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Bureau d'assurance du Canada

Driving Change: Auto Insurance that Works

March 6, 2020

Executive Summary

Alberta's auto insurance system no longer works for the 3 million drivers that count on it.

Alberta drivers currently must contend with a system that focuses on cash settlements rather than ample medical care to help collision victims recover. They also have insufficient product choice or ability to control their premiums. Insurers in the province must navigate a difficult regulatory environment. To top it off, problems with the current auto insurance system have caused claims costs to skyrocket for several years, leading to increased premiums.

Drivers are demanding change and more value for their dollars. They want a better insurance experience, more choice and affordable premiums. In fact, 93% of Albertans said they believe the auto insurance system can be improved, 92% said they want options to manage their own premiums, and 79% said they should have the choice to purchase different levels of care and treatment to recover from a collision.¹ Driving Change provides a blueprint to give drivers affordable, sustainable auto insurance that provides them with more product choice and more care when they need it.

¹ According to a survey conducted by Maple Leaf Strategies on behalf of IBC. The survey sampled the opinion of Albertans (n=807 +/-3.3%) on perceptions and opinions toward the insurance industry in the province and proposed coverage options.

Problems we need to address

- **Albertans pay more for auto insurance compared to consumers in other provinces with similar systems.** In 2018, on average they paid more than \$1,300 annually, and certainly pay more today. That is more than \$400 higher than what Maritime consumers pay, even though the systems share many similar benefits and treatment options.
- **Albertans have little choice in controlling their premiums.** Consumers must pay for coverages they do not need, and they can't increase coverages to fit their individual circumstances. Yet, 87% of drivers say they should have more control over their rates based on how they drive.
- **Some Albertans do not have access to enough evidence-based medical treatment.** They are not getting the treatment they need to recover from the minor injuries they incurred in a collision. The majority of Albertans (86%) support improving care and treatment options for people so that they don't have to sue for as much money following non-serious car accidents.
- **Alberta's regulatory environment is cumbersome, which has led to consumers having less choice in auto insurance.** Despite Alberta having one of the largest insurance markets in Canada, new entrants into the province's insurance arena are rare. There are currently only 22 auto insurance groups offering private passenger vehicle (PPV) auto insurance in the province, nearly the same number as in the Maritime provinces, where 20 groups operate. Due to Alberta's regulatory burden, there are far fewer insurers selling PPV auto insurance in Alberta than in Ontario, which has over 30 insurance groups.²
- **Albertans cannot buy auto insurance that is priced based on how they drive or how often they drive.** Government rules restrict data collection on driving performance. However, more than two-thirds of Albertans believe that collecting such data is a fair way to price auto insurance.³ Auto insurance options based on driving performance have been available in the United States for years, and an option based on driving performance recently became available in Ontario.
- **Good Alberta drivers are forced to subsidize high-risk drivers.** Alberta has implemented a price ceiling through what is known as the Grid. Although this may seem like a good consumer protection measure, in reality it results in good drivers cross-subsidizing high-risk drivers.
- **Albertans must work with the at-fault driver or that driver's insurer to recover the cost of repairs to their vehicle rather than work with their own insurer.** All other provinces allow consumers to deal directly with their own insurer for vehicle repairs, which speeds up the process and creates less confusion for the consumer.

² IBC calculations with data from MSA.

³ IBC conducted a nationwide online survey of 1,200 Canadian residents 18 years of age or older between February 5 and 23, 2018. The margin of error for a strict probability sample for a sample of 2,000 would be $\pm 2.83\%$, 19 times out of 20. All sample surveys and polls may be subject to multiple sources of error.

Driving Change outlines two ways in which the Government of Alberta can improve auto insurance.

1

Give Albertans access to more pre-approved medical care and greater choice in controlling their coverage and premiums through the More Care, Less Court product; and

2

Follow best-in-class rules to increase competition and catch up with today's digital age.



Road
To Success
NEXT EXIT

How Alberta got here

For many years, Albertans enjoyed stable premiums and an auto insurance system that worked well. Then in 2012 and again in 2015, court challenges to the definition of a minor injury exposed unintended problems with the regulatory language. The result was a swift increase in claims costs and a subsequent rise in premiums – bodily injury claims increased over 75% since 2011.⁴ This, coupled with outdated regulations that haven't kept up with the digital age, means that Alberta's auto insurance system is now a dinosaur. Consumers are demanding change.

For details on the problems with the current system, refer to [Appendix A](#).

1. Implement More Care, Less Court to deliver affordability and choice

Insurance Bureau of Canada (IBC) brought together insurance and healthcare experts from across to research the best auto insurance practices from around the world. The group concluded that the best products lean mostly, though not entirely, toward no-fault auto insurance and provide consumers with choice. They also concluded that the product should have generous no-fault benefits, while still allowing all consumers tort access for pecuniary damages, such as lost income and future medical care. But the product should restrict the ability to sue for pain and suffering awards to only the seriously injured. This was deemed essential because research in other jurisdictions showed that high pain and suffering awards drive litigation increases. This would ultimately lead to higher premiums paid by consumers.

More Care, Less Court is a made-in-Alberta solution that offers consumers the choice to tailor their insurance premiums. Consumers could choose to pay a lower premium by forgoing tort access for pain and suffering payments if they sustain a minor injury, or they could choose to pay a higher premium by purchasing higher limits or additional coverages. The product also provides consumers with more care when they need it. Accident victims with common collision injuries would be eligible for twice the amount of pre-approved treatment they receive today through the basic product, including specific programs of care based on prevailing medical literature. Consumers will have access to more no-questions-asked care and more stable premiums while minimizing the chances they will need to wait on a lengthy court settlements and cash payouts.

⁴ IBC with data from Oliver Wyman reports for the AIRB Annual Reviews. Claims costs per vehicle.

IBC recommends implementing More Care, Less Court to sustain affordability and offer consumers the greater product choice they are demanding. Moving from a more tort-based system to a more no-fault system will provide consumers with significant improvements in benefits while maintaining checks and balances to keep premiums affordable. This balance is achieved through the following components:

1. **Treatment, care and income replacement benefits for all consumers**
2. **Continued tort access for items such as medical treatment, income replacement and pain and suffering for those with serious injuries, just like today**
3. **Optional tort access for pain and suffering for those with minor injuries**

This will have a significant impact on the required premiums for consumers. For 2020, the average **required** premium – the premium that should be charged to cover all claims costs, operating expenses, insurance taxes, and regulator-approved 7% profit margin - in Alberta is \$1,807, significantly higher than today's actual premium levels. Although premiums will not increase to this level immediately, in the long-term they must reach these levels if no reform is made. More Care, Less Court will reduce the required premium to approximately \$1,500 to \$1,600, resulting in significant savings for consumers.

For details on the More Care, Less Court product, refer to [Appendix B](#).

Short-Term Reforms

Implementing and realizing savings of More Care, Less Court will take some time. In the short-term, to mitigate the premium increases that Alberta drivers are facing, IBC recommends that the government immediately take the following steps.

- **Update the definition of what is considered a “minor injury” in the Minor Injury Regulation (MIR) and increase the pre-approved treatment available to claimants through the Diagnostic and Treatment Protocols Regulation (DTPR).** The updated definition will confirm the minor injury cap's application on all injuries – including any clinically associated sequelae arising from a sprain, strain or whiplash injury – whether physical or psychological in nature, that the prevailing medical literature deems common and expected to heal in weeks or months. By updating the minor injury definition, the government could immediately control costs within the system for drivers who will otherwise see continued premium increases. This change would save an estimated \$76 per vehicle this year, resulting in approximately \$215 million per year in overall savings.
- **Adjust the prejudgment interest rate for non-pecuniary damages, currently set at 4% in the Judgment Interest Act, annually based on the prevailing interest rates.** This is already done in Alberta for pecuniary damages. Elsewhere in Canada, it is common for both rates to be adjusted annually based on the prevailing interest rates. It is estimated that this adjustment will reduce claims costs by approximately \$15 per vehicle in 2020, resulting in approximately \$40 million per year in overall savings.⁵

For details on the MIR and DTPR, refer to [Appendix A](#).

⁵ Analysis from Dr. Ron Miller, based on 2019 interest rates. If interest rates fall, the savings will be higher. If interest rates rise, the savings will be lower. Overall savings estimated based on 2020 earned vehicle count increase of 3.2% over 2018 levels.

2. Ditch the dinosaurs in favour of best-in-class rules for a digital age

The European Union and most U.S. states use principle-based regulation that focuses on penalizing bad players and allowing insurers to compete more freely for business. Regulatory resources should be used in the most efficient and economical way. Ample competition in these markets ensures that consumers receive the best price for their chosen product. It also reduces the costs of addressing red tape, which are ultimately passed along to consumers, and allows innovations such as usage-based technology and more unique discounts. For more information, refer to [Appendix D](#).

Alberta has already begun to improve its regulatory environment through permitting the transmission of all insurance documents online, recent minor improvements to the usage-based insurance (UBI) rules, and increasing the simplified filing threshold.

However, there are additional steps that the Alberta government could take to further improve its regulatory framework in ways that would benefit drivers.

Enhance competition & remove subsidization of high-risk drivers

Jurisdictions around the world with nimble regulatory environments have more competition, lower prices and better business environments. To achieve this in Alberta, IBC recommends that the government take the following steps.

- **Allow insurers to provide consumers with customized pricing by giving them the option to select UBI to determine their auto insurance price.** Alberta insurers are currently prevented from offering these types of UBI products due to outdated regulations. UBI offerings should be subject to the same rules as traditional pricing formulas. UBI products have the potential to be tremendously beneficial for Alberta drivers. For example, unique pay-as-you-go insurance has been popular in the United States, especially among young urban drivers and seniors who do not use their vehicle often. Ontario recently approved a similar product. These products also result in broader societal benefits by encouraging safer driving.
- **Remove the current Grid framework**, which forces good drivers to pay more to cross-subsidize high-risk drivers.
- **Amend anti-competitive rules, such as the restriction on the development of customized rating territories.** This will help ensure that drivers that live in lower-claims areas no longer pay higher premiums to cross-subsidize those living in nearby higher-claims areas.
- **Review the rules that dictate to who insurers must continue to provide contracts of insurance to in cases of misrepresentation**, in order to ensure that good drivers are not cross-subsidizing high-risk drivers.
- **Transition to a market-based approach for rate regulation by replacing the prior-approval framework with a use-and-file framework under the authority of the AIRB.** With a use-and-file framework, an insurer can implement a price change and, shortly after, file supporting documentation about the change with the AIRB. The AIRB would use the information to oversee

the market and have the authority to take corrective action, if needed. Legislation or regulation would prescribe prohibited pricing factors. Evidence from the US shows that use-and-file frameworks lead to stable premiums. For example, even though insurers can increase rates by any amount, between 2000 and 2016, the average Illinois premium only increased by 1.6% per year.⁶

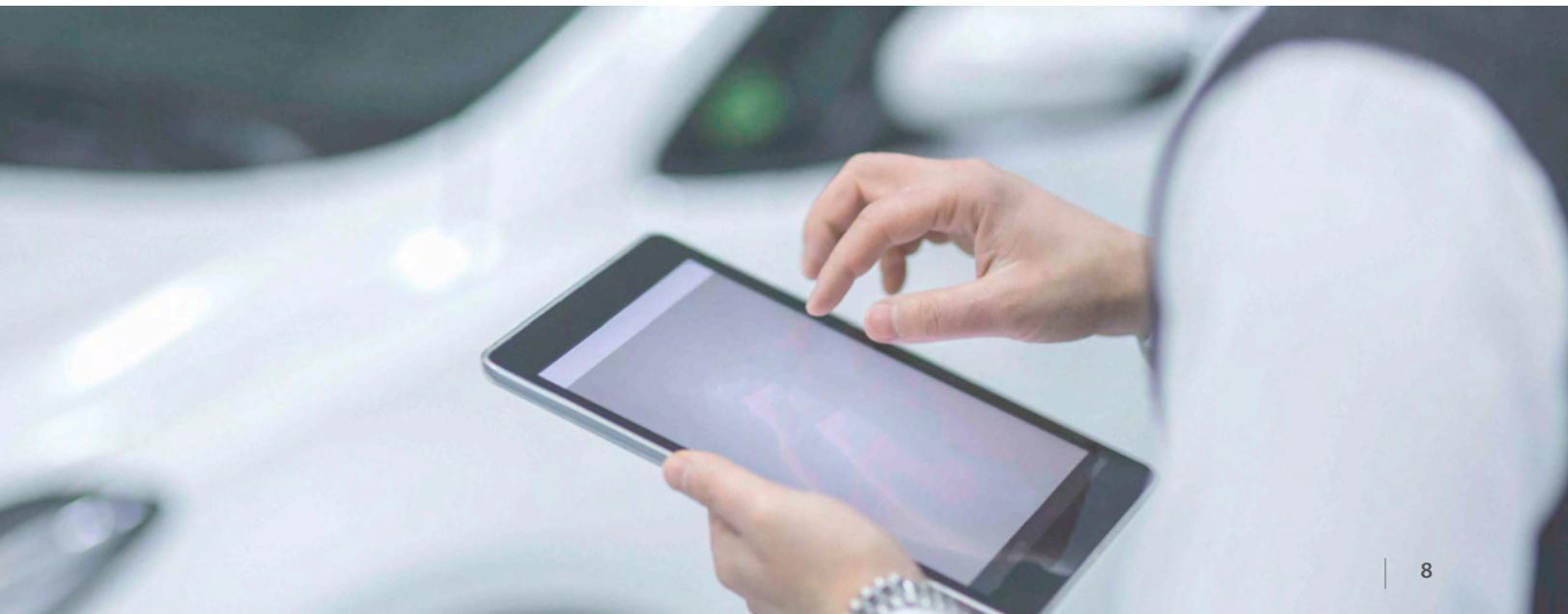
For details on the use-and-file framework, refer to [Appendix C](#).

Smoother Process for Vehicle Repairs – Direct Compensation Property Damage

In Alberta, consumers must work with the at-fault driver or the at-fault driver's insurer to recover any damages caused to their own vehicle. This can result in headaches for consumers. In all other provinces, a consumer involved in a collision works with his or her own insurer to facilitate any necessary vehicle repairs. This framework, known as Direct Compensation Property Damage (DCPD), results in a more streamlined consumer experience by eliminating the need to recover the cost of the repair from the at-fault driver's insurer. Consumers typically prefer a DCPD framework because they only need to work with a single insurer following a collision. Alberta is the only province not using a DCPD framework, leaving its customers under-served. There is no consumer downside to implementing a DCPD framework.

IBC recommends that the government implement these changes quickly so that the consumer can see immediate benefits. Together, these steps will increase competition, cut red tape, allow consumers to access the best technological solutions the insurance industry has to offer and ensure that good drivers are not continually subsidizing high-risk drivers. These steps, paired with implementing More Care, Less Court, would give Alberta the best auto insurance system in the country for years to come.

⁶ 2016 is the most recent full-year for which data is available.



Conclusion

Alberta's auto insurance system is not working for drivers. 93% of Albertans believe change is needed. Driving Change provides a blueprint for a system that provides drivers with more choice, affordable premiums, long-term stability and more competition through an effective regulatory framework. IBC and the insurance industry look forward to working with the Advisory Committee on Auto Insurance and the Government of Alberta on these recommendations and others that will positively affect Alberta's 3 million drivers.



Appendix A: How Alberta got here

In 2004, under the leadership of Premier Ralph Klein, the government introduced a number of reforms to improve affordability after claims costs from lawsuits increased significantly. One of the reforms was the Minor Injury Regulation (MIR), which caps the pain and suffering awards for collision victims who have sustained minor injuries. This cap controls claims costs and, by extension, keeps premiums stable. In 2020, the pain and suffering cap is \$5,296, but there are no restrictions on what a person can receive for treatment, lost income or future care. This regulation does not apply to claimants with more serious injuries.

The Diagnostic and Treatment Protocols Regulation (DTPR) works in tandem with the MIR and was introduced at the same time to provide collision victims who sustained minor injuries with pre-approved medical treatment. A person with a common sprain or strain can access between 10 and 21 pre-approved, evidence-based treatment visits with a physician, physical therapist and/or chiropractor as well as with an adjunct therapist (a massage therapist or acupuncturist). This is pre-approved, no questions asked, insurer-paid treatment based on the prevailing medical literature and designed so that collision victims can recover as quickly as possible.

Combined, these regulations were successful in controlling costs by limiting cash-based pain and suffering payments; they focused auto insurers' limited resources on helping people quickly recover from their injuries. The intent is for Albertans to have affordable insurance with stable prices from year-to-year, and easy access to treatment and care if they are involved in a collision.

For almost a decade, these regulations served Albertans well. However, in 2012 and then again in 2015,⁷ court cases exposed a limitation in the MIR language. The courts found that certain common injuries are not subject to the cap, even though the prevailing medical literature states that these injuries are common, and claimants with these symptoms usually recover in weeks or months.⁸

Although there were increases in other costs, such as vehicle damage and accident benefits, bodily injury claims costs became the primary driver of increased claims. Immediately after the 2012 court decision, the average bodily injury claim cost went from being stable to increasing by roughly 9% per year, from \$41,534 in 2011 to \$74,470 in 2018.⁹ Accounting for all claims costs, operating expenses and premium taxes since 2012, insurers have paid out an average of \$1.11 for every \$1 earned in premiums.¹⁰ Over this time, increasing bodily injury, or tort, claims caused 53% of the increase in total claims costs.

⁷ *Sparrowhawk v. Zapoltinsky*, Alberta Court of Queen's Bench, 2012, ABQB 34; and *McLean v. Parmar*, Alberta Court of Queen's Bench, 2015, ABQB 62.

⁸ Ontario Protocol for Traffic Injury Management Collaboration. *Enabling Recovery from Common Traffic Injuries: A Focus on the Injured Person*. December 2014.

⁹ IBC calculation based on data from Oliver Wyman Alberta Automobile Insurance Annual Reviews, 2016, 2017, and 2018

¹⁰ Baron Insurance Services, based on data from GISA.

This MIR limitation, combined with a difficult regulatory environment, has led to a trying time for Alberta insurers. For four years, IBC and the insurance industry advocated that the MIR be fixed by aligning Alberta's minor injury definition with those in some other jurisdictions and the prevailing medical literature. At the same time, the industry advocated increasing the types of pre-approved treatments that collision victims may use through the DTPR. If the previous government had made these changes four years ago, it would have stabilized claims costs and mitigated – if not eliminated – the necessary premium increases that Albertans now face.

Over this period, other problems with Alberta's auto insurance system were still present. Prejudgment interest (PJI), the interest paid on tort settlements to account for the length of time that an individual must wait between the date of their collision and the date that they receive their settlement, is paid at different rates for different tort damages. PJI paid on pecuniary damages, such as lost income and future medical care, is paid at a fluctuating interest rate. Conversely, pain and suffering awards are paid at a constant 4%. When prevailing interest rates were close to 4%, this claims cost difference was minor. However, as pecuniary damages interest rates have fallen over the last decade, the elevated 4% pain and suffering PJI rate has contributed to the deteriorating claims environment in Alberta.

At the same time, Alberta's insurers continue to face a strict regulatory environment, which is leading to fewer product offerings for consumers. For example, insurers are very limited in how they can use usage-based insurance technology, which allows drivers to pay premiums based on their actual driving habits instead of proxy variables such as territory, age and gender. Alberta insurers also must abide by rules from two separate regulators; elsewhere in Canada, insurers only need to abide by one regulator.

If the system is not fixed, Albertans will continue to contend with rising premiums and fewer product offerings than should be available to them.

Implementing the MIR Recommendation

- Amend the *sprain* and *strain* definitions in the MIR to clarify that they include sprains and strains to the temporomandibular joint, and make corresponding changes to identify dentists as certified examiners, subject to the same fee schedule as physicians; and
- Amend the minor injury definition in the MIR so it includes *any clinically associated sequelae* arising from a sprain, strain or whiplash injury, whether *physical or psychological in nature*, and make corresponding changes to the scope of a certified examiner's assessment.

Implementing the DTPR Recommendation

- Expand the list of adjunct therapists in the regulation to include dentists, psychologists and occupational therapists, and develop a corresponding fee schedule for adjunct therapists; and
- Expand the list of injury management consultants, who are the health care professionals authorized in the regulation to provide a second opinion on treatment, to include dentists, subject to the same fee schedule as physicians.

Appendix B: More Care, Less Court

More Care, Less Court has three components:

1. Treatment, care and income replacement benefits available regardless of fault;
2. Tort access for past and future pecuniary damages; and
3. Limited tort access for non-pecuniary damages.

IBC obtained a legal opinion which confirms that all of these components are expected to be constitutionally permissible.

Treatment, care and income replacement

This includes programs of care for the most common collision injuries and their corresponding psychological and pain conditions. The programs of care provide treatment and care based on the prevailing medical literature, technology and diagnostic tools. The overall benefit limits are high enough to cover people with serious injuries. Consumers can tailor their auto insurance policies to their unique needs by buying higher treatment, care and/or income replacement coverage.

Details

- The standard medical/rehabilitation (med/rehab) benefit, which includes attendant care, would be \$50,000 over two years. Insurers could offer higher amounts, including enhanced coverage for people with select serious injuries. The select serious injuries eligible for the optional enhanced coverage would be based on the American Medical Association's *Guides to the Evaluation of Permanent Impairment*, the 6th or latest edition, with a 60% whole-person impairment rating.

A person injured in a collision would have to seek medical treatment within 14 days of the collision.

Cash settlements would be prohibited, except for the optional enhanced coverage for people with select serious injuries.

- A person with a common collision injury would proceed through a program of care.

A common collision injury consists of physical impairments, such as sprains/strains, contusions, abrasions, lacerations, and pain or any other clinically associated sequelae of a sprain/strain, contusion, abrasion or laceration. It also consists of mental impairments, such as concussion, post-concussion syndrome and mild-traumatic brain injury. Lastly, it consists of conditions associated with physical and mental impairments, such as depressed mood, anxiety, fear, anger, frustration and poor expectation of recovery.

The first three months of a program of care would be pre-approved and subject to a \$2,500 med/rehab sub-limit. On completing a program of care, a person could attend an assessment to determine if he or she needs additional treatment. If the assessor determines that more treatment is needed, the person would be eligible for three more months within a program of care subject to a \$2,500 med/rehab sub-limit.

The overall sub-limit for med/rehab within a program of care would be \$5,000 with no access to attendant care.

An injured person would only be eligible for more than \$5,000 in med/rehab if he or she proceeds through a program of care, a physician or nurse practitioner determines that his or her injury is more serious than a common injury, and the insurer agrees with the physician or nurse practitioner's opinion.

Only chiropractors, dentists, nurse practitioners, physicians and physiotherapists would initiate and coordinate treatment; however, any of these health practitioners could refer an injured person to other health providers, such as a psychologist, social worker or occupational therapist. All health practitioners and providers would be subject to a fee schedule.

Auto insurers would be the first payer for claims involving programs of care.

- A person with an injury that does not qualify for a program of care would be eligible for treatment and care that promotes maximal recovery up to the standard med/rehab limit.

Only chiropractors, dentists, nurse practitioners, physicians and physiotherapists would initiate and coordinate treatment; however, any of these health care practitioners could refer an injured person to other health care providers, such as a psychologist, social worker or occupational therapist.

- Income replacement would be optional and payable over two years. Insurers could determine which amounts to offer.

Non-earner, caregiver, housekeeping and home maintenance would also be optional.

- All treatment, care and income replacement received would be deducted from any subsequent tort-based compensation.
- A person eligible for the standard and optional benefits would be the named insured, the spouse of the named insured, the dependants of the named insured or of the named insured's spouse, and a person specified as a driver on the auto insurance policy, regardless of the vehicle any of these people were in at the time of the collision.

A person eligible only for the standard benefits would be a pedestrian, driver or passenger who is not the named insured, the spouse of the named insured, the dependants of the named insured or of the named insured's spouse, or a person specified as a driver on the auto insurance policy.

If involved in a collision, an occupant of the vehicle would pursue a claim in the following order: with an insurer of which he or she is an insured person, the insurer of the vehicle in which he or she was an occupant, the insurer of any other vehicle involved in the collision or the Motor Vehicle Accident Claims Fund.

If involved in a collision, a pedestrian would pursue a claim in the following order: with an insurer of which he or she is an insured person, the insurer of the vehicle that struck him or her, the insurer of any other vehicle involved in the collision or the Motor Vehicle Accident Claims Fund.

Tort access for past and future pecuniary damages

A person who did not cause the collision and requires more than the available treatment, care and income replacement can sue and be fully compensated.

Limited tort access for non-pecuniary damages

Only people with serious injuries can sue for non-pecuniary damages. However, a consumer can buy the option to be able to receive compensation for non-pecuniary damages regardless of his or her injury.

Details

- The non-pecuniary damages option would work like uninsured motorist coverage insofar as the insurer that sold the option would be the one compensating the person who purchased the option if injured in a collision. An injured person would only be eligible to receive up to the policy limit prescribed in the option if he or she purchased the option and he or she is eligible to pursue a tort claim. The payment would be proportionate to the person's level of responsibility for the collision.
- People eligible to receive a payment pursuant to the option would be the named insured, the spouse of the named insured, the dependants of the named insured or of the named insured's spouse, and people specified as drivers on the auto insurance policy, regardless of the vehicle any of these people were in at the time of the collision.
- If the person who received a payment under this option has a serious injury and is eligible to sue for non-pecuniary damages, the payment from the option would be deducted from any subsequent tort-based non-pecuniary damages compensation.
- For determining eligibility for non-pecuniary damages for someone who did not purchase the tort option, the serious injury definition would be loss of a body part, significant disfigurement or significant scarring, a displaced fracture of a weight-bearing bone, loss of a fetus, and permanent physical or psychological injury. In addition, any physical or psychological injury would be considered permanent when it prevents the injured person from functioning normally even with further medical treatment based on objective medical proof.

Appendix C: The recommended use-and-file framework

Scope of Regulation

This proposal focuses on the regulation of auto insurance rates for private passenger vehicles only. It does not apply to commercial vehicles or garage policies. Other personal vehicles, such as motorcycles or all-terrain vehicles, should be subject to less regulation than the framework used for private passenger vehicles.

Description of Framework

An insurer has to file information supporting its overall rate after implementation. There is no requirement to file underwriting criteria.

Rating Standards

The review of the overall rate is based on the following criteria:

- The overall rate should not be unfairly discriminatory (“unfairly discriminatory” refers to rates that are based on rating factors prescribed as prohibited in insurance legislation or regulation);
- The overall rate should be able to withstand projected losses and expenses; and
- The overall rate should not substantially reduce competition, where the level of competition is based on the number of insurers providing coverage, measures of market concentration, ease of entry in the market, availability of coverage, and opportunities available to consumers to acquire pricing and other consumer information.

When reviewing a risk-classification system, the regulator considers only whether the system complies with the prescribed rules, such as the list of prohibited rating factors, and whether it is unfairly discriminatory. There are no additional rules or filing requirements for innovative rating practices, such as usage-based insurance.

Timelines

An insurer can implement a rate 30 days before submitting the prescribed information to the regulator. The regulator has 30 days to conduct a review. If the regulator disapproves of the rate, any changes the insurer must make are completed on a prospective basis based on a reasonable future date, no sooner than 30 days after the notice of disapproval. After this reasonable future date, the rate is to be considered no longer effective. An insurer can appeal the regulator’s decision within 15 days of receiving the notification. There is no minimum number of filings within a given period of time.

Required Documentation

The insurer must submit rating rule changes, final rates and rate level changes, dislocation and capping, impact on dependent vehicle classes, profiles as well as current and proposed discounts, surcharges, algorithms, base rates and differentials. There is no requirement to submit actuarial justification.

Prohibited Underwriting and Rating Factors

An insurer is prohibited from using the following factors to refuse to issue a contract or as elements in its risk-classification system: race, skin colour, creed, national origin, disability, income and education.

Appendix D: What over-regulation looks like in Alberta

The industry will always be, and indeed should be, regulated. However, Alberta has a less competitive auto insurance market, partially due to the difficult regulatory framework in place. Insurers must abide by over 525 regulatory provisions.

The province's Automobile Insurance Rate Board (AIRB) oversees the acceptance or rejection of proposed auto insurance rate changes. At the same time, a separate organization, the Office of the Superintendent of Insurance, approves the individual rating factors that are used in the rate filings submitted to the AIRB. The requirement that Alberta insurers abide by rules from two separate regulators is unique in Canada. Indeed, it has led to confusion among insurers regarding the specific factors used for the development of premium prices. For example:

- Insurers who wish to introduce usage-based insurance (UBI) programs must complete a privacy impact assessment (PIA) over and above abiding by existing privacy laws. PIAs were designed for health care organizations that hold sensitive medical information, not driving information such as braking and accelerating. IBC has not found another jurisdiction that requires this added unnecessary level of scrutiny for UBI programs. As a result, Alberta has three times fewer UBI programs than Ontario, which does not require a PIA.
- Some insurers are only allowed to use four territories for segmenting the market for pricing purposes, while others are permitted to use more than four. It is common for claim costs in nearby areas to differ by more than 10% or 20%. As a result, consumers who live in areas where the likelihood of being in a collision is lower are paying more to cover part of the cost of insuring consumers who live in areas where the likelihood of being in a collision is higher.

Alberta is also unique in Canada in offering a subsidy for high-risk drivers, through a mechanism known as the Grid. Due to Alberta's take-all-comers requirement, whereby all licensed drivers must be offered an insurance contract for mandatory coverage, insurers are unable to decline these risks or charge appropriate premiums. The Grid market share was 5.9% in 2018, with the remaining good drivers paying higher premiums as a consequence.

Finally, while Alberta's rate regulator, the AIRB, is one of the best in the country, Alberta is still using a prior-approval framework that can cost insurers \$100,000 when they file for rate changes of greater than 5% annually. Jurisdictions in the United States have seen great success in shifting away from prior-approval frameworks. In those jurisdictions, competition has increased and premiums are generally more stable.



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