PUBLICLY RUN AUTOMOBILE PROGRAMMES IN CANADA (SEMINAR ON RATEMAKING, 3/91)

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The Canadian automobile insurance business is quite different from the U.S. in that 40% of the provinces have direct involvement in the administration of the business. In this presentation, I will explore the various public plans in effect and take a look at the available financial results.

The first public plan in Canada was established in 1944 in Saskatchewan, a western prairie province. In 1946, responding to the fact that only 12% of motorists were insured, automobile insurance was made compulsory and the Saskatchewan Government Ins. Corporation (SGIC) was given monopoly status. It is known locally as the "Auto Fund". SGIC writes other lines of business in competition with private insurers.

The Manitoba plan, first established in 1971 is known as "Autopac". At that time, it covered only automobile. In 1974, its powers were extended to other lines of business and later that year Manitoba Public Insurance Corporation (MPIC) general insurance services started. The automobile book is run as a monopoly. The MPIC, which writes all other lines of business in competition with private insurers has suffered significant losses in the last few years, particularly in its assumed reinsurance book.

The Insurance Corporation of British Columbia opened its doors in March of 1974. It initially wrote all lines of business with automobile being a monopoly. In 1985, all of the lines with the exception of automobile were sold to a private interest. Automobile insurance in BC is commonly known as the 'Auto Plan'. ICBC had significant deficits in their first two years and required a bail out of $175 million in 1977 which has never been repaid. This is the equivalent of $408 million in 1990 dollars.

The province of Quebec instituted its plan in 1978. It is a hybrid system under which the government has monopoly control over the Bodily Injury portion while the property damage coverages remain in the hands of private insurers. The Government portion is commonly known as the 'Regie' which is short for the Regie de l'assurance automobile du Quebec

In all four cases, the take-overs were made after significant public discontent over increasing premium levels by left-leaning governments. There was no compensation to private insurers for the confiscation of their business and the government run operations do not pay income taxes.

The plans in the three western provinces are similar while the Quebec plan stands alone. In the western plans, there are no restrictions on the ability to sue. In addition to the tort remedies, specific no-faults benefits are provided which are deducted from tort recoveries. In both Manitoba and Saskatchewan, collision coverage is mandatory.

In theory, private insurers compete with the government run plans on optional and excess coverages. In practice, given the unlevel playing field, very little of this business is in the hands of private insurers.

I will not go into the details of the various coverages at this time although an exhibit showing the plans by province is included in the hand-out.

The situation in Quebec is quite different. Here the Government administers the bodily injury portion which is on a pure no-fault basis. There is no right to sue. The schedule of benefits covers pain and suffering as well as economic losses.

It is interesting to note that all of the public systems have more than one source of revenue. Perhaps this allows the various plans to lower the visibility of rate increases. In British Columbia, a bonus/malus type system is in effect with a few other factors, including the value of the vehicle, how it is used and where the vehicle is garaged. There are, in addition to the above, surcharges which are paid annually based on the penalty points accumulated on drivers licences. These surcharges range from $115 to $3,000.

Under the Saskatchewan plan, premiums are wholly dependent on the vehicle itself; its wheelbase, value, repairability and accident frequency. Driver surcharges are levied annually based on the drivers accident record and traffic convictions in the three years preceding renewal. Surcharges start at $100 for at-fault accident, and $25 for traffic convictions.

In Manitoba, the major criteria are vehicle make and model, geographic location and driving record. There is also a base charge of $35 on each drivers licence. The amount can be reduced by accumulating merit points which are earned for each year of accident free driving. Should a driver accumulate demerit points, additional premiums ranging from $150 to $999 are payable. At-fault accidents are surcharged from $250 to $750.

In these three plans, it would be interesting to find out if the surcharges for at-fault accidents and convictions are in fact overlapping leading to a subsidization of "good" drivers by "bad" drivers.

Quebec, with only Bodily Injury to cover, has a much simpler rating structure with $99 being charged for each private passenger vehicle. Different rates are charged for each class of vehicle. A fee of $25 annually is charged in addition to the normal driver licence fees.

Changes to the rates in all of the provinces is a very politically sensitive issue and has been responsible for the demise of more than one government. This is particulary true in the provinces which have retained the tort system. Government run plans have no more immunity from escalating judgements than do private insurers. It should be noted the Canadian policies generally have much higher limits than those sold in the US. The minimum amount countrywide, with the exception of Quebec, is $200,000 although approximately 41% have policies with ½ mill limits and more than 48% have limits of $1,000,000 or higher. At the same time, Canadians are less ligaceous then our brethren to the South.

The next few slides compare the results of the various public plans to the experience of the privately run system (currently) in Ontario. All loss adjustment expenses, including the unallocated position, have been included with the losses. It would seem reasonable that loss costs reflect the underlying system of compensation, traffic density, the degree of industrialization etc or essentially the costs which are outside the control of the insurer. Administrative expenses are under the control of the person delivering the service and hence form the most reasonable basis of comparison between private and public insurers. All of the numbers shown are for 1989 and earlier as more recent statistics are not available. The statistics available for public insurers are sparser than for private insurers as they are not required to report publically on their operations.

The loss costs shown on exhibit A are in line with what would be expected given the differences in the provinces. Only the Quebec result appears to be out of line and this can be attributed to system of pure no fault in that province. The loss ratios are very high for both the public and private plans showing heavy dependence on investment income. The results in Ontario are distorted by the fact that rates have been essentially frozen since 1987. The premiums are lower than their US counterparts which reflect primarily the differences in the judicial systems and peoples expectations of the judicial systems in the two countries.

The second exhibit displays the expense results. The public plans in the rural prairie provinces show significant savings over the privately run systems. The biggest difference are in the cost of distributing the product. I think that there can be little doubt that the current cost of distributing what has become a basic commodity is too high. The consumer does not appear to get a reasonable return on his investment. The Quebec number shown is somewhat overstated. This is because the unallocated claims expenses could not be fully segregated based on the available information on the administrative expenses. However, there can be little doubt that some of the savings on the loss side, when moving from a tort based system to a pure no-fault approach, must go to the administration of the no-fault system. The results in British Columbia would tend to indicate that a large publically run plan with significant urban exposure does not necessarily lead to expense savings suggested by many proponents of publically run automobile insurance.

The third exhibit shows the vehicles handled per employee. Once again the rural provinces show a distinct advantage. The hybrid system in Quebec appears to be very labour intensive. It is difficult to say if this is as a function of the system or the culture within which it operates. Most likely it is a function of both.

On the fourth exhibit, the percentage changes in average premium per vehicle are shown. The Ontario premiums have been frozen and do not form a reasonable basis for comparison. As stated earlier, public systems are not immune to increases in losses. There have been significant increases, particularly in Manitoba and British Columbia. The rates in Quebec have been quite stable. In fact, the public portion of the premium decreased by 14% in 1987 and has not changed since that time.

It should also be noted that the public insurance systems enjoy a considerable degree of public support. Even after the left leaning governments have been replaced by administration more favourable to business, the public systems have not reverted into private hands. This is at least partially due to the tremendous start-up costs and the loss of public servant positions but it must also be admitted that the public is not, on the whole, displeased with the corporations. There are expense savings, particularly in rural settings, but these are not shared equally by all insureds. The significant amount of cross subsidization inherent in all government run plans means that low risk drivers do not accrue the same levels of savings as high risk drivers. There is also evidence that flat-rated systems, such as that in place in Quebec, actually increases accident frequencies as high-risk drivers who could previously not afford to drive are now on the road. This is particularly true of young drivers.

In summary, 40% of Canadian provinces have some form of publically run automobile insurance. (This is likely to become 50% very soon). The publically run systems, particularly in rural areas, do appear to generate expense savings. However, the magnitude of the savings is less clear for larger, more urbanized provinces. The publically run plans are not immune to increases in losses although the ability to increase rates is very politicized and this can lead to subsidization of the automobile user by the general tax payer.

EXHIBIT 1

COMPARISON OF RESULTS

** 1989 **

PROVINCE	NUMBER OF VEHICLES (000's)	EARNED# PREMIUM (000,000's)	AVERAGE PREMIUM	INSURED LOSSES (000,000's)	AVERAGE LOSS PER CAR	LOSS RATIO
BRITISH COLUMBIA(1)	2,200	1,245.8	566	1,229.4	559	98.7
SASKATCHEWAN(2)	804	238.8	297	212.0	264	88.9
MANITOBA(2)	720	292.1	406	279.7	388	95.6
ONTARIO(3)	5,300	3,786.0	714	3,730.0	704	98.6
QUEBEC(4)	3,840	2,085.2	543	1,824.0	475	87.5

INCLUDES ADDITIONAL SOURCES OF INCOME, EXCLUDING INVESTMENT INCOME

SOURCES OF DATA

(1) ICBC ANNUAL REPORT

(2) CANADIAN INSURANCE, 1990 STATISTICAL REVIEW

(3) IBC SPECIAL CALL FOR DATA

(4) REGRE ANNUAL REPORT AND ANNUAL INSURANCE STATISTICAL REPORT (GAA)

EXHIBIT 2

COMPARISON OF RESULTS

** 1989 **

PROVINCE	NUMBER OF VEHICLES	EXPENSE RATIO GENERAL OPERATING	COMMISSIONS	TOTAL	EXPENSES/ VEHICLE
BRITISH COLUMBIA	2,200	16.4	6.8	23.2	131
SASKATCHEWAN	804	15.6	2.1	17.7	52
MANITOBA	720	14.5	5.1	19.6	80
ONTARIO	5,300	12.9	10.6	23.5	168
QUEBEC	3,840	17.5	8.7	26.2	142
QUEBEC - PUBLIC		29.6	1.9	31.5	
QUEBEC - PRIVATE		13.5	10.9	24.4	

EXHIBIT 3

** 1989 **

	VEHICLES/ EMPLOYEE (WITHOUT BROKERS)	VEHICLES/ EMPLOYEE (WITH BROKERS)
BRITISH COLUMBIA	579	466
SASKATCHEWAN	894	627
MANITOBA	655	480
ONTARIO* +	474	239
QUEBEC*	384	209

* ONLY TOTAL EMPLOYMENT NUMBERS WERE AVAILABLE FOR ONTARIO AND THE PRIVATELY RUN PORTION OF THE QUEBEC PLAN. IT HAS BEEN ASSUMED THAT 50% OF THE TOTAL EMPLOYMENT IN ONTARIO RELATES TO AUTOMOBILE WHILE THE COMPARABLE NUMBER IN QUEBEC IS 46%.

\+ THE ONTARIO NUMBERS ARE OVERSTATED AS THE MAJORITY OF HEAD OFFICES ARE SITUATED IN ONTARIO AND PART OF THESE EMPLOYEES TIME IS SPENT ON OTHER PARTS OF THE COUNTRY.

EXHIBIT 4

RATE LEVEL CHANGES

	NUMBER OF VEHICLES (000'S)	AVERAGE PREMIUM	PERCENTAGE CHARGE	LOSS RATIO
SASKATCHEWAN				
1988	755	292	7.0	102.7
1987	735	273	10.5	115.6
1986	778	247		104.4
MANITOBA				
1988	770	363	18.8	93.4
1987	777	306	8.1	129.0
1986	759	283		113.7
BRITISH COLUMBIA				
1988	2,350	440	22.6	101.0
1987	2,291	359	5.3	113.1
1986	2,223	341		107.3
QUEBEC				
1988	3,432	566	9.3	N/A
1987	3,317	518	6.1	N/A
1986	3,145	488		N/A

SELECTED AUTOMOBILE INSURANCE PLANS IN CANADA

Province	Who Administers the System	System of Compensating Accident Victims	Number of Vehicles	How Product Is Sold	Industry Employment	Rating Factors	Other Sources of Revenue
British Columbia	Government-run. Insurance Corporation of British Columbia (ICBC) has exclusive right to sell compulsory coverages. Car insurance program is called "Autoplan." Private sector sells amounts above compulsory limits and optional coverages such as collision and comprehensive insurance.	Tort (the ability to sue for compensation) plus prescribed "no-fault" benefits.	2.2 million	Independent brokers.	3,800 at ICBC; 918 independent brokers.	Drivers pay premiums on a set scale specifically related to their claims experience. Other factors include value of vehicle, how it is used and geographic location. Age, sex and marital status do not apply.	Surcharge premiums (varying from $115 to $3,000) are paid annually on penalty points accumulated on drivers' licences.
Saskatchewan	Government-run. Saskatchewan Government Insurance (SGI) has exclusive right to sell compulsory coverages. Car insurance is referred to as the "Auto Fund." Collision insurance is compulsory. Private sector sells amounts above compulsory limits and optional coverages such as comprehensive insurance.	Tort (the ability to sue for compensation) plus prescribed "no-fault" benefits.	804,296	Compulsory insurance is included in price of vehicle registration, which is issued by SGI office staff and independent insurance agents authorized by SGI to issue motor vehicle registrations and drivers' licences.	Approximately 900 at SGI; 384 licenced agents.	Premiums depend wholly on the vehicle – its wheelbase, value, repairability and accident frequency.	Driver surcharges are levied annually, based on accident record and traffic convictions during the three-year period preceding renewal. Surcharges start at $100 for each at-fault accident, and $25 for traffic convictions.
Manitoba	Government-run. Manitoba Public Insurance Corporation (MPIC) has exclusive right to sell compulsory coverages. Also sells extension coverages in competition with private sector. Car insurance program is called "Autopac." Collision insurance is compulsory. Private sector sells amounts above compulsory limits and optional coverages such as collision and comprehensive insurance.	Tort (the ability to sue for compensation) plus prescribed "no-fault" benefits.	720,000	Independent brokers authorized by MPIC; staff in Driver and Vehicle Licencing and MPIC offices.	Total employees (all insurance lines): 1,100 at MPIC; 400 Autopac brokers.	Major criteria are vehicle make and model, use, geographic location and driving record. Age, sex and marital status do not apply.	Basic $35 premium on each driver's licence. This can be reduced by accumulating merit points earned with each year of accident-free driving. Demerit point premiums ranging from $150 to $999 are paid annually when drivers' licences are renewed. At-fault accidents are surcharged from $250 to $750.

SELECTED AUTOMOBILE INSURANCE PLANS IN CANADA
(Continued)

Province	Who Administers the System	System of Compensating Accident Victims	Number of Vehicles	How Product Is Sold	Industry Employment	Rating Factors	Other Sources of Revenue
Ontario	Private sector. Car insurance program is called Ontario Motorist Protection Plan. Most aspects are regulated by the Ontario Insurance Commission.	Partial no-fault. Accident victims are compensated by prescribed no-fault benefits to cover economic losses. Lawsuits for additional compensation are restricted to people with serious permanent injury or in the event of death.	5.3 million	Independent brokers and company agents.	Total employment (all insurance lines): 20,000 company staff; 22,000 brokers; 2,360 adjusters.	Age, sex, marital status, accident and driving record; vehicle model and use; mileage; geographic location.	None.
Quebec	Run jointly by Private and Public Sectors. Government: La Société de l'Assurance Automobile du Québec has exclusive right to provide compulsory accident benefits (bodily injury) coverage.	Pure no-fault. Victims receive prescribed no-fault benefits. There are no lawsuits. Schedule of benefits covers pain and suffering as well as economic losses.	3.84 million	Bodily injury insurance is included in cost of vehicle registration. Fees are collected through vehicle registration by government employees.	2,380 at La Société.	Everyone pays the same. The fee for private passenger vehicles was $99 in 1990. Different rates are charged for taxis, buses, trucks, etc.	$25 annual fee on drivers' licences is paid by all drivers.
	Private Sector: Companies provide optional vehicle damage insurance, compulsory 3rd party liability coverages plus additional accident benefits.	Without collision coverage, vehicle damage claims are paid by the vehicle owner's insurance company to the extent the driver was not at fault in the accident.		Property damage insurance is sold by independent brokers and company agents.	Total employment (all insurance lines): 14,300 company employees; 18,150 agents and brokers; 2,250 adjusters.	Age, sex, marital status, driving and accident records of drivers; vehicle and use; mileage; geographic location.	None.

Canadian Automobile Insurance Plans – Coverage for Private Passenger Automobiles

- Alberta, Ontario and Manitoba residents involved in accidents in Quebec receive from their own insurer the equivalent to the benefits available to Quebec residents from the government of Quebec
- Accident Benefits Coverage is compulsory except in Newfoundland.
- Collision Insurance is optional except in Manitoba ($350 All Perils deductible) and Saskatchewan ($500 deductible)

	Nfld.	Que.	N.S./N.B./P.E.I.	Man.	Sask.	Alta./Yukon	B.C.	N.W.T.
THIRD PARTY LIABILITY (BODILY INJURY AND PROPERTY DAMAGE) — COMPULSORY IN ALL PROVINCES	**Minimum $200,000**	**Minimum $50,000** No Exposure to Bodily Injury within Quebec	**Minimum $200,000**	**Minimum $200,000**	**Minimum $200,000**	**Minimum $200,000**	**Minimum $200,000**	**Minimum $200,000**
MEDICAL PAYMENTS	$2000 per person excluding amounts under government medical & hospital plans **Time Limit: 2 years**	No time or amount limit Includes rehabilitation	$25,000 per person including rehabilitation, excluding government health insurance plans **Time Limit: 4 years**	$100,000 per person excluding compulsory health insurance scheme	$10,000 per person discretionary to meet expenses.	$5000 per person including rehabilitation, excluding amounts under Government Medical & Hospital Plans Alta.—chiropractors $500 per person per occurrence	$100,000 per person subject to third party limit, includes rehabilitation, excludes any amounts payable under surgical, dental, hospital plan or other insurer	$25,000 per person excluding amounts under government medical & hospital plans **Time Limit: 4 years**
FUNERAL EXPENSE BENEFITS	**$500 maximum**	**$2914.99 maximum**	**$1000 maximum**	**$2500 maximum**	**None**	**$1000 maximum**	**$1000 maximum**	**$1000 maximum**
DISABILITY INCOME BENEFITS	**$35.00 per week** 104 weeks temporary + 104 weeks permanent 7 day waiting period Housewife $12.50 per week **Max. 12 weeks**	**Min. $170.97 per week or 90% of net wages** Max. Income Gross $38,000 per year Temporary - 5 years Permanent - lifetime 7 day waiting period **Indexed**	**80% of Gross Wages** Max. $140.00 weekly 104 weeks temporary + Lifetime total & permanent Ont. — first day cover N.S., N.B., & P.E.I. — 7 day waiting period *Unpaid housekeeper $70.00 per week* **Max. 12 weeks**	**$150.00 per week or 70% of Gross Wages** Max. $300.00 weekly 104 weeks partial @ $60.00 7 day waiting period Homemaker Total $150.00 weekly Partial $60.00 weekly ***Max. 104 weeks***	**$150 per week** *Lifetime Total* 104 weeks partial @ $75.00 7 day waiting period Housewife $150.00 weekly—Total $ 75.00 weekly—Partial **Max: 104 weeks.**	**80% Gross Wages** *Max. $150.00 weekly* Yukon—Min. $40.00 weekly 104 weeks temporary or total 7 day waiting period **Yukon**—Housewife $75.00 per week **Alta.**—Spouse $50.00 per week **Max. 28 weeks**	**75% Gross Wages** *Max. $145.00 weekly* 104 weeks temporary + Lifetime total & permanent 7 day waiting period Homemaker $145.00 per week **To Age 65**	**Employed Person** **80% Gross Wages** Max. $140.00 weekly 104 weeks temporary 7 day waiting period Unpaid Housekeeper $100.00 per week **Max. 12 weeks**
DEATH BENEFITS	**Death within 3 months after accident** Married Male Age Limits: 10-59 $5000 • 60-69 $3000 • 70+ $2000 **plus** $1000 each dependent child •No limit Married Female Age Limits: 10-59 $2500 •60-69 $1500 • 70+ $1000 *Unmarried Person living* with parents: Scale by age **Maximum $2500**	**Death anytime after accident** Indexed pension to dependent survivors based on Disability Income Benefits of deceased. Min. $170.97 per week Without dependent $8744.96 or $4372.48	**Death within 2 years after accident** Head of Household Age Limits: None $10,000 **plus** $1000 each dependent beyond first No limit Spouse *No age limit:* $10,000 Dependent Child: $2000	**Death anytime as a result of accident** Age Limits: None $10,000 to the primary dependent **and** $2,000 to each secondary dependent (no limit) Dependent Spouse: $10,000 *Dependent Child:* $2,000	**Death within 2 years after accident** $10,000 to primary dependents **plus** $1500 each secondary dependent Spouse No age limit: $2500 Equal division to surviving dependents Dependent Child: $2500	**Death anytime after accident** Head of Household $5000 **plus** $1000 for each dependent beyond first + 1% of Total Principal Sum for 104 weeks. No Limit Spouse $5000 *Dependent Child* Scale by age **Maximum $1500**	**Death anytime after accident** Head of Household $5000 + $145.00 Weekly for 104 weeks to first survivor **plus** $1000 + $35.00 weekly for 104 weeks for each survivor beyond the first. No limit Spouse $2500 Dependent Child Scale by age **Maximum $1500**	**Death within 2 years after accident** Head of Household Age Limits: None $10,000 Spouse Age Limit: None $10,000 plus $2500 for each survivor other than the first One survivor—spouse or dependent principal sum increased to $1500 **No limit**
DISMEMBERMENT BENEFITS	Schedule based on 50%-100% of Principal Sum	Scheduled up to $42,743.06	Not included. Becomes part of other recovery	Impairment occurring within 90 days $20,000 *Deducted from deathbenefits.*	Scheduled Benefits **Maximum $10,000**	Not included. Becomes part of other recovery	Not included. Becomes part of other recovery	Not included. Becomes part of other recovery
ADMINISTRATION	Private Insurers	Government – bodily injury Private Insurers – property damage	Private insurers	Compulsory Insurance – Government Monopoly Optional and Excess – Government and Private *Insurers compete*	Compulsory Insurance – Government Monopoly Optional and Excess – Government and Private *Insurers compete*	Private Insurers	Compulsory Insurance – Government Monopoly Optional and Excess – Government and Private *Insurers compete*	Private insurers

*Changes in Ontario are under discussion at time of printing.

The Ontario Motorist Protection Plan Guaranteed Accident Benefits

ACCIDENT BENEFITS	CURRENT LEVEL	NEW PLAN LEVEL	PER CENT INCREASE
INCOME REPLACEMENT			
.. Employed	$140/week for 104 weeks unless totally disabled	$600/week cap 80% of gross income for 3 years or life if totally disabled	+329% (plus extended time)
.. Deemed Employed (worked 6 months in past 12)	As above	As above	As above
.. Students	None	$185/week for 3 years or life	N/A
.. Unemployed	None	$185/week (as above)	N/A
.. Retirees	None	$185/week (as above)	N/A
.. Unpaid Homemakers	$70/week for 12 wks if totally disabled	$185/week (as above)	+164% (plus extended time and wider entitlement)
Child Care Benefit	None	$50 per child maximum $200/week	N/A
Supplementary Medical Care and Rehabilitation	$25,000 with 4-yr limit	$500,000 with 10-yr limit or 20 yrs less victim's age	+1900% (plus extended time)
Long-term Care	N/A	$500,000	N/A
Death Benefit .. Death of Head of household or Spouse	$10,000	$25,000	+150%
.. Death of Dependent	$2,000	$10 000	+400%
Funeral Benefit	$1,000	$3,000	+200%

NOTE: ** Guaranteed benefits to be reviewed at least every two years.

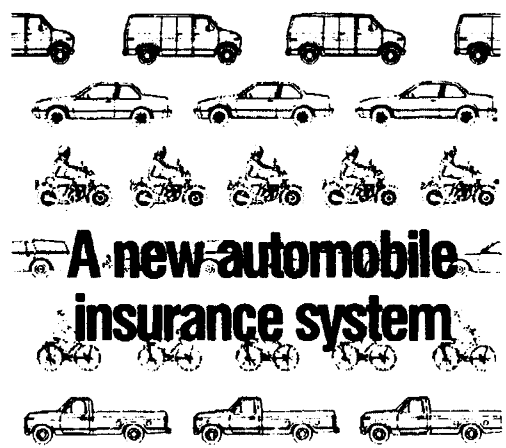
If you require more information or have any specific questions about your insurance policy, contact your insurance agent or broker.

Ontario Insurance Commission

Ontario Insurance Commission
4th Floor, 5 Park Home Ave.
North York, Ontario
M2N 6L4

87500E

The Ontario Motorist Protection Plan



Ontario Insurance Commission

CHART OF INDEMNITIES

Indexation:

The basic amounts used for the calculation of the indemnities are indexed annually on January 1 (s. 83.33 to s. 83.40).

January 1, 1991

Adjusting Factor: 1.048

Income Replacement:

"Employed" as defined: full time, temporary or part-time employment.

Maximum Admissible Income: $42,000
Minimum: minimum wage.
Annual Average Income: $25,321

No Income:

Students: From $3,144 to $11,528 per year.
Non-employed: long term disability only.

Death Benefits: Lump Sum

Spouses:	Maximum:	$209,600
	Minimum:	$41,920
Dependants:	Maximum:	$36,680
	Minimum:	$19,912

Disabled Dependant: additional $17,292

No Surviving Spouse or Dependant: $15,720 to Parents.

Funeral Expenses: $3,144

Personal Assistance and Care Expenses:

From $79 to $524 per week.

Supplementary Medical, Rehabilitation and Care Benefits:

No aggregate limit.

Non-Pecuniary Damages:

From $524 to $100,000