



Key concerns with Oliver Wyman’s Feasibility Study of Long-Term Auto Insurance Reforms

Insurance Bureau of Canada has found major errors and flaws in Oliver Wyman’s Feasibility Study of Long-Term Auto Insurance Reforms (the OW Report). These inaccuracies result in incorrect and misleading conclusions, and dramatically overstated savings from a move to a public no-fault system in Alberta. As a result, the report does not provide an accurate comparison public and competitive auto insurance models, and cannot be used as the basis for informed public debate or government decision making on the various models analyzed.

Several of the misleading conclusions are outlined below:

1. The OW Report uses incorrect premium data for Alberta and other jurisdictions, which leads it to overstate premium savings from a move to public no-fault systems by up to \$400.
 - a. The OW Report overstates actual private sector premiums.
 - The report claims that the most recent (first half of 2023) premium was \$1,794. This is incorrect. The actual average premium in Alberta today is \$1,636, according Alberta’s Auto Insurance Rate Board¹
 - The OW Report has inflated the actual premium paid today because it assumes all Albertans purchase the maximum amount of coverage possible (mandatory coverages, plus optional collision and comprehensive) – something most drivers do not do. In doing so, the report overstates the amount drivers pay today and, as a result, any estimated savings from reforms will be vastly overstated.
 - Even when accounting for rate increases being introduced in Alberta’s system, using a more accurate number for average premiums reduces any projected consumer savings from reforms explored by over \$100.
 - b. The OW Report understates public auto insurance premiums, without explanation as to why.
 - The OW Report estimated that if the ICBC system were introduced in Alberta, the average premium today would be \$1,238, significantly lower than the actual average premium paid in British Columbia today (\$1,567). Importantly, ICBC’s premiums are projected to increase to over \$1,700 in the coming years, though this is omitted in the OW Report analysis.
 - The report does not address this discrepancy, which grossly skews the impact that adopting an ICBC style system would have for drivers in Alberta, overstating any savings by over \$300.

¹ [2024 AIRB Mid Year Report](#)



- A similar issue relates to exploration of premiums for Saskatchewan Government Insurance (SGI) and Manitoba Public Insurance (MPI).
2. The report's comparison of private and public auto insurers is deeply flawed. It uses incorrect data for private insurers, while omitting many of the operational costs and overruns incurred by public insurers, which were deemed as 'out-of-scope'.
- a) The OW Report overstates the expenses incurred by private insurers, increasing the expected premiums from a competitive system.
 - The report uses a private insurer expense ratio of 27.2%, despite publicly available data that shows that over the past 10 years, the true average private passenger auto insurer expense ratio in Alberta was 26%².
 - The use of a higher private insurer expense ratio leads to higher premium estimates than is true for competitive markets.
 - b) Many operational costs incurred by public auto insurers were deemed "out of scope" of the report or were stated incorrectly, skewing any savings for drivers.
 - Recent IT system upgrades at MPI have grown vastly over budget and now are projected to cost the government insurer over \$290 million. The resulting increase on driver premiums was deemed "outside the scope of this review".
 - Conversely, the cost of technology upgrades by private insurers was included in the OW Report via insurer expense ratios, grossly skewing the analysis.
 - The initial startup costs, including capital to make sure that claims can be paid, hiring staff, and building the IT infrastructure, are deemed out of scope. However, these are estimated in the Nous report to cost roughly \$3.5 billion and would need to be funded by taxpayers via lower spending on other government services, higher taxes, or both. Or they would need to be paid by drivers through increased premiums. The impact on premiums of accounting for these massive startup costs was not considered
3. The OW Report omits an exploration of the pricing practices of private insurers and consumer behaviour (i.e. choosing the lowest price for the same coverage) in competitive markets.
- a) The OW Report does not include the premium impact of discounts offered by private insurers competing for consumer business, which are not offered by public insurers. Some examples include:
 - Bundling home and auto insurance discounts, for example, can save drivers up to 15%, or over \$200, on their overall insurance premiums. These savings are substantial, but they are not included in the consumer impact of the OW Report.
 - b) The report does not take into consideration innovations like UBI (Usage Based Insurance) or Pay-as-you-Go that are offered by private insurers to help lower premiums, nor does it price the cost advantages of direct online sales, which public insurers do not have.

² GISA exhibits AUTO9502 for Alberta, 2013 - 2022



Additional concerns

- The report's costing of IBC's *Enhancing Care & Expanding Choice* proposal is also highly problematic. It assumes drivers purchase the maximum coverage available, which they simply do not do. Many drivers do not need all the coverages available in the marketplace, either due to individual circumstance or because these benefits are provided to them elsewhere, such as employer-sponsored health insurance benefits. Providing greater choice in this area is a key component of IBC's proposal in allowing drivers to accrue savings in their premiums. Removing this choice greatly skews the OW Report's analysis and, when considering the typical amount of coverage that Alberta drivers actually purchase, the expected required premium for IBC's proposal for 2024 is \$1,636, roughly \$250 lower than the average premium today as stated by the OW Report.
- Private insurers determine premiums charged based on risk. Public insurers generally treat consumers in a uniform manner, with lower-risk drivers paying more to subsidize higher risk drivers. This was omitted from the report's analysis.
 - For example, many public insurers don't set premiums based on age or gender. This means that a move to public insurance in Alberta would result in women and older drivers paying more to subsidize men and younger drivers. Historical data in competitive markets shows that, all else equal, women and older drivers generally pay lower premiums because they are likely to make smaller claims, or less likely to make a claim at all (or both). There is no mention of this important actuarial process or the premium impact that different groups will face.
- Oliver Wyman was tasked by Minister Nate Horner with "looking at all options available to the province" to improve the affordability of auto insurance in Alberta. Unfortunately, the report only explored no-fault insurance solutions, the vast majority of which are delivered by public insurance, and a single other reform option proposed by Alberta's insurance industry.
 - Very few jurisdictions worldwide use no-fault models. Most jurisdictions rely on tort-based models, many of which have lower premiums than some Canadian provinces with no-fault models. Numerous states in the US have lower cost auto insurance than Canada without having moved to a no-fault model, as does the United Kingdom and many European nations. Despite this, none of these systems were included in Oliver Wyman's analysis.

Coverage Matters:

Regardless of whether it is publicly or privately delivered, a no-fault system – if properly designed – can result in lower premiums for consumers than exist in Alberta today. However, this reduction in premiums is likely to come with a significant reduction in the average size of a claim payment to those after a collision. For example, in Alberta today, the average claim amount is \$12,309 compared to \$4,313 in British Columbia and \$4,623 in Manitoba (claims data is not available for Saskatchewan).

Government-run no-fault systems in Canada have achieved lower premiums by shifting costs from drivers to taxpayers and stripping away the legal rights of drivers seriously injured in accidents. No-fault systems remove access to the justice system for those that pursue additional support and benefits they need to recover. In those jurisdictions, recovery benefits are clearly stipulated by government – even for the most seriously injured. In many cases, it requires those injured to co-pay for some treatments they need to



recover. Income replacement and other benefits are also capped, regardless of your specific circumstance or financial status.

Simply put: Coverage matters and will be an important consideration for government in its deliberations on the preferred model moving forward. Unfortunately, a description of the consumer trade-offs under a no-fault system were not included in the report, further negating its value in promoting an honest public dialogue on this issue and fully informing government decision making.

The report correctly identifies legal costs as the main cost pressure in Alberta's auto insurance system. The only way to lower premiums is to address these costs. IBC and its members believe the *Enhancing Care & Expanding Choice* model presented to the government is the best option for consumers. It provides Albertans with the most choice and control over their coverage, more affordable premiums, and improved benefits for those injured in collisions.

Summary

Given the concerns and errors described above, the OW Report should not be relied upon to inform government decision-making, nor influence any public discussion regarding the future of auto insurance in Alberta.