

**SPRING 2024**

**Improving the affordability  
of auto insurance in Alberta:**

# **ENHANCING CARE & EXPANDING CHOICE**



**IBC**  
Insurance Bureau  
of Canada



## Albertans deserve affordable auto insurance that they can count on



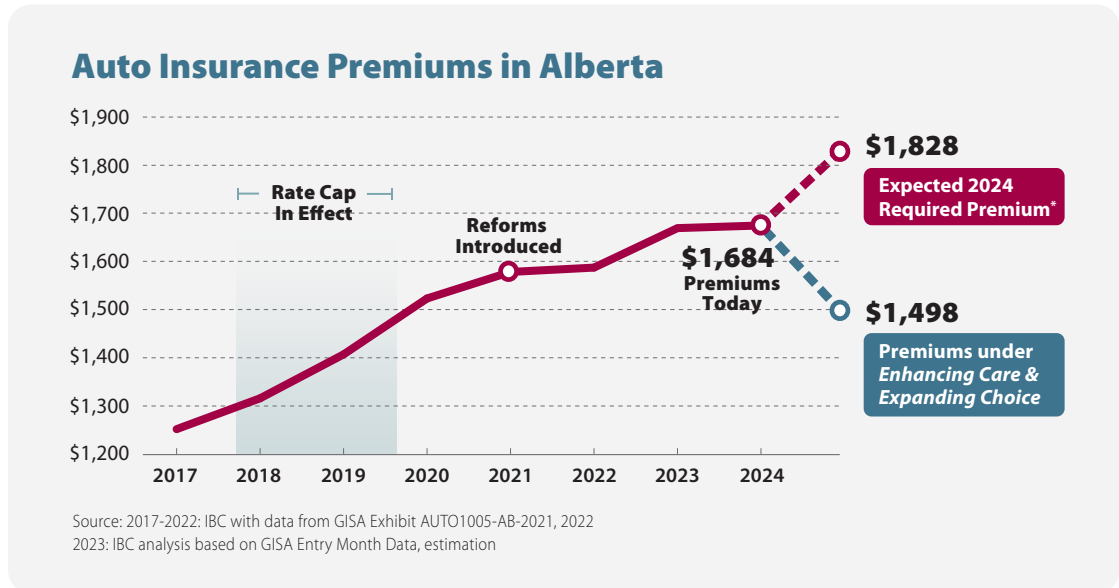
Alberta's auto insurance market is under strain. Following a one-year rate freeze, the Government of Alberta has instituted a rate cap for 'good drivers', while it explores long-term reforms. Despite their intention, these interventions have not improved the affordability of auto insurance for consumers.

Due to the rate cap, auto insurers are unable to account for double-digit increases in the price of vehicle repairs and replacement due to inflation, as well as the significant cost of legal abuse following claims. One insurer has been forced to leave Alberta, while others have limited or restricted coverages in order to remain viable.

As a result, drivers are facing significant challenges obtaining the coverage they need, while premiums continue to rise.

The provincial government defines the coverage that Alberta's auto insurers must sell. The industry is keen to help design a new system that gives drivers the power to pick the right coverage, at a price that best suits their needs.

That's why the Insurance Bureau of Canada has developed its **Enhancing Care & Expanding Choice** proposal, leveraging best practices from other jurisdictions to improve the quality and affordability of auto insurance in Alberta.



**Enhancing Care & Expanding Choice gives drivers more control over their auto insurance, while doubling pre-approved treatment and care for those injured in an accident. Coupled with regulatory improvements and efforts to reduce the tax burden for drivers, it saves drivers \$325 on average.**

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



## 1. **Enhancing Care & Expanding Choice**

Providing enhanced benefits following accidents to help those injured recover more quickly and more fully, **Enhancing Care & Expanding Choice** also gives drivers more choice and control over their coverages. Specifically, it would give drivers a choice of whether they want financial compensation (up to the minor injury cap) if they suffer a minor injury in a collision, while maintaining the right to sue if they aren't receiving the care they need to recover. Three components help improve affordability and enhance care, while maintaining legal access and the ability to sue:

- 1 **Doubling treatment, care and income replacement benefits** after an accident
- 2 **Providing choice** if drivers want financial compensation after a minor injury
- 3 **Preserving ability to sue** to ensure drivers are receiving the treatment they need to recover, just like today

## 2. **Building a Best-In-Class Regulatory System and Equipping Insurers to Fight Fraud**

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

- Removing the provincial Grid framework
- Streamlining the rate filing system
- Simplifying the court process and legal proceedings

To help combat incidents of fraud and vehicle theft, action must be taken to:

- **Implement an Insurance Validation Program (IVP)** to give law enforcement the ability to validate a driver's insurance status at the roadside
- **Improve the vehicle registration system** to combat the reVINing and sale of stolen vehicles to unsuspecting

## 3. **Reduce the tax burden on Alberta drivers**

Today, the province levies a 4% insurance premium tax on the sale of every auto insurance policy in the province, which costs drivers \$67, on average, each year.

Removing this tax can help improve the affordability of auto insurance.

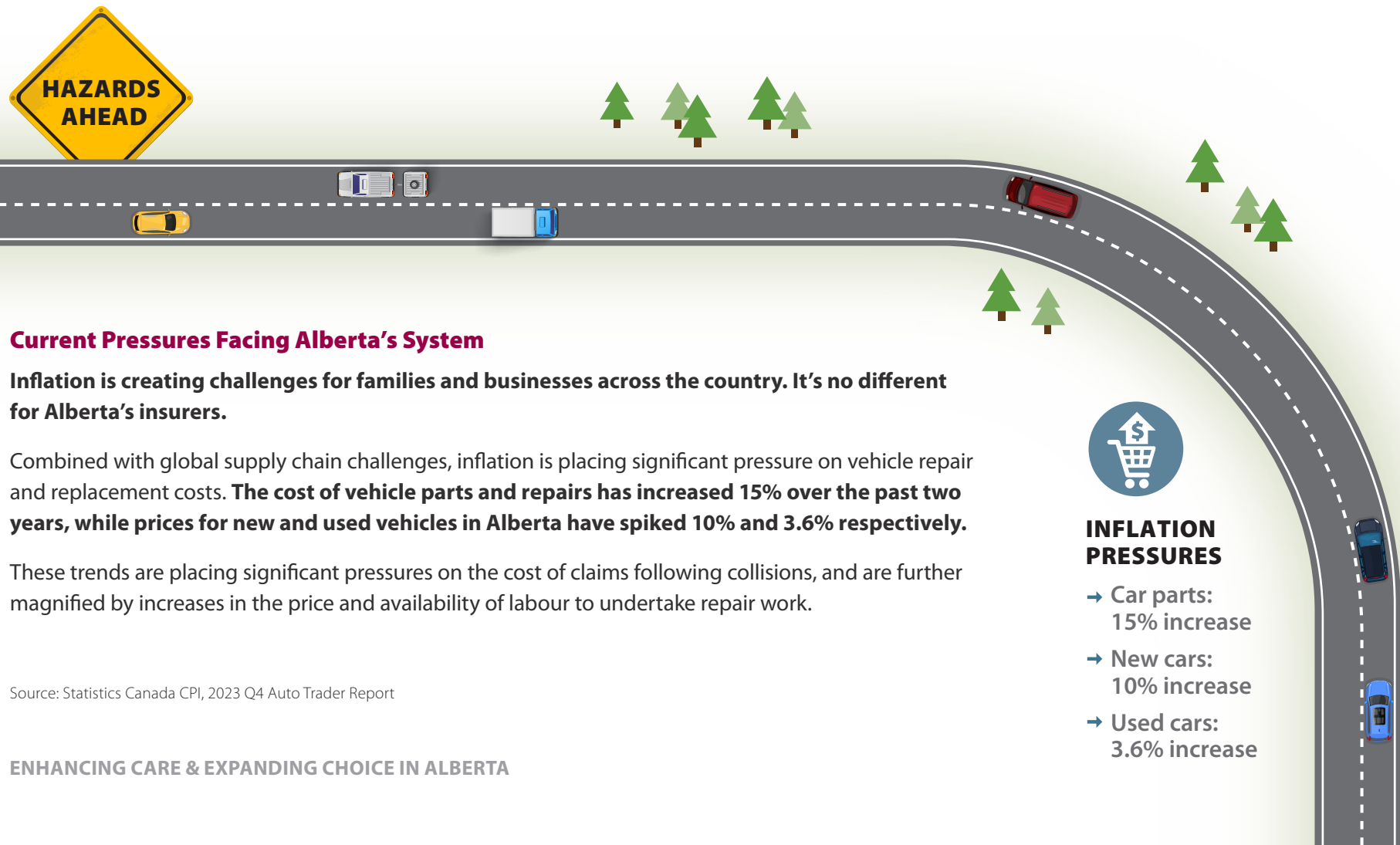


# The Growing Need for Reform



Inflation, supply chain challenges, and rising legal costs are putting pressure on auto insurance premiums in Alberta. Unable to account for these trends, Alberta's auto insurers have been forced to limit or restrict the coverages they offer in order to remain viable. Worse, two companies have begun to withdraw from the market. The result: Less choice, less competition, and higher prices for drivers.

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



## Current Pressures Facing Alberta's System

**Inflation is creating challenges for families and businesses across the country. It's no different for Alberta's insurers.**

Combined with global supply chain challenges, inflation is placing significant pressure on vehicle repair and replacement costs. **The cost of vehicle parts and repairs has increased 15% over the past two years, while prices for new and used vehicles in Alberta have spiked 10% and 3.6% respectively.**

These trends are placing significant pressures on the cost of claims following collisions, and are further magnified by increases in the price and availability of labour to undertake repair work.

Source: Statistics Canada CPI, 2023 Q4 Auto Trader Report

ENHANCING CARE & EXPANDING CHOICE IN ALBERTA



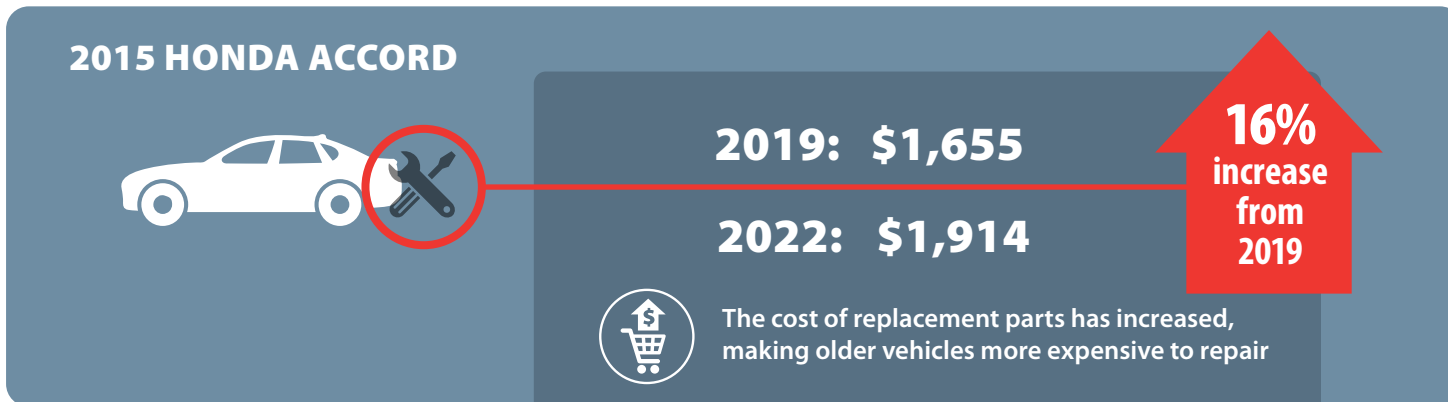
## INFLATION PRESSURES

- Car parts: 15% increase
- New cars: 10% increase
- Used cars: 3.6% increase

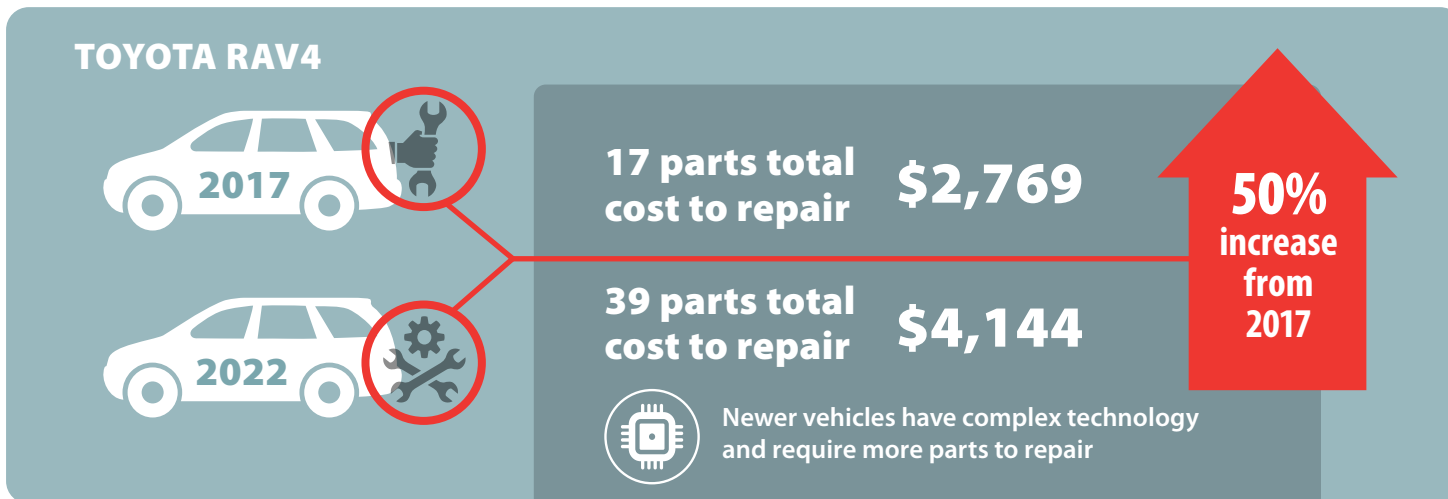
# Examples of inflation pressures on auto claims

## 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 its 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 Abuse and the Costs of Injuries Continues to Rise

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

**In 2012, the average bodily injury claim following an accident was \$45,462. That amount increased 79% by 2022 to \$81,140.** This increase in bodily injury claims costs is one of the single largest pressures on insurance premiums in Alberta and is only expected to grow in the years 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.

## Driving levels are back to normal, claims costs are up

The number of kilometres driven by Alberta motorists has returned to pre-pandemic levels. **Collision frequency and claim cost severity have subsequently increased, pushing loss ratios to new highs.**

## Auto Theft Crisis

A national epidemic in stolen vehicles is forcing insurers to **pay out three times as much in theft claims as they did just five years ago** – more than \$1.2 billion nationally in 2022. In Alberta, vehicle theft is up 39% in the last year alone.

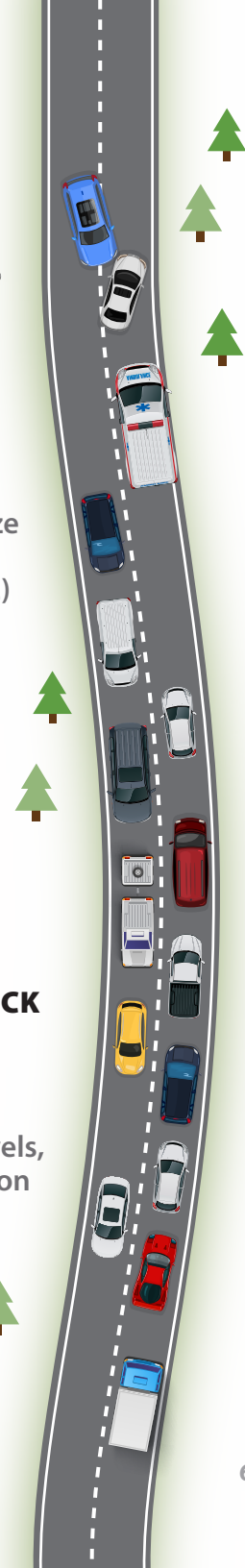


**79% INCREASE**  
in the average size  
of a bodily injury  
claim (2012-2022)



## ALBERTAN'S BACK ON THE ROADS

Driving levels  
have returned to  
pre-pandemic levels,  
putting pressure on  
claims costs.



## Urgent need to lift rate cap

Alberta's insurers share the government's desire to improve affordability for drivers. Unfortunately, the rate pause does not achieve this. Instead, it pushes today's challenges down the road while costs continue to grow. With no ability to account for double-digit increases in the price of vehicle repairs and replacement, as well as the continued growth in the cost of treatment, care, and litigation, the viability of Alberta's auto insurance system is under threat.

The rate pause implemented in January 2023, and now the 'good driver' rate cap, is happening at a time when 17 insurers lost money on the sale of auto insurance (Per Super's 2022 Annual Report). One insurance company been forced to leave the market all together, while others are limiting the coverage they sell in order to remain viable.

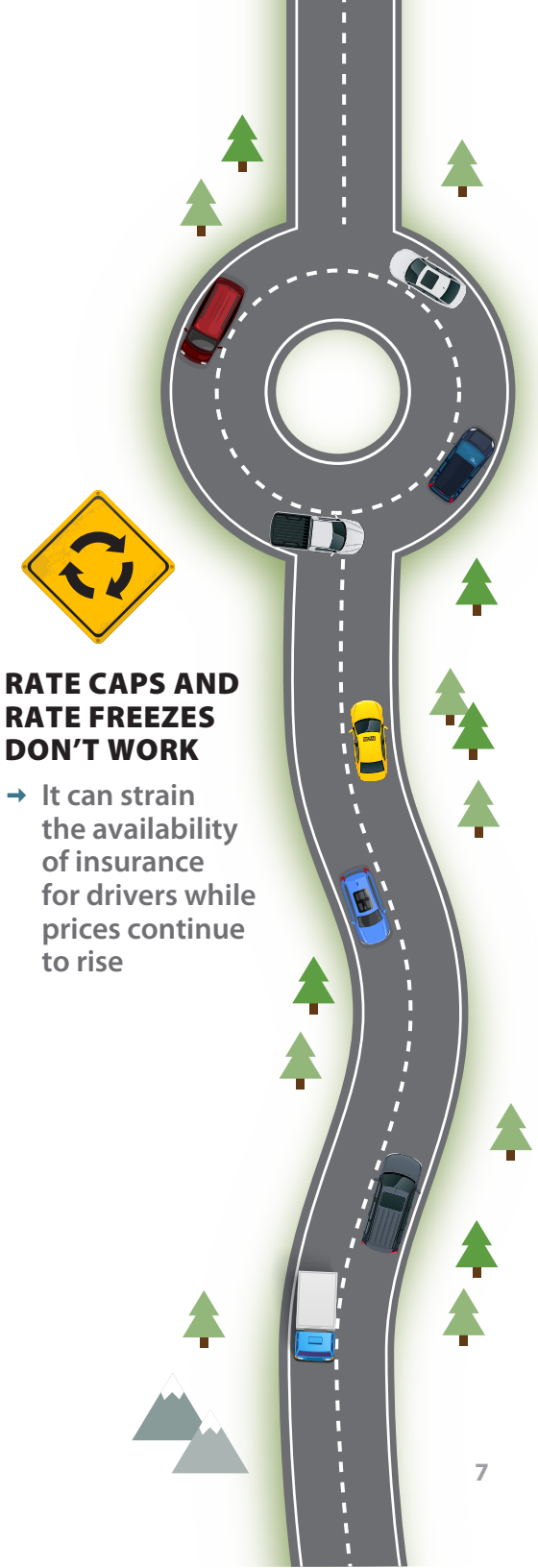
Our province risks following in the path of California. There, the state government froze auto insurance rates two years ago and, as a result, insurers have been forced to close their operations and cease the sale of new policies in order to remain viable. This has greatly reduced choice and competition for drivers, and increased costs for families and businesses.

## Improving Alberta's Auto Insurance System

Changes are clearly needed to improve the affordability and availability of coverage for drivers, while ensuring the auto insurance market can remain competitive and viable for the long term.

To avoid following in the failed footsteps of other jurisdictions, and to improve the affordability and care provided by Alberta's insurance system, it's time to:

- 1. Immediately lift the 'good driver' rate cap to ensure choice and the availability of coverage for drivers**
  - a. Unable to account for the dramatic growth in the cost of auto insurance claims in Alberta, auto insurers have been forced to limit the coverages they provide. Its getting more difficult for drivers to secure the insurance they need, while premiums continue to rise.
- 2. Introduce *Enhancing Care & Expanding Choice* to improve the quality of coverage provided, while bringing short- and long-term improvement to the affordability of coverage.**



## Parallels to California Experience

Alberta's interventions into the auto insurance market are similar to those of California in recent years.

Between 2020 to 2022, California froze auto insurance rates, and then introduced a rate cap of 6.9% in 2022. Despite this, the price consumers pay for coverage has continued to increase while it grows more difficult for drivers to secure the insurance that they need as:

- 8 insurers have been forced to leave California or significantly reduce the coverage they sell.
  - Geico closed its storefronts and has stopped allowing drivers to buy insurance by phone,
  - Progressive has stopped taking new customers and put off expansion plans.
- Numerous insurers have limited payment options, coverages, and cut workforce to limit sale of coverages.

## Ongoing impacts of California intervention

- Having failed to introduce reforms to the system, the government has begun to approve rate increases in the state.
  - State Farm – the state's largest insurer— is raising auto insurance rates by 21%.
  - Some analysts anticipate a 35% rate increase across the board if the requests are approved by the Department of Insurance.



**Alberta's regulatory actions on the auto insurance file mirror California, and are creating challenges for consumers and industry alike.**

### CALIFORNIA'S RATE FREEZE AND RATE CAP





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

IBC's *Enhancing Care & Expanding Choice* proposal was designed by Alberta's insurers - the very people that live and work in our province and understand the challenges of the current system. It would provide more care to those injured in accidents, and give drivers the ability to tailor their insurance policy to better meet their needs.

Currently, Albertan's who sue for minor injuries sustained in a vehicle collision are limited to \$6,061 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, or if anyone injured felt they aren't receiving the care they need to recover, they 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 \$1,828 in 2024 if reforms are not undertaken. IBC's proposal would reduce this to \$1,498, greatly improving the affordability of coverage and providing significant savings to consumers. These savings are achieved by:

1. Introducing IBC's *Enhancing Care & Expanding Choice* to improve affordability and care (\$200 savings).
2. Creating a best-in-class regulatory system and removing the provincial Grid framework (\$65 savings).
3. Eliminating the Insurance Premium Tax on auto coverages (\$67 savings).

This proposal would provide more choice for drivers and give them more control over their auto insurance policy, while doubling the treatment and care received when injured in an accident. Coupled with improvements to create a 'best-in-class' regulatory and taxation system, it would reduce premiums by an average of \$325, delivering savings in both the short- and long-term.

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 to:

- **Reform 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.
- In February 2024, Alberta's Auto Insurance Rate Board proposed substantial changes to the provincial Grid framework that would take effect January 1, 2026. This is a positive step, however, IBC continues to call for the removal of the Grid framework as part of the longer-term reforms being considered for Alberta's auto insurance system.

- **Adopting a Use-and-File Rate Filing System**

- The system to change insurance rates in Alberta is complex, expensive, and, at times, extremely lengthy. When government takes action to improve premiums, the regulatory process creates delays in passing savings to customers. Use-and-file rating systems are a more efficient and effective tool to ensure appropriate premiums for drivers, while still maintaining regulatory oversight of insurance premiums.
- Other jurisdictions that have seen an improvement in driver premiums through the adoption of use-and-file rate filing systems. Alberta should follow suit to ensure savings are passed on to consumers as quickly as possible.

Source: Alberta Grid rating: Demographic composition and subsidization, July 5, 2022



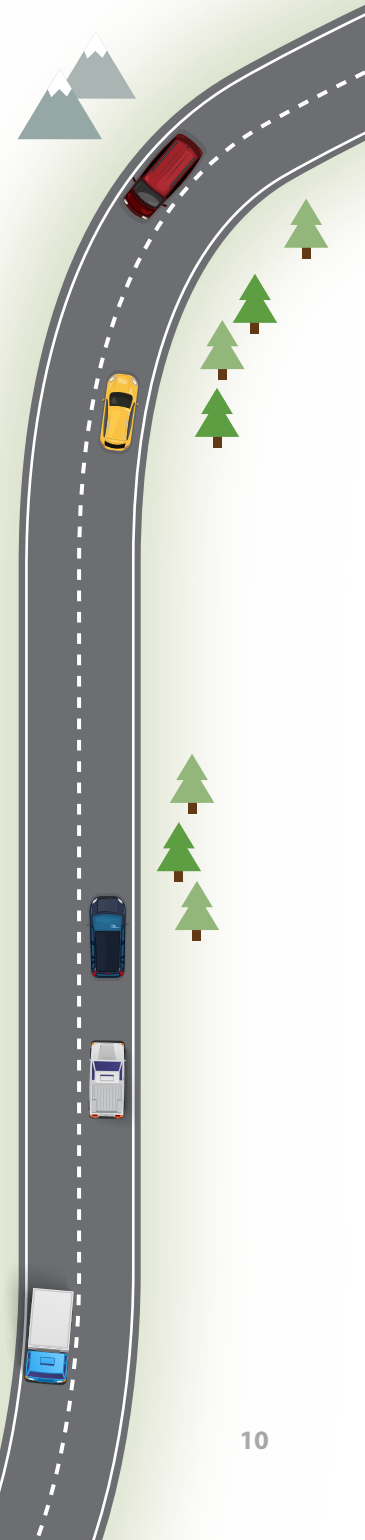
### REMOVING THE GRID

- 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.
- 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**

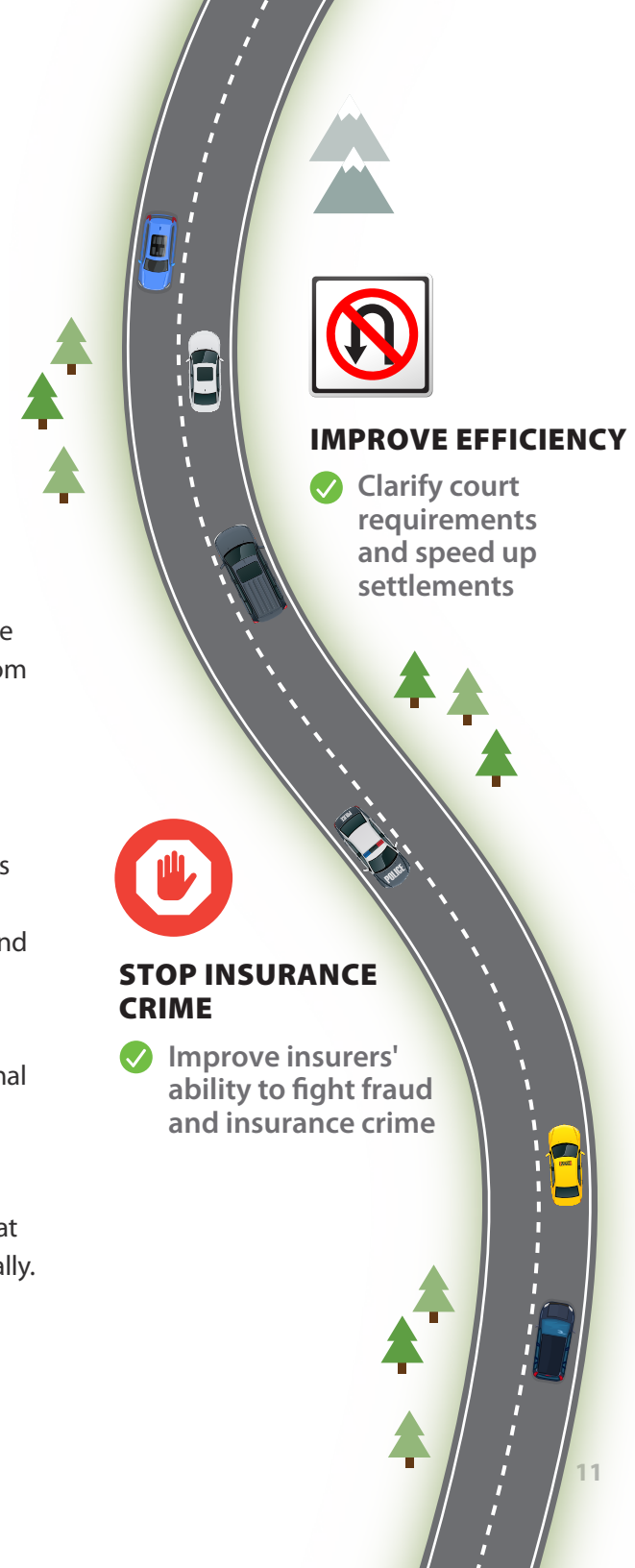
Honest drivers ultimately pay the costs of fraud and criminal activity in the auto insurance system. While Alberta's insurance regulations are well intentioned, some are overly restrictive and prevent insurers from fighting fraud and crime. This invites greater incidents of illegal activity and ultimately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

- **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, an IVP would give Albertans safer roads, reduced costs and a more agile court system.

- **Regulatory changes to mitigate, prevent and deter auto theft**

- To combat vehicle theft, introduce a physical VIN inspection as part of the safety inspection that precedes every vehicle transfer, and ensure that info/images is captured and transmitted digitally.
- Ban third-party registrations by private actors that lack power of attorney.



**FINISH LINE  
TO BETTER  
INSURANCE**



## Conclusion

Alberta's insurers share the government's desire to improve affordability for Alberta drivers. Unfortunately, the rate pause does not achieve this.

Instead, the rate pause and now rate cap has pushed today's challenges down the road while costs continue to grow. With no ability to account for double-digit increases in the price of vehicle repairs and replacement, as well as the continued growth in the cost of treatment, care and litigation, the viability of Alberta's auto insurance system is under threat.

***Enhancing Care & Expanding Choice* is a made-in-Alberta solution that provides a blueprint for a system that provides drivers with more choice, more affordable premiums, and more benefits to ensure that drivers have the treatment and care they need to recover.**

Coupled with improvements to create a best-in-class regulatory and taxation system, it would reduce premiums by an average of \$325 compared to where they will be if no action is taken.

***Enhancing Care & Expanding Choice*** delivers savings in both the short- and long-term by:

1. Introducing coverage changes to improve the affordability and care of Alberta auto insurance (\$200 savings).
2. Creating a best-in-class regulatory system and removing the provincial Grid framework (\$65 savings).
3. Eliminating the insurance premium tax on auto coverages (\$67 savings).

**IBC and its member companies look forward to working with the Government of Alberta on these recommendations and others that will positively impact Alberta's 3 million drivers.**



## Appendix A

### **IBC Proposal: *Enhancing Care & Expanding Choice***

***Enhancing Care & Expanding Choice*** 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.

#### **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.

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 for compensation.

### **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. 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 settlement.

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. Any physical or psychological injury would be considered permanent when it prevents the injured person from functioning normally even if they were to receive further medical treatment based on objective medical proof.

## Expected Impact on Premiums

For 2024, the average required premium – the premium that should be charged to cover all claims costs, operating expenses, and premium taxes – in Alberta is expected to be \$1,828, 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 reforms are not undertaken. The Enhancing Care & Expanding Choice proposal will reduce the required premium to approximately \$1,498, resulting in significant savings for consumers.

- Average premiums for January 2023 – \$1,654
- Estimated 2024 required premium under current product – \$1,828
- Estimated 2024 required premium under IBC's proposal – \$1,498

***Enhancing Care & Expanding Choice would give Alberta drivers access to twice the amount of treatment and care, and the ability to save up to \$325 annually, on average.***



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