Down the Road

The Implications of "Full Competition" for Public Auto Insurance in British Columbia

by John Young

October 2001

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The contents, opinions and, of course, any errors contained in this paper are those of the author.

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Summary

FOR ALMOST THIRTY YEARS, BRITISH COLUMBIANS HAVE HAD A SYSTEM OF PUBLIC AUTO insurance. Initially a one hundred per cent monopoly, the Insurance Corporation of British Columbia (ICBC) now operates in a hybrid environment, maintaining a monopoly for basic insurance and competing in the open marketplace for optional insurance.

With the election of the new BC Liberal government, change is the order of the day across a wide range of public policy areas, including auto insurance. In promising to introduce "full competition" to both the basic and optional insurance components of the auto insurance system, the new government is embarking on a path that marks the beginning of the demise of public auto insurance, its public policy orientation, and the significant economies of scale that are part and parcel of the single, integrated provider model.

Allowing private firms to compete with ICBC in the provision of basic auto insurance will almost certainly result in a number of negative outcomes, including: discriminatory rate setting; higher insurance premiums for hundreds of thousands of British Columbians; job loss; diminished investment in road safety; and higher costs for the public treasury.

One of the most troubling aspects of the proposed change is the systemic discrimination embedded in private insurance systems. Even though the Supreme Court of Canada and the Ontario Human Rights Commission have spoken strongly against the practice of discrimination in insurance, the industry continues to utilize discriminatory practices in day-to-day operations. Should the new government proceed to implement its election campaign promise, they will either have to explain how systemic discrimination is good public policy or they will have to ensure that the new system is structured in such a way as to prevent its pervasive influence.

Key findings

- In terms of rates and premiums, the most reliable data strongly suggests that hundreds of thousands of British Columbians would see their rates rise under a full competition model. Young drivers, their families, and older drivers would be hit hardest, as a recent comprehensive study by the Consumers' Association of Canada (BC) clearly indicates. Overall, the CAC's comparison of rates in major Canadian cities found Vancouver's rates to be very competitive.
- While some drivers in mid-life may find cheaper insurance premiums under a full competition system (provided they are not carrying children under 25 on their policies), the quality of coverage is frequently inferior, with negative cost implications for BC's public health care system.
- Given the private insurance industry's record of discrimination based on postal code, and the tendency of private insurers to "cream" away the lowest-risk drivers, rural motorists would also likely see their rates increase, as would drivers in lower-income areas.

- The insurance lobby has tried to suggest that a move to full competition and potential privatization would have positive economic impacts on employment. But knowledgeable stakeholders in the BC insurance industry predict the opposite: significant job loss as a direct result of the proposed change.

  The Automotive Retailers Association (ARA) estimates that 500 body shops would be driven out of business by full competition and the Insurance Brokers Association of BC (IBABC) is concerned that many of the 8,000 people employed in independent insurance brokerages could also lose their jobs. And, of course, there are over 5,000 people who now work for ICBC in all corners of the province. Many of them might also lose their jobs in a round of private sector-inspired "rationalization" or as a result on head-office functions departing the province.

- Leaders of BC's disability organizations believe that ICBC's leadership in innovative and effective injury recovery would be threatened if the public auto system and its underlying principles are eroded.

- There is strong evidence that jurisdictions with private auto insurance systems have higher rates of uninsured drivers, which poses a risk to others and drives up the overall cost of insurance.

- Nearly $6 billion in investment capital is at stake in the proposed change to full competition. Currently, ICBC has a policy of targeting 20% of its $6 billion investment fund ($1.2 billion) to investments in the province. This policy would almost certainly be a thing of the past under full competition, as the size of ICBC's investment fund shrinks and local economic development goals give way to the narrower goal of maximizing global returns.

- Dividends to policyholders would also disappear under full competition. Last year $218 million in profits were shared by over 90% of BC drivers as a direct result of ICBC's break-even financial mandate. As private insurers cream away most of the lowest risk customers, and as more of the BC auto insurance market shifts to private multinational financial corporations, profits will increasingly go to shareholders around the world – not policyholders in BC.

- Under a fully competitive model, the provincial government would have to absorb a number of new costs at a time when it is facing severe financial constraints. These new annual costs include: at least $42 million to the Medical Services Plan; $60 million in road safety costs (if the government intends to maintain the province's commitment to this important area of investment); approximately $75 million in Motor Vehicle Branch costs; and as yet unknown costs associated with the new regulatory functions that would be required to monitor the operations of private insurance companies under a full competition system.

- With a host of multinational insurance companies chasing $2.3 billion in annual premiums in BC, the economies of scale and efficiency benefits of a single, integrated provider (ICBC) would be lost. Whether it is ING, Wawanesa, or any other insurance company, all would have to maintain their own local marketing departments, information technology systems, management teams, claims administration, etc., in addition to meeting the constant pressure of shareholders to deliver sizeable profits. All these layers would add cost and confusion to the auto insurance system. Such private-sector duplication and shareholder demands help to explain why those jurisdictions with *public* auto insurance tend to have lower overall insurance rates.

- With the loss of integration provided by ICBC, policyholders would have to deal with multiple insurance companies rather than the "one stop shopping" now available. Also at risk is the advantage of ICBC's integration with the Motor Vehicle Branch with respect to ensuring that all drivers carry insurance.
- British Columbians have come to value the extensive investment made by ICBC over the last several years in the area of road safety. It is simple common sense that improved road safety leads to less carnage, fewer serious injury claims, and lower premiums. It is not at all clear that the successes of road safety and the necessary level of investment required to improve on those successes would be forthcoming in a fully competitive or privatized environment. Because ICBC is a monopoly provider, it stands to gain from its investment in road safety, whereas private insurance companies would have to share the benefits with their competitors – something that is antithetical to the notion of "free markets" and "full competition".
- Because of the trade agreements to which Canada is a signatory (NAFTA and the WTO), any decision to open auto insurance to full competition or to privatize ICBC would likely be irreversible. The exorbitant compensation costs to private insurance companies that these agreements would require mean that returning auto insurance to the Crown would be prohibitively expensive.

Beyond the multinational financial giants looking for increased access to BC's auto insurance market, it is difficult to find institutional support for the proposed change. Even many of those inclined toward "free enterprise" solutions have grave concerns about how the new government's plans will unfold.

With so many questions left unanswered about the potential impacts of the proposed radical change, it is incumbent on the government to think long and hard before going down this road. Only after all substantive and legitimate questions have been fully aired and considered should a final decision be made about the future of public auto insurance in British Columbia.

Introduction

FOR MANY BRITISH COLUMBIANS, THE current system of public auto insurance is the only system they know. Tens of thousands of drivers have no memory of the private insurance system that predated the Insurance Corporation of British Columbia (ICBC).

Those whose memories extend beyond 1974 may recall a chaotic environment; an environment so beset by systemic problems that, ultimately, a Royal Commission (the Wooton Commission) was struck to investigate and recommend improvements for the provision of auto insurance in the province.

From discrimination in rate setting and dramatic increases in insurance premiums to sudden termination of insurance policies and excessively long delays in settling claims, there were many reasons for British Columbians to be profoundly dissatisfied with the pre-public auto insurance status quo.

In addition to rate, claim settlement, and discrimination issues, public safety was ill-served in the pre-1974 era due to the large numbers of uninsured drivers in BC. Either because of the prohibitive cost of insurance or the inability to obtain insurance outside of urban areas (or a variety of other reasons), an unacceptably large number of British Columbians operated vehicles without insurance coverage. In so doing, they posed a threat to other drivers on the roads.

With the 400-plus page Wooton Report in hand and with ongoing dissatisfaction regarding the status quo, the government of the day decided to act in 1973/74, introducing a public auto insurance system and creating a new crown corporation – ICBC – to implement and manage the system.

Built on a foundation of public policy and commercial crown objectives, ICBC's mandate is to provide universal, accessible, affordable and non-discriminatory auto insurance to all British Columbians.

In terms of financial management, ICBC's objective is to operate on a break-even basis. In the event that there is an operating surplus, that surplus is either distributed back to policyholders, retained in a rate stabilization fund, or returned to the shareholder (i.e. the provincial government).

In recent years, ICBC has been given an expanded mandate beyond the core functions of a typical auto insurer. Since the mid-1990s, ICBC has made substantial investments in road safety programs, taking a logical step in attempting to reduce the number, severity, and socio-economic cost of accidents.

In addition to its recent road safety mandate, the Corporation also absorbed the former Motor Vehicle Branch (MVB) of government in the mid-1990s. With licensing, compliance and enforcement functions folded into the core business, ICBC has become a large and complex organization with a presence in virtually every community in the province.

Since 1998, the Insurance Bureau of Canada (IBC, an industry lobby group based in Toronto whose members include major national and multinational insurance companies) and a number of other groups have been pressing for British Columbia to fundamentally change the way auto insurance is provided.

Initially, the IBC called for the wholesale privatization of ICBC. More recently, they have changed the tone of their campaign. They no longer talk about privatization, but instead advo-

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cate a move to "full and open competition" for all auto insurance coverages.

While approximately 40% of the auto insurance market in BC is currently fully competitive, the remaining 60%, what most of us know as "basic" insurance, is the exclusive domain of ICBC under a provincially mandated monopoly.

Joining the IBC in the call for full competition is the new BC government. Over the course of the recent election campaign, Premier Campbell and his MLAs promised to do what the IBC has been calling for. While the new Premier and his cabinet colleagues have yet to indicate if or how quickly they will move on their election promise, the impacts and issues raised by such a public policy decision could be dramatic.

This report addresses what "full competition" means and whether or not it is really tantamount to privatization. It then moves on to discuss the individual financial implications of the proposed change (rates/premiums). Larger economic issues are also considered, including employment impacts; the advantages of a single, integrated monopoly provider; and the degree to which economic benefits might "leak" out of the province under full competition. The report then examines the social policy issues raised by the government's campaign promise. Lastly, potential trade agreement impacts are discussed in terms of the feasibility of returning auto insurance to the public sector should full competition/privatization prove disastrous for British Columbians.

"Full competition": Another way of saying privatization?

IT IS EARLY DAYS, AND AT THIS POINT NO one is really sure what the new government means by "full" or "open competition". It is entirely possible that Premier Campbell and the Minister Responsible for ICBC, Gary Collins, have not yet determined themselves what they mean by "full competition".

While there is an easy sort of visceral, intuitive appeal for many people in the idea of increased competition (typically presumed to create more consumer choice and drive prices down), implementation may not be that easy when it comes to the auto insurance industry. Moreover, full competition will not deliver all that the new government and insurance company lobbyists suggest.

For "full competition" in BC's auto insurance industry to take place, one of three things (or a combination thereof) must occur:

1. Private companies will be governed by the same legislation and regulations as currently apply to ICBC, putting all players on a level playing field.
2. ICBC will be released from its obligations flowing from numerous statutes and regulations and become just another insurance company competing like any other insurance company. Under this scenario, ICBC would have to relinquish such "extra-curricular" activities as road safety and Motor Vehicle Branch operations. As above, this would result in a level playing field.
3. ICBC will be placed in a competitive marketplace while continuing to be governed by status quo legislation and regulations and while continuing to fund road safety and the Motor Vehicle Branch. Such a scenario would not produce a level playing field.

Scenario one seems extremely unlikely for two reasons. First, the new government is a "free enterprise" government bent on reducing regulation. Thus, restricting maneuverability for insurance companies itching to access a multi-billion dollar market would be philosophically inconsistent with the new government's values. Second, if private companies were forced to abide by the same rules and regulations as ICBC *and* jointly fund road safety *and* jointly fund the Motor Vehicle Branch in order to gain access to the basic insurance market, they would almost certainly decline.

The second scenario or some modified version of it seems somewhat more likely. But with ICBC transformed into just another insurance company, it is not clear what, if any, public policy mandate would remain. Yes, ICBC could compete in the open market. But what apart from government ownership would distinguish it as a crown corporation?

The third scenario could unfold if government is not careful in whatever restructuring is being considered for ICBC. If the goal is to open the market up to any and all comers, then surely the market must be organized such that all firms compete on the same terrain. But if ICBC is compelled to compete while bound by its status quo regulatory and legislative framework, it would not be long before the Corporation is driven into a financial wall.

Since private insurance companies focus their very substantial marketing efforts and build their clientele on the "best risks" while avoiding "poor risk" customers (through prohibitive pricing or outright refusal to provide insurance), it would not be long before ICBC would be left with the highest cost insureds and a financially unsustainable situation.

There are mechanisms that could be put in place to avoid such an outcome.[1] But, at this point, no one knows what the new government has in mind or what kind of solutions they would find palatable in the awkward mix of sound public policy and "free enterprise" campaign promises.

Based on these scenarios, it is difficult to see how public auto insurance will survive if the new government delivers on its promise. Without saying the words and without necessarily following a traditional privatization path, Premier Campbell appears to be headed toward some manner of privatization.

Shorn of its public policy and social policy mandate, and with its economies of scale and integration destroyed, ICBC would be just another player in a high–cost structure. While most British Columbians would likely not be tremendously concerned about the survival of ICBC as a company, many would be concerned about the repercussions stemming from an eroded or abandoned public auto system.

In the event that deliberate or de facto privatization takes place, what happens to road safety? Who pays for it? What happens to the universality of insurance coverage for virtually every vehicle on our roads? What happens to fair coverage for severely injured British Columbians?[2] What happens to non-discriminatory rating practices? What happens to affordable rates for hundreds of thousands of young people, seniors, and families with young drivers?

The following will attempt to answer these questions; a task obviously constrained by the vague nature of the new government's campaign promise.

Individual implications: Winners and losers

IN ALL THE BACK AND FORTH ABOUT whether British Columbians would save money in a privatized or competitive auto insurance market, many claims are made by a host of vested interests.

The IBC has suggested in the past that 80% of British Columbians would pay less under open competition, giving "over one million motorists" a break on rates.[3]

In considering the impacts of such a move, it is important to recognize that some of the comparisons made to date have essentially been between apples and oranges. For example, the 1999 IBC report[4] failed to consider significant differences in the quality of coverage and benefits between jurisdictions, ignored long term accident-free driving discounts in BC (the "Road Star" program), and entirely excluded comparisons of insurance rates for drivers under 25. Combined with other methodological shortcomings and an obvious industry/political bias, the IBC report is of limited use. Comparisons are further complicated by the fact that jurisdictions have different accident and theft rates.

Given that it is notoriously difficult to produce straightforward apples to apples comparisons without vested interests obscuring the real picture, it is probably best to go to one of the only neutral sources available – the Consumers' Association of Canada (CAC).

In 1999 and again in 2001, the CAC(BC) issued comprehensive reports comparing auto insurance rates across a variety of Canadian jurisdictions. Their data is drawn from Compuquote[5] (for the private insurance jurisdictions of Toronto and Calgary) and from the government-owned public auto insurance companies in Saskatchewan, Manitoba and BC. The conclusions reached by the CAC(BC) in both their 1999 and their 2001 reports are strikingly different from the conclusions presented in the IBC-commissioned paper.

Below are some of the CAC's key conclusions and tables reproduced (verbatim) from the recently released 2001 Report:

- Vancouver's rates are competitive with other large cities.
- Under open competition discriminatory rating practices will result in "rate shock" for families with young drivers.
- Young BC drivers with perfect driving records will experience significant rate increases under open competition.
- Gender discrimination results in younger male drivers paying much higher rates in Toronto than in Vancouver.
- Age discrimination in Calgary and Toronto results in youth with perfect driving records paying more than older drivers with an at-fault crash.
- Rates for BC's "good drivers" are competitive.
- Rates are higher in Toronto than in Vancouver.[6]
- Rates are higher in Calgary than in Winnipeg.
- Median rates for seniors are lower in Vancouver than in Toronto.

Based on the above key findings the Consumers' Association of Canada (BC) concludes:

- There is no strong case for open competition.
- Open competition will result in dramatic rate increases for families and many individual consumers.
- Open competition will result in discriminatory rating practices that affect drivers under twenty-five and families with younger drivers.
- A $1 billion optional market is currently open to full competition in BC.

"The ultimate conclusion based on the CAC's rate study is that there is no case for change to British Columbia's current auto insurance system on the basis of rates charged to consumers."

Table 1: Consumers' Association of Canada (BC) 2001 Auto Insurance Comparison Rates Summary (annual insurance premiums in dollars)

Policy profiles	Vancouver*	Calgary			Regina*	Winnipeg*	Toronto		
		Lowest	Median	Highest			Lowest	Median	Highest
1.	2295	1475	1686	2060	1520	1406	1795	1982	2501
2.	2339	1615	1922	2227	1633	1891	1819	2244	2501
3.	1298	1739	2066	2520	939	931	2091	2553	2754
4.	1123	1404	1777	2134	798	576	1625	1968	2356
5.	1378	1587	1919	2810	806	791	2219	3191	3646
6.	1934	2024	3165	4062	929	1003	2379	4510	6513
7.	1378	1151	1292	1620	806	791	1523	2117	2789
8.	1934	1478	2012	2646	929	1003	1623	3011	4334
9.	1065	737	933	1056	727	537	911	1050	1235
10.	1065	1304	1626	1901	727	537	1434	1935	2165
11.	1102	1535	1831	2214	840	680	1434	1958	2676
12.	1212	1224	1529	1748	735	573	1302	1962	2433
13.	898	724	878	1052	841	666	846	974	1180
14.	3327	2155	3729	6097	719	802	4118	6268	6989
15.	1247	1148	1459	1799	892	964	1718	1880	2095
16.	1393	816	1053	1292	819	802	801	1224	1770
17.	2177	3654	5018	5297	872	999	5477	6591	9482
18.	2177	1922	2585	2824	872	999	2688	3504	4841
19.	2093	1876	2403	2859	806	1055	2501	3280	4446
20.	2056	3397	4675	5165	756	829	4555	5670	8844
21.	1297	1448	1899	2520	640	472	1731	2880	3655
22.**	3542	N/A	N/A	N/A	545	370	N/A	N/A	N/A
23.	1184	1777	2220	3065	938	927	2473	2959	3905
24.	1565	1465	1903	2463	1352	1131	1419	2687	2984
25.	1187	1129	1263	1415	967	898	1383	1515	1829
26.	1268	1097	1441	1594	956	947	1465	1725	2103
27.	909	667	833	1020	841	666	830	973	1286
28.	1223	1088	1294	1494	937	682	1255	1518	2045
29.	985	756	940	1158	870	703	894	1058	1417
30.	1435	1492	2312	3171	1250	1202	2064	2297	4002

* Provinces with public auto insurance. ** Due to the age of the vehicle, no rate quotes available for Calgary and Toronto.

Notes: Details regarding the 30 profiles are provided on the following pages. This chart shows the single ICBC rate for Vancouver. This rate could vary marginally in the other 14 rate territories in BC. For the two other public auto insurance jurisdictions (Regina and Winnipeg), there is also only one rate listed. For Calgary and Toronto, where there are many different insurers, the lowest and the highest quotes are shown, along with the calculated median. The CAC(BC) study uses the median as a fair representation of what consumers pay within each driver profile.

Policy Profiles Used in the Consumers' Association of Canada (BC) Rate Comparisons, Table 1

1: Two Vehicles Owned by Same Family

Vehicle 1: 1995 Chrysler Intrepid. **Use:** 10km to work each way, 25 km daily, 18,000 km annually. **Principal operator**: Male, 58 years old, married, financial broker, drivers license 40 years, owned a vehicle and insured 40 years, same insurer 25 years, occasional driver of Vehicle 2, no claims or convictions. **Vehicle 2**: 1996 Dodge Caravan. **Use:** Pleasure only, 20 km daily, 15,000 km annually. **Principal operator**: Female, 55 years old, married, homemaker, drivers license 35 years, owned a vehicle and insured 35 years, dame insurer 25 years, no claims or convictions

2: Family with Two Vehicles – One At-Fault Claim

Vehicle 1: 1995 Chrysler Intrepid. **Use:** 10 km to work each way, 25 km daily, 18,000 km annually. **Principal operator**: Male, 58 years old, married, financial broker, drivers license 40 years, owned a vehicle and insured 40 years, same insurer 25 years, occasional driver of Vehicle 2, one at-fault claim 12 months ago. **Vehicle 2**: 1996 Dodge Caravan **Use:** Pleasure only, 20 km daily, 15,000 km annually. **Principal operator**: Female, 55 years old, married, homemaker, drivers license 35 years, owned a vehicle and insured 35 years, same insurer 25 years, no claims or convictions

3: Family With Young Driver – Perfect Driving Records

Vehicle: 1996 Toyota Camry. **Use:** 20km to work each way, 50 km daily, 22,000 km annually. **Principal operator:** Male, 48 years old, married, accountant, drivers license 32 years, owned a vehicle and insured 30 years, same insurer 30 years. **Occasional driver:** Female, 42 years old, married, homemaker, drivers license 26 years, owned a vehicle and insured 20 years, same insurer 20 years. **Occasional driver:** Male, 17 years old, son, single, student, drivers license 1 year, never owned a vehicle

4: Family With Young Driver – Perfect Driving Records

Vehicle: 1994 Ford Taurus LX Wagon. **Use:** Pleasure only, 25 km daily, 20,000 km annually. No claims or convictions for all 3 drivers. **Principal operator:** Female, 42 years old, married, homemaker, drivers license 26 years, owned a vehicle and insured 20 years, same insurer 20 years. **Occasional driver:** Male, 48 years old, spouse, homemaker, drivers license 32 years, owned a vehicle and insured 30 years, same insurer 30 years. **Occasional driver:** Male, 17 years old, son, single, student, drivers license 1 year, never owned a vehicle

5: Single Male – Perfect Driving Record

Vehicle: 1992 Honda Civic DX Hatchback. **Use:** 10 km each way to school, 30 km daily, 20,000 km annually. **Principal operator:** Male, 22 years old, single, student, drivers license 6 years, owned a vehicle and insured 4 years, same insurer 4 years, no claims or convictions

6: Single Male – One At-Fault Collision

Vehicle: 1992 Honda Civic DX Hatchback. **Use:** 10 km each way to school, 30 km daily, 20,000 km annually. **Principal operator:** Male, 22 years old, single, student, drivers license 6 years, owned a vehicle and insured 4 years, same insurer 4 years, one at-fault collision claim (rear ender) 18 months ago

7: Single Female – Perfect Driving Record

Vehicle: 1992 Honda Civic DX Hatchback. **Use:** 10 km each way to school, 30 km daily, 20,000 km annually. **Principal operator:** Female, 22 years old, single, student, drivers license 6 years, owned a vehicle and insured 4 years, same insurer 4 years, no claims or convictions

8: Single Female – One At-Fault Collision

Vehicle: 1992 Honda Civic DX Hatchback. **Use:** 10 km each way to school, 30 km daily, 20,000 km annually. **Principal operator:** Female, 22 years old, single, student, drivers license 6 years, owned a vehicle and insured 4 years, same insurer 4 years, one at-fault collision claim (rear ender) 18 months ago

9: Single Female – Perfect Driving Record

Vehicle: 1991 Mazda 4DR Protege. **Use:** 10 km each way to work, 35 km daily, 20,000 km annually. **Principal operator:** Female, 38 years old, single, retail sales, drivers license 22 years, owned a vehicle and insured 20 years, same insurer 10 years, no claims or conviction

10: Single Female & Occasional driver – Son

Vehicle: 1991 Mazda 4DR Protege. **Use:** 10 km each way to work, 35 km daily, 20,000 km annually. **Principal operator:** Female, 38 years old, single, retail sales, drivers license 22 years, owned a vehicle and insured 20 years, same insurer 10 years, no claims or convictions. **Occasional driver:** Male, 18 years old, son, student, drivers license 2 years, never owned a vehicle, no claims or convictions

11: Single Female – One Conviction & Occasional driver – Son

Vehicle: 1991 Mazda 4DR Protege. **Use:** 10 km each way to work, 35 km daily, 20,000 km annually. **Principal operator:** Female, 38 years old, single, retail sales, drivers license 22 years, owned a vehicle and insured 20 years, same insurer 10 years, one at-fault collision claim (rear ender) 18 months ago. **Occasional driver:** Male, 18 years old, son, student, drivers license 2 years, never owned a vehicle, no claims or convictions

12: Married Male – Three Convictions & Occasional driver

Vehicle: 1991 Mazda 4DR Protege. **Use:** 10 km each way to work, 35 km daily, 20,000 km annually. **Principal operator:** Male, 45 years old, married, retail Proprietor, Canadian drivers license 4 years, owned a vehicle 20 years, insured 15 years, same insurer 4 years, 3 comprehensive claims in past 18 months. **Occasional driver:** Female, 40 years old, spouse, retail proprietor, drivers license 4 years, never owned a vehicle, no claims or convictions

13: Married Male – No Convictions & Occasional driver

Vehicle: 1995 Toyota Corolla. **Use:** Pleasure only, 20 km daily, 12,000 km annually. **Principal operator:** Male, 68 years old, married, retired, drivers license 50 years, owned a vehicle 50 years, insured 50 years, same insurer 40 years, no claims or convictions. **Occasional driver:** Female, 66 years old, spouse, retired, drivers license 45 years, owned a vehicle 45 years, insured 45 years, same insurer 40 years, no claims or convictions

14: Single Male – One At-Fault Collision

Vehicle: 1991 Nissan Micra. **Use:** 10 km each way to school, 50 km business daily, 20,000 km annually. **Principal operator:** Male, 20 years old, single, p/t student, pizza delivery person, drivers license 3 years, owned a vehicle 2 years, insured 2 years, same insurer 2 years, one at-fault collision 12 months ago

15: Single Male – One Comprehensive Claim & Occasional driver

Vehicle: 1995 Jeep YJ. **Use:** 20 km each way to work, 50 km daily, 20,000 km annually. **Principal operator:** Male, 35 years old, single, construction, drivers license 19 years, same insurer 15 years, 1 comprehensive claim (theft) 12 months ago. **Occasional driver:** Female, 32 years old, single, co-habitant, retail sales clerk, drivers license 10 years, no claims or convictions

16: Single Male – One At-Fault Collision

Vehicle: 1991 Nissan Micra. **Use:** 10 km each way to school, 50 km business daily, 20,000 km annually. **Principal operator:** Male, 40 years old, single, p/t student, pizza delivery person, drivers license 22 years, owned a vehicle 20 years, insured 20 years, same insurer 20 years, one at-fault collision 12 months ago

17: Single Male – Perfect Driving Record

Vehicle: 1996 Chevrolet Cavalier. **Use:** 20 km to school. **Principal operator:** Male, 18 years old, single, student, no claims or convictions

18: Single Female – Perfect Driving Record

Vehicle: 1996 Chevrolet Cavalier. **Use:** 20 km to school. **Principal operator:** Female, 18 years old, single, student, no claims or convictions

19: Single Female – Perfect Driving Record

Vehicle: 1992 Honda Civic DX 2DR Hatchback. **Use:** 20 km to school. **Principal operator:** Female, 17 years old, single, student, no claims or convictions

20: Single Male – Two Speeding Tickets

Vehicle: 1992 Toyota Pick-up SR5 4x4. **Use:** 20 km to work. **Principal operator:** Male, 19 years old, single, labourer, 2 speeding tickets 12 and 24 months ago

21: Single Male – Two Speeding Tickets

Vehicle: 1981 Toyota Tercel Liftback 3DR. **Use:** 20 km to school. **Principal operator:** Male, 21 years old, single, student, two speeding tickets 12 and 24 months ago

22: Single Male – One At-Fault Collision & Occasional Driver

Vehicle: 1966 Volkswagan Vanagon GL Camper 2WHDR. **Use:** 20 km to school. **Principal operator:** Male, 18 years old, single, student, one at-fault claim 12 months ago. **Occasional driver:** Male, 19 years old, single, student, no claims or convictions

23: Family with Four Drivers – Perfect Driving Records

Vehicle: 2000 Dodge Caravan Minivan. **Use:** Pleasure use only, 18,000 km annually. **Principal operator:** Female, 43 years old, married, homemaker, drivers license 26 years, owned a vehicle and insured 18 years, same insurer 8 years, no claims or convictions in last 10 years. **Occasional driver:** Male, 51 years old, married, business owner, drivers license 33 years, owned a vehicle and insured 27 years, no claims or convictions in last 10 years. **Occasional driver:** Male, 21 years old, drivers license 5 years, no claims or convictions in last 10 years. Occasional driver: Female, 19 years old, drivers license 3 years, no claims or convictions in last 10 years

24: Single Male – One Speeding Ticket

Vehicle: 1999 BMW 323. **Use:** 35 km to work daily, 25,000 km annually. **Principal operator:** Male, 36 years old, single, Web designer, drivers license 19 years, owned a vehicle and insured 14 years, same insurer 4 years, one speeding ticket last year

25: Single Female – One Comprehensive Claim

Vehicle: 1996 Mazda Convertible. **Use:** 15 km to work daily, 10,000 km annually. **Principal operator:** Female, 42 years old, single, nurse, drivers license 24 years, owned a vehicle and insured 15 years, same insurer 5 years, one comprehensive claim 3 years ago

26: Married Male & Occasional Driver

Vehicle: 1997 Ford Explorer. **Use:** 50 km to work daily, 40,000 km annually. **Principal operator:** Male, 55 years old, married, shift supervisor in factory, drivers license 34 years, owned a vehicle and insured 30 years, same insurer 30 years, no claims or convictions. **Occasional driver:** Female, 50 years old, married, sales clerk, drivers license 31 years, no claims or convictions

27: Single Female – 73 Years of Age

Vehicle: 1995 Chevrolet Corsica. **Use:** Pleasure use only, 11,000 km annually. **Principal operator:** Female, 73 years old, single, retired, drivers license 51 years, owned a vehicle and insured 6 years, same insurer 6 years, no claims or convictions

28: Married Male – Perfect Driving Record

Vehicle: 1997 Ford F-150 Half Tonne Truck. **Use:** 40 km daily to work, 28, 000 km annually. **Principal operator:** Male, 42 years old, married, construction foreman, drivers license 25 years, owned a vehicle and insured 19 years, same insurer 1 year, no claims or convictions

29: Married Male – 75 Years of Age – One At-Fault Claim

Vehicle: 1993 Buick Park Avenue 4DR. **Use:** Pleasure use only, 8,000 km annually. **Principal operator:** Male, 75 years old, married, retired, drivers license 55 years, same insurer 15 years, one at-fault claim 8 months ago

30: Married Male – Perfect Driving Record

Vehicle: 2001 Volkswagon Beatle. **Use:** 9 km to work daily, 24,000 annually. **Principal operator:** Male, 27 years old, married, engineering technologist, drivers license 11 years, owned a vehicle and insured 3 years, no claims or convictions

"The ultimate conclusion based on the CAC's rate study is that there is no case for change to British Columbia's current auto insurance system on the basis of rates charged to consumers."[7]

In addition to the Consumers' Association study, there are two other neutral sources worth considering in evaluating whether or not a move to full competition would be financially beneficial to the vast majority of British Columbians.

The respected international business consulting firm Runzheimer[8] has periodically carried out provincial comparative analyses of auto insurance. As recently as 1999, Runzheimer found that auto insurance rates in Vancouver came seventh lowest out of the ten jurisdictions compared. Only Quebec City, Winnipeg and Saskatchewan had moderately cheaper auto insurance rates. All three, notably, are jurisdictions with *public* auto insurance systems. (See Table 2)

Finally, the Canadian Automobile Association (CAA) issued a report at the end of 1999 looking at the overall costs of operating an automobile in all provinces and territories. Out of the eleven jurisdictions considered, British Columbia came sixth – less expensive than Newfoundland, Quebec, Ontario, Nova Scotia and New Brunswick. While the study did not isolate insurance from other variables, clearly the cost of insurance is a major factor in vehicle operation.[9] (See Table 3)

A neutral observer examining these impartial reports might well be mystified by the IBC's claims. Study after study finds British Columbia's public auto system to be both affordable and less expensive than many of the jurisdictions the private insurance lobby advocates emulating. Given this, it is difficult to see the IBC's efforts as anything but self serving – seeking access to a big, new market – not for the benefit of consumers but for the benefit of the multinational insurance companies that see BC as a prospective new profit centre.

When sorting through all the comparisons that have been and will be made, it is important to remember that BC's public auto insurance system essentially smoothes out the cost of driving over the course of a driver's life. In thinking about the merits of one insurance system over another, it is difficult to find a better life-cycle design than the current BC model:

- For the first ten years (16 – 25), drivers pay considerably less in BC's public auto sys-

As recently as 1999, Runzheimer found that auto insurance rates in Vancouver came seventh lowest out of the ten jurisdictions compared. Only Quebec City, Winnipeg and Saskatchewan had moderately cheaper auto insurance rates. All three, notably, are jurisdictions with *public* auto insurance systems.

Table 2: Comparison of Projected Vehicle Insurance Premiums

(most to least expensive)	
Toronto	$2,557
Montreal	$2,201
St. John's	$2,111
Calgary	$1,949
London	$1,693
Moncton	$1,463
Vancouver	$1,454
Quebec	$1,280
Winnipeg	$1,148
Saskatchewan	$1,127

Note: For a 2000 Ford Taurus SE in 1999.

Source: Saskatchewan Government Insurance. *Saskatchewan Auto Fund Annual Report 1999* – data supplied by Runzheimer International.

Table 3: Vehicle Operation Costs in Canada

(most to least expensive)	
1.	Newfoundland
2.	Quebec
3.	Ontario
4.	Nova Scotia
5.	New Brunswick
6.	British Columbia
7.	Yukon/N.W.T.
8.	Prince Edward Island
9.	Saskatchewan
10.	Alberta
11.	Manitoba

Source: Canadian Automobile Association

Looking at ICBC as a "teen–to–grave" system, the current model is a clear winner when compared to various private and hybrid/private schemes. BC's public auto insurance system essentially smoothes out the cost of driving over the course of a driver's life.

tem than they would in a private insurance jurisdiction. Of course, young drivers begin their driving lives without a driving record. ICBC uses its claims rated scale (CRS) and the graduated licensing program (GLP) as experience-based tools that build young drivers' risk profiles. With these tools, ICBC is able to provide insurance to young drivers in a non-discriminatory fashion.

- As senior citizens, drivers in BC generally pay less than they would in a private insurance jurisdiction with similar driving environments.
- For the intervening years, drivers generally pay about the same in BC as they would in a comparable private jurisdiction.
- It is possible for drivers in their middle years to pay somewhat less in a private jurisdiction, however, *only if they do not have family members between the ages of 16 and 25 on their insurance policies*, and the quality of coverage may be inferior.

Looking at ICBC as a "teen–to–grave" system, the current model is a clear winner when compared to various private and hybrid/private schemes. A system that, by virtue of the fairness inherent in its design, sets rates and makes premiums more affordable for young and older drivers is one of the key benefits of public auto insurance.

Another benefit of the public auto system, compared with private systems, is its "postage stamp" over "postal code" approach, and the emphasis it places on a driver's individual record. With private systems, insurers will carefully consider a driver's postal code (along with age, sex and other criteria) before deciding whether or not to offer coverage. With an East Vancouver or a rural/Northern BC postal code, private insurers may well choose either to refuse insurance outright or quote premiums so high as to be utterly unappealing to the driver seeking coverage.

Of course, "insurance by postal code" is one of the problems that ICBC was created to solve almost thirty years ago. It is every bit as prevalent in private insurance companies today as it was in 1973, and would be one of the problems British Columbians would once again encounter (in what could only be an unwelcome blast from the past) under full competition.

It is possible that some British Columbians *might* see their rates diminish to some degree at some point(s) in their driving lives under a system of full competition.[10] But sound public policy is made on the basis of what is best for the public at large. If hundreds of thousands of British Columbians were to see their rates rise dramatically as a result of discriminatory rating criteria and the inefficiencies of a fully competitive environment, surely that cannot be construed as good public policy.

Study after study finds British Columbia's public auto system to be both affordable and less expensive than many of the jurisdictions the private insurance lobby advocates emulating. Given this, it is difficult to see the IBC's efforts as anything but self serving – seeking access to a big, new market – not for the benefit of consumers but for the benefit of the multinational insurance companies that see BC as a prospective new profit centre.

QUALITY OF COVERAGE AND ACCIDENT BENEFITS

You get what you pay for

It is true that in some places (Alberta for example) you can buy cheap insurance that provides limited coverage. Your premiums might be lower than they would be in BC if you choose this option. But if you have the misfortune of being in a serious accident, the benefits and coverage you receive would be less than the "basic" package provided by ICBC.

In the debate over the provision of auto insurance, the Insurance Bureau of Canada and its members focus on lower rates for some drivers in some private jurisdictions compared with what those select drivers might pay in BC. But they do not seem to want to draw attention to the quality and scope of coverage in those jurisdictions.

For example, currently, ICBC coverage provides $150,000 in medical and rehabilitation benefits, while Alberta insurers only provide $10,000. Ontario's no-fault system limits payments for minor bodily injuries or whiplash, while no such restrictions exist in BC.

ICBC's "basic" coverage protects all BC residents from hit-and-run and uninsured motorists. Whether you own a vehicle or not, if you are a resident of the province you are automatically covered for up to $200,000 if your property is damaged or if you are injured or killed by an uninsured or a hit-and-run driver in BC. ICBC offers this coverage against hit-and-run drivers because they rightly assume that the perpetrator was likely an ICBC customer.

In a July 2001 letter to Premier Campbell, ICBC's Disability Advisory Committee (comprised of leaders and specialists from a variety of institutions and community groups) wrote:

> *While we agree that there are opportunities for continued improvements at ICBC we believe we can offer compelling evidence which supports sustaining a rehabilitation system that works very well.*
>
> *ICBC has been recognized as a world leader for their contributions to injury prevention, rehabilitation and innovations in providing cost-effective, life-long support to injured persons and their families who have sustained catastrophic injuries.*
>
> *Our concern is that any changes in the mandate and role of ICBC may result in real increases in the demand put on our province's public health and social service system. We anticipate the potential financial and personal losses as substantial.*[11]

Most British Columbians would be pleased to see their auto insurance rates decline, but if the trade-off is less coverage, security, and time to recover in the wake of an automobile accident, is the trade-off a good one?

With private systems, insurers will carefully consider a driver's postal code (along with age, sex and other criteria) before deciding whether or not to offer coverage. With an East Vancouver or a rural/Northern BC postal code, private insurers may well choose either to refuse insurance outright or quote premiums so high as to be utterly unappealing to the driver seeking coverage. Of course, "insurance by postal code" is one of the problems that ICBC was created to solve almost thirty years ago.

Broader economic issues: Bleeding dollars from BC

ICBC IS ONE OF THE BIGGEST COMPANIES IN BRITISH COLUMBIA AND THE LARGEST property and casualty insurer in Canada. In light of its importance to the provincial economy, a range of economic issues should be considered before any radical moves are made.

This section will examine:

- the size and scope of ICBC;
- the nature of its financial mandate and what happens when the Corporation makes money;
- the investment policy governing ICBC's multi-billion dollar reserves;
- the economic *inefficiency* and externalities created by private insurance systems;
- the advantages of integration and economies of scale provided by a single public provider;
- key questions that should be fully answered in advance of a shift in public policy; and
- the costs that government would have to absorb if ICBC is stripped of activities that fall outside the parameters of its core business (as has been suggested by the new government).

Scope of ICBC

According to its most recent annual report, ICBC had revenues of $3.44 billion in 2000, comprised of:

- $2.39 billion in driver and vehicle premiums;
- $626 million in investment income; and
- $423 million in license fees and fine collection on behalf of the provincial government.

With 6,198 employees in the year 2000, ICBC is a major employer – contributing substantially to provincial economic activity.[12]

Throughout BC, ICBC maintains approximately 100 offices and other facilities, with head office functions in Vancouver. As a wholly owned provincial crown corporation with a clear public and social policy mandate, ICBC makes decisions affecting British Columbians on the strength of 27 years' experience operating exclusively in the province.

Table 4 illustrates the wide reach of the Corporation and the degree to which it is engaged in extensive business and community partnerships in all regions of the province.

Beyond its own significant unionized workforce, the economic activity generated by ICBC supports thousands of jobs from one end of the province to the other across a range of industries and occupations, from auto repair and glass shops to towing companies and doctors, lawyers and physiotherapists. In 2000, ICBC paid out $2 billion in claims and related costs – almost $6 million per day.

Financial benefits of public auto insurance

While most British Columbians never stop to think about auto insurance issues – unless they have the misfortune of being in an accident – almost everyone knows that rates have been frozen for five years. This is not something that happens in the private sector very often, where the trend is toward ever-increasing premium levels.

And just as five straight years without a price increase is rare, so too are dividends from service providers. But because ICBC's financial mandate is to operate on a break-even basis, when the Corporation makes money (as it did last year) it gives it back to policyholders. This year, over two million British Columbians split $218 million in the form of a "Road Safety Dividend," distributed to 92% of the province's drivers.[13]

Of course, under a full competition or privatized scenario, profits would not remain within the province. Instead, they would be dispatched to corporate headquarters in other parts of Canada, the U.S., Europe and Asia and then on to shareholders around the world. With the potential for hundreds of millions of dollars in annual profits (as was the case last year), British Columbians would have little choice but to watch their premium dollars and investment returns float away on the tide of a globalized financial services sea.

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Table 4: ICBC's Regional Presence, 2000

	North Central BC	Vancouver Island	Lower Mainland	Southern Interior	Provincial Total
Facilities					
Claims Centres	9	8	20	8	45
Driver Service Centres	1	3	11	2	17
Fixed weigh scales	13	4	12	10	39
Business Partners					
Brokers	68	157	543	152	920
Accredited c.a.r. shops	34	61	246	77	418
Auto crime grants	$108,000	$18,000	$435,000	$172,000	$733,000
Road Sense team grants					
Youth	$2,544	$21,750	$21,991	23,735	$50,270
Community	$54,975	$23,588	$217,611	$26,650	$322,824
Road Improvement programs	$396,240	$681,717	$6,085,772	$936,810	$8,100,539
Donations					
ICBC to community	$2,000	$7,000	$40,350	$33,736	$83,086
Employees to United Way	$16,576	$50,396	$436,131	$38,000	$541,103

Source: ICBC

Investment policy

With just under $6 billion in its investment portfolio, 20% targeted to provincial investment means about $1.2 billion is available for local/regional financing to boost the economy. This capital would almost certainly "leak" out of the province in a privatized environment.

Under the former Board of Directors, ICBC targeted 20% of its investment portfolio activity to BC-based investments. One of the more notable moves made by the Corporation in recent years was the purchase of the Surrey Centre Mall and the development of the adjacent Technical University of BC

Building universities and actively seeking to generate a hub for a rapidly growing suburb (Surrey) are not typical activities for an insurance company. But ICBC has gone down this road, backstopped with assurances that all investments meet conservative investment return tests, because of its public policy mandate.

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However, provincial targets and local/regional financing may soon be a thing of the past. ICBC's newly appointed Chairman[14] has indicated that "social investments" will be abandoned as he steers ICBC down the path of private enterprise. He took particular aim at the Surrey investment as being inconsistent with the new direction he intends to set on behalf of the BC government.[15]

The economic inefficiency of private insurance and the benefits of a single integrated provider

The economies of scale rooted in ICBC's monopoly have a *real* bottom line impact that benefits policyholders by keeping costs down.

Why do jurisdictions with a single public auto insurance provider tend to have lower premium rates? The answer lies in part in the efficiency gains of a single, integrated system.

Insurance industry insiders readily acknowledge that there is no perfect auto insurance system. At a recent brokers' convention, traditionally "free enterprise" brokers decried the "disastrous" private systems found in Ontario and Alberta.[16]

While some critics of public services in general, and ICBC in particular, like to talk about perceived inefficiencies, there are *real* market failures and inefficiencies in private insurance systems. For example, in a private insurance environment like Ontario, insurers regularly price certain customers out of the market.

In setting premiums so high as to be unaffordable (because of concern regarding the risk profile of prospective policyholders), the private system creates "externalities" by feeding the uninsured driver problem, ultimately leading to increased costs for insured drivers and the public health care system.

For many British Columbians outside the Lower Mainland, driving is an economic necessity. If discriminatory rating practices were to be implemented under the proposed new system, many young drivers (and likely some older drivers) would be driven off the road by exorbitantly high premiums. This could lead to job loss for those who depend on their vehicles as an economic lifeline.

From the insurance lobby to the BC Business Council to ordinary British Columbians, many people are uncomfortable with the monopoly concept, regardless of whether the monopoly is a government-owned enterprise or a private sector company. And it is doubtless true that, in some cases, monopolies simply do not make sense. But in the case of ICBC and auto insurance in British Columbia, there are significant advantages that flow directly from the monopoly model.

Because of ICBC's sheer size and scope, the Corporation enjoys economies of scale in a number of areas, including marketing, information technology, and distribution. These economies of scale are not merely abstract economic principles best discussed by academics and economists. In fact, the economies of scale rooted in ICBC's monopoly have a *real* bottom line impact that benefits policyholders by keeping costs down.

If dozens of companies were competing under a full competition system, each of those companies would have its own marketing arm, information technology systems, claims departments, executive teams, etc. With so many premium dollars swallowed by the operational and competitive concerns of a host of players, the impact on consumers – logically – ends up being higher prices for a similar or lesser product.

Beyond issues of straight economics and premium costs, ICBC's monopoly offers additional benefits. Again, because of its sheer size, scope, and secure market position, ICBC has been able to devote significant resources to research, development and innovation. This has not only earned the Corporation a global reputation – it has also led to improved service and a better overall insurance product for British Columbians.

The benefits of integration are another key feature of BC's public auto insurance system. With licensing, compliance and registration under one roof, ICBC is not only well positioned to virtually eradicate the uninsured driver problem that plagues private insurance jurisdictions, the Corporation has also managed to improve services to the province's drivers.

In terms of claims service, a single provider is much easier to deal with for claimants, who are spared the stress and inconvenience of dealing with multiple insurance companies as they settle often complex and difficult claims.

Finally, though the new government has stated it is looking for ways to pare ICBC back to core business functions, it should not be overlooked that an organization with ICBC's size and resources could be a powerful player if its scope of operations were expanded. ICBC could, for example, pursue opportunities in general lines of insurance, as does Saskatchewan Government Insurance (another public auto insurance company).

Rather than focusing on the negatives associated with the *concept* of monopolies, the new government will hopefully look beyond ideological perceptions and consider the strengths and opportunities of what has become one of British Columbia's biggest and most successful companies.

Benefits of a single public provider

- Significant economies of scale result in lower operational costs for the insurance system.
- Convenience of one-stop shopping and not having to deal with multiple insurers.
- Integrated systems.
- Avoids duplication of various systems and departments.
- Obvious linkage to effective road safety investments.

Key questions and preliminary answers about full competition

A list of key questions for British Columbians and the new government to consider *before* the proposed switch from government monopoly to full competition must include those below. Some of these questions can be partially answered now. However, if the government is serious about its campaign promise, *all* of these questions will require further exploration and consultation:

Q. Will thousands of jobs be lost in the insurance and broker industry as insurers follow the well-established financial services trend of direct selling via telephone and Internet sales?

A. The Insurance Brokers Association of BC represents over 700 property and casualty insurance brokerages that, in turn, employ over 8,000 British Columbians.[17] Many brokers and their employees are worried that they would see significant job loss in their businesses in a full competition/privatized environment.

Q. If such a move to direct sales were to take place, would call-centre jobs be located in British Columbia, or would they be based in low-wage jurisdictions outside the province?

A. Only the private insurance companies can answer this question, but securing a straightforward answer may prove difficult.

Q. Will significant numbers of auto repair and glass shops go out of business as multinational insurance companies seek to consolidate operations and drive down costs in order to maximize profits for domestic and international investors?

A. The Automotive Retailers Association (ARA) estimates that there are between 900 and 1100 body shops in the province. Officials with the ARA estimate that at least 500 of those body shops would go out of business under full competition/ privatization. One of the key reasons cited for this estimate relates to the cash flow requirements of small businesses. Under the current system, ICBC pays body shops every two weeks. Under a full competition scenario, however, payments would be spread over a much longer period of time, forcing many small businesses under as a result of the likely cash flow crunch.

Moreover, the big insurance companies would use a "direct repair" system, whereby they would contract a significant amount of repair work to major repair companies, with the effect of squeezing small businesses out of the picture.

Q. If benefit levels are cut to conform and compete with other jurisdictions (such as Alberta), what will be the impact on the health care system?

A. In 2000, ICBC paid over $42 million to the Medical Services Plan for claims-related medical services. In a private scheme, the public health system would be burdened with this entire amount, as it would not be paid by private insurers who would treat the MSP as the primary insurer for medical services.

Under the current system, ICBC's premium income is used to defray much of the cost of providing medical treatment to accident victims. Under a full competition or privatized scenario, private insurers would keep premium income while the public health care system would incur the cost of treating accident victims directly.

Q. Would significant new pressure be placed on the social assistance system and workplace disability plans, as people exhaust their benefits before being able to return to work?

A. Such a scenario is possible, although there is no way to answer this question definitively until data is produced under the proposed new system. It is clear, however, that if people choose to carry insurance with limited coverage (less than ICBC's "basic" coverage), they may be forced to turn to the public system for help much sooner, or to workplace disability plans, thus pushing up workplace benefits premiums for both workers and employers.

Q. Will ICBC remain a unionized workplace, offering secure, family-supporting jobs to approximately 5,500 unionized employees?[18]

A. The IBC's BC Coalition for Private Auto Insurance acknowledges that one of the outcomes of a move to full competition would be a review of and prospective changes to ICBC's collective agreement with the OPEIU.[19] The 5,540 unionized employees at ICBC could lose a great deal should their collective agreement be tampered with or abandoned.

Along with job security and other benefits of working in a unionized workplace, Statistics Canada reports that unionized workers make an average of $4.29 an hour more than non-union workers. Such a loss in wages would have a negative ripple effect through local economies.

Q. Where will the billions of dollars of investment capital generated by the insurance industry be invested?

A. Decisions regarding the multi-billion dollar pool of capital in reserve funds would be made by head offices located in other parts of Canada, the U.S., Europe and Asia. While we might be able to guess at how those funds would be invested, there is no way to answer the question definitively at this point. It seems very clear, however, that the days of targeting investment capital within BC would be over.

Q. Will British Columbians ever see another Road Safety Dividend?

A. There is no way to answer this question definitively at this point, but it seems highly unlikely that a full competition or privatized environment would deliver such a benefit.

Q. Will British Columbians ever see another 5-year rate freeze?

A. Again, there is no way to answer definitively at this stage. However, it seems unlikely based on experience in other private insurance jurisdictions.

Q. Will access to auto insurance services remain available in virtually every BC community, or will physical plant operations be scaled back in the interest of driving down cost and maximizing profit?

A. Only the private insurance companies can answer this question, but obtaining a straightforward response may be very difficult.

Returning non-core functions: New costs for government

If auto insurance were made fully competitive, government would have to absorb significant new costs currently borne by ICBC. These include:

- the Motor Vehicle Branch, with an approximate annual cost of $75 million;
- Road Safety, with a cost in 2000 of $60 million;
- MSP costs, worth $42 million in 2000; and
- the as-yet unknown costs of regulating and monitoring private auto insurers.

For an activist government in robust financial health, adding new (or old) functions and costs to line departments would not be particularly out of character. However, given the new government's intent of cutting the size and cost of government, such a move would be surprising. On the heels of the recent fiscal review commissioned by the Premier and its dire warnings, British Columbians can expect minimalist government, rather than one prepared to assume approximately $177 million in new annual costs.

Potential social impacts

AS THE NEW GOVERNMENT CONSIDERS HOW AND IF TO IMPLEMENT ITS CAMPAIGN PROMISE regarding full competition, it is important to reflect on the rationale for the creation of ICBC nearly thirty years ago. The system of public auto insurance was not a partisan or particularly ideological initiative. Rather, it was intended as a solution to the festering problems created by the private insurance industry.

As mentioned earlier, some of the most severe problems that could materialize under a full competition or privatization scenario include:

- large numbers of uninsured drivers;
- systemic rate discrimination against hundreds of thousands of British Columbians; and
- reduced road safety efforts and, consequently, a potential increase in the severity/number of traffic accidents.

Uninsured drivers

Because ICBC is a government-owned monopoly that also serves as the operator of the Motor Vehicle Branch (which handles licensing and compliance matters), the problem of uninsured drivers has been virtually eliminated in BC. In jurisdictions plagued by large numbers of uninsured motorists, drivers who do carry insurance effectively subsidize those that do not.

Because ICBC is a government-owned monopoly that also serves as the operator of the Motor Vehicle Branch (which handles licensing and compliance matters), the problem of uninsured drivers has been virtually eliminated in British Columbia. According to John Ratel of the British Columbia Automobile Association, "….there is an important aspect of that public auto insurance – it of course is linked with the licensing and regulatory part of government – and that ensures that every vehicle on the road in BC is covered with insurance. As you know, in the United States, very often, people are driving around with absolutely no insurance whatsoever."[20]

The Insurance Research Council (IRC) in the United States estimates that 14% of all drivers in the U.S. are uninsured. In Colorado, the IRC states that 32% of drivers are uninsured, while in Washington State, 15% of drivers are uninsured, and in California, 22% of drivers are uninsured.[21] In Ontario, estimates of the uninsured driver problem range from 6% to 8%.[22]

In jurisdictions with private insurance, drivers wishing to avoid the costs of carrying insurance are said to purchase insurance immediately prior to renewing their license and/or plates and then cancel the insurance later the same day – a practice made impossible in BC due to ICBC's integration with the MVB and the requirement that those canceling their insurance hand in their plates.

Uninsured drivers pose a risk to others and ultimately drive up the cost of insurance. In jurisdictions plagued by large numbers of uninsured motorists, drivers who do carry insurance effectively subsidize those that do not. In paying extra for uninsured motorist protection, policyholders are forced to bear the cost of a system that allows thousands of drivers to slip through the cracks.

Systemic discrimination

Perhaps the most troubling issue in considering the trade-off between the public auto model and the fully competitive (or de facto privatized) model is that of discrimination.

It is widely known that discrimination based on age, marital status, gender and location (by postal code) is a common practice in the insurance industry.

Both the Ontario Human Rights Commission and the Supreme Court of Canada have commented on the systemic discrimination embedded in the insurance industry at large and the auto insurance industry in particular, leveling harsh criticism without ordering immediate legal remedies. Their deliberations and rulings have, to date, focused on age, sex and marital status.

In 1992, the Supreme Court of Canada ruled in the case of *Bates vs. Zurich Insurance*. In that case, the highest court in the land found that Zurich Insurance had discriminated against Mr. Bates on the basis of his age and gender. The majority opinion of the Court stated:

> *Human rights values cannot be overridden by business expediency alone. To allow discrimination on the basis of statistical averages would only serve to perpetuate traditional stereotypes with all their invidious prejudices. It is necessary therefore to consider whether there is a practical alternative in the circumstances.*[23]

Though the majority of the Court found that there was no practical alternative to the long-standing tradition of discrimination in the insurance industry when the case initially arose, it is entirely possible that the Court would rule differently today.

In her dissenting opinion, Madame Justice L'Heureux-Dubé explained:

> *…the discriminatory classification scheme was imposed in good faith [i.e. there was no reasonable alternative in 1983]. However, she finds that there is no causal connection between being young, single and male and being a higher risk with respect to automobile safety. A mere statistical correlation is not satisfactory, because it accepts the very stereotyping that is deemed unacceptable by human rights legislation. Age, sex and marital status have never been controlled or isolated in the statistics used by insurers to determine whether there is a causal connection. The insurance industry has attempted to bridge this gap in its knowledge by reliance on myth and stereotype. This does not satisfy the burden of proof.*[24]

The Ontario Human Rights Commission's *Human Rights Issues in Insurance Discussion Paper* references the Supreme Court of Canada case discussed above and says that:

> *The Court made it clear that the insurance industry should not continue indefinitely to use discriminatory criteria for rate setting. The Court found that, according to the evidence, three years are required to obtain meaningful statistics. The Court also stated that 'the industry must strive to avoid setting premiums based on enumerated grounds.'*
>
> *The Supreme Court clearly stated that the insurance industry should be actively working to develop non-discriminatory criteria for assessing risk. The existing discriminatory classification system may no longer meet the test of a sound insurance practice.*[25]

Despite the unmistakably clear findings of the Ontario Human Rights Commission and the Supreme Court of Canada with regard to the discriminatory practices of the insurance industry, there is no evidence that the industry has done anything to fundamentally alter the situation.

It is widely known that discrimination based on age, marital status, gender and location (by postal code) is a common practice in the insurance industry.

The IBC and its supporters justify discrimination against some groups by suggesting that these groups are more prone to cause accidents than others.

While it is true that some young male drivers, for example, do cause accidents, it is by no means true that *all* young male drivers cause accidents.

A system that bases its rates on driver history is inherently more fair than one that discriminates against particular groups and the individuals within those groups as part of its daily business.

Drivers with a history of at-fault accidents *should* pay more, regardless of their demographic group. And ICBC's claims rated scale (CRS) is in place to ensure that outcome.

Somewhere in the neighbourhood of three–quarters–of–a–million British Columbians are at risk of seeing their rates rise as a result of the discriminatory practices of the private insurance system.

Based on industry behaviour, there is no reason to believe that private auto insurance in British Columbia would be any different than it is in other jurisdictions, i.e. a business built on discrimination. ICBC, however, is unique because it has pioneered a non-discriminatory system based on a person's *actual* driving record.

How many British Columbians could be negatively affected by the rate practices of the private auto insurance industry?

- If young drivers, families with young drivers, and seniors were to see their insurance rates rise (as strongly suggested by the only existing objective studies), these groups becomes the losers in any prospective switch to a fully competitive system.
- According to BC Stats data from 1998, there were 400,870 British Columbians between the ages of 16 and 25 with drivers' licenses. An additional 338,451 seniors held drivers' licenses. While not all these people are actual drivers, most either carry their own insurance policies or are covered on a parent's policy. Thus, these figures serve as a reasonable proxy for the number of individuals and families who stand to lose a great deal under full competition.

It seems unlikely that private insurance companies would be willing to fund a substantial road safety investment. After all, a great many of their shareholders have never been to British Columbia and are far more interested in stock performance and annual profits than they are in road safety in a far away place.

Thus, somewhere in the neighbourhood of three–quarters–of–a–million British Columbians are at risk of seeing their rates rise as a result of the discriminatory practices of the private insurance system. Given this, a key question for the new government is: How could such discrimination possibly be construed as good public policy? Given that the only plausible answer is that discrimination is never good public policy, the question then becomes: How will the new government guarantee that any proposed change to a fully competitive environment will be regulated and enforced in such a way as to forbid and preclude discrimination?

Asked if a BC Liberal government would deploy legislation to safeguard against discrimination, now Deputy Premier Christy Clark backed away from such a commitment and refused to say how such an objective might be accomplished.[26]

What happens to road safety under full competition/privatization?

One of the many things that remains unclear about the new government's proposal concerns road safety. ICBC's significant investment in this area – for road improvements, anti-drunk driving enforcement, public education, and research and development – flows directly from its social and public policy mandate. Under a fully competitive model, would ICBC's world class reputation for leadership in this important area fall by the wayside?

While it is not difficult to find British Columbians with strong negative feelings about ICBC, the Corporation's role in road safety in every part of the province is remarkably popular. Perhaps because the linkages between improved road safety, fewer crashes, less carnage and tragedy, and lower premiums are fairly obvious, this component of the public auto system enjoys very strong support.

With a Safer Roads Fund of $60 million for the year 2000 alone[27], ICBC has consistently made major investments in road safety since the implementation of the Six Point Plan in the mid-1990s. Although investments of this nature and magnitude are clearly outside the scope of the typical insurance company, they obviously make sense when carefully targeted at achieving real, improved road safety outcomes.

With the new government looking to cut costs, it seems unlikely that the Minister of Finance and Minister Responsible for ICBC would want to absorb what would clearly be a significant new cost for government.

Moreover, just as the Minister will be nervously watching the bottom line and the ballooning deficit resulting from his over $2 billion tax cut, it seems equally unlikely that private insurance companies would be willing to fund a substantial road safety investment. After all, a great many of their shareholders have never been to British Columbia and are far more interested in stock performance and annual profits than they are in road safety in a far away place.

Potential trade impacts: Going, going, gone

WITH LEGISLATIVE CARTE BLANCHE, THE new government would likely have little political difficulty transforming the current public auto insurance system. But what if, at some time in the future, it becomes clear to virtually all that such a policy was a mistake? Thinking beyond Premier Campbell's mandate, some of his public policy decisions may become virtually irreversible because of the constraints placed on such decisions by NAFTA and the WTO's General Agreement on Trade in Services (GATS).

Provincial crown corporations are covered by these agreements, and once crown monopolies are relinquished, the costs of returning them to the public sector could be so prohibitively high as to be impracticable for any government in the future.

The broad rights conferred on corporations by the trade agreements to which Canada is a party mean that, should a future government wish to revive British Columbia's public auto system, it would be obligated to pay full compensation at fair market value to private insurance companies, including for lost future profits.[28]

Chapter 11 of NAFTA clearly spells out that "expropriation" can only take place for a "public purpose." However, no matter how compelling that public purpose may be, full market value compensation must still be paid out.[29]

Beyond Chapter 11 provisions, Chapter 20 of NAFTA[30] provides further protection of corporate rights under "nullification and impairment" where a corporation's benefits flowing from the Agreement are perceived to have been harmed. Under Chapter 20, financial compensation is the end result, as is the case under Chapter 11.

While NAFTA only extends these broad corporate rights to U.S. and Mexican companies, the WTO's General Agreement on Trade in Services extends essentially the same rights to all 137 WTO parties.

At a practical level this means that Dutch, Swiss, American, Japanese and other countries with sophisticated financial service conglomerates could enter the market if and when it is opened up by Premier Campbell. They would then be entitled to the protections guaranteed by National Treatment (NT) and Most Favoured Nation (MFN) provisions enshrined in NAFTA and GATS.

Recently, concerned residents in the Lower Mainland successfully pressured the Greater Vancouver Regional District to reverse a decision that could have opened the door to NAFTA Chapter 11 concerns with regard to the provision of water treatment services. Convinced there was a possibility that vocal Lower Mainland residents were right in their interpretation of NAFTA and its potential impacts on water services, the GVRD blinked and decided not to contract out.

It is too early to know exactly what the Premier and the Minister Responsible for ICBC have in mind for the public auto system. However, before any action is taken, they will hopefully seek extensive analysis and advice with regard to the short, medium and long-term trade agreement implications of their ultimate decision on auto insurance.

While there are likely as many interpretations of NAFTA and GATS as there are trade lawyers, it will be important for the new government to carefully weigh the implications of "full competition" (and potential privatization) in light of the future fiscal impacts and public policy constraints resulting from federal and provincial trade agreement obligations.

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Conclusion

FOR MANY BRITISH COLUMBIANS, THE idea of full competition in the auto insurance market is a compelling one. With intuitive appeal at a visceral level, competition is widely believed to offer consumers more choice and lower cost.

However, careful consideration of the public policy, social, economic and financial implications of opening the market to full competition (and potential creeping privatization) suggests that the combined costs of such an initiative would be very high.

With legitimate lingering questions about systemic discrimination and potentially higher insurance premiums for hundreds of thousands of British Columbians, the new government has yet to prove that a switch to full competition would be anything but a huge dollar value favour to the multinational financial powerhouses hungrily eyeing the BC market.

Moreover, the jobs, investment, road safety and other benefits – universality, accessibility, affordability – of the current system have real merit that should not be lightly dismissed, only to find that a mistake has been made irrevocable by trade agreement constraints.

Unfortunately, very few British Columbians remember life before public auto insurance. For those whose memories do extend back beyond 1973/74, they remember an often unreliable, expensive and somewhat chaotic system. While much has changed since that time, some of the fundamental problems of private insurance systems haven't really changed at all.

There is little doubt that opening the auto insurance market to full competition would lead to lower rates for some British Columbians. But sound public policy should be made on the basis of what is best for most, regardless of where one sits along the political continuum. Premier Campbell and his government have an obligation to govern in the best interests of all British Columbians, and such considerations must prevail over narrow ideological concerns and intuitive market biases.

During the recent provincial election campaign, now Premier Campbell said "we'll appoint a board to ICBC who will be given direction to allow for competition in the automobile insurance industry. Obviously they'll discuss this with the public."[31]

That discussion has yet to begin. But it is a discussion that must take place in a meaningful way before the new government proceeds with its plan to fundamentally alter the way auto insurance is delivered in British Columbia.

Notes

[1] "Facility" insurers are in place in a number of jurisdictions. They provide coverage to high-risk drivers (at very high premium rates) through pooled risk shared by the industry. In Ontario and elsewhere, the facility insurer is the "insurer of last resort" – servicing drivers with such unattractive risk profiles that no private company would willingly sell a policy.

[2] Differences in coverages and medical benefits between BC and Alberta – a private insurance environment – are striking, with BC providing better, longer term and more comprehensive benefits. In Alberta, for example, only $10,000 in accident benefit coverage is made available to at-fault accident victims. In BC, $150,000 is available to at-fault accident victims, putting them in a much better position from which to re-build their lives after the tragedy of a serious accident.

[3] See IBC webpage: www.ibc.ca.

[4] CCG Consultants. *The Economic Impact of Open Competition in the Auto Insurance Market of British Columbia*. Toronto: Insurance Bureau of Canada, 1999.

[5] An independent Canadian rate quotation service that obtains its information from all auto insurers and is used by insurers to compare their rates against their competition.

[6] Toronto represents the most appropriate comparison for Vancouver, as both are large cities with similar driving environments.

[7] Consumers' Association of Canada, *Comparison of Automobile Insurance rates in Five Canadian Cities: Vancouver, Calgary, Regina, Winnipeg, Toronto.* Vancouver: CAC(BC), 2001.

[8] Headquartered in Wisconsin, Runzheimer also has a Toronto office and specializes in cost comparison services worldwide. They have particular expertise in the area of auto insurance.

[9] CAA, *Driving Cost, 1999.*

[10] Based on the recent CAC(BC) data, however, it is by no means clear that this would occur in any meaningful way.

[11] ICBC's Disability Advisory Committee, Letter to Gordon Campbell, July 27, 2001.

[12] The Corporation recently announced plans to lay off 800 employees bringing overall employment levels down in the coming months and years.

[13] ICBC. Annual Report 2000.

[14] Nicholas Geer – formerly Vice Chair of Jim Pattison Ltd. and still a director helping steer Pattison's multi-billion dollar empire.

[15] *Vancouver Sun* Business Section, *New man at wheel of ICBC plans to take private enterprise road* June 23, 2001.

[16] Thompson's World Insurance News, June 25 2001, *BC auto hogs spotlight at brokers convention*.

[17] IBABC, 2001.

[18] ICBC recently announced plans to lay off 800 workers. When fully phased in, this move will significantly reduce the number of employees at ICBC from the 6,198 listed in the Corporation's 2000 Annual Report.

[19] IBABC 2001.

[20] CBC Radio, *On The Island,* April 27, 2001

[21] See webpage www.insure.com.

[22] Insurance Information Centre of Canada, *Annual Report 2000* (now the Insurance Information Division of the Toronto-based IBC).

[23] Ontario Human Rights Commission, *Human Rights Issues in Insurance Discussion Paper, 1999.*

[24] Ibid.

[25] Ibid.

[26] *CBC Radio, Almanac,* April 27, 2001.

[27] ICBC, *2000 Annual Report.*

[28] While never publicly admitted, it was widely understood that the Ontario government of Bob Rae, elected in 1991 in part on the promise of public auto insurance, eventually dropped the plan in large measure because of the anticipated compensation costs under the original Canada-US Free Trade Agreement.

[29] North American Free Trade Agreement, 1992, *Article 1110.*

[30] The dispute resolution chapter of the Agreement.

[31] CKNW, Rafe Mair, May 3, 2001.

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