

Executive Summary

The Select Committee on Public Automobile Insurance was asked to look at the various public automobile insurance systems in Canada and identify the most suitable model of public automobile insurance to ensure fair, accessible and affordable automobile insurance for all New Brunswickers, in the event a decision is made to move to a public system.

As a result of its research and deliberations, the Committee has developed a unique public automobile insurance model appropriate to the needs of New Brunswickers. This report outlines the key elements of the model as well as the start-up costs, impact on provincial finances and the legal, trade and economic implications of putting in place the proposed model.

The made-in-New Brunswick model provides a comprehensive and high level of no-fault automobile insurance at an affordable rate to all New Brunswickers. Every licenced driver has access to mandatory automobile insurance coverage at a fair price and may choose to augment that coverage if desired. Basic mandatory insurance policy includes full no-fault, also known as personal injury protection plan, benefits and \$200,000 third-party liability coverage.

Under the no-fault model, all New Brunswickers injured in traffic accidents will be entitled to full medical and rehabilitation treatment, income replacement and other benefits depending on the severity of their injuries. Financial compensation for pain and suffering is eliminated under the model. Fault is determined for every traffic accident and at-fault drivers pay higher premiums under the model.

Optional insurance for vehicle damage (collision, theft and comprehensive) will be similar to coverages sold now; consumers can choose to purchase optional coverage, including the specific kind of coverage and deductible level for their individual vehicles. To reduce premiums and ensure that coverage is universally available, all consumers will purchase both mandatory and optional vehicle damage coverages exclusively from the Crown corporation through their licenced community brokers and agents. New Brunswick consumers will have the choice of buying additional third-party liability coverage and higher income replacement benefits from a private insurance company or the Crown corporation.

In the proposed model, vehicle registration and mandatory insurance are purchased together from a licenced private insurance broker or agent. Licence plates must be returned when an automobile insurance policy is cancelled.

Private sector insurance brokers and agents will play a pivotal role in the proposed public model. Brokers and agents will be the exclusive distributors of the public automobile insurance product in New Brunswick and will receive a 7 per cent commission for their services.

The cost of insurance will be based on the personal driving record of the registered owner, vehicle usage, vehicle make and model and any extra coverage purchased beyond the mandatory coverage. Age, gender, marital status, where one lives, payment history and any lapses in insurance are not to be taken into account when the cost of insurance is determined.

The proposed model includes discounts for safe drivers - 4 per cent per year of safe driving to a maximum of 40 per cent off the price of insurance - and sharply increasing penalties to risky drivers. The financial consequences of accidents and traffic offences are easily understood, predictable and reasonable. Under the made-in-New Brunswick model, premium consequences of an at-fault accident follow the at-fault driver, not the vehicle.

The average premium is estimated at \$993 under the made-in-New Brunswick model; today's average premium is \$1,212. The estimated average premium for drivers with 10 years safe driving under the proposed model is \$834. Some drivers will pay more and some will pay less than the average depending on their individual driving record, vehicle model and usage and coverage level. Risky drivers will pay considerably more and criminal-driving offences will be harshly penalized. All rates are to be subject to the approval of the New Brunswick Board of Commissioners of Public Utilities.

The proposed Crown corporation will be a not-for-profit public entity that will operate at arm's length from the provincial government. The proposed legislation will establish the insurance program, including product characteristics and benefits. It will clearly establish that the financial sustainability of the Crown corporation is the responsibility of automobile insurance ratepayers and not taxpayers. The Crown corporation will pay premium tax, health services levy and HST.

It is estimated that the Crown corporation will employ up to 800 individuals at its headquarters and five regional claim centres. The Crown corporation will look to hire, wherever possible and appropriate, experienced and certified insurance professionals presently involved in the insurance industry in New Brunswick.

The costs of the New Brunswick model are fully explained in this report, including start-up, capital and pre-operating costs. Financing of the total start-up, capital and pre-operating costs of \$82 million will be provided to the Crown corporation by the provincial government at the beginning of Year 1. The loan will be repaid in full with interest, at the beginning of Year 2 when written premiums are converted from private insurance companies to the public automobile insurance Crown corporation.

To ensure transparency and accountability, the Crown corporation will appear before the Standing Committee on Crown Corporations of the Legislative Assembly of New Brunswick and will distribute audited financial statements and an annual report at a general public meeting to be held each year.

The Committee undertook an initial assessment of the trade implications associated with the introduction of a public automobile insurance corporation in New Brunswick in light of Canada's obligations under the North American Free Trade Agreement (NAFTA) and the World Trade Organization's General Agreement on Trade in Services (GATS). The Committee found that while the NAFTA and the GATS do not expressly prohibit New Brunswick from establishing and maintaining a public automobile insurance regime, they do contain rules that would apply to the creation of a Crown corporation and its activities. The Committee is confident that the model could be implemented in a manner that conforms to Canada's international trade obligations and recommends that the Government of New Brunswick work closely with federal officials, should it decide to proceed.

The implementation of the proposed public automobile insurance model is estimated to have a net positive impact on the provincial economy. The initial displacement of 1,134 people working in New Brunswick's private sector insurance industry will be partially offset by the creation of 800 new automobile insurance jobs at the Crown corporation. Net gains of 1,024 person years in Year 1 and 275 person years in Year 2 in provincial employment are anticipated. The projected gains to the provincial economy in Year 1 (pre-operating) are primarily related to hiring by the Crown corporation and increased capital expenditures as the corporate office and regional claim centres are built. The projected gains in Year 2 (operational phase) are due to the increased spending in the provincial economy triggered by the projected \$103 million reduction in automobile insurance premiums in the province.

The implementation of the proposed model will result in a small increase overall to provincial revenues estimated at \$3.5 million per year. The Province will continue to receive premium tax of 3 per cent, the health services levy and the provincial portion of the HST under the proposed public model.

Based on the experience of other jurisdictions, the implementation of the made-in-New Brunswick model is not expected to have a significant impact on physiotherapists, medical practitioners or those involved in the automobile-repair industry. However, the introduction of a no-fault model will negatively impact the legal community in New Brunswick as persons injured in a traffic accident no longer sue to receive benefits. Brokers and agents will continue to play a key role in the proposed model. The costing of the model includes resources to remunerate brokers, agents and insurers for the additional transaction costs involved in the transition from private to public automobile insurance.

A summary of recommendations is provided in this report.