

Alberta

Automobile Insurance Rate Board – 2011 Annual Report

For the Year Ended December 31, 2011

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For the Year Ended December 31, 2011

Alberta
airlb Automobile Insurance
Rate Board

LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Doug Horner
President of Treasury Board & Minister of Finance
408 Legislature Building
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2011 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, 2011. All significant decisions, events and identified risks as of December 31, 2011 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 2011 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 7th Annual Report of the Automobile Insurance Rate Board, for the year ended December 31, 2011.

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

Alberta's automobile insurance market remained stable through 2011 with very little change in automobile insurance rates, leaving consumers satisfied with their automobile insurance product.

Given the relative stability in the system, the Board believes that now is a good time to work with Government and Industry in a review of the *Automobile Insurance Premiums Regulation* with a view towards moving away from the current industry-wide adjustment process to a file-and-approve system. The Board believes a model where each company is dealt with 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 eighth year of operation and as is the case with all Government Boards and agencies, Board renewal is ongoing. This past year, a consulting agency was contracted to locate qualified candidates to sit on our Board. The agency along with the Superintendent of Insurance and I, interviewed and recommended to the Minister of Finance the appointment of four new members. On March 17th, 2011, Mr. Allan Cleiren Mr. James Cuming, Mr. Chris Daniel, and Mr. Jim Murta were appointed to the Board by the Lieutenant Governor in Council for a three year term. With the appointment of a new Superintendent of Insurance on May 1st, the Board received its 5th new member, Mr. Mark Prefontaine.

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 would especially like to acknowledge our outgoing Board members, Ms Patti Grier, Mr. William Moore, Mr. David White and the previous Superintendent of Insurance, Mr. Dennis Gartner. These dedicated individuals were among the first members appointed to the Board and served Albertans well. I look forward to 2012, 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 Alberta's economic recovery strengthening and its population growing, the environment for automobile insurers to provide competitive products and services continues to improve. The year 2011 saw the completion of our 7th annual industry-wide adjustment resulting in no change to basic insurance premiums, 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. Automobile insurance rates have stabilized and consumers have significant choice in both service and competitive premiums in Alberta. The Board continued its efforts to remain current with industry issues by meeting with individual insurers, the Insurance Bureau of Canada (IBC), the Canadian Association of Direct Relationship Insurers (CADRI) 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 participated in its training and networking opportunities.

On January 14th, 2011 the AIRB moved its operations into its new offices on the 24th floor of Canadian Western Bank Place on Jasper Avenue at 103 Street.

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 2010. Stakeholders were given the opportunity to respond to the analysis at a public meeting held on June 14th, in Edmonton. During the public meeting, the consumer representative and seven stakeholders presented to the Board. In addition, the Board received three written submissions.

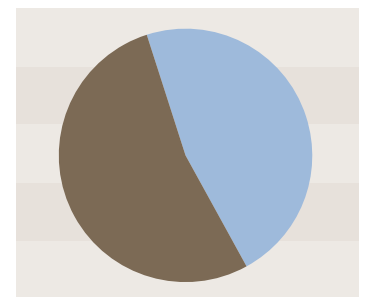
The determination of premiums is a complex process with insurance experts and actuaries reviewing past data related to the frequency and severity of claims, expected rate of return on investment, the economy and other factors to estimate the likelihood and cost of future claims. The goal is a reasonable 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 on July 28, 2011 issued Order 01-11 to hold premiums for basic automobile insurance in Alberta at 2010 levels effective November 1, 2011. The previous adjustment ordered for November 1, 2010 for a 5% reduction in premium level for basic coverage.

The chart shows the average written private passenger premium for 2010 as reported by the General Insurance Statistical Agency (GISA) broken out by basic and additional coverage. See page 4 for an explanation of the Board's role in regulating and monitoring premiums.



Del Dyck, Executive Director

2010 Average Private Passenger Premium



- Board Regulates Basic Coverage **\$575**
- Board Monitors Additional Coverage **\$506**

Source: GISA statistical data

Rates

As noted above, the 2011 Industry-wide Adjustment process resulted in the Board ordering no change to premium level for basic coverage on private passenger vehicles effective November 1, 2011. The average premium of \$575 for basic coverage on private passenger vehicles as shown in Appendix III remains below the 2006 rate of \$612.

The average premium for additional coverage has increased annually from \$411 in 2006 to \$506 in 2010. The average total premium decreased from \$1,092 for 2009 to \$1,081 for 2010. While the total premium has increased from \$1,024 in 2006, the increase remains well below the rate of inflation for this same period.

Board Applications

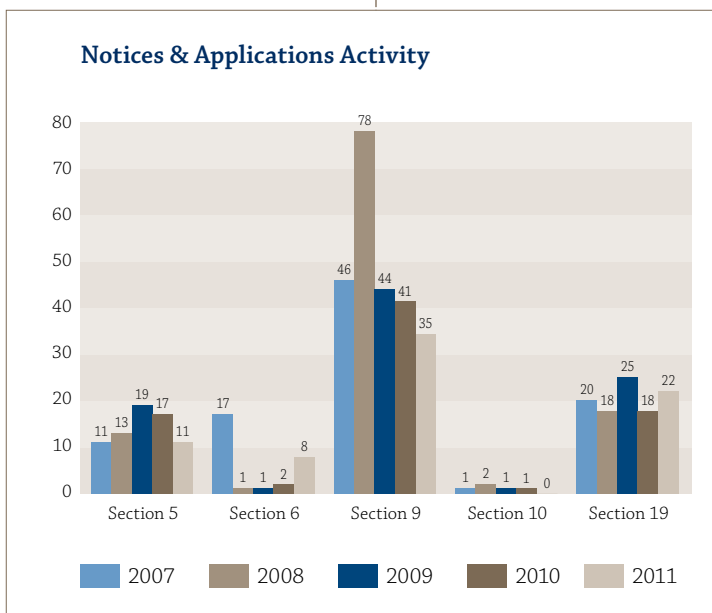
As required under the *Automobile Insurance Premiums Regulation*, the Board reviews and rules on applications under Sections 6, 10 and 19.

- **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. Eight section 6 applications were received in 2011 up from 2 applications in 2010. This increase was mainly due as a result of the Board’s 2011 Industry-wide adjustment decision for no change in rates.
- **Section 10** requires new insurers entering Alberta to obtain prior approval of the Board for their private passenger rating programs for basic coverage. There were no Section 10 applications received in 2011.
- **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 22 applications under Section 19 in 2011.

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 11 Section 5 notices in 2011.
- **Section 9** requires written notice to the Board of changes to their rating programs for additional coverage². The Board received 35 Section 9 notices in 2011.

See Appendix II for more information on applications.



Source: Superintendent of Insurance

1 Basic coverage is third party liability and accident benefits coverage.
 2 Additional or optional coverage includes collision, comprehensive or specified perils and all endorsements including underinsured motorist coverage

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 activities 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 2011, 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

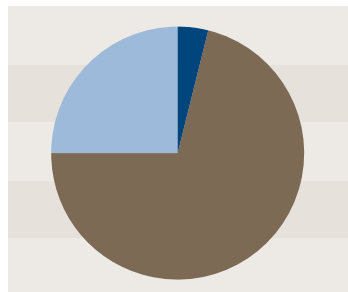
A feature of private delivery systems such as we have in Alberta is that drivers have choice and flexibility over their coverage and the price they pay for insurance. In 2011, the AIRB's website introduced a comprehensive interactive rate comparison tool that allows drivers to compare insurance rates by company for a number of driving profiles and geographical locations. While this tool does 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 useful 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. Consumers should be mindful that insurance providers compete not only on price but service and, therefore, price may not be the only determining factor in the selection of a provider.

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;

- 54% of consumers surveyed agreed that premiums are 'fair and reasonable' down from 70% 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.

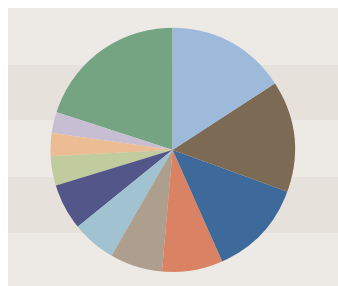
Distribution of Premium Dollar for 2010 Private Passenger Vehicles



- Underwriting Profit **4%**
- Administrative Expenses **25%**
- Estimated Claims **71%**

Source: GISA statistical data and IBC Automobile Expense Survey

2010 Market Share of Total Automobile Insurance Premium



- Intact Insurance Company **16%**
- Wawanesa Mutual Insurance Company (The) **15%**
- TD Insurance **13%**
- 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 **3%**
- AXA Pacific Insurance Company **3%**
- Remainder **20%**

Source: Superintendent of Insurance 2010 Annual Report

- 36% of consumers polled obtained a competitive quote for insurance and of these, 86% stayed with their existing insurer, slightly less than 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 supporting 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 regulation of additional coverage. 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. The Board continues to support this change and is working with Government to move this initiative forward.

Market

The 2010 Alberta Superintendent of Insurance Annual Report shows 77 automobile insurance companies were active in Alberta in 2010, an increase of three insurers over 2009. Four insurer groups represented 57% of all written premium, up from 56% in 2009 and 51% in 2006. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2010 (corporations may operate more than one insurer).

In 2010, the automobile insurance industry collected \$3.2 billion in written premium from which they expect to pay \$2.1 billion in claims. The overall private passenger loss ratio in Alberta for 2010 was 73%, up from 65% in 2009.

It is a useful exercise to review market conditions for recent years for what insight it may provide for the immediate future. A series of graphs along with comments have been provided in Appendix I. In summary, frequency of third party liability bodily injury claims increased for 2010, reversing a declining trend of many years. The significance of this increase will not be known until further data becomes available to confirm it as a change in trend or an anomaly. Severity continued to increase for third party liability property damage and collision claims while frequency declined appreciably for 2010. It appears that at least over the short term that overall premium level should remain reasonably stable though with some redistribution of premium by coverage.

Fiscal

The AIRB's operations are fully funded through an annual assessment which is shared by each insurance company based on actual direct premiums written. The 2011 assessment decreased by 4% to \$921,029.

The AIRB's expenses totalled \$1.1 million for the fiscal year ended March 31, 2011, an increase from \$0.9 million in 2010, mainly attributable to the AIRB's office relocation. Further financial information is available under Statement of Operations and Surplus (see page 8).

Looking Ahead to 2012

The AIRB will:

- 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 oversee the regulation of all coverage.
- Continue its review of the GRID to ensure that outcomes reflect its original objectives and as required, make recommendations to the Superintendent of Insurance for changes.
- 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 in order to review these new rating programs.
- 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 Alberta away from an annual industry-wide rate adjustment process to a “file and approve” model ...”

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
Automobile Insurance Rate Board

STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2010 to March 31, 2011

	2010-11 Budget	2010-11 Actual	2009-10 Actual
Revenue:			
Annual Industry Levy	\$ 1,304,000	\$ 1,304,000	\$ 1,266,000
– less accumulated surplus	—	382,971	307,234
	<hr/>	<hr/>	<hr/>
Net Annual Industry Levy	1,304,000	921,029	958,766
Actuarial Services	60,000	16,699	18,735
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	\$ 1,364,000	\$ 937,728	\$ 977,501
Expense:			
Operations	664,700	726,700	489,877
Actuarial and Contract Services	524,300	259,863	307,212
Board Honoraria and Expenses	175,000	129,017	104,675
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	\$ 1,364,000	\$ 1,115,580	\$ 901,764
Surplus/(Shortfall)	—	(177,852)	75,737
Accumulated Surplus Beginning	—	382,971	307,234
Accumulated Surplus End	—	205,119	382,971

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 two ways:

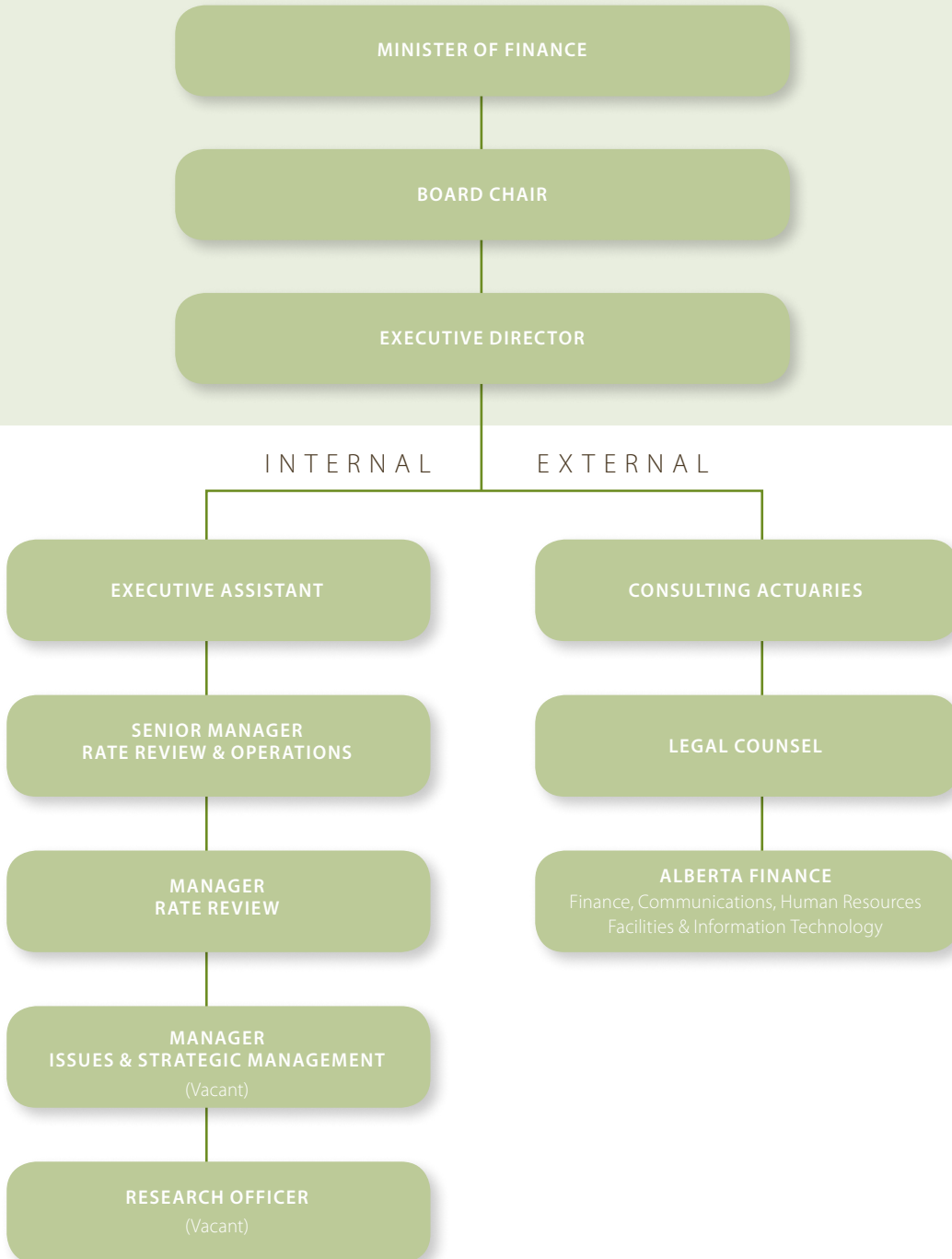
- Annual Industry Levy which represents the Board's annual budget less an amount estimated for recovery of actuarial costs and prior years accumulated surplus or shortfall. The annual industry levy is shared by each insurer based on actual direct premiums written in the prior year.
- Actuarial Services which are recovered from individual insurers in relation to the analysis of their specific applications.

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

Automobile Insurance Rate Board 2011



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.

CORPORATE GOVERNANCE

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

Relationship to Government

The President of Treasury Board & Minister of Finance and the Government of Alberta, through legislation (*Insurance Act*), established the 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, 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 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 are 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 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 a public meeting 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, Agency 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 2011 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.

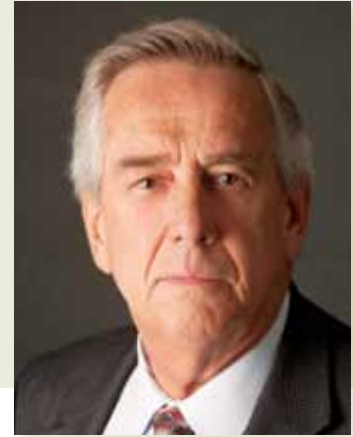
Chair



Alfred Savage

**Retired, Senior Executive
Edmonton**

Vice Chair



Harry Gough

**Lawyer, Private Practice
Drumheller**



Chris Daniel

**Retired Senior Executive
Insurance Industry
Calmar**



Lewis Klar

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



Allan Cleiren
Senior Executive, CFO
Edmonton



James Cuming
Lawyer, Private Practice
Calgary



Jim Murta
Retired Actuary
Calgary



Mark Prefontaine
Superintendent of Insurance
Edmonton
Non-voting Member

*Consumer
Representative*



Merle Taylor
Management Consultant
Edmonton

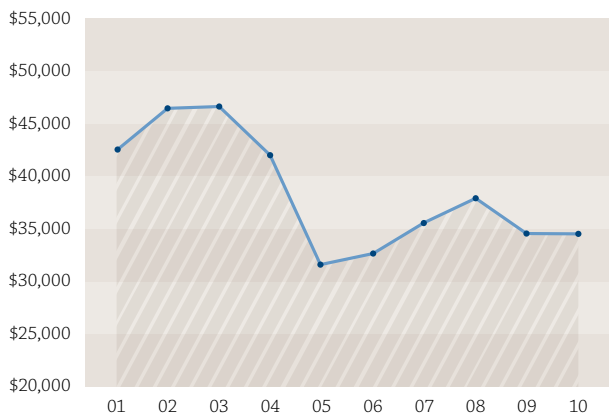
APPENDIX I MARKET

In 2010, the automobile insurance industry collected \$3.2 billion in written premium from which it expects to pay \$2.2 billion in claims. A major portion, \$2.5 billion of that premium, is attributable to private passenger vehicles that will incur an estimated \$1.7 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 2010. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

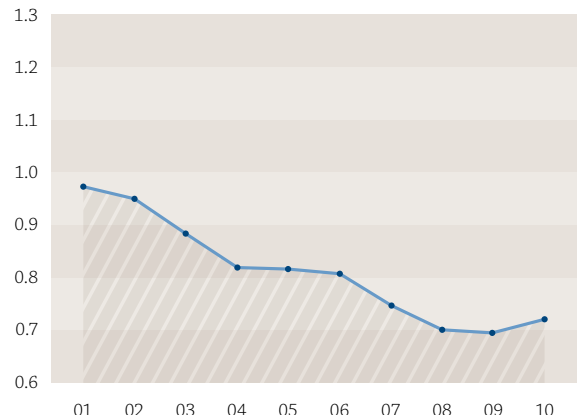
Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period, 2001 to 2010. Bodily injury claims can take five or more years to mature 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 \$37,000 for 2008 before settling back to \$34,000 for 2009 and 2010. 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 but some abatement in 2009 and 2010. 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 reductions in frequency in 2003 and 2004 and then again for 2007 and 2008 but 2010 shows the first increase over the prior year since the late 1990s.

Figure 1 – Bodily Injury Severity



Source: GISA Statistical Exhibit

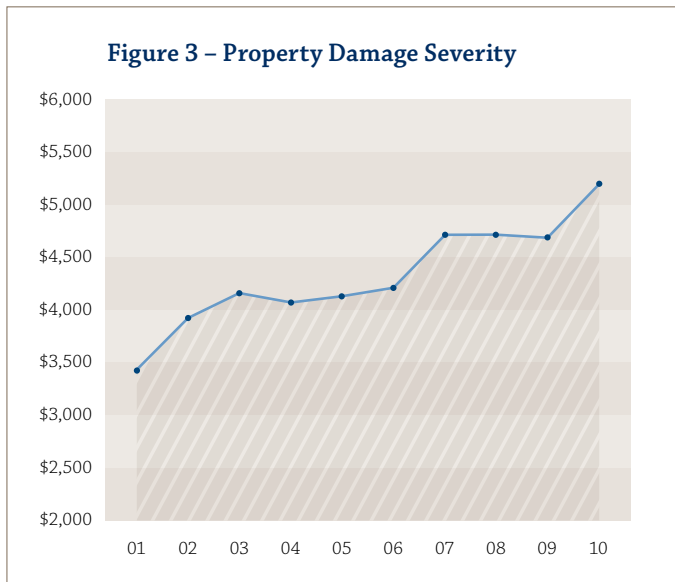
Figure 2 – Bodily Injury Frequency



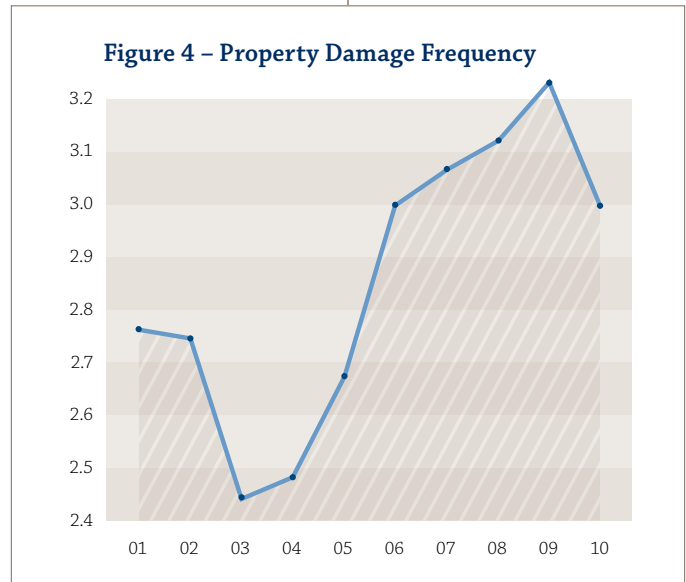
Source: GISA Statistical Exhibit

Bodily injury claims made up 81% of third party liability claim costs in 2001 compared to 59% in 2010. The *Minor Injury Regulation* adjusted the cap to \$4,559 as of January 1, 2011.

Figure 3 shows that property damage average claim costs increase, then plateau for a few years before resuming the upward movement. The average claim increased from \$3,400 to \$5,200 over the ten year period shown. Figure 4 shows an overall decline in claim frequency through 2003 that would offset the increasing severity of claims. However, frequency increased each year since 2004 until 2009. The significant decrease in 2010 is at least partially attributable to very favourable winter conditions.



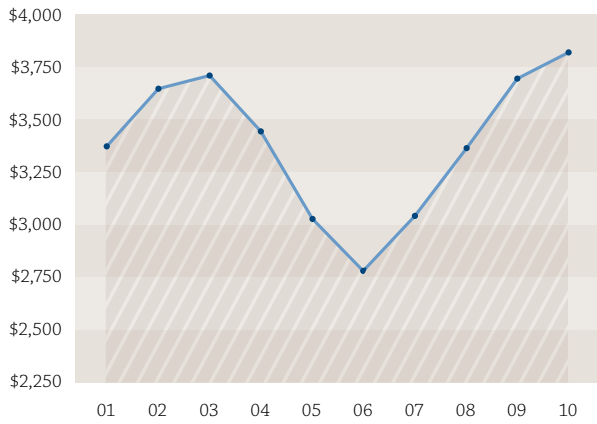
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

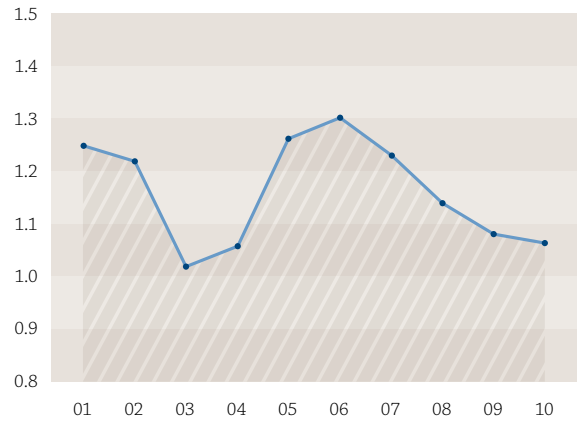
Accident benefits are the other coverage that relate to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006 with increases occurring for 2007 through 2010 when average severity reached \$3,800. Figure 6 relates to the frequency of claims per 100 vehicles insured; there is a decline through 2003 followed by increases for 2004 through 2006. The cause of decreases again for 2007 through 2010 is unknown though may be consistent with the decreases in frequency of third party liability bodily injury claims through to 2009.

Figure 5 – Accident Benefits Severity



Source: GISA Statistical Exhibit

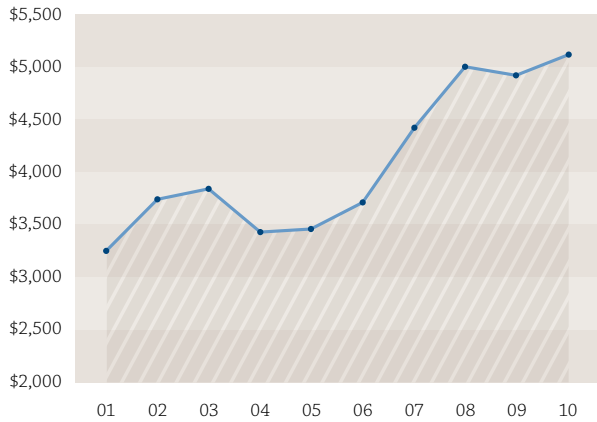
Figure 6 – Accident Benefits Frequency



Source: GISA Statistical Exhibit

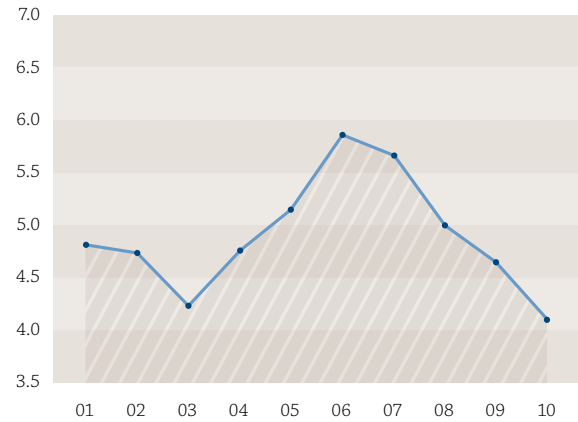
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily since 2005 to \$5,100 by 2010. Figure 8 relates to the frequency of collision claims for each 100 insured vehicles. There is some fluctuation over the years shown; after bottoming in 2003, there was a steady increase through 2006 with a reversal again in 2007 through 2010 when it reached the lowest level in the 10 year period shown. The magnitude of the decline for 2010 may be influenced by the favourable winter conditions as is speculated for third party liability property damage. The decline in frequency has largely offset increases in severity of claims.

Figure 7 – Collision Severity



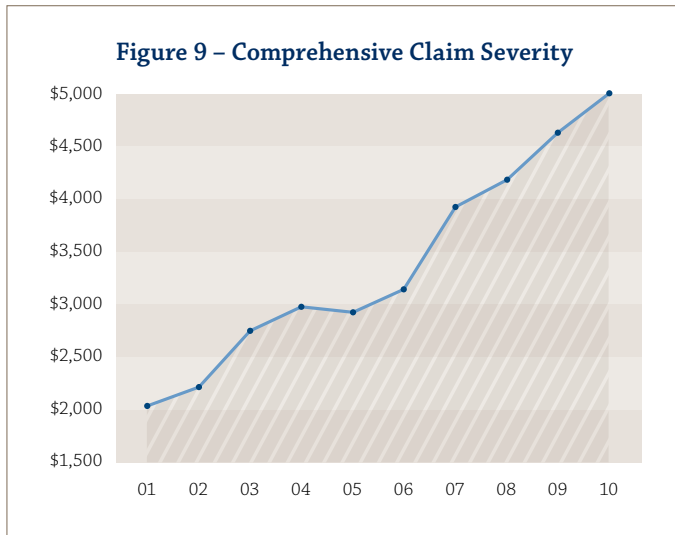
Source: GISA Statistical Exhibit

Figure 8 – Collision Frequency

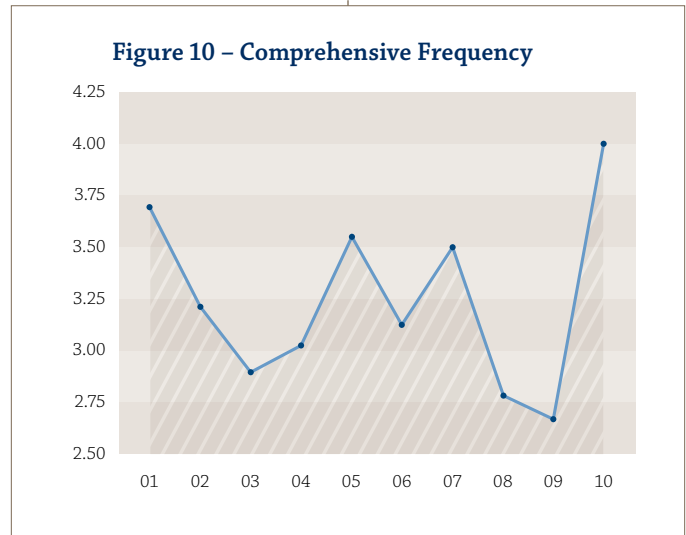


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has continuously moved upward to \$5,000 as shown in Figure 9. Figure 10 shows a fluctuating frequency of claims in recent years with a very steep increase for 2010.



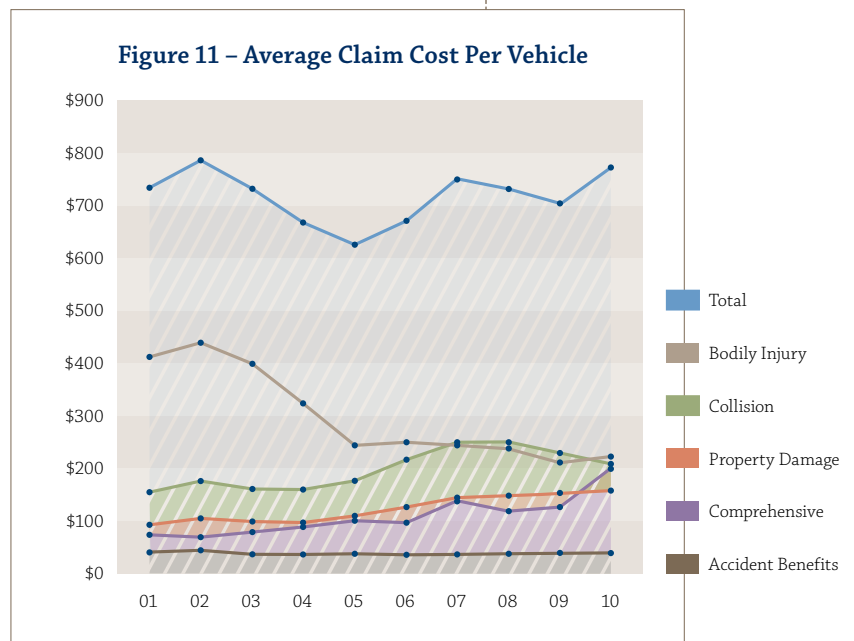
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

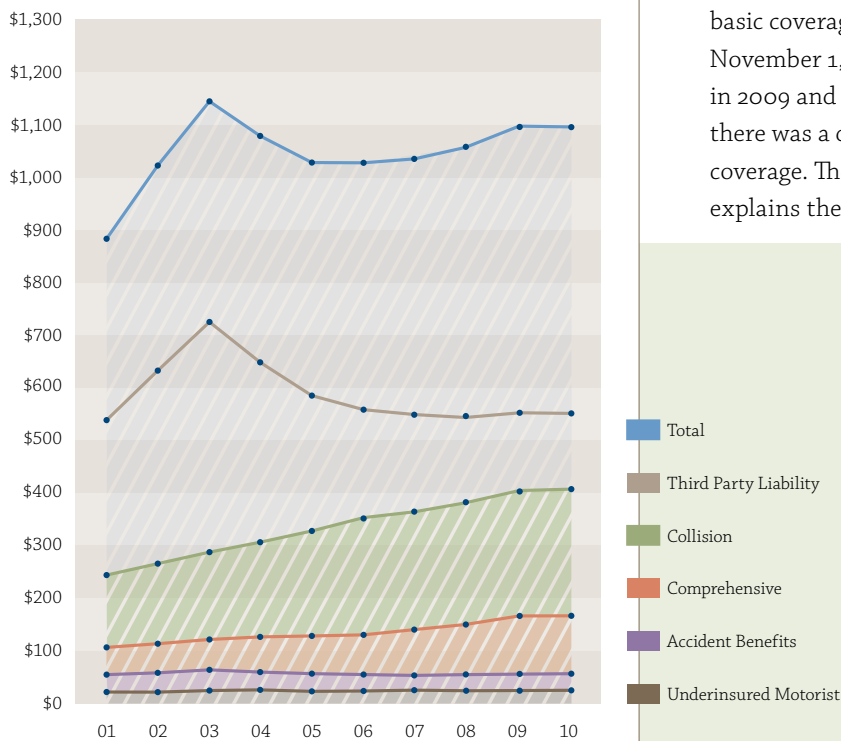
The next graph, Figure 11, shows the average claim cost per vehicle insured, which is the estimated total claims for each coverage and all coverage combined divided by the number of vehicles insured. Average claim cost per vehicle insured reflects the combined effects of severity and frequency of claims.

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. Average premiums for collision and comprehensive coverage will increase year over year as newer vehicles replace older vehicles, without any other adjustment to premiums.



Source: GISA Statistical Exhibit

Figure 12 – Average Premiums By Coverage



Source: GISA Statistical Exhibit

The 2011 Industry-wide Adjustment process resulted in the Board ordering no change in premium level for basic coverage on private passenger vehicles effective November 1, 2011. That followed 5% decreases ordered in 2009 and 2010. The Board actually concluded that there was a deficiency in premium level for basic coverage. The following excerpt from Order 01-11 explains their decision.

The Board agrees that available information supports that an increase in average premium level for basic coverage is indicated for the upcoming policy year. The selection of the 0.0% adjustment was reached after consideration of various factors, including the strong message in submissions and presentations that the industry-wide adjustment process is not an appropriate method to adjust premium level and is detrimental to a healthy market over the long term. It is a message with which the Board agrees and it has expressed support for a regulatory model that would decide premium level on an individual company basis in each of its Annual Reports since 2007.

There is agreement between the Board and the Superintendent of Insurance that Section 6 of the *Automobile Insurance Premiums Regulation* will serve to adjust premium level for basic coverage for individual insurers.

The Board understands that the decision also means a 0.0% adjustment for the Grid rating program. This issue can only be addressed through amendment of the *Premiums Regulation*.

Premiums decreased for basic coverage and increased for additional coverage in 2010 for an overall change of -1.0% compared to 2009 (see Appendix III). The decrease in average premium for basic coverage is attributable to the 5% decrease ordered under the 2009 industry-wide adjustment and a further decline is anticipated for 2011 in response to the 2010 decision. Frequency for bodily injury claims increased for 2010, reversing a declining trend of many years. The significance of this increase will not be known until further data becomes available to confirm it as a change in trend or an anomaly. The increase in frequency is incongruent with the declines for property damage and collision. Severity has been increasing for property damage and collision claims as described in connection with Figures 3 and 7 while frequency declined appreciably as shown in Figures 4 and 8.

The Board’s decision for the 2011 industry-wide adjustment reflects continuing 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

A more complete description of Applications and Notices is posted quarterly on the AIRB website at www.airb.alberta.ca/decisions.

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
Pembridge Insurance Company	28 - Jan - 2011	19.6%
State Farm Mutual Automobile Insurance Company	28 - Jan - 2011	7.0%
Security National Insurance Company/Primum Insurance Company/TD Home and Auto Insurance Company	7 - Mar - 2011	0.0%
Allstate Insurance Company of Canada	5 - Aug - 2011	10.4%
XL Insurance Company Limited	23 - Sep - 2011	-13.7%
Alberta Motor Association Insurance Company	28 - Oct - 2011	10.4%
Wawanesa Mutual Insurance Company	28 - Oct - 2011	1.0%
The Personal Insurance Company/Certas Direct Insurance Company	25 - Nov - 2011	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*
No applications	—

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
Federation Insurance Company of Canada	PPM	28 - Jan - 2011	-0.7%
Missisquoi Insurance Company	C	28 - Jan - 2011	new
Aviva Insurance Company of Canada	CM	23 - Feb - 2011	0.0%
Security National Insurance Company/ Primum Insurance Company/TD Home and Auto Insurance Company	PPM	7 - Mar - 2011	0.0%
Federated Insurance Company of Canada	PPM	7 - Mar - 2011	new
Federated Insurance Company of Canada	PPM	7 - Mar - 2011	67.1%
Federated Insurance Company of Canada	C	7 - Mar - 2011	-5.8%
Protective Insurance Company	C, CM	26 - May - 2011	new
Federated Insurance Company of Canada	PPM	26 - May - 2011	39.6%
Economical Mutual Insurance Company	C, CM	15 - Jul - 2011	-6.2%
Royal & Sun Alliance Insurance Company of Canada	C	15 - Jul - 2011	0.0%
Peace Hills General Insurance Company	C	15 - Jul - 2011	0.0%
Aviva Insurance Company of Canada	CM	23 - Sep - 2011	declined
Everest Insurance Company of Canada	C, CM	23 - Sep - 2011	new
Intact Insurance Company	CM	23 - Sep - 2011	-31.8%
Wawanesa Mutual Insurance Company	C	23 - Sep - 2011	0.0%
Wawanesa Mutual Insurance Company	CM	23 - Sep - 2011	0.0%
Facility Association	CM	23 - Sep - 2011	-50.0%
XL Insurance Company Limited	C, CM	23 - Sep - 2011	0.0%
Intact Insurance Company	C	23 - Sep - 2011	0.0%
Economical Mutual Insurance Company	CM	28 - Oct - 2011	0.0%
Dominion of Canada General Insurance Company	C, CM	28 - Oct - 2011	-6.5%, -0.1%

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
Economical Mutual Insurance Company	21 - Jan - 2011	-0.9%
Waterloo Insurance Company	21 - Jan - 2011	-0.9%
Royal & Sun Alliance Insurance Company of Canada	11 - Mar - 2011	0.0%
Trafalgar Insurance Company of Canada	11 - Apr - 2011	0.0%
The Dominion of Canada General Insurance Company	26 - Apr - 2011	-3.5%
AXA Pacific Insurance Company/AXA Insurance (Canada)	1 - Jun - 2011	-0.7%
Peace Hills General Insurance Company	4 - Jul - 2011	-1.2%
Intact Insurance Company	25 - Aug - 2011	-0.1%
Novex Insurance Company	25 - Aug - 2011	-0.2%
Optimum West Insurance Company	29 - Nov - 2011	-0.9%
Royal & Sun Alliance Insurance Company of Canada	16 - Dec - 2011	-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
State Farm Mutual Automobile Insurance Company	21 - Jan - 2011	-9.5%
Economical Mutual Insurance Company	21 - Jan - 2011	0.7%
Waterloo Insurance Company	21 - Jan - 2011	0.9%
Security National Insurance Company	7 - Mar - 2011	-0.9%
Primum Insurance Company	7 - Mar - 2011	-0.4%
TD Home and Auto Insurance Company	7 - Mar - 2011	5.4%
Pembridge Insurance Company	8 - Mar - 2011	-16.0%
Royal & Sun Alliance Insurance Company of Canada	11 - Mar - 2011	-0.1%
Allstate Insurance Company of Canada	7 - Apr - 2011	-1.4%

Continued on next page.

APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

Continued from previous page.

RBC General Insurance Company/RBC Insurance Company of Canada	7 - Apr - 2011	0.0%
Trafalgar Insurance Company of Canada	11 - Apr - 2011	0.0%
The Dominion of Canada General Insurance Company	26 - Apr - 2011	-4.8%
Economical Mutual Insurance Company	5 - May - 2011	0.0%
Waterloo Insurance Company	5 - May - 2011	0.0%
The Portage la Prairie Mutual Insurance Company	18 - May - 2011	11.0%
Royal & Sun Alliance Insurance Company of Canada	1 - Jun - 2011	0.7%
Co-operators General Insurance Company	1 - Jun - 2011	-1.8%
AXA Pacific Insurance Company/AXA Insurance (Canada)	1 - Jun - 2011	-0.3%
AXA Pacific Insurance Company/AXA Insurance (Canada)	1 - Jun - 2011	0.9%
Economical Mutual Insurance Company	13 - Jun - 2011	0.0%
Waterloo Insurance Company	13 - Jun - 2011	0.0%
Peace Hills General Insurance Company	13 - Jun - 2011	1.3%
Unifund Assurance Company	23 - Jun - 2011	5.4%
Facility Association	23 - Jun - 2011	4.3%
Alberta Motor Association Insurance Company	27 - Jun - 2011	0.9%
Royal & Sun Alliance Insurance Company of Canada	29 - Jun - 2011	-9.8%
Peace Hills General Insurance Company	29 - Jun - 2011	-0.7%
Intact Insurance Company	25 - Aug - 2011	-3.8%
Novex Insurance Company	25 - Aug - 2011	-4.7%
Allstate Insurance Company of Canada	1 - Sep - 2011	-10.1%
Jevco Insurance Company	20 - Sep - 2011	0.3%
SGL Canada Insurance Services Ltd.	29 - Sep - 2011	1.6%
Allstate Insurance Company of Canada	13 - Oct - 2011	1.6%
Optimum West Insurance Company	29 - Nov - 2011	7.6%
Royal & Sun Alliance Insurance Company of Canada	16 - Dec - 2011	-1.8%

APPENDIX III STATISTICS

Automobile Insurance Fact Page

	2006	2007	2008	2009	2010	2011
Active Insurance Companies ³	67	69	70	74	77	—
Private Passenger Market Share for Largest Insurer Groups³						
Intact Financial Group	18.5%	18.2%	18.4%	18.6%	18.7%	—
TD Meloche Monnex	11.0%	11.1%	11.1%	15.2%	15.8%	—
Wawanesa	13.3%	13.1%	12.9%	13.6%	14.0%	—
The Co-operators	8.0%	8.1%	8.0%	8.4%	8.0%	—
Total	50.8%	50.5%	50.4%	55.8%	56.5%	—
Written Premium⁴						
Total Premium (oos)	\$2,748,387	\$2,944,497	\$3,102,542	\$3,193,252	\$3,235,435	—
Private Passenger (oos)	\$2,054,395	\$2,179,775	\$2,314,354	\$2,430,226	\$2,463,220	—
Average Written Premiums for Private Passenger Vehicles⁴						
Basic Coverage	\$612	\$600	\$596	\$604	\$575	—
Additional Coverage	\$411	\$431	\$458	\$488	\$506	—
Total	\$1,023	\$1,031	\$1,054	\$1,092	\$1,081	—
% change from prior year	—	0.8%	2.2%	3.6%	-1.0%	—
Written Private Passenger Vehicles⁴						
Non Grid	89.5%	90.7%	91.7%	92.8%	93.0%	—
Grid	10.5%	9.3%	8.3%	7.2%	7.0%	—
# Vehicles Insured	2,007,034	2,113,044	2,196,078	2,225,383	2,278,498	—
% change from prior year	—	5.3%	3.9%	1.3%	2.4%	—
Estimated Total Claims⁴						
All Automobile (oos)	\$1,704,316	\$1,988,500	\$2,028,528	\$1,930,086	\$2,128,396	—
Private Passenger (oos)	\$1,303,884	\$1,540,344	\$1,571,614	\$1,551,047	\$1,730,040	—
Private Passenger Loss Ratio	65.7%	72.8%	69.9%	65.2%	72.7%	—
% change from prior year	—	10.8%	-4.1%	-6.7%	11.5%	—
Minor Injury Cap (effective October 1, 2004) ⁵	\$4,000	\$4,144	\$4,339	\$4,504	\$4,518	\$4,559
Other						
Health Cost Recovery (Millions) ³	\$75	\$80	\$85	\$90	\$90	\$95
Board Adjustments to Basic Coverage	-3%	0%	+5%	-5%	-5%	0%
Industry Levy	\$962,538	\$1,123,000	\$766,958	\$958,765	\$921,029	\$1,140,877

³ Source: Superintendent of Insurance (most recent available data for 2010)

⁴ Source: GISA Statistical Exhibits (most recent available data for 2010)

⁵ Amount assessed to industry under *Hospitals Act* for costs of automobile accident related injuries

Board Applications

	2007	2008	2009	2010	2011
Section 6 – Private Passenger Rating Program Review					
Approved	10	0	1	2	7
Modified	3	1	0	0	1
Declined	4	0	0	0	0
Total	17	1	1	2	8
Section 10 – Private Passenger Rating Program New Entrant					
Approved	1	2	1	1	0
Modified	0	0	0	0	0
Declined	0	0	0	0	0
Total	1	2	1	1	0
Section 19 – Other Than Private Passenger Rating Program Review/New Entrant					
Approved	14	16	22	16	21
Modified	5	2	3	2	0
Declined	1	0	0	0	1
Total	20	18	25	18	22

Board Notices

	2007	2008	2009	2010	2011
Section 5 – Basic Coverage	11	13	19	17	11
Section 9 – Additional Coverage	46	78	44	41	35

APPENDIX IV ACTIVE INSURERS

List of Active Automobile Insurers and Direct Written Automobile Premium for 2010

Name of Company	2010 (thousands)		
ACE INA Insurance	10,928	Intact Financial Group	
Alberta Motor Association Insurance Company	193,062	Intact Insurance Company	453,625
Alberta Municipal Insurance Exchange	790	Novex Insurance Company of Canada	58,090
Allianz Global Risk US Insurance Company	2,362	Trafalgar Insurance Company of Canada	15,184
Allstate Canada		Jevco Insurance Company	26,504
Allstate Insurance Company of Canada	56,804	Liberty Mutual Insurance Company	10,334
Pembroke Insurance Company	9,154	Lloyd's Underwriters	2,002
American Road Insurance Company	1,136	Mennonite Mutual Insurance Co (Alberta) Ltd.	17
Arch Insurance Company	894	Millennium Insurance Corporation	17,659
Aviva Canada Inc.		Motors Insurance Corporation	2,544
Aviva Insurance Company of Canada	171,530	Nipponkoa Insurance Company, Limited	5
Elite Insurance Company	17,631	Northbridge Financial Corporation	
Scottish & York Insurance Co. Limited	1,378	Federated Insurance Company of Canada	20,410
Traders General Insurance Company	26,676	Lombard General Insurance Company of Canada	21,734
AXA Canada		Lombard Insurance Company	38
AXA Insurance (Canada)	5	Markel Insurance Company of Canada	36,046
AXA Pacific Insurance Company	101,190	Zenith Insurance Company	760
Canadian Direct Insurance Incorporated	46,267	Old Republic Insurance Company of Canada	5,755
Canadian Farm Insurance Corporation	4,071	Optimum West Insurance Company	2,989
Canadian Northern Shield Insurance Company	1	Peace Hills General Insurance Company	62,487
Chartis Insurance Company of Canada	8,443	Portage La Prairie Mutual Insurance Company (The)	23,357
Chubb Canada		Protective Insurance Company	33
Chubb Insurance Company of Canada	2,783	RBC Insurance	
Federal Insurance Company	437	RBC General Insurance Company	34,940
Continental Casualty Company	6,671	RBC Insurance Company of Canada	9,007
The Co-operators		Royal & Sun Alliance Insurance Group	
Co-operators General Insurance Company	224,412	Royal & Sun Alliance Insurance Company of Canada	56,292
Coseco Insurance Company	12,302	Unifund Assurance Company	142,570
Sovereign General Insurance Company (The)	11,526	Saskatchewan Mutual Insurance Company	1
CorePointe Insurance Company	424	Sentry Insurance A Mutual Company	45
Cumis General Insurance Company	2,364	SGI CANADA Insurance Services Ltd.	22,756
Desjardins General Insurance Group		St. Paul Fire and Marine Insurance Company	16,060
Certas Direct Insurance Company	7,958	State Farm Mutual Automobile Insurance Company	120,989
Personal Insurance Company (The)	33,922	Sumitomo Marine and Fire Insurance Company Limited (The)	591
Dominion of Canada General Insurance Company (The)	76,957	TD Insurance	
Echelon General Insurance Company	673	Primum Insurance Company	90,379
The Economical Insurance Group		Security National Insurance Company	296,989
Economical Mutual Insurance Company	101,930	TD Home and Auto Insurance Company	23,324
Federation Insurance Company of Canada	880	Tokio Marine & Nichido Fire Insurance Co. Ltd.	262
Missisquoi Insurance Company	2	Wawanesa Mutual Insurance Company (The)	476,568
Waterloo Insurance Company	7,100	XL Reinsurance America Inc.	26
Electric Insurance Company	127	York Fire & Casualty Insurance Company	1,334
Fortress Insurance Company	646	Zurich Insurance Company	57,587
GCAN Insurance Company	5,484		
Guarantee Company of North America (The)	1,051		
Hartford Fire Insurance Company	126		

Source: Superintendent of Insurance 2010 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





Try scanning this QR Code from your smart phone or tablet to visit our website – where you can get up-to-date information about the AIRB, view annual reports and more.



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