

## **LIBERAL PARTY'S POPULIST APPROACH FOR AUTO INSURANCE SEVERELY FLAWED**

On Tuesday, 6 October 2020, Andrew Wilkinson announced that a Liberal government would implement a series of disparate (desperate?) changes affecting auto insurance in the province.<sup>1</sup> These changes amount to a populist grab-bag approach to policy development, which are designed to appeal to certain customer groups or special interests.

### **Immediately Return the Pandemic Savings Windfall**

There is no question that ICBC has recorded a significant windfall in savings net during the first half of the current fiscal year as a result of a fewer claims from less traffic. The Liberals would accede to the misplaced demands of the BC branch of the Canadian Taxpayers' Federation to provide a rebate.

While many other auto insurers have provided rebates, they have the financial reserves that allow for the return of the savings. Because of the mismanagement of the previous Liberal government, which ignored the massive increase in tort claims costs from 2012 to 2017, ICBC's once robust reserves have been destroyed.<sup>2</sup>

The Liberal proposal would push ICBC closer to insolvency, requiring a taxpayer bailout to pay existing and future claims. The responsible approach would be to rebuild the capital reserves.

### **Reduce the Premiums for Young Drivers**

During the summer of 2019, the NDP government accepted a proposal from ICBC to redesign the formula used to calculate premiums. This new model was supposed to be fairer, as higher risk drivers would pay more. The new design was overly complex and

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<sup>1</sup> <https://vancouversun.com/news/politics/bc-election/b-c-liberals-propose-private-competition-for-icbc-auto-insurance>

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_covid\\_19\\_rebate\\_4\\_september\\_2020/pdf/commentary\\_covid\\_19\\_rebate\\_4\\_september\\_2020.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_covid_19_rebate_4_september_2020/pdf/commentary_covid_19_rebate_4_september_2020.pdf)

significantly increased the cost of insurance for inexperienced (mostly young) drivers and those who were at fault for a claim.<sup>3</sup>

The previous premium model was based on actual claims, while the new model is based on an actuarial risk calculation. Thus, young drivers get hit regardless of whether they have at fault claims. The government has announced that the new no-fault scheme for ICBC will be modeled on that currently in place in Manitoba. They should scrap the complex 2019 design and adopt the Manitoba premium design as well.

### **Open Vehicle Damage Coverage to Competition**

Currently, damage to the innocent party's vehicle is included in ICBC's monopoly Basic compulsory coverage. Coverage to repair the vehicle of an at-fault driver is included in the Optional coverage purchased from ICBC or from private insurers. In 2019/20 ICBC paid approximately \$610 million in Basic property damage claims, and approximately \$885 in Optional damage claims.

The Liberal proposal adopts the position of the Insurance Bureau of Canada, the lobbyist for the private insurance industry. It would open the \$600 million Basic property damage monopoly to the private insurers.

The public insurers in Saskatchewan and Manitoba have a mixed model for property damage. They have a \$700 deductible for the Basic claims (not at-fault), but policyholders can purchase extra protection through the Optional program which is open to the private insurers.

### **Institute a Two Tier Liability Model of Injury Claims**

The Liberal plan is designed to appeal to the personal injury bar and to the private insurers. The proposal would allow the private insurers to sell third-party injury liability coverage based on the tort model, where the innocent injured party can sue the at-fault driver for financial costs and for pain and suffering. ICBC would be allowed to adopt the planned no-fault liability model which provides higher limits on benefits, but prohibits most claims for pain and suffering.

Mr. Wilkinson erroneously stated that this proposal is based on the Saskatchewan model. The compulsory liability coverage is a monopoly, where there is choice between tort or no-fault coverage. Over 95% of policyholders in Saskatchewan chose the no-fault plan. Manitoba is solely no-fault.

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<sup>3</sup> There were other changes that significantly shifted costs to "higher risk" drivers; see [http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_icbc\\_rate\\_design\\_8\\_march\\_2018\\_copy/pdf/commentary\\_icbc\\_rate\\_design\\_8\\_march\\_2018\\_copy.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_rate_design_8_march_2018_copy/pdf/commentary_icbc_rate_design_8_march_2018_copy.pdf)

It is unrealistic to think that the private insurers would agree to be restricted to selling only a tort product. The tort model is more expensive than the no-fault model, which is why the no-fault jurisdictions of Saskatchewan, Manitoba and Quebec have the lowest injury liability premiums. The private insurers would push to have the option to sell no-fault insurance to fully provide choice, or they would adopt highly restrictive underwriting standards and attempt to cream the low-risk drivers.

In Alberta, which has a hybrid-tort model, prices have been rapidly increasing and many are being denied proper coverage. “Few insurers see Alberta as a growth opportunity and have implemented strict underwriting controls [meaning much higher rates for higher risk or no coverage].... Many insurance companies have started requiring consumers to pay their annual premium upfront, denying them the ability to pay monthly. Some insurers have become more cautious when it comes to taking on new clients.”<sup>4</sup>

If the Liberal party formed the next government would they open the injury market to competition from the private insurers? After some initial stumbles, the current government has established a course toward lower rates and better coverage for auto insurance coverage in this province. There is still much work to do, especially in making ICBC more accountable to the public.

The Liberal proposal, by enabling private insurers to capture the low-risk policy holders, will rapidly undermine the finances of our public insurer. But mismanaging ICBC’s finances is in keeping with the Liberal approach when that party formed government.

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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 ICBC’s and B.C. Hydro’s rate requests.

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<sup>4</sup> <https://www.lowestrates.ca/blog/auto/auto-insurance-price-index-q2-2020>