



9 March 2020

Alberta Automobile Insurance Advisory Committee
c/o Treasury Board and Finance
Insurance Policy
4th floor, Terrace Building
9515 – 107 St. NW
Edmonton, AB, T5K 2C3

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Dear Committee,

The Canadian Association of Direct Relationship Insurers (CADRI) is pleased to provide input to Alberta's review of auto insurance. CADRI respects the Committee's guiding principles:

- Fair, accessible and affordable automobile insurance for Albertans
- Timely and appropriate outcomes when claims are made
- A private-sector delivery model for automobile insurance, and
- A viable and sustainable automobile insurance system.

CADRI is the voice of insurance enterprises that offer automobile, home and commercial insurance directly to Canadians. We advocate for flexible and evolving product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

We recognize there are significant challenges with the current automobile insurance product in Alberta. In general, CADRI favours a system that focuses on the treatment of accident victims and timely compensation for their financial losses, while minimizing the administrative costs and fees which are a significant part of insurance losses but do not go to accident victims. Specific recommendations to improve the situation are likely to be made by other stakeholders – industry associations or companies directly. This submission, therefore, largely concentrates on issues core to CADRI's mandate.

We recommend the following to ensure Albertans have accessible and affordable auto insurance that contributes to a sustainable system and is perceived to be fair:

- Implement an outcome-focused, principle- and risk-based approach to regulation
- Consolidate rule-making authority in one agency
- Maximize the potential of usage-based insurance (UBI) programs
- Clarify the list of factors which are prohibited from being used to calculate the price of auto insurance and make that list public
- Authorize companies to define territories in the province, and
- Introduce direct compensation property damage for improved customer experience.

Adopting a principle-based framework for regulation

The Advisory Committee review is an excellent opportunity to review holistically the legislative and regulatory environment for auto insurance in the province to ensure that the framework provides adequate consumer protections and enables greater competition, choice and innovation.

CADRI submits that Albertans would benefit from a principle-based, risk-based and outcome-focused approach to regulation including:

- A focus on consumer benefits encouraging affordability, innovation and competition.
- Regulations focused on marketplace risks with the greatest impact and likelihood.
- A principle- versus rule-based approach allowing organizations to innovate and to meet regulatory intent more efficiently.

It is CADRI's belief that a system guided by principles, and supervised by highly-skilled professionals, ensures fair treatment of customers.

Consolidating regulatory authority to enable responsiveness to the changing marketplace

Authority for the regulation of auto insurance is currently split between Treasury Board and Finance and the Alberta Automobile Insurance Rate Board (AIRB). CADRI recommends centralizing the authority in one place and ensuring the resulting regulator is properly resourced from timely leadership appointments to adequate professional expertise. Streamlining the two functions and housing them at a single regulator will foster consumer and industry confidence in regulatory processes and provide expedited abilities to respond to changing consumer needs and market conditions.

One option might be to move more regulatory authority to the AIRB. As an arm's-length agency, the AIRB has demonstrated its ability to respond to market changes and to regulate insurers' rate filings in a thorough and timely manner. It is sensitive to the needs of Albertans and has a designated seat on its Board for a consumer representative.

Offering Alberta drivers the full potential of usage-based insurance (UBI)

We strongly believe that Alberta should adopt a more principle-based approach to UBI. These principles would focus on transparency, use of the data and consumer privacy, rather than setting out a static list of factors that may be used. Given this kind of flexibility, insurers could design proprietary UBI applications and market them competitively to Alberta drivers. (See Appendix 1.)

UBI features available in other jurisdictions, that could be made available in this province, include:

- Pay-per-mile pricing,
- Incorporating UBI data into traditional pricing formulas,
- Including a range of driving behaviours and factors in UBI programs,
- Surcharging drivers who exhibit unsafe driving habits, and
- Including non-driving factors, such as weather and traffic conditions.

We also encourage Alberta to consult with jurisdictions that have recognized the benefit of telematics to the claims process – where the driver gives consent.

The pan-Canadian companies in CADRI's membership are better able to offer UBI to drivers when the rules for telematics are principle-based, or at the very least, harmonized across jurisdictions. Individual jurisdictions that have complex rules discourage companies from introducing telematics regionally.

Clarifying a list of variables which can't be used

Evaluating a fair insurance rate for a driver is complex. The more information an insurer has available, the more accurately the premium is priced.

Over time, usage-based insurance will enable drivers to be confident that their insurance rates are rooted in their actual driving habits. In the meantime, the government should publish a clear guideline setting out a list of factors an insurer may not use in calculating a driver's insurance rate. Insurers could then devise customized approaches to pricing a driver's rate, based on other available variables.

Clarifying and making public which factors are prohibited would be transparent and demonstrate to Alberta consumers that all insurance companies are governed by the same rules. This would give Alberta drivers more confidence in the system and insurers would be able to compete using rating factors deemed appropriate to their market.

Recognizing the complexity of the province

Insurers currently use the location where a car is parked each night as a primary factor in determining a driver's insurance rates. Relative to mandatory auto insurance coverage, Alberta currently only recognizes four large territories for this purpose: Calgary and Edmonton being two of the four. By contrast, insurance companies can create their own territories, without a restriction on the number, for non-mandatory coverage.

CADRI calls on the Advisory Committee to recommend changes to Alberta's current approach. By allowing insurance companies to define their own territories for all coverages, drivers would be confident that the complexity of the province and breadth of driving habits and environments is reflected in their rate. Such a change would reduce the current instance of policy holders with a lower risk of having a claim paying higher rates to subsidize higher-risk policy holders who happen to inhabit the same territory. Such a decision would illustrate the Committee's commitment to fair, accessible and affordable auto insurance and should satisfy Alberta motorists that there is fairness in auto insurance pricing.

An easier way to resolve claims after an accident

To harmonize rules with other jurisdictions, CADRI recommends that Alberta adopt a direct compensation property damage (DCPD) approach to settling claims cases.

DCPD is familiar to drivers and regulators across Canada as it is offered in New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Quebec, and as of 2020, in Newfoundland. The benefits of this system are advantageous to consumers who find themselves in an accident that is not their fault.

A DCPD model:

- Provides speedy, efficient, effective compensation for collisions, and
- Builds confidence in the driver's insurer, specifically, and the insurance system, generally.

DCPD allows a driver to work with their own insurance company on a damage claim, rather than having to sue the driver of the at-fault vehicle. In effect, consumers can leverage their pre-existing relationship with their own insurance provider, which has a vested interest in maintaining that relationship. They receive more timely compensation, a better customer experience, and hold a better overall perception of the industry as being service-oriented.

Conclusion

Our recommendations seek a principle-based, outcome-focused regulatory environment that provides motorists with competitive choice and affordable auto insurance options. These changes seek to build confidence with the public in Alberta's auto insurance system, while, at the same time ensuring accessibility for drivers and sustainability for the insurance industry.

CADRI proposes measures that are familiar to policy makers. To the extent that policy makers may have concerns about the immediate impact of change on drivers' premiums, CADRI would be pleased to discuss these proposals and how modernization adjustments could be managed with minimal disruption.

Yours sincerely,



Alain Thibault
Chairman and CEO, CADRI

cc:

CADRI Board of Directors

CADRI Western Committee, Risk Classification & Digital & Emerging Technologies Task Forces

Travis Toews, Finance Minister, Alberta

TJ Keil, Chief of Staff, Minister of Red Tape Reduction, Alberta

Athana Mentzelopoulos, Deputy Minister, Finance, Alberta

Sherri Wilson, Superintendent of Insurance, Pensions & Financial Institutions, Alberta

David Sorenson, Deputy Superintendent Insurance, Alberta

Wayne Maday, Director of Insurance Policy, Alberta

Laurie Balfour, Executive Director, AIRB

Celyeste Power, VP, Western, Insurance Bureau of Canada

Usage-Based Insurance (UBI) KEY OPPORTUNITY

- Uses a collection of measures – gathered through sensors (a device on the car or via a smartphone) – focused on driving behaviour
- Helps determine a driver’s specific risk based on measured and transparent behaviour
 - reduces insurer reliance on proxies (eg. marital status, age, gender, home location) for driver risk
- Has the potential to improve driver behaviour, reduce accidents and make our roads safer



the co-operators

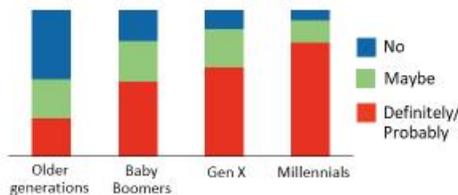


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UBI usage and acceptance is growing fast

- By 2020, 70% of carriers will have UBI programs and consumer base will span 100 million drivers (will grow to 170 million by 2025)
- The UBI market will grow from \$21B in 2017 to \$87B in 2025

Willingness to share driving data for personalized insurance quotes
US consumers, in %, 2017



belairdirect.
insurance. simplified.



UBI can benefit drivers, society and insurers

	Today	Tomorrow
DRIVERS/ SOCIETY 	<ul style="list-style-type: none"> • Opportunity to be rewarded for safe driving (typically via insurance discounts – avg. 12%) • Opportunity to be priced on more personalized criteria's (driving habits) 	<ul style="list-style-type: none"> • Reduced accident frequency/severity and consequent health care costs • Reduced driving, pollution, traffic congestion and energy consumption • Road-side assistance services, automatic crash detection and faster emergency response time • Improved tracking of stolen vehicles • Other value-added services
INSURERS 	<ul style="list-style-type: none"> • Develop better understanding of driving risk/driving habits • Develop more sophisticated pricing 	<ul style="list-style-type: none"> • Improve the claim value chain <ul style="list-style-type: none"> • Greater accuracy in establishing fault • Greater fraud detection • Faster claims adjudication • Loss ratio improvements



Regulation to support UBI

Insurers and regulators need to collaborate closely

- UBI programs are expensive to develop and operate; regulatory requirements and differences between jurisdictions add significantly to costs
- Technologies will evolve at a rapid pace, therefore regulation should be principle-based and customer-out come focused -> *less about "how" and more about "what" and "why"*
- Preliminary guiding principle suggestions:
 - Transparency: clients aware of basic parameters and what data is tracked, why it's needed and how it's used
 - Fairness: sharing data is voluntary, data will be used to reflect a driver's level of risk, factors are evidence-based (can't include prohibited factors), must meet privacy, data security expectations

