

Public or private? A no-brainer, says SGI

Commercial firms dispute the claim

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Larry Fogg thinks he has a solution for the soaring injury claims costs and skyrocketing auto insurance premiums that are causing a furor in provinces that have private car insurance.

The president of SGI, the Crown corporation that administers the Saskatchewan Auto Fund, the province's universal vehicle insurance system, believes Saskatchewan's publicly owned system simply works better.

"Once you get a public insurance system in, I've never seen it come out," said Fogg in a recent interview from his office in downtown Regina.

He said Manitoba, B.C. and Saskatchewan all have publicly owned and administered auto insurance and would never go back to private, for-profit car insurance. "When you look at it, and look at what's going to happen, you keep them," Fogg said, referring to publicly administered insurance systems. "They work."

Fogg has some sympathy for provinces, like Ontario, which saw premiums increase 28 per cent in one year (from April 2002 to April 2003), about 40 per cent in New Brunswick and Nova Scotia and 50 per cent in Alberta, according to Statistics Canada.

(The Insurance Bureau of Canada, which represents about 200 private insurance companies in Canada, says the StatsCan numbers are too high. IBC estimates rates in the six provinces with private auto insurance have risen an average of just under 20 per cent from March 2002 to March 2003, including 20 per cent in Ontario, 27.5 per cent in New Brunswick and 15 per cent in Alberta.)

In fact, Fogg knows what it's like to operate a private auto insurance company in Ontario because SGI Canada owns Coachman Insurance Co., which lost \$11 million in 2002 after posting a small profit of \$1 million in 2001.

"From 1977 to 2003, (SGI) has put through rate increases of 82 per cent. We've been in Coachman in Ontario for two years and we've put through rate increases of 60 per cent."

While the Auto Fund hasn't had a general rate increase for the last two years and only four increases in the last 10 years, Fogg has stated the Auto Fund could lose between \$4 million and \$5 million in 2003, which could prompt SGI to seek an increase of about three per cent next year.

Currently, Saskatchewan rates are among the lowest, if not the lowest, in the country.

SGI uses the example of a 22-year-old male driving a 1992 Honda Civic, with one accident in the last 18 months. In Saskatchewan, he would pay \$783, while in Vancouver he would pay \$1,656, \$3,512 in Calgary and a whopping \$4,492 in Toronto.



CREDIT: Joshua Sawka, The Leader-Post

Larry Fogg, SGI president, says once a public insurance system has been put in place, most people want it to stay.

In older age groups, the difference isn't as dramatic, but ranges anywhere from 20 per cent to nearly 50 per cent lower in Saskatchewan.

Fogg says operating a universal, publicly owned system allows SGI to offer lower rates to young drivers, who are twice as likely to have accidents than older, more experienced drivers. Because SGI can assess premiums based on experience, rather than risk factors, young drivers who maintain a good accident record will pay far less than drivers in provinces that use private insurance.

But Fogg said the main advantage the public auto insurance system has over the private system is lower cost. "Because we're non-profit, there's no profit built into our rates. The private sector obviously has to."

Fogg said the administration ratio -- the ratio of administrative costs to premium income -- for the insurance industry is 32 cents out of every \$1 of premium. The admin ratio for the Auto Fund is 16 cents. "Our rates should be 16 per cent lower for that reason alone."

The third, and perhaps most important, cost factor is soaring payments for "pain and suffering" for soft-tissue injury claims.

"Saskatchewan, with the no-fault program, eliminates the payment for pain and suffering claims for the most part.

"And under the tort option, there's a \$5,000 deductible on soft tissue injuries."

Fogg said the combination of no-fault insurance and lower cost, non-profit public ownership results in cheaper rates. "For those three reasons, rates in Saskatchewan are lower than those in private-sector provinces."

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Saskatchewan was the first province to introduce publicly managed, universal automobile insurance coverage in 1945, a year after the election of the first democratic socialist government in North America, the Co-operative Commonwealth Federation (CCF) under its leader Tommy Douglas.

The motivation behind the CCF's foray into the general insurance business was not simply ideological.

According to a corporate history of SGI published on its 50th anniversary in 1995, high insurance costs were one of the many problems facing Saskatchewan people as a result of the Great Depression of the 1930s. Between 1935 and 1944, Saskatchewan consumers paid more than \$50 million in premiums for \$19 million worth of insurance protection, according to SGI.

The CCF government saw publicly owned insurance as the solution to the problems of the high costs, lost profits, lack of coverage for 90 per cent of licensed vehicles and lack of compensation for victims of car accidents.

Despite the opposition Liberals' cries about the "death" of free enterprise in the insurance industry, the Saskatchewan Government Insurance Act was passed in 1945, along with 75 other bills, including one calling for socialized medicine.

For 50 years, Saskatchewan Government Insurance Office (or SGIO as it was known until the O was dropped during the 1970s) operated under the tort system, in which compensation for pain and suffering was determined by the legal system.

By 1995, SGI introduced no-fault insurance to reduce the rising amount of pain and suffering claims for soft-tissue injuries. Compensation would be based on lost income, medical expenses and rehabilitation costs.

"Prior to 1995, we had 9,500 injury claims per year," Fogg said.

"When we brought in no-fault, it dropped to 6,500. A third of the claims just disappeared. And

those were claims that didn't involve any loss of income or medical expenses. They were just pain and suffering claims."

This year, SGI made history again by being the first in North America to offer both no-fault and tort systems, although only 3,000 customers have so far opted for tort coverage. The province's remaining 465,000 or so drivers in the province are still covered by no-fault.

Fogg said if private insurance companies were to offer a choice between tort and no-fault systems, that would eliminate most, if not all, of the problems of rising premiums and injury claims costs.

"If I can do it in Saskatchewan, I'm sure they're capable of doing it."

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Not everyone believes adopting no-fault or a publicly administered system is the solution to the problem of rising injury claims costs and premium rates.

Paul Kovacs, senior vice-president and chief economist with the Insurance Bureau of Canada (IBC), disputes the claim that the problem with rising rates is the private insurance system.

"I don't think the issue is private versus public," Kovacs said.

For example, he said SGI's administration cost of 16 cents per \$1 of premium doesn't include taxes and commissions, which private companies have to pay and represent about half of the industry average 30 cents of administration costs.

But Kovacs conceded injury claims costs are rising faster in provinces with private systems than those with public systems. "We do find that injury claims costs are rising. We're getting more (accident) claims and more injury claims."

While rates were stable between 1996 and 2000, premiums rose nine per cent in 2001, 15 per cent in 2002 and 20 per cent in 2003, in provinces with private insurance systems.

But Kovacs said the problem is that governments have made major changes to insurance coverage over the last 10 or 15 years. "Claims costs went up and settled at higher levels. Prices had to go up."

At the same time, investment income, which helped offset companies' underwriting losses, has fallen dramatically in recent years due to lower interest rates and the stock market slump.

"If you compare the two, (the impact on rates of) investment income is small compared with claims costs," Kovacs added.

Kovacs added private companies aren't making money, even with the higher premiums. "We accept that volatility in insurance premiums is uncomfortable for the consumers, the government and the industry. Insurance industry profits have never been lower."

While Kovacs would like to see a cap placed on soft-tissue injury claims, Lorie Terry of the Saskatchewan Coalition Against No Fault Insurance says public administration is the key to reducing costs.

"The publicly owned system is the solution," said Terry. "Any savings from no-fault have been on the backs of the injured."

Terry says no-fault may have saved money in the short-run by short-changing accident victims. "How many of these people are still injured"

But Terry believes the no-fault and tort systems would cost about the same, if steps are taken to reduce the number and severity of car accidents.

"Preventative measures will reduce costs," she said, referring to graduated licences for beginning drivers, lower (not higher) speed limits, better civil engineering and traffic control.

Saskatchewan's system is better because it's publicly administered, not because of no-fault, Terry added. "I would say (to other provinces trying to reduce costs) move to a public system. It doesn't make any difference if it's no-fault or tort."

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