

Automobile Insurance Rate Board

BUSINESS PLAN 2006-09

ACCOUNTABILITY STATEMENT

The business plan for the three years commencing April 1, 2006 was prepared under my direction. All of the Board's policy decisions as of March 22, 2006, with material economic or fiscal implications of which I am aware have been considered in preparing the business plan.

The Board's priorities outlined in the business plan were developed in the context of the government's business and fiscal plans. I am committed to achieving the planned results laid out in this business plan.

Alf Savage, *Chair*
March 22, 2006

THE AUTOMOBILE INSURANCE RATE BOARD

The Minister of Finance and the Government of Alberta, through legislation, established the Alberta Automobile Insurance Rate Board (AIRB or the Board) as an independent and quasi-judicial regulator. In this capacity, the AIRB is responsible for setting and regulating automobile insurance premiums in Alberta. The Board, through its functions and statutory duties and responsibilities, serves all Albertans – members of the general public, industry and Government.

Board decisions regarding applications, premium levels and other related areas are made independently of Government and pursuant to the AIRB's enabling legislation.

The AIRB fulfills its mandate in three main areas: the annual adjustment, review of insurer rating programs and monitoring additional coverage. The Board has some transitional responsibilities as a result of the reform implemented on October 1, 2004 and the premium freeze implemented in October 2003. The Board also provides insurance advice and expertise to consumers and industry alike via the website, Board staff and the Consumer Representative.

VISION

Maintain long-term stability of automobile insurance rates.

MISSION

The AIRB will determine and set premiums for mandatory coverage and monitor optional coverage for automobile insurance in a manner that is fair, transparent and in the public interest.

LINK TO THE GOVERNMENT OF ALBERTA STRATEGIC BUSINESS PLAN

Alberta Finance Business Plan Goals

Goal 6: Effective regulation of private sector pension, insurance and financial products

AIRB Goals

Core Business One: Regulation of Automobile Insurance Premiums

Goal 1: Ensure rate stability and accessible insurance for private passenger vehicles

Goal 2: Ensure automobile insurance is reasonable and fair to both the consumer and the industry

Goal 3: Rating programs that demonstrate accessibility and a fair premium structure

Core Business Two: Automobile Insurance Information, Education and Transparency

Goal 4: Ensure stakeholders receive accurate, comprehensive and current information

Goal 5: Stakeholders have representation on Board decisions

SIGNIFICANT OPPORTUNITIES AND CHALLENGES

Maintaining affordable premiums and accessible automobile insurance in Alberta presents many challenges. The AIRB as well as stakeholders will continue to experience challenges and opportunities as a result of the automobile insurance reform. Changing economic conditions, an evolving competitive market and increasing public expectations will continue to impact automobile insurance in Alberta. These factors have financial consequences that affect the level of premiums and need to be managed and regulated to ensure stability and sustainability in the system.

The automobile insurance reform enabled the insurance industry to access additional savings that were previously unattainable. This should promote a more predictable market in terms of future premium levels. In addition, the AIRB must meet customer expectations regarding reasonable premiums and quality of service.

Lower premium levels, despite considerable decreases in rates over the past eighteen months, will likely continue to be a priority for Albertans. Data on the financial and claims experience in the automobile insurance market is an ongoing issue for the Board. The data currently available is too immature to fully and accurately reflect the impact of the reform and it will take some time before we know the full effect of the reform. Notwithstanding the data issues, the AIRB is committed to its vision of rate stability and will be diligent in its efforts to avoid exacerbating the rate cyclicity inherent in the insurance industry.

Optional coverage is required by many Albertans for financial and security reasons. The AIRB will monitor these coverages to recognize any trend of rising premiums. This will provide Government with warning for preventive steps to be taken, if necessary.

The automobile insurance reform has provided considerable benefits to Albertans. At this time the full effects of the reform are still unknown, and as they are discovered, additional challenges may arise.

STRATEGIC PRIORITIES 2006-09

Through the Board's review of environmental factors, the strategic priorities described below have been identified for the Board. These are in addition to the important ongoing core activities of the Board.

1. **Insurance Company Profit on Automobile Insurance**
 - Set a benchmark for profit on basic coverage for private passenger vehicles to be used in the actuarial analysis for future industry-wide adjustments and other matters where profit will be a required component of an AIRB decision.
 - Conduct a review in Fall 2006 with automobile insurance providers and other stakeholders that have a vested interest in the profit level used by the Board.

Linkage: Goal # 2

2. **Advice to the Superintendent of Insurance on Issues related to Automobile Insurance**
 - Provide advice and participate in the review of the *Automobile Insurance Premiums Regulation* (the Regulation) as requested and as it relates to the mandate of the Board.
 - As requested by the Minister of Finance, review the Premium Grid to determine whether amendments should be made to ensure alignment with government objectives to limit maximum premium levels and manage the financial exposure of the risk sharing pools.
 - Develop application criteria under section 6 of the Regulation for implementation in October 2007 to assist the Superintendent of Insurance in determining which applications should be referred to the AIRB in the future.

Linkage: Goal # 1 & 2

CORE BUSINESSES, GOALS, STRATEGIES & PERFORMANCE MEASURES

Core Business One: Regulation of Automobile Insurance Premiums

GOAL ONE

1

Ensure rate stability and accessible insurance

What it means

Premium stability and fair pricing is an integral objective of the automobile insurance system for both consumers and insurance providers. In this role, the AIRB oversees the rating programs for basic coverage for private passenger vehicles for existing and new automobile insurers entering Alberta. The Board analyzes industry experience to determine the annual adjustment and to monitor changes in claim frequency and severity in an attempt to identify changes in trends. The AIRB ensures companies are adhering to the requirements of the *Insurance Act* and *Automobile Insurance Premiums Regulation* as it relates to premiums while monitoring rate change in the market. In addition, the Board uses a company's financial experience to determine whether their premium level is adequate to support their current cost requirements. This aids in the sustainability of automobile insurance companies in Alberta's market.

Strategies

- 1.1 Review new insurer rating programs for basic coverage for private passenger vehicles.
- 1.2 Implement a tracking system to document the arrival and conclusion of insurer applications.

Performance Measures

	Last Actual 2005	Target 2006-07	Target 2007-08	Target 2008-09
1.a Percentage of decisions issued in 90 days or less from the application date. (Timeliness of decisions ¹)		95%	95%	95%

¹ Decisions are in respect to applications under section 6 and section 10 of the *Automobile Insurance Premiums Regulation*. Under section 6 applications, insurers apply to the Board for an adjustment to rating programs for basic coverage for private passenger vehicles. In addition, under section 10 of the Regulation, new insurers must get approval by the Board of their rating program for basic coverage for private passenger vehicles.

2

Ensure automobile insurance is reasonable and fair to both the consumer and the industry

What it means

The AIRB's primary role is to set industry-wide premiums for basic coverage for private passenger vehicles in the Alberta market. In fulfilling its mandate, the Board strives to ensure the automobile insurance industry has a fair recovery of their costs and consumers have ready access to just and reasonable insurance premiums. The Board administers the government mandate to maximize the role of the private sector in providing competitive insurance premiums, while regulating maximum premium levels.

The Board will continue to fulfill its legislative mandate and administer the annual adjustment by analyzing the industry-wide experience and determining whether premiums need to be uniformly adjusted. The AIRB commits to considering all relevant information from all parties to make an accountable and equitable decision.

Strategies

- 2.1 Review the required implementation dates under the legislation to ensure they are consistent with data availability and advise the Superintendent of Insurance.
- 2.2 Prepare a review and analysis of the annual adjustment process in order to identify premium trends and make appropriate adjustments.
- 2.3 Consult with stakeholders on the annual adjustment to determine if premiums need to be uniformly adjusted.
- 2.4 Complete a study determining Board data requirements and appropriate data reporting period

Performance Measures	Last Actual 2005	Target 2006-07	Target 2007-08	Target 2008-09
2.a Annual adjustment process review and analysis		December 1	December 1	December 1
2.b Annual adjustment implemented	Completed	November 1	November 1	November 1

3

Rating programs that demonstrate accessibility and a fair premium structure

What it means

Fair premiums and premium stability for basic coverage for other classes of insurance such as insurance for commercial vehicles are important to individuals and business consumers alike. In order to ensure consumers have fair pricing to other types of insurance, the Board approves applications for other classes of insurance for basic coverage. In reviewing an application, the Board will consider a provider's current cost requirements as well as the public's interest of affordable and accessible insurance.

A consumer may be obliged to carry optional insurance for private passenger vehicles as a condition for financing or leasing or to protect valuable property; hence "optional" coverage is required. To facilitate fair pricing and ensure consumers have access to all required lines of insurance; the Board monitors premiums for optional insurance to identify any emerging trends of escalating premiums. In the event the Board perceives a problem in premium levels for optional insurance, it will be reported to the Minister of Finance.

Strategies

- 3.1 Review and assess filings for optional coverage.
- 3.2 Review and approve applications for other classes of automobile insurance for basic coverage, considering a company's cost structure.
- 3.3 Implement a tracking system that documents the arrival and final approval or notice of a Board decision.

Performance Measures	Last Actual 2005	Target 2006-07	Target 2007-08	Target 2008-09
3.a Percentage of notices to an insurance company issued in 60 days or less from the submission date. (Insurer rating programs for optional insurance)		95%	95%	95%
3.b Percentage of decision to an insurance company issued in 90 days or less from the application date or when information is complete. (Timeliness of decisions ²)		95%	95%	95%

² Decisions are with respect to applications made under section 19 of the *Automobile Insurance Premiums Regulation*, where insurers apply for approval to changes to rating programs for basic coverage for non-private passenger automobiles.

Core Business Two: Automobile Insurance Information, Education and Transparency

GOAL FOUR

4

Ensure stakeholders receive accurate, comprehensive and current information.

What it means

This goal aims to ensure that insurance companies, industry professionals and consumers have access to the most recent and comprehensive information on Board decisions, activities and orders. The AIRB is further committed to increasing stakeholder awareness and understanding of their rights and responsibilities regarding premium levels and development. Using technology to support this goal, the AIRB will ensure the most recent information is available to all stakeholders via electronic access. The AIRB also commits to provide assistance and advice to consumers on issues regarding their policy, the premium structure and other issues related to automobile insurance in Alberta.

Strategies

- 4.1 Develop and maintain a comprehensive website providing consumer and industry information and resources as well as regular reporting on Board decisions, activities and orders.
- 4.2 Enhance the capabilities of Albertans by providing them with the necessary tools to ensure premiums are fair and reasonable.
The AIRB will provide consumers with assistance on matters relating to automobile insurance
- 4.3 premiums and the Consumer Representative will actively engage in involving the public on major board decisions.
- 4.4 Implement an online calculator for automobile insurance premiums on the premium grid and conduct a feasibility analysis of implementing a grid calculator for premiums through insurer rating programs.

Performance Measure	Last Actual 2005	Target 2006-07	Target 2007-08	Target 2008-09
Stakeholder Satisfaction – Percentage of stakeholders that are				
4.a				
<ul style="list-style-type: none"> • Satisfied with information provided by the AIRB; and • Satisfied with access to AIRB information. 		74%	75%	76%

5 Stakeholders have representation on Board decisions

What it means

The AIRB regularly makes decisions and administers Board orders that directly affect automobile insurance providers and consumers in Alberta. Decisions should reflect and consider the experience of all stakeholders in the automobile insurance market to ensure a fair and equitable decision process that considers all the possible consequences.

The Consumer Representative is appointed and represents consumers on Board decisions.

Strategies

- 5.1 Consult with automobile insurance providers and other stakeholders on industry-wide decisions.
- 5.2 Ensure information relating directly to insurance companies and the administration of premiums will be readily available and accessible to all stakeholders.
- 5.3 The Consumer Representative will consult with members of the general public regarding the Board initiatives and the consumer experience within industry.