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Alberta's auto insurance premium caps doing more harm than good: report

A new report by the Montreal Economic Institute said imposed rate caps have placed a strain on the auto insurance market

By Cindy Tran

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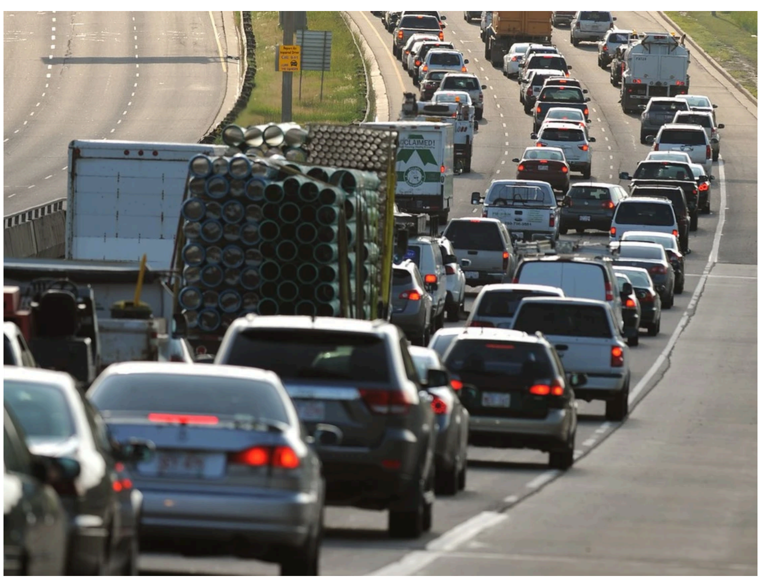

A new report by the Montreal Economic Institute (MEI) finds that auto insurance rate caps are doing more harm in the long-term than good. PHOTO BY LARRY WONG /Postmedia

Alberta has capped auto insurance rates at 7.5 per cent for good drivers in 2026, with a new system set to come in 2027. However, a new report has found rate caps do more harm than good.

The report by the Montreal Economic Institute (MEI) said rate caps imposed by the Alberta NDP and the governing United Conservative Party in recent years have placed a strain on the auto insurance market — damaging its profitability — and that if price controls continue premiums will not become sustainable.

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Gerard Lucyshyn, senior economist at the MEI and author of the publication, said price control will universally distort a market and is not a positive thing in the insurance industry. He said governments need to allow the market to determine the price of risk, while also encouraging more competition, which means more freedom for Albertans.

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“One of the ways that you know insurance companies try to cut their costs is by reducing the type of insurance or the amount of insurance that you have, or they might tighten up on their claim requirements. But in the end, whatever they resort to it’s bad for Albertans,” Lucyshyn said.

He pointed to a newly released annual government report by Alberta’s superintendent of insurance, which found insurance companies are paying out $1.18 per every dollar collected in premiums. The report said property and casualty insurers lost over $1.2 billion on auto insurance sales in 2024, paying out 18 per cent more in claims and expenses than drivers paid in premiums.

Hanna Beydoun, director of auto policy at the Insurance Bureau of Canada, emphasized the need to eliminate the rate cap. She said while rate caps are intended to provide short-term relief for motorists, they end up pushing present day challenges down the road.

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“The challenge with rate caps is that we see these costs continue to rise and continue to mount without any pressure valve. So there’s nowhere for these costs to go in the short term,” Beydoun said.

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A Statistics Canada report in April 2025, which Lucyshyn cited, found several insurers began withdrawing form the Alberta auto insurance market in late 2023 and early 2025. While they represented a small share of the market, the exit was attributed to ongoing unprofitability and challenging market conditions.

It said at the time that one-third of insurers in Alberta were unprofitable, and rate caps were in part a factor in the decision to withdraw services and the portion of claim costs associated to legal fees increasing.

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In a statement to Postmedia, Marisa Breeze, a press secretary to the finance minister, said the good driver rate cap currently at 7.5 per cent for the 2026 year would be reevaluated at the end of its term to "determine its benefit and use in subsequent years.

"Without a rate cap in 2026, insurers could have increased premiums past 7.5 per cent for good drivers to offset the rising costs from legal fees, tariffs, and weather-related incidents," Breeze said.

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"For 2027, the new care-first auto insurance system will start to stabilize rates for drivers over the long-term. Alberta's government will continue to work with stakeholders, including auto insurers, brokers, and health-care practitioners to ensure a successful transition to the care-first auto insurance system next year."

Breeze said the province is committed to helping Albertans manage rising insurance premiums and to stabilizing the province's auto insurance industry.

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