

NEW REPORT SHOWS AUTO INSURANCE RATES ESCALATING IN ALBERTA AND ONTARIO: IS MORE COMPETITION REALLY THE KEY TO LOWER RATES?

A new report from *LowestRates.ca*, which provides online insurance rate comparisons, shows a marked increase in second quarter auto insurance prices in Ontario and Alberta compared to a year ago.¹ The price increases discussed in the report were based on quoted rates, not the rate comparison methodology used by the Insurance Bureau of Canada (ISB).²

The report states that high loss ratios are the primary cause of the increase in rates; “While there are a variety of factors that affect insurance prices, one consistent issue we hear when talking to the brokers we partner with, is that insurance companies are fighting high loss ratios — meaning, in many cases they’re paying out more in claims than they’re taking in from premiums. In a healthy business environment, insurance companies would be making more money from customers than they would be paying out in claims.”

The report notes that the loss ratios are causing some private sector insurers to be more selective in who qualifies for insurance: “some insurance companies have been reluctant to take on new business, leaving drivers in Canada with less choice — and higher prices.” The public Basic auto insurance monopolies in British Columbia, Saskatchewan, Manitoba and Quebec do not have the discretion to exclude high risk drivers from Basic insurance.

Major Rate Increases in Ontario and Alberta

With an increase of almost 14%, Ontario recorded the highest average price increase for auto insurance for a number of years. Both the previous Liberal government and the current Conservative government have been attempting to reduce the cost of auto insurance. The Marshall report of 2017 recommended a move to a “care based” model where those injured would receive medical services and wage loss and other benefits based on actual costs, not a lump sum payment. The recommendations were opposed by the trial lawyers, and the new Conservative government has shelved the report.

In average price in Alberta jumped 16.2% compared to the prior year. Rising costs combined with the 5% price increase cap imposed by the previous NDP government is causing some insurers to stop writing auto insurance policies in that province. Drivers

¹ <https://www.lowestrates.ca/blog/auto/auto-insurance-price-index-q2-2019>

² The two systems are reviewed in

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_40_8_september_2017/pdf/occasional_paper_no_40_8_september_2017.pdf

are now facing higher risk standards and major increases in rates offered by the remaining insurers.

The insurance brokers association of Alberta has launched a task force to development recommendations to confront the “crisis” in auto insurance in that province.³

Is Competition Really the Answer?

With the financial crisis at ICBC the ISB (which is the lobby group for the major private insurers) and the B.C. Branch of the Canadian Taxpayers Federation have been very vocal in their calls for the government to open ICBC’s compulsory Basic insurance to private insurers.⁴ They state that competition will result in lower rates (at least for the low risk drivers) compared to the high rates demanded by ICBC.⁵

In the last four years ICBC has recorded large increases in the cost of both injury and property damage claims, which outstripped the increase in premium revenue and destroyed ICBC’s once healthy capital reserves. As of 1 April 2019, the NDP government eliminated the expensive full tort model by imposing a \$5,500 cap on pain and suffering claims for most injuries. The full tort model was a major cause of the escalating injury claims, and all other provinces had already switched to hybrid-tort or no-fault models.

To simplify the public policy problem of ensuring adequate auto insurance coverage at the lowest possible price to a question of competition versus monopoly is deceptively facile.⁶ The real question is how much should the public be expected to pay for a given level of coverage? The high levels of financial protection combined with low rates in the no-fault jurisdictions of Saskatchewan and Manitoba clearly suggest that relying on competition is not the solution.

The steep price increases for auto insurance in the second quarter in Alberta and Ontario are a warning; if this trend continues the price of auto insurance will become a political issue in these two provinces.

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³ <https://www.ibaa.ca/news/454602/IBAA-Announces-Task-Force-on-Sustainable-Solutions-to-the-Auto-Insurance-Crisis-in-Alberta.htm>

⁴ <https://www.insurancebusinessmag.com/ca/news/breaking-news/icbc-continues-to-push-to-open-bc-to-private-car-insurance-169734.aspx>

⁵ <https://vancouversun.com/news/politics/b-c-drivers-pay-more-than-albertans-for-same-auto-insurance-report>

⁶ <https://www.taxpayer.com/news-releases/icbc-insurance-rates-highest-in-canada-27786>

