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## The Personal Cost and Affordability of Auto Insurance in Canada *2011 Edition*

by Neil Mohindra and M. Emrul Hasan

### Key Conclusions

- Auto insurance premium costs in provinces with government auto insurance monopolies tend to be higher than observed in private sector, competitive markets
- From 2007 to 2009, auto insurance has been most costly and least affordable in British Columbia, Ontario, Manitoba, and Saskatchewan—three of which are provinces with government-run auto insurance monopolies. Auto insurance premiums have been consistently most affordable in Alberta, Newfoundland & Labrador, Nova Scotia, Prince Edward Island, and New Brunswick, where auto insurance is delivered in a regulated, competitive, private-sector insurance market.
- In 2009, Ontario was the province with the least affordable auto insurance. Regulatory severity and insurance fraud have led to higher claim costs per passenger vehicle.
- Of the four provinces that each have a public auto insurer, Quebec has consistently ranked best on insurance costs, and in 2009 had the lowest average auto insurance premium of all the provinces. Two factors contribute to this performance: the limitation of the public monopoly to bodily injury claims coverage and less severe regulations than the other three provinces.

## Précis

This study compares the average cost and affordability of personal passenger automobile insurance premiums in each of the 10 Canadian provinces from 2007 to 2009. Four provinces have government-owned monopolies that sell insurance coverage to drivers. The other six rely on a regulated competitive private sector to provide auto insurance.

Comparisons across all 10 provinces in the years from 2007 to 2009 show that the average price for auto insurance premiums was highest in British Columbia, Ontario, Manitoba, and Saskatchewan. Of those provinces, three have government-run auto insurance monopolies. The least expensive average premium in 2008 was in Prince Edward Island where auto insurance is delivered in a regulated, competitive, private-sector insurance market. The least expensive premium in 2007 and 2009 was in Quebec, which has a government-run auto insurance monopoly but only for bodily injury.

The study examines why Ontario has relatively high average premiums and why Quebec's average premiums are relatively low. Ontario has relatively severe regulations, and is experiencing a significant problem with insurance fraud. Quebec has less onerous rate regulations and less generous prescribed benefits.

The findings are generally consistent with previous editions of this study (Skinner, 2007; Skinner, 2008) and other previous research comparing auto insurance in international jurisdictions including all 10 Canadian provinces (Skinner, 2006; Rovere and Skinner, 2010). All studies show that auto insurance does not tend to be less costly in jurisdictions that have government auto insurance monopolies, despite claims to the contrary.

## Contents

Précis	❖	ii
Introduction	❖	5
What makes auto insurance costly in Ontario?	❖	10
Quebec's performance	❖	15
Public auto insurance: Costs to taxpayers	❖	17
Conclusion	❖	19
Policy recommendations	❖	20
About the data	❖	21
Appendix tables	❖	25
Key definitions	❖	35
References	❖	39
Acknowledgment and disclaimer	❖	45
About the authors	❖	46
Publishing information	❖	47
About the Fraser Institute	❖	49
Supporting the Fraser Institute	❖	49
Editorial Advisory Board	❖	51



# Introduction

In Canada, both private and public insurers supply automobile insurance. Private insurers provide all the automobile insurance sold in six Canadian provinces: Alberta (AB), Ontario (ON), New Brunswick (NB), Nova Scotia (NS), Prince Edward Island (PE), and Newfoundland & Labrador (NL). British Columbia (BC), Saskatchewan (SK), and Manitoba (MB) all have government-owned automobile insurers that have a monopoly over the provision of basic auto insurance and compete for the sale of optional insurance coverage with private companies.<sup>1</sup> Quebec (QC) also has a public auto insurer, the Société de l'assurance automobile du Québec (SAAQ), which runs a monopoly on basic (personal injury<sup>2</sup>) auto insurance, but does not compete with the private sector for the sale of optional (property damage) auto insurance coverage.

Proponents of government-owned insurance have long argued that public auto insurance can offer drivers cheaper premiums. This study aims to calculate the true average cost and affordability of auto insurance premiums. Case-by-case comparisons such as those published by groups like the Consumers' Association of Canada (CAC, 2003) and some government auto insurers are not valid reflections of actual averages, though they are often perceived as such by the public and media.

This study also examines why premiums in Ontario are relatively high, why premiums in Quebec are relatively low, and what costs taxpayers bear for government-run auto insurers.

Earlier versions of this study have explained that government-run auto insurers do not publish audited data in a format necessary to allow for a calculation of average premiums in their provinces that can be easily and directly compared to other provinces (Skinner, 2008). As with previous versions of this study, this has necessitated applying reasonable assumptions to the data published by auto insurance authorities where a government insurance monopoly exists. Both private and public insurers have followed Canadian Generally Accepted Accounting Principles (GAAP) in preparing their financial statements. However, the standards under Canadian GAAP are different for private insurers and government entities (PSAB, 2011). The problem will likely be addressed later in 2011 when both the government-run and private insurers in Canada adopt International Financial Reporting Standards (IFRS).

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- 1 BC, SK, and MB deliver auto insurance through Crown Corporations. They are the Insurance Corporation of British Columbia (ICBC), Saskatchewan Auto Fund, and Manitoba Public Insurance (MPI).
  - 2 Technical terms are defined in a list at the end of this paper.

## Findings on cost and affordability

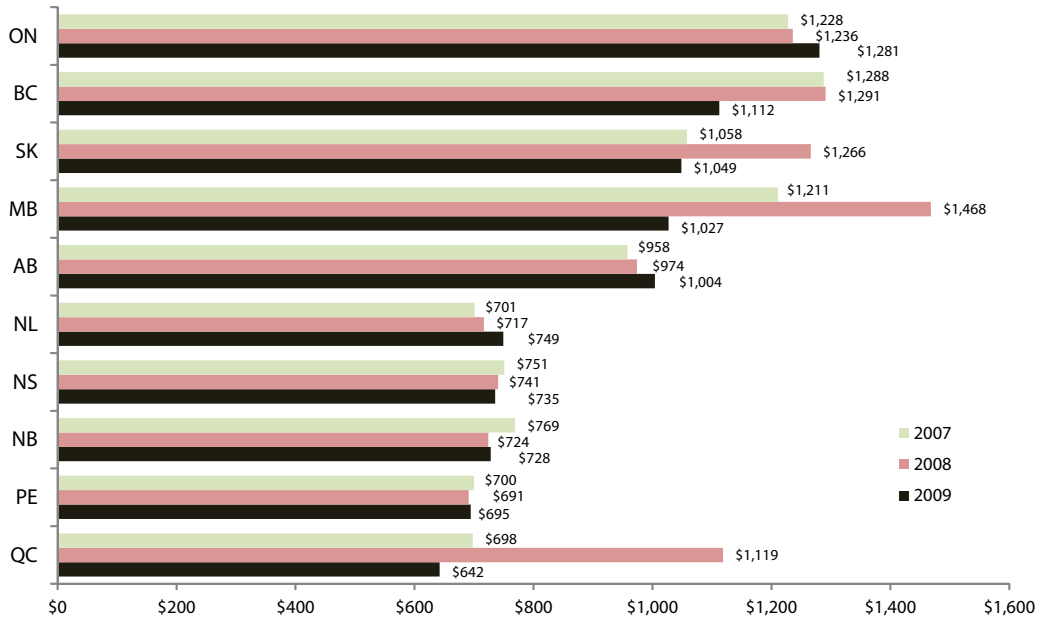
Table 1 shows the estimated average auto insurance premium in each province for 2009, the latest year for which we have data. Figures 1 and 2 show data for 2007 through 2009. The complete methodology is described in the sections that follow. Nominal comparisons of auto insurance premiums are an effective way to measure their relative cost. These data are displayed beside calculations of the cost of auto insurance as a percentage of provincial gross domestic product (GDP) per person, personal income (PI) per person, and personal disposable income (PDI) per person—i.e., personal income remaining after taxes—in each province. Cost as a percentage of local GDP controls for differences in general price levels between jurisdictions that could skew fair comparisons of auto insurance costs. Comparing costs as a percentage of PI and PDI demonstrates the relative affordability of the cost of auto insurance across jurisdictions.

**Table 1: Estimated average net auto insurance premiums in 2009, by province (relative cost and affordability)**

Provinces	Average net auto insurance premiums (\$)	Average premium as a percentage of GDP per person	Average premium as a percentage of Personal Income per person	Average premium as a percentage of Personal Disposable Income per person
QC	642	1.9%	1.9%	2.5%
PE	695	2.4%	2.3%	2.9%
NB	728	2.3%	2.2%	2.8%
NS	736	2.4%	2.3%	2.8%
NL	749	2.1%	2.3%	2.9%
AB	1,004	2.1%	2.2%	2.7%
MB	1,027	3.0%	3.1%	3.8%
SK	1,049	2.7%	2.9%	3.6%
BC	1,113	3.1%	3.2%	4.0%
ON	1,281	3.3%	3.5%	4.5%

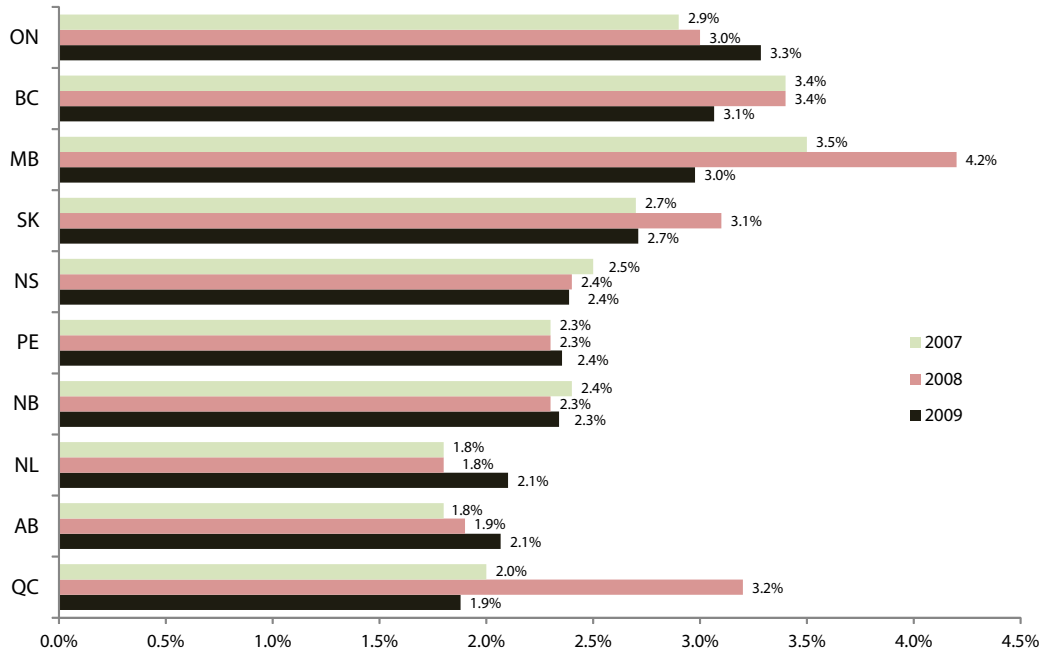
Sources: GISA (2007, 2011); IBC (2009); ICBC (2008, 2009, 2010); MPI (2008, 2009, 2010); MSA Research Inc. (2011); SAAQ (2008, 2009, 2010, 2011); SGI (2008, 2009, 2010); Statistics Canada (2011a, 2011b); authors' calculations.

**Figure 1: Average Net Earned Premium from 2007 to 2009**



Source: Authors' calculation (see the appendix for a detailed calculation).

**Figure 2: Average Net Earned Premium as a percentage of GDP per person**



Source: Authors' calculation (see the appendix for a detailed calculation).

## **The relative cost of auto insurance**

- ❖ In a nominal comparison of average auto insurance premiums in Canada in 2009, three of the four most expensive were in British Columbia, Saskatchewan, and Manitoba, which have government-run auto insurance. The real comparison (average net earned premium as a percent of GDP) provides the same finding.
- ❖ In both nominal and real comparisons, five of the six provinces with the least expensive premiums from 2007 to 2009 had regulated competitive private sector markets for auto insurance: Prince Edward Island, New Brunswick, Nova Scotia, Newfoundland & Labrador, and Alberta.
- ❖ Ontario had the highest average premium in 2009.
- ❖ In Quebec, average auto insurance premiums in 2007 and 2009 were the least expensive of any province in both nominal and real comparisons.
- ❖ Manitoba had the most expensive auto insurance in 2008. The cost of insurance in the province declined slightly in 2009.<sup>3</sup>

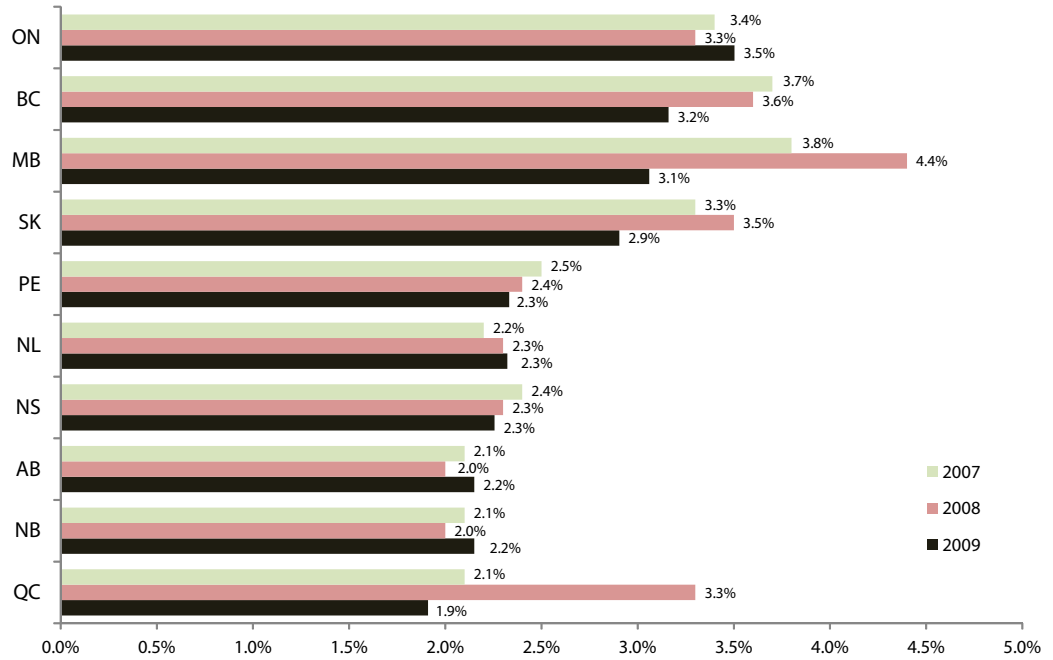
## **The relative affordability of auto insurance**

- ❖ Average net earned premiums as a percentage of personal income and personal disposable income signal that auto insurance premiums were most affordable in Alberta, Newfoundland & Labrador, Nova Scotia, Prince Edward Island, and New Brunswick from 2007 to 2009.
- ❖ According to the same measures, average auto insurance was least affordable in British Columbia, Manitoba, Ontario, and Saskatchewan.
- ❖ In 2008, Quebec had one of the least affordable auto insurance premiums among Canadian provinces in a comparison of average net earned premium as a percentage of personal income and personal disposable income, but its performance rebounded in 2009.
- ❖ Figures 3 and 4 reveal that for 2007 and 2008 reveal that automobile insurance is consistently less affordable in British Columbia and Manitoba than in the other provinces.

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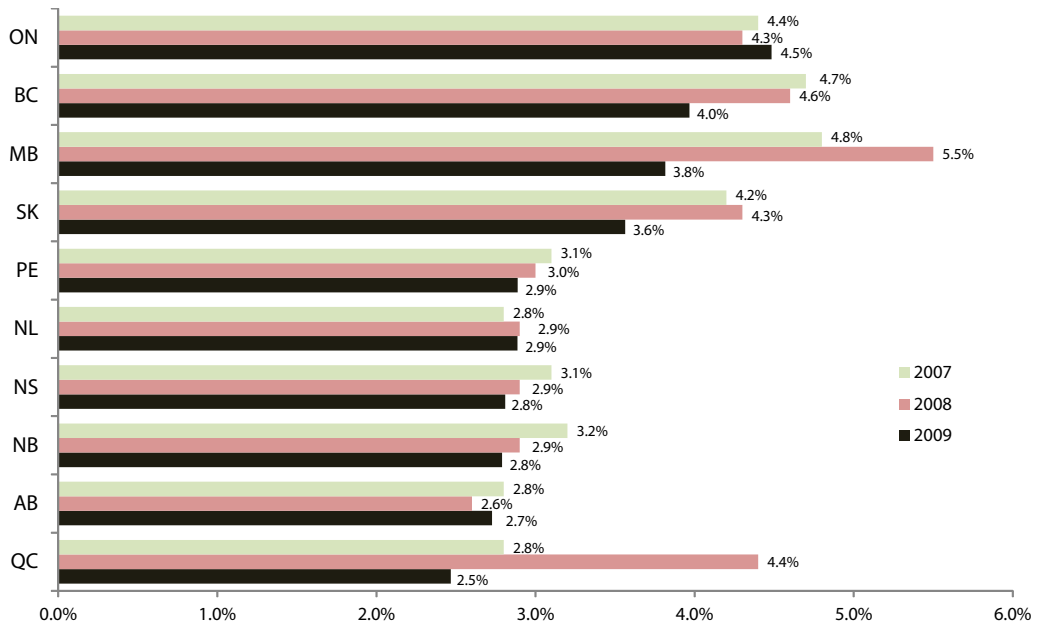
3 Manitoba's government insurer attributed lower prices to an improvement in its unrealized gains (losses), which helped it to cover the operating deficits that it has been accruing for years (MPI, 2009, 2010).

**Figure 3: Average Net Earned Premium as a percentage of PI per person**



Source: Authors' calculation (see the appendix for a detailed calculation).

**Figure 4: Average Net Earned Premium as a percentage of PDI per person**



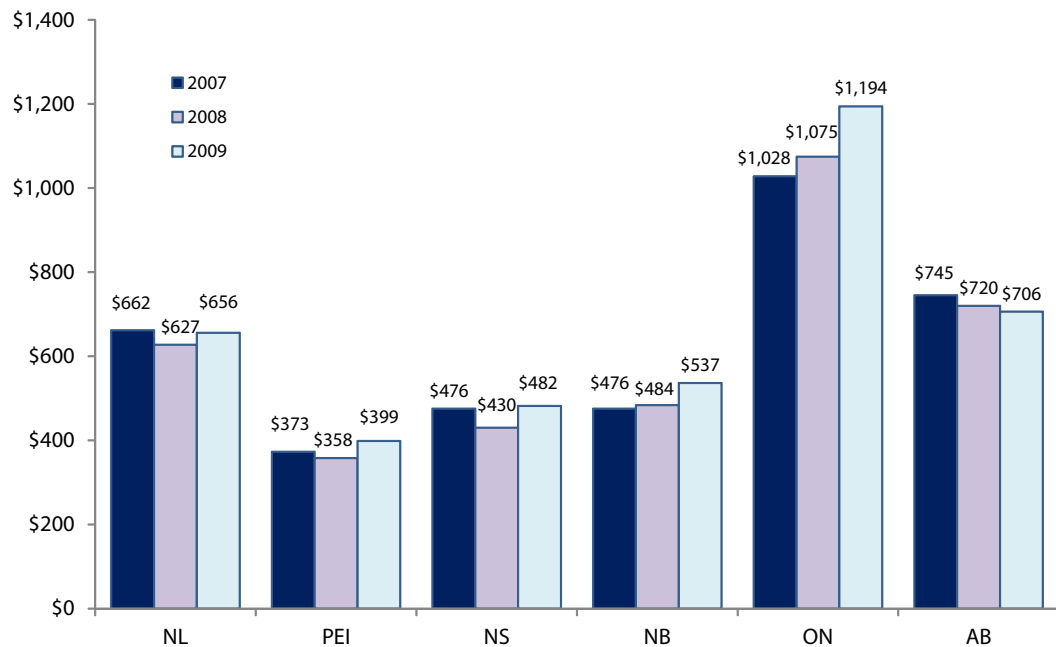
Source: Authors' calculation (see the appendix for a detailed calculation).

## What makes auto insurance costly in Ontario?

Previous editions of this study have shown that of the markets with private insurance, Ontario is the most expensive. Again in 2009, Ontario had the most costly and least affordable auto insurance. The explanation for the high cost is higher claim costs per passenger vehicle, which is itself a result of a number of factors including regulatory severity and insurance fraud.

Between 2004 and 2009, average accident benefits claims costs in Ontario increased by 102 percent (Mack, 2010). In fact, the claims cost per private passenger vehicle (PPV) in Ontario is significantly higher than in other provinces with private auto insurance (see figure 5).

**Figure 5: Claim cost per private passenger vehicle (PPV)**



Sources: GISA (2007, 2011); authors' calculation.

## Regulatory severity in Ontario

The Fraser Institute's Auto Insurance Market Quality Index studies have shown that private insurers in Ontario face severe regulations in rate setting restrictions, mandatory minimum liability and accident benefits laws, minimum capital requirement laws, etc. Rovere and Skinner (2010) found that Ontario was ranked the worst amongst provinces with private auto insurance markets in the index of regulatory severity.<sup>4</sup> That 2010 study measured the regulatory severity in the auto insurance industry in 60 jurisdictions in the United States and Canada and concluded that in terms of its regulatory regime, Ontario, along with three provinces with public monopoly auto insurance, has been performing poorly. In 2009, these same four provinces ranked as most expensive for cost and affordability.

The link between regulatory severity and premiums has been found in a number of studies. The reduction of rates for high-risk drivers by rate regulation encourages riskier driving behavior that increases the frequency and severity of vehicle collisions. This tends to compress the premiums collected against higher claims paid by insurers. Ultimately it requires all other premiums to be higher than actuarially necessary to cover losses. Insurance premiums in jurisdictions with stricter rate regulation are often higher than in jurisdictions with less rate regulation (Tennyson, 1997; Mullins, 2004).

Rate regulation contributes to regulatory severity and has not been found to result in lower premium prices over time (Cummins et al., 2001; Harrington, 2001). Regan *et al.* (2009) also found that efforts to make insurance more affordable by regulating rates can ultimately lead to higher insurance costs. This is because rate regulation that suppresses insurance prices until they drop below competitive levels and provides significant premium subsidies for some consumers can create a variety of incentive distortions in the market that increase the costs to insurers, which are ultimately passed to consumers. Leadbetter et al. (2004) looked into the effects of rate regulation in Ontario. They analyzed data covering six provinces with private auto insurance over the 18-year period from 1984 to 2001. They found that rate regulation does make auto insurance premiums more volatile for consumers in Ontario compared to the other five provinces, and that premium volatility increased following the introduction of rate regulation in Ontario in 1989.

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4 This *regulatory severity index* is compiled after taking into account parameters such as regulatory prohibitions or restrictions on competition between insurers, rate filing restrictions, compulsory liability insurance laws, compulsory accident benefits laws, compulsory uninsured motorist coverage laws, minimum property damage liability coverage regulations, minimum bodily injury liability coverage regulations, minimum accident benefits coverage regulations and regulatory restrictions on legal rights to assign fault in a motor vehicle collision. To get more insight on the ranking, please see Rovere and Skinner, 2010.

## Insurance fraud

Insurance fraud accounts for approximately 15 percent of costs incurred by private insurers in Ontario (Ontario, Ministry of Finance, 2003). The Canadian Coalition Against Insurance Fraud (CCAIF) commissioned a study in 2003 to measure the pervasiveness of personal injury fraud and concluded that 33.6 percent of all accident benefits claims and 25.6 percent of all bodily injury claims have some element of fraud (Hynes et al., 2003).

These fraudulent insurance claims occur following “staged collisions” where injured individuals apply for insurance benefits. These are commonly organized through a chain of service providers. Criminals collaborate with different service providers such as tow truck drivers, auto body shop owners, medical and rehabilitation

### How a staged collision works

**Staged collision** is a premeditated personal injury fraud. In these cases, criminals attempt to fake a vehicle accident and claim debilitating injuries in order to get income replacement and other financial benefits from insurance companies. Below are some of the types of such incidents:

*Drive down:* In this type of collision, the criminal waves a hand or gives some sign to an innocent driver to proceed with a merge or lane change. As the victim changes lanes, the criminal drives into his or her car and then denies that he or she gave any such sign.

*Swoop and squat:* Here a “swoop car,” driven by the criminal, suddenly speeds up and cuts off the “squat car,” driven by an innocent person or an ally of the criminal. The squat car can’t stop in time and collides with the swoop car. The purpose is to create a relatively minor “fender bender,” although sometimes innocent people are killed on highways in such incidents. After the collision, the criminals and their allies claim some sort of injury and make an auto insurance claim.

*Sideswipe:* In busy intersections with dual left or right turn lanes, the criminal intentionally runs into a target vehicle even if the victim in the inner lane drifts a little into the outer lane.

*Seat sales:* Here the criminal driver sells the passenger a seat or seats in the car for a percentage of the passengers’ insurance claim. They then fake a collision together, claim the money from the insurer, and share it among themselves.

*Imaginary accidents:* The name is self-explanatory: no accident ever really happens in these cases. Criminals file a “hit and run” case with the police and fabricate the damage to the only car present.

Source: IBC, 2011c.

**Table 2: Average accidental benefits and coverage in the GTA and non-GTA area**

	Accident Benefits		Total Coverage	
	GTA	Non-GTA	GTA	Non-GTA
2005	\$30,162	\$30,088	\$10,994	\$8,778
2009	\$60,581	\$45,899	\$17,341	\$10,192
2005-2009 % change	100.8%	52.5%	57.7%	16.1%
2008-2009 % change	19.7%	17.9%	17.9%	7.2%

Source: Mack (2010).

clinic owners, lawyers, health care professionals, etc., to make the claim look true. Within minutes of a staged collision, a tow truck driver will arrive, recommend a paralegal or lawyer to coordinate the process, and will tow the automobile to a particular garage. The lawyer will manage the claims process and recommend specific health care professionals. These different service providers overcharge for services or simply charge insurers for services that were never executed. According to insurance fraud investigators, Toronto is the hub for the organized crime rings that carry out these scams. Investigators involved in Project 92, a recent insurance crime project in

**Table 3: Rise in medical and rehabilitation costs in Ontario from 2004 to 2009**

Coverage	Avg. cost per claim in 2004 (\$)	Avg. cost per claim in 2009 (\$)	Change between 2004 and 2009
Supplementary medical	11,317	21,611	91.0%
Dependent care	7,741	18,384	137.5%
Housekeeping	5,247	10,199	94.4%
Assessments	7,033	20,748	195.0%
Attendant care	53,323	28,851	-45.9%*
All med/rehab	25,909	55,867	115.6%
Med/rehab claim cost per car	204.6	471.5	130.5%

\*The majority of accidental benefit dollars are spent for medical, examination, and attendant care. Decline in attendant care coverage cost per claim is the result of a 267% increase in the number of these claims over the 5-year period, many coming from minor injuries.

Source: Mack (2010).

Toronto, say they've identified more than 40 staged car accidents carried out by one particular crime ring alone (Perkins and Robertson, 2010).

According to industry estimates for Ontario, more than \$1.3 billion in claims payments go to people abusing the auto insurance system (Perkins and Robertson, 2010). Insurance frauds are attractive to organized criminals because of Ontario's high accident benefits and coverage. The Greater Toronto Area (GTA) experienced a 100.8 percent increase in accident benefits between 2005 and 2009, compared to an increase of 52.5 percent in non-GTA areas (see table 2).

An insurance company highlighted the issue of insurance fraud at a press conference in 2010 (Perkins, 2010). According to news reports, the insurance company noted that the average cost of a minor injury claim in Ontario in 2009 was \$53,000 compared to \$3,698 in Alberta, \$5,904 in Nova Scotia, and \$8,400 in PE. Medical and rehabilitation costs per policy in Ontario increased by 130 percent between 2004 and 2009 (Mack, 2010). At the same time, medical and rehabilitation costs for all claims per policy more than doubled from \$26,000 to \$56,000. Table 3 below shows the growth and breakdown of medical and rehabilitation costs in Ontario.

## Reforms

In November 2009, Ontario's government announced a package of 41 reforms to automobile insurance that took effect as of September 2010. These reforms are expected to lower the minimum coverage for medical and rehabilitation benefits, attendant care, deductibles, and direct compensation.<sup>5</sup> The reforms should also reduce Ontario's regulatory severity and reduce the potential financial gains from fraud. Skinner (2006) showed that when consumers are given a choice, they will often prefer a lower level of benefit coverage in exchange for lower premiums.

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5 For a list of these reforms, see Ontario, 2009.

## Quebec's performance

Of the four provinces that each have a public auto insurer, Quebec has consistently ranked best on insurance costs, and in 2009 had the lowest average auto insurance premium of all the provinces. Two factors contributing to this performance are the limitation of the public monopoly to bodily injury claims coverage and less severe regulations than the other three provinces.

Quebec's auto insurance market went through extensive regulatory changes in 1978 and again in 1992. A pure no-fault system was introduced for bodily injuries in 1978, which is run by a government owned firm, Société de l'assurance automobile du Québec, or SAAQ. Property damages are administered by the private sector and SAAQ does not compete with private insurers in this market (Dionne, 2001).

The 1978 reform made liability insurance, at a minimum of \$50,000, compulsory, but upheld people's right to seek compensation for property damages under the traditional liability regime. In 1978, private insurers began awarding direct compensation to people suffering property damage. Previous studies confirm that these reforms have had several positive effects in Quebec, including increased protection of victims, considerably shorter wait times for compensation, lower management costs, and a significant decrease in insurance premiums (Devlin, 1992; Rousseau-Houle, 1998).

A second factor contributing to Quebec's performance on affordability in this study is its ranking on regulatory severity. The Fraser Institute's Auto Insurance Market Quality Index has ranked Quebec better on regulatory severity than the other provinces that have a government insurer, as well as some provinces with entirely private insurance markets, including Ontario and some Atlantic provinces. In Quebec, the regulation of premium rates is limited to publishing and filing a rate manual (Dionne, 2001). This is significantly less onerous than the requirements in other provinces where insurers need to get approval from provincial government to change their rates.

Lower mandatory coverage for both bodily injury and third party liability for property damage also contribute to Quebec's ranking on regulatory severity. Table 4 shows the differences in mandatory coverage between Quebec and other provinces. Quebec has a pure no-fault system for cases of bodily injury, which means that no one has the right to take legal action against an at-fault driver for pain and suffering or additional medical and economic expenses. Compulsory minimum third-party liability coverage is lower in Quebec than in other provinces. In 2009, the compulsory minimum third-party liability coverage was \$200,000 or higher in every other province; in Quebec, drivers were required to carry just \$50,000 in third party liability for property damage, though they could buy more coverage from the private auto insurance industry if they wished.

**Table 4: Differences in mandatory auto insurance coverage across provinces (in 2009)**

	<b>Minimum third party liability</b>	<b>Medical payments</b>	<b>Right to sue</b>	<b>Catastrophic injury limits (\$)</b>	<b>Controls on health care costs<sup>3</sup></b>
BC	\$200,000	\$150,000	Yes	150,000 (Med/rehab)	Yes
AB	\$200,000	\$50,000 <sup>1</sup>	Yes	n/a	No
SK— Tort	\$200,000	\$23,841 (non-catastrophic); \$178,838 (catastrophic)	Yes	178,838 (Med/rehab); 154,992 (Permanent impairment)	Yes
SK— No-fault	\$200,000	\$6,098,358	No (with exceptions)	213,443 (Permanent impairment)	Yes
MB	\$200,000	No limit	No	4,900 (Personal care); 215,000 (Permanent impairment); 1,000,000 (Lifetime)	Yes
ON	\$200,000	\$50,000 (Buy-up options available)	Yes (subject to threshold)	1,000,000 (med/rehab) 1,000,000 (attendant care)	Yes
QC	\$50,000	No limit	No	Maximums vary (based on age, income level, injury etc.)	Yes
NB	\$200,000	\$50,000	Yes	n/a	No
NS	\$500,000	\$25,000	Yes	n/a	No
PEI	\$200,000	\$25,000	Yes	n/a	No
NL	\$200,000	\$25,000 <sup>2</sup> (optional)	Yes (subject to deductible)	n/a	No

<sup>1</sup>In Alberta, as part of the \$50,000 medical benefits, there are sub-limits on chiropractics (\$750), massage therapy (\$750), and acupuncture (\$250). In addition, Alberta offers physical, psychological, and occupational therapy, as well as grief counseling on death benefits.

<sup>2</sup>Accident benefit averages are not mandatory in NL and there is a \$2,500 deductible for pain and suffering.

<sup>3</sup>Controls on health care costs are based on limits of workers' compensation or provincial health insurance.

Source: AMF, 2010; Alberta, Finance and Enterprise, n.d.; New Brunswick, n.d.; Nova Scotia, 2005; Prince Edward Island, n.d.; Newfoundland & Labrador, 1990, amended 2010; ICBC, 2011; MPI, 2011; Ontario, 2011; SGI, 2007.

## Public auto insurance: Costs to taxpayers

There is evidence that taxpayers, including non-drivers, are subsidizing government auto insurers. Quebec is the worst offender in this regard; it has built up an accumulated deficit over time as shown in table 5. The most recent year in which the SAAQ had positive equity was 2001. By 2009, it was racking up a deficit of \$2.6 billion. As public entities, government auto insurers can ultimately default on their obligation to be self-sustaining. They can instead rely on the province to fund their cost overruns, and therefore can carry over such losses without fully adjusting premiums in future years to recover the costs, or by carrying losses forward over many years. \$2.6 billion works out to \$417 per adult Quebec resident.

**Table 5: Accumulated deficits of Quebec**

	<b>Net Income/ Loss<sup>1</sup> (\$ millions)</b>	<b>Accumulated deficits<sup>2</sup> (\$ millions)</b>	<b>Accumulated deficit per adult resident<sup>3</sup> (\$)</b>
2001	-33.1	-171.4	-29.5
2002	-160.5	32.4	5.5
2003	-348.6	387.6	65.4
2004	-205.4	642.8	107.5
2005	177	468.9	77.7
2006	297.2	171.7	28.2
2007	-230.2	401.9	65.4
2008	-2441.7	2843.6	457.5
2009	217.3	2626.1	417

<sup>1</sup>Net Income/loss amount comes from the income statement of both SAAQ and FAAQ (Fonds d'assurance automobile du Québec). FAAQ works under the umbrella of SAAQ, but their financial accounts are separately reported. Negative figure indicates losses in this column.

<sup>2</sup>The accumulated deficit includes both from SAAQ and FAAQ. SAAQ accounts mostly include the operations from driver licensing and vehicle registration. FAAQ accounts include the auto insurance related transactions. Both together give the true performance of public insurer in Quebec. Negative figure indicates accumulated surplus in this column.

<sup>3</sup>Adult residents are both male and female over 18 years old.

Sources: SAAQ (2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009); Statistics Canada (2011b).

In BC, taxpayers help fund the Insurance Corporation of British Columbia through an infrastructure spending program. The province provides funding for infrastructure projects through school districts, health authorities, post-secondary institutions, Crown agencies, and ministries. The capital spending on ICBC is directed to both ICBC's critical business system and development of ICBC Properties Ltd (IPL) (British Columbia, Ministry of Finance, 2006, 2010). As table 6 shows, funding to ICBC from provincial taxpayers from 2002/03 to 2009/10 amounted to \$207 million.

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**Table 6: British Columbia government's capital spending on the Insurance Corporation of British Columbia**

<b>Year</b>	<b>Capital spending (\$ millions)</b>
2002/03	41
2003/04	26
2004/05	31
2005/06	24
2006/07	22
2007/08	23
2008/09	22
2009/10	18

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Sources: British Columbia Ministry of Finance (2006, 2010).

## Conclusion

The results of this study suggest that the cost of premiums in provinces with government auto insurance monopolies tend to be higher than those in provinces with private sector competitive insurance markets. The findings are generally consistent with previous editions of this study (Skinner, 2007, 2008) and other previous research comparing auto insurance in 60 international jurisdictions including all 10 Canadian provinces (Skinner, 2006; Rovere and Skinner, 2010). Mullins (2003, 2004) and Milke (2006, 2007) have also examined average auto insurance premiums using different methods and have reached similar conclusions. All of these studies show that auto insurance does not tend to be less costly in jurisdictions that have government auto insurance monopolies, despite claims to the contrary.

The empirical finding implies that government-run auto insurance is less efficient than auto insurance provided by a competitive market. Because coverage and pricing decisions are politicized in public insurance, governments tend to require excessive benefits coverage that leads to expensive premiums. In other words, political intervention in provinces with public auto insurance tends to require that drivers over-insure themselves. In his 2006 study, Skinner shows that when consumers have the choice, they will often select a lower level of benefit coverage in exchange for lower premiums. So, government insurance hurts consumer choice by inefficiently over-supplying insurance coverage. This study also finds adverse implications for taxpayers through the large accumulated deficit of Quebec's government auto insurer and taxpayer funding for ICBC infrastructure spending in British Columbia.

It is not true that the pursuit of profits necessarily leads to higher auto insurance costs for consumers. As long as the private-sector insurance industry is open to competition and consumer choice is protected, the portion of auto insurance premiums that are earned as profits cannot result from excessive prices, but come from cost efficiencies achieved by successful claims management, pricing strategies, customer service, and good business management. Individual insurers develop their own risk rating systems to price policies, which are approved by provincial regulators.

Previous versions of this study have explained that government auto insurers do not publish audited data in a format necessary to allow for a calculation of average premiums in their provinces that can be easily and directly compared to those from other provinces (Skinner, 2008). The problem will likely be addressed later this year with the required adoption of the International Financial Reporting Standards (IFRS) by both government-run and private insurers in Canada. These standards will improve comparability of average premiums in the future.

## Policy recommendations

The evidence presented in this study reinforces the findings of previous research, which shows that private competitive auto insurance markets are better able to deliver lower premium costs than government-run auto insurance monopolies. As long as private markets are open to competition, appropriately regulated, and consumers have freedom of choice, we should expect to observe that they can deliver the lowest possible premiums for any given level of insurance benefit.

Drivers in British Columbia, Saskatchewan, and Manitoba should be asking why their provinces have eliminated their choices as consumers, and forced them to buy auto insurance from a costly and unnecessary government-run monopoly. Drivers in these provinces would benefit from moving to an appropriately regulated competitive market where auto insurance is obtained from private sector insurers operating in competition with each other.

Quebec taxpayers should be seeking accountability from that province's government-run auto insurer for its finances, which this study shows continue to be in a serious long-term deficit.

Ontario has taken positive steps with its auto insurance market including the 2010 reforms that scale back benefits and an announcement of actions to curb auto insurance fraud in its 2011 Budget. Ontario drivers should be asking for further actions to improve affordability, such as further reforms to reduce regulatory severity.

Drivers in provinces with competitive private sector auto insurance markets should beware of misleading promises regarding the value of public auto insurance because the evidence shows that competitive private sector markets are producing better results for consumers.

## About the data

### Data sources

For the private sector insurance industries in Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador, all data used for this analysis come from the General Insurance Statistical Agency (GISA, 2007, 2011). All data on government insurers are taken directly from the annual reports of the government auto insurers themselves: in British Columbia this is the Insurance Corporation of British Columbia (ICBC, 2008, 2009, 2010); in Saskatchewan it is the Saskatchewan Auto Fund (SGI, 2008, 2009, 2010, 2011); in Manitoba it is Manitoba Public Insurance (MPI, 2008, 2009, 2010); and in Quebec it is the Société de l'assurance automobile du Québec (SAAQ, 2008, 2009, 2010, 2011). Data for all private insurers operating in the optional markets in British Columbia, Saskatchewan, Manitoba, and Quebec come from MSA Research Inc. (2011). The source for general economic and population data is Statistics Canada (2011a, 2011b).

### Counting personal passenger automobiles only

All data on private sector insurers in Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador used in this study account only for personal passenger automobiles. Regulators in British Columbia, Saskatchewan, Manitoba, and Quebec do not require auto insurers (government or private) to publish data on personal passenger vehicles separately from commercial or recreational vehicles. In order to estimate the percentage of the total premium figures published in British Columbia, Saskatchewan, Manitoba, and Quebec that includes only personal passenger automobiles, it was necessary to apply the average of the provinces for which actual data exist.

### Calculating averages

To calculate averages, this study applies a similar method to that used in a previous edition of this study (Skinner, 2008). In order to accurately calculate the average cost of premiums in a market and make it reasonably comparable across jurisdictions, the

total amount of all premiums must be divided by a denominator that is defined uniformly across all jurisdictions. The ideal divisor is the number of risk exposures. However, the number of risk exposures is a difficult concept to define statistically. Risk exposures could be defined as the number of insurance policies, the number of insured vehicles, or the number of insured drivers.

The problem with using the number of policies to represent risk exposures is that jurisdictions with risk pricing policies that encourage higher rates of per capita vehicle ownership will produce more insurance policies than jurisdictions with policies that encourage lower rates of vehicle ownership (Mullins, 2003, 2004). This could create a misleadingly low average premium when the number of policies is used as a divisor to calculate an average across jurisdictions with dissimilar pricing policies.

Previous editions of this study (Skinner, 2007, 2008) conducted a brief analysis of the ratio of earned vehicles (i.e., “policies” in BC and Manitoba, and “insured vehicles” in Saskatchewan) to total population in each jurisdiction to see if the number of published risk exposures (as defined in each jurisdiction) could be used as a comparable divisor for the purposes of calculating an average. The analysis showed that even after adjusting the reported figures of the government auto insurers downward to account only for personal passenger automobiles, the number of policies or insured vehicles published by government insurers in those provinces represented a dramatically higher percentage of the total population in BC (63%), Manitoba (67%) and Saskatchewan (81%) than either the individual ratios, or the average ratio (51%) across the six provinces for which audited data was available to confirm the number of risk exposures (Skinner, 2008).

All six provinces with private sector auto insurance (Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador) use the same definition for calculating earned exposures. The large difference between the average ratios of these six provinces and the ratios shown for British Columbia, Saskatchewan, and Manitoba suggest that the figures that government insurers in those provinces publish on the number of policies or insured vehicles are not comparably defined relative to the figures shown for the six provinces that have private sector auto insurance, or even among their fellow government insurers. To the author’s knowledge, there are no published definitions available from ICBC, SGI, or MPI for these figures. There is also no data available on the number of insured drivers in each jurisdiction. The number of licensed drivers is one possible proxy for this. However, in Ontario and Quebec where a large percentage of the provincial population resides in urban metropolitan areas uniquely served by light rail, subway, and commuter rail systems, there tends to be greater use of mass transit systems and lower vehicle ownership. Therefore, using the number of licensed drivers will inflate the divisor and artificially deflate premiums in Ontario and Quebec as a result.

The average premiums shown here for British Columbia, Saskatchewan, Manitoba, and Quebec are adjusted for the reasons stated above, by assuming that the number of earned risk exposures in these provinces is the same as the average of the other six provinces for which comparable standardized data is available.

MPI uses an unusual fiscal year for reporting data (March 1 to February 28/29 each year). Therefore, for MPI data, the fiscal year ending February 29, 2010, covers 10 months of the year 2009 and 2 months of the year 2010, but is used here for comparison to the 2009 figures reported by calendar year by all other jurisdictions, and by private insurers operating in the optional market in Manitoba. The same methodology is used for 2007 and 2008 data.

## Calculating net premiums

Government auto insurers sometimes return rebates to drivers either from operational surpluses, or in compliance with legislated directives. These rebates are subtracted from the cost of auto insurance in this study because the rebates reduce the effective cost of auto insurance for drivers.

The data available to this study indicate that government-run auto insurers artificially deflate premiums in some years by running deficits or comprehensive losses. Occasionally, provinces with government auto insurers have even legislated rebates that have produced net total losses on the income statements of government insurers, or have legislated freezes or roll-backs of auto insurance rates that have produced deficits in some years, despite nominal provisions requiring government insurers to be self-sustaining. As public entities, government-run auto insurers can ultimately default on their obligation to be self-sustaining and rely on the province to fund operations that are in a deficit position and therefore can carry over such losses without fully adjusting premiums in future years to recover the costs, or by carrying losses forward over many years. This is evident in Quebec where significant SAAQ deficits have accumulated over many years. Other public insurers like ICBC, MPI, and SGI also have consistent comprehensive losses. Although their annual reports reveal that comprehensive losses were not present in 2009, this improvement came from deferring some crucial expenses. This is never a good strategy where the industry is facing inflationary pressure that may create a higher burden in future years. Therefore, this study adds any net total loss (or income for 2009) reported on audited income statements for SAAQ, MPI, SGI, and ICBC to estimate the actual cost of auto insurance provided by government insurers within each year. The adjustment made to the data here is designed to produce a fair comparison between provinces of the actual premiums required to fully cover actual costs within each year.

Many insurers (both public and private) will also subsidize current premiums from returns on invested surpluses from past years as a competitive strategy. Premium figures are not adjusted to account for such subsidies because they are fully funded in the current period. In the provinces with private sector insurance markets, provincial governments require auto insurers to pay health levies for the recovery of the costs of publicly funded medical care delivered to victims of vehicle collisions. Notably, these health levies are not applied to government auto insurers in Quebec, Manitoba, or BC. In order to make fair comparisons of the direct costs of auto insurance premiums, these levies have been deducted from premiums. The same has been done for SGI Auto Fund as it has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile collisions.

Finally, various types of taxes (on premiums, sales, and others) are applied to auto insurance premiums in the provinces, and these taxes have been removed to allow for a fair comparison of the direct cost of auto insurance premiums.

# Appendix tables

**Appendix 1a: Base data and calculations for provinces with private sector automobile insurance, 2007**

	NL	PE	NS	NB	ON	AB	6 province average used for estimates
Population	506,400	138,200	935,800	745,500	12,792,900	3,512,700	
Earned Private Passenger Vehicles (PPVs) <sup>a</sup>	245,517	77,684	494,062	412,079	6,316,694	2,057,136	
PPVs % population	48.50%	56.20%	52.80%	55.30%	49.40%	58.60%	51.5%
Gross Domestic Product (GDP)	\$19,791,000,000	\$4,149,000,000	\$28,611,000,000	\$23,439,000,000	\$533,233,000,000	\$184,008,000,000	
					0	0	
GDP per person	\$39,082	\$30,022	\$30,574	\$31,441	\$41,682	\$52,384	
Personal income (PI)	\$15,790,000,000	\$3,920,000,000	\$29,016,000,000	\$22,508,000,000	\$466,051,000,000	\$160,149,000,000	
					0	0	
PI per person	\$31,181	\$28,365	\$31,007	\$30,192	\$36,430	\$45,591	
Personal Disposable Income (PDI)	\$12,619,000,000	\$3,115,000,000	\$22,905,000,000	\$17,807,000,000	\$356,073,000,000	\$122,060,000,000	
					0	0	
PDI per person	\$24,919	\$22,540	\$24,476	\$23,886	\$27,834	\$34,748	
Total Earned Premiums (EP) <sup>b</sup>	\$260,975,078	\$71,988,545	\$487,166,854	\$446,983,443	\$9,563,219,995	\$2,858,776,472	
Plus unfunded premiums deficit (Net total loss) <sup>c</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Minus rebates paid to insured drivers <sup>d</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Net total EP	\$260,975,078	\$71,988,545	\$487,166,854	\$446,983,443	\$9,563,219,995	\$2,858,776,472	
EP PPV only <sup>e</sup>	\$219,617,962	\$58,930,284	\$403,434,639	\$350,507,653	\$8,140,873,843	\$2,114,406,651	
PPV EP % total EP	84.20%	81.90%	82.80%	78.40%	85.10%	74.00%	82.5%
Health levies	\$5,700,000	\$1,900,000	\$11,100,000	\$19,800,000	\$142,300,000	\$80,000,000	
Est. premium tax on PPV EP	\$8,784,718.48	\$2,062,559.94	\$16,137,385.56	\$10,515,229.59	\$244,226,215.29	\$63,432,199.53	
Est. sales tax on PPV EP	\$32,942,694.30	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	

## Appendix 1a: Base data and calculations for provinces with private sector automobile insurance, 2007

	NL	PE	NS	NB	ON	AB	6 province average used for estimates
Est. other tax on PPV EP	\$0	\$589,303	\$5,042,933	\$3,505,077	\$0	\$0	
PPV EP minus levies and taxes	\$172,190,549	\$54,378,421	\$371,154,320	\$316,687,347	\$7,754,347,628	\$1,970,974,451	
Avg net PPV EP	\$701	\$700	\$751	\$769	\$1,228	\$958	
Avg net PPV EP % GDP per person	1.80%	2.30%	2.50%	2.40%	2.90%	1.80%	
Avg net PPV EP % PI per person	2.20%	2.50%	2.40%	2.50%	3.40%	2.10%	
Avg net PPV EP % PDI per person	2.80%	3.10%	3.10%	3.20%	4.40%	2.80%	

<sup>a</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>b</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>c</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC.

<sup>d</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>e</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2008); SGI (2008); MPI (2008); SAAQ (2008); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

## Appendix 1b: Base data and calculations for provinces with public sector automobile insurance, 2007

	QC	MB <sup>a</sup>	SK	BC
Population	7,687,400	1,193,600	1,000,300	4,309,600
Earned Private Passenger Vehicles (PPVs) <sup>b</sup>	3,962,291	615,213	515,581	2,221,283
PPVs % population	51.5%	51.5%	51.5%	51.5%
Gross Domestic Product (GDP)	\$265,585,000,000	\$41,263,000,000	\$39,626,000,000	\$164,496,000,000
GDP per person	\$34,548	\$34,570	\$39,614	\$38,170
Personal Income (PI)	\$249,883,000,000	\$38,106,000,000	\$32,322,000,000	\$151,620,000,000
PI per person	\$32,506	\$31,925	\$32,312	\$35,182
Personal Disposable Income (PDI)	\$189,804,000,000	\$29,973,000,000	\$25,403,000,000	\$117,596,000,000
PDI per person	\$24,690	\$25,111	\$25,395	\$27,287
Total Earned Premiums (EP) <sup>c</sup>	\$3,430,335,000	\$983,598,000	\$708,741,000	\$3,732,134,000
Plus unfunded premiums deficit (Net total loss) <sup>d</sup>	\$230,200,000	\$22,232,000	\$103,368,000	\$203,451,000
Minus rebates paid to insured drivers <sup>e</sup>	\$0	\$62,565,000	\$99,308,000	\$306,118,000
Net total EP	\$3,660,535,000	\$943,265,000	\$712,801,000	\$3,629,467,000
EP PPV only <sup>f</sup>	\$3,018,405,124	\$777,797,756	\$587,761,677	\$2,992,787,063
PPV EP % total EP	82.5%	82.5%	82.5%	82.5%
Health levies	\$0	\$0	\$12,966,000	\$0
Est. premium tax on PPV EP	\$101,116,571.65	\$23,333,932.68	\$29,388,083.86	\$131,682,630.75
Est. sales tax on PPV EP	\$150,920,256.20	\$0.00	\$0.00	\$0.00
Est. other tax on PPV EP	\$0	\$9,722,472	\$0	\$0
PPV EP minus levies and taxes	\$2,766,368,296	\$744,741,351	\$545,407,593	\$2,861,104,432
Avg net PPV EP	\$698	\$1,211	\$1,058	\$1,288
Avg net PPV EP % GDP per person	2.0%	3.5%	2.7%	3.4%
Avg net PPV EP % PI per person	2.1%	3.8%	3.3%	3.7%
Avg net PPV EP % PDI per person	2.8%	4.8%	4.2%	4.7%

<sup>a</sup>MPI uses an unusual fiscal year for reporting data that covers March 1 to February 28/29 each year; therefore for MPI data, the fiscal year ending February 29, 2008 covers 10 months of the year 2007 and 2 months of the year 2008, but is used here for comparison to the 2007 figures reported by calendar year by all other jurisdictions, and by private insurers operating in the optional market in Manitoba.

<sup>b</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>c</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>d</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC.

<sup>e</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>f</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>g</sup>Funding to Saskatchewan Health Organization to provide for rehab services for those injured in auto accidents—extracted from annual reports.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2008); SGI (2008); MPI (2008); SAAQ (2008); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

## Appendix 2a: Base data and calculations for provinces with private sector automobile insurance, 2008

	NL	PE	NS	NB	ON	AB	6 provinces average used for estimates
Population	506,200	139,500	936,700	746,900	12,932,300	3,591,400	
Earned Private Passenger Vehicles (PPVs) <sup>a</sup>	257,207	79,310	504,801	425,556	6,455,942	2,154,224	
PPVs % population	50.80%	56.90%	53.90%	57.00%	49.90%	60.00%	52.40%
Gross Domestic Product (GDP)	\$20,186,000,000	\$4,167,000,000	\$28,969,000,000	\$23,392,000,000	\$528,635,000,000	\$186,528,000,000	
					0	0	
GDP per person	\$39,878	\$29,871	\$30,927	\$31,319	\$40,877	\$51,937	
Personal Income (PI)	\$15,653,000,000	\$4,074,000,000	\$30,094,000,000	\$23,708,000,000	\$478,696,000,000	\$172,209,000,000	
					0	0	
PI per person	\$30,923	\$29,204	\$32,128	\$31,742	\$37,016	\$47,950	
Personal Disposable Income (PDI)	\$12,446,000,000	\$3,264,000,000	\$23,912,000,000	\$18,914,000,000	\$368,853,000,000	\$132,949,000,000	
					0	0	
PDI per person	\$24,587	\$23,398	\$25,528	\$25,323	\$28,522	\$37,019	
Total Earned Premiums (EP) <sup>b</sup>	\$278,567,485	\$72,608,289	\$491,855,839	\$433,240,931	\$9,794,482,686	\$3,016,693,771	
Plus unfunded premiums deficit (Net total loss) <sup>c</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Minus rebates paid to insured drivers <sup>d</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Net total EP	\$278,567,485	\$72,608,289	\$491,855,839	\$433,240,931	\$9,794,482,686	\$3,016,693,771	
EP PPV only <sup>e</sup>	\$234,857,680	\$59,373,118	\$408,129,874	\$341,918,766	\$8,374,198,460	\$2,249,966,213	
PPV EP % Total EP	84.30%	81.80%	83.00%	78.90%	85.50%	74.60%	82.80%
Health levies	\$5,900,000	\$1,900,000	\$12,800,000	\$20,100,000	\$142,300,000	\$85,000,000	
Est. premium tax on PPV EP	9,394,307	2,078,059	16,325,195	10,257,563	251,225,954	67,498,986	
Est. sales tax on PPV EP	35,228,652	—	—	—	—	—	

**Appendix 2a: Base data and calculations for provinces with private sector automobile insurance, 2008**

	NL	PE	NS	NB	ON	AB	6 provinces average used for estimates
Est. other tax on PPV EP	—	593,731	5,101,623	3,419,188	—	—	
PPV EP minus levies and taxes	\$184,334,721	\$54,801,328	\$373,903,056	\$308,142,015	\$7,980,672,506	\$2,097,467,227	
Avg net PPV EP	\$717	\$691	\$741	\$724	\$1,236	\$974	
Avg net PPV EP % GDP per person	1.80%	2.30%	2.40%	2.30%	3.00%	1.90%	
Avg net PPV EP % PI per person	2.30%	2.40%	2.30%	2.30%	3.30%	2.00%	
Avg net PPV EP % PDI per person	2.90%	3.00%	2.90%	2.90%	4.30%	2.60%	

<sup>a</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>b</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>c</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC.

<sup>d</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>e</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2009); SGI (2009); MPI (2009); SAAQ (2009); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

## Appendix 2b: Base data and calculations for provinces with public sector automobile insurance, 2008

	QC	MB <sup>a</sup>	SK	BC
Population	7,751,300	1,205,500	1,013,800	4,383,900
Earned Private Passenger Vehicles (PPVs) <sup>b</sup>	4,060,887	631,558	531,127	2,296,714
PPVs % population	52.39%	52.39%	52.39%	52.39%
Gross Domestic Product (GDP)	\$268,406,000,000	\$42,057,000,000	\$41,434,000,000	\$164,869,000,000
GDP per person	\$34,627	\$34,888	\$40,870	\$37,608
Personal Income (PI)	\$260,059,000,000	\$40,360,000,000	\$37,022,000,000	\$157,184,000,000
PI per person	\$33,550	\$33,480	\$36,518	\$35,855
Personal Disposable Income (PDI)	\$198,825,000,000	\$32,016,000,000	\$29,911,000,000	\$123,854,000,000
PDI per person	\$25,651	\$26,558	\$29,504	\$28,252
Total Earned Premiums (EP) <sup>c</sup>	\$3,542,050,000	\$1,033,015,000	\$746,290,000	\$3,883,826,000
Plus unfunded premiums deficit (Net total loss) <sup>d</sup>	\$2,441,700,000	\$136,023,000	\$132,113,000	\$179,304,000
Minus rebates paid to insured drivers <sup>e</sup>	\$0	-54,000	\$68,000	\$317,850,000
Net total EP	\$5,983,750,000	\$1,169,092,000	\$878,335,000	\$3,745,280,000
EP PPV only <sup>f</sup>	\$4,956,259,465	\$968,343,144	\$727,513,041	\$3,102,164,938
PPV EP % Total EP	82.83%	82.83%	82.83%	82.83%
Health levies <sup>h</sup>	\$0	\$0	\$18,991,000	\$0
Est. premium tax on PPV EP	166,034,692	29,050,294	36,375,652	136,495,257
Est. sales tax on PPV EP	247,812,973	0	0	0
Est. other tax on PPV EP	0	12,104,289	0	0
PPV EP minus levies and taxes	\$4,542,411,800	\$927,188,561	\$672,146,389	\$2,965,669,681
Avg net PPV EP	\$1,119	\$1,468	\$1,266	\$1,291
Avg net PPV EP % GDP per person	3.23%	4.21%	3.10%	3.43%
Avg net PPV EP % PI per person	3.33%	4.39%	3.47%	3.60%
Avg net PPV EP % PDI per person	4.36%	5.53%	4.29%	4.57%

<sup>a</sup>MPI uses an unusual fiscal year for reporting data that covers March 1 to February 28/29 each year; therefore for MPI data, the fiscal year ending February 29, 2009 covers 10 months of the year 2008 and 2 months of the year 2009, but is used here for comparison to the 2008 figures reported by calendar year by all other jurisdictions, and by private insurers operating in the optional market in Manitoba.

<sup>b</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>c</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>d</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC.

<sup>e</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>f</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>g</sup>At February 29, 2008, the rebate was estimated to be \$62,700,000. The amount was actualized during the current fiscal year when \$62,646,000 was distributed to Basic policyholders. On December 2, 2008, the Public Utilities Board released its ruling on the corporation's 2009/2010 Basic Insurance rate application. There is no surplus distribution in 2009/2010.

<sup>h</sup>Funding to Saskatchewan Health Organization to provide for rehab services for those injured in auto accidents—extracted from annual reports.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2009); SGI (2009); MPI (2009); SAAQ (2009); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

**Appendix 3a: Base data and calculations for provinces with private sector automobile insurance, 2009**

	NL	PE	NS	NB	ON	AB	6 provinces average used for estimates
Population	508,100	141,100	939,100	749,300	13,064,900	3,670,700	
Earned Private Passenger Vehicles (PPVs) <sup>a</sup>	270,241	80,779	513,846	436,319	6,513,876	2,209,570	
PPVs % Population	53.20%	57.20%	54.70%	58.20%	49.90%	60.20%	52.60%
Gross Domestic Product (GDP)	\$18,119,000,000	\$4,164,000,000	\$28,931,000,000	\$23,314,000,000	\$509,421,000,000	\$178,225,000,000	
					0	0	
GDP Per Person	\$35,660	\$29,511	\$30,807	\$31,114	\$38,992	\$48,553	
Personal Income (PI)	\$16,396,000,000	\$4,203,000,000	\$30,623,000,000	\$24,298,000,000	\$477,641,000,000	\$171,342,000,000	
					0	0	
PI Per Person	\$32,269	\$29,787	\$32,609	\$32,428	\$36,559	\$46,678	
Personal Disposable Income (PDI)	\$13,190,000,000	\$3,394,000,000	\$24,589,000,000	\$19,561,000,000	\$373,205,000,000	\$135,148,000,000	
					0	0	
PDI Per Person	\$25,959	\$24,054	\$26,184	\$26,106	\$28,565	\$36,818	
Total Earned Premiums (EP) <sup>b</sup>	\$304,867,893	\$74,422,558	\$497,630,559	\$442,562,671	\$10,182,736,951	\$3,148,489,295	
Plus Unfunded Premiums Deficit (Net Total Loss) <sup>c</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Minus Rebates Paid to Insured Drivers <sup>d</sup>	\$0	\$0	\$0	\$0	\$0	\$0	
Net Total EP	\$304,867,893	\$74,422,558	\$497,630,559	\$442,562,671	\$10,182,736,951	\$3,148,489,295	
EP PPV Only <sup>e</sup>	\$257,810,485	\$60,850,477	\$413,322,096	\$352,621,703	\$8,747,101,105	\$2,379,040,296	
PPV EP % Total EP	84.60%	81.80%	83.10%	79.70%	85.90%	75.60%	83.30%
Health Levies	\$6,300,000	\$2,000,000	\$13,700,000	\$20,800,000	\$142,300,000	\$90,000,000	
Est. Premium Tax on PPV EP	10,312,419	2,129,767	16,532,884	10,578,651	262,413,033	71,371,209	
Est. Sales Tax on PPV EP	38,671,573	—	—	—	—	—	

### Appendix 3a: Base data and calculations for provinces with private sector automobile insurance, 2009

	NL	PE	NS	NB	ON	AB	6 provinces average used for estimates
Est. Other Tax on PPV EP	—	608,505	5,166,526	3,526,217	—	—	
PPV EP Minus Levies and Taxes	\$202,526,493	\$56,112,206	\$377,922,686	\$317,716,835	\$8,342,388,072	\$2,217,669,087	
Avg net PPV EP	\$749	\$695	\$735	\$728	\$1,281	\$1,004	
Avg net PPV EP % GDP per person	2.10%	2.40%	2.40%	2.30%	3.30%	2.10%	
Avg net PPV EP % PI per person	2.30%	2.30%	2.30%	2.20%	3.50%	2.20%	
Avg net PPV EP % PDI per person	2.90%	2.90%	2.80%	2.80%	4.50%	2.70%	

<sup>a</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>b</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>c</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC.

<sup>d</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>e</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2010); SGI (2010); MPI (2009); SAAQ (2010, 2011); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

### Appendix 3b: Base data and calculations for provinces with public sector automobile insurance, 2009

	QC	MB <sup>a</sup>	SK	BC
Population	7,828,400	1,219,600	1,029,100	4,460,300
Earned Private Passenger Vehicles (PPVs) <sup>b</sup>	4,114,507	641,006	540,882	2,344,277
PPVs % population	52.56%	52.56%	52.56%	52.56%
Gross Domestic Product (GDP)	\$267,477,000,000	\$42,077,000,000	\$39,810,000,000	\$161,851,000,000
GDP per person	\$34,168	\$34,501	\$38,684	\$36,287
Personal Income (PI)	\$263,213,000,000	\$40,927,000,000	\$37,158,000,000	\$156,986,000,000
PI per person	\$33,623	\$33,558	\$36,107	\$35,196
Personal Disposable Income (PDI)	\$203,781,000,000	\$32,825,000,000	\$30,283,000,000	\$125,058,000,000
PDI per person	\$26,031	\$26,915	\$29,427	\$28,038
Total Earned Premiums (EP) <sup>c</sup>	\$3,676,385,000	\$1,069,571,000	\$793,851,000	\$3,891,643,000
Plus unfunded premiums deficit (Net total loss) <sup>d</sup>	(\$217,300,000)	(\$244,627,000)	(\$46,873,000)	(\$302,489,000)
Minus rebates paid to insured drivers <sup>e</sup>	\$0	\$0	\$19,000	\$316,015,000
Net total EP	\$3,459,085,000	\$824,944,000	\$746,959,000	\$3,273,139,000
EP PPV only <sup>f</sup>	\$2,883,000,831	\$687,555,882	\$622,558,687	\$2,728,022,716
PPV EP % total EP	83.35%	83.35%	83.35%	83.35%
Health levies <sup>h</sup>	\$0	\$0	\$24,218,000	\$0
Est. premium tax on PPV EP	96,580,528	20,626,676	31,127,934	120,032,999
Est. sales tax on PPV EP	144,150,042	0	0	0
Est. other tax on PPV EP	0	8,594,449	0	0
PPV EP minus levies and taxes	\$2,642,270,261	\$658,334,757	\$567,212,753	\$2,607,989,716
Avg net PPV EP	\$642	\$1,027	\$1,049	\$1,112
Avg net PPV EP % GDP per person	1.88%	2.98%	2.71%	3.07%
Avg net PPV EP % PI per person	1.91%	3.06%	2.90%	3.16%
Avg net PPV EP % PDI per person	2.47%	3.82%	3.56%	3.97%

<sup>a</sup>MPI uses an unusual fiscal year for reporting data that covers March 1 to February 28/29 each year; therefore for MPI data, the fiscal year ending February 29, 2010 covers 10 months of the year 2009 and 2 months of the year 2010, but is used here for comparison to the 2009 figures reported by calendar year by all other jurisdictions, and by private insurers operating in the optional market in Manitoba.

<sup>b</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>c</sup>Total Earned Premiums cover the entire market (i.e., public plus private insurers; personal passenger, commercial, and recreational vehicles) and include any insurance-related service fees charged to insured drivers.

<sup>d</sup>i.e., net comprehensive loss (income) reported in audited income statements for SAAQ, MPI, SGI, and ICBC. For fare comparison unrealized incomes are also reported in calculation.

<sup>e</sup>Government insurers sometimes return current year surpluses to drivers in the form of rebates. Sometimes these rebates are legislated regardless of whether there is a current year surplus.

<sup>f</sup>Data for NL, PE, NS, NB, ON, and AB are actual figures supplied by GISA; QC, MB, SK, and BC do not report data that are comparably defined to that published by the other six provinces. Therefore, data from QC, MB, SK, and BC are estimated by applying the proportional average of the other provinces for which data is reported consistent with a universal regulatory standard.

<sup>g</sup>At February 29, 2008, the rebate was estimated to be \$62,700,000. The amount was actualized during the current fiscal year when \$62,646,000 was distributed to Basic policyholders. On December 2, 2008, the Public Utilities Board released its ruling on the corporation's 2009/2010 Basic Insurance rate application. There is no surplus distribution in 2009/2010.

<sup>h</sup>Funding to Saskatchewan Health Organization to provide for rehab services for those injured in auto accidents—extracted from annual reports.

Sources: GISA (2007, 2011); IBC (2009, 2011a, 2011b); ICBC (2010); SGI (2010, 2011); MPI (2010); SAAQ (2010, 2011); MSA Research Inc. (2011); Statistics Canada (2011a, 2011b); author's calculations.

## Key definitions

For more definitions of insurance-related terms, please see IBC, 2011b.

### ***Accident benefits***

The automobile insurance coverage that pays for personal injuries to the individuals covered by the insurance policy.

### ***Average cost per claim***

The total amount paid out for all claims divided by the total number of claims. The result is an average, which is sometimes referred to as the “claims severity.”

### ***Bodily injury***

An injury a person sustains as a result of an automobile accident.

### ***CAT limit***

Short for Catastrophic injury limit, the CAT limit includes medical and rehabilitation coverage, transitional expense coverage, attendant care coverage, assessment coverage, etc.

### ***Claim***

The average cost to an insurance company for every risk they insure. For example, in automobile insurance, this would be the total amount paid out in claims divided by the total number of vehicles insured.

### ***Claims incurred***

The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.

### ***Comprehensive income***

Generally, comprehensive income equals net income minus all recognized changes in equity during a period. Losses or gains on foreign currency transactions are examples. For most firms, comprehensive income is more volatile, exceeding net income in some years, but falling below net income in others. Some public auto insurers define it as income consisting of net income after surplus distribution and other comprehensive income. Changes in unrealized gains and losses on financial assets classified as “available

for sale,” and changes in unrealized foreign exchange currency translation amounts are recorded in the Statement of Comprehensive Income, and included in accumulated other comprehensive income until recognized in the Statement of Operations. Accumulated other comprehensive income is sometimes included on the balance sheet as a separate component.

### ***Deductibles***

In an insurance policy, the deductible is the portion of any claim that is not covered by the insurance provider. It is the amount of expenses that must be paid out of pocket before an insurer will cover any expenses.

### ***GAAP***

GAAP refers to Generally Accepted Accounting Principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

### ***GDP***

Gross Domestic Product, or GDP, is the total value of all final goods and services produced in a jurisdiction in a given year. It is equal to total consumer, investment, and government spending, plus the value of exports, minus the value of imports.

### ***Health levies***

If drivers are injured in a car accident, they are covered by their auto insurance. At the same time, Canadians have universal health care and any emergency care or visits to doctor will initially be paid for by the provincial health care plan. Consumers never see the bill, but the auto insurers may—hypothetically. Every year, private insurers reimburse provincial health plans for treatment given to crash victims. This is called a “health levy” or “aggregate assessment,” and is an important source of funds for provincial health care systems in Alberta, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland & Labrador.

### ***IFRS***

International Financial Reporting Standards (IFRSs) are the collection of financial reporting standards issued by the International Accounting Standards Board (IASB), an independent, international standard-setting organization. In January 1, 2011, IFRSs replaced Canadian Generally Accepted Accounting Principles (GAAP) as the financial reporting framework for publicly accountable enterprises and government business enterprises.

### ***Inflation rate***

The rate of increase of a price index (for example, a consumer price index) is the inflation rate. It is commonly meant as a percentage rate of change in price level over time.

### ***Loss ratio (Claims ratio)***

This ratio measures losses as a percentage of premiums earned.

### ***“No-fault” system***

The term no-fault is most commonly used in the context of state or provincial automobile insurance laws in the United States, Canada, and Australia, in which a policyholder (and his or her passengers) are reimbursed by the policyholder’s own insurance company without proof of fault, but have only restricted rights to seek recovery through the civil justice system for losses caused by others.

### ***P&C insurance***

The property and casualty (P&C) insurance industry in Canada provides coverage for all risks other than life.

### ***Personal injury***

Personal injury is a legal term for an injury to the body, mind, or emotions, as opposed to an injury to property. The term most commonly refers to a type of tort lawsuit alleging that the plaintiff’s injury has been caused by the negligence of another.

### ***Personal income (PI)***

In economics, personal income refers to an individual’s total earnings from wages, investment, enterprises, and other ventures.

### ***Personal disposable income (PDI)***

The amount an individual has left over to spend on goods and services, after payment of personal direct taxes, national insurance, and pension contributions.

### ***PPV***

A Private Passenger Vehicle (PPV) is one not used as a commercial vehicle. If a small van is used to transport a family, it is considered a private passenger vehicle. However, if this same van is used full-time for deliveries, it is considered a commercial vehicle.

### ***Premium***

The amount that a policy holder pays today to insure against a specific set of risk(s) is the premium. In theory, the premium reflects the current value of the claims that a

pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

### ***Premium tax***

A premium tax is collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.

### ***Property damage***

Damage done to property, including a vehicle, a house, or a commercial building, is property damage.

### ***Third-party liability***

Third-party liability is the portion of your policy that covers damages to others, including their property, for which you are responsible.

### ***Underwriting income or loss***

For an insurance company, the difference between the premiums earned and the costs of settling claims is the underwriting income (or loss).

### ***Unrealized gains (or losses) on “available for sale” assets***

A profit (or loss) that results from holding on to an asset rather than cashing it in and using the funds becomes an unrealized gain (or loss). For example, if the price of an asset that a company owns has doubled, but the company hasn't yet sold it, this is said to be an unrealized gain.

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## About the authors

**Neil Mohindra** is the Director of the Centre for Financial Policy Studies at the Fraser Institute. Mr. Mohindra previously worked for the Financial Services Commission of Ontario as Policy Manager for the Joint Forum Secretariat, Joint Forum of Financial Market Regulators, in which he managed the cross-sectoral projects of Canadian provincial pension, securities, and insurance regulators. This included strategic planning, developing policy options and recommendations, managing external stakeholder engagement, and developing communications strategies. Mr. Mohindra worked for Insurance Bureau of Canada as a senior policy analyst and led the development of industry positions on a number of issues key to the property and casualty insurance industry, such as the 2006 review of federal financial institutions legislation. Prior to the Insurance Bureau of Canada, he was a policy analyst on financial sector issues at the Department of Finance Canada where his responsibilities included briefing the department's member on the Financial Stability Forum. Earlier, he was a research associate with the Task Force on the Future of the Canadian Financial Services Sector (the "MacKay Task Force"). Mr. Mohindra also previously worked at the Fraser Institute where he authored a number of papers, articles, and opinion pieces on securities regulation. He holds a BA (Honours) in Social Sciences (Economics) from the University of Ottawa and an MBA in Finance from McGill University.

**M. Emrul Hasan** is a Researcher in the Centre for Financial Policy Studies at the Fraser Institute. He also teaches finance and economic policy courses at Simon Fraser University as a teaching assistant and in North South University (Bangladesh) as a lecturer. He is also consulting for firms in the banking, P3, agriculture, leather, and textiles sectors. Previously he worked at York University as a teaching assistant. Prior to moving to Canada, Mr. Emrul worked as a research associate for the Asian Tiger Capital Partners investment bank. He was a member of both their macroeconomic consulting and corporate advisory teams where he worked extensively in M&A deals, sector research, policy studies, and advocacy. He has published in finance and economics. He graduated from York University with an MA in Financial Economics. He earned a BBA (*summa cum laude*) in Finance and Economics from North South University. He is also a Chartered Financial Analyst (CFA) candidate.

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Kristin McCahon

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Lindsey Thomas Martin

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