Impacts of Rate Caps on Auto Insurance Rates in Alberta

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Final Report

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Executive Summary

Alberta's automobile insurance system has experienced significant increases in claim costs which are impacting premiums paid by the province's three million drivers. Factors influencing this include:

- The growing complexity of modern vehicles, coupled with their enhanced quality, have increased repair and maintenance expenses, as advanced features now require specialized parts and skilled labour for servicing.
- Increased legal representation by those injured in collisions.
- Increases in auto theft claims which have led to increases in associated costs.
- Extraordinary events such as the 2024 Jasper wildfire and Calgary hailstorm have resulted in millions of dollars in additional claims costs.
- Increases in the Alberta government's heath levy on auto insurance, which is intended to recover the cost of providing health care services to those injured in auto accidents.

Costs are Increasing

- Between 2021 and 2023 the cost of **auto theft** claims has increased by **55 percent**.*
- In 2024 the **health levy** increased by 28 percent and in 2025 it will increase an additional 25 percent. Together this is a **60 percent increase over two years**. **

*IBC analysis of GISA data

**IBC with data from Alberta Health

In an attempt to address affordability concerns in the province and stabilize auto insurance premiums paid by drivers, the Alberta government has implemented a series of price controls. In 2023, a rate pause was introduced which meant that the Automobile Insurance Rate Board (AIRB) could not approve rate filing increases through December 2023. Effective January 2024, the rate pause was replaced with a rate cap of 3.7 percent for Albertans that fall under the government's definition of a "good driver", along with an overall cap on rate filings of 10 percent.

Under both the rate pause and 'Good Driver' rate cap, cost pressures have continued to grow. The Insurance Bureau of Canada (IBC) engaged MNP to assess the impact of the government's rate interventions on the province's auto insurance system and the premiums paid by drivers.

Key Findings

Claim costs underlying premiums have continued to rise. Despite the implementation of the rate pause in 2023, total claim costs (which includes third-party liability, accident benefits, collision, and comprehensive) rose 6.5 percent. In 2024, Oliver Wyman, the AIRB's consulting actuary, projects that claim costs will continue to rise.

As claims costs have grown, so too have driver premiums. Premiums are determined by the cost of claims. As claim costs grow premiums also increase. In 2023, the average premium increased by 5.2 percent despite government's rate 'pause'. In the first eight months of 2024, average premiums have increased 6.8 percent This represents a combined increase of 12 percent since government first 'paused' auto insurer rate filings.

Insurance premiums will increase significantly more than 12 percent for many Albertans. According to the AIRB approximately three quarters of drivers are considered good drivers under the definition used for the rate cap. For these drivers annual rate increases are capped at 3.7 percent. With claim costs rising by over five precent annually, drivers that do not qualify for the rate cap will pay substantially more. As of September 15, approved rate filings were averaging 7.53 percent, almost four percentage points above the cap.[1] This suggests that non-good driver rate increases will average 15 percent or higher.

Albertans may fall outside the definition of a 'Good Driver' for reasons unrelated to their driving record. Alberta's 'Good Driver' rate cap may not apply to those who:

- Move to a location that their insurer defines as higher-risk.
- Add a child, spouse, or other driver with a worse record than their own to their policy.
- Purchase a new vehicle, or modify their existing one.
- Change insurers, regardless of the reason for the change.

The rate cap disproportionately affects young drivers and new drivers. The 'Good Driver' cap aims to moderate premium increases for certain drivers, but does not directly address the underlying factors contributing to rising claim costs. Consequently, it leads to a redistribution of premium increases. Claim rates are highly correlated with experience, so young drivers and those with less experience are likely to be disproportionately affected by premium increases under the rate cap.

The Gap in Affordability Is Increasing

With the 'Good Driver' cap in place, the difference in premiums for those who are not subject to the cap and those who are is expected to **increase from 2.2 times more on average to 3.7 times more** on average by 2033.

Premiums are likely to rise significantly unless reform is introduced. Our projections indicate that if current trends continue total premiums will increase by 87.6 percent between 2023 and 2033. With the 'Good Driver' cap, there will be large differences in growth rates between those who are covered by the cap and those that are not. For 'good drivers' average premiums are projected to increase by 43.8 percent between 2023 and 2033, while for drivers who do not qualify as good drivers premiums are projected to increase by an average of 148.2 percent (or 9.5 percent annually) over the same period.

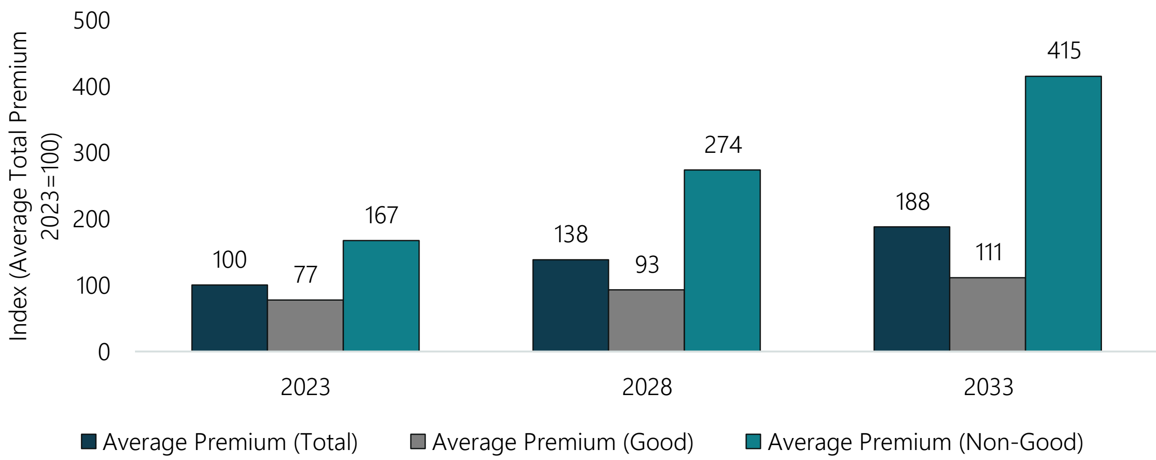
The cap is harming the competitive market and hurting drivers. To maintain financial sustainability in the auto insurance system, premiums need to increase at a rate consistent with increases in claims costs going forward. As the cap does not apply to new business, 'good drivers' who switch from one insurer to another are not protected by the cap and may face significantly higher premiums. Consequently, drivers will be less likely to switch insurers, thereby reducing the consumer benefits of competition and the competitive pressures on insurers. In addition, if an insurer leaves the market its customers will be forced to change insurers and those protected by the 'Good Driver' cap will lose that protection. This could affect a substantial number of customers. For example, if an insurer with one percent of the market exited,

[1] AIRB. Approved Automobile Insurance Rate Board Filings. Available here: https://airbfilings-app.alberta.ca/reportapp/quarterlyRateFilings

approximately 30,000 customers would need to find a new insurer.

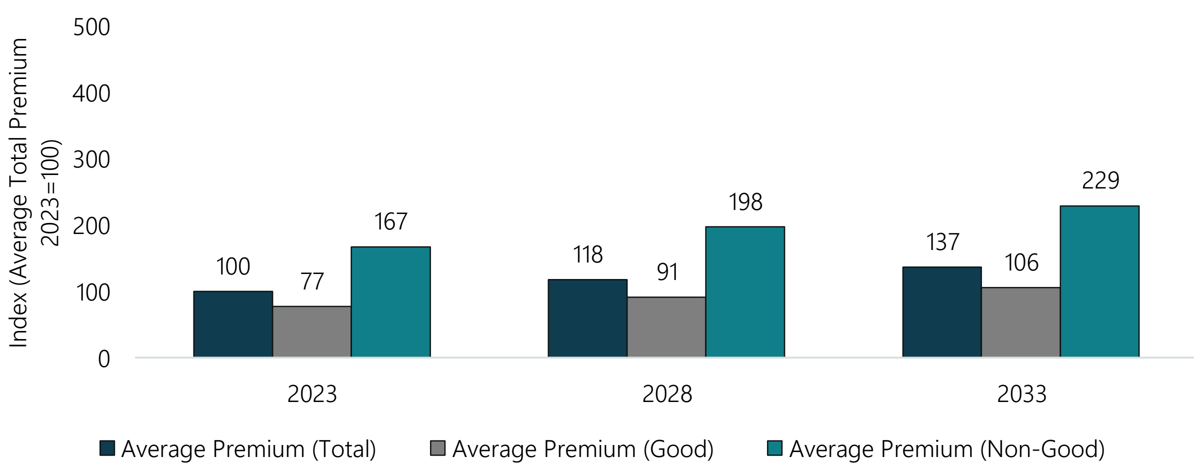
Reforms that reduce increases in claim costs benefit all drivers. Reforms that reduce claim costs would result in lower premiums for all drivers. As shown in Figure 1 and Figure 2 reforms to address cost increases would result in substantially lower premiums for all drivers. This is because reforms address the cost pressures that are leading to premium increases. Rate pauses and rate caps do not.

Figure 1: Index of Average Premiums with Good Driver Rate Cap



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

Figure 2: Index of Average Premiums with No Rate Caps and Stabilization Reforms



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

Lessons Learned: the California Experience

In California a two-year rate pause instituted during the COVID-19 pandemic has led to reduced consumer choice, diminished service quality, and eventually, sharp premium increases without addressing any of the underlying cost pressures that contributed to rising claim costs. This illustrates how well-intentioned, regulatory interventions such as rate pauses and caps can backfire, inadvertently causing long-term harm to the very consumers they aim to protect.

1 Introduction

1.1 Background

In recent years, the automobile insurance industry in Alberta has encountered various challenges due to a combination of evolving economic conditions and emerging cost pressures. A significant factor driving up claim costs has been the increasing costs of settling bodily injury claims and accident benefits. Additionally, advances in vehicle technology and improved quality have led to higher repair and maintenance expenses, as specialized parts and labour are required for more complex systems. These factors, combined with rising labour costs in the repair industry, have significantly increased cost pressures for insurers. In turn, this has driven up premium rates as insurers attempt to maintain profitability and long-term viability, ultimately leading to higher costs for Alberta drivers.

In response to concerns around rising costs, the Government of Alberta introduced measures intended to stabilize costs.[2] In 2023 increases in insurance rates were paused and beginning in January 2024, a rate cap of 3.7 percent was introduced for individuals deemed "good drivers". Additionally, an overall rate cap of 10 percent was implemented, meaning the Alberta Automobile Insurance Rate Board (AIRB) would not approve any rate filings with an overall increase exceeding 10 percent.[3]

To support discussions on ensuring the long-term sustainability of Alberta's auto insurance market, the Insurance Bureau of Canada (IBC) commissioned MNP to assess the impact of government's rate intervention on the province's auto insurance system and premiums paid by drivers.

1.2 Scope and Approach

The specific objective of this study was to examine the impact of the current rate caps on auto insurance premiums for those that qualified for the 'Good Driver' cap and those that did not and compare this to a situation in which the caps were removed.

In conducting the study MNP carried out the following activities:

- Gathered information from the AIRB, IBC, the General Insurance Statistical Agency (GISA) and publicly available sources.
- Estimated the impact of the rate caps on the average premium for 'good drivers' and those that did not qualify as good drivers.
- Compared premiums with the cap to premiums if the cap were removed.
- Developed a case study of the experience in California with rate caps and their removal.

[2] https://www.alberta.ca/release.cfm?xID=89204706C4888-F92A-D3A7-1EF6C16ABD3D3F31

[3] https://albertaairb.ca/wp-content/uploads/2023/11/Bulletin-10-2023.pdf

1.3 Structure of the Report

The remaining sections of this report are organized as follows:

- Section 2 provides an overview of the auto insurance trends in Alberta.
- Section 3 discusses the impact of the rate caps on insurance premiums for consumers.
- Section 4 presents a case study summary of California's freeze on auto insurance rates.
- Section 5 summarizes the conclusions of the study

1.4 Report Limitations

This report is provided for information purposes and is intended for general guidance only. It should not be regarded as comprehensive or as a substitute for personalized, professional advice.

We have relied upon the completeness, accuracy, and fair presentation of all information and data obtained from IBC, GISA, the Superintendent of Insurance and other public sources, believed to be reliable. The accuracy and reliability of the findings and opinions expressed in this document are conditional upon the completeness, accuracy, and fair presentation of the information underlying them. As a result, we caution readers not to rely upon any findings or opinions expressed for business or investment decisions and disclaim any liability to any party who relies upon them as such. Before taking any particular course of action, readers should contact their own professional advisor to discuss matters in the context of their particular situation.

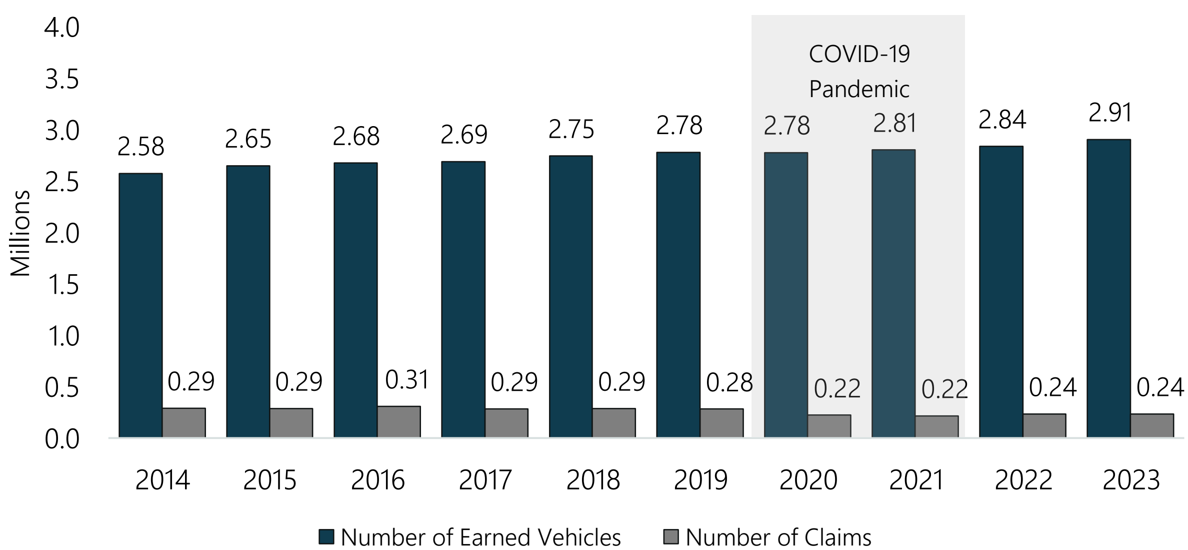
Additionally, the findings and opinions expressed in the presentation constitute judgments as of the date of the presentation and are subject to change without notice. MNP is under no obligation to advise of any change brought to its attention which would alter those findings or opinions.

2 Auto Insurance Trends in Alberta

This section examines the key trends shaping the province's auto insurance market, with a focus on premiums, insured vehicles, and claims patterns that provide an overview of the current state of auto insurance in Alberta.

Figure 3 graphically illustrates the trend in earned vehicles, along with the number of claims, between 2014 and 2023. In 2014, there were approximately 2.58 million vehicles insured in Alberta. By 2023, this number grew to 2.91 million, representing an overall increase of 12.8 percent. In contrast, the number of claims was relatively stable between 2014 and 2019, hovering around 290,000 annually and peaking at 310,000 in 2016. During the pandemic years of 2020 and 2021, claims dropped to approximately 220,000 annually, reflecting the overall reduction in driving activity due to pandemic-related measures. While the number of claims has increased since then, they have not yet returned to pre-pandemic levels.

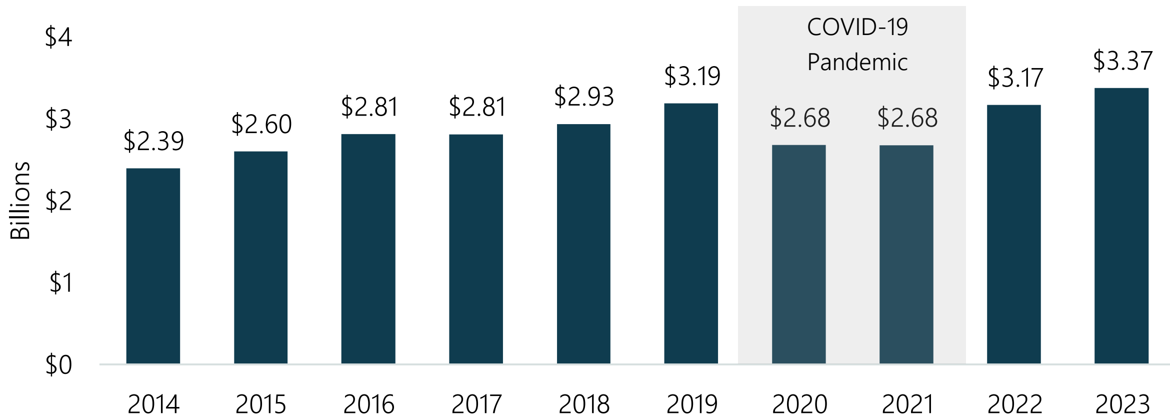
Figure 3: Number of Earned Vehicles and Number of Claims, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Figure 4 illustrates total claim costs from 2014 to 2023. Claim costs grew steadily between 2014 and 2019 reflecting rising costs of repairs and medical treatments. As the number of claims decreased during the pandemic, total claim costs dropped. However, as driving activity started to recover to pre-pandemic levels and the number of claims increased, total claim costs grew at a faster rate than the increase in claims. In 2023, the number of claims was approximately 17 percent lower than in 2019, while the total cost of claims was approximately 5.6 percent higher than in 2019.

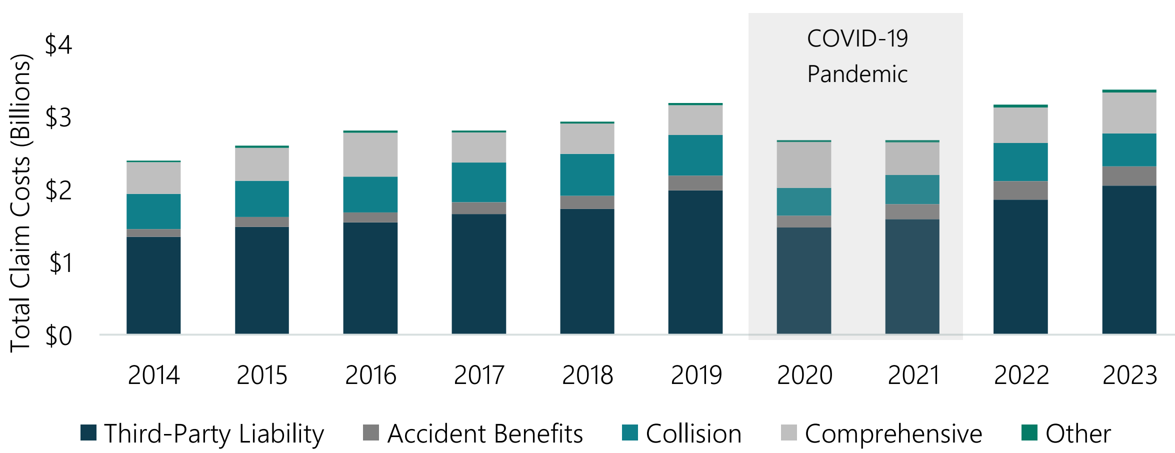
Figure 4: Total Claim Costs Incurred, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Figure 5 separates total claim costs into various coverage options. Between 2014 and 2023, third-party liability (TPL) claims (e.g., bodily injury claims and repair of damage to vehicles and property caused by an insured driver) consistently accounted for the greatest share of overall claim costs. TPL claim costs amounted to $1.35 billion in 2014 and rose to over $2.05 billion by 2023, coinciding with the overall rise in total claim costs. Accident benefits (AB) similarly increased from $107 million in 2014 to $263 million in 2023. Collision claims were relatively more stable, fluctuating between $400 to $600 million during the period from 2014 and 2023. Comprehensive claims were the most volatile of the major coverage options and featured notable spikes in 2016—coinciding with the Fort McMurray wildfire—and 2020—coinciding with a hailstorm in Calgary. Other coverage claims, which include perils and underinsured motorist protection, increased from $20 to $41 million between 2014 and 2023.

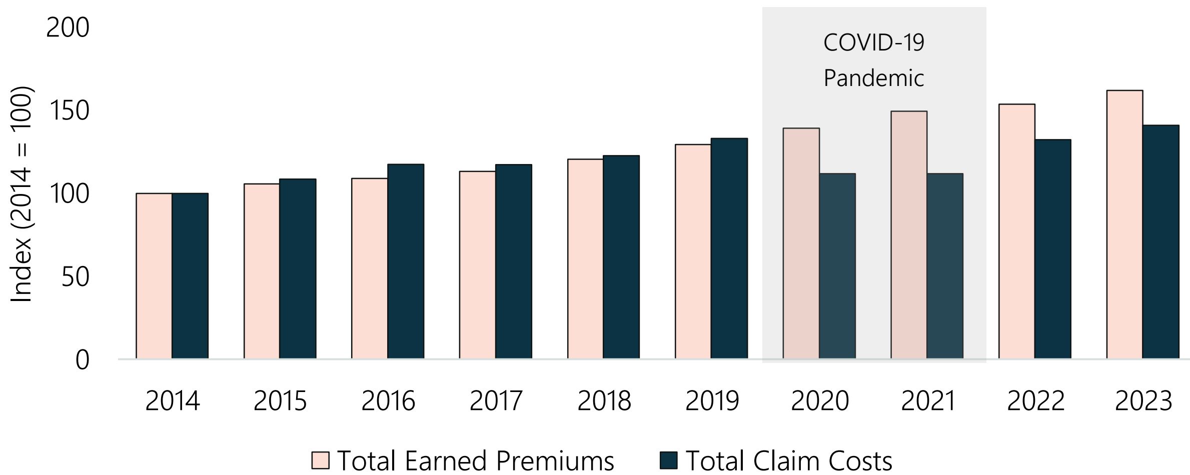
Figure 5: Total Claim Costs by Type of Coverage, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Figure 6 compares growth in total earned premiums and total claim costs, indexed to 2014 levels. Between 2014 and 2019, total claim costs consistently grew faster than total earned premiums. However, when driving activity slowed at the onset of the pandemic in 2020, claim costs experienced a sharp decline, while premiums continued to increase. From 2021 onward, claim costs have, once again, started to increase faster than premiums.

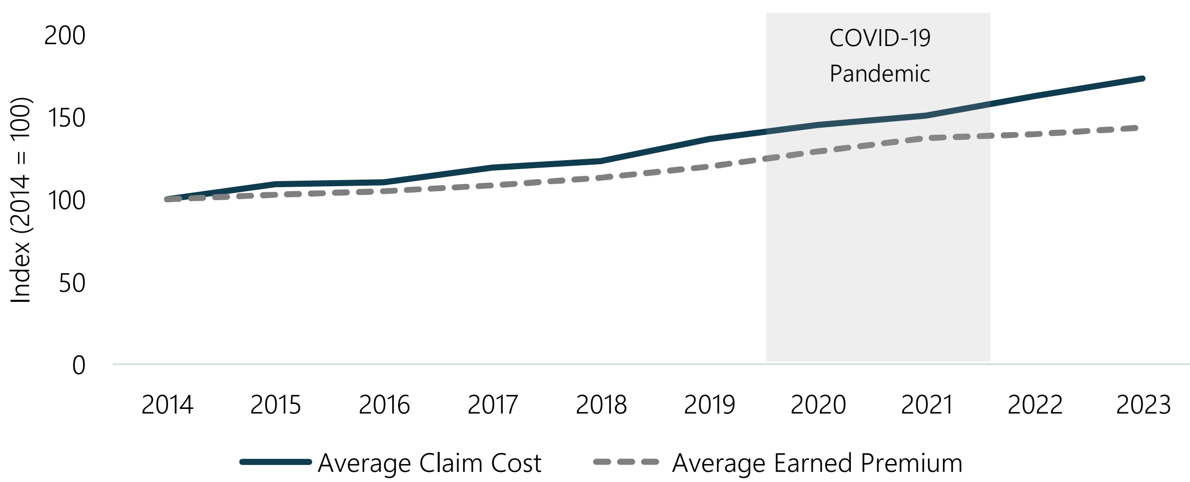
Figure 6: Total Earned Premiums and Total Claim Costs, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Figure 7 illustrates trends in average claim costs and average earned premiums indexed to 2014 levels. Between 2014 and 2023, average claim costs increased by 73 percent relative to 2014. Average earned premiums displayed more moderate growth, increasing by 43 percent between 2014 and 2023.

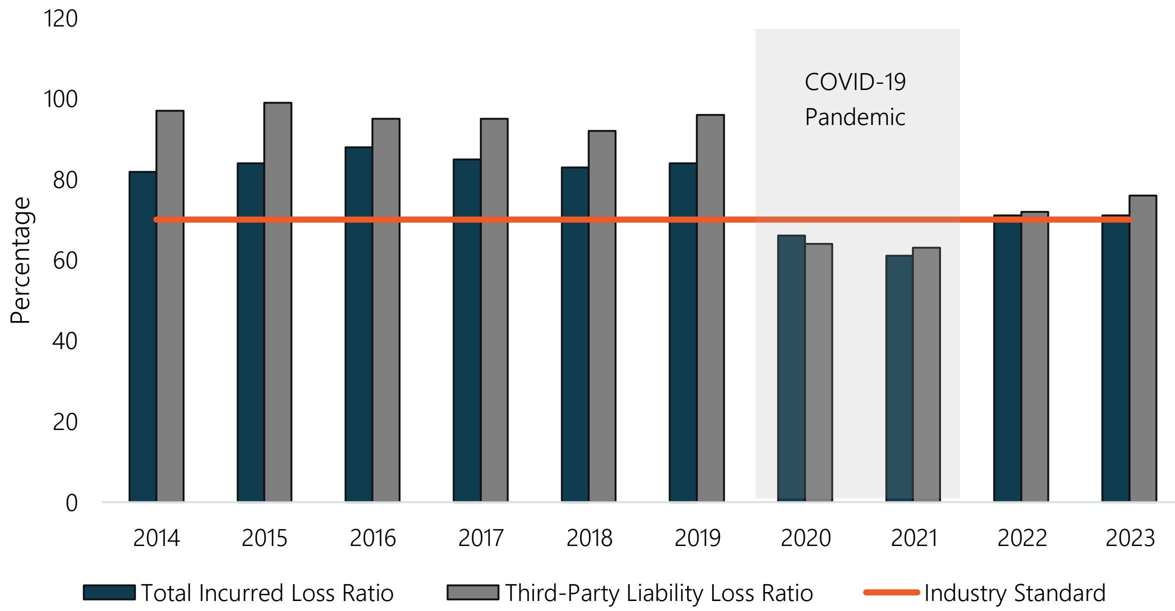
Figure 7: Index of Average Claim Costs and Average Earned Premium, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Loss ratios measure the percentage of premiums paid out in claims. A loss of ratio of 70 percent for auto insurance is generally where an insurer is achieving a level of profitability consistent with financial sustainability.[4] As shown in Figure 8, loss ratios ranged from 82 to 88 percent between 2014 and 2019, fell to 61 percent in 2021, and increased to 71 percent in 2023. This suggests that premiums will need to increase at the same rate as claim costs going forward.

Figure 8: Index of Average Claim Costs and Average Earned Premium, 2014-2023



Source: GISA Exhibit: AUTO1005-AB.

Factors Contributing to Increased Claim Costs

There are numerous factors contributing to increases in claim costs. In addition to increases in the cost of vehicle repair:

- Between 2018 and 2022 the frequency with which those injured in collisions sought legal representation and pursued a bodily injury claim increased 48 percent.*
- Between 2021 and 2023 the cost of auto theft claims increased by 55 percent.**
- In 2024 the health levy increased by 28 percent and in 2025 it will increase an additional 25 percent. Together this is a 60 percent increase over two years. ***

* MNP. *System Costs and Auto Insurance Premiums*, September 2023

** IBC analysis of GISA data

*** IBC with data from Alberta Health

[4] Alberta Automobile Insurance Rate Board. Market & Trends Report. Retrieved from: https://albertaairb.ca/wp-content/uploads/2022/09/2022-Market-and-Trends-Report.pdf. January 12, 2023

3 Impact of Rate Caps

3.1 Alberta's Rate Caps on Auto Insurance Premiums

In 2023 the Government of Alberta introduced a rate pause for auto insurance meaning that the AIRB would not approve increases in premiums for rate filings after January 26.[5] The rate pause extended through December 2023. Beginning in January 2024 a rate cap of 3.7 percent was introduced for individuals deemed "good drivers". The increase was aligned with the September 2023 inflation rate. Additionally, an overall rate cap of 10 percent was implemented, meaning the AIRB would not approve any rate filings with an overall increase exceeding 10 percent.[6]

While the 10 percent rate cap applies to overall rates for all coverages, the "Good Driver" rate cap specifically applies to drivers classified as "good drivers." A "good driver" is defined[7] as a driver who, regardless of the number of years of driving experience, does not have any of the following on the inception date of their auto insurance policy renewal:

- Any at-fault claims in the previous six years,
- Any criminal code convictions in the previous four years,
- Any major convictions in the previous three years, and
- More than one minor conviction in the previous three years.

It is important to note that the 'Good Driver' rate cap only applies to renewals. It does not apply to policies for drivers who switch insurers, add vehicles to their policy or move to a different rating territory.

3.2 Description of the Scenarios

To illustrate the impact of rate caps on consumers, particularly the effect on premiums for good drivers versus those that do not qualify as good drivers (non-good drivers), MNP estimated the change in average premiums for both groups under two scenarios over a 10-year period. This section provides a description of these scenarios, along with the assumptions underlying the framework for each scenario.

The first scenario represents the status quo, where the 'Good Driver' rate cap of 3.7 percent and the 10 percent cap on the overall increase are in effect, with no reforms introduced to stabilize claim costs. This scenario provides a snapshot of how the market would be expected to respond to the implementation of the cap on overall premium increases across all coverages.

[5] Government of Alberta. Automobile Insurance Reform. https://www.alberta.ca/automobile-insurance-reform

[6] https://albertaairb.ca/wp-content/uploads/2023/11/Bulletin-10-2023.pdf

[7] https://albertaairb.ca/wp-content/uploads/2024/05/2024-05-01-AIRB-FAQs-For-Drivers.pdf

Under this status quo scenario, we assumed:

- The 'Good Driver' rate cap of 3.7 percent and the overall 10 percent cap on rate filings remain in place throughout the modelling period.
- Insurance providers increase average premiums to achieve the industry-standard loss ratio of 70 percent, but without exceeding the 10 percent overall cap. Additionally, insurance providers will raise premiums for good drivers by 3.7 percent, adhering to the 'Good Driver' cap.
- No reforms are introduced to stabilize rising claim costs. Current trends in average claim costs continue, with an annual increase of 6 percent in the average cost per claim.
- The claim frequency remains fixed at its 2023 level of 8.12 per 100 earned vehicles.
- The number of earned vehicles follows current trends with an annual growth rate of 1.4 percent, while the proportion of good and non-good drivers remains consistent throughout the modelling period.

The second scenario represents an alternative situation where rate caps are removed, and reforms to stabilize claim costs are introduced. This scenario illustrates how the market would be expected to respond in the absence of rate caps and the introduction of reforms, and how these changes would impact premium rates for both good and non-good drivers.

Under this alternative scenario, we assumed:

- All rate caps on rate filings are removed for the duration of the modelling period.
- Average premiums rise at a market-determined rate, allowing insurance providers to increase premiums to achieve the industry-standard loss ratio of 70 percent.
- Reforms are implemented to stabilize rising claim costs, resulting in the average cost per claim increasing at an annual rate of 3 percent.
- The claim frequency remains fixed at its 2023 level of 8.12 per 100 earned vehicles.
- The number of earned vehicles follows current trends with an annual growth rate of 1.4 percent, while the proportion of good and non-good drivers remains consistent throughout the modelling period.

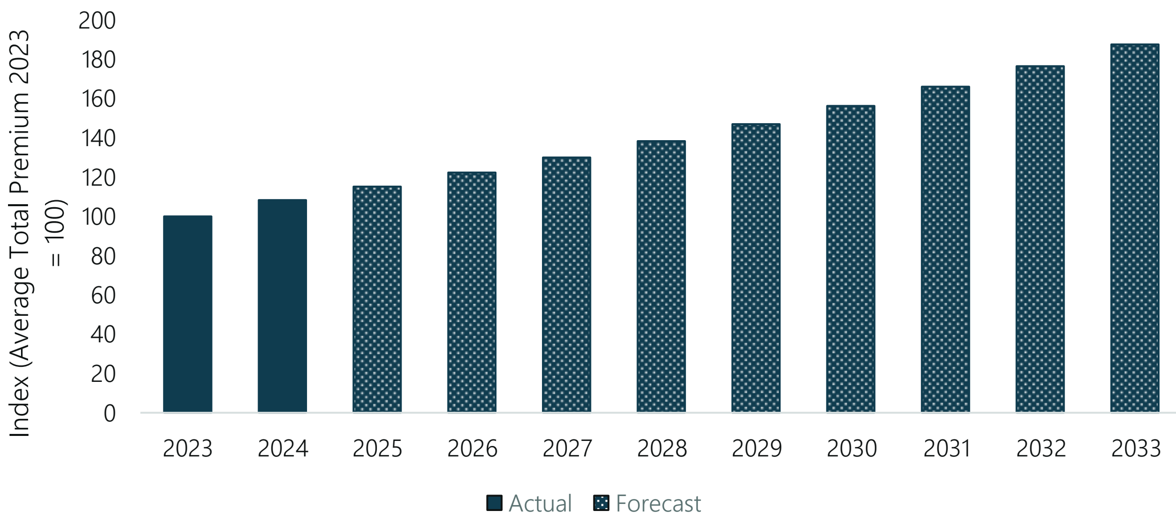
3.3 Impact of Rate Caps on Consumers

Figures 9 and 10 illustrate our main findings for the first scenario.[8] The projections indicate that the average total industry premium will increase by 87.6 percent between 2023 and 2033. With the 'Good Driver' cap, there will be large differences in growth rates across the two driver categories. For drivers classified as "good," the model predicts an average premium increase of 43.8 percent between 2023 and 2033. In comparison, drivers who do not qualify as good drivers are projected to experience an increase of 148.2 percent (or 9.5 percent annually) over the same period. The differing rates of growth between the two driver categories indicate a potential widening of the overall gap in their premiums. As of 2023,

[8] The average premiums for good and non-good drivers were estimated from online auto quote calculators from some of Alberta's largest insurance providers, including Intact, Alberta Motor Association, and TD.

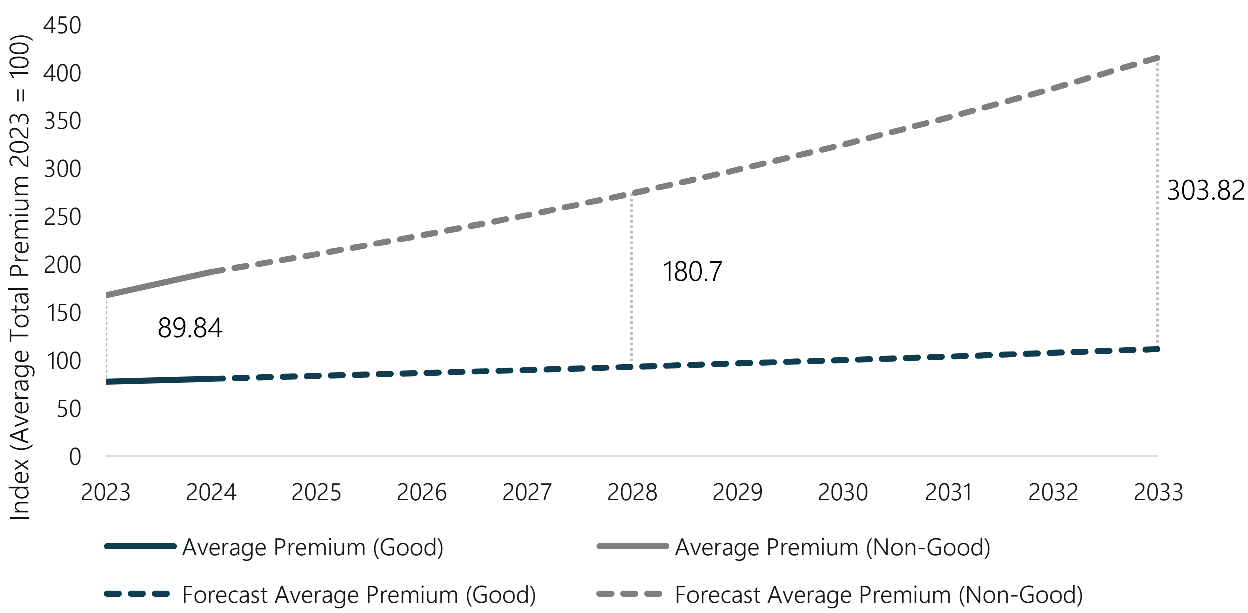
non-good drivers pay approximately 2.2 times more than good drivers for auto insurance. The model suggests that this ratio could increase to 3.7 by 2033 under the current rate cap system.

Figure 9: Actual and Forecasted Average Total Premiums under Rate Cap, 2023-2024



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

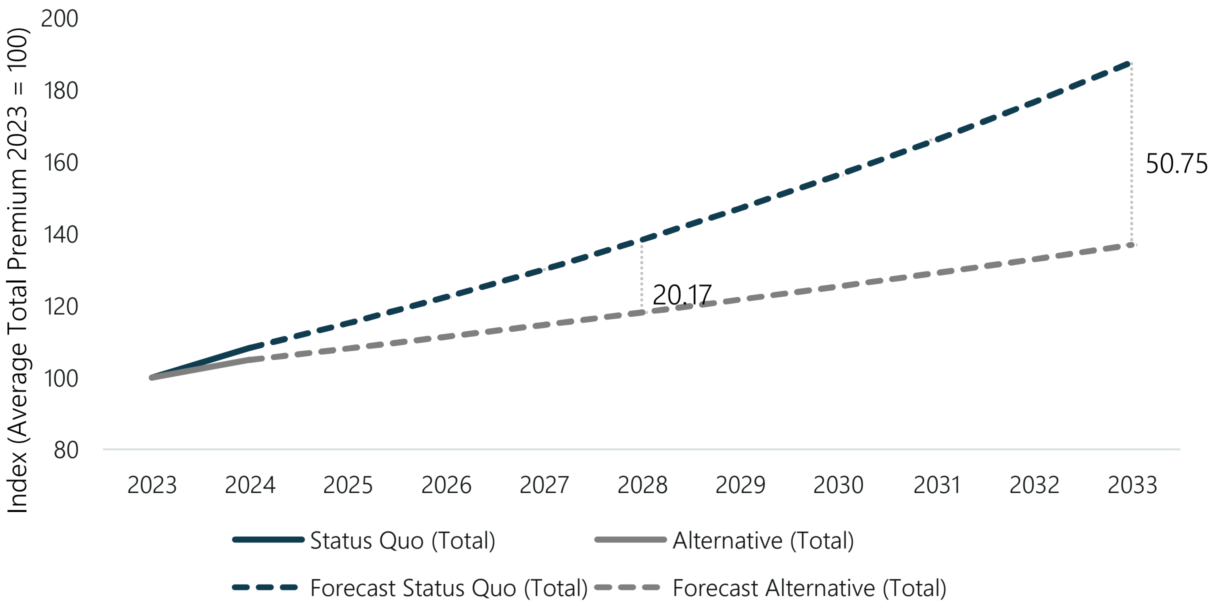
Figure 10: Actual and Forecasted Average Premiums by Driver Type under Rate Cap, 2023-2033



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

Figures 11, 12, and 13 illustrate how reforms that reduce claim cost growth to approximately 3 percent affect premiums. If growth in claim costs is reduced, the average total premium was estimated to increase by 36.9 percent between 2023 and 2033, substantially less than the 87 percent increase with no reforms.

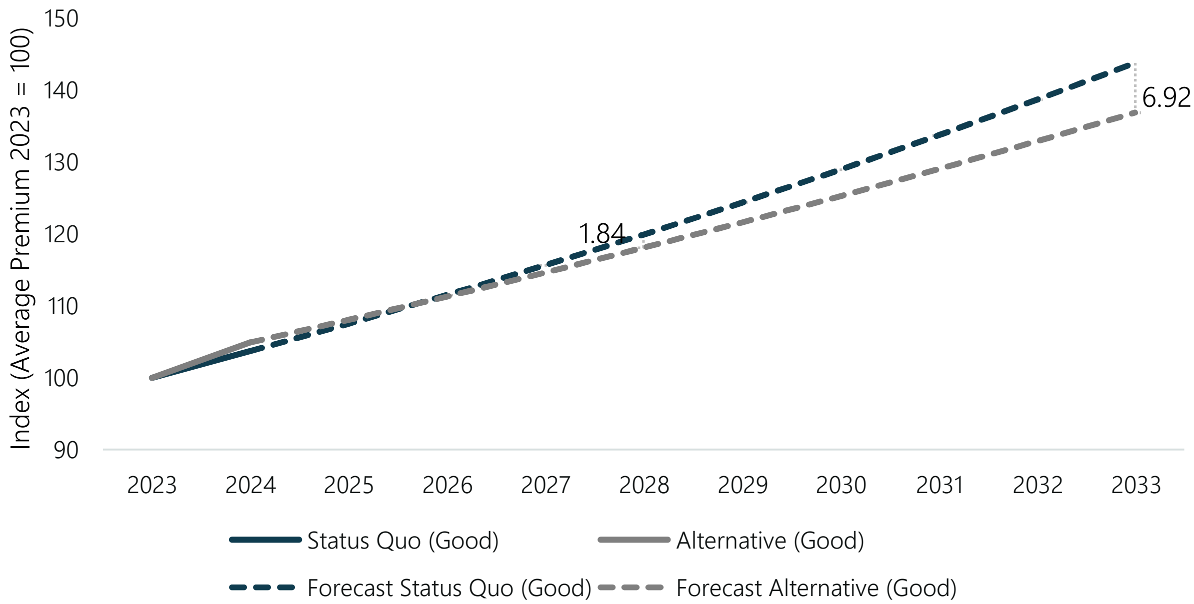
Figure 11: Average Total Premiums, 2023-2033



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

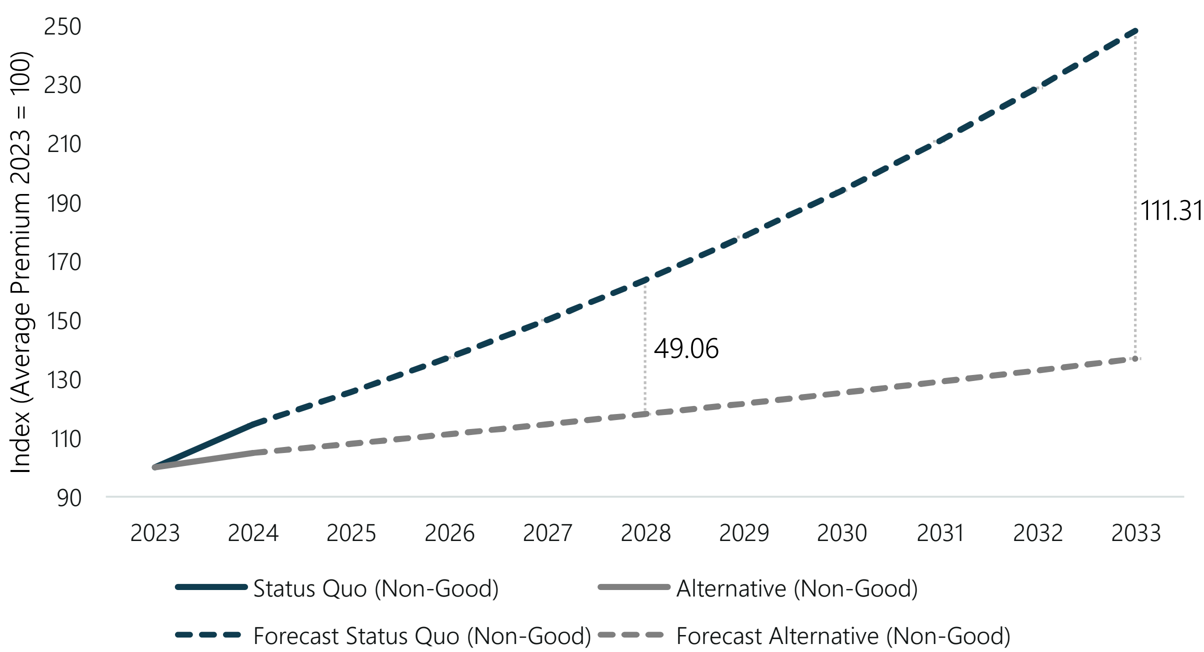
Both good drivers and non-good drivers benefit from reforms that reduce the growth in claim costs. With reforms, good drivers' premiums were estimated to increase by 36.9 percent versus the 43.8 percent premium increase without reforms between 2023 and 2033. For non-good drivers premiums were estimated to increase by 36.9 percent with reforms versus 148.2 percent with the 'Good Driver' cap in place and no reforms between 2023 and 2033.

Figure 12: Average Premiums among Good Drivers, 2023-2033



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

Figure 13: Average Premiums among Non-Good Drivers, 2023-2033



Source: GISA AUTO1005-AB Exhibit and authors' calculations based on online insurance quote data from multiple providers.

Other Considerations

While the overall industry average increase in premiums is capped at 10 percent, the increase in premiums may be significantly higher than 10 percent for many drivers. Table 1 shows an example for an insurer with a stable number of policies that experiences an increase in claim costs of eight percent. To cover the increase in claim costs the insurer's premium revenues increase by eight percent. This means that the overall average premium increases by eight percent which is below the cap. The increase in premiums is spread across the insurer's policies. Of these, 90 percent (90 polices) are subject to the 'Good Driver' cap. For these drivers premiums increase by 3.7 percent. For the other 10 percent of policies the average increase is 32 percent, well above the overall cap. This group would include drivers who had made changes to their policies (e.g., added or changed vehicles, moved to a new territory) or were new customers, as well as drivers who had an accident in the past six years.

Table 1: Example of the Impact of the Good Driver Cap on Premiums for Individual Drivers

	Year 1	Year 2	Percentage Change
Number of policies	100	100	0%
Number of claims	8	8	0%
Average cost per claim	$14,300	$15,444	8%
Total claim costs	$114,400	$123,552	8%
Premium requirements (70% loss ratio)	$163,429	$176,503	8%
Average premium	$1,634	$1,765	8%
Good driver policies	90	90	0%
Good driver premium*	$1,543	$1,601	3.7%
Non-good driver premium	$2,451	$3,245	32.4%

*Calculated based on that average non-good driver premium being two times that of good drivers.

In addition, the 'Good Driver' cap may have the following unintended consequences:

- **Disproportionately affect newcomers to Alberta and young and inexperienced drivers.** The 'Good Driver' cap does not apply to new business and is not expected to affect claim costs. This means that as claim costs rise insurers will likely increase premiums for new customers to address rising costs. In addition, younger drivers and drivers with less experience tend to have higher claim rates so are more likely to be excluded from the Good Drivers. Consequently, the Good Drivers cap is likely to have a disproportionate effect on premiums for younger drivers, and those that are new to Alberta.
- **Consumers will be less likely to switch insurers which may reduce competitive pressures on insurers.** The 'Good Driver' cap does not apply to new business. As a result, a good driver who switches from one insurer to another is not defined as a 'Good Driver' under the cap, and may face significantly higher premiums. Consequently, drivers may be less likely to switch insurers,

thereby reducing competitive pressures on insurers. According to the submission to the AIRB Annual Review by the consumer representative, 53 percent of respondents to a survey of those responsible for purchasing auto insurance reported obtaining competitive quotes in 2024.[9] While this percentage was consistent with survey results from 2022 and 2023 it is significantly lower than in 2021.

4 Case Study: California's Freeze on Auto Insurance Rate Filings

Government-imposed rate caps or freezes on auto insurance premiums, while intended to protect consumers, can significantly impair insurers' ability to adapt to changing market conditions. When insurers face escalating cost pressures, such as rising vehicle repair expenses or injury costs, these regulatory constraints can prevent them from adjusting premiums to cover their increasing expenses. This misalignment between costs and revenue often leads to a series of negative consequences. As insurers grapple with persistent cost pressures and artificially suppressed premiums, they frequently incur underwriting losses, essentially paying out more in claims than they collect in premiums. This financial strain can force insurers to make difficult decisions to maintain solvency, such as reducing operational scope, limiting coverage options, or implementing other measures that ultimately harm consumers. In extreme cases, insurers might exit markets entirely, further reducing competition and consumer choice. California's auto insurance market recently experienced these challenges and provides an illustration of how well-intentioned, regulatory interventions such as rate freezes and caps can backfire, inadvertently causing long-term harm to the very consumers they aim to protect.

In April of 2020, California's insurance commission ordered insurers to provide refunds to policy holders in response to the pandemic-induced reduction in driving activity.[10] This action was followed by a de facto freeze on rate increases, with no private auto insurance rate hikes approved between April 2020 and October 2022. This 30-month premium freeze, while initially intended to protect consumers set the stage for significant market disruptions that ultimately harmed them. As traffic returned to pre-pandemic levels and accident rates increased, the frozen premiums left many insurers with loss ratios exceeding 100 percent, forcing them to adjust their business operations dramatically[11]. GEICO insurance closed all its brick-and-mortar store fronts in the state and stopped selling insurance over the phone, which limited

[9] *2024 Consumer Perspectives on Automobile Insurance*. June 21, 2024. Available here: https://albertaairb.ca/wp-content/uploads/2024/06/Consumer-Perspective_2024.pdf

[10] Bulletin 2020-3 Re: Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic. Ricardo Lara, California Insurance Commissioner. https://www.insurance.ca.gov/0250-insurers/0300-insurers/0200-bulletins/bulletin-notices-commiss-opinion/upload/Bulletin_2020-3_re_covid-19_premium_reductions-2.pdf

[11] June Sham. California rate filing freeze starts to thaw. Bankrate.com. December 1, 2022. https://www.bankrate.com/insurance/car/california-rate-filing-freeze-causes-unrest/#what-are

access for consumers who preferred in-person or telephone services[12]. Progressive Insurance refrained from writing additional auto business in California because of their inability to increase rates.[13] Progressive's CEO noted that the moratorium that existed on rate increases did not serve the customers of California, and the company would be forced to slow growth. Allstate Insurance implemented underwriting restrictions in underperforming states and reduced their advertising spend.[14] In general, many Californians experienced reduced options for coverage, less assistance, and stricter policies because of the state's rate freeze.

In October 2022 the California Department of Insurance (DOI) resumed approving rate increases[15], but the approval process remains slow and has catalyzed a "boomerang effect" of sharp increases as insurers play catch-up. Many consumers now face both rapidly increasing premiums and reduced insurance options. A report from Insurify, an insurance comparison shopping website, found that between June 2023 and June 2024 the average increase for full coverage in California was 45 percent[16]. Projections for 2024 suggest that the state could see even larger rate increases—exceeding 50 percent—by year's end, as insurers attempt to recoup losses and adjust to current risk levels.[17]

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5 Conclusion

The ‘Good Driver’ rate cap was introduced in an effort to moderate premium increases for drivers who have not had at-fault claims or been convicted of engaging in behaviors that increase the likelihood of an accident. However, it does not directly address the underlying factors contributing to rising claim costs. Consequently, the total increase in premiums needed to cover claim costs is unchanged and most of the increase is levied against those that do not qualify as good drivers. This includes newcomers to Alberta, drivers who move within the province, drivers who make changes to their policies and young drivers who are purchasing insurance for the first time. For these drivers, the increase in premiums could be substantially higher than the 10 percent cap on rate filings.

The experience in California illustrates that trying to limit price increases without addressing cost pressures may provide relief in the short-term but can lead to more significant increases in the longer term. To address affordability of insurance premiums reforms that reduce increases in the cost of claims are needed. This would benefit all drivers and would reduce the growth rate of premiums.

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Appendix B – About MNP

For over 60 years, MNP has proudly served and responded to the needs of clients in the public, private and not-for-profit sectors. Today, MNP is the fifth largest Chartered Professional Accountancy and business consulting firm in Canada and is the only major accounting and business consulting firm with its head office located in Western Canada. MNP has more than 100 locations and over 8,800 team members across the country.

About MNP's Economics and Research Practice

Economic and industry studies are carried out by MNP's Economics and Research practice. The Economics and Research practice consists of a team of professionals with a successful track record of assisting clients with various financial and economic impact studies. Our work has encompassed a wide range of programs, industries, company operations and policy initiatives, and has helped clients with decision-making, communication of economic and financial contributions, documentation of the value of initiatives and activities, and development of public policy.


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