



**Improving the affordability
of auto insurance in Alberta:
ENHANCING CARE &
EXPANDING CHOICE**



IBC
Insurance Bureau
of Canada



Alberta's Auto Insurance System

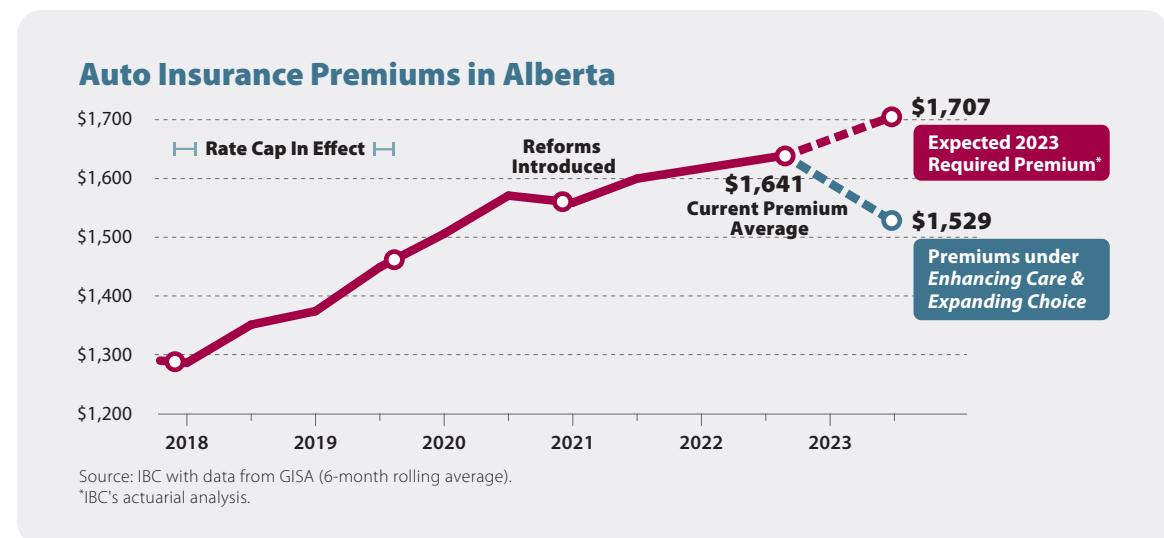
In these challenging economic times, Albertans need affordable auto insurance they can count on.

Recognizing this, the Government of Alberta introduced reforms in 2020 to stabilize premiums and improve the medical care and benefits Albertans receive when injured in a collision. Since that time, premiums have stabilized and drivers have taken advantage of more treatment options to help them recover following accidents.

The market is functioning well today, but Alberta's auto insurance system is showing signs of strain and significant headwinds are on the horizon.

Record inflation is dramatically increasing the cost of vehicle repairs at a time when the cost of treating injuries and legal costs continue to rise. With Albertans returning to the roadway in record numbers, driving habits are now above pre-pandemic levels and the number of claims is rising.

These rising costs are placing significant pressure on premiums.



In light of this, the Insurance Bureau of Canada has developed its ***Enhancing Care & Expanding Choice*** proposal designed to provide Albertans with more choice, increase the care received after an accident, and, importantly, reduce the price drivers pay for coverage.

***Enhancing Care & Expanding Choice* would provide Alberta drivers with twice the amount of treatment and care following an accident, while giving them the ability to choose new coverage options to save up to \$200 in premiums, on average.**

Drivers Deserve More Affordable Insurance, More Choice, and Better Coverage: Here's How We Can Provide It



Enhancing Care & Expanding Choice creates a more sustainable insurance system and gives drivers the choice they deserve.

It gives drivers more benefits following accidents to help them recover more quickly and more fully from their injuries. At the same time, they would be given more choice in the coverages they buy, including whether they want the ability to sue for pain and suffering if they suffer a minor injury in a collision. This balance helps keep premiums affordable and is achieved through the following components:

- 1 Enhanced treatment, care and income replacement benefits after an accident**
- 2 The ability to sue (tort access) for serious injuries, just like today**
- 3 Giving drivers the choice to decide if they want to purchase coverage to sue for pain and suffering damages if they suffer a minor injury**

At a time when inflation and the cost of living is on the rise, these changes would present a significant opportunity to improve affordability for Alberta drivers.

For more details of IBC's **Enhancing Care & Expanding Choice** proposal, please refer to Appendix A.

Enhancing Care & Expanding Choice would give Alberta drivers access to twice the amount of treatment and care, and the ability to save up to \$200 in premiums, on average.

Reforming the system will improve premiums, but more is needed to give drivers the full benefits of competition and choice.

Alberta has begun to improve its regulatory system and reduce red tape, but much more remains to be done to foster innovation, increase competition in the market, and fight fraud, including:

- **Adopting Best-in-Class Rules for a Digital Age by**
 - Fully adopting a File-and-Use rate filing system
 - Reforming the province's Grid framework
 - Introducing legal reforms to simplify and speed up existing court proceedings
- **Equipping insures to help fight insurance fraud and crime by**
 - Modernizing **Alberta's Adverse Contractual Action Regulation (ACAR)** to reduce insurance fraud
 - **Implementing an Insurance Validation Program (IVP)** to give law enforcement the ability to validate a drivers insurance status at the roadside

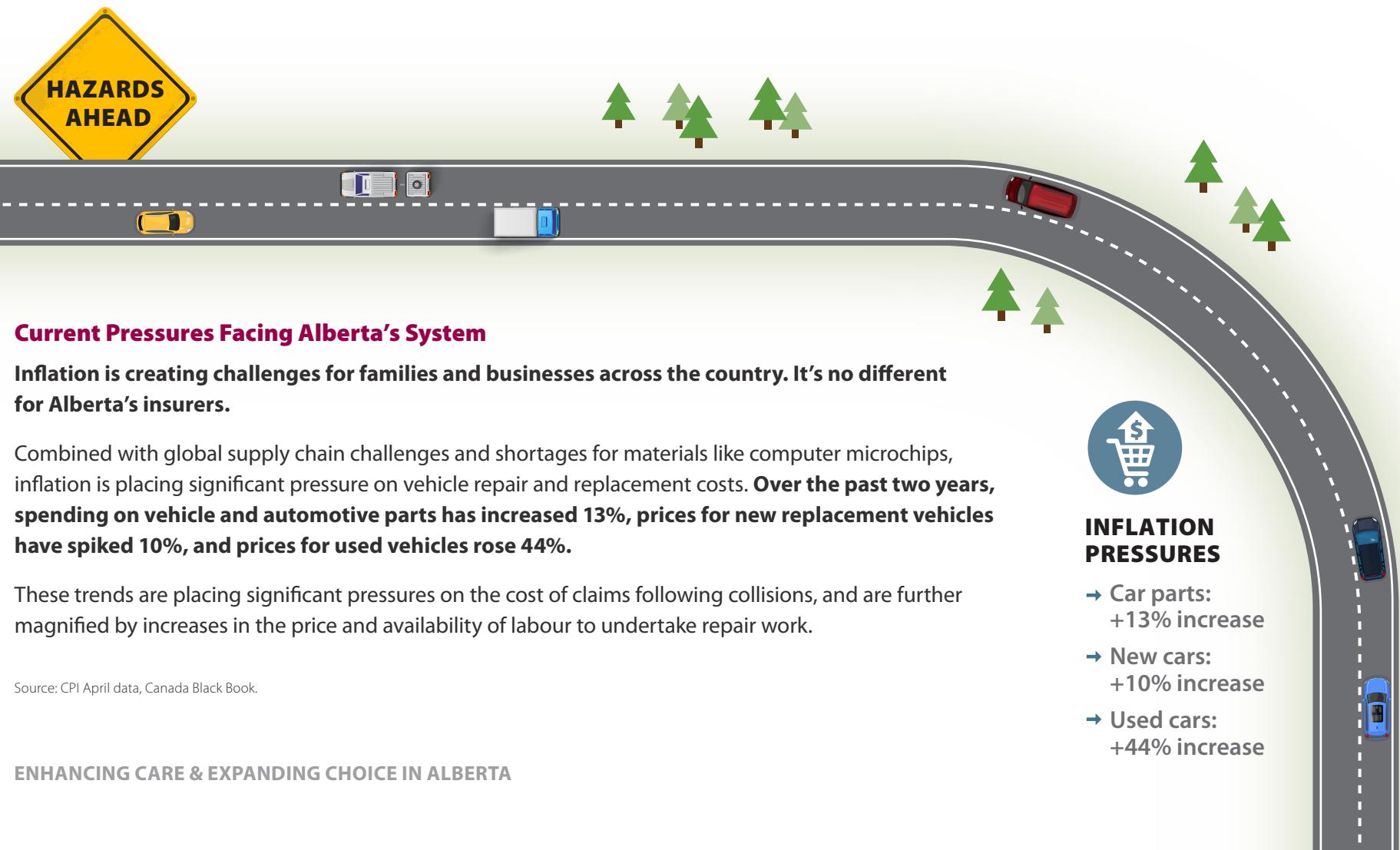


The Growing Need for Reform



Inflation, supply chain challenges, and rising injury claims costs are putting pressure on auto insurance premiums in Alberta. At the same time, Alberta drivers have little ability to customize their insurance options, choose products that best meet their needs, and more fully control their insurance premiums.

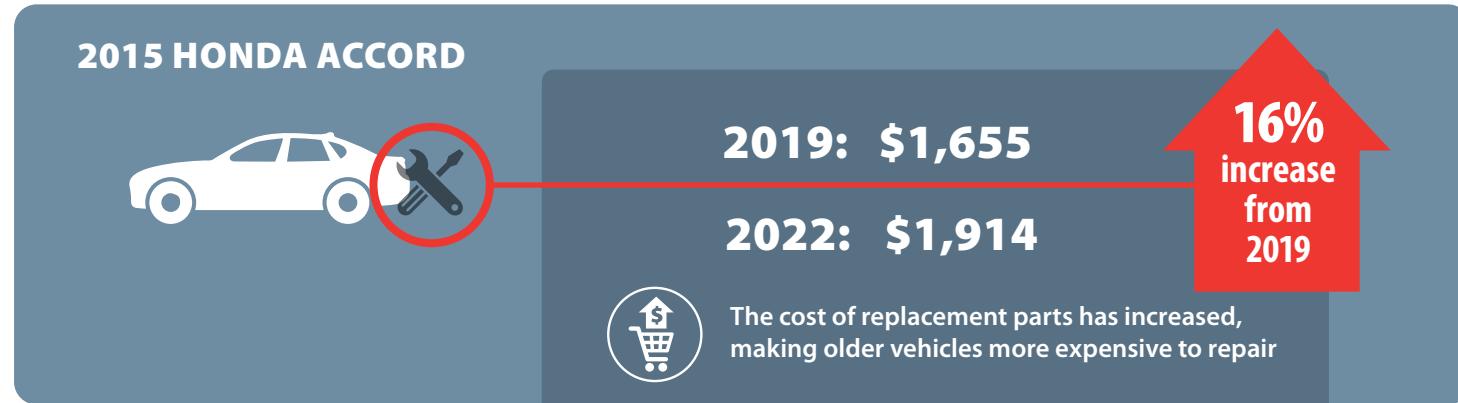
Put simply, Albertans deserve an auto insurance system that gives them more choice, more control over their premiums, and more benefits to help them recover from a collision. This can only be achieved through true reforms to the insurance system.



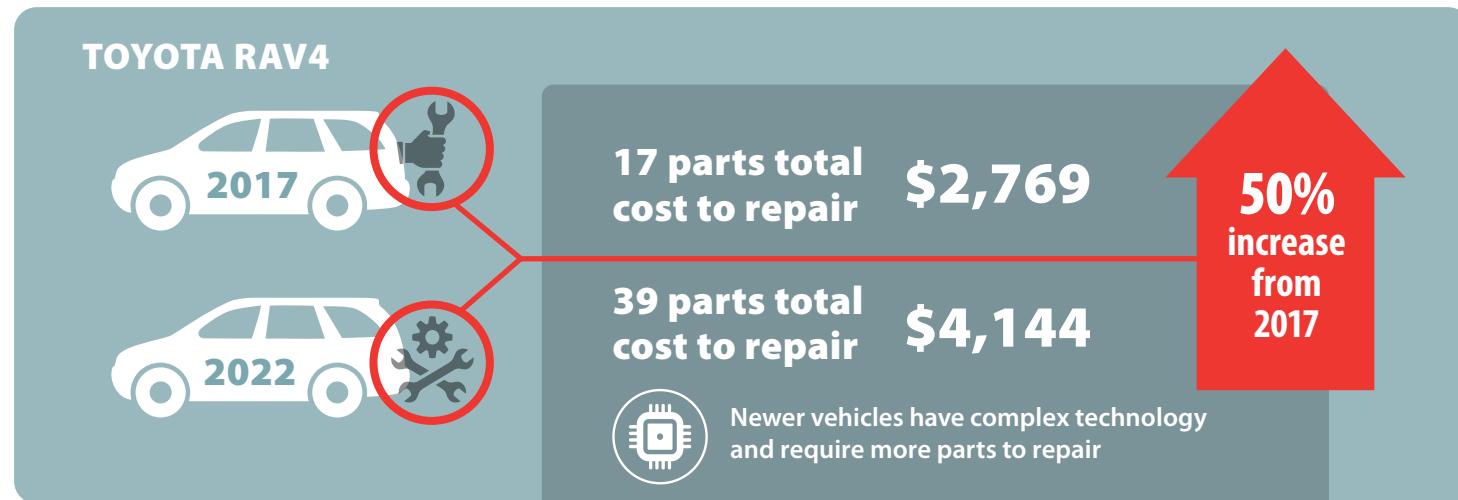
Examples of inflation pressures on auto claims

Cost to fix rear bumper

Example 1: While the value of a vehicle may decrease over time, the cost to repair it has increased due to inflation. For example, the cost to repair the bumper of a 2015 Honda Accord has increased by 16% over the last three years.



Example 2: While it's getting more expensive to repair the same vehicle, newer versions can cost even more. This example shows that the cost to repair the rear bumper of a Toyota RAV4 has increased dramatically since 2017.



Legal Fees and the Costs of Injuries Continues to Rise

In recent years, bodily injury costs following accidents (which includes legal fees and financial compensation for accident victims) have risen dramatically in Alberta and are now among the highest in Canada.

In 2011, the average bodily injury claim following an accident was \$40,439, that amount ballooned over 73% by 2021 to \$70,024. This increase in bodily injury claims costs is one of the single largest pressures on insurance premiums in Alberta today and is only expected to grow in the year ahead.

Financial consulting firm Oliver Wyman (OW) is charged with assessing trends in the auto insurance marketplace on behalf of Alberta's government. **Their analysis projects that bodily injury costs, as well as accident benefits for things like medical and rehab appointments, will grow in the year ahead, by 5% and 12% per vehicle, respectively.**

If not addressed, these cost increases will place significant strain on premiums moving forward.

Albertans are returning to the roads in record numbers

Alberta's economy is gaining momentum coming out of the COVID-19 pandemic. Drivers are returning to the roads and Albertans are spending more time than ever before behind the wheel. As a result, kilometers driven are now above pre-pandemic levels.

That's a good thing. Businesses are open and families are once again able to undertake activities away from home. However, with this increase in driving behavior will come an increase in number of accidents on our roadways, putting added pressures on claims costs, and ultimately, premiums.

Source: IBC analysis based on industry data.



Reforming Alberta's Auto Insurance System for the Better

The best auto insurance systems provide more care and recovery benefits for those injured in a collision, while giving drivers more choice and control over their policy and the premiums they pay. All drivers should have the ability to sue to ensure their medical needs are being met and for potential lost income. However, for minor injuries, drivers should have a choice if they want the ability to sue for financial compensation for pain and suffering, or if they would like to forgo this in favor of a lower premium. Research from Alberta and other jurisdictions is clear: **high pain and suffering awards, and large financial settlements for common injuries, drives legal and litigation costs and ultimately leads to higher claims costs.**

How we can Enhance Care, Expand Choice... and Improve Premiums

IBC's ***Enhancing Care & Expanding Choice*** proposal is a made-in-Alberta solution that provides more care to those injured in accidents, and gives drivers the ability to tailor their insurance policy to better meet their needs.

Currently, Albertans who sue for minor injuries sustained in a vehicle collision are limited to \$5,488 in financial compensation. Under IBC's proposal:

- **Drivers could choose to pay a lower premium by waiving the ability to receive financial compensation if they sustain a minor injury**
- **Injuries suffered in a collision would be eligible for twice the amount of pre-approved treatment they receive today, including specific programs of care based on the most up to date medical literature.**
- **If an injury is serious, everyone would continue to have legal recourse after an accident, just like today.**

With cost pressures from inflation and continued growth in bodily injury and accident benefit costs, the average required premium – the premium needed cover claims costs, operating expenses, and premium taxes - is expected to rise to \$1,707 in 2023 if reforms are not undertaken. IBC's proposal would reduce this to \$1,529, greatly improving the affordability of coverage and providing significant savings to consumers.

The goal of auto insurance is to help you recover from your injuries after an accident. Under IBC's proposal, consumers will have access to more care with no questions asked, and improved premiums while minimizing the chances they will need to wait on lengthy court settlements and cash payouts.

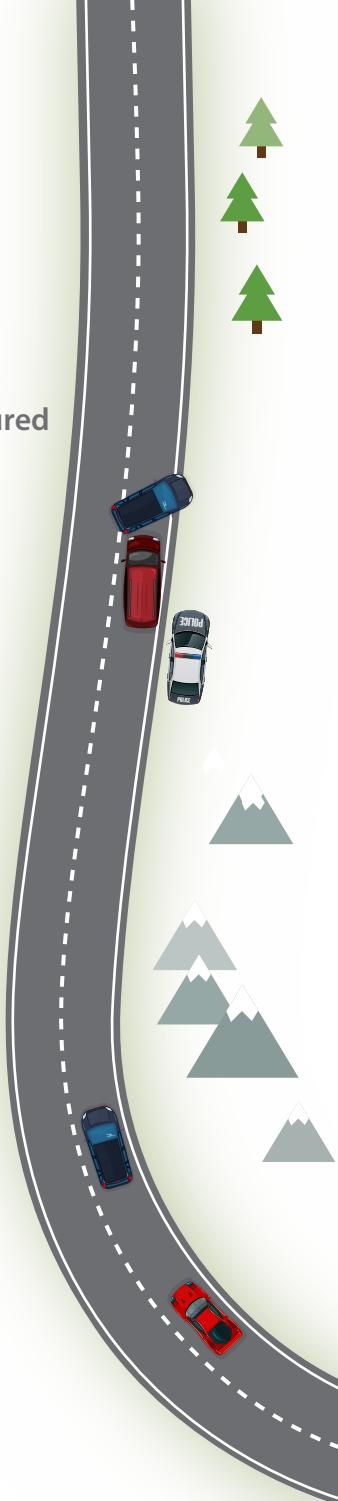
See Appendix A for a detailed description and actuarial costing of IBC's ***Enhancing Care & Expanding Choice*** proposal.



MORE CARE
for those injured



MORE CHOICE
in your policy



Best-in-Class Rules for a Digital Age

Albertans deserve more choice and competition in their auto insurance market, which helps encourage competition, lower prices, and give more product options to drivers.

While Alberta has begun to modernize its regulatory environment and cut red tape, much more remains to be done. IBC recommends that Alberta continues to modernize its regulatory system by adopting best practices from other jurisdictions, such as Europe and the United States, to include:

- **Reforming the provincial Grid Framework**

- Unique to Alberta, the Grid was created to ensure new drivers had access to affordable premiums – an important goal. Over time, however, it has grown far beyond this intent and now caps the rates for many experienced drivers with a history of accidents and infractions. As a result, the Grid forces good drivers to pay more to subsidize premiums for bad drivers.
- In 2021 alone, it is estimated that the Grid cost drivers \$65 on average in order to subsidize bad drivers and those at higher risk. This simply doesn't make sense. Instead, Alberta should remove the Grid and introduce mandatory discounts for new drivers (similar to what is done in other jurisdictions) to ensure more affordable premiums for new drivers.

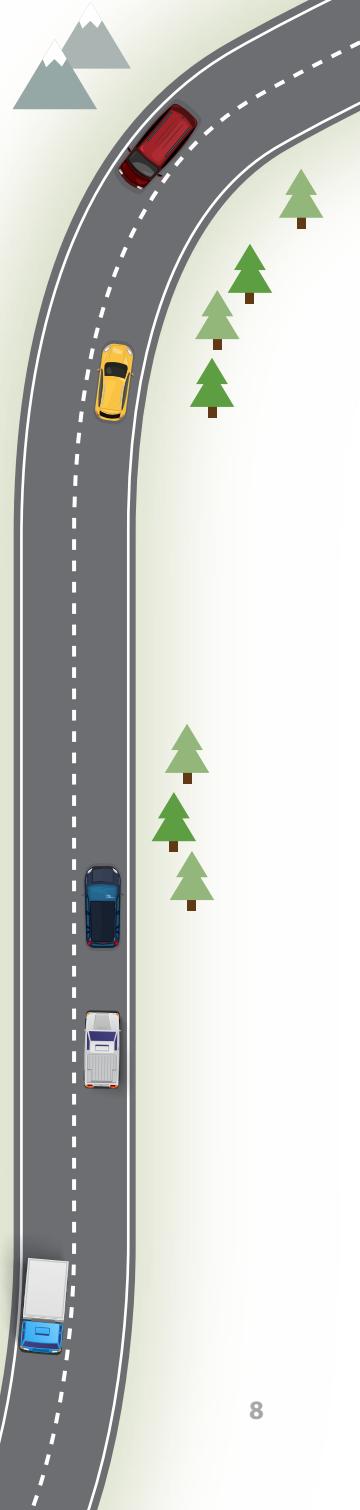
- **Fully adopting a File-and-Use Rate Filing System**

- The system to change insurance rates in Alberta is complex, expensive, and, at times, extremely lengthy. While many insurers were able to reduce rates following the government's reforms, the approval process created delays in passing savings to customers. In contrast, File-and-use rating systems are a more efficient and effective tool for both regulators and insurers, while still maintaining oversight of insurance premiums.
- Alberta has begun the transition towards File-and-Use, but progress has been slow. Instead, Alberta should fully adopt a File-and-Use rating system like other jurisdictions that have seen an improvement in driver premiums.



REMOVING THE GRID

- Average grid cost to drivers is \$65 (2021)



CUTTING RED TAPE

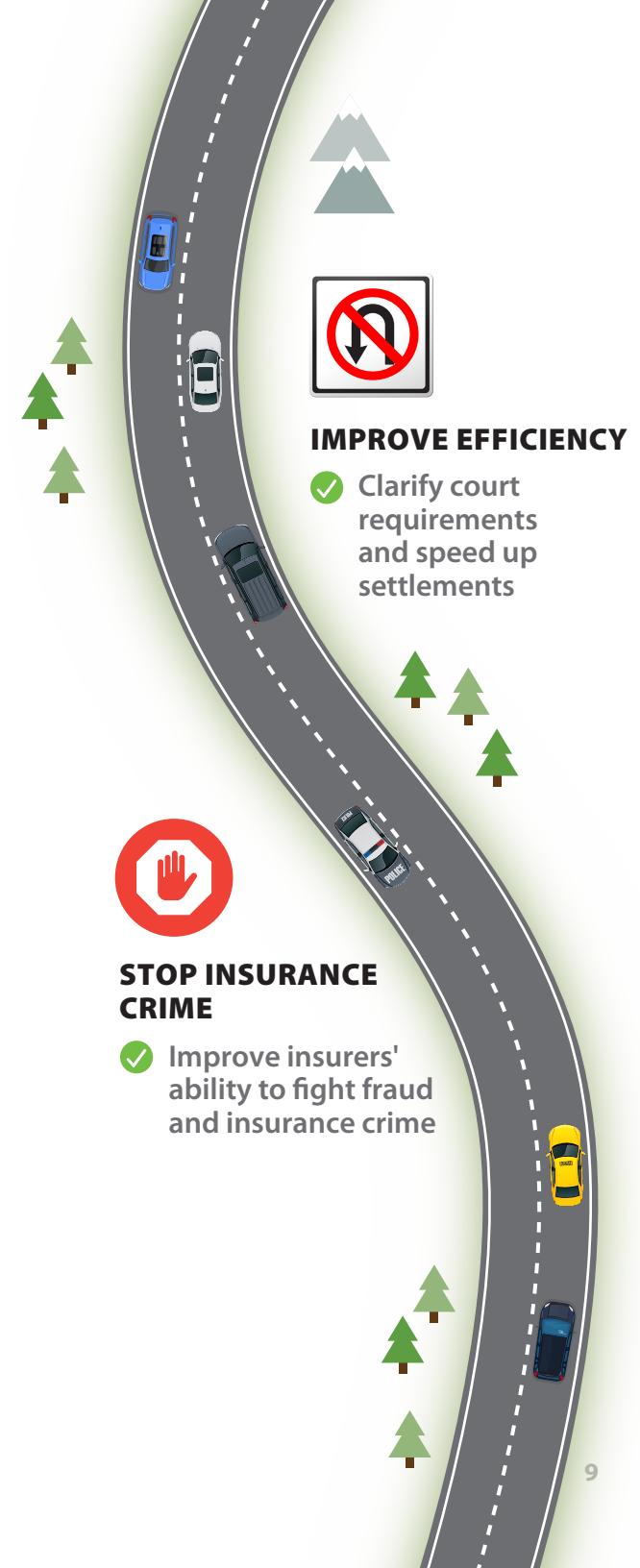
- ✓ To align with principles-based regulation

- **Introducing legal reforms to simplify existing civil process**
 - Court cases can take several years between the date of the accident and the resolution of a claim, despite the fact that most cases are generally straightforward, with similar types of information and documentation needed to reach a settlement.
 - To improve the efficiency of our courts and speed the settlement of claims, Alberta should revise current prescribed disclosure obligations to improve the efficiency of the legal process, reduce strains on the court system and speed the settlement of claims. There should also be clear penalties for all parties if these guidelines are not met.

Equip Insurers to Fight Fraud and Insurance Crime

Honest drivers ultimately pay the costs of fraud and criminal activity in the auto insurance system. While Alberta's insurance regulations are well intentioned, some are overly restrictive and prevent insurers from fighting fraud and crime. This invites greater incidents of illegal activity and ultimately leads to higher costs that are borne by Alberta drivers.

- **Clarify Alberta's Adverse Contractual Action Regulation (ACAR)**
 - Except in specific, limited instances, insurers are legally required to offer insurance to any driver with a valid license - even when there is clear evidence of fraud. That doesn't make sense.
 - Using the rules governing Canada's banking sector as a guide, insurers should be permitted to decline or refuse to renew insurance contracts when they have reasonable grounds to believe individuals are purchasing insurance for illegal purposes, like vehicle smuggling or staged collisions.
 - Specifically, IBC recommends that the government remove the current ACAR references to the 'approved application form' which will expand the permissible grounds for insurers to take adverse contractual action to include fraud prevention.



- **Implement an Insurance Validation Program (IVP)**

- Alberta lacks an online database that law enforcement officials can access to confirm a vehicle's insurance status at the roadside or at a road block. This contributes to a larger number of uninsured drivers on our roadways, suboptimal care for those injured in uninsured collisions, and significant legal costs when claims with uninsured drivers occur.
- IBC recommends that Alberta implement an Insurance Validation Program (IVP) to give law enforcement an electronic database with the insurance status of Alberta's vehicles. With minimal cost – \$75,000 to implement, and \$5,000 annually – an IVP would give Albertans safer roads, reduced costs and a more agile court system.

**IVP**

✓ Give law enforcement an electronic database to confirm insurance at the roadside



Conclusion



While Alberta's insurance system is relatively stable today, significant challenges are on the horizon and change is needed to ensure drivers have access to affordable insurance over the long term.

IBC's proposal provides a blueprint for a system that provides drivers with more choice, more affordable premiums, and more benefits to ensure that drivers have the resources they need to recover. IBC and the insurance industry look forward to working with the Government of Alberta on these recommendations and others that will positively impact Alberta's 3 million drivers.



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