

Automobile Insurance Rating Factors Framework of Considerations of Superintendent of Insurance

Why is the Framework Necessary?

The Office of the Superintendent of Insurance is responsible for ensuring that Alberta automobile insurers do not engage in any unfair practice, pursuant to section 509(1)(c) of the *Insurance Act*. In exercising this responsibility, the Superintendent may determine which rating factors are and are not allowed for use by automobile insurers in Alberta. Automobile insurers currently use a number of rating factors in their rating programs, such as at-fault claims, *Traffic Safety Act* convictions, *Criminal Code* convictions, and use of vehicle, among others. In addition to existing rating factors, new rating factors are sometimes proposed for use.

This evaluative framework is intended to provide an open and transparent set of policy considerations that automobile insurers may expect the Superintendent to apply in deciding whether to allow the use of existing and proposed rating factors.

How was the Framework Developed?

The department identified key principles that should be taken into account in assessing rating factors. Those key principles appear in the left-hand column of the framework. Once key principles were identified, a number of considerations relating to each key principle were developed.

After key principles and possible evaluative criteria were considered, the department discussed the Framework with the Automobile Insurance Rate Board.

How Will the Framework Be Applied?

The framework lists a number of considerations that the Superintendent of Insurance will take into account in evaluating both existing and proposed automobile insurance rating factors. In most cases, no single consideration in the framework will result in a rating factor being approved or prohibited for use in Alberta. Rather, the Superintendent will consider the matters in the framework as a whole and determine whether the rating factor should or should not be allowed.

It is recommended that, when proposing a rating factor for use in Alberta, the insurer proposing the rating factor address most or all of the considerations in the framework. A more complete analysis will assist the Superintendent of Insurance in making the most informed, fair, and appropriate decision possible.

The framework will apply to considerations of individual rating factors. With respect to rating programs of insurers, Interpretation Bulletin 02-2011, "Rating Program Guidelines in Alberta", issued by the Superintendent of Insurance on April 11, 2011, will continue to apply. The Interpretation Bulletin can be found at www.finance.alberta.ca.

Screening Criteria	Considerations
(1) Evidence to Support	<ul style="list-style-type: none"> • Is the rating factor supported by an actuarial analysis that is consistent with the standards of the Canadian Property and Casualty Actuarial Society (or the United States Casualty Actuarial Society)? • Is there sufficient information or data available to allow an independent third party actuary to perform an analysis of the rating factor? • Is the rating factor already supported by the analysis of an independent, third party actuary? • Can the correlation between the rating factor and the impact on claims experience best be described as strong, moderate, or weak? • Is there non-actuarial information or data supporting the rating factor? What is the source of that information or data? Is it company-specific, IBC, GISA, or other? • Is the actuarial support or non-actuarial information or data representative of the experience of the entire market, or is it applicable to only certain companies or market segments?
(2) Controllable and Independent	<ul style="list-style-type: none"> • Does the rating factor address consumer traits or behaviours that are ultimately within the control of the consumer? (For example, a driver is unable to control his or her gender, but the driver can control traffic convictions through driving behaviour). • Does the rating factor require subjective evaluation and interpretation of consumer traits or behaviours?
(3) Duplication or Overlap	<ul style="list-style-type: none"> • Is the rating factor effectively a proxy or substitute for a rating factor that is not permitted in Alberta by the Superintendent of Insurance? • Is the rating factor so similar to another rating factor already in use that it effectively duplicates or substantially overlaps that other rating factor? • Would the rating factor result in double counting of a trait or behaviour, in conjunction with another rating factor already in use? What would be the impact? Penalization or reward for a consumer?

Screening Criteria	Considerations
(4) Legal Considerations	<ul style="list-style-type: none"> • Would the rating factor contravene any provisions of the <i>Insurance Act</i> or any of the Regulations made under the <i>Insurance Act</i>? • Would a decision by the Superintendent of Insurance to allow or disallow the use of a rating factor contravene the Canadian Charter of Rights and Freedoms, the <i>Alberta Human Rights Act</i>, or any other law or regulation of Alberta or Canada?
(5) Consumer Education and Understanding	<ul style="list-style-type: none"> • Can the rating factor be reasonably communicated and justified to consumers without undue difficulty or complexity? • Is the reasonable consumer of automobile insurance likely to understand generally how the rating factor has an impact on claims behaviour and the justification for using the rating factor in a company's rating program? • Will the rating factor be disclosed to consumers when it is used by insurers to determine premiums payable? • Is the information about a consumer that is to be used by an insurer available to, or accessible by, the consumer?
(6) Automobile Insurance Premiums Regulation Core Principles	<ul style="list-style-type: none"> • Does the rating factor align with the following principles: <ul style="list-style-type: none"> ○ Affordable and available automobile insurance products; ○ Fair underwriting with transparency and disclosure; ○ Appropriate premiums for high-risk drivers; ○ Continued industry competitiveness; ○ Effective rate-setting processes; and ○ A sustainable and stable automobile insurance system.
(7) Consumer Impacts and Perceptions	<ul style="list-style-type: none"> • Is the rating factor likely to be perceived as fair and reasonable by insurers and consumers? • Are there any other stakeholders outside of insurers and consumers that will be impacted by the rating factor? What will be the impacts?

Screening Criteria	Considerations
(8) Other Considerations	<ul style="list-style-type: none"> • Does the rating factor result in segmentation of consumer clusters to a degree such that the market is no longer sharing risk as a group? • Do other jurisdictions allow or not allow use of the rating factor? What are their reasons for doing so or not doing so? • Is the application of the rating factor likely to help improve driver behaviour and overall traffic safety? • Is the rating factor in the best interests of Albertans?