



# 2024 COMMUNICATING THE GOOD DRIVER RATE CAP



# AIRB Mandate

The Automobile Insurance Rate Board (AIRB) is an independent regulatory agency established by the President of Treasury Board and Minister of Finance in accordance with section 599 of the Insurance Act.

The AIRB's mandate as outlined in the Insurance Act and regulations includes:

- ▶ Reviewing and approving auto insurance rating programs for all vehicle types;
- ▶ Making rules governing the approval of rating programs;
- ▶ Computing the annual Grid Rating System premium;
- ▶ Conducting an annual review of auto insurance trends and rates, including receiving feedback from interested parties such as auto insurers, the Consumer Representative, trial lawyers, and Albertans, and holding an open meeting;
- ▶ Determining if an insurer has collected premiums in excess of the target profitability; and
- ▶ Providing consumer education and information related to auto insurance on an ongoing basis.

The AIRB has issued guidelines and bulletins to communicate expectations of insurers with respect to the responsibilities under its mandate, and the filing guidelines include specific expectations on communications with policyholders. For this report the focus is on our responsibility for consumer education, and specifically communications on the implementation of the Good Driver rate cap.

The goal of the AIRB's consumer education mandate is to ensure Albertans are empowered auto insurance consumers. An empowered insurance consumer is an individual who possesses the knowledge, understanding, and confidence necessary to make informed decisions about their insurance coverage and effectively navigate the insurance process.

## Review of Insurer Communication

In September 2023, the AIRB released a report entitled "Consumer Experience at Renewal" which took a consumer lens to insurer communications to better understand the reason for increased consumer frustration and misunderstanding at policy renewal time.

The report was a response to suggestions from the insurance industry the section in our filing guidelines related to policyholder communication was not required and should be removed. The AIRB reviewed insurer communications with policyholders to evaluate if they were in fact adequate. The report identified gaps in information, highlighted best practices and made other recommendations to improve communication to Alberta policyholders. Based on the results of the review, the AIRB has placed greater attention on Section 9, "Communication to Policyholders", of the AIRB Filing Guidelines. This Section requires insurers to file copies of formal policyholder communications.

The Filing Guidelines state the AIRB's expectation of:

“

*...clear communication to consumers about premium changes. Insurers will provide simple, adequate, and effective notice to consumers, as well as agents and brokers, of upcoming premium changes so consumers can make an informed decision regarding their coverage.*

”

# Background

## What is the Good Driver Rate Cap?

To address affordability challenges, the Government of Alberta implemented short-term reforms to assist Alberta drivers.

The short-term reforms include a cap on premium increases for “Good Drivers”. These short-term reforms were implemented through a Ministerial Order limiting the AIRB from only approving changes to an insurer’s rating program where no policyholder meeting the definition of “Good Driver” sees an increase greater than the Alberta Consumer Price Index as reported each September.

What this means for Alberta Drivers is when your insurer implements the changes to their rating program, adopting the Good Driver rate cap, if you meet the definition of Good Driver, your premium increase is capped at 3.7% in 2024. Insurers will be implementing the rate cap before summer 2024 – until it is implemented, drivers may see an increase greater than the rate of inflation.

## What is the Definition of “Good Driver”?

The Ministerial Order defines a “Good Driver” as a driver who, irrespective of their number of years of driving experience, on the inception date of the renewal of their auto insurance policy, does not have:

- ▶ Any at-fault claims in the previous six years,
- ▶ Any criminal code convictions in the previous four years,
- ▶ Any major convictions in the previous three years, and
- ▶ More than one minor conviction in the previous three years.

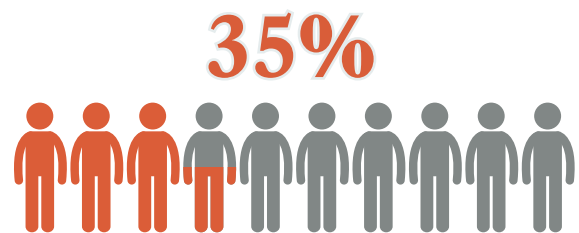
## Are There Exceptions to the Good Driver Cap?

There are exceptions to the “Good Driver” rate protection:

- ▶ You move from a lower-risk rating territory to a higher-risk rating territory (as defined by your insurer);
- ▶ You add a new driver to your policy who has a worse driving record or higher overall risk rating; or
- ▶ You acquire a new vehicle, or modify your existing vehicle.

## Awareness of the Good Driver Cap

Insurance Bureau of Canada recently surveyed Albertans on their awareness of the new rate cap, and found it to be low. However, as policies are renewed our call volume suggest those not capped are aware of the Good Driver rate relief.



Awareness of Good Driver Rate Cap<sup>1</sup>

<sup>1</sup>Insurance Bureau of Canada. February 1-7, 2024, Sample: N=813 live telephone interviews, Margin of Error +/- 3.5%.

## Implementation of the Good Driver Rate Cap

Following the announcement of the Good Driver rate cap in November 2023, Albertans were expecting the rate relief to apply effective January 1, 2024. However, in accordance with the Ministerial Order, the rate relief only applied once the AIRB approved the changes to the insurer's rating program and the insurer implemented them, this led to situations where a good driver would see an increase over the announced inflation cap from January 1 until their insurer implemented the Good Driver rate cap.

Alberta drivers have shared their frustration and confusion on rate increases in 2024 given there was a rate pause during 2023. Insurers did not receive approval for any rate change resulting in a rate increase greater than zero during the rate pause, however some insurers were approved for rate

changes prior to January 25, 2023, and they implemented in the spring of 2023. It takes twelve months for rate changes to be applied to every policyholder's renewal therefore, some policyholders received increases in early 2024 as a result of those previously approved rating program changes. In addition insurers often evaluate risk using age so changes in the driver or vehicle age since the last renewal, can impact a policyholder premium without a change in their rating program.

For example, you renew your insurance in February 2024, but your insurer does not implement the Good Driver rate cap until April 2024. You will not have Good Driver protection on your 2024 renewal.

These rate cap exceptions could create consumer frustration and in response, the AIRB issued a Bulletin to all insurers setting forward expectations on communication:

“

*As policyholders will be concerned if their premium increases above the threshold set by government, it is incumbent upon insurers to explain why a premium for a good driver is increasing above the announced 3.7%. The AIRB expects the policyholder communication to be clear and in plain language.*

*In the event a renewal notice has gone out to a policyholder for a 2024 renewal, the AIRB expects follow-up communication be sent to the policyholder providing a detailed explanation of the premium increase.*

*In addition, the AIRB expects information about individual good drivers experiencing an increase over 3.7% will be sent to an insurer's distribution network to ensure all partners are able to provide adequate explanation to their policyholders.*

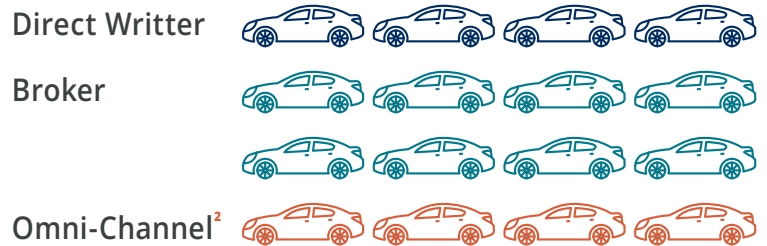
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# Information Requested

Under the authority to require any information the AIRB considers necessary in accordance with Section 11 of the Automobile Insurance Premiums Regulation, a review was conducted in March 2024 on the documentation provided in response to our filing guidelines and bulletin, to ensure all insurers offering private passenger vehicle insurance in Alberta had complied with expectations around policyholder communications for the Good Driver rate cap. All insurer groups responded to the request to provide:

- ▶ A sample of the letter sent to policyholders who fit the Good Driver criteria but will experience an increase over the permitted 3.7% due to previously approved rating program changes and/or rate capping continuing to flow through the insurer's rating program.

## Breakdown of Participating Insurer Group by Distribution Channel



## Findings

1. All insurers provided the definition of a Good Driver, and provided examples of ways you may be excluded for things like adding a new higher risk driver to the policy, moving to a higher risk territory, changing coverage and/or adding a new vehicle to the policy.

All the reviewed information was almost entirely factually correct and, for the most part, in plain language.

In one case, the insurer indicated the Good Driver rate cap was implemented through an amendment to the Automobile Insurance Premiums Regulation. In fact, it was implemented through Ministerial Order. While this may not be an important distinction to a policyholder it does show a lack of understanding from the insurer about how the cap was introduced.

2. Some insurers provided helpful consumer information about how to save money on auto insurance.

As discussed in the “Consumer Experience at Renewal” report, sharing information for consumers about how to manage your insurance budget remains an area for improvement. More insurers could be providing this helpful information in their communications.

3. Some insurers went above-and-beyond to communicate to their customers through multiple channels.

The AIRB regularly fields consumer calls – questions and complaints. We do not hear from customers of insurers who excel at communicating with their policyholders. The opposite is true for insurers who provide the bare minimum information to their policyholders. Improved communication means more satisfied customers who are less likely to contact a regulator to complain.

4. Some insurers provided transparent information about their AIRB-approved rate changes and changes to rating programs (i.e., implementation of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) vehicle rate group table).

Providing policyholders with this information demonstrates transparency and can help build consumer confidence in the insurance system.

# Recommendation

Bulletin 09-2023 provided direction to insurers on communication expectations but was not prescriptive in the wording. Some insurers approached the AIRB in advance of their filing for the good driver rate cap to seek advice on their correspondence to policyholders. The AIRB welcomes this collaboration and encourages other insurers to proactively reach out with questions or concerns. Going forward the

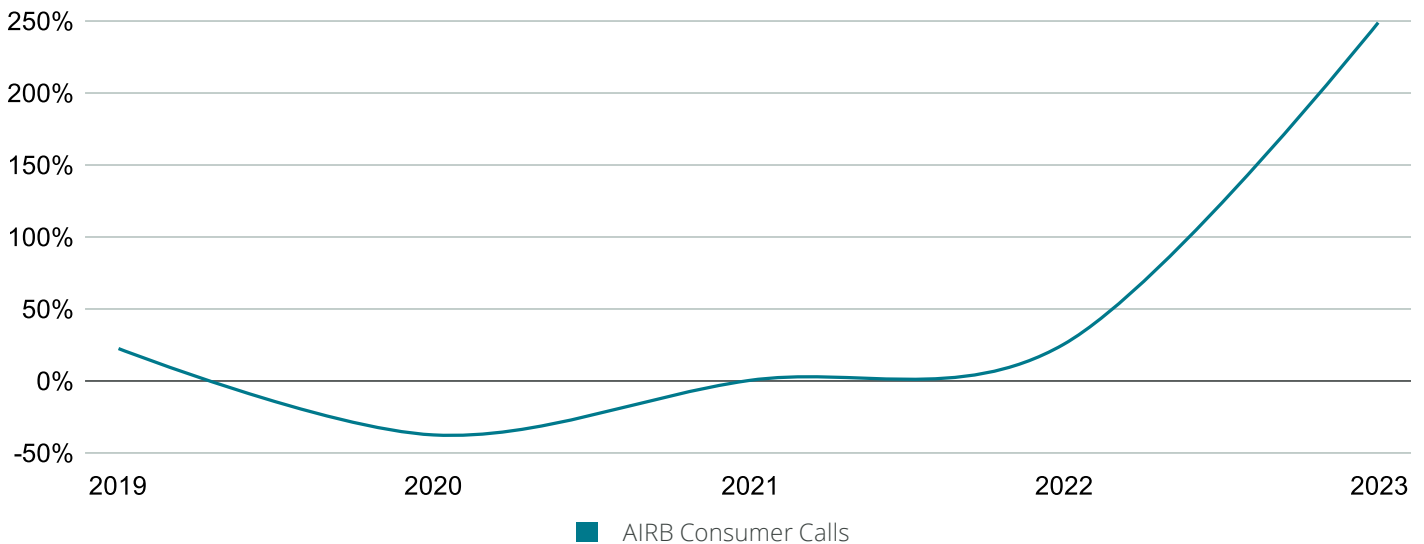
AIRB will provide more explicit direction and wording to include as the minimum insurers should provide to their policyholders. We expect those insurers who go above-and-beyond to communicate will continue but there needs to be an improvement among those who do the least amount necessary.

## Why Focus on Insurer Communication?

Information communicated to a consumer before renewing their insurance creates more confident consumers. A confident buyer may be more successful in securing a better price because they are aware of their options, and they are likely to engage in comparison shopping. Confidence can also make someone more assertive in seeking discounts or asking questions about their policy. Overall personal confidence can help someone make informed decisions, advocate for themselves, and feel secure in their choice of automobile insurance coverage.

When consumers are frustrated with the information provided, they often turn to regulators for help. The AIRB's call volume increased almost 250% between 2022 and 2023. The volume of calls necessitates a response from the AIRB and placing a focus on insurer communication is a direct response to consumer complaints.

Percentage Change Over Previous Years Call Volumes



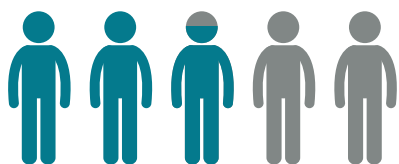
The Consumer Representative's annual survey of Albertans continues to show consumer dissatisfaction with the information communicated by their broker or agent, and this remains an area the insurance industry should work to

improve. It is incumbent upon insurers to provide information directly to their policyholders and to their broker or agent network on changes to premiums.

### Asking for Explanation for Why Premiums Increased



79%



The AIRB will continue to work with our Industry Advisory Committee to identify ways we can support Brokers and Agents in their customer interactions. Brokers and

### Contacted Broker/Agent<sup>3</sup>



### Satisfied With Explanation



15%



Agents are in the best position to educate their customers and insurers need to provide better tools and data for conversations about premium changes.

<sup>3</sup>Source: 2024 Consumer Perspective on Automobile Insurance.





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