

UBI Discount Rate Filing Guidelines

All Usage Based Insurance (UBI) programs must be filed and approved by the Automobile Insurance Rate Board (AIRB) prior to implementation. Only UBI programs that provide a discount will be authorized for use in Alberta; UBI programs that surcharge or increase premiums will not receive approval. Insurers may submit their UBI discount program through a simplified filing to the AIRB. Insurers should note that UBI filings can be complex and may require a longer review time than the AIRB's usual 30 day target. Insurers are encouraged to meet with the AIRB to review their proposed UBI models prior to submitting a filing.

Before a filing is submitted to the AIRB, insurers must comply with the provisions of Superintendent of Insurance Notice 01-2016. The Notice is available at: <http://finance.alberta.ca/publications/insurance/bulletins-notices/2016/Superintendent-of-Insurance-2016-01-Notice.pdf>

It is recognized that initially there will be no Alberta-specific data to provide in a filing. However, the AIRB is supportive of innovation and is willing to review data and the discounts charged in other jurisdictions. Insurers may support their initial UBI program filing with any reasonable existing data that is available to the insurer. Initial approvals of UBI discount programs will be for a period of two years. Insurers are required to submit a second simplified filing with Alberta-specific data for continued approval of a UBI discount program within two years following implementation of the program.

Insurers are required to provide the following information:

1. Letter from the Superintendent confirming insurer has complied with the provisions of Superintendent of Insurance Notice 01-2016;
2. Detailed description of the proposed UBI program;
3. Demonstration of the reasonableness of the proposed UBI discounts;
4. Explanation of how the proposed discounts are applied in premium determination; and
5. Description of UBI program costs and the impact on insurer's expenses.

These requirements are described in more detail at the end of this guideline.

UBI-related rates and risk classification system elements must be just, reasonable and meet the statutory standards applicable to all rates and risk classification systems.

There are generally two forms of UBI programs:

- The first is where a telematics device is installed in a vehicle for a period of time to determine the UBI discount the policyholder is entitled to. Such discount will stay on the policyholder's record unchanged.

- The second is where the policyholder's UBI discount is continuously updated by his/her driving behaviour based on an approved calculation method. With this latter format, insurers must clearly state how the midterm discount adjustments are to be handled. It is not acceptable to remove all or part of a UBI discount midterm. It is also not acceptable to add or increase a UBI discount to the policy premium midterm, unless 1) insured agrees, and 2) insurer issues a new certificate with the new premium listed.

An insurer may propose to determine a premium rebate (as opposed to a discount) amount based on UBI criteria. For example, an insurer's UBI program can include a review of the insured's UBI data on a regular basis, in order to determine an amount of rebate of premium for driving behaviour during that period.

As more insurers launch UBI programs, their mix of business and some of the existing rating factors may be impacted (e.g. distance driven). Insurers are reminded of their ongoing data reporting obligations through the General Insurance Statistical Agency (GISA) after the approval of their UBI program. Insurers are required to set up a UBI indicator and some other records which may be required by the Superintendent or the AIRB, and demonstrate that non-UBI customers will not be impacted by rate level changes other than mix of business changes. Insurers may be required to show any existing mix of business changes due to the UBI program.

If an insurer determines that any of the criteria initially used to determine prospective UBI discounts need to be changed, the insurer may be required to re-file its UBI program with necessary adjustments with both the Superintendent and the AIRB. For example, if the majority of participating consumers do not qualify for a discount in premiums in subsequent renewal periods, the insurer may need to consider whether the rating factors need to be recalibrated (e.g., rating factors such as speed, acceleration or braking).

Insurers are required to submit a report to the AIRB once they have one full year of data or upon updating the UBI program, whichever comes first. The report must account for any difference between the actual and actuarially-projected average UBI discount and, as a result, the average rate level changes that flow from the discount. After two years, the report is required at every full filing or at the mandatory full filing if there has been no full filing in between. The report requirements can be found in Appendix A.

1. Description of the UBI Program

The insurer is required to provide a description of the UBI program, which covers:

- a) Enrollment process
- b) The length of time the driver behavior will be monitored
- c) The criteria for a policyholder to receive a discount
- d) The frequency of changes to a policyholder's UBI discount
- e) Information to be provided to insureds before and after they choose to opt into UBI program
- f) Mid-term changes such as vehicle replacement
- g) Cancellation process
- h) Declaration that lost revenue due to the proposed UBI discount program will not be off-balanced to base rates

2. Reasonableness of the Proposed UBI Discounts

Proposed UBI programs must be reviewed and approved by the AIRB prior to use. Approval of the filing may be conditional on further filings being required at scheduled intervals to provide the necessary continued support for the UBI program, including a full description of any refinements that the insurer intends to make as it develops experience with the UBI program.

Insurers are required to demonstrate that the proposed UBI rating factors and discounts are reasonable. All filings must clearly indicate or include:

- a) What rating factors are being considered in determining the UBI discounts
- b) How the rating factors are measured (e.g., frequency, occurrence, relevant thresholds)
- c) How data under the UBI program is to be collected and used for rating purposes
- d) Available data (e.g., claim severity, claim frequency, loss costs) supporting the significance of each rating factor being used in the UBI program
- e) Available data supporting the proposed discounts, including how UBI-related expenses are considered in developing the proposed discounts
- f) A description of how the UBI discounts will be applied (e.g., how the rating factors map into the proposed discounts, the amount of the proposed discounts, the coverages to which the proposed discounts will be applied, frequency of re-calibration of a policyholder's discount, etc.)

Please note, only the rating factors approved by the Superintendent's Office will be allowed to be considered in determining UBI discounts. The Superintendent has approved the following rating factors for use in UBI discount programs:

- Acceleration
- Turning
- Speed
- Braking

- Time of day
- Distance driven (mileage)
- Frequency of use

The Superintendent has not approved any other rating factors for use in determining UBI discounts. In particular insurers are not authorized to employ the following rating factors for use in UBI discount programs:

- Territory
- Type of road
- GPS location tracking

If an insurer wants to introduce additional rating factors, or to correlate UBI rating factors with the insurer's existing risk classification rating plan, prior approval from the Superintendent is required.

3. How UBI Discounts are Applied in Premium Determination

Insurers are required to clearly explain how the UBI rating factors lead to the policyholder's UBI discount and how the discount is applied in determining the policyholder's premium.

At each filing, a side-by-side comparison of the insurer's current and proposed UBI rating algorithm must be presented, with proposed changes highlighted.

4. UBI Program Costs and the Impact on Insurer Expenses

Insurers' expenses are an important component in rate determination. Insurers must clearly demonstrate the up-front or start-up costs associated with developing and introducing a UBI program, as well as all ongoing maintenance and other expenses associated with offering the program, including but not limited to all costs associated with the UBI device, data transfer and analysis, marketing and any third party provider contracts.

Insurers are not allowed to allocate UBI-related costs to non-UBI policies.

The insurer must include the expense information in a filing regardless of whether or not the insurer has factored this cost into the expense provision assumptions. Some insurers may treat start-up costs as part of research and development and not specifically allocate them. It is expected that over time the on-going operational costs will be borne only by those enrolled in the UBI program.

Appendix A UBI Anniversary Report Requirements

Insurers are required to submit a report to the AIRB once they have one full year of UBI data or upon updating the UBI program, whichever comes first. The report must account for any difference between the actual and actuarially-projected average UBI discount and, as a result, the average rate level changes that flow from the discount. After two years, the report is required at every full filing or at the mandatory full filing if there has been no full filing in between.

The anniversary report will assist in tracking the experience with the insurer’s UBI model, including participation rates, cancellation rates, average discounts, loss experience, etc. and any issues that the insurer has observed. This may include consumer feedback, complaints, and issues with the selected variables or with the methodology used to calculate the discount.

The insurer is required to provide a report which covers:

1. Participation Rate of the UBI program (fill out Table I).
2. Cancellation Rate of the UBI program (fill out Table I).
3. Actual UBI discount after assessment period (fill out Table I).
4. Average Written Premium and loss experience (fill out Table II).
5. Comments on any anticipated adjustments to algorithm, rating variables, or differentials, and the timing of the filing.
6. Provide the actual expenses resulting from introducing and maintaining the UBI program, and comment on how these expenses will be allocated to UBI policies.
7. Provide the top 3 reasons for cancellation.
8. Feedback from customers.
9. Any other issues observed.

Table I:

| | Participation Rate | Cancellation Rate | Actual UBI Discount |
|----------------|--------------------|-------------------|---------------------|
| New Policy | | | |
| Renewal Policy | | | |
| Total | | | |

Table II:

| | Average Written Premium | Loss Ratio |
|----------------------------|-------------------------|------------|
| Total Policies with UBI | | |
| Total Policies without UBI | | |