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Contributors from Insurance Corporation of British Columbia

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AUTOMOBILE INSURANCE IN BC AND ICBC

**by contributors from Insurance Corporation of
British Columbia**

THE BC AUTOMOBILE INSURANCE PRODUCT

In British Columbia, automobile insurance operates on a tort basis, which entitles an automobile insurance claimant to sue the at-fault party for his/her loss. The insurance product itself is comprised of two components – universal compulsory automobile insurance, more commonly known as “basic” insurance, and optional automobile insurance.

Basic Insurance

Like drivers in other Canadian provinces, BC motorists are required by law to purchase minimum levels of automobile insurance coverage. In BC, this takes the form of basic insurance. The Insurance Corporation of British Columbia (ICBC), a BC provincial Crown Corporation, has been the exclusive provider of basic insurance for BC drivers since 1973.

Basic insurance coverage provides private passenger and commercial vehicles owners (excluding buses, taxis, limousines, and extra-provincial trucking and transport vehicles) with:

- \$200,000 in third-party legal liability protection,
- \$150,000 in no-fault accident benefits which is coverage for medical and rehabilitation costs, and
- \$1 million of underinsured motorist coverage.

The terms and conditions of basic insurance continue to be established in the *Insurance (Motor Vehicle) Act and Regulations*. Availability of insurance coverage is not an issue in British Columbia due to the universality of basic insurance. ICBC continues to underwrite Basic Insurance coverage pursuant to the principles established by government in 1979. ICBC rates basic insurance on the basis of claims experience and not on the basis of age, gender or marital status.

As the exclusive provider of basic insurance in BC, ICBC is also in a unique position to reduce the number and seriousness of crashes on a cost-effective basis. Loss management, road safety, and driver service initiatives have been implemented to address these

claims cost drivers. By keeping claims costs down through such initiatives, ICBC can further its objective of keeping rates low and stable for consumers.

ICBC also undertakes a number of non-insurance services on behalf of government, which are funded through basic insurance premiums. ICBC's vehicle licensing activities, one of ICBC's non-insurance services, provides a unique linkage between vehicle licensing, registration and automobile insurance. Like most places in Canada, vehicles in BC cannot be licenced without also purchasing the mandatory level of insurance. The key difference in BC is that unlike certain other jurisdiction, the basic insurance policies cannot be cancelled without also surrendering the vehicle's licence plate. This direct connection of the licence plate to the insurance policy, and the joint administration of both systems by ICBC, leads to fewer uninsured motorists operating in the province. BC has a low level of uninsured drivers (believed to be about 2 to 3 per cent) while the national average is thought to be around 10 to 15 per cent. Other non-insurance services undertaken by ICBC include driver licensing, which influences the quality of drivers on the road, government fines collection and funding of vehicle compliance.

In total, these non-insurance services, provided on behalf of government, and for which ICBC receives no funding, cost about \$37 per basic insurance policy.

Optional Insurance

In BC, there is an active market for additional coverage beyond basic insurance – referred to as optional insurance. Many BC motorists purchase coverage beyond the minimum requirements of basic insurance. ICBC competes with private insurers in this market as a major provider of optional insurance. The major coverages that fall under the classification of optional insurance include but are not limited to:

- comprehensive coverage;
- collision coverage;
- excess third party legal liability – bodily injury and property damage.

RECENT HISTORY

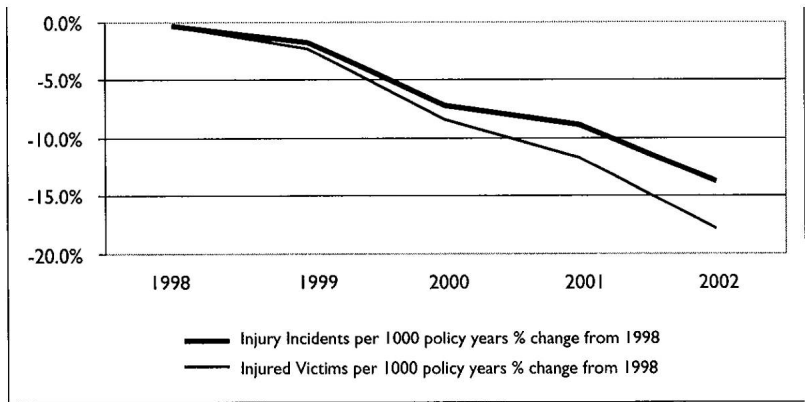
The early 1990s saw a period of increasing claims costs due to increasing bodily injury and automobile repair costs. Research

at the time suggested that cost increases in the insurance system also stemmed in part from increasing accident and auto-crime frequency.

In order to staunch this troubling trend, ICBC started in 1996 to focus on road safety, claims, injury recovery, and anti-fraud initiatives to reverse the trend of increasing claims severities and frequencies. In support of the strategy to focus on road, driver and vehicle safety, ICBC assumed responsibility for Driver Licensing in November 1996. Commercial Transport Safety and Compliance operations transferred to ICBC's control a year later.¹ Graduated licensing, road improvement initiatives, improved injury management programs and enhanced fraud mitigation efforts were introduced to improve road safety and to stabilize insurance costs in British Columbia.

With these efforts, crashes and injuries reported to ICBC declined over this period despite increases in the number of vehicles insured.

INJURY TREND 1998-2000



Premiums were frozen in 1996 at 1995 levels as government challenged ICBC to use its new mandate effectively despite increasing claims costs. ICBC delivered to customers zero rate increases for 6 years, followed by increases of only 7.4% and 4.8% in 2002 and 2003 for basic and optional insurance combined (or 6.6% and 2.1% respectively for basic insurance only). The average annual increase in rates from 1996 to present was 1.5% (1.1% for basic insurance). The following chart shows average premium for ICBC over the last seven years. It should be noted that changes in the mix of vehicles or territory tend to account for the slight fluctuations in premium.

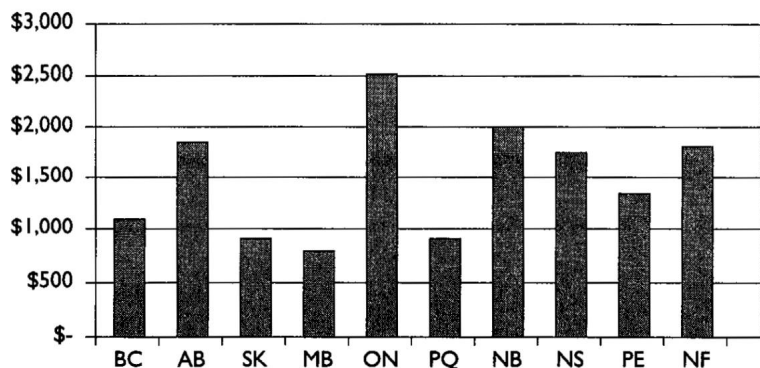
	1996	1997	1998	1999	2000	2001	2002
Average Premium (\$)	890	877	893	888	882	888	960
Autoplan policies earned (000) ¹	2.452	2.449	2.552	2.572	2.614	2.661	2.705

1. Annualized values have been used for policies with a term of less than 12 months.

Source: ICBC 2002 and 1999 Annual Reports.

The Consumers Association of Canada recently published a survey² comparing automobile insurance rates across Canada. It shows ICBC has been able to keep premiums affordable for its customers.

COMPARISON OF AVERAGE AUTO INSURANCE RATES BY PROVINCE



Source: Consumers Association of Canada

Note: BC operates in a tort environment whereas Saskatchewan, Manitoba and Quebec operate in no-fault environments.

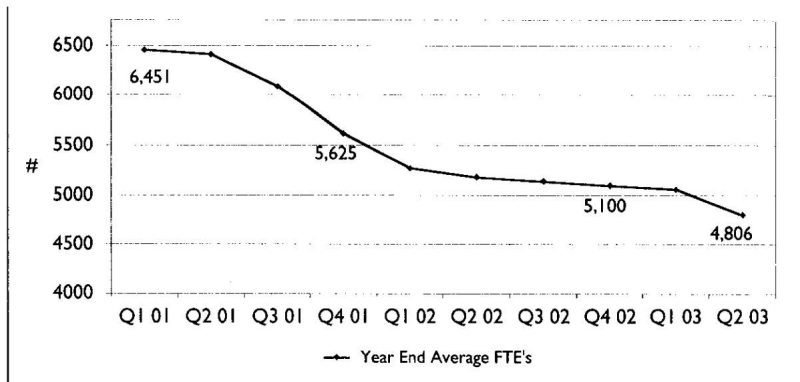
Insurance Corporation of British Columbia Today

ICBC is currently one of BC's largest corporations and Canada's largest automobile insurer with over \$6.1 billion in assets for ICBC as a whole. In 2003, ICBC is forecasting over \$2.9 billion in premiums written for both basic and optional insurance. This is supplemented by ICBC's investment portfolio, which continues to perform well relative to other P&C insurers, and to key financial market benchmarks.

Starting in 2001, ICBC implemented cost reduction measures to maximize operational efficiencies. Some examples of measures that were taken include:

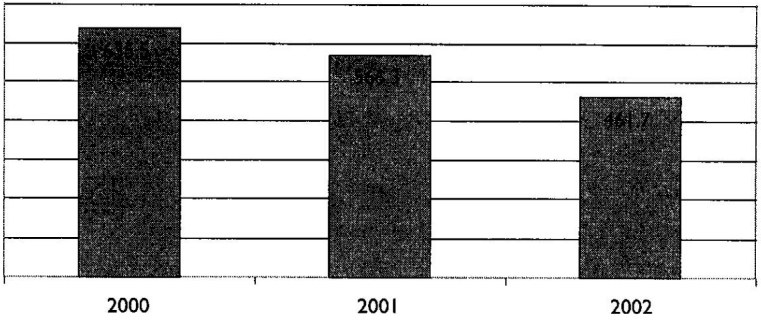
- the departure of approximately 1,400 full time equivalent staff during 2001 and 2002 and the associated decrease in compensation costs
- a significant reduction in discretionary spending

ICBC (COMPANY-WIDE) EMPLOYEE LEVEL



At the end of 2000, total controllable costs of operating ICBC were \$636 million. As a result of these measures, these costs were down by \$174 million at the end of 2002, a decrease of over 26%. ICBC continues to have very low marketing and acquisition costs relative to private industry. These efficiencies and ICBC's centralized claims handling model contribute to a relatively low expense ratio of 15%, considerably below the industry average. IBC reported in its September 2003 issue of *Perspectives* an expense ratio for the property and casualty industry as a whole of 28.9% for the 2002 year and 29% as the estimate for the first quarter of 2003.³ Insurance companies can improve expense ratios either by increasing premiums or lowering costs. ICBC, working to the benefit of its customers, has chosen to control costs to achieve its results.

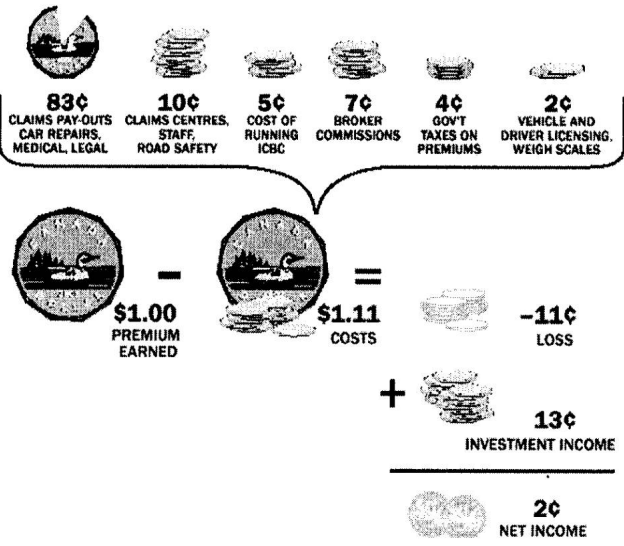
CONTROLLABLE COSTS (\$ MILLIONS)



It is important to note that in a tort environment, claims costs are primarily driven by legal costs, claims settlement amounts, and legal precedents. In contrast, in provinces operating in a no-fault environment, costs are driven predominantly by wage replacement and no-fault medical and rehabilitation costs. Costs related to no-fault and tort jurisdictions would vary significantly and are not directly comparable, although low operating costs allow a greater percentage of premiums to be paid directly to customers.

The following chart illustrates how the average premium was spent based on 2002 operating results.

WHERE YOUR PREMIUM DOLLAR HAS GONE



ICBC continues to provide consumers with service and value. Through a 24-hour telephone claims handling facility and a province-wide network of 40 claims centres, ICBC processes over 1 million insurance claims per year.

Government recently passed the *Insurance Corporation Amendment Act, 2003* which provides for the regulatory review of basic rates by the BC Utilities Commission. This is intended to improve transparency and public accountability in the rate setting process for basic insurance in British Columbia.

Auto insurance rates have remained relatively low and stable in BC. ICBC recognizes its obligations to keep rates at their lowest levels possible and will aim to achieve this through continued emphasis on expense control, comprehensive loss management programs, and a zero tolerance attitude towards fraud. ICBC is committed to running like a business for the benefit of its customers, and has moved to implement performance based management to focus the organization on continuous improvement. ICBC will pursue a strategy of fair and reasonable incremental rate increases to address rising costs so that volatility in rates may be avoided. The concept of being Customer Owned, Customer Driven motivates ICBC to continue to provide good value and the lowest price possible for motorists in BC.

Notes

1. It should be noted that the Commercial Compliance function has since been transferred back to government.
2. Consumers Association of Canada: Review of Automobile Insurance Rates, 40 Canadian Cities, 10 Provinces Sept. 2003. <http://www.cacbc.com/reports/CAC%20National%20Auto%20Rates%20Study%202003%20.pdf> .
3. IBC, Perspectives Sept 2003: <http://www.ibc.ca/ShowDown.cfm?AccDate=%26%238L%2CX%A%3D%5E%0A> The IBC data show that the expense ratio for the year 2002 was 28.9% and early indicators show the first quarter 2003 estimate at 29%. This is for the entire Property and Casualty industry, of which auto insurance is a subset.