COMMENTARY – AUTO INSURANCE RATES

BASIC INSURANCE RATE CHANGES FOR MANITOBA AND SASKATCHEWAN MUCH LOWER THAN FOR BRITISH COLUMBIA

Manitoba Basic Insurance Rates Rise 2.6% for the Coming Year[1]

The Manitoba Public Utilities Board (PUB) recently approved an average 2.6% rate increase for the monopoly Basic auto insurance program for the year commencing 1 March 2018, with a significant increase in the demerit penalties paid by higher risk drivers.

Like ICBC, the Manitoba Public Insurance (MPI) Crown corporation operates the compulsory Basic insurance program,[2] as well as two optional or extension programs which compete with private insurers and enjoy approximately 95% market share.[3] The PUB regulates the Basic insurance program, and is more independent than the BC Utilities Commission.

Manitoba insurance is a no-fault model; injured parties cannot sue the at-fault party for additional out-of-pocket costs, nor for pain and suffering. The no-fault accident benefits are somewhat more generous than those provided in the current ICBC model. Unlike the BC model, Basic insurance in Manitoba covers (with a $500 deductible) an at-fault driver's vehicle damage. This is an Optional coverage in this province.

In Saskatchewan, the publicly-owned Saskatchewan Government Insurance corporation operates the compulsory basic program (Saskatchewan Auto Fund or SAF), and the optional insurance program. The SAF offers policyholders the choice of a tort coverage model, or a no-fault option with much higher accident benefits, but no right to sue of injury claims (including pain and suffering). Some 98% of policyholders choose the no-fault option.[4] Public rate reviews are conducted by the Saskatchewan Rate Review Board (SRRB), which makes recommendations to cabinet.

Rate Increases

Manitoba vehicle owners enjoy the lowest Basic rates in Canada, and rate increases for the Basic insurance have been much lower in recent years compared to the steep rise in ICBC rates.

Table 1 shows the average approved increases in the monopoly Basic rates for the three provincial auto insurers.

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[1] http://www.pubmanitoba.ca/v1/proceedings-decisions/orders/pubs/2017%20orders/130-17.pdf and https://www.winnipegfreepress.com/local/mpi-rates-going-up-26-per-cent-461930073.html

[2] It is approximately 1/3rd the size of ICBC's Basic program in terms of the number of vehicles insured.

[3] ICBC has approximately 90% of the optional or extension market in BC.

[4] Personal communication.

TABLE 1 – BASIC PREMIUM RATE CHANGES (Percent)

	MPI	SAF	ICBC
2011	(8.0)	0.0	0.0
2012	0.0	1.6	11.2
2013	0.9	2.0	5.2
2014	3.4	5.2	5.2
2015	0.0	0.0	5.5
2016	3.7	0.0	4.9
2017	2.6	0.0	6.4*
2012 to 2017 (cum)	**2.2**	**9.0**	**44.7**

Source: MPI Decision, 4 December 2017, p16;
ICBC annual reports. (*) Proposed.

The MPI annual rate increases take effect on 1 March, and have been adjusted to match the 1 November date when ICBC rate changes take effect. The SAF rates are effective 1 August.

Clearly, the basic insurance rate increases in Saskatchewan and Manitoba have been much lower than even the suppressed rate increases faced by ICBC's Basic policyholders.[5] The no-fault model has allowed policyholders in these two provinces avoid the rapid increase in average injury claims costs, which include the settlements for pain and suffering, and the cost of medical reports and other disbursements used to arrive at a settlement amount.

The average actual quoted prices (combined Basic and Optional coverage) for a private passenger vehicle for the last five years (in selected provinces) are shown in the Appendix.

Capital Reserve Ratio

The rate increases for both MPI and ICBC have been below the levels required to maintain a 100% MCT capital reserve. The PUB believes that the 100% ratio is too high for a monopoly government insurer, and has limited the Basic reserve ratio to between 41% to 74%. For ICBC, the government has ordered the policyholders Optional capital to be depleted below the regulatory minimum 200% requirement to preserve the 100% regulatory minimum Basic ratio.

The PUB relies on an industry standard capital stress test (the Dynamic Capital Adequacy Test or DACT) to determine the appropriate capital ratio range, and assumes

[5] The BC government began to control the basic rate increases in 2014, with the resulting annual operating losses depleting the Basic and Optional capital reserves, see http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_41_26_september_2017/pdf

that “management action” (rate increases) would be taken within two years if the reserve falls to levels that threaten the solvency of the Basic program.[6]

The SRRB also believed that a capital ratio of 100% MCT is too conservative for the monopoly no-fault Basic program in that province.[7] The Board does not have jurisdiction over the capital, and the government has retained the 100% ratio as the operating target. Because of a capital rebuild surcharge included in the rates, the capital reserve ratio has risen to 124% as of 31 March 2017.[8]

The last Basic DCAT analysis was conducted by ICBC in 2005. Since then it has done capital stress testing assuming the regulatory minimum 100% ratio is equivalent to solvency. Based on the results of the modified test, the BCUC approved a capital operating target ratio of 130%, which was raised to 145% to account for the rate smoothing risk.

Three-Year Rate Forecast

MPI forecasts that total claims costs (the primary driver of rates) will increase by an annual average of 2% for the next three years, while ICBC forecasts that claims costs for the next three years will increase by an annual average of 9.5%.[9]

Summary

A great deal of further analysis would be required to fully compare the public auto insurance models in BC, Saskatchewan and Manitoba. But the rate increases, combined with the ability to sustain a satisfactory capital reserve, do provide some general guidance.

The BC government has acknowledged that ICBC is facing a financial crisis, and has indicated that significant changes in the current tort model are under consideration. Minister responsible David Eby has stated that an adoption of the no-fault model is not part of the plan to reduce the projected growth in claims costs. Rather, a cap on pain and suffering claims for minor soft tissue injuries, similar to that cap currently in effect in Alberta, appears likely.

Given the recent premium increases in Alberta, one wonders if a cap will produce the necessary savings? The no-fault models of Saskatchewan and Manitoba have demonstrated lower and more stable rates.

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[6] PUB Decision 4 December 2017, Section 7 on page 70 provides a good discussion of the capital reserve.
[7] It believed that a range of 88% to 91.5% would be adequate; http://www.saskratereview.ca/docs/sgi2014/saf-2014-report-final-kw.pdf p. 13.
[8] https://www.sgi.sk.ca/pdf/annualreports/SGI_2016_Annual_Full.pdf
[9] PUB Decision, 4 December 2017, p35; BCUC, ICBC 2017 Rate Request, IR 1, RM 1.6.

APPENDIX

AVERAGE PESSENGER VEHICLE INSURANCE PRICE

	2013	2014	2015	2016	2017
BRITISH COLUMBIA	**1,431**	**1,511**	**1,527**	**1,611**	**e1,810**
ALBERTA	2,127	2,283	2,352	2,376	2,506
SASKATCHEWAN	1,061	1,116	1,159	1,181	1,195
MANITOBA	1,013	1,034	1,081	1,102	1,130
ONTARIO	3,782	3,279	3,092	3,160	3,196
QUEBEC	1,316	1,439	1,555	1,510	1,537
RATIO BC TO SASK.	135%	135%	132%	136%	156%
RATIO BC TO ALBERTA	67%	66%	65%	68%	72%

Source: https://www.sgi.sk.ca/contact/index.html

Note: The 2017 rates are as of 30 September 2017; I have increased the BC number by 8% to reflect the 2017 annualized rate plan effective as of November. Quebec has a public no-fault model for the Basic injury coverage.

The average price in BC has widened from the Saskatchewan price in 2017, while it has narrowed the differential to Alberta, which is a tort-based system where pain and suffering claims for soft tissue injuries were capped in 2004.