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saving lives and protecting rights

Auto Insurance Improvements for BC The Premier Option

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Saving lives and protecting rights

Table of Contents

Executive Summary	1
Introduction	1
Cost Savings Through Road Safety Initiatives	2
Cost Trends Indicate Material Damage Claims are Rising	2
ICBC's Financial Situation	2
Mandatory (Personal Injury) v. Optional (Property Damage) Coverage ...	2
Key Recommendations	2
Highlights of Recommendations.....	3
<i>Accident Prevention.....</i>	<i>3</i>
<i>Fraud & Theft Prevention</i>	<i>3</i>
<i>Service Enhancement</i>	<i>4</i>
<i>Material Damage</i>	<i>4</i>
<i>Other Initiatives and Cost Saving Measures</i>	<i>4</i>
Conclusion	4
Recommendations	5
Accident Prevention.....	5
Fraud & Theft Prevention	8
Service Enhancement	9
Material Damage	9
Other Initiatives and Cost Saving Measures	10
Recommendations Resulting in Cost Benefit	11
Appendix: Financials	



Auto Insurance Improvements for BC The Premier Option Executive Summary

Saving lives and protecting rights

Executive Summary

Introduction

The Coalition Against No-Fault in BC has grown from a small collection of 5 groups to a coalition of over 170 groups since August 1996. As part of our ongoing efforts to bring about fair and equitable auto-insurance improvements, we have prepared an action-plan which details 40 recommendations to save lives, reduce injuries and protect the rights of the people of BC.

Taken together, we believe these recommendations chart a realistic course to make roads in BC safer while keeping insurance premiums at or below the rate of inflation to the year 2000.

If the recommendations contained in the following proposal were fully implemented by the provincial government, ICBC would realize an estimated \$750 million in savings annually.

These recommendations have been developed with the following goals in mind:

1. Give the public more say in how ICBC operates.
2. Prevent accidents, save lives and reduce injuries.
3. Fully compensate victims for pain and suffering.
4. Provide full compensation for lost wages to innocent accident victims.
5. Ensure accident victims have the right to challenge ICBC's decisions in court.
6. Maintain and enhance early, timely and ongoing rehabilitation for accident victims.
7. Reduce ICBC's costs relating to fraud, theft and material damage claims.
8. Stabilize insurance premiums at or below the rate of inflation into the future.

Cost Savings through Road Safety Initiatives

At the heart of The Premier Option are measures to make roads safer through accident prevention initiatives which reduce the human tragedy of motor vehicle accidents and result in significant cost savings. ICBC has yet to implement a wide range of road safety initiatives which would realize hundreds of millions of dollars in savings. Doug Allen's report was seriously flawed. He did not factor in how road safety initiatives could be combined with the current insurance system to make it financially viable. The Premier Option factors these savings into the current system to ensure that changes to auto insurance do not result in massive claw-backs of compensation nor eliminate one's legal right to challenge ICBC's decisions.

Cost Trends Indicate Material Damage Claims are Rising

Part of effective insurance improvements requires an accurate analysis of why costs are rising. The thrust of the current proposals before the provincial government focus on personal injury claims. ICBC has consistently cited personal injury claims as one of the key factors driving up their costs. However, their own numbers tell a different story and indicate that material damage claims (metal) are skyrocketing while personal injury claims have leveled off. Claims for property damage jumped 17% in 1996 compared with a rise of just 2.9% for bodily injury claims. The Premier Option recognizes that the only way to keep insurance premiums at reasonable levels is to stem the rise in material damage claims.

ICBC's Financial Situation

There are three major factors that put ICBC in a much better financial position than they have projected in their various reports. First, ICBC has an available surplus of \$630 million as at December 31, 1996, not the \$210 million previously indicated. Second, the upward trend in bodily injury claims has reduced considerably in the last five years and in 1996 only increased 2.9%. Third, none of the traffic safety and operational savings identified in the Allen Report were factored into the financial projection of the current system. If one takes these substantial savings and available surplus into account, ICBC is in a sound financial position for the foreseeable future. Premium increases will be limited to 2% per year beginning in 1998. **This means an average premium increase of less than \$20 annually.** The attached graphs and tables indicate the result of taking into consideration these changes and savings.

Mandatory (Personal Injury) vs. Optional (Material Damage) Coverage

ICBC's no-fault proposals lump mandatory and optional insurance coverage together. The Coalition (and the Allan Report, page 51) recommend that ICBC be split into two clearly defined divisions. One for the mandatory personal injury (people) coverage and the other for material damage (things). ICBC should allocate costs and revenues between these divisions and not take funds from people to subsidize auto repairs and theft.

Key Recommendations

The recommendations in this proposal represent the best ideas generated through months of public consultations with hundreds of groups. Many of the recommendations have been previously published in the Doug Allen report on Automobile Insurance Review -- others are new and complement the directions recommended in the following key areas:

1. Accident Prevention
2. Fraud & Theft Prevention
3. Service Enhancement
4. Material Damage Claims
5. Other Initiatives & Cost Saving Measures

Highlights of Recommendations

Accident Prevention

1. Create BC Traffic Safety Commission with mandate to reduce number and severity of accidents.
2. More extensive and targeted use of photo radar.
3. Compute penalty points and fines for speeding on graduated scale in proportion to reflect extent that driver has exceeded speed limit.
4. Revenue from moving violations earmarked to enforcement and traffic safety.
5. Increased funding for police road safety enforcement.
6. Use premium tax to pay for road safety initiatives.
7. Increase road-side checks for impaired driving so more than 50% of BC drivers are checked each year.
8. Make it a breach of insurance to drive with blood alcohol over .08 per cent for private passenger vehicle and .04 per cent for commercial vehicle.
9. Stringent driver testing to ensure driver's ability to control vehicle, accurately perceive driving environment, make appropriate decisions and demonstrate capacity to exercise responsible driving behaviour.
10. Applicants for commercial licenses to prove safe driving record.
11. Graduated driver licenses for new applicants.
12. Mandatory recurrent driver testing.
13. Delayed green lights.
14. Radar reading boards for communities to monitor speeding.
15. Stop signs at uncontrolled intersections.
16. Increased safety inspection of commercial vehicles.
17. Improved road design for high risk locations.
18. Risk based insurance premiums.
19. Enhanced public education on the devastating results of careless driving.
20. Traffic safety education program in B.C. schools.

Fraud & Theft Prevention

1. Create B.C. auto theft task force using Texas model.
2. Public education on common sense methods of deterring theft.
3. Fraud hot-line similar to Crime Stoppers.
4. Actuarial approach to rate setting for theft coverage. Lower premiums for vehicles with anti-theft devices.
5. Mall patrols at high theft shopping malls.
6. Stiffer penalties for those committing auto crime.
7. VIN (vehicle identification number) tracking systems to deter illegal transfer of VIN plates.
8. Implement theft reduction strategies recommended by Coordinated Law Enforcement Unit (CLEU) and by B.C. Association of Chiefs of Police.
9. Implement enhanced claims management approach recommended by Quality Planning Corporation.

Service Enhancement

1. Create an independent public regulator to:
 - regulate and stabilize auto insurance rates in B.C.
 - ensure ICBC is operating in the public interest
 - guarantee public input
 - guarantee public access to financial and other information
2. Mandatory mediation (non-binding) to resolve differences between ICBC and claimants.
3. Information brochures to ICBC claimants advising of dispute resolution options.

Material Damage

1. Used parts policy for ICBC-funded auto repairs. Optional new parts coverage.
2. Auto makers to design motor vehicles to withstand minimal collisions with little or no damage.

Other Initiatives and Cost Saving Measures

1. Require that private insurers contribute their fair share toward traffic safety and related program costs.
2. Give ICBC greater power to collect debts.
3. Implement administrative cost saving initiatives identified by KPMG.
4. Implement cost saving improvements to broker fees recommended by KPMG.
5. Increase Small Claims Court limit to \$25,000.00 indexed to inflation.

Conclusion

The Premier Option would ensure that British Columbians have safer roads, stable insurance rates and comprehensive insurance coverage. These changes guarantee that innocent accident victims will receive full compensation for their injuries.

Only by attacking the rate of automobile accidents can we reduce the carnage on the roads and maintain a sustainable insurance plan. The Premier Option ensures that lives will be saved and the rights of British Columbians protected. We urge the government to immediately adopt these common sense improvements to British Columbia's automobile insurance system.



Auto Insurance Improvements for BC The Premiere Option Recommendations

Saving lives and protecting rights

Accident Prevention

1. **Create BC Traffic Safety Commission with mandate to reduce number and severity of accidents. (Source: Coalition and Allen)**

There is currently no single authority with broad, legislated responsibility for traffic safety in British Columbia. Responsibility for safety initiatives is dispersed over a large number of government agencies. As a result, we lack a unified approach to accident prevention. Creating a B.C. Traffic Safety Commission will provide the leadership and legislated authority needed to make our roads and highways safer. The commission will design and implement a comprehensive safety program for B.C. with a focus on results. Many Coalition groups have pointed to the safety program implemented in Victoria State, Australia as a model for British Columbia. The Allen report concludes "a comprehensive safety initiative could have the potential annual savings of almost \$300 million if carried out on the scale that it was undertaken in Australia."

2. **More extensive and targeted use of photo radar. (Coalition and Allen)**

In Victoria State, Australia, extensive use of 54 photo radar cameras is credited with reducing speeding from 23% of all vehicles to just 3.8% of all vehicles. B.C.'s photo radar program is limited and, to date, has not been targeted at high risk locations.

3. **Compute penalty points and fines for speeding on graduated scale in proportion to reflect extent that driver has exceeded speed limit. (Allen)**

A recent poll revealed that 84% of people surveyed would support fines that are set in proportion to the amount by which the speed limit is exceeded. Bad drivers should be made aware that the financial penalties for their dangerous behaviour will be severe.

4. **Revenue from moving violations earmarked to enforcement and traffic safety. (Coalition and Allen)**

5. Increased funding for police road safety enforcement. (Coalition and Allen)

Measures to improve traffic safety require a steady, reliable source of funding if they are to be effective. It is appropriate that bad drivers pay for safety initiatives. Since the government is requiring that ICBC pay many of the expenses related to traffic safety enforcement, it is fitting that ICBC receive the revenue generated by its efforts. Fines from photo radar alone are expected to exceed \$100 million per year.

6. Use premium tax to pay for road safety initiatives. (Coalition)

The provincial government collects 4% of every premium dollar in the form of premium taxes. In 1996 this was over \$90 million. ICBC paid a further \$30 million in social services tax on vehicle repair and legal fees. Some, if not all, of these taxes should be reallocated to ICBC to pay for road improvement, safety programs and crime prevention.

7. Increase road-side checks for impaired driving so more than 50% of BC drivers are checked each year. (Coalition and Allen)

8. Make it a breach of insurance to drive with blood alcohol over .08 per cent for private passenger vehicle and .04 per cent for commercial vehicle. (Coalition and Allen)

Impaired drivers were responsible for 16% of ICBC's claims costs in 1996 (\$328 million). It is estimated that in 1997, 400 British Columbians will die and almost 10,000 will be injured due to the recklessness of impaired drivers. More must be done to eliminate impaired driving in British Columbia.

9. Stringent driver testing to ensure driver's ability to control vehicle, accurately perceive driving environment, make appropriate decisions and demonstrate capacity to exercise responsible driving behaviour. (Coalition and Allen)

10. Applicants for commercial licenses to prove safe driving record. (Coalition and Allen)

British Columbia has done little to improve its driver testing program over the past 40 years. It lags significantly behind other jurisdictions, such as Ontario. The B.C. drivers' license tests are short and do not require that applicants prove their abilities in a wide range of driving situations.

11. Graduated driver licenses for new applicants. (Coalition and Allen)

In 1996, 6% of ICBC's claims costs resulted from driver inexperience (\$123 million). Twenty percent of new drivers are involved in a motor vehicle accident in their first two years of driving. Graduated licenses limit the conditions under which new drivers may operate a motor vehicle and usually include zero tolerance for impaired driving. Such programs in Ontario and New Zealand have dramatically reduced the number of deaths and injuries among young drivers. The Allen report concludes "implementation of a more demanding graduated licensing system, combined with improvements to testing and training and education, has the potential to save lives, prevent injuries, and reduce insurance costs due to driver inexperience by 40%, or more than \$50 million per year."

12. Mandatory recurrent driver testing. (Coalition and Allen)

Although some drivers improve their driving skill over time, others become more careless. Drivers involved in several accidents must undergo re-testing but by then it's too late. British Columbia needs a program of mandatory re-testing to reinforce the driving practices of good drivers and eliminate the sloppy habits of bad drivers.

13. Delayed green lights. (Coalition)

At light-controlled intersections in many cities such as Toronto, the lights in all directions are red for 1 to 2 seconds. This permits left turning vehicles to clear the intersection without coming into the path of oncoming traffic. The system significantly reduces the number of "left turn" accidents.

14. Radar reading boards for communities to monitor speeding. (Coalition and Allen)

Radar reading boards allow community groups to monitor the speed of traffic. The information is forwarded to police so they can set up radar in high speeding areas.

15. Stop signs at uncontrolled intersections. (Coalition)

Many B.C. municipalities, including Vancouver, have intersections which are not controlled by traffic signals or stop signs. These so-called "courtesy corners" are an invitation to disaster. Stop signs should be placed at all uncontrolled intersections to slow the speed of traffic and ensure that motorists know who has the right of way.

16. Use intersection cameras to monitor red light infractions at high risk intersections. (Coalition)

Red light cameras take a photo of the intersection when the light turns red. Vehicles going through the red light can be identified and the owners fined.

17. Increased safety inspection of commercial vehicles. (Coalition)

18. Improved road design for high risk locations. (Coalition and Allen)

ICBC estimates that in 1996, road design alone accounted for \$123 million in claims costs. Given the degree of sophistication we possess on highway design, this is clearly unacceptable.

19. Risk based insurance premiums. (Coalition)

With the exception of the safe driving discount, ICBC's premium structure is relatively flat. This is a marked departure from private auto insurers who set rates according to named drivers, geographic location, type of vehicle, and claims history. A greater level of risk assessment in ICBC's rate structure would benefit policy holders who represent a low claims risk and increase ICBC's revenue.

20. Enhanced public education on the devastating results of careless driving. (Coalition and Allen)

21. Traffic safety education program in B.C. schools. (Coalition and Allen)

Fraud & Theft Prevention

22. Create B.C. auto theft task force using Texas model. (Coalition)

In the past 10 years auto theft in B.C. has risen by over 500%! Some U.S. states, such as Texas, have reduced auto theft by up to 40% by implementing aggressive anti-theft measures. If we can reduce theft by just half this amount (20% over inflation) the savings would be over \$26 million per year.

23. Public education on common sense methods of deterring theft. (Coalition)

- remove ignition key
- close windows
- keep parcels in trunk
- park in well-frequented and well-lit area

24. Fraud hot-line similar to Crime Stoppers. (Coalition and Allen)

25. Actuarial approach to rate setting for theft coverage. (Coalition and Allen) Lower premiums for vehicles with anti-theft devices. (Coalition and Allen)

A variety of anti-theft devices are presently on the market. These include fuel disable and ignition kill switches, car alarms and steering locks. Insurance rates for theft coverage should take into account factors such as high risk types of vehicles, high risk locations, repeat victims, and discounts for owners who install anti-theft devices.

26. Mall patrols at high theft shopping malls. (Coalition)

In a pilot project at the Surrey Place Mall, a "mall patrol" which monitored the shopping mall parking lot, reduced auto theft at the mall by 80%. Similar programs should be undertaken at all high theft shopping malls in British Columbia.

27. Stiffer penalties for those committing auto crime. (Coalition and Allen)

There must be stiff penalties to let would-be thieves know that society will not tolerate such behaviour.

28. VIN (vehicle identification number) tracking systems to deter illegal transfer of VIN plates. (Coalition and Allen)

Stolen vehicles are often sold with Vehicle Identification Numbers (VINs) which have been taken from wrecked vehicles. A tracking system should be implemented to ensure that VINs from wrecked vehicles cannot be reused.

29. Implement theft reduction strategies recommended by Coordinated Law Enforcement Unit (CLEU) and by B.C. Association of Chiefs of Police. (Allen)

The Allen report lists several recommendations made by CLEU and the B.C. Chiefs of Police on ways to crack down on the use of wrecked vehicles to support auto theft. [Allen, p.47]

30. Implement enhanced claims management approach recommended by Quality Planning Corporation. (Coalition and Allen)

In their 1995 report to ICBC, Quality Planning Corporation recommending an "enhanced claims handling" system which it estimated would eliminate \$104 million per year in fraudulent material damage claims. ICBC paid almost \$1,000,000 for this study but has yet to follow through on the recommendations.

Service Enhancement

31. Create an independent public regulator to:

- regulate and stabilize auto insurance rates in B.C.
- ensure ICBC is operating in the public interest
- guarantee public input
- guarantee public access to financial and other information
(Coalition and Allen)

ICBC's use of policy holders' money to lobby for no-fault and its refusal to make public financial disclosure are clear indications that the Corporation is pursuing its own agenda without regard to the democratic process or the public interest. There is no regulatory body to set ethical or other normative standards for ICBC. Rates are set by Cabinet using undisclosed political criteria. Both KPMG and Doug Allen recognized the problem and recommended that ICBC be made subject to a public regulator to ensure the Corporation is operating in the public interest and that the public has full access to financial and other information.

32. Mandatory mediation (non-binding) to resolve differences between ICBC and claimants. *(Coalition and Allen)*

In 1993, ICBC conducted a mediation pilot project at its Kingsway Claims Centre in Vancouver. The results were dramatic. The Corporation saved \$10,380 (36%) per file on claims that were mediated earlier rather than later, and mediated claims settled for an average of \$18,386 (50%) less than claims which went to trial. The ICBC task force studying the project concluded "the Test Centre (Kingsway) program indicates that there are substantial cost savings if claim files are mediated according to this model. Our conclusion from this analysis is supported by various studies conducted by U.S. companies." If the practices at Kingsway were applied to all claims centres, it is reasonable to project savings of at least 10% (\$130 million) per year. Mediation also resulted in "high customer satisfaction." Claimants appreciated the attitude of respect and trust, the non-adversarial atmosphere, and the satisfaction of achieving a mutually agreeable settlement.

33. Information brochures to ICBC claimants advising of dispute resolution options. *(Coalition and Allen)*

To increase public awareness of the right to mediation and access to Small Claims Court, every insured who files a claim with ICBC, whether for property damage or personal injury, should receive information brochures which notify the consumer of these dispute resolution options.

Material Damage

34. Used parts policy for ICBC-funded auto repairs. *(Allen)* Optional new parts coverage. *(Coalition)*

ICBC should adopt a "used parts first" policy similar to the one in Manitoba. Such a policy would reduce claims costs, increase employment in the disassembly of wrecks and storage of parts, and assist in cleaning up our environment. The Allen report suggests that "savings in excess of \$30 million annually could be obtained through the implementation of a used parts first policy and stricter regulations on the sale of wrecked vehicles."

35. Auto makers to design motor vehicles to withstand minimal collisions with little or no damage. (Coalition)

Claims for property damage jumped 17% in 1996 (compared with a rise of just 2% for bodily injury claims). One of the causes for this increase was poor weather which resulted in more accidents. A major part of the problem, however, is that vehicles are no longer designed to withstand minor collisions and the cost of parts auto repairs is rising exponentially. Provincial and state governments have been successful in forcing auto makers to improve the safety and pollution control features of vehicles. Auto makers should now be required to design motor vehicles to withstand minimal collisions with little or no damage. A reduction in material damage costs of just 1% over inflation would yield savings of \$34 million per year.

Other Initiatives and Cost Saving Measures

36. Require that private insurers contribute their fair share toward traffic safety and related program costs. (Coalition and Allen)

ICBC faces competition from private insurers in the provision of optional coverage to low risk drivers. Because private insurers do not offer coverage to higher risk drivers and bear none of the financial responsibility for programs such as road safety or theft prevention, they are able to offer rates which are lower than ICBC's. The loss in profits to ICBC is \$30 million to \$50 million per year. Private insurers should be required to contribute their fair share to the cost of traffic safety and related programs.

37. Give ICBC greater power to collect debts. (Allen)

As of December 31, 1996, debt to ICBC totalled \$505 million. The debt, which includes premium debt, unpaid fines and repayment of fraudulent claims, is growing by \$31 million per year. There should be stiffer consequences to those who fail to pay their debts to ICBC and the Corporation should be given greater powers to collect receivables.

38. Implement administrative cost saving initiatives identified by KPMG. (Coalition and Allen)

KPMG identified 14 internal efficiency initiatives which would save \$30 million to \$50 million per year. [KPMG, Vol. II, p.IV-16]

39. Implement cost saving improvements to broker fees recommended by KPMG. (Coalition and Allen)

Better use of technology, consolidating broker units, renegotiation of broker fees and direct marketing have the potential to save ICBC \$30 million to \$50 million per year. [KPMG, Vol. II, p. IV-18 to IV-24]

40. Increase Small Claims Court limit to \$25,000.00 indexed to inflation. (Coalition)

It has been more than 5 years since the limit in Small Claims Court was raised to \$10,000.00. But, the efficacy of this increase is gradually being eroded by inflation. The average ICBC bodily injury claim in 1995 was \$11,300. Resolution of these minor disputes does not require the complex and expensive procedures of B.C.'s Supreme Court. A process which encourages rapid, informal settlement of disputes under \$25,000.00, without the need for lawyers, should be an option for consumers. Costs will be significantly reduced for both consumers and ICBC.

Auto Insurance Improvements for BC The Premier Option Cost Benefits

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Recommendations Resulting in Cost Benefit

Recommendation	Cost Benefit
Accident Prevention	\$ 300 million
Mandatory Mediation	\$ 130 millior
Enhanced Claims Management (Fraud Prevention)	\$ 100 million
Anti-Theft Measures	\$ 26 millior
Increase in Small Claims Court Limit	\$ 37 million
Improved Internal Efficiencies	\$ 33 millior
Cost Saving Improvements to Broker Fees	\$ 30 million
Improved Vehicle Design	\$ 34 millior
Use Premium Tax to Pay for Road Safety	\$ 45 million
Revenue from Traffic Fines	\$ 100 millior
Private Insurance Profit Equalization	\$ 30 million
Used Parts Policy	\$ 30 millior
Debt Collection	\$ 20 million
Risk Based Premiums	\$ 60 millior
TOTAL	\$ 975 million
ADJUSTED TOTAL TO REMOVE DUPLICATION	\$ 750 million

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Appendix

Auto Insurance Improvements for BC The Premier Option Financials