

INSURANCE BUREAU'S LATEST AUTO INSURANCE PRICE COMPARISON HIGHLY SIMPLISTIC

The latest price comparison of the average cost of auto insurance released by the Insurance Bureau of Canada (IBC) has sparked some media coverage.¹ The IBC media release claims that B.C. drivers now pay an average of \$1,680 per year, which is substantially more than Alberta and Ontario.²

In a quick review I have attempted to replicate the IBC methodology with more comparative data which attempts to provide a better “apples to apples” comparison. The result is a much lower average price.

The ICB Numbers

The ICB report says the average premium for B.C. for 2019 is estimated at \$1,832, which is substantially more than the \$1,316 for Alberta and the \$1,505 claimed for Ontario. The methodology used to produce these average premium numbers includes dividing the estimated earned premium revenue by the number of private passenger vehicles for 2019. The numbers for Alberta and Ontario appear to have been developed from a report by the General Insurance Statistical Agency as of 31 December 2018, which collects and publishes cost comparisons for the private insurance jurisdictions.

The B.C. average of \$1,832 is a crude estimate of the forecasted average private vehicle premium earned for 2019/20 based on ICBC's service plan forecast of Basic and Optional premium revenue.³ The IBC report notes that the \$6.4 billion earned premium revenue was deflated by 12.9% to account for the revenue from commercial vehicles (\$5.575 billion). The number of private vehicles for 2019/20 was estimated by increasing the 2017/18 forecast by 1.9% for 2018 and 2019, resulting in an estimate of some 3.04 million.

Problems

- 1) The IBC report does not state why an estimate of 87.1% was used to estimate the private passenger earned revenue. When I divided the number of private earned policies for 2017/18 from the same source by the total policies (including Commercial, ATV and motorcycles) the percentage was 79.2%.⁴ Using the lower

¹ For example <https://globalnews.ca/news/5758168/british-columbians-pay-the-highest-on-average-in-car-insurance-in-canada/>

² <http://www.ibc.ca/bc/resources/media-centre/media-releases/bc-drivers-continue-to-pay-the-highest-auto-insurance-premiums-in-canada#>

³ <https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2019-2022.pdf> p. 18.

⁴ https://www.bcuc.com/Documents/Proceedings/2018/DOC_53062_B-1-ICBC-2019-RRA.pdf Pdf 1315 to 1318.

percentage, the 2019/20 earned premium revenue falls to approximately \$5,072 billion.

- 2) The IBC average premiums for each province include the compulsory Basic coverage and the Optional or extension coverages. However, the number of \$717 for Quebec is for the compulsory third-party coverage only, not the property damage and other extension coverages, because the source data is from the public insurer (the SAAQ) which only insures the compulsory third-party liability.
- 3) The average earned premium for the other provinces (except Quebec) includes the average for the Basic and Optional policies sold. However, for B.C. the average earned premium is for ICBC only. The private insurers have approximately 10% of the Optional sales in the province, which I estimate at 250,000 earned policies at with a total value of \$175 million (average of \$700/policy). The private insurers provide lower rates as they target the low risk drivers. ICBC must insure all risk classes.
- 4) The private insurers in Alberta and Ontario do not have to pay for the road safety program (primarily enhanced police enforcement) and the cost of the driver licensing program that is incorporated into the ICBC premium revenue. The estimate of these additional costs is \$160 million.
- 5) The private insurers' coverage is less generous respecting the no-fault accident benefit coverage limits. The new limit for ICBC is \$300,000, compared to the \$50,000 limit in Alberta. To provide a proper comparison the ICBC estimate of 2019/20 should be reduced by approximately \$400 million for these Part 7 benefits.

Summary (\$=million)

The media need to adopt a more critical attitude respecting information that purports to compare auto insurance rates in Canada.

The following summarizes the IBC estimate of the 2019/20 average premium and a more comparative summary, where the average premium is slightly higher than Alberta but below the figure quoted for Ontario.

		Net Prem. Earn	Policies	Average Cost
1	ISB Report	\$ 5.557	3,043,436	\$1,832
2	ICBC @79.1%, not 87.1%	\$ 5.065	3,108,000	\$1,630
3	Est. Private Optional Sales	\$ 175	250,000	\$ 700
4	Delete Safety and Non-Insuran.	\$ (170)	n/a	n/a
5	Adjust for No-Fault Coverage	\$ (400)	n/a	n/a
6	Revised Estimate	\$ 4.670	3,358,000	\$1,390

Notes:

1 The IBC report “How to Calculate the Average Premium in Each Province.”

2 Revised private percentage of ICBC’s 2019/20 forecast earned premium, and slightly larger estimate (by ICBC) of the private earned policies, see Pdf 769/1357 in

https://www.bcuc.com/Documents/Proceedings/2019/DOC_53549_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf

3 Estimated Optional sales by private insurers.

4 Delete ICBC cost for road safety and driver license administration.

5 Delete additional cost for enhanced Part 7 no-fault accident benefits.

The IBC data is suspect because of the unknown assumptions that were made and its generally simplistic approach. The using average expenditures to compare prices in various jurisdictions is also suspect average premium information is suspect for a variety of reasons noted in my Occasional Paper No. 40.⁵

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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 is an intervener in the BC Utilities Commission’s current reviews of both ICBC’s and BC Hydro’s rate requests.

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