

# Technical Guidance

## Change in Rates and Rating Programs

Updated May 1, 2021

This document provides additional technical guidance for insurers to use when developing a filing for submission to the AIRB. The guidance includes requirements previously issued under circulars or bullets which is still in force. The guidance is applicable to all classes of business, unless otherwise indicated.

**The AIRB recommends insurers refer to this document prior to the submission of a filing to ensure they are working with the most recent version.**

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### **Accident Benefit Claims** (Updated November 6, 2020)

Insurers must not use accident benefits claims to determine premium.

### **At-Fault and Not At-Fault Claims** (Updated December 21, 2020)

Insurers are required to comply with [Superintendent's Bulletin 06-2019](#). This bulletin provides advice on the manner in which not at-fault and at-fault claims/accidents may be used as a rating variable in determining private passenger automobile insurance premiums and/or in determining eligibility for coverage.

### **Cannabis** (Updated December 21, 2020)

Insurers are not allowed to adjust their rating programs or actuarial assumptions to reflect the legalization of recreational use of cannabis. The AIRB will continue to monitor the trends for the impacts of cannabis use once credible Canadian data is available, this will enable the AIRB to make evidence based decisions with respect to this risk.

### **Convictions and Surcharges** (Updated April 1, 2021)

#### **General Conviction Information**

- Insurers may include minor and major convictions in their rating programs to determine premiums based on risk. Only moving violations related to the safe operation of a motor vehicle or convictions the AIRB deems appropriate may be included in the insurer's rating program.
- Insurers are not permitted to determine premium based on convictions for the comprehensive portion of all perils, comprehensive or specified perils coverage.
- Insurers must file and obtain approval for any adjustments to surcharge level, reclassification or addition of a conviction. Rationale and justification must be provided to the AIRB for review with the filing.
- Insurers must use the conviction date in determining whether a conviction is surchargeable, based on the timelines for the appropriate conviction type.

#### **Minor and Major Convictions**

- Convictions under the Traffic Safety Act (TSA) or the Use of Highway and Rules of the Road Regulation (ROR), may be used after a specified threshold of conviction frequency has been reached within the most recent three-year period.
- Surcharging for convictions under the Vehicle Equipment Regulation is not permitted.

The following convictions are prohibited from being surcharged:

- Operator's Licenses (TSA 51).
- Failing to give name and license number to the police or any other person entitled to such information (TSA 69(1)(c), 167(1)).
- Failing to notify owner of an unattended vehicle damaged in accident (TSA 69(2)(a)).
- Failing to notify owner of property damaged in accident (TSA 69(2)(b)).
- Failing to make accident report (TSA 71(1)).

The surcharge for the following convictions cannot exceed that of a Major Conviction:

- Driving at Unreasonable Rate of Speed (ROR 2(1)(a)).
- Improper Passing in a School or Playground Zone (ROR 8).
- Speeding in a School or Playground Zone (TSA 107(2) and 108(1)(h)).

### **Criminal Code Convictions**

- The surcharge for Criminal Code Convictions cannot exceed more than 100% per conviction (Not applicable to the GRID).
- For Criminal Code Convictions, an insurer may determine premium based on the most recent four-year period.
- An Immediate Roadside Suspension (IRS) FAIL may be surcharged at the level of Criminal Code Convictions. If a single incident results in both an IRS FAIL and a Criminal Code Conviction, the insurer may only apply the surcharge once.

### **COVID-19 (Updated May 1, 2021)**

During the COVID-19 pandemic, many insurers provided relief to policyholders through temporary mechanisms such as rate capping, rate reductions, rebates/refunds, and forgiveness of fees associated with late payments. Rate indication calculations should take steps to ensure these temporary changes do not distort the rate indications for rating programs effective after the pandemic.

To reflect the future trend for the impact of COVID-19, complete the COVID-19 tab in Appendix A. In order to complete the worksheet, the insurers will need to populate the highlighted cells - renewal effective date and monthly COVID-19 adjustment factors. These factors should be selected by the insurers to reflect their estimates of the expected decrease in claim costs during the accident periods in column "A" due to COVID-19. Based off of this information, the worksheet calculates the average adjustment factor for the prospective policy period on a written basis.

Include a full description of the COVID-19 relief measure(s) taken and time period in effect. The description should include an estimated impact to written and earned premiums and expenses for each affected accident half year, beginning with 2020-1.

As policyholder-initiated changes of coverage will affect both premiums and loss amounts, insurers should not include policyholder-initiated changes of coverage actions with the estimate of insurer-initiated relief.

#### *Adjustment to Experience Period Data to a Pre-COVID-19 Level:*

The selected prospective non-claims expense provision should consider any unusual changes in the actual expense level during the period impacted by COVID-19. Insurers should demonstrate the selected expense provision is an appropriate prospective provision not distorted by the impact of COVID-19.

The on-level premiums and premium trends should be calculated in a manner which removes or unwinds the impact of any associated temporary premium relief. Insurers should provide

support for the change to the current rate level premiums, and explain how the adjustments specific to COVID-19 are considered and unwound.

To the extent claim amounts and claims handling expenses are unusual (i.e., low) during the period impacted by COVID-19, the insurer should adjust the loss experience to a pre-COVID level and consider the weight (if any) to apply to the impacted experience period when using historical experience to forecast the claim amounts and claim handling expenses for prospective rating program period.

If the insurer uses company-specific data to support its selection of trend factors, it must be demonstrated the period impacted by COVID-19 does not distort the analysis.

*Adjustment to Experience Period Loss Data to a COVID-19 Level Expected During the Proposed Rate Program:*

COVID-19 may continue to affect claim counts and loss amounts into 2021 and possibly 2022, and the degree may vary by month and by coverage. To the extent the proposed rate program will be in effect while COVID-19 is expected to impact the claim count and loss amount levels, the loss experience should be adjusted, and support provided.

*Support*

Any adjustments, either retrospective or prospective, should be fully transparent and supported in the filing documentation.

**Definitions** (Updated April 1, 2021)

**Affiliated Insurers**

Affiliate:

- i. An entity is affiliated with another entity if one of them is controlled by the other or both of them are controlled by the same person.
- ii. The affiliates of an entity are deemed to be affiliated with all other entities with which the entity is affiliated.

**Allocated Loss Adjustment Expenses (ALAE)**

All external expenses which can be directly charged to a particular claim file, whether a loss payment is made or not, including:

- i. Adjuster's accounts (including all disbursements) - excluding staff adjusters;
- ii. Appraisal costs (including appraisal centre costs) - excluding staff appraisal costs or costs included under (i);
- iii. Legal expenses including all first party legal costs charged to a particular claim file - excluding staff legal fees or costs or fees included under (i);

All other external claims expenses.

**Average Rate**

**For a Single Coverage:**

The average rate for the coverage expressed in premium dollars per insured vehicle for a 12-month policy term.

**For Multiple Coverages:**

- i. For each coverage in question, multiply the average rate for the coverage by the fraction A/B, in which:  
  
A = the total number of vehicles insured by the Insurer which had the coverage in the most recently completed calendar year; and  
  
B = the total number of vehicles insured by the Insurer in the most recently completed calendar year;
- ii. Add the amounts determined under (i) for each coverage.

**Base Rate**

The rate which serves as the starting point for developing all other rates by territory, limit of liability, deductible, and all other factors.

**Capping**

Limiting the impact on premium of revisions to the rating program on a per vehicle basis.

**Category of Automobile Insurance PPV**

For purposes of these filing guidelines, the category of automobile insurance includes PPV.

**Category of Automobile Insurance Other than PPV**

For purposes of these filing guidelines, categories of automobile insurance include the following:

- All-Terrain Vehicles
- Ambulances
- Antique Vehicles
- Collector Vehicles
- Commercial Vehicles
- Farm Vehicles
- Hotel & Country Club
- Interurban Vehicles
- Mopeds
- Motorcycles
- Motorhomes
- Off-Road Vehicles
- Private Buses
- Public Buses
- Public Vehicles
- School Buses
- Snow Vehicles
- Taxis & Limousines
- Trailers & Campers

- Utility Trailers

## Coverage

The above category titles should be used when possible. If subdivisions of the above categories are made, the insurer should indicate within which of the above categories the subdivisions fall. For the purposes of these filing guidelines, coverage includes the following:

- Third Party Liability - Bodily Injury & Property Damage
- Accident Benefits
- Underinsured Motorist
- All Perils
- Collision
- Comprehensive
- Specified Perils
- Endorsements

## Discounting of Claims

The adjustment of claim costs to reflect the time-value of money.

## Endorsement

An endorsement (policy change form), approved by the Superintendent of Insurance, to a contract of automobile insurance. Standard endorsements are issued under a series of SEF numbers. CAE, which must also be approved by the Superintendent of Insurance, are uniquely identified for each insurer. For purposes of these filing guidelines, Underinsured Motorist - SEF #44 Endorsement is treated as coverage, rather than as an endorsement.

## Fleet

1. There must be at least five power vehicles to constitute a fleet;
2. The automobiles in the group meet one of the two below sets of criteria:
  - i. The automobiles are under common ownership or management. Leasing of vehicles is a common way to acquire vehicles and lessees are responsible for such vehicles. Therefore, leased vehicles are considered as the equivalent of owned vehicles for the purpose of determining whether the risk qualifies as a fleet. Or,
  - ii. The automobiles are available for hire through a common online-enabled application or system for the pre-arrangement of transportation, and insured under the Alberta Standard Automobile Form – Transportation Network S.P.F. No. 9 (“SPF #9”) in which the automobile owner or lessee, as the case may be, has coverage as an insured named in the contract; and

3. At least five of the automobiles in the group are commercial vehicles, public vehicles or vehicles used for business purposes. An automobile policy insuring a fleet may also include personal use vehicles, providing the risk first satisfies the aforementioned criterion.

<b>Grid</b>	Refer to <a href="#">Grid Guidance</a> on our website for more information.
<b>Profit Provision</b>	The return on premium targeted to provide for a reasonable profit level.
<b>Prior Approval</b>	Insurers must have their rates and rating programs approved before use in accordance with Sections 2 and 5 of the Automobile Insurance Premiums Regulation. The prior approval system applies to: insurance written by the Facility Association; coverage as defined above for private passenger automobiles and other risks written on SPFs #1, #4 and #9.
<b>Rate</b>	All amounts payable as premium under contracts of automobile insurance, or endorsements to such contracts, for an identified risk exposure. Rates may be expressed in terms of dollars and/or in terms of multiplicative or additive factors to be applied to a base premium amount. Rates are to include all provisions reflecting surcharges/discounts for applicable risk exposures. Rates are to be inclusive of commissions and other expense provisions used by the insurer, and are to be considered prior to the granting of policyholder dividends. Rates are subject to the provisions of legislation.
<b>Rate Differentials/Relativities</b>	Multiplicative or additive factors/rates applied to the base rate to arrive at the rates for individual risk profiles.
<b>Rating Algorithm</b>	The manner in which base rates, rate differentials, and other surcharges/discounts are combined to arrive at the premium charged to an individual risk profile.
<b>Rate Manual</b>	Rate Manual must include base rates, differentials, algorithms, rating rules, descriptions and premiums for surcharges, discounts and endorsements, and underwriting rules. An insurer does not have to provide calculated rate pages or CLEAR.
<b>Rating Rule</b>	Rating rules are rules assigning a risk to a specific rating cell or applying a discount or surcharge. Examples include rules on assigning a territory, vehicle use or driving record. Rating rules are part of an insurer's rating program and are filed with the AIRB.
<b>Reversal</b>	A reversal is present in the increased limit factors if an insured pays marginally more for each additional \$1,000 of coverage; a reversal is present in the deductible differentials if an insured is

paying marginally more for each additional \$100 of deductible level.

**Unallocated Loss Adjustment Expenses (ULAE)**

All claims settlement and processing costs, excluding ALAE, but including staff adjusters, appraisers, advisors, lawyers, clerical support, and a portion of general expenses reasonably attributable to the claims function not directly assigned to a specific claim.

**Underwriting Rule**

A rule governing the eligibility of a risk or application of coverages, rating variables, surcharges, discounts or endorsements.

**Employee/Staff Discounts** (Updated November 6, 2020)

Insurers may include a discount for employee/staff discount in their rating program provided it is actuarially supported and reflects the expected loss cost for this group of risks. If an insurer offers a discount level higher than the expected loss cost, the difference between the discount level and the underwriting expense savings should be funded through the insurer's capital. Any excessive employee/staff discount should be funded through the insurer's capital.

**Endorsements** (Updated May 1, 2021)

Insurers are required to contact the [Superintendent of Insurance](#) prior to submitting a filing to the AIRB when proposing to introduce or revise the wording for a conditionally approved endorsement (CAE).

**Fleet** (Updated May 1, 2021)

The AIRB may exempt insurers who write only fleet, garage or experience rated risks from the full filing requirements. The insurer requesting an exemption will submit the AIRB [Fleet Confirmation Form](#) and reconfirm the nature of its underwriting activity on a bi-annual basis. Please refer to the [fleet definition](#).

**Gender X** (Updated December 21, 2020)

Insurers implementing Gender X in their rating program should explain how they determined the relativities, however they are not required to submit supporting data for the determination of the relativities applicable to Gender X if they do not have credible data.

**Grid Rating System** (Updated December 21, 2020)

For guidance on the Grid rating system, please refer to [Grid Guidance](#).

**Lapse in Automobile Insurance Coverage** (Updated March 1, 2021)

Insurers are required to comply with [Superintendent's Bulletin 01-2007](#) . This bulletin provides advice in regards to the lapse in automobile insurance.

**New Driver Credit** (Updated November 6, 2020)

**Private Passenger Vehicles (including motorcycles)**



A newly licensed driver who is accident-free at the time of application and has completed a driver training course verified by a certificate issued by Alberta Transportation or Alberta Education shall qualify for and be credited with at least three (3) years 'clear record' or its equivalent. The credit shall continue for each of the first three years of driving so long as the driver maintains an accident-free history.

A newly licensed driver, who does not qualify for the driver training credit and is accident-free at the time of application, shall qualify for and be credited with at least one (1) year 'clear record' or its equivalent. The credit shall increase by one for each year of accident-free history until the credit reaches three years 'clear record' or its equivalent.

### **Motorcycles**

A newly licensed driver who completes a prescribed driver training course verified by a letter from the driver training school, shall qualify for and be credited with at least three years 'clear record' or its equivalent. The credit shall continue for each of the first three years of driving so long as the driver maintains an accident-free history.

### **Application of New Driver Credit**

The credits apply to drivers obtaining a first license including new comers to Canada whose prior experience is not recognized. Other criteria including convictions and number of years insured, cannot adversely affect the credit. Aside from at fault accidents, only suspension of license for an offense or accumulation of demerit points may invalidate the credit. Insurers may require drivers have the requisite experience for any credit better than three years 'clear record' or its equivalent.

### **Rate Capping (Updated May 1, 2021)**

Rate capping limits the increases or decreases the policyholder's premium which would otherwise occur due to the combined effect of changes in base premiums and relativities or changes to the algorithm. Rate capping is generally applied on a per vehicle basis for all coverage excluding endorsements.

Rate capping is a voluntary tool insurers employ to limit dislocation of premium and, thereby, improve retention where revisions to rating programs create substantial changes in the distribution of premium among risk profiles.

Insurers have the option to apply capping to premium and can use capping to preserve overall premium level provided:

- The insurer provides the estimated impact of the proposal including capping for the first year the revised rating program is in force; and
- No further capping measure can apply to the particular rating program (e.g., private passenger) until any existing capping exercise is exhausted. Insurers must provide the "uncapped" overall proposed rate level change along with the "capped" overall proposed rate level change in a rate filing where capping is proposed.

### **Rating Profiles** (Updated May 1, 2021)

[Appendix C](#) sets out rating profiles for PPV and other than PPV. The AIRB may require additional and/or different rating profiles as a consequence of the review process. The rating profiles must be provided in Excel format.

Any additional information pertaining to the rating profiles must be disclosed with a detailed description for each affected rating profile.

Specific instructions and key assumptions to adopt when completing these rating profiles are:

- All rates are to be stated on an annual basis. If annual policies are not issued, the rates should be converted to an annual basis.
- All risks should be rated strictly according to the information provided. DO NOT provide preferred rates unless the criteria as stated fit the eligibility rules for a preferred class. If so, provide only the preferred rates, and state so.
- Clearly identify all applicable surcharges/discounts applicable to each coverage.
- If a rating profile does not describe a unique rate, the insurer is to provide the highest and lowest rate which could be charged on the described risk, and disclose the assumption underlying the difference.

The Appendix C (optional at the time of submitting the filing) will be submitted within 30 days after the rate filing has been approved.

### **Rating Territories** (Updated March 1, 2021)

1. The insurer will describe and support their approach for determining rating territories and corresponding relativities.
2. Each territory is statistically credible. Insurers may use either insurer or industry vehicle count experience or other relevant data to support their minimum threshold to define a new territory.
3. The relativity for any one territory cannot change more than +10% per year.
4. Initial filing to change rating territories after March 1, 2021 cannot result in an overall rate increase.

### Short Rate Cancellation (Updated November 6, 2020)

#### Short Rate Table A - Annual Policies

Days Policy in Force	% of Premium Retained	Days Policy in Force	% of Premium Retained	Days Policy in Force	% of Premium Retained	Days Policy in Force	% of Premium Retained
1-3	8	93-96	32	185-188	56	277-280	80
4-7	9	97-99	33	189-192	57	281-284	81
8-11	10	100-103	34	193-195	58	285-288	82
12-15	11	104-107	35	196-199	59	289-292	83
16-19	12	108-111	36	200-203	60	293-296	84
20-23	13	112-115	37	204-207	61	297-299	85
24-26	14	116-119	38	208-211	62	300-303	86
27-30	15	120-122	39	212-215	63	304-307	87
31-34	16	123-126	40	216-219	64	308-311	88
35-38	17	127-130	41	220-222	65	312-315	89
39-42	18	131-134	42	223-226	66	316-318	90
43-46	19	135-138	43	227-230	67	319-322	91
47-49	20	139-142	44	231-234	68	323-326	92
50-53	21	143-146	45	235-238	69	327-330	93
54-57	22	147-149	46	239-242	70	331-334	94
58-61	23	150-153	47	243-245	71	335-338	95
62-65	24	154-157	48	246-249	72	339-341	96
66-69	25	158-161	49	250-253	73	342-345	97
70-73	26	162-165	50	254-257	74	346-349	98
74-76	27	166-169	51	258-261	75	350-353	99
77-80	28	170-172	52	262-265	76	354-365	100
81-84	29	173-176	53	266-268	77		
85-88	30	177-180	54	269-272	78		
89-92	31	181-184	55	273-276	79		

Insurers must not charge retained premiums in excess of those shown in the table below. These tables are not applicable to motorcycles, mopeds and snow vehicles for third party liability, accident benefits and collision coverage.

If an insurer requires the short rate cancellation table for six month policies, please contact the AIRB.

### Summing Convictions or Accidents/Claims (Updated December 21, 2020)

Insurers are required to comply with [Superintendent's Bulletin 07-2019](#). This bulletin provides advice in regards to the summing of convictions or accidents/claims across operators is prohibited for use as a rating variable in determining private passenger automobile insurance premiums.

### **Transportation for Disabled Persons** (Updated November 6, 2020)

Individually owned private passenger or van type vehicles operated as a public bus to transport disabled persons and for the owner's personal needs are classified as "private buses". Vehicles used exclusively and are suitable only for busing are classified as "public buses".

This applies where the operating authority is for a bus. Limousine or taxi rating will apply where the operating authority licenses such activity.

### **United States Exposure - PPV** (Updated November 6, 2020)

Insurer may charge an additional premium where the vehicle will be operated in the United States for an extended period of 60 days or more.

### **Usage Based Insurance** (Updated April 1, 2021)

This outlines additional information required when submitting a simplified or full filing to obtain approval for changes to rate or rating programs where Usage Based Insurance (UBI) is included.

All UBI implemented in Alberta is required to:

- be credible and actuarially supported;
- use only approved rating variables;
- be in compliance with Alberta's privacy laws;
- ensure policyholders are participating via informed consent; and
- be transparent and clearly communicated to the policyholder.

Insurers without Alberta-specific data to support the filing may request the AIRB review data in other jurisdictions, or any reasonable existing data, which is available to the insurer.

Insurers will treat all information collected for the purpose of a UBI program as personal and identifiable. Insurers, and any third party service provider's contracted with, are required to ensure the insurer's UBI program is compliant with Alberta's privacy legislation, and [informed consent](#) is obtained to ensure compliance with the Insurance Act. Insurers should contact [Alberta's Privacy Commissioner](#) for information on how to ensure compliance.

### **Description of UBI Program**

Insurers will provide a detailed description of how they propose to implement UBI in their rating program or any changes to their current UBI program. Some elements, which will aid in the review of the program include:

- a) Enrollment and cancellation processes;
- b) Monitoring process and data collection period;
- c) Impacts to policyholder
  - criteria receive a UBI premium adjustment;
  - rewards for safe driving;
  - frequency of changes; and
  - mid-term changes such as vehicle replacement
- d) Data correction
  - how the UBI program detects the driver; and
  - options to correct UBI information collected;
- e) Source of data and its use for rating purposes

- rating variables used specific to UBI impact;
  - how the rating factors are measured (e.g., frequency, occurrence, relevant thresholds);
- f) Communication materials provided to assist consumers in making an informed choice before and after they opt into UBI program
- impact of participation on their overall premium (discount or surcharge);
  - cancellation process; and
  - evaluation period etc.