

# Superintendent of Insurance

## Interpretation Bulletin

<b>Bulletin Number:</b>	<b>03-2020</b>
<b>Title:</b>	<b>Best Terms Pricing</b>
<b>Date:</b>	<b>December 1, 2020</b>
<b>To:</b>	<b>All licensed property insurers underwriting subscription condominium corporation insurance policies in Alberta</b>

### Purpose

In accordance with section 792.1 of the *Insurance Act* (Act), this Interpretation Bulletin has been issued to notify insurers in Alberta that the Superintendent of Insurance (Superintendent) interprets section 509(1)(c) of the Act as prohibiting the use of *best terms pricing* (“**BTP**”) when setting premiums for subscription condominium corporation insurance policies.

For the purposes of this Bulletin, BTP means:

The practice where a premium for an insurer’s portion of a subscription insurance policy is determined by reference to any higher quoted premium bid made or received by any other non-affiliated insurer on the same subscription policy.

The scenario described below exemplifies the kind of BTP use that the Superintendent considers contrary to section 509(1)(c) of the Act:

**Scenario** – Three non-affiliated insurers submit bids to insure a portion of a condominium property:

- Insurer A bids to cover 40% of the value of the property at a premium rate of 20 basis points
- Insurer B bids to cover 35% of the value of the property at a premium rate of 30 basis points
- Insurer C bids to cover 25% of the value of the property at a premium rate of 40 basis points

Using the BTP model, the premium rate paid by the insured, for the entirety of the policy, is based on the submitted bid of 40 basis points.

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Instead of the premium being set by the quote of each insurer, or by an average of all quotes, BTP uses a higher quote to set the premium price for all subscribing insurers. As a result, an insurer may receive a higher premium than it quoted while the insured is made to pay higher than quoted prices for the entire amount of coverage under the policy.

For greater clarity, the following situations are excluded from the above definition of BTP, and will not be considered unfair practices by the Superintendent, absent other misconduct:

- A subscribing insurer's premium being set in accordance with the weighted average of all bids by non-affiliated insurers, or the bid by the lead insurer.
- An insurer revising its bid during the negotiation or construction of a subscription insurance policy, provided that BTP or similar practices are not used to establish the insurer's revised premium.

At this time, the Superintendent only views the use of BTP as being contrary to section 509(1)(c) of the Act when used to calculate the premiums of subscription condominium corporation insurance policies. This is due to the mandatory nature of this kind of insurance in Alberta, and the negative impact that BTP can have on condominium corporations seeking to obtain coverage.

Fair and transparent pricing is essential to a successful marketplace. Therefore, it is important insurers use pricing models that reasonably reflect risks and deductible levels, and fairly account for loss coverage.

## Timing

Insurers are expected to discontinue the use of BTP in Alberta on new and renewal subscription condominium corporation insurance policies as soon as practicable, and in any case by **no later than March 1, 2021**.

## Enforcement

The Superintendent interprets the prohibition on unfair, coercive, or deceptive acts or practices in section 509(1)(c) of the Act to be applicable to, and bar the use of, BTP for subscription condominium corporation insurance policies. Accordingly, an insurer utilizing BTP for any new or renewal subscription condominium corporation insurance policy on or after March 1, 2021, will be viewed as engaging in conduct contrary to the Act.

Where the Superintendent is of the opinion that an insurer has contravened section 509(1)(c) of the Act, the Superintendent may require that insurer to pay an administrative penalty of up to \$25,000 for each contravention, pursuant to section 789 of the Act.

In the alternative to an administrative penalty, an insurer who contravenes section 509(1)(c) of the Act may be prosecuted under section 780 of the Act. If convicted, an insurer is subject to a fine of up to \$200,000 (and if the offence is of a continuing nature, each day or part of a day constitutes a separate offence) under section 786 of the Act.

## For Condominium Corporations

Curtailing the use of BTP will not solve all insurance issues faced by many condominium corporations in Alberta. A number of local and global factors are currently driving up the costs of condominium insurance across Canada. Examples include increasing frequency and severity of condominium property claims, increasing reinsurance costs (reinsurance is purchased by insurers to help pay for more serious losses), and increasing property values. Therefore, curtailing BTP should help alleviate some of the premium increases, but not all. The Superintendent urges condominium corporations to work with their insurance broker or insurance representative to identify steps they can take to improve their risk profile.

There will be a transition period for insurers to change their practices and discontinue using BTP for subscription condominium corporation insurance in Alberta. Prior to March 1, 2021, if a condominium corporation is in the process of negotiating a new or renewal policy, the corporation should check with its broker or insurance representative about the type of pricing model used for the policy.

The Superintendent will not require insurers to revise the terms of existing policies.

If you have any questions regarding this bulletin, please contact my office at (780) 643-2237 or [tbf.insurance@gov.ab.ca](mailto:tbf.insurance@gov.ab.ca).

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Sherri Wilson  
Superintendent of Insurance

### Contact Information and Useful Links

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For more information, visit [insurance.alberta.ca](http://insurance.alberta.ca)



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