

ANNUAL REPORT

2020

FOR THE YEAR ENDED
DECEMBER 31, 2020

Automobile Insurance Rate Board — 2020 Annual Report

For the Year Ended December 31, 2020



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www.airb.alberta.ca/about/annual-reports

LETTER OF TRANSMITTAL AND ACCOUNTABILITY STATEMENT

The Honourable Travis Toews
President of Treasury Board and Minister of Finance
208 Legislature Building
10800 - 97 Avenue
Edmonton, Alberta T5K 2B6

Honourable Minister:

On behalf of the Board and staff of the Automobile Insurance Rate Board (AIRB), I am pleased to submit the 16th Annual Report of the AIRB, for the year ended December 31, 2020.

The 2020 Annual Report of the 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, 2020. All significant decisions, events and identified risks as of December 31, 2020 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.

We are committed to working collaboratively with your office in pursuing the successful administration of the legislation as it relates to the AIRB.

Sincerely,

[Original signed by Charlene Butler]

Charlene Butler, MBA, B.Sc, BComm
Board Chair



VISION

Automobile insurance is accessible, equitable and sustainable for all Albertans.

VALUES

Accountability
Integrity
Excellence

MISSION

The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure Albertans have access to a robust automobile insurance marketplace.

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BOARD CHAIR'S REPORT



Charlene Butler
Board Chair

On behalf of the Automobile Insurance Rate Board (AIRB), I am pleased to present our 2020 Annual Report. As I look back on the past year, it is hard not to reflect on the pandemic. Adaptation and the adoption of new approaches to our work became the norm, as the world we knew was disrupted in a matter of days. Overnight, we transitioned to working from home, with no impact to our service levels or the stakeholders we serve, and adjusted to conducting our business and engaging with stakeholders through video conferencing.

I would be remiss if I did not thank the insurance industry for their response during the pandemic. Insurers and brokers/agents not only transitioned to working from home while continuing to serve their clients, but also provided relief to Albertans who were driving less and facing financial challenges.

I am pleased to share a few of our successes from this year:

- further clarification to our filing guidelines streamlining to a single guideline for each of full and simplified filings, thereby reducing red tape;
- first publication of our market report, in response to requests from brokers/agents and other industry stakeholders who do not have access to the trends and issues specific to automobile insurance;
- conducted first annual stakeholder survey;
- refreshed our website; and
- virtual Annual Review Open Meeting, with participants from across Canada.

I would also like to highlight the changes in our Board Membership this year, starting in January we welcomed the new Superintendent of Insurance, Sherri Wilson. In May, we were pleased to announce the re-appointment of Jay Jeworski for a second term and the appointment of two new members, Joshua Gogo and Jamie Hotte; all three are public members. In September, we welcomed a new Consumer Representative, Mathew Wesolowski, taking over

for Chris Daniel who had served the maximum number of terms. We are fortunate to have recruited such high caliber, engaged Board Members to assist the AIRB as it prepares for the new opportunities which lie ahead.

As we look forward to 2021, I anticipate a challenging but rewarding year focused on:

- continuing discussions with insurers to balance the need to charge an adequate rate with the consumers' concerns for affordability;
- adapting our work to include the new responsibilities provided by the regulatory changes announced in October;
- continuing stakeholder conversations and our analysis of market trends and emerging issues; and
- refining our focus on consumer education to ensure brokers/agents and other stakeholders have accurate information and knowledge to assist consumers in understanding their premiums and the changes to their policy as a result of short-term reforms.

The AIRB's success depends on its people. I am very appreciative of the opportunity to lead this Board of engaged professionals from diverse backgrounds. I would like to thank our Board Members, management and staff for their ongoing engagement and dedication.

We are committed to ensuring automobile insurance is accessible, equitable and sustainable for all Albertans.

BOARD GOVERNANCE

Relationship to Government

The President of Treasury Board and Minister of Finance (Minister) and the Government of Alberta, through the *Insurance Act* (the *Act*), established the AIRB in October 2004 as an independent regulator. In this capacity, the AIRB is responsible for regulating automobile insurance rating programs in Alberta. The AIRB, through its functions and statutory duties and responsibilities, serves all Albertans — the public, industry and government. In addition, the AIRB must exercise and perform any other powers and duties assigned to it by the Minister or prescribed by regulations.

Decisions made by the AIRB regarding filings for changes to 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 AIRB updated its vision, mission, and values in 2019. The AIRB sets goals as part of the annual business planning process, and these goals are the basis upon which accountability and performance are evaluated.

The AIRB consists of up to seven Board 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, for a total of nine Board Members with a broad range of expertise and experience. The *Act* provides for a chair and a vice-chair as appointed by the Lieutenant Governor in Council.

The AIRB holds regular monthly meetings to review and rule on full and simplified filings for changes to rating programs and otherwise exercise its mandate and oversee its effective operation and fiscal responsibilities. The AIRB holds mid-month meetings to review and rule on simplified filings for changes to rating programs. 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 AIRB's governance processes and policies outline how it will carry out its duties and ensure alignment with *Alberta's Public Agencies Governance Act*.

Tools for Accountability

CODE OF CONDUCT

The Code of Conduct and Ethics (Code) was developed in 2018 and implemented April 1, 2019, pursuant to section 23.922 of the *Conflict of Interest Act*. The Code applies to all members and employees, and reflects a commitment to the AIRB's values and provides a framework to guide ethical conduct. Board Members and employees are expected to act in a way that supports this Code. To demonstrate our commitment to transparency and accountability, this Code can be viewed on our website.

CHARTER OF EXPECTATIONS

The Charter of Expectations (Charter), adopted in 2008 and updated in 2018, is a governance tool used in the recruitment of new Board Members and as a framework to assess their performance. The Charter is reviewed annually and reaffirmed by all Board Members.

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 required; and

- act in a way that contributes to the effective operation of the AIRB.

BOARD PROFILE AND COMPETENCY MATRIX

The AIRB's Board Profile and Competency Matrix (Matrix) includes personal effectiveness skills as well as other specialized knowledge and relevant professional or volunteer experience that would assist the AIRB in effectively carrying out its mission and mandate.

The profile of current Board Members continues to be updated as the membership of the AIRB changes, and is a tool used in the identification of the profile and competencies the AIRB seeks when recruiting for vacant positions.

BOARD MEMBERS

The AIRB is fortunate to have a Board comprised of dedicated professionals focused on continuous improvement.

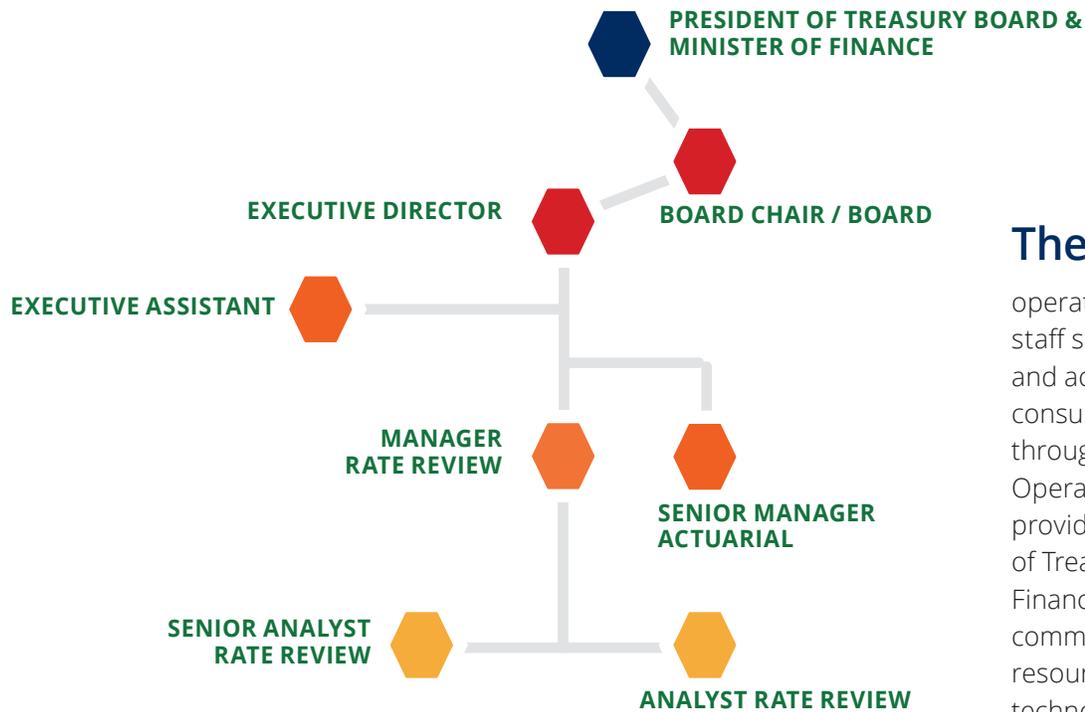
In 2020, we welcomed the new Superintendent of Insurance, Sherri Wilson, and two new public members, Joshua Gogo and Jamie Hotte.

We also welcomed Mathew Wesolowski as our new Consumer Representative and said farewell to Chris Daniel. The AIRB would like to thank Mr. Daniel for his contributions to our Board. He served in the capacity of public member and Consumer Representative, during his three terms and nearly ten years with the AIRB.



Joshua Gogo, Patricia Matthews, Mathew Wesolowski, Jamie Hotte, Charlene Butler, Sherri Wilson, William Moore and Jay Jeworski

ORGANIZATIONAL CHART



The AIRB...

operates with six approved staff support positions, and actuarial and legal consulting services provided through external contracts. Operational support is provided through the Ministry of Treasury Board and Finance and includes finance, communications, human resources, and information technology services.

ACCOUNTABILITY

2019-2020 Expense Breakdown

The Ministry of Treasury Board and Finance's budget includes the AIRB. The AIRB is accountable to the Minister for its overall spending.

The AIRB's operations are fully funded through an annual industry levy to automobile insurers, in accordance with the Automobile Insurance Rate Board Fees Regulation.

The AIRB's operations for the fiscal year ended March 31, 2020, decreased 9.6 percent over the prior year.

The AIRB levy equates to a cost of \$0.36 per vehicle written (private passenger and commercial vehicles), a slight decrease from \$0.40 per vehicle in 2019.

STATEMENT OF OPERATIONS

AND SURPLUS For the period April 1, 2019 to March 31, 2020

	2018 - 19 ACTUAL	2019 - 20 ACTUAL	2019 - 20 BUDGET
Revenue			
Annual Industry Levy ¹	\$1,448,000	\$1,448,000	\$1,448,000
— Less Accumulated Surplus	259,884	71,453	71,453
Net Annual Industry Levy	1,188,116	1,376,547	1,376,547 ²
Other	1,040	—	—
	1,189,156	1,376,547	1,376,547
Expense			
Operations	761,189	818,984	890,267
Actuarial and Contract Services	533,961	353,557	345,400
Board Honoraria and Expenses ³	82,437	71,521	139,333
	1,377,587	1,244,062	1,375,000
Surplus / (Deficit)			
Accumulated Surplus Beginning	259,884	71,453	71,453
Accumulated Surplus End ⁴	71,453	203,938	73,000

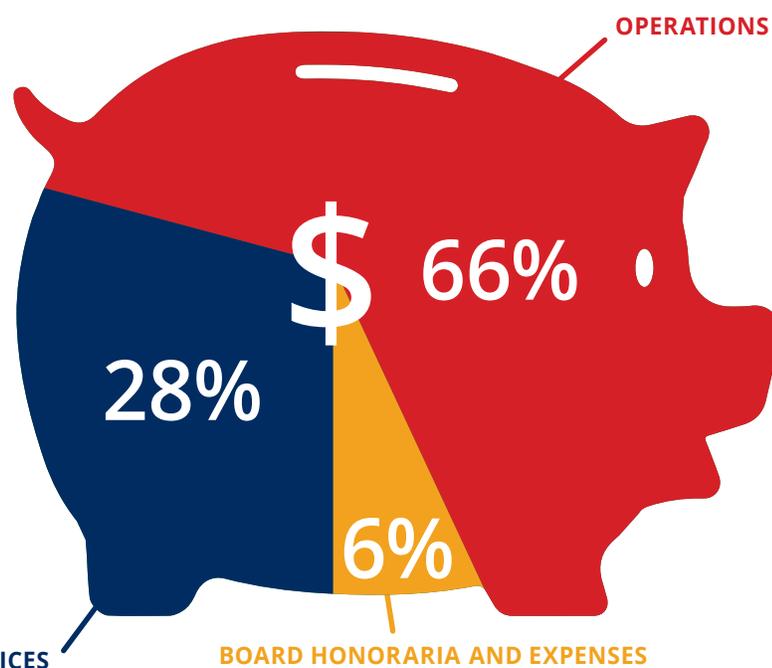


¹ In accordance with the Automobile Insurance Rate Board Fees Regulation, insurers are assessed a fee based on their share of direct written automobile insurance premiums from the prior year. The fee represents the AIRB's annual budget plus or minus the prior year's accumulated surplus or deficit.

² The Government tabled its 2019-2020 budget on October 24, 2019 reducing the AIRB's budget by \$73,000, or 5%, after the annual industry levy was issued and collected based on the AIRB's approved budget in force at the time.

³ Board honoraria are remunerated in accordance with Schedule 1 of the Part-Time Committee Remuneration Orders in Council 103/2006 and 466/2007. Expenses are remunerated in accordance with the Public Services Commissioner directive on subsistence and travel expenses.

⁴ The accumulated surplus changes as actual expenditures vary compared to budget. The AIRB is subject to the same fiscal restraint as the Government of Alberta and at times this results in a surplus. Any accumulated surplus is deducted from the next year's levy.



BOARD INVOLVEMENT

Canadian Automobile Insurance Rate Regulators Association

The Canadian Automobile Insurance Rate Regulators Association (CARR) provides rate regulators with an opportunity to address current and potential regulatory challenges and work together to find common solutions where practical. CARR was formed in 2008, and the AIRB is proud to be a founding member.

The AIRB actively participates with CARR committees and initiatives to remain informed of trends and innovations in the market.

As a member of the CARR Research Committee, the AIRB suggested projects and promoted information sharing, such as updating rating profiles used nationally by rate regulators and



Where Canadian Auto Insurance Rate Regulators Converge!

specifically in Alberta's rate comparison tool. We also engage CARR membership on other projects aligned with AIRB priorities.

General Insurance Statistical Agency

The General Insurance Statistical Agency (GISA) is the statistical agent appointed for Alberta and eight other jurisdictions with private automobile insurance regimes. GISA a key source of data for the AIRB Annual Review and data gathering related to market analysis and reporting. The AIRB ensures Alberta has a strong voice in the initiatives that GISA undertakes.

Our Executive Director plays a key leadership role in a number of key GISA initiatives — including but not limited to:

- exhibit production;
- data management;
- financial information collection; and
- strategic planning.

GISA continues to focus on improvement of its data collection and reporting to ensure the availability of accurate data. The AIRB recognizes the importance of quality data to make decisions both from a regulatory and industry perspective, and supports the continuous improvement of the data to meet the needs of the AIRB and stakeholders.



EXECUTIVE DIRECTOR'S REPORT



Laurie Balfour
Executive Director

As I look back on 2020, I am very proud of the resilience and commitment of our team. When COVID-19 forced us to adjust to working from home, the staff seamlessly transitioned to the new work environment and delivered the same service our stakeholders have come to expect.



We have adapted to video conferencing for all meetings with stakeholders, staff, and Board Members. We adapted our Annual Review Open Meeting to hold a virtual meeting with over 60 people in attendance from across the country. I am very privileged to work with a team of dedicated professionals, who go the extra mile to meet the ever-changing needs and demands on our time.

Board Orientation, Education, and Training

The AIRB is fortunate to have an engaged group of professionals from diverse backgrounds on our board. Training and education is a priority as we strive to ensure our Board Members have the requisite knowledge of the industry, trends, and emerging issues. With COVID-19, we transitioned our meetings from in-person to video conference, enabling us to continue provide opportunities for stakeholders to engage with the AIRB and continue our practice of guest speakers and presentations on industry trends, issues or ratemaking policies and practices at board meetings.

In addition, this year we provided orientation and training to our new Board Members, holding several sessions over the summer and fall. Our commitment to education and training also benefits our staff ensuring they

also remain current on the broader market issues and challenges insurers and consumers are facing. I would like to thank all of the stakeholders who meet with the Board and staff regularly and openly share their views and potential solutions for the issues facing the industry.

Filing Guidelines

The AIRB staff review our filing guidelines regularly to ensure they provide the most up to date information to insurers who are preparing filings to change their automobile insurance rating programs. This year, amendments were made to streamline the flow of the guidelines, clarify the instructions and reduce redundancy. We reduced the number of filing guidelines by half, by combining private passenger and other than private passenger vehicles guidance for both full and simplified filings. The new guidelines took effect July 1, 2020.

The reforms announced in October allowed the AIRB to update its filing guideline for usage based insurance. The updated guideline removed several barriers which were limiting the number of insurers offering this product to Albertans. The new guideline is effective January 1, 2021, and we anticipate the changes will increase options for Albertans to have more control over their insurance premiums.

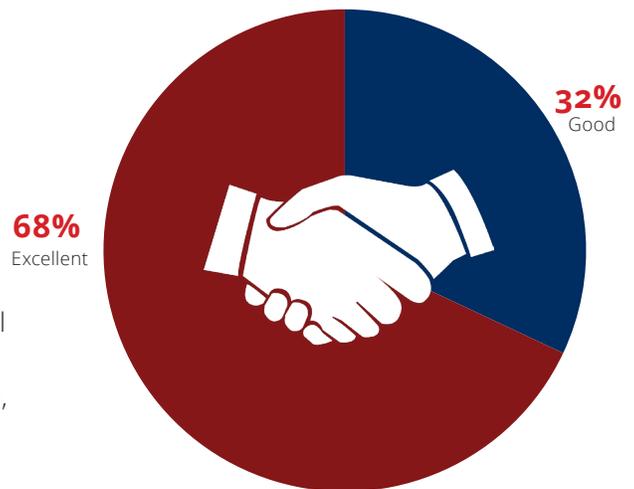
The insurance industry recognized Albertans were driving less, especially from March to June when many businesses were closed or working remotely. Some insurers chose to delay implementation of rate changes, offer rebates in addition to the reduced premiums related to policy changes and offer other relief

measures like deferred payments, no fee for NSF etc. The AIRB took steps to ensure the process for implementing these changes to their rating program did not add regulatory burden, while still keeping the AIRB informed of the initiatives to support Albertans during this difficult time.

Stakeholder Survey

This year we implemented a new stakeholder survey in order for the Board Members to evaluate the level of satisfaction insurers have with the services provided by AIRB staff. All insurers who submitted a filing during 2019 were surveyed, and we received responses from 76.0% of them. One of the questions, which is used as a metric in our business plan, is the overall rating for service received. Based on a five point scale ranging from Very Poor to Excellent, 68% of the responses rated the overall service as excellent and the remaining 32% was rated as good. This initial survey set the bar high, and we will be striving to improve our service annually.

Overall Rating for Service Received



Looking Ahead to 2021

We are excited for the new responsibilities we will be undertaking in 2021. As we continue with our day to day activities in fulfilling our mandate, we will be expanding our focus to include:

- developing and implementing filing guidelines for insurers who wish to expand the number of rating territories to better reflect the risk;
- developing filing guidelines for insurers to implement direct compensation for property damage;
- considering what, if any, barriers exist for insurers' adoption of pay per kilometer programs in the province;
- continuing engagement and education of consumers on automobile insurance;
- automating processes for rate filings and development of a web portal for insurers to exchange information with the AIRB staff;
- monitoring and reporting on key trends and performance indicators to evaluate the automobile insurance sector and support evidence based decision making;
- representing Alberta on national associations including the CARR and GISA; and
- continuing our focus to remain current on industry issues through meetings with individual insurers, the Insurance Bureau of Canada, the Canadian Association of Direct Relationship Insurers, the Insurance Brokers Association of Alberta, the Facility Association and other key stakeholders.

AUTOMOBILE INSURANCE MARKET

The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure there is access to a robust automobile insurance marketplace. The AIRB monitors industry trends and developments to inform its , the Government of Alberta, and other industry stakeholders. Further, the AIRB evaluates affordability, accessibility, and service quality by monitoring relevant indicators which are influenced by competition, consumer knowledge, and industry trends.

Seventy-seven percent of Alberta's automobile insurance market is comprised of policies for private passenger vehicles (PPV); the remaining twenty-three percent consists of motorcycles, commercial, all terrain, snow, farm and miscellaneous vehicles. Alberta has

a competitive private automobile insurance market that provides coverage for over 2.8 million vehicles. This reporting on the automobile insurance market examines, and is mainly pertinent to, the market for PPV, given its size relative to other vehicle types, except where noted. Readers are advised data is sourced from a variety of sources including: the General Insurance Statistical Agency, and MSA Research. Some data is used to illustrate trends for five years, while in other cases ten years is presented.

For more information, refer to the 2020 Market and Trends report on our [website](#) please note, 2019 data is the most current annual industry data available to the AIRB, and is the basis of reporting in this section of the report.

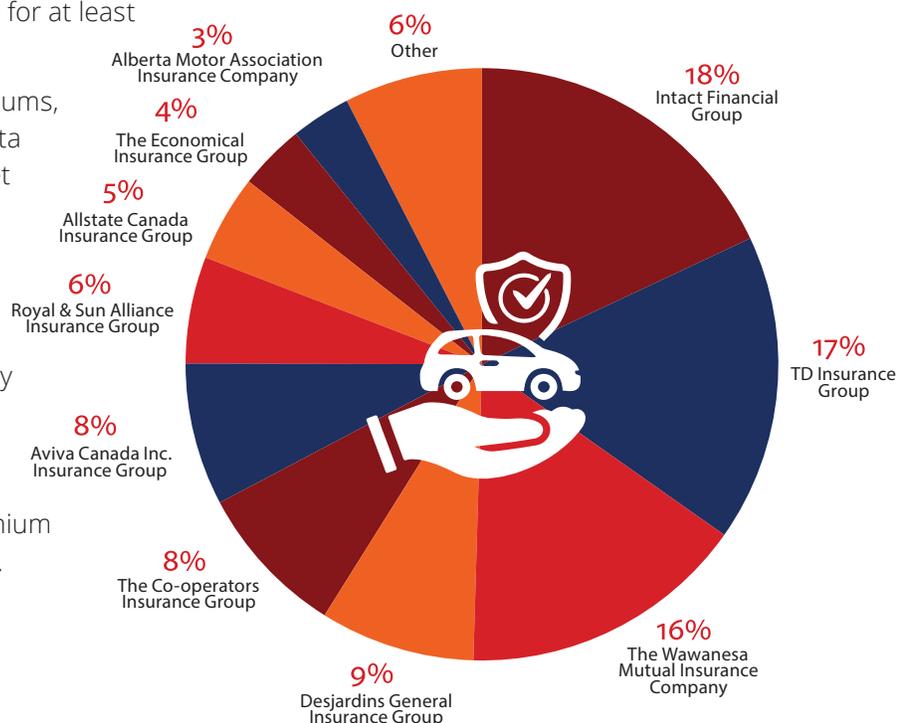
Competitive Marketplace

Alberta is fortunate to have a competitive market for automobile insurance. There are over 69 insurers offering insurance for at least one type of vehicle.

Based on 2019 direct written premiums, the top ten insurer groups in Alberta represented 94% of the PPV market share, with 44 individual insurers writing PPV insurance.

A competitive market allows insurers to compete on price and service and contributes accessibility and affordability for consumers. Consumers have the ability to choose between different insurers, and no single insurer dictates premium prices or how the market operates.

2019 TOP 10 PRIVATE PASSENGER INSURANCE GROUPS ⁵



⁵ Source: MSA Research.

During 2019, Alberta's Private Passenger Automobile Insurance Market Covered More Than 2.8 Million Vehicles

PREMIUMS COLLECTED
\$3,900,000,000+

In 2019, private passenger automobile insurers collected over \$3.9 billion in premiums.



CLAIMS & EXPENSES PAID
\$3,900,000,000+

In 2019, private passenger automobile insurers paid over \$3.9 billion in claims and operating expenses.



Industry Trends

\$74,000+

BODILY INJURY CLAIMS

The average cost of a private passenger bodily injury claim was over \$74 thousand for insurers in 2019.

34+

STOLEN VEHICLES PER DAY

In Alberta, an average of 34 vehicles are stolen each day.

Industry Statistics

285,000+

CLAIMS PER YEAR

Albertans made over 285 thousand private passenger claims in 2019.

\$1,406

YEARLY PREMIUMS

Albertans spent an average of \$1,406 on private passenger automobile insurance coverages in 2019.



44

COMPANIES

In Alberta, private passenger automobile insurance is provided by 44 different insurers.

3.1%

COST TO ALBERTANS

In 2019, Albertans spent an average of 3.1% of their after-tax income on private passenger automobile insurance.

Vehicles by Class

PRIVATE PASSENGER



77%

COMMERCIAL



9%

ALL TERRAIN



4%

MOTORCYCLE



4%

MISCELLANEOUS & OTHER



4%

SNOWMOBILE



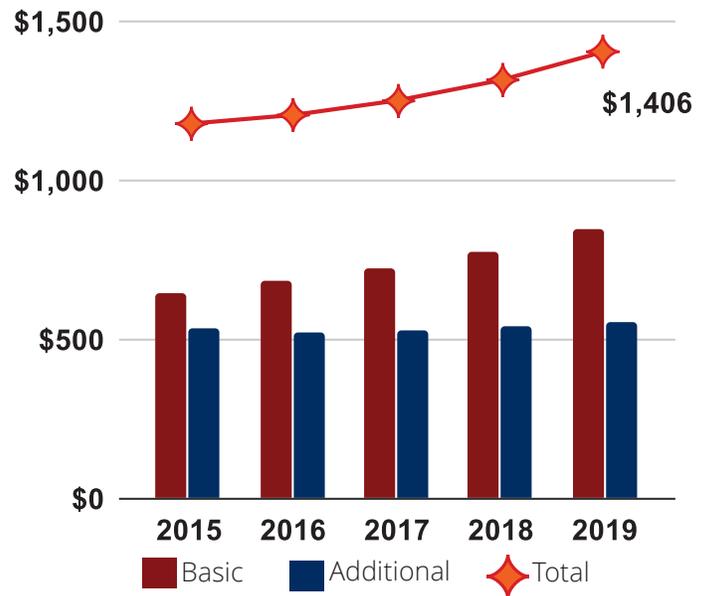
2%

Affordability

AVERAGE PREMIUM

The annual change in average premiums is an important indicator of affordability in the market. Over the last five years, the average premiums for basic coverage (third party liability and accident benefits) increased by 27% and additional coverage (collision, comprehensive, specified perils and all perils) dropped by 1%. The total average premium increased by 14% over the five-year period. The increases in total average premium over the reporting period are well above rates of inflation and represent decreased affordability in the market. Consumers can budget for regular rate increases; our consumer research has found increases up to 10% annually to be generally accepted. When an insurer files regularly to adjust their rates in response to cost pressures with modest increases, consumers are less likely to shop the market and change insurers. The trend of increases in basic coverage, as shown in the graph, is an indicator of rate inadequacy.

Average Written Premiums - Basic & Additional ⁶

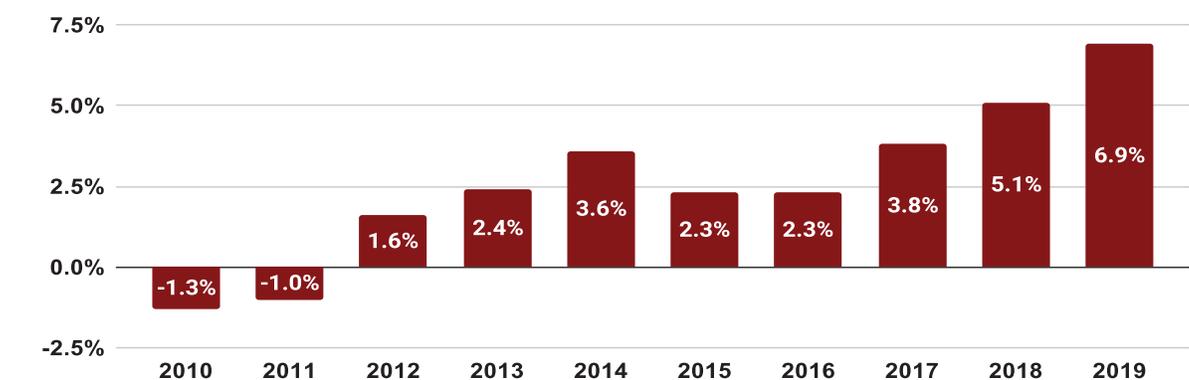


YEAR-OVER-YEAR CHANGE

In 2019, Alberta's automobile insurance market had the highest year-over-year increase in average premiums in the past ten years. In 2019, the cap on an insurer's overall PPV insurance rates was lifted and, many insurers pressured by the limitation filed and received rate increases. The AIRB considered these requests with the intent to return to a competitive market and stop actions which limited access to insurance. The effect of rate increases, approved in the fall of 2019, will not be seen in the data until 2020 due to timing of

implementation. The year-over-year change in average premiums does not always correspond with the increasing costs insurers are facing. Insurers also adjust premiums to influence their market share or to support other internal strategic business decisions. In addition, some insurers do not file for rate changes as frequently due to technology, cost, or internal resource restraints; this can result in higher rate increases and is not in the best interest of the policyholder and the overall affordability of the premiums.

YEARLY CHANGE IN AVERAGE PREMIUMS ⁶

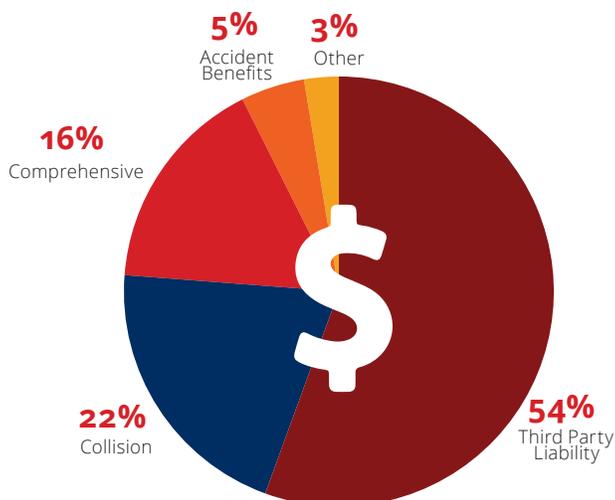


⁶ Source: General Insurance Statistical Agency.

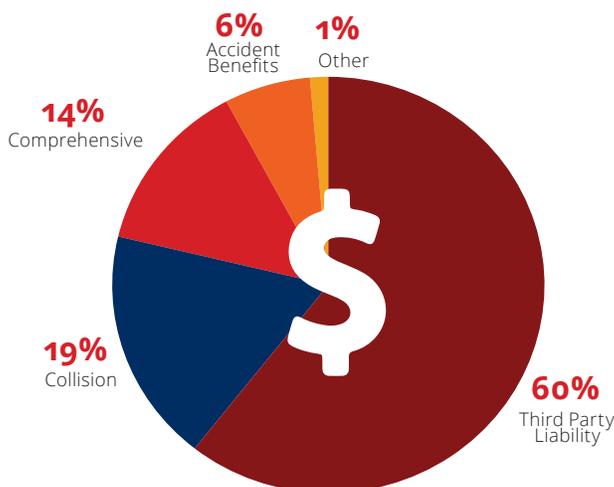
AVERAGE PREMIUM BY COVERAGE

Drivers are required to carry insurance for basic coverage and have the option to purchase additional coverage. Premium is determined and paid for the individual coverages the policyholder purchases and is reflected in the total cost of the coverage. More than 55% of the total premiums paid in Alberta are for third party liability coverage, which is expected given it is a mandatory coverage. The chart highlights the percentage of premium allocated for all coverages; collision is the second highest, which is an additional coverage, although often required when financing a vehicle.

WRITTEN PREMIUM BY COVERAGE ⁷



CLAIMS AND ADJUSTMENTS EXPENSES BY COVERAGE ⁷



AVERAGE CLAIM COSTS BY COVERAGE

Given claims are the most significant cost for automobile insurers, and how the premiums breakdown by coverage, it is not surprising to see over 60% of all claims paid out by insurers in 2019 attributed to third party liability coverage. The second highest was collision, followed by comprehensive. Third party liability and accident benefits premiums remain inadequate, and continue to be subsidized by other, additional coverages. The similar distribution by coverage for premiums and claims indicates insurers are refining the alignment of premiums to the costs of the coverage; however, based on 2019 data, not all coverages are adequately priced.

Accessibility

The AIRB monitors the industry to ensure coverage is accessible to Albertans. Although we have a robust and competitive market, rising claims costs and previous rate limitations put pressure on insurers with inadequate rate levels. Insurers are increasing their focus on price accuracy and it is resulting in some policyholders experiencing large fluctuations in premiums, despite an industry average of 6.9%. In addition to rating program changes, several insurers adjusted their underwriting rules and made business decisions negatively

influencing customer service and accessibility, such as: declining to offer payment plans, requiring signed renewal forms, declining to offer additional coverages and cancelling broker contracts. With the approval of rate increases in 2019, the AIRB expected these business decisions to change; however, some consumers are still facing accessibility issues. Accessibility concerns cited by consumers include slow response times from brokers/agents, difficulty obtaining quotes especially online, and difficulty understanding coverages.

⁷ Source: General Insurance Statistical Agency.

Automobile Insurance Claim Trends

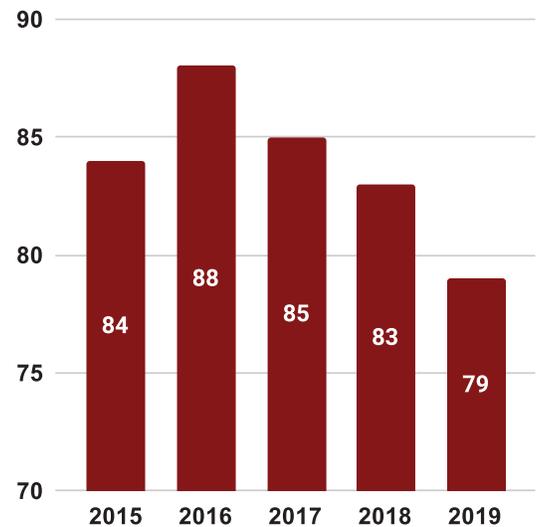
LOSS RATIO

Insurers collect 56 cents of every dollar in premiums for third party liability coverage; however, insurers are paying 60 cents of every dollar collected towards the cost of claims. The claims costs also exceed the premiums collected for accident benefits coverage. The AIRB is monitoring the claims loss ratio, which is an important measure of sustainability for the industry. An insurer who consistently writes at a loss may choose not to offer automobile insurance in the future, or at the least request to increase rates for coverages with an inadequate premium.

The industry standard for profitability is a loss ratio of 70%; loss ratios in Alberta have been consistently above that threshold. Over the most recent 5-year period, the earned incurred loss ratio has decreased by 5%. Since 2016, the earned incurred loss ratio has dropped by 9%, an improvement, but still above a profitable level. The earned incurred loss ratio does not account for expenses beyond the cost

of claims. The Alberta PPV industry average for expenses is 26.7%, which when added to the 79% loss ratio in 2019, results in insurers incurring costs of \$1.06 for every dollar in premium collected.

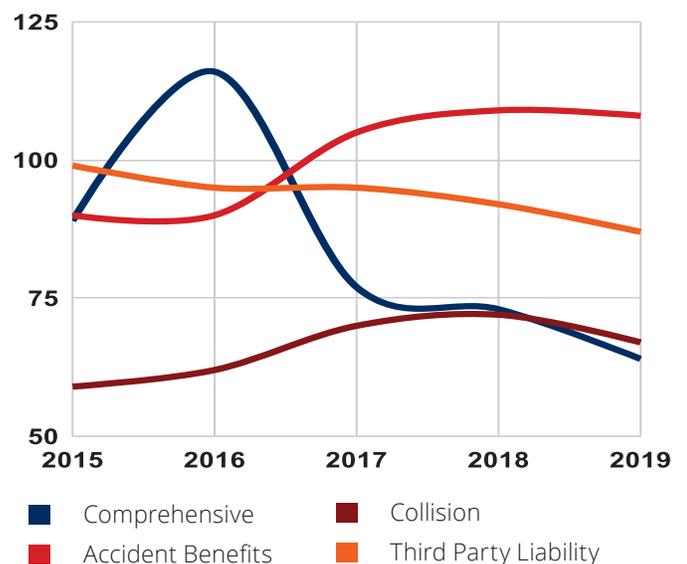
PRIVATE PASSENGER INDUSTRY LOSS RATIO ⁸



HOW DOES THE LOSS RATIO FOR EACH COVERAGE TYPE COMPARE?

The cost of claims is the most significant cost pressure insurers are facing. The graph illustrates the loss ratios by coverage. Over the past five years, the loss ratio for third party liability coverage remained consistent, continuing to trend downward in 2019. Comprehensive coverage protects the policyholder against events like fire, theft, vandalism and hail, and therefore, may be volatile depending on the year's events. The peak for comprehensive coverages in 2016 is primarily attributed to the Fort McMurray fires, but overall the coverage's loss ratio is still trending downwards. Accident benefits is a small portion of the overall premium; however, has shown an upward trend since 2016. The loss ratio for collision demonstrated increases over the previous five years, but showed a slight decrease moving from 2018 to 2019.

LOSS RATIO BY COVERAGE ⁸



⁸ Source: General Insurance Statistical Agency.

* Claims frequency and severity data was sourced from the General Insurance Statistical Agency.

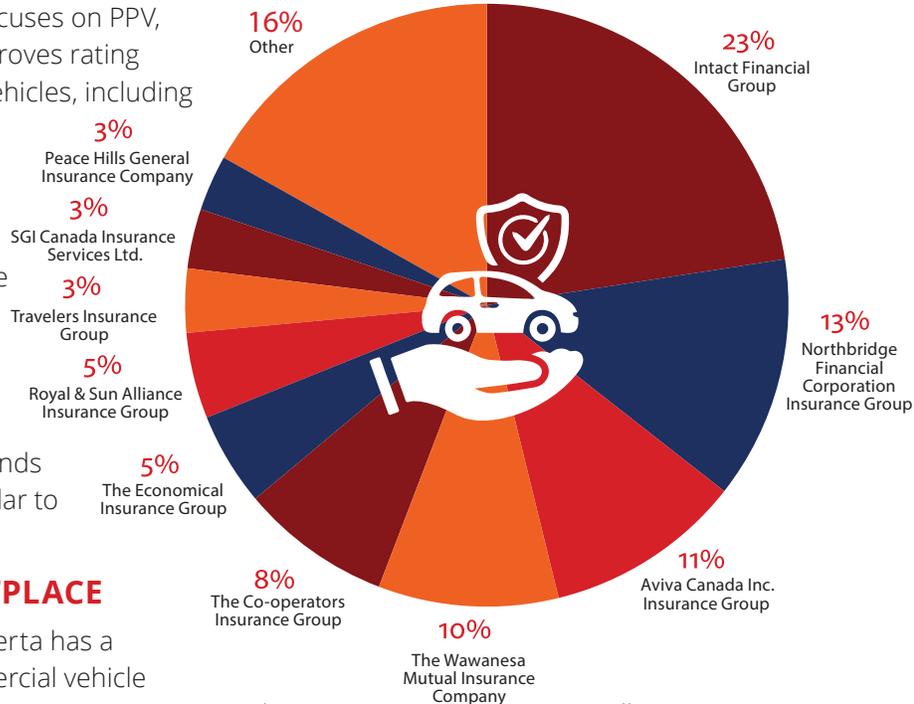
Commercial Vehicle Market

Although this report mainly focuses on PPV, the AIRB also reviews and approves rating programs for other types of vehicles, including individually rated commercial vehicles and monitors the commercial vehicle market. The AIRB has noted changes in the accessibility of insurance through increased placement in the Facility Association Residual Market. In addition, cost pressures are rising, as indicated by the increasing trends in some of the coverages, similar to those in PPV.

COMPETITIVE MARKETPLACE

Similar to the PPV market, Alberta has a competitive market for commercial vehicle insurance. Based on 2019 direct written premiums, the top ten insurer groups in Alberta represented 84% of the commercial vehicle market share, with 58 individual insurers writing commercial insurance, including some insurers writing commercial fleet business only. A competitive market allows insurers to compete on price and service. Consumers have the ability to choose between different insurers, and no single insurer dictates how the market operates.

2019 Top Ten Commercial Insurance Groups ⁹



Monitoring Emerging Trends/ Market Issues

COVID-19



The COVID-19 pandemic has brought changes to the automobile insurance industry. With less people commuting due to increased unemployment rates and work-from-home arrangements, many expect a reduction in driving frequency will have a positive effect on claims frequency; however, making predictions about claims costs is more difficult when external factors influence the market. Although Albertans are commuting less, uncertainty among claims cost remains as anecdotal evidence suggests some Albertans could be avoiding the use of public transportation and air travel and opting to drive instead due to safety concerns surrounding COVID-19. Currently, it is too early to make any conclusions about how the COVID-19 pandemic will influence claims frequency and severity in Alberta's automobile insurance market.

Beyond the impact on claims costs COVID-19 brings, the economic factor is another concern in the market. With many Albertans facing temporary unemployment or a reduction in income, insurers need to make considerations for the financial situation of Albertans. The AIRB supports the use of premium relief measures during the COVID-19 pandemic and many insurers in Alberta have implemented premium relief measures. Currently, 18 insurers in Alberta have implemented rating changes, such as postponing rate increases previously approved, and 36 insurers implemented other premium relief measures, such as offering payments/rebates, endorsement discounts for those driving less, waiving non-sufficient funds fees, and offering payment plans or payment deferrals.

⁹ Source: MSA Research.



ALBERTA AUTOMOBILE INSURANCE PRODUCT REFORMS

In December 2019, the Alberta Government formed an advisory committee to consider reforms required for Alberta’s automobile insurance system. The committee was tasked with engaging Albertans, the insurance industry, and other stakeholders, to gather information and develop recommendations on how to stabilize or reduce the costs of automobile insurance. The Committee’s report was released on October 29, and the President of Treasury Board and Minister of Finance

announced immediate measures to stabilize automobile insurance rates, enhance medical care and benefits and reduce red tape.

The AIRB is supportive of the Government’s consideration of automobile insurance product reforms and welcomes the opportunity to continue working with stakeholders to implement short term reforms and consider longer term changes to Alberta’s current automobile insurance system.

Filing Decisions

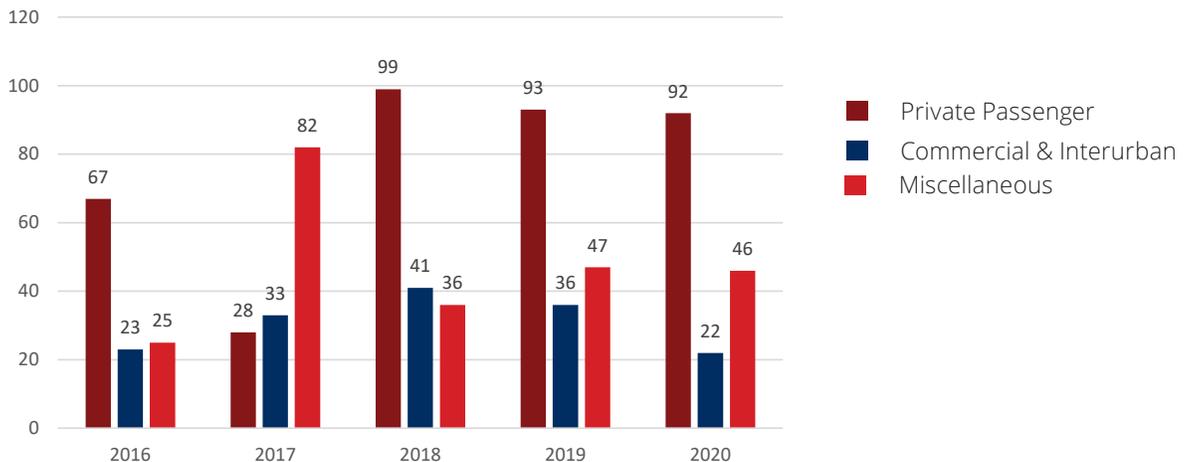
One of the AIRB’s primary responsibilities is the review and approval of changes to rating programs for all types of vehicles and coverages. The AIRB meets regularly to review insurer filings and can approve, reject or amend the filing. The AIRB staff and/or our consulting actuary scrutinize each filing to ensure the request for change to a rating program is supported and in compliance with the AIRB’s guidelines and applicable legislative requirements. It is very common for the insurer’s filing request to change as a result of this review. In 2020, 92% of filings presented to the Board Members were accepted and the remaining 8%, were approved with amendments. The AIRB tracks the volume of filing decisions by vehicle type as one indicator of market sustainability.

The AIRB encourages insurers to file regularly to maintain their rating program and minimize rate shock which negatively impacts consumers.

In the past five year’s the AIRB has averaged over 150 filings per year, with the highest volume during the period when the Ministerial Order restricting premium increases to 5% for PPV. Nearly half of all filing decisions made since 2016 were for PPV, with nearly a third for miscellaneous vehicles, and the remainder for commercial vehicles.

For more information, refer to Filing Decisions on our [website](#). We post our filing decisions after the insurer has implemented the rate change. We do not disclose information about rate filing decisions prematurely for competitive reasons, as it might give other companies an unfair advantage over their competitors.

FILING DECISIONS PER YEAR BY VEHICLE TYPE



CONSUMER EDUCATION

The AIRB's main responsibility is the regulation of the automobile insurance rating programs in Alberta; in addition, we ensure consumers have access to the information they need to facilitate informed choices regarding automobile insurance.

In the spring of 2019, the AIRB updated its mission statement. The mission confirms the priority and requirement to focus on stakeholder engagement.

“The AIRB independently regulates automobile insurance rating programs and educates consumers to ensure Albertans have access to a robust automobile insurance marketplace.”

The AIRB connects with consumers in a number of ways:

- telephone and e-mail inquiries;
- the Consumer Representative's surveys;
- invitation to attend Annual Open Meeting;
- presentations on automobile insurance and shopping the market; and
- ensuring consumer information is available and up to date on our [website](#).

Automobile insurance premiums for Albertans have been increasing in recent years. It is important to provide consumers with information regarding costs pressures on claims, factors that influence their premiums and ways they can reduce their premiums. A list of the top ten reasons why premiums increase is available on our [website](#). The AIRB partnered with industry associations on a social media campaign to broaden the reach of this information.

Rate Comparison

Alberta's private insurance delivery system benefits consumers by providing choice and flexibility over their coverage and the premium they pay for insurance.

The AIRB website provides a comprehensive interactive rate comparison tool that allows consumers to compare insurance rates by insurer 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 available for the same coverage and shopping for rates may result in a lower premium.

Consumers should be mindful insurers compete not only on premium but also on service and product; therefore, premium should not be the only determining factor in the selection of an insurer. If a consumer is not satisfied with the premium for their automobile insurance, the AIRB encourages comparative shopping. Consumers can contact either an insurance broker/agent or one of the many insurers who that have online quoting tools.

Consumer Information

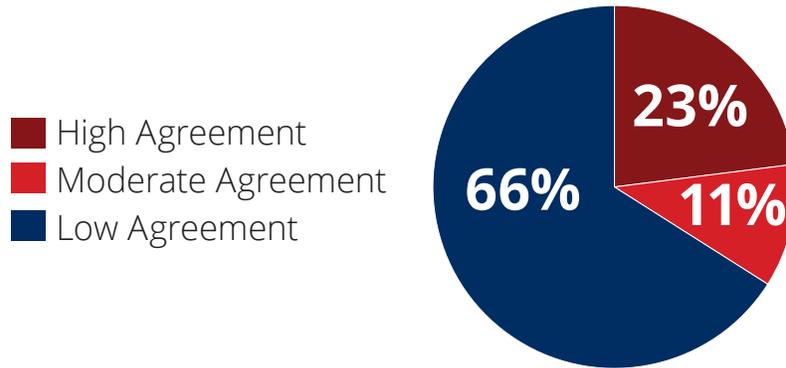
The AIRB website includes a wide range of consumer information, such as ways to lower your premiums, factors that affect your premiums, comparing rates, a Grid calculator and links for insurers. More information can be found on our [website](#).



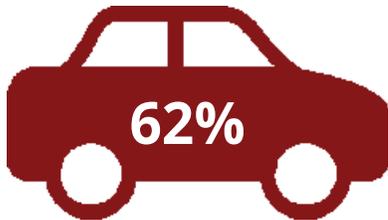
2020 Consumer Perception Survey

PERCEPTIONS OF AUTOMOBILE INSURANCE

How strongly do you agree that your automobile insurance premiums are fair and reasonable?



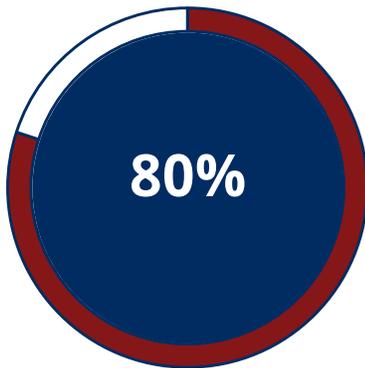
PURCHASING BEHAVIOUR



Sought competitive quotes before making a decision on automobile insurance.



Of those who sought competitive quotes received **2 to 4 quotes**.

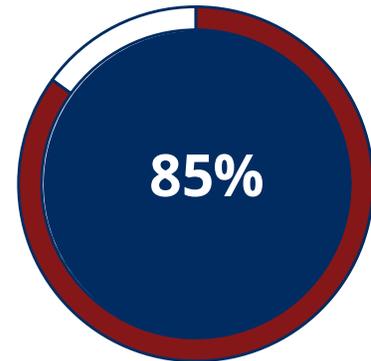


Remained with their existing insurer in the last 2 years.



3 out of 5

Respondents used a broker/agent when purchasing automobile insurance.



Of those who switched, did so to lower their premium.

ANNUAL REVIEW

The AIRB conducts an Annual Review of automobile insurance trends, premiums and costs relating to basic and additional coverage for private passenger vehicles, as required under Section 9 of the Automobile Insurance Premiums Regulation. The Annual Review considers industry experience related to claims costs, administrative expenses, profitability and any other matters the AIRB considers appropriate.

In early 2020, the AIRB requested its consulting actuary, Oliver Wyman Limited (Oliver Wyman), complete an analysis of industry experience for the period ended December 31, 2019. Oliver Wyman's preliminary report was posted to the AIRB's website on June 26, 2020 for review by stakeholders. Stakeholders were provided an opportunity to respond to this report at an open meeting held on August 20, 2020, by written submission, presentation or through the AIRB Consumer Representative. At the open meeting, the AIRB heard from Oliver Wyman, the Consumer Representative and three industry stakeholders.

The AIRB 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 the information received.

The AIRB published its "Annual Review Report" of its findings on September 28, 2020, which includes: the Consulting Actuary's report, Consumer Representative's report and the approved Industry Benchmarks Schedule. The Annual Review Report can be found on our [website](#).

In addition to the Annual Review, the AIRB conducts a Semi-annual Review between January and March, which results in an updated Industry Benchmarks Schedule to be used to review insurers' filings for the period April 1 to September 30.

Consumer Representative

As part of the Annual Review process the Consumer Representative, Mr. Chris Daniel, contracted a consulting and research firm to conduct an independent and impartial review of consumers' perceptions of automobile insurance in Alberta, via a social media panel and telephone survey. In addition, insurance brokers/agents were contacted to discuss their experience in the market.

Consumer telephone and e-mail correspondence addressing their specific concerns along with information from other provinces, traffic safety trends and other data were also considered.

The results through the combined surveys included the following:

- an increasing number of consumers (66%) feel their premiums are not reasonable, compared to 51% in 2019;
- of consumers polled, 62% obtained a competitive quote for insurance (51% in 2019); and of these, 80% stayed with their existing insurer compared to 83% in 2019; and
- consumers consistently agree premiums are continually rising even though they have no claims or convictions.

In 2019, the AIRB, General Insurance OmbudService and the Superintendent of Insurance responded to approximately 2,500 consumer inquiries regarding automobile insurance. Of these inquiries, approximately 30% pertained to the lack of affordability of insurance premiums and availability of coverage with a common theme of significant increases in premiums for drivers who are accident and conviction free.

These findings were presented to the AIRB at its open meeting in August. Mr. Daniel's report, including his observations, is available on our [website](#).

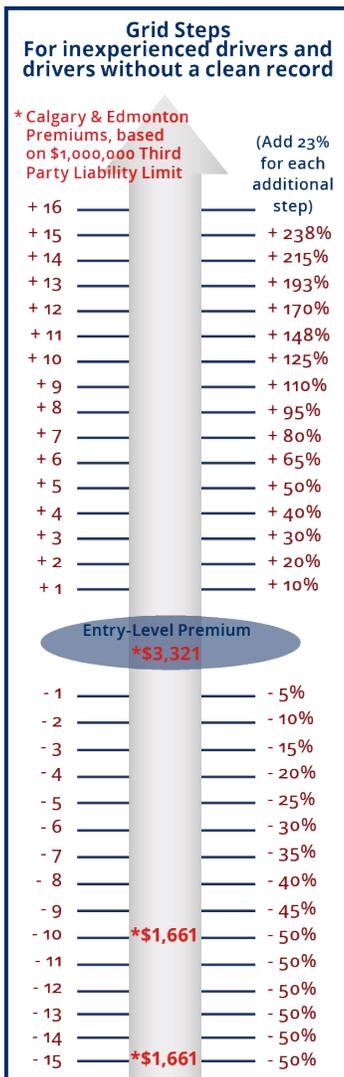
ALBERTA'S GRID RATING PROGRAM

Alberta's 2004 automobile insurance reforms introduced legislation creating the "All Comers Rule". This rule was introduced to protect consumers from insurers who refused to provide coverage to those drivers that were believed to be undesirable business. The reforms included a Grid Rating program developed to set maximum premiums an insurer could charge for basic coverage (third party liability and accident benefits) for any driving record.

The Grid premium is often the lower premium for inexperienced drivers and drivers that an insurer deems less desirable (e.g. poor driving record, etc.). The vast majority, approximately 93%, of drivers pay premiums that are lower than the Grid.

New drivers rated on the Grid will be assigned 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 the initial Grid step premium. If an at-fault claim occurs, the driver will move up 5 Grid steps which will lead to an increase in their Grid premium. The AIRB has developed a Grid calculator which allows insurers and consumers to determine a driver's Grid premium and to demonstrate how the Grid rating program operates. The Grid calculator can be found on our [website](#).

How the Grid Protects Drivers



Drivers

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

This Grid base premiums are reviewed on an annual basis and published by the AIRB for use by insurers and consumers. Insurers 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 for basic coverage.

GRID CAPPED VEHICLES

This infographic compares the percentage of total private passenger vehicles capped by the Grid premium and ceded to the Grid Risk Sharing Pool (RSP). In 2019, **7.2% of risks were capped by the Grid** and of those, **2.9% were ceded to the Grid RSP**. The number of private passenger vehicles on the road has been increasing and was over **2.8 million at the end of 2019**.



APPENDIX I – STATISTICS

Automobile Insurance Fact Page

	2015	2016	2017	2018	2019	2020
Active Insurers ¹⁰	69	68	69	69	69	—
Market Share of Private Passenger Written Premium for the Five Largest Insurer Groups in 2019 ¹⁰						
Intact Financial Insurance Group	21.3%	21.5%	20.5%	18.4%	18.0%	—
TD Insurance Group	16.3%	16.0%	15.5%	16.2%	16.8%	—
The Wawanesa Mutual Insurance Company	14.0%	14.0%	14.2%	15.0%	15.7%	—
Desjardins General Insurance Group	7.6%	8.8%	8.0%	7.9%	8.5%	—
The Co-operators Insurance Group	7.8%	7.9%	8.0%	8.3%	8.4%	—
Total	67.1%	68.2%	66.2%	65.7%	67.3%	—
Written Premium						
Total Premium (000s) ¹⁰	\$4,388,364	\$4,422,234	\$4,592,355	\$4,944,823	\$5,428,072	—
Private Passenger (000s) ¹²	\$3,167,692	\$3,264,89	\$3,411,179	\$3,648,197	\$3,937,953	—
Average Written Premiums for Private Passenger Vehicles ¹¹						
Basic Coverage	\$643	\$684	\$725	\$774	\$849	—
Additional Coverage	\$535	\$522	\$527	\$542	\$557	—
Total	\$1,179	\$1,206	\$1,252	\$1,316	\$1,406	—
Change from Prior Year, Total	2.3%	2.3%	3.8%	5.1%	6.9%	—
Written Private Passenger Vehicles						
Non Grid Rated ¹²	94.1%	94.7%	94.3%	94.4%	92.8%	—
Grid Rated ¹³	5.9%	5.3%	5.7%	5.7%	7.2%	—
Total # Vehicles Insured ¹²	2,687,479	2,706,493	2,725,034	2,772,218	2,800,229	—
Change from Prior Year, Total # Vehicles	2.1%	0.7%	0.7%	1.7%	1.0%	—
Estimated Total Claims						
All Automobile (000s) ¹⁰	\$3,437,117	\$3,837,138	\$3,739,672	\$3,970,871	\$4,276,820	—
Private Passenger (000s) ¹²	\$2,601,251	\$2,811,557	\$2,809,370	\$2,934,691	\$2,976,111	—
Private Passenger Loss Ratio ¹²	84.0%	88.0%	85.0%	83.0%	79.0%	—
Change from Prior Year, Private Passenger Loss Ratio	2.4%	4.8%	-3.4%	-2.4%	-4.8%	—
Minor Injury Cap	\$4,892	\$4,956	\$5,020	\$5,080	\$5,202	\$5,296
Other						
Health Cost Recovery (Millions) ¹⁴	\$120	\$135	\$155	\$159	\$141	\$147
Board Adjustment to Grid	7.0%	7.0%	10.0%	5.0%	15.0%	5.0%
Industry Levy Collected During the Year	\$1,252,739	\$1,092,951	\$1,156,916	\$1,188,112	\$1,376,547	\$1,105,062

¹⁰ Source: Superintendent of Insurance (most recent available data for 2019)

¹¹ Source: MSA Research

¹² Source: GISA Statistical Exhibits (most recent available data for 2019)

¹³ Source: Facility Association

¹⁴ Amount assessed to industry under *Hospitals Act* for costs of automobile accident related.

APPENDIX II – ACTIVE INSURERS

Name of Insurer	2019 (thousands)	Name of Insurer	2019 (thousands)
AIG Insurance Company of Canada	12,885	Intact Financial Insurance Group	
Alberta Motor Association Insurance Company	141,694	Belair Insurance Company Inc.	76,141
Alberta Municipal Insurance Exchange	961	Guarantee Company of North America, The	4,387
Allianz Global Risks US Insurance Company	449	Intact Insurance Company	805,113
Allstate Canada Insurance Group		Novex Insurance Company	82,743
Allstate Insurance Company of Canada	159,240	Liberty Mutual Insurance Company	11,248
Esurance Insurance Company of Canada	96	Lloyd's Underwriters	20,624
Pembridge Insurance Company	42,234	Mennonite Mutual Insurance Co. (Alberta) Ltd.	18
American Road Insurance Company	3,137	Millennium Insurance Corporation	36,423
Arch Insurance Canada Ltd.	1,382	Mitsui Sumitomo Insurance Company, Limited	614
Aviva Canada Inc. Insurance Group		National Liability & Fire Insurance Company	29
Aviva General Insurance Company	39,919	Northbridge Financial Corporation Insurance Group	
Aviva Insurance Company of Canada	305,524	Federated Insurance Company of Canada	28,448
Elite Insurance Company	12,330	Northbridge General Insurance Corporation	119,479
S&Y Insurance Company	491	Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,415
Traders General Insurance Company	64,930	Zenith Insurance Company	11,651
Canadian Farm Insurance Corp.	5,725	Old Republic Insurance Company of Canada	13,360
Canadian Northern Shield Insurance Company	1	Optimum West Insurance Company Inc.	8,296
Chubb Insurance Company of Canada	28,740	Peace Hills General Insurance Company	99,275
Continental Casualty Company	14,505	Portage la Prairie Mutual Insurance Company, The	23,591
Co-operators Insurance Group, The		Protective Insurance Company	475
Co-operators General Insurance Company	342,940	Royal & Sun Alliance Insurance Group	
Coseco Insurance Company	36,436	Royal & Sun Alliance Insurance Company of Canada	86,577
Cumis General Insurance Company	7,156	Unifund Assurance Company	198,181
Sovereign General Insurance Company, The	33,409	Saskatchewan Mutual Insurance Company	1
Desjardins General Insurance Group		Sentry Insurance A Mutual Company	42
Certas Direct Insurance Company	27,798	SGI CANADA Insurance Services Ltd.	99,091
Certas Home and Auto Insurance Company	195,175	Starr Insurance & Reinsurance Ltd.	64
Personal Insurance Company, The	121,695	TD Insurance Group	
Echelon Insurance	13,866	Primum Insurance Company	163,165
Economical Insurance Group, The		Security National Insurance Company	495,705
Economical Mutual Insurance Company	165,962	TD Home and Auto Insurance Company	11,651
Sonnet Insurance Company	28,153	Travelers Insurance Group	
Waterloo Insurance Company	2,819	Dominion of Canada General Insurance Company, The	105,039
Electric Insurance Company	233	St. Paul Fire and Marine Insurance Company	7,045
Everest Insurance Company of Canada	52	Travelers Insurance Company of Canada	15,839
Fortress Insurance Company	355	Wawanesa Mutual Insurance Company, The	727,254
Gore Mutual Insurance Company	1	XL Specialty Insurance Company	873
Hartford Fire Insurance Company	235	Zurich Insurance Company Ltd.	20,867
HDI Global Specialty SE	3,455		

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