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No. 32

Monopoly Insurance: Unfair at Any Price

Setting the Record Straight
About Non-Competitive Automobile Insurance

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About the Author

Mark Milke is an author, columnist and public policy consultant based in Calgary, Alberta. He's written three books on Canadian politics: *A Nation of Serfs? How Canada's Politics Corrupts Canadian Values*, *Tax Me, I'm Canadian—Your Money and How Politicians Spend It,* and *Barbarians in the Garden City: The B.C. NDP in Power*.

Milke's policy studies include *Facts and Myths on Automobile Insurance* for the Insurance Bureau of Canada, *Saving for the Future Alberta Advantage*, a study of the Alberta Heritage Savings and Trust Fund for the Certified General Accountants Association of Alberta and the Alberta Chambers of Commerce (with a foreword by former Alberta Premier Peter Lougheed), and *Fair Pensions for Generation X* for the Canadian Taxpayers Federation. With Thomas Flanagan he co-wrote *Alberta's Real Constitution: The Natural Resources Transfer Agreement*, a chapter in *Forging Alberta's Constitutional Framework*, published by the University of Alberta Press.

Mark Milke's columns have appeared in the *National Post*, the *Vancouver Sun*, the *Globe and Mail*, the *Victoria Times-Colonist*, the *Winnipeg Free Press* and the *Calgary Herald*. He is a regular guest on Adler Online on the Corus radio network as well as on other radio and television shows.

Milke has also worked with Preston Manning and the Manning Centre for Democracy on Alberta policy issues. A one-time director with the Canadian Taxpayers Federation in Alberta and then B.C., he holds a Masters in Political Science from the University of Alberta and is completing his PhD dissertation in political science at the University of Calgary.

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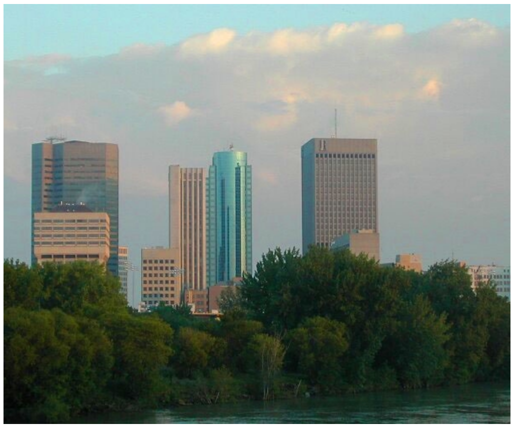

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The author of this study has worked independently and the opinions expressed are therefore his own, and do not necessarily reflect the opinions of the board of the Frontier Centre for Public Policy.

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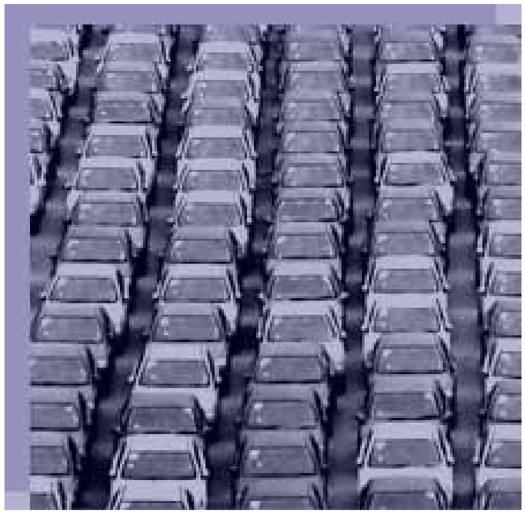


Executive Summary

- Government automobile insurance companies in Manitoba, Saskatchewan, and British Columbia have used data to produce insurance premium comparisons which exaggerate estimates of insurance costs in private sector provinces.
- The claim that the cost of auto insurance is lower in provinces where government requires it to be purchased from a government provider is not accurate in the case of Manitoba and British Columbia. In the case of Saskatchewan, the average premium is lower than private sector provinces.
- Average premium comparisons mask a number of reasons why prices differ.
- Claim costs vary greatly by province. Such costs (which include payouts) affect the cost of insurance. With insurance, consumers do indeed get what they pay for.
- Some private sector provinces have less expensive average insurance prices than other provinces where government is the main insurer.
- Insurance policies must reflect risk in order to send signals to drivers about their potentially dangerous behaviour and the relative risk of their age and gender cohort.
- Governments should end taxes that apply only to insurance products.
- Consumers should be offered a choice between no-fault or tort insurance.
- Full competition should be allowed in provinces where it does not now exist. There is no price or product advantage to monopoly-provided insurance.
- Consumers in search of a fair system of comprehensive auto insurance should demand that it be competitive, that it reward good drivers and penalize poor ones and that they receive adequate comparative information from agents.

Part 1 — Introduction

The need for this report

Many consumers think that automobile insurance in Canada is inexpensive in provinces where insurance is government-provided and exorbitantly priced in provinces where the private sector competes for consumers. This misleading impression results primarily from four factors:

- First, flawed studies which have drawn errant conclusions from Internet data that cannot be justifiably used to back up conclusions about real-world prices and averages;
- Second, an uncritical media, in part unaware of the flawed statistical assumptions in widely-publicized comparisons or in part aware but more interested in sensational headlines with little or no basis in fact;[1]
- Third, unawareness among the public and the media of how differing insurance rates are calculated, i.e., how some provinces do not allow discrimination based on age – which has the perverse effect of countering the point of insurance, rates based on actuarially sound risk categories; and
- Fourth, government Crown corporations in British Columbia, Saskatchewan and Manitoba which are monopoly providers for basic mandatory automobile insurance policies and, as with any individual private company, have a vested interest in protection of market share.

Such mistaken impressions have led to less competition and less choice for consumers.

My disclosure

My public policy interest is in putting facts in the public domain. Clear and defensible data leads to better choices and the possibility of superior public policy. In past work, I have both complimented and criticized the insurance industry. For example, many insurance companies and agents oppose greater competition from banks in the selling of insurance. In contrast, I favour allowing banks to sell insurance through their branches and to allow financial institutions to link insurance with discounts on other products, much as grocery stores offer discounts on multiple purchases.

I also have a personal stake in this issue: as with most consumers, I like the best insurance for an inexpensive price and, as I've moved between B.C. and Alberta several times, I've often compared policies and prices. The reality is that British Columbia is no low-cost haven for automobile insurance. Out of the four Western provinces in 2006, my $891 automobile insurance in Calgary would cost $1,491 in Vancouver, $913 in Regina and $1,074 in Winnipeg. Individual examples do not alone prove that competition guarantees lower premiums; some individuals may find their insurance costs are lower in provinces where governments have a monopoly on most insurance. The relevant point is that I am aware from personal experience that assertions made about inexpensive government insurance are on thin statistical ice. They are on even thinner ice when empirical data is analyzed which account for all paid premiums in every province.

Where no natural monopoly exists, I favour competition over monopolies in the public or private sector. It is one thing to attempt to disagree with that approach; that is wholly within the realm of fair public debate. *But at a minimum, disagreement must begin with actual facts and actual prices paid for automobile insurance, not mere Internet quotes.* When misleading information about automobile insurance competition is published and repeated in the media without critical analysis, without correction and absent an understanding of what factors lead to a certain price for a product, it becomes necessary to publish a clarification of statistical concepts including averages, medians and others and what they mean for automobile insurance premiums.

Summary of the approach

First, I will note assertions from Saskatchewan Government Insurance (SGI), Manitoba Public Insurance (MPI), the Insurance Corporation of British Columbia (ICBC), the Consumers' Association of Canada (CAC) and errors in New Brunswick. Second, a full explanation for how Statistics Canada has arrived at their insurance inflation figures will be given, along with an explanation of errant interpretations of the same. Third, I'll note the various input costs for insurance. Fourth, the actual average premiums in the ten provinces from 2000 to 2005 will be listed. Fifth, recommendations will be provided.

Data and statistics in this report

In Canada, regulators have the authority under their respective provincial insurance legislation to appoint a statistical agent to collect information from all licensed insurers. In private sector provinces, that government-appointed responsibility for data and statistics was previously designated to the Insurance Bureau of Canada.

Since April 2006, the responsibility for data and statistics has been assigned to the General Insurance Statistical Agency (GISA), a federally incorporated, not-for-profit agency. Data and statistics in this report were obtained from the Insurance Bureau of Canada (IBC), which is the contracted statistical collection agency for GISA. GISA has been named the statistical agent by provincial and territorial governments who, through their own respective regulators, choose to participate. To date, Newfoundland, Nova Scotia, Prince Edward Island, Ontario, Alberta and the three territories have named GISA as their statistical agency for automobile insurance statistics. British Columbia, Québec, Saskatchewan and Manitoba have chosen not to provide data and statistics to GISA. Information from those provinces has been obtained through the Insurance Bureau of Canada and/or the provincial Crowns directly.

The GISA Board of Directors is a tripartite board comprised of regulators, insurance industry representatives and public representatives. The majority membership on the Board is comprised of the provincial regulators. In short, GISA is independent and its statistical handling is thus notably superior to those numbers previously released by various interest groups and, regrettably on occasion, assertions which have come from certain government-owned automobile insurance companies.

I caution readers who would dismiss data and statistics because it has been handled in the past by an industry organization to remember that the “sword” cuts both ways: government insurance companies have their interests and biases just as do private-sector companies. The key question in any debate over numbers is whether the data, their interpretation and subsequent conclusions are accurate or not. Dismissal of an argument or numbers because of where they originate (and not on their own merit) is a logical fallacy, but one often committed.

Comparisons between provinces are fraught with difficulty because of differences in product offerings and legislated limits on compensation, among many factors. Still, comparisons are inevitably made by consumers, companies and governments. Thus, because of past disagreements and errors in studies about automobile insurance, it would be helpful if Québec, B.C., Saskatchewan and Manitoba provided data on automobile insurance to GISA. That would allow for a common approach to how data is recorded and interpreted. Also, inter-provincial comparisons on price and quality could more easily be made. In short, improvements in insurance products can be significantly helped if consumers and researchers can more easily access comparable data from all jurisdictions.

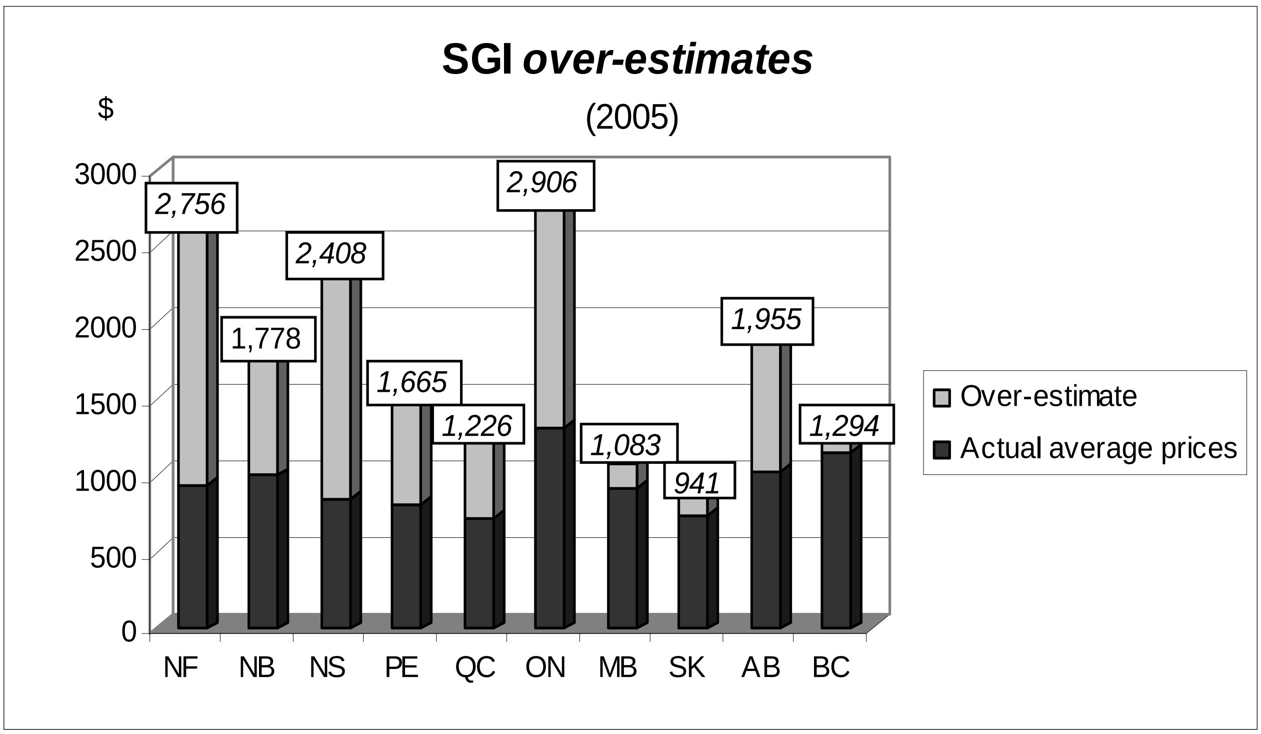
Part 2 — Executive Summary

Findings

- Government automobile insurance companies in Manitoba, Saskatchewan, and British Columbia have relied on “apples and oranges” data (occasionally provided by others) which is then used to produce insurance premium comparisons which effectively exaggerate estimates of insurance costs in private sector provinces.
    - In October 2006, Manitoba Public Insurance (MPI) claimed that “Independent research shows Manitobans continue to pay among the lowest rates in the country for comprehensive coverage.” In fact, in 2005, Manitoba was in the middle of the pack with an average premium of $920. Quebec ($716), Saskatchewan ($738), Prince Edward Island ($811) and Nova Scotia ($842) were all less expensive on average when compared with Manitoba. Thus, four provinces were less expensive than Manitoba and five provinces were more expensive.

o In one 34-category survey performed by Saskatchewan Government Insurance (SGI), SGI claimed the median price for automobile insurance was $1,587 in Ontario and $1,955 in Alberta. However, the data used to produce such estimates was not based on real-world paid premiums. Also, SGI comparisons used the median price as the basis for comparison. By definition, the selection of a median price means that in a selection of 11 quotes, five price quotes would be above the median and five price quotes would be below. For that and other reasons, the SGI comparison was flawed and thus consumers were thus misled about automotive insurance prices in Alberta, Ontario and other private-sector provinces.

SGI median price over-estimates



- The claim that insurance rates are lower in selected provinces where government requires most of all insurance to be purchased from a government provider is not accurate in the case of Manitoba and British Columbia. In the case of Saskatchewan, the average premium is lower than private sector provinces. However, as an SGI/Saskatchewan–Canadian Direct/Alberta comparison provided in this study reveals, even the use of categories created by SGI shows such consumers could purchase their insurance cheaper in Alberta in 17 out of 34 examples.
- Average premium comparisons mask a number of reasons why prices differ. It is important to avoid the correlation-causation error, i.e., the assumption that because the rooster crows and the sun rose, that the crowing rooster caused the sun to rise. Premiums differ for a number of reasons, including but not limited to:

differences in mandated collision deductibles, restrictions on the right to sue, age and gender "discrimination" restrictions, differences in incomes and wealth and accident rates per population (young males are statistically more likely to be involved in accidents than other cohorts and as a result communities with greater proportions of young male drivers will have higher average insurance premiums).

- Claim costs vary greatly by province. For example, in 2005, the average mandatory claim cost was $9,028 in Alberta, $15,959 in Ontario, and ranged from $9,917 to $13,224 in the Atlantic region to $5,453 in Saskatchewan, $2,747 in Manitoba and $6,123 in B.C. Such costs (which include insurance payouts) affect the cost of insurance. With insurance, consumers do indeed get what they pay for. The flipside of lower average rates in Saskatchewan is lower payouts on the claims side.
- Some private sector provinces have less expensive average insurance prices than other provinces where government is the main insurer. In 2005, Alberta's average premium was less than B.C.'s average premium; Nova Scotia and Prince Edward Island were less expensive than Manitoba. On the other side, some government insurance companies do charge less on average than the premium offered in provinces where insurance is provided by private companies. Saskatchewan has a lower average premium than does Ontario.

Average insurance premium by province, 2001-2005

Year	NF	NB	NS	PE	QC	ON	MB	SK	AB	BC
2000	727	761	631	616	643	878	707	651	819	961
2001	788	846	718	676	670	953	764	681	879	981
2002	926	1,038	887	777	692	1,119	808	708	1,018	1,073
2003	1,037	1,121	928	868	710	1,355	837	715	1,141	1,139
2004	971	1,103	897	816	721	1,385	897	756	1,076	1,160
2005	934	999	842	811	716	1,319	920	738	1,022	1,153

- In 2004, Alberta's reforms to insurance delivered large discounts to high-risk drivers while many good drivers realized only minor reductions in their premiums. Insurance is about risk: insurance policies must reflect risk in order to send signals to drivers about their potentially dangerous behaviour and the relative risk of their age and gender cohort.

Recommendations

- Governments should end taxes that apply only to insurance products. Such taxes are hidden and represent a “top-up” on existing provincial and federal takings from consumers, who ultimately pay the extra tax bill. In 2005, insurance-only taxes on automobile insurance (i.e., apart from taxes that apply to all business) amounted to an estimated $1.124 billion across Canada.[2]
- Consumers should be offered a choice between no-fault or tort insurance.
- Full competition should be allowed in provinces where it does not now exist. There is no price or product advantage to monopoly-provided insurance. Any of the government restrictions in place—the ban on using age and gender criteria for the calculation of insurance premiums, for example, could remain in place in a private, competitive system. However, whether age and gender restrictions are wise policy is another matter.
- Consumers in search of a competitively-priced, comprehensive insurance policy should:
    - Demand that policymakers and elected officials enact reforms based on a competition model;
    - Demand that reforms to insurance reward good drivers and penalize careless, risky and dangerous ones. This does not always occur; and
    - Demand (in private sector provinces) more from insurance agents and ensure agents search for both the type of coverage that is most appropriate for that consumer and that the quote given is the most economical for that coverage.

Part 3 — Errant assertions from Saskatchewan Government Insurance, Manitoba Public Insurance, the Insurance Corporation of British Columbia and the Consumers’ Association of Canada

Exaggerated averages

A variety of inputs factor into the costs of insurance premiums: accident rates per population, average value of an insured vehicle, rural or urban locale, whether the ability to sue is restricted in any manner, the percentage of population with past driving convictions, as well as other factors such as “discrimination” on age and gender (where allowed).

Consumers understandably want to know whether they are getting a “good deal”; thus, different input costs should be recalled when comparisons of average automobile insurance premiums inevitably occur. Also, given that various government insurance companies make comparisons between provinces in order to buttress their assertion that a government monopoly model of insurance is justifiable, it is critical that at a minimum the financial information behind those comparisons provided is consistent, i.e., that averages are based on real-world prices.

Unfortunately, this is precisely what has not occurred when government insurance companies have made inter-provincial comparisons. Thus:

- In October, 2006, Manitoba Public Insurance (MPI) claimed that "Independent research shows Manitobans continue to pay among the lowest rates in the country for comprehensive coverage . . . ."[3]

- Saskatchewan Government Insurance (SGI) published a chart on its website which purports to show median automobile insurance premiums in private sector provinces in 2005 which – when compared with Saskatchewan – cost twice as much in Alberta and almost three times more in Newfoundland or Ontario.[4]

- In July 2006, the president of the Insurance Corporation of British Columbia (ICBC) testified before a legislative committee and claimed that "A variety of studies – and you can either accept them or question them – say that in B.C. we generally have among the lowest rates in the country."[5]

The same errors have also occurred in studies from at least one consumer group, the Consumers' Association of Canada (CAC), which attempted to compare insurance prices among the provinces. Too often the comparisons rested on "apples and orange" data which was then used to produce insurance premium comparisons which effectively exaggerated estimates of actual insurance costs in private sector provinces.

To understand how that error can and did occur, consider if a statistician were to compare the cost of "widgets" on E-bay. Pretend that statistician took the total dollar *value* of all widgets sold, then divided by the total number of widgets sold. That would result in an average sell price for widgets. That average is the result of actual prices paid by consumers.

If however, that statistician took the total value of all bids for widgets and divided by the number of bids, the resulting average would be an average *bid* price – not the average actual price paid by a consumer.

In comparisons of insurance premiums across Canada, provincial government insurance companies have committed an error similar to this in their comparisons.

Problems with Saskatchewan Government Insurance's assertions

In one 34-category survey performed by SGI in 2005, it claimed the median price for automobile insurance was $1,587 in Ontario, $1,822 in Newfoundland and $1,955 in Alberta. However, the data used to produce such estimates for private-sector provinces was not based on real-world paid premiums but only on quotes. In contrast, when Saskatchewan's premium is used, it is at least closer to the real-world Saskatchewan average, given that so much of the market in Saskatchewan is provided by SGI.

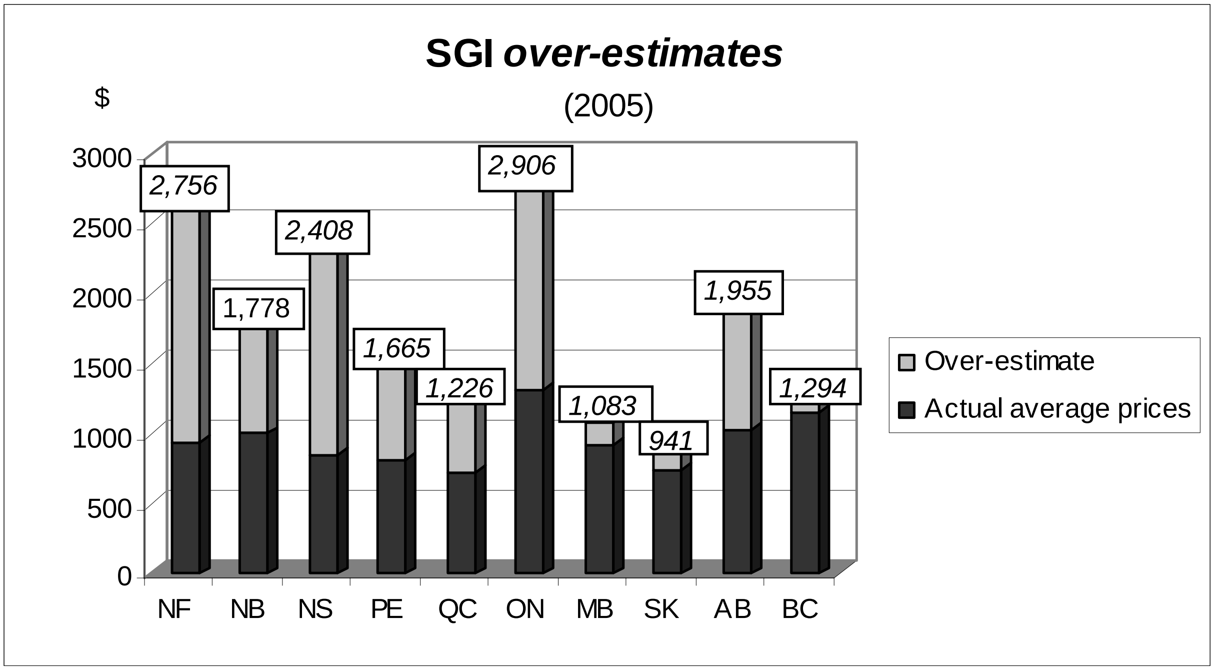
The reason for that closer correlation in the case of Saskatchewan is three-fold. First, in Saskatchewan (and Manitoba and B.C.), consumers must purchase their mandatory vehicle insurance from the government companies in those provinces.[6] Second, in some cases optional insurance is available from the private sector, but for comparative purposes such prices have not been part of the quotes used by government companies in those provinces. Third, as with any survey, the final average will not exactly duplicate an average of actual prices paid, as the latter average requires the total value of *all* premiums divided by the total number of vehicles insured. Thus, unlike quotes obtained from private sector provinces where quotes vary dramatically, the quotes obtained from provinces where governments sell most insurance are closer to the actual final paid price. There simply is not the room for wildly varying quotes because so much of the market is provided by one insurer—the government insurer.

In contrast, when estimated prices in private sector provinces are given by SGI, Internet quotes, i.e. bids and not actual prices paid, are used. Given that in private sector jurisdictions, insurance prices quoted can and do vary dramatically, the result is that such calculations will take in very high quotes and skew the quoted average premium dramatically higher. The result compares oranges with apples, or real prices with bids.

Also, because SGI comparisons use the median price as the basis for comparison, by definition, that selection means that in a selection of 11 quotes, five price quotes would be above the median and five price quotes would be below. *All else being equal, consumers with choices do not choose the median price, they choose the lowest price*. That *some* consumers may not always do so because of time constraints, unawareness of options, or a broker who does not search for the lowest quote, does not change the reality that automobile insurance polices in private sector provinces *can be obtained at rates lower than that advertised in the SGI study based on median rates.* Thus, the SGI comparison is misleading, albeit unintentionally.

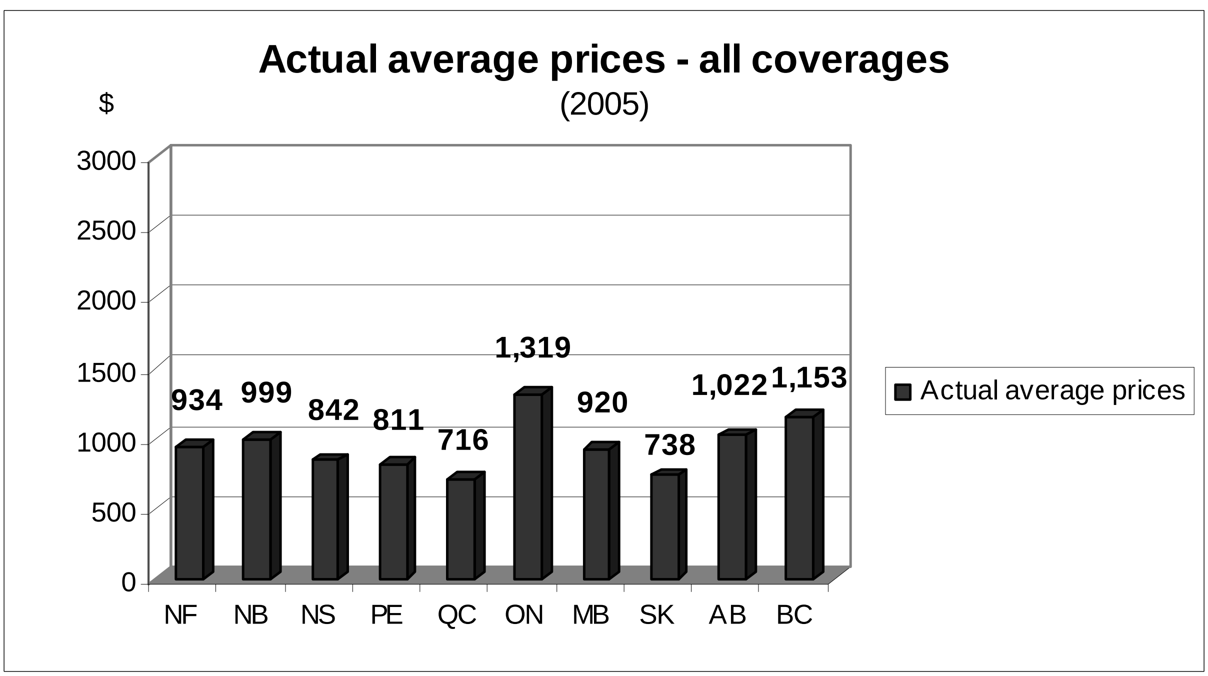
The compounding of errors translates into highly misleading assertions of automotive insurance prices in Alberta, Ontario and other provinces. Examine the chart below where the price quotes are provided by SGI. Note the difference—the exaggeration—of private sector prices produced by inputting data which based on two different types of information.

Chart 1: SGI median price *over-estimates*



Sources: SGI and Insurance Bureau of Canada (SGI prices based on insurance quotes/ IBC prices based on actual paid premiums)

Chart 2: Actual average prices



Sources: IBC Automobile Insurance Experience Exhibits and respective provincial government automobile insurance companies. The above averages result from (where applicable) the combination of government and private premiums. The averages result from actual paid premiums

An Alberta-Saskatchewan comparison using SGI categories

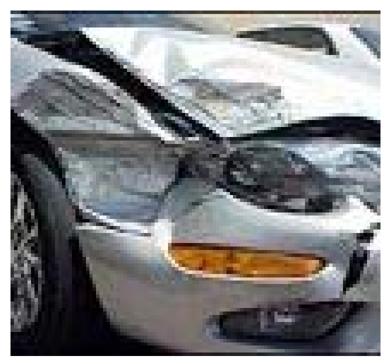
There is one further comparison to make regarding SGI's 34-quote survey. Canadian Direct Insurance was asked to compare the 34 SGI categories to Alberta.[7] Canadian Direct prices were for 2006 (2005 were no longer available) while SGI's were for 2005. This is roughly comparable, as rates did not change dramatically. Saskatchewan issued an eight percent rebate in 2006 while Alberta ordered a three-percent rate reduction in 2006, effective upon renewal.

The comparison between the two provinces reveals the following:

- SGI did not break down its rates by city. In Alberta, Canadian Direct used Calgary, Drumheller and Grande Prairie in its Alberta-Saskatchewan comparison.
- Using the 34 SGI-created categories, cheaper insurance could be found somewhere in Alberta in exactly half of the examples (17) and in Saskatchewan in the other half (also 17).
- Compared to urban areas, rural areas are always cheaper locales in which to insure. While SGI did not break down its rates by city, Canadian Direct did. In that comparison, nine categories could be more cheaply insured in Calgary compared with Saskatchewan's average, 17 could be more cheaply insured in Drumheller and nine in Grande Prairie, when compared with Saskatchewan.

The trend in the comparison is as follows:

- Younger and single people would likely pay higher insurance rates in Alberta with Canadian Direct compared to SGI in Saskatchewan—if they had more than one at-fault accident, possessed more than one minor conviction or had a combination of two or more of the above. Younger males even without a conviction or an at-fault accident would also likely pay more with Canadian Direct compared to SGI in Saskatchewan.



- Consumers who were married or middle-aged or some seniors would likely pay lower insurance rates in Alberta with Canadian Direct when compared with SGI in Saskatchewan, even with minor convictions (two in some comparisons) or with an at-fault collision.

The following should be noted about this SGI-Canadian Direct comparison:

- Alberta's insurance model is more closely correlated with actuarially-based risk categories. While it seems unfair to young males that they should pay more by virtue of their age and gender, the very point of insurance is to calculate risk from an actuarially sound perspective. For example, the claim frequency for 19-20 year-old males in Alberta is 9.8 per 100 vehicles insured. The claim frequency for 46-55 year-old males in Alberta is 3.8 per 100 vehicles insured.

That noted, while the younger cohort is two-and-half-times as likely to be involved in an accident as the older cohort, the younger cohort is yet unlikely to pay two-and-half times as much in insurance because governments often over-ride such calculations, as happens in Saskatchewan and to a lesser degree in Alberta. The problem with such intervention in insurance pricing is that the message sent to bad or risky drivers is a regressive one: do not worry about or change your behaviour.

- There is no free lunch. In order to keep the rates of bad and risky drivers down, good and safer drivers must pay more. To offer cheaper rates to the statistically risky (and to offer cheaper insurance to those drivers than is available in Alberta),[8] SGI must charge more than necessary to other consumers—the statistically safer consumers. That's what a policy of age and gender neutrality does: it forces good drivers and statistically safer drivers to subsidize bad drivers and statistically risky drivers.
- Canadian Direct is only one insurer among 70-plus in Alberta. Thus, given the 34 examples above, it may well be that a comparison with other insurers might show that it is possible to buy cheaper insurance somewhere in Alberta in more than 17 out of 34 categories created by SGI.
- In summary, while half of SGI's own 34 categories for insurance comparisons could be purchased more cheaply in Alberta, this comparison would likely look even more favourable for Alberta if more Alberta insurance companies were compared to Saskatchewan.

Problematic conclusions from the Consumers' Association of Canada

In 2003 and 2005, similar calculations were performed by the Consumers' Association of Canada, a group often quoted as a source of independent verification by government insurance companies as regards their assertion of lower prices. The CAC, along with government insurance companies, used the resulting averages to claim that compared to B.C., Saskatchewan and Manitoba, consumers in private sector provinces paid significantly higher automobile insurance premiums.[9] For example, in 2003 the CAC claimed the median automobile premium was $2,504 in Ontario and $1,853 in Alberta. In fact, the accurate figure[10] for 2003 was $1,355 in Ontario and $1,141 in Alberta (based on an average).

Why the median price is a flawed comparison.

The difference between the CAC's estimates and actual averages resulted from prices based on median estimates. As noted previously, a median price is problematic as it means that *half the prices in a sample are below the quoted median price* and half are above. As illustrated in charts 3 and 4 below, out of fives prices ($600, $800, $1,000, $1,000 and $1,200) the *median* (the "middle") price is $*1,000*. Add together all five prices and divide by five to obtain an average, and the *average* price is $*900*.

To choose a real-life example from past Consumers' Association studies, in 2003 the group obtained 10 different prices for each category. *That meant the CAC found four or five private sector prices for each category that were lower than the median price it publicly published and compared with government insurance.*

Also, because the CAC claim in 2003 was based on 34 examples of various drivers but only provided actual dollar estimates (based on the median price) in just *two* categories, a researcher who wanted to grasp the CAC's actual price quotes was forced to look at the group's charts and make an estimate. When I asked the CAC for all 34 median prices and also the low to high range of prices used in his study, the CAC president, Bruce Cran, refused to release such information.

To illustrate the problem of claiming that the median quote was representative of actual insurance costs, consider one example from the CAC's own study. When the organization claimed that a 42-year old female with a 1996 Mazda Miata and one past claim would pay a median insurance price of about $1,800 in Alberta compared to just over $1,500 in British Columbia, the CAC implicitly *admitted that it found at least four prices that were below that $1,800 Alberta price*, and possibly some that fell below the B.C. cost of insurance.

All else being equal, most consumers try to find and pay the *lowest* price. If the CAC revealed its range of prices, at least some insurance companies in private sector provinces would be shown to have offered lower prices than those offered in provinces with government insurance.

Chart 3: How a median price is calculated

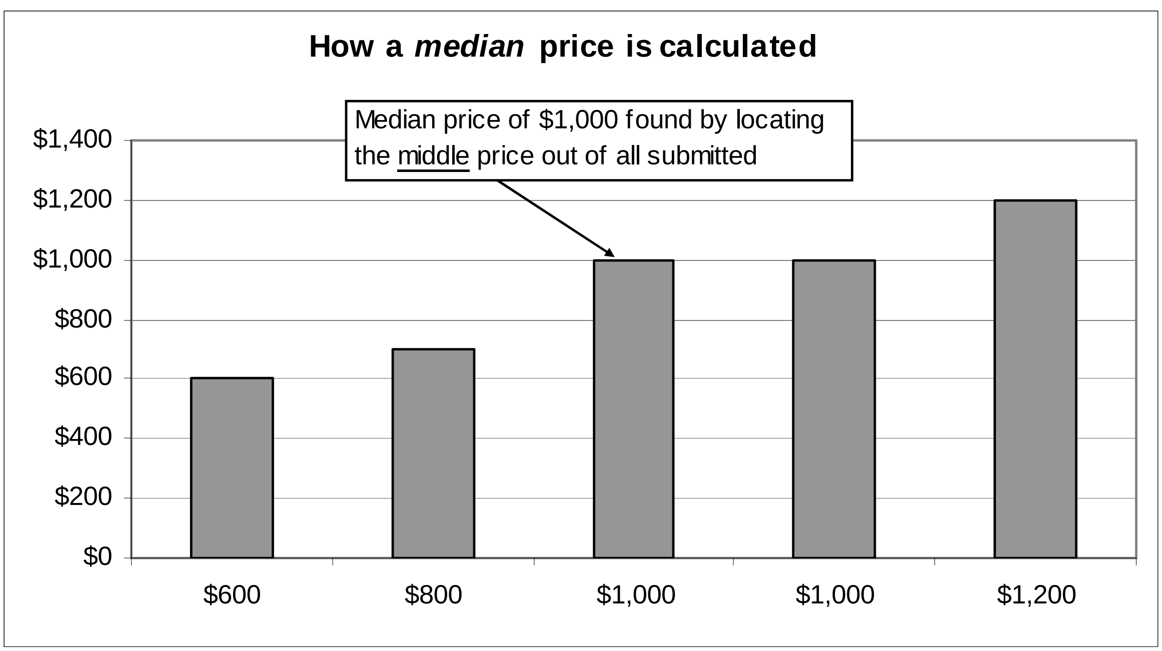


Chart illustration by author

Chart 4: How an average price is calculated

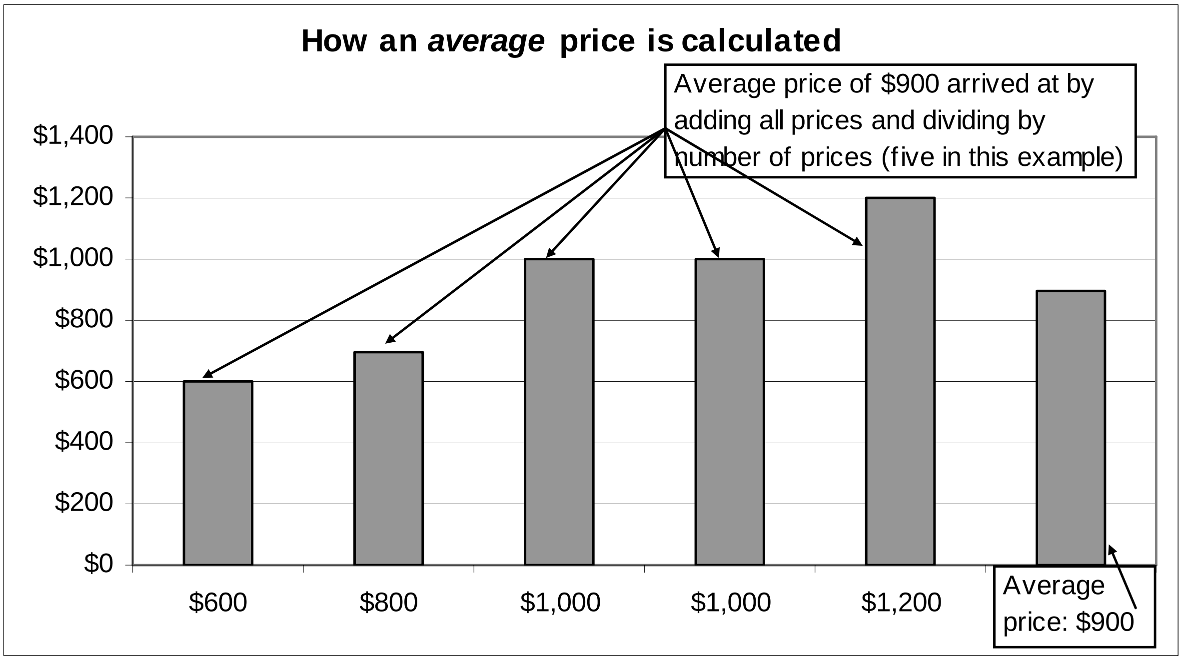


Chart illustration by author

CAC-Ontario disagreed with CAC-Ottawa

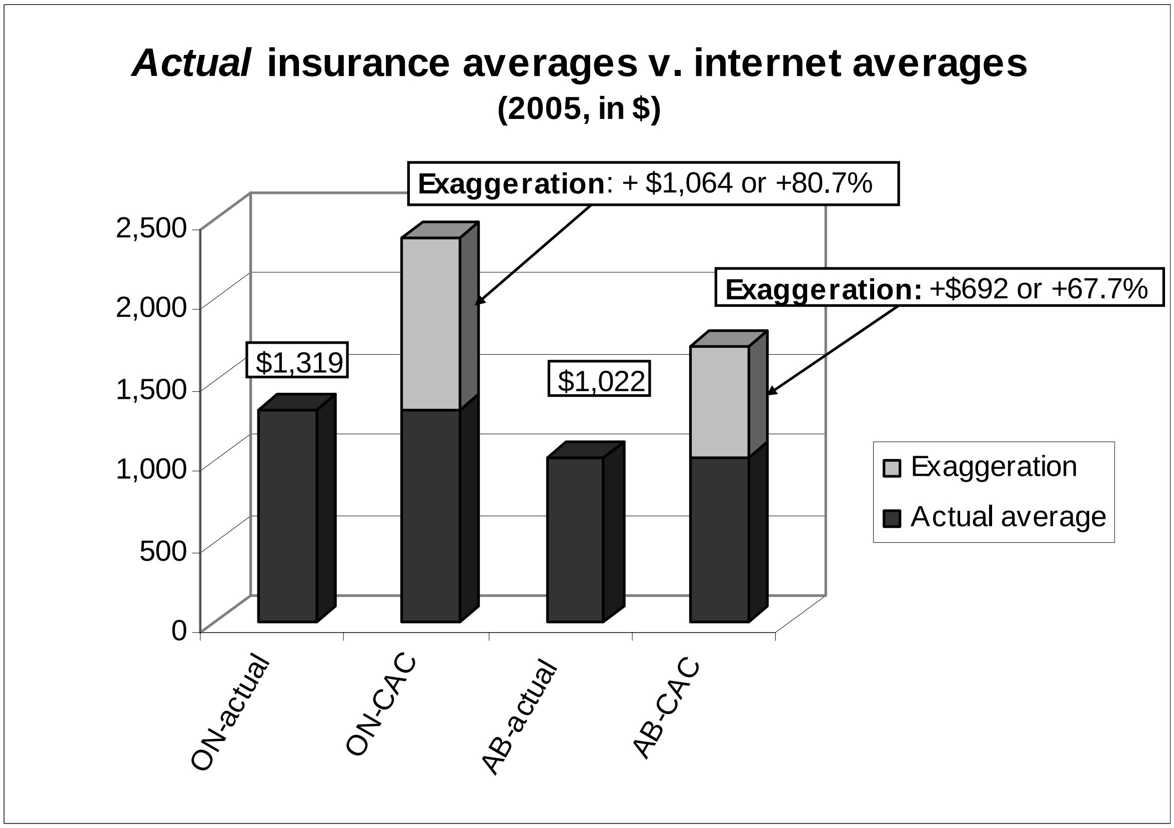
In 2003, the Ontario president of the Consumers' Association of Canada told this author that the study produced by Bruce Cran and the national office, "violates arithmetic."[11] Theresa Courneyea said the CAC national office used Internet quotes while her office compiled the total premiums paid in Ontario, divided that by the number of insured automobiles, which resulted in her $1,310 average—not far off the actual industry stated average premium of $1,355.[12] Referring to the Consumers' Association of Canada's national office and its overestimated averages for Ontario drivers, Courneyea told this author that her provincial office "doesn't use anything they've done."[13] Courneyea even wrote the *Globe and Mail* to argue that Ontario's average premium in 2003 was $1,310, not $2,504 as claimed by the national CAC office,[14] a figure Courneyea labelled "excessive."[15]

The problem with the 2005 numbers

The CAC's 2005 studies on automobile insurance discarded the median approach in favour of averages. The CAC noted its averages were calculated from 3,776,997 rate quotes provided on the Internet. However, the averages were still problematic as any attempt to extrapolate insurance premium prices for private sector provinces from Internet quotes also produces misleading comparisons for this reason: Internet-generated quotes are not the same as widely varying prices actually paid by consumers.

The result—for public consumption—was exaggerated average premiums for 2005 prices. The Consumers' Association of Canada claimed the average Ontario automobile premium in 2005 was $2,383. (In fact, the actual average Ontario price was $1,319). Similarly, the CAC claimed the average Alberta price for automobile insurance was $1,714. (The accurate figure was $1,022). The CAC numbers represented a 67.7% exaggeration of an average Alberta premium and an 80.7% exaggeration in the case of Ontario.

Chart 5: ACTUAL insurance averages (based on paid premiums) compared with averages (obtained from internet quotes)



Sources: IBC and CAC

Problems with Manitoba Public Insurance assertions

Manitoba Public Insurance (MPI) has long defended its government monopoly on insurance. In its 2005 *Annual Report*, MPI also claimed that its average premium was "among the lowest" in Canada.[16]

Similarly, in October 2006, MPI's vice-president of Public Affairs and Communications referred to a Fraser Institute study (which gave Manitoba a low ranking)[17] and noted that, "It found what no other independent study of auto insurance rates has shown."[18] The MPI vice-president asserted that several studies showed Manitoba enjoys "some of the best auto insurance rates around," and noted the Consumers' Association of Canada

(CAC) study from 2005 as proof. The vice-president noted that study claimed MPI premiums were on average, the second-lowest among the provinces.

MPI's assertion, however, was incorrect. The problems with the CAC study have already been noted—Internet quotes are akin to bids. Thus, they are not reliable indicators of actual average paid prices.

When real-world premiums and resulting averages are used to compare actual insurance costs, in 2005, Manitoba was in the middle of the pack with an average premium of $920.[19] Québec ($716), Saskatchewan ($738), Prince Edward Island ($811) and Nova Scotia ($842) were all less expensive on average when compared with Manitoba. Thus, four provinces were less expensive than Manitoba and five provinces were more expensive.

Moreover, Manitoba should have lower insurance rates that it does, given that it is a no-fault province (where consumers cannot sue for loss in excess of no-fault benefits or for pain and suffering) and thus the cost of expensive litigation which, where present, is a significant cost for consumers, is largely absent. That should also have helped to drive Manitoba premiums lower.

MPI was critical of the Fraser Institute study[20] and labelled it "voodoo mathematics."[21] In contrast, MPI has repeatedly lauded the Consumers' Association of Canada studies, in news releases in 2003,[22] in 2005[23] and in an oblique reference to "independent research" in 2006 financial reporting.[24]

Despite the statistical error of assuming quotes are equivalent to actual paid prices and creating averages from the same, MPI trumpeted CAC studies that did just that. MPI lauded errant CAC conclusions despite the fact that MPI does not itself commit such error-prone statistical calculations when it arrives at its own Manitoba average for paid premiums. In that case, and unlike the CAC, MPI divides the total value of all premiums by the total number of policies in order to arrive at an average Manitoba premium.[25]

Another error-prone assertion

In November 2006, MPI created a chart on its website entitled "Comparison of auto insurance rates" and claimed Manitoba's was "still among the lowest in Canada." This author queried MPI on where it obtained its comparisons and on what they were based. MPI's public spokesperson noted, "The cross-country map was taken from the CAC study. You may want to check with CAC as to how they arrived at cost figures."[26]

Manitoba Public Insurance

The problems with CAC calculations have already been noted. MPI created an additional invalid comparison because the last publicly released study from the CAC was in 2005. If Manitoba Public Insurance indeed used CAC studies, the result is that MPI appears to have used statistically flawed comparisons—from 2005—to compare with 2007 MPI estimates of Manitoba rates. Those 2005 quotes were flawed estimates and exaggerated private sector premiums, and real-world rates since been lowered in other provinces. But MPI used two-year-old, flawed too-high quotes and yet compared them with Manitoba estimates for 2007.

Problems with Insurance Corporation of British Columbia assertions

In July 2006, in testimony before a British Columbia legislative committee, the President of British Columbia's government-run automobile insurance company argued that, "a variety of studies—and you can either accept them or question them—say that in BC we generally have among the lowest rates in the country."[27] Similar to the claims made by SGI and MPI, the ICBC President's claim that B.C.'s premium rates are among the lowest in Canada are based on the unreliable assertions made by the Consumers' Association of Canada.

Rather than confirming the assertion that British Columbia's rates are among the lowest in the country, actual data reveals the opposite to be true. According to data based on real-world prices, British Columbia possessed the highest average premium in 2000 and 2001, the second-highest in 2002, the third-highest average premium in 2003 and the second-highest premium in 2004 and 2005.

Errors replicated in New Brunswick

Some of the errors in Saskatchewan, Manitoba, and British Columbia were also replicated in at least one study in New Brunswick, that from New Democratic leader, Elizabeth Weir, in 2004. Weir's commission on automobile insurance claimed that a government-run system would produce automobile insurance premiums lower than then private-sector premiums. However, two reviews of the NDP leader's report by Heckler Partners Ltd. and Pricewaterhouse Coopers noted the following:[28]

- Weir used a 2003 figure for automobile insurance in 2004; however, the estimated 2004 government price would have been higher than the 2004 private sector average. Thus, the Weir report did not properly account for rate reductions in the private sector;
- Instead of Weir's estimate of an $80 million price tag to nationalize New Brunswick's automobile insurance industry, the actual price tag could be as much as $190 million; and
- The Weir report failed to note how its proposals would force some drivers to pay more if categories such as age, gender, marital status, payment history and lapses in insurance were removed from actuarial calculations.

Part 4 — Problems with automobile insurance inflation estimates.

Understanding StatsCan estimates of auto insurance inflation

In 2006, the Insurance Corporation of British Columbia Statistics published a chart (based on Statistics Canada data) which claimed that between December 2001 and December 2005, insurance rates rose by 5.0% in Manitoba, by 65.8% in Newfoundland and by 67.7% in Alberta.[29] *However, it is critical for readers of such statistics to understand what those numbers mean and how such percentages were arrived at*: those statistics were based on surveys which act as a “snapshot” of certain narrowly defined categories. They were not comprehensive or full measurements of the actual average price increase (or decrease) in insurance rates.

Statistics Canada does not release data derived from commercially sensitive insurance company rate books. However, to give an example of how Statistics Canada gathers information, consider that one category might be that of a single, 36-year-old male with one speeding ticket, no accidents, and a 1997 Ford Taurus with $1 million in third-party liability coverage. In an attempt to keep their statistical model constant, Statistics Canada will use that category (along with any number of others), and review insurance quotes from a select number of insurance companies to arrive at their estimates of insurance costs from one year to the next.

However, this approach should not be taken as representative of actual insurance rate increases for the following reasons:

- First, while the attempt to keep the independent statistical variable constant is necessary to ensure the same product is measured year to year (as in the example of the category above) it is critical to note this: a survey by definition will miss other quotes, actual prices and other companies who may sell that product for a lower or higher price.
- Second, this approach misses changed consumer preferences. In a simple example, consider if a Statistics Canada survey measured the average price of automobiles and selected vehicles from Ford, General Motors and Honda. Assume the average value of such vehicles sold was $20,000. If consumer preferences change and the share of Kias and Hyundais sold dramatically rises and the average price of those automobiles is $18,000, the shift is not measured. Statistics Canada will overestimate the overall average price of a car in Canada because it measures past buying habits—not current ones.

Thus, even if "tweaked" for changed consumer preferences, surveys will miss actual paid premiums and may undercount some companies which have lower or higher prices. Such surveys may also miss a larger portion of the market than is reflected in their share of the data compiled by Statistics Canada. In most cases, surveys are the best any statistical agency can do—Statistics Canada cannot measure every piece of fruit sold in Canada in its measurement of consumer prices for fruit. However, the average insurance premium in the country is measurable as the comprehensive data for such calculations are readily available.

- Third, to expand upon the most critical reason, the 2001-2005 data overestimates price increases because multiple years of increases were concentrated into one year due to reporting problems. For example, over the 73-month period from March 1996 to March 2002, the New Brunswick automobile insurance CPI was unchanged (held at 126.9). Over the next 12 months, it jumped 71 percent but only because of the 73-month problem just noted, not because automobile insurance prices in New Brunswick actually increased by 71 per cent in just one year.[30]

The real increase/decrease in prices 2001-2005

Recall that Statistics Canada uses quotes based on categories, weights those categories and quotes in some manner in an attempt to estimate inflation and arrives at averages in order to produce inflation estimates for automobile insurance rates.

Those Statistics Canada categories and the dollar values attached reflect those categories and only those categories. In rare cases, a price quote may represent real prices paid—presumably there is (to continue with the example) a single, 36-year-old male with one speeding ticket, no accidents and a 1997 Ford Taurus with $1-million liability coverage.

But the critical point is that many categories and actual prices paid by many consumers of automobile insurance will be missed in such surveys. When this author inquired of Statistics Canada about their methods, one agency analyst noted that they "try to track what typical consumers pay for auto insurance," that they have specific rate books from which they "pull out a quote," that they hold these things [categories] constant to try and get a true price," and that they are "measuring pure price changes."[31]

Statistics Canada data on price inflation in automobile insurance is an accurate measure of the quotes they have selected and of the categories they try to hold constant. However, it is not an overall average of real-world prices paid. The result, when combined with the multi-year gap in reporting inflation in some cases, appears to have significantly overestimated insurance premium inflation in some provinces and underestimated it in others. When I noted this problem to Statistics Canada in an interview, the analyst acknowledged that "I'm not saying what you're saying is incorrect."[32]

Statistics Canada measures price changes in the quoted categories, not actual paid premium averages over the years. The difference is not insignificant, and readers should be aware of the distinction, especially as some government insurance companies such as the Insurance Corporation of British Columbia and Manitoba Public Insurance have incorrectly claimed such measurements reflect actual average increases in private sector provinces. It is not a correct interpretation or portrayal of the data.

To use the same comprehensive data noted earlier and based on real prices paid in each province, here are the comparisons between Statistics Canada data and average premiums increases. This will give the reader an idea of how Statistics Canada data can be misinterpreted if equated with real-world inflation in automobile insurance premiums.

Table 1: Automobile insurance inflation estimates 2001-2005

Statistics Canada *selected* category quote averages versus *full* data averages

Year	NF	NB	NS	PE	QC	ON	MB	SK	AB	BC
2001	788	846	718	676	670	953	764	681	879	981
2002	926	1,038	887	777	692	1,119	808	708	1,018	1,073
2003	1,037	1,121	928	868	710	1,355	837	715	1,141	1,139
2004	971	1,103	897	816	721	1,385	897	756	1,076	1,160
2005	934	999	842	811	716	1,319	920	738	1,022	1,153
Actual average premium increase 2001-2005	18.5%	18.0%	17.3%	20.0%	6.9%	38.4%	20.4%	8.4%	16.3%	17.6%
Stat. Can. est., selected category quotes, auto CPI increase 2001-2005	65.8%	40.4%	49.8%	53.9%	46.2%	30.4%	5.0%	15.2%	67.7%	11.9%
Overestimate or **underestimate***	*47.3%*	*22.4%*	*32.5%*	*33.9%*	*39.3%*	**-8.0%**	**-15.4%**	*6.8%*	*51.4%*	**-5.7%**

*If used as representative of actual average insurance premium prices increases 2001-2005.

Sources: ICBC Quick Facts July 10, 2006, p. 4, quoting Statistics Canada, Consumer Price Index – Catalogue no. 62-001-X1B (December 2005)/Actual price increase 2001-2005 from IBC Automobile Insurance Experience Exhibits.

Part 5 — Input costs: Why insurance "ingredients" matter

What explains the difference between premiums?

Automobile insurance coverage mandated by government is broadly similar across Canada, but there are exceptions and they do affect insurance premium costs. For example, most provinces have $200,000 minimum requirements for third-party liability, with the exception of Nova Scotia where the mandated minimum is $500,000.

There are other differences which affect premiums. On vehicles, Saskatchewan mandates a minimum collision deductible of $700, the highest among all provinces. This is not without effect. A higher deductible in Saskatchewan (which lessens claim payouts) and the choice of no-fault insurance for most consumers in that province (which holds down legal costs) reduces insurance costs and thus average premiums in that province. Such choices could exist in a private, competitive Saskatchewan market. Such regulatory choices and others are not the exclusive preserve of government-run systems. Such features can also be incorporated into any private, competitive market for automobile insurance.

Comparing apples to lemons

Average premiums mask a number of reasons why prices differ. It is important to avoid the correlation-causation error, i.e., the assumption that because the rooster crows and the sun rose, that the crowing rooster caused the sun to rise. Premiums differ for a number of reasons.

Reason One: Differences in product offerings, including legal bills and benefits

Whether in government or private insurance systems, one significant factor in premium differences is the "design" of the product offered, especially the degree to which a province allows consumers to sue. In addition, more comprehensive coverage (lower deductibles, rental cars in the event of an accident, long-distance towing and windshield coverage), higher compensation for injuries and more types of injuries covered and other forms of coverage will also increase the cost of insurance.

As the task force which reported to Atlantic Canada's premiers noted in 2003:

- The Task Force found the evidence overwhelmingly in support of the conclusion that the primary, long term and core solution to the problem of rising automobile insurance rates does not lie in the issue of who supplies the product but rather, in the characteristics of the product and its design features.
- The observation of the Task Force is that no matter what type of automobile insurance model is considered the core problem of increases in premiums is and has been consistently identified as the increase in bodily injury loss costs.[33]

The reference to bodily injury costs is also a reference to the cost of litigation in settling claims. (Some provinces such as Saskatchewan and Manitoba are "no-fault" in the case of most consumers and thus the government insurer will pay out less in legal fees.). As the Task Force noted, such costs are not insignificant and it explains why some provinces moved to no-fault or almost no-fault systems – and also why their insurance rates might be, depending on the province and in selected categories, lower than some private sector companies in some provinces. Where a price advantage exists, it is because of the design of the insurance policy – especially the no-fault component, not because government-run insurance systems are inherently less expensive:

- Moreover, the Task Force has noted that in the case of three of the four public automobile insurance models in place in Canada, a pure or nearly pure no fault benefit scheme has been implemented, whereas the remaining public insurance model continues to operate under an unrestricted tort compensation plan.[34]

Table 2: Right to sue by province

PROVINCE	Right to sue for loss in excess of no-fault benefits?	Right to sue for pain and suffering?
NF	**Yes**	**Yes. $2,500 deductible.**
NB	**Yes**	**Yes, but minor injuries capped at $2,500.**
NS	**Yes**	**Yes, but minor injuries capped at $2,500.**
PE	**Yes**	**Yes, but minor injuries capped at $2,500.**
PQ	**No**	**No.**
ON	**Yes**	**Yes. $30,000/$15,000*** deductible and injuries must be catastrophic.**
MB	**No**	**No.**
SK	**No/Yes***	**No /Yes.****
AB	**Yes**	**Yes, but minor injuries capped at $4,000. No limit on catastrophic injuries.**
BC	**Yes**	**Yes.**

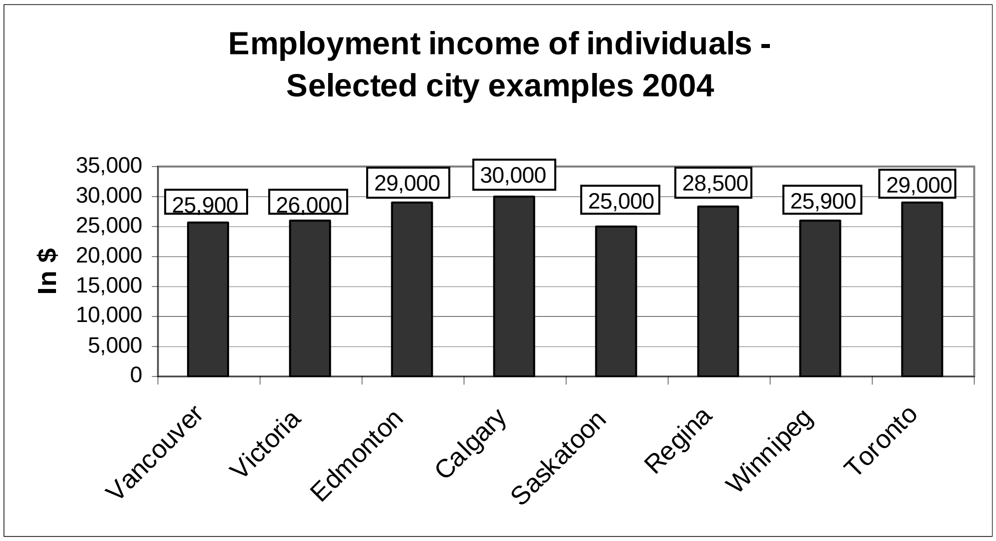
*No right under no-fault coverage. If tort option selected, yes. Less than 5,000 Saskatchewan policyholders have opted for tort option.
** If SK policyholder chooses tort option, yes. $5,000 deductible.
*** If claimed under Family Law Act. Note that the average settlement claim in Ontario is just over $152,000.

Reason Two: Differences in incomes and wealth

The average price of a premium in each province is also linked to the relative wealth in each province. Provinces with wealthier populations might, on average, buy more expensive cars, trucks and SUVs. If one province has a higher proportion of wealthy families or has a higher proportion of people who earn more every week, that factor may increase the cost of insurance if consumer preferences follow wealth distributions.

In this case, whether one uses median or average measurements of a population's wealth, the reality is that less wealthy provinces will on average have less expensive vehicles to insure. That disparity will be reflected in lower average claims and lower average insurance premiums. If one province has a proportionately greater number of people who have luxury cars, expensive SUVs, or newer trucks, that reality will skew the average insurance premium upward.

Chart 6: Employment income of individuals



Source: Income of Individuals, *The Daily*, Statistics Canada, May 23, 2006.

Reason Three: Accident rates per population

A significant cost factor in insurance premiums is the number of accidents per population. For example, young males are statistically more likely to be involved in accidents than other cohorts.

Communities with greater proportions of young male drivers will have higher average insurance premiums because claim payouts will be higher. For example, males aged 19-20 in Alberta are three-plus times as likely to be involved in an accident in comparison to all males of all ages in Alberta. In Ontario and Atlantic Canada, young drivers who are 19 and 20 years of age are roughly two-and-half times and four times (respectively) as likely to be involved in an accident as all males of all ages in their provinces.

Age differences are thus still relevant in insurance rates despite the attempts of governments to disqualify it as a risk category in calculating insurance rates.

Table 3: Number of collision claims per 100 vehicles insured

Alberta- Male 2004		Ontario Male 2004		Atlantic Male 2004	
Age Range	Claim Frequency	Age Range	Claim Frequency	Age Range	Claim Frequency

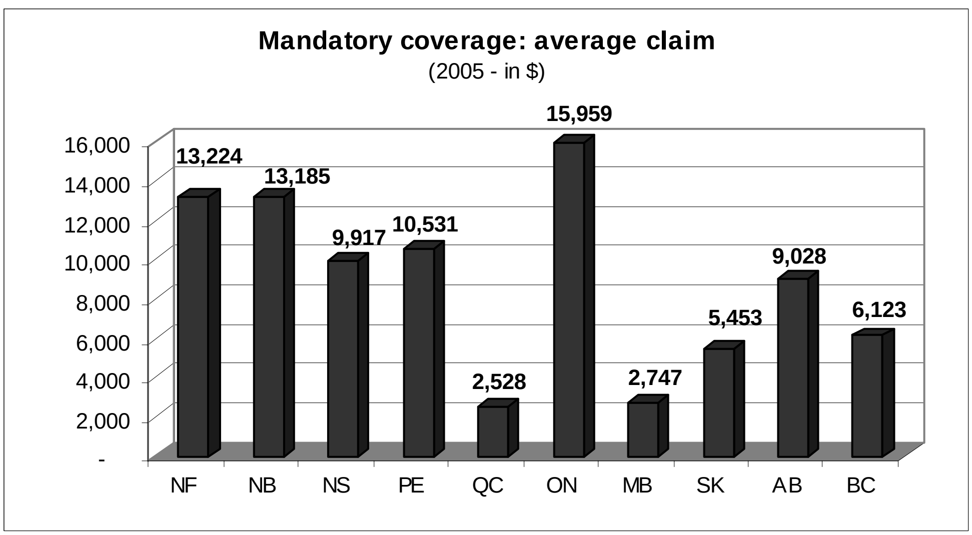
19-20	9.8	19-20	7.2	19-20	10.6
21-22	7.7	21-22	5.9	21-22	5.0
23-24	7.2	23-24	5.0	23-24	5
25-35	5.4	25-35	3.6	25-35	4.0
36-45	4.0	36-45	2.7	36-45	3.2
46-55	3.8	46-55	2.6	46-55	2.9
Total Male	**3.2**	Total Male	**3.1**	Total Male	**2.4**

Source: IBC Automobile Insurance Experience Exhibits. Private Passenger Automobiles, Excluding Farmers, Collision.

Reason Four: Differences in claim rates and cost of claim payouts

Claim costs vary greatly by province. For example, in 2005, the average mandatory claim cost was $9,028 in Alberta, $15,959 in Ontario and ranged from $9,917 to $13,224 in the Atlantic region to $5,453 in Saskatchewan, $2,747 in Manitoba, and $6,123 in B.C. Such costs (which include insurance payouts) affect the cost of insurance. With insurance, consumers do indeed get what they pay for. The “flipside” of lower average rates in Saskatchewan is lower payouts (included in total claims costs) on the claims side. This is a comparison of the average claim for *mandatory* coverage. It will give the reader a *rough and approximate* idea of the differences in claims from one province to the next on mandatory insurance.

Chart 7: Average cost of claim 2005 (mandatory coverage)*



Sources: IBC Automobile Insurance Experience Exhibits and respective provincial government automobile insurance company annual reports, 2005. In Manitoba, the average claim was calculated based on MPI 2005 annual report's data: number of claims filed (p.5) and claims cost and claims expenses (p.41). SGI’s average claim is received from SGI and reflects claims incurred during the year.

Note that comparisons should be made with this important caveat: Because Québec, Manitoba, Saskatchewan and B.C. do not report to GISA, private-sector data information is unavailable on

private claims in those province. Thus, private sector claims data from those provinces are unavailable for calculation of a *total* public and private average claim. To gain a comprehensive picture of *full* coverage claims, it would be helpful if the provincial governments in Québec, Manitoba, Saskatchewan, and British Columbia participated in statistics submission to GISA. Failing that, a comparison of average mandatory claims is the best way to garner an approximate idea of input costs. (Note that B.C. chose not to release data on mandatory claims payouts.) However, such information would not affect the chart here as it concerns mandatory claims only, and mandatory coverage is provided by the government insurers in B.C., Saskatchewan and Manitoba.

Reason Five: Government intervention

Governments have intervened to control the price of insurance. In Québec, insurance rates have increased only 30 per cent over three decades, far below the rate of inflation. The result is that relative to other provinces, Québec's insurance rates appear to be a bargain. However, Québec's taxpayers have subsidized such low rates through the tax system. The current estimate is that in the current year, the *Societe de l'assurance automobile du Québec* will take in only $750 million while it will pay out almost $1.2 billion, a $450 million deficit.[35] Taxpayers end up paying that difference, instead of consumers who drive and pay premiums according to their relative risk.

Part 4 — Actual average premiums in Canada 2000-2005

Actual prices and averages are available

Accurate averages for automobile insurance premiums in each province are not difficult to obtain or calculate. The Insurance Bureau of Canada (IBC) collects complete data on automobile insurance premiums and provides the basis for actual average price comparisons.[36]

The actual number of automobile insurance policies sold and the total value of those policies must by law be made publicly available by private-sector companies. That means actual averages for automobile insurance premiums can be gleaned from such data. Consumers and researchers need not rely on online quotes to make appropriate inter-provincial comparisons of automobile insurance premiums.

Actual price comparisons between provinces 2000-2005

In correction of the assertion that government-provided insurance is superior to private sector insurance, the table below is based on the total value of direct written premiums (government premiums plus private where applicable, private only where not) divided by the number of written premiums. The averages in Table 4 are thus based on what consumers actually paid for insurance.

The actual average prices in 2005 show a mixed result. Ontario, with private sector insurance, has the most expensive automobile premiums on average, but only since 2002. British Columbia, with mainly government-provided insurance, possessed the highest average premium in 2000 and 2001, second-highest in 2002, the third-highest in 2003, and the second-highest in 2004 and 2005.

As noted in Table 4, some private sector provinces have less expensive average insurance prices compared with other provinces where government is the main insurer. In 2005, Alberta's average premium was less than B.C.'s average premium; Nova Scotia and Prince Edward Island were less expensive than Manitoba. Some government insurance companies do charge less on average than the premium offered in provinces where insurance is provided by private companies. Saskatchewan has a lower average premium than does Ontario.

Table 4: Average written premiums for private passenger automobiles, all-coverage (all types of risk combined) 2000- 2005 [37]

Year	NF	NB	NS	PE	QC	ON	MB	SK	AB	BC
2000	727	761	631	616	643	878	707	651	819	961
2001	788	846	718	676	670	953	764	681	879	981
2002	926	1,038	887	777	692	1,119	808	708	1,018	1,073
2003	1,037	1,121	928	868	710	1,355	837	715	1,141	1,139
2004	971	1,103	897	816	721	1,385	897	756	1,076	1,160
2005	934	999	842	811	716	1,319	920	738	1,022	1,153

Sources: IBC Automobile Insurance Experience Exhibits and respective provincial government automobile insurance companies based on paid premiums. The above averages result from (where applicable) the combination of government and private premiums.

Part 5 — Recommendations

Recommendations for the Media:

- When analyzing contrasting claims about automobile insurance from advocacy groups or think tanks, the following information should be requested:
    - Are all the comparisons "apples to apples"? That is, do the averages result from actual insurance premiums paid in all provinces—or, are the comparisons a combination of averages based on actual paid premiums in some provinces while other averages from other provinces result from Internet-derived averages (and thus not actual paid premiums)?
    - How many supporters does the organization producing insurance comparisons actually represent, that is, how many individuals actually "write a cheque" to the organization(s)? For example, in the case of the Consumers' Association of Canada, an Access to Information request

released by Industry Canada on June 22, 2006 included a 2004/05 request from the CAC for government funding. In that request, the CAC president noted that “CAC has received $27,762 in funds donated by 272 individual donors.”[38]

- o How much taxpayer support has the organization received and from which governments?
- o How much business or union money has the organization received?

- It should be recalled that money received from government, unions or other parties can present a real or perceived conflict of interest for organizations producing insurance comparisons as they may deliberately or inadvertently bias their methodology, and therefore outcomes, to be more favorable towards their funding sources or clients. There is a common perception that only big business funding can be corrupting and promote self-interested results while funding from any other source – government, unions, special interest groups, etc., cannot be considered a conflict. The perception is too narrow in its focus. Funding may or may not influence conclusions in a report but if conclusions are not supported by the empirical data, the source of funding may be a clue as to why. Thus, the proper approach to take to competing reports is to analyze the data and statistics and ask whether the claims match up to the data presented or if it has been skewed in some way. (Two plus two equals four regardless of the funding source.)

- Reporters, editors and columnists should keep in mind that some organizations may refuse to give details of individual donors and donations. Depending on the jurisdiction, such information may or may not be protected by privacy laws. Even without such laws, organization may well be proper in refusing to give out information that would reveal the identities of donors. A small business owner which does business with government may not care to reveal she has given to an organization which exposes government waste lest future contracts dry up.

  However, there is no law in Canada that prevents an organization from providing a breakdown of its support base by category, i.e., what percentage of its budget results from businesses, unions, individuals, or governments. Those in the media should pose just such queries.

Recommendations for Governments and Policymakers:

- Taxpayer funding for advocacy groups, think tanks and others involved in public policy recommendations, whether for business, consumer or other interests, should be discontinued. Between 1989 and 1996, various Consumers’ Association of Canada offices across Canada received over $5.5 million from Industry Canada.[39] Between 2000 and 2003, the CAC Ottawa office received almost $700,000 from Industry Canada. In 2004, the CAC received at least

$80,000 for its (then upcoming 2005) study on automobile insurance rates.[40] In 2005, two CAC offices received another $63,960 in government funds.[41]

When governments fund advocacy, they are no longer neutral recipients of lobbying efforts but instead placed in a conflict of interest. Government grants have the effect of involving government and departments in one side of a dispute when the optimal role for government is to remain impartial to receive the feedback and later decide on policy based on such input. In the case of the CAC, flawed conclusions based on irrelevant internet data were inadvertently subsidized by taxpayers.

- Governments should end taxes that apply only to insurance products. Such taxes are hidden and represent a "top-up" on existing provincial and federal takings from consumers who ultimately pay the extra tax bill. In 2005, insurance-only taxes on automobile insurance (i.e., apart from taxes that apply to all business) amounted to an estimated $1.124 billion across Canada.[42]

- Consumers should be offered a choice between no-fault or tort insurance. Manitoba restricts consumers to a no-fault version only, which prevents policyholders from obtaining coverage that may be more beneficial to them in the event of an accident. A choice would allow consumers to weigh the relative value of lower insurance premiums for the foregone option to sue versus higher premium payments, but an option to sue if injured.

- Full competition should be allowed in provinces where it does not now exist. The claim that insurance is lower in selected provinces where government requires most of all insurance to be purchased from a government provider, is not accurate in the case of Manitoba and British Columbia. In the case of Saskatchewan, the average premium is lower but that is not unexpected given lower claim payouts, among other factors. As the SGI/Saskatchewan–Canadian Direct/Alberta comparison provided in this study shows, even the use of categories created by SGI shows such consumers could purchase their insurance cheaper in Alberta in 17 out of 34 examples.

Thus, there is no advantage to monopoly-provided insurance. Any of the government restrictions in place – the ban on using age and gender criteria for the calculation of insurance premiums, for example – could remain in place in a private competitive system, and in fact exists in most provinces where automobile insurance policies are subject to competition. Whether such restrictions are smart public policy – they limit the very advantage of insurance calculations (calculations based on risk categories) – is another question.

Recommendations for Consumers:

- Consumers in search of a competitively-priced, comprehensive insurance policy should:
  - Demand that policymakers and elected officials enact reforms based on a competition model.
  - Demand that reforms to insurance reward good drivers and penalize careless, risky and dangerous ones. This does not always occur. In 2004, Alberta's reforms to insurance delivered large discounts to high-risk drivers while many good drivers realized only minor reductions in their premiums.[43] Insurance is about risk: insurance policies must reflect risk in order to send signals to drivers about their potentially dangerous behaviour and the relative risk of their age and gender cohort.
  - Demand (in private sector provinces) more from insurance agents and ensure agents search for both the type of coverage that is most appropriate for that consumer and that the quote given is the most economical for that coverage.

Footnotes and Sources

[1] For reasons of space, I do not detail the media treatment of insurance studies in this report. Examples of media errors can be found in my recent report *Myths and Facts about Automobile Insurance* for the Insurance Bureau of Canada or in Chapter 11 of my 2006 book, *A Nation of Serfs?*

[2] Insurance Bureau of Canada, author interview, September 28, 2006.

[3] http://www.mpi.mb.ca/english/newsroom/articles/2006/nr_Oct03_06.html

[4] Downloaded from Media Kit section of website, October 23, 2006, available at http://www.sgi.sk.ca/sgi_pub/annual_reports/2005/downloads/comparison.html

[5] Vaughn Palmer, quoted in "Once-endangered ICBC is doing so well it can afford a little humour," *Vancouver Sun*, July 25, 2006.

[6] In Québec, bodily injury insurance must be obtained through the government supplier. Other automobile insurance can be obtained privately.

[7] Canadian Direct was chosen for this comparison as it provides optional insurance in British Columbia and full automobile insurance coverage in Alberta. In B.C., basic insurance is reserved for the government insurer, the Insurance Corporation of British Columbia.

[8] Alberta also restricts the degree to which age can be used as a factor in calculating insurance rates, but not to the same degree as does Saskatchewan.

[9] Consumers Association of Canada, Auto Insurance Rate Comparison study, released 27 August,2003.

[10] Based on total paid premiums divided by the total number of vehicle policies.

[11] Author interview with Theresa Courneyea, December 2, 2003. Excerpts of the interview were printed in "Insurance Fraud," by Mark Milke, *National Post*, December 4, 2003.

[12] Ibid.

[13] Ibid.

[14] Another problem with the CAC's national study in 2003 was that half their Ontario premiums assumed a past claim or conviction. That also boosted the "average premium." As the Insurance Bureau of Canada reports, in the real-world driving population, only 11 percent had a past claim or conviction.
[15] Theresa Courneyea, "Re: Auto relief, too little, too late?" *Globe and Mail*, October 31, 2003.
[16] *Manitoba Public Insurance Annual Report 2005*.
[17] The Fraser Institute study ranked Manitoba's insurance system as last out of 61 jurisdictions in Canada, the United States, and United Kingdom in terms of market quality. The Fraser Institute study used measurements gleaned from fifteen variables to arrive at its rankings: affordability, comparative cost, barriers to competition, compulsory accident benefits, compulsory insurance coverage for uninsured or underinsured motorists, compulsory liability insurance, legal regulation, minimum coverage for accident benefits, minimum coverage for bodily injury liability, minimum coverage for property damage liability, pricing sustainability/profitability, rate filing regulation, risk pricing restrictions, solvency regulation and special tax burdens as applied to just the insurance industry.
[18]"MPI calls lowest ranking 'voodoo'," by Martin Cash, *Winnipeg Free Press*, October 12, 2006.
[19] The $920 figure is supplied by the Insurance Bureau of Canada. It is based on full coverage, i.e., mandatory plus optional insurance coverage. The total dollar value of such coverage is then divided by the total number of written premiums to arrive at the average. MPI's own average earned premiums are quoted at $906 in fiscal year 2004/05, $957 for fiscal year 2005/06, and $979 for fiscal 2006/07 estimated as of October 27, 2006. Note that comparisons from private sector provinces represent full coverage averages, thus, for an "apples to apples" price comparison based upon real-world premium prices paid, I have used the full coverage average for each province. To not include the private portion of insurance coverage in B.C., Saskatchewan, or Manitoba (or Québec—where injury coverage is provided for by and reserved to the government) would understate the actual average cost of insurance in those provinces.
[20] The author asked MPI to detail its criticism of the Fraser Institute study. Courtesy of MPI's John Douglas, the response was as follows:

> The report provides public insurance a negative rating because it does not have an objective of making a profit (Our objective is to provide insurance at cost and break even in the long-run—something an independent review by a PUB intervenor has acknowledged we have done within 98 per cent accuracy.) The report provides a negative rating because of the comprehensive benefits of the PIPP program that are seen as "limiting the freedom of consumers to choose lower coverage levels."
>
> The report provides a negative rating to Manitoba because it has a public regulator and that annual insurance rates are debated in a public setting and must be approved by the regulator before they are instituted (Manitoba's process results in MPI's insurance rate calculations and business assumptions to be examined by five different teams of external actuaries as well its own internal actuaries…this is more scrutiny of rates and rate setting than any private insurance company would receive).
>
> The report provides a negative rating to Manitoba because it provides universal access and does not discriminate on the basis of age and gender. The report provides a negative rating to Manitoba because its reserves are significantly below industry standards (The Fraser Institute would have MPI carry more than $500 million in reserves for its three lines of business).

In addition, MPI claimed that holding the line on rates, rebates to policyholders, private studies such as the Consumers' Association of Canada, and others, and Statistics Canada automobile insurance inflation estimates, were proof government automobile insurance was superior to the privates sector.

The flaws within the CAC studies and the Statistics Canada inflation data have already been noted in this study. It should also be noted, that if a government insurance company wishes to compare itself to a private insurance company on rates, part of a proper comparison is the requirement for reserves. If a private company is required to have reserves much higher than MPI, that makes insurance offered by that private company that much more expensive. Also, the "flipside" is that lower reserve requirements mean Manitoba policyholders and taxpayers have a greater exposure to sudden increases in claims.

As for actuarial reviews, no one has questioned the thoroughness of the number-crunching at MPI. However, that is irrelevant to the effect of competition on a product and on rates. As for age and gender, as explained in this report, disallowing age and gender as risk categories actually counters the point of insurance calculations: risk assessment. It also means that in Manitoba high risk and bad drivers are subsidized by low risk and good drivers.

[21] Cash, op cit.

[22] "National study touts Winnipeg auto insurance rates as best in Canada," MPI news release, September 10, 2003.

[23] "National consumers watchdog study finds Manitoba auto rates among the best in Canada," MPI news release, October 21, 2005.

[24] "Manitoba Public Insurance reports stable financial results," MPI new release, October 3, 2006, available at http://www.mpi.mb.ca/english/newsroom/articles/2006/nr_Oct03_06.html.

[25] *Earned Units and Premiums,* data provided by MPI to Mark Milke October 27, 2006.

[26] E-mail from MPI spokesperson Brian Smiley to Mark Milke, December 5, 2006.

[27]Vaughn Palmer, op. cit.

[28] "Lord steers around public auto insurance; Tories propose insurance watchdog, board to combat skyrocketing rates," by Daniel McHardie, *Moncton Times and Transcript*, June 26, 2004.

[29] ICBC Quick Facts, Insurance Corporation of British Columbia, July 10, 2006, p. 4, quoting Statistics Canada, Consumer Price Index – Catalogue no. 62-001-X1B (December 2005). Calculations by ICBC.

[30] "Auto Premium Inflation: How StatsCan Rocked the Bank of Canada," by Mark Mullins, *Fraser Alert*, the Fraser Institute, December, 2003.

[31] Author interview with Ron Morency, Statistics Canada, September 15, 2006.

[32] Ibid.

[33] *Report to the Atlantic Premiers*, Atlantic Canada Insurance Harmonization Task Force, September 30, 2003, p. 5.

[34] Ibid.

[35] "Make bikers pay: The carnage wreaked by motorcyclists costs Québec four times what they pay in insurance premiums. So let's hike their rates," by William Watson, *National Post*, May 24, 2006.

[36] IBC is the national trade association for non-government Property and Casualty insurers in Canada but it is also responsible for collecting and reporting automobile insurance statistics to the General Insurance Statistical Agency (GISA) which in turn must, by law, provide such data to the governments of Alberta, Ontario, Newfoundland & Labrador, Nova Scotia, New Brunswick, and Prince Edward Island, Yukon, the Northwest Territories and Nunavut – jurisdictions where automobile insurance is provided by the private sector. IBC is also the official statistical agency for commercial liability insurance in Ontario.

[37] Note that because consumers purchase public and private insurance in selected provinces (B.C., Saskatchewan, Manitoba, and Québec), average premiums in those provinces reflect that public/private average. Without combining the amount paid to public and private insurers, average premiums in those provinces would be artificially and incorrectly low. Note that in the case of British Columbia, the government insurance company (the Insurance Corporation of British Columbia) reports an official average premium of $1,059 for 2005. That figure excludes the optional coverage available and purchased by consumers. That $1,059 figure also excludes certain ICBC insurance coverage such as Driver Penalty Point Premiums (DPPP) and Specialty Coverage Premiums (SCP) (for high-end car stereos and other forms of coverage). When such premiums are included, the ICBC average is $1,076 though that still excludes private optional insurance. When private

optional insurance is included, the BC figure is $1,153 as noted above. To exclude ICBC's DPPP and SCP categories then would result in a figure of $1,136.

[38] The number of donors comes from an Access to Information request made by the Insurance Bureau of Canada for information relating to grants give to the Consumers Association of Canada (CAC). In information released by Industry Canada on June 22, 2006, a 2004-05 proposal from the CAC for government funding noted that "CAC has received $27,762 in funds donated by 272 individual donors." It also noted that the CAC had 2,135 members though according to its website, to be a member, one had to donate at least $25. It is unclear what the CAC's actual definition of membership is in it s submission to government, but it is clear that the donor base to the CAC was small; the organization represents very few consumers, at least consumers willing to donate. Access to Information request A-2005-00288, p. 000206.

[39] In an October 31 2005 news release, the CAC criticized the insurance industry for seeking a subsidy from government. This author is opposed to such subsidies but is also opposed to those given to the CAC which, as noted above, have been extensive.

[40] **"**Auto insurance '30% more' in Alberta,." by Michael Kane, *Vancouver Sun*, July 8, 2005.

[41] 1989-2003 estimates from Canadian Taxpayers Federation, Access to Information results from Industry Canada 2001. Other: Industry Canada 2004-05 project contributions are available at http://strategis.ic.gc.ca/epic/internet/inoca-bc.nsf/en/ca02068e.html and http://strategis.ic.gc.ca/epic/internet/inoca-bc.nsf/en/ca02123e.html

[42] Author interview with the Insurance Bureau of Canada, September 28, 2006.

[43] **"**Poor driver's rate loophole threatened: Decision on freeze weeks away," by Sarah McGinnis, *The Calgary Herald*, June 21, 2006.