

**SUPERINTENDENT OF INSURANCE
INTERPRETATION BULLETIN 02-2011
April 11, 2011**

TO: All Insurance Companies Licensed In Alberta for the Class of Auto Insurance

Attention: Chief Executive Officer

Re: Rating Program Guidelines in Alberta

The use of unbundled or segmented auto insurance rating programs is emerging in Canada. As a result, the Superintendent of Insurance is establishing this guideline to communicate revised expectations of future rating applications filed under the Auto Insurance Premiums Regulation (regulation).

As set out in Section 6 of the regulation the Superintendent of Insurance conducts the initial screen of rating applications. In addition to current criteria, the Office of the Superintendent of Insurance will include this guideline, and the attached schedule, as a condition of approval before any application is referred to the Automobile Insurance Rate Board (AIRB).

This Bulletin is effective immediately.

Any questions regarding this Bulletin may be forwarded to Brad Geddes, Deputy Superintendent of Insurance, Policy and Communications at (780) 427 - 8322.

Sincerely,

[ORIGINAL SIGNED]

Brad Geddes
Deputy Superintendent of Insurance
Policy and Communication

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Schedule

Rating Program Guidelines

- 1. The algorithms and relativities used in rating programs are just and reasonably predictive of risk.**

The algorithms, relativities and weighting of rating factors shall be supported by actuarial evidence including objective, verifiable and available data. There must be sufficient data to reasonably predict claims costs and outcomes.

To ensure that the rating programs can be objectively and externally verified, the AIRB or the Office of the Superintendent of Insurance may request and require confirmation from external and industry wide data sources.

- 2. The algorithms and relativities used in rating programs distinguish fairly between risks.**

There must be a fair distinction between risks based on relevant cost-related factors. Therefore, an insurance company can only charge different premiums to different groups of people because they face different costs and claim experience. An insurance company cannot charge different prices to different people for reasons other than cost (for example, based on demand, willingness to pay, or income levels). For example, if two territories are proposed to be priced differently, it should be because the claims of one territory are more frequent or severe than the other. The same applies for the weighting of all other rating factors.

The rating program should minimize anti-selection of risks. For example, pricing of individual or group risks should not discourage underwriting of risks through strategic pricing or modeling.

- 3. The rating program would not impair the solvency of the insurer or provide excessive returns for the insurer.**

The insurer should be able to charge premiums at a level sufficient to earn a fair and reasonable rate of return over the short and long term.

- 4. Changes in rates are reasonable.**

A. Changes in weighting of rating factors

Rating programs that include a change in the weighting of a rating factor related to driving behavior must be reasonable. For example, an accident or a conviction (or any other combined change in rating factors excluding criminal code convictions) must not cause premiums to increase by an unreasonable amount.

The weight of a rating factor related to driving behavior should diminish over a reasonable period of time:

- Accidents and claims should have limited impact on premiums after six years.
- Convictions should have limited impact on premiums after three years.
- Surcharges related to Criminal Code convictions may apply for up to four years following conviction.

B. Transition to an unbundled rating program.

No individual's premium can increase by more than 10% per year solely as a result of their insurance company switching from a traditional rating program to an unbundled rating program.

C. Potential impact on consumers is considered.

A thorough dislocation analysis is submitted to the Superintendent and the AIRB as a pre-condition for review of the rating program.

Dislocation analyses are to be conducted on several driving profiles deemed to be representative of Albertan drivers, and those profiles deemed to be most at risk for affordability and availability issues. A full analysis and description of the premium increases and decreases faced by portions of an insurer's business shall be included.

An analysis of the percentage and characteristics of consumers that are placed on the grid as a result of the change in rating program shall be included in the submission. The change in risks placed in the Grid Risk Sharing Pool (RSP), Non-Grid RSP and the Facility Association Residual Market shall also be included in the submission.

5. Consumers are effectively advised about premium changes.

The insurer provides simple, adequate and effective notice to consumers, as well as agents and brokers, of upcoming premium changes so that consumers can make an informed decision regarding their coverage.