



IBC  BAC | Insurance Bureau of Canada
Bureau d'assurance du Canada

2018 Alberta Pre-Budget Submission

Dear Minister Ceci,

On behalf of our members, Insurance Bureau of Canada (IBC) is pleased to make recommendations as part of the Government of Alberta's 2018 pre-budget consultations.

IBC's members support your government's objectives of creating jobs and growing the economy while implementing measures that make life more affordable for Albertans.

Consumers are embracing technology and incorporating it into their day-to-day lives and they expect governments to enable them to do this. Your government has an opportunity to enact progressive policies, which address cumbersome rules and regulations that have not kept up with our rapidly changing world. The insurance industry has long advocated that governments ensure that regulatory frameworks reflect modern day realities, enabling insurers to innovate and meet expectations of consumers. In our submission we have identified low or no-cost measures that will provide consumers with convenience while reducing administrative costs and fostering innovation.

Alberta's property and casualty (P&C) insurers are focused on making insurance products available and affordable for consumers. With this in mind, the Ministerial Order capping private passenger vehicle rate increases to 5% has created significant concerns about the future availability of the auto insurance product. Without regulatory reform to remove costs from the auto insurance system and removing this cap, there are serious concerns about the sustainability of the market. Personal auto accounts for 36% of Alberta's total P&C insurance market, the largest single line of business in the province, which means cost pressures here have a resounding impact on the overall health of the industry and its ability to serve its customers.

P&C insurers are committed to the market and believe the government and the industry should work together, collaboratively, to find solutions for Albertans.

Sincerely,



William A. Adams,
Vice-President, Western



RATE REGULATION

Alberta's current auto insurance rate regime is a prior approval framework with a simplified filing process for rate changes up to +3%. This framework is less flexible than the flex-rating, file-and-use or use-and-file frameworks used in most U.S. jurisdictions. Experience in the U.S. shows that in jurisdictions with a less strict rate regulation framework, consumers enjoy more stable premiums over the long term. **Moving to a more flexible rating system would also reduce the regulatory burden and costs on insurers who must submit hundreds of pages of detailed actuarial filings as part of the rate filing process.**

IBC recommends that the Alberta government adopt a more progressive form of rate regulation, such as use-and-file. Under this system, insurers adjust rates immediately in response to market conditions, and then must file the new rates with the regulator within a prescribed time frame. The regulator still has the authority to review the rates, and if necessary, make changes to them. Experience in numerous jurisdictions in the U.S. has shown that rate regulation systems such as use-and-file are an effective means of keeping premiums competitive for consumers.

Illinois has operated under a use-and-file framework since 1971. Despite insurers' ability to change premiums in response to market conditions, premiums have been stable. Experience in that state shows that between 2000 and 2014 the average premium increased by 1.2% annually, which is below the national average of 1.6%.

IBC and its members believe that the Alberta auto insurance regulatory system should encourage competition for the benefit of consumers.

- ▶ **IBC recommends the government move to a more flexible regulatory system that reduces the regulatory burden and benefits Albertans.**



SINGLE FINANCIAL SECTOR REGULATOR

As the Government of Alberta moves towards the implementation of a Single Financial Sector Regulator, we encourage government to consult with IBC and its member companies to ensure the industry's experience is considered.

Under the current system, insurers interact with several different bodies. Rate filings are the responsibility of the Automobile Insurance Rate Board (AIRB), an independent body whose Board of Directors is appointed on the advice of the Minister of Finance and Treasury Board. Insurers have found the AIRB to have the necessary expertise in an increasingly complex market, to be fair and consistent in rate filing reviews, and to be responsive to changing market conditions. These regulator qualities are important to a well-functioning auto insurance market, and a move away from this important expertise would have a detrimental impact on the health of the industry.

- ▶ IBC recommends that if the Alberta government moves to a Single Financial Sector Regulator it ensures that the current expertise found within the Automobile Insurance Rate Board be maintained.
- ▶ IBC recommends that the Alberta government use this opportunity to modernize and reduce the regulatory burden on insurers.



REGULATORY REFORM THAT ENCOURAGES INNOVATION

Electronic Proof of Automobile Insurance

The Insurance Act authorizes the Superintendent of Insurance to define the form of the proof of auto insurance card through a bulletin. Bulletin 01-2015 requires that the proof of insurance be an original document in hard copy. As such, Alberta drivers are required by law to carry hard copies of their proof of insurance with them when they drive.

We recognize that privacy commissioners in other provinces have raised privacy concerns related to electronic options for displaying proof of auto insurance. Specifically, an individual who gives his or her electronic device to a law enforcement officer to show proof of auto insurance could be vulnerable to that officer searching other content on the device.

Almost every U.S. jurisdiction allows consumers to receive proof of auto insurance electronically. Several of them prescribe additional privacy protections in their insurance legislation that expressly outline the scope of law enforcement's authority when checking proof of auto insurance on an electronic device.

- ▶ **IBC recommends that the Superintendent of Insurance issues a bulletin that permits insurers to offer an electronic option for proof of auto insurance. Given the privacy concerns, IBC also recommends a provision be added to the Insurance Act to prohibit law enforcement officers from viewing, accessing or using any other content on the electronic device.**

Regulatory Sandbox

IBC recommends the Alberta government adopt a regulatory sandbox, similar to Ontario's recent announcement. A regulatory sandbox allows for the testing of innovative products, services, business models and delivery mechanisms in the real market with real consumers on a time-limited and small-scale basis. Insurers are advocates of regulatory sandboxes that are accessible to all market participants and that relax specific regulatory requirements to create safe and conducive spaces for innovative ideas, enabling companies to experiment while containing any potential adverse consequences. If the objective of the sandbox is to encourage new innovations, then all parties should be allowed to participate in the exercise.

By overseeing the application of technological innovations, regulatory sandboxes also allow regulators to consider how these innovations will graduate into the regulatory framework. Regulatory sandboxes offer an opportunity for regulators to see which laws and regulations may need modernizing through the trials taking place in the sandboxes.

- ▶ **IBC recommends that the Alberta government implement a regulatory sandbox to foster innovation that is accessible to incumbent insurers and new market entrants.**



REGULATORY REFORM THAT ENCOURAGES INNOVATION

Usage-Based Insurance

Alberta is one Canadian jurisdiction that permits insurers to offer usage-based insurance (UBI) through Superintendent Bulletin 01-2016. However, there are heavy restrictions on its use, with an insurer being only able to use UBI to offer a discount on the price set through its traditional pricing formula. The insurer cannot use the data regarding the individual's actual driving habits to determine the premium price.

Currently, consumers in 49 U.S. jurisdictions have 10 or more insurers offering UBI. One popular UBI program comes from the insurer Metromile, which offers a per-mile rate for every mile driven, applied to a low monthly base price. If an individual drives fewer miles, they pay less for insurance. If they drive more, they pay more for insurance.

UBI provides insurers the opportunity to engage more frequently and meaningfully with customers. It gives customers access to information about their driving performance. And it provides them with more control over their auto insurance costs because their usage patterns, mileage and driving behaviour can directly influence the price of their insurance. UBI also generates significant societal benefits by promoting safer driving habits.

IBC has been advocating for fewer restrictions on the ways in which consumers can be enrolled in a UBI program and the ways in which insurers can use the data collected through the UBI device to price insurance.

- ▶ **IBC recommends that the Alberta government lessen restrictions on the use of UBI to allow insurers to provide consumers the option to select UBI to determine the price of their auto insurance.**

IMPROVE CLIMATE ADAPTATION AND RESILIENCE

Alberta has seen a disproportionate number of natural disaster claims compared to the rest of Canada. Between the years of 2009 and 2017, 58% of all personal property claims in Canada due to natural disasters were in Alberta. One of these perils is flooding; IBC and its members are encouraged by the Alberta government's recent \$13.4 million commitment to flood mitigation projects in Calgary and its \$150 million pledge for similar projects over the next 10 years.

Overland flood coverage is a relatively new insurance product in Canada. Overland flooding is where water flows overland and enters buildings through windows, doors and other openings. One quarter of Canadian households have added it to their policies, with uptake roughly the same for Alberta.

IBC and its members believe that educating Albertans about the risks associated with floods and empowering consumers to mitigate their exposure is a shared responsibility of both the P&C insurance industry and the government.

IBC recommends that the government pursue the following measures:

- ▶ **Target priority infrastructure investments** – infrastructure spending should be directed to include projects, including natural infrastructure solutions that increase resiliency to flooding, including repairing and upgrading sewer and stormwater systems and creating new flood defenses. Investment should prioritize the highest-risk areas where floods generate the most economic losses.
- ▶ **Improve land-use planning** – zoning restrictions around building in flood hazard areas will reduce future losses.
- ▶ **Improve and implement building codes and building standards** – adding resiliency as a building code objective would help ensure that both private homes and public infrastructure can withstand weather extremes. Climate resiliency must also be incorporated into local building standards for municipal infrastructure upgrades.

WILDFIRE PREVENTION

IBC and its members are encouraged by the Alberta government's continued support for wildfire prevention, including resources and wildfire risk management frameworks, to protect Albertans and their communities in the wildland-urban interface. In 2017, the Alberta government announced \$15 million/year for the next three years for FireSmart programs.

IBC recommends that the government pursue the following measures:

- ▶ **Continue to enhance and expand the planning section in the Alberta wildfire coordination centre**, which was a recommendation from the Horse River wildfire review and one that the Alberta government publicly announced its commitment to.
- ▶ **Move forward on its commitment modernize the Provincial Operations Centre (POC) announced in Alberta Budget 2017.**