

Intelligence MEMOS



From: David Marshall
To: Canadian Drivers
Date: April 18, 2022
Re: REFORMING AUTO INSURANCE

Auto insurance premiums in Canada amount to about \$27 billion per year.

Key reforms could save millions for consumers as they make auto insurance more responsive to market forces, as I outline in my recent C.D. Howe Institute [report](#).

Auto insurance for personal injury and auto repair is either delivered through a government-run agency (BC Manitoba, Saskatchewan and Quebec) or through private-sector insurers (the Atlantic provinces, Ontario and Alberta) with coverage differing significantly between provinces. That is because insurance offerings are government-designed and controlled, which means Canada does not really have a true private-sector insurance product.

Provinces providing insurance directly through a government agency may appear to provide better value for money, particularly for personal injury coverage, but the higher costs for personal injury coverage in the private-sector provinces are not caused by private-sector insurers being inefficient or making excess profits. The main reason for the challenges in private-sector delivery provinces is the faulty design of the insurance product that governments have imposed on the private sector, as well as excessive regulation.

These five faulty design features include:

- A complex product design with open-ended commitments to restoring the injured person to their pre-accident condition.
- A misaligned healthcare delivery system that exposes private-sector insurers to paying for overtreatments, unnecessary treatments, and potential fraud
- lump-sum cash settlements to claimants in lieu of paying for specific medical care.
- Excessive regulatory burden
- Inadequate provision for seriously or catastrophically injured victims.

There are fundamental reasons for government-run systems' lower cost base. They are single-player empowered agencies that pursue active management of healthcare costs and do not have to cope with tort claims. Although government agencies currently provide better value than private insurance, they are not responsive to market demand and their premiums can understate true costs from time to time.

Another recent C.D. Howe Institute [study](#) concluded that Canadians appear to pay the highest premiums in the world for auto insurance relative to GDP.

There are policy changes governments should adopt to reduce the cost and improve the value of auto insurance in Canada.

Insurance premiums vary considerably among provinces, as illustrated [here](#).

The premium for personal injury coverage is the most significant contributor to the overall differences. It is, on average, four times more expensive in provinces where the private sector delivers the insurance than in the provinces with government delivery systems, even though the government systems offer greater benefit entitlements for personal injuries.

Why is this happening?

Government insurance systems for personal injury coverage have the natural advantages of being single-payer, empowered systems that do not allow lawsuits for medical claims. On the other hand, the product delivered by insurers in the private-sector provinces is government-designed. Provincial governments decide on the features, control how it is delivered, and control its pricing.

The private sector delivered product, designed by government is highly inefficient and has many poor design features that make it wasteful and unnecessarily expensive. This situation robs consumers of value for their insurance dollars.

Despite the current advantages enjoyed by government insurance, we conclude it would be inappropriate for the private-sector delivery provinces to switch to government insurance.

Government auto insurance has its challenges and problems. First, the future of consumer services, such as insurance, lies in being responsive to rapid changes in consumer needs, pricing and innovation, qualities governments are poorly suited to deliver. Second, as has happened in the past, there is a risk that at some point, governments will interfere to pursue political goals that will distort the price/value of the insurance product.

My report makes policy recommendations for governments with private-sector auto insurance delivery systems, including a series of product reform recommendations to significantly improve value for money.

The recommendations increase consumer choice and show how to reduce the propensity to file claims and mitigate fraud.

Notably, the recommendations include suggestions for minimizing the disputes that drive the high transaction costs in today's systems. It also recommends governments address auto repair fraud and potential restrictive trade practices by auto manufacturers, which increase costs to consumers.

There is no valid reason why governments should perpetuate the expensive and wasteful auto insurance regimes they have designed in the private-sector delivery provinces. Sensible solutions exist that will save consumers substantial sums each year, reduce disputes and provide much better value.

David Marshall, is a former federal deputy minister, assistant auditor general of Canada, vice-chairman of CIBC, and President and CEO of Ontario's WSIB.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.