

Appendix K: New Brunswick Public Automobile Insurance Model - Executive Business Plan

Public Automobile Insurance Model Executive Business Plan

Prepared for:

**The New Brunswick Select Committee
On Public Automobile Insurance**

Submitted by:

**Jon Schubert Consulting &
Meyers Norris Penny LLP**

Contact:	Laurel Wood
Phone:	(204) 788-6070
Phone Toll Free:	(877) 500-0795
Fax:	(204) 783-8329
Email:	laurel.wood@mnp.ca

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Executive Summary

The Government of New Brunswick is committed to making automobile insurance more affordable, fair, and accessible for New Brunswickers. In support of this commitment, the provincial government created a Select Committee on Public Automobile Insurance. This all-party committee of the Legislative Assembly was charged with examining existing models of public automobile insurance across Canada with a view to identifying the best model for New Brunswick should a decision be made to move toward a publicly owned system. For the purposes of this report we have referred to the public automobile insurance Crown Corporation throughout the document as New Brunswick Public Insurance (NBPI).

To facilitate discussion around various models, and to estimate, at a high level, premium, start-up and operating costs of the preferred model, the Select Committee engaged the services of Jon Schubert Consulting and Meyers Norris Penny.

Five insurance models were compared, and a high level analysis of the average premium required for each model as well as its claims, operating, commission and premium tax costs were estimated. Once the Select Committee decided on the preferred model (Injury & Optional Damage), we examined in more detail, options for its distribution and potential discount/surcharge premium structures. We also developed start-up, pre-operating, and capital costs estimates, implementation strategies and a financial projection of operating results.

Under the plan, driver licences would continue to be processed through Service New Brunswick and vehicle insurance and registration through licenced insurance brokers and agents. Mandatory insurance would include no-fault injury coverage similar to that provided in Quebec, Manitoba and Saskatchewan, and \$200,000 third-party liability coverage to protect the property of innocent New Brunswickers. Optional insurance for vehicle damages (collision, theft and comprehensive at various deductibles) would continue to be similar to coverages sold today and consumers would decide if they wished to purchase coverage for individual vehicles. However, to reduce premiums and ensure that coverage is universally available, all consumers would purchase both mandatory and optional coverage exclusively from the public auto plan provided through NBPI. Insurance rates would be based on New Brunswickers' individual driving records, vehicle usage, vehicle make/model and optional coverage purchased. Age, gender or marital status would be prohibited rating factors and the Select Committee decided to use one rating territory for the entire province.

The current average street premium for private passenger vehicles in New Brunswick is \$1,212. The average premium required under the injury & optional damage model excluding an amount required to fund the start-up and pre-operating costs is \$945, which represents an average savings of \$267 or 22 per cent per vehicle. An additional 5 per cent of premiums for years 2 – 5 of operations would be required to fund start-up, pre-operating, and capital costs. This premium would build a surplus of retained earnings for NBPI by the end of year 4 of operation. To determine the precise rates paid by individual vehicle owners requires an actuarial rate making exercise, which was not included in the mandate of this report.

Licensed insurance brokers and agents would be the exclusive distributors of the public insurance product throughout the province. Support from NBPI would include insurance system and product training, communication and point of sale materials and telephone support. Licensed insurance agents and brokers would continue to be vital to the effective distribution of the products and to assisting customers to understand the new system and make choices appropriate to their insurance needs.

NBPI would be housed in a corporate office estimated at 135,000 square feet, to be located in one of New Brunswick's urban centres. It is assumed that approximately 75 per cent of NBPI's workforce would be located in this office including customer and broker support call centres. Initially, the construction of five claim centres, each estimated at 15,000 square feet in size is assumed. Approximately 25 per cent of the NBPI's workforce would be located in these claims centres.

It is estimated that NBPI would directly employ approximately 800 individuals in the Province of New Brunswick in a variety of roles including clerical, technical/professional, supervisory, and management. The organization of NBPI would include: Executive offices; Finance; Insurance Operations; Claims; Information Technology; Human Resources; Legal/Regulatory; and Public Relations/Prevention. An eight member executive team comprised of a Chief Executive Officer and seven Vice-Presidents would be established to lead and manage NBPI on a day-to-day basis.

The financial projections and estimations present, based on available information, NBPI's expected financial position, results of operations and cash flows for the project period. The assumptions disclosed herein are those that the consultants developed, discussed with the Select Committee, and believe are significant to the projection. There will usually be differences between the projection and the actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Capital, start-up, and pre-operating period costs are estimated at \$35,250,000, \$13,300,000, and \$32,010,000 respectively. Start-up costs are non-operating and non-capital costs incurred during the 12-month pre-operating period, and are necessary to create the infrastructure and processes required to operate NBPI. These costs will be capitalized and amortized over a five-year period. To assist the various stakeholders with the transition from the old to new insurance model, it is estimated that NBPI would make a one-time transition expenditure of up to \$20,000,000 in year 2 of operations.

During the pre-operating period, estimated to be one year, NBPI would require \$82,000,000 in debt financing from the Province of New Brunswick. This financing will bear interest at 5 per cent. On day 1 of operations of year 2, NBPI will experience a significant inflow of cash from the conversion of written premiums from private insurance companies to NBPI, allowing repayment of the provinces advance, in full, at the beginning of year 2.

1.0 Introduction and Background

The Government of New Brunswick is committed to making automobile insurance more affordable, fair, and accessible for New Brunswickers.¹ In support of this commitment, the provincial government created a Select Committee on Public Automobile Insurance. This all-party committee of the Legislative Assembly was charged with examining existing models of public automobile insurance across Canada with a view to identifying the best model for New Brunswick should a decision be made to move toward a publicly owned system.

To facilitate discussion around various models, and to estimate, at a high level, premium, start-up and operating costs of the preferred model, the Select Committee engaged the services of Jon Schubert Consulting and Meyers Norris Penny.

The project followed a step-wise process that included a number of key activities within each task. Relevant background information, and additional data required for the review was identified, collected, and reviewed. Key assumptions used in the development of the financial projections and Executive Business Plan were identified through facilitated discussion with the Select Committee. Once all assumptions were made an Executive Business Plan outlining, the process, models evaluated, recommended model, operations strategy, and financial strategy was developed.

This report describes the various alternative models considered by the Select Committee, the preferred model – one that would be a unique made-in New Brunswick model and the operations and financial strategies associated with that model. For the purposes of this report we have referred to the public automobile insurance Crown corporation throughout the document as New Brunswick Public Insurance (NBPI).

¹ Province of New Brunswick. Consultation Paper on Public Auto Insurance in New Brunswick. 2003.

2.0 Models Evaluated

2.1 The Five Models

The Select Committee asked Jon Schubert Consulting & Meyers Norris Penny to compare five insurance models. We prepared a high level analysis of the average premium required for each model as well as its claims, operating, commission and premium tax costs. Once the Select Committee decided on the preferred model, we examined in more detail options for its distribution, potential discount/surcharge premium structures and developed start-up, pre-operating costs and implementation strategies as well as forecast operating results.

The Select Committee asked us to compare the most recent and existing New Brunswick insurance models with public insurance models similar to those in place in Quebec, Manitoba and Saskatchewan. During the course of discussions with the Select Committee, we also developed a made-in-New Brunswick model. The five models examined are:

1. The tort add-on insurance model in place in New Brunswick before July 1, 2003. Under this model, private insurers and licenced insurance agents and brokers provide and sell all vehicle damage and injury coverages. Injury coverages include some no-fault benefits and injured persons not at fault are able to sue for additional compensation.
2. The existing insurance model with a \$2,500 cap on pain and suffering for less serious injuries implemented July 1, 2003. Under this model, private insurers and licenced insurance agents and brokers provide and sell all vehicle damage and injury coverages. Injury coverages include some no-fault benefits and injured persons not at fault are able to sue for additional compensation, but pain and suffering claims are capped at \$2,500 for less serious injuries.
3. An injury only model similar to the system in place in Quebec (with \$200,000 third-party liability coverage compared to Quebec's \$50,000 limit). Under this model, private insurers and licenced insurance agents and brokers provide and sell vehicle damage coverages and a public insurer provides a universal and mandatory no-fault injury product. No-fault injury benefits are more comprehensive, but injured persons are not able to sue for additional compensation.
4. An injury and damage model similar to the systems in place in Manitoba and Saskatchewan. Under this model, a public insurer and licenced insurance agents and brokers provide and sell mandatory vehicle damage coverage (all New Brunswick vehicles would be insured) as well as a mandatory no-fault injury product. No-fault injury benefits are more comprehensive but injured persons are not able to sue for additional compensation.
5. An injury and optional damage model, the made-in-New Brunswick model. Under this model, a public insurer provides and licenced insurance agents and brokers distribute optional vehicle damage coverage. New Brunswickers would decide if they wished to purchase coverage for their vehicles and the public insurer would provide all vehicle damage coverage as well as a mandatory no-fault injury product. No-fault injury benefits are more comprehensive, but injured persons are not able to sue for additional compensation.

2.2 Methodology & Limitations

We used various sources of data to prepare a high level analysis of the average premium required for each model as well as its claims, operating, commission and premium tax costs. **The average premium rates in this section of the report exclude an amount required to fund the start-up and pre-operating costs of a public insurer. An additional 5 per cent of premiums for the first five-years of operation of a public insurer would be required to fund these costs.** This is described in the Financial Strategy, section 5.0 of this report.

We applied the operating and commission costs and claims costs of the four public insurers with contingencies to New Brunswick's driving and vehicle population to build the required average premium for each of the public insurance models. We then compared the required average premium for each model with the average street premium (i.e. the current average premium paid by New Brunswickers), as well as the claims, operating, commission and premium tax costs under each model.

The analysis provides an estimate of **average rates** effective July 1, 2003, the date the \$2,500 cap on pain and suffering was implemented. We have not tried to estimate or compare the individual rates that consumers would pay under each of the models. These rates would be based on New Brunswickers' individual driving records, vehicle usage, vehicle make/model and optional coverage purchased. To determine the precise rates paid by individual vehicle owners requires an actuarial rate making exercise, which was not included in the mandate of this report.

We relied on a number of sources of data to develop these comparisons including:

- KPMG LLP July 28, 2003 Report on the Impact of Tort Reform on Private Passenger Automobile Rates in New Brunswick
- Insurance Bureau of Canada Automobile Insurance Experience (Green Book)
- Office of the Superintendent of Financial Institutions
- SAAQ 2002 Annual Report
- MPI 2002 Annual Report
- MPI 2004 Rate Application Basic Autopac Program
- SGI Data
- Saskatchewan Auto Fund 2002 Annual Report
- ICBC 2002 Annual Report

We relied on the general accuracy of this data and information without audit or independent verification. The accuracy of our results is dependent upon the accuracy and completeness of the data.

In addition, officials from Manitoba Public Insurance (MPI), Saskatchewan Government Insurance (SGI), Société de l'assurance automobile du Québec (SAAQ) and Insurance Corporation of British Columbia (ICBC) provided us with valuable insight to their respective premium, claims and operating cost data and operations.

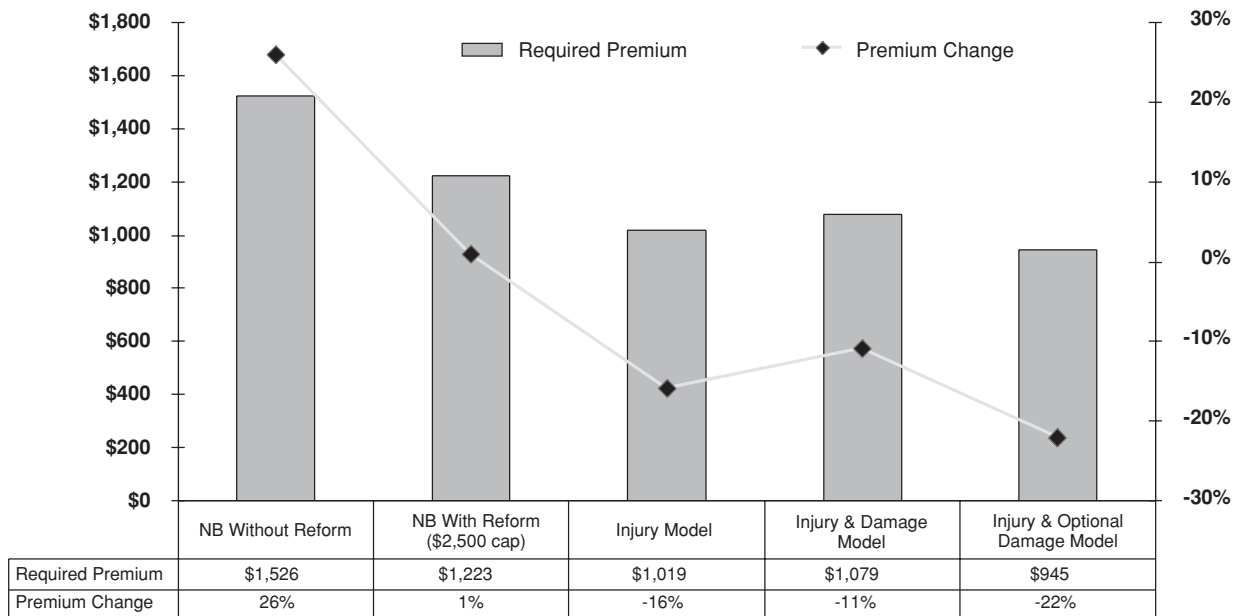
Readers should be aware that no estimate could possibly capture all the factors affecting automobile insurance costs and major reforms to the automobile insurance system. Estimates provide insight into the potential future experience and the impact of proposed changes.

Estimates of the claims costs are subject to large potential errors of estimation because the nature of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, public attitudes towards settlements, and social and economic conditions. It should be expected that the actual claims costs would vary, perhaps materially, from these estimates. In addition, to the extent that our models and/or our assumptions may not reflect the actual legislation and insurance model should public automobile insurance be introduced in New Brunswick, the actual average premiums may differ from our estimates.

2.3 Comparison of Models

The following summarize the high level analysis of the average premium required per private passenger vehicle for each model as well as its claims, operating, commission and premium tax costs:

Comparison of Required Average Premium

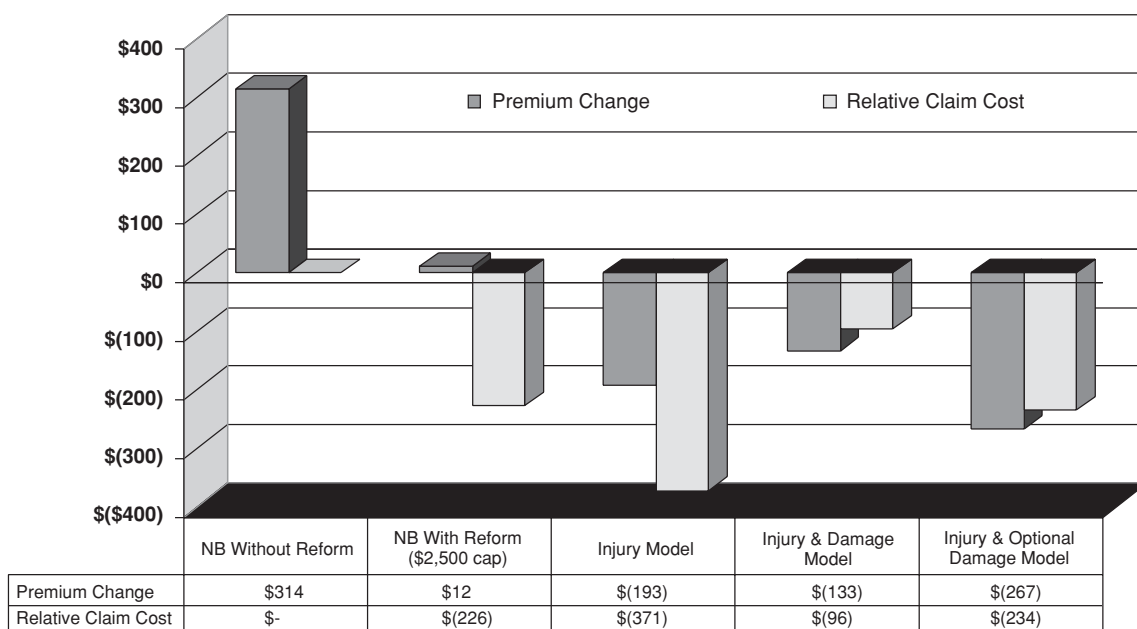


The current average street premium in New Brunswick is \$1,212.² This chart compares the required premium under each model as well as the average reduction in premium relative to the average street premium. Had New Brunswick not introduced the \$2,500 cap, required average premiums would total \$1,526 and consumers would have faced a 26 per cent average rate increase. With implementation of the cap, the required premium totals \$1,223, which is essentially equivalent to the current average street premium. The public insurance models require average premiums of \$1,019, \$1,079 and \$945, which would result in decreases of 16 per cent, 11 per cent and 22 per cent in average rates respectively.

An important consideration in evaluating the insurance models is the amount of premium returned to consumers in the form of claims:

² Per KPMG LLP July 28, 2003 Report on the Impact of Tort Reform on Private Passenger Automobile Rates in New Brunswick

Comparison of Average Premiums and Claim Costs



This chart compares the premium change required for each model relative to the average street premium as well as the average reduction in claims cost for each model compared to the claims cost in New Brunswick before the implementation of the pain and suffering cap. Had New Brunswick not introduced the \$2,500 cap, consumers would have faced a \$314 average increase in premiums. With implementation of the cap, claims costs were reduced by an estimated \$226, and consumers did not face increases relative to the current average street premium.

Under the injury model, consumers would save an average of \$193 on premiums, but claims costs would need to decrease by a larger amount of \$371 per vehicle relative to the claims cost in New Brunswick before the implementation of the pain and suffering cap.

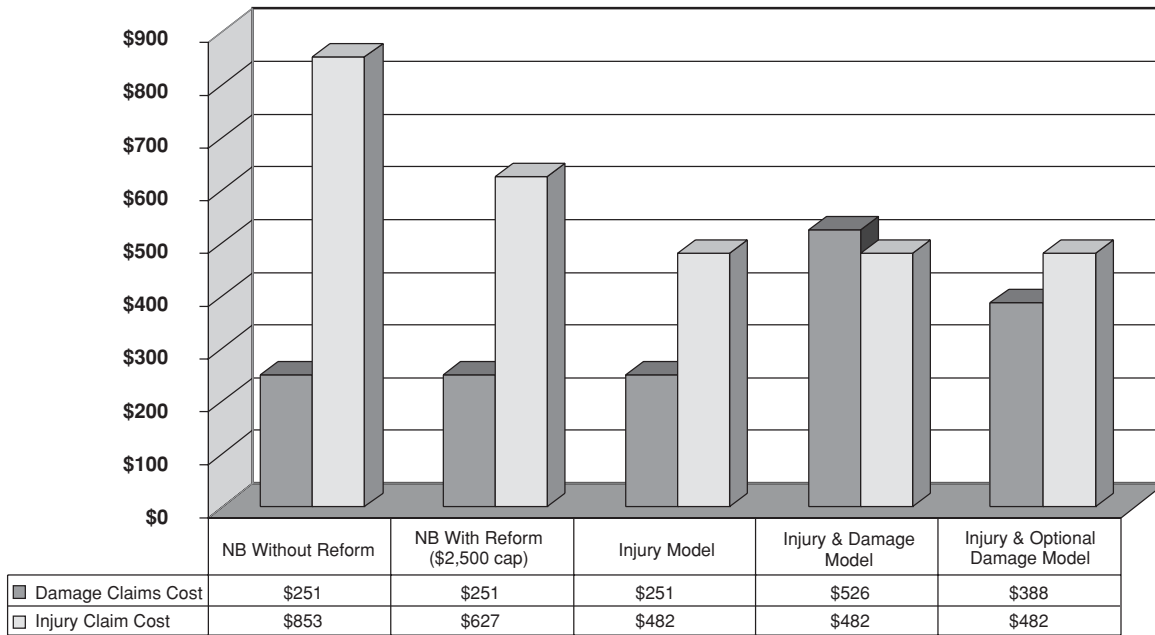
Under the injury & damage model, consumers would save an average of \$133 on premiums and claims costs would need to decrease by \$96 per vehicle relative to the claims cost in New Brunswick before the implementation of the pain and suffering cap.

Under the injury & optional damage model, consumers would save an average premium of \$267 and claims costs would decrease by \$234 per vehicle relative to the claims cost in New Brunswick before the implementation of the pain and suffering cap.

Under each of the reform models (the \$2,500 cap and the public insurance models) claims costs must be less to reduce average premiums. However, the amount of reduction in claims costs required in order to obtain premium savings varies dependent on the model. For example, the \$2,500 cap model reduces claims costs by an average of \$226, thus avoiding the need for increases in average rates. The injury & optional damage model reduces claims costs by a similar amount (\$234) yet results in average premium savings of \$267. These differences are caused because the public models do not have a requirement to earn a profit and their operating, commission and premium tax costs are less.

The following chart provides estimates of the breakdown of claims costs into damage and injury components:

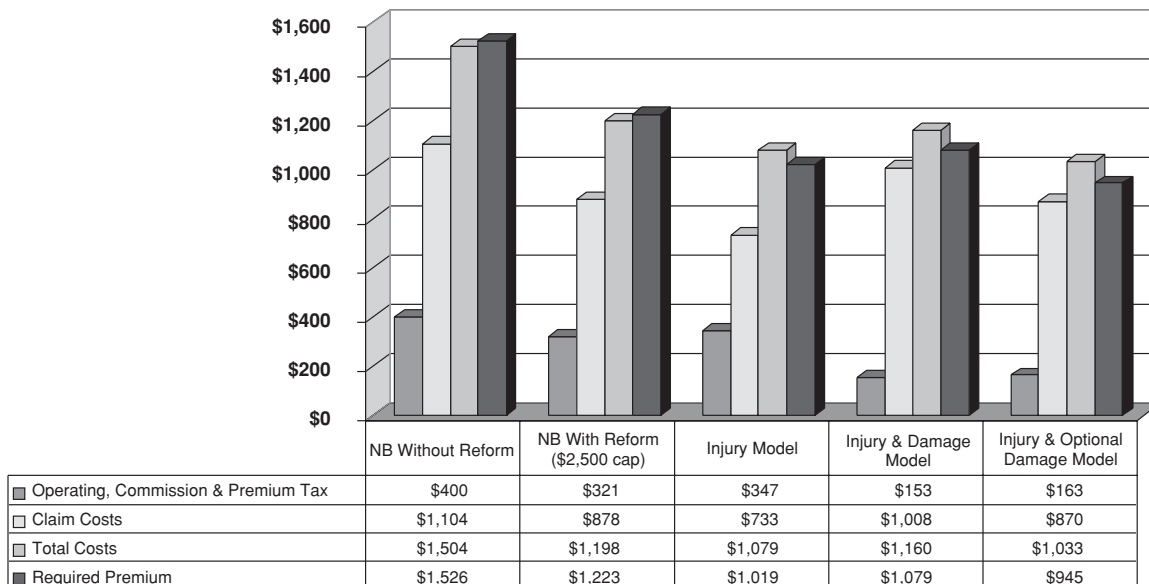
Damage & Injury Claim Costs



Injury claims costs are less with the \$2,500 cap and under the public insurance models because of the no-fault insurance product. Damage claims costs will be more under the injury & optional damage model compared to the current system should consumers decide to purchase more optional coverage because the product is less expensive.

The following chart compares the operating, commission and premium tax costs for each model:

Required Premiums, Operating and Claim Costs



Operating, commission and premium tax costs are less under the public models primarily because of efficiencies gained through provision of coverages by a single supplier and because commissions paid to licenced insurance agents and brokers are less in a public plan (12.4 per cent under the existing model compared to between 4 per cent and 7 per cent under the public plans).

In the New Brunswick without reform and \$2,500 cap models, the sum of operating, commission, premium taxes and claims costs are slightly less than premiums charged. The difference between total costs and premiums coupled with investment income allows insurers to earn a return on invested capital.

There is no requirement to earn a profit under the public models. Therefore, total costs can exceed required premiums under the public automobile models, because with investment income earned, each would break even at these levels of premium.

The above analyses are for private passenger vehicles, which make up the majority of automobile insurance business in New Brunswick. Commercial and other classes of vehicles would be treated in a similar fashion under the public insurance models. Savings in operating, commission and premium tax costs would apply to these classes. However, commercial owners of large fleets may need different insurance coverages (e.g. much higher deductibles). In addition, commercial vehicles that haul goods or people outside New Brunswick either across Canada or into the USA are required to carry liability coverage much higher than the \$200,000, and it may make sense to place all their mandatory insurance with one insurer at one time (either through the public plan or with private insurers). This analysis was not included in this report.

3.0 The Made-in-New Brunswick Model

The Select Committee decided that the injury & optional damage approach was the preferred model and asked us to describe characteristics of it in more detail.

3.1 Distribution & Product Coverage

Injury & Optional Damage Model	
Automobile insurance distribution	Driver licence (through Service New Brunswick) Vehicle registration and insurance (through licenced insurance brokers and agents)
Vehicle registration & insurance policy	Registration/insurance certificate is proof of registration, mandatory and optional coverage(s) purchased from the public insurance corporation Separate policy issued when optional coverage(s) is purchased from private insurers
Mandatory vehicle coverage	Pure no-fault injury benefits similar to benefits in Quebec, Manitoba and Saskatchewan - injured persons cannot sue \$200,000 third-party liability coverage – covers property damage in New Brunswick and property damage and bodily injury outside New Brunswick
Optional vehicle coverage	Higher levels of income replacement benefits Additional third-party liability coverage Own vehicle damage including collision, theft, comprehensive etc.
Coverage sold by the public insurance corporation	Mandatory vehicle coverage Additional injury benefits - higher income replacement benefits Additional third-party liability coverage Own vehicle damage including collision, theft and comprehensive
Coverage sold by private insurers	Additional injury benefits higher income replacement benefits Additional third-party liability coverage
Rating factors for insurance premiums	New Brunswickers' individual driving records (years of driving experience, at-fault accidents and traffic offences) Vehicle usage Vehicle make/model Optional coverage purchased Rates for mandatory and optional insurance approved by Public Utilities Board
Prohibited rating factors for insurance premiums	Age, gender or marital status Territory Vehicle owners' premium payment history

Under the plan, driver licences would continue to be processed through Service New Brunswick and vehicle insurance through licenced insurance agents and brokers. However, in public automobile plans, vehicle registration and insurance coverage are tied together. The registration certificate is proof of insurance coverage and therefore licenced insurance agents and brokers would process registrations at the same time vehicle insurance is sold to customers.

Under a public plan, consumers would be compelled to purchase coverages from the public insurer and the public insurer would be compelled to provide coverage to all New Brunswickers regardless of their driving record. There would be no Facility Association pool in New Brunswick.

Mandatory coverage would include no-fault injury coverage similar to that provided in Quebec, Manitoba and Saskatchewan and \$200,000 third-party liability coverage to protect the property of innocent New Brunswickers. No-fault injury coverage in these provinces include very high medical and rehabilitation benefits (a maximum of \$5 million in Saskatchewan and unlimited in Manitoba and Quebec for each resident injured in an automobile crash), income replacement benefits that replace 90 per cent of the first \$55,000 of income earned (indexed and payable until age 70 if necessary), high levels of death benefits, and an impairment benefit for serious and permanent injuries (e.g. \$150,000 to \$200,000 for quadriplegic injury). New Brunswick would need to establish, through legislation the level of benefits for its plan.

Optional coverage for vehicle damages (collision, theft and comprehensive at various deductibles) would be similar to those sold today and consumers would decide if they wished to purchase coverage for individual vehicles. However, to gain the premium advantages of a public plan and ensure that coverage is available; consumers would purchase both mandatory and optional coverages from the public auto plan.

While private insurers would be able to sell additional injury benefits and third-party liability coverage, the amount of market available to them is significantly limited under the plan.

There is a significant difference in the criteria used for rating purposes under the public plan. Under a public plan, rates would be based on New Brunswickers' individual driving records, comprehensive claims experience, vehicle usage, vehicle make/model and optional coverage purchased. Age, gender or marital status would be prohibited rating factors and the Select Committee decided to include a single rating territory for the entire province.

3.2 Rating Scale and Discount Structure

There are many ways in which to design a rating scale and discount structure. The Select Committee asked us to suggest potential features of a rating scale and discount structure. Readers should be aware that to determine the precise rates paid by individual vehicle owners requires an actuarial rate making exercise, which was not included in the mandate of this report. However, the following sets out a potential approach:

Injury & Optional Damage Model	
Driving records	<p>Safe drivers earn vehicle premium discounts over time</p> <p>Higher risk drivers pay additional driver and vehicle premiums</p> <p>The additional premiums for long term safe drivers involved in one at-fault accident are less costly than those assessed to relatively inexperienced safe drivers</p> <p>The premiums of drivers with a record of multiple at fault accidents and/or multiple traffic offences and/or serious traffic offences increase substantially</p>
Driver premiums	<p>Additional premiums are assessed directly to higher risk drivers</p>
Vehicle premiums include	<p>A base premium dependent on vehicle usage, vehicle make/model and optional coverage purchase</p> <p style="text-align: center;">Less</p> <p>Premium discounts that are earned over time based on the vehicle owner's number of claims and traffic offence-free years of driving experience</p> <p style="text-align: center;">Plus</p> <p>Premium surcharges and higher deductibles for multiple comprehensive claims</p>
Rating Scale	<p>A rating scale is maintained for every New Brunswick driver</p> <p>There are three zones on the scale</p> <ul style="list-style-type: none"> • Insurance Discount Zone for drivers who accumulate claims and traffic offence-free driving experience • Base Point for new drivers • Driver Penalty Zone for higher risk drivers
Moving on the scale:	<p>New drivers enter the scale at the base point</p> <p>For every year of claims and traffic offence-free driving experience, drivers earn one merit point to a maximum of 10 merit points (+10 on the scale)</p> <p>For each at-fault claim in a three year period the driver is charged demerit points dependent on the number of claims-free years of driving accumulated before the accident</p> <p>Drivers are charged demerit point for traffic offences, which vary according to the type of infraction (e.g. speeding tickets two demerits; failure to yield three demerits; criminal code convictions 20 demerits)</p> <p>Drivers in the insurance discount zone who are subsequently accident and traffic offence free for three years return to their previous position on the scale before the accident or traffic offence (except in the case of criminal code convictions)</p> <p>Drivers in the penalty zone who are subsequently accident and traffic offence-free for three years return to the base point or the insurance discount zone (e.g. a driver who is -7 in the penalty zone and is then accident and traffic offence-free for three years returns to base rate; a driver who is -2 and is then accident and traffic offence-free for three years returns to +1 in the insurance discount zone)</p>

Injury & Optional Damage Model	
Premiums related to driving records	<p>At base point, vehicle premiums are based on vehicle usage, vehicle make/model and optional coverage purchased with no discount.</p> <p>For each position accumulated in the vehicle discount zone, vehicle owners earn a 4 per cent discount to a maximum 40% on each private passenger vehicle insured</p> <p>For each position accumulated in the driver penalty zone, drivers are billed a one time premium (\$25 for each of the 1st 2 points; \$25 to \$50 for each of the next four points; \$75 for the next four points; \$100 for each subsequent point)</p>
Premiums & deductibles for comprehensive claims	<p>There are no premium surcharges for one comprehensive claim in a three-year period</p> <p>Two or more comprehensive claims within a three-year period result in premium surcharges and higher deductibles</p>

Under this approach, individual driving records play an important part in the determination of vehicle insurance premiums. New drivers enter the scale at base point and earn vehicle insurance discounts for each year of claims and offence free driving to a maximum of 10 years.

Vehicle owners who register and therefore insure their vehicle would be assessed a premium based on their position on the scale, vehicle usage, vehicle make/model and optional coverage purchased (the driving record of other members of a household do not affect the position on the scale or premium of the vehicle owner). If an individual driver does not register a vehicle, but accumulates enough demerit points, they would enter the driver penalty zone and would be billed an additional premium to ensure they contribute to the insurance pool.

The additional premium consequences of one at-fault crash are less costly for long-term safe drivers compared to the consequences of relatively inexperienced drivers. To ensure that the premium consequences because of one crash or traffic offence (except criminal code convictions) do not penalize drivers for an unreasonable time, drivers return to their previous position in the insurance discount zone or base point if they are in the driver penalty zone if they remain claims and offence free for three years.

The maximum discount earned for each year of claims and traffic offence-free driving can vary. The greater the discount, the higher the required base premium needed to generate premiums to fund discounts. The scale presented in this report contemplates a maximum discount of 4 per cent for each year of claims and offence-free driving (vehicle owners would earn a maximum discount of 40 per cent over 10 years at the 4 per cent level).

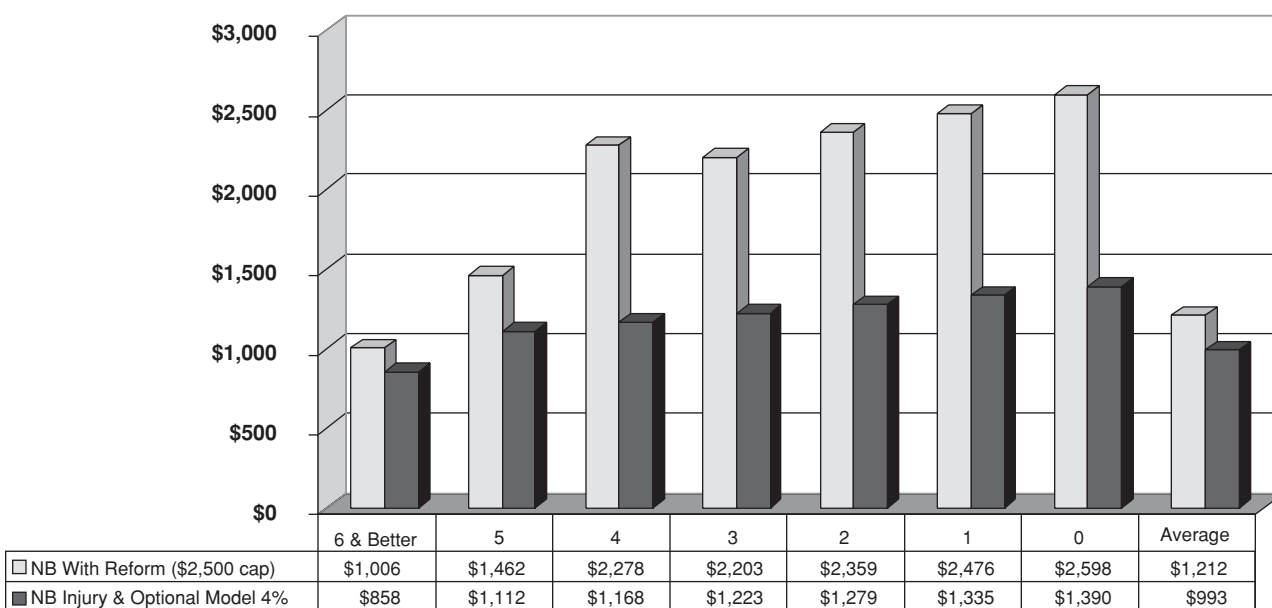
The premiums for each position in the driver penalty zone could also vary dependent on the design of the scale. We have suggested a relatively modest \$25 for each of the first two positions on the scale, followed by sharp increases as demerit points are accumulated. The following is an illustration of the scale at the 4 per cent level and gives an idea of the premium consequences of one at-fault crash, which varies dependent on the driver's position on the scale:

Injury & Optional Damage Model Rating Scale				
	Position on Scale	Vehicle Discount or Driver Premium	Demerit points for the 1st at fault accident in 3 years	Average Premium Consequences
Insurance Discount Zone	+10	40%	3	\$ 240
	+9	36%	3	\$ 240
	+8	32%	3	\$ 240
	+7	28%	4	\$ 360
	+6	24%	4	\$ 360
	+5	20%	4	\$ 360
	+4	16%	5	\$ 465
	+3	12%	6	\$ 485
	+2	8%	8	\$ 490
	+1	4%	9	\$ 520
Base Point	0	0	10	\$ 550
Driver Penalty Zone	-1	\$ 25	10	\$ 650
	-2	\$ 50	10	\$ 750
	-3	\$ 125	10	\$ 850
	-4	\$ 150	10	\$ 950
	-5	\$ 200	10	\$ 1,050
	-6	\$ 250	10	\$ 1,150
	-7	\$ 325	10	\$ 1,250
	-8	\$ 400	10	\$ 1,350
	-9	\$ 475	10	\$ 1,450
	-10	\$ 550	10	\$ 1,550
	-11	\$ 650	10	\$ 1,650
	-12	\$ 750	10	\$ 1,750
	-13	\$ 850	10	\$ 1,850
	-14	\$ 950	10	\$ 1,950
	-15	\$1,050	10	\$ 2,050
	-16	\$1,150	10	\$ 2,150
	-17	\$1,250	10	\$ 2,250
	-18	\$1,350	10	\$ 2,350
	-19	\$1,450	10	\$ 2,450
	-20	\$1,550	10	\$ 2,550
	More than 20	\$100 for each additional	1	

The most significant rating differences between the existing New Brunswick model and the injury & optional damage model are the premium discounts for years of claims free driving and use of only one rating territory. The other factors important in determining rates (vehicle usage, make/model and optional coverage purchased) are similar in all the models.

We prepared a high level comparison of the differences in premium discounts to provide readers with an idea of the impact of driving record in each model. Readers should be aware that to determine the precise rates paid by individual vehicle owners requires an actuarial rate making exercise, which was not included in the mandate of this report. **The average premium rates in this section of the report include the amount required to fund the start-up and pre-operating costs of a public insurer (an additional 5 per cent).**

Premiums Discounts



Under the existing New Brunswick model, vehicle owners enjoy significant discounts for years of claims free driving. The discounts for owners with driving records of six years and better are grouped together on this graph (those with driving records better than six receive greater discounts). The base rate is considerably higher in order to generate enough premiums to fund these discounts.

Under the injury & optional damage model, discounts are less but since the average premium is less than the existing New Brunswick model, owners pay less. In addition, the base premium is lower.

In both models, the average premium is relatively similar to the premium paid by owners with driving records five and six. This is because in any insurance system, most drivers are claims free and the average premium tends to approximate the premium of this large group of customers.

3.3 Governance and Accountability

A provincial Act to establish a New Brunswick public insurance Crown Corporation would have to be written and given assent prior to the transition of New Brunswick drivers from the old system to the new. Within the legislation would be established the overall insurance program, including product characteristics and benefits, as well as the parameters for NBPI.

A Minister responsible for NBPI would need to be appointed, and a Board of Directors likewise established. The Board would be responsible for policy development and oversight of NBPI.

The role of the Public Utilities Board of New Brunswick will be important in helping ensure transparency and public accountability. NBPI would be required to submit insurance rates to the Public Utilities Board for approval. Rate increases would be subject to review and public hearing where stakeholder and public participation is encouraged.

3.4 Role of Insurance Brokers and Agents

Licensed insurance brokers and agents would be the exclusive distributors of the public insurance product throughout the province. Support from NBPI would include insurance system and product training, communication and point of sale materials and telephone support. The licensed insurance brokers and agents would be vital to the effective distribution of the products and assisting customers to understand the new system and make choices appropriate to their insurance needs.

4.0 Operations Strategy

Based on the legislation, and to deliver the mandate of NBPI, an infrastructure and organization would be built, including people, facilities and information systems. The start of these activities would mark the beginning of the pre-operating period, anticipated to last 12 months, after which time operations would commence and transition of New Brunswick drivers from the old system to the new would occur.

Phase	Timing	Key Activities
Pre-Operating	Month 1-12	Build physical infrastructure, information systems, hire workforce, train workforce and partners (e.g. insurance agents and brokers)
Operating	Month 13 onward	Commence selling the new insurance product and transition policy holders to the new system, repay borrowings

4.1 Facilities

NBPI would be housed in a corporate office estimated at 135,000 square feet, to be located in one of New Brunswick's urban centres. It is assumed that approximately 75 per cent of the NBPI's workforce would be located in this office including customer and broker support call centres. Initially, the construction of five claim centres, each estimated at 15,000 square feet in size is assumed. Approximately 25 per cent of the NBPI's workforce would be located in these claims centres³. Temporary claim centres can be established should there be any delay in claims centre construction. Road adjusters would travel from claims centres to outlying communities as required to ensure customer service standards are met.

4.2 Management and Labour

It is estimated that NBPI would directly employ approximately 800 individuals in the Province of New Brunswick in a variety of roles including clerical, technical/professional, supervisory, and management. The organization of NBPI would include: Executive offices; Finance; Insurance Operations; Claims; Information Technology; Human Resources; Legal/Regulatory; and Public Relations/Prevention. An eight member executive team comprised of a Chief Executive Officer and seven Vice-Presidents would be established to lead and manage NBPI on a day-to-day basis. Recruiting and hiring of employees is assumed to take place over a 24-month period, with close to 90 per cent of the workforce being recruited and hired in the first 12 months.

³Note: Specific locations to be determined. Customer service objectives and travel times should determine site selections. Additional claim centres may be added in subsequent years, but are not included in this Executive Business Plan.

4.3 Pre-Operating Period

Once the mandate to create NBPI is established, a 12-month pre-operating period is assumed. Activities in the pre-operating period would include:

- The recruitment, hiring and training of the workforce;
- Construction of a corporate office and five claim centres;
- Business process and system development;
- Customization of automobile insurance information technology systems including an:
 - Insurance system;
 - Financial system; and
 - Claims system;
- Training for licenced insurance agents and brokers and other business partners in the new systems, processes and business rules; and
- Transition planning.

The Manitoba Public Insurance Corporation ('MPI') has agreed to assist NBPI with customization and conversion of MPI insurance, financial and claims systems to meet the needs of New Brunswick thus eliminating the requirement to build the systems from scratch. Other partnering or contracting opportunities could be explored by NBPI during the pre-operating period that may lead to further efficiencies.

4.4 Operating Period

Operations are assumed to commence on day one of year two, at which time NBPI will execute its transition strategy. Recruiting will continue in year one of operations to bring the staff up to the total anticipated requirement of 800.

5.0 Financial Strategy

Inputs to the financial model were developed by the consultants and discussed with the Select Committee in a workshop setting. Accordingly, the financial projections and estimations present, based on available information, NBPI's expected financial position, results of operations and cash flows for the project period. The assumptions disclosed herein are those that the consultants developed, discussed with the Select Committee, and believe are significant to the projection. There will usually be differences between the projection and the actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Available sources of cost information, such as The New Brunswick Department of Supply and Services were utilized as indicated. Operating costs for NBPI were estimated by extrapolating from other similar Crown Corporation data, adjusting for information specific to NBPI regarding premiums written, staffing complement and services provided. This compilation is limited to presenting information provided by the available sources and does not include evaluating the support for the assumptions, nor the underlying projections. Where a range of values for a given cost input was possible we have generally used the higher end of the range in the financial projections.

5.1 Capital Budget

Property and equipment additions are required and will be made during year 1 (pre-operating period) for the following assets:

Construction cost of five claim centres	\$	10,125,000
Construction cost of corporate office	\$	18,225,000
Furniture and equipment allowance	\$	4,000,000
Information technology systems (desktop hardware only)	\$	<u>2,900,000</u>
	\$	35,250,000

5.2 Start-up Costs

Start-up costs are non-operating and non-capital costs incurred during the 12-month pre-operating period, and are necessary to create the infrastructure and processes required to operate NBPI. These costs will be capitalized and amortized over a five-year period. Start-up costs are estimated as follows:

Recruitment costs	\$	800,000
System and business process development costs	\$	7,900,000
Communication costs	\$	3,000,000
Consulting service costs	\$	<u>1,600,000</u>
	\$	13,300,000

5.3 Pre-Operating Period Costs

For year 1, estimated operating expenses will consist mainly of employee compensation, training costs, and other operating expenses (data processing, building expenses, printing, stationary, office supplies, postage, travel expenses, telephone etc). Compensation represents an estimated 75 per cent of the operating expenses incurred during year 1, with the remaining 25 per cent represented by training costs and other operating expenses. Employee compensation is based on the assumption of staggered hiring of 700 staff during year 1.

Total year 1 operating expense is calculated below:

Estimated employee compensation	\$ 23,700,000
Estimated training expense	\$ 500,000
Estimated other operating expenses	<u>\$ 7,810,000</u>
	\$ 32,010,000

Although not a pre-operating period cost, to assist the various stakeholders with the transition from the old to new insurance model, it is estimated that NBPI would make a one-time transition expenditure of up to \$20,000,000 in year 2 of operations.

5.4 Financing Plan

During the pre-operating period, NBPI will require financing of \$82,000,000. It is assumed that this will be debt-financed, with money borrowed from the Province of New Brunswick. Actual amounts may vary due to events and circumstances that may arise. It is estimated that amounts will be advanced to NBPI over the 12-month pre-operating period in equal increments. The expected capital structure and use of funds are as follows:

Sources of financing

Province of New Brunswick	\$ 82,000,000
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Use of funds

Start-up costs (See Section 5.2)	\$ 13,300,000
Property and equipment additions (See Section 5.1)	\$ 35,250,000
Pre-operating period Operating Costs (See Section 5.3)	<u>\$ 32,010,000</u>
	\$ 80,560,000

This debt financing will bear interest at 5 per cent, and will be repayable, in full, at the beginning of year 2, the first year of NBPI's operations. On day 1 of operations of year 2, NBPI will experience a significant inflow of cash from the conversion of written premiums from private insurance companies to NBPI, allowing repayment of the Province's advance, in full, at the beginning of year 2.

5.5 Projections

The projections presented below are inclusive of all vehicle types and are based on the assumption that there will be a 5 per cent surcharge on premiums during years 2 to 5. The projections include the normal items included in the financial statements of insurance companies (premiums, claims, claims adjusting expenses, commissions, premium taxes, operating expenses and investment income etc.) as well as the start-up costs, which are non-operating and non-capital costs incurred during the 12-month pre-operating period necessary to create the infrastructure and processes required to operate NBPI.

Key line items from the Statement of Projected Earnings (Loss) and Retained Earnings (Deficit), and the Statement of Projected Cash Flows are presented below:

(\$000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
Net earnings (loss) from operations	(\$34,482)	(\$9,546)	\$18,751	\$25,392	\$31,518
Retained earnings, (deficit, beginning) of year	-	(\$34,482)	(\$44,028)	(\$25,457)	(\$65)
Retained earnings (deficit), end of year	(\$34,482)	(\$44,028)	(\$25,457)	(\$65)	\$31,453
Cash resources, end of period	\$1,627	\$224,666	\$374,978	\$508,232	\$632,957

Appendix L: New Brunswick Public Automobile Insurance Model Sample Rates

New Brunswick Public Automobile Insurance Model Sample Rates

Prepared for:

**The New Brunswick Select Committee
On Public Automobile Insurance**

Submitted by:

**Jon Schubert Consulting &
Meyers Norris Penny LLP**

Contact: JonnSchubert
Phone: (306) 585-1449
Phone Toll Free: (877) 500-0795
Email: jsschubert@sasktel.net

Appendix L: New Brunswick Public Automobile Insurance Model

1.0 Introduction and Background

The Government of New Brunswick is committed to making automobile insurance more affordable, fair, and accessible for New Brunswickers.¹ In support of this commitment, the provincial government created a Select Committee on Public Automobile Insurance. This all-party committee of the Legislative Assembly was charged with examining existing models of public automobile insurance across Canada with a view to identifying the best model for New Brunswick should a decision be made to move toward a publicly owned system.

To facilitate discussion around various models, and to estimate, at a high level, premium, start-up and operating costs of a preferred model, the Select Committee engaged the services of Jon Schubert Consulting and Meyers Norris Penny. A report titled “Public Automobile Insurance Model: Executive Business Plan”, dated February 3, 2004, was prepared and describes alternative models, the preferred model - the New Brunswick Injury and Optional Damage model, and the operations and financial strategies associated with it.

The Select Committee has now asked us to prepare estimates of rates under the New Brunswick Injury & Optional Damage Model for twelve scenarios. This report describes the scenarios and estimated rates.

2.0 Methodology & Limitations

2.1 Methodology

We relied on various sources of data to prepare estimates of the rates under the New Brunswick Injury & Optional Damage Model including:

- KPMG LLP July 28, 2003 Report on the Impact of Tort Reform on Private Passenger Automobile Rates in New Brunswick
- Insurance Bureau of Canada Automobile Insurance Experience (Green Book)
- Office of the Superintendent of Financial Institutions
- SAAQ 2002 Annual Report
- MPI 2002 Annual Report
- MPI 2004 Rate Application Basic Autopac Program
- SGI Data
- Saskatchewan Auto Fund 2002 Annual Report
- ICBC 2002 Annual Report
- New Brunswick Board of Commissioners of Public Utilities 2003 Benchmark Rates Private Passenger Vehicles

¹ Province of New Brunswick. Consultation Paper on Public Auto Insurance in New Brunswick. 2003.

For each of the scenarios provided by the Select Committee, we developed estimated rates based on the Injury & Damage Model as described in the report titled “Public Automobile Insurance Model: Executive Business Plan”, taking into account rating structures used in Manitoba, Saskatchewan and British Columbia and CLEAR Rate Group Differentials.² The estimates of rates in this report are effective for policies sold on July 1, 2003.

2.2 Limitations

No estimate can account for all the factors affecting insurance rates. Estimates can, however, provide insight into the potential future experience and the impact of potential changes. There is uncertainty associated with our estimates of rates for several reasons:

- There will usually be differences between the estimates and the actual rates because events and circumstances frequently do not occur as expected, and these differences may be material.
- There are many ways in which to design a rating scale and discount/surcharge structure. The Select Committee asked us to suggest features of a rating scale and discount structure, and these features are described in the report titled “Public Automobile Insurance Model: Executive Business Plan”. However, should New Brunswick adopt public automobile insurance, the structure of the plan, the coverages, rating scale and discount/surcharge structure may differ from those contemplated in these estimates of rates.
- Under a public plan with different structures, customer purchasing patterns (e.g. different levels of optional coverage purchases) and claims behaviour may change. These factors will affect the rates paid by individual New Brunswickers.
- Estimates of the claims costs underlying the Injury & Optional Damage Model are subject to potential errors of estimation because the nature of claims is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, public attitudes towards settlements, and social and economic conditions.
- To the extent that our models and/or our assumptions may not reflect the actual legislation and insurance model should public automobile insurance be introduced in New Brunswick, the actual premiums and claims may differ from our estimates.
- We relied on the general accuracy of the data and information listed in section 2.1 of this report without audit or independent verification.
- To develop precise rates paid by individual vehicle owners requires an actuarial rate making exercise, which was not within the mandate of this report.

Any conclusion about the estimated rates in this report should be made only after considering the report in its entirety. This communication is intended to be used solely with the Select Committee on Public Automobile Insurance report titled “Public Automobile Insurance Model: Executive Business Plan”, prepared by Jon Schubert Consulting and Meyers Norris Penny. The information contained in this report may not be appropriate for other purposes. Jon Schubert Consulting and Meyers Norris Penny have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

²Canadian Loss Experience Automobile Rating developed by the Insurance Bureau of Canada.

3.0 Sample Rates

The following outlines the parameters of the scenarios the Select Committee identified, as well as the estimated rates that were developed:

Figure 5: Made-in-New Brunswick Model Sample Rates

Scenario	Age & Gender	Driving Experience	Driving Record	Other Drivers	Vehicle	Coverages	Location	Rate
1	45 year old female	10 years plus safe driving		16 year old daughter, brand new driver just completed driver education 18 year old son has 2 years good driving	2002 Dodge Caravan	\$2 million PLPD Collision and Comprehensive \$250 deductible	Campbellton	\$1,228
2	22 year old unmarried male	5 years safe driving	1 windshield claim last year	None	2001 Toyota Corolla	\$1 million PLPD Collision and Comprehensive \$500 deductible	Tracadie	\$1,358
3	18 year old unmarried female (university student)	2 years safe driving		None	1994 Honda Civic Hatchback	\$200,000 PLPD No vehicle damage coverage	Saint John	\$1,007
4	Vehicle 1 60 year old male	10 years safe driving Pleasure Use		None	2002 Pontiac Grand Prix	\$2 million PLPD Collision and Comprehensive \$250 deductible	Miramichi	\$1,006
	Vehicle 2 57 year old female	6 years safe driving Pleasure use	1 comprehensive claim 4 years ago	None	1997 Pontiac Grand AM	\$2 million PLPD No vehicle damage coverage	Miramichi	\$528
5	77 year old female	10 years safe driving Pleasure use		None	2000 Ford Taurus	\$1 million PLPD Collision and Comprehensive \$500 deductible	St-Stephen	\$812
6	30 year old male	10 years driving	1st at-fault accident 3 years ago 2nd at fault accident last year Previously 7 years of safe driving	None	2001 Jeep Cherokee	\$1 million PLPD Collision and Comprehensive \$500 deductible	Fredericton	\$1,906

Figure 5: Made-in-New Brunswick Model Sample Rates

Scenario	Age & Gender	Driving Experience	Driving Record	Other Drivers	Vehicle	Coverages	Location	Rate
Vehicle 1 7	29 year old male	10 years safe driving	1 not-at-fault accident 3 years ago 1 windshield claim last year	None	2004 Mazda pick-up truck	\$1 million PLPD Collision and Comprehensive \$500 deductible	Petit-Rocher	\$1,150
Vehicle 2	28 year old female	7 years safe driving	One-at-fault accident 7 years ago	None	1999 Chevrolet Cavalier	\$1 million PLPD Collision and Comprehensive \$500 deductible	Petit-Rocher	\$1,242
8	54 year old male	10 years safe driving		None	1994 Oldsmobile 98 Regency	\$1 million PLPD No vehicle damage coverage	Grand Bay	\$678
9	47 year old male	10 years safe driving		21 year old daughter 3 years safe driving 23 year old son 1 at-fault accident 2 years ago and 1 speeding ticket	1996 VW Jetta	\$1 million PLPD Collision and Comprehensive \$500 deductible	Edmundston	\$1,038
10	24 year old female	8 years safe driving	1 speeding ticket 3 years ago	None	2002 Honda Accord	\$1 million PLPD Collision and Comprehensive \$250 deductible	Woodstock	\$1,360
11	42 year old male	22 years driving	1 at-fault accident 3 years ago 1st Driving Impaired 5 years ago 2nd Driving Impaired 2 years ago*	None	1994 Chevrolet Impala	\$200,00 PLPD No vehicle damage coverage	Memramcook	\$1,094 (vehicle) \$2,550 (driver) \$3,644 (total)
12	39 year old female	20 years driving	1 at-fault accident 3 years ago 2nd at-fault accident 12 months ago	None	1997 Nissan Altima	\$1 million PLPD Collision and Comprehensive \$500 deductible	Doaktown	\$1,624

*This driver would be billed an additional premium amount after each traffic or criminal code infraction. He would only be permitted to register his vehicle under this scenario if he had a valid drivers' license and his insurance account was in good standing.

