

ICBC – OCCASIONAL PAPER No. 24 Revised

USING FINANCIAL PENALTIES AND REWARDS TO ENCOURAGE SAFTER DRIVING: COMPARING ICBC TO SASKATCHEWAN AND MANITOBA

On March 3, 2017, ICBC announced a toughening of its Claims Rated Scale (CRS), also known as the safe driver discount.¹ Subject to approval of the BC Utilities Commission, the new system will see at-fault vehicle owners lose their safe driving discount faster, resulting in a higher price for the Basic compulsory coverage when the annual policy is renewed. ICBC plans to implement the change in May, 2018.

Higher financial penalties will increase revenue (reducing the revenue lost through the discount), and potentially lower the number and severity of crashes, thereby lowering claims costs. Safe drivers will benefit by retaining their discount, while drivers responsible for claims will pay more than under the current system.

For Policy Year 2016, ICBC estimated that the driver penalty point system will increase Basic revenue by approximately \$21 million.² ICBC did not provide an estimate of the annual additional revenue anticipated because of the change to the CRS.

The current and proposed CRS is shown in Attachment 1.

THE ICBC MODEL

The ICBC penalty/reward model is based on the insured vehicle. For each year of a not at-fault claim³ the owner receives a discount on the full cost of Basic insurance, up to a maximum of 43%. More years of no at-fault claims allows the accumulation of credits toward keeping the discount after one at-fault claim.⁴

Multiple at-fault claims (three crashes in three years where 50% at-fault) may result in a \$1,000 additional penalty.

Fines for traffic offences or motor vehicle Criminal Code offenses are separate and are not factored in ICBC's CRS model. However, the convictions do incur additional costs under the Driver Premium Program (DPP). Convictions under the Motor Vehicle Act carry varying points recorded on the ICBC systems. The points accumulated over one year result in a financial penalty ranging from \$175 (four points) to \$24,000 (fifty or more points).⁵

Finally, ICBC has a financial penalty for those responsible for multiple crashes within three years.⁶

¹ See announcement at <http://www.icbc.com/about-icbc/newsroom/Pages/2017-Mar3-01.aspx>

² See page 2-3 in http://www.bcuc.com/Documents/Proceedings/2016/DOC_47282_B-1_ICBC-2016-Revenue-Requirements-Application.pdf

³ Defined as less than 24% at-fault.

⁴ Details are at <http://www.icbc.com/autoplan/costs/Pages/Claims-and-your-insurance-costs.aspx>

⁵ <http://www.icbc.com/driver-licensing/tickets/Pages/Driver-Penalty-Points.aspx>

⁶ <http://www.icbc.com/driver-licensing/tickets/Pages/Multiple-crash-premium.aspx>

The Driver Risk Premium program, like the DPP, is based on a persons' individual driving record and the financial penalty is separate from the insurance premium. The financial penalty is for Criminal Code offenses, road side suspensions and excessive speed convictions.⁷

COMPARISON TO SASKATCHEWAN AND MANITOBA

The public monopoly insurers in Saskatchewan (SGI-Auto Fund) and Manitoba (AutoPac) link the individual driving convictions to the insurance claims to calculate the insurance penalty or savings.

The ICBC rating scale provides discounts of up to 43%, and bottoms at no discount. The SGI model provides insurance discounts of up to 25%, and penalties of up to \$500 in addition to the cost of the insurance. Those convicted of Criminal Code offenses, such as impaired driving or an accident causing injury or death, can face a financial penalty of up to \$2,500.⁸

After three years of no claims or traffic offenses the coverage returns to a neutral position on the rating scale.

The SGI Basic insurance covers at-fault vehicle damage, subject to a \$700 deductible. Additional coverage (similar to ICBC's Optional insurance) can be purchased through the SGI Extension insurance.

The Manitoba Public Insurance Basic program has a Driver Safety Rating (DSR) system that is also linked to the individual's driving record.⁹ The discount has a maximum benefit of 33% plus a savings on the cost of the driver license, reached after 15 years of safe driving. The rating scale drops to a negative 20, which results in a financial cost of \$2,500. The penalty is added to the drivers' licence, not the cost of the insurance policy.

The system is designed to financially penalize high-risk drivers, an offer incentives for good driving; for example, one claim or offense-free driving year moves the individual seven steps up the scale to no penalty.

SUMMARY

The proposed change to the CRS for ICBC's Basic insurance will result in policyholders losing the benefit of the insurance discount faster than the current model. However, it is still much less financially onerous when compared to the models in place for the monopoly public auto insurers in Saskatchewan and Manitoba. The Auto Fund and Autopac systems link to an individual's driver license, and add a financial penalty to the high-risk person's cost of insurance.

ICBC imposes a separately billed risk premium financial penalty under the Driver Premium or Driver Risk Premium programs.

In 2011, ICBC attempted to switch to a driver-based system for the calculation of insurance premiums, but the public opposition to potentially paying a higher insurance premium for a single speeding ticket

⁷ <http://www.icbc.com/driver-licensing/tickets/Pages/Driver-Penalty-Points.aspx>

⁸ See <https://www.sgi.sk.ca/individuals/registration/rates/sdr/index.html>

⁹ <https://www.mpi.mb.ca/en/DL/DL/DSR/Pages/DSROverview.aspx>

forced the government to reject the initiative.¹⁰ Apparently, the BC government is not prepared to revisit the issue.

ICBC's announcement is a small, but welcome, step toward safer driving and perhaps lower claims costs.

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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. He has been an intervener in the BC Utilities Commission's recent reviews of ICBC's rate requests, and is currently an intervener in the Commission's current reviews of ICBC and BC Hydro rate requests.

¹⁰ <http://www.cbc.ca/news/business/icbc-withdraws-controversial-rate-hike-proposal-1.1031991>

Changes to how at-fault crashes affect premiums

