UNKNOWN DRIVER FEE A SYMPTOM OF LARGER PROBLEM WITH ICBC'S NEW RATE DESIGN

Recently ICBC has been criticized for a new financial penalty that hits the policyholder if an occasional driver not listed on the policy causes an accident.[1] The vehicle owner can avoid the threat of a large penalty (calculated at 15 times the difference in the annual premium of the at-fault driver and the policyholder) if they pay a minimum $50 supplementary "unlisted driver protection" insurance fee.

ICBC president Nicolas Jimenez defended the new fee; "We recognize this is a shift for British Columbians, but the listing of other drivers is a common industry practice across North America."[2]

Aaron Sutherland, the spokesperson for the private insurers' association, generally supports the shift to a greater emphasis on potential driver risk in calculating the Basic insurance premium. However, he stated that penalizing the policyholder for not listing an occasional driver (or paying a protection fee) "is this is not common practice in other auto-insurance markets across Canada or in the United States."[3]

The new fee has been criticized by many, including Mothers Against Drunk Driving, as being poorly conceived and a potential deterrent to designated drivers.[4]

Quest for Pricing Perfection

The unlisted driver penalty/fee was included in the new Basic insurance rate design model announced in late August.[5] The new model is a radical departure from the existing framework in that it is far more complex and more financially onerous on less experienced (mainly younger) drivers and on those who have caused an accident.

The new model is designed to put greater emphasis on a driver's potential crash risk, where the current model tends to emphasize the actual at-fault crash record. This is

[1] https://vancouversun.com/news/politics/icbcs-new-fees-for-unlisted-drivers-and-learners-could-drive-up-2019-rates
[2] https://www.timescolonist.com/opinion/letters/icbc-changes-are-about-fairness-1.23453229
[3] https://www.timescolonist.com/opinion/letters/icbc-s-changes-not-common-in-industry-1.23461056
[4] https://globalnews.ca/news/4515182/new-icbc-fee-for-lending-vehicles-could-discourage-designated-drivers-madd/
[5] For a general overview see http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_59_16august_2018/pdf/occasional_paper_no_59_16august_2018.pdf

what ICBC calls the "driver-based" model. Thus, young and inexperienced drivers will pay much more in the new framework, even if they have a clean driving record.

ICBC justifies the new penalty/fee by stating that 20% of the at-fault crashes are caused by drivers who are not the policyholder, thus implying that ICBC is suffering financially as a result.[6] This is incorrect. Under the current model the policyholder is charged with the at-fault penalty, which may entail a financial penalty or a loss of driving credits. In all cases driving penalty points (which may result in a financial penalty) are assigned to the driver.

The new unlisted driver fee is contrary to the stated principle of shifting the Basic insurance rate design to a driver-based system because it penalizes (either through the financial penalty or the penalty avoidance fee) the policyholder, in addition to the driver who caused the crash.[7]

The Unlisted Driver Protection Fee Could be Higher

ICBC explains that the one-time penalty to the policyholder if an unlisted driver causes a claim could be up to an astonishing $5,000.[8] A hypothetical example of a penalty of $2,025 charged to policyholder Bill was provided by ICBC in its submission to the B.C. Utilities Commission (BCUC) is provided in the Appendix.

The additional premium to protect against such a penalty is not $50; rather it escalates if the policyholder has previously had more than one unlisted driver with an at-fault crash in the last five years. One crash in the last five years will cost $100, and the maximum is $1,500.

ICBC did not provide any data on the incidence of at-fault crashes caused by non-owner or principal operators. Nor did the corporation provide an estimate of how much additional premium revenue this new fee will generate.

Is the New Fee a Money-Grab?

When the new rate model was unveiled the government stated that the new rate design model would be revenue neutral in the first year, with some 15% of lower-risk policyholders paying at least $100 less, and some 52% paying up to $100 less, and 33% paying more.[9]

[6] See Global News video clip https://globalnews.ca/news/4515182/new-icbc-fee-for-lending-vehicles-could-discourage-designated-drivers-madd/
[7] The driver has the at-fault crash registered on his/her driving record.
[8] https://www.bcuc.com/Documents/Proceedings/2018/DOC_52228_B-1_ICBC-2018RateDesign.pdf p. 3-22.
[9] In subsequent years ICBC would receive additional premium revenue as more drivers/policyholders lose cause accidents and pay more for 10-year "crash scan" period. This will be partly offset by slowly increasing the maximum discount to 52% after 40 years.

In September, ICBC presented the new rate model to the BCUC for the government-mandated minimum review. ICBC did not provide the estimated revenue gain or loss from each of the main components of the new model, claiming that the components must be viewed as an integrated package.[10]

ICBC did not provide any data on the incidence of at-fault crashes caused by drivers who were not the owner or the principal operator. Nor did the corporation provide an estimate of how much additional premium revenue this new fee will generate. However, if half of the estimated 2.8 million private vehicle policyholders elect to purchase the $50 minimum fee ICBC would gain $70 million in additional premium income.

Summary

The new Basic rate model is highly complex and will result in many complaints from some 900,000 Basic policyholders who will be paying significantly more to insure their vehicles next year. ICBC has not demonstrated the need for the new unlisted casual driver penalty, which Mr. Sutherland says is unique in the auto insurance industry. The government will likely be accused of using ICBC's monopoly to threaten dire consequences unless policyholders purchase this new insurance. Because the incidence of ICBC's claims losses resulting from the casual borrowing of a vehicle appears low the new fee seems to resemble a kind of protection racket, rather than a legitimate and necessary component of the Basic insurance package.

The government should have allowed the BCUC and interested parties more time to fully assess the costs and benefits of all the myriad aspects of the new rate design, instead of narrowly prescribing the Commission's options and setting a constricted timeline for approval. The government has relied on the policy advice of ICBC, which seems to reflect the old approach to dealing with the problem of a notionally independent third-party regulator.

"The ICBC submission makes dozens of assumptions about the merits of its proposals," Vaughn Palmer wrote on September 7th, "many of them untested and undocumented by any agency other than the government auto-insurance monopoly itself. If ever there were a set of changes in auto insurance that merits in-depth scrutiny, testing and challenge by an independent regulator, the rate redesign surely qualifies. By not going that route, the New Democrats have put ICBC itself into the driver's seat, with no check on its ambitions or allowance for the possibility of getting things wrong."[11]

 http://www.bcpolicyperspectives.com/

[10] See page 164 in https://www.bcuc.com/Documents/Transcripts/2018/DOC_52417_2018-09-04-Transcript-SRP-Vol1.pdf

[11] https://vancouversun.com/opinion/columnists/vaughn-palmer-leaving-icbc-in-drivers-seat-for-rate-redesign-signals-shift-in-power

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APPENDIX

ICBC's August 15, 2018 Filing with the BC Utilities Commission[12]

56. For example, a vehicle owned by Bill has a Basic insurance certificate with one listed driver, Bill, and the vehicle is insured in the pleasure use rate class in Lower Mainland. Bill has 20 years of experience and has no prior at-fault crashes. He pays an annual premium of $1,056. He occasionally loans his vehicle to his neighbour, Sue, a driver with 5 years of experience with no prior at-fault crashes. If Bill were to list Sue on his policy, his annual premium would increase to $1,191. However, Bill chooses not to list Sue. While Sue is borrowing Bill's car she is involved in a crash and is found to be 100% at-fault. The claim will be covered by Bill's Basic insurance certificate. However, since Sue was not listed on Bill's Basic insurance certificate, Bill will be charged a one-time premium of $2,025 (15 X ($1,191 – $1,056)) and the crash will now be attached to Sue for the next 10 years for the purposes of estimating her IDF on any vehicle she is listed on in the future.

57. Unlisted Driver Protection Premium (UDPP) is an additional premium that a customer can pay to protect against the UDAP in the case that an unlisted driver crashes the vehicle.

58. UDPP is intended to protect against incidental or unexpected drivers and therefore does not apply to the following drivers:

- a member of the household or an employee of the owner or lessee of the vehicle,
- a member of the household or an employee of the principal driver,
- a person who does not hold a valid driver's licence,
- a person who drives any of the owners' or lessees' vehicles more than 12 days a year, or
- a person that has had two or more at-fault crashes on any of the owners' or lessees' vehicles within the last five years.

[12] https://www.bcuc.com/Documents/Proceedings/2018/DOC_52228_B-1_ICBC-2018RateDesign.pdf p. 3-23.