POLITICAL RISK:

THE CASE FOR ENDING ICBC'S INSURANCE MONOPOLY

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Taxpayer.com

"Without numbers, there are no odds and no probabilities; without odds and probabilities the only way to deal with risk is to appeal to the gods and the fates. Without numbers, risk is wholly a matter of gut."

Peter Bernstein

Against the Gods: The Remarkable Story of Risk

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ABOUT MARK MILKE

Born and raised in Kelowna, Mark Milke, Ph.D. is the author of four books and his dozens of think tank reports have been published in Canada, the United States and Europe. His first book was described by a *Vancouver Sun* editor as “written with style and wit, a must for the thoughtful, and a stimulus for the forgetful.” *Toronto Star* columnist Carol Goar describes Mark as a “skilled researcher who uncovers information governments would prefer to keep hidden.”

An independent policy analyst, Mark has been interviewed by the *New York Times* and *Wall Street Journal* and all major Canadian media. Mark is the past president of the Civitas Society, President of the Sir Winston Churchill Society of Calgary and past chairman of the editorial board of the online magazine *C2C Journal*.

Mark lives in Calgary and beyond his data-driven work and historical accounts Mark is an active hiker, skier and runner with an interest in architecture, photography, cities and history.

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EXECUTIVE SUMMARY

Insurance should be about actuarial risk, not political risk

Insurance is about risk management: it provides consumers a means to deal with uncertainty as it transfers and shares risk among a much larger group of people who face similar risks. When governments interfere in insurance markets, in the policy that should result from actuarial calculations, governments subvert the sound basis for such risk management.

This is evident in continued political interference in British Columbia's automobile insurance market, be it in the initial decision to end competition 44 years ago or continual decisions ever since to manipulate consumer insurance rates. The latter includes the political shielding of riskier cohorts from actuarially-based risk premiums and political interference in rate setting.

The result is that political interference thus skews insurance premiums higher for lower risk cohorts such as females and older drivers.

Media reporting could be improved

Insurance statistics can be unwieldy but media reporting on them could be improved by avoiding two common errors:

- Mistaking internet quotes – and the resulting averages and medians – for real paid premiums. This often results in wholly inaccurate inter-provincial rate comparisons.
- Using the language of "discrimination" as applied to statistics – which misses the point of insurance – it's all about risk probabilities based on age and gender.

Actual 2015 average auto insurance rates by province

In 2015 in specific, the average automobile insurance premium ranged from $724 in Quebec to $1,458 in Ontario. British Columbia's average premium was $1,316 (mandatory and optional combined), higher than neighbouring Alberta with an average of $1,179.

Why insurance rates differ among provinces

Insurance rates can vary dramatically between provinces for the following reasons: differences in: product offerings including legal bills and benefits paid; in accident rates per population; and in claim rates and cost of claim payouts. For example, Ontario's automobile insurance is on average the highest in the country because its claims cost per vehicle and its average bodily injury claims are both the highest in the country: high input costs equal high insurance premiums.

ICBC's early history

The story of automobile insurance coverage in British Columbia is tied to previous political and ideological developments that date back five decades. Before 1973, automobile insurance in the province was provided by 183 private enterprise companies. That changed with the 1972 election of the province's first New Democratic Party government, which had long promised a "public" (government) automobile insurance company.

Political interference then and now

Political interference in the marketplace was not limited "only" to a ban on competition with the creation of ICBC. Early on, in the setting of rates, the government acted against the advice of ICBC actuaries. As one history of the decision-making process recounts, "the NDP caucus decided upon a structure lower than suggested by its professional advisers."

Interference continues to the present. Examples of political interference include:

- The provincial government's haphazard removal of capital from ICBC through dividends, rebates and other means. For instance, in 2011, $101 million in an "excess optional capital transfer" was transferred to the provincial government. In 2012 – a pre-election year – no capital transfer to the province was recorded. However, capital transfers resumed in 2013, 2014 and 2015 with $237 million, $139 million and $138 million respectively.

- In November 2016, then-Premier Christy Clark directed the corporation to continue to "cap" its rate increase (for 2017) to 4.9 per cent, a political decision, not an actuarial one.

The case for ending ICBC's monopoly

The case for ending ICBC's monopoly is straightforward and based on a number of empirical realities: First, the reality of political interference – past, present and (just as likely) in the future; second, the reality of monopolistic behaviour in the marketplace and conversely, the effect of competition in the marketplace; third, the example of past successful decisions in Canada and in other liberal democracies to return government-owned businesses to the private sector as a means to a competitive, consumer-friendly market.

Options

If competition is accepted over monopoly provision there are options for policymakers in British Columbia.

Option One: The status quo + tinkering

A government may choose to retain ICBC but "tinker." Options for policy reform include legislative changes that would: direct ICBC to take into account only actuarial realities, i.e., to allow for higher premiums for statistically riskier profiles and reductions for safer profiles. In practice, this would lead to rate increases for young males and reductions for females, older families, and seniors among others.

The disadvantage of Option One is that consumers would have no guarantee a future government will not reverse such actuarially and consumer-friendly policies.

Option Two: The "liquor store" model—ICBC + competition

Another option is for ICBC to be retained but with mandatory (basic) insurance opened up for competition to the private sector. In essence, this would be a version of the "liquor store" model in British Columbia.

Option Three: A Vancity/MEC-type co-operative + competition

Residents of British Columbia (and Vancouver in particular) are already familiar with this third option. Vancity, founded in 1946 as a financial cooperative and exists for the benefit of its 523,000 members. Mountain Equipment Co-op ("MEC") was founded in 1971 by six mountaineers who found it difficult to find quality mountain climbing gear. Each paid $5 each to become a member; after its first store was opened in Vancouver in 1973 it has since evolved to spread cross-Canada with 21 stores and over four million members.

So long as an "ICBC" cooperative faced full competition from the private sector (both Vancity and MEC face full competition) this option increases choice, service and price possibilities for consumers. It combines the usefulness of competition with a co-operative model already known by many British Columbians.

Option Four: Sell/give away ICBC + competition

A fourth option also possible: Sell or give shares (or both) in ICBC to the public. This has historical precedent in British Columbia. This fourth option has potential but might be sub-optimal: An insurance company with an existing portfolio owned by every British Columbian would face great political pressure to retain the existing monopoly on basic automobile insurance. Competition in the basic coverage might be thwarted.

Option Five: Privatize ICBC "AT&T"-style + full competition

The fifth option: The province could, in the example of "trust-busting" in the United States, subject ICBC to a break-up of its various components, thus creating smaller companies in competition with each other and critically in competition for consumers. This would be the "AT&T" option, named after a 1982 and 1983 break-up of AT&T, or "Ma Bell" as it was then known, in the United States.

Option Six: Shutter ICBC + full competition

The sixth option is straightforward. ICBC could be wound down with full competition allowed in British Columbia. This option would mimic the current Alberta competitive market for basic and optional insurance. There, 60 companies compete for consumers on both mandatory (basic) and optional automobile insurance coverage. It would also be return to the pre-1973 market where, at the time, 183 companies offered automobile insurance in British Columbia.

SECTION 1:
THE FACTS OF (AUTO INSURANCE) LIFE

Understanding insurance: It's about risk calculation, not politics

In his 1996 book Against the Gods – The Remarkable Story of Risk, Peter Bernstein noted that one distinguishing feature of modernity goes far beyond the surface progress evident in science, technology, capitalism and democracy. Bernstein writes that, "the revolutionary idea that defines the boundary between modern times and the past is the mastery of risk: the notion that the future is more than a whim of the gods and that men and women are not passive before nature."[1]

He notes that the modern conception of risk is rooted in the Hindu-Arabic numbering system that reached the West roughly eight hundred years ago. (To understand why that development was key, consider the difficulty of performing complicated calculations with Roman numerals.) Bernstein writes that while the easier numbering system theoretically made it possible to begin to calculate theories, probabilities and then risk, Arab mathematicians, as with ancient Greeks before them and early Christians, failed to capitalize on such possibilities.[a] That was due to worldviews which prevented the next step:

> Why, given their advanced mathematical ideas, did the Arabs not proceed to probability theory and risk management? The answer, I believe, has to do with their view of life. Who determines our future: the fates, the gods or ourselves? The idea of risk management emerges only when people believe they are to some degree free agents. Like the Greeks and the early Christians, the fatalistic Muslims were not yet ready to take the leap.[2]

Bernstein further outlines how it was during the Renaissance that the concept of risk and a better understanding of how to calculate it (and then to adjust behaviour accordingly) gained ground. In 1654, the French nobleman, Chevalier de Mere, who had a passion for both gambling and mathematics, challenged the philosopher and mathematician Blaise Pascal to solve a then two-hundred year-old conundrum: how to divide the stakes of an unfinished game of chance between two players if one of them is ahead. Pascal collaborated with a lawyer/mathematician and, as Bernstein writes, "the outcome of their collaboration was intellectual dynamite."[3]

The intricacy of the answer is unnecessary here but the result of Pascal's solved puzzle was that people could, for the first time, *partly predict the future with the help of numbers*. The accomplishment of Pascal and his lawyer friend, later built on by English merchant John Graunt, provided the basis for making rational predictions, i.e., how to calculate risk.

> In 1660, an Englishman named John Graunt published the result of his effort to generalize demographic data from a statistical sample of mortality records kept by local churches. By the late 1660s, Dutch towns that had traditionally financed themselves by selling annuities were able to put these policies on a sound actuarial footing.[4]

The result, centuries later, is the possibility of risk calculation. This is what modern insurance does: it provides consumers a means to deal with uncertainty as it transfers and shares risk among a much larger group of people who face similar risks. In the example of home insurance, such calculations allow insurance to be sold as protection for homeowners against unforeseen disasters that would otherwise permanently devastate a family.

[a] From Bernstein: "In all likelihood the reason was that the Greeks had little interest in experimentation; theory and proof were all that mattered to them. They appear never to have considered the idea of reproducing a certain phenomenon often enough to prove a hypothesis, presumably because they admitted no possibility of regularity in earthly events; precision was the monopoly of the gods" (p. 44).

In the event of a tragedy, no party will suffer a catastrophic financial loss because the risk and cost of such an event is spread out over many homeowners, most of whom will never face the disaster. Thus, companies can provide such insurance because the risk that all homeowners will need to collect insurance is, in total value, likely to be less in most years than the total value of premiums of those who pay for risk protection.

An added benefit for society at large is that such a guarantee allows the homeowner with equity to borrow against her home and perhaps use some of that money to start a business or renovate her home. The effect of insurance as security has been profound. As Bernstein points out, the modern economy could not exist without the ability to calculate risk and to leverage one's activities or investments with that safety net.

Bernstein's description of how the concept of risk evolved – as "remarkable" – matters. It is critical for understanding why governments must avoid undermining proper, actuarially-based, risk calculations. That includes avoiding interference in the proper pricing of risk-based products such as insurance.

SECTION 2:
FAKE NEWS: SELECT MEDIA REPORTING ON INSURANCE

Understanding the fake numbers and how they came about

Insurance statistics can be unwieldy. Average paid insurance premiums can vary greatly depending on the province, the legal options available to a claimant, provincial regulatory requirements, the population density of a province or a particular city, repair costs, the statistical make-up of the insured population (a greater proportion of seniors or a greater proportion of young males), and a variety of other factors.

An additional problem arises from two sources:

- Advocacy groups[5] which purport to represent consumers but are error-prone in their interpretation of data, statistics and thus in their conclusions. Their work can add to the confusion and can be the source of the initial misunderstanding in the media. The mistaken research and ensuing recommendations are often also contra consumers' actual interests.

- When media reports on automobile insurance highlight flawed numbers. This can result because the reporter or columnist is not familiar with the data used to produce certain comparisons on automobile premiums and why such comparisons are flawed. In addition, as per above, they may be drawing on already-flawed work from advocacy groups.

On the latter, over the past decade, a number of headlines illustrate the problem:

- "Auto insurance cheaper in B.C. than Alberta,"[6] proclaimed The Globe and Mail in 2005.

- "B.C. drivers pay less than Albertans for car insurance,"[7] headlined the Victoria Times Colonist.

- "Ban sought on 'unfair' insurance profiling; Increased premium; Car owners in certain areas charged more" headlined the National Post in 2012.[8]

- In July 2014, in The Globe and Mail, automotive columnist Peter Cheney authored "Why Ontario drivers pay the highest car insurance rates in the country."[9]

All such stories illustrate a misunderstanding about automobile insurance. The 2005 *Globe* headline quoted a study from an advocacy group that arrived at median prices for insurance comparisons via internet quotations. The fatal flaw in the comparisons was that *internet quotes bear no relevance to actual insurance premiums paid and the resulting averages.*

The story also displayed a faulty understanding of economics – the notion that monopolies are efficient. The Times Colonist headline made the same error. In both cases, then and now, automobile insurance in Alberta is on average, cheaper than in British Columbia.

The 2014 story from the Globe automotive reporter had an accurate headline – Ontario's average paid premiums were the highest – but the story then used mostly statistically flawed comparisons based on internet quotations. Those formed the basis for the commentary's explanation of why insurance was higher in Ontario. Those comparisons were incorrect and thus so too the explanation.

The 2012 National Post story made a different error: That the use of actuarial tables and statistics is "profiling" and perhaps discriminatory. The reporter who wrote that story did not appear to understand that, as per Peter Bernstein, the entire point of insurance and its actuarial basis is to "discriminate." Actuarial tables calculate risk and that between high-risk cohorts and others, or potentially expensive behaviour and cheaper behaviour. Prices are thus then charged accordingly.

For instance, a senior who owns a 2009 Ford and who rarely drives it is of far less risk to the insurer, and the other insured drivers whose premiums pay for that risk, than a 19-year-old male in a fast, luxury car speeding across downtown Vancouver at 3 a.m.

Thus, in summary in this section, two common problems exist in media reporting on automobile insurance rates. They add to the confusion surrounding proper policy.

1. Mistaking internet quotes for real paid premiums

Using *internet-generated quotes conflate such possible prices with the actual costs paid by consumers:*

To understand why this is a problem, consider this simple example. Suppose three condominium owners paid $200, $250 and $300 respectively for contents insurance. Divide the total ($750) by the number of insurance policies (three); the average premium is $250. That is the actual average insurance premium.

Now use the internet and quotes that do not represent actual purchased policies. If five quotes are downloaded from: $200, $250, $300, $400 and $700. The average quote is $370. Even if the lowest and highest prices are removed, the average in this example would be $317. Both estimates are yet higher than the real-world average price of $250. In other words, internet quotes do not reflect of what consumers actually pay. This applies to any analysis where *actual paid prices* are foregone and instead where internet quotes are used to arrive at averages.

The problem is that such averages bear no relation to reality – whether one uses five internet quotes or five million. The resulting averages are merely "ghost" figures. They do not reflect actual averages compiled from actual paid premiums.

2. Using the language of "discrimination" as applied to statistics

Risk calculation is a critical public good. It is one also often overlooked by governments which attempt to cheat probabilities by legislating insurance neutrality as applied to age and gender.

Insurance – calculated risk – has a two-fold purpose and a two-fold benefit. First, it allows people, families and others to guard against the possibility of costs that can bankrupt families and businesses in the event of misfortune. Second, properly calculated actuarially-sound insurance rates send signals to people about how costly their behaviour or individual situation might be.

That's why house insurance in a high-crime neighbourhood costs more than in an area less likely to be targeted by thieves. In the case of automobile insurance and age and gender, young males are statistically more likely to speed, to be reckless, and to be involved in accidents than any other age group.

When governments actively cap insurance premiums for young male drivers, the message sent to young male drivers is a regressive one about the potential of their actions to affect their future.

SECTION 3:
THE REAL INSURANCE NUMBERS

Actual 2011-2015 average auto insurance rates by province

The following table (1) is based on the total value of direct written premiums divided by the number of written vehicles. The prices for 2011 through to 2015 (2016 figures were not yet available at the time of writing), are based on what consumers actually paid for insurance in each year.

In 2015 in specific, the average automobile insurance premium ranged from $724 in Quebec to $1,458 in Ontario. British Columbia's average premium was $1,316 (mandatory and optional combined), higher than neighbouring Alberta with an average of $1,179.

Table 1: **Average Written Premium**

	2011	2012	2013	2014	2015
Ontario	$1,532	$1,549	$1,540	$1,486	$1,458
New Brunswick	$815	$795	$777	$762	$763
Newfoundland & Labrador	$1,013	$1,018	$1,045	$1,063	$1,090
Nova Scotia	$ 799	$775	$776	$772	$783
Prince Edward Island	$756	$740	$751	$759	$755
Alberta	$1,070	$1,087	$1,113	$1,153	$1,179
British Columbia	$1,150	$1,195	$1,232	$1,241	$1,316
Quebec	$712	$712	$715	$717	$724
Saskatchewan	$821	$832	$871	$923	$940
Manitoba	$957	$905	$925	$954	$1,003

Sources: General Insurance Statistical Agency and respective provincial government automobile insurance companies based on paid premiums. The above averages result from (where applicable) the combination of government and private premiums. (Excludes farmers, commercial automobile and all-terrain vehicles).[10]

Dollar amounts and percentage increases/decreases 2011-2015

For another analysis, consider the change in actual premium averages from 2011 to 2015 (Table 2). In the period observed, four provinces experienced average premium decreases: Ontario, New Brunswick, Newfoundland and Labrador and Prince Edward Island. Six provinces experienced average premium rate increases. Of six provinces where average premiums increased, British Columbia and Saskatchewan recorded the highest increases with Alberta third.

Table 2: **Increase/decreases 2011-2015**

	2011	2015	$ Increase/Decrease	% Increase/Decrease
Ontario	$1,532	$1,458	-$74.00	-4.8%
New Brunswick	$815	$763	-$52.00	-6.4%
Newfoundland & Labrador	$1,013	$1,090	$77.00	7.6%
Nova Scotia	$799	$783	-$16.00	-2.0%
Prince Edward Island	$756	$755	-$1.00	-0.1%
Alberta	$1,070	$1,179	$109.00	10.2%
British Columbia	$1,150	$1,316	$166.00	14.4%
Quebec	$712	$724	$12.00	1.7%
Saskatchewan	$821	$940	$119.00	14.5%
Manitoba	$957	$1,003	$46.00	4.8%

Sources: General Insurance Statistical Agency and respective provincial government automobile insurance companies based on paid premiums. The above averages result from (where applicable) the combination of government and private premiums. (Excludes farmers, commercial automobile and all-terrain vehicles).[11]

Why insurance rates differ among provinces

As noted in Tables 1 and 2, some provinces with private sector insurance providers have less expensive average insurance prices than other provinces where government is the main insurer. (Alberta's average premium is less than B.C.'s average premium; New Brunswick, Nova Scotia and Prince Edward Island are cheaper than Manitoba). Some government insurance companies do charge less on average than the premium offered in provinces where insurance is provided by private companies (Saskatchewan has a lower average premium than does Ontario).

Comparing apples to lemons

However, that Alberta's average premium is lower than British Columbia or that Saskatchewan's average premium is lower than Ontario's, does not in itself inform the consumer whether their policy is a superior buy or a superior product. Average premiums mask a number of reasons why premiums differ. That one province has higher average premiums than another may be the result of many factors.

Reason One: Differences in product offerings including legal bills and benefits paid

Whether in government or private insurance systems one significant factor in insurance premium differences is the "design" of the product offered, especially the degree to which a province allows consumers to litigate after involvement in an automobile accident. As the task force which reported to Atlantic Canada's premiers noted in 2003:

> *No matter what type of automobile insurance model is considered the core problem of increases in premiums is and has been consistently identified as the increase in bodily injury loss costs.*[12]

The reference to bodily injury costs can be understood to refer also to the cost of litigation in settling claims. As the Task Force noted, such costs are not insignificant which might be why some provinces moved to no-fault or almost no-fault systems:

> *In the case of three of the four public automobile insurance models in place in Canada, a pure or nearly pure no fault benefit scheme has been implemented, whereas the remaining public insurance model continues to operate under an unrestricted tort compensation plan.*[13]

In addition, more comprehensive coverage – lower deductibles, rental cars in the event of an accident, long-distance towing, and windshield coverage, higher compensation for injuries and more types of injuries covered and other forms of coverage – will increase the cost of insurance.

Reason Two: Accident rates per population

One significant cost factor in insurance premiums is the number of accidents per population, and the cost of the accident – the claim payout. For example, young males are statistically more likely to be involved in accidents than any other cohort (Table 3).

For example, in 2014, in Alberta (B.C. statistics are not available), a male aged 19 or 20 was 36% more likely to be involved in a collision than a female aged 19 and 20 and the average cost per claim was also higher, by $484. Or with an analysis of males only, a male aged 19 or 20 had a claims frequency that was nearly three times that of a male aged 66 or older (9.5 versus 3.3), with again, a higher average cost per claim – $2,202 higher. Age differences are thus still relevant in insurance rates despite the attempts of governments to disqualify it as a risk category in calculating insurance rates.

Table 3: **Private Passenger Automobile-Collison***

Alberta - Male 2014			Alberta - Female 2014		
Age Range	Claim** Frequency	AVG. Cost/ Claim ($)	Age Range	Claim** Frequency	AVG. Cost/ Claim
19-20	9.5	$7,462	19-20	7.0	$6,978
21-22	7.5	$7,867	21-22	7.0	$6,707
23-24	7.1	$7,598	23-24	7.0	$6,166
25-35	5.3	$6,312	25-35	5.6	$5,571
36-45	4.5	$5,684	36-45	5.0	$5,264
46-55	3.8	$5,422	46-55	4.2	$5,150
56-65	3.3	$5,209	56-65	3.6	$5,026
66+	3.3	$5,260	66+	3.6	$4,771

Source: General Insurance Statistical Agency
*Excluding farmers
** Per 100 Earned Miles

Reason Three: Differences in claim rates and cost of claim payouts

Claim payouts vary greatly by province (Table 4). The table also helps explain why Ontario's automobile insurance is on average the highest in the country: because its claims cost per vehicle and its average bodily injury claims are both the highest in the country: high input costs equal high insurance premiums.

Note that Table 4 displays only private sector provinces as Quebec, Manitoba, Saskatchewan and B.C. do not report to GISA. Thus, claims data from provinces where the government company is the main (basic) insurer are unavailable.

Table 4: **Claims costs 2015**

	Total Claims Costs Per Vehicle	Average Bodily Injury (BI) Claim*	BI Frequency Per 100 Insured Vehicles	BI Cost Per Insured Vehicle*
NF	$852.47	$71,561	0.58	$414.81
NB	$630.24	$63,494	0.32	$203.39
NS	$630.57	$53,886	0.4	$214.72
PE	$518.70	$84,916	0.25	$215.17
ON	$1,073.51	$139,018	0.19	$264.87
AB	$938.19	$68,851	0.55	$377.34

Sources: General Insurance Statistical Agency.
*Includes the health levy
"BI" refers to Bodily Injury

SECTION 4:
BRITISH COLUMBIA AND AUTOMOBILE INSURANCE

ICBC's early history

The story of automobile insurance coverage in British Columbia is tied to previous political and ideological developments that date back five decades. Before 1973, automobile insurance in the province was provided by 183 private enterprise companies. That changed with the 1972 election of the province's first New Democratic Party government, which had long promised a "public" – government – automobile insurance company.

The party that would become government, had, during the election, aired advertisements about the cost of insuring government vehicles with this angle: "The government insures its vehicles for $25 a year, why can't they [insure] yours?"

The answer and the reason – not stated in the advertisement, was that the figure did not include the cost of repairs to vehicles "such as would be covered under collision and comprehensive sections of a normal insurance policy." Nor did the political advertisement note that citizens, injured in a collision with a government's self-insured vehicle, were prevented from suing government for injuries or vehicular damage. Instead, any claimant was required by law to accept the government-offered amount as the settlement.[14]

After the 1972 election, the Insurance Corporation of British Columbia (ICBC) was thus a creation of the political party in power between 1972 and 1975. In legislation introduced on February 16, 1973, Bill 54 established ICBC and which sought to replace the existing competition-based private sector market.[b]

The B.C. government justified the proposed change as introducing "government competition" in British Columbia, this when private sector companies were deemed by some as insufficiently competitive.[15] In addition, at the time private sector rates were argued by some to be higher in B.C. than in the rest of the country.[c]

The 1973 legislation mandated that the new company, which began operations in 1974, be the sole provider of both basic (mandatory) and optional automobile insurance coverage. That led to the exit of 183 private sector automobile insurance providers from the province. Optional coverage was also, initially, reserved to the new Crown Corporation; that was later reversed to allow private market insurers to return to the optional automotive insurance market.[16]

The creation of ICBC was based on ideological and political rationale; interventionist-leading parties in the decades leading up to the 1973 legislation were influenced by notions that governments should own the "commanding heights of the economy." Thus, interventionist-leaning governments in Saskatchewan and Manitoba but also abroad, in Great Britain for example, bought or nationalized mining, energy, automobile, transportation and telephone companies, in addition to insurance companies.

Some of the more famous nationalizations included coal mines and coal-mining companies in Great Britain. In Canada, an oil company (Petro-Canada, created by the federal government after its purchase of an American oil company), and airlines (Air Canada and Pacific Western Airlines) were purchased by the federal and Alberta governments

[b] Government automobile insurance companies had already been established in Saskatchewan and Manitoba, established in 1946 and 1970 respectively.

[c] The lack of statistical data for this makes the claim impossible to verify. As this author has noted in past studies, the same claim was made about Alberta in the early 2000s, even though statistics based upon actual paid premiums demonstrated, for example, that Alberta average premiums were lower than British Columbia. The early 2000s claims resulted from an organization that used the average of internet quotes. The problem there was that internet quotes were and are not actual paid premiums. Thus the resulting "average" premium calculation based on quotations few people would pay (i.e., the higher end) were misleading; they bore no relation to actual premiums paid and the resulting average. Thus, in the case of British Columbia in the early 1970s, it is impossible to verify the notion British Columbians paid higher premiums than in other provinces. Newspapers reports from the era claim that they did. However, newspapers in the early and mid-2000s also quoted the unsupportable and misleading claims about Alberta premiums.

respectively) and were some of the more high-profile government-owned corporations.

Most of these government-owned and government-run companies were later shuttered or sold back to the private sector beginning in the late 1970s and continuing in to the 1980s and 1990s. (Some of these will be outlined in section 5.)

In sum, for British Columbia, the creation of a government insurance company with a monopoly in the automobile insurance market was born in ideology; it was "cemented" in a longstanding political party platform and the related election promise by the then opposition New Democratic Party.[17] The party was itself influenced by assumptions then popular among interventionist-leaning economists, parties and governments.

The reality of political interference in automobile insurance did not end with the prohibition on private sector automobile insurance in 1973. In even the setting of rates, the government acted against the advice of ICBC actuaries. As one history of the decision-making process here recounts:

> The establishment of a rate structure was hopelessly compromised by the NDP's commitment that a government scheme could provide cheaper and comparable, if not superior, service, and that no driver would have to pay more for comparable insurance than he had done in 1972.
>
> Against the advice of ICBC actuaries who suggested rates designed to reduce the anticipated losses of a rate structure cheaper for everyone than in 1972, the NDP caucus decided upon a structure lower than suggested by its professional advisers.[18]

In short, the 1973 decision to intervene in British Columbia's automotive insurance market was ideological and political; it led to further interventions including on rates when the government insurance company came into being.

Recent examples of political interference and market distortion

Political interference in the automotive insurance market has continued in subsequent decades. This includes when government businesses are set aside as Crown corporations to ostensibly act as institutionally and legally separate from government, and akin to a private sector company. The reality is that the government-Crown nexus preserves the political temptation to interfere. Crowns can affect a government's political fortunes and thus the temptation, as is clear in the case of ICBC, is for governments to interfere in actuarially sound decisions.

Recent examples of political interference: explicit and implicit

As an example of the problem with politically-connected, government-owned businesses, calculations that would otherwise be implemented can be dismissed when politicians are concerned about losing votes. Thus, government-owned businesses can, via overt political orders or by an implicit desire to avoid political "trouble" enact policy that disrupts sound actuarially-based decision-making. Examples include:

- ICBC's policy, as of 2017, that "In setting premiums, ICBC does not discriminate on the basis of age, sex or marital status and discounts are provided based on the number of years that a driver has been claims free."[19]

Examples of political interference include:

- The provincial government's haphazard removal of capital from ICBC through dividends, rebates and other means. For instance, in 2011, $101 million in an "excess optional capital transfer" was transferred to the provincial government. In 2012 – a pre-election year, no capital transfer to the province was recorded. However, capital transfers resumed in 2013, 2014 and 2015, with $237 million, $139 million, and $138 million respectively.[20]

- In November 2016, then-Premier Christy Clark directed the corporation to continue to "cap" its rate increase (for 2017) to 4.9 per cent,[21] a political decision, not an actuarial one.

None of the above should be a surprise to British Columbians, nor is it a surprise to political scientists and economists who study political behaviour. Simply put, politicians, to use one theory from studies of political behaviour, are "vote maximizers." It would be irrational to expect them to act in any other fashion.

SECTION 5:
THE CASE FOR REFORM

The case for ending ICBC's monopoly

The case for ending ICBC's monopoly is straightforward and based on a number of empirical realities: First, the reality of political interference – past, present and (just as likely) in the future; second, the reality of monopolistic behaviour in the marketplace and conversely, the effect of competition; third, the example of past successful decisions in Canada and in other liberal democracies to return government-owned businesses to the private sector as a means to a *competitive, consumer-friendly market*. Consider each in turn.

1. Political interference: A short history

Political interference is a distortion of the market and British Columbia's experience in automobile insurance policy and premiums can be summed up in the following manner:

- The original decision to place automobile insurance (originally both basic and optional) under government control and operation in 1974.
- Interference in actuarially-based rate-setting from the start, i.e., when the 1970s-era government promised to deliver cheaper insurance for every British Columbian and regardless of actuarial realities and advice.
- Continued political interference in other aspects of the government-owned Crown, including annual decisions on rates.

The only structural, long-term remedy for reduced political interference in any government-owned business is a permanent severing of the link between day-to-day political interests and the corporation in question. Before detailing possibilities here relative to British Columbia, it helps to review the benefits of competition.

2. The beneficial effects of competition

Economists and others who have studied competition, or its opposite, monopolies, have noted what is obvious to any consumer: monopolies tend to be inefficient; they are slow to respond to consumers and to changes in consumer preferences. Such results are predictable because in the absence of a competitive threat, monopolies have no incentive to reform internally (for greater efficiencies and/or a better internal working environment) or externally (for consumers).

Conversely, competition is inherently friendly to both the internal environment and to consumers. The reason is straightforward: in a competitive environment, options exist and consumers and employees alike can switch to a different suppliers/a new employer.

This dynamic is also clear to consumers and in a variety of everyday choices:

- **Food.** The most basic human need is available from a variety of farms and grocery stores and in an almost infinite variety of possibilities depending on consumer preferences from organic and more expensive to "bulk" and cheaper.

  Other than sensible regulatory provisions for safety, governments with rare and unwarranted exception, do not often interfere in the inherent fluctuating reality of food prices. Most consumers and politicians accept that a cold winter in Florida and a poor harvest, for example, will result in a constrained supply of citrus fruits and that prices will rise accordingly. Given that governments own neither farms nor grocery stores, there is little temptation to respond to occasional consumer frustration with food price fluctuations.

- **Cell phone and internet services.** Consumers well-know that the provision of cell phone and internet service result from a competitive marketplace. There are multiple potential service providers and consumers can and do regularly switch to between providers based on price and product offerings. If there is any complaint (in Canada) on such matters, it is usually related to a perceived *lack* of competition.

The above examples demonstrate clear choices available to consumers as a result of competition. In the case of automobile insurance, even ICBC increasingly acknowledges the effect of competition. That implicitly acknowledges the power of consumer choices *when consumers have choices*.

For example, in its 2009 report ICBC noted the value of competition.[22] In its section on "business risks," ICBC highlights how the "competitive environment" exists in optional insurance coverage. It notes that same "auto insurance market has experienced strong growth over the past five years." The corporation further notes that "There are many private insurers" and that "we expect that the Optional market in BC will continue to be robust and competitive."

ICBC also notes that in response to such a "competitive environment" the government-owned corporation will "monitor product profitability and develop strategies for product and underwriting enhancements, and competitive pricing models." In other words, ICBC is forced to respond to the reality of competition. Its response includes attempt to improve its product and price offerings.

Such market-responsive behaviour is what one would expect in competitive markets. The same would also apply to a fully open market in automobile insurance should it exist.

Competition improves services and reflects realistic costs; it can also contain costs and price increases

The availability of selection – choice in a provider – leads to competition for consumers. That in turn forces innovation in service delivery, insurance policies, and price.

Despite that reality, some would assert the choice and competition which exists among grocery stores cannot be replicated in the insurance market. The claim, for example, is that a monopoly will have less duplication in paperwork, a smaller administrative cost of doing business. It is an oft-cited claim by some in favour of status quo monopolies including ICBC.

While the theoretical possibility for an occasional efficiency exists in a monopoly, this theory breaks down in reality. Any rare efficiency in a monopoly – "less paperwork" in one area – is outweighed by inefficiency in other areas: there will be no daily competitive force which acts to force monopolies to reform their business model, and thus lower business costs overall and then prices.

This reality is why governments rarely permit private sector monopolies. It is why few consumers would think one supplier optimal if applied to grocery stores, automobile sales or internet services. In those sectors, it is understood that competition and choice bring service improvements and efficiencies. Competition ultimately benefits the consumer, the consumer able to choose between multiple providers.

3. The goal: competition for consumers

Over the past four decades, countries such as Canada, France, the United States and Great Britain have responded to the problem and consequences of past nationalization experiments by returning businesses to the private sector.

They have done so for a variety of reasons. One is the ongoing problem of political interference as noted previously. Another is the need for capital infusion for a company that, insofar as it remains in government hands, may otherwise be "starved" of resources necessary to renew its physical stock. (Railways in both Great Britain and Canada were privatized for this reason.) In other instances, governments also privatized government-owned corporations to avoid using tax dollars to subsidize ongoing operational requirements.

Yet another reason has been the recognition that companies faced with market realities price products and provide services to reflect consumer needs and desires. They also do so more quickly and efficiently than a monopoly could otherwise do.[d]

If such goals (less taxpayer money spent on Crowns, capital improvements, a more efficient and consumer-responsive company) are the aim, one process by which such companies or entire sectors are returned to the private sector has been via privatization. Or expressed differently: If competition on price and service is the goal, privatization is a useful means to that end.

In the past four decades, and in particular in the 1980s and 1990s, there has been a return of individual businesses and entire sectors to the private sector. Canada's federal and provincial governments were "early adopters" of such means to a consumer-friendly ends. Notable examples are displayed in Table 5.

Table 5: Divesting Government Businesses in Canada: Examples

Company or sector	Government	Year	Sector speciality	Type of privatization
Air Canada	Federal	1988	Airlines	Public offering
Alberta government licence registries	Alberta	1993-1994	Retail	Government registries closed/ private sector registries allowed
Alberta government liquor stores	Alberta	1993-1994	Retail	Government stores closed/ private stores allowed
Alberta Government Telephones	Alberta	1990-1991	Telecommunications	Public offering
BC Resources Investment Corporation	British Columbia	1979	Mining, forestry	Shares given to public/other shares sold in public offering
Canadair	Federal	1986	Aerospace	Sold to Bombardier
Canadian National	Federal	1995	Railway	Public offering
Manitoba Telecom	Manitoba	1996	Telecommunications	Public offering
Northern Alberta Railways	Alberta	1929	Railway	Sold to Canadian National and Canadian Pacific
Nova Scotia Power Commission	Nova Scotia	1992	Utilities	Public offering
Orion International	Ontario	1995	Bus manufacturing	Sold to Western Star Truck Holdings
Pacific Western Airlines	Alberta	1983-1984	Airlines	Public offering
Petro-Canada	Federal	1991-2004	Energy	Public offering
Polymer Corporation	Federal	1988	Rubber manufacturing	Public offering
Province of Ontario Savings Office	Ontario	2003	Banking	Sold to Desjardins Credit Union
Saskatchewan Minerals Inc.	Saskatchewan	1988	Mining	Sold to two private companies
Saskatchewan Oil & Gas Corporation	Saskatchewan	1986	Energy	Public offering

Sources: Various; see citations.

[d] It should be noted that market-based companies will price according to the market. That means that if a government-owned Crown later privatized had been a recipient of government subsidies, or kept a "lid" on prices, or ran down its capital stock with a view to keeping said prices lower than the actual cost of delivering the product or service, prices – even in a competitive market – could rise in selected cases. That is straightforwardly simple, sensible and defensible: goods and services priced below their cost will not continue to be priced below-cost in the real world; if they are, they will not be produced for long and shortages will result. The benefit of a market approach is not that prices will always be lower than government-set prices tough that can often be the case; it is that market prices reflect reality and thus are sustainable. Thus the desired/needed products and services will be delivered. The benefit of a fully market-friendly approach is that competition for consumers will keep prices down relative to the actual cost of the product or service.

SECTION 6:
OPTIONS FOR REFORM

Options

If competition is accepted over monopoly provision as preferable policy, as per previous examples, there are options for policymakers in British Columbia.

Option One: The status quo + tinkering

This option is noted given that governments may, despite preferable alternatives and solid reasons for new policy on competition, prefer the status quo. In any policy change, someone's interest is likely to be affected and even if that interest is a small portion of existing ratepayers.

Thus, a government may choose to retain ICBC but "tinker." Options for policy reform include legislative changes that could direct ICBC to: take into account only actuarial realities for future rate increases/decreases; re-shape premiums based on actuarial realities of risk, i.e., to allow for higher premiums for statistically riskier profiles and reductions for safer profiles. In practice, this would lead to rate increases for young males and reductions for females, older families, and seniors, among others.

The advantage of Option One is mainly political. The negative is that consumers would have no guarantee a future government will not reverse such actuarially sound and consumer-friendly policies.

Option Two: The "liquor store" model – ICBC + competition

Another option is to retain ICBC but with mandatory (basic) insurance opened up for full competition vis-à-vis the private sector. In essence, this would be a version of the "liquor store" model in British Columbia. That is, the existing operations are retained (government liquor stores/ICBC) but with new stores/ competition allowed courtesy of the private sector.

This option is not likely to work well in practice. As long as ICBC remains, the distortionary effect of its model is such that the following scenarios could result: optional insurance coverage would continue to be cross-subsidized by ICBC's mandatory portfolio; or more likely, the private sector "cuts" into the mandatory market including with reduced prices which makes ICBC's model untenable.

Option Three: A Vancity/MEC-type co-operative + competition

Residents of British Columbia (and Vancouver in particular) are already familiar with this third option. Vancity, founded in 1946 as a financial cooperative (Vancouver City Credit Union – today, Vancity) is owned by and exists for the benefit of its members.[23] Today, Vancity has over 523,000 members, 59 branches and over $21 billion in assets and 2,627 employees. [24]

Mountain Equipment Co-op ("MEC") was founded in 1971 after local mountaineers found it difficult to find quality mountain climbing gear; they often shopped at REI in Seattle instead. MEC resulted from that need and the co-op was founded by six people who paid $5 each to become members/owners. After its first store was opened in Vancouver in 1973, MEC has since evolved to spread cross-Canada with 21 stores and over four million members.[25]

Option Three, so long as it involves full competition from the private sector – Vancity and MEC both face competition from non-coop businesses – would increase choice, service and price possibilities for consumers. It might also be the most politically attractive option: It combines the usefulness of competition with a co-operative model already known by many British Columbians.

Option Four: Sell/give away ICBC + competition

A fourth option is also possible: Sell or give shares (or both) in ICBC to the public. This has historical precedent in British Columbia.

In the late 1970s, the provincial government grouped together a number of companies and entities (sawmills and mines then owned by the province) into one corporation, the British Columbia Resources Investment Corporation (BCRIC). Subsequently, the province awarded five free shares to each British Columbian. The province sold the remainder of the company's shares in a public offering.

The result was a privatization of assets the government never needed to own (but acquired after loan guarantees to those same entities were in default). However, with weakened resource prices in the early 1980s, the shares eventually declined in value. The company changed its name to Westar Mining, which ran into additional financial difficulty, and was eventually taken over by the Jim Pattison Group in 1997.

This fourth option has potential, but is likely sub-optimal: An insurance company with an existing portfolio owned by every British Columbian would face significant political pressure to retain the existing monopoly on basic automobile insurance and thus competition in the basic coverage would be thwarted. Over time, new British Columbians would face the disadvantage of a private sector monopoly where they lacked share ownership (as that would have accrued to those resident in B.C. only at the time of the initial share distribution).

Another version of Option Four is to sell ICBC to a single private insurer. That, however, that would replicate the problem in Option Two: A "giant" private sector monopoly which would inevitably seek to retain legislative privileges.

Option Five: Privatize ICBC "AT&T"-style + full competition

The fifth option: The province could, in the example of "trust-busting" in the United States, subject ICBC to a break-up of its various components, thus creating smaller companies in competition with each other and critically, *in competition for consumers*.

In 1982 and 1983, AT&T, or "Ma Bell" as it was known, was broken up by the U.S. government. The decision to break up the company (already private in this case but relevant given the type of break-up that occurred) resulted from a 1974 anti-trust lawsuit launched by the U.S. Department of Justice. The Department alleged that AT&T had grown too dominant – it was quasi-monopolistic – in the telephone and teleservice industry. The resulting "consent decree" (where both parties agree to the outcome) resulted in the split-up of the company into seven "Baby Bells" beginning in 1982.

The advantage of Option Five: The province could, assuming value in ICBC's insurance portfolio, retain proceeds from the sale of ICBC, if as in the AT&T example, multiple entities were to result.

There are risks: The point of this "break up" and sale would be to encourage competition for consumers. To do so, all competitive limits on basic coverage would need to be removed. That could have the effect of making each "Baby ICBC" less valuable when full competition is granted.

Nonetheless, this would be preferable to a government or private monopoly, i.e., one company with its monopoly guaranteed by legislation.

Option Six: Shutter ICBC + full competition

The sixth option is straightforward. ICBC could be wound down with full competition allowed in British Columbia.

The advantage to Option Six is that without needing to buy ICBC from the province (in part or in whole), private sector companies would not incur that initial cost of doing business. (The assumption in Option Six is that ICBC would be wound down.)

The disadvantage, but only for government, is that it would accrue no financial benefit from the wind-down of ICBC. The advantage would instead accrue to consumers: no ICBC legacy costs passed through new insurance companies down to consumers, Instead, a fully competitive market would exist without ICBC legacy costs.

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Any of the options save the first, status quo+ tinkering option, would result in more competition for consumers, be it akin to the current Alberta competitive market for basic and optional insurance where 60 companies compete for consumers on both mandatory (basic) and optional automobile insurance coverage. More competition would also be a return to the pre-1973 market in British Columbia where 183 companies competed to offer automobile insurance to consumers.

SUMMARY AND RECOMMENDATIONS

Rates vary widely and so too the reasons

Automobile insurance premiums in Canada vary widely: Ontario, with a private system, has the highest premium rates. British Columbia, with a government automobile insurance company (and with a legislate monopoly on basic/mandatory insurance) has the second highest rates in the country.

There is no one factor in insurance premium pricing; several factors matter: the cost of claims and injuries – highest in Ontario for example; provincial regulations; the degree to which a province allows or denies actuarial facts to determine provincial premiums and for specific cohorts; population density; legal rights related to the ability of a claimant to sue for pain and suffering; other factors.

Media coverage

Media treatment of automobile insurance prices and variations can sometimes be inaccurate. Media reporting has occasionally relied on faulty advocacy group analysis. That has included the substitution of internet quotes for actual paid premiums which greatly distorts averages. In addition, there is confusion about a basic necessary premise of actuarial tables: They reflect risk, not "discrimination." To the degree that actuarial calculations of risk are ignored, one or more cohorts is then subsidized at the expense of other cohorts – females, older drivers and families.

Government monopolies

The existence of three government-owned automobile insurance companies in Canada reflects unique political and ideological assumptions at the time of their creation. Selected ideological assumptions came into play between the 1930s and early 1970s, an era where interventionist political parties assumed governments should own the "commanding heights of the economy." This was, it should be noted, not a universal assumption as the continued existence of privately-provided automobile insurance in seven provinces even then demonstrated. However, between the 1940s and 1970s, three provinces – Saskatchewan, Manitoba, and then British Columbia followed that path to government ownership.

Such nationalization was opposed by select economists and others who asserted the unnecessary and counter-productive nature of government ownership of airlines, mines, energy companies and insurance companies among others. Eventually, the argument for competition over government monopoly seems to have been "clinched" in the 1980s and 1990s. Various governments in multiple nations returned formerly private companies to the private sector. In Canada, this included airlines, mines, railways, a bank, retail stores, a television company and telecommunications (telephone) companies.

British Columbia possibilities

British Columbia's consumers experience open markets on nearly everything they use every day: from basic needs such as food to preferences for cell phones, the type of automobile they drive, internet service providers and a plethora of other goods and services. The market supply and prices match up with consumer desires and demand on a daily basis.

Specific to British Columbia and ICBC, six options are possible ranging from status quo to "tweaks" to privatization or a Vancity/MEC-style cooperative, with every model except the first (status quo) more consumer-friendly than the existing government monopoly on basic automobile insurance.

The three most consumer-friendly options and which hold the least possibility for future political interference are: *"AT&T"-style + full competition, Shutter ICBC + full competition and Vancity/MEC-style co-op + full competition.*

Those three options are the most consumer-friendly because they would ensure, first, a government monopoly on basic insurance is not merely replicated with a private sector monopoly; second, a fully competitive market where companies seek out consumers in every aspect of the automobile insurance market. In short, those options would lead to consumer-friendly competition on service, insurance product design and price: In other words, a win-win-win.

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