

TO: CITY MANAGER

2002 April 3

FROM: DIRECTOR FINANCE

SUBJECT: ICBC AND PRIVATIZED INSURANCE IN BRITISH COLUMBIA

PURPOSE: To inform Council of the results of staff's review of the Office and Professional Employees' International Union, Local 378 presentation to Council.

RECOMMENDATIONS:

1. **THAT** Council indicate the City's support of public insurance in British Columbia as provided by ICBC, and
2. **THAT** the Premier, Burnaby's MLA's and the Minister responsible for ICBC receive a copy of this report and be called upon to preserve universal public auto insurance which is nondiscriminatory, decreases the number of uninsured motorists and provides for road safety initiatives that benefit the citizens of Burnaby as well as the rest of the Province.

1.0 BACKGROUND

Since its creation as a provincial Crown Corporation in 1973, the Insurance Corporation of British Columbia's (ICBC's) mandate has been to provide universal auto insurance and competitive optional auto insurance coverage to British Columbians. Responsibilities also include all driver and vehicle-related services, including commercial vehicle compliance and as a Crown Corporation the responsibility of developing and implementing public policy. Rates for basic coverage and product descriptions for both basic and optional coverages are set out in the Insurance (Motor Vehicle) Act Regulation; all changes require Cabinet approval.

ICBC is one of B.C.'s largest corporations and one of Canada's largest property and casualty insurers providing direct employment to over 5,500 full-time equivalent employees. ICBC plays a major role in the provincial economy indirectly generating another 42,000 jobs.

As part of its "Core Services Review" the Provincial Government is currently considering the fundamental way in which auto insurance is provided in British Columbia. Council has received a delegation from the Office & Professional Employees' International Union, Local 378 outlining their concern that this might result in the selling of basic automobile insurance by private insurance companies to the detriment of the people of B.C.

This report reviews the issues raised by the delegation and responds to Council's request for a cost comparison for the provision of fleet insurance for the City of Burnaby and a similarly sized municipality in Ontario which uses a threshold system, a hybrid of both the tort and no-fault model.

2.0 REPORT

At the inception of ICBC it was noted by the Wooten Commission that due to unfair and discriminatory rate practices by private insurance companies there was a need for public insurance. ICBC was formed to deliver through public policy universal auto insurance that is both affordable and non-discriminatory.

Services

As a Crown Corporation ICBC is more than an insurance agency. Its current mission statement is "Helping British Columbians take the risk out of road transportation". To meet this objective the Corporation has developed comprehensive road safety programs and initiatives to reduce crashes, crimes and claims costs. These services are valued by the communities of the lower mainland and throughout British Columbia.

Some of the well known services include:

- Counter Attack
- Intersection Safety Cameras
- Road Sense program
- Traffic education for young drivers
- Operation of motor vehicle branches and driver licensing services

Some of the other services not so well publicized include:

- Reimbursement to MSP for approximately \$43 million annually for accident related doctor visits, physiotherapy, chiropractic and massage therapy.
- Commercial vehicle compliance (e.g. weigh scales and vehicle inspections)
- Enhanced enforcement for speeding and dangerous driving
- Cost sharing initiatives for road safety improvements

From 1994 to 1999, ICBC invested \$159 million in road safety programs. In 2001 alone, ICBC spent over \$44 million. Statistics indicate that this investment has a payback of less than one year. Operations at the City of Burnaby routinely include involvement and consultation with ICBC. Joint projects such as traffic studies, training and education, traffic safety improvements and capital projects have totalled more than \$1.5 million since 1997.

By developing policy and implementing a wide range of loss prevention programs, ICBC has made an important contribution to reducing the costs of injuries and deaths.

Non Discriminating Pricing Structure

ICBC provides universal auto insurance to B.C. motorists. All motorists are required to buy a basic package of ICBC Autoplan insurance that includes accident benefits, minimum third-party legal liability protection and protection from under insured, uninsured and hit-and-run motorists. In B.C. the uninsured rate has been steady for several years at less than 1%. It was estimated by Insurance Bureau of Canada in 1996 that as many as 15% of Ontario drivers operated their vehicles without insurance. That same year, the Ottawa police department estimated 20% of drivers were not insured while the Toronto police department estimated a 25% uninsured rate. This excludes stolen vehicles as they represent their own class of claim.

ICBC's basic package provides the most extensive coverage among jurisdictions in Canada including an allowance for no-fault accident benefits coverage of up to \$150,000 per person for medical and rehabilitation expenses. In Alberta and the Maritime provinces, which like B.C. have tort-based insurance providing claimants with the right to sue for damages, no-fault accident benefits are limited to \$10,000-\$50,000 per person.

In B.C., insurance premiums are set according to an individual's driving and claims record - factors that a customer can control - rather than using discriminatory factors such as age, sex and marital status that a customer cannot control. Rates are set based on the following criteria:

- years of driving experience;
- primary use of vehicle;
- geographic area of residence of registered owner;
- past claims history;
- make, model, and year of vehicle.

ICBC's loss ratio was higher than the industry average by 12% in 2000. However, when compared to other public insurers, the loss ratio was at par with that benchmark group. Public insurers typically have higher loss ratios due to their mandate to provide universal insurance to both high and low risk drivers. As noted above, ICBC also provides one of the most comprehensive sets of coverage in the country. Both these factors contribute to the higher loss ratio.

It is also important to note that as a public insurer with a break-even mandate, ICBC requires less premium dollars to pay for similar claims than private insurers because the Corporation does not need to generate a profit margin or a return on a significantly larger capital base.

Current Rates and Rate Comparisons

For 2002 ICBC policyholders will see an average rate increase of 7.4%, the first increase in six years. In early 2001, ICBC had issued a premium refund to B.C. drivers of over \$218 million.

It is extremely difficult to obtain comparable pricing data to accurately compare the City of Burnaby and similar sized municipalities in Ontario. As noted above, in British Columbia the systems and services provided by ICBC are unique and based on principals of coverage different from those provided by Ontario. There exists an inability and in some cases a refusal to provide cross provincial data for private insurance costs. For fleet coverage, a comparison must take into account variables such as claims experience, loss ratios, number of vehicles, types of vehicles, exposure of vehicles, coverage, deductibles and operating boundaries. As well, weather conditions and geographical components will have an affect on cost. Staff were unable to provide an accurate comparison.

3.0 CONCLUDING REMARKS

Many variables exist in comparing public to private insurance in Canada. It has been reported in independent studies that for the residents of British Columbia, auto insurance rates will not be cheaper if the system was privatized. These studies focus on residential uses of motor vehicles and not commercial and municipal use which in the case of Burnaby includes a 55% fleet discount on insurance premiums. One must be very careful when making comparisons between private and public insurance. A combined model does not exist anywhere in North America. Data provided must be reviewed carefully and consideration be given to all variables. *From the information reviewed it can be concluded that ICBC's services are much more comprehensive and provide for better coverage than elsewhere in Canada at competitive rates.*

ICBC provides many services that may not be financially viable to continue providing if they become a private insurer in British Columbia. There are no examples of any private insurer providing the same level of community involvement and services as those currently provided by ICBC. The call for privatization in British Columbia is based on a call to end monopolization. In actuality, ICBC only has a \$200,000 monopolization for coverage. The first \$200,000 of vehicle coverage is required to be purchased from ICBC. Anything beyond that amount may be purchased from private insurance providers. *Its basic package provides one of the most extensive coverage packages offered in any jurisdiction in Canada.*

As quoted by the Consumers' Association of Canada in a 1999 response to an Insurance Bureau of Canada request to comment on insurance, they wrote, "*The Association believes that British Columbia's public auto insurance system uses the fairest method for determining what a consumer pays for insurance, namely, a persons driving record.*" Under private insurance, rates are set on the basis of age, gender, marital status, claims and geographical location."

Many services provided by ICBC are done in both a leading and supporting role for the communities of B.C. These include services that we as drivers are not always cognizant of which form the basis of our safety and well being. Maintaining public insurance in British Columbia provides for greater guarantees of these services based on variables we already know. It is recommended that Council indicate the City's support of public insurance in British Columbia as provided by ICBC, that a copy of this report be sent to the Premier, Burnaby's MLA's and the Minister responsible for ICBC; and that Burnaby's MLA's be called upon to lend their support to the preservation of universal public auto insurance in B.C.



Rick Earle
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