

## **ONCE AGAIN AUTO INSURANCE PREMIUMS BECOME AN ELECTION ISSUE IN ALBERTA**

On 26 January 2023, the Alberta government announced a freeze on any auto insurance rate increases for private vehicles for the balance of this year.<sup>1</sup> The control on prices followed a pledge by the new Premier Danielle Smith to control auto insurance premium increases shortly after an Ernest Young rate comparison had shown Albertans paying some of the highest rates in the country.<sup>2</sup>

The opposition NDP had been calling for a rate freeze similar to the one they imposed in 2017. With a general election planned for 29 May 2023, it appears that the United Conservative government believed it had to derail the auto insurance cost issue before it gained much more traction.

### **The Politics of Auto Insurance Rates**

Unlike the three other western provinces, compulsory Basic auto insurance in Alberta is provided by private sector for profit and not-for-profit insurers. Rate adjustments for third-party liability and injury benefits must be approved by the Automobile Insurance Rate Board (AIRB) which works in the best interest of Albertans while considering each insurance company's circumstances.

In 2004 Alberta adopted a hybrid-tort liability model where pain and suffering awards for minor injuries were capped. This initially reduced the cost of claims, but within a few years the number and cost of injury claim began to increase as some types of claims evaded the minor injury definition.

In December 2017, the NDP government limited premium increases to 5% as a way to provide some financial relief from rising costs. This limit squeezed the profits of the insurance companies, resulting in higher underwriting standards and making it much harder for many Albertans to find appropriate and affordable insurance.

In September 2019, the United Conservative government ended the limitation on premium increases and gave the AIRB the authority to set Basic and Optional rates. At

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<sup>1</sup> <https://edmontonjournal.com/news/politics/alberta-freezing-insurance-rates-through-end-of-year>

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[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_insurance\\_comparisons\\_12\\_december\\_2022/pdf/commentary\\_insurance\\_comparisons\\_12\\_december\\_2022.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_insurance_comparisons_12_december_2022/pdf/commentary_insurance_comparisons_12_december_2022.pdf)

that time, they 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.”<sup>3</sup>

## **Review Recommends No-Fault for Alberta**

In December 2019, in response to severe criticism of the cost of the auto insurance, the government appointed a three person committee to review the hybrid model and recommend changes (within a private sector delivery model). The committee delivered its report in September 2020. The committee recommended that the Alberta government legislate a no-fault model as soon as possible.<sup>4</sup>

Two months later the government introduced legislation to provide for a no-fault, or first-party, liability system for material damage claims.<sup>5</sup> It also expanded the definition of a minor injury. The new system became effective on 1 January 2022, and made the disposition of these claims faster. The government did not expand the no-fault model to injury claims, although there was some suggestion that this issue was still under review.

## **The 2023 Freeze**

The NDP opposition had been promoting the idea of a rate freeze prior to the government announcement. Given the tight margins of recent public opinion polls it would appear that the UCP government was prepared to reverse its pledge to respect the expertise and experience of the AIRB for political reasons.<sup>6</sup> The obvious hope is to eliminate the high cost of auto insurance as an issue during the coming election.

The Insurance Brokers Association of Alberta said that the freeze will cause strain on “an already fragile segment of insurance,” especially when coupled with inflation and rising repair costs. It noted that consumers are likely to face limited options similar to the 2017 to 2019 period.

For the longer term, the IBAA said that a freeze may result in some insurers finding it difficult to remain economically viable. “If insurers are not able to collect enough premium to pay claims, we will be facing an unstable market environment if this carries on long term,” IBAA said. “The insurers that support Alberta will be forced to take

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[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_alberta\\_five\\_percent\\_september\\_3\\_2019\\_2/pdf/commentary\\_alberta\\_five\\_percent\\_september\\_3\\_2019\\_2.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_alberta_five_percent_september_3_2019_2/pdf/commentary_alberta_five_percent_september_3_2019_2.pdf)

<sup>4</sup> The BC government announced the change to a no-fault system on 6 February 2020.

[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_alberta\\_30\\_october\\_2020/pdf/commentary\\_alberta\\_30\\_october\\_2020.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_alberta_30_october_2020/pdf/commentary_alberta_30_october_2020.pdf)

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[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_alberta\\_adopts\\_changes\\_30\\_november\\_2020/pdf/commentary\\_alberta\\_adopts\\_changes\\_30\\_november\\_2020.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_alberta_adopts_changes_30_november_2020/pdf/commentary_alberta_adopts_changes_30_november_2020.pdf)

<sup>6</sup> <https://www.politico.com/news/2023/01/25/alberta-danielle-smith-rachel-notley-00079299>

drastic action in order to sustain the current system and continue to support consumers.”<sup>7</sup>

The Insurance Bureau of Canada (ICB), the insurance industry association, also warned that a prolonged freeze would have serious negative consequences for insurers and for customers. “Rate caps have resulted in significant negative consequences for consumers when undertaken previously in Alberta and elsewhere,” the ICB stated. “During Alberta’s last provincial rate cap from 2017 to 2019, consumers faced challenges securing the coverage they needed, as insurers were forced to take action to remain viable and continue paying customers’ claims.”

### **Post-Election?**

Is a shift to a no-fault injury liability model likely after the May 2023 election? This seems a likely result if the NDP forms the government, especially now that the NDP government in B.C. adopted first party insurance.

If the UCP is re-elected the future model of injury liability insurance is less certain. The government has the 2020 report which recommended the no-fault model, and it has adopted the no-fault option for material damage claims. The real issue is whether the UCP government would have the will to overcome the likely opposition of some groups to expanding the no-fault system for injury claims.

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He was an intervener in the BC Utilities Commission’s current review of B.C. Hydro’s rate request.

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<sup>7</sup> <https://www.canadianunderwriter.ca/brokers/alberta-ucp-announces-auto-rate-freeze-1004230073/>