

Alberta

Automobile Insurance Rate Board – 2012 Annual Report

For the Year Ended December 31, 2012

2012





**Automobile Insurance Rate Board – 2012 Annual Report**  
For the Year Ended December 31, 2012



## 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 2012 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, 2012. All significant decisions, events and identified risks as of December 31, 2012 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 2012 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 Act*, section 599(1), I am pleased to submit the 8<sup>th</sup> Annual Report of the Automobile Insurance Rate Board, for the year ended December 31, 2012.

Sincerely,

**[Original signed by Alfred H. Savage]**

Alfred H. Savage  
Chair  
Automobile Insurance Rate Board



(AIRB)

# AUTOMOBILE INSURANCE RATE BOARD

## Automobile Insurance Rate Board

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

**Phone:** 780.427.5428

**Fax:** 780.638.4254

**Email:** [airb@gov.ab.ca](mailto:airb@gov.ab.ca)

For an electronic copy of this report,  
please visit: [www.airb.alberta.ca](http://www.airb.alberta.ca)



## VISION

An efficient and effective automobile insurance market with fair and predictable rates.

## MISSION

As an independent body, the AIRB will regulate rating programs of Alberta automobile insurers to ensure premiums are fair and predictable. The Board will also ensure consumers have access to information to facilitate informed choices.

## VALUES

- **Respect**

We foster an environment where consumers, industry, government and Board/staff members are valued and heard.

- **Accountability**

We are accountable for our actions and for contributing to the efficacy of the auto insurance system.

- **Integrity**

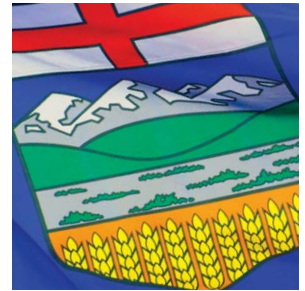
We behave ethically and are open, honest and fair in our dealings.

- **Excellence**

We use innovation and continuous improvement to achieve excellence.

# TABLE OF CONTENTS

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



## CHAIR'S MESSAGE



Alfred Savage, Chair

It is my privilege to submit the Automobile Insurance Rate Board's 8<sup>th</sup> annual report for the year ended December 31, 2012.

Alberta's automobile insurance market maintained its relative stability through 2012, with consumers benefitting from automobile insurance premiums that on average remained close to 2011 levels.

This past September, the Board organized a seminar on Usage Based Insurance. Our objective was to bring together stakeholders to hear from automobile insurance experts in industry and government on an emerging trend for rating automobile insurance that monitors drivers' behaviour in an effort to provide greater accuracy in pricing the automobile insurance product and, ultimately, reduce claim costs by providing incentive to modify driving behaviour. By adding a telematics device to vehicles, data may be collected that will assist insurers to more accurately price insurance resulting in better rates for better drivers. These telematics devices are currently in use in Europe and the United States and have just begun to enter the Canadian market. In 2013, the Board will be reviewing this phenomenon more closely to determine its suitability for Alberta consumers.

In November, the Board was invited to take part in a review of the *Automobile Insurance Premiums Regulation* hosted by the Superintendent of Insurance. The Board remains committed to a new *Premiums Regulation* that would move 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.

It continues to be a privilege and honor for me to serve as Chair of the Automobile Insurance Rate Board. I am very appreciative of the expertise that our Board members bring to the table and to our management and staff for their ongoing dedication and support. I would also like to thank the Honourable Doug Horner, President of Treasury Board and Minister of Finance, Annette Trimbee, Deputy Minister; Mark Prefontaine, Assistant Deputy Minister and his department for their continued support for the AIRB.

I look forward to 2013, 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

Throughout 2012, the Board continued to hear from companies that the Alberta market is stable, competitive and a good place to grow their business. The year 2012 saw the completion of our 8<sup>th</sup> annual industry-wide adjustment resulting in an adjustment of up to 5% to basic coverage insurance premiums, a continued focus on consumer information on our website, the possibility of a new insurance product in Alberta and a continued review of *Alberta's Premiums Regulation*. While the average premium for basic coverage increased, in a number of cases any increase was offset by a reduction of additional premiums, resulting in very little change in rates. 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 Regulators Association (CARR) and participated in its training and networking opportunities.

## Annual Industry-wide Rate Adjustment

The Board is required under Section 602(1) 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 2011. Stakeholders were given the opportunity to respond to the analysis at a public meeting held on June 12<sup>th</sup>, in Calgary. During the public meeting, the consumer representative and five stakeholders presented to the Board. In addition, the Board received four written submissions.

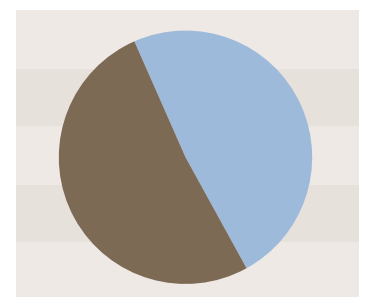
The determination of premiums is a complex process with insurance experts and actuaries reviewing past data related to the frequency and severity of claims, expected rate of return on investment, the economy and other factors to estimate the likelihood and cost of future claims. The goal is a reasonable 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 public meetings in conjunction with its actuarial analysis. The Board accepted the factors that developed an indicated 11.5% deficiency in premium level for basic coverage; however, felt it was appropriate to take a measured approach to increasing the basic coverage premium level. Based on this input, the Board on July 26, 2012 issued Order 01-12 permitting insurers to increase premiums for basic coverage automobile insurance in Alberta by up to 5% on or after November 1, 2012. The previous adjustment ordered for November 1, 2011 was for no change in basic coverage rates.

The chart shows the average written private passenger premium for 2011 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

### 2011 Average Private Passenger Premium



- Board Regulates Basic Coverage **\$551**
- Board Monitors Additional Coverage **\$518**

Source: GISA statistical data

## Rates

As noted above, the 2012 Industry-wide Adjustment process resulted in the Board permitting insurers to increase premiums for basic coverage automobile insurance in Alberta by up to 5% on or after November 1, 2012. As at December 31, 2012, 18 of 75 companies representing 65% of the market had taken all or part of the 5% adjustment. In some cases, this increase was offset by a similar reduction to additional coverage. Companies are permitted up to three years to implement any or all of the permitted increase.

The 2011 average premium of \$551 for basic coverage on private passenger vehicles as shown in Appendix III remains below the 2007 rate of \$603. The average premium for additional coverage has increased annually from \$434 in 2007 to \$518 in 2011.

The average total premium for all coverage has decreased from \$1,081 for 2010 to \$1,069 for 2011. While the total premium has increased from \$1,037 in 2007, the increase remains well below the rate of inflation for this same period.

## Board Applications

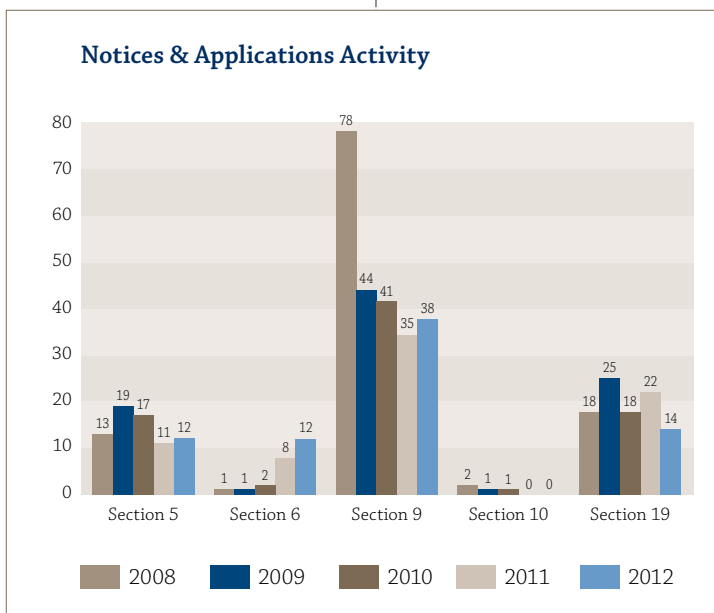
As required under the *Automobile Insurance Premiums Regulation*, the Board reviews and rules on applications under Sections 6, 10 and 19.

- **Section 6** allows insurers to apply to the Superintendent of Insurance for a review of their private passenger rating program for basic coverage<sup>1</sup>, which may be directed to the Board for review. Twelve section 6 applications were received in 2012 up from 8 applications in 2011.
- **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 2012.

- **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 14 applications under Section 19 in 2012 compared to 22 in applications 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 where 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 12 Section 5 notices in 2012.



Source: Superintendent of Insurance

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



- **Section 9** requires written notice to the Board of changes to their rating programs for additional coverage<sup>2</sup>, The Board received 38 Section 9 notices in 2012.

See Appendix II for more information on applications.

## 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. The AIRB's website features a comprehensive interactive rate comparison tool that allows drivers to compare insurance rates by company for a sample 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 tool, drivers and consumers can find a wide range of consumer information on our website such as getting insurance, factors that affect 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](http://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 on 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. As part of her process, she also reviewed data from other provinces, traffic safety trends and other indicators. Consumers also contacted her by e-mail and letter with their specific concerns. The results of her findings included the following:

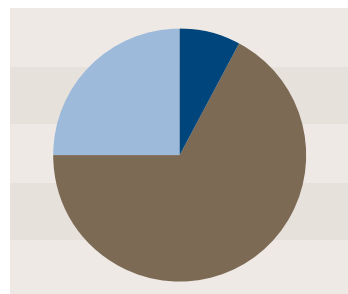
- 58% of consumers surveyed agreed that premiums are 'fair and reasonable', up from 54% in the prior year.
- Many drivers with no 'at-fault claims' still feel that they pay too much and that the difference in premium between good drivers and poor drivers is not large enough.
- 36% of consumers polled obtained a competitive quote for insurance and of these, 90% stayed with their existing insurer, compared to 86% in the prior year.
- There has been no increase in calls to the Superintendent of Insurance.
- Consumers support the distracted driving legislation and felt that greater enforcement and information is needed.

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.

---

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

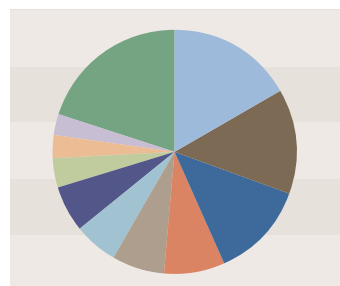
**Distribution of Premium Dollar for 2011 Private Passenger Vehicles**



- Underwriting Profit **8%**
- Administrative Expenses **25%**
- Estimated Claims **67%**

Source: GISA statistical data and IBC Automobile Expense Survey

**2011 Market Share of Total Automobile Insurance Premium**



- Intact Insurance Company **17%**
- Wawanesa Mutual Insurance Company (The) **14%**
- 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 **19%**

Source: Superintendent of Insurance 2011 Annual Report

Ms Taylor also provided input to the Government’s review of the Diagnostic and Treatment Protocols Regulation and Minor Injury Regulation based on her discussions with consumers.

**Usage Based Insurance**

Usage-based Insurance (UBI) is an emerging competitive insurance product in Europe and the United States and while Canada has been slow to adopt this product, momentum is gathering. Usage-based Insurance utilizes a telematics device to collect data related to driver behaviour. This device records data on factors statistically proven to impact risk, including how much, how fast and when a car is driven along with other phenomena such as hard braking. The data captured has been proven to be highly predictive. This data allows insurers to monitor drivers’ behaviour in an effort to provide greater accuracy in pricing the automobile insurance product and, ultimately, works to reduce claim costs by providing incentive to modify driving behaviour.

In order to better understand this emerging trend, this past September, the Board organized a symposium on Usage Based Insurance. Our objective was to bring together stakeholders to hear from automobile insurance experts in industry and government on this new product. What we heard was that this product will enable insurers to more accurately price the insurance product, will provide feedback to drivers to alter/improve driving behaviour and can provide additional services to drivers such as GPS tracking for theft deterrent, engine service information, door unlock, location assistance etc. The Board is currently working to identify issues or concerns that need further review prior to making a determination on its suitability for Alberta consumers.

**Proposed Amendments to the Automobile Insurance Premiums Regulation**

In the fall of 2012, the Board along with other stakeholders participated in a further review of the current *Premiums Regulation*, hosted by Alberta’s Superintendent of Insurance. The AIRB continues to work with Treasury Board and Finance to support 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 believes that consumers would be better served if it were to regulate additional coverage as well. Should the proposed changes to this regulation be approved, 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, 75 automobile insurance companies were active in Alberta in 2011, a decrease of two insurers over 2010. Of these companies, four insurer groups represented 57% of all written premium, up from 51% in 2007. The chart to the left identifies the distribution of written premium by corporate group in Alberta for 2011 (corporations may operate more than one insurer).



In 2011, the automobile insurance industry collected \$3.3 billion in written premium from which they expect to pay \$2.1 billion in claims. The overall private passenger loss ratio in Alberta for 2011 was 67%, down from 73% in 2010.

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 rose in 2010 and 2011, reversing a declining trend of many years. Severity and frequency increased for third party liability property damage and collision claims. Comprehensive loss costs experienced a sharp decline in 2011. While it appears that overall premium levels should remain reasonably stable, there seems to be a need for 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 annual assessment for 2012 was \$1,140,877.

The Board's operations totalled \$1.1 million for the fiscal year ended March 31, 2012, a 5% decrease over the prior year. Further financial information is available under Statement of Operations and Surplus (see page 8).

## Looking Ahead to 2013

The AIRB will:

- Continue to support a move to a "File and Approve" system that regulates all coverage.
- Review the emerging Usage Based Insurance product to identify issues or concerns that need to be addressed prior to making a determination on its suitability for Alberta Consumers.
- Continue its review of the GRID to ensure that outcomes reflect its original objectives.
- Continue its review of rating territories for basic and additional coverage.
- Continue its involvement with the General Insurance Statistical Agency and regulators across Canada.
- 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.

I would like to express my appreciation and thanks to our Chair and Board members, for their leadership and diligence in carrying out their mandate. In addition I would also like to thank our staff and consulting actuaries for their commitment to excellence. It is this team working with stakeholders that allows the AIRB to 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

“While the average premium for basic coverage increased, in a number of cases any increase was offset by a reduction of additional premiums, resulting in very little change in rates.”

# STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2011 to March 31, 2012

	<b>2011-12 Budget</b>	<b>2011-12 Actual</b>	<b>2010-11 Actual</b>
<b>Revenue</b>			
Annual Industry Levy	\$ 1,346,000	\$ 1,346,000	\$ 1,304,000
– less accumulated surplus	205,119	205,119	382,971
– less other	—	4	—
	<hr/>	<hr/>	<hr/>
Net Annual Industry Levy	\$ 1,140,881	\$ 1,140,877	\$ 921,029
Actuarial Services	30,000	72,217	16,699
Other	—	187	—
	<hr/>	<hr/>	<hr/>
	<b>\$ 1,170,881</b>	<b>\$ 1,213,281</b>	<b>\$ 937,728</b>
<b>Expense</b>			
Operations	\$ 781,000	\$ 685,190	\$ 726,700
Actuarial and Contract Services	430,000	224,310	259,863
Board Honoraria and Expenses	165,000	149,922	129,017
	<hr/>	<hr/>	<hr/>
	<b>\$ 1,376,000</b>	<b>\$ 1,059,422</b>	<b>\$ 1,115,580</b>
<b>Surplus/(Shortfall)</b>	(\$ 205,119)	\$ 153,859	(\$ 177,852)
Accumulated Surplus Beginning	205,119	205,119	382,971
Accumulated Surplus End	—	358,978	205,119

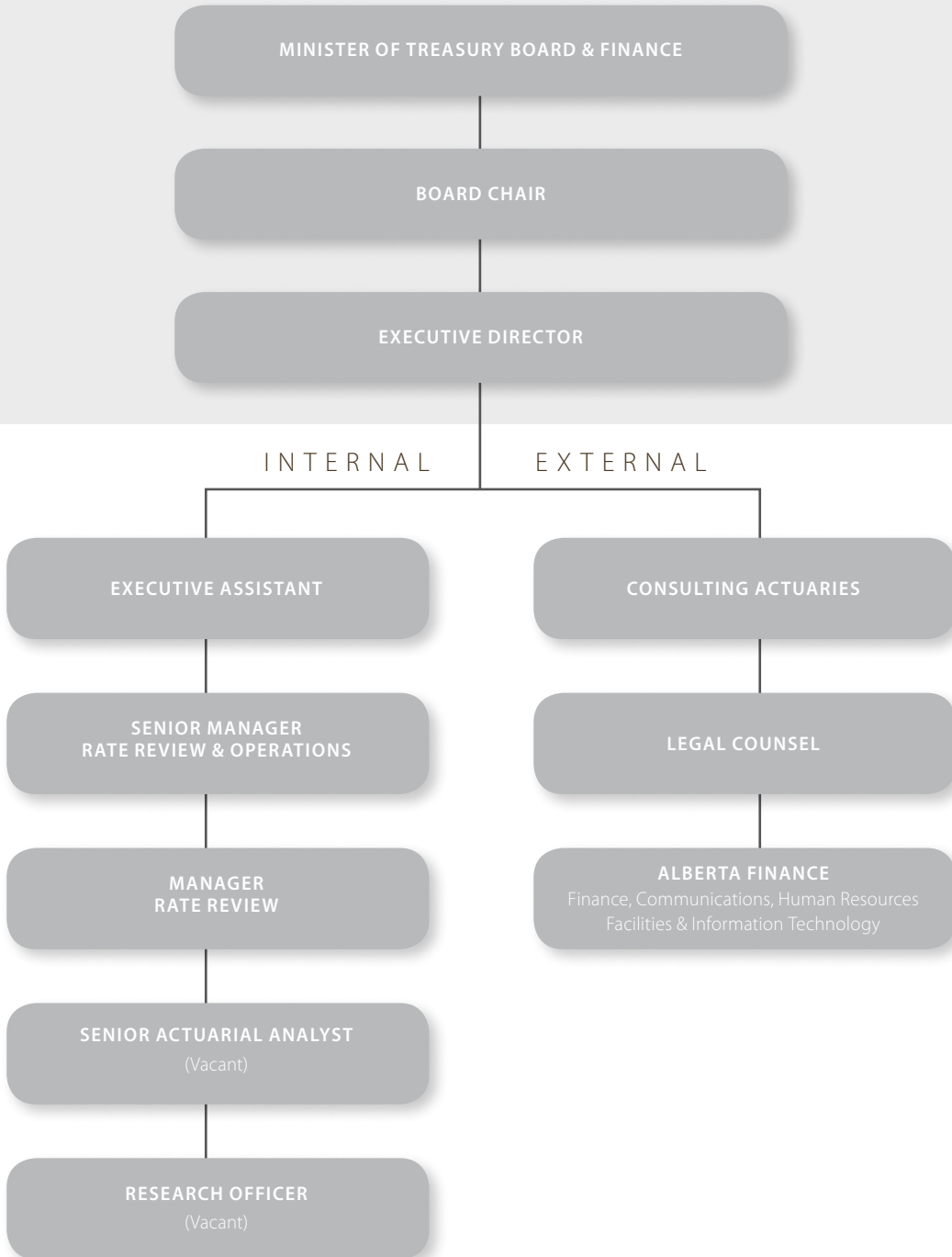
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per *Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation*, the Board is fully funded by industry in the following two ways:

- An Annual Industry Levy which represents the Board's annual budget offset by an amount estimated for recovery of actuarial costs and prior years accumulated surplus or shortfall. This levy is shared by each insurer based on actual direct premiums written in the prior year; and
- 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 2012



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 Treasury Board & Finance.

# CORPORATE GOVERNANCE

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

## **Relationship to Government**

The Minister of Treasury Board & Finance 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 regulations.

Board decisions regarding applications, premium levels and other related areas are made independent 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 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 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 2012 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.

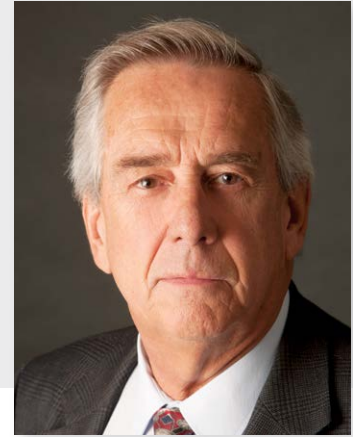
### *Chair*



*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**

*Consumer  
 Representative*



*Jim Murta*  
**Retired Actuary**  
**Calgary**



*Mark Prefontaine*  
**Superintendent of Insurance**  
**Edmonton**  
**Non-voting Member**



*Merle Taylor*  
**Management Consultant**  
**Edmonton**

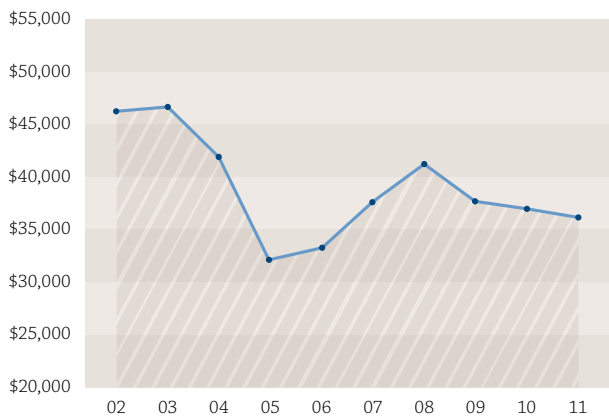
# APPENDIX I MARKET

In 2011, the automobile insurance industry collected \$3.3 billion in written premium from which it expects to pay \$2.1 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 market of 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 2011. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

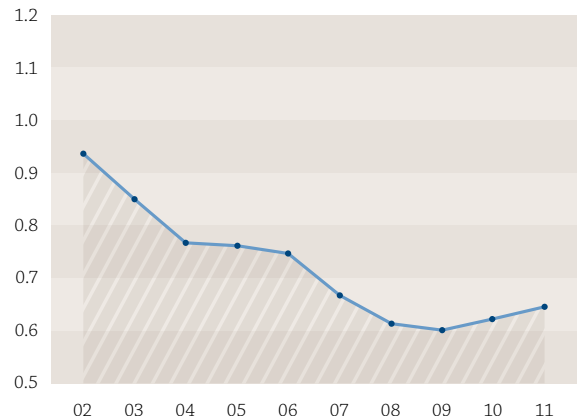
Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period, 2002 to 2011. Bodily injury claims can take five or more years to mature 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 \$33,000 for 2005, but average claim cost resurged to \$42,000 for 2008 before settling back to \$37,000 for 2011. 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 through 2011. 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 and 2011 saw the first increases over the prior year since the late 1990s.

**Figure 1 – Bodily Injury Severity**



Source: GISA Statistical Exhibit

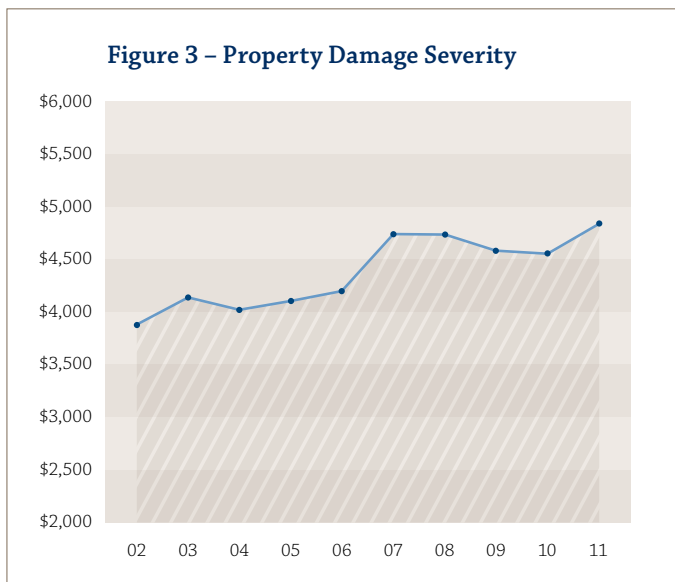
**Figure 2 – Bodily Injury Frequency**



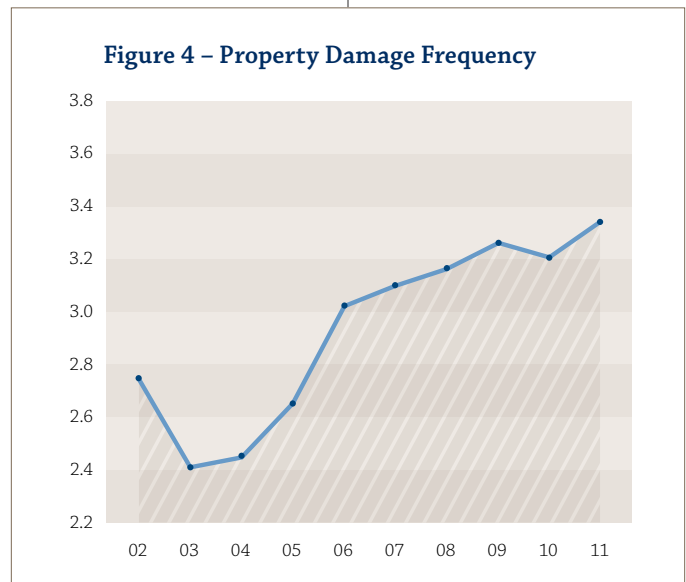
Source: GISA Statistical Exhibit

Bodily injury claims made up 80% of third party liability claim costs in 2002 compared to 60% in 2011. The *Minor Injury Regulation* adjusted the cap to \$4,641 as of January 1, 2012.

Figure 3 shows that property damage average claim costs have fluctuated, though they are showing an overall upward trend. The average claim increased from \$3,900 to \$4,800 over the ten year period shown. Figure 4 shows a decline in claim frequency through 2003 that would offset the increasing severity of claims. However, frequency increased each year since 2003 with a slight dip in 2010 that is at least partially attributable to very favourable winter driving conditions.



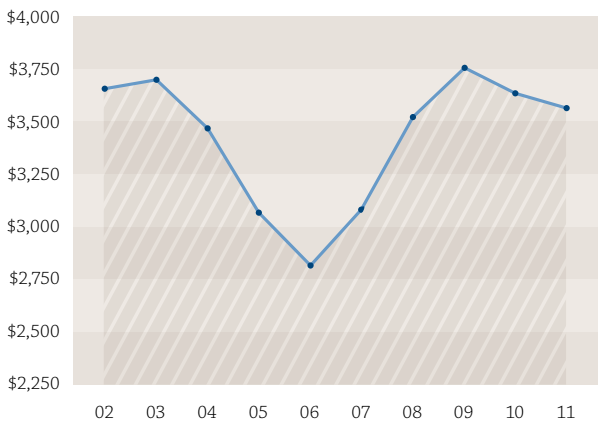
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

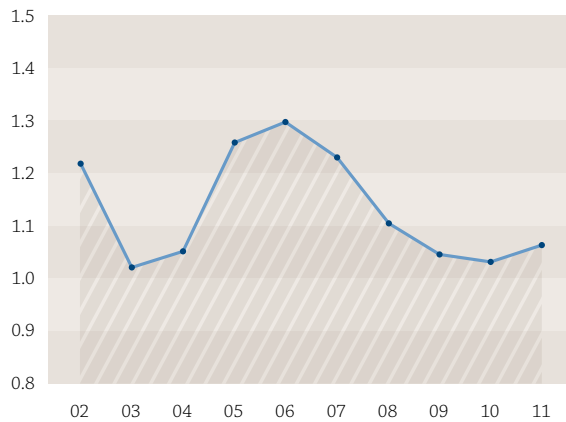
Accident benefits are the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims increasing through 2003 and then declining for 2004 through 2006 with increases occurring for 2007 through 2009 when average severity reached \$3,800. Severity abated for 2010 and 2011 with an average severity of about \$3,600 for the most recent year. Figure 6 relates to the frequency of claims per 100 vehicles insured; there is a decline though 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. The increase for 2011 may be isolated or may be consistent with recent increases in frequency of third party liability bodily injury claims.

**Figure 5 – Accident Benefits Severity**



Source: GISA Statistical Exhibit

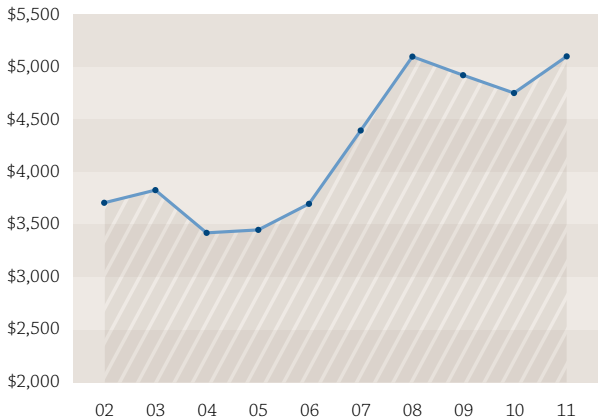
**Figure 6 – Accident Benefits Frequency**



Source: GISA Statistical Exhibit

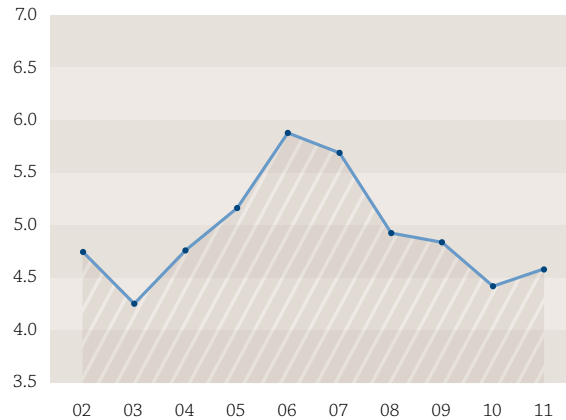
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily from 2005 to \$5,100 by 2008 but has not exceeded that level in the years since. Figure 8 relates to the frequency of collision 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. 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 the impact of any increases in severity of claims.

**Figure 7 – Collision Severity**



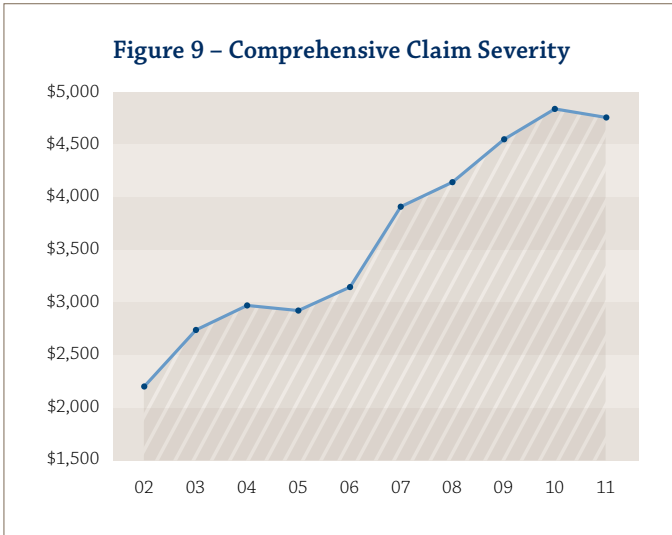
Source: GISA Statistical Exhibit

**Figure 8 – Collision Frequency**

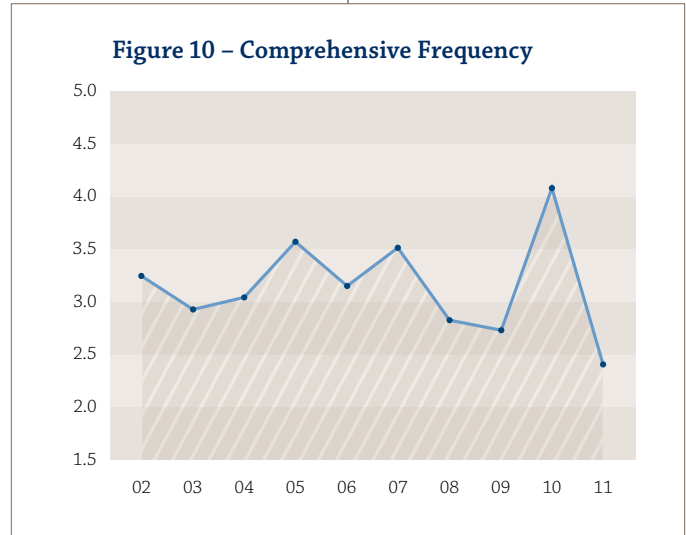


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has quite continuously moved upward to \$4,800 as shown in Figure 9. Figure 10 shows a fluctuating frequency of claims in recent years with a very steep increase for 2010 followed by an even greater decline for 2011. Frequency is impacted by weather related catastrophes.

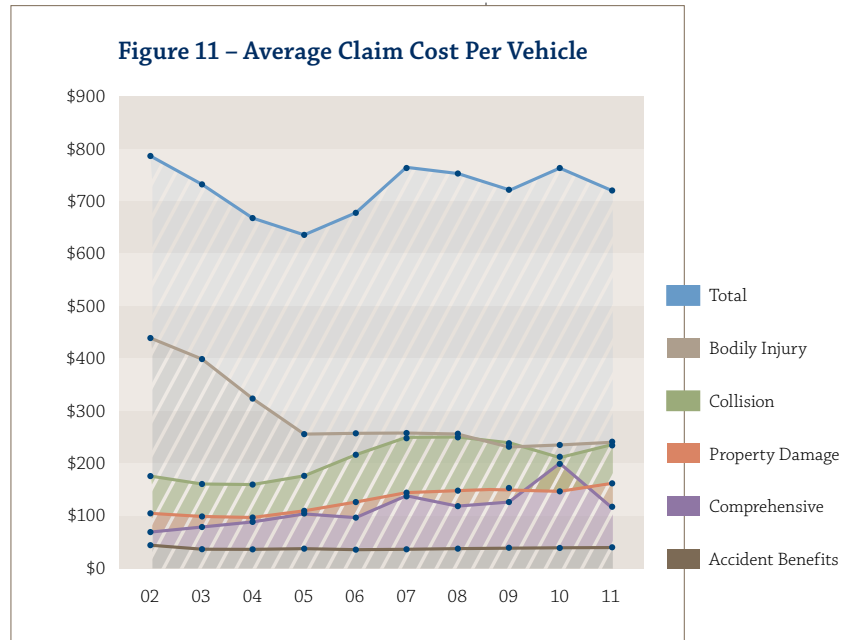


Source: GISA Statistical Exhibit



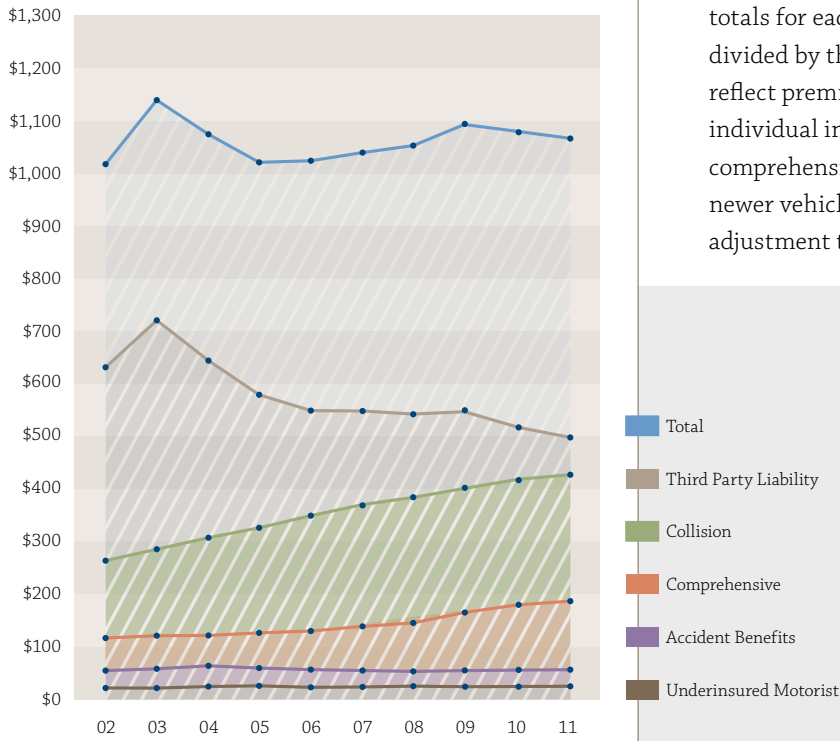
Source: GISA Statistical Exhibit

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.



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

The 2012 Industry-wide Adjustment process resulted in the Board permitting an increase of up to 5% in premium level for basic coverage on private passenger vehicles effective November 1, 2012. That followed a 0% adjustment for 2011 and 5% decreases ordered in 2009 and 2010. The Board concluded that there was a deficiency in premium level for basic coverage. The following excerpt from Order 01-12 explains their decision.

The Board accepts the factors that develop an indicated 11.5% deficiency in premium level for basic coverage. The available

information supports that an increase in average premium level for basic coverage is indicated for the upcoming policy year. In accordance with its mandate and vision, the AIRB determined that it is appropriate to take a measured approach to increasing the basic premium levels. Applications under Section 6 of the *Automobile Insurance Premiums Regulation* remain an option for insurers that require greater increases.

Premiums decreased for basic coverage and increased for additional coverage in 2011 for an overall change of -1.1% compared to 2010 (see Appendix III). The decrease in average premium for basic coverage is attributable to the -5% increase ordered under the 2010 industry-wide adjustment. The increase in frequency for bodily injury claims for 2010 that reversed a declining trend of many years continued into 2011. Two years of slightly increasing severity is not overly alarming but may suggest that frequency has bottomed.

The Board’s decision for the 2012 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. Discussions are taking place for transition to 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](http://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
SGI Canada Insurance Services Ltd.	27 - Jan - 2012	0.0%
Economical Mutual Insurance Company	27 - Jan - 2012	0.0%
Waterloo Insurance Company	27 - Jan - 2012	0.0%
Pembridge Insurance Company	27 - Jan - 2012	16.0%
State Farm Mutual Automobile Insurance Company	24 - Feb - 2012	7.1%
Peace Hills General Insurance Company	24 - Feb - 2012	1.2%
The Portage la Prairie Mutual Insurance Company	23 - Mar - 2012	15.0%
ACE INA Insurance	23 - Mar - 2012	0.0%
Unifund Assurance Company	13 - Jul - 2012	0.0%
Co-operators General Insurance Company	24 - Aug - 2012	0.2%
State Farm Mutual Automobile Insurance Company	24 - Oct - 2012	2.5%
RBC General Insurance Company/RBC Insurance Company of Canada	30 - Nov - 2012	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
Jevco Insurance Company	PPM	27 - Jan - 2012	0.0%
Echelon Insurance Company	PPM	27 - Jan - 2012	23.0%
Aviva Insurance Company of Canada	PPM	24 - Feb - 2012	115.3%
Traders General Insurance Company	PPM	24 - Feb - 2012	169.6%
Peace Hills General Insurance Company	C	24 - Feb - 2012	- 13.1%
ACE INA Insurance	C, CM	23 - Mar - 2012	0.0%
Travelers Guarantee Company of Canada	C, CM	27 - Apr - 2012	new
Protective Insurance Company	C, CM	20 - Sep - 2012	0.0%
Intact Insurance Company	C	20 - Sep - 2012	0.0%
Intact Insurance Company	CM	20 - Sep - 2012	20.1%
Intact Insurance Company/Novex Insurance Company	PPM	20 - Sep - 2012	56.3%
State Farm Mutual Automobile Insurance Company	PPM	24 - Oct - 2012	- 1.0% / - 5.0%
Intact Insurance Company	C	24 - Oct - 2012	0.0%
RBC General Insurance Company/RBC Insurance Company of Canada	PPM	30 - Nov - 2012	0.0%



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

Company	Review Date	Average Change
Aviva Insurance Company of Canada	14 - Feb - 2012	- 0.3%
Traders General Insurance Company	14 - Feb - 2012	- 0.9%
Allstate Insurance Company of Canada	24 - Apr - 2012	0.0%
Intact Insurance Company	26 - Apr - 2012	0.0%
Novex Insurance Company	26 - Apr - 2012	0.0%
Peace Hills General Insurance Company	9 - May - 2012	0.0%
Coseco Insurance Company	21 - Jun - 2012	- 1.3%
Intact Insurance Company	27 - Aug - 2012	0.0%
Novex Insurance Company	27 - Aug - 2012	0.0%
SGL Canada Insurance Services Ltd.	14 - Sep - 2012	- 0.2%
Allstate Insurance Company of Canada	4 - Oct - 2012	0.0%
Coseco Insurance Company	23 - Nov - 2012	0.0%

**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
Economical Mutual Insurance Company	18 - Jan - 2012	- 7.0%
Waterloo Insurance Company	18 - Jan - 2012	- 7.8%
SGL Canada Insurance Services Ltd.	27 - Jan - 2012	0.0%
Intact Insurance Company	6 - Feb - 2012	0.0%
Novex Insurance Company	6 - Feb - 2012	0.0%
Aviva Insurance Company of Canada	14 - Feb - 2012	- 0.5%
Traders General Insurance Company	14 - Feb - 2012	- 2.9%
State Farm Mutual Automobile Insurance Company	14 - Feb - 2012	- 8.9%
Peace Hills General Insurance Company	16 - Feb - 2012	- 7.8%
RBC General Insurance Company/RBC Insurance Company of Canada	24 - Feb - 2012	- 0.3%

*Continued on next page.*

## APPENDIX II SUMMARY OF APPLICATION DECISIONS AND NOTICES

*Continued from previous page.*

Pembridge Insurance Company	22 - Mar - 2012	1.7%
The Portage la Prairie Mutual Insurance Company	27 - Mar - 2012	-5.9%
Security National Insurance Company	12 - Apr - 2012	3.2%
Primum Insurance Company	12 - Apr - 2012	3.5%
TD Home and Auto Insurance Company	12 - Apr - 2012	2.5%
Allstate Insurance Company of Canada	24 - Apr - 2012	0.0%
Intact Insurance Company	26 - Apr - 2012	1.3%
Novex Insurance Company	26 - Apr - 2012	1.3%
Peace Hills General Insurance Company	9 - May - 2012	0.0%
Coseco Insurance Company	21 - Jun - 2012	-1.4%
Allstate Insurance Company of Canada	21 - Jun - 2012	1.4%
Pembridge Insurance Company	21 - Jun - 2012	2.0%
Alberta Motor Association Insurance Company	28 - Jun - 2012	-0.4%
Unifund Assurance Company	21 - Jun - 2012	0.0%
Aviva Insurance Company of Canada	12 - Jul - 2012	0.0%
Traders General Insurance Company	12 - Jul - 2012	0.0%
Alberta Motor Association Insurance Company	9 - Aug - 2012	0.1%
Co-operators General Insurance Company	20 - Aug - 2012	-1.4%
Wawanesa Mutual Insurance Company	24 - Aug - 2012	-4.9%
RBC General Insurance Company/RBC Insurance Company of Canada	30 - Aug - 2012	1.4%
Intact Insurance Company	6 - Sep - 2012	-3.2%
Novex Insurance Company	6 - Sep - 2012	-3.4%
Unifund Assurance Company	19 - Sep - 2012	5.8%
SGL Canada Insurance Services Ltd.	14 - Sep - 2012	-6.4%
Allstate Insurance Company of Canada	18 - Sep - 2012	-7.6%
State Farm Mutual Automobile Insurance Company	15 - Oct - 2012	-4.0%
Canadian Direct Insurance	8 - Nov - 2012	0.0%
Coseco Insurance Company	23 - Nov - 2012	-5.6%

# APPENDIX III STATISTICS

## Automobile Insurance Fact Page

	2007	2008	2009	2010	2011	2012
Active Insurance Companies <sup>3</sup>	69	70	74	77	75	—
<b>Private Passenger Market Share for Largest Insurer Groups<sup>3</sup></b>						
Intact Financial Group	18.2%	18.4%	18.6%	18.7%	19.4%	—
TD Meloche Monnex	11.1%	11.1%	15.2%	15.8%	15.7%	—
Wawanesa	13.1%	12.9%	13.6%	14.0%	13.9%	—
The Co - operators	8.1%	8.0%	8.4%	8.0%	8.0%	—
Total	50.5%	50.4%	55.8%	56.5%	57.0%	—
<b>Written Premium<sup>4</sup></b>						
Total Premium (oos)	\$2,944,626	\$3,102,631	\$3,193,723	\$3,243,195	\$3,303,426	—
Private Passenger (oos)	\$2,179,938	\$2,311,093	\$2,429,918	\$2,464,525	\$2,507,409	—
<b>Average Written Premiums for Private Passenger Vehicles<sup>4</sup></b>						
Basic Coverage	\$603	\$596	\$604	\$575	\$551	—
Additional Coverage	\$434	\$458	\$488	\$506	\$518	—
Total	\$1,037	\$1,054	\$1,092	\$1,081	\$1,069	—
% change from prior year	—	1.7%	3.6%	-1.0%	-1.1%	—
<b>Written Private Passenger Vehicles<sup>4</sup></b>						
Non Grid	90.6%	91.7%	92.8%	92.9%	92.8%	—
Grid	9.4%	8.3%	7.2%	7.1%	7.2%	—
# Vehicles Insured	2,102,443	2,192,686	2,225,247	2,280,492	2,346,291	—
% change from prior year	—	4.3%	1.5%	2.5%	2.9%	—
<b>Estimated Total Claims<sup>4</sup></b>						
All Automobile (oos)	\$2,026,904	\$2,089,844	\$1,988,354	\$2,107,442	\$2,113,651	—
Private Passenger (oos)	\$1,566,472	\$1,615,488	\$1,595,275	\$1,715,131	\$1,668,002	—
Private Passenger Loss Ratio	74.1%	71.8%	67.1%	70.1%	67.4%	—
% change from prior year	—	-3.1%	-6.6%	4.5%	-3.9%	—
<b>Minor Injury Cap</b> (effective October 1, 2004) <sup>5</sup>	\$4,144	\$4,339	\$4,504	\$4,518	\$4,559	\$4,641
<b>Other</b>						
Health Cost Recovery (Millions) <sup>3</sup>	\$80	\$85	\$90	\$90	\$95	\$100
Board Adjustments to Basic Coverage	0%	+5%	-5%	-5%	0%	+5%
Industry Levy	\$1,123,000	\$766,958	\$958,765	\$921,029	\$1,140,877	\$1,005,932

<sup>3</sup> Source: Superintendent of Insurance (most recent available data for 2011)

<sup>4</sup> Source: GISA Statistical Exhibits (most recent available data for 2011)

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

## Board Applications

	2008	2009	2010	2011	2012
<b>Section 6 – Private Passenger Rating Program Review</b>					
Approved	0	1	2	7	10
Modified	1	0	0	1	2
Declined	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>8</b>	<b>12</b>
<b>Section 10 – Private Passenger Rating Program New Entrant</b>					
Approved	2	1	1	0	0
Modified	0	0	0	0	0
Declined	0	0	0	0	0
<b>Total</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>Section 19 – Other Than Private Passenger Rating Program Review/New Entrant</b>					
Approved	16	22	16	21	13
Modified	2	3	2	0	1
Declined	0	0	0	1	0
<b>Total</b>	<b>18</b>	<b>25</b>	<b>18</b>	<b>22</b>	<b>14</b>

## Board Notices

	2008	2009	2010	2011	2012
<b>Section 5 – Basic Coverage</b>	13	19	17	11	12
<b>Section 9 – Additional Coverage</b>	78	44	41	35	38

# APPENDIX IV ACTIVE INSURERS

## List of Active Automobile Insurers and Direct Written Automobile Premium for 2011

Name of Company	2011 (thousands)		
ACE INA Insurance	11,431	Jevco Insurance Company	27,519
Alberta Motor Association Insurance Company	197,185	La Capitale General Insurance Inc.	65
<b>Allstate Canada</b>		Liberty Mutual Insurance Company	11,416
Allstate Insurance Company of Canada	66,392	Lloyd's Underwriters	2,472
Pembridge Insurance Company	9,223	Mennonite Mutual Insurance Co (Alberta) Ltd.	16
American Road Insurance Company	1,250	Millennium Insurance Corporation	18,187
Arch Insurance Company	959	Motors Insurance Corporation	2,722
<b>Aviva Canada Inc.</b>		Nipponkoa Insurance Company, Limited	10
Aviva Insurance Company of Canada	174,396	<b>Northbridge Financial Corporation</b>	
Elite Insurance Company	18,666	Federated Insurance Company of Canada	19,043
Traders General Insurance Company	26,046	Northbridge Commercial Insurance Company	35,297
<b>AXA Canada</b>		Northbridge General Insurance Company	24,536
AXA Insurance (Canada)	352	Northbridge Personal Insurance Company	35
AXA Pacific Insurance Company	109,708	Zenith Insurance Company	663
Canadian Direct Insurance Incorporated	46,876	Old Republic Insurance Company of Canada	7,660
Canadian Farm Insurance Corporation	4,164	Optimum West Insurance Company	3,204
Canadian Northern Shield Insurance Company	1	Peace Hills General Insurance Company	61,367
Chartis Insurance Company of Canada	9,757	Portage La Prairie Mutual Insurance Company (The)	25,651
<b>Chubb Canada</b>		Protective Insurance Company	89
Chubb Insurance Company of Canada	4,629	<b>RBC Insurance</b>	
Federal Insurance Company	13	RBC General Insurance Company	37,315
Continental Casualty Company	7,804	RBC Insurance Company of Canada	11,141
<b>The Co-operators</b>		<b>Royal &amp; Sun Alliance Insurance Group</b>	
Co-operators General Insurance Company	236,972	Royal & Sun Alliance Insurance Company of Canada	55,802
Coseco Insurance Company	12,640	Unifund Assurance Company	145,154
Sovereign General Insurance Company (The)	12,790	Sentry Insurance A Mutual Company	61
Cumis General Insurance Company	2,687	SGI CANADA Insurance Services Ltd.	25,862
<b>Desjardins General Insurance Group</b>		St. Paul Fire and Marine Insurance Company	14,950
Certas Direct Insurance Company	9,526	State Farm Mutual Automobile Insurance Company	120,189
Personal Insurance Company (The)	34,536	Sumitomo Marine and Fire Insurance Company Limited (The)	612
Dominion of Canada General Insurance Company (The)	73,821	<b>TD Insurance</b>	
Echelon General Insurance Company	336	Primum Insurance Company	97,947
<b>The Economical Insurance Group</b>		Security National Insurance Company	301,949
Economical Mutual Insurance Company	102,515	TD Home and Auto Insurance Company	21,485
Federation Insurance Company of Canada	905	Tokio Marine & Nichido Fire Insurance Co. Ltd.	361
Missisquoi Insurance Company	2	Unica Insurance Inc.	65
Waterloo Insurance Company	6,469	Urban School Insurance Consortium Recipicol	113
Electric Insurance Company	92	Wawanesa Mutual Insurance Company (The)	484,563
Fortress Insurance Company	804	XL Reinsurance America Inc.	28
<b>GCAN Insurance Company</b>		Zurich Insurance Company	52,213
Guarantee Company of North America (The)	1,000		
Hartford Fire Insurance Company	90		
<b>Intact Financial Group</b>			
Intact Insurance Company	476,920		
Novex Insurance Company of Canada	62,080		
Trafalgar Insurance Company of Canada	15,675		

Source: Superintendent of Insurance 2011 Annual Report

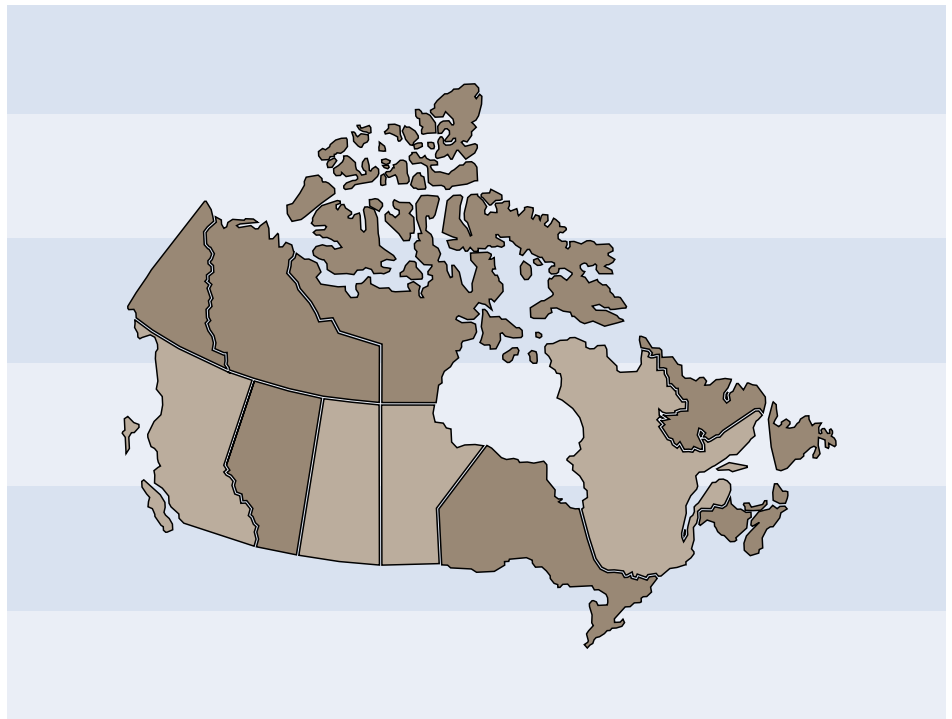




**NOTES:**

- 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.



**Automobile Insurance Rate Board**

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

Phone: 780.427.5428

Fax: 780.638.4254

Email: [airb@gov.ab.ca](mailto:airb@gov.ab.ca)

[www.airb.alberta.ca](http://www.airb.alberta.ca)

