



# Comparison of Auto Insurance in BC and Alberta

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*Prepared for the Insurance Bureau of Canada*



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## EXECUTIVE SUMMARY

In British Columbia (“BC”) the Insurance Corporation of BC (“ICBC”), a provincial Crown Corporation, is responsible for providing mandatory auto insurance. Optional insurance coverage may be purchased from ICBC or from private insurance companies.

Between 2014 and 2016 ICBC’s total net income decreased by \$1.3 billion. It reported a loss of \$913 million in the fiscal year ending March 31, 2017<sup>1</sup>, and an additional \$1.3 billion in the fiscal year ending March 31, 2018.<sup>2</sup> In an effort to address ICBC’s financial situation, the Province of BC is introducing changes to the auto insurance system.<sup>3</sup>

To help assess the effects the changes to BC’s insurance system may have on auto insurance premiums, the Insurance Bureau of Canada (“IBC”) engaged MNP to compare BC and Alberta’s auto insurance systems and the price drivers are paying for auto insurance in each jurisdiction today, as well as following the implementation of changes to ICBC’s rate design.

### Overview of Auto Insurance in BC

At present, BC has a tort-based insurance system, whereby not at-fault drivers can sue for pain and suffering, as well as economic damages.

All motor vehicles registered in BC are required to have basic auto insurance (“Basic Autoplan”) provided by ICBC. Basic Autoplan includes third-party legal liability, under-insured motorist protection, accident benefits, hit-and-run coverage and inverse liability. In addition, optional coverage (e.g., collision, comprehensive and extended liability) may be purchased from ICBC or from private insurance companies.<sup>4</sup>

Basic Autoplan and ICBC’s optional insurance products are sold exclusively through a province-wide network of approximately 900 brokers.<sup>5</sup> Brokers operate in a restricted-entry market in which they must obtain an agency agreement that allows them to sell Basic Autoplan on behalf of ICBC.

Optional insurance coverage is offered by both ICBC and private insurers, and is available for purchase through brokers or online.

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<sup>1</sup> ICBC Annual Service Plans 2015 and 2016/17

<sup>2</sup> ICBC 2017/18 Annual Service Plan Report. Available here” <https://www.icbc.com/about-icbc/company-info/Documents/ar-18.pdf>

<sup>3</sup> BC Gov News. “Government directs changes to make ICBC work for BC drivers again.” February 6, 2018. Available here: <https://news.gov.bc.ca/releases/2018ag0003-000164>.

<sup>4</sup> At present there are two private insurers that widely offer optional auto insurance in BC.

<sup>5</sup> ICBC, “Autoplan Insurance”, Retrieved from: <https://www.icbc.com/autoplan/buy-renew-autoplan/Pages/Default.aspx>

## Announced Changes

The announced changes to BC's insurance system include:

- Introduction of a definition of minor injuries, and a cap on payouts for pain and suffering related to minor injuries.
- Increases in accident benefits (e.g., wage loss, medical costs, funeral expenses and death benefits).
- Changes to the rating system that is used to set premiums to better reflect a driver's risk.
- Expansion of BC's Civil Resolution Tribunal's ("CRT") jurisdiction to include disputes involving minor injury claims, accident benefit entitlements, and liability decisions for motor vehicle injury claims below a threshold that will not exceed \$50,000.<sup>6</sup>
- Amendments to the BC Supreme Court Civil Rules Regulation that will limit the number of experts and expert reports which may be used to address the issue of damages (e.g., wage loss, future wage loss and future care).

## Findings

Our review of the insurance systems in BC and Alberta suggests that the announced changes will result in BC's system becoming substantially similar to the system in Alberta (see Table A). Both provinces will have tort-based insurance systems with a minor injury cap. The definition of minor injuries in BC will be broader than in Alberta and is expected to cover a wider range of injuries. Regulatory oversight in both provinces will be provided by two independent entities, one that will be responsible for regulating rates and one that will be responsible for regulating the business of insurance. Premiums in both provinces will be based on identified risk-factors.

The systems in BC and Alberta will differ in terms of the market structure for auto insurance and the manner in which auto insurance is sold. In Alberta all auto insurance is sold and distributed through a competitive market, while in BC ICBC has a monopoly on Basic Autoplan, with competition only in the optional market. The optional market in BC is characterized by high barriers to entry, and at present there is limited competition.

In BC, auto insurance is sold through a brokerage model in which entry is restricted.

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<sup>6</sup> Civil Resolution Tribunal. "Province of BC Expands Civil Resolution Tribunal's Jurisdiction". Retrieved from: <https://civilresolutionbc.ca/province-bc-expands-civil-resolution-tribunals-jurisdiction/>

Table A: Comparison of the Insurance Systems in Alberta and BC Following Implementation of the Announced Changes

	BC (Following Implementation of the Announced Changes)	Alberta
<b>Mandatory Insurance</b>	Yes	Yes
<b>Tort-based Insurance Model</b>	Yes	Yes
<b>Minor Injury Definition</b>	Yes	Yes
<b>Minor Injury Cap</b>	\$5,500	\$5,202
<b>Regulation of Insurance Rates</b>	BC Utilities Commission	Automobile Insurance Rate Board
<b>Regulation of Insurance Market</b>	Financial Institutions Commission*	Superintendent of Insurance
<b>Features of Mandatory Auto Insurance Coverage:</b>		
Third-Party Liability	\$200,000, property damage capped at \$20,000	\$200,000, property damage capped at \$10,000
<b>Accident Benefits</b>		
<i>Medical Coverage</i>	Up to \$300,000 <sup>7</sup>	Up to \$50,000
<i>Hit and Run Coverage</i>	Up to \$200,000	Up to \$200,000 for personal injuries caused by uninsured or unknown drivers is provided through the Alberta Motor Vehicle Accident Claims program.
<i>Wage Loss Payments</i>	Up to \$740 per week	Up to \$400 per week for earners. \$135 per week for non-earners.
<i>Death Benefits</i>	Up to \$30,000	\$10,000 plus \$2,000 for each dependent survivor after first, plus \$15,000 for first survivor and \$4,000 for each remaining survivor.
At-fault Claim Repayment	Up to \$2,000 without affecting premiums.	Accidents involving third parties must be reported and may affect premiums.
Claim Forgiveness	Standard for all drivers that qualify	Typically, an optional feature available at an additional cost for experienced drivers.
<b>Access to Insurance</b>	Basic Autoplan provides all eligible drivers who require auto insurance access to it.	The Insurance Act mandates that all eligible drivers who require auto insurance have access to it.
<b>Calculation of Premiums</b>	Risk-based model	Risk-based model
<b>Distribution Model</b>	Brokerage model where entry to the market is restricted.	Multiple channels including brokers, agents, and direct from the insurer.
<b>Management of Settlements</b>		
<b>Appeals and Disputes for Claims Involving Minor Injuries</b>	Independent third party (CRT) will handle disputes for claims below \$50,000.	To resolve disputes over whether an injury is minor a certified examiner is appointed. For other disputes both sides appoint representatives to appraise the amount of the loss, and, if necessary, an umpire is selected to provide a final decision.

\* The Financial Institutions Commission does not provide regulatory oversight of ICBC.

<sup>7</sup> According to the the Attorney General of BC approximately 35 to 40 cases per year reached the previous cap of \$150,000.

Features of the mandatory insurance products offered in BC and Alberta will vary in terms of coverage and limits. However a comparison of average injury claim payments in BC and Alberta suggests that after accounting for increases in accident benefits<sup>8</sup> and reductions in payments for pain and suffering for minor injuries the benefits that will be paid out for most claimants in BC will be substantially similar to those in Alberta (see Table B).

**Table B: Average Accident Benefit and Injury Claim Payouts, 2013 to 2017/18**

	BC		AB	
	Accident Benefits Claim	Total Injury Claim	Accident Benefits Claim	Total Injury Claim
<b>2013</b>	\$2,503	\$36,969	\$3,652	\$32,996
<b>2014</b>	\$3,030	\$40,513	\$3,662	\$35,462
<b>2015</b>	\$3,482	\$44,239	\$4,587	\$41,999
<b>2016*</b>	\$3,239	\$45,163	\$4,721	\$44,686
<b>2017*</b>	\$2,885	\$50,658	\$5,175	\$43,211

Source: Source: ICBC BIIS Exhibits I, II, III, V Oct 16, 2018 and December 31, 2016, General Insurance Statistical Agency AUTO3001-AB and IBC.

\* In 2016 ICBC transitioned from a fiscal year-end of December 31 to a fiscal year-end of March 31. BC data for 2016 is for the 15-month transitional period and for 2017 is for fiscal 2017/2018.

While the system in BC will become substantially similar to that in Alberta, most drivers in BC will pay significantly more for comparable coverage. Table C compares the estimated premiums for fifteen driver profiles following the implementation of the changes to the rate design in BC with quotes for similar coverage in Alberta. The quotes include optional coverage of \$1 million third party liability, collision (\$500 deductible), comprehensive (\$300 deductible) and uninsured motorist protection.

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<sup>8</sup> According to the Attorney General the changes to accident benefits were estimated to increase payments for claims by approximately \$3,300 on average.

Table C: Comparison of Premiums in BC with Premiums in Alberta

	BC			Alberta		Location
	Location	Premium		Premium (Feb 2019) <sup>9</sup>		
		Feb 2019	New Rate Design*	Low	Average	
<b>Experienced Drivers Without At-Fault Accidents</b>						
Small-Business Owner	Surrey	\$2,058	\$2,019	\$1,399	\$1,716	Calgary
Seniors (Lower Mainland) <sup>10</sup>	North Vancouver	\$1,457	\$1,465	\$1,295	\$1,340	Calgary
Seniors (Interior)	Kelowna	\$1,120	\$1,077	\$1,125	\$1,138	Red Deer
Couple (Lower Mainland)	Coquitlam	\$1,693	\$1,714	\$1,125	\$1,313	Calgary
Couple (Squamish)	Squamish	\$1,479	\$1,369	\$1,125	\$1,313	Airdrie
<b>Inexperienced Drivers</b>						
North (no at-fault accidents)	Prince George	\$1,608	\$1,603	\$1,345	\$1,649	Fort McMurray
Lower Mainland (one at-fault accident)	Vancouver	\$2,897	\$3,292	\$2,209	\$2,460	Calgary
Lower Mainland Commuter (no at-fault accidents)	Burnaby	\$2,369	\$2,567	\$1,674	\$1,778	Calgary
Lower Mainland Pleasure Use (no at-fault accidents)	Burnaby	\$2,285	\$2,488	\$1,558	\$1,659	Calgary
<b>Experienced Drivers with One At-fault Accident</b>						
Lower Mainland	Vancouver	\$2,129	\$2,096	\$1,399	\$1,821	Calgary
Interior	Kamloops	\$1,573	\$1,462	\$1,125	\$1,429	Medicine Hat
<b>Multiple Drivers with Different Risk Profiles Insured on a Vehicle</b>						
Learner driver included	Langley	\$2,232	\$2,332	\$1,395	\$1,467	Edmonton
Learner driver included	Kelowna	\$1,688	\$1,754	\$1,125	\$1,275	Red Deer
<b>Recreational Vehicles and Motorcycles**</b>						
Recreational Vehicle	Victoria	\$1,118	\$1,055	\$347	\$347	Edmonton
Motorcycle	Fraser Valley	\$2,190	\$1,905	\$1,703	\$1,703	St. Albert

\*Mandatory coverage was calculated using the new rate design formula and does not include the increase in basic rates that comes into effect April 1, 2019. Optional coverage was based on rates as of February 2019.

\*\*Only one quote was available for coverage in Alberta.

<sup>9</sup> Average of the three lowest quotes, unless otherwise noted.

<sup>10</sup> For senior drivers, under both the current and new rate designs in BC, an additional senior's discount is applied. In Alberta, senior's discounts vary by insurance company.

# 1 INTRODUCTION

## 1.1 Background and Purpose

In British Columbia (“BC”) the Insurance Corporation of BC (“ICBC”), a provincial Crown Corporation, is responsible for providing mandatory auto insurance. Optional insurance coverage may be purchased from ICBC or from private insurance companies.

Between 2014 and 2016 ICBC’s total net income decreased by \$1.3 billion. It reported a loss of \$913 million in the fiscal year ending March 31, 2017<sup>11</sup>, and an additional \$1.3 billion in the fiscal year ending March 31, 2018.<sup>12</sup> In an effort to address ICBC’s financial situation, the Province of BC is introducing changes to the auto insurance system.<sup>13</sup>

To help assess the effects the announced changes to BC’s insurance system may have on auto insurance premiums, the Insurance Bureau of Canada (“IBC”) engaged MNP to compare BC and Alberta’s auto insurance systems and auto insurance premiums following the implementation of the announced changes.

## 1.2 Scope of Study

The scope of the study included:

- Gathering information on the characteristics of the auto insurance system in BC and the auto insurance system in Alberta.
- Reviewing the announced changes to BC’s auto insurance system.
- Assessing the degree to which BC’s auto insurance system is expected to be similar to Alberta’s following the announced changes.
- Developing estimates of premiums in BC before and after the announced changes for a selection of drivers.
- Comparing premiums in BC following the changes with those in Alberta for a selection of drivers.

## 1.3 Structure of the Report

The remainder of the report is structured as follows:

- Section 2 describes the methodology and data sources used by MNP in undertaking the study.
- Section 3 provides an overview of the auto insurance system in BC and the announced changes.
- Section 4 summarizes the current auto insurance system in Alberta and compares it with the system in BC following the announced changes.
- Section 5 compares premiums in BC before and after the announced changes and with those in Alberta.
- Section 6 summarizes the findings of the study.
- Appendices A through D provide supporting information referenced in the main body of the report.

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<sup>11</sup> ICBC Annual Service Plans 2015 and 2016/17

<sup>12</sup> ICBC 2017/18 Annual Service Plan Report. Available here” <https://www.icbc.com/about-icbc/company-info/Documents/ar-18.pdf>

<sup>13</sup> BC Gov News. “Government directs changes to make ICBC work for BC drivers again.” February 6, 2018. Available here: <https://news.gov.bc.ca/releases/2018ag0003-000164>.

## Report Limitations

MNP has relied upon the completeness, accuracy and fair presentation of all information and data obtained from IBC and public sources, believed to be reliable. The accuracy and reliability of the findings and opinions expressed in the presentation are conditional upon the completeness, accuracy and fair presentation of the information underlying them. As a result, we caution readers not to rely upon any findings or opinions expressed for business or investment decisions and disclaim any liability to any party who relies upon them as such.

This report is provided for information purposes and is intended for general guidance only. It should not be regarded as or as a substitute for personalized business or investment advice.

Before taking any particular course of action, readers should contact their own professional advisor to discuss matters in the context of their particular situation.

## 2 METHODOLOGY AND DATA SOURCES

### 2.1 Approach

To assess the potential impact of the announced changes to auto insurance in BC we employed the following approach:

Reviewed BC and Alberta's Auto Insurance Systems	Compared BC and Alberta's Auto Insurance Systems	Identified Driver Profiles for Comparison	Compared Insurance Premiums in BC and Alberta
<ul style="list-style-type: none"> <li>Gathered information on the announced changes and how they will affect the auto insurance system in BC.</li> <li>Gathered information on Alberta's auto insurance system.</li> </ul>	<ul style="list-style-type: none"> <li>Assessed the extent to which the auto insurance system in BC will be similar to the auto insurance system in Alberta under the announced changes.</li> </ul>	<ul style="list-style-type: none"> <li>In consultation with IBC identified driver profiles that were used to compare insurance premiums.</li> </ul>	<ul style="list-style-type: none"> <li>Gathered quotes for auto insurance premiums for the driver profiles in BC and Alberta.</li> <li>Calculated Basic Autoplan premiums in BC for each driver profile using the new rate design.</li> </ul>

## 2.2 Data Sources

Data and information used in the study was gathered from publicly available sources and through interviews with industry representatives in BC and Alberta. The primary sources of data used in the study are listed in Table 1 and a complete list of sources is provided in Appendix A.

Table 1: Primary Data Sources

	BC	Alberta
<b>Overview of Auto Insurance in BC under the New System</b>	ICBC 2018: Basic Insurance Rate Design Application Publicly available information	Publicly available information
<b>Comparison Between Alberta and BC's Auto Insurance Systems</b>	Publicly available information Interviews with industry representatives.	Publicly available information Interviews with industry representatives.
<b>Comparison Between Alberta and BC's Auto Insurance Systems</b>	ICBC's 2018 Basic Insurance Rate Design Application Publicly available information	Publicly available information.
<b>Insurance Premiums</b>	Current: Quoted premiums Announced: ICBC's 2018 Basic Insurance Rate Design Application and quoted premiums for optional coverage as of February 2019	Quoted premiums from eight insurance companies provide by an insurance broker.

## 3 OVERVIEW OF AUTO INSURANCE IN BC UNDER THE NEW SYSTEM

### 3.1 Overview of Auto Insurance in BC

All motor vehicles registered in BC are required to have basic auto insurance ("Basic Autoplan") provided by ICBC. Basic Autoplan includes third-party legal liability, under-insured motorist protection, accident benefits, hit-and-run coverage and inverse liability. In addition, optional coverage (e.g., collision, comprehensive and extended liability) may be purchased from ICBC or from private insurance companies.

ICBC is a provincial Crown corporation that was formed in 1973 to provide universal auto insurance to BC drivers.<sup>14</sup> In addition to insurance, ICBC is responsible for<sup>15</sup>:

- Vehicle registration and licensing.
- Driver training, testing and licensing.
- Maintaining driving records and applying penalty points.
- Collecting fines for driving infractions.
- Enforcement of road safety in partnership with the Ministry of Public Safety and Solicitor General.

<sup>14</sup> ICBC, "About the Insurance Corporation of British Columbia", Retrieved from: <http://www.icbc.com/about-icbc/Pages/default.aspx>

<sup>15</sup> Government of BC, "Rules of the Road in B.C.", Retrieved from: <http://www2.gov.bc.ca/gov/content/transportation/driving-and-cycling/road-safety-rules-and-consequences/rules-of-the-road>

Rates for Basic Autoplan are regulated through the BC Utilities Commission (“BCUC”). While rates for optional insurance are not regulated, insurance providers are subject to regulatory oversight through the BC Financial Institutions Commission (“FICOM”).

The BCUC is an independent agency responsible for regulating BC’s energy utilities, ICBC’s basic insurance rates, intra-provincial pipelines and the reliability of the electrical transmission grid. It operates under and administers the *Utilities Commission Act*, and approves all rate applications from ICBC. In addition to approving rate applications, BCUC’s mandate with respect to ICBC is to ensure that service to Basic Autoplan policyholders is adequate, efficient, and fair.<sup>16</sup>

FICOM is an agency of the provincial government that regulates credit unions and trusts, private insurance companies, pensions and mortgage brokers. For private insurers providing optional auto insurance, it regulates these entities under the mandates set out in the *Financial Institutions Act* and the *Insurance Act*. Some of FICOM’s responsibilities include: ensuring that insurers are properly authorized, supervising insurers and addressing solvency issues with their operations, addressing statutory market conduct issues, maintaining a registration system for insurers and captive insurance companies, and working with other jurisdictions to deal with cross-jurisdictional regulatory problems.<sup>17</sup> It does not regulate insurance rates or provide regulatory oversight for ICBC.

### **Distribution Network**

Basic Autoplan and ICBC’s optional insurance products are sold exclusively through a province-wide network of approximately 900 brokers.<sup>18</sup> The Basic Autoplan market is a restricted-entry market whereby brokers must obtain an agency agreement that allows them to sell Basic Autoplan on behalf of ICBC. According to insurance industry representatives interviewed by MNP, the only way at present to acquire an agency agreement is to purchase an existing one from another broker. Broker licenses are valued at approximately \$1 million.<sup>19</sup>

Brokers are compensated based on a combination of fees and commissions. Basic Autoplan renewals generate a flat fee of approximately \$14, while optional policies generate a commission. Our understanding is that the commission paid on optional policies ranges from approximately 3 percent for drivers that are not eligible for a premium discount to 20 percent for drivers who receive the maximum discount on their premiums.<sup>20</sup>

Optional insurance from private insurers is also available for purchase through brokers. Brokers that sell optional insurance from private insurers are paid through commissions. According to brokers interviewed by MNP, the commissions for private insurers’ optional products are determined based on the individual transaction and the overall book of business the broker does with the insurance company.

### **Insurance Model**

At present, BC has a tort-based insurance system, whereby not-at-fault drivers can sue for pain and suffering, as well as economic damages. Prior to the changes that come into effect April 1, 2019, BC and Newfoundland

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<sup>16</sup> British Columbia Utilities Commission. Retrieved from: <http://www.bcuc.com/about/>.

<sup>17</sup> British Columbia Financial Institutions Commission. Retrieved from: [http://www.fic.gov.bc.ca/?p=about\\_us/core\\_business\\_areas](http://www.fic.gov.bc.ca/?p=about_us/core_business_areas)

<sup>18</sup> ICBC, “Autoplan Insurance”, Retrieved from: <https://www.icbc.com/autoplan/buy-renew-autoplan/Pages/Default.aspx>

<sup>19</sup> Global News. “ICBC Paying Millions in Broker Fees.” (December 4, 2018) and MNP calculations.

<sup>20</sup> Information on the fees and commission structure is as of April 1, 2018 and was provided by industry representatives.

were the only jurisdictions in Canada that did not have restrictions on a driver's ability to sue for pain and suffering related to minor injuries.<sup>21</sup> The other provinces in Canada with tort-based insurance systems have a stated definition of minor injuries and a cap on payouts for pain and suffering from minor injuries.

### Access to Insurance

All drivers eligible to obtain insurance are able to purchase Basic Autoplan.

### Optional Market

The market for optional insurance is characterized by high barriers to entry.<sup>22</sup> According to insurance industry representatives interviewed by MNP those barriers discourage private insurers from entering the optional market. At present optional insurance coverage is widely offered by ICBC and two private insurance companies.

## 3.2 Announced Changes to Auto Insurance in BC

The BC government and ICBC have announced a “multi-part” solution for reducing increases in basic insurance rates and changing the auto insurance model for BC drivers. The announced changes include:<sup>23</sup>

- Instituting a definition of minor injuries.
- Instituting a \$5,500 limit on payouts for pain and suffering on minor injuries.
- Increases to accident benefits including:
  - An increase to the overall limit for medical and physiotherapy costs for treatments.
  - An increase to wage loss payments.
  - An increase in payments for funeral expenses.
  - Covering additional types of treatments.
- Changing the rating system that is used to set premiums.
- Instituting one-accident forgiveness whereby drivers with over 20 years of driving experience that have not had an at-fault claim for 10 years may have an at-fault claim “forgiven” so that it does not increase the driver's insurance premiums.
- Expanding BC's Civil Resolution Tribunal's (“CRT”) jurisdiction to include disputes involving minor injury claims, accident benefit entitlements, and liability decisions for motor vehicle injury claims below a threshold which will not exceed \$50,000.<sup>24</sup>

In addition, the government has announced amendments to the BC Supreme Court Civil Rules Regulation which will limit the number of experts and expert reports that may be used to address the issue of damages (e.g., wage loss, future wage loss and future care). For claims under \$100,000 only one expert and one expert report will be permitted, while for all other claims the number of experts and expert reports will be limited to three.<sup>25</sup>

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<sup>21</sup> As of December 2018, Newfoundland also does not have a stated definition of minor injuries or a cap on payouts for pain and suffering.

<sup>22</sup> Government of Canada. “Competition Bureau Concludes Examination into ICBC Policies.” Available here: <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/02722.html> (Accessed February 1, 2019)

<sup>23</sup> The Insurance Corporation of BC. “Auto Insurance in BC: what's changing?”. Retrieved from: <https://www.icbc.com/about-icbc/changing-auto-insurance-BC/Documents/Changes-to-auto-insurance-in-BC-factsheet.pdf>

<sup>24</sup> Civil Resolution Tribunal. “Province of BC Expands Civil Resolution Tribunal's Jurisdiction”. Retrieved from: <https://civilresolutionbc.ca/province-bc-expands-civil-resolution-tribunals-jurisdiction/>

<sup>25</sup> The Province of BC. “Limiting use of experts to reduce costs, delays in motor vehicle disputes.” Available here: <https://news.gov.bc.ca/releases/2019AG0009-000208>

### 3.3 Effect of the Announced Changes on the Current System

The announced changes will affect how minor injury claims are handled and will change the way insurance premiums are calculated.

#### Minor Injury Claims

As part of the announced changes, a definition for minor injuries and a limit to pain and suffering payouts will be introduced in April 2019. The definition of minor injuries that will be used is:<sup>26</sup>

*A physical or mental injury, whether or not chronic, that does not result in a serious impairment or a permanent serious disfigurement of the claimant, and is one of the following:*

- i) an abrasion, a contusion, a laceration, a sprain or a strain.*
- ii) a pain syndrome.*
- iii) a psychological or psychiatric condition.*
- iv) a prescribed injury or an injury in a prescribed type or class of injury.*

The nature of injuries will be determined by a medical professional of the claimant's choosing.

Payouts for pain and suffering from minor injuries will be capped at \$5,500.

#### Calculation of Insurance Premiums<sup>27</sup>

The changes to the way insurance premiums will be calculated reflect a shift from insuring the vehicle to insuring the driver, and are intended to ensure that the rates paid by drivers reflect risk.

The key changes to how rates will be calculated involve:

- Moving to a driver-based model, so at-fault accidents are tied to the driver and not to the person that owns the vehicle.
- Increasing premiums for inexperienced drivers to better reflect risk.
- Modifying the formula used to calculate Basic Autoplan premiums so at-fault accidents will have a larger impact on the premium that a driver pays.
- Updating vehicle rate classes and driving territories to more closely reflect current risk.
- Increasing insurance discounts available for drivers with more than 10 years of driving experience such that the maximum discount level is reached after 40 years.
- Introducing discounts for vehicles with original manufacturer-installed automatic emergency braking technology and discounts for vehicles that are driven less than 5,000 kilometres per year.

A more detailed description of the changes to how insurance rates will be calculated is provided in Appendix B.

According to ICBC, the changes are expected to increase the premiums paid for one-third of BC drivers and decrease premiums for two-thirds of drivers relative to premiums in effect in 2018.<sup>28</sup> Approximately 25 percent

<sup>26</sup> BC Laws, "Bill 20 – 2018 Insurance (Vehicle Amendment Act, 2018", Retrieved from: <http://www.bclaws.ca/civix/document/id/lc/bills/current/3rd41st:gov20-1>

<sup>27</sup> The Government of BC. "Government modernizes ICBC rate design to make insurance fairer". Retrieved from: <https://news.gov.bc.ca/releases/2018AG0064-001561>

<sup>28</sup> Ibid.

of drivers are estimated to save more than \$50 as a result of the changes, while 6 percent are estimated to save more than \$100.<sup>29</sup> Those savings are before general rate increases, including the 6.3 percent increase that goes into effect in April 2019<sup>30</sup>, are applied. The April 2019 rate increase is expected to increase premiums by an average of less than \$60.<sup>31</sup> Consequently, premium increases are expected to offset any tangible savings as a result of the changes to how premiums are calculated for most drivers.<sup>32</sup>

### Accident Benefits

The limits on payments for pain and suffering will be accompanied by enhancements to the accident benefits available to drivers. Table 2 describes the enhanced accident benefits and compares them with what was available prior to the changes. Limits on wage loss coverage will increase by \$440 per week, limits on funeral expenses will increase by \$5,000 and the limit on death benefits will increase by approximately \$10,000. There is no change to limits on hit and run coverage, while the limits on medical treatments will double to \$300,000. According to the Attorney General of BC the increase in the limit for medical treatments will affect approximately 35 to 40 claims each year.<sup>33</sup> The overall impact of the changes to accident benefits are estimated to increase payments for claims by approximately \$200 million per year (\$3,300 per claim).<sup>34</sup>

**Table 2: Changes to Accident Benefits in BC**

	Existing Limits	Announced Change	Effective Date
<b>Wage Loss</b>	\$300 per week	Up to \$740 per week	April 1, 2019
<b>Funeral Expenses</b>	\$2,500	\$7,500	April 1, 2019
<b>Death benefits</b>	\$17,580-\$20,080	Up to \$30,000	April 1, 2019
<b>Hit and Run Coverage</b>	Automatic coverage up to a maximum of \$200,000. Claims for property damage are subject to a \$750 deductible.	No change	April 1, 2019
<b>Medical Treatments</b>	Up to \$150,000 <sup>35</sup>	Up to \$300,000. Increased range of treatment options. Greater share of treatment costs covered by ICBC. Increased types of service providers to choose from by customers.	January 1, 2018
<b>Homemaking Benefits</b>	\$145	\$280	April 1, 2019

Source: ICBC

<sup>29</sup> Percentages have been calculated based on 2.9 million policies with 67 percent of drivers receiving a discount under the new rate design, 1.2 million drivers receiving a discount of less than \$50 and 375,000 receiving a discount of between \$50 and \$100.

<sup>30</sup> ICBC. "BCUC rates." Available here: <https://www.icbc.com/autoplan/costs/Pages/rate-pressures.aspx>. (Accessed February 1, 2019).

<sup>31</sup> CBC News. "ICBC gets green light for interim 6.3 percent rate hike." (January 2, 2019). Available here: <https://www.cbc.ca/news/canada/british-columbia/icbc-gets-green-light-for-interim-6-3-per-cent-rate-hike-1.4964102> (Accessed February 1, 2019).

<sup>32</sup> ICBC. "BCUC rates." Available here: <https://www.icbc.com/autoplan/costs/Pages/rate-pressures.aspx>. (Accessed February 1, 2019).

<sup>33</sup> BC Gov News. "ICBC benefits double to better support crash victims." Available here: <https://news.gov.bc.ca/releases/2018AG0043-001094> (Accessed February 1, 2019)

<sup>34</sup> Official Report of Debates (Hansard). Third Session, 41<sup>st</sup> Parliament (2018), May 10, 2018. Available here: <https://www.leg.bc.ca/content/Hansard/41st3rd/20180510am-Hansard-n133.html> (Accessed February 1, 2019).

<sup>35</sup> According to the Attorney General of BC approximately 40 claims per year are subject to the cap. (Official Report of Debates (Hansard), May 18, 2018).

## 4 COMPARISON BETWEEN ALBERTA AND BC'S AUTO INSURANCE SYSTEMS

### 4.1 Overview of Alberta's Auto Insurance System

All motor vehicles registered in Alberta are required to have basic auto insurance which is provided through a competitive insurance market. Basic auto insurance includes a minimum of \$200,000 third-party liability and accident benefits coverage. In addition, optional coverage (e.g., collision, comprehensive and extended liability) may be purchased.

Regulatory oversight is provided through:

- **Automobile Insurance Rate Board ("AIRB")** – The AIRB regulates auto insurance rates in the province. Its primary role is to regulate auto insurance rating programs for vehicles for both basic and optional coverage.
- **Office of the Superintendent of Insurance ("OSI")** – The OSI regulates and creates policy for the insurance market. It is responsible for creating policy and monitoring the effectiveness of the businesses providing auto insurance in Alberta.

#### Distribution Network

Approximately 43 insurance companies sell both basic and optional auto insurance to customers. Customers have four different options through which to purchase auto insurance:<sup>36</sup>

- **Agent:** An insurance agent sells the products offered by one insurance company.
- **Direct Writer:** A direct writer insurance company has its own sales employees to sell its products through an office or call centre.
- **Broker:** An insurance broker has contracts to sell insurance for more than one insurance company.
- **Internet:** Buying direct from insurance companies online.

#### Insurance Model

Alberta operates under a tort-based insurance system whereby not-at-fault drivers involved in an accident are able to sue for pain and suffering, and economic damages. Like most tort-based auto insurance jurisdictions in Canada, Alberta has a definition of minor injuries and a cap on payments for pain and suffering associated with minor injuries.

#### Minor Injury Claims

The minor injury definition used in Alberta is:<sup>37</sup>

*A minor injury, in respect of an accident means*

- (i) *A sprain*
- (ii) *A strain, or*
- (iii) *A WAD injury*

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<sup>36</sup> Alberta Automobile Insurance Rate Board, "Frequently Asked Questions", Retrieved from: <https://airb.alberta.ca/drivers/faq.aspx>

<sup>37</sup> The Province of Alberta, "Insurance Act: Minor Injury Regulation". Retrieved from: [http://www.qp.alberta.ca/documents/Regs/2004\\_123.pdf](http://www.qp.alberta.ca/documents/Regs/2004_123.pdf)

*Caused by that accident that does not result in a serious impairment.*

A “WAD injury” means a whiplash associated-disorder other than one that exhibits one or both of the following:

- (i) *Objective, demonstratable, definable and clinically relevant neurological signs;*
- (ii) *A fracture to or a dislocation of the spine*

This definition was updated on May 17, 2018 to clarify that temporomandibular joint injuries and psychological and physical conditions arising from sprains, strains and whiplash injuries are considered minor injuries under the regulation.<sup>38</sup>

As of January 1, 2019, the maximum amount that may be claimed for pain and suffering related to minor injuries is \$5,202.<sup>39</sup>

### **Calculation of Insurance Premiums**

Insurance companies use a risk-based model to determine auto insurance premiums. The AIRB specifies the factors insurance companies may use to assess risk, and individual insurance companies choose which of the allowable factors they will use to set rates. See Appendix C for a list of the factors that may be used to assess risk in Alberta.

### **Access to Insurance**

Drivers that are unable to obtain insurance through voluntary insurance markets are insured through the residual market mechanism administered by the Facility Association.<sup>40</sup> The Facility Association is a non-profit organization established to ensure that automobile insurance is available to all drivers eligible to obtain it. Insurance companies providing insurance in Alberta are required to be members of the Facility Association.

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<sup>38</sup> Alberta Treasury Board and Finance, “Clarification of Minor Injury Regulation”. Retrieved from:

<https://finance.alberta.ca/publications/insurance/bulletins-notice/2018/Superintendent-of-Insurance-2018-04-Notice.pdf>

<sup>39</sup> The cap is adjusted annually based on the formula in: The Province of Alberta, “Insurance Act: Minor Injury Regulation”. Retrieved from: [http://www.gp.alberta.ca/documents/Regs/2004\\_123.pdf](http://www.gp.alberta.ca/documents/Regs/2004_123.pdf)

<sup>40</sup> The residual market mechanism involves select insurance companies acting as “servicing carriers”, who carry out the functions of insurers for high risk drivers on behalf of the association. These companies are compensated for losses from the residual market pool paid into by all insurance companies. – The Facility Association, About Us., Retrieved from: <http://www.facilityassociation.com/about.asp>

## 4.2 Comparison Between the Two Systems

### Insurance Regime

Table 3 compares the insurance regime in Alberta with that expected in BC after the announced changes. Following the implementation of the changes in BC both provinces will have tort-based insurance systems with a minor injury cap. The definition of minor injuries in BC will be broader than in Alberta and is expected to cover a greater number of conditions.<sup>41</sup> Regulatory oversight in both provinces will be provided by two independent entities, one that is responsible for regulating rates and one that is responsible for regulating the business of insurance. Insurance premiums in both provinces will be set using a risk-based model.

The two systems will differ in terms of the market structure and how auto insurance is sold. In Alberta all auto insurance is sold and distributed through a competitive market, while in BC ICBC has a monopoly on Basic Autoplan, with competition only in the optional market. In BC insurance is sold through a brokerage model under which entry is restricted.

**Table 3: Comparison of the Insurance Regimes in Alberta and BC Following Implementation of the Announced Changes**

	BC (Following Implementation of the Announced Changes)	Alberta
<b>Tort-based Insurance Model</b>	Yes	Yes
<b>Minor Injury Definition</b>	Yes	Yes
<b>Minor Injury Cap</b>	\$5,500	\$5,202
<b>Insurance Rates Regulator</b>	BCUC	AIRB
<b>Insurance Market Regulator</b>	FICOM	Superintendent of Insurance
<b>Factors Used to Set Premiums</b>	Risk-based	Risk-based
<b>Distribution Model</b>	Brokers operating in a restricted entry market	Brokers, agents and insurance companies operating in a competitive market.
<b>Market Structure</b>	Monopoly in Basic Autoplan. Competitive Market for Optional Insurance.	Competitive Market

### Features of Auto Insurance Coverage

Table 4 compares mandatory auto insurance coverages after BC’s announced changes with coverages in Alberta. Following the implementation of the changes in BC, the features of Basic Autoplan will be similar to the features of mandatory coverage in Alberta. Both provinces will require minimum third-party liability insurance coverage of \$200,000 with caps on property damage. In addition, mandatory insurance products will include accident benefits that cover medical expenses, funeral expenses, and wage loss payments. BC’s limits on those features will be higher than Alberta’s.

The two provinces will differ in how hit and run coverage is provided. In BC, coverage of up to \$200,000 for personal injuries and property damage caused by a hit and run will be provided through the mandatory product. In comparison, in Alberta coverage of up to \$200,000 for personal injuries caused by a hit and run is available through the Alberta Motor Vehicle Accident Claims Program, while property damage is typically covered under collision policies, which are optional products.

<sup>41</sup> The Government of BC. “Further Transparency on Regulations Planned for ICBC Reforms”. Retrieved from: [https://archive.news.gov.bc.ca/releases/news\\_releases\\_2017-2021/2018AG0028-000810.htm](https://archive.news.gov.bc.ca/releases/news_releases_2017-2021/2018AG0028-000810.htm)

**Table 4: Auto Insurance Coverage in BC and Alberta**

	<b>BC (New system)</b>	<b>Alberta<sup>42</sup></b>
<b>Third-party Liability</b>	\$200,000 in third-party liability insurance: covers both bodily injury and property damage. Within this amount, property damage will be capped at \$20,000. <sup>43</sup>	Minimum of \$200,000 third party liability. Within this amount, property damage is capped at \$10,000.
<b>Accident Benefits</b>		
<b>Medical Coverage</b>	Up to \$300,000	Up to \$50,000 per person
<b>Hit and Run Coverage</b>	Automatic coverage up to a maximum of \$200,000. Claims for property damage are subject to a \$750 deductible.	Up to \$200,000 for personal injuries caused by uninsured or unknown drivers is provided through the Alberta Motor Vehicle Accident Claims Program. <sup>44</sup>
<b>Funeral Expense Coverage</b>	\$7,500	\$5,000
<b>Wage Loss Payments</b>	Up to \$740 per week	Up to \$400 per week for earners. \$135 per week for non-earners.
<b>Death Benefits</b>	Up to \$30,000	\$10,000 plus \$2,000 for each dependent survivor after first, plus \$15,000 for first survivor and \$4,000 for each remaining survivor.

Source: ICBC, IBC

To illustrate the impact of the higher limits on accident benefits coverage in BC we compared the average accident benefit claim and the average total injury claim between 2013 and 2017 in BC and Alberta (Table 5). Average accident benefit claim values in Alberta were between \$4,000 and \$5,000 and total injury claim values were between \$32,000 and \$44,000 over the period, while in BC average accident benefit claim values were between \$2,000 and \$3,500 and total injury claim values were between \$37,000 and \$51,000. As noted previously, the announced increases in accident benefit coverage in BC are expected to increase average payments by approximately \$3,300, while caps on pain and suffering are expected to reduce payments for minor injuries. This suggests that once reductions in payouts for pain and suffering for minor injuries are factored in, the benefits that will be paid out in BC are not expected to be substantially higher than in Alberta for most claimants despite BC having higher coverage limits.

<sup>42</sup> Insurance Bureau of Canada. “2018 Facts of the Property and Casualty Insurance Industry in Canada”. Retrieved from: [http://assets.ibc.ca/Documents/Facts%20Book/Facts\\_Book/2018/IBC-Fact-Book-2018.pdf](http://assets.ibc.ca/Documents/Facts%20Book/Facts_Book/2018/IBC-Fact-Book-2018.pdf)

<sup>43</sup> ICBC, Autoplan Insurance. Retrieved from: <http://www.icbc.com/autoplan/basic/Pages/Default.aspx>

<sup>44</sup> Government of Alberta. Motor Vehicle Accident Claims Program. Retrieved from: <https://www.alberta.ca/motor-vehicle-accident-claims-program.aspx>

**Table 5: Average Accident Benefit and Injury Claim Payouts, 2013 to 2017/18**

	BC		AB	
	Accident Benefits Claim	Total Injury Claim	Accident Benefits Claim	Total Injury Claim
2013	\$2,503	\$36,969	\$3,652	\$32,996
2014	\$3,030	\$40,513	\$3,662	\$35,462
2015	\$3,482	\$44,239	\$4,587	\$41,999
2016*	\$3,239	\$45,163	\$4,721	\$44,686
2017*	\$2,885	\$50,658	\$5,175	\$43,211

Source: ICBC BIIIS Exhibits I, II, III, V Oct 16, 2018 and December 31, 2016, General Insurance Statistical Agency AUTO3001-AB and IBC.

\* In 2016 ICBC transitioned from a fiscal year-end of December 31 to a fiscal year-end of March 31. BC data for 2016 is for the 15-month transitional period and for 2017 is for fiscal 2017/2018.

### *Claim Forgiveness*

Claim forgiveness refers to insurance providers “forgiving” an at-fault claim so that it does not affect a customer’s insurance premium. Following the implementation of BC’s announced changes, claim forgiveness will apply to all drivers that have a minimum of 20 years of driving experience and who have not had an at-fault claim for at least 10 years.

According to industry representatives interviewed by MNP, the way in which this feature is offered in Alberta varies by insurance company. Some insurance companies may offer it to customers that have a significant amount of time without an at-fault claim, while other companies provide claim forgiveness as an optional feature that can be purchased.

### *At-fault Claim Repayment*

Following the implementation of BC’s announced changes, drivers will be permitted to repay an at-fault claim valued at up to \$2,000 to avoid the associated increase in premiums.

In Alberta, drivers may have the option to repay damage for at-fault accidents without having it affect their insurance premiums if the collision does not involve a third-party. According to industry representatives, if the accident involves damage to property or a person, the loss must be reported, and the claim must be investigated. Any such claims may impact the at-fault driver’s insurance premiums.

## **4.3 Management of Settlements**

According to industry representatives interviewed by MNP, the process for managing settlements in BC and Alberta is similar.

### **Material Damage Repairs**

Figure 1 outlines the material damage claims process in both BC and Alberta. According to industry representatives interviewed by MNP, claim resolution times in both provinces are heavily dependent on the complexity of claims. The typical claim is settled within two to three weeks of it being made; however, this may vary by insurance company.

Figure 1: Material Damage Claims Process



## Injury Claims

Injury claims tend to be more complex than material damage claims. If an injury has occurred as part of an accident, a sub-claim is made at the same time the first order of loss is issued. The sub-claim is assigned to a specialist within the insurance company who contacts the injured party to determine the extent of the care required.

According to industry representatives interviewed by MNP, the resolution times for injury claims can range from a few months to several years, and claims involving litigation tend to take longer to settle. There was no information on average settlement times or timeliness of care received with which to compare BC and Alberta.

### *Appeals and Disputes*

Following the implementation of the announced changes, the process for appeals and disputes in BC will be similar to that in Alberta in that disputes involving minor injuries that cannot be resolved with the insurer will be handled by an independent third party rather than through the courts. In BC the third party will be the CRT, and its jurisdiction will include:

- The classification of injuries as minor injuries.
- Whether or not a claimant is entitled to receive the accident benefits that have been claimed.
- The power to limit the number of experts involved in a case.

In Alberta, the process for appeals and disputes over whether an injury is considered minor is outlined in the Insurance Act's *Minor Injury Regulation*, and involves the use of certified examiner to assess the nature of the injury.<sup>45</sup> According to industry representatives interviewed by MNP, other disagreements that cannot be resolved with the customer's insurance company are handled through the formal dispute resolution process set out in section 519 of the *Insurance Act*.<sup>46</sup> The formal dispute resolution process involves both parties appointing representatives to appraise the amount of the loss. If this amount cannot be agreed, an umpire is selected who will provide a final decision on the amount of the loss.

<sup>45</sup> Province of Alberta, Insurance Act: Minor Injury Regulation. Section 8(1). Retrieved from: [http://www.qp.alberta.ca/1266.cfm?page=2004\\_123.cfm&leg\\_type=Regs&isbncIn=9780779803538](http://www.qp.alberta.ca/1266.cfm?page=2004_123.cfm&leg_type=Regs&isbncIn=9780779803538)

<sup>46</sup> Alberta Treasury Board and Finance, "Insurance Claim or Policy Complaints". Retrieved from: <https://finance.alberta.ca/publications/insurance/consumers/insurance-complaints-claim-or-policy.html>

## 4.4 Summary of Comparison

Following the implementation of the announced changes BC's insurance system is expected to be substantially similar to the system in Alberta. Both provinces will have a tort-based insurance model with a cap on minor injury claims. The definition of minor injuries in BC will be broader and is expected to cover a wider range of conditions. While features of the mandatory insurance product will vary in terms of coverages and limits, premiums in both provinces will be set based on identified risk factors.

The systems in the two provinces will differ in the market structure through which insurance is provided and the manner in which insurance is sold. In Alberta all auto insurance is sold and distributed through a competitive market, while in BC ICBC has a monopoly on Basic Autoplan, with limited competition only in the optional market. In Alberta insurance is sold through a variety of channels, while in BC insurance is sold through a brokerage model where entry is restricted.

## 5 COMPARISON OF INSURANCE PREMIUMS IN BC AND ALBERTA

MNP compared premiums for a set of representative drivers in BC before and after the implementation of the announced changes to the rate design and compared those with the quotes for the same driver profiles in Alberta. The representative driver profiles were developed in consultation with IBC.

### 5.1 Impact of Changes on Individual Drivers' Premiums

To illustrate how the announced changes to the rate design will affect the premiums for individual drivers in BC we calculated premiums for the following driver profiles:

- Experienced Drivers without At-fault Accidents (15 or more years of driving experience).
- Inexperienced Drivers without At-Fault Accidents (less than 15 years of driving experience).
- Experienced Drivers with At-fault Accidents.
- Multiple Drivers with Different Risk Profiles Insured on a Vehicle.
- Recreational Vehicle and a Motorcycle.

The following assumptions were used to calculate the applicable premium for each policy:

- Third-party liability was \$1,000,000.
- The deductible for collision coverage was \$500.
- The deductible for comprehensive coverage was \$300.
- The driver(s) had been in BC for more three years.
- The driver(s) was not eligible for a disability discount.
- The vehicle was valued under \$150,000.
- The vehicle did not have autonomous emergency braking technology.
- The policy did not include unlisted driver protection for a driver with no accidents in the past five years.

The new rate design includes a three-year transition period, during which there are caps on the maximum annual change in premiums. The estimated Basic Autoplan premiums presented here do not include the caps on the annual changes in premiums and illustrate the premiums for policies renewed after September 1, 2022 based the parameters published in ICBC's 2018 Basic Rate Design Application. They do not include any rate increases. The optional coverage is based on rates in effect in February 2019.

#### Experienced Drivers Without At-Fault Accidents

Table 6 compares the premiums paid by experienced drivers in BC without an at-fault accident within the previous 10 years before and after the changes to the rate design are implemented. Basic Autoplan premiums for experienced drivers outside the Lower Mainland were estimated to decrease by between \$43 (8 percent) and \$110 (11 percent), which results in a decrease in overall premiums of between 4 percent and 7 percent. For experienced drivers in the Lower Mainland that use their vehicle for business Basic Autoplan premiums were estimated to decrease by \$39 (3 percent), which results in a decrease in overall premiums of 2 percent. Premiums for commuters and senior drivers in the Lower Mainland were estimated to increase by between \$8 (1 percent) and \$21 (2 percent), which results in an increase in overall premiums of approximately 1 percent.<sup>47</sup>

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<sup>47</sup> Senior drivers, under both the current and new rate designs in BC, an additional senior's discount is applied. In Alberta, senior's discounts vary by insurance company.

Table 6: Premiums for Experienced Drivers in BC Without At-Fault Accidents

	Small-Business Owner (Lower Mainland)	Seniors (Lower Mainland)	Seniors (Interior)	Couple (Lower Mainland)	Couple (Squamish)
<b>Principal Driver</b>	46-year-old man	68-year-old man	68-year-old man	35-year-old man	35-year-old man
Driving Experience	30 years	50 years	50 years	19 years	19 years
At-Fault Accidents	0	0	0	0	0
<b>Other Driver(s):</b>					
Driver 1	None	68-year-old woman	68-year-old woman	35-year-old woman	35-year-old woman
At-Fault Accidents	Not applicable	0	0	0	0
<b>Type of Use</b>	Business	Pleasure	Pleasure	Commute to work (less than 15km one way) or pleasure	Commute to work (less than 15km one way) or pleasure
<b>Type of Vehicle</b>	2014 Ford F-150	2014 Buick Lacrosse	2014 Buick Lacrosse	2014 Honda Civic	2014 Honda Civic
<b>Location</b>	Surrey	North Vancouver	Kelowna	Coquitlam	Squamish
<b>Premiums (Feb 2019)</b>					
Basic Autoplan	\$1,171	\$808	\$559	\$1,095	\$960
Optional Coverage	\$887	\$649	\$561	\$598	\$519
<b>Total</b>	<b>\$2,058</b>	<b>\$1,457</b>	<b>\$1,120</b>	<b>\$1,693</b>	<b>\$1,479</b>
<b>Premiums New Rate Design</b>					
Basic Autoplan	\$1,132	\$816	\$516	\$1,116	\$850
Optional Coverage*	\$887	\$649	\$561	\$598	\$519
<b>Total</b>	<b>\$2,019</b>	<b>\$1,465</b>	<b>\$1,077</b>	<b>\$1,714</b>	<b>\$1,369</b>
<b>Percentage Change in Basic Autoplan</b>	(-3%)	1%	(-8%)	2%	(-11%)
<b>Percentage Change in Total Premium</b>	(-2%)	1%	(-4%)	1%	(-7%)

\*Based on rates in effect in February 2019.

## Inexperienced Drivers

Table 7 compares the premiums paid by inexperienced drivers in BC before and after the changes to the rate design are implemented. Basic Autoplan premiums for an inexperienced driver in the North region were estimated to decrease by \$5 (1 percent), while premiums for inexperienced drivers in the Lower Mainland were estimated to increase by between \$198 (17 percent) for inexperienced drivers with no at-fault accidents and \$395 (27 percent) for inexperienced drivers with a recent at-fault accident. In the North region, the minor decrease in Basic Autoplan premiums results in a marginal reduction in overall premiums for an inexperienced driver of less than 1 percent, while increases in overall premiums for inexperienced drivers in the Lower Mainland will be between 8 percent and 14 percent.

**Table 7: Premiums for Inexperienced Drivers in BC**

	<b>Inexperienced Driver (North)</b>	<b>Inexperienced Driver (Lower Mainland)</b>	<b>Inexperienced Driver (Lower Mainland)</b>	<b>Inexperienced Driver (Lower Mainland)</b>
<b>Principal Driver</b>	24-year-old man	24-year-old man	26-year-old woman	26-year-old woman
Driving Experience	8 years	8 years	8 years	8 years
At-Fault Accidents	0	One at-fault accident 5 years ago	0	0
<b>Type of Use</b>	Commute to work (less than 15km one way) or pleasure	Commute to work (less than 15km one way) or pleasure	Commute to work (less than 15km one way)	Pleasure
<b>Type of Vehicle</b>	2010 Ford F-150	2010 Ford F-150	2014 Honda Civic	2014 Honda Civic
<b>Location</b>	Prince George	Vancouver	Burnaby	Burnaby
<b>Premiums (Feb 2019)</b>				
Basic Autoplan	\$739	\$1,438	\$1,152	\$1,135
Optional Coverage	\$869	\$1,459	\$1,217	\$1,150
<b>Total</b>	<b>\$1,608</b>	<b>\$2,897</b>	<b>\$2,369</b>	<b>\$2,285</b>
<b>Premiums New Rate Design</b>				
Basic Autoplan	\$734	\$1,833	\$1,350	\$1,338
Optional Coverage*	\$869	\$1,459	\$1,217	\$1,150
<b>Total</b>	<b>\$1,603</b>	<b>\$3,292</b>	<b>\$2,567</b>	<b>\$2,488</b>
<b>Percentage Change in Basic Autoplan</b>	<b>(-1%)</b>	<b>27%</b>	<b>17%</b>	<b>18%</b>
<b>Percentage Change in Total Premium</b>	<b>0%</b>	<b>14%</b>	<b>8%</b>	<b>9%</b>

\*Based on rates in effect in February 2019.

## Experienced Drivers with At-fault Accidents

Following the implementation of changes to the rate design in BC, a single at-fault accident will affect premiums for ten years for drivers with less than 20 years of experience. Drivers with more than 20 years of experience and no at-fault accidents in the previous 10 years will be eligible for claim forgiveness, whereby their premiums will not increase as a result of an at-fault accident but will be affected by a second at-fault

accident within 10 years. This is a significant change from the current system where premiums do not increase as the result of a single at-fault accident for drivers that have more than 12 years without an at-fault accident, and drivers with 20 years of claim free driving can have multiple at-fault accidents in a single year before it affects their premiums.

Table 8 compares the Basic Autoplan premiums paid by experienced drivers in BC who have had one at-fault accident before and after the changes to the rate design are implemented. In both cases the driver is eligible for claim forgiveness. Basic Autoplan premiums for an experienced driver in the Lower Mainland that uses her vehicle to commute to work with one at-fault accident were estimated to decrease by \$33 (3 percent) which results in a decrease in total premiums of approximately 2 percent. Basic Autoplan premiums for the same driver in the Interior region were estimated to decrease by \$111 (14 percent), while total premiums decrease by 7 percent.

**Table 8: Premiums for Experienced Drivers in BC with One At-Fault Accident**

	<b>Experienced Driver (Lower Mainland)</b>	<b>Experienced Driver (Interior)</b>
<b>Principal Driver</b>	55-year-old woman	55-year-old woman
Driving Experience	29 years	29 years
At-Fault Accidents	One at-fault accident 5 years ago	One at-fault accident 5 years ago
<b>Type of Use</b>	Commute to work (greater than 15km one-way)	Commute to work (greater than 15km one-way)
<b>Type of Vehicle</b>	2016 Toyota Camry	2016 Toyota Camry
<b>Location</b>	Vancouver	Kamloops
<b>Premiums (Feb 2019)</b>		
Basic Autoplan	\$1,171	\$798
Optional Coverage	\$958	\$775
<b>Total</b>	<b>\$2,129</b>	<b>\$1,573</b>
<b>Premiums New Rate Design</b>		
Basic Autoplan	\$1,138	\$687
Optional Coverage	\$958	\$775
<b>Total</b>	<b>\$2,096</b>	<b>\$1,462</b>
<b>Percentage Change in Basic Autoplan</b>	<b>(-3%)</b>	<b>(-14%)</b>
<b>Percentage Change in Total Premium</b>	<b>(-2%)</b>	<b>(-7%)</b>

### Multiple Drivers with Different Risk Profiles Insured on a Vehicle

Following the implementation of changes to the rate design in BC, premiums will be calculated using the individual driver factors of everyone who is listed as a driver of the vehicle. Inclusion of a learner driver will result in an additional premium. For more information, see Appendix B.

Table 9 compares the premiums for drivers who have learner drivers listed as additional drivers on the vehicle. Basic Autoplan premiums for a family located in the Fraser Valley with a 16-year old learner driver were estimated to decrease by \$128 (11 percent). With the new learner premium added onto the driver's overall premiums, the family located in the Fraser Valley will have their overall premiums increase by \$100 (4 percent). Basic Autoplan premiums for a family located in the Interior with a 16-year old learner driver were estimated to decrease by \$89 (11 percent). With the new learner premium added onto the driver's overall premiums, the driver located in the Fraser Valley will have their overall premiums increase by \$66 (4 percent).

**Table 9: Premiums for Policies in BC with Multiple Drivers that have Different Risk Profiles**

	<b>Family with Learner Driver (Fraser Valley)</b>	<b>Family with Learner Driver (Interior)</b>
<b>Principal Driver</b>	45-year-old man	45-year-old man
Driving Experience	24 years	24 years
At-Fault Accidents	0	0
<b>Other Driver(s):</b>		
Driver 1	45-year-old woman	45-year-old woman
At-Fault Accidents	0	0
Driver 2	16-year-old learner	16-year-old learner
At-Fault Accidents	0	0
<b>Type of Use</b>	Commute to work (greater than 15km one-way)	Commute to work (greater than 15km one-way)
<b>Type of Vehicle</b>	2012 Honda Accord	2012 Honda Accord
<b>Location</b>	Langley	Kelowna
<b>Premiums (Feb 2019)</b>		
Basic Autoplan	\$1,172	\$799
Optional Coverage	\$1,060	\$889
<b>Total</b>	<b>\$2,232</b>	<b>\$1,688</b>
<b>Premiums New Rate Design</b>		
Basic Autoplan	\$1,044	\$710
Learner Premium	\$228	\$155
Optional Coverage	\$1,060	\$889
<b>Total</b>	<b>\$2,332</b>	<b>\$1,754</b>
<b>Percentage Change in Basic Autoplan</b>	<b>(-11%)</b>	<b>(-11%)</b>
<b>Percentage Change in Total Premium</b>	<b>4%</b>	<b>4%</b>

### Recreational Vehicles and Motorcycles

Table 10 compares the premiums paid by recreational vehicle drivers and motorcyclists in BC before and after the changes to the rate design are implemented. Basic Autoplan premiums for a recreational vehicle on Vancouver Island were estimated to decrease by \$63 (11 percent) for a 50-year-old driver following the changes, which results in a decrease in total premiums of 6 percent. Basic Autoplan premiums for a motorcycle in the Fraser Valley were estimated to decrease by \$285 (23 percent), which results in a decrease in total premiums of 13 percent.

**Table 10: Premiums in BC for Recreational Vehicles and Motorcycles, No At-Fault Accidents**

	<b>Recreational Vehicle (Vancouver Island)</b>	<b>Motorcycle (Fraser Valley)</b>
<b>Principal Driver</b>	50-year old male	46-year-old male
Driving Experience	34 years	30 years
At Fault Accidents	0	0
<b>Type of Use</b>	Pleasure	Pleasure
<b>Type of Vehicle</b>	2010 Class C Motorhome	2010 Harley Davidson Motorcycle
<b>Location</b>	Victoria	Fraser Valley
<b>Premiums (Feb 2019)</b>		
Basic Autoplan	\$561	\$1,249
Optional Coverage	\$557	\$941
<b>Total</b>	<b>\$1,118</b>	<b>\$2,190</b>
<b>Premiums New Rate Design</b>		
Basic Autoplan	\$498	\$964
Optional Coverage	\$557	\$941
<b>Total</b>	<b>\$1,055</b>	<b>\$1,905</b>
<b>Percentage Change in Basic Autoplan</b>	<b>(-11%)</b>	<b>(-23%)</b>
<b>Percentage Change in Total Premium</b>	<b>(-6%)</b>	<b>-(13%)</b>

## 5.2 Comparison with Premiums in Alberta

To compare premiums in Alberta with BC we gathered quotes for each driver profile through a broker in Alberta. The broker provided eight quotes for each profile. For a given level of coverage, customers would be expected to choose from the lowest priced options available to them. Consequently, we compared quotes in BC with the average of the lowest three quotes in Alberta for each profile and the lowest quote in Alberta.

The factors used to determine premiums in Alberta vary by insurance company. Consequently, additional characteristics for the drivers were incorporated into the profiles. A complete list of characteristics and assumptions used to gather quotes in Alberta is provided in Appendix D.

Table 11 compares the premiums each driver would pay following the implementation of changes to the rate design in BC with quotes for that driver in Alberta. Compared with the average of the three lowest quotes:

- Experienced drivers without at-fault accidents were estimated to pay between 4 percent and 31 percent more in BC than they would in Alberta for similar coverage.
- Experienced drivers with no at-fault accidents but that have a child learning to drive were estimated to pay between 38 percent and 59 percent more in BC than they would in Alberta for similar coverage.
- Inexperienced drivers without at-fault accidents were estimated to pay between 3 percent less and 50 percent more than they would in Alberta for similar coverage.
- Experienced drivers under the age of 65 with an at-fault accident were estimated to pay between 2 percent and 15 percent more in BC than they would in Alberta for similar coverage.

Compared with the lowest quote, drivers in BC were estimated to pay between 13 percent and 60 percent more than they would in Alberta for comparable coverage.

Premiums for recreational vehicles were estimated to be up to three times higher in BC than they would in Alberta for similar coverage, and premiums for motorcycles were estimated to be 11 percent higher in BC than they would be in Alberta for similar coverage.

Table 11: Comparison of Premiums in BC with Premiums in Alberta

	BC			Alberta		Location
	Location	Premium		Premium (Feb 2019) <sup>48</sup>		
		Feb 2019	New Rate Design*	Low	Average	
<b>Experienced Drivers Without At-Fault Accidents</b>						
Small-Business Owner	Surrey	\$2,058	\$2,019	\$1,399	\$1,716	Calgary
Seniors (Lower Mainland) <sup>49</sup>	North Vancouver	\$1,457	\$1,465	\$1,295	\$1,340	Calgary
Seniors (Interior)	Kelowna	\$1,120	\$1,077	\$1,125	\$1,138	Red Deer
Couple (Lower Mainland)	Coquitlam	\$1,693	\$1,714	\$1,125	\$1,313	Calgary
Couple (Squamish)	Squamish	\$1,479	\$1,369	\$1,125	\$1,313	Airdrie
<b>Inexperienced Drivers</b>						
North (no at-fault accidents)	Prince George	\$1,608	\$1,603	\$1,345	\$1,649	Fort McMurray
Lower Mainland (one at-fault accident)	Vancouver	\$2,897	\$3,292	\$2,209	\$2,460	Calgary
Lower Mainland Commuter (no at-fault accidents)	Burnaby	\$2,369	\$2,567	\$1,674	\$1,778	Calgary
Lower Mainland Pleasure Use (no at-fault accidents)	Burnaby	\$2,285	\$2,488	\$1,558	\$1,659	Calgary
<b>Experienced Drivers with One At-fault Accident</b>						
Lower Mainland	Vancouver	\$2,129	\$2,096	\$1,399	\$1,821	Calgary
Interior	Kamloops	\$1,573	\$1,462	\$1,125	\$1,429	Medicine Hat
<b>Multiple Drivers with Different Risk Profiles Insured on a Vehicle</b>						
Learner driver included	Langley	\$2,232	\$2,332	\$1,395	\$1,467	Edmonton
Learner driver included	Kelowna	\$1,688	\$1,754	\$1,125	\$1,275	Red Deer
<b>Recreational Vehicles and Motorcycles**</b>						
Recreational Vehicle	Victoria	\$1,118	\$1,055	\$347	\$347	Edmonton
Motorcycle	Fraser Valley	\$2,190	\$1,905	\$1,703	\$1,703	St. Albert

\*Mandatory coverage was calculated using the new rate design formula and does not include the increase in basic rates that comes into effect April 1, 2019. Optional coverage was based on rates as of February 2019.

\*\*Only one quote was available for coverage in Alberta.

<sup>48</sup> Average of the three lowest quotes, unless otherwise noted.

<sup>49</sup> For senior drivers, under both the current and new rate designs in BC, an additional senior's discount is applied. In Alberta, senior's discounts vary by insurance company.

## 6 SUMMARY OF FINDINGS

### 6.1 Comparison Between Alberta and BC's Auto Insurance Systems

Our review of the insurance systems in BC and Alberta suggests that the announced changes will result in BC's system being substantially similar to the system in Alberta (see Table 12):

- Both provinces will have tort-based insurance systems with a minor injury cap. The definition of minor injuries in BC is broader and is expected to cover a wider range of conditions.
- Regulatory oversight will be provided by two independent entities, one that is responsible for regulating rates and one that is responsible for regulating the business of insurance.
- Premiums in both provinces will be set based on identified risk-factors.
- While features of the mandatory insurance product will vary in terms of coverages and limits, comparisons of the average payments for injury claims suggest that these differences will not result in substantial differences in payments for most claimants.

The two systems will differ in terms of the market structure and the manner in which insurance is sold. In Alberta all auto insurance is sold and distributed through a competitive market, while in BC, ICBC has a monopoly on Basic Autoplan, with limited competition only in the optional market. In BC, insurance is sold through a brokerage model where entry is restricted.

**Table 12: Comparison of the Insurance Systems in Alberta and BC Following Implementation of the Announced Changes**

	<b>BC (Following Implementation of the Announced Changes)</b>	<b>Alberta</b>
<b>Mandatory Insurance</b>	Yes	Yes
<b>Tort-based Insurance Model</b>	Yes	Yes
<b>Minor Injury Definition</b>	Yes	Yes
<b>Minor Injury Cap</b>	\$5,500	\$5,202
<b>Regulation of Insurance Rates</b>	BC Utilities Commission	AIRB
<b>Regulation of Insurance Market</b>	FICOM*	Superintendent of Insurance
<b>Features of Mandatory Auto Insurance Coverage:</b>		
Third-Party Liability	\$200,000, property damage capped at \$20,000	\$200,000, property damage capped at \$10,000
<b>Accident Benefits</b>		
Medical Coverage	Up to \$300,000 <sup>50</sup>	Up to \$50,000
Hit and Run Coverage	Up to \$200,000	Up to \$200,000 for personal injuries caused by uninsured or unknown drivers is provided through the Alberta Motor Vehicle Accident Claims program.
Wage Loss Payments	Up to \$740 per week	Up to \$400 per week for earners. \$135 per week for non-earners.
Death Benefits	Up to \$30,000	\$10,000 plus \$2,000 for each dependent survivor after first, plus \$15,000 for first survivor and \$4,000 for each remaining survivor.
At-fault Claim Repayment	Up to \$2,000 without affecting premiums.	Accidents involving third parties must be reported and may affect premiums.
Claim Forgiveness	Standard for all drivers that qualify	Typically, an optional feature available at an additional cost for experienced drivers.
<b>Access to Insurance</b>	Basic Autoplan provides all eligible drivers who require auto insurance access to it.	The Insurance Act mandates that all eligible drivers who require auto insurance have access to it.
<b>Calculation of Premiums</b>	Risk-based model	Risk-based model
<b>Distribution Model</b>	Brokerage model where entry to the market is restricted.	Multiple channels including brokers, agents, and direct from the insurer.
<b>Management of Settlements</b>	Similar process in both provinces	
<b>Appeals and Disputes for Claims Involving Minor Injuries</b>	Independent third party (CRT) will handle disputes for claims below \$50,000.	To resolve disputes over whether or not an injury is minor a certified examiner is appointed. For other disputes both sides appoint representatives to appraise the amount of the loss, and if necessary an umpire is selected to provide a final decision.

\* FICOM does not provide regulatory oversight of ICBC.

<sup>50</sup> According to the Attorney General of BC approximately 35 to 40 cases per year reached the previous cap of \$150,000.

## 6.2 Comparison of Auto Insurance Premiums in BC and Alberta

While the two systems will be substantially similar, drivers in BC will pay significantly more for similar coverage. Figure 2 compares the premiums for experienced drivers with no at-fault claims in BC before and after the changes with average premiums for comparable drivers in Alberta. Premiums for experienced drivers with no history of claims were estimated to decline for most of the drivers under 65 years of age and seniors in the Interior region as a result of the new rate design, while premiums for seniors in the Lower Mainland were estimated to be similar to premiums before the change to the rate design are implemented and premiums for some drivers in the Lower Mainland were estimated to increase marginally. Following the implementation of the changes to the rate design seniors in the Interior region were estimated to pay approximately 4 percent less than they would in Alberta, while experienced drivers in the Lower Mainland and Squamish were estimated to pay between 4 percent and 31 percent more in BC than they would in Alberta for similar coverage.

**Figure 2: Premiums Experienced Drivers, No At-Fault Accidents**

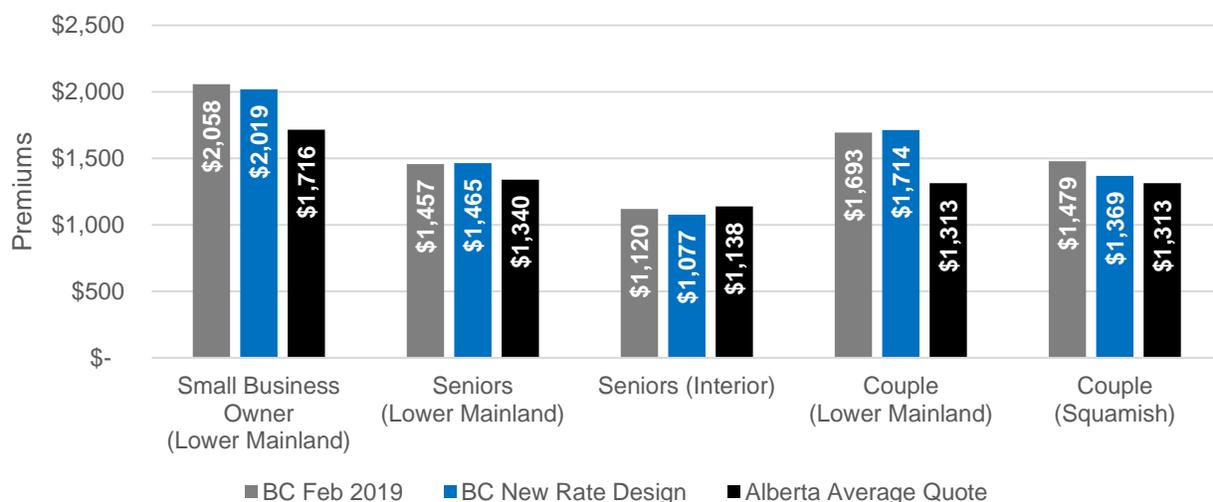


Figure 3 compares the premiums for inexperienced drivers with no at-fault claims that use their vehicle to commute to work and families with a child learning to drive in BC before and after the implementation of the changes to the rate design with average premiums for comparable drivers in Alberta. Premiums for inexperienced drivers in the Lower Mainland were estimated to increase by between 8 percent and 9 percent as a result of the new rate design, while premiums for inexperienced drivers in the North region were estimated to be similar to premiums before the changes to the rate design are implemented. Following the implementation of the changes to the rate design, inexperienced drivers with no history of claims in the North region were estimated to pay 3 percent less in BC than they would in Alberta, while inexperienced drivers in the Lower Mainland were estimated to pay approximately 44 percent more in BC than they would in Alberta for similar coverage. Premiums for families with a child learning to drive were estimated to increase by between four percent and five percent as a result of the new rate design. Following the implementation of changes to the rate design premiums for families with a child learning to drive were estimated to pay between 38 percent and 59 percent more in BC than they would in Alberta for comparable coverage.

**Figure 3: Premiums Inexperienced Drivers and Learners, No At-Fault Accidents**

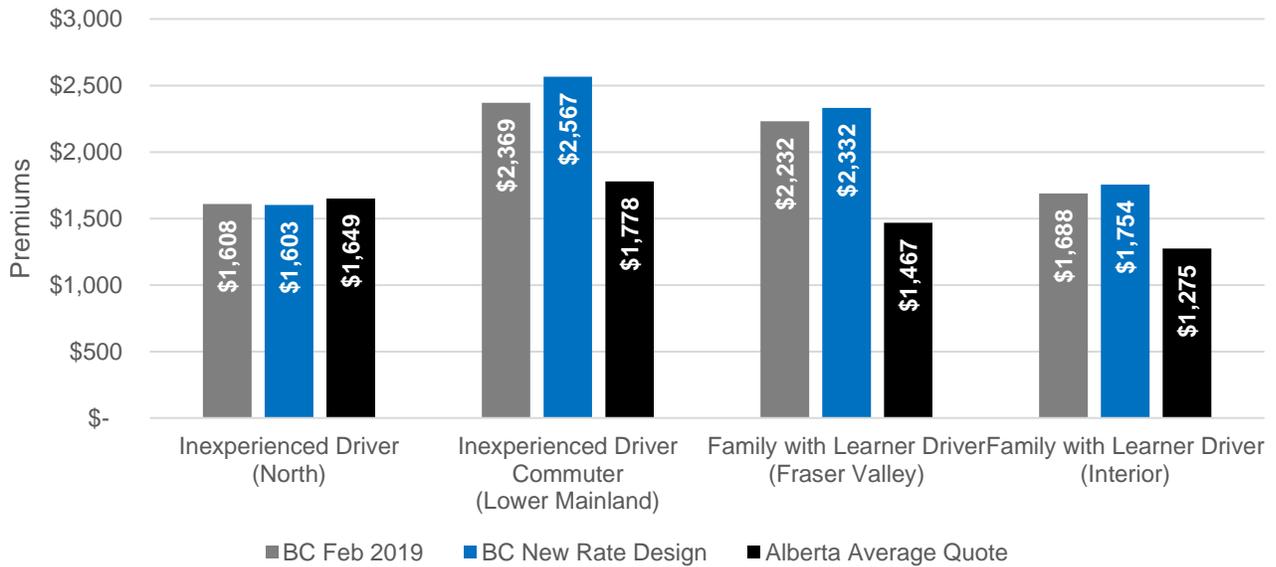


Figure 4 compares the premiums for drivers with one at-fault claim with premiums for comparable drivers in Alberta. Premiums in BC for inexperienced drivers in the Lower Mainland with one at-fault claim were estimated to increase by 14 percent as a result of changes to the rate design. Following the implementation of the changes to the rate design, premiums for inexperienced drivers with one at-fault claim were estimated to be 34 percent higher in BC than they would in Alberta for similar coverage. For experienced drivers with one at-fault accident that qualify for claim forgiveness premiums were estimated to decrease by between two percent and seven percent as a result of the new rate design. Following the implementation of the changes to the rate design experienced drivers with one at-fault accident that qualify for claim forgiveness were estimated to pay between 2 percent and 15 percent more in BC than they would in Alberta for similar coverage.

**Figure 4: Premiums for Drivers with One At-Fault Accident**

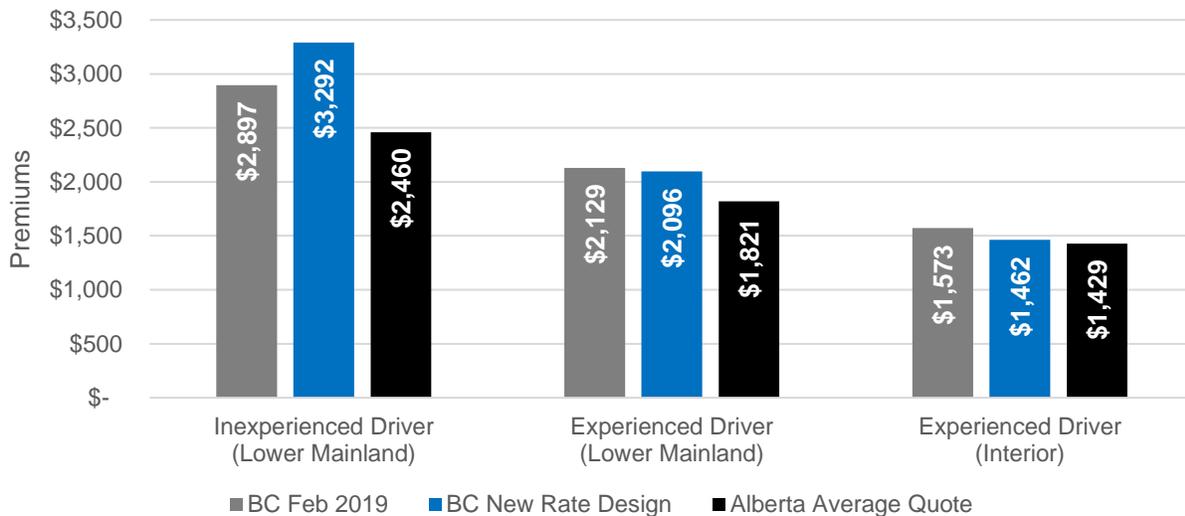
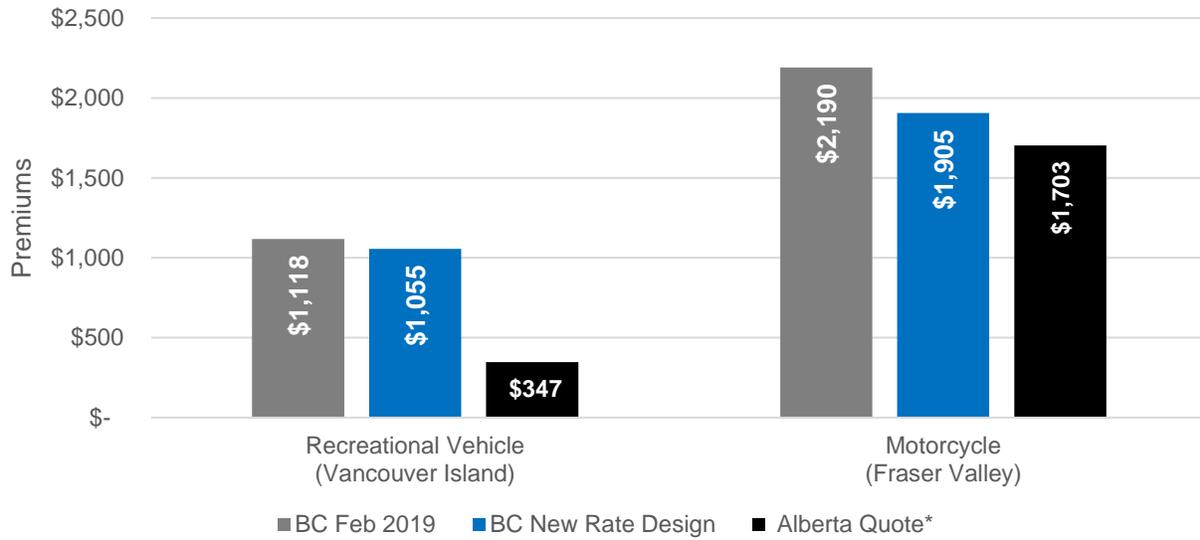


Figure 5 compares premiums for recreational vehicles and motorcycles in BC before and after the implementation of the changes to the rate design with premiums for comparable vehicles and drivers in Alberta. Premiums for insuring a recreational vehicle in BC were estimated to decline by 6 percent and premiums for a motorcycle were estimated to decline by 13 percent as a result of the new rate design. Following the changes premiums for a recreational vehicle were estimated to be up to three times higher than in Alberta and premiums for a motorcycle were estimated to 11 percent higher than in Alberta for comparable coverage.

**Figure 5: Recreational Vehicles and Motorcycles, No At-Fault Accidents**



\* Based on one quote.

## APPENDIX A – DATA SOURCES

Data Source:	Source URL
<b>Automobile Insurance Rate Board</b>	<a href="https://airb.alberta.ca/drivers/faq.aspx">https://airb.alberta.ca/drivers/faq.aspx</a>
<b>Alberta Treasury Board and Finance</b>	<a href="https://open.alberta.ca/dataset/80b795f6-c781-4268-9da2-f21e1d3cc338/resource/21f19da8-8b06-4f1b-ac87-00097855c937/download/superintendent-of-insurance-2018-10-bulletin.pdf">https://open.alberta.ca/dataset/80b795f6-c781-4268-9da2-f21e1d3cc338/resource/21f19da8-8b06-4f1b-ac87-00097855c937/download/superintendent-of-insurance-2018-10-bulletin.pdf</a>
<b>BC Financial Institutions Commission</b>	<a href="http://www.fic.gov.bc.ca/?p=about_us/core_business_areas">http://www.fic.gov.bc.ca/?p=about_us/core_business_areas</a>
<b>BC Provincial Government</b>	<a href="https://news.gov.bc.ca/releases/">https://news.gov.bc.ca/releases/</a>
<b>BC Utilities Commission</b>	<a href="http://www.bcuc.com/about/">http://www.bcuc.com/about/</a>
<b>Civil Resolution Tribunal</b>	<a href="https://civilresolutionbc.ca/province-bc-expands-civil-resolution-tribunals-jurisdiction">https://civilresolutionbc.ca/province-bc-expands-civil-resolution-tribunals-jurisdiction</a>
<b>Facility Association</b>	<a href="http://www.facilityassociation.com/">http://www.facilityassociation.com/</a>
<b>Insurance Bureau of Canada</b>	<a href="http://assets.ibc.ca/Documents/Facts%20Book/Facts_Book/2018/IBC-Fact-Book-2018.pdf">http://assets.ibc.ca/Documents/Facts%20Book/Facts_Book/2018/IBC-Fact-Book-2018.pdf</a>
<b>ICBC</b>	<a href="https://www.icbc.com/about-icbc/changing-auto-insurance-BC/Documents/Changes-to-auto-insurance-in-BC-factsheet.pdf">https://www.icbc.com/about-icbc/changing-auto-insurance-BC/Documents/Changes-to-auto-insurance-in-BC-factsheet.pdf</a>
<b>ICBC Basic Insurance Rate Design Application</b>	<a href="https://www.icbc.com/about-icbc/company-info/Documents/bcuc/ICBC-2018-Basic-Insurance-Rate-Design-Application-Aug15-2018.pdf">https://www.icbc.com/about-icbc/company-info/Documents/bcuc/ICBC-2018-Basic-Insurance-Rate-Design-Application-Aug15-2018.pdf</a>
<b>The Province of Alberta</b>	<a href="http://www.qp.alberta.ca/documents/Regs">http://www.qp.alberta.ca/documents/Regs</a>

## APPENDIX B – OVERVIEW OF THE CHANGES TO ICBC’S RATE DESIGN

This appendix describes the announced changes to how ICBC will assess premiums as outlined in its 2018 Basic Insurance Rate Design Application.<sup>51</sup>

### Drivers

The changes related to drivers are:

- *Changes to driver accountability.* Under the current system, the owner of the vehicle is held accountable even if they did not cause the accident. In the new rate design, if another driver causes an accident, the claim would be attached to their driving record, not the owner of the vehicle.
- *Changes to the requirements for listing drivers.* Under the new rate design in BC, the insurance premiums paid on a vehicle will be calculated using the individual driver factors (IDFs) of everyone who is listed as a driver of the vehicle, not just the primary driver. IDFs for each driver are calculated using their driving experience and accident history, with some additional discounts or surcharges applicable if the driver is a senior, or new to the province. Using the IDFs of the individual drivers, a combined driver factor (CDF) will be calculated as follows:
  - If there are two or more non-learner drivers listed on the vehicle, and a principal driver is declared, then 75 percent of the CDF will be based on the IDF of the principal driver, and 25 percent will be based on the IDF of the non-principal driver with the highest IDF.
  - If there are two or more non-learner drivers listed on the vehicle, and a principal driver is not declared, then 50 percent of the CDF will be based on the IDF of the driver with the highest IDF, and 50 percent will be based on the IDF of the principal driver with the second highest IDF.

Learner drivers listed on a vehicle do not affect the CDF, however there is an additional premium that is paid which is added to the final premium if one or more of the vehicle drivers listed is a learner.

- *Changes to claims history.* Under the current model, at-fault accidents affect a driver’s premiums for three years. In the new rate design, ICBC will look at 10 years of at-fault claims history. The change to claims history will be implemented incrementally over an eight-year period beginning in September 2019.
- *Changes to discounts after an at-fault accident.* In the current rate design, drivers receiving the top discount can have up to three at-fault accidents in the same year, without affecting their premiums. In the new rate design, ICBC will forgive one claim for customers with 20 years of driving experience and no at-fault accidents in the previous 10 years. Once a claim has been forgiven, drivers will need to earn the credit back with 10 years of accident-free driving.
- *Changes to claim repayment.* Currently, there are no limits on a driver’s ability to repay a claim. Under the new rate design, claim repayment will only apply to accidents where there was less than \$2,000 in material damage.

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<sup>51</sup> ICBC. “ICBC’s 2018 Basic Insurance Rate Design Application.”

## Experience

In the new rate design, customers with more years of driving experience and no at-fault accidents are expected to receive greater discounts than they do today. The changes related to experience are:

- In the current rate design, drivers stop receiving additional basic insurance discounts after nine years of driving without an accident. The new rate design would recognize up to 40 years of driving experience.
- For new residents, the maximum credit available is currently for up to eight years and they require previous insurance documentation to obtain insurance. Under the new rate design, ICBC will increase the maximum credit available to new residents to 15 years and will replace the requirement of new residents to provide previous insurance documentation with proof of how long they have had a driver's license. These changes will reflect the higher risk presented by new residents in their first few years of driving in a new jurisdiction.
- Increases in premiums for inexperienced drivers.

## Other Changes

### Changes to rate classes and territories.

In the current rate design, information about the territory that a vehicle has been driven in and the rate class of use is used in determining a premium. The data used for this has not been updated in over 10 years. In the new rate design, this information will be updated regularly to accurately reflect the risk presented by these factors.

### Discounts

In the new rate design, ICBC will keep the existing 25 percent discount for qualifying persons with disabilities and will introduce two new discounts:

- A 10 percent discount for vehicles that have original manufacturer installed automatic emergency braking technology.
- A 10 percent discount for vehicles driven less than 5,000 kilometres annually.

In the current rate design, seniors receive a 25 percent discount on Basic Autoplan if both the owner and principal operator are over 65 years of age and do not use the vehicle for commuting or business purposes.<sup>52</sup> Under the new rate design seniors will receive a 15 percent discount as long as they do not have an at-fault accident.

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<sup>52</sup> <https://www.icbc.com/autoplan/costs/Pages/Discounts-and-savings.aspx>

## Combined Driver Factors and Learner Drivers

Under the new rate design the insurance premiums paid on a vehicle will be calculated using the individual driver factors (IDFs) of everyone who is listed as a driver of the vehicle, and not just the primary driver. IDFs for each driver are calculated using their driving experience and accident history, with some additional discounts or surcharges applicable if the driver is a senior, or new to the province. Using the IDFs of the individual drivers, a combined driver factor (CDF) will be calculated as follows:

- If there are two or more non-learner drivers listed on the vehicle, and a principal driver is declared, then 75 percent of the CDF will be based on the IDF of the principal driver, and 25 percent will be based on the IDF of the non-principal driver with the highest IDF.
- If there are two or more non-learner drivers listed on the vehicle, and a principal driver is not declared, then 50 percent of the CDF will be based on the IDF of the driver with the highest IDF, and 50 percent will be based on the IDF of the principal driver with the second highest IDF.

Learner drivers listed on a vehicle do not affect the CDF, however there is an additional premium that is paid which is added to the final premium if one or more of the vehicle drivers listed is a learner. The additional premium varies by territory and is calculated by applying the territory factor to a flat fee of \$117. For example, effective September 2019 the additional premium for having a learner driver listed on a vehicle in the Kootenays that is insured for pleasure would add ( $\$117 \times 1.05 = \$123$ ), while in the Lower Mainland the additional premium would be ( $\$117 \times 1.925 = \$225$ ).

## Unlisted Drivers

If a driver that is not listed on the policy is involved in an at-fault crash, the registered owner of the vehicle will be charged a one-time Unlisted Driver Accident Premium of up to \$5,000. Policyholders will be able to purchase unlisted driver protection for an additional fee. The fee ranges from \$50 for policyholders who have not had an at-fault accident claim as a result of an unlisted driver in the previous five years to \$1,500 for policyholders that have had multiple at-fault claims as a result of unlisted drivers in the previous five years.

## Driver Penalty Point Premiums (“DPP”) and Driver Risk Premiums (“DRP”)<sup>53</sup>

DPP and DRP are both stand-alone programs and are charged even if the driver does not insure a vehicle. Convictions for vehicle-related offences will not directly affect the premium for a Basic insurance certificate. Instead, convictions will be used in determining if there is a premium owed for a driver’s certificate.

There are no changes to either program; however, rates will increase by 20 percent effective November 1, 2018, and a further 20 percent effective November 1, 2019. Additionally, for each policy year starting in 2020, ICBC is to apply to BCUC to change DPP and DRP by the same percentage number as the final general rate change order approved for that year.

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<sup>53</sup> BC is the only jurisdiction where such revenues are collected by an insurance company.

## **APPENDIX C – FACTORS USED IN SETTING INSURANCE PREMIUMS IN ALBERTA**

The factors permitted to be used to determine auto insurance premiums in Alberta are:<sup>54</sup>

- At-fault accidents: Most insurance companies in Alberta consider at-fault accidents within the past six to ten years.
- Age
- Insurance Coverage on the Vehicle:
  - Mandatory Coverage
  - Optional Coverage
- Discounts Applied
- Driver Training
- Driving Convictions
- Gender
- Lapses in Insurance Coverage
- License Suspensions
- Marital Status
- Mileage
- Occasional Operators
- Territory
- Type of Vehicle
- Type of Vehicle Use
- Years Licensed

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<sup>54</sup> Automobile Insurance Rate Board, “Factors That Affect Premiums”. Retrieved from: <https://airb.alberta.ca/drivers/factors.aspx>

## APPENDIX D – ASSUMPTIONS USED TO CALCULATE PREMIUMS

### BC Assumptions

Premiums in BC were based on the following assumptions:

- Third-party liability was \$1,000,000.
- The deductible for collision coverage was \$500.
- The deductible for comprehensive coverage was \$300.
- The driver(s) had been in BC for more three years.
- The driver(s) was not eligible for a disability discount.
- The vehicle was valued under \$150,000.
- The vehicle did not have autonomous emergency braking technology.
- The policy did not include unlisted driver protection for a driver with no accidents in the past five years.

### Alberta Assumptions

MNP obtained the quotes for Alberta from a broker. All quotes included a multi-line discount for purchasing multiple insurance products from the same provider. Please note that the deductible for comprehensive coverage in Alberta was \$250.

The specific parameters used for each profile are provided below.

#### **Small Business Owner (Lower Mainland)**

The vehicle in this profile was used for business and pleasure, and was driven approximately 30,000 kilometres per year. The vehicle had one driver listed as the sole operator. The parameters used to generate the quote were:

- Principal driver was a 47-year old male with 30 years of driving experience and no at-fault accidents.
- Driver was single and lived in Calgary.
- Driver had a 20km commute.
- Vehicle was a Ford F150 XLT SUPERCREW 4WD that was purchased in 2014.
- Driver was insured for 30 years.
- Grid Level was -15

#### **Seniors (Lower Mainland)**

The vehicle in this profile was a small car used for pleasure and was driven approximately 10,000 kilometers per year. The vehicle had one driver. The parameters used to generate the quote were:

- Principal driver was a 68-year-old man.
- Drivers lived in Calgary and each had 50 years of driving experience with no at-fault accidents.
- Vehicle was a 2014 Buick Lacrosse 4DR that was purchased in 2014.
- Drivers was retired/no occupation.
- Driver was insured for 30 years.
- Grid Level was -15

**Couple (Squamish)**

The vehicle in this profile was a small car used for work and was driven approximately 10,000 kilometres per year. The vehicle had one driver. The parameters used to generate the quote were:

- Principal driver was a 35-year-old married man. Driver had 19 years of driving experience and no at-fault accidents.
- Driver lived in Airdrie.
- Driver had a 10km commute.
- Vehicle was a 2014 Honda Civic DX 4DR that was purchased in 2014.
- Driver was insured for 19 years.
- Grid level was -15

**Inexperienced Driver (North)**

The vehicle in this profile was a pick-up truck used for work and was driven approximately 20,000 kilometres per year. The vehicle had one driver. The following parameters were used to generate the quote:

- Principal driver was a 24-year old man with 8 years of driving experience, and no at-fault accidents.
- Driver was single and lived in Fort McMurray.
- Driver had a 15km commute.
- Vehicle was a 2010 Ford F150 XL Regular Cab 4WD that was purchased in 2015.
- Driver was insured for 8 years.
- Grid Level was -8.

**Inexperienced Driver with Accident (Lower Mainland)**

The vehicle in this profile was a small car used for commuting and was driven approximately 20,000 kilometres per year. The vehicle had one driver. The following parameters were used to generate the quote:

- Principal driver was a 24-year old man with 8 years of driving experience and one at-fault accident in 2014.
- Driver was single and lived in Calgary.
- Driver had a 15km commute.
- Vehicle was a 2010 Ford F150 XL Regular Cab 4WD that was purchased in 2015.
- Driver was insured for 8 years.
- Grid Level was -1.

**Inexperienced Driver Commuter (Lower Mainland)**

The vehicle in this profile was a small car used for commuting and was driven approximately 10,000 kilometres per year. The vehicle had one driver. The following parameters were used to generate the quote:

- Principal driver was a 26-year old woman with 8 years of driving experience, and no at-fault accidents.
- Driver was single and lived in Calgary.
- Driver had a 15km commute.
- Vehicle was a 2014 Honda Civic EX 4DR that was purchased in 2015.
- Driver was insured for 7 years.
- Grid Level was -8.

### **Inexperienced Driver (Lower Mainland)**

The vehicle in this profile was a small car used for pleasure and was driven approximately 10,000 kilometres per year. The vehicle had one driver. The following parameters were used to generate the quote:

- Principal driver was a 26-year old woman with 8 years of driving experience, and no at-fault accidents.
- Driver was single and lived in Calgary.
- Driver has no commute.
- Vehicle was a 2014 Honda Civic EX 4DR that was purchased in 2015.
- Driver was insured for 7 years.
- Grid Level was -8.

### **Family with Learner Driver (Fraser Valley)**

The vehicle in this profile was a small car used for work and was driven approximately 15,000 kilometres per year. The vehicle had three drivers, two adults, and a child with a learner's license. The following parameters were used to generate the quote:

- Drivers were a 45-year-old man, a 45-year-old women and a 16-year-old learner. Adult drivers had 24 years of driving experience and no at-fault accidents.
- Drivers lived in Edmonton.
- Drivers had a 16 km commute.
- Vehicle was a 2012 Honda Accord EX 4 DR that was purchased in 2012.
- Driver was insured for 24 years.
- Grid Level was -15.

### **Family with Learner Driver (Interior)**

Red Deer was used as the location for this profile. The other parameters were the same as those used for the Family with Learner Driver (Fraser Valley).

### **Experienced Driver with One At-Fault Accident (Lower Mainland)**

The vehicle in this profile was a small car used for work and was driven approximately 20,000 kilometres per year. The vehicle had one driver. The following parameters were used to generate the quote:

- Principal driver was a 55-year-old woman with 29 years of driving experience, and one at-fault accident in 2014.
- Driver lived in Calgary.
- Vehicle was a 2016 Toyota Camry LE 4DR that was purchased in 2016.
- Driver had a 20 km commute.
- Driver was insured for 18 years.
- Grid Level was -12.

### **Experienced Driver with At-Fault Accident (Interior)**

Medicine Hat was used as the location for this profile. The other parameters were the same as those used for the Experienced Driver with One At-Fault Accident (Lower Mainland).

**Recreational Vehicle (Vancouver Island)**

The vehicle in this profile was a motorhome used for pleasure and was driven approximately 20,000 kilometres per year. The vehicle had two drivers, a married couple. The parameters used to generate the quote were:

- Drivers were both 50 years old and each had 34 years of driving experience
- Drivers were married and lived in Edmonton.
- Vehicle was a Class C motorhome purchased in 2010 for \$40,000.

**Motorcycle (Fraser Valley)**

The vehicle in this profile was a motorcycle used for pleasure and was driven approximately 5,000 kilometres per year. The vehicle had one driver. The parameters used to generate the quote were:

- Driver was a 46-year old man with 30 years of driving experience, and no at-fault accidents.
- Driver lived in St. Albert.
- Motorcycle was a Harley Davidson FLSTC Heritage Soft tail Classic with a 1,584 CC engine that was purchased in 2010.

## APPENDIX E – BROKER LICENSES IN BC

To estimate the distribution of broker licenses in BC we used information from ICBC’s statements and schedules of financial information for 2015 and 2016/2017 on payments to suppliers for goods and services and information published by each brokerage.

Table 13: Largest Broker Groups in BC

Broker Name	Estimated Number of Licenses		Share of Total Commission Payments (2015 and 2016/17)
	Low	High	
InsureBC Insurance Services*	100	125	6%
Hub International	70	80	10%
Westland Insurance Group	60	74	5%
Western Financial (Network) INC	50	76	5%
Co-operators Insurance Agencies Ltd.	48	60	2%
Sussex Insurance Agency INC	44	50	6%
Johnston Meier Insurance Agencies*	33	51	6%
BCAA Insurance Agency	30	44	4%
Allwest Insurance Services Ltd.	25	30	3%
First West Insurance Services Ltd.	16	22	2%
Coast Capital Insurance Services Ltd.	15	30	2%
Rand & Fowler Insurance	15	20	2%
Capri Insurance Services Ltd.	14	20	2%
London Drugs Ltd.	13	20	2%
Waypoint Insurance Services INC	11	15	2%
Maxxam Insurance Services	10	14	1%
Interior Savings Insurance Services	8	10	1%
Don Wotherspoon & Associates	8	10	1%
Coastal Community Insurance Services	4	6	1%
<b>Total</b>	<b>582</b>	<b>767</b>	<b>63%</b>
<b>Share of Total Licenses/Commissions</b>	<b>65%</b>	<b>85%</b>	<b>63%</b>

\*Include estimated licenses for other related entities that are listed in ICBC’s Statements and Schedules of Financial Information.

## ABOUT MNP

MNP is the fastest growing major chartered accountancy and business advisory firm in Canada. Founded in 1958, MNP has grown to more than 70 offices and 4,000 team members across Canada. In British Columbia, MNP has more than 800 staff located in 19 offices throughout the province. The map below shows our office locations.

MNP provides a wide range of accounting, finance and business advisory services to clients. These include:

- Assurance
- Taxation
- Corporate Finance
- Mergers and Acquisitions
- Enterprise Risk Services
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- Consulting
- Insolvency and Corporate Recovery
- Succession
- Valuations and Litigation Support



### About MNP's Economics and Research Practice

Economic and industry studies are carried out by MNP's Economics and Research practice. Based in Vancouver, the Economics and Research practice consists of a team of professionals that has a successful track record of assisting clients with a wide variety of financial and economic impact studies. Our work has encompassed a wide range of programs, industries, company operations and policy initiatives and has helped clients with decision-making, communication of economic and financial contributions, documentation of the value of initiatives and activities and development of public policy.