

Guidelines for DCPD Filings Change in Rates and Rating Programs

Section 602 (2.1) of the *Insurance Act* permits a rating program filed for revisions to an existing rating program with the Automobile Insurance Rate Board (AIRB) to be filed and used based on rules established by the AIRB.

Bill 41 Insurance (Enhancing Driver affordability and Care) Amendment Act introduced a number of reforms to the *Insurance Act* and regulations. This Filing Guideline is specific to the initial implementation of Direct Compensation for Property Damage (DCPD), section 585.1 in the *Insurance Act* and is not intended for any changes to rating programs outside the implementation of DCPD. The AIRB will be capturing the impact this regulatory change has on consumers, and reporting to the Board on the aggregate impact per class of vehicle; therefore, is requiring insurer to submit filings limited to DCPD changes only. Should an insurer wish to make additional changes to their rating program, they may, submit a filing under either the AIRB's Simplified or Full Filing Guidelines.

All insurers are **required to submit a filing for each applicable category** of automobile insurance by **July 1, 2021**.

A. FILING REQUIREMENTS

Categories of Automobile Insurance

The following categories of automobile insurance are used for the purposes of the DCPD Implementation Filing Guidelines:

- Private Passenger Vehicles (PPV) - as defined in the Automobile Insurance Premiums Regulation, section 1(m).
- Commercial Vehicles - means a vehicle designed or used primarily to transport materials, goods, tools or equipment in connection with an occupation or business as defined in the Automobile Insurance Premiums Regulation.
- The guidelines referring to *Other than Private Passenger Vehicles* (Other than PPV) apply to miscellaneous vehicle classes including all-terrain vehicles, ambulances, antique vehicles, collector vehicles, commercial vehicles, farm vehicles, hotel & country club vehicles, interurban vehicles, mopeds, motorcycles, motorhomes, off-road vehicles, private buses, public buses, school buses, snow vehicles, and taxis & limousines..

Under this Filing Guideline, the AIRB has waived the requirement for a separate rate filing for each category of automobile insurance. Insurers may include changes to all applicable categories of automobile insurance in a single DCPD implementation filing, provided separate documentation (Appendix A) is provided for each category of automobile.

B. FILING SUBMISSION

Filings, (**without password protection**), will be submitted by email to airb@gov.ab.ca. The entire filing will be compiled into a **PDF document except where noted to be in Excel or Word**. Changes to the underwriting manual will be provided in a Word document with track changes.

The AIRB will send an email to the insurer within two (2) business days to acknowledge receipt of a filing.

Effective Dates

Although the insurer may start developing any system changes immediately, all filings for the implementation of DCPD are effective January 1, 2022 for new and renewal business.

C. GUIDELINES FOR DCPD IMPLEMENTATION FILINGS

All filings will include a signed cover letter outlining the proposed changes and be submitted in the following format:

Section	Contents
1.	Cover Letter
2.	Rate Filing Summary (Appendix A - DCPD Filing)
3.	Certificate of the Officer (Appendix B1)
4.	Support for DCPD Implementation
5.	Underwriting Manual

SECTION 1: COVER LETTER

A cover letter outlining all the proposed changes, rationale for changes and full contact details of the individual authorized to act as contact on behalf of the insurer will accompany every filing.

SECTION 2: RATE FILING SUMMARY (APPENDIX A – DCPD FILING)

The summary of information section contains key information on the nature of the proposed rate level or rating program changes. Refer to Appendix A – DCPD Filing for the form to be used and submit the Excel file.

SECTION 3: CERTIFICATE OF THE OFFICER

A signed Certificate of the Officer form, [Appendix B1](#), will accompany each filing.

SECTION 4: SUPPORT FOR DCPD IMPLEMENTATION

This section provides the required support for the development of new third party liability rates, including the introduction of DCPD rates. All insurers are required to complete this section.

Insurers are required to summarize applicable rate and premium information in the **Excel template** required for Section 2: Rate Filing Summary.

Third party liability coverage currently consists two components: bodily injury and property damage. The property damage component includes:

- (i) coverage for damages to the vehicle of another driver; and
- (ii) coverage for damages to other property.

DCPD is being introduced in Alberta to replace part (i) above, and part (ii) will now be described as property damage-tort. Therefore, third party liability premium should be divided into three sub-coverages in future filings to the AIRB:

- (i) Bodily Injury;
- (ii) Property Damage – Tort; and
- (iii) DCPD.

The AIRB will accept the following allocation of the current third party liability premium into bodily injury, property damage-tort and DCPD without the need for additional support:

Table 1: Third Party Liability Premium Split

Line of Business	Bodily Injury & Health Levy	Property Damage – Tort	DCPD	Total
Private Passenger Vehicles	71.0%	2.5%	26.5%	100%
Commercial Vehicles	66.0%	12.0%	22.0%	100%
Miscellaneous Vehicles	87.0%	1.5%	11.5%	100%

These allocations assume the Health Levy provision included in the current third party liability premium will be applied to bodily injury only once DCPD is implemented.

Insurers may propose the use of different distribution factors than those presented in Table 1 above. If proposing different factors, the insurer will provide a detailed description and rationale so the AIRB has sufficient information to support the deviation from the AIRB’s guideline factors and accept the proposed factors. If the AIRB does not have sufficient information the use of the AIRB’s guideline factors may be required.

The three third party liability sub-coverages will each have a separate and identified premium.

The Automobile Statistical Plan will be amended to collect claims and premiums data for all three third party liability sub-coverages separately effective January 1, 2022 (See [GISA Bulletin 2020-10](#) for additional information).

4a) Development of Territorial Base Rates at Zero-Dollar Deductible

Under the DCPD implementation filing process:

- All other rating variables currently used for third party liability coverage will be used for DCPD (e.g., territory, class, driving record, discount, surcharges, etc.). With the exception of deductible and rate group, the introduction of new changes are not permitted to be made to the current third party liability rating variables. The current third party liability rating variables will be used for each of bodily injury and property damage-tort sub-coverages. The term rating variables is meant to include all relativities (e.g., class, driving record, etc.), discounts and surcharges.
- The calculation of the Base Rates in Appendix A (“Base Rate Information” tab) should be completed based on a zero deductible option.
- Insurers may choose to introduce vehicle rate group factors for the DCPD coverage with supporting documentation to show revenue neutrality.
- Limits of coverage (and corresponding increased limit factors) do not apply to DCPD.
- Changes to property damage coverage should only include the split between DCPD and property damage-tort and will be revenue neutral.

Using PPV as an example, the proposed bodily injury, property damage-tort and DCPD premiums for are to be derived according to the following steps using Table 1 above.

Step 1

Current (AIRB approved) third party liability territory base rates are reduced by 29% (or multiplied by a factor of 0.710) to determine the new bodily injury base rates by territory.

Step 2

Current (AIRB approved) third party liability territory base rates are reduced by 97.5% (or multiplied by a factor of 0.025) to determine the new property damage-tort base rates by territory.

Step 3

For each territory, the DCPD initial base rate is set equal to the currently approved third party liability territory base rate multiplied by a factor of 0.265.

Step 4

Calculate the average increased limit factor for third party liability based on the current distribution of risks by limit to determine an offset factor. Using the offset factor, adjust the initial DCPD base rate for each territory to reflect the removal of the effect of increased limit factors. This adjustment should be revenue neutral.

Step 5

If choosing to use DCPD vehicle rate group factors, insurers will calculate the average vehicle rate group factor for its in-force portfolio and determine an offset factor. The DCPD base rate for each territory is adjusted by the offset factor so the application of vehicle rate group factors is revenue neutral.

Step 6

Insurers will confirm the creation of the new DCPD and property damage-tort rates are revenue neutral.

The process outlined above would also be used for all other classes of automobile by replacing the PPV factors with the applicable commercial vehicle or miscellaneous factors from Table 1. For the classes of automobile not identified in Table 1, the factors used should be determined as follows:

Use PPV Factors	Use Commercial Factors	Use Miscellaneous Factors
Antique Vehicles	Ambulances	All-Terrain Vehicles
Collector Vehicles	Private Buses	Snow Vehicles
Motorhomes	Public Buses	Mopeds
Taxis and Limousines	School Buses	Motorcycles
Farm Vehicles	Interurban Vehicles	Off-Road Vehicles
	Hotel & Country Club Vehicles	

4b) Deductibles

Deductibles levels, in addition to a zero deductible, may be offered for all classes of vehicles and presented in the “Deductible Factors” tab of Appendix A:

- collision deductible factors may be used as the basis for DCPD deductible factors; and
- separate support required if DCPD deductible factors are not derived from collision deductible factors.

4c) Discounts/Surcharges

Insurers will confirm if all discounts/surcharges currently applied to third party liability premiums, will apply to bodily injury, property damage-tort and DCPD premiums. Where a change is

proposed to treat a sub-coverage differently than the others (i.e., removal of a discount or surcharge), the rationale for the change will be disclosed in this section. Any changes to the application of discounts or surcharges, is required to be revenue neutral.

4d) Endorsements

Insurers will identify any changes to endorsements and/or endorsement premiums arising as a result of the split of the third party liability premium into its three sub-coverages. Where a sub-coverage is treated differently than the others, the rationale for the difference will be disclosed in this section. Support will be provided for any change in endorsement premiums resulting from the implementation of DCPD. Any change to the endorsements, is required to be revenue neutral.

Any changes required for Conditionally Approved Endorsements (CAE's) will need approval from the Office of the Superintendent of Insurance. Confirmation of submission to the Office of the Superintendent of Insurance will be included in the filing documents.

4e) Dependent Categories

For any dependant categories of automobile insurance, please provide the following:

- i. The rate level effects of the proposed changes for each coverage;
- ii. The calculations to validate the rate level effect of the proposed changes; and
- iii. A copy of the rating rule stipulating the linkage to the category of automobile insurance.

4f) Communication to Consumer

Include all communication materials that will be provided to consumers to inform them on the new coverage. If communication is not available at the time of filing, please forward to the AIRB when available.

SECTION 5: UNDERWRITING MANUAL

A proposed underwriting manual will be provided with the filing. Any changes, additions or deletions to the rating rules, definitions or text in the proposed automobile manual should be denoted by utilizing **tracked changes in a word document**.

A final underwriting manual (without password protection) will be submitted to airb@gov.ab.ca by email within 30 days. The electronic copy of the complete automobile manual submitted to the AIRB will be identical to any hard copies or versions being distributed to anyone, including brokers, agents or other vendors.