FOCUS

ON THE INSURANCE CORPORATION OF BRITISH COLUMBIA:

PUBLIC MONOPOLIES AND THE PUBLIC INTEREST

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ON THE INSURANCE CORPORATION OF BRITISH COLUMBIA:

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TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION - ORIGINS OF THE STUDY

The Insurance Corporation of British Columbia (ICBC) was established in 1973 by the New Democratic Party (NDP) government under the leadership of David Barrett. It was designed to replace a conventional private automobile insurance system by a state monopoly operating as a non-profit Crown corporation. It fully achieved this objective and generated a growing momentum for expansion into other insurance business.

The 1983 election of Premier Bennett's Socred government on a platform of "belt-tightening" led to speculation that ICBC might be reprivatized or at least be stripped of its monopoly and other privileged positions. Such a policy would be consistent with the Bennett government's general program for the reduction of government influence in the B.C. economy. It would also be consistent with the broader movement towards privatization of public services that is sweeping the industrial countries of the West.

My interest with the issue of ICBC privatization began with an invitation to appear as a panelist on a CBC TV phone-in program hosted by Mr. R. Corelli. The topic was the possible privatization of the ICBC. I was to contribute to the discussion as an academic expert who had some familiarity with studies of the effects of privatization in other industries and other countries.

Attempts to inform myself about the operation of the ICBC promptly led me to discover that much relevant data about the insurance industry had been assembled. These data reveal that ICBC has all the characteristics of public

monopolies throughout the world. They suggest that privatizing it would be very much in the interest of British Columbians.

During the TV program and in subsequent research and contacts with the public I was impressed and appalled by the amount of emotion that surrounds this topic. I was also impressed and appalled by the lack of knowledge and the extent of misinformation that characterizes public opinion on this issue.

These conditions have prompted me to write the following analysis of the ICBC operation. In doing so, I draw on the large and growing field of privatization studies to put the ICBC case into a perspective that has been missing from the local debate. This analysis also provides persuasive rationale for the following marshalling of facts about inefficiencies, subsidies and income transfers that characterize the ICBC operation.

The analysis, data and calculations I present are as objective as I can make them. Every point of the analysis can be replicated or challenged logically. Every figure and calculation can be checked for accuracy and authenticity. I am sure that this study will receive exactly this kind of attention.

The Role of Personal Experiences

Before proceeding with the study, it may be useful to make the following cautionary remark. A significant proportion of people in B.C. have an opinion about the ICBC and private insurance systems that is based on one or more personal experiences as customers. These experiences often involved a traumatic accident, frustrating days in the repair of vehicles, the rigidities of automated mailing and bill collection systems, inconveniences caused by strikes of public sector unions, and unfriendly service by a clerk. Informal surveys have convinced me that such experiences have created almost equal numbers of people who strongly oppose both private and ICBC delivery of insurance as they remember unpleasant experiences either before or after the introduction of the ICBC.

I believe that such experiences and the views based on them are not a good foundation for the rational evaluation of the private and public monopoly systems. For one, it is not

possible to satisfy all customers all the time in a business where fault-finding and enforcement of responsibility are an integral part of the service.

In any event, quality of service is only one of several criteria against which the merit of public insurance should be evaluated.

For these reasons I ask readers to approach the following study with as little emotion as possible, to set aside memories or stories about bad dealings with either private firms or the ICBC in the past. Let the case for or against ICBC rest, to the fullest extent possible, on detached, logical analysis and objective, published data.

PART I

UNDERSTANDING THE ORIGINS OF THE ICBC

CHAPTER 2

THE CASE FOR GOVERNMENT MONOPOLIES

Introduction

People who are in favour of public monopolies are driven by the noblest motives. The NDP government established the ICBC in order to raise the welfare of the general public in British Columbia. NDP members believed that a public monopoly could generate large savings, create employment and administer a more humane system. Thus, the public monopoly would be designed to interact with provincial licensing authorities and facilitate the recovery of license plates from owners who had failed to pay their premiums and had become uninsured. The ICBC would also do away with the private practice of cancelling policies upon evidence of bad driving records or allegedly even just bad habits. It would also end the assignment of bad risks into special pools and the charging of what seemed to many to be excessively high premiums. The NDP leaders had promised these changes in their ~~1982~~ provincial election platform and they believed that 1972 the benefits of lower premiums for thousands outweighed by far the costs to the few owners and managers of private insurance companies who lost their livelihood.

It is important to understand the NDP case for public monopolies. Such understanding helps to dispel misleading and fruitless thoughts about sinister motives or conspiracies that might have driven the NDP. Instead, it helps to focus on the real issues in the controversy: What are the costs and benefits of public monopolies in a free society?

The case for government operation of an automobile insurance monopoly sounds very appealing -- in principle.

Thus, consider the following advantages such a monopoly is alleged to have over privately run systems of automobile insurance.

Economies of Scale

ICBC operating costs are lower because it can exploit economies of scale in the paperwork associated with the billing of premiums and handling of claims. The availability of computers especially has opened up greater possibilities for automation of many clerical functions and integrating them with other government departments, such as licensing, traffic fine administration, and safety inspection.

Since insurance is compulsory and there are no competitors, the public system has no sales and advertising expenditures.

Claims processing and damage assessment can be rationalized through the use of centralized drive-in centres. Highly trained specialists in these centres are virtually continuously employed in their damage assessment work. In contrast with private industry insurance adjusters, expensive travel time between the residences of customers or repair shops is saved.

Claims that require adjusters to visit vehicles that cannot be driven can be serviced very efficiently because travel can be minimized and such claims are regionally less dispersed than they are under a private system.

Market Power

In dealing with repair shops and parts dealers, a public monopoly can use its buying power to keep prices low. For example, the ICBC has been able to force repair shops to use Canadian-made spare parts instead of the higher-priced imported ones. A repair shop operated by ICBC can be used for the independent evaluation of cost estimates provided by shops. There are economies of scale in the payment of repair shops much like there are in dealings with consumers. It is advantageous for repair shops to have to submit estimates and bills to only one office than to have to deal with many private insurance firms throughout British Columbia and Canada.

Responsiveness to Social Needs

The public monopoly can be made to change operating procedures designed to serve the public interest by simple political acts of parliament and therefore with a minimum of delay and costs. For example, the introduction of the so-called FAIR (Fair Accident Insurance Rates) system. Under this system insurance premiums are based purely on the accident record of insured individuals. It replaced ratings based on the traditional private industry system under which rates were established on the basis of the accident rate of groups to which people belonged according to their age, sex and marital status. The FAIR system reflects the mood of our times which insists on the elimination of all differentiation based on group characteristics.

Closely related to the preceding point is the fact that under the private insurance system certain high risk classes of drivers, such as teenage male drivers with an accident record, faced not only extremely high premiums, they often could not obtain insurance at all. The ICBC ended this "inequity."

Simplified Legal Procedures

Under the private insurance system, disputes over accident fault, damage settlement and other such matters lead to court cases. Through them individual companies can lower their own costs at the expense of other companies whose drivers are found guilty. In this process much money is spent on legal counsel and socially valuable time of the judicial system is required.

The system is privately profitable, but socially wasteful. The ICBC as a monopoly derives no benefits from attributing fault and settling claims through the courts. Therefore, it is encouraged to take care of the claims by both parties and to settle most disputes to the satisfaction of everyone by simple administrative decisions. The savings in legal fees and court time are a genuine social benefit.

Highly Paid Employment and Investment in British Columbia

Executive and central administration jobs accrue to the residents of British Columbia since the ICBC operations are fully managed from offices in the province. Under the private system, most of the firms have their headquarters outside the province. Funds flow to them and B.C. residents are deprived of the opportunity to hold high paying managerial positions. The provincial government loses the high taxes which these people pay to other jurisdictions under the private system.

ICBC investments of reserves and working balances are made in the province rather than in financial centres elsewhere. Through this procedure, capital supply in B.C. is raised and interest rates are lowered. The higher B.C. incomes lead to greater provincial tax revenue.

By the People, For the People

Crown corporations are creatures that reflect the will of parliament and through it, the will of the people. This feature of publicly-owned firms is deemed to be desirable by a substantial segment of the Canadian public. The commercial success of Petro-Canada gas stations is evidence of this fact. They compete with others by emphasizing their public ownership characteristic. Public opinion surveys clearly have backed the decision to base the entire marketing strategy on this feature. The existence of the ICBC probably confers benefits to many residents of B.C. in the same way. They derive satisfaction from the growth and success of "their own" company.

This motive for public ownership is quite different from that of economic benefits. Yet it is important for many people, as is evident from the fact that there are so many small businesses run by persons who could earn more working for someone else.

PART II

REVIEW OF PRIVATIZATION EXPERIENCES ELSEWHERE

CHAPTER 3

THE GENERAL CASE AGAINST PUBLIC MONOPOLY: UTOPIA AND COSTS

The Appeal of Utopias

Undoubtedly, the preceding list of advantages of public over private operation of the B.C. automobile insurance industry can be extended. But the most widely discussed advantages have been presented and most readers will admit that they make a powerful case for the ICBC, public monopolies and ownership of industry in general. The basic problem with the preceding list of advantages of public ownership is that it sketches a utopia. It has been an eternally popular practice of mankind to dream up utopian forms of economic and social organization.

Utopias of all sorts have particular appeal to politicians. They almost always require growth of the state and of the power and influence of politicians. Only rarely do we find politicians who are willing to diminish their power and influence deliberately by privatizing public enterprises. It is much easier to react to criticism of the operation of such enterprises by promising investigations and reforms. Questioning of the fundamental concept occurs rarely.

Socialist utopias hold special appeal to people who pride themselves in their sense of humanity and compassion for others. They are frustrated by their inability to help the poor through their own resources. Such people advocate and, when possible, put into effect utopias which are designed to help the

poor through government programs. The ICBC is one such utopian scheme. It satisfies the desire of interventionist social and political activists to do good.

The Trouble with Utopias

The trouble with utopias is well known. They fail to function and provide the promised benefits because they neglect to take account of human reactions to the new incentives they create. Utopian schemes such as the ICBC, are based on incomplete comprehension of the ingenuity of people in taking advantage of opportunities for their own enrichment created by the new system. These reactions tend to cause the appearance of new costs and inequities that had not been anticipated in the design of the utopias.

Of course, calling something utopian proves nothing. Men are divided exactly over the question whether a particular scheme is utopian or not. Nevertheless, referring to the ICBC as a utopia has the merit of drawing attention to the fact that it is one of a large class of such schemes. It also points to the need to evaluate it not on the basis of its beautiful design and good intentions, but by its performance. How well and efficiently is it working in British Columbia in the 1980s?

The Costs of Public Monopolies Elsewhere

Public monopolies have been created in Canada and elsewhere in industries where private competition was deemed to be wasteful. The best-known examples of so-called "natural monopolies" involve the supply of water, electricity, gas, telephone and postal services. The basic argument is that under free market conditions there would either be wasteful duplication of supply facilities or the establishment of a powerful private monopoly that exploited hapless consumers.

To prevent such waste or exploitation, governments typically have granted exclusive rights to supply the service to a designated organization. The designated organization may be a branch of the government, as are the municipal garbage

collection and water supply authorities in most Canadian municipalities, or a separate entity, as is the case of provincial hydro corporations. For a long time in Canada the postal service was a branch of the government. The B.C. ferries were operated by the B.C. Department of Highways.

Private Companies and Crown Corporations

The public monopoly may also be granted to privately owned corporations, such as the B.C. Telephone Company, CP Air and CP Rail, Greyhound Buslines, taxi companies and, mainly in the United States, electric power companies. These privately owned companies hold their monopoly privileges in return for the obligation to have their consumer charges and delivery conditions approved by the government.

A third form of organization for public monopolies is the Crown corporation. All controlling stock of such a company is owned by the government, though it can raise capital in private markets through the sale of bonds and other debt. Crown corporations are designed to make profits or, at the very least, break even. The directors and managers of the Crown corporations are charged with running their business in the public interest. Government is indirectly responsible for their operation so that the political process assures that directors and managers do so. Air Canada, CN Railroad, B.C. Hydro and, of course, ICBC, are such Crown corporations.

The Privatization Debate - No Natural Monopolies?

The privatization debate at the highest level of abstraction questions the very need for the creation of public monopolies. Analytical models and historic evidence have been adduced to show that under free market conditions there would be little or no wasteful duplication of services because single suppliers are considered to be unable to exercise much monopoly power.

This is so because all goods and services have competitive substitutes. Letters, cables and messengers can take each other's place and compete with regular mail. None of these delivery systems can afford to charge excessively high prices without facing massive losses of customers. The same forces of the market set limits on the charges any one supplier of

energy can make, be it electricity, gas, coal, wood, solar or wind system. All energy suppliers face the prospect of reduced demand through the use of more insulation and efficient manufacturing processes.

The Question of Costs

However, the existence of natural, and granting of public, monopolies would be a moot question if the supply of relevant services cost the same under conditions of free markets and legislated public monopolies. Modern research has shown that this is not the case.

Economists have studied the costs of collecting municipal garbage by government departments and by private firms. They have studied the costs of public and private laundry and cleaning services at hospitals, schools and other government buildings. They have even been able to compare the costs of providing police, fire and judicial services by government departments and private firms.

T. Borcherding has studied a large number of published reports on these differences in costs. He found such a strong and systematic regularity that he felt it warranted formulation of Borcherding's Law: "Publicly supplied services cost double."

Deregulation of Airlines and Trucking

However, the most dramatic demonstration of cost savings due to the break-up of legislated monopolies comes from the airline, bus and trucking industries. Since the U.S. government in the middle 1970s removed barriers to entry into these industries and permitted the setting of fares and rates without restraints, the inflation-adjusted costs of transportation have fallen sharply.

The best evidence of this drop in costs may be obtained by comparing U.S. and European airline fares. Thus, in the early 1970s, before deregulation, the cost of flying between New York and Washington was just slightly less than the cost of flying the equi-distant route between London and Paris. Recently, after some years of free competition in the United

States and an unchanged regime of regulation in Europe, the U.S. costs are half those of the European.

This finding parallels one of earlier years in the United States. Unregulated intra-California air travel cost half the number of cents per mile than did regulated interstate travel in the rest of the United States. These results show Borcherding's Law in action again.

The preceding evidence on the differences in the cost of providing services through public monopolies and free markets could be expanded. However, it suffices to make the point central to our analysis: There is a strong tendency for public monopolies to result in excess costs. It also suffices, to whet the appetite for explanations of the causes of these cost differences. In this context the question of quality differences will be addressed also.

CHAPTER 4

THE CAUSES OF COST DIFFERENCES — GENERAL PRINCIPLES

Why Do Public Utilities Have Higher Costs?

Researchers have not been able to identify and quantify persuasively any obvious, measurable causes of the lower cost of privately operated service systems. Some of the difference can be attributed to unionization of the work-force and resultant differences in wage rates. However, savings are substantial also if the private firms are unionized and pay union wages.

The quantity, quality and age of equipment used determines production costs. Evidence of this does not give an edge to either privately or publicly operated services. Both have roughly the same amount of capital per worker, and the capital has much the same quality and age.

The quality of managerial decisions affects costs and productivity. The more educated and experienced managers are, the better generally are their decisions. Again, no systematic differences have been found in the training and education of the people who manage publicly and privately operated firms.

Does the Private Sector Work Harder and More Efficiently?

These empirical facts suggest one highly contentious explanation: People in the private sector work harder and more efficiently. Unfortunately, it is almost impossible to prove this directly. Just raising the question calls forth violent and indignant reactions from workers and managers in

the public sector. The subject is full of emotional charge. And, of course, it is easy to observe wide differences in the behaviour and productivity of workers in each sector. (For example, almost everyone has encountered equally eager, friendly and efficient clerks at the wickets of ICBC and private insurance agents and equally uncooperative, rude and incompetent clerks in both situations.)

Many people are convinced from a lifetime of experience that on average, workers, clerks, and managers in public enterprise do not work as hard as those in the private sector. But it must be admitted that these convictions in the end are nothing but opinions.

Indirect Evidence - Incentive Structure

So it is true that there is no direct evidence to prove that workers and managers in the private sector work harder and more efficiently than those in the public sector. But there exist some very compelling logical causes for this state of affairs. These are the absence of a valid performance measure and of the controlling hand of competition. In the vernacular, the public sector has no bottom line.

It is well known that competition among firms in the private sector forces labour and managers to work hard and efficiently. Failure to do so leads to the loss of business, jobs and wealth. Good performance means higher sales, pay and promotion.

Public monopoly employers simply do not face the same incentives and sanctions. When production costs rise for whatever reason, managers simply submit the data to the regulatory authorities and obtain increases in rates to consumers. It is indisputable that these authorities have neither the ability nor the authority to refuse rate increases made necessary by decreased labour or management efficiency. They have no competitive norms by which to establish the relevant facts.

In a way, incentives in public monopolies are perverse. Managers' status and incomes are higher the more workers they supervise. They therefore have incentives to err on the side of over- rather than under-staffing. Similarly, such managers gain nothing by resisting wage demands and feather-

bedding practices. To the contrary, often the public praises them if they are known to pay high wages and avoid industrial strife.

Another property of public monopolies is that they tend to be the instruments of politicians who want to create a "better society" according to their vision. For example, the ICBC was forced to enter into credit financing of premiums. Such a facility was considered to be of special use to poor credit risks who are unable to obtain funds in private markets. Defaults and collection problems experienced by the ICBC with such customers were severe and resulted in substantial losses on the loan business. Credit extension and management are highly specialized and difficult tasks, which cannot simply be taken over by a company whose expertise lies in writing insurance. The loan business has since been terminated, but the episode is indicative of the kind of expensive activities into which public monopolies can and often are pushed in order to make them extensions of the Ministry of Welfare.

In sum, there is no direct evidence that Borcherding's Law is due to different work habits of private and public monopoly employees. But the indirect evidence suggests that the incentive structures under which public monopoly workers and managers operate encourage higher labour costs. Episodal evidence and casual observation reinforce this case. It must stand until someone can come up with a better explanation.

The Role of Unions

Unions in the private sector, especially in competitive industries, have little room for raising members' wages or protecting their jobs by feather-bedding and work rules. Success in doing so in the case of small stores or producers, such as car repair shops just drives these firms out of business. That is the main reason why these industries tend not to be unionized.

The level of unionization and the exercise of power in the achievement of higher wages, job security and accommodating work conditions are greater the more oligopolistic concentration and excess profits exist in an industry. Firms in these industries face demand for their products that permits the manipulation of prices and quantities sold, leaving room for strategic union manoeuvres for trade-offs between wage

rates and the number of employees. In natural resource industries where the government claims economic rent as a residual, unions tend to be especially successful in gaining advantages for their members.

Public Sector Unions

In the case of the government bureaucracy and government created monopoly Crown corporations the scope for unions is by far the greatest. Any gains of union members through higher wages or easy work rules simply raise costs. There is virtually no penalty on the unions or their members for this success. Governments stand by to meet the cost of any service needed by the public, seemingly without limit. It either raises taxes to pay civil servants or it permits increases in the monopoly service costs to the consuming public.

We may therefore conclude that unions in government monopolies have much opportunity for obtaining gains for their members.* The creation of monopolies such as the ICBC thus represents an open invitation for unionization. And while productivity generally is lower in all organizations that have no bottom line or competition, unions tend to aggravate the problem. Union leaders continuously have to justify their existence and salaries by gaining advantages for their members. In public monopoly organizations they do so with a vengeance. They do so by raising wages for their members. But probably more important, they engage in work-restrictions and feather-bedding that make life easier for their members and maximize employment and therefore union membership. Through these mechanisms they contribute heavily to the observed lower productivity in public monopoly enterprises.

The Creation of Other Monopolies

Another important reason why publicly owned and operated industries tend to have higher costs is that they encourage the creation of monopolies in supplier industries. This can best be

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*Editor's Note: For a complete discussion of unions in the public sector see Unions and the Public Interest, S. Christensen, Vancouver: The Fraser Institute 1980.

demonstrated in the context of the ICBC dealings with repair shops.

Under the private system car repair firms have to deal with many insurance companies. The repair companies typically are in fierce competition with each other. Unions have no opportunity for gains and are generally absent. This is so because union-raised wages and costly work rules mean lack of competitiveness and loss of contracts with insurance companies. No insurance company can afford to buy from high-cost repairers or it will be driven out of business.

Attempts by insurance companies and repair shops to organize monopolies have tended to fail because entry into either type of business is too easy. New entrants quickly grow under the umbrella of the monopoly by charging slightly lower prices, advertising heavily and providing better service. Under these conditions monopolies fail. This is known and they are rarely tried.

Under the public monopoly insurance scheme, however, it pays handsomely for auto repair shops to form an implicit or explicit cartel. The monopolist may actually encourage its formation by the creation of organizations and information exchange systems that facilitate billing, quality control and many other dealings with the repair shops. Unions in turn find that the repair shops are ready targets for their activities.

Passing on the Higher Cost

The reason for this collusive behaviour of repair shops and for the action of unions is obvious from the above analysis. The insurance monopoly has no competitively determined bottom line. Higher repair costs due to cartel-set prices and higher union labour wages are treated more or less as if they are determined exogenously. When costs rise, insurance premiums are increased correspondingly to cover the costs.

Analogous forces also encourage collusion among the suppliers of spare parts, paint and all other supplies.

It is, of course, difficult in practice to know when price increases by repair shops and their suppliers are due to general inflation, genuine cost increases due to technical difficulties, higher quality parts and work on the one hand and the effects

of monopoly on the other. Certainly, there is a strong incentive for all parties involved to blame price increases on forces beyond their control. This is why premium increases are normally accompanied by much wailing about the irresponsibility of drivers causing accidents, the rising costs of medical care, outrageous awards by juries to disabled persons and so on. Favourite targets for blame are also the producers of automobiles that cause repairs to be excessively and increasingly expensive.

The preceding analysis used ICBC conditions for illustration of general analytical points. In no sense have I proved that collusive behaviour exists among suppliers or even that ICBC unions have excessively high wages. The descriptive analysis is designed simply to report principles that economic analysts have distilled from other studies of public monopolies and Borcherding's Law. These principles will in fact be applicable to the ICBC only if Borcherding's Law applies to its operation and its operating costs are found to be inflated correspondingly.

Quality and Convenience

Defenders of public monopolies often argue that the quality, convenience, and reliability of publicly supplied services are greater than those of the private sector. They claim that this explains the observed difference in costs.

This is again a proposition that is difficult to prove directly. However, as in the case of work incentives, there are strong principles suggesting that private sector quality, convenience and reliability should be higher than those found in the case of public monopolies. If private workers and managers fail to satisfy their customers in those dimensions of service as well as price, they lose business, their jobs and wealth. Public sector workers and managers do not face the same sanctions.

Studies of privatization have investigated the matter by opinion surveys. These generally revealed that consumers were happier with the quality, reliability and convenience of services after than before privatization.

The studies of privatization have also documented how private firms have used innovative methods to improve

service. The most outstanding example of such innovation is from the aviation industry in the United States. After the public monopoly of the large airlines was broken, new firms began to service middle-sized and small towns more frequently and at more convenient times than had the large carriers. They used especially suitable planes, check-in and billing procedures that further raised consumer satisfaction.

In sum, the claim that public monopolies provide better quality and more convenient and reliable service than private firms is not substantiated by objective study. Basic incentive structures suggest why this should be so.

PART III

MEASURING THE EXCESS COST OF THE ICBC

CHAPTER 5

THE COSTS OF ICBC AS MEASURED BY PREMIUMS

The Nitty-Gritty

Most people do not care about the experiences with privatization elsewhere and abstract generalizations about the way in which government monopolies tend to raise costs. What counts for them as consumers is whether the public monopoly is demonstrably more or less expensive than the private industry. To this practical question we now turn our attention. In order to simplify the analysis, we abstract from questions of quality and concentrate solely on cost comparisons.

Problems of Comparison

Comparing the premium costs of automobile insurance in different Canadian provinces is a difficult and hazardous task. Accident rates differ according to driving conditions which are determined by such things as climate, urbanization and the quality of roads. Repair, medical and administrative costs differ depending on general labour costs, unionization, transportation expenses for inputs and the size of the market.

Comparisons of insurance premiums are made even more difficult by the different rate structures employed in the industry. All firms provide good-driver discounts. But they do so at different rates and over varying lengths of time.

Insurance companies also have premium rates that differentiate between makes, models and ages of automobiles. Groupings and premium costs in these rate classes are determined by formulas that reflect the specific automobile

repair costs, weight, accident frequency and other relevant criteria. The formulas and weights can differ among companies. Analogous differences arise in the application of rates for different age groups and car use categories.

All of these factors combine to make inter-provincial rate comparisons so difficult that it might seem best to avoid them altogether. Those who make comparisons leave themselves open to "lying with statistics."

A Hallowed -- Though Harrowing -- Tradition

Nevertheless, rate comparisons are made all the time. The ICBC itself engaged in the game. Table 1 shows the statistics they used to prove how the monopoly saves B.C. taxpayers money.

As can be seen, this comparison makes the ICBC appear to be more efficient indeed. If one takes the average private insurance rates in Toronto and Montreal, subtracts the Vancouver ICBC rates and multiplies the difference by the number of cars insured in Vancouver, one arrives at an

TABLE 1

PREMIUM RATE COMPARISONS SUPPLIED BY ICBC

Four-year claim-free record in B.C.
Five-year, claim-free record in other cities.
No driver under age 25. 1979 Datsun 510 Sedan

Company	Toronto	Montreal	Vancouver	Edmonton	Ottawa	Halifax	Victoria
Comm. Union	435	562		421	353	318	
Fireman's Fund	439	497		374	378	299	
Royal Ins.	425	553		366	370	337	
Zurich Ins.	446	563		354	399	308	
ICBC			359				324

Note: Based on city size, it is appropriate to compare Toronto and Montreal with Vancouver; Edmonton, Ottawa and Halifax with Victoria.
The coverage provided under these premiums is as follows: $500,000 liability and $200 collision insurance with a $50 deductible.
The Montreal premium includes a compulsory $95 contribution to the government's No Fault Bodily Injury Cover Scheme.

Source: ICBC Publication, The First 10 Years, May 1983.

estimate of the amount of savings enjoyed by Vancouver drivers due to the public monopoly. Repeating the procedure for smaller cities such as Edmonton-Ottawa-Halifax and Victoria, it is possible to obtain estimates of very substantial savings of $225 million in 1982 for the province as a whole.

Are Premium Differences Due to Accident Frequency?

Readers may be interested to know where British Columbia ranks in the frequency of accidents as compared with other provinces. Unfortunately, such statistics are not available on a basis that permits inter-provincial comparisons. Therefore, we have to do with fatality rates per 100,000 vehicle registration. These figures are less than perfectly correlated with total accidents because the number of deaths is influenced often by catastrophic events, such as a bus crash. Nevertheless, the data are of some indication of accident frequency, especially for the major provinces where the law of large numbers reduces the impact of random influences.

Table 2 provides data on fatalities caused by vehicle accidents. It reveals no consistent pattern that can explain the differences of Table 1. In 1982 British Columbia's record is slightly better than Quebec's and much worse than Ontario's and Alberta's. Nova Scotia has a 28 per cent greater fatality rate than British Columbia. Yet, insurance premiums in private industry Halifax are marginally lower than they are in public monopoly Victoria. The 1983 data show British Columbia to have much lower fatality rates than Quebec and about the same as Ontario. In general, 1983 data show a vastly different ranking from that found in 1982.

These data suggest that it is extremely difficult to explain provincial cost differences for automobile insurance by comparing fatality rates. Besides the private and public monopoly delivery systems, there are too many other variables influencing the difference such as climate, average distances

TABLE 2

FATALITY RATES PER 100,000 VEHICLE REGISTRATIONS

		1982	1983
1	New Brunswick	56.6	34.7
2	Nova Scotia	38.0	29.5
3	Saskatchewan	34.6	33.8
4	Quebec	31.3	40.3
5	British Columbia	29.6	24.3
6	Northwest Territories	29.0	52.1
7	Newfoundland	26.2	39.3
8	Alberta	24.3	24.0
9	Prince Edward Island	23.3	45.0
10	Manitoba	23.2	19.2
11	Ontario	22.0	23.2
12	Yukon	16.6	47.1
	Canada (average)	27.4	28.1

Source: 1982 and 1983 Canadian Motor Vehicle Traffic Accident Statistics, Transport Canada, TP 3222 and TP 3322.

driver, urban-rural mix, age and size of cars and repair costs. For this reason, this approach will not be pursued here. It has not been used by the ICBC in any of its comparisons.

A Comparison of Lowest Available Rates

Instead, the following critical analysis of the data in Table 1 will use the same basic approach used by the ICBC in constructing it.

Table 3 presents 1984 premium rates as quoted by the ICBC for Vancouver and by four private companies for Toronto. The essential difference in the approach to this and the ICBC supplied tables is that the present one shows the lowest rates that drivers can obtain from the private and

TABLE 3

PREMIUM RATES VANCOUVER TORONTO, LOWEST RATES

Company	Rate Group 1 71 VW Beetle 70 Impala 70 Ford Fairl.	Rate Group 3 71 Mustang 73 Galaxy 76 Chevette	Rate Group 7 79 Ford LTD 80 Ford Fairm. 81 Datsun 210	Rate Group 11 81 Datsun 280Z 82 Buick Elec. 83 Volvo GLE	Rate Group 13 82 BMW 528 83 Merc 240D 83 Cad. Eldo.
ICBC Vancouver	354	391	471	562	634
Private Companies Toronto					
Travelers	312	343	447	675	801
Safeco	294	321	411	609	718
State Farm	317	467	418	548	687
Royal	290	316	453	788	788
Private Companies					
High	317	367	453	788	801
Mean	303	336	432	655	749
Low	290	316	411	548	687
Excess of Monopoly over Private Costs (Per cent), based on mean of private					
High	11.7	6.5	4.0	-28.7	-20.8
Mean	16.8	16.4	9.0	-16.5	-18.1
Low	22.1	23.7	14.6	2.6	- 7.8

Note: Rates are for 1984, driver over 25 years, 5 and 6 year good driver discount for ICBC and private companies, respectively.
The coverage provided under these premiums is as follows: $500,000 liability and $250 collision insurance with a $50 deductible.

Source: Individual insurance companies' rate schedules.

government companies. It turns out that ICBC rates are at their minimum after four years of claim records. The lowest private rates apply after six years. (However, it is also true that the ICBC accident-free premium ceases after the first accident. Many private insurers permit one accident before penalizing the insured with a cancellation of the safe-driver discount.)

To bring out an interesting difference and to assure more direct comparability, the data in Table 3 show costs by five different rate groups, starting with the lowest priced cars in group one and running up to the most expensive, new, luxury cars in group 13. Unfortunately, it is not possible to compare rates for all groups since the types of cars covered are not the same under the two systems. Nevertheless, the pattern of costs and differences in the groups shown are consistent enough to suggest that the table is broadly representative.

Surprising Cost Comparisons

The data in Table 3 will come as a surprise to many readers, especially those who know only the key figure supplied by ICBC in Table 1. According to Table 1, Toronto rates were 10 per cent higher than Vancouver rates. According to Table 3, the average Toronto premiums for rate groups one and three (cars with lowest values) are 16.8 and 16.4 per cent lower than the ICBC premiums for Vancouver. For anyone willing to shop around in Toronto for the lowest private rates, there is a possible maximum saving of an astounding 23.7 per cent.

However, as Table 3 shows, the private sector advantage over the ICBC is generally less the more expensive is the car. In the highest rate groups that cover luxury cars such as Volvo, BMW, Mercedes and Cadillac, ICBC has an advantage of 18.1 per cent on average and 20.8 per cent maximum.

This rate structure is quite ironic. The monopoly was created by a government with strong socialist and egalitarian instincts. Yet, this "peoples'" monopoly charges relatively more to insure small and old cars than it does for new and expensive cars, as compared with the premium structure of the competitive private industry. In a sense, in British Columbia the people with low-priced cars subsidize those with high-priced cars.

These data reveal that the ICBC practices a kind of hidden rate increase procedure. When cars age, they decrease in value and the cost of servicing claims falls, typically because write-offs are often more efficient than are repairs. Competition in private insurance markets assures that customers enjoy the benefit implicit in the decreased market value of their vehicles. In British Columbia, there is no such competition and the public has to go along with the valuation made by the monopoly.

The Broadest Measure Possible

The relatively simple and straightforward figures in Table 3 may be criticized on various grounds. For example, there may be many more expensive, large cars driven in Toronto than Vancouver, so that the "average" premium paid by the "average" driver in Toronto is higher than in Vancouver.

Another point of criticism might be that the ICBC has abandoned special rates for teenage drivers while Toronto insurers still have them. For this reason also "average" premiums might be higher in Toronto than Vancouver.

Working in the other direction of lower "average" rates is the fact that ICBC raises rates automatically after every claim whereas private insurers do not.

I am sure that there are many other such influences on "average" rates, all of which can make Table 3 misleading. It is therefore useful to consider the true, "average" premium cost of ICBC and of the private insurance industry.

The data show that in 1982 the ICBC earned $632.1 million in premiums and insured 1.821 million vehicles at the end of the year (see pp. 12, 13 of the ICBC Annual Report 1982). This comes to $347.12 for each vehicle insured.

The comparable figure for all private insurance companies is $340.54. This makes the "average" ICBC cost 1.9 per cent higher than the private insurance cost "average." It should be noted that the costs in this result reflect the premiums charged by all private insurance companies in provinces where they can operate freely. (Cost data are from the 1982 Green Book, published by the Insurance Bureau of Canada. The number of registrations is from Road Motor

Vehicle Registrations 1983, Statistics Canada). The private insurance average thus includes the country's largest and most industrialized province Ontario. However, it excludes Quebec data on the grounds that this province operates a unique hybrid system of private and public insurance. (If Quebec is included in the calculation of the private insurance average, the figure would be raised to $346 and would be almost exactly equal to that of British Columbia.)

Another broad based measure of different costs may be obtained by comparing developments in Alberta and British Columbia. Between 1972 and 1982 both provinces went through an economic boom with corresponding general inflation and skilled labour shortages. Over these ten years the average premium collected in British Columbia by the insurance monopoly rose 203.6 per cent. The private, competitive industry insurance premium in Alberta rose only 177.2 per cent. In other words, average premiums rose 15 per cent more in British Columbia than in Alberta. (The 1972 data were taken from the Report of the Federal Superintendent of Insurance, the 1983 data came from Stone and Cox, Provincial Results 1983 and the ICBC Annual Report 1983.)

Summary

Readers can be forgiven for remembering at this point all the old sayings about lying with statistics. But the fact is that the claim of the superiority of public monopoly over private enterprise car insurance comes down to efficiency and costs. This claim therefore cannot be settled except by recourse to statistics on these matters. ICBC publicity certainly has never been reluctant to back claims by such comparisons.

Readers have to judge themselves whether the above statistics are good enough to make the case persuasively either way.

However, as someone who deals with such matters frequently, I am strongly inclined to draw the following conclusion from the available data: There is no evidence that B.C. automobile owners obtain their insurance at a lower rate through the public monopoly than they would through private industry. There is strong evidence that private industry premiums are somewhat lower and some that they are considerably lower.

CHAPTER 6

THE COST OF OPERATION — SUBSIDIES

The Hidden Costs of Public Monopoly

It is now important to draw a basic distinction between the cost of insurance to automobile owners and to society as a whole. The difference between these two types of costs is equal to government subsidies and loss of tax revenues.

For example, assume that the average cost of insurance under private and public monopoly is $100 per year. But the private industry pays an excise tax of $5 and profits tax of $3 per contract written. On the other hand, the monopoly pays no taxes at all and receives an outright cash subsidy of $10 per contract.

Under these conditions, a switch from private to public-monopoly supply causes the government to suffer a budget deficit of $18 for every contract written. As a result, taxes have to be raised by this amount. The true cost of insurance for car owners, who are also taxpayers, therefore is $100 under the private and $118 under the public monopoly system.

In other words, to obtain a true picture of the cost differences between the two systems it is not sufficient to compare the premium costs. It is necessary also to consider the subsidy and tax-loss effects of public monopolies. Let us do so now.

Fines and Loans

ICBC received in 1982 a sum of $25 million that was collected from drivers who had accumulated penalty points through traffic law violations and accidents. The private insurance

companies in other provinces did not receive such an income. In these provinces the traffic fines went into general government revenue and permitted tax rates to be lower. In British Columbia, general taxes had to be $25 million higher than they would have been under the private system.

In 1976 the ICBC was given a "loan" of $181.5 million to eliminate an accumulated past loss. This loss was caused by political interference with the premium-setting task of the company during its first two years of operation. The NDP had promised that initial ICBC premiums would be guaranteed to be no higher than those of private companies. During a period of inflation, this meant the charging of non-economic rates. In addition, one would expect that there were initial excess costs of learning-by-doing, which cause many new private businesses to run at losses when they start operations.

The "loan" has not been serviced or repaid. There are no expectations that it ever will and the reason for this is clear. The government payment basically represents taxes collected from the general public and designed to recoup the benefits which this same public received through non-economically low premium rates in the preceding two years. (Of course the "publics" are not the same in each case since some taxpayers don't drive autos and some drivers don't pay taxes. As a result, the "loan" did involve some redistribution from the general public to drivers.)

For this reason, it is not proper to infer from the existence of this "loan" that there is a continuous subsidy to ICBC operations. In the following calculations we do not do so. However, it is worth noting that the episode, which gave rise to the loan, illustrates some of the principles of public monopoly operation noted above. The politically motivated promise of low rates was a sham. What the NDP scheme gave with one hand, it had to take away with the other. There are no free lunches, even if the costs can be hidden by the clever manipulations of government finances and accounts.

But more important is the precedent set by the episode. In the future there may be declining needs for ICBC staff as a result of technological improvements or reductions in business. Under these conditions, it is easy to see an NDP election promise of job-security for ICBC employees and stability of premiums. Such costly vote-buying promises can readily be

made up later by subsidies disguised as "loans" from the general public as was done in the episode which necessitated the 1976 loan of $181.5 million. Private insurance systems largely protect the public from such political influences on rates and costs.

Absence of Loss Reserves

Private insurance companies in British Columbia and elsewhere in Canada are required to hold assets that are 15 per cent greater than their liabilities. This reserve cannot be distributed to shareholders and is to be used in case of catastrophic losses to assure that all insurance obligations can be met.

In 1982 the ICBC Annual Report showed $944 million of assets and $931 million of liabilities, the difference of $13 million representing retained earnings. It is apparent from these figures that the ICBC failed to meet the government requirements for private insurance company reserves since the excess of assets over liabilities was a miniscule 1.3 per cent. This state of affairs implies that the ICBC operations enjoy a public subsidy since the risk absorbed by the surplus in private industry is in effect borne by the B.C. government.

How big is this subsidy? The answer to this question can best be provided by the following thought-experiment. Consider that the $944 million package of ICBC assets and liabilities were privatized (we neglect the existing $13 million reserves). The private company or companies taking over this business would have to sell equity shares with 15 per cent of $944 million, or $142 million. The cash thus raised would be used to purchase assets and the legal requirements for the excess of assets over liabilities would be met. The $142 million would enter the balance sheet of this new corporation as stockholders' equity,

The yield on ICBC assets in 1982 was 15 per cent. Presumably, this would also have been the earnings on the new assets. However, this rate of return would not have been enough to pay dividends to satisfy the shareholders, who are required to absorb the risk of fluctuating income and default. Clearly, for the privatization deal to go through, earnings from operations would have to be raised sufficiently to

compensate the private owners for the risk they have taken over from the government.

We can get some idea about how much higher this return would have to be by considering that on average during the years 1926-1983 in the United States (comparable data for Canada are not available, but because of the integrated North American capital market, they may reasonably be assumed to have been the same) this return to common stocks has averaged 11.8 per cent annually. The treasury bill rate during this same period averaged 3.2 per cent, while long-term treasury bonds averaged 3.7 per cent. (Data are from Stocks, Bonds, Bills and Inflation, 1984 Yearbook, R.G. Ibbotson Assoc. Inc., Chicago, 1984.) These data suggest that the risk taking of equity investors generally require a compensation of 8.6 percentage points over treasury bill yields.

The modern theory of finance suggests that the risk of equity share holders in individual industries, such as insurance, is a function of the extent to which the industry's earnings fluctuations are correlated with those of a completely diversified portfolio. A widely accepted empirical measure of risk defined in this way is the "beta coefficient" of the industry. For the insurance industry the beta has a value of 1.34. (From Barr Rosenburg and James Guy, "Prediction Beta from Investment Fundamentals," Financial Analyst Journal, 32, 4, July-August 1976, pp. 62-70.)

We can use this beta estimate for the insurance industry to calculate the equilibrium rate of return on insurance industry stocks in 1982. It is equal to that year's treasury bill rate (10.54 per cent) plus the long-run difference of common stock and treasury bill yields noted above (8.6 per cent) multiplied by a beta of 1.34. The result of this calculation suggests a 1982 equilibrium yield on equity of 22 per cent. Since the portfolio yield of ICBC was 15 per cent, the addition needed was 7 percentage points.

The preceding analysis suggests that the hypothetical privatization of ICBC would require the raising of somewhere between 8.6 per cent (the long-run excess of equity over treasury returns) and 7 per cent (the result implied by modern finance theory) on the $142 equity.

For the sake of simplicity let us consider the figure to be 8 per cent, which results in a need to raise an estimated $11 million from underwriting operations. In other words, premiums charged to B.C. vehicle owners would have to rise sufficiently to cover this requirement.

It is imortant to note again that this sum of $11 million in 1982 is equivalent to a subsidy paid by the government of B.C. to the ICBC. The subsidy takes the form of the government absorbing the normal risk of being in the insurance business. For this reason, the "average" premiums of the ICBC in 1982 are understating the true social cost of operating the system by $11 million.

Premium Taxes Not Paid

We must now turn to the fact that private insurance companies pay taxes that ICBC does not. The most important of these is the so-called premium tax, which is nothing but a sales tax in disguise. In most Canadian provinces this is 3 per cent, so we assume that the B.C. rate in 1982 would have been also 3 per cent if private industry had been operating.

The 1982 automobile premium income of ICBC was $697 million. If these sales had been made by private companies, the government would have received $21 million in tax revenue. It did not receive these taxes and therefore the true cost of having the monopoly rather than the private industry is understated by $21 million.

Another way of looking at this source of cost is to consider that if ICBC had been required to pay this tax the way private companies do in other provinces, then the tax-inclusive ICBC premium would have been correspondingly higher. The comparison of public and private industry premiums in the preceding section would have shown the ICBC rates to be 3 per cent more expensive while those of the private sector remained unchanged.

Incomes Taxes Not Paid

Private insurance companies have owners, normally stockholders, who have to be paid dividends for the loan of the money and the risks they take with their investment. Over the last 10 years the private insurance companies have had pre-tax earnings which come to 6.8 per cent of premiums written. Let us assume that private companies in British Columbia would have had profits at the same rate. Therefore, the ICBC's $697 million premium income in 1982 would have resulted in $47.4 million profits.

With the corporation income tax of 37.8 per cent, these companies would have paid $17.9 million in federal taxes. Most relevant to the current analysis, 16 per cent, or $7.6 million would have gone into B.C.'s provincial revenue. This sum represents clearly an extra social cost of having ICBC rather than private industry write the insurance in British Columbia.

Advocates of public monopolies often claim that Canada's corporation income tax laws make it advantageous to switch from private to Crown corporations because they pay no federal income tax. In the above calculation the $17.9 million not paid by the ICBC would have left British Columbia if the business had not been done by private companies.

However, this analysis is highly misleading and myopic. B.C. taxpayers are also residents of Canada and receive many benefits from the central government. If it loses revenue through this provincial tax evasion scheme, it either has to reduce benefits or raise taxes. All provinces can play this game and none gain anything in the end.

For these reasons the federal income taxes not paid by the ICBC ought to be considered a cost of B.C. residents in their role as Canadian citizens. We make the rather arbitrary assumption that one half of such federal taxes would have returned to British Columbia as local expenditures, tax transfers, lower taxes or some other way. By this reckoning, the true cost of the ICBC operations for B.C. residents is understated by $9 million. If we add to this figure the $7.6 million direct B.C. corporation income taxes not paid, the total unrecorded extra cost of the ICBC in 1982 was $16.6 million.

Summary of Hidden Costs

In Table 4 the hidden costs of the ICBC just discussed are brought together. Following the preceding detailed discussion, the table shows subsidies of $36 million, consisting of traffic law violation penalties and neglected costs of risk reserves. The taxes not paid come to $38 million, and consist of premium and corporation income taxes. The total hidden taxpayer costs are $74 million.

The estimates in Table 4 are not meant to be precise. However, they are accurate enough to permit, without qualification, the generalization that the ICBC results in considerable costs to B.C. residents that could be avoided if automobile insurance were provided by the private sector.

Excess Cost as Per Cent of Premiums

If is very instructive to express the preceding estimates in relation to the excess costs of automobile insurance for the average B.C. resident that can be attributed to having the ICBC monopoly in place of private insurance carriers.

TABLE 4

SUBSIDIES RECEIVED AND TAXES NOT PAID BY ICBC IN 1982

	million	
Subsidies		
Traffic Law Violation Penalties	$25	
Neglected Costs of Risk Reserves	11	
Total Subsidies		$ 36
Taxes Not Paid		
Premium Taxes	21	
Corporation Income Taxes	17	
Total Taxes Not Paid		$ 38
Total Hidden Taxpayer Costs		$ 74

TABLE 5

ESTIMATE OF ICBC EXCESS COST ON AVERAGE PREMIUM

1982 Private province average premium cost	$	341	
1982 ICBC average premium paid		347	
Excess of ICBC over private province	$	6	1.8 per cent
1982 ICBC premiums written	$	632 million	
Hidden Taxpayers Costs		74 million	
Excess of true cost over collected premiums		($74/632)	11.7 per cent
Total excess cost of ICBC			13.5 per cent

TABLE 6

ICBC EXCESS COSTS VANCOUVER AND TORONTO, RATE GROUP 3

1984 ICBC rate, Rate Group 3, Vancouver	$	391	
1984 Royal Insurance Comp., Rate Group 3, Toronto		316	
Excess ICBC over Royal Insurance Comp.	$	75	23.7 per cent
1982 ICBC premiums written	$	632 million	
1982 Hidden Taxpayers Costs		74 million	
Excess of true cost over collected premiums			11.7 per cent
Total excess cost for Vancouver over Toronto driver			35.4 per cent

Table 5 does so at the most general level by considering the 1982 average premium earned by insurers in provinces with private carriers and comparing it with the average ICBC premium that year. To this figure is added the percentage by which the ICBC premium collected underestimates the true cost to B.C. taxpayers. The results of Table 5 show that at this broadest level, ICBC costs are 13.5 per cent higher for the average B.C. automobile owner.

In Table 6 the data for Toronto and Vancouver drivers in Rate Class 3 are the basis for comparison. As can be seen, the excess cost of ICBC under these assumptions reaches the impressive 35.4 per cent. Admittedly, this figure is based on the rate class in which the Toronto drivers have their greatest cost advantage. Moreover, it uses the lowest commercial rate available in Toronto. Nevertheless, the figure represents a reasonable estimate of ICBC excess costs for B.C. residents who drive cars of less than average value and who are willing to shop around for the lowest rates in town.

The Future Dynamics

The preceding statistics should be seen in the future perspective of public monopoly operations generally. Whereas private business and non-unionized workers have to adjust their earnings and wage demands according to economic conditions, public monopoly firms and their workers normally do not. To the contrary, indexed wage rates and union contracts prohibiting layoffs tend to make public monopoly labour costs almost immune from recessions. The reason for this state of affairs has been noted above. There is no bottom line. Increased ICBC costs can be passed onto consumers without restraints from competition.

More generally, all of the forces that result in public monopoly excess costs discussed above are cumulative through time. There is no mechanism that ever reduces this excess. In the present context this means that the excess cost figures shown can be expected to grow in the future. They represent the outcome of only about nine years of existence of ICBC.

PART IV

BENEFICIARIES OF THE ICBC MONOPOLY

CHAPTER 7

INCOME REDISTRIBUTION AND WASTE-- TEENAGE DRIVERS

The ICBC is very popular with teenagers. The reason for this popularity is obvious. The public monopoly provides substantial benefits to them that private industry would not -- benefits provided at the expense of other residents of British Columbia. Perhaps they involve a desirable redistribution of income, though one can easily have one's doubts about this, for reasons to be discussed. Chances are that the general public does not really know that the ICBC is being used for this income redistribution scheme. The following analysis shows how complicated the subsidy scheme is and how few hard facts are available.

Teenage Benefits

It is well known that young male drivers have more frequent and more costly accidents than do other drivers. As can be seen from Table 7, male drivers 18 and under in Ontario in 1982 had more than double the frequency of accidents than did the rest of the drivers. It may safely be assumed that the same relative frequency exists in all of Canada.

Historically in Canada and in most countries of the world these facts have led to a system which charges insurance premiums on the basis of cost. Drivers are divided into groups by age, sex, marital status and use of vehicle. This system on average, makes people pay for the damages they cause while still, within each group, granting the benefits of risk-sharing to the insured.

While the high costs of teenage insurance have tended to catch the attention of the public, there is the other side of the same coin that tends to be neglected. The very same experience rating system provides low insurance rates for married adults. It also has been pushed by private industry to reward people who do not drink or smoke and who live in areas where accidents, theft and vandalism are infrequent. All this strikes many people as an eminently equitable system.

The system is also efficient. By making it more expensive for teenagers to drive, it discourages them from it. There

TABLE 7

Age Group	Licensed Drivers	% of Total	Involved in Collisions	% of Total	% of Each Age Group Involved in Collisions	
					Male	Female
18 and under	221,385	4.2	25,967	8.1	15.0	6.7
19-20	248,889	4.7	25,325	7.9	13.9	5.1
21-24	541,980	10.3	45,352	14.2	11.6	4.4
25-34	1,328,974	25.3	81,437	25.4	8.4	3.5
35-44	1,051,422	20.0	52,429	16.4	6.5	3.2
45-54	779,235	14.9	35,199	11.0	5.8	2.7
55-64	628,131	12.0	24,027	7.5	4.9	2.2
65 and over	447,182	8.5	14,069	4.4	3.8	2.0
Not Known	-	-	16,668	5.2	-	-
Total	5,247,198	100.	320,473	100.0		

Source: Automobile Insurance, Ministry of Transportation and Communications, Ontario, 1982, p. 21.

are fewer teenage drivers on the road and, hence, fewer accidents.

After creation of the ICBC in 1974 public dissatisfaction with the existing, traditional rate structure was voiced. The most important ingredient of this dissatisfaction was that some objective characteristics were used to assess insurance costs. It was alleged to treat people like objects rather than like individuals. The existing system was seen to be unfair because it forced all teenage drivers, in particular, to pay very high premiums, even though many of them were safe drivers. Out of this reasoning came a new definition of fair. It required that all drivers be assessed equal rates and then be penalized heavily by higher rates once they have their first accident. The system is known under the acronym FAIR after Fair Accident Insurance Rates.

The Cost of the New Definition of Fair

Concepts of fairness are a social phenomenon. Social scientists understand only poorly how they are developed. They are not based on any absolutes or scientific principles. Thus, it is impossible to prove scientifically or draw on some ultimate moral principle to establish the superiority of assessing insurance premia on the basis of objective group characteristics or individual behaviour.

However, we can discuss some empirically evident implications of using these different moral principles. To do so, consider as a thought-experiment, a policy that pushes the FAIR system to its extreme limit. There are now many British Columbia drivers who never have had an accident, some after many years of driving. It seems highly unfair that through all these years these people were forced to pay premiums in order to pay for the mistakes of others. So wouldn't it seem fair that they get insurance at a zero premium cost? After all, once they had an accident, they would pay off the costs they had caused the system by starting to pay premiums. There is quite a strong analogy in this thought-experiment with the arguments made in favour of teenage driver premiums. Yet, the absurdity of the argument is brought out clearly. It is impossible to run an insurance system without the insured contributing premiums on the basis of anticipated claim fre-

quency of a group. In any and all insurance systems there must therefore be some unfairness to some people in the sense that often the fact is they will have paid money for insurance that they did not need to utilize.

While it is impossible to rank the degree of unfairness of insurance by different group definitions, it is possible to consider objectively the economic costs of doing so. For this purpose consider that under the FAIR system it was necessary to raise the amount of good-driver discount that was lost after an accident. A system of steeply increasing premium rates was initiated to penalize accident-prone drivers. This seems eminently fair. But there is a fly in the ointment.

The size of automatic premium increases after a claim has its limits. If the system requires claim-filers to pay too much, they might as well not have any insurance at all. Any private insurance company independently pushing this cost too high would lose customers to competitors and the ICBC monopoly would have a political revolt on its hands if it did so. It may in fact be reasonable to assume that under competition good driver discount rates are at their efficient optimum. Private firms through years of trials and errors under competition will have found the publicly most desired trade-off between low basic rates and good driver discounts.

Higher Rates for Some

Because of this inherent limit on the ability to penalize those who have had accidents, it is highly likely that the higher penalty rates imposed by ICBC under the FAIR program did not make up fully for the losses due to the much lower premiums charged teenagers. After all, it must be remembered that the old system already did penalize those who had accidents. If this proposition is correct, then it follows that all good drivers, but especially those over 25 and women, even if they are accident-free drivers, have been required to pay higher basic premiums. They also will have suffered more severe penalties after accidents in the form of smaller average good driver discounts.

The persuasiveness of the preceding analysis is strengthened further by the fact that the lower initial premiums for teenagers have made it possible for some to drive who, under

the old system, would not have done so. As a result, British Columbia has an increased number of accidents. Since these teenagers as a group have more claims than their premiums cover, these increased costs fall on the rest of B.C. drivers.

The Equity of It All?

If the preceding analysis is correct, older people and women pay more and teenagers pay less under the new than under the old system. The fairness of this new system therefore is not as obvious as the slogan promises. Older people and women are now charged a higher rate for their insurance, even if they never had an accident. The alleged inequity for some safe-driving teenagers under the old system is simply shifted to another group.

It is true, since there are so many more non-teenage drivers, the extra annual burden is relatively small for each. However, it is not self-evident that all older drivers can afford the higher rates better than teenagers could. The rates may be only somewhat higher every year, but they are so for many years and they fall on pensioners, the unemployed and others who may be as financially strapped as teenagers.

Extra Accidents and Deaths

The new FAIR scheme's most undesirable effect, however, may stem from the fact that the lower initial insurance rates for teenagers causes more of them to be on B.C. roads. More of them can afford to drive a car. It is not known by how many more, but the number is likely to be substantial, given the great reduction in teenage driver insurance costs. It would be a possible and desirable research project to establish this number by comparing teenage driving rates in provinces with and without FAIR systems.

Since it is true that teenagers have high accident frequencies, ICBC's new FAIR rate structure is indirectly responsible for a certain number of additional accidents on B.C. roads in recent years. Those will have resulted in higher property damage claims. But most tragically, they also will have caused more injuries and deaths. In most countries of the world these costs are considered to be so high relative to the

benefits accruing to the teenage drivers generally, that they prohibit driving below the age of 18. The B.C. insurance monopoly is doing the opposite. It encourages these young people to drive.

Conclusions

The ICBC insurance monopoly has initiated the so-called FAIR system for assessing premiums for drivers. It does away with risk classes which in the past had lumped together people by objective characteristics and in disregard of their individual personalities. Instead, it makes every driver pay the same rate initially and then penalizes those who have accidents and rewards safe drivers.

Unfortunately, the ability to penalize people who have accidents has severe limits if the insurance principle is to be retained. This fact has resulted in increased average rates payable by non-teenage drivers. The FAIR system has resulted in more teenage driver-caused accidents, injuries and deaths. The costs of this new system are unfair to those who have to pay them. The problem is that they are not well understood and appreciated by the public in British Columbia.

The ICBC and politicians certainly have no incentives to point out and document these costs. In the pattern of all interest group legislation, the teenage benefits are concentrated. The new FAIR scheme assured teenagers low rates and repealing it would be costly for them. The people who foot the bill pay relatively little cash annually. They do not have the proper incentives to inform themselves or generate political opposition. That is why the ICBC is loved by politicians as an institution for the redistribution of income and the gathering of votes from beneficiaries.

Under a private insurance system in British Columbia, lobbying of politicians and information of the public about the hidden costs and unfairness of the FAIR system would have been much stronger than they were by the Crown corporation. Such efforts might not have led to a retention of the traditional private insurance rate structure. But at least the B.C. public would have chosen the alternative from a base of much better information.

CHAPTER 8

THE EFFECT ON GENERAL WAGE LEVELS

In the review of existing privatization literature above we noted that one of the differences between private and public monopolies is the degree of unionization and the correspondingly higher level of wages in the monopolies. The ICBC is totally unionized, practically since its inception. For reasons already mentioned, this is not surprising. Public monopolies are a fertile field for the exercise of union power because absence of a bottom line and competition permits higher labour costs simply to be passed onto consumers. Union leaders, politicians and ICBC management habitually hide these increases by blaming them on inflation and other forces beyond their control.

Private Sector - ICBC Wage Differentials

During the Corelli Show on CBC in the Fall of 1983, one of the panel members was the union representative of ICBC employees. During the discussion he proudly asserted that his members had higher wages than they could earn in the private sector.

A few figures serve to document just how much more. A sampling of 15 private insurance companies in Canada showed that in 1983 the average compensation per employee was $23,500, including employee benefits averaging 13.5 per cent. By contrast, the average ICBC employee in 1983 earned $33,625, assuming a 13.5 per cent benefit package. These figures reveal that ICBC workers earn 43 per cent more than their counterparts in the private sector in Canada.

The preceding calculation is obviously extremely rough.

It neglects the role of part-time workers and possible different propensities of the ICBC and private insurance companies to do work in-house rather than contract it out. Nevertheless, these personnel cost differences are impressive and we may be reasonably certain that a more detailed analysis of equivalent occupations and responsibilities shows exactly what the union claims. Their ICBC members earn more than they could in the private sector.

Social and Economic Implications

The excess earnings of unionized employees are the result of the use of power that was made possible by the creation of a public monopoly. There are two ways of interpreting the economic and social consequences of this exercise of power. That favoured by union leaders is that it gives the workers only what they deserve. Workers in the private sector are underpaid and exploited.

The other view emphasizes the fact that the higher wages paid by the public monopoly must come from someone. The calculations above documented that they have come from the general public partly through higher premiums and partly through higher taxes. Since there are no capitalist stockholders of the ICBC, the money certainly could not have come from them.

From a social point of view these facts shed an interesting, different light on the exploitation-of-labour argument of union leaders. What they have done through the ICBC is enrich themselves at the expense of the rest of the community. They exploit B.C. automobile owners. Some of them are pensioners, widows, unemployed and other low-income earners. The equity of this process is highly questionable. It also sheds some doubt on the rhetoric that unions are protecting the interest of the little people in society.

Why Not Universal Unionization?

Unions like to argue that other workers have the option of forming or joining unions. If they did so, they would earn sufficiently higher incomes to make up for the cost-raising effects of other unions' policies, as in the case of ICBC.

This argument does not take account of the harmful consequences of higher prices on pensioners and others not working. In any event, it cannot work since every worker in Canada can have a higher average income only if productivity is raised. Unionization by itself does not do so. Alternatively, the higher incomes can come from the owners of capital.

Unfortunately, however, capital is owned largely by pension funds, so universally higher wages would mostly transfer workers' future pension incomes to the present. The remaining capital owned by individuals is highly mobile and perishable. If labour demands too much of the return from capital, owners can go on strike much more subtly and effectively than labour can. They move their assets abroad, don't invest in Canada or simply consume them.

Most fatal to the general unionization argument are the basic facts on existing income distribution in Canada. During the three years 1980-82 corporate profits before taxes averaged 13.5 per cent, while labour income averaged 74.1 per cent of national income. Assuming that after-tax corporate income is 10 per cent, even total transfer of profits to labour would raise average wages by only 13.5 per cent. This jump would be once only. It could never be repeated and it neglects the pension fund ownership of capital noted above.

Union Effects on Productivity

In a competitive economy income differences among workers exist. These differences are morally just if they are based on differences in productivity. They are, in fact, essential as part of an incentive mechanism to spur people on to work harder and more efficiently.

There exists the possibility that the higher wages of ICBC employees are justified by higher productivity. Unfortunately, this is difficult to prove or disprove directly.* However, all of the incentives for union leaders and managers in public monopolies work to keep productivity low. Both raise their incomes and status by having larger staff. On the other hand, excess costs are not a serious problem because they can be passed on through higher insurance premiums.

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* Editor's Note: For a survey of the latest evidence see; Trade Unions and Society, J. Addison and J. Burton, Vancouver: The Fraser Institute, Vancouver 1984.

The following episode may be considered to be some limited direct evidence on the development of productivity of ICBC employees. According to ICBC Annual Reports, in 1980 the ICBC wrote policies and handled claims totalling $2.4 million, using 2,387 employees. After heavy spending on computers and a generally depressed economy that caused belt-tightening in the private sector, the following changes in ICBC employment and output were recorded. In 1982 output was still 2.4 million policies written and claims handled, but the number of employees had risen by 466, or 19.5 per cent, to 2,853. This implies that productivity and efficiency per worker had dropped 15.3 per cent. More generally, ICBC expenses during this two-year period rose 29.3 per cent, while the general price increase was 23.3 per cent.

Longer Run Efficiency Costs

More general economic waste due to unionization in the longer run is not very obvious, but still important. Thus, the high wages induce employment applications from people with higher qualifications than the jobs warrant in the private sector. Personnel officers will choose the most qualified applicants. As a result, in the longer run, ICBC jobs will be staffed by over-qualified people. These workers then are not available for work elsewhere in government or in the private sector, where productivity is correspondingly lower. This is a cost to all Canadians.

The general increase in wages by major, unionized public employers, such as ICBC, leads to wage increases in the private sector as a result of demands based on historic parity relationships. The higher labour costs make B.C. firms non-competitive internationally. Output and tax revenues fall. Unemployment and social welfare spending rises. Through these processes, all people of B.C., including union members, suffer from the wage raising exercise of union power in public monopolies.

Summary and Conclusions

In this section we have considered unions as one of the possible sources of the higher costs of ICBC premiums documented

earlier. As the review of the privatization and regulation literature predicted, the public monopoly is fully unionized. It also had predicted that the public monopoly would give great scope to union efforts to obtain above-normal wages. ICBC unions have been most successful in this endeavour. In 1983 average ICBC employee costs were 43 per cent above those in the private sector insurance companies. Public monopolies and unions also encouraged feather-bedding which lead to low productivity. Episodal evidence for a recent two-year period documents this tendency for the ICBC.

The analysis in this section is not an indictment of unions, their leaders or the managers of ICBC. It is true that their actions are harmful to the public interest and produce morally reprehensible results. However, these people merely do what almost all Canadians would do if they were in the same position. They take advantage of opportunities offered to maximize income and get the best deal possible on working conditions.

The blame for the deplorable conditions falls on politicians who established the public monopoly by law and thus created the opportunities for union activities. The analysis is an indictment of politicians and a challenge to dismantle the monopoly and thus terminate the power of the union to exploit the public.

A Note on Repair Shops and Spare Parts Dealers

Another identifiable interest group that probably benefits from the public monopoly is the suppliers of services and parts to the ICBC. Unfortunately, I cannot prove this directly, but the following considerations may be interpreted as indirect evidence in support of my supposition.

First, the absence of a bottom line at ICBC discussed above suggests that increases in the cost of repair work can simply be passed on to consumers through higher premium prices. Such conditions are an open invitation for collusive price fixing among repair shops and suppliers. It is also an open invitation for unionization of these shops. The ICBC does not need to ask the same kind of sharp questions about costs and markups as do private insurers. Their very existence in a competitive environment depends on finding the lowest cost

repair deals. Such search produces no benefits for ICBC at all. It only makes the lives of employees more difficult.

It is clear that evidence on collusive behaviour is not available. Neither repair shop owners nor unions are likely to be advertising their ICBC induced changes in behaviour.

Why ICBC Repair Shops?

However, as a second bit of indirect evidence, it should be noted that the ICBC found it necessary to establish its own repair shop in order to gather unbiased information on the actual cost of repairs. There must have been within ICBC some suspicion about the true level of competition among repair shops. As an aside, one may have some doubts about the effectiveness of such an exercise given that the ICBC shops were unionized and themselves without a bottom line.

Third, we should note that B.C. car dealers who are the main suppliers of spare parts and the operators of large repair shops, repeatedly have expressed their support of the ICBC monopoly. During their annual conventions they have passed supportive resolutions, which in turn have been publicized widely by other interest groups.

This behaviour is puzzling. Most car dealers are people who in other contexts are against the heavy hand of government. As NDP rhetoric is fond of pointing out, the Socred Party is the Party of the car dealers. The behaviour is also puzzling because it should be obvious that in the usual evolution of public monopolies, their suppliers are preferred targets for further government takeover.

The ICBC repair-shop costs could be taken as evidence of the superiority or at least equal efficiency of publicly owned repair shops. The prospect of large economies of scale in centralized supplies and spare parts ordering and management would be a further impetus. Given the right political impulse car dealers of British Columbia would find themselves competing with a widespread network of government repair shops!

The potential of the scenario just sketched cannot be unknown to B.C. car dealers. Yet, they support ICBC enthusiastically and vocally. The short-term benefits from doing so must be large.

The Importance of Claims Costs

In general, it should be noted that claims costs are the most important determinants of insurance premiums. In 1982 administrative expenses and commissions paid by the ICBC were only 20.7 per cent of total expenses. Claims incurred accounted for 79.3 per cent. Of these claims about 45 per cent went to pay for vehicle repairs and about 55 per cent paid for bodily injury and accident benefits (ICBC Annual Report 1982, pages 12, 16).

An expert on vehicle insurance claims pointed out to me that the ICBC probably has higher claims repair costs because, as a public company, it cannot engage in a practice widely used by private insurers. Under this practice private insurance companies make deals with one or more large repair shops, guaranteeing them amounts of business which result in an optimum use of expensive capital equipment and highly skilled workers. In return the insurance companies obtain lower rates than are charged by other shops whose utilization rates are below optimum. Private insurers use such high-cost shops only in emergencies. According to this expert, the failure of the ICBC to contract at lower prices with a few firms has resulted in a much lower average capital and labour utilization rate in British Columbia than in private insurance provinces. The resultant higher repair costs contribute to the higher average premiums noted above. They probably account for a large share of the excess costs because repairs are such a big proportion of the total costs of ICBC.

Some Reflections on Bodily Injury Claims

The subject of compensation for bodily injury or death is highly emotional. It can be argued that no payment of money, however large, can compensate a family for the loss of a member killed in an accident. Similarly, the loss of physiological or psychological functions brings reductions in the quality of life for accident victims which cannot be made up by monetary compensation.

Yet, it is clear that in personal injury and death cases insurance companies pay finite sums. The size of these sums is determined by insurance companies and, in a small

proportion of the cases, by juries and judges. These payments by and large reflect society's sense of balance between the need to help accident victims and the financial conditions of drivers who through the insurance system ultimately have to come up with the funds.

Private insurance companies in competition with each other argue the case of the ultimate payers with judges and juries and set their schedules according to decisions reached by them. Public insurance monopolies are subject to more direct political influence through legislators. Under this influence, they are more likely to award large sums to spectacular injury and death cases which get good press coverage and have political pay-offs. More generally, compensation for injuries is high because it permits the public monopoly to serve the creation of a more equitable society, as we noted above. The costs of these settlements involve small premium increases and initially have low political costs.

However, through time, such small costs add up and political pressures develop to keep down insurance premiums. The easiest way out of such developments is for the insurance monopoly to reduce litigation and insist on standard compensation formula. The ultimate effect of these changes is to reduce the overall costs of settlement for injury and death cases, which have risen almost inadvertently through the initial political effort to have the monopoly be more just than are the private systems. It is ironic that the public monopoly thus tends to end up with more rigid formulas and appeal mechanisms than does the private system.

In 1983 in British Columbia a major effort took place to introduce a so-called no-fault system for vehicle insurance. Its main ultimate effect would have been the establishment of fixed injury and death compensation schedules and the severe curtailment of access to courts. For a number of reasons the system was not introduced. However, the preceding considerations suggest that the continued existence of the ICBC as a public monopoly will almost certainly lead to renewed pressures for such changes. Political influences operating through the public monopoly have to be curtailed by statutes.

PART V

OTHER REAL WORLD DEVIATIONS FROM UTOPIA

CHAPTER 9

THE ILLUSION OF LOCAL INVESTMENT AND HIGHER INCOME

Proponents of the ICBC public monopoly claim, as one of its great advantages, that it keeps its assets in B.C. and raises local employment. The private insurance firms are alleged to transfer premium revenue into investments in Toronto and Montreal or even abroad. They also are believed to spend significant proportions of their income on highly paid residents of other provinces where the private insurance company headquarters are located.

In contrast, the ICBC is alleged to keep its investments in British Columbia, where they serve local business and lead to higher tax revenues. With corporate headquarters in B.C., the highly paid jobs go to locals who benefit directly and pay high taxes to the advantage of everyone in B.C.

Some Questions about Investments

The claims about investments are not strongly supported by the facts. The ICBC in 1982 held 55 per cent of its investments in Government of Canada bonds, 27 per cent in bank deposits and only about 18 per cent in B.C. provincial and municipal bonds.

But on the basic issue of welfare benefits from ICBC investments, these facts are quite irrelevant. A little background on the operation of financial markets shows why. In today's world, the B.C. and Canadian financial markets are almost perfectly integrated into the world market. Informed observers agree that B.C. interest rates are determined outside the province. At the going interest rate, every creditworthy B.C. borrower can obtain all the funds needed.

Therefore, it makes absolutely no difference to the quantity or cost of investments and loans in B.C. whether savings generated in the province are entered into the global capital market in Vancouver, Toronto or New York.

There is only one difference relevant for British Columbia. If Vancouver banks or investment houses handle the purchase orders for securities, they employ local residents and earn a commission that would otherwise accrue to firms and residents outside the province. But the net gains on this are very small and it is not clear that it differs much from what private insurers used to bring. After all, they had local banking connections as well.

The Issue of Employment

The ICBC claims on employment are highly misleading. They are based on the assumption that ICBC employment represents a net gain. In fact, however, the creation of the monopoly in 1974 has forced several private insurance companies to leave Vancouver. In addition, many that would have settled in B.C. during the last 10 years failed to do so.

Safeco, which is now one of the largest insurance companies in Canada, moved its headquarters from Vancouver to Toronto after the ICBC was created. Generally, there is every reason to believe that in the absence of the monopoly, Vancouver would be home for at least its proportionate share of insurance company administrative and corporate headquarters in Canada. Given the region's favourable living conditions, efficient communication and transportation system and supply of university graduates, appropriate policies might even eventually turn Vancouver into Canada's insurance capital. At the very least, ICBC's claims of job creation are vastly exaggerated.

Immigration

But, much like the case of capital flows discussed above, the issue of job creation is a red herring. For the all important issue of the income of present B.C. residents, new job creation is all but irrelevant. To understand this it is important to realize that during 1982-84, there was much unemployment

in British Columbia which was caused by a world-wide recession. It will be eliminated through economic recovery.

The claims of benefits of B.C. residents from ICBC job creation are not made in the context of economic recession and recovery. Instead, the job creation is alleged to benefit B.C. workers by increasing demand for labour generally. Such new demand is expected to lead to higher wages and a higher standard of living for all B.C. workers.

However, this is not so. In a competitive open economy the labour shortages which result from the creation of new jobs do not raise wages. Instead they increase the rate of net inward migration. Immigrants take the newly created jobs or those vacated by B.C. residents accepting newly created jobs. The simple fact is that in any small economy with free migration, wage rates are determined outside and maintained at that level through the movement of workers. ICBC employment by itself, therefore, has no discernible effect on average B.C. workers' pay. Investment and industrial development in B.C. at a rate greater than in the rest of Canada only causes immigration.

All this is, of course, consistent with the arguments made above that the monopoly of ICBC and unionization of its workers have given ICBC workers above-average incomes. This cause of higher wages is completely different from that associated with job creation generally. In fact, in a small open economy the existence of sectors with high union wages causes immigration to be excessive. People enter the province in expectation of such scarce positions. While they wait for them they either are unemployed or depress wages in the non-unionized sector.

Tax Payments

Sometimes the argument is made that the creation of new jobs still raises welfare of B.C. residents because the immigrants pay taxes. This analysis is fallacious since the new taxpayers simultaneously enter claims for government services. Previous residents of B.C. do not necessarily obtain their government services at lower cost. If the immigrants have only average incomes and make average tax payments but

have above-average claims on schools, welfare systems, subsidized housing and roads, original B.C. residents can easily be made worse off by this inflow.

Summary and Conclusions

The idea that local job creation and investment of savings raises the welfare of local residents is invalid in an open economy, such as British Columbia's. Migration and capital flows wipe out all benefits or make them illusory.

Mercantilists in the past and socialistic planners in recent times have deplored this characteristic of open economies. They therefore recommend nationalistic policies of isolation, stopping the inflow of people and the outflow of capital. Many countries throughout history have experimented with these policies. Almost universally they have found that the benefits brought by these policies are far smaller than the costs. Fortunately, no one is seriously recommending economic isolationism for British Columbia, though some frequently suggested policy proposals have a strong mercantilistic flavour and the ideas are being kept alive indirectly by the unsustainable claims of the ICBC. Whatever the claims, the public of B.C. should understand that the monopoly brings none of the alleged employment benefits to the province.

CHAPTER 10

OTHER CLAIMED ADVANTAGES

A Saving in Legal Fees?

Monopoly insurance systems are alleged to provide the opportunity for important real savings in legal costs associated with settling accident claims. A simple example can be used to make the point.

Consider an accident involving damage of $10,000 with the drivers of both vehicles in the accident being certain that the fault lies with the other and that therefore the other's insurance company should pay. Let us assume that the accident was caused by both drivers to an equal degree and that the probability is .5 for each driver that the court will find one person guilty. Further assume that legal costs of $2,000 will be paid by the insurance companies and that the guilty driver will face higher insurance premiums of $3,000 due to the loss of a good driver discount.

Under these conditions, each insurance company would rationally insist on a court proceeding for the following reasons. For each company the probability that its client will be found guilty is one half. Therefore, the expected cost of going to trial is one half of the $10,000 physical damage, i.e., $5,000; one half of the $2,000 court cost, i.e., $1,000 minus one half the $3,000 higher insurance premium, i.e., $1,500. This all amounts to a statistically expected cost of $4,500. This sum is less than the full cost of $7,000 if a driver declared himself guilty without going to court, i.e., the company would have to pay the full $10,000 damage but recovers $3,000 through the higher premium. Of course, the two drivers also have a stake in the court proceedings, which cost nothing and can lead to a saving of $3,000 in extra premiums.

When the case is settled through the courts under the private insurance system, society will have incurred a legal bill of $2,000 in addition to the cost of car repair.

Now consider what a monopoly insurance system would do. It simply would declare both drivers to have equal guilt and assess each the loss of good driver discount. Society saves the $2,000 court cost and overall premiums can be lower since this cost does not have to be recovered by the insurance monopoly. One way in which the monopoly and its clients can share these savings is through the use of a smaller reduction in good driver discounts following accidents.

The Fault Chart

The preceding example makes a logically unassailable case for procedures of settling small accident claims that avoid great legal costs. It is not a case for an insurance monopoly because private insurance companies already have adopted the same procedures used by the public monopoly in the above example.

Private insurance companies in Canada have an inter-company agreement to refrain from legal action and assume costs in accidents according to procedures laid down in Inter-company Settlement Charts, which are also known as Fault Charts. These charts consist of schematic representations of accidents and assign guilt in each case. For example, a car rear-ending another is always assessed 100 per cent of the fault. The same assessment applies to being struck while pulling out from a curb-side parking space. The use of the chart is often supplemented or facilitated by the fact-finding procedures of the police. In addition, criminal proceedings initiated by the Crown in cases involving serious accidents or violations of the code are used to establish facts. As a result, 97-98 per cent of all accidents are settled by private insurers without involvement of civil courts.

The remaining 2-3 per cent of cases that go to civil courts result in costs that are simply part of a system of justice considered worth having by most Canadians. After all, even the ICBC has procedures whereby dissatisfied customers can appeal ICBC decisions to an ombudsman or to courts. Many British Columbians avail themselves of these rights.

Existing conditions in British Columbia therefore suggest that one of the alleged great advantages and cost-saving features of a public insurance monopoly are a myth. Not only

have private insurers adopted rational claims procedures, the ICBC has not been able to avoid court cases either.

No Marketing Costs?

In the review of the basic case for public monopoly insurance we noted a number of alleged advantages. It is useful to see to what extent ICBC operations are in fact an improvement over private sector practices. To the extent that ICBC does not take advantage of the alleged advantages of its monopoly, it can explain the high costs documented above.

First, public monopoly is alleged to be able to do without wasteful advertising expenditures. The fact is that in 1982 the ICBC spent $1.6 million on advertising (see page 28 of the ICBC Return to the Superintendent of Insurance of British Columbia).

Second, public monopoly is alleged to need no marketing expenses. The fact is that ICBC has an Autoplan Corporate Marketing Field Team consisting of nine men (according to an ICBC full-page advertisment in The B.C. Agent, September-October 1983, page 4). Given the average ICBC employee cost of $33,625 in 1983, the cost of this team comes, at least, to about $235,000. Since these men are "veterans that have worked with major private companies, worked as agents and operated independent agencies of their own" (from the ad), chances are that their compensation is well above the average and the quarter million dollar annual cost is a very conservative estimate. Add to these wage costs expenses for company cars and secretarial and home office support staff, it is obvious that marketing expenses are not negligible.

Third, public monopolies are alleged not to have a need for sales agents and the payment of commissions. After all, consumers have no choice among companies and have to come to the monopoly to obtain coverage.

The fact is that ICBC in 1983 paid $38.3 million in commissions to agents. That is 6 per cent of total Autoplan income that year (1983 Annual Report, page 12). Obviously, the monopoly either finds it necessary to have marketing expenses or the rhetoric about the waste of free enterprise agent spending is false. Chances are that indeed agents perform non-marketing services that even ICBC finds cheaper to buy from them than provide through its own employees.

Drive-In Claims Centres

Fourth, it is alleged that the public monopoly can achieve great scale economies through drive-in claim centres that are not available to private insurers. The fact is that in many places in Canada, private insurers have established their own drive-in centres. In others, the Insurance Bureau of Canada has established and operates them for groups of private insurance companies. The co-existence of several drive-in centres in large cities is evidence of competition for consumers' favour. Part of this competition takes the form of convenient locations and operating hours of such centres. By definition, such competition is absent under the monopoly regime of British Columbia.

CHAPTER 11

SOME PHILOSOPHICAL ISSUES AND PUBLIC OPINION

The preceding analysis employed a rather narrow focus, evaluating the merit of public monopolies pragmatically and in the light of economic costs in recent years. In fact, however, the issue over public monopolies also has deeper philosophical implications and should be seen in a longer run perspective.

The philosophical issue is that free markets and the freedom of choice that they imply are a necessary condition for a pluralistic, democratic society.

The law restricting people from starting or operating an automobile insurance business in itself is a deplorable and unnecessary restriction of personal freedom. There are philosophers who would argue that the preservation of this freedom is a worthy objective even if it could be shown that it leads to higher insurance costs of consumers. Ironically, in Canada today the preservation or restoration of this freedom would actually benefit consumers.

Freedom and Free Markets

The need for free markets as a pre-condition for a free society has been demonstrated repeatedly in history. Restrictions on occupational mobility and the creation of profitable monopolies induces people to the circumvention of the regulations, legally and illegally. In response, the state generates countermeasures to protect the monopoly. It strengthens police and judiciary enforcement measures. In many countries there is an increase in corruption and general disregard for the law. More legislation is passed to close loopholes that permitted encroachment on the monopoly. The monopoly itself gains a

growth momentum of its own. Unions and managers of the ICBC, for example, strongly favoured expansion of the public monopoly to general insurance. And there are potential imitators everywhere who lobby for the extension of public monopoly legislation into their areas of interest.

History need not repeat iself in British Columbia in these most costly forms. But the existence of the possibility that it might is, by itself, an added and powerful argument against the continued existence of the ICBC and all public monopolies in the province.

Longer Run Efficiency

Longer run perspectives on the relationship between public monopolies and human welfare also point to the following very important problems associated with state intervention in free markets.

Research into the growth of economics and the wealth of nations has revealed that the superiority of private enterprise over public monopolies lies not so much in the cost of current production. Whenever Marxist governments in the Eastern Bloc countries and developing countries of Africa and Asia have collectivized private means of production, output and productivity have remained rather unchanged initially. However, after some time, while competitive private enterprise systems soared ahead in productivity and the improvement of products and services, the public enterprises stagnated.

The profit motive combined with consumers' freedom of choice are responsible for this very important difference. Private firms continuously try to create better products and services or to produce them at lower cost. When they succeed, they get to keep the fruits of their efforts and risk-taking. Consumers benefit from this continuous and fierce struggle by their suppliers. They quickly and reliably reward those that do well and punish those who fail to keep up. But imitators driven by their own wish to get rich quickly erode the innovators' advantage. Consumer prices fall and excess

profits are wiped out. In a famous book* analyzing this dynamic process, J.A. Schumpeter called it "the perennial gale of creative destruction."

Stagnation Under Public Monopoly

Under public monopoly systems these incentives for betterment do not exist. To the contrary. Bureaucracies reward those who assure the smooth functioning of public enterprise. Innovations by their very nature disrupt tranquility, whether they are successful or not. But even successful innovations bring few or no rewards to the initiating bureaucrats who are paid and advance according to an egalitarian union pay scale. Consumers have no freedom of choice to reward improvements and punish poor performance since they can only deal with the public monopoly.

For all of these reasons, there is a great probability that the ICBC will turn into a bureaucratic dinosaur in the longer run. It will more and more resemble the Canada Post Corp. in its style of operation and customer service.

We can conclude from this historic perspective on the dynamic differences of private industries and public monopolies that the static differences in costs noted above are likely to grow in the future. This analysis further strengthens the case for the dissolution of the ICBC.

Changing Public Opinion

During the post-war years public opinion in Canada favoured a greater role for government. This attitude was borne out of the experience of the Great Depression when free markets apparently had failed badly. It was also supported by a new-found optimism about the usefulness of science and technology in running the affairs of government.

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* Capitalism, Socialism and Democracy, New York: Harper and Row, 1942.

Politicians like former Prime Minister Pierre Trudeau read this public mood and pushed ahead with an ever-increasing role for government in the economy during the 1960s and 1970s. In British Columbia, the brief rule of the socialists under Premier David Barrett in the middle 1970s saw a great jump in government involvement in the economy. But even under the rule of the allegedly conservative Socred Party the growth of government was steady and significant. The ICBC is just one of many institutions government created and nurtured during this period.

During the last few years, however, public opinion about the role of government appears to have changed. It has changed because developments showed that science and technology had not made it possible to run public enterprise like an efficient machine. Instead public enterprise led to the politicization of the economy, which brought all of the difficulties and costs discussed above. These costs have become known to the public through a wide range of information channels. They have resulted in a pronounced change in attitudes, as is evident from the data in Table 8.

Attitudes Towards Public Enterprise

The first question shown in Table 8 concerns basic attitudes towards government operation of industry. In Canada and British Columbia only a small minority of about 15 per cent on average has favoured government during the period 1979-80. However, during the last three years 1981-83 there has been a remarkable drop in even this low level of support. Especially in British Columbia the percentage dropped by one half.

Question two asked people whether they felt that they "got their money's worth" from their automobile insurance premiums. There has been a substantial growth in the proportion who responded with "No" in British Columbia: from 32 per cent in 1978 to 45 per cent in 1982. Interestingly enough, there has been no such trend in Canada as a whole.

The basic dislike for public monopoly insurance in British Columbia is reflected also in question three. It tried to eliminate the influence of cost differences. It therefore asked people to express their preference for public and private insurance under the assumption that costs and coverage under

TABLE 8

PUBLIC OPINION SURVEY RESULTS ON ATTITUDES TOWARD GOVERNMENT ENTERPRISE

Per cent of Total Answers, No Opinion omitted
Based on a survey of over 8000 people annually

Question 1: Do you favour government or private operation of industry?

Year		Government	Private	Both		Government	Private	Both
1978		16	59	14		15	60	18
1979		17	58	18	British	15	56	25
1980	Canada	18	59	16	Columbia	17	59	19
1981		16	62	15		12	64	19
1982		13	64	15		8	65	20
1983		11	67	14		7	69	18

Question 2: Do you get your money's worth from automobile insurance premiums you pay?

Year		Yes	No		Yes	No
1978		49	32		54	32
1979		53	31		53	35
1980	Canada	59	26	British	56	31
1981		57	30	Columbia	48	42
1982		50	35		42	45
1983		50	35		47	45

Question 3: If automobile insurance coverage and premiums were identical, would you prefer to deal with the provincial government or private industry?

Year		Prov. Gvt.	Private		Prov. Gvt.	Private
1978		30	51		37	48
1979		43	51		38	51
1980	Canada	33	53	British	38	51
1981		33	54	Columbia	32	56
1982		27	58		27	59
1983		24	61		22	66

Source: Public Attitudes Toward Automobile Insurance 1983, A Research Report Prepared for the Insurance Bureau of Canada by Contemporary Research Centre Ltd., Nov. 1983.

both are the same. The proportion of respondents favouring private insurance in British Columbia rose dramatically from 48 per cent in 1978 to 66 per cent in 1983. A similar trend is noticeable in the rest of Canada, but it is not nearly as pronounced as it was in British Columbia.

Fickle Public Opinion?

The time period covered in the survey report in Table 8 is not nearly long enough to establish whether the change in public opinion against government enterprise is a trend or a cycle. It is entirely possible that public opinion on this matter is very fickle and highly correlated with good and bad economic times.

There are, however, two reasons for believing that the data reveal a basic trend, not a cycle. First, the changes in opinion in British Columbia especially are remarkably steady. A cumulative, powerful force appears to be at work. Secondly, the general arguments about the short-comings of public monopoly and the specific documentation of the ICBC problems are part of the ever growing empirical evidence on the necessary failings of public monopolies. The optimism about the ability of science to alter historic experiences has been destroyed. It will take some entirely new and as of now unforseeable influence to restore its optimism.

CHAPTER 12

METHODS OF PRIVATIZATION

Let us now assume that the political decision has been reached to privatize the automobile insurance industry of British Columbia. One important question arising from this decision is how to go about it. Unfortunately, the subject is quite neglected in the economics literature. Yet, the method chosen determines not only the cost but also the ultimate success of privatization in the eyes of the public.

The problems encountered in privatization are technically and legally complex. They are not properly the concern for a study such as this. Technical and legal problems are always soluable once the economic background is understood and a basic policy decision has been reached.

The dominant economic fact surrounding privatization is that it must be detrimental to the interests of some people. As we noted throughout this study, it is they who gained at the expense of the general buyers of insurance when the monopoly was formed originally.

Employees, unions leaders, teenagers, suppliers and others will lose. They will not like it and they will fight, legally and politically. This fact should be taken into consideration in the choice of any privatization strategy.

The Gradualist Approach

One approach to ridding British Columbia of the harmful effects of the ICBC requires that its monopoly be broken, rather than that it be dissolved completely. This approach may be politically the easiest. It has some economic merit as studies have shown that Crown corporations can be as

efficient as private firms, if they have competition from private firms and receive no subsidies.

The main policy necessary under this approach requires that private insurance companies be permitted to sell the full range of automobile insurance in competition with ICBC. The ICBC in turn should be enabled to sell insurance in the rest of Canada. However, it is clear from the above analysis of implicit subsidies, that steps need to be taken to assure equality of competitive conditions. This can best be attained by requesting from the private insurance companies in Canada a submission in which they detail the conditions under which they are prepared to enter into competition with the ICBC.

The main disadvantage of this gradualist approach is that it is a little like cutting off the dog's tail in small pieces in order to be humane. If my basic analysis is correct, an ICBC organization cannot compete with private firms if it is unionized and saddled with current wages and work rules while private firms are not. The business and employment of ICBC would shrink under the impact of competition. Unions would face pressures to accept the same wages as are paid by private firms if the Crown corporation is to survive at all. The personal hardships accompanying the adjustments would keep them in the public and political limelight for some time. And in the end the question arises about the merit of a Crown corporation in this business in the first place, as it is competing with private firms on an equal footing and there is no efficiency or equity argument in its support.

Draconian Approach

For these reasons, a quicker and complete dissolution of the ICBC seems attractive. For this purpose the ICBC asset and liability portfolios might be packaged into units of $50 million, $100 million or some such size. Each unit would be made to represent a reasonable cross-section of the business. Private firms would then be invited to bid for these packages. The physical assets of the monopoly might be sold separately or as a part of the service business.

Instead of banning the pieces of ICBC business bid for by ordinary private insurance corporations, it may be required that they be operated as mutual companies for the benefit of

the insured. Under these conditions private companies could sell their services as operators and managers of such mutuals. It could be expected that the B.C. Automobile Association would again run a large share of the insurance business, much as it had done before the advent of the ICBC.

The big problem with these approaches stems from the existence of the ICBC union. A very hard-nosed policy would simply dissolve the union as well. Pension obligations would be taken over by a trust fund, the assets of which would come from the existing ICBC portfolio. Any excess of ICBC liabilities over assets are made up from the B.C. treasury as a last and once-and-for-all rectification of a past mistake.

A politically more acceptable method for dealing with the union problem involves giving "golden handshakes." This might provide each employee with a lump-sum payment equivalent to a year's or half a year's salary.

Such a golden handshake should satisfy employees since they could expect to find work promptly in the private sector, albeit at a lower rate of pay. As compared with the gradualist method, the draconian closure would at least leave every worker with a good sum to overcome adjustment problems.

A final problem associated with the possible breakup of ICBC stems from the existing integration of vehicle licensing, insurance and driver penalty systems. The licensing functions would have to be returned to the Department of Motor Vehicles and the collection of fines would be returned to the law-enforcement branches of government. Any process of privatization has to take account of the fact that such shifts of responsibility require time, but there are no fundamental obstacles in the path of realizing them.

The Case for Consultation

In general, it would seem advisable for the B.C. government to seek input from labour and the private insurance firms about optimal methods for breaking up the ICBC monopoly. Irreconcilable conflicts are likely to emerge clearly from such a process of consultation. And in the end, hard political choices are inevitable. However, consultation should assure the avoidance of serious mistakes and therefore should be fully worth its costs.

Where there is a will, there is a way. In that sense the search for appropriate methods of privatization is secondary to the need to decide on privatization itself.

CHAPTER 13

SUMMARY AND POLICY RECOMMENDATIONS

This study commenced with a review of the basic case for public monopoly insurance in general. This review was designed to show that I am aware of the arguments. It also indicates that proponents of the ICBC act from the best of motives.

However, the analysis then suggests that it is not fruitful to evaluate economic innovations on the basis of motives or the logical possibility that they improve efficiency and equity. Utopian schemes are easy to concoct. What counts in the end is the real world performance of the scheme.

The main contribution of this study therefore consists of the empirical evaluation of the ICBC operations. To put this into the proper perspective, however, the study first reviewed the existing, large body of knowledge on the economics of public monopolies, regulation and privatization. One of the prominent economists in this field of economics is Professor T. Borcherding, formerly of Simon Fraser University. The literature refers to one of his findings as Borcherding's Law: Public monopoly output costs double that of private enterprise.

These results are the well-understood outcome of different incentives which monopoly operations offer workers and managers. The absence of competition and an effective "bottom line" prevent objective evaluation of public monopoly performance. It encourages workers and managers to raise their incomes and make life easier at the expense of the monopoly firms' consumers.

The empirical evaluation of the ICBC monopoly in the light of private automobile insurance business in the rest of Canada suggests strongly that it is no exception to the general rule. After only about 12 years of ICBC operation, B.C.

automobile owners on average pay about 2 per cent more cash for their insurance than do privately insured Canadians. After taking into account about $74 million in direct and indirect subsidies, the overall excess cost of automobile insurance paid by B.C. residents averages about 14 per cent. In one straightforward 1984 comparison of the cost of premiums for low-priced cars in Vancouver and Toronto, the calculations show an excess monopoly cost of 35 per cent. These cost disadvantages of the ICBC are sure to grow in the future. It is reasonable to expect that the ICBC eventually will conform to Borcherding's Law.

The bulk of the higher costs of the ICBC is due to unionization and the resultant higher wages and lower productivity. Comparison with private insurance firms in Canada reveals ICBC average employees' compensation to be 43 per cent above that of private firms. There is some powerful episodal evidence on unfavourable developments of productivity at the ICBC.

Public monopolies also have higher costs because they lend themselves readily to providing political favours to powerful interest groups. In the case of the ICBC one such favoured interest group is teenage drivers. They have benefited from the introduction of a premium structure that lowers their average costs and raises that of other drivers.

Another group of beneficiaries appears to be the suppliers of ICBC, especially car dealers as suppliers of spare parts and operators of repair shops. They find ICBC much less tough to deal with than private insurers whose profits and survival depends on finding the lowest cost suppliers. These suppliers are, not surprisingly, strongly and publicly in support of maintenance of the public monopoly. In addition, the ICBC has not taken advantage of low repair costs that can be obtained by guaranteeing certain amounts of business to some shops as is done by private industry.

The study also examined a number of advantages which ICBC claimed for its operations. It found that benefits from local investment and employment are a myth in the light of simple principles concerning the operation of small, open economies like that of British Columbia.

Alleged economies of scale of monopoly operations, such as the absence of selling and advertising expenses have been realized only to a minor extent by the ICBC. Drive-in claim centres and procedures for the avoidance of some legal expenses are not unique to public monopoly systems.

In the future the excess costs of public monopoly over private insurance systems will continue to rise. The excess cost figures documented here have materialized after only about 12 years of operation. There are no mechanisms that result in a lowering of the costs. Most important, the stimulus of entrepreneurial innovation that produces better and cheaper services in free markets is much less in monopoly Crown corporations.

Public monopolies have been encouraged in the past on the basis of a global optimism about the ability of governments to improve on the performance of free markets. The new science and technology were to do the trick where previous attempts have failed.

Today, Canadians like other people in the West, have seen that this optimism was misplaced. Opinion surveys confirm this. Especially in British Columbia, confidence in and satisfaction with government enterprise has been dropping and has reached new lows.

This study makes more explicit the kinds of conditions and developments that have created this change in public opinion. But economic and political analysis discussed in this study also implies that we should not underestimate the fundamental force of interest group politics. Public opinion and the broad public interest on any one issue are, after all, only two of many concerns of politicians.

NOTES

I would like to acknowledge valuable comments on earlier drafts made by T. Borcherding. I would also like to thank two anonymous referees for their comments.

Robert Grauer at the Finance Department of Simon Fraser University assisted me in the calculation of the subsidy implicit in the absence of the safety reserve discussed in Chapter 6.

Sources referred to in the text and in these notes are found in the bibliography.

Chapter 1

Readers interested in public opinions about public and private business should turn to Chapter 11, where the results of a scientifically organized survey are presented.

Chapter 2

My professional interest in the costs and benefits of regulation and public monopolies has resulted in two previous Fraser Institute studies, Grubel and Schwindt (1977) and Grubel (1983).

People who lived in British Columbia when the NDP legislated the ICBC will remember the arguments in its favour made by its leaders and duly reported in the media. There is probably no better source of information about these arguments than the Vancouver Sun and Province during those turbulent months. In recent years, institutional advertising and press releases of the ICBC have repeated most of the general case made in this chapter. The copy of a 1983 press release is attached in the appendix. See also the advertisements placed by the ICBC union. The Economic Council of Canada (1981) reviews the basic case for regulation and public monopoly.

Chapters 3 and 4

Borcherding et al. (1982) reviews the literature on privatization and contains over 150 references. Hamer (1981) is a monograph on the privatization experience in Europe. It has many references to German publications. The Economic Council of Canada (1981) provides a careful study of the costs of regulation in Canada. Much of the material covered in these chapters is also discussed in Borcherding and Dorosh (1981) and Grubel (1983). For another recent review see Hanke (1982). Courchene (1985) provides a balanced review of the privatization debate in Canada.

Chapters 5 - 8

Almost all of the data in these chapters are based on numbers found in the annual reports of the ICBC, the Insurance Bureau of Canada publication FACTS (1983), the annual reports of private insurance companies, the private Automobile Insurance Experience, known as the private firms' "Green Book" and rate schedules. I have also drawn on data contained in a letter by L. Such, published in The Sun, May 13, 1983, page A5 and a personal letter by J. Chutter sent on December 9, 1983 to all members of the Socred caucus in Victoria.

The data on the short-fall of the ICBC assets is taken from the B.C. Insurance Commissioner's 1983 Report of the Superintendent of Insurance for the Province of British Columbia. See the appendix for a copy of page 45.

An interesting page from the Fault Chart (Intercompany Settlement Chart) is attached in the appendix. It is taken from an Agreement the front page of which precedes the Fault Chart in the appendix.

A sample of ICBC advertising is also included in the appendix.

All tables providing original data show sources in notes at the bottom of the tables.

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APPENDIX

WE FIELD A GREAT TEAM

These are the people who make up Autoplan's Corporate Marketing Field Team:

1. Paul Sheehan, Vancouver. 2. Doug Watkin, Vancouver, 3. Don Barnes, Vancouver. 4. Doug Toller, Victoria. 5. Chuck Rogerson, Nanaimo. 6. Rod Warnock, Kelowna. 7. Bill McClelland, Cranbrook. 8. Mike Pearce, Prince George. 9. Georges Colpron, Kamloops.

Every one is on insurance veteran. They've worked with major private companies, worked as agents, and operated independent agencies of their own.

Now all their experience and expertise serves one purpose: to create an effective link between I.C.B.C. and its agents. They're good people and we're lucky to have them. But we don't have to tell you that. You've told us in your response to the recent Delphi survey.

They're YOUR team!

INSURANCE CORPORATION OF BRITISH COLUMBIA

DATE November 17, 1983

CONTACT Pat Monk

(O) 661-6901
(H) 987-7591

ICBC'S HIDDEN BENEFITS
AID PROVINCIAL ECONOMY

The hidden benefits that ICBC brings to the provincial economy were identified by Insurance Corporation President Tom Holmes, addressing a group of Lower Mainland businessmen and community leaders today.

Speaking to the North Vancouver Chamber of Commerce in his first public address since the Corporation moved its head office to Lonsdale Quay, Holmes outlined the role of ICBC and the financial advantages of an organization that is "B.C. based, B.C. nurtured and B.C. controlled."

Noting that "there is some legitimate concern" over the future of the Corporation, Holmes stated:

"Our operation is for the benefit of B.C. - not Toronto, Montreal, Hartford, New York or even London. Last year our $112 million investment earnings lopped an average of $61 off every motorist's policy. Left to private industry, those earnings would flow back to head offices, wherever they may be."

.....more

Other key points of Holmes' address included:

ICBC returns in claim payments, 96 cents of each premium dollar it collects, compared to 74 per cent returned by private industry.

Last year, private insurers would have needed $883 million from motorists to meet B.C. claims costs of $670 million. ICBC required only $658 million - $225 million less than private industry.

ICBC has 2700 employees and an annual payroll of $80 million in the Lower Mainland and 30 communities across B.C. Without ICBC, over a thousand of those jobs would be lost to Eastern Canada or the states and paycheques worth $38 million would be spent outside British Columbia.

Last year ICBC benefitted individuals and business in B.C. by:

* paying $2 million in grants in lieu of taxes to B.C. communities;
* purchasing 82 per cent of its $5.4 million in office supplies and printed forms from 1,154 B.C. suppliers;
* paying $275.7 million to 3,000 small auto-related business on a guaranteed twice monthly payment system;
* providing $2.5 million funding for CounterAttack and traffic safety programs in B.C.;
* giving grants to seniors and handicapped vehicle owners.

Insurance Corporation of B.C.
Company

1982
Year

TEST WITH RESPECT TO REQUIRED MINIMUM ASSETS

TOTAL LIABILITIES – (all countries)			
(page 6) – Total liabilities		$ 923,124,074	
PLUS –			
Reserve for reinsurance ceded to unregistered companies		$ 12,149,553	
SUB-TOTAL		$ 935,273,627	
LESS –			
Deposits from reinsurers		$ –	
		$	
ADJUSTMENT			
Unearned premiums to 100%		$ –	
	"(A)"	$ 935,273,627	
(115%) – of Item "A"		$ 1,075,564,671	
PLUS –			
Deposits from reinsurers (Deducted above)		$ –	
TOTAL minimum assets required		$ 1,075,564,671	/ 100 %
Admitted assets	$ 922,860,488		
* Less deduction to reduce all bonds to market	$ 9,164,435		
TOTAL – admitted assets at market		$ 913,696,053	/ 85 %
~~EXCESS~~ or DEFICIENCY		$ 161,868,618	/ 15 %

* This deduction need only to be made if required in the Province in which the Company concerned is domiciled.

AGREEMENT

RESPECTING STANDARDIZATION OF CLAIM FORMS AND PRACTICES, AND GUIDELINES FOR THE SETTLEMENT OF CLAIMS

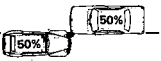
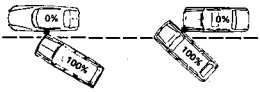
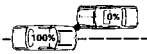
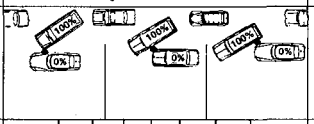
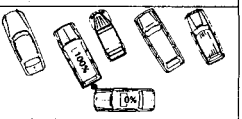
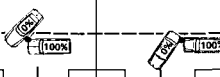
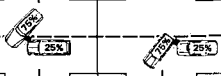
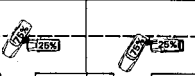
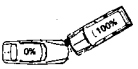
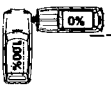
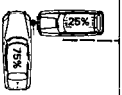
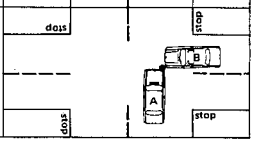
WHEREAS, it is in the interest of the insuring public and of the insurers to avoid delays and disputes in the settlement of claims;

AND WHEREAS, delays and disputes can be avoided to a material degree by acceptance of certain uniform practices related to claim forms, policy interpretation and rules as to distribution of liability;

NOW THEREFORE, the insurers signifying their acceptance of this uniform approach mutually agree to be guided by and to adhere tc the rules, practices and interpretations as hereinafter set forth and as amended from time to time. For the purpose of this Agreement, words importing the singular number or the masculine gender only include more persons, parties or things of the same kind than one, and females as well as males and the converse.

This Agreement applies in all provinces except where the Agreement states otherwise.

INTERCOMPANY SETTLEMENT CHART (Appendix to Rule 11)

Situations		A	B
1	Vehicles in the same lane and direction, one vehicle struck from behind. See Special Note #1		
2	Vehicles in adjacent lanes, same or opposite direction, both vehicles on or over centre line or where point of impact cannot be determined. See Special Note #2		
3	Vehicles in adjacent lanes, same direction with one vehicle changing lanes, or opposite direction with one vehicle over centre line. See Special Note #2		
4	Vehicle pulling out from a parked position as another passes.		
5	(i) **EXCEPT ONTARIO** One vehicle turning left while being overtaken (A) at intersection, 0/100 in favour of left turning vehicle (B) at any driveway, 75/25 in favour of overtaking vehicle		
	(ii) **IN ONTARIO ONLY** One vehicle turning left at intersection or at any driveway as other vehicle overtaking to pass shall be 75/25 in favour of overtaking vehicle See Special Note #5		
6	Intersection — vehicles in opposite directions, one vehicle turning left. Applicable in all situations except those described in Notes (a) or (g).		
7	A — **EXCEPT ONTARIO** Intersection — no traffic lights, vehicles proceeding at right angles, vehicle on right has right of way — 0/100 in favour of vehicle on right. B — **IN ONTARIO ONLY** Intersection — no traffic lights, vehicles proceeding at right angles, vehicle on right has right of way — 75/25 in favour of vehicle on right.		
8	Where an accident occurs at an intersection equipped with STOP signs on each corner, the right of way applies unless it is proven: (a) that B failed to stop (B to be held fully liable) or (b) that both A & B failed to stop (both to be held equally liable)		

	A	B
a)	0%	100%
b)	50%	50%