

P04 - Automobile Insurance Rating Program Approvals

Policy

Every insurer licensed to write automobile insurance in Alberta must file its rating program with the Automobile Insurance Rate Board (AIRB) and obtain the prior approval of the AIRB to either establish a new rating program to enter the market or to revise an existing rating program.

The AIRB has developed guidelines for filings. The guidelines are available on the AIRB [website](#).

Authority

The AIRB's authority is provided under the Insurance Act Section 602(1, 2) and Automobile Insurance Premiums Regulation Sections 2 – 7.

Procedures

The AIRB develops and updates, filing guidelines to communicate the requirements and expectations for submitting a request to change or adopt a new rating program.

The AIRB develops guidelines for the submission and review of filings based on the criteria the rate level is not excessive and the risk-classification system is just, reasonable and reasonably predictive of risks.

Full Filings

- Full filings entail an actuarial analysis and the circumstances when they are required are outlined in the filing guidelines.

Simplified Filings

- Simplified filings are intended to accommodate routine minor maintenance of rating programs that are integral to a competitive market.
- Simplified filings are an efficient tool for adjustments such as: redistribution of premium, amend pricing for endorsements, adjust discounts, and update Canadian Loss Experience Automobile Rating (CLEAR) Rate Group Tables or rate group tables based on alternate methods.

Other Filings

- The AIRB may develop other filing guidelines as appropriate.
- Usage Based Insurance filing guidelines are established to collect information specific to a usage based insurance program and depending on the insurers rating program may be a full filing or a simplified filing.

Timing and Withdrawal of Filings

- The AIRB has established guidelines specifying the manner and form for full and simplified filings. The AIRB's target is to render decisions within 60 days for full filings and 30 days for simplified filings from when the filing is deemed complete.
- An insurer may withdraw a filing, other than one submitted to comply with the requirement for a full filing or one that the Board has specifically requested the insurer to submit.

Rate Making Components

The AIRB will consider the following ratemaking components in its review of insurer filings, the determination of Industry Benchmarks and in its adjustment of premium level for the Grid Rating Program (Grid)¹:

- Profit
 - The AIRB has established percent of premium as a target pre-tax profit provision for all coverage.
 - The AIRB will annually review and determine the percentage of premium that represents a reasonable level of profit for insurers for all coverage.
 - Insurers must justify any target that is higher than the AIRB's selected percentage of premium for profit.
 - The AIRB will apply the selected target profit provision for any adjustment to premium level for the Grid for basic coverage.
- Administrative Expenses & ULAE
 - The AIRB will use the General Insurance Statistical Agency's (GISA) Automobile Insurance Financial Information exhibit to establish the industry averages for administrative expenses and unallocated loss adjustment expense (ULAE) factor.
 - The industry averages are pertinent to any review of industry's overall performance and any adjustment to premium level for the Grid. The industry averages will provide points of reference when considering administrative expenses and ULAE in the review of individual insurer filings, though the review will recognize the individual insurer's own experience.
 - Individual insurer filings must include the company specific forecast and history of variable and fixed expenses for at least the past three years and its submissions to the GISA Automobile Insurance Financial Information exhibit as they become available.
- Health Cost Recovery
 - The AIRB considers the Health Cost Recovery as a component of claims costs reported by insurers.
- Discount of Claims
 - Insurers must discount claim costs for the investment income on policyholder funds until claims are paid. Industry-wide payment patterns based on the GISA Loss Development exhibits will be applied for any review of industry's overall performance and any adjustment to premium level for the Grid rating program.
 - Individual insurers' payment patterns will apply in the review of their filings.

¹ Refer to P06 – Grid Base Premium – Basic Coverage

- **Loss Development**
 - Historical number of claims and claim amounts must be projected to expected ultimate values by coverage and sub-coverage. Prior years' experience provides insight as to how the number and amount of claims tend to develop from initial reporting.
 - The AIRB will select loss development factors following an analysis of information presented in the GISA Loss Development exhibits and industry feedback on the analysis.
 - The selected loss development factors will be applied for any review of industry's overall performance and any adjustment to premium level for the Grid rating program. Individual insurers' experience will be recognized in the review of their filings.

- **Loss Trending**
 - Loss trending is a means of evaluating how changes over time affect claim costs, it varies by coverage and sub-coverage.
 - The AIRB will select loss trend rates following an analysis of information presented in GISA's semi-annual published Loss Development exhibits and industry feedback.
 - The selected rates will apply to any review of industry's overall performance and any adjustment to premium level for the Grid. The selected rates will be used as guidance in the review of insurers' filings, though the review will recognize each insurer's own experience.
 - The AIRB will introduce the most recent trend analysis into its consideration in situations where the preparation of the filing predated the availability of the data.

Approved by the AIRB: June 27, 2014; Effective July 1, 2014
Amended by the AIRB: November 27, 2020; Effective January 1, 2021