

Alberta

Automobile Insurance Rate Board – 2013 Annual Report

For the Year Ended December 31, 2013

2013





Automobile Insurance Rate Board – 2013 Annual Report
For the Year Ended December 31, 2013



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 2013 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, 2013. All significant decisions, events and identified risks as of December 31, 2013 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 2013 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 9th Annual Report of the Automobile Insurance Rate Board, for the year ended December 31, 2013.

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

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



VISION

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

MISSION

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

VALUES

- **Respect**

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

- **Accountability**

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

- **Integrity**

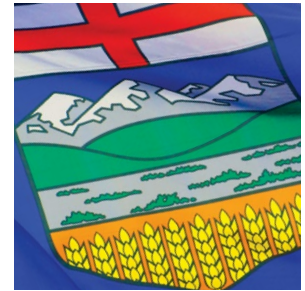
We behave ethically and are open, honest and fair in our dealings.

- **Excellence**

We use innovation and continuous improvement to achieve excellence.

TABLE OF CONTENTS

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



CHAIR'S MESSAGE



Alfred Savage, Chair

It is my honor and privilege to submit the Automobile Insurance Rate Board's 9th annual report for the year ended December 31, 2013.

In 2013, Alberta's automobile insurance market continued to maintain a healthy balance between consumers benefiting from competitive automobile insurance premiums and insurance companies continuing to grow their business in Alberta's robust economy.

This past November, the Legislative Assembly gave third reading to Bill 39, the Enhancing Consumer Protection in *Auto Insurance Act*, which will result in greater oversight of automobile insurance premiums and also improve access to treatment for those injured in collisions. Upon proclamation, the AIRB's mandate will expand to regulate both mandatory and additional coverage premiums. The Board is very much in support of this change and expects it to reduce uncertainty in the market. 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 year brought continued evolution of the Board with the departure of two long serving members, Harry Gough, vice chair and Lewis Klar. Both had served on the Board since its inception in 2004. Their public service is very much appreciated. I look forward to working with the two newly appointed members, Charlene Butler and Tracy Edwards.

The AIRB's success depends on its people. 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, Ray Gilmour, Deputy Minister; Mark Prefontaine, Assistant Deputy Minister and his department for their continued support of the AIRB.

I look forward to 2014, as we remain committed to our vision of an efficient and effective automobile insurance market with fair and predictable rates.

Sincerely,

[Original signed by Alfred H. Savage]

Alfred H. Savage

Chair

Automobile Insurance Rate Board

REPORT FROM THE EXECUTIVE DIRECTOR

The Board continued its efforts to build relationships with stakeholders and to remain current with industry issues through meetings 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.

In 2013, automobile insurance rating programs continued to evolve with greater segmentation of rating programs to more accurately rate drivers. As well, the Board heard from insurers wanting to introduce Usage Based Insurance programs designed to offer further opportunities for discounts for good and improving drivers.

Private passenger vehicle safety features continued to contribute to the historically low frequency of bodily injury claims. However, Alberta is not without its challenges. The Insurance Bureau of Canada reported that in 2013, 62% of all claims arising from catastrophic weather events in Canada occurred in Alberta. The weather related claims continue to place upward pressure on the comprehensive portion of premiums.

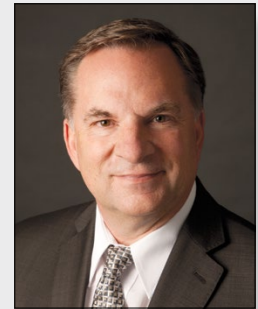
Proposed Amendments to the Automobile Insurance Premiums Regulation

This past November, the Legislative Assembly gave third reading to Bill 39, the Enhancing Consumer Protection in Auto *Insurance Act*, which will result in greater oversight of automobile insurance premiums. Upon proclamation, the AIRB's mandate will expand to regulate both mandatory and additional coverage premiums. The Board supports this change for a file-and-approve system where each insurer will apply for premium adjustments instead of the current annual industry-wide rate adjustment process. The AIRB will make recommendations to the Superintendent with regard to a new Premiums Regulation which will set the framework for this new model.

Usage Based Insurance

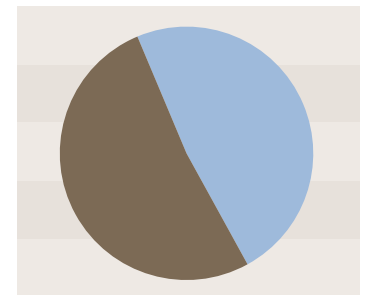
Usage-based Insurance (UBI) is an emerging competitive insurance product in Canada. While popular in the Europe and the United States, it was only recently introduced into Canada. Quebec was the first entry point with Industrial Alliance's "MOBILIZ" program launched in April 2012, followed in 2013 by StateFarm Mutual Automobile Insurance Company and Desjardins General Insurance Group programs in New Brunswick and Ontario.

Usage-based Insurance utilizes a telematics device to collect data related to driver behaviour. The device records data on factors that reflect risk, that can include how much, how fast and when a car is driven along with other driver behaviour such as hard braking. The data captured has proven these factors to be highly predictive of risk. This data allows insurers to monitor drivers' behaviour in an effort to provide greater accuracy in pricing the automobile insurance product and can work to reduce claim costs by providing incentive to modify driving behaviour.



Del Dyck, Executive Director

2012 Average Private Passenger Premium



■ Board Regulates Basic Coverage \$562
■ Board Monitors Additional Coverage \$524

Source: GISA statistical data

This chart shows the average written premium for 2012 as reported by GISA statistical data broken out by basic and additional coverage. See page 5 for explanation of Board role in regulating and monitoring premiums.

The Board has been studying and monitoring developments with UBI. It understands that telematics enables insurers to more accurately price the insurance product, can provide feedback to drivers to improve their driving behaviour and the device can be used to provide additional services to drivers such as GPS tracking for theft deterrent, engine service information, door unlock, location assistance, etc. A number of insurers and other stakeholders have approached the Board about introducing their version of UBI to Alberta. The Board is supportive of UBI as a voluntary discount program. However, entry into the Alberta market will require the approval of the Superintendent of Insurance as this product introduces new rating factors. The issue of informed consent by Alberta consumers must be satisfactorily addressed prior to the introduction of any programs.

Consumer Information

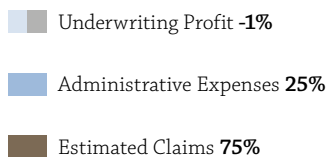
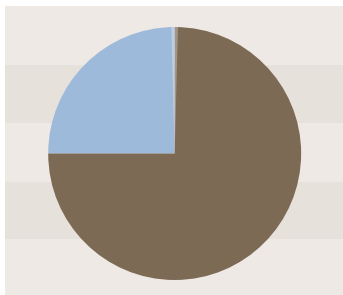
A feature of private delivery systems such as we have in Alberta is that drivers have choice and flexibility over their coverage and the price they pay for insurance. The AIRB's website features a comprehensive interactive rate comparison tool that allows drivers to compare insurance rates by company 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. 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 selection of a provider. 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.

Consumer Representative

The Consumer Representative, Ms. Merle Taylor, contracted a consulting and research firm to conduct her annual telephone and on-line survey of 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 indications. Consumers also contacted her by e-mail and letter with their specific concerns. The results of her findings included the following;

- 55% of consumers surveyed agreed that premiums are 'fair and reasonable', down from 58% 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 2012 Private Passenger Vehicles



Source: GISA statistical data and IBC Automobile Expense Survey

- 33% of consumers polled obtained a competitive quote for insurance and of these, 88% stayed with their existing insurer, compared to 90% in the prior year.
- 74% of consumers surveyed agree that additional coverage should be regulated.
- The Superintendent of Insurance reports no increase in inquiry or complaint calls.

These findings were presented to the AIRB at its public meeting in June. Ms Taylor's report including her observations may be viewed in more detail on the AIRB website.

Annual Industry-wide Rate Adjustment

The Board is required under Section 602 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 2012. Stakeholders were given the opportunity to respond to the analysis at a public meeting held on June 11th, in Edmonton. 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 required premium level 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 after administrative expenses. The Board considered the information received through submissions and public meetings in conjunction with its actuarial analysis. The Board accepted the factors that developed a 13% deficiency in premium level for basic coverage; however, it felt that in keeping with its vision and mandate it was appropriate to take a measured approach to increasing premium level for basic coverage. Based on input, the Board on July 25, 2013 issued Order 01-13 permitting insurers to increase premiums for basic automobile insurance coverage in Alberta by up to 5% on or after November 1, 2013. The previous adjustment ordered for November 1, 2012 also permitted up to a 5% increase in basic coverage rates.

Rates

As noted above, the 2013 Industry-wide Adjustment process resulted in the Board permitting insurers to increase premiums for basic automobile insurance in Alberta by up to 5% on or after November 1, 2013. As of December 31, 2013, 19 of 71 companies representing 70% of the market had taken all or part of the 2013 adjustment of +5 per cent. Companies are allowed up to three years to implement any or all of the permitted increase. As of this same date, 30 companies representing 87% of the market had taken all or part of the 2012 (prior year's) +5% adjustment.

The 2012 average premium of \$562 for basic coverage on private passenger vehicles as shown in Appendix III remains below the 2008 rate of \$598. The average premium for additional coverage has increased annually from \$459 in 2008 to \$524 in 2012. The average premium for all coverage has increased from \$1,057 in 2008 to \$1,086 in 2012, which is well below the rate of inflation for this same period. Total premium increased from \$1,070 in 2011 to \$1,086 in 2012.

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. No section 6 applications were received in 2013 compared to 6 applications in 2012.
- 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 2013.
- 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 10 applications under Section 19 in 2013 compared to 14 applications in 2012.

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

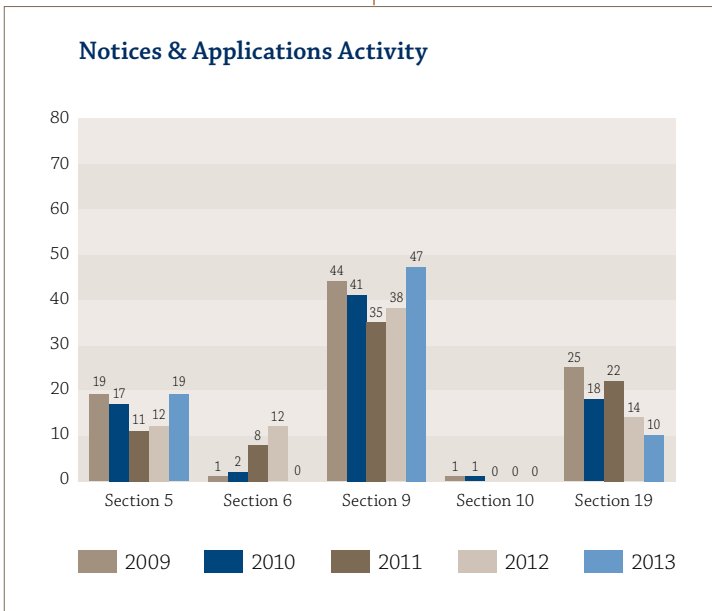
- Section 5 requires written notice to the Board if the company adjusts rating variables for basic coverage on private passenger vehicles. The overall adjustment must be revenue neutral with no relativity increasing by more than 10% and the increase for any one policyholder not exceeding 10 per cent. The Board received 19 Section 5 notices in 2013 compared to 12 notices in 2012.

- Section 9 requires written notice to the Board of changes to their rating programs for additional coverage². The Board received 47 Section 9 notices in 2013 compared to 38 notices in 2012.

See Appendix II for more information on applications.

Market

Based on information submitted to the Superintendent of Insurance, 71 automobile insurance companies were active in Alberta in 2012, a decrease of four insurers over 2011. The chart on page 7 identifies the distribution of written premium by corporate group in Alberta for 2012 (corporations may operate more than one insurer). Four insurer groups represented 56% of all written premium, up from 52% in 2011. In 2012, the automobile insurance industry collected \$3.5 billion in written premium from which they expect to pay \$2.5 billion in claims. The overall private passenger loss ratio in Alberta for 2012 was 77%, up from 71% in 2011.



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



It is a useful exercise to review market conditions for recent years for the insight that 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 resumed its descent after leveling off in 2010 and 2011. Severity increased for third party liability bodily injury and property damage, collision and comprehensive claims in 2012.

Fiscal

The AIRB's operations are fully funded through an annual assessment to automobile insurers based on share of direct written premium. The annual assessment for 2013 was \$1,005,934.

The Board's operations totalled \$1.1 million for the fiscal year ended March 31, 2013, a 2.9% increase over the prior year. Further financial information is available under Statement of Operations and Surplus (see page 8).

Looking Ahead to 2014

The AIRB will:

- Participate in the development of a new Premiums Regulation that will outline the mandate of the AIRB in the regulation of additional coverage subject to proclamation of Bill 39.
- Develop policies and procedures to support the new Premiums Regulation.
- Continue to monitor the emerging Usage-based Insurance products.
- Complete its review of rating territories for basic and additional coverage and make recommendations to the Superintendent for any changes to the Automobile Statistical Plan.
- Continue its leadership role in the Canadian Automobile Insurance Regulators Association (CARR) by serving on Boards and committees and through participation in its training and networking opportunities.

I would like to express my appreciation and thanks to our Chair and Board members for their leadership and diligence in carrying out our mandate. In addition I would also like to thank our staff and consulting actuaries for their dedication and commitment to excellence. It is this team working with stakeholders that allows the AIRB to provide effective regulation over auto insurance premiums that is fair to both consumers and industry.

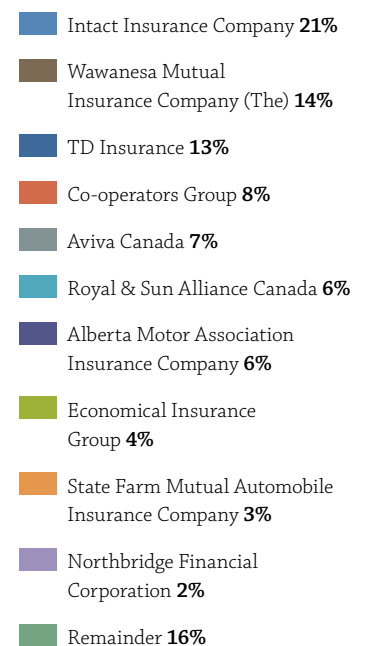
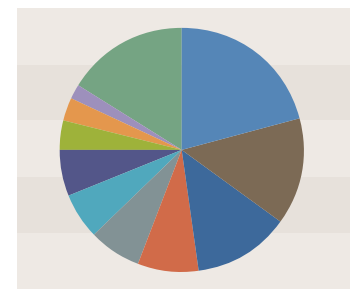
Sincerely,

[Original signed by Del Dyck]

Del Dyck

Executive Director
Automobile Insurance Rate Board

2012 Market Share of Total Automobile Insurance Premium



Source: Superintendent of Insurance 2012 Annual Business Report

STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2012 to March 31, 2013

	2012 - 13 Budget	2012 - 13 Actual	2011 - 12 Actual
Revenue			
Annual Industry Levy	\$1,375,000	\$1,364,912	\$1,346,000
– less accumulated surplus	\$358,978	\$358,978	\$205,119
– less other	—	—	\$4
Net Annual Industry Levy	\$1,016,022	\$1,005,934	\$1,140,877
Actuarial Services	\$75,000	\$10,012	\$72,217
	—	—	—
Other	—	\$5,854	\$187
	\$1,091,022	\$1,021,800	\$1,213,281
Expense			
Operations	\$784,000	\$707,852	\$685,190
Actuarial and Contract Services	\$486,000	\$259,666	\$224,310
Board Honoraria and Expenses	\$180,000	\$122,999	\$149,922
	\$1,450,000	\$1,090,517	\$1,059,422
Surplus/(Shortfall)	(\$358,978)	(\$68,717)	\$153,859
Accumulated Surplus Beginning	\$358,978	\$358,978	\$205,119
Accumulated Surplus End	—	\$290,261	\$358,978

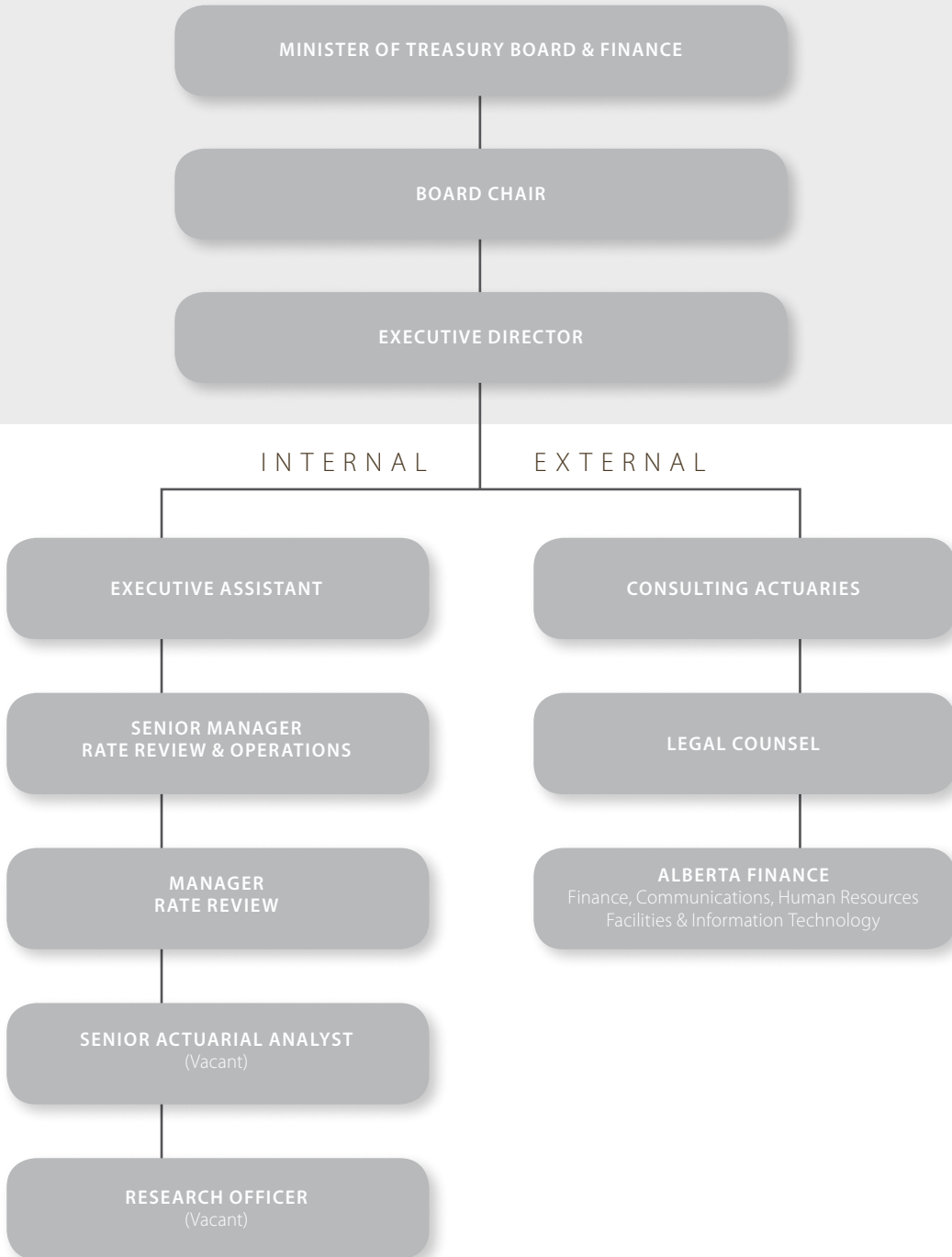
The AIRB's fiscal year reflects that of the Government, April 1 to March 31. As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is fully funded by industry in the following two ways:

- An Annual Industry Levy which represents the Board's annual budget less 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 2013



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 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 Public Agencies Governance Act*.



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 is required within the group to effectively carry out the Board's mandate.

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

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

All candidates for Board member shall be respected in his/her field, have a proven track record of achievement 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 2013 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



Allan Cleiren

**Senior Executive, CFO
Edmonton**



Chris Daniel

**Retired Senior Executive
Insurance Industry
Calmar**



Tracy Edwards

**President Lakeland College
Vermilion**



Charlene Butler

Management Consultant
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

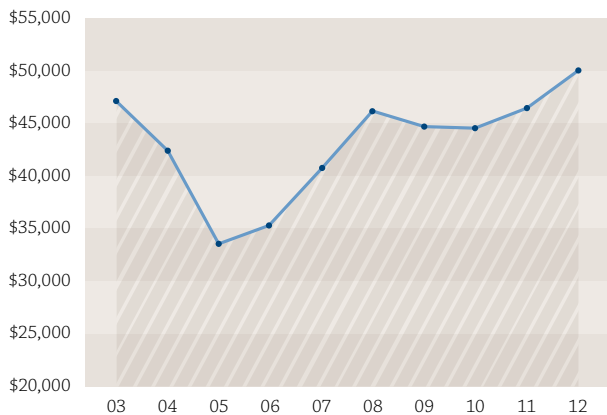
APPENDIX I MARKET

In 2012, the automobile insurance industry collected \$3.5 billion in written premium from which it expects to pay \$2.5 billion in claims. A major portion, \$2.4 billion of that premium is attributable to private passenger vehicles that will incur an estimated \$2.0 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 2012. All dollar amounts for claims and premiums are expressed in nominal dollars (unadjusted for inflation).

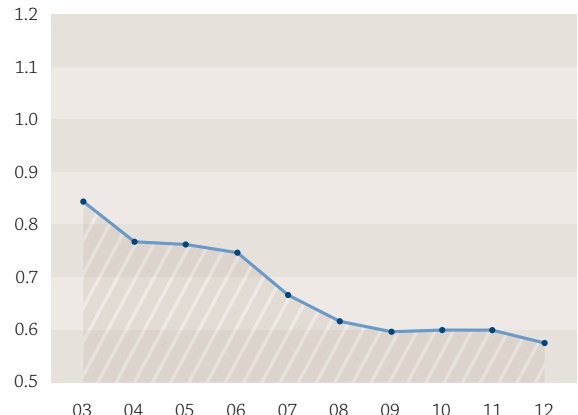
Third party liability coverage that responds to damages for which the insured is legally liable has two components, bodily injury and property damage. Figure 1 shows average claim costs for bodily injury for the ten year period, 2003 to 2012. Bodily injury claims can take five or more years to mature 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 2003 at over \$47,000. There is a drop to \$42,000 for 2004 and then to \$34,000 for 2005, but average claim cost resurged to \$50,000 by 2012. 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 before again escalating for 2011 and 2012. 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 is a noticeable reduction in frequency in 2004 and then again for 2007 and 2008 then levels off with a slight decrease for 2012.

Figure 1 – Bodily Injury Severity



Source: GISA Statistical Exhibit

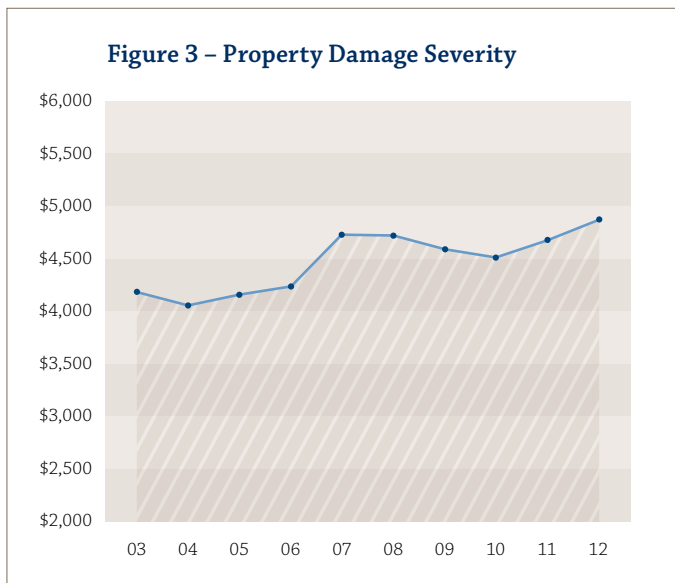
Figure 2 – Bodily Injury Frequency



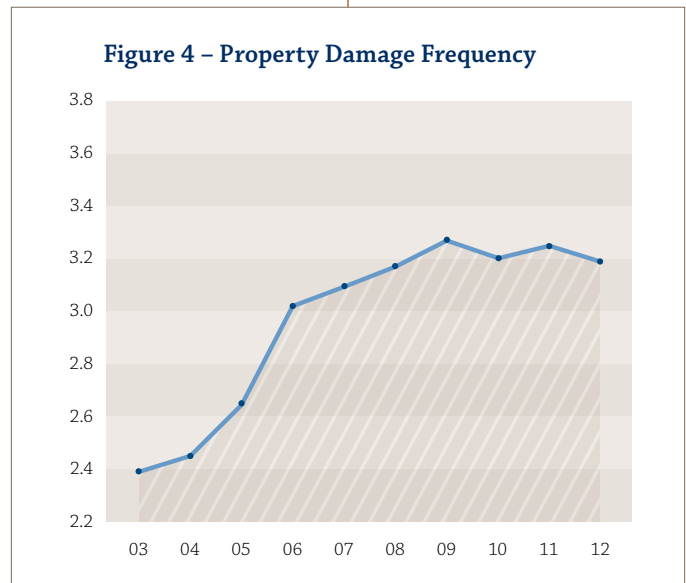
Source: GISA Statistical Exhibit

Bodily injury claims made up 80% of third party liability claim costs in 2003 compared to 65% in 2012. The Minor Injury Regulation adjusted the cap to \$4,725 as of January 1, 2013.

Figure 3 shows that property damage average claim costs have fluctuated, though they are showing an overall upward trend. The average claim increased from \$4,200 to \$4,900 over the ten year period shown. Figure 4 shows an upward trend in claim frequency through 2009 that then levels off through 2012.



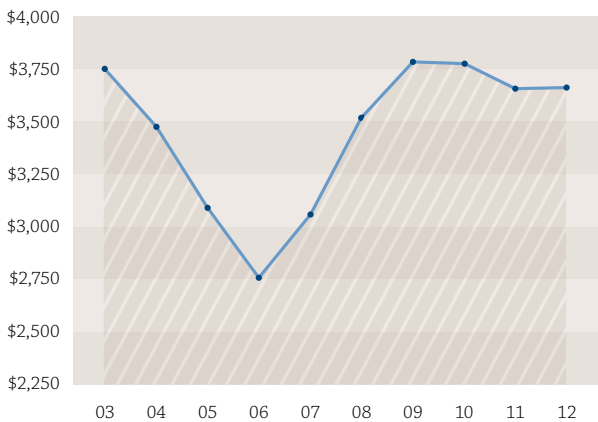
Source: GISA Statistical Exhibit



Source: GISA Statistical Exhibit

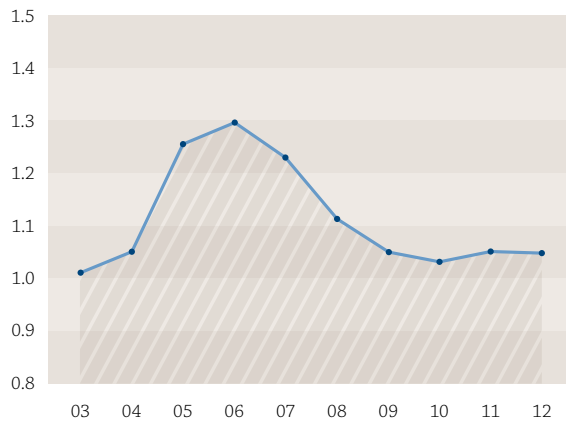
Accident benefits are the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows the average cost of claims decreasing from 2003 to 2006, increasing again to \$3,700 by 2009 and settling back to \$3,600 for 2011 and 2012. Figure 6 relates to the frequency of claims per 100 vehicles insured; there is an increase from 2003 through 2006 followed by decreases until 2010, then levels off through 2012.

Figure 5 – Accident Benefits Severity



Source: GISA Statistical Exhibit

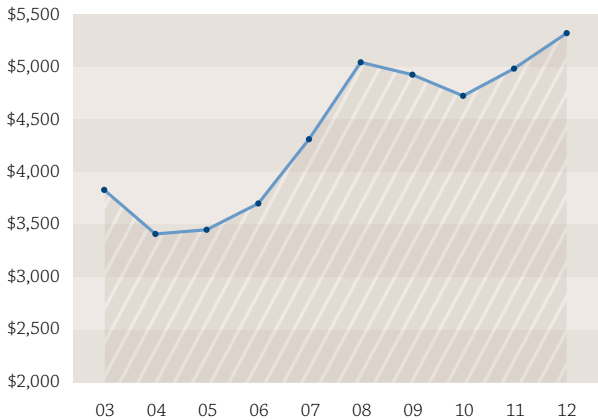
Figure 6 – Accident Benefits Frequency



Source: GISA Statistical Exhibit

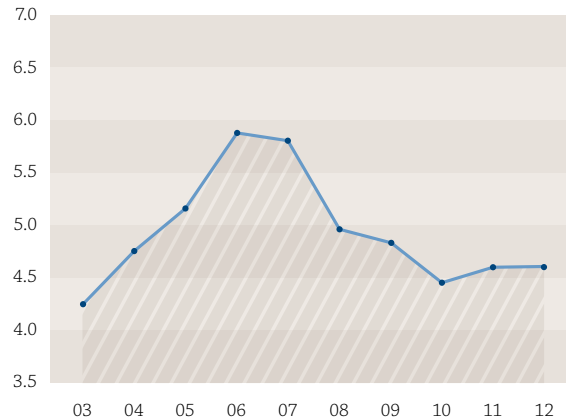
The remaining coverage is optional coverage for damage to the insured vehicle. Figure 7 shows the average claim cost for collision (impact with another object) increasing steadily from 2005 to \$5,000 by 2008 and then spiking to \$5,300 in 2012. Figure 8 relates to the frequency of collision claims for 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 with minor variances for 2011 and 2012. The fluctuation is at least partially attributable to the variation between easy and hard winter driving conditions.

Figure 7 – Collision Severity



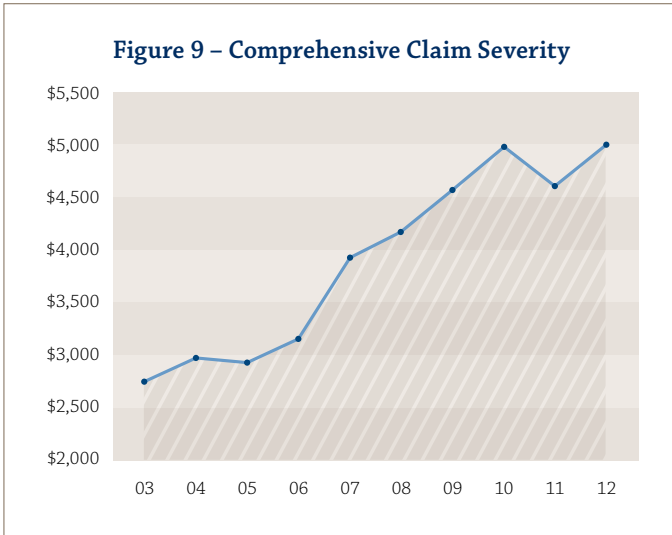
Source: GISA Statistical Exhibit

Figure 8 – Collision Frequency

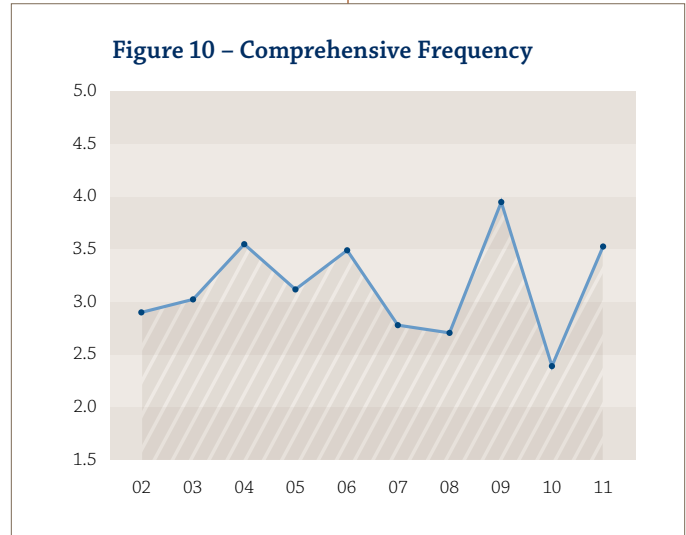


Source: GISA Statistical Exhibit

The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has quite continuously moved upward to \$5,000 as shown in Figure 9. Figure 10 shows a fluctuating frequency of claims in recent years. Frequency is impacted by weather related catastrophes.

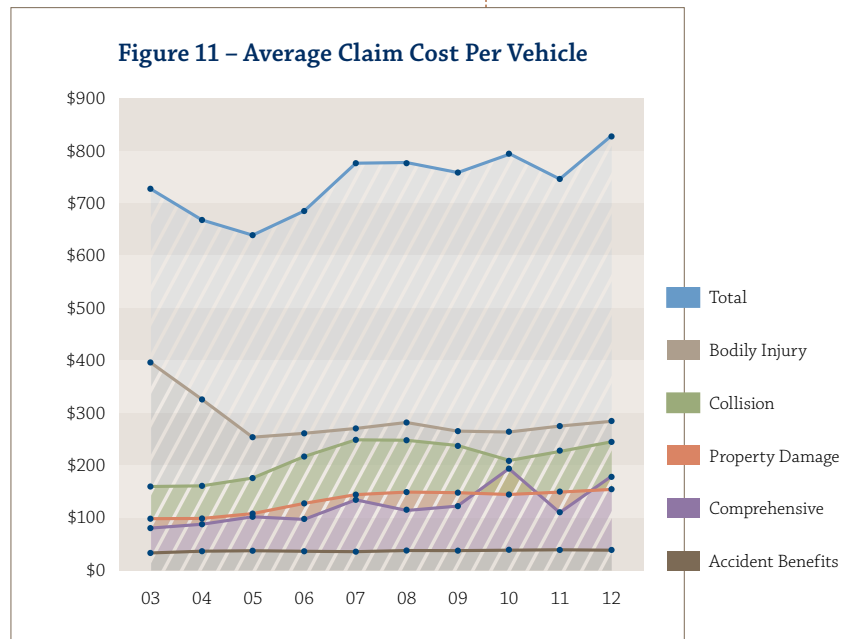


Source: GISA Statistical Exhibit



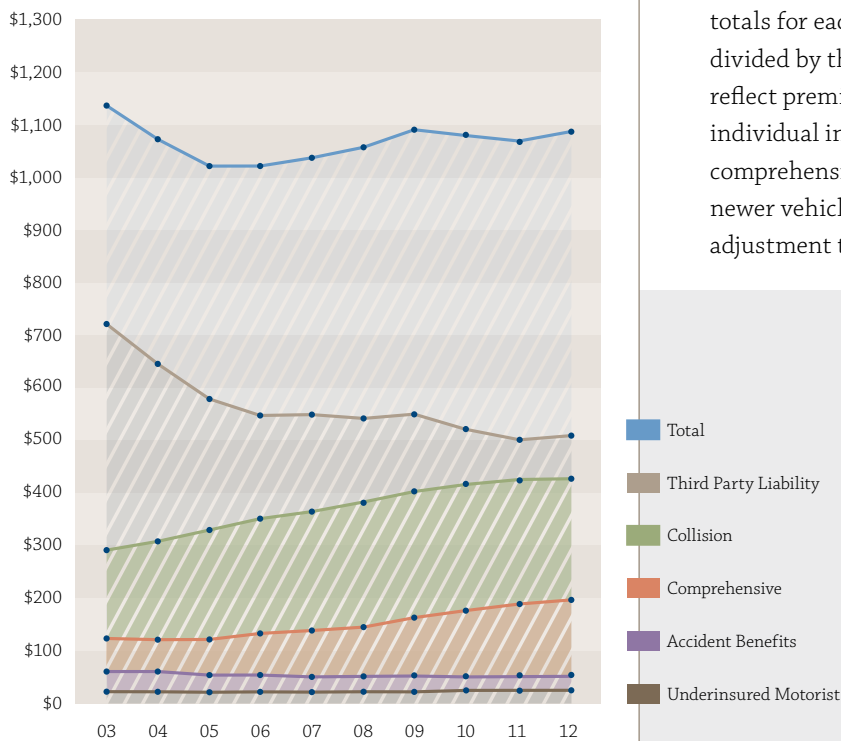
Source: GISA Statistical Exhibit

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 2013 Industry-wide Adjustment process resulted in the Board permitting a 5% increase in premium level for basic coverage on private passenger vehicles effective November 1, 2013. That followed a +5% adjustment for 2012, 0% in 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 01-13 explains their decision.

The Board accepts the factors that develop an indicated 13.0% 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 level. Applications under Section 6 of the *Automobile Insurance Premiums Regulation* remain an option for insurers that require greater increases.

There was conjecture in the submissions and at the public meeting that the increases in average bodily claims for recent years are attributable to an erosion of the minor injury cap; more claims are being submitted for psychological injury, chronic pain and temporomandibular joint disorder (TMJ) that are not subject to the *Minor Injury Regulation*.

Premiums increased for basic coverage and additional coverage in 2012 for an overall change of +1.5% compared to 2011 (see Appendix III). The 5% increases permitted by the 2012 and 2013 industry-wide adjustment decisions will impact basic coverage premiums for 2013 and 2014. A frequency of weather related catastrophes is adversely affecting experience for comprehensive coverage.

The Board's decision for the 2013 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 Board has advocated transitioning to a "file and approve" model that recognizes the individual performance of insurers. On November 27, Bill 39 that was passed to amend the *Insurance Act* included necessary support for the changes to the Premiums Regulation for a "file and approve" model, possibly in 2014.

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
No applications in 2013 ...	—	—
_____	—	—
_____	—	—
_____	—	—
_____	—	—

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*	Average Change
No applications in 2013 ...	—	—
_____	—	—
_____	—	—
_____	—	—
_____	—	—

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
St. Paul Fire and Marine Insurance Company	PP, C, CM	22 - Feb - 2013	0.0%
Elite Insurance Company	PPM	22 - Feb - 2013	0.0%
Peace Hills General Insurance Company	PPM	22 - Feb - 2013	8.5%
Chartis Insurance Company of Canada	PP, C, CM	22 - Mar - 2013	0.0%
RBC General Insurance Company	PPM	22 - Mar - 2013	0.0%
Portage la Prairie Mutual Insurance Company	C	20 - Sep - 2013	- 9.2%
Optimum West Insurance Company	C	20 - Sep - 2013	0.0%
Portage la Prairie Mutual Insurance Company	PPM	20 - Sep - 2013	25.0%
Portage la Prairie Mutual Insurance Company	PPM	20 - Sep - 2013	- 18.4%
Intact Insurance Company	C	25 - Oct - 2013	9.0%



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
Facility Association	22 - Jan - 2013	0.0%
Trafalgar Insurance Company of Canada	21 - Feb - 2013	0.0%
RBC General Insurance Company	15 - Mar - 2013	0.0%
Pembridge Insurance Company	28 - Mar - 2013	0.0%
Intact Insurance Company	11 - Apr - 2013	0.0%
Novex Insurance Company	11 - Apr - 2013	0.0%
Economical Mutual Insurance Company	2 - May - 2013	0.0%
Waterloo Insurance Company	2 - May - 2013	0.0%
Royal & Sun Alliance Insurance Company of Canada	16 - May - 2013	0.0%
Optimum West Insurance Company	6 - Jun - 2013	-1.6%
Trafalgar Insurance Company of Canada	14 - Aug - 2013	0.0%
Intact Insurance Company	28 - Aug - 2013	0.0%
Novex Insurance Company	28 - Aug - 2013	0.0%
Chubb Insurance Company of Canada	21 - Oct - 2013	0.0%
Optimum West Insurance Company	15 - Nov - 2013	-0.6%
SGL Canada Insurance Services	19 - Nov - 2013	-0.3%
Security National Insurance Company	4 - Dec - 2013	0.0%
Primum Insurance Company	4 - Dec - 2013	0.0%
TD Home and Auto Insurance Company	4 - Dec - 2013	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
Facility Association	24 - Jan - 2013	4.4%
The Personal Insurance Company	23 - Jan - 2013	-6.3%
Certas Direct Insurance Company	23 - Jan - 2013	-6.7%
Security National Insurance Company	21 - Feb - 2013	0.0%
Primum Insurance Company	21 - Feb - 2013	0.0%
TD Home and Auto Insurance Company	21 - Feb - 2013	0.0%
Trafalgar Insurance Company of Canada	21 - Feb - 2013	1.3%
Royal & Sun Alliance Insurance Company of Canada	15 - Mar - 2013	-5.6%
RBC General Insurance Company	15 - Mar - 2013	0.0%

>>

Continued on next page.

>>

Continued from previous page.

Security National Insurance Company	27 - Mar - 2013	0.0%
Primum Insurance Company	27 - Mar - 2013	0.0%
TD Home and Auto Insurance Company	27 - Mar - 2013	0.0%
Pembridge Insurance Company	28 - Mar - 2013	4.5%
Intact Insurance Company	11 - Apr - 2013	1.4%
Novex Insurance Company	11 - Apr - 2013	1.4%
The Personal Insurance Company	11 - Apr - 2013	0.0%
Certas Direct Insurance Company	11 - Apr - 2013	0.0%
Economical Mutual Insurance Company	2 - May - 2013	4.3%
Waterloo Insurance Company	2 - May - 2013	6.7%
Allstate Insurance Company of Canada	9 - May - 2013	0.0%
Alberta Motor Association Insurance Company	8 - May - 2013	0.2%
Royal & Sun Alliance Insurance Company of Canada	16 - May - 2013	0.0%
Allstate Insurance Company of Canada	29 - May - 2013	0.0%
Optimum West Insurance Company	6 - Jun - 2013	-2.0%
The Dominion of Canada General Insurance Company	18 - Jun - 2013	-1.3%
Alberta Motor Association Insurance Company	18 - Jun - 2013	-2.8%
Trafalgar Insurance Company of Canada	13 - Aug - 2013	1.3%
Intact Insurance Company	28 - Aug - 2013	4.9%
Novex Insurance Company	28 - Aug - 2013	4.6%
Portage la Prairie Mutual Insurance Company	30 - Aug - 2013	2.8%
Royal & Sun Alliance Insurance Company of Canada	10 - Sep - 2013	-0.2%
Economical Mutual Insurance Company	7 - Oct - 2013	0.0%
Waterloo Insurance Company	7 - Oct - 2013	0.0%
Allstate Insurance Company of Canada	8 - Oct - 2013	-0.4%
Pembridge Insurance Company	8 - Oct - 2013	-0.7%
Wawanesa Mutual Insurance Company	8 - Oct - 2013	-3.1%
Chubb Insurance Company of Canada	21 - Oct - 2013	4.7%
Optimum West Insurance Company	15 - Nov - 2013	5.6%
SGL Canada Insurance Services	19 - Nov - 2013	-2.7%
Security National Insurance Company	4 - Dec - 2013	1.5%
Primum Insurance Company	4 - Dec - 2013	2.0%
TD Home and Auto Insurance Company	4 - Dec - 2013	0.3%
Unifund Assurance Company	4 - Dec - 2013	0.1%
Federated Insurance Company of Canada	19 - Dec - 2013	0.0%
Northbridge General Insurance Corporation	19 - Dec - 2013	2.1%
Northbridge Personal Insurance Corporation	19 - Dec - 2013	2.9%
Zenith Insurance Company	19 - Dec - 2013	1.9%

APPENDIX III STATISTICS

Automobile Insurance Fact Page

	2008	2009	2010	2011	2012	2013
Active Insurance Companies ³	70	74	77	75	71	—
Private Passenger Market Share for Largest Insurer Groups³						
Intact Financial Group	18.4%	18.6%	18.7%	19.4%	20.7%	—
TD Meloche Monnex	11.1%	15.2%	15.8%	15.7%	16.2%	—
Wawanesa	12.9%	13.6%	14.0%	13.9%	13.8%	—
The Co-operators	8.0%	8.4%	8.0%	8.0%	7.9%	—
Total	50.4%	55.8%	56.5%	57.0%	58.7%	—
Written Premium⁴						
Total Premium (ooos)	\$3,100,366	\$3,200,085	\$3,260,711	\$3,333,679	\$3,499,045	—
Private Passenger (ooos)	\$2,308,763	\$2,427,865	\$2,465,082	\$2,512,246	\$2,651,375	—
Average Written Premiums for Private Passenger Vehicles⁴						
Basic Coverage	\$598	\$606	\$575	\$551	\$562	—
Additional Coverage	\$459	\$489	\$507	\$519	\$524	—
Total	\$1,057	\$1,095	\$1,082	\$1,070	\$1,086	—
% change from prior year	—	3.6%	-1.3%	-1.1%	1.5%	—
Written Private Passenger Vehicles⁴						
Non Grid	91.7%	92.8%	92.9%	92.8%	92.7%	—
Grid	8.3%	7.2%	7.1%	7.2%	7.3%	—
# Vehicles Insured	2,192,686	2,225,247	2,280,492	2,346,291	2,441,247	—
% change from prior year	—	1.5%	2.5%	2.9%	4.0%	—
Estimated Total Claims⁴						
All Automobile (ooos)	\$2,152,025	\$2,084,126	\$2,205,097	\$2,186,090	\$2,468,188	—
Private Passenger (ooos)	\$1,672,913	\$1,671,624	\$1,791,245	\$1,726,402	\$1,990,629	—
Private Passenger Loss Ratio	74.4%	70.4%	73.2%	70.5%	77.0%	—
% change from prior year	—	-5.4%	4.0%	-3.7%	9.2%	—
Minor Injury Cap (effective October 1, 2004) ⁵	\$4,339	\$4,504	\$4,518	\$4,559	\$4,641	\$4,725
Other						
Health Cost Recovery (Millions) ⁵	\$85	\$90	\$90	\$95	\$100	\$105
Board Adjustments to Basic Coverage	+5%	-5%	-5%	0%	+5%	+5%
Industry Levy	\$766,958	\$958,765	\$921,029	\$1,140,877	\$1,005,932	\$1,152,973

³ Source: Superintendent of Insurance (most recent available data for 2012)

⁴ Source: GISA Statistical Exhibits (most recent available data for 2012)

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

Board Applications

	2009	2010	2011	2012	2013
Section 6 – Private Passenger Rating Program Review					
Approved	1	2	7	10	0
Modified	0	0	1	2	0
Declined	0	0	0	0	0
Total	1	2	8	12	0
Section 10 – Private Passenger Rating Program New Entrant					
Approved	1	1	0	0	0
Modified	0	0	0	0	0
Declined	0	0	0	0	0
Total	1	1	0	0	0
Section 19 – Other Than Private Passenger Rating Program Review/New Entrant					
Approved	22	16	21	13	9
Modified	3	2	0	1	1
Declined	0	0	1	0	0
Total	25	18	22	14	10

Board Notices

	2009	2010	2011	2012	2013
Section 5 – Basic Coverage	19	17	11	12	19
Section 9 – Additional Coverage	44	41	35	38	47

APPENDIX IV ACTIVE INSURERS

List of Active Automobile Insurers and Direct Written Automobile Premium for 2012

Name of Company	2012 (thousands)	Name of Company	2012 (thousands)
ACE INA Insurance	12,954	Intact Financial Group	
AIG Insurance Company of Canada	10,861	Intact Insurance Company	604,871
Alberta Motor Association Insurance Company	206,213	Novex Insurance Company of Canada	66,181
Alberta Municipal Insurance Exchange	864	Trafalgar Insurance Company of Canada	15,999
Allianz Global Risk US Insurance Company	747	Jevco Insurance Company	28,168
Allstate Canada		Liberty Mutual Insurance Company	10,506
Allstate Insurance Company of Canada	61,956	Lloyd's Underwriters	3,709
Pembridge Insurance Company	9,143	Mennonite Mutual Insurance Co (Alberta) Ltd.	18
American Road Insurance Company	1,652	Millennium Insurance Corporation	19,245
Arch Insurance Company	830	Motors Insurance Corporation	2,540
Aviva Canada Inc.		Nipponkoa Insurance Company, Limited	9
Aviva Insurance Company of Canada	197,208	Northbridge Financial Corporation	
Elite Insurance Company	18,113	Federated Insurance Company of Canada	19,472
Traders General Insurance Company	31,078	Northbridge Commercial Insurance Company	33,582
AXA Pacific Insurance Company	13,155	Northbridge General Insurance Company	25,354
Canadian Direct Insurance Incorporated	48,878	Northbridge Personal Insurance Company	614
Canadian Farm Insurance Corporation	4,117	Zenith Insurance Company	579
Canadian Northern Shield Insurance Company	2	Old Republic Insurance Company of Canada	7,741
Chubb Canada		Optimum West Insurance Company	2,954
Chubb Insurance Company of Canada	6,717	Peace Hills General Insurance Company	60,803
Federal Insurance Company	12	Portage La Prairie Mutual Insurance Company (The)	24,977
Continental Casualty Company	8,810	Protective Insurance Company	116
The Co-operators		RBC Insurance	
Co-operators General Insurance Company	250,789	RBC General Insurance Company	37,218
Coseco Insurance Company	13,345	RBC Insurance Company of Canada	11,453
Sovereign General Insurance Company (The)	15,244	Royal & Sun Alliance Insurance Group	
Cumis General Insurance Company	2,697	Royal & Sun Alliance Insurance Company of Canada	69,550
Desjardins General Insurance Group		Unifund Assurance Company	151,327
Certas Direct Insurance Company	10,816	Sentry Insurance A Mutual Company	53
Personal Insurance Company (The)	39,203	SGI CANADA Insurance Services Ltd.	32,124
Dominion of Canada General Insurance Company (The)	73,575	St. Paul Fire and Marine Insurance Company	14,362
Echelon General Insurance Company	873	State Farm Mutual Automobile Insurance Company	118,204
Everest Insurance Company of Canada	9	Sumitomo Marine and Fire Insurance Company Limited (The)	681
The Economical Insurance Group		TD Insurance	
Economical Mutual Insurance Company	113,166	Primum Insurance Company	115,715
Federation Insurance Company of Canada	157	Security National Insurance Company	322,708
Missisquoi Insurance Company	3	TD Home and Auto Insurance Company	20,344
Waterloo Insurance Company	7,187	Tokio Marine & Nichido Fire Insurance Co. Ltd.	324
Electric Insurance Company	182	Wawanesa Mutual Insurance Company (The)	500,474
Fortress Insurance Company	888	Zurich Insurance Company	47,430
Guarantee Company of North America (The)	1,091		
Hartford Fire Insurance Company	90		

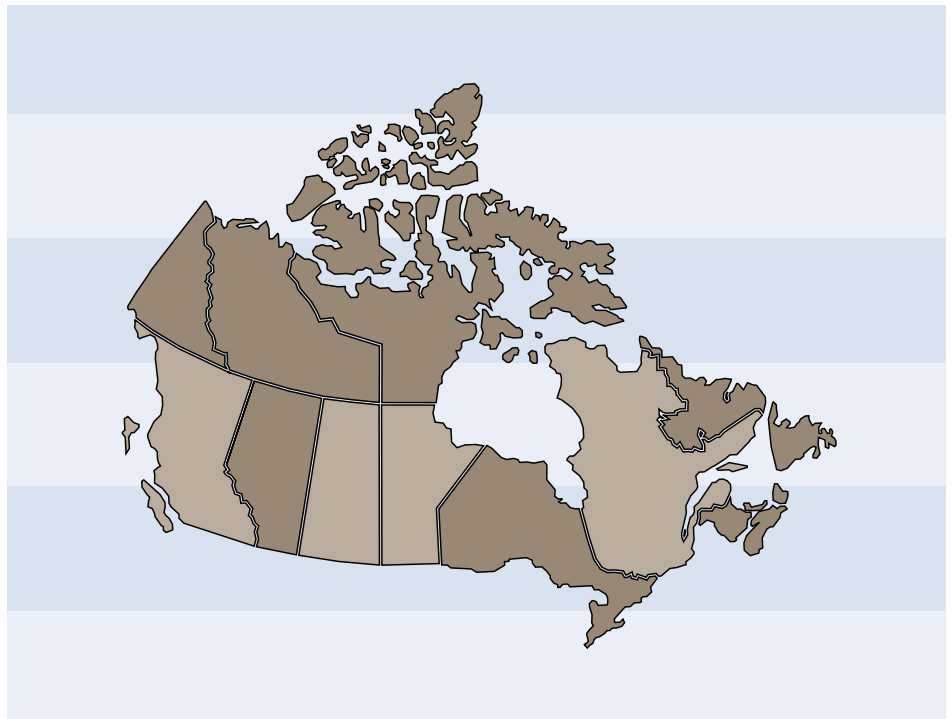
Source: Superintendent of Insurance 2012 Annual Business Report



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





Scanning this QR Code from your smart device will bring you to our website, where you'll see 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

www.airb.alberta.ca

