



**SUBMISSION  
to the  
New Brunswick Government  
Select Committee on Public Automobile Insurance  
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The Atlantic Institute for Market Studies, AIMS, is an independent public policy think tank that conducts research into current policy issues.

Drivers are rightly concerned by the rising cost of auto insurance. Big premium increases like those of the last year or two hurt people's pocketbooks and divert their money from things that are more important to them. That damages their standard of living. So, car insurance today is an issue fraught with emotion. But emotion is never the best basis on which to settle complex public policy issues, especially when the costs of an ill-considered and hasty decision are likely to be with us for a very long time to come.

Your committee is not addressing the crucial question. Your committee **has not** been asked to comment upon the benefit to New Brunswickers of adopting a public automobile insurance plan. Rather you have been asked to comment upon which form of public plan might be most appropriate and also to examine whether there are benefits to developing a common regional interprovincial approach to public automobile insurance—from a New Brunswick perspective.

Based on our analysis, we would advise that any public automobile insurance scheme adopted in the province **should not** cross-subsidize drivers with differing risk ratings, **should not** subsidize the premium structure from general revenues, and **should not** attempt to reduce premiums by increasing deductibles or by capping benefits. We would advise that any public automobile insurance scheme adopted in the province **should** provide for payments in lieu of all taxes, **should** ensure that any public facilities used by the insurer are properly accounted for, **should** fund the same medical and rehabilitation costs as private companies and **should** be required to maintain prudential reserves in the same manner that private companies are required to.

We believe that if these recommendations are followed, any apparent advantages a public plan might seem to offer will be revealed to be illusionary. New Brunswickers should be under no misconception that bureaucrats are able to more efficiently deliver the same range of insurance services currently provided by private insurers operating in the competitive marketplace.

The assessments you must necessarily make in order to satisfy your mandate should leave you without any doubt as to whether a public plan would serve the needs of New Brunswickers better than existing private plans and the decision whether or not to retain private sector participation must logically be driven by your analysis and conclusions.

You have been asked to make recommendations respecting elements of any public plan—among them:

- the type of system – tort, full no-fault or partial no-fault, choice or hybrid;
- the types of coverages and benefits that should be offered;
- a proper risk rating system for establishing premiums;

These are key issues that, of course, have consequential impact upon the cost of any insurance program—either private or public. They are, in fact, significant determinants of premiums charged and emphasize why it is not possible to engage in simplistic premium comparisons across different jurisdictions.

That conclusion was drawn in 1988 by The Honourable Mr. Justice Coulter A. Osborne when asked to report on Motor Vehicle Accident Compensation In Ontario—a study with which you are undoubtedly well acquainted. The Justice noted unequivocally that: “...simplistic premium comparisons that have become popular are of no assistance whatsoever in assessing the comparative cost efficiency of public and private systems.”

Your commission might wish to review very closely the basis on which evidence presented to you fairly represents the true cost of various plans. In many instances you may conclude that you are being asked to compare apples and oranges. As you note in your consultation document, many factors determine the appropriate premium level—including the specific coverage and deductible amounts individuals choose. However, whether the beneficiary is able to recoup all damages as determined through legal action or whether recovery is limited by cap or by process—will affect the true value to the insured and the real cost to the insurer.

One of the ways that public plans make their insurance appear cheap compared to elsewhere is to force drivers to shoulder more insurance risk, while leaving premiums unchanged. This is done by simply raising the deductible you pay when you make a claim. Most people in the Maritimes have quite low deductibles, but in the provinces where car insurance has been nationalized, the minimum deductibles are very high: \$500 in Manitoba and \$700 in Saskatchewan for both collision and comprehensive coverage. That's far more risk than Maritimers have been willing to bear when given the choice.

Justice Osborne was careful to recognize that there are a range of other factors that determine premium levels—including major territorial differences that result in different experience outcomes. These realities are embodied in the notion of the “pure premium”—the total claims costs, i.e. premium necessary to just offset the actual losses and adjustment costs. They typically demonstrate wide variability—a recognition that must be embodied in any comparison of plan effectiveness and which should guide you in recommending on appropriate coverages and benefits that should be offered.

Your mandate also requires you to recommend a proper risk rating system for establishing premiums. You note that a driver's personal characteristics such as: sex; age; marital status; residence; vehicle use; additional drivers; driving record and accident claim history of all drivers; as well as the value of your vehicle, are used to determine experience and expected risk. Left to their actuarial principles private insurers would divide risk categories as finely as possible—so as to allow them to be competitive in attracting low-risk clients and accept higher-risk drivers only if adequately compensated for the additional risk.

Public plans in Canada have priced premiums so as to produce extensive cross-subsidization of risk classes. This has important consequences for low-risk drivers and for society as a whole. Even in the event that average premiums are lower under a public system, a high level of cross-subsidization may result in average premiums for drivers with a good safety record being increased while those with a poor record may be diminished. In the latter case, some evidence suggests that this contributes to overall community safety standards being diminished. Both these factors should be very seriously considered.

Justice Osborne was categorical: “Cross-substitution of high risk drivers by low risk drivers is a characteristic of the public plans that is neither fair nor equitable.”

Some, however, have justified the practice on the basis that, in a modern society, affordable access to a personal vehicle is becoming essential. Such reasoning would seem to contradict the heightened concern to keep impaired drivers off the road. In fact, there is some evidence that cross-subsidization in public plans of drivers with poor records may result in more bad drivers being on the road—and more accidents. If affordable access is an issue, one can hardly imagine the same reasoning being applied to capping the price motor vehicle manufacturers be allowed to charge for their products!

Public plans enjoy considerable levels of subsidization—factors that need to be taken into account in evaluating any purported savings they offer over private plans, and factors that would have to be taken into account in recommending any particular form of public plan. Public plans do not pay corporate income taxes and most do not pay premium tax. To some that may appear to represent an advantage. If public plans do not pay taxes they should be able to offer lower premiums. But, clearly, the foregone revenues from private companies will increase the burden on other taxpayers.

Public plans, it is sometimes argued, do not reflect in their costs the true costs of occupying public buildings or of ancillary public services. Taxpayers should be aware of the total costs of any public plan—not just the part they pay through their premium.

Private plans must also maintain substantial financial reserves to meet potential liabilities—not normally a characteristic of public plans. Those reserves are essential to ensure that insurers will be able to meet claims even under extraordinary circumstances. Without such prudential reserves government plans are self-insuring and extraordinary claims would have to be met from general revenues. No public regulator of private insurers would countenance such an irresponsible arrangement.

Two of the many factors that determine the “pure premium” for either public or private insurer is the actual cost of effecting repairs to damaged vehicles and the cost of rehabilitating injured individuals. Justice Osborne concluded that repair costs covered by public plans were higher than those covered by private insurers. Private insurers pay certain medical and rehabilitation costs. Any public plan should be expected to cover precisely the same benefits and not leave them to be provided by the general health system.

The opening lines of your Consultation Paper reads: “The Government of New Brunswick is committed to making private passenger automobile insurance more affordable, fair, and accessible for New Brunswickers. In support of this commitment, the provincial government agreed to take a closer look at public automobile insurance.” That wording suggests a possible bias—in that it implies that it is not already affordable. Affordability should not be taken as meaning as low a price as possible—but that the appropriate service level be available at a competitive price. Simply cutting benefits will foster lower prices—to the detriment of New Brunswick consumers.

In a market economy nothing is to be gained by imposing heavy-handed regulation or outright nationalization on a competitive industry characterized by a multiplicity of national and international firms vying to acquire and maintain a client base. Justice Osborn’s conclusion that: “... there are no benefits to the taxpayer or consumer to converting to public auto insurance” should not be lightly ignored.