

TAXPAYER FEDERATION REPORT IS WRONG: BC AUTO RATES LOWER THAN MOST

How high is the average price of auto insurance in BC compared to other provinces? This is a reasonable question, but there is no simple answer because calculating an average rate involves attempting to simplify complexity.

The recent announcement that the average price for ICBC's compulsory Basic insurance will (subject to approval by the BC Utilities Commission) increase by 6.4%, while the price of the discretionary Optional will rise by an annualized 9.6% has led to renewed interest in auto insurance pricing and price comparisons.

This paper will review this issue, and show that the methodology used in a recent report by the Canadian Taxpayer Federation to claim that BC's rates are the second highest in Canada is wrong.

TOTAL COST OF DRIVING

While it is natural that the public is concerned about the cost of auto insurance when the government announces the annual price increase for the monopoly insurer, most commentators over-look the fact that insurance is only a minor component of the total annual cost of driving.

The Canadian Automobile Association recently issued its most recent estimate on the total driving cost. Insurance costs of some 11% to 13% were much lower than the cost of depreciation and maintenance (65%) and the cost of fuel (about 20%) for a Honda Civic driven 20,000km per year.¹

Yet, most drivers consider depreciation, maintenance and fuel as relatively fixed costs, while they believe that insurance costs are more subject to consumer choice.

MANY FACTORS IMPACT AUTO INSURANCE PRICES

Auto insurance pricing often becomes an issue of public concern because all provinces require vehicle owners to carry a minimum \$200,000 in third-party liability coverage.

¹ https://beta.theglobeandmail.com/globe-investor/personal-finance/household-finances/buy-and-drive-less-to-cut-the-costs-of-vehicle-ownership/article36138661/?ref=http://www.theglobeandmail.com&http://caa.ca/car_costs/

All insurers must have their prices for this basic coverage approved by an independent regulator.²

The price of the minimum coverage is only a part of the total insurance, and most cross-jurisdictional comparisons also include the cost of the extension coverage for additional liability, collision and comprehensive damage.

The price of auto insurance is a function of the cost of claims and the general operating costs of the insurer (including a profit margin for private insurers). Calculating the price is a complex process involving actuarial calculations of current and future claims costs, interest and discount rates, and the need to maintain an adequate capital reserve for unforeseen adverse events.

The actual price will depend on many factors, including the make and model of the vehicle, the geographic region where the vehicle is driven, the driving record of the principle operator, and the amount of coverage provided. These are summarized in the recent Ernst Young report on ICBC.³

INTERPROVINCIAL RATE COMPARISONS

In August 2017, the Canadian Taxpayers Federation released a report by Mark Milke that claimed that auto insurance rates in this province were the second highest in Canada.⁴ This ranking is a key factor in the Federation's (and others) proposal to end ICBC's 43-year monopoly on the sale of basic insurance in this province.

Milke used average interprovincial price data compiled by the General Insurance Statistical Agency, which is closely affiliated with the Insurance Bureau of Canada (IBC). The IBC is the private insurance industry's trade association and has been a long-term opponent of public auto insurance. The Agency collects revenue and expenditure from IBC members, but four provincial jurisdictions (BC, Saskatchewan, Manitoba and Quebec) do not participate with the Agency.

The private vehicle interprovincial comparisons developed by the GISA are based on the companies' premium revenue collected divided by the number of policies written. Milke states that this approach is a better representation of the true price compared to the average of the individual quoted prices; "The problem is that such averages bear no relation to reality – whether one uses five internet quotes or five million. The resulting averages are merely 'ghost' figures. They do not reflect actual averages compiled from actual paid premiums."⁵

² In Saskatchewan the public insurer has its rates reviewed by the Rates Review Board, which makes a recommendation to the cabinet for final approval.

³ <http://www.icbc.com/about-icbc/company-info/Documents/Affordable-and-Effective-AutoInsurance-Report.pdf> see pages 167 to 170.

⁴ <http://www.taxpayer.com/media/Political-Risk-ICBC-Report.pdf>

⁵ Ibid., p. 12.

Using this methodology, Table 1 shows that BC has the second highest average auto insurance rate in Canada.

Table 1 – The GISA AVERAGE PRICE RANKING

	2013	2014	2015
British Columbia	1,232	1,241	1,316
Alberta	1,113	1,153	1,179
Saskatchewan	871	923	940
Manitoba	925	954	1,003
Ontario	1,540	1,486	1,458
Quebec	715	717	724
Nova Scotia	776	772	783
Ratio BC to Sask.	141%	134%	139%

The use of aggregate premium revenue and cost information may have some uses, but to infer that it represents a reasonable approximation of the cost of insuring a private passenger vehicle is too great a stretch. For example, total revenue and sales will include short-term low-cost utility trailers and motorcycle insurance that depress the average price. The GISA information excludes data on high risk drivers, which tends to lower the price results.

A better approach to developing comparative interprovincial averages uses actual quotes for similar drivers, operating the same vehicle in similar urban or rural settings. These actual prices will ensure that the same damage deductibles and third-party liability coverage is applied, variations that become too aggregated using the GISA methodology. The actual quote approach also better reflects variations in the accident benefits (Part 7 benefits in BC) provided, and the fact that three jurisdictions restrict claims for pain and suffering for the basic coverage.

The Saskatchewan Government Insurance (SGI) has been publishing interprovincial private passenger vehicle insurance price comparisons for over a decade. The methodology is based on that developed by the Consumers’ Association of Canada in its 2003 study of auto insurance rates.

Table 2 shows the comparisons for 2013 to 2016. It shows that, in general, the prices are higher than those produced using the GISA methodology, and the average for BC is lower than all except the jurisdictions that prohibit damage claims for pain and suffering

Ontario, with a high deductible for pain and suffering, still has the highest average rate in Canada, and the cost of auto insurance has been a concern to the government of Ontario for many years. The recent report by David Marshall on auto insurance in Ontario recommended fundamental changes to the insurance model in that province.⁶

⁶ <https://www.fin.gov.on.ca/en/autoinsurance/fair-benefits.pdf>

TABLE 2—SGI AVERAGE PRICE RANKING

	2013	2014	2015	2016
British Columbia	1,431	1,511	1,527	1,611
Alberta	2,127	2,283	2,352	2,376
Saskatchewan	1,061	1,116	1,159	1,181
Manitoba	1,013	1,034	1,081	1,102
Ontario	3,782	3,279	3,092	3,160
Quebec	1,316	1,439	1,555	1,510
New Brunswick	1,741	1,694	1,621	1,347
Nova Scotia	1,820	1,824	1,992	1,600
Ratio BC to Sask.	135%	135%	132%	136%

Source: <https://www.sgi.sk.ca/contact/index.html>

This comparison demonstrates that the average combined rate for BC is still lower than those private sector jurisdictions where pain and suffering caps are in place for minor soft tissue injuries.

The Manitoba ministry of finance, using the consulting firm of Deloitte, also produces annual interprovincial auto insurance rate comparisons.⁷ The Manitoba/Deloitte survey uses the quoted price methodology, and produce similar rankings as the SGI results.

While ICBC has been reticent to disclose any information on its Optional program, the Ernst Young report included a combined Basic and Optional price of 1,550 for 2016, which suggests that the quoted price method was used.⁸

THE ROSE DEVLIN REPORT OF JULY 2017

The Trial Lawyers Association of British Columbia (TLABC) commissioned Rose Devlin to study the cost of auto insurance.⁹ Her report 25 July 2017, “A Comparison of Automobile Insurance Regimes in Canada” is used with the permission of the TLABC.

Dr. Devlin’s survey notes the difficulty in comparing auto insurance schemes, due to the variety of provincial regulations, delivery models and coverage limits. The report is very useful and provides a review of the different automobile insurance regimes, as well as the

⁷ https://www.gov.mb.ca/finance/publications/pubs/utility_2015.pdf

⁸ see page 15 in <http://www.icbc.com/about-icbc/company-info/Documents/Affordable-and-Effective-AutoInsurance-Report.pdf>

⁹ http://www.bcpolicyperspectives.com/media/attachments/view/doc/devlin_report_july_2017_tlabc_4_september_2017_2/pdf

mandated packages in each province. Devlin obtained price quotes by jurisdiction for the mandated package as well as for enhanced packages using a price-quote methodology like that used by SGI and the Manitoba government.

The report comments on the problems associated with drawing hard and fast conclusions about interprovincial rates because of the differences in insurance packages across provinces and the aggregated and limited nature of much of the available data. Nevertheless, Devlin does not believe that using the GISA methodology is a useful method for comparing rates between the public and the private models, as detailed in Appendix.

SUMMARY

The CTF—Milke report provides auto insurance average price comparisons that are not suitable to answer the question as to how the price of auto insurance in this province compares to the price in other provinces. More realistic quote-based methodologies show that the combined rate for BC is about the fourth lowest, rather than the second highest, in Canada.

The more pertinent question is why are the average rates so much higher in BC when compared to the two other public systems of Saskatchewan and Manitoba, or the mixed system used in Quebec?

© Richard McCandless September 8, 2017. <http://www.bcpolicyperspectives.com/>

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

APPENDIX EXERPT FROM DEVLIN REPORT (pages 15 and 16)

Comparing Costs across Public and Private Regimes

Before turning to comparisons of insurance costs, it is necessary to understand a couple of fundamental differences between public and private regimes when it comes to collecting and interpreting data. Since 2011, data for the private provinces are available from the General Insurance Statistical Agency (GISA) “...an independent legal entity under the Canada Corporations Act ... to carry out the activities of a statistical agent on behalf of all participating Canadian jurisdictions.” The Insurance Bureau of Canada collects this data on behalf of GISA. Efforts are made to render these data as accurate as possible, hence facilitating interprovincial comparisons. I was unable to obtain any comparable information prior to 2011 from IBC.

Some information is not included in the available GISA data, most importantly from the point of view of this comparison, is the exemption of Facility Association residual market information. High risk drivers, who cannot obtain automobile insurance through conventional means, have to apply to a Facility Association which provides them with coverage typically by facilitating a risk pooling contract across several companies. Facility Associations exist in all privately provided automobile insurance regimes because automobile insurance is mandatory. Not only is the information from these high risk drivers exempt from GISA data, but so too is information from uninsured drivers.⁸ The Facility Associations have an uninsured motorist fund that indemnifies victims of uninsured drivers. Thus GISA data does not include all of the very high risk portion of the driving population.

By contrast, data from public insurance provinces are obtained from the public insurer itself. These data include all drivers, even the high risk ones. And each public insurer has a fund to deal with uninsured drivers. In other words, the insurance data presented below include all insured drivers in the public jurisdictions but not in the private jurisdictions where data on the riskiest group is excluded.

In addition to these exclusions, there is potentially a fundamental difference between the number of claims reported in a liability-based private system versus a first-party-based public one. In a liability regime, a driver involved in an accident through no fault of his/her own, will not typically make a claim on his/her own insurance policy. The claim will be on the at-fault driver's policy. As a result, such an accident with two vehicles, say, will result in one claim. In the public, first-party, system, such an accident would yield two claims, one for each vehicle. We cannot, then, compare number of claims across these two systems....

