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May 30, 2011

Mr. Alfred Savage
Chair, Alberta Automobile Insurance Rate Board
Suite 2440, 10303 Jasper Avenue
Edmonton, AB T5J 3N6

Dear Mr. Savage,

RE: Alberta IWA 2011

I would like to begin this commentary by thanking the Automobile Insurance Rate Board (AIRB) for the opportunity to make a submission to the 2011 Industry-Wide Adjustment (IWA) process. We appreciate being able to work with the Board on this and other initiatives that contribute to providing Albertans and their insurers with a stable, competitive and responsive auto insurance market.

Consistent with our position last year, Insurance Bureau of Canada (IBC) will not be recommending a specific adjustment factor for the 2011 IWA process. As you know, we believe it is inappropriate to make an average rate adjustment applicable to all insurers given the variety of product offerings, business models and company strategies present in the Alberta market. While IBC has made representations that included a suggested adjustment factor in past years, this was driven in large measure by the enormous risk to insurers and Alberta consumers associated with the potential strike down of the *Minor Injury Regulation (MIR)* as a result of its constitutional challenge by the Alberta Civil Trial Lawyers Association. The successful conclusion of the constitutional challenge has restored confidence in product stability and thus removed the need for IBC to recommend a rate adjustment reflecting the extraordinary risk that that process posed for the industry and Alberta's driving public.

Although we are not making an adjustment recommendation, we have examined the principal factors that should affect the indicated average insurance premium beginning next November, and will summarize our conclusions in a later section of this commentary.

Moving Forward

IBC has consistently advanced the view with the AIRB that Albertans would be best positioned to reap the benefits from competition if the market played a greater role in the determination of automobile insurance premiums. As a general principle, we consider that, assuming a stable product, the more open a jurisdiction's laws are to letting competition regulate prices, the greater are the potential benefits to the public, as exhibited in lower premiums for good drivers and increased product innovation and consumer choice. In our view, the court decision affirming the constitutionality of the MIR has produced market conditions favourable to replacing the current rate setting mechanism with a more competitive rate approval process.

As we have done in previous years, we want to acknowledge the Board's shared perspective on this matter. This was again affirmed in the Chair's Message in the AIRB's 2010 Annual Report where you stated:

The constitutional challenge to the minor injury cap that was put in place to limit non-economic damages for injuries defined as minor under the Minor Injury Regulation further complicated the rate setting process. However, 2010 has been a good news story with the partial recovery of investment returns and resolution of the court challenge providing for greater certainty in pricing the automobile insurance product.

With those obstacles behind us and what appears to be a stable market in Alberta, the Board is now looking forward to working with Government and Industry to review the Premiums Regulation with the view to moving away from the current industry-wide adjustment process to a file-and-approve system. The Board believes a model that deals with each company on its own merits will provide for more efficient and effective regulation, which in turn should foster greater competition for consumers over the longer term.

Evidence continues to mount that greater use of the forces of competition to determine prices is in the best interest of consumers. A recent example comes from the experience of Massachusetts, which in 2008, replaced its centralized rate setting mechanism with a process that relied more heavily on market conditions to determine the prices offered by individual insurance companies. Consumers almost immediately started reaping the benefits from this change. By 2010, there were 13 new companies that had entered the market, the uninsured driver rate dropped 13%, the number of drivers in the residual market dropped 20% and consumers with clean driving records experienced large premium reductions. In fact, InsWeb's *2011 Affordable Car Insurance Index*, which ranks affordability by dividing each state's median household auto insurance rate by its median household income, reported that Massachusetts is currently the most affordable state for auto insurance.¹

Moreover, one does not have to look to the United States for evidence of the gains to consumers from allowing a competitive marketplace to determine automobile insurance prices. You will recall that last year, in response to observations made by Ms. Merle Taylor regarding increases in premium for optional coverages that had occurred in Alberta since the reforms of 2004, IBC wrote to the Board on June 30, 2010 to convey data showing that the premium increases for optional coverage – 95% of which relates to collision, comprehensive and all perils coverage – had closely followed claims cost pressures relating to the repair and replacement of motor vehicles that had occurred over the relevant period. We included with that correspondence graphs illustrating that in the province of Quebec, where there is no regulation of auto insurance rates for the physical damage coverages, not only was the same linkage between claims costs and premium levels observed, but also that the freely competitive market in Quebec had produced a further positive effect in smoothing out, to the benefit of consumers, the effects on premiums of volatility in the cost environment.

Against this background, IBC believes it is time to re-start the *Premiums Regulation* review with the goal of introducing a more competition-based rate approval process that includes a simplified filing approach permitting companies to move quickly and according to their individual business strategies to react to changes in market conditions. Appendix 1 of this letter is a submission IBC made to the Superintendent of Insurance in August 2010. In the submission, you will find a

¹ InsWeb Corporation. *InsWeb's 2011 Affordable Car Insurance Index*. www.insweb.com.

Proposed Framework for a Revised Auto Insurance Rate Determination System in Alberta, which we believe, fits with the type of file-and-approve process you envision for the province. This proposal has been updated slightly from the one that achieved general agreement from government and the industry in 2007.

The *Framework* was developed to achieve a number of important public policy goals. In addition to containing provisions designed to enhance competitive pricing and unleash the resulting consumer benefits, it also incorporates a proposed restructuring of the Grid ceiling to provide additional deterrents against risky driving. According to Facility Association, the market share by written vehicle exposures of the Grid Pool has declined from 11.6% in 2005 to 4.4% in 2010. Nonetheless, the Grid continues to be structured to protect high-risk experienced drivers. The proposed amendments to the Grid that are in IBC's *Framework* were designed to better focus the Grid's application on inexperienced drivers with clean driving records and improve the overall incentive structure for safe driving.

From the standpoint of advancing public safety on Alberta's roads, several elements of the proposed *Framework* are noteworthy. For example, one proposal is for a provision to recognize single-vehicle collisions for the purpose of placement within the Grid. Unlike most insurers' rating plans, single-vehicle collisions are currently outside the scope of the Grid's "at-fault accident" definition, meaning that insurers are precluded from transferring a driver involved in such a collision to a higher Grid level. Consequently, the rates of drivers involved in single-vehicle collisions -- whether the result of driver error, improper, impaired or distracted driving, or negligence -- are not allowed to reflect their recent at-fault collision history. This is at odds with the typical treatment of single-vehicle collisions in other Canadian jurisdictions and ensures no price penalty for some of the most extreme transgressions of the rules of the road.²

We understand that a return to the *Premiums Regulation* review can only be initiated by the government. However, we hope that the Board will continue to find opportunities to convey to the government and other stakeholders our shared support for an early move away from the IWA.

The 2011 IWA Process

IBC's review of the available GISA data and other factors likely to affect the cost of the mandatory product has yielded the following observations:

- The long downward trend in Bodily Injury claims frequency appears to have stopped and turned upwards starting in the 2nd half of 2009;
- The steady increase in the cost of Accident Benefits claims, which began in 2007 has continued strongly through 2010; and
- The strong rebound that the Alberta economy is experiencing is likely to increase the industry's exposure to more auto insurance claims. This observation recalls evidence heard by the AIRB in past years indicating a positive correlation between economic growth, higher employment, and an increased incidence of auto insurance claims.

² Data provided by Alberta Infrastructure and Transportation, which was derived from the *Alberta Traffic Collision Statistics Report 2005*, indicated single vehicle collisions accounted for 49.7% of all fatal collisions, 28.5% of all injury collisions and 28.8% of all collisions resulting in property damage. Alcohol was identified with 18.1% of single vehicle collisions in comparison to 5.6% of all casualty collisions. It was also identified with 37% of single vehicle fatalities in comparison to 19% of all fatalities.

At the same time that these factors are expected to increase the pressure on insurers' costs and therefore the indicated rates for insurance coverage, the government has underway several changes to the regulatory environment for auto insurance that will introduce significant uncertainties with respect to the magnitude of cost pressures on the mandatory product. Our understanding is that these changes will be approved by the government within the next few weeks, such that their cost effects seem almost certain to be experienced during the rating year beginning November 1, 2011.

The regulatory changes that we are referring to include the following:

- An amendment to the *Fair Practices Amendment Act* that will require an insurer that receives a notice of retainer from a Third-Party Liability (TPL) claimant's legal representative to disclose, within 30 days, the existence of a motor vehicle policy issued by the defendant's insurer and the corresponding policy limits;
- Amendments to the *Automobile Accident Insurance Benefits Regulation* that will introduce a definition of Catastrophic Injury, a new benefit package for individuals whose injuries are so designated, and a requirement that auto insurers will assume the 'first payor' role in paying for the medical rehabilitation assistance needed by these claimants; and
- Amendments to the *Diagnostic and Treatment Protocols Regulation* that will, amongst other changes, enhance the currently defined role of Injury Management Consultants and, in our view, introduce some uncertainty as to the range of symptoms of soft tissue injury that are expected to be managed within the protocols.

IBC has responded to the Superintendent's requests for submissions on each of these proposals, and in our comments have provided details on the likelihood that the changes will increase the costs associated with TPL and AB coverages respectively. We have also offered recommendations intended to ease these impacts. At present, however, we have little doubt that the package of regulatory changes will increase the cost of delivering the mandatory auto insurance product in Alberta. How much they will do so is an open question, in part because the regulations have not been finalized but also in part because of the great difficulty in predicting the cost impact of some of the proposed initiatives. For example, in the case of the regulatory provisions introducing a new catastrophic injury category within the no-fault AB scheme, the government's actuaries have conveyed to us that the lack of relevant data and complexity of the initiative meant that they could only estimate costs by applying a great deal of "judgment" and then only within very broad ranges.

We understand that the cost implications associated with the government's new regulatory initiatives present the Board with another challenge in determining an appropriate all-industry adjustment for the rating year starting November 1, 2011. In the Board's written decision for this year's IWA, we are requesting clarity as to how these costs are to be accommodated, whether through provision in the adjustment or through another process.

In conclusion, IBC looks forward to reviewing the rate adjustment recommendation from Oliver Wyman when it becomes available. As in past years, we have asked our consulting actuary, Mr. Ron Miller, to provide an analysis of the Oliver Wyman report and, if warranted, to provide additional commentary during our presentation to the Board on June 14.

Sincerely,

Doug Noble
Vice President, Alberta & The North

A Proposed Framework for a Revised Auto Rate Determination System in Alberta

A Submission by Insurance Bureau of Canada

August 2010



Insurance Bureau of Canada

Insurance Bureau of Canada (IBC) is the national industry association representing Canada's private home, car and business insurers. Its member companies represent 90 per cent of the property and casualty (P&C) insurance market in Canada

In Alberta the insurance sector:

- invested assets exceeding \$8.1 billion;
- is a significant employer, providing more than 16,000 jobs;
- is made up of seventy-three private sector insurers in Alberta, and seven of those companies are headquartered in the province;
- wrote approximately \$3.3 billion in automobile insurance premiums;
- paid out more than \$1.8 billion in claims, including rehabilitation expenses to those injured in road crashes and other bodily injury incidents, replacement of stolen goods, and repairs to damaged property and vehicles; and
- the industry paid \$292.8 million in taxes and levies to the provincial government.

*(All figures from 2008 data)



Introduction:

IBC is pleased to have this opportunity to offer views from the industry on what a rate regulation system to replace the existing Industry Wide Adjustment (IWA) process could look like and how it might work. During the *Premiums Regulation* review process in 2007 the industry put forth recommendations, in presentations and a paper by PricewaterhouseCoopers (PwC), for the establishment of a “file and approve” system with a threshold for simplified filings. The recommendations made at that time, which met general agreement with the government team, were developed within the context of the entire system and submitted as a package. We will take this opportunity to update the industry’s advice for the current context.

IBC has been clear and consistent at every IWA hearing over the past six years in expressing the view that the industry-wide adjustment weakens the benefits that consumers could enjoy from a diverse and fully competitive automobile insurance market. As a general principle, IBC considers that, assuming a stable product, the more open a jurisdiction’s laws are to letting competition determine prices, the greater are the potential benefits to the public, as manifest in lower premiums for good drivers, strong disincentives against risky driving behaviour, and increased product innovation and consumer choice.

At the same time, we believe that IBC’s commitment to the principles of competition in the marketplace as the best regulator of price is in line both with the regulator’s objective for strong competition in the insurance marketplace and the government’s broader goal to make Alberta’s economy more competitive within the global marketplace. The importance of competition has been a key theme of the Superintendent of Insurance’s remarks on many occasions at various insurance related events, including IBC’s own Regulatory Affairs Symposium in 2007, where he stated that “If there is competition, we need less regulation”. Moreover, promoting the conditions for successful competition has become a priority of the Government of Alberta with the recent passing of the *Alberta Competitiveness Act* and the creation of the Alberta Competitiveness Initiative and the Competitiveness Council to provide counsel to government. Alberta hopes to enhance the province’s



competitiveness relative to other Canadian and international jurisdictions by “increasing the competitiveness and productivity of individual economic sectors”, with financial services being one of four sectors singled out for particular attention.

The inclusion of the financial services sector in the competitiveness initiative clearly signals that Alberta recognizes the growing significance of the sector’s role in the provincial economy and, in turn, is part of the heightened awareness in Canada of the soundness of the financial sector industries including insurance, their growing contribution to high value jobs and their essential value to broader economic growth. In Alberta, enhancing the competitive conditions for the auto insurance industry will not only drive innovation, efficiencies and growth for the companies already operating in the province, but will in turn attract other insurers to enter the Alberta market, bringing more growth to Alberta and benefits for consumers. Accordingly, there would seem to be little doubt that the government’s goals and those of the industry are certainly aligned at this juncture.

Competition in the market depends upon many things. In the case of auto insurance, a stable product is paramount. In this respect, circumstances have dramatically changed with the successful conclusion of the constitutional proceedings on the minor injury cap. Now, we can say with confidence that the reforms of 2004, including the cap, have resulted in an insurance product which is stable and fair to policyholders and claimants. While the government may undertake some adjustments to the insurance product in the future, we do not anticipate any major product changes. In addition, consumer behaviour with respect to claims, which was unusually hard to predict during the period of the constitutional challenge, should now revert to more normal patterns. Consequently, the pricing of auto insurance should now be done with greater predictability in claims trends. In our view, it is particularly advantageous to the current review and change process that we are anticipating a period of relative stability in the auto insurance market.

However, this is not to say that the auto product will be exempt from cost fluctuations in the future. Like any other goods or services, auto insurance is not immune from inflation and other changing economic conditions. Thus, IBC’s actuary in the recent IWA hearing indicated that the cost trend for Property Damage claims is increasing at the rate of about 10 per cent per year. Recent economic reports from various sources, including those tabled by the Honourable Ted Morton, Minister of



Finance and Enterprise, indicate that Alberta faces economic growth prospects that may be better than originally predicted – and with that growth comes the risk of inflation and increased driving exposures. But, cost factors like these are inevitable in a market economy, and no matter what mechanism is used to establish premium levels, they will have to be accommodated, up or down, in the pricing of auto insurance as in any other product.

Against this background, IBC has brought the following considerations to updating and refining our recommendations for a rate regulation system that we believe will encourage and support competition.

CONSIDERATIONS:

Cost to all stakeholders:

All regulation, despite the best of intentions vis-à-vis protecting the public, brings costs. These include assessments of the industry to support the operations of regulatory bodies, data collection costs, as well as the potentially substantial cost of bringing company operations and Information Technology infrastructures into compliance with regulatory directions. While we do not have Alberta specific figures, we recognize the costs are already very significant for the national industry as a whole. This was demonstrated in a study undertaken for IBC last fall which produced an estimate of \$85 million as the annual cost of regulation of property and casualty insurance in Canada; more than half of this amount goes to the funding of regulators and nearly 40 per cent to compliance with auto insurance rate regulation and statistical reporting. In the end, it is the consumer who bears these costs; it is not acceptable to simply assume that any costs of regulation will always be outrun by public interest benefits. On the contrary, the overriding responsibility to consumers demands that in designing a new rate approval system we must look to the “least cost” method of achieving effective protection of the public interest.

Speed to Market:

We are hopeful, that in the near term, the IWA process will be replaced by a company-based rate determination system. A move to an individual company-based approach to rate review will



recognize the diversity of insurers providing auto insurance in Alberta and will be able to take into account the variety of business models at play in the market, which the IWA cannot do.

That said, another pivotal condition for robust competition lies in the ability of insurers to respond quickly to market changes and opportunities. This cannot happen if the rate regulation system is costly and time consuming, even when considering relatively small price adjustments. As well, and equally important to market responsiveness, is insurer confidence in the objectivity and actuarial integrity of the rate approval process. In other words, insurers need to be confident that when conditions justify new indicated premium levels, the rate system will be able and willing to accommodate the changes with minimal delay. Certainty about the business environment of tomorrow allows companies to compete more vigorously and minimize cost. Accordingly, these were the considerations behind the industry's 2007 recommendations for simplified filings at, or below, a threshold with a 30-day approval period.

Flexibility to Innovate:

Another critical element in enhancing competition in auto insurance involves providing insurers with the flexibility to innovate. For insurance companies, the crux of this lies in having access to the best methods for determining risk to enable companies to offer distinctive products and 'best' rates to their customers. As the December 2007 PwC paper stated "A company with a better ability to identify the expected losses of an insured is in a position to more accurately price that policy. In doing so the company gains a competitive advantage. In general the greater number of rating variables used, the more competitive the marketplace will be and the more competitive rates will be for any given driver".

In this regard, both the Superintendent of Insurance and the Automobile Insurance Review Board (AIRB) are aware that some companies are moving away from imprecise variables, such as class and type of use, and are using rating schemes based more closely on an individual's unique characteristics and experience¹. That this trend is happening is in itself powerful evidence that

¹ For example, see the description in the Q1-2010 issue of the MSA/Baron Outlook Report of the new underwriting tool developed by Baron Analytics and Compu-Quote



competition is working to bring the premium an individual pays closer and closer to his or her actual risk value. Therefore, in our view, the rate review and approval system needs to encourage this kind of development. In part, this means not encumbering the system with new costly and error-prone data collection requirements or with elaborate rate justification and approval processes. We believe that the evidence is strong that competition is working to deliver competitive, risk-appropriate premiums to consumers. Our advice is to let it work.

PROPOSALS:

Determination of the Threshold:

Both to encourage greater competition and promote the “least-cost” approach to regulation principle, in 2007 the industry proposed that simplified filings be allowed for a proposed overall rate level change for all coverages that does not exceed a threshold. The threshold concept that we proposed is not to be confused with a “benchmark” rate. Thus, it does not set out the rate at which market prices are allowed or required to change, but rather establishes a limit below which competitive market forces and simplified processes would be relied upon to regulate rates. Below the threshold, prices would be held to their minimum relative to costs by the power of market forces.

Given the importance of the threshold to industry stakeholders during the 2007 discussions, much of the debate about a simplified filing system centered on the means for determining the measure of the threshold. At that time, the Advisory Committee landed on a methodology that would combine Alberta Consumer Price Index (CPI) plus a supplemental factor for claims costs (with 2 per cent chosen as a starting point for this factor) with a review every three years. We suggest that this still be considered as an initial threshold. IBC’s recent industry consultations confirm, that today, the industry fully supports that the threshold for simplified filings be determined in an objective and prospective manner which incorporates the provincial CPI and a “future claims factor”. We further suggest that in constructing the future claims factor, the government should draw upon the advice of an actuarial advisory group charged with considering all relevant historical and forecast inflation and claims data. In this regard, we want to stress that it will be fundamental to the integrity of the process that it is treated as a technical procedure whose sole purpose is to arrive at values for the threshold



that best serve the purposes of this reform, i.e. protects the consumer from price shock, is least cost, and promotes competitive forces and innovation. IBC also recommends a review of the threshold every three years.

Risk-Based Regulatory Oversight and Filings:

A system of simplified filings for an overall rate level change for all coverages that does not exceed the threshold is in keeping with the risk-based approach to regulation. It permits attention to be focused on those rate filings that go beyond maintenance filings, those incorporating significant change or on new entrants to the market.

At the same time, we recognize that any change to familiar systems is accompanied by apprehension. For this reason, we suggest that a procedure needs to be developed whereby the AIRB can request an insurer to make a full filing at intervals of no less than every three years. Because full filings are costly and time consuming for companies and regulators alike, a full filing more frequently than three years is not deemed warranted. As to whether periodic full filings should be requested only of companies that, in the regulator’s view, require more scrutiny (risk-based) or of all companies participating in the market should proceed from a careful consideration of the pros and cons of each option.

Firstly, in regards to procedural issues, we note that at present, any company’s filing to the AIRB has been held in confidence to the Board. It is the industry’s strongly held view that under the new regime, full filings should be treated in the same manner as they are now, since much of the information that would be contained is confidential, commercially sensitive and proprietary. Specifically, public disclosure of information such as insurers’ base rates, rating algorithms, and definitions of risk calculation categories, including discounts and surcharges, would unfairly and unnecessarily restrict the room for inter-company competition. Consequently, we urge caution in determining what information of an insurer’s filing can be made public and when.

Secondly, while we would expect complete record keeping and publication of the final decision/approval with respect to a full filing, we do not believe that the review process should include a public hearing. Generally, public hearings can be costly. In the circumstances of reviewing



insurance rate proposals, they could also be vulnerable to the injection of a wide variety of “soft” issues into the very technical and evidence-based matter of determining the insurance rates required to cover expected costs. If the government deems it advisable to permit the AIRB to seek the input from other parties in considering the complex matters before it, we would suggest exploring some of the practices employed by other Canadian jurisdictions, such as holding “written” hearings where written submissions from parties other than the insurer are invited.

Thirdly, clarity in all aspects of the Board’s internal processes for handling applications, such as clear filing guidelines, routine notification to companies throughout the process, and adherence to deadlines for approval will contribute greatly to efficiency, and help minimize the costs of the rate determination system. In designing a full filing process, we would suggest that efficiency and cost-effectiveness should be top of mind considerations.

Restructuring the GRID

The above recommendations for individual companies have been predicated on the assumption that the agreement reached in 2007 to revise the GRID is still valid. The changes that were proposed to the GRID are, in our view, a necessary component of adjustments to the *Premiums Regulation* that are needed to strengthen competition, reduce cross-subsidization of experienced, high risk drivers, and ensure that consumers reap maximum benefits from a well-functioning and efficient auto insurance marketplace. Recalling the specific changes that were recommended for the GRID, they are:

- Eliminate GRID steps -15 to -11 inclusive;
- Change the -10 step discount to -45 per cent in the first year of reform; and
- Recognize single vehicle collisions for the purposes of placement on the GRID².

² The means for accomplishing this involves the following changes to the regulation:

- In s.1 (1) of Schedule 1 of the regulation, substitute a definition of “at fault accident” whereby a claim has been paid in respect of an incident for which the driver is wholly or partially at fault, or a claim made in respect of which the insurer has reasonably determined that a payment will or is likely to be made as a result of the whole or partial fault of the driver.
- In sections 5(5) and 5(6) of the Schedule, substitute the words “at fault accident” at each place where the words “at-fault claims” currently appear.



These changes would reduce the size of the GRID population to focus its protection more directly on inexperienced drivers, reduce the costs to non-Grid drivers of cross-subsidization, and improve the incentive structure for safe driving throughout Alberta.

A review of GRID rates annually would ensure that they are maintained as a ceiling for private market rates. While this review would be primarily a technical and actuarial exercise, we recognize that the AIRB may want to consult with other stakeholders through a public hearing process. At the same time, we recommend that the AIRB seek the input of an actuarial advisory group as a key part of this process.

Optional Coverage

In June 2010, IBC wrote to Mr. Alf Savage, Chair, Alberta Automobile Insurance Rate Board, in an effort to clarify misinformation circulating in the media about “unwarranted” increases in premiums for optional insurance in Alberta during the past five years. This letter was prompted by speculation in some circles concerning future rates for optional coverage. In our letter, we believe we illustrated how premiums for optional coverage have, in fact, followed the rise in claim costs for repairing and replacing vehicles in Alberta which consequently resulted in premium increases. We also pointed out that in the non-regulated market of another Canadian jurisdiction, prices for optional auto insurance followed “declining” claim costs during the same period. In each case, it was the market responding to claim costs that determined the price of optional insurance.

In 2007, as a result of extensive discussions, the industry agreed to the inclusion of optional insurance within the proposed rate approval process, but only on the basis that this would be part of a complete package that included simplified filings and revisions to the GRID. In other words, it was in the context of the government’s stated commitment to facilitating competitive forces in the auto insurance market, through a variety of mechanisms, that the industry accepted this increase in regulatory scope.

Below is a summary of a proposed framework for a revised auto rate determination system, which incorporates the features which have been highlighted above in this submission.



Summary of Proposed Framework for a Revised Auto Rate Determination System in Alberta

Full Filings

- A full filing will be required any time an insurer proposes to change its rates and/or risk classification system resulting in a proposed overall percentage rate level change for all coverages that exceeds the set threshold for simplified filings.
- Required for any new entrants to the Alberta market.
- Full filings will contain all the information of a simplified filing plus full actuarial justification for changes.
- Full filing rate applications would go directly to the AIRB.
- AIRB will have 60 days from the date of receipt of the filing to approve the application.
- AIRB may request a full filing from any insurer every three years for PPV. Whether these periodic full filings should be requested only of companies that, in the regulator's view, require greater scrutiny (risk-based) or of all companies participating in the market should proceed from a careful consideration of the pros and cons of each option.
- Full filings contain confidential, commercially sensitive, and proprietary information much of which should not be placed in the public domain
- No public hearing on full filing rate applications is recommended.

Threshold

- A percentage change threshold will be set for a 3-year period, at or below, which insurers are permitted to file for rate increases on a simplified basis.
- The threshold applies to the proposed overall rate level change for all coverages.
- It will be based on the average annual change in the Alberta CPI plus a “future claims factor”, to be determined by the AIRB in conjunction with an actuarial advisory group.

Simplified Filings

- Will apply to rate applications and/or risk classification plans for which the proposed overall rate level change, all coverages combined, is at or below the limit of the threshold established by the AIRB.
- Simplified filings are expected to become the norm for private passenger auto.
- Simplified filings will also be used on an ongoing basis for the smaller volume business classes including, commercial non-fleet, inter-urban, recreational, and miscellaneous vehicles. Moreover, unless the risk exposure for these groups exceeds a target established by the AIRB, no filing will be required.
- No filings will be required for commercial fleet and garages premium changes.



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- The content of a simplified filing would focus on providing information on the impact of the changes and, for example, could include the largest individual rate increase and the largest individual rate decrease.
 - A simplified filing would not provide full actuarial justification for the changes.
 - Simplified filings could be submitted at any time.
 - Simplified filings would go directly to the AIRB.
 - The AIRB will have 30 days, from the date of receipt of the filing, to ask questions or seek modifications before implementation of the proposed changes.

GRID

- It will be restructured to reduce cross subsidization of experienced bad drivers including, but not limited to, the following changes:
 - eliminate GRID steps -15 to -11 inclusive
 - change the -10 step discount to -45 per cent in the first year of reform
 - recognize single vehicle collisions for the purposes of placement on the GRID.
- The GRID would be retained as a ceiling for basic auto insurance.
- GRID rates will be reviewed annually through a process established by the AIRB.
- The AIRB would seek the input of an actuarial advisory group in adjusting the GRID.

Conclusion

IBC hopes that the views that have been advanced, on behalf of the Alberta auto insurance industry, will be considered carefully within the context of the entire regulatory framework for auto insurance. Our proposal for a new auto rate determination system, based on simplified filings for a proposed overall rate level increase for all coverages at or below an established threshold, accompanied by revisions to the GRID, should be considered as a package. We are confident that the effect of these measures, if implemented, will be to encourage greater competition in the auto insurance market for the benefit of consumers.