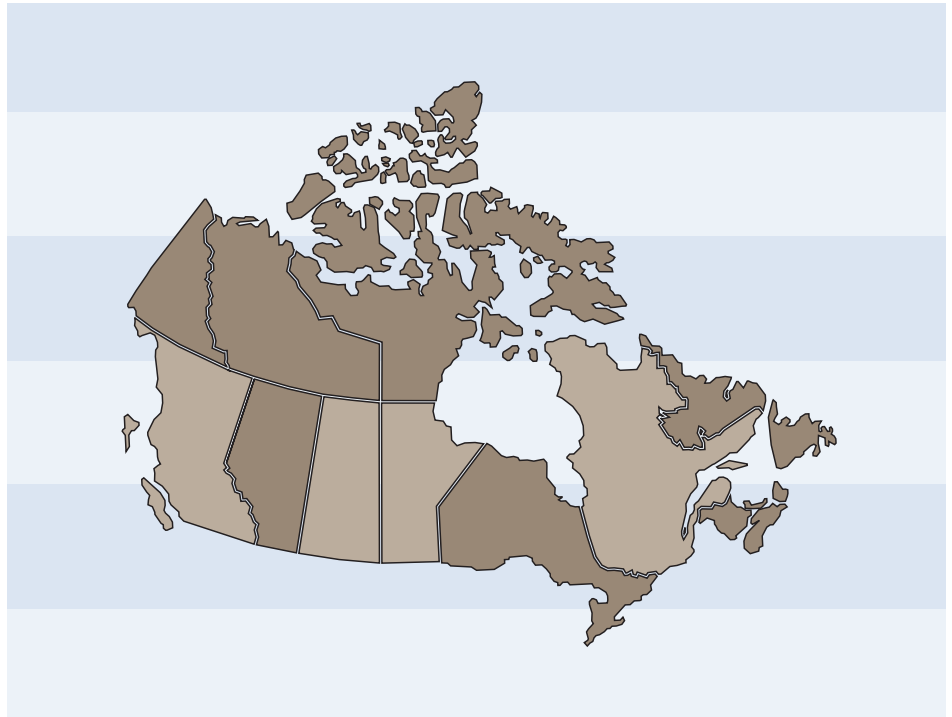
Name of Company	2009 (thousands)		
ACE INA Insurance	14,302	Intact Financial Group	
Alberta Motor Association Insurance Company	191,603	Intact Insurance Company	459,810
Alberta Municipal Insurance Exchange	697	Novex Insurance Company of Canada	52,976
Allianz Global Risk US Insurance Company	7,648	Trafalgar Insurance Company of Canada	15,043
Allstate Canada		Jevco Insurance Company	18,649
Allstate Insurance Company of Canada	58,395	Liberty Mutual Insurance Company	8,871
Pembridge Insurance Company	7,977	Lloyd's Underwriters	1,970
American Road Insurance Company	1,014	Mennonite Mutual Insurance Co (Alberta) Ltd.	17
Arch Insurance Company	544	Millennium Insurance Corporation	17,843
Aviva Canada Inc.		Motors Insurance Corporation	1,385
Aviva Insurance Company of Canada	177,302	Northbridge Financial Corporation	
Elite Insurance Company	16,619	Federated Insurance Company of Canada	20,697
Scottish & York Insurance Co. Limited	4,327	Lombard General Insurance Company of Canada	26,381
Traders General Insurance Company	26,776	Lombard Insurance Company	36
AXA Pacific Insurance Company	94,669	Markel Insurance Company of Canada	33,117
Canadian Direct Insurance Incorporated	43,572	Zenith Insurance Company	869
Canadian Farm Insurance Corporation	4,288	Old Republic Insurance Company of Canada	5,529
Canadian Northern Shield Insurance Company	1	Optimum West Insurance Company	3,233
Chartis Insurance Company of Canada	10,423	Peace Hills General Insurance Company	65,098
Chrysler Insurance Company	782	Portage La Prairie Mutual Insurance Company (The)	21,342
Chubb Canada		Protective Insurance Company	95
Chubb Insurance Company of Canada	1,478	RBC Insurance	
Federal Insurance Company	18	RBC General Insurance Company	27,038
Continental Casualty Company	5,968	RBC Insurance Company of Canada	5,758
The Co-operators		Royal & Sun Alliance Insurance Group	
Co-operators General Insurance Company	237,729	Royal & Sun Alliance Insurance Company of Canada	60,290
Coseco Insurance Company	12,049	Unifund Assurance Company	148,522
Sovereign General Insurance Company (The)	11,653	Saskatchewan Mutual Insurance Company	1
Cumis General Insurance Company	2,419	Sentry Insurance A Mutual Company	67
Desjardins General Insurance Group		SGI CANADA Insurance Services Ltd.	19,580
Certas Direct Insurance Company	5,678	St. Paul Fire and Marine Insurance Company	15,988
Personal Insurance Company (The)	31,749	State Farm Mutual Automobile Insurance Company	122,000
Dominion of Canada General Insurance Company (The)	81,685	Sumitomo Marine and Fire Insurance Company Limited (The)	487
Echelon General Insurance Company	498	TD Insurance	
Economical Insurance Group (The)		Primum Insurance Company	90,544
Economical Mutual Insurance Company	106,985	Security National Insurance Company	284,385
Federation Insurance Company of Canada	555	TD Home and Auto Insurance Company	24,640
Missisquoi Insurance Company	2	Tokio Marine & Nichido Fire Insurance Co. Ltd.	198
Waterloo Insurance Company	7,784	Wawanesa Mutual Insurance Company (The)	449,550
Electric Insurance Company	157	XL Reinsurance America Inc.	9
Fortress Insurance Company	668	Zurich Insurance Company	55,096
GCAN Insurance Company	3,081		
Guarantee Company of North America (The)	953		
Hartford Fire Insurance Company	102		

Source: Superintendent of Insurance 2009 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



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