

# Alberta

## Automobile Insurance Rate Board – 2016 Annual Report

For the Year Ended December 31, 2016



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For the Year Ended December 31, 2016



## LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Joe Ceci  
President of Treasury Board and Minister of Finance  
323 Legislature Building  
10800 - 97 Avenue  
Edmonton, Alberta T5K 2B6

Honourable Minister:

The 2016 Annual Report of the Automobile Insurance Rate Board (AIRB) was prepared under the Board's direction in accordance with section 601(1) of the *Insurance Act*. The information presented reflects the actual activities, results and performance of the AIRB for the year ended December 31, 2016. All significant decisions, events and identified risks as of December 31, 2016 have been considered in preparing this Annual 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 the AIRB is pleased with our performance in 2016 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, I am pleased to submit the 12<sup>th</sup> Annual Report of the Automobile Insurance Rate Board, for the year ended December 31, 2016.

Sincerely,

**[Original signed by Allan Cleiren]**

Allan Cleiren  
Chair  
Automobile Insurance Rate Board



(AIRB)

# AUTOMOBILE INSURANCE RATE BOARD

## Automobile Insurance Rate Board

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## VISION

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

## MISSION

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

## VALUES

### • **Respect**

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

### • **Accountability**

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

### • **Integrity**

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

### • **Excellence**

We use innovation and continuous improvement to achieve excellence.

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## CHAIR'S MESSAGE



Allan Cleiren, Chair

I am pleased to submit the Alberta Automobile Insurance Rate Board's 2016 Annual Report.

Alberta's private passenger automobile insurance market continued to maintain its relative stability. In 2016 the Board reviewed 109 filings (66 were private passenger vehicle (PPV) filings), resulting in an average private passenger premium increase of 5.1% compared to 2.9% for 2015. The Board in its review of PPV filings has been monitoring Bodily Injury ("BI") claims and has noticed since 2012 increasing reserves being set aside and that BI paid claims have increased by 42% over the 2011 to 2015 period. In 2016, BI claims continued to rise at a faster rate than any other sub-coverage. The Board continued to hear from insurers concerned with their recent BI claims experience and that a higher portion of claims were being made with legal counsel representation resulting in an increase in litigation costs.

With two years of experience under the new Premiums Regulation the Board issued a survey to stakeholders to determine how well our processes are working. Overall the results were positive with some received suggestions being implemented to ensure a robust, efficient and effective system of regulation.

In 2016, the Board contracted a consulting firm to complete a Board evaluation. The process consisted of two on-line surveys and a phone survey. The results indicated a Board that is operating efficiently and effectively with the necessary skills and diversity for strong decision making.

On April 1, 2016, the Superintendent of Insurance approved new rating variables to support the introduction of Usage Based Insurance in Alberta (UBI). UBI uses a telematics device to transmit driving data, such as distance driven, speed, braking among other variables, to insurers who then use rating programs to provide discounts to good drivers. One of the goals of UBI is to improve driver behavior and reduce claims costs. To date four insurers in Alberta have filed with the Board for UBI program implementation in Alberta.

With the advent of autonomous vehicles, car manufacturers and technology companies are developing vehicles that have an increasing ability to drive themselves. The focus of these vehicles is to reduce driver error, thereby potentially reducing accidents. It is yet unknown how autonomous vehicles will impact the auto insurance market but the focus may move from providing consumer coverage caused by human error to a focus on insuring car manufacturers from liabilities due to technical failure. The AIRB is beginning to monitor and gain knowledge on this new technology with the goal of determining the effects on regulation of insurance rating programs.

We would like to take this opportunity to thank Jim Murta, Tracy Edwards and Norbert Van Wyk who have recently retired from the Board, for their service to the AIRB and Alberta in general.

The AIRB's success depends on its people. I am very appreciative of the expertise of our Board members, management and staff for their ongoing dedication and support. I would also like to thank the Honourable Joe Ceci, President of Treasury Board and Minister of Finance, Lorna Rosen, Deputy Minister; and Nilam Jetha, Assistant Deputy Minister and her department for their continued support of the AIRB.

We remain committed to our vision of an efficient and effective automobile insurance market with fair and predictable rates.

**[Original signed by Allan Cleiren]**

Allan Cleiren

Chair

Automobile Insurance Rate Board

# REPORT FROM THE EXECUTIVE DIRECTOR

The Alberta Automobile Insurance Rate Board (AIRB) continued to work collaboratively with stakeholders in 2016 to fulfill its vision of an efficient and effective automobile insurance market with fair and predictable rates. With 69 active automobile insurance companies providing automobile insurance in Alberta, consumers continue to benefit from new products and services that a competitive market offers. These benefits have resulted in competitive PPV rates which over the period from 2011 to 2015 have increased by only 10%. Additionally, companies have been able to offer new programs and services such as Usage Based Insurance (UBI) which was approved for implementation in Alberta on April 1, 2016 allowing insurers to file with the AIRB their UBI programs. The AIRB believes that effective UBI programs with appropriate feedback to drivers can improve driver behaviour, thereby reducing claims cost, resulting in lower premiums.

The Board continued to support the office of the Superintendent's work on their review of rating territories in Alberta. Given the existing rating territories were created in the 1970s and have long since ceased to reflect Alberta demographics the AIRB has recommended to the Superintendent of Insurance a model that would modernize rating territories in Alberta and reflect the work that has been completed in other provinces across Canada.

As noted by the Board chair in the Chair's Message, the AIRB has been monitoring and gaining knowledge on autonomous vehicles and more specifically how this change in vehicles will affect regulation of insurance rating programs and premiums. We will be continuing this work into 2017.

During this past year, the Superintendent's office initiated a consultation process on automobile insurance regulations. In response, the AIRB reviewed the Automobile Accident Insurance Benefits Regulation, the Diagnostic and Treatment Protocols Regulation, the Minor Injury Regulation and the Automobile Insurance Premiums Regulation and met with the Superintendent's office to share suggested changes and revisions mainly as they relate to the Premiums Regulation.



Del Dyck, Executive Director

## Annual Review

The Board is required under Section 9 of the Premiums Regulation to conduct an annual review of automobile insurance trends and premiums relating to basic and additional coverage for private passenger vehicles. This annual review considers industry experience related to claims costs, administrative expenses, profitability and any other matters the Board considers appropriate. The Board is then required to publish a report of its findings no later than September 30 of each year. The report includes the Consulting Actuary’s report, Consumer Representative’s report and the Board approved Industry Benchmarks Schedule.

In early 2016, the Board requested its actuary, Oliver Wyman, to complete an analysis of industry experience for the period ended December 31, 2015. Oliver Wyman’s preliminary report was posted to the AIRB’s website on June 27, 2016 for review by stakeholders.

Stakeholders were provided opportunity to respond to this report at an open meeting held on August 16, 2016 in Edmonton, in person, by written submission or through the AIRB’s Consumer Representative. At the open meeting the Board heard from its consulting actuary Oliver Wyman, the Consumer Representative and three stakeholders. The Board also received three written submissions. The Board considered the information received at the open meeting along with the written submissions and requested Oliver Wyman to update its preliminary report as a result of new information that had been provided. The Board then published its final report on September 26, 2016, which included the Board approved Industry Benchmarks Schedule which was used by the Board in its review of private passenger rate filings effective October 1, 2016.

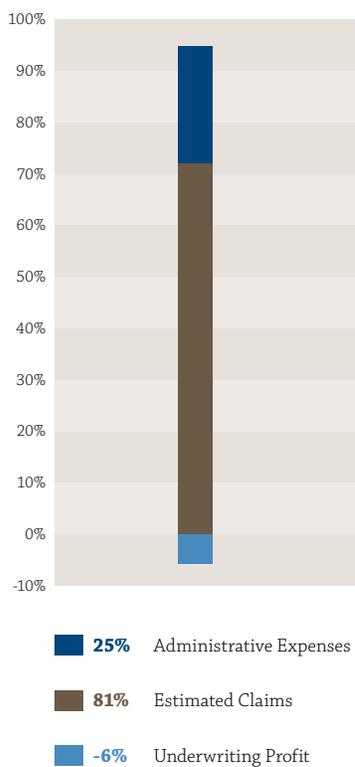
In addition to the annual review, the Board conducts a semi-annual review between January and March which results in an updated Industry Benchmarks Schedule which is used for the period April 1 to September 30.

## 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 provides 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 are 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 the selection of a provider. In addition to this tool, there is a wide range of consumer information on our website such as factors that affect your premiums, ways to lower your premiums, insurance providers, comparing rates, and the Grid calculator. More information can be found at [www.airb.alberta.ca](http://www.airb.alberta.ca).

**Distribution of Premium Dollar for 2015 Private Passenger Vehicles**



NOTE: All coverage combined for Alberta experience only

Source: GISA statistical data and GISA Automotive Insurance Financial Information Survey

## Consumer Representative

The Consumer Representative, Mr. Chris Daniel, contracted a consulting and research firm to conduct the annual telephone and online survey of consumers' perceptions of automobile insurance in Alberta. Mr. Daniel 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. In 2016 he added a "Youth" focus group and conducted a special discussion with this group. As part of this process, he also reviewed information from other provinces, traffic safety trends and other data.

Consumers also contacted him by email and letters with their specific concerns. The results of his findings included the following:

- 60% of consumers surveyed agreed that premiums are 'fair and reasonable', up from 59% in the prior year.
- Good drivers with an accident free history would like to see more discounts.
- 27% of consumers polled obtained a competitive quote for insurance and of these, 90% stayed with their existing insurer, compared to 89% in the prior year.

These findings were presented to the AIRB at its open meeting in August. Mr. Daniel's report including his observations may be viewed in more detail on the AIRB website.

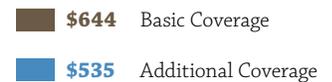
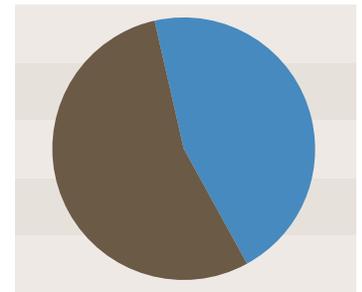
## Rates

The average premium for all coverage increased 2.3% from \$1,153 in 2014 to \$1,179 in 2015.

The average premium for basic coverage on private passenger vehicles as shown in Appendix III increased from \$609 in 2014 to \$644 in 2015. The average premium for additional coverage decreased from \$544 in 2014 to \$535 in 2015.

This chart shows the average written premium for 2015 as reported by GISA statistical data broken out by basic and additional coverage.

### 2015 Average Private Passenger Premium



Source: GISA statistical data for Alberta only

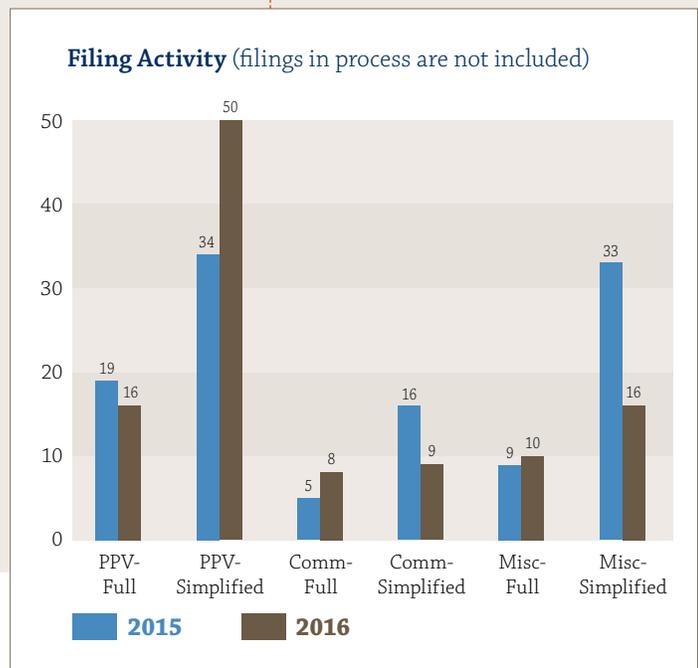
## Company Filings – January 1, 2016 to December 31, 2016

As required under the new *Automobile Insurance Premiums Regulation* Sections 2 through 7, all insurer rating programs and any changes to rating programs must be filed in accordance with the Board's policies and guidelines and approved by the AIRB prior to implementation.

In 2016 the AIRB reviewed 109 company filings as follows:

- Private Passenger filings included 50 simplified and 16 full filings
- Commercial filings included 9 simplified and 8 full filings
- Miscellaneous class filings included 16 simplified and 10 full filings

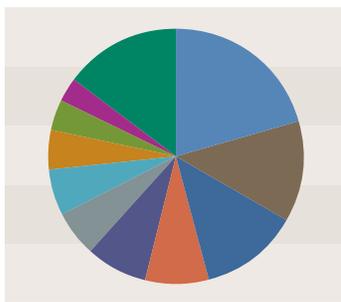
See Appendix II for more information on company filings.



NOTE: For Alberta filings only

This chart identifies the distribution of written premium for all vehicle classes by corporate group in Alberta for 2015 (corporations may operate more than one insurer).

**2015 Alberta Market Share of Total Automobile Insurance Premium**



- 21%** Intact Financial Group
- 13%** The Wawanesa Mutual Insurance Company
- 13%** TD Insurance
- 8%** Aviva Canada Inc.
- 8%** The Co-operators Group Ltd.
- 6%** Desjardins General Insurance Group
- 5%** Royal & Sun Alliance Insurance Group
- 5%** Alberta Motor Association Insurance Company
- 4%** The Economical Insurance Group
- 2%** Northbridge Financial Corporation
- 15%** Remainder

Source: Superintendent of Insurance 2015 Annual Business Report

## Market

Based on information submitted to the Superintendent of Insurance, 69 automobile insurance companies were active in Alberta in 2015, down from 70 in 2014. The 2015 Market Share of Total Automobile Insurance Premium chart identifies the distribution of written premium by corporate group in Alberta for 2015 (corporations may operate more than one insurer). Four insurer groups represented 55% of all written premium, up from 54% in 2014. In 2015, the automobile insurance industry collected \$4.1 billion in written premium from which they expect to pay \$3.1 billion in claims. The overall private passenger loss ratio in Alberta for 2015 was 81%, an increase of 1% over 2014. The Board's target loss ratio is 70%.

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, the frequency of claims for each coverage decreased in 2015, however the opposite was true for severity. The increase in severity outpaced the decrease in frequency resulting in upward pressure on both basic and additional coverage.

## Fiscal

The AIRB's operations are fully funded through an annual industry levy to automobile insurers based on their share of direct written premium. The annual industry levy for the 2016 calendar year was \$1,092,951 (2015 \$1,252,739). The Board's operations totaled \$1.1 million for the fiscal year ended March 31, 2016, a 15% decrease over the prior year. Further financial information is available under Statement of Operations and Surplus (page 8).

## Looking Ahead to 2017

The AIRB will:

- Continue to monitor bodily injury claims severity and the increasing payments and reserving that has taken place since 2012, which is increasing pressure on private passenger premiums.
- Complete an analysis and review of its current website in an effort to ensure relevant information is available and readily accessible to consumers and stakeholders alike.
- Monitor the acceptance and benefits of the recently approved Usage Based Insurance program offerings to consumers in Alberta.
- Continue to monitor emerging issues such as, Autonomous Vehicles and Real-time Ride Sharing and their implications on rating programs.
- Continue our leadership role in the Canadian Automobile Insurance Rate Regulators Association (CARR) by serving on Boards and Committees and through participation in its training and networking opportunities.

The Board will also continue its efforts to remain current on industry issues through meetings with stakeholders, 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.

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 and to our loyal and committed staff and consulting actuaries for their dedication to excellence.

As a team working with stakeholders the AIRB is able to provide effective regulation of 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

# STATEMENT OF OPERATIONS AND SURPLUS

For the period April 1, 2015 to March 31, 2016

	<b>2014 - 15 Actual</b>	<b>2015 - 16 Actual</b>	<b>2015 - 16 Budget</b>
<b>Revenue</b>			
Annual Industry Levy	\$1,610,000	\$1,530,000	\$1,530,000
– less accumulated surplus	305,203	277,261	277,261
Net Annual Industry Levy	<b>1,304,797</b>	<b>1,252,739</b>	<b>1,252,739</b>
Other	—	3,245	—
	<b>1,304,797</b>	<b>1,255,984</b>	<b>1,252,739</b>
<b>Expense</b>			
Operations	826,718	749,162	847,000
Actuarial and Contract Services	415,798	287,971	483,000
Board Honoraria and Expenses	90,223	89,064	200,000
	<b>1,332,739</b>	<b>1,126,197</b>	<b>1,530,000</b>
<b>Surplus/(Shortfall)</b>	(27,942)	\$129,787	(\$277,261)
Accumulated Surplus Beginning	305,203	277,261	277,261
Accumulated Surplus End	277,261	407,048	—

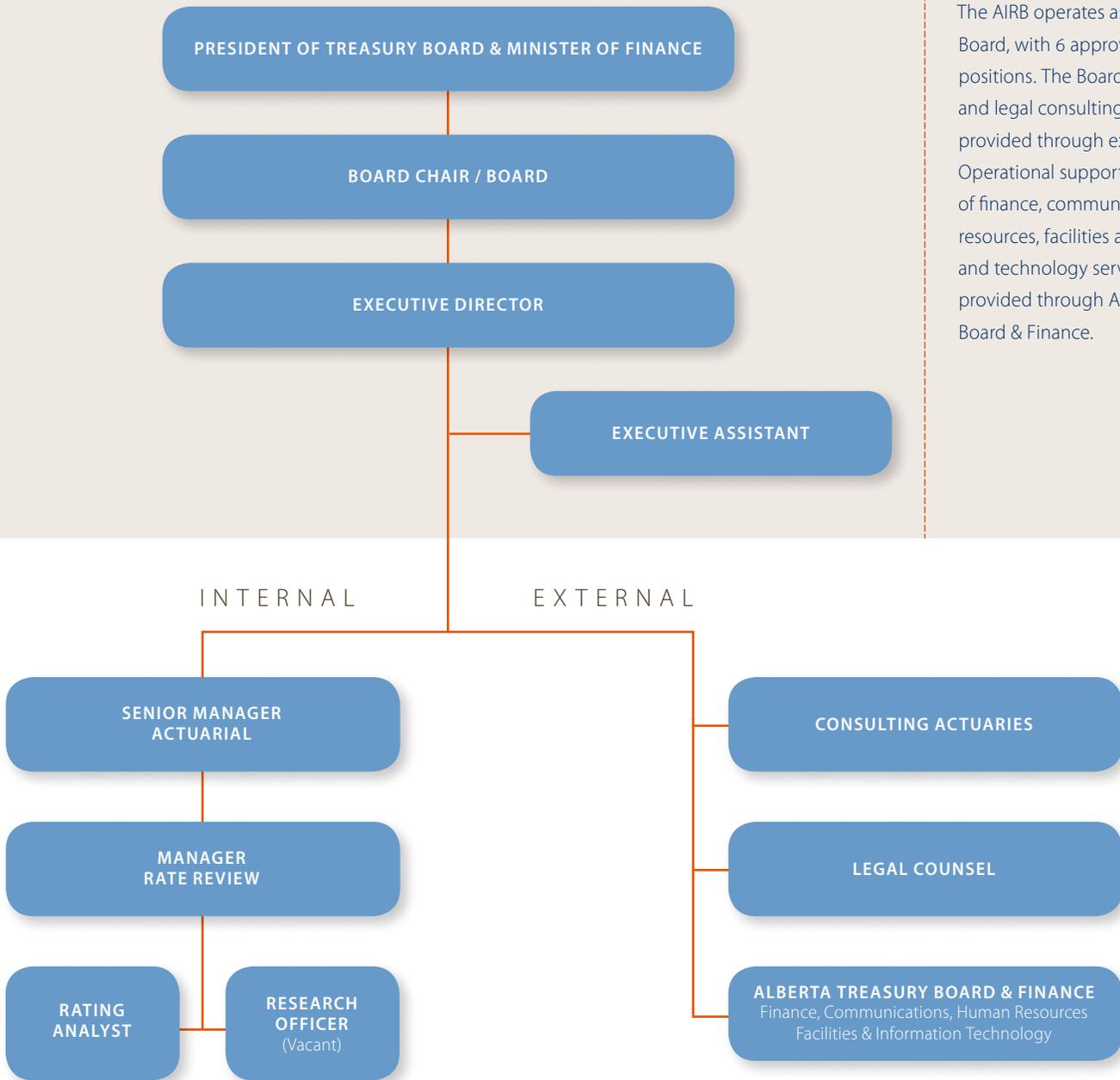
The AIRB's fiscal year reflects that of the Government, April 1 to March 31.

As per Alberta Regulation 179/2005, Automobile Insurance Rate Board Fees Regulation, the Board is fully funded by 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.

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 2016



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 finance, communications, human resources, facilities 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 rating programs 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 filings for changes in rates, rating programs and the base premium with respect to the Grid 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 filings for changes in rates, rating programs and otherwise exercise its mandate. The Board holds mid-month teleconference meetings to review and rule on simplified filings. In addition, it holds an open meeting to carry out its Annual Review process to develop an Industry Benchmarks Schedule for its review of insurer filings and the adjustment of the base premium level for the Grid.

The Board's governance processes and guidelines outlining how the Board will carry out its duties are in keeping with *Alberta's 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 governing 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
- Risk Management
- Information Technology

## BOARD MEMBERS

Board members are drawn to represent various geographical regions of the province and for a range of expertise they bring to the organization. The Board held 10 regular meetings in 2016 to review and rule on insurer filings for changes in rates and rating programs and to deal with other administrative issues of the Board.

The Board held 6 mid-month teleconference meetings to review and rule on simplified filings. In addition, on August 16<sup>th</sup> the Board held its open Annual Review meeting to hear from stakeholders.

### *Chair*



*Allan Cleiren*

**Senior Executive  
Edmonton**

### *Vice Chair*



*Charlene Butler*

**Management Consultant  
Edmonton**



*James Cuming*

**Lawyer, Private Practice  
Calgary**



*Maureen Higgins*

**Senior Executive  
Calgary**



## *Consumer Representative*



*Chris Daniel*

**Retired Senior Executive  
Insurance Industry  
Calmar**

## *Superintendent of Insurance*



*Nilam Jetha*

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

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.

As of December 2016 the AIRB was recruiting to fill five Board positions.

In the fall of 2016, the Board identified the competencies to be filled based on its skills matrix and through a comprehensive request for proposal process selected Conroy Ross Partners to lead the search process. The competition was advertised widely and closed in December. At the time of printing the annual report applicants were being screened for applicable competencies before a list of suitable candidates was prepared for submission to the Minister for consideration.

The Minister recommends to the Lieutenant Governor in Council suitable replacements to the Board.



# APPENDIX I MARKET

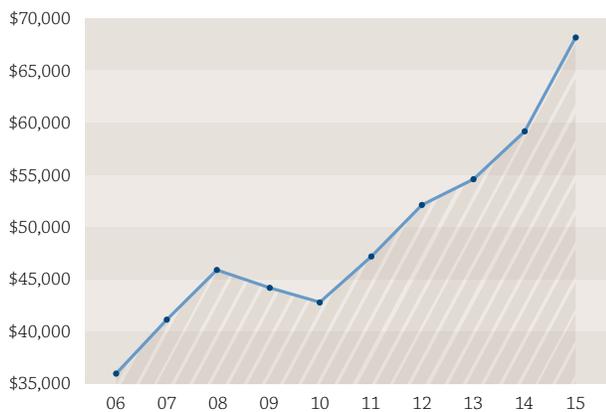
In 2015, the automobile insurance industry collected \$4.1 billion in written premium from which it expects to pay \$3.1 billion in claims. A major portion, \$3.2 billion of that premium is attributable to private passenger vehicles that is expected to incur an estimated \$2.5 billion in claims.

A review of market conditions in recent years provides a foundation to formulate expectations for the immediate future. A series of graphs complement the review. The most recent complete data available is for 2015. 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, 2006 to 2015. Bodily injury claims can take five or more years to mature and, therefore, the figures for more recent years are best estimates. The average cost of bodily injury claims dropped significantly after the reforms in 2004, with the introduction of the cap on non-economic damages for minor injuries. It then climbed again except during the recession between 2008 to 2010. Following the recession, it escalated to \$68,000 in 2015. **Figure 2** addresses how many claims have occurred for each 100 vehicles insured. There was a noticeable reduction in frequency between 2006 and 2009 and then a levelling off between 2009 and 2011. After which the frequency continued to decline.

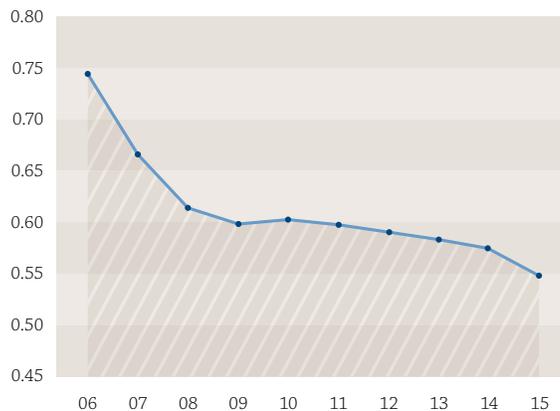
Bodily injury claims made up 68% of third party liability claim costs in 2006 compared to 70% in 2015. The Minor Injury Regulation adjusted the cap to \$4,956 as of January 1, 2016.

**Figure 1 – Bodily Injury Severity / 100 Vehicles**



Source: GISA Statistical Exhibit for Alberta experience only

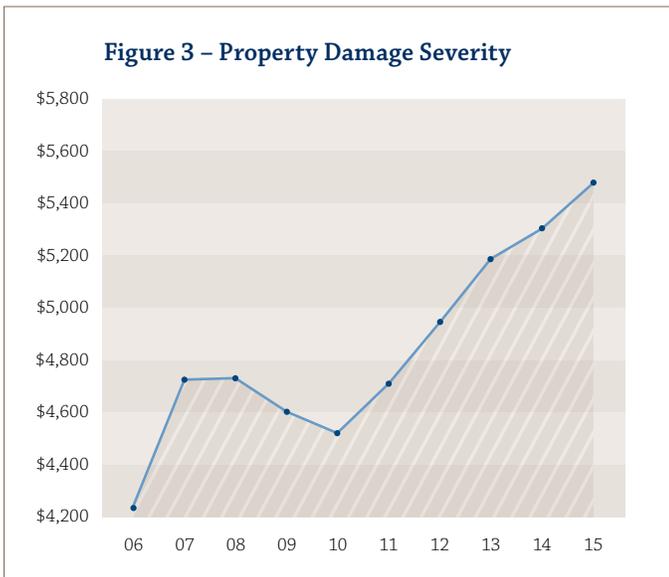
**Figure 2 – Bodily Injury Frequency / 100 Vehicles**



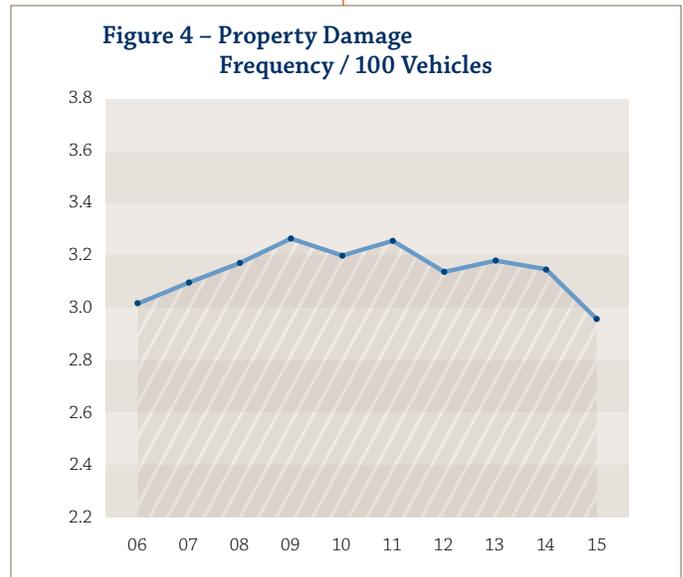
Source: GISA Statistical Exhibit for Alberta experience only



Figure 3 shows that property damage average claim costs have been steadily increasing since 2010. The average claim increased from \$4,700 to \$5,500 over the five year period. Figure 4 shows an upward trend in claim frequency through 2009 then decreasing with fluctuations through 2014, and a dip in 2015.



Source: GISA Statistical Exhibit for Alberta experience only



Source: GISA Statistical Exhibit for Alberta experience only

Accident benefits are the other coverage that relates to bodily injury; it responds to the insured's injuries regardless of fault. Figure 5 shows that the average cost of claims increased steadily from \$2,800 in 2006, to \$4,500 in 2015, with some fluctuations in 2011 and 2012. The rate of increase slowed between 2009 and 2014, but the average cost of claims in 2015 increased significantly. Figure 6 relates to the frequency of claims per 100 vehicles insured; there was a steady decreasing trend until 2010. The frequency increased slightly in 2011, but then resumed its downward trend.



**Figure 5 – Accident Benefits Severity**



Source: GISA Statistical Exhibit for Alberta experience only

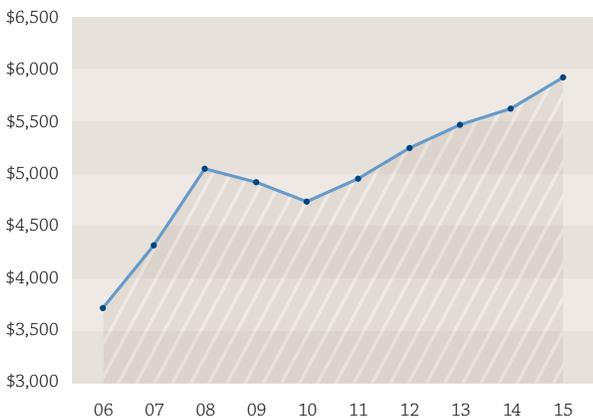
**Figure 6 – Accident Benefits Frequency / 100 Vehicles**



Source: GISA Statistical Exhibit for Alberta experience only

The remaining coverage is additional coverage for damage to the insured vehicle. **Figure 7** shows the average claim cost for collision (impact with another object) increasing steadily from \$3,700 in 2006 to \$5,000 in 2008 and then spiking to \$5,900 in 2015. The increase is closely related to the increase in repair costs and labour rates. **Figure 8** relates to the frequency of collision claims for each 100 insured vehicles. There was a steady decrease in 2006 through 2010. Since then the downward trend has levelled off with some minor fluctuations. Fluctuations are partially attributable to the variation between easy and hard winter driving conditions, which partially explains the dip in 2015.

**Figure 7 – Collision Severity**



Source: GISA Statistical Exhibit for Alberta experience only

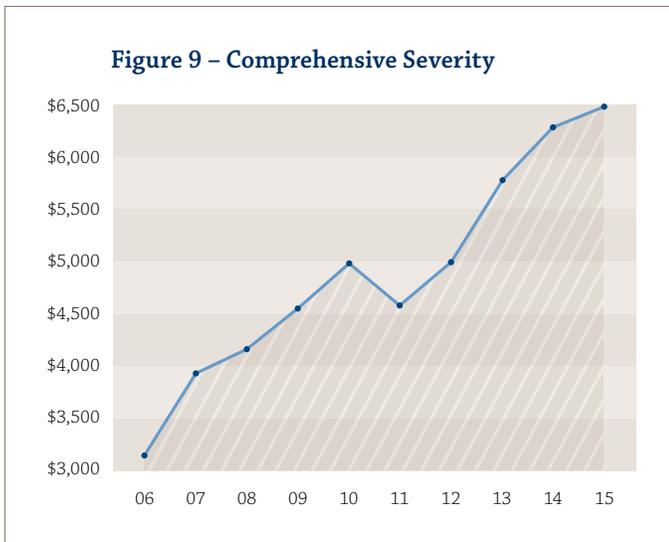
**Figure 8 – Collision Frequency / 100 Vehicles**



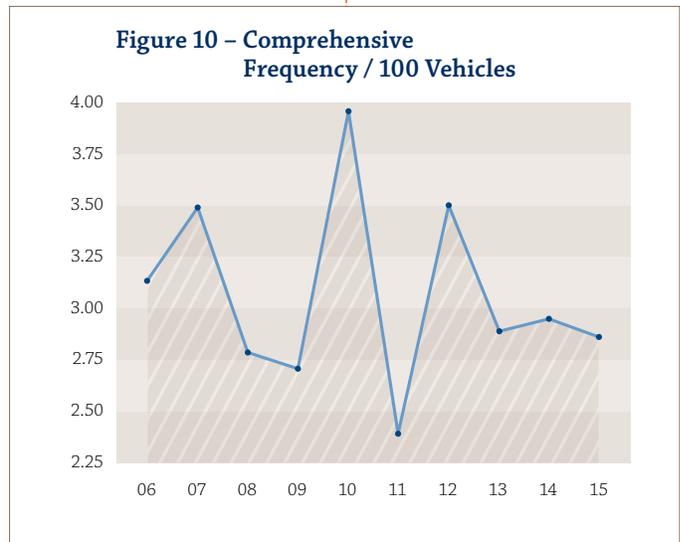
Source: GISA Statistical Exhibit for Alberta experience only



The average claim cost for comprehensive (e.g., theft, vandalism, hail) claims has continuously moved upward to \$6,500 as shown in Figure 9. Figure 10 shows a significant fluctuation in the frequency of claims. The attributing factor to the upward severity trend is the same as collision coverage, and the economic environment has impacted frequency in addition to catastrophes.

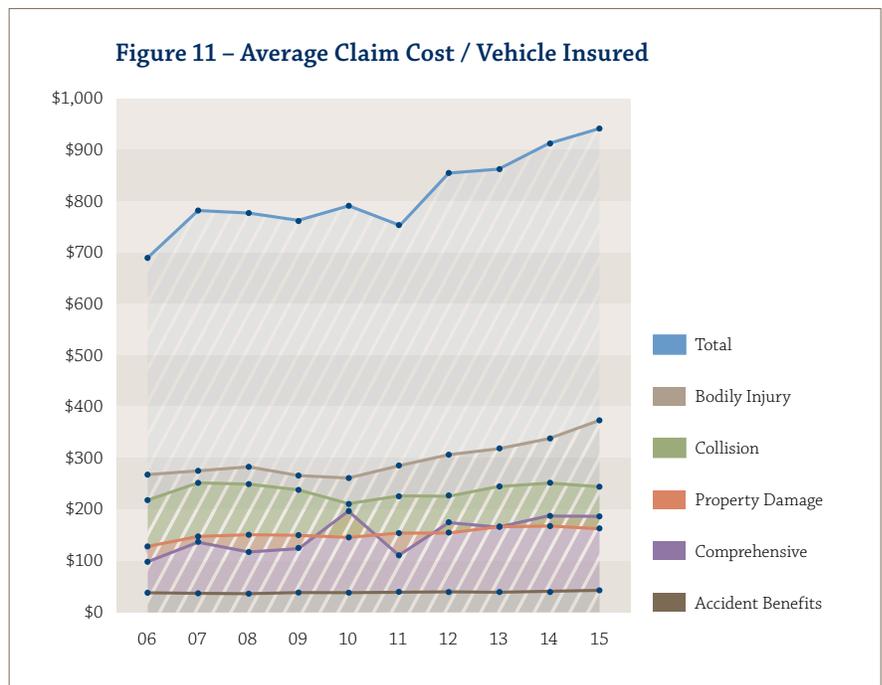


Source: GISA Statistical Exhibit for Alberta experience only



Source: GISA Statistical Exhibit for Alberta experience only

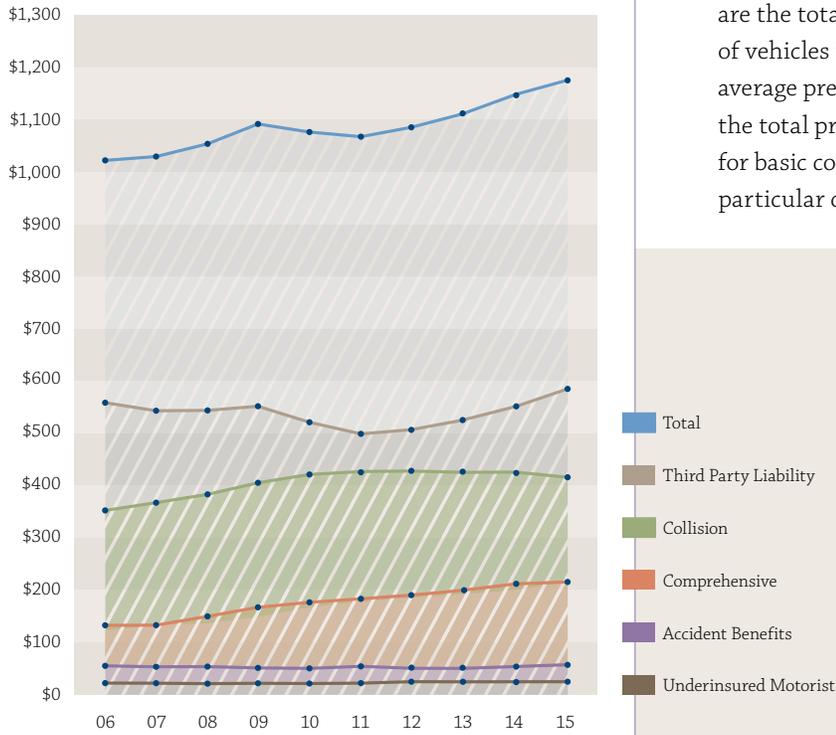
The next graph, Figure 11, shows the average claim cost per vehicle insured, which reflects the combined effects of severity and frequency of claims. The claim cost for each coverage is estimated by total claims divided by the number of vehicles insured for that coverage; and the total claim cost is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



Source: GISA Statistical Exhibit for Alberta experience only



**Figure 12 – Average Written Premiums**



Finally, **Figure 12** shows the average premiums by coverage and in total. The average premiums by coverage are the totals for each coverage divided by the number of vehicles insured for the particular coverage; the average premiums in total are calculated by dividing the total premiums by the number of vehicles insured for basic coverage. They do not reflect premiums for any particular driver profile or any individual insurer.

Average premiums for combined coverage have been increasing since 2011. The two coverages that have significantly increased rates are third party liability and comprehensive. The increases for third party liability were caused by adverse development resulting from issues such as a higher percentage of claims being litigated, and a higher proportion of claims exceeding the definition of minor injury. These claims are typically with increasing incidence of chronic pain, temporomandibular joint disorder (TMJ) (as a result of the Sparrowhawk decision), and psychological injury.

Source: GISA Statistical Exhibit for Alberta experience only

Further pressure on third party liability is expected based on industry experience in 2015. The frequency of weather related catastrophes and the current economic environment are adversely affecting experience for comprehensive coverage. Average premiums for basic and additional coverage combined increased by +2.3% in 2015 compared to 2014 (see **Appendix III**).

## APPENDIX II SUMMARY OF FILINGS

A more complete description of Filings is posted quarterly on the AIRB website at [www.airb.alberta.ca/decisions](http://www.airb.alberta.ca/decisions).

### Full and Simplified Filing Decisions – January 1, 2016 to December 31, 2016

Company	Type	Decision Date*	Average Change
<b>Private Passenger</b>			
Intact Insurance Company	F	29-Jan-2016	8.1%
Novex Insurance Company	F	29-Jan-2016	7.2%
XL Insurance Company Limited	S	29-Jan-2016	0.0%
Alberta Motor Association Insurance Company	F	26-Feb-2016	8.2%
Intact Insurance Company	S	16-Mar-2016	0.0%
Novex Insurance Company	S	16-Mar-2016	0.0%
Allstate Insurance Company of Canada	S	16-Mar-2016	0.3%
Sonnet Insurance Company	F	1-Apr-2016	0.0%
Royal & Sun Alliance Insurance Company of Canada	F	1-Apr-2016	5.3%
The Wawanesa Mutual Insurance Company	F	1-Apr-2016	4.5%
Allstate Insurance Company of Canada	S	1-Apr-2016	0.0%
Pembridge Insurance Company	S	1-Apr-2016	0.0%
Facility Association	F	29-Apr-2016	17.3%
RBC General Insurance Company	F	29-Apr-2016	10.8%
Belair Insurance Company Inc	F	11-May-2016	5.8%
Intact Insurance Company	S	11-May-2016	0.0%
Novex Insurance Company	S	11-May-2016	0.0%
Aviva Insurance Company of Canada	S	11-May-2016	0.0%
Traders General Insurance Company	S	11-May-2016	0.0%
The Personal Insurance Company	S	11-May-2016	0.0%
Certas Direct Insurance Company	S	11-May-2016	0.0%
Certas Home and Auto Insurance Company	S	11-May-2016	0.0%
Intact Insurance Company	S	11-May-2016	0.0%
Novex Insurance Company	S	11-May-2016	0.1%

### Legend

**F** – Full Filing

**S** – Simplified Filing

\***Decision Date** is date of Board decision, not effective date of rating program. Premium change is for average of all coverage combined and does not reflect impact on individual policies.

## APPENDIX II SUMMARY OF FILINGS



Company	Type	Decision Date*	Average Change
The Dominion of Canada General Insurance Company	F	27-May-2016	5.7%
Certas Direct Insurance Company	F	27-May-2016	20.2%
Chubb Insurance Company of Canada	S	27-May-2016	0.0%
The Wawanesa Mutual Insurance Company	S	15-Jun-2016	-0.1%
RBC General Insurance Company	S	15-Jun-2016	0.0%
The Dominion of Canada General Insurance Company	S	15-Jun-2016	0.0%
Intact Insurance Company	S	15-Jun-2016	0.0%
Novex Insurance Company	S	15-Jun-2016	0.0%
Aviva Insurance Company of Canada	S	24-Jun-2016	0.0%
Traders General Insurance Company	S	24-Jun-2016	0.0%
Pembridge Insurance Company	S	24-Jun-2016	0.0%
Unifund Assurance Company	S	20-Jul-2016	0.1%
The Personal Insurance Company	S	20-Jul-2016	5.8%
Security National Insurance Company	S	20-Jul-2016	3.0%
Primum Insurance Company	S	20-Jul-2016	3.0%
TD Home and Auto Insurance Company	S	20-Jul-2016	3.0%
S&Y Insurance Company	S	20-Jul-2016	0.0%
Intact Insurance Company	S	20-Jul-2016	0.0%
Novex Insurance Company	S	20-Jul-2016	0.0%
COSECO Insurance Company	F	15-Aug-2016	2.5%
COSECO Insurance Company	F	15-Aug-2016	2.7%
CUMIS General Insurance Company	F	15-Aug-2016	2.0%
Peace Hills General Insurance Company	F	15-Aug-2016	10.6%
Allstate Insurance Company of Canada	S	15-Aug-2016	0.0%
Belair Insurance Company Inc	S	31-Aug-2016	0.1%
Certas Direct Insurance Company	S	31-Aug-2016	-0.1%
Certas Home and Auto Insurance Company	S	31-Aug-2016	0.0%
The Personal Insurance Company	S	31-Aug-2016	0.0%
Facility Association	S	16-Sep-2016	-0.2%
Intact Insurance Company	S	28-Oct-2016	2.4%
Novex Insurance Company	S	28-Oct-2016	2.7%
Alberta Motor Association Insurance Company	S	25-Nov-2016	2.9%

## APPENDIX II SUMMARY OF FILINGS

Company	Type	Decision Date*	Average Change
Security National Insurance Company	S	25-Nov-2016	0.0%
TD Home and Auto Insurance Company	S	25-Nov-2016	0.0%
Primmum Insurance Company	S	25-Nov-2016	0.0%
Intact Insurance Company	S	25-Nov-2016	0.0%
Novex Insurance Company	S	25-Nov-2016	0.0%
SGI Canada Insurance Services Limited	F	25-Nov-2016	7.1%
Belair Insurance Company Inc	S	14-Dec-2016	2.9%
Allstate Insurance Company of Canada	S	14-Dec-2016	0.0%
Pembridge Insurance Company	S	14-Dec-2016	-3.9%
Canadian Farm Insurance Corp.	S	14-Dec-2016	2.7%
<b>Commercial</b>			
Facility Association	F	26-Feb-2016	10.4%
Federated Insurance Company of Canada	S	1-Apr-2016	-6.2%
Royal & Sun Alliance Insurance Company of Canada	F	1-Apr-2016	-2.0%
Aviva Insurance Company of Canada	S	1-Apr-2016	0.0%
Peace Hills General Insurance Company	F	1-Apr-2016	6.8%
Intact Insurance Company	S	15-Jun-2016	0.0%
AIG Insurance Company of Canada	F	15-Aug-2016	-7.3%
Facility Association	S	15-Aug-2016	0.0%
The Wawanesa Mutual Insurance Company	F	15-Aug-2016	1.5%
SGI Canada Insurance Services Limited	F	15-Aug-2016	9.3%
Royal & Sun Alliance Insurance Company of Canada	S	31-Aug-2016	-0.5%
Royal & Sun Alliance Insurance Company of Canada	S	31-Aug-2016	-0.2%
Aviva Insurance Company of Canada	F	16-Sep-2016	0.0%
Facility Association	S	16-Sep-2016	0.0%
Facility Association	F	28-Oct-2016	6.9%
Alberta Motor Association Insurance Company	S	25-Nov-2016	0.0%
Echelon General Insurance Company	S	14-Dec-2016	0.0%

## APPENDIX II SUMMARY OF FILINGS

Company	Type	Decision Date*	Average Change
<b>Miscellaneous</b>			
Intact Insurance Company	S	29-Jan-2016	0.0%
Novex Insurance Company	S	29-Jan-2016	0.0%
Intact Insurance Company	S	29-Jan-2016	0.0%
Novex Insurance Company	S	29-Jan-2016	0.0%
Facility Association	F	26-Feb-2016	7.5%
Facility Association	F	26-Feb-2016	9.8%
Aviva Insurance Company of Canada	S	16-Mar-2016	-10.0%
Traders General Insurance Company	S	16-Mar-2016	-10.0%
Intact Insurance Company	F	1-Apr-2016	-6.8%
Novex Insurance Company	F	1-Apr-2016	-5.7%
Facility Association	F	1-Apr-2016	35.0%
Echelon General Insurance Company	S	29-Apr-2016	4.4%
Federated Insurance Company of Canada	F	11-May-2016	7.1%
AIG Insurance Company of Canada	F	15-Aug-2016	7.1%
AIG Insurance Company of Canada	F	15-Aug-2016	-42.6%
AIG Insurance Company of Canada	F	15-Aug-2016	-41.8%
S&Y Insurance Company	S	15-Aug-2016	0.0%
S&Y Insurance Company	S	15-Aug-2016	0.0%
S&Y Insurance Company	S	15-Aug-2016	0.0%
Facility Association	F	28-Oct-2016	9.2%
Aviva Insurance Company of Canada	S	28-Oct-2016	-0.8%
Traders General Insurance Company	S	28-Oct-2016	-1.0%
Alberta Motor Association Insurance Company	S	25-Nov-2016	0.0%
The Guarantee Company of North America	S	14-Dec-2016	0.0%
The Guarantee Company of North America	S	14-Dec-2016	0.0%
The Guarantee Company of North America	S	14-Dec-2016	0.0%

# APPENDIX III STATISTICS

## Automobile Insurance Fact Page

	2011	2012	2013	2014	2015	2016
Active Insurance Companies <sup>1</sup>	75	71	70	70	69	—
<b>Market Share of Private Passenger Written Premium for Four Largest Insurer Groups<sup>3</sup></b>						
Intact Financial Group	19.4%	20.7%	20.1%	21.4%	21.8%	—
TD Insurance	15.7%	16.2%	16.5%	16.3%	16.3%	—
Wawanesa	13.9%	13.8%	13.5%	13.1%	12.8%	—
Desjardins <sup>2</sup>	8.0%	7.5%	7.0%	7.7%	8.1%	—
<b>Total</b>	<b>57.0%</b>	<b>58.2%</b>	<b>57.1%</b>	<b>58.5%</b>	<b>59.0%</b>	—
<b>Written Premium<sup>2</sup></b>						
Total Premium (000s)	\$3,332,641	\$3,514,802	\$3,725,972	\$4,003,587	\$4,118,487	—
Private Passenger (000s)	\$2,511,507	\$2,655,008	\$2,825,793	\$3,041,588	\$3,169,898	—
<b>Average Written Premiums for Private Passenger Vehicles<sup>3</sup></b>						
Basic Coverage	\$551	\$562	\$579	\$609	\$644	—
Additional Coverage	\$519	\$525	\$534	\$544	\$535	—
<b>Total</b>	<b>\$1,070</b>	<b>\$1,087</b>	<b>\$1,113</b>	<b>\$1,153</b>	<b>\$1,179</b>	—
% change from prior year	—	1.6%	2.4%	3.6%	2.3%	—
<b>Written Private Passenger Vehicles<sup>3</sup></b>						
Non Grid	92.7%	92.6%	93.4%	93.3%	94.2%	—
Grid	7.3%	7.4%	6.6%	6.7%	5.8%	—
# Vehicles Insured	2,348,012	2,443,325	2,539,617	2,539,001	2,688,370	—
% change from prior year	—	4.1%	3.9%	0.0%	5.9%	—
<b>Estimated Total Claims<sup>3</sup></b>						
All Automobile (000s)	\$2,208,843	\$2,535,107	\$2,756,050	\$2,974,336	\$3,112,017	—
Private Passenger (000s)	\$1,737,452	\$2,023,238	\$2,156,805	\$2,357,662	\$2,491,948	—
Private Passenger Loss Ratio	70.0%	78.0%	79.0%	80.0%	81.0%	—
% change from prior year	—	11.4%	1.3%	1.3%	1.3%	—
<b>Minor Injury Cap</b> (effective October 1, 2004) <sup>1</sup>	\$4,559	\$4,641	\$4,725	\$4,777	\$4,892	\$4,956
<b>Other</b>						
Health Cost Recovery (Millions) <sup>4</sup>	\$95	\$100	\$105	\$120	\$135	—
Board Adjustments to Basic Coverage <sup>5</sup>	—	5%	5%	—	—	—
Board Adjustments to Grid	—	5%	5%	—	7%	7%
Industry Levy	\$1,140,877	\$1,005,932	\$1,152,973	\$1,304,798	\$1,252,739	\$1,092,951

1 Source: Superintendent of Insurance (most recent available data for 2015)

2 Desjardins became the 4<sup>th</sup> largest group due to the acquisition of State Farm

3 Source: GISA Statistical Exhibits (most recent available data for 2015)

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

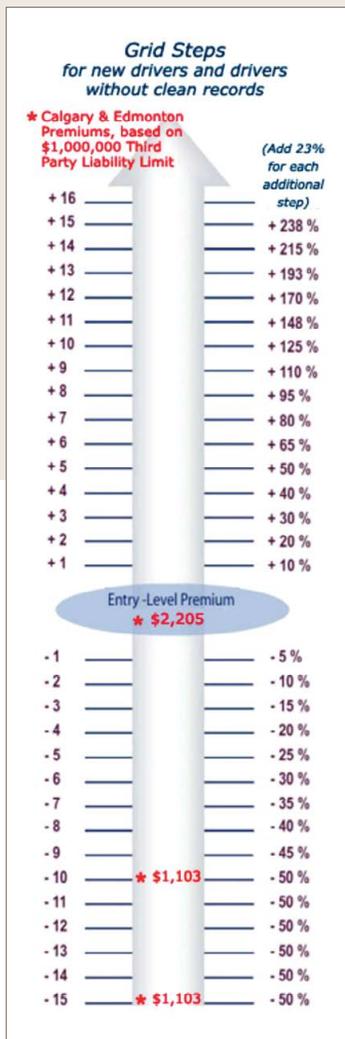
5 IWA process discontinued in 2014

# APPENDIX IV ALBERTA'S GRID RATING PROGRAM

## Alberta's Grid Rating Program

Alberta's 2004 automobile insurance reforms, introduced legislation that resulted in the "All Comers Rule". This rule was introduced to protect consumers from insurers that refused customers that were believed to be undesirable business or bad risks. The reform included a Grid Rating program that was developed to set maximum premiums that insurance companies could charge for basic coverage for any driving record.

The AIRB has developed a Grid calculator which allows consumers to determine their Grid premium and demonstrates how the Grid rating program operates. The Grid calculator can be found on the AIRB's website [www.airb.alberta.ca](http://www.airb.alberta.ca).



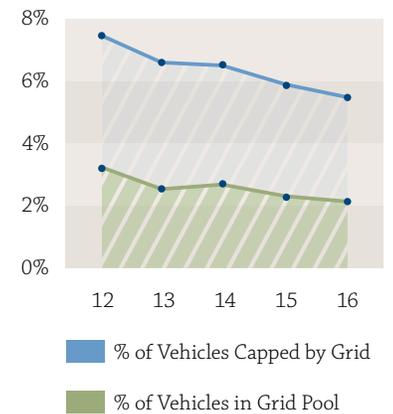
## How the Grid Protects Consumers

The Grid applies only to private passenger vehicles. It does not extend to other categories of vehicles that include motorcycles, recreational vehicles such as snow vehicles and all-terrain vehicles, motor homes, commercial vehicles and public transportation vehicles. It only applies to basic coverage, not additional coverage (collision and comprehensive coverage).

As per legislation, the Government has established a Grid which sets the maximum premium a consumer may be charged. This Grid is reviewed on an annual basis and published by the AIRB for use by insurers and consumers. Insurance companies are required to compare a driver's premium under their current AIRB approved rating program to the driver's Grid premium and charge the lesser of the two premiums. The Grid premium is often the lower premium for inexperienced drivers and drivers that insurers' deem less desirable, e.g., poor driving record or unproven driving record. Drivers are rated below the Grid when their experience and driving behavior improves to the point that insurers' want to write the risk. The vast majority, approximately 94% of drivers, fall into this category and pay premiums that are lower than the Grid.

Drivers that are Grid rated will receive an initial Grid step. As drivers gain experience and drive without claims and convictions, their premiums decrease each year, to a maximum 50% reduction of Grid step 0 rates. On the other hand, each at-fault claim will move the driver 5 steps up the Grid and lead to an increase in Grid premium.

**% of Vehicles on Alberta Grid and in Alberta Grid Risk Sharing Pool**



## How the Grid Pool Protects Insurers

With the introduction of the "All Comers", the Government has provided protection to insurers by implementing the Grid Risk Sharing Pool (RSP). The intent of this pool is to allow insurers to cede risks they normally would not insure. The surplus or loss experience of the Risk Sharing Pool is shared by all insurers in Alberta on an annual basis and allocated based on total written premiums. The percent of risks that were capped by the Grid in 2016 was 5.5%. The percent of risks that were capped by the Grid and sent to the risk sharing pool was 2.2%.

The chart compares the percentage of total private passenger vehicles that have been capped by the Grid premium and in the Grid Risk Sharing Pool over the past 5 years. The number of vehicles on the road has been increasing and was 2.7 million at the end of 2016. The number of policies capped by Grid and those placed in Grid RSP has been decreasing, which means more policyholders are receiving competitive rates.

# APPENDIX V ACTIVE INSURERS

## List of Active Automobile Insurers and Their Direct Written Premium for 2015

Name of Company	2015 (thousands)	Name of Company	2015 (thousands)
ACE INA Insurance	8,941	Liberty Mutual Insurance Company	9,309
AIG Insurance Company of Canada	12,646	Lloyd's Underwriters	9,656
Alberta Motor Association Insurance Company	220,801	Millennium Insurance Corporation	19,929
Alberta Municipal Insurance Exchange	1,058	Mennonite Mutual Insurance Co. (Alberta) Ltd.	21
Allianz Global Risk US Insurance Company	118	Motors Insurance Corporation	504
<b>Allstate Canada</b>		<b>Northbridge Financial Corporation</b>	
Allstate Insurance Company of Canada	83,856	Federated Insurance Company of Canada	23,743
Pembroke Insurance Company	11,993	Northbridge Commercial Insurance Corporation	37,093
American Road Insurance Company	2,321	Northbridge General Insurance Corporation	43,013
<b>Aviva Canada Inc.</b>		Northbridge Personal Insurance Corporation	86
Aviva Insurance Company of Canada	263,170	Tokio Marine & Nichido Fire Insurance Co. Ltd.	398
Elite Insurance Company	20,434	Zenith Insurance Company	560
Traders General Insurance Company	43,640	Old Republic Insurance Company of Canada	7,568
Canadian Direct Insurance Incorporated	56,489	Optimum West Insurance Company	3,241
Canadian Farm Insurance Corporation	4,659	Peace Hills General Insurance Company	74,298
Canadian Northern Shield Insurance Company	1	Portage la Prairie Mutual Insurance Company (The)	19,914
<b>Chubb Canada</b>		Protective Insurance Company	304
Chubb Insurance Company of Canada	12,898	RBC General Insurance Company	60,924
Federal Insurance Company	15	<b>Royal &amp; Sun Alliance Insurance Group</b>	
Continental Casualty Company	12,464	Royal & Sun Alliance Insurance Company of Canada	72,384
<b>The Co-operators Group Ltd</b>		Unifund Assurance Company	164,647
Co-operators General Insurance Company	280,824	Sentry Insurance A Mutual Company	82
Coseco Insurance Company	21,265	SGL Canada Insurance Services Limited	59,034
Cumis General Insurance Company	3,562	<b>TD Insurance</b>	
Sovereign General Insurance Company (The)	20,414	Primum Insurance Company	139,687
<b>Desjardins General Insurance Group</b>		Security National Insurance Company	372,828
Certas Direct Insurance Company	20,086	TD Home and Auto Insurance Company	16,561
Certas Home and Auto Insurance Company	129,475	<b>The Economical Insurance Group</b>	
Personal Insurance Company (The)	97,727	Economical Mutual Insurance Company	144,262
Echelon General Insurance Company	10,912	Missisquoi Insurance Company (The)	4
Electric Insurance Company	162	Sonnet Insurance Company	32
Everest Insurance Company of Canada	3	Waterloo Insurance Company	13,300
Fortress Insurance Company	330	<b>The Travelers Companies</b>	
Great American Insurance Company	2	Dominion of Canada General Insurance Company (The)	79,793
Guarantee Company of North America (The)	3,836	St. Paul Fire and Marine Insurance Company	6,828
Hartford Fire Insurance Company	186	Travelers Insurance Company of Canada	4,703
<b>Intact Financial Group</b>		Sumitomo Marine and Fire Insurance Company Ltd. (The)	490
Belair Insurance Company Inc.	10,359	Wawanesa Mutual Insurance Company (The)	539,563
Intact Insurance Company	768,938	Zurich Insurance Company Limited	33,803
Novex Insurance Company	75,955		
Trafalgar Insurance Company of Canada	8,354		

Source: Superintendent of Insurance 2015 Annual Report



**NOTES:**

- Province of Quebec and British Columbia have mixed systems.
- Province of Quebec has public delivery system for bodily injury coverage and private delivery system for other coverage.
- British Columbia has public delivery system for third party liability and accident benefits coverage. Consumers can choose between public and private delivery systems for optional coverage.

**Automobile Insurance Delivery Systems at a Glance**



- Private Delivery System
- Public Delivery System





Alberta



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.



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