

## INSURANCE BROKERS ASSOCIATION EXECUTIVE DIRECTOR SUPPORTS PUBLIC AUTO INSURANCE MODEL

ICBC sells its Basic and Optional policies through a system of approximately 900 insurance broker agencies throughout the province. Many private sector broker firms own multiple insurance agencies.<sup>1</sup>

In 2018/19, ICBC paid approximately \$490 million to brokers as commissions on the sale of the Basic and Optional policies, with most of the commission paid for the sale of Optional insurance.<sup>2</sup>

Chuck Byrne is the executive director of the Insurance Brokers Association of B.C. (IBABC), which is the industry association of the insurance brokers in this province. In an editorial in the August 2019 edition of the IBABC's *B.C. Broker* magazine Byrne wrote a balanced and thoughtful justification for the current public monopoly model for the provision of auto insurance.<sup>3</sup> The excerpts of his article are reproduced (with permission) below:

### Move to Greater Driver-Based Risk Weighting

**“In Canada, we grew up with cars. Getting a driver’s permit was a teenage rite of passage; along with the promise of freedom was an inferred *right to drive*.**

I use the term ‘right’ to drive, but it is, of course, really a privilege – *that is accompanied with great risk and personal and financial responsibility*.

This will be the realization, I hope, of all drivers in B.C. as they experience the long-overdue transition to driver-based auto insurance starting in September. Yes, B.C. auto insurance has always had a tie to the driver, but

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<sup>1</sup> Some of these companies can own many “agency agreements.”

<sup>2</sup> The Basic commission is a fixed amount per transaction, while the Optional commission is a percentage of the value of the insurance sold. ICBC also pays the brokers a fee to collect unpaid moving violation fines. See <https://globalnews.ca/news/4725022/far-and-away-expensive-auto-insurance-brokers-charged-icbc-434-million-in-commissions-last-year/> and <https://www.icbc.com/about-icbc/company-info/Documents/ar-19.pdf> p. 97.

<sup>3</sup> [http://bcbroker.texterity.com/bcbroker/august\\_2019/MobilePagedArticle.action?articleId=1508318&app=false#articleId1508318](http://bcbroker.texterity.com/bcbroker/august_2019/MobilePagedArticle.action?articleId=1508318&app=false#articleId1508318)

driver accountability will be much more in focus with the upcoming rating changes. Most B.C. drivers will see improved auto insurance pricing, while a significant number will see premiums rise dramatically – but they still will be afforded the chance to change their driving habits before the pricing boom is fully leveled at them.”

## **Fairness in Pricing**

“Fairness in pricing has been an experiment in B.C. since the late 1970s when the then newly elected Social Credit party banned the use of age, gender, and marital status in pricing. Regardless of that brave experiment and its consequences much good has been achieved along the way.

- In 45-plus years, every B.C. driver has consistently had access to universal coverage and limits at an affordable price – over their entire driving life. No age group, demographic, or region has suffered a loss of access to vehicle insurance. *So-called competitive auto insurance markets in Canada can't make that claim.*
- Public auto insurance ensures that *all drivers in B.C. have the same access* to auto insurance, which protects them as well as all other road users. B.C.'s estimated uninsured rate is less than two per cent – much lower than other jurisdictions in North America where four to 20% of drivers are uninsured.
- Approximately *91% of B.C. premiums are returned to customers* in the form of claims payments, which compares to approximately 56% for private auto insurance markets in Canada.
- Non-discriminatory rating, which does not base rates on age, gender, or marital status.
- *Efficient linkage* between licensing, motor vehicle registration, and basic liability coverage *eliminates redundancy.*”

## **Stability in the Auto Insurance Sector**

“Universally available coverage and limits, not a free-for-all of profit-seeking competition, is what provides stability to the societal dilemma of auto insurance. The private insurers and their never-ending battle with government and regulators in other provinces is not the model B.C. or

Saskatchewan, Manitoba, or Quebec should aspire too. Been there... suffered that.

History speaks for itself. It isn't about the societal dilemma in the other provinces; it is about the almighty buck/rate of return, which is why, in the private auto insurance market, so few insureds benefit with lower premiums or any type of sustainable market stability."

### **What the lobbyist for the Private Insurers do not Discuss.**

"The highly politicized lobbyists for private insurance here in B.C. leave out a lot of detail when making their pitch. Here are a few realities of private auto insurance/competition:

- Someone in a less-than-desirable postal code will be affected by higher premiums, often with no explanation provided.
- An average or lower credit score may negate access to coverage and often increases premiums.
- Vehicles whose value or attributes don't hit the underwriting sweet spot often "need not apply."
- Drivers under age 25, if coverage is offered, pay exorbitantly simply due to their age.
- Likewise, drivers over age 65.
- Residential insurance claims can affect suitability for auto insurance.

The points above are why I have been a proponent of public auto insurance since shortly after arriving in B.C. in 1990. Full disclosure: In those days I managed an insurer's operations here in the province that in a minor and highly profitable way competed against ICBC. The truth is we unfairly competed against ICBC to raid the highly profitable auto insurance customers."

### **Shift to a Public Model Nationally?**

"I am not proposing a nation-wide shift to public auto insurance, but *I will predict one is increasingly possible* considering the need for balance between social responsibility, social privilege, and our society's economic

habits of necessity. Those factors, combined with the greed apparent for auto insurance profits, keep the non-public auto insurance provinces in the rest of Canada in a constant cycle of customer turmoil and regulatory recalibration.

Governments will always be involved with auto insurance – through regulation, oversight, sponsorship, whatever. The industry would be wise to embrace that fact. Pundits and lobbyists who are calling for less government involvement in the private auto insurance provinces are dreaming of profits and personal gain seemingly as they ignore the imbalance of what they propose. It is a tad obvious. I wonder why they are blind to it?”

### **Summary**

The current NDP government supports the current public monopoly model, although starting in September the greater emphasis on a driver’s experience and driving record to set the annual premiums more closely mirrors the private sector model. Andrew Wilkinson, the leader of the Liberal party, has stated that the opening of the compulsory Basic insurance to the private sector should be considered.<sup>4</sup> The Insurance Bureau of Canada, the lobbyist for the private insurers, has been advocating the end to the public monopoly. It has been a major campaign donor to the Liberal party.<sup>5</sup>

Richard McCandless August 8, 2019. <http://www.bcpolicyperspectives.com/>

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 is an intervener in the BC Utilities Commission’s current review of ICBC’s 2019 rate request.

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<sup>4</sup> <https://www.insurancebusinessmag.com/ca/news/breaking-news/debate-rages-over-increase-in-auto-insurance-rates-in-bc-119603.aspx>

<sup>5</sup> <https://pressprogress.ca/the-bc-liberals-pocketed-175000-from-a-big-insurance-lobbyist-now-they-want-to-privatize-car-insurance/>

