

ALBERTA GOVERNMENT REMOVES CAP ON AUTO INSURANCE RATE INCREASES

In December 2017, the NDP government of Alberta imposed a 5% limit on the annual increase in auto insurance premiums. This form of price control was intended to achieve the government's affordability policy goal, and was the first time an Alberta government imposed any rate controls on the independent Automobile Insurance Rate Board (AIRB).¹

Unlike the public monopolies in B.C., Saskatchewan and Manitoba, the compulsory Basic auto insurance in Alberta is provided by many private (or cooperative) insurance companies. It is a 3rd party liability model, where certain accident benefits are provided on a no-fault basis to a maximum \$50,000 (the no-fault maximum benefits level was recently raised to \$300,00 in B.C.).

In 2004, in an effort to reduce the rising costs of bodily injury claim, the government legislated a cap on pain and suffering claims resulting from minor soft tissue injuries (whiplash). The scheme survived legal challenges⁴, and did result in a reduction in injury claims volumes and costs.

In 2012, however, the supreme court of Alberta found that the scheme did not include certain jaw/dental injuries, which resulted in many more pain and suffering claims for this form of injury.

The new hybrid tort coverage model for ICBC's Basic insurance was modelled on the Alberta model, but expanded to include jaw injuries and concussions.

The Alberta "Crisis" in Auto Insurance

The limit on the increase in the price of auto insurance came in response to rapidly increasing claims costs. In December 2017, I wrote that:

By choosing to control prices, instead of addressing the underlying cost pressures, the Alberta government has adopted a policy similar in form to the ill-considered 2013 "rate smoothing" policy of the previous government in BC. Instead of depleting the capital reserves of ICBC, the Alberta government has decided to squeeze the profit margins of the private insurers. It is likely that such a policy will also prove to be unsustainable in the near-term.

The limit caused a number of insurers to stop selling insurance in Alberta, resulting in many drivers paying much higher costs for the insurance they were able to secure. As

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_alberta_caps_auto_rates_19_dec_2017/pdf/commentary_alberta_caps_auto_rates_19_dec_2017.pdf

noted in my 4 August 2019, Commentary on the large second quarter rate increases in Ontario and Alberta:

The average price in Alberta jumped 16.2% compared to the prior year. Rising costs combined with the 5% price increase cap imposed by the previous NDP government is causing some insurers to stop writing auto insurance policies in that province. Drivers are now facing higher risk standards and major increases in rates offered by the remaining insurers.... The insurance brokers association of Alberta has launched a task force to development recommendations to confront the “crisis” in auto insurance in that province.²

Government Lifts Price Control

The United Conservative Party government recently announced that it will not continue the 5% rate increase cap, and rely on the AIRB to set the allowed rate increases for both Basic and Optional coverages. A spokesperson for the government stated that; “We believe this independent board is best positioned to evaluate the health of the insurance market and we respect their expertise and experience in the field.”³

The Insurance Bureau of Canada (IBC), the lobbyist for many of the private insurers in Canada, supported the elimination of the rate cap.⁴ It argued that the cap had the unintended consequence of some insurers leaving the Alberta market, or severely limiting policies to only the lowest risk drivers.⁵ The IBC and the Alberta brokers association have been asking the Alberta government to amend the governing legislation to broaden the definition of a minor injury, where the cap on pain and suffering claims limits total claims costs. They believe the current definition of minor injury under Alberta law “is too “imprecise and has afforded an opportunity for plaintiff’s counsel to circumvent the cap for minor injuries in order to garner higher settlements, and higher legal fees.”⁶

Without the legislative amendments Albertans can expect to see major increases in their auto insurance rates in the coming year.

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²http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_price_hikes_in_alberta_and_ontario_4_august_2019/pdf/commentary_price_hikes_in_alberta_and_ontario_4_august_2019.pdf

³ <https://edmontonjournal.com/news/politics/ucp-opt-not-to-renew-cap-on-auto-insurance-rates>

⁴ https://www.insurancebusinessmag.com/ca/news/breaking-news/alberta-government-to-lift-auto-insurance-rate-cap-176860.aspx?utm_source=GA&utm_medium=20190903&utm_campaign=IBCW-MorningBriefing&utm_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173

⁵ <https://www.insurancebusinessmag.com/ca/news/breaking-news/albertas-auto-insurance-crisis-and-the-simple-fixes-needed-176468.aspx>

⁶ Ibid.

