

Consumer Perspectives on Automobile Insurance

Submission to the Alberta Automobile Insurance Rate Board

**August 15, 2017
Edmonton, Alberta**

Submitted by:

Chris Daniel, Consumer Representative
Alberta Automobile Insurance Rate Board

Allan Cleiren, Chair
Automobile Insurance Rate Board
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Edmonton, AB T5J 3N6

Dear Mr. Clerien;

As part of the Consumer Representative's responsibilities, I continue to conduct an independent and impartial review of consumer opinions and perspectives on Automobile Insurance in the province of Alberta. The purpose of my review is to ensure Alberta consumers are appropriately and adequately represented in the Annual Review process that establishes industry benchmarks for the Board's use in its review of insurer filings.

The review encompassed a variety of relevant issues pertaining to the availability and affordability of Automobile Insurance.

In my role as the Consumer Representative it is fundamental that the consumer has a right to be heard and represented in the decision making process that affects the Grid and the industry benchmarks.

The views expressed in this presentation are that of Alberta Consumers and a synopsis of their comments by way of the appointed independent research company and the undersigned.

Please accept the following as my presentation to the Board and I look forward to providing any further explanations that may be required on Tuesday, August 15th, 2017 in Edmonton at the Annual Review Meeting.

Sincerely,

Chris Daniel
Consumer Representative

Attachments

My Role as the Consumer Representative

Chris Daniel was appointed to the Automobile Insurance Rate Board in March 2011. After serving a 3-year term he was appointed to the position of Consumer Representative for a 3-year term expiring September 2017. The role of the Consumer Representative is to reflect the interests of consumers at the Board level. Consistent with this role and as per legislation, Chris worked independently to collect consumer comments and concerns to report back to the Board during its Annual Review Open Meeting. The information collected from consumers across Alberta is reflected in this report.

Mr. Daniel is a retired (2007) senior insurance executive with over 35 years' experience in the insurance industry, most recently with TD Insurance Meloche Monnex. He has dealt with consumer organizations and has developed programs for their members. Mr. Daniel co-chaired the provincial "no fault" automobile insurance debate. His board experience includes serving as a Director of the Insurance Brokers Association and several other community boards, including Wellspring Edmonton, Compassion House Foundation, and the Development Appeal Board for the County of Wetaskiwin.

His passion to make a difference in the community and his focus on fairness and consumer satisfaction was acknowledged when he was awarded the Queens Golden Jubilee Medal for service to the community. Prior to joining the insurance profession, Mr. Daniel served as a Police Constable and serious traffic investigator with the London/ Worcester Metropolitan Police force U.K. and subsequently the Toronto, Canadian police force.

Background

The Government of Alberta regulates automobile insurance premiums with the goal of providing consumers with an efficient and effective automobile insurance market with fair and predictable premiums. The regulatory framework has four key features: Grid rating program, an all-comers rule, a cap on pain and suffering awards for minor injuries, and the regulation of rating programs for mandatory and optional coverage by the AIRB. Details of these features are included as Attachment #1.

How I Connected with Consumers

I contracted an independent marketing research company to conduct a telephone survey of 800 insurance consumers across the province regarding:

- Their experience in obtaining insurance
- Whether they sought competitive quotes
- Their collision history and experience in resolving any damages
- Their impression of how fair and reasonable their premium levels are
- The level of penalties for excessive speeding
- Organized crime and automobile insurance fraud
- How insurance premiums in Alberta compare to other provinces
- Demerits and increased fines for distracted driving
- Safety of Autonomous Vehicles
- Driving while under the influence of cannabis
- Government's traffic safety program, and
- Use of booster seats

Similar surveys were conducted in 2005 and annually since 2008; a portion of the questions were replicated to allow for comparison of the responses from year to year.

I personally spoke with 56 individuals who were included in the initial survey, representing communities around the province, to further discuss their automobile

insurance experience. The individuals were contacted either through focus groups held in Edmonton and Calgary, the Beaumont Seniors Association, a Youth Focus Group or by telephone in rural communities outside of Edmonton and Calgary.

In June a notice was placed on the AIRB website and in Alberta newspapers informing the public of the August 15th Annual Review and inviting consumers to submit their comments or concerns to the Consumer Representative.

I reviewed the number of calls to the Office of the Superintendent of Insurance and the AIRB from consumers and the nature of the issues that were raised over the past year. I also surveyed board members of the Insurance Brokers Association of Alberta and Canadian Association of Direct Relationship Insurers to determine any issues that their customers have had in obtaining auto insurance over the past year.

Expectations of Consumers

Consumers have several expectations with respect to automobile insurance. These include:

- **Affordable rates.** Driving a vehicle is a necessity for many Albertans and therefore they need to be able to insure their vehicle for a fair and reasonable premium.
- **Stable rates.** Most households count on expenses being reasonably predictable so they can manage within their budget. A large increase in automobile insurance premiums in one year can disrupt household budgets.
- **Availability.** Insurance for young drivers and drivers with a series of “at fault accidents” or driving convictions needs to be available and premiums should not be punitive or so high that these drivers fail to carry insurance.
- **Service.** While new drivers tend to choose their insurance provider based on price, experienced drivers also consider service related to their purchase and claims experience and they will stay with their insurer as a result of good service.

What I Found

Consumer Voice – A robust consumer voice is vital to the accountable and efficient delivery of Automobile Insurance. A total of 800 individuals were surveyed by phone and discussions were held via focus groups and in-depth phone interviews. These provided an opportunity to further explore consumer attitudes towards Automobile Insurance to ensure fairness, affordability and accessibility and these face to face interviews proved invaluable to the overall process.

Focus Groups and In-depth Interview Results

The Focus Groups and In-depth Interviews comprised of a total of 56 participants; Calgary (12), Edmonton (7), Beaumont Seniors Association (19), Youth Group aged 19-29 years (8) and in-depth phone surveys (10) in rural Alberta. The following is a synopsis of their opinions:

Calgary

- 58% felt their premiums were reasonable.
- 66% were satisfied with claims service.
- 68% had shopped around for rates; most preferred speaking in person as opposed to obtaining a quote on-line.
- 58% would be willing to try Usage Based Insurance; the remainder were more reluctant and wanted to take a “wait and see” approach.
- Majority felt that the current penalties for Distracted Driving were not enough of a deterrent.
- 14% indicated that they would use Autonomous Vehicles; their main concern was the safety of the technology.
- Majority felt that it was not safe to drive under the influence of cannabis.

Edmonton

- 14% felt their premiums were reasonable. General consensus was the premiums were continually rising.
- Majority were satisfied with their claims service.
- 86% had shopped around.
- 86% would be willing to try Usage Based insurance.

- All agreed the current penalties for Distracted Driving are not effective. They felt that habits are hard to change and people are too attached to their cellphones. In addition, they felt people do what they want regardless of the consequences.
- 57% indicated they would use Autonomous Vehicles; they were comfortable with the technology. The remainder indicated their main concerns were hacking and how the vehicle would deal with the various road conditions due to the weather.
- All felt it was not safe to drive under the influence of cannabis.

Beaumont Seniors Group

- 54% felt their premiums were not reasonable. General consensus was that the premiums were continually rising. This was very concerning as they did not have an at fault claim and they do not drive very often.
- All were satisfied with their claims service.
- 74% had shopped around; most stayed with their existing insurer, confirming that they were satisfied with their existing company.
- 50% would try Usage Based Insurance; they felt it would be beneficial as their mileage driven was low and it would be a useful tool to provide an indication of their driving habits.
- 82% did not agree the current penalties were effective for Distracted Driving; they cited that they are too low. In addition, they felt there was not enough enforcement.
- When first asked, most indicated they would not use Autonomous Vehicles. Once the benefits for older drivers were explained, several of the participants changed their mind.
- Biggest frustrations with driving included texting and driving, road rage and a general lack of obedience to the rules of driving.

Youth Group (19-29 years of age)

- 75% felt premiums were not fair; premiums continue to rise each year.
- 75% had shopped around (of those none changed insurers). Majority preferred to obtain their quotes on-line.
- 75% would be willing to try Usage Based Insurance; no concerns with privacy as their phone already has GPS.
- 88% did not agree the current penalties for Distracted Driving were effective. 43% admitted to texting and driving. A couple of participants indicated that they stopped driving and texting as a result of the introduction of the demerits and increase in fines. All agreed texting is an integral part of life. In terms of being more effective, they felt the use of graphic videos, testimonies, use of social media and the formation of an advocacy group would be useful.
- Majority indicated they would not use Autonomous Vehicles; they enjoyed driving.
- Majority felt it was not safe to drive under the influence of cannabis; although they did highlight the fact that it affects people in different ways and there are different forms of cannabis.

In Depth Interviews (Rural Alberta)

There were 10 individuals involved in an in-depth interview, lasting approximately 20 to 45 minutes. This provided an opportunity for consumers to answer pre-set questions and elaborate on their answers as well as an opportunity to discuss issues regarding automobile insurance that required explanation or clarification.

No accurate statistical data can be measured from this group however the following represents highlighted comments:

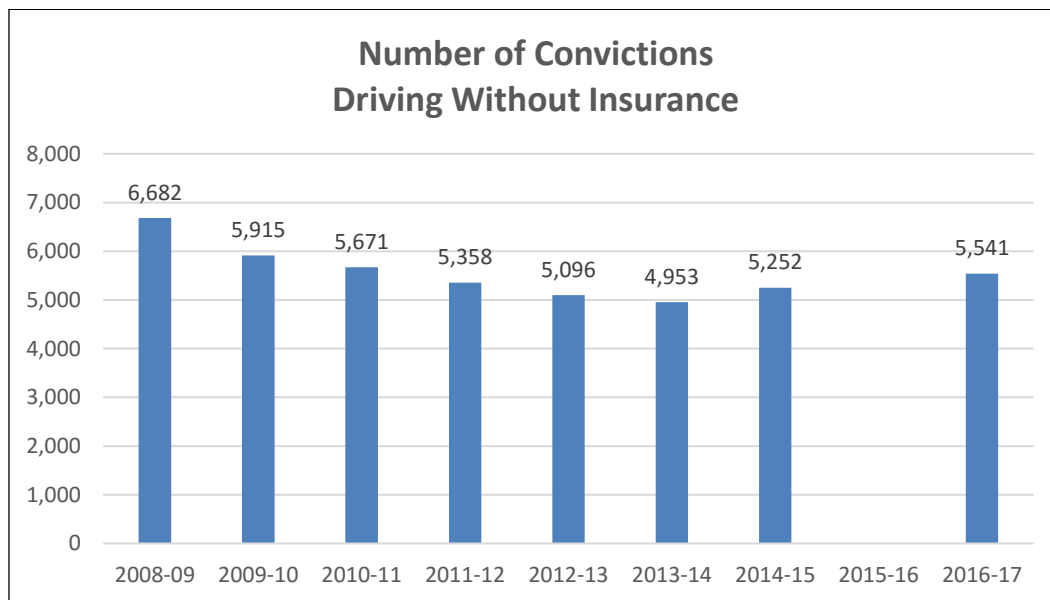
- **Distracted Driving,**
 - Penalties should be graduated such as \$500-first offence, \$1,000-second \$1,500-third and so forth, three demerit points each offence.
 - Insurance companies should communicate how premiums may be affected by distracted driving convictions.
- **Autonomous Vehicles**
 - Concerns raised that in rural areas satellite services are often unreliable.
 - Hacking into vehicle data may result in potentially dangerous situations.
 - Weather conditions, lack of road maintenance, snow removal and animal hazards all may effect operation of these vehicles.
 - 9 out of the 10 individuals considered these vehicles unsafe at the present time.

- **Driving under the influence of Cannabis**
 - Concerned that there is a lack of knowledge of the effect on individuals whilst driving under the influence.
 - What is the difference between medical and recreational use Cannabis when operating a motor vehicle? How do law enforcement agencies differentiate?
 - How long are the effects of Cannabis present in the blood stream?
 - 100% considered not safe to drive under the influence.
- **Shopping around**
 - Whilst the majority (8) of rural individuals rely on local agents to service their insurance needs and shop for them, a limited number (2) went on-line to obtain a quote.
 - When asked if their premiums were reasonable, eight out of ten considered their premiums were reasonable; two considered premiums high.

All groups were asked their views on implementing immediate license suspension and vehicle seizure for those drivers exceeding the speed limit by 51k/h. There was no consensus on this topic. Some felt it depended on whether the infraction occurred in an urban or rural area. One of the main concerns in terms of vehicle seizure was in the event the vehicle driven was owned by somebody else.

Availability of Insurance

Automobile insurance continues to be readily available. From the telephone survey, less than 1% of the respondents indicated that they were refused insurance. This is consistent with survey results from prior years. The number of convictions for drivers without insurance has decreased 26% since 2008-09 through 2013-14. In 2016-17, this trend reversed with an increase of 12% over the 2013-14 figure.



Source: Alberta Transportation (Fiscal year April 1st- March 31st).

Note: Alberta Transportation advised that there is no data available for the 2015-16 period due to a system error in how the convictions were counted.

Premiums

Of the consumers surveyed by telephone, 60% agreed with the statement that 'Insurance premiums are fair and reasonable', no change from 2016. When this question was asked of survey respondents in 2005, 46% agreed with this statement. Having said this, a consistent message from consumers is that 'good drivers' with an accident-free history would like to see more discounts offered through programs such as Usage Based Insurance (UBI).

The average premium in 2016 was \$1,209, an increase of 2.5% over 2015 (\$1,179). The average premium in 2005 in Alberta, for basic and additional coverage was \$1,023. Premiums have increased by \$186 since 2005, an average increase of 1.7% per year. The increases have been higher in recent years since 2012.

Premiums for 'High Risk Drivers'

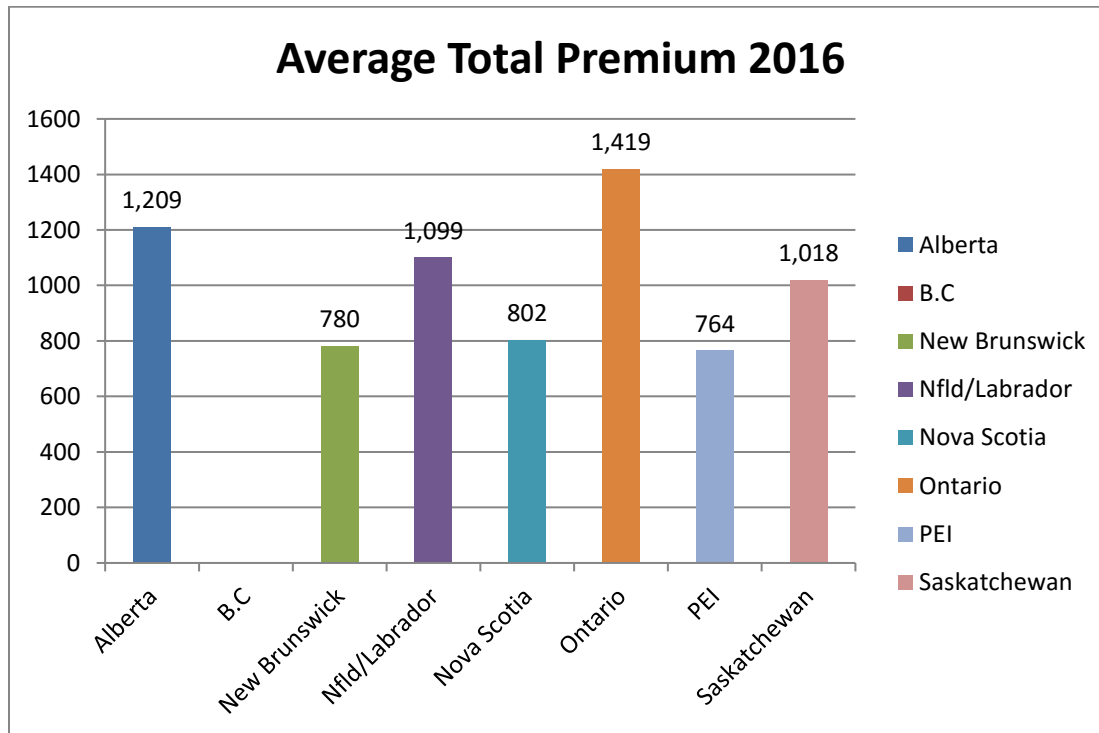
Virtually all of the consumers, who I consulted, feel that "high risk" drivers deserve to pay high premiums. There is, however, a risk that when the premium becomes too high, individuals will drive without insurance as the enforcement and fines are not significant enough to deter them from doing so, since they are still lower than the premiums. I have talked to consumers who have had an accident with an uninsured driver. If they did not carry collision coverage, they were obliged to pay the cost of damages to their vehicle, even if they were not at fault, this creates financial hardship.

The "all-comers rule" and the Grid rating program are important features of the Alberta insurance regulatory model that encourages drivers to carry insurance. The Grid sets a maximum premium for basic coverage that limits the premium for new drivers or drivers with a history of 'at fault' claims or driving convictions.

It is essential that the Grid continue to effectively limit the premiums that drivers pay for basic coverage as the pricing of insurance becomes more sophisticated. If grid rates are not held to reasonable maximums, there is an increased risk that some drivers will elect to forego the purchase of insurance and "take their chances".

Comparing Premiums to Other Provinces¹

The average written premium for private passenger vehicles in Alberta for 2016 was \$1,209. Alberta’s average premium was lower than Ontario at \$1,419, but was higher than the average premium in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Ontario has richer accident benefits coverage than Alberta which largely explains the higher premiums in that province.



Competition

Our telephone survey indicated that 35% of consumers polled obtained a competitive quote for insurance over the past 2 years. This has increased 30% from the 2016 survey results. Of the consumers who obtained a competitive quote, 89% of consumers stayed with their existing insurer. This was also consistent with survey results for the past five years. Whilst the majority of consumers stayed with their current insurer, those that did switch reported they received lower premiums and the remainder felt the difference was not significant enough to change. The most common method of obtaining a quote involved consumers calling their broker or

¹ Sources: General Insurance Statistical Agency (GISA), SGI in Saskatchewan, ICBC Service Plan
 All provinces are based on written premium except B.C. which is based on earned premium.
 The premium for Underinsured Motorist coverage has been removed from all applicable provinces.

direct writer to obtain a quote (64% of respondents). In the Edmonton and Calgary Focus Groups, the respondents indicated that they relied on both on-line and telephone calls to obtain quotes.

Consumer Complaints

The Office of the Superintendent of Insurance indicates that the volume of calls from consumers regarding automobile insurance has not increased and that many of the calls are seeking information rather than making a complaint. The AIRB also keeps record of consumer complaints. The office found that although the number of complaints hasn't increased significantly, those that have called are becoming more concerned due to the magnitude of increases without explanation on renewal.

Distracted Driving

With the penalty for distracted driving being \$287 along with 3 demerit points recorded for the infraction, 84% of survey respondents and the majority of the focus group participants still felt that penalties for distracted driving are inadequate. Increased enforcement was the only way to curtail this dangerous habit. Of those who responded, 98% had not received a conviction for distracted driving. One individual in the focus group meetings felt that the distracted driving law was far too lenient and should be much more punitive. In 2017, some insurance companies started surcharging premiums for this conviction; as a result, an insured's insurance premiums may increase.

Usage Based Insurance (UBI)

The use of telematics to monitor vehicle usage was approved for use in Alberta effective April 1, 2016. The approved rating factors include acceleration, turning, speed, braking, time of day, distance driven and frequency of use. For "low risk drivers" and those drivers that use their vehicle infrequently, UBI can potentially provide a significant opportunity to reduce insurance premiums. It can also be motivational to younger and "high risk" drivers in particular, who are alerted to their current driving habits by evidence-based routine reporting and choose to improve their driving behaviour. Those interviewed felt more awareness should be created by the insurance companies to identify the benefits.

As UBI evolves it may result in increased segmentation of the market. Drivers with riskier driving behaviours or those drivers that choose not to use UBI could pay more than they currently do. Our discussions with focus group participants indicated a

slightly higher level of interest in using Usage Based Insurance than participants from the 2016 focus groups. The objective of UBI is to reward those drivers with superior driving habits and currently UBI is a discount only program. An added feature is to create awareness of potential negative driving habits and have the individual change those habits to obtain financial reward by way of reduced premiums; this has proven to be the case in certain classes of drivers.

Traffic Safety

The most effective way to reduce automobile insurance premiums is to reduce the number and severity of traffic collisions. Statistics provided by the Alberta Department of Transportation indicate a 22.4% reduction in crashes and deaths in Alberta over from the years 2004 - 2014. * Our survey showed that 83% of the respondents agreed that traffic safety should be a priority and 53% agreed that Alberta is taking the right approach to traffic safety.

*Updated data was not available at the time of publication of this report, however it is expected to be available in late July.

Organized Crime

Survey respondents were asked how concerned they were regarding the occurrence of organized staged collisions. 50% indicated a high level of concern, 12% were moderately concerned, and 37% indicated a low level of concern.

In addition, they were asked to what level they would support the pooling of industry-wide insurance data for the purpose of detecting and preventing organized automobile fraud. 74% of the respondents were in support of this initiative, 11% were neutral or indicated moderate levels of support or opposition and 11% were opposed.

My Observations

As the Board is evaluating rate adjustments and changes to the Grid, it must consider consumers' need for stable rates. If rate inadequacy indicates a rate increase, a smoothing of rate adjustments would allow consumers time to accommodate any indicated rate increase.

Rates need to be affordable and reflective of driving habits rather than punitive. While consumers feel that rates for drivers with a poor driving record should be higher, the concept of insurance is to spread the risk over the many. Rates should not be so high that drivers are unable to purchase insurance. Drivers that do not carry insurance create an unfair liability for the insured driver who has an accident with an uninsured driver. The role of the AIRB is to regulate rating programs of Alberta automobile insurers to ensure premiums are fair and predictable that reflect current market conditions, therefore a balance between consumer needs and those of the insurance industry is paramount in ensuring a stable, affordable and accessible automobile insurance product.

The level of satisfaction from the survey with consumers during the past 2 years has remained stable with respect to affordability, stability, availability and service, however from three of the "Focus Groups" the level of rate satisfaction has deteriorated from previous years.

The public awareness of insurance in general terms has heightened in the past number of years due to recent catastrophes and economic downturn in Alberta. As such the consumer recognize the significant role insurers play in society but are also concerned as to the resulting pressure on premiums for both automobile and residential insurance in the future as a result of these recent catastrophes.

This past year (2016) has seen increasing pressure on Automobile Insurance premiums, in particular the Liability section as it pertains to Bodily Injury. The consumer has enjoyed stability of premiums over the past decade since the formation of the AIRB board and expects the insurance industry and regulators to act responsibly in their deliberation moving forward.

In my position as a sitting member of the AIRB board I have observed over the past two to three years the insurance industry reporting rate inadequacy but refraining from requesting increases that match their indications. The result is that rate pressure is building in the background whereby consumers may be facing increases beyond reasonable expectations. In order to reduce this pressure there is a need for either a significant improvement in claims experience and/or an adjustment to the current framework for private passenger automobile insurance.

The consumer must be protected from increases that go beyond that which can be reasonably anticipated.

Attachment 1**Features of the Alberta Automobile Insurance Legislation and Regulations****1. Grid Rating Program**

All insurance companies are subject to the Grid rating program, which establishes a base premium for third party liability and accident benefits coverage. The base premium is subject to discounts determined by the number of accident free driving years. Surcharges may be applied based on driving convictions and the number of at-fault claims. Insurance companies are required to compare a policyholder's Grid premium to the premium under the insurer's rating program, and apply the lesser of the two, subject to exceptions that relate to poor driving record.

2. The All-Comers Rule

The all-comers rule requires insurance companies that are licensed to sell automobile insurance, to accept all applications for automobile insurance subject to the limited exceptions permitted under the *Insurance Act* and the *Adverse Contractual Action Regulation*. High-risk policies may be ceded to risk sharing pools. There is no limit to the number of Grid rated risks that can be ceded to the Grid risk sharing pool, though companies are limited to 4 percent of their portfolio for non-Grid risks that can be ceded to the non-Grid risk sharing pool.

3. Awards for Pain and Suffering

Pain and suffering awards for minor injuries as a result of an automobile accident after October 1, 2004, were capped at \$4,000 (\$5,020 as of January 1, 2017). If an injury is classified as a minor injury, as defined by legislation, the injured party cannot collect an award for pain and suffering that is greater than the cap amount that is annually adjusted for inflation. Injured persons with minor injuries may however, recover the full extent of damages for lost income, future income, medical and rehabilitation costs, and any other out-of-pocket expenses from the responsible party.

4. *The Automobile Insurance Rate Board (AIRB)*

The AIRB is an independent body that operates at arm's length from Alberta Treasury Board and Finance. The AIRB's mandate is to regulate insurers' rating programs and resultant premium level for basic and additional coverage, and to review and approve private passenger rating programs for new insurers.

The AIRB focuses on the following core areas:

- **Annual Review:** Conducts an annual review to establish industry benchmarks to be used in the review of insurer filings for basic and additional coverage and adjust premium level for basic coverage under the Grid rating program.
- **Existing Insurers:** Review and approve proposed revisions to insurers' existing rating programs.
- **New Insurers:** Review and approve proposed rating programs for new insurers entering the Alberta market or existing insurers entering a new section of the market.