



Select Committee on
Public Automobile Insurance

Final Report on Public Automobile Insurance in New Brunswick

First Session
Fifty-fifth Legislature

April 2004

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April 2004

To the Honourable
The Legislative Assembly of
The Province of New Brunswick

Mr. Speaker:

Your Select Committee on Public Automobile Insurance has the honour to present its Final Report and commends it to the House. Your Committee was appointed during the First Session of the Fifty-fifth Legislative Assembly by resolution of the House adopted August 5, 2003.

The report is the result of the Committee's public consultation and deliberations to explore the most suitable form of a public insurance system for New Brunswick should the province conclude that a public system is required. Your Committee wishes to thank the many individuals and organizations who appeared before the Committee at the public hearings or submitted written briefs. As well, the Committee wishes to thank everyone who attended the hearings and took part in this important process.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Elizabeth Weir".

Elizabeth Weir, Chair

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.

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Introduction

The Select Committee on Public Automobile Insurance was appointed by resolution of the House, adopted August 5, 2003. The Committee was asked to recommend a public automobile insurance system that is fair, affordable and accessible to all New Brunswick drivers.

The first meeting of the Committee was held in the Legislative Council Chamber on August 7, 2003. On motion of Mr. Claude Williams, Ms. Elizabeth Weir was elected chair of the Committee and on motion of Mr. John Betts, Mr. Wally Stiles was elected vice-chair of the Committee. The members of the Committee are: Ms. Elizabeth Weir (chair), Mr. Wally Stiles (vice-chair), Mr. Cy (Richard) LeBlanc, Mr. Milton Sherwood, Mr. Kirk MacDonald, Mr. Claude Williams, Mr. John Betts, Mr. Michael Malley, Mr. T.J. Burke, Mr. Roland Haché, Mr. Rick Doucet and Mr. Bernard Richard. The membership of the Select Committee was amended by substituting the name of Mr. Kelly Lamrock for Mr. Bernard Richard.

Mandate of the Select Committee on Public Automobile Insurance

The Committee 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.

The Committee was asked to make recommendations on key elements of the proposed model for public automobile insurance in New Brunswick, elements such as:

- the type of system: tort, full no-fault or partial no-fault, choice or hybrid;
- the types of coverages and benefits that should be offered;
- a proper risk-rating system for establishing premiums;
- the method of selling and distributing insurance (such as the private sector and government);
- the types of insurers allowed to operate in a public model (such as the private sector and government);
- start-up costs for establishing the proposed model and fixed and recurring costs; and
- the impact on provincial finances.

The Committee was asked to report on the legal, trade and economic implications of putting in place the proposed model. The Committee's report also addresses the issue of inter-provincial co-operation and a regional approach to public automobile insurance.

A copy of the Motion appointing the Select Committee on Public Automobile Insurance and its mandate is provided in Appendix A.

Methodology

A discussion paper was made available to the public to provide some guidance on the key issues related to public automobile insurance. The paper describes the current public automobile insurance systems in Quebec, Manitoba, Saskatchewan and British Columbia. An explanation of the current privately operated automobile insurance system in New Brunswick was included in the discussion paper.

The Committee held public hearings and one-on-one information sessions throughout New Brunswick during October and November 2003. The Committee also received comments from the public through written submissions, by e-mail and telephone. A summary of the input received during public consultations is included in Appendix E. Further, the Committee held in-camera technical briefings with senior officials from the four existing public automobile insurance corporations and with senior officials from relevant provincial government departments.

The Committee engaged the professional services of specialists in insurance and business consulting, economic impact assessment and trade policy for objective and expert advice. The Executive Business Plan is in Appendix K, Sample Rates in Appendix L and the Economic Impact Assessment is in Appendix N.

Overview of New Brunswick's Current Automobile Insurance Industry

Presently in New Brunswick, we have a privately run automobile insurance system that uses a tort or fault-based approach to resolving claims and compensating victims of automobile accidents. Consumers in New Brunswick typically buy their automobile insurance from an insurance company through a licenced agent or insurance broker. According to presentations from brokers and insurance companies to the Committee, automobile insurance accounts on average for 60 per cent of the total property and casualty insurance industry in New Brunswick.

According to the Insurance Bureau of Canada, about 2,400 people were directly employed in the New Brunswick property and casualty insurance industry in 2002. Based on the 60 per cent average, about 1,440 person-years employment are directly associated with the provision of automobile insurance. The New Brunswick Department of Justice, Insurance Branch, reports that there are 330 licenced agents and 291 licenced adjusters who are resident in the province. The Insurance Brokers Association of New Brunswick has 172 member brokerages, with about 939 employees located in 62 different communities.

Independent brokers generally offer a variety of property and casualty insurance products, including automobile insurance, from a number of different companies and are paid a commission on the value of a policy sold. On average, New Brunswick brokers earn commissions on automobile insurance of: 12.5 per cent on regular market policies; 10 per cent on Facility Association policies; and 9 per cent on policies sold to drivers under 25 years of age.¹

As reported by the New Brunswick Department of Justice in its Insurance Annual Report, 2002-2003, 80 different insurance companies were involved in the automobile insurance industry in New Brunswick in 2002. Total written premiums for automobile insurance for 2002 totalled \$491,205,000, representing an increase of \$84 million or 20 per cent from \$407,167,000 in 2001. According to Canadian Underwriter, 46 insurance companies sold \$482 million in direct written premiums in New Brunswick in 2002. No single company dominates the automobile insurance market in the province. Of the top 10 companies, as determined by the total dollar value of written premiums, market share levels ranged from 11 per cent to 4 per cent for 2002. Insurers writing automobile policies in New Brunswick include Canadian subsidiaries

¹ Source: Insurance Brokers Association of New Brunswick

of large United States and Europe headquartered companies. A number of Canadian and New Brunswick companies and mutual insurance companies play a significant role in the current automobile insurance system.

A Made-In-New Brunswick Approach

The Select Committee received detailed presentations from senior executives from the four provincial public automobile insurance corporations presently operating in Canada. The different systems, benefit levels, rating mechanisms, distribution channels and costs were evaluated by the Committee in developing the best model for a public automobile insurance system for New Brunswick, in the event a decision is made to move to a public system.

Considerations and Deliberations

The Committee has the significant advantage of being able to draw on the considerable years of experience in public automobile insurance administration -- under various systems -- to help develop the best model for New Brunswick.

In deliberating on the key elements and features of a made-in-New Brunswick model, the Committee closely considered these features of public automobile insurance systems across the country:

Premium levels are based largely on the driving record of the registered owner of the vehicle, vehicle make/model and use;

Premium consequences of an at-fault accident follow the at-fault driver, not the vehicle;

Automobile insurance is tied directly to vehicle registration;

Individuals are assessed on their personal driving experience, not that of their peer group;

Premium savings are achieved through lower administration costs and the not-for-profit mandate of a sole provider Crown corporation; and

Introduction of no-fault automobile insurance systems in Saskatchewan and Manitoba in the early 1990s have been successful in providing improved access to medical, rehabilitation and income replacement benefits for all traffic injured as a first priority while also stabilizing rates.

The result of these deliberations is a made-in-New Brunswick approach that incorporates key aspects of the Manitoba model, but with some modifications and unique features to better meet the needs of New Brunswickers.

Objectives of the Model

Based on the issues raised during the public consultation sessions, advice received and research undertaken, the Committee agreed on the following key objectives to be met by the made-in-New Brunswick model:

Affordable: To provide a comprehensive and high level of coverage for all New Brunswickers at a price that is affordable.

Accessible: To ensure that all New Brunswickers, regardless of their age, gender or where they live, have access to basic automobile insurance coverage at a fair price.

Fair: To ensure that New Brunswickers are evaluated on their individual driving records and that the premium consequences for traffic offences and at-fault accidents are known, predictable and reasonable.

To ensure that all New Brunswickers injured in traffic accidents receive the financial support, medical and rehabilitative treatment required to heal and return to active involvement in society.

Stable: To provide a comprehensive and high level of coverage for all New Brunswickers at a price that is affordable both now and in the future.

Flexible: To ensure New Brunswickers can choose to add to the basic automobile coverage from a variety of products and providers to meet their individual insurance needs.

Excellent Customer Service: To ensure that customers have access to their automobile insurance coverage at all times.

Overview of the Model

The made-in-New Brunswick model (see Table 1) is a no-fault public automobile insurance system. 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. Individuals no longer sue to get benefits.

Fault is determined for every traffic accident. At-fault drivers pay higher premiums under the model.

Under the made-in-New Brunswick model, injured people are compensated for the following:

- Lost income
- Medical costs that are not usually covered by New Brunswick's health services, such as physiotherapy, chiropractic treatments, medication, prosthetics
- Rehabilitation expenses to help injured people to return as close as possible to the pre-accident condition. These include physical and occupational therapy and employment retraining
- Personal care expenses to cover costs of paying helpers to provide the injured with personal care, housekeeping, shopping and such essential services. These benefits can continue throughout the injured person's life
- Death, funeral benefits and grief counseling for spouses, common-law partners and dependents
- Special expenses that include compensation for a person whose main occupation at the time of the injury was taking care of others without pay; who was working full time while caring for someone under the age of 16 or not employable; or who was working without pay in a family business. The benefit provides funds to hire someone to do the work the injured person can no longer do and includes travel expenses for medical purposes
- Students are compensated for each term of the school year they can't complete because of injury in an accident
- Permanent impairment is a lump sum paid to an injured person (in addition to lifelong benefits described above) who has permanently reduced body function from an accident, such as paraplegia.

In the proposed model, vehicle registration and mandatory insurance are purchased together from licenced private insurance brokers and agents in New Brunswick. Under the New Brunswick public automobile insurance model (hereinafter referred to as NBPI), licence plates must be returned when insurance is cancelled.

Table 1: Made-In-New Brunswick Model Summary

| | |
|--|--|
| 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 automobile insurance corporation Separate policy issued when optional coverage(s) is purchased from private insurers |
| Driver premiums | Additional premiums are assessed directly to higher risk drivers |
| 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 |
| Risk-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 All rates for mandatory and optional insurance approved by public utilities board |
| Prohibited risk-rating factors for insurance premiums | Age, gender or marital status Territory Vehicle owners' premium payment history |
| Average premium | Average premium levels will decrease from today's street price of \$1,212 ² to an average premium level of \$993. Average premiums for drivers with 10 or more years safe driving will be \$834. Risky drivers will pay more. |

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

Mandatory insurance will include a no-fault, also known as personal injury protection, plan and \$200,000 third-party liability coverage to cover damage to the property of New Brunswickers inadvertently affected by an accident.

Optional insurance for vehicle damage (collision, theft and comprehensive) will be similar to coverages sold now; consumers will decide if they wish 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 coverage exclusively from NBPI through their licenced community brokers and agents. New Brunswick consumers will have the choice of buying additional third-party liability coverage (more than the mandatory \$200,000) and higher income replacement benefits from a private insurance company or NBPI.

Drivers' licences will be processed through Service New Brunswick as they are now. Under the proposed model, fees for drivers' licences are unchanged.

New Brunswick drivers with safe driving records will receive discounts on their vehicle insurance.

New Brunswick drivers whose bad driving record puts them in the penalty zone will also be charged an additional premium fee whether they own a vehicle or not. The amount will vary depending on their relative positions on the safe driving discount scale (see Figure 2).

Insurance rates will be based on a New Brunswicker's individual driving record, vehicle usage, vehicle make/model and optional coverage purchased. Age, gender and marital status are prohibited rating factors.

The Committee decided to use a single rating territory for the entire province for the introduction of the new plan; there is no variation in rates because of where you live. The Committee recommends that after five years, the NBPI claims experience be reviewed to see if it is appropriate to maintain a single territory.

Basic Mandatory Coverage Levels

All New Brunswickers injured in traffic accidents in the province or elsewhere will have equal access to no-fault benefits under the NBPI personal injury protection plan.

However, fault will be determined for every traffic accident and recorded in the system as part of the at-fault driver's driving record. An individual's driving record is the primary factor in determining premium levels under the made-in-New Brunswick model.

The basic, or mandatory, coverage provides generous, personal injury protection plan coverage and \$200,000 third-party liability coverage to protect the property of an innocent New Brunswick bystander.

The **personal injury protection plan** includes:

- high medical and rehabilitation benefits - to a maximum of \$5 million for each New Brunswick resident injured in an automobile crash;
- income replacement benefits to replace 90 per cent of the first \$55,000 of net income earned, indexed and payable until age 70, if necessary;
- high levels of death benefits and an impairment benefit for serious and permanent injuries, for example, \$150,000 to \$200,000 for quadriplegic injury in addition to life-long medical intervention and rehabilitation (see Figure 1).

| Figure 1: Comparison of Compulsory Minimum Insurance Coverages for Private Passenger Vehicles: Current New Brunswick System and Made-in-New Brunswick Model | | |
|--|--|--|
| | New Brunswick | Made-in-New Brunswick Model |
| Compulsory minimum third-party liability: | \$200,000 is available for any one accident; however, if a claim involving both bodily injury and property damage reaches this figure, payment for property damage would be capped at \$20,000 | \$200,000 is available for any one accident; however, if a claim involving both bodily injury and property damage reaches this figure, payment for property damage would be capped at \$20,000 |
| Medical payments: | \$50,000/person, including rehabilitation, excluding health insurance plans; time limit 4 years | Maximum of \$5 million per person, no time limit; includes rehabilitation |
| Funeral expense benefits: | \$2,500 | \$6,545 |
| Disability income benefits: | 104 weeks partial disability; life time if totally disabled; maximum \$250/week; seven-day wait; unpaid housekeeper \$100/week, maximum 52 weeks | 90 per cent of net income wages; maximum income net \$55,000/year; seven-day wait; indexed. Impairment benefits scheduled up to \$200,000 |
| Death benefits: | Death within two years; head of household \$50,000 plus \$1,000 each for all dependants beyond first; spouse \$25,000; dependent child \$5,000 | Death anytime; depends on wage and age; minimum \$48,034; maximum \$320,000 plus \$22,815 - \$42,030 to dependants according to age. |
| Right to sue for pain and suffering? | Yes. Maximum amount recoverable as damages for non-economic loss for all minor personal injuries: \$2,500 | No |
| Right to sue for economic loss in excess of no-fault benefits? | Yes | No |
| Administration: | Private insurers | Crown corporation (NBPI and private insurers compete for additional coverage) |

Figure 1 compares the minimum compulsory coverage levels under the current New Brunswick tort-based system and those proposed under the made-in-New Brunswick no-fault model.

Under the made-in-New Brunswick model, all persons injured in a traffic accident, regardless of fault, are eligible for higher medical and rehabilitation, income replacement and death benefits depending on the seriousness of their injuries and individual income levels. Fault is not a factor in determining benefit entitlements.

Under the current New Brunswick tort-based system, all persons injured in a traffic accident, regardless of fault, have access to the lower benefit levels listed in Figure 1 through their Accident or Section B benefits. Only those persons injured in an automobile accident and who are determined to be not at-

fault can sue the at-fault driver for compensation for their full economic loss and pain and suffering (up to \$2,500 minor injuries).

Personal injury protection plan benefit levels included in the NBPI basic mandatory plan will be established through legislation and indexed to inflation. Below is a description of what is included as no-fault benefits or a personal injury protection plan.

Under the proposed New Brunswick public automobile insurance plan, the priority is to provide support to New Brunswickers injured in traffic accidents in order to facilitate recovery and rehabilitation in a timely manner. Individuals will no longer have the right to sue for financial compensation or for general damages such as pain and suffering.

Immediate access to medical treatment is the first priority. A person injured in a traffic accident develops a treatment plan with medical advisers of choice and submits that plan to the Crown corporation. The costs of all eligible medical procedures, rehabilitative treatments, services or necessary medical equipment as outlined in an individual's treatment plan are covered by the public automobile insurance Crown corporation. All costs to the public health care system are charged back to the Crown corporation through the health services levy; now, these costs are charged back to private insurance companies and are spread out over all insured drivers.

Under the New Brunswick public automobile insurance plan, personal injury benefits paid will be divided into four key categories:

1. medical and rehabilitation services will comprise 46 per cent of total personal injury benefits paid;
2. income replacement will comprise 41 per cent;
3. permanent impairment compensation will comprise 8 per cent; and,
4. death benefits will comprise 5 per cent of the total personal injury benefits paid.

Income replacement benefits are paid for the time the injured person is unable to return to normal activity; if needed, additional home care or childcare is available. Typically, the basic coverage entitles an injured person to 90 per cent of net income up to a pre-set maximum, for example, \$55,000 a year,³ for the time that they are unable to function normally. Additional income replacement coverage for those New Brunswickers with higher income levels can be purchased from private insurers or NBPI through a licenced broker or agent.

New Brunswickers who suffer a permanent loss of use of a body part in an automobile accident are entitled to financial compensation for that loss. Financial compensation rates will be pre-set in legislation.

Death benefits are paid to eligible family members according to their relationship to the deceased and to the deceased's contribution to family income levels. Death benefit levels under the NBPI plan will be higher than those now in place under the current system. (See Appendix D for an overview of mandatory no-fault benefit levels in Canada.)

³According to Statistics Canada, 6.8 per cent of New Brunswickers' had gross annual earnings equal to or greater than \$60,000 in 2001. The average gross annual earnings for the province was \$34,700 for the same year. (Source: Survey of Labour Income Dynamics, Income Trends in Canada, 1980-2001)

Mandatory \$200,000 Third-Party Liability

The mandatory \$200,000 third-party liability coverage provides protection to New Brunswickers in case they are involved in an accident that causes property damage to something other than an automobile, such as a house, a traffic signal or other property in the province. This mandatory coverage also protects a New Brunswicker involved in a traffic accident while travelling outside the province, and who is determined to be at-fault, from third-party liability claims.

Optional Vehicle Damage Coverage

In the made-in-New Brunswick model, vehicle damage coverage such as comprehensive, collision and all perils, is optional and is sold exclusively by the Crown corporation through licenced New Brunswick brokers and agents. Presently, about 25 per cent of New Brunswickers choose not to buy vehicle damage coverage when insuring their automobiles.⁴ The Committee wanted to allow New Brunswick consumers to continue to have this choice under the New Brunswick public automobile insurance system.

To ensure that vehicle damage insurance is available at an affordable price, the coverage is available only from the Crown corporation. NBPI will offer a variety of vehicle damage coverages, including lower deductibles, to New Brunswick consumers.

Role of the Private Sector

Licensed insurance brokers and agents in New Brunswick will be the exclusive distributors of the public automobile insurance product in the province. Support from the public automobile insurance Crown corporation for those brokers and agents will include program and product training, communication and point-of-sale materials and telephone support. New Brunswick brokers and agents are vital to the effective distribution of the products and to assist clients to understand the new system so as to make choices appropriate to their insurance needs.

The implementation of a new rating system and the adoption of a new computer operating system will simplify the transaction process involved in purchasing automobile insurance in New Brunswick. NBPI will pay licensed insurance agents and brokers a 7 per cent commission. Resources will be set aside to remunerate insurers and agents/brokers for the additional work involved in the transition year.

Private insurers are encouraged to compete with the NBPI to provide consumers choices in extended coverages and additional third-party liability coverage.

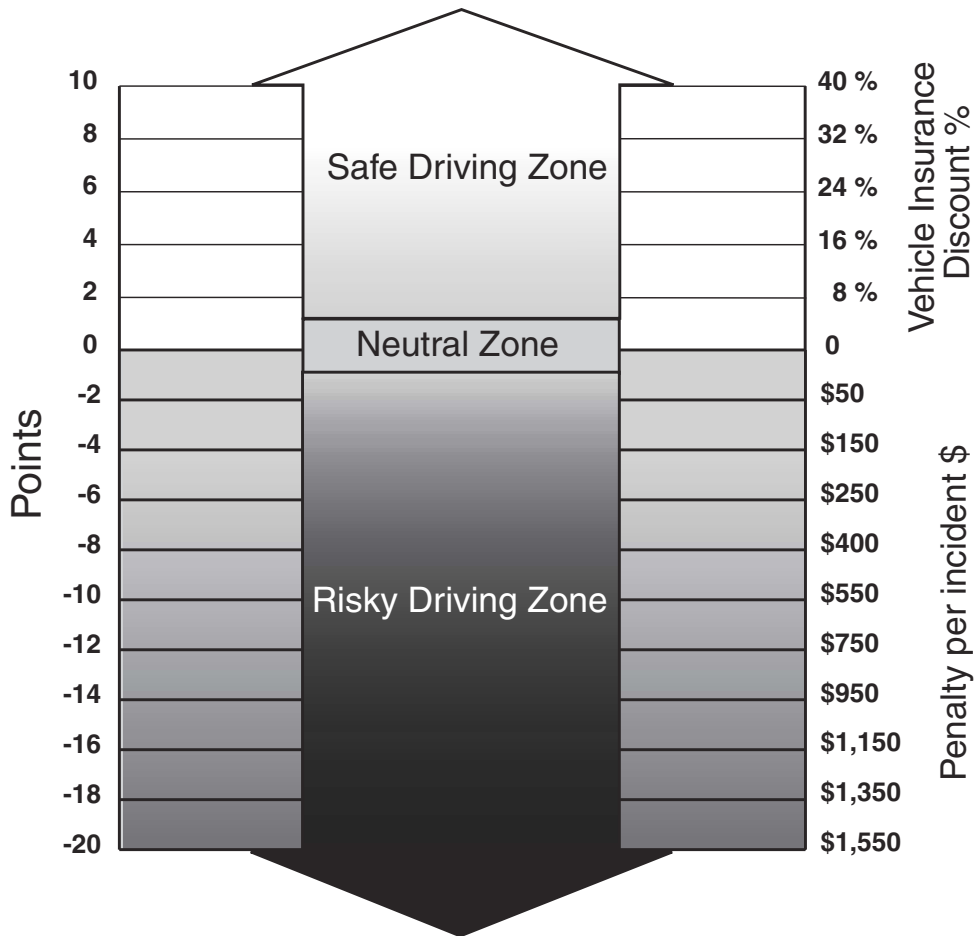
Rating Factors

Under the proposed New Brunswick public automobile insurance plan, rates will be based on the individual driving record of the registered owner of a vehicle, as well as on the driver's claims experience, vehicle usage, vehicle make/model and any optional coverage purchased. Age, gender, marital status and where the driver lives are not used to set premium levels.

Vehicle registration and insurance are tied together in the proposed model. Cost of insurance will be based on the owner's position on the safe driving discount scale (see Figure 2), vehicle usage, vehicle make/model and any optional coverage purchased. The driving records of other members of a household will not affect the cost of insurance for the owner of the vehicle.

⁴ Insurance Bureau of Canada Automobile Experience (Green Book) 2002

Figure 2: Safe Driving Discount Scale



The scale continues past -20 demerit points with each additional demerit point costing an additional \$100.

Penalties for criminal driving offences are more severe.

Individual driving records play an important part in the determination of how much drivers will pay for insurance. The base point premium will be determined by the vehicle usage, make/model and optional coverage purchased and then the appropriate level of safe driving discount is applied.

A new driver will enter the premium scale at the neutral zone and earn a 4 per cent discount for each year of claims – and offence-free driving to a maximum of 10 years or a total discount of 40 per cent.

**Table 2: Number of New Brunswick Drivers by Licence Class by Age Group
2002-2003**

| Licence Class | Age Group | | | | | | | | Total |
|-------------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|----------------|
| | 16-19 | 20-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65-74 | 75+ | |
| Commercial | 47 | 1,074 | 7,083 | 12,276 | 13,327 | 8,260 | 1,744 | 144 | 43,955 |
| Passenger | 9,644 | 36,333 | 78,486 | 97,456 | 94,340 | 65,778 | 41,151 | 26,309 | 449,497 |
| Graduated | 17,350 | 5,199 | 3,021 | 1,117 | 457 | 188 | 83 | 26 | 27,441 |
| Motorcycle | 1 | 9 | 21 | 29 | 32 | 12 | 6 | 2 | 112 |
| Total | 27,042 | 42,615 | 88,611 | 110,878 | 108,156 | 74,238 | 42,984 | 26,481 | 521,005 |

Note: 49,550 drivers also have a motorcycle endorsement and are included in the commercial, passenger or graduated driver licence counts. (Source: New Brunswick Department of Public Safety, 2003.)

Drivers with a record of at-fault claims or traffic offences will pay more and will not earn a good-driver discount until their poor driving records have been corrected – about three years. Licenced drivers who do not register vehicles but accumulate enough demerit points to enter the driver penalty zone, will be billed an additional premium to ensure they contribute to the provincial insurance pool.

The financial consequences of one at-fault accident are less for a long-time driver with a safe record than for an inexperienced driver. To ensure that drivers are not penalized for an unreasonable time for one accident or traffic offence, drivers work their way back to their position on the premium scale if their driving records remain unblemished for three years.

There are more severe penalties for criminal driving offences.

Described in Table 3 are three examples of how the scale works after a driver has been involved in a traffic accident.

Table 3: Moving Up and Down the Safe Driving Discount Scale: Three Examples

Example 1

A New Brunswick driver with a record of 10 years safe driving has an at-fault accident. Because of his or her position at the top of the safe driver discount zone, he or she receives three demerit points moving from a +10 to a +7 position on the scale. Next year when he or she registers and insures their vehicle they will receive a 28 per cent discount and move back up the scale (32 per cent, 36 per cent and 40 per cent discount respectively) with each subsequent year of safe driving.

The not-at-fault driver's premiums are not affected by the accident.

Example 2

A New Brunswick driver with a recent history of unsafe driving, having been responsible for one at-fault accident two years ago, has a second at-fault accident in less than three years. He or she moves from -5 to -15 in the penalty zone. He or she will be assessed an additional premium of \$1,050 at the time of the accident. Provided this driver can maintain a safe driving record for three consecutive years, he or she will be eligible for a safe driving discount on his or her fourth renewal. However, in the interim three-year time period he or she will be charged the base rate.

The not-at-fault driver's premiums are not affected by the accident.

Example 3

A New Brunswick driver with only two years of safe driving experience has an at-fault accident with the family vehicle, which is registered and insured in the parent's name. Under the made-in New Brunswick model the at-fault driver, not the vehicle owner, pays an additional premium. In this example because the driver has two years safe driving, he or she is assessed eight demerit points and goes from a +2 position in the safe driving zone to a -6 position in the penalty zone, where he or she pays an additional contribution to the insurance pool of \$250. Additionally, the driver will need to maintain a safe driving record for three consecutive years to be eligible to re-earn a safe driving discount. If he or she were to register and insure a vehicle before the end of the three-year time frame they will pay the base rate related to the make/model and use of the vehicle to be insured.

The premium of the not-at-fault driver and the owner of the car (the driver's parent) are not affected by the accident.

The Committee recommends a scale for safe drivers that offers a discount of 4 per cent for each year of claims – and offence-free driving to a maximum discount level of 40 per cent. Vehicle owners with a 10-year clean driving record would receive a discount of 40 per cent as compared to a new driver who would get a 4 per cent discount after the first year of safe driving.

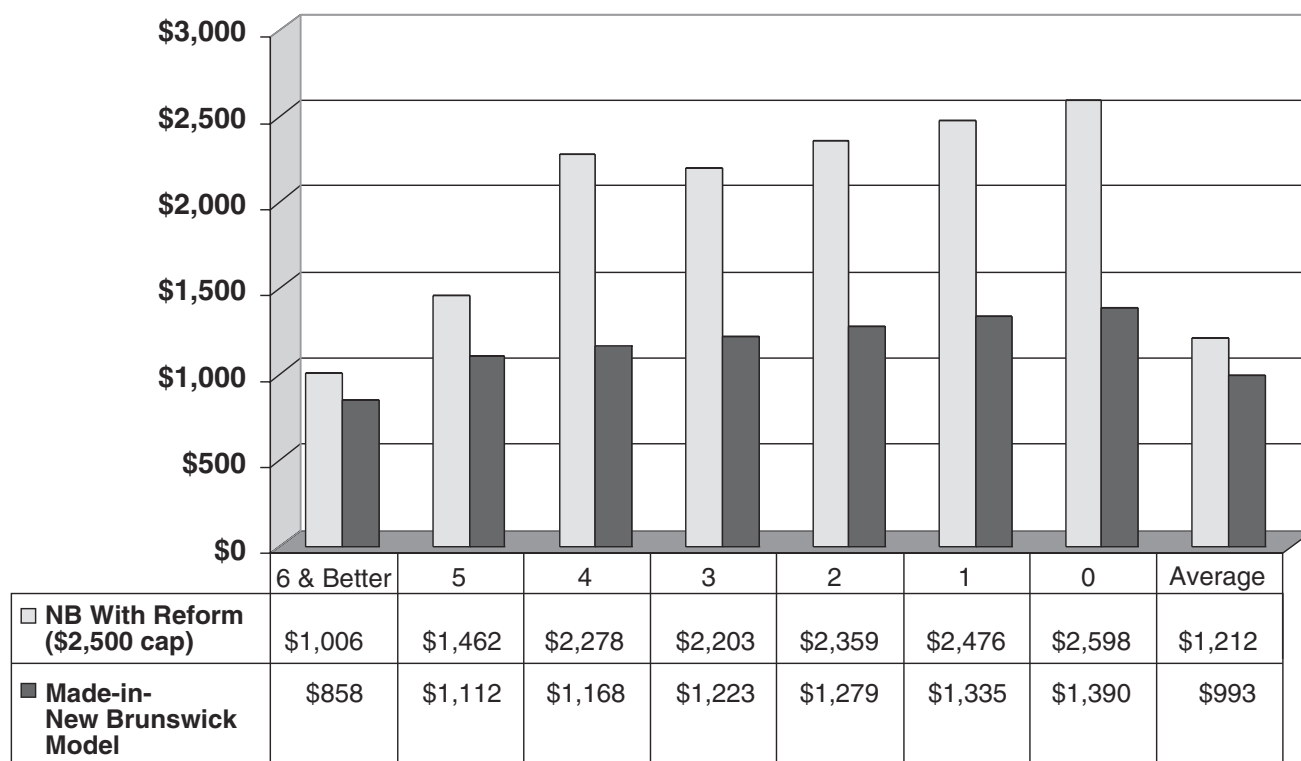
The Committee recommends a scale for a poor driving record to include a modest \$25 for each of the first two positions on the scale, followed by sharp increases in costs as demerit points are accumulated. The objective is to collect higher premiums from drivers who have poor driving records. The exact scale, including demerit points for traffic offences, must be set out in the appropriate legislation.

Average Premium Levels

Under the New Brunswick public automobile insurance system, it is estimated that there will be a decrease from the current street price of \$1,212 to an average premium of \$993. The average premium is the total premium paid by all customers for all of the coverages purchased on their vehicles divided by the total number of vehicles. The average is weighted for all of the mandatory coverages that everyone must buy and the optional coverages that only some customers buy. Therefore, some drivers will pay more than the average premium level and some will pay less, depending on their individual driving records, claims histories, type and uses of vehicles.

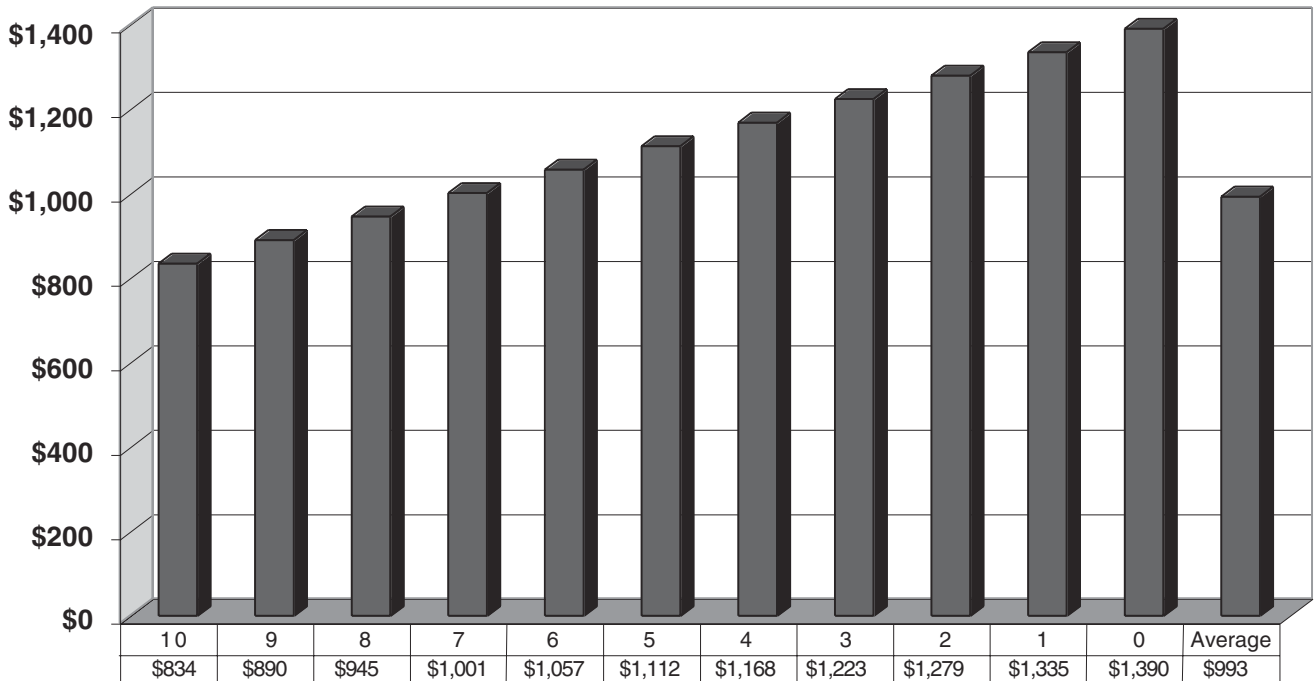
Figure 3 compares the average premium levels by years of safe driving under the current New Brunswick system and those estimated under the made-in-New Brunswick public model. To determine the precise rate to be paid by an individual vehicle owner would require an actuarial ratemaking exercise. The Committee felt it was premature and beyond the scope of its mandate to take this next step at this time.

Figure 3: Estimated Average Premium Levels



The average premium of \$993 is an all-in price. Estimated average premium levels include provisions for NBPI to pay provincial health services levies, premium taxes, all operating costs and a 5 per cent surcharge, to be imposed for the first four years of operation, to pay for all pre-operating and start-up costs and to build a reserve fund. The result is an average premium for drivers insuring a vehicle at the base rate of about \$1,390 and an average premium of \$834 for drivers with 10 years of safe driving. More than 80 per cent of New Brunswick drivers have safe driving records of six years or more. Figure 4 shows the estimated average premium level by years of safe driving for the made-in-New Brunswick model.

Figure 4: Estimated Average Premium Levels by Years of Safe Driving



This estimate is based on New Brunswick consumers purchasing a similar pattern of coverage as they do now, that is, mandatory coverage and often, supplemental coverage such as higher third-party liability coverage and lower deductibles.

In order to provide New Brunswickers with a better idea of the range of premium levels they could anticipate under the proposed model, a sample of hypothetical drivers and their estimated premium levels are described in Figure 5. These estimates have been developed from the best available information to give New Brunswickers a better idea of the range of premiums for a sample of vehicle makes and models, vehicle usage, levels of coverage and driving experience. However, an actuarial ratemaking exercise is required before premium levels under the made-in-New Brunswick model can be determined.

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 |
| Vehicle 1 4 | 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 |
|-----------|---------------------------------|-----------------------|--|--|----------------------------|---|--------------|--|
| 7 | Vehicle 1 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 | \$200,000 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' licence and his insurance account was in good standing.

Road Safety Initiatives

The philosophy guiding the public automobile insurance systems includes concerted efforts to reduce collisions, injuries, deaths and claims. Under the proposed model for New Brunswick, an annual budget dedicated to road safety is estimated at \$4 million.

There are many road safety initiatives in place in Canada's public automobile insurance systems for a New Brunswick public system to emulate. The Committee recommends that NBPI in partnership with relevant organizations and institutions such as governments, law enforcement agencies, seniors organizations and schools, develops a series of safety initiatives targeted to the needs of New Brunswick drivers.

Governance

An Act of the New Brunswick Legislative Assembly to establish a New Brunswick Public Insurance Crown corporation will have to be written and given assent before the transition of New Brunswick drivers from the private system to the public system. The legislation will establish the insurance program, including product characteristics and benefits, as well as the parameters for the Crown corporation. The legislation is to undergo a full review at the end of Year 5 of operations.

A minister responsible for the public automobile insurance corporation, with no oversight or role in operations, will be appointed and a board of directors will be established. The board will be responsible for policy development and oversight of the Crown corporation.

Although a public entity, the Crown corporation will operate at arm's length from the provincial government. This relationship will be important in ensuring that the financial sustainability of the New Brunswick public insurance Crown corporation is the responsibility of automobile insurance ratepayers and not taxpayers. Similar to the New Brunswick Workplace Health, Safety and Compensation Commission, the liabilities and assets of the NBPI would not be included on the Province's financial statements, except for the initial loan during the start-up period.

Accountability

Although the Crown corporation will operate at arm's length from government, a number of mechanisms to ensure full public accountability and transparency are recommended by the Committee:

1. The NBPI will be required to submit insurance rates to the public utilities board for approval. Rate changes will be subject to review and hearings where public participation and scrutiny are encouraged;
2. The enabling legislation establishing the NBPI will provide for a third-party dispute resolution process whereby all injury claims decisions can be reviewed by an independent panel to ensure disputes are resolved in an appropriate and fair manner;
3. The NBPI will appear before the Legislative Assembly of New Brunswick's Standing Committee on Crown Corporations on an annual or as required basis; and
4. The NBPI will issue an annual report, including audited financial statements, at a general public meeting of the Crown corporation to be held each year.

Costing the Model

Based on 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 operations would commence and transition of New Brunswick drivers from the old system to the new would occur. Capital costs would also be incurred during the pre-operating phase.

It is estimated that NBPI would directly employ about 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. 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.

NBPI will look to hire, wherever possible and appropriate, experienced and certified insurance professionals presently involved in the provincial insurance industry.

A summary of total costs is provided below in Table 4

| | Estimated Costs |
|---------------|---------------------|
| Start-up | \$13,300,000 |
| Pre-Operating | \$32,010,000 |
| Capital | \$35,250,000 |
| Total | \$80,560,000 |

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 | \$ 1,600,000 |
| | <u>\$13,300,000</u> |

The Manitoba Public Insurance Corporation (MPI) has offered to assist NBPI with customizing and conversion of MPI insurance, financial and claims systems to meet the needs of New Brunswick, thus eliminating the need to build the systems from scratch (see Letter of Intent in Appendix M). This partnership will also result in a new, integrated online motor vehicle registration system for the Province of New Brunswick.

Other partnering or contracting opportunities will be explored by NBPI during the pre-operating period and may lead to further efficiencies and potential cost savings.

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, stationery, 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 | \$ 7,810,000 |
| | <u>\$32,010,000</u> |

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.

Capital Costs

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) | \$ 2,900,000 |
| | <u>\$35,250,000</u> |

Project Financing

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. It is estimated that amounts will be advanced to NBPI over the 12-month pre-operating period in equal instalments. The expected capital structure and use of funds are as follows:

Sources of financing

| | |
|---------------------------|---------------|
| Province of New Brunswick | \$ 82,000,000 |
|---------------------------|---------------|

Use of funds

| | |
|--------------------------------------|----------------------------|
| Start-up costs | \$ 13,300,000 |
| Capital costs | \$ 35,250,000 |
| Pre-operating period operating costs | \$ 32,010,000 |
| | <u>\$80,560,000</u> |

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 provinces advance, in full, at the beginning of Year 2.

Financial Projections for the First Five Years

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 usual 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.

Table 5: Financial Projections for First Five Years

| (\$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 |

International Trade Implications

The Select Committee has assessed the made-in-New Brunswick model in the light of Canada's obligations under the North American Free Trade Agreement (the "NAFTA") and the World Trade Organization's (the "WTO") General Agreement on Trade in Services (the "GATS"). In conducting its assessment, the Select Committee consulted with international trade experts, and reviewed various analyses of the consistency of a public auto insurance scheme with Canada's international trade obligations.

It is clear that the NAFTA and the GATS do not expressly prohibit New Brunswick from establishing and maintaining a public automobile insurance regime. Both agreements do, however, contain rules that would apply to the creation of the Crown corporation (NBPI) and to its activities.

The Crown corporation would have to be designed to meet certain requirements that are intended to minimize adverse trade effects. As well, Canada would likely be asked by its WTO trading partners to make trade-related adjustments in their favour. Additionally, the rights of U.S. and Mexican investors with investments in New Brunswick's auto insurance sector would have to be taken into account (although the NAFTA does not require governments to mitigate any and all negative effects on such investors/investments).

The Committee cannot predict, however, whether a WTO or NAFTA challenge would be brought or whether a challenge would succeed. The creation of a provincial Crown corporation offering services previously provided solely by the private sector has never been challenged under the WTO nor the

NAFTA. There are many legal and factual hurdles that would have to be cleared by a trading partner (or a United States or Mexican investor) in order to challenge successfully the creation of a public automobile insurance system. There is also a broad range of policy and political factors, as well as individual parent companies' overall commercial interests (beyond just those of the provision of automobile insurance services in New Brunswick) that would influence whether and how a claim might be made.

The WTO and NAFTA rules mean that there are issues to be investigated further should the Province decide to move ahead. However, the Select Committee is confident that a public automobile insurance system, such as the made-in-New Brunswick model, could be implemented in New Brunswick in a manner that conforms with Canada's international trade obligations.

Consequently, the Select Committee recommends that the Government of New Brunswick work closely with federal officials to design a strategy that would ensure that the establishment of a public automobile insurance system (NBPI) in New Brunswick would be consistent with Canada's international trade obligations.

Provincial Economic Impact Analysis

The Committee engaged the services of an economist to assess the impact on the provincial economy of the proposed model for public automobile insurance. The economic impact analysis report is attached as Appendix N.

The implementation of the proposed public automobile insurance model is estimated to result in 1,134 fewer people working in New Brunswick's private sector insurance industry. This decrease will be partially offset by the creation of 800 new jobs in the proposed New Brunswick public insurance Crown corporation. Despite the direct displacement of jobs in the insurance industry in Year 2, the overall net economic impact of implementing the proposed model is estimated to be positive due to growth induced in other sectors of the provincial economy.

The projected gains to the provincial economy, as measured by increased person years employment and increased gross domestic product (GDP), in Year 1 (pre-operational phase) are primarily related to hiring by the Crown corporation and increased capital expenditures of over \$35 million as the corporate office and regional claim centres are built. The projected net increases to employment and GDP for Year 2 (operational phase) is due to the increased consumer spending in the provincial economy triggered by the projected \$103 million reduction in automobile insurance premiums in the province.

Summary of Findings

Start-Up Year (Year 1):

- Net increase of \$109 million of gross output in New Brunswick
- Net increase in employment of 1,024 person years
- Net increase of \$46 million in New Brunswick's gross domestic product (GDP)
- Net increase of \$6 million in federal government revenues resulting from increased economic activity in New Brunswick
- Net increase of \$4.4 million in provincial government revenues resulting from increased economic activity in New Brunswick

Regular Operation Year:

- Net increase of \$144 million of gross output in New Brunswick
- Reduction of 1,134 private insurance sector jobs
- Creation of 800 jobs at the proposed public insurance corporation
- Net increase in employment of 275 person years (taking into account direct, indirect and induced impacts)
- Net increase of \$37 million to New Brunswick's gross domestic product (GDP)
- Net increase of \$6.7 million in federal government revenues resulting from increased economic activity in New Brunswick
- Net increase of \$3.5 million in provincial government revenues resulting from increased economic activity in New Brunswick

Impact on Provincial Finances

The implementation of the made-in-New Brunswick model will result in a decrease in provincial government revenues directly related to the automobile insurance industry. This decrease is estimated at about \$3.7 million: \$3 million is explained by a decrease in automobile insurance premium tax revenues collected due to the decrease in total premiums charged to New Brunswickers; and \$700,000 represents the loss of provincial corporate income tax currently paid by the private automobile insurance industry in the province. However, this shortfall will be exceeded by the projected increase in provincial government revenues (see economic impact analysis) due to the increase in provincial economic activity generated through the implementation of the model. The overall net increase in provincial government revenues is estimated at \$3.5 million per regular year of operation.

Health Services Levy

The New Brunswick public automobile insurance Crown corporation will continue to pay the health services levy to the government of New Brunswick on the same basis and in the same amount as now being paid by private insurance companies in New Brunswick. Provincial health services levies are estimated to be about \$ 27.5 million a year.

Premium Tax

The New Brunswick public automobile insurance Crown corporation will continue to pay premium tax of 3 per cent on total premiums collected to the provincial government. Total premium tax to be paid by NBPI is estimated at about \$14 million.

Corporate Income Tax

The New Brunswick public automobile insurance Crown corporation, as a not-for-profit public entity, will not pay provincial corporate income tax. Based on the corporate income tax estimates for the automobile insurance industry paid in New Brunswick, as estimated in the Atlantic Canada Insurance Harmonization Task Force Report (Vol. 2) to the Council of Atlantic Premiers 2003, this represents a loss of provincial revenue of \$700,000. Corporate income tax received from the automobile insurance industry in New Brunswick represented less than 4/10ths of 1 per cent of total provincial corporate income tax collected in 2001-2002.

Cost Recovery and Licencing

NBPI will pay all appropriate costs and licence fees involved in recovering the regulatory costs for the Superintendent of Insurance's office and the New Brunswick Board of Commissioners for Public Utilities associated with the provision of automobile insurance under the new system as well as fees for the licencing of its professional staff.

Provincial portion of the HST

NBPI will pay the HST (including the provincial portion) on its taxable expenditures.

Other Potential Impacts

The Committee was asked to investigate the impact on other professionals such as the legal community, brokers and agents, physiotherapists, medical practitioners and those involved in the automobile-repair industry. The Committee finds there will be no significant change in the way the NBPI Crown corporation and/or its customers would interact with these professionals, with two exceptions: the legal community and licenced brokers or agents. Based on the available information and the experiences of other jurisdictions, the following impacts are expected:

Legal Community

Under the NBPI 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 NBPI model. Individuals no longer sue to get benefits and thus, there will be no business related to automobile accident personal injury claims for New Brunswick lawyers. After the introduction of a no-fault system in Manitoba in the mid-1990s, legal professionals tended to shift the balance of their practice to other areas of the law or moved to practice personal injury law elsewhere.

This decrease will be incremental to the impact of the \$2,500 cap on financial compensation for pain and suffering associated with a minor soft-tissue injury, implemented on July 1, 2003. Although it is too early to understand the full impact on the legal community of this measure, recent reports have estimated a decrease in the level of new claims of over 40 per cent as compared to the same time in 2002.

Brokers and Agents

Brokers play a critical role as the main distribution channel for public automobile insurance in British Columbia, Manitoba and Saskatchewan. They are paid a commission of 7 per cent, 5 per cent and 4 per cent, respectively. Experience in other jurisdictions would suggest that brokerages are profitable under a public automobile insurance system.

In the NBPI model, licenced brokers and agents will receive a 7 per cent commission on the public policies they sell. This represents a decrease from 12.5 per cent to 7 per cent. However, the time and resources required for brokers or agents to sell the NBPI product will be considerably less in the public system. Although there will be a transition period to adjust staff and overhead requirements, the Committee finds that New Brunswick brokers and agents will continue to provide a service to New Brunswickers and make a profit under the proposed system.

To assist in the transition phase the Committee recommends that public automobile insurance be sold through existing licenced brokers and agents resident in New Brunswick and that transactions are required to be done in person for the first five years of operation. Additional transaction costs to be incurred during the transition year will also be recognized by the NBPI.

Other Potential Impacts

Another concern expressed during the public hearings was the impact of the introduction of public automobile insurance on the availability of other property and casualty insurance products in New Brunswick. Should the Province of New Brunswick decide to implement public automobile insurance, there is the possibility that individual companies may decide to withdraw completely from the market. Although we are unable to predict the behaviour of individual companies, based on a review of experience in other jurisdictions, the Committee is confident that New Brunswick consumers will continue to have access to other property and casualty insurance products at a competitive price.

As reported in the 2003 Statistical Review of Canadian Underwriter, of the leading 20 property and casualty insurance companies now doing business in New Brunswick, 12 are also in the top 20 in British Columbia, 11 are also in the top 20 in Manitoba, 10 are also in the top 20 in Saskatchewan and 15 are also in the top 20 in Quebec. Additionally, eight (Manitoba), 10 (British Columbia, Saskatchewan) and 12 (Quebec) of the leading 20 property and casualty insurance companies operating in New Brunswick sell optional or extension automobile insurance coverage in competition with a public automobile insurance Crown corporation.

Another potential impact associated with the introduction of the public automobile insurance model recommended by the Committee would result in lower claims costs over time for individual/employer health and disability insurance plans. Under the personal injury protection plan of the made-in-New Brunswick model, the public insurer is the first payer of benefits. Therefore, the full medical and rehabilitation costs associated with traffic accidents are paid by the automobile insurance system and not subsidized by an individual's personal or workplace health and/or disability insurance plans.

Legal Implications

As concluded by the Atlantic Canada Insurance Harmonization Task Force Report to the Council of Atlantic Premiers, there are no legal obstacles to the creation of a provincial public automobile insurance Crown corporation.

The Committee recognizes that new legislation as well as significant reform/amendments to existing legislation will be required to implement the NBPI model in the province. A preliminary review would suggest the need for a new Act to create the Crown corporation and establish its mandate and all other necessary specifications for its operation. Subsequent amendments to the Insurance Act and the Motor Vehicles Act are also anticipated to implement the model.

Inter-Provincial Co-operation

The made-in-New Brunswick model recommended by the Committee is in large part a result of the very strong and close relationship and history of inter-provincial co-operation between the Province of New Brunswick and the Province of Manitoba.

This spirit of inter-provincial co-operation has led to significant cost savings associated with adapting the MPI operating system to implement the NBPI model. The Committee recommends continued close relations between the two provincial governments and the two Crown corporations. This could include,

for example, training, assignment of senior MPI staff to assist in the transition phase, mentoring of NBPI board members by their MPI counterparts as well as co-development of future systems.

The issue of implementing an Atlantic regional public automobile insurance Crown corporation has been explored on a conceptual basis by the Atlantic Insurance Harmonization Task Force.

Although the Committee agrees that there is no legal reason to prevent a regional approach to public automobile insurance, we feel a phased approach to implementing public automobile insurance in the region is warranted. The scope of change and legislative reform required to implement the NBPI model suggests a focused and provincial effort is the most prudent approach for the initial implementation phase. The Province and the Crown corporation, once established, could then evaluate any requests to extend the New Brunswick system to any or all of its Atlantic counterparts.

Transition Issues

The implementation of the NBPI model, in the event a decision is made to move to a public automobile insurance system, will generate a number of transition issues.

The Committee recommends that:

An Act to establish the Crown corporation, mandate, governance structure, benefit levels, operating policies, etc. be developed and introduced into the Legislative Assembly as soon as possible.

The Act to create a New Brunswick public automobile insurance Crown corporation and all other proposed legislation be reviewed to ensure it is consistent with Canada's international trade commitments.

A senior executive team is hired to begin the pre-operating phase of NBPI as soon as the Crown corporation has been established.

A specific date is chosen for the switch to the new system. All policies sold under the existing system would be converted to the new system of public automobile insurance on that date with a staggered renewal date tied to a vehicle owner's birth date.

The NBPI establish a number of advisory committees with stakeholders, such as private sector brokers and agents, private insurance companies, medical and rehabilitative treatment professionals and vehicle repair professionals to explain and determine how the new system will operate.

The NBPI work closely with private sector employers and the Department of Training and Employment Development to ensure that a worker transition strategy is developed and that all reasonable efforts are undertaken to assist displaced workers in making a successful work transition either to the NBPI or to a different career or employer.

Summary of Recommendations

1. The Committee recommends the made-in-New Brunswick model of public automobile insurance, in the event a decision is made to move to a public system, that offers extensive coverage at an affordable rate for all drivers with:
 - no reference to age, gender, marital status, territory, payment history or lapses in insurance to determine insurance costs;

- rates to be determined by driving record, vehicle usage, vehicle make and model, optional coverage purchased;
 - oversight of the public utilities board for mandatory and optional insurance rates.
 - pure, no-fault injury benefits with no option to sue;
 - drivers licences to continue to be sold by Service New Brunswick;
 - vehicle registration and insurance sold through brokers and agents at a 7 per cent commission;
 - mandatory vehicle coverage, additional injury and income replacement benefits, third-party liability coverage and collision, theft and comprehensive sold by the Crown corporation through private sector agents and brokers; and
 - additional injury and income replacement benefits and third-party liability coverage are sold by private insurers in competition with the Crown corporation.
2. The Committee recommends a scale for safe drivers that offers a discount of 4 per cent for each year of claims and offence-free driving to a maximum discount of 40 per cent. Vehicle owners with a 10-year clean driving record would receive a discount of 40 per cent as compared to a new driver who would get a 4 per cent discount after the first year of safe driving.
 3. The Committee recommends a scale for a poor driving record to include a modest \$25 for each of the first two positions on the scale, followed by sharp increases in costs as demerit points are accumulated. The objective is to collect higher premiums from drivers who have poor driving records. The exact scale, including demerit points for traffic offences, must be set out in the appropriate legislation.
 4. The Committee recommends under the proposed model that a significant amount of resources be dedicated to road safety initiatives to reduce collisions, injuries, deaths and claims. NBPI in partnership with relevant organizations and institutions such as governments, law enforcement agencies, seniors organizations and schools develop a series of safety initiatives targeted to the needs of New Brunswick drivers.
 5. The Committee recommends an Act to establish a public automobile insurance Crown corporation, mandate, governance structure, benefit levels, operating policies and whatever is necessary to establish in law such a corporation in a timely manner.
 6. The Committee recommends that the public automobile insurance corporation be required to submit insurance rates to the public utilities board for approval. Rate changes are subject to review and hearings where public participation and scrutiny are encouraged.
 7. The Committee recommends the public automobile insurance corporation appear before the Legislative Assembly of New Brunswick's Standing Committee on Crown Corporations as required.
 8. The Committee recommends the public automobile insurance Crown corporation issue an annual report with audited financial statements at an annual general public meeting.
 9. The Committee recommends that the Province of New Brunswick work closely with the Government of Canada to ensure the proposed public automobile insurance model meets all obligations under international trade agreements.

- 10.** The Committee recommends a team be put in place to begin the pre-operating phase of the public automobile insurance system as soon as the Crown corporation has been established.
- 11.** The Committee recommends that a specific date be chosen for the move from the private to a public automobile insurance system. All policies sold under the present system would be converted to the public system on that date.
- 12.** The Committee recommends that the public automobile insurance Crown corporation establish advisory committees to include stakeholders to explain the public system and determine how it will operate. These stakeholders include insurance brokers and agents, private insurance companies, medical professionals, vehicle repair professionals and other such parties to the insurance process.
- 13.** The Committee recommends that the public automobile insurance Crown corporation work closely with private sector employers and the Department of Training and Employment Development to ensure that a worker transition strategy is developed and that all reasonable efforts are undertaken to assist displaced automobile insurance workers in making a successful work transition.

Appendix A: Motion 30

| Form C MOTION 30 | Formule C MOTION 30 |
|--|---|
| Mover The Hon. Premier | Motionnaire L'hon. premier ministre |
| Secunder The Hon. Leader of the Opposition | Comotionnaire L'hon. Chef de l'opposition |
| With Leave of the House I move, seconded by The Hon. Leader of the Opposition | Sur autorisation de la Chambre, je propose, appuyé par : l'hon. Chef de l'opposition |
| WHEREAS fair, affordable and accessible automobile insurance is a concern for all New Brunswickers; and | attendu qu'une assurance automobile équitable, abordable et accessible préoccupe tous les gens du Nouveau-Brunswick; |
| WHEREAS the government of New Brunswick has been proactive and is committed to bringing about relief for New Brunswick drivers faced with increasing automobile insurance premiums; and | attendu que le gouvernement du Nouveau-Brunswick a été proactif et s'est engagé à procurer un allègement aux conducteurs et conductrices du Nouveau-Brunswick aux prises avec des primes d'assurance automobile à la hausse; |
| WHEREAS public automobile insurance has been suggested as a model that could bring relief for New Brunswick drivers; and | attendu que l'assurance automobile publique a été suggérée comme modèle qui pourrait procurer un allègement aux conducteurs et conductrices du Nouveau-Brunswick; |
| WHEREAS there are many models of public insurance that contain numerous options and in the interest of informed public debate these models and options should be explored in the New Brunswick context; and | attendu que de nombreux modèles d'assurance publique prévoient diverses options et que, dans l'intérêt d'un débat public éclairé, ces modèles et options devraient être explorés dans le contexte du Nouveau-Brunswick; |
| WHEREAS there is already an Atlantic Canada Task Force conducting a comprehensive study of the full cost-benefit, legal and trade implications of establishing an Atlantic Canada public automobile insurance system; | attendu qu'un groupe de travail de l'Atlantique mène déjà une étude complète de la rentabilité globale et des implications juridiques et commerciales de l'établissement d'un système d'assurance publique au Canada atlantique; |
| BE IT RESOLVED THAT this House appoint a Select Committee on Public Automobile Insurance to examine into and inquire on the most suitable form of public insurance system for New Brunswick should the province conclude that a public system is required. Without limiting the scope of the study, this Select Committee will be charged with the responsibility of inquiring into and identifying: | qu'il soit résolu que la Chambre constitue le Comité spécial de l'assurance automobile publique, chargé d'examiner et d'explorer quel modèle de système d'assurance publique serait le plus approprié au Nouveau-Brunswick si la province concluait qu'un système public s'impose. Sans limiter la portée de l'étude, ce comité spécial sera chargé d'examiner et de déterminer |
| 1) the most suitable model of public automobile insurance to ensure fair, affordable and accessible public | 1) le modèle d'assurance automobile publique le plus approprié pour assurer à tous les gens du Nouveau-Brunswick une assurance |

- | | |
|--|--|
| automobile insurance for all New Brunswickers, including: | automobile publique équitale, abordable et accessible, y compris : |
| a) the type of public automobile insurance system to be recommended (i.e. tort, full no-fault, partial no-fault, choice or hybrid systems, etc.); | a) le type de système d'assurance automobile publique à recommander (c.à-d. à responsabilité civile délictuelle, entièrement ou partiellement sans égard à la responsabilité, systèmes à choix ou hybrides et ainsi de suite); |
| b) the types of coverage and benefits to be offered; | b) les types de couverture et de prestations à offrir; |
| c) a proper risk rating system for establishing individual premiums; | c) un système convenable d'évaluation des risques pour l'établissement des primes individuelles; |
| d) the method of distribution (i.e. through brokers, public means, or both) | d) la méthode de distribution (c.à-d. par des courtiers, des moyens publics ou les deux); |
| e) the types of insurers (i.e. participation of private sector and government within the public model) | e) les types d'assureurs (c.-à-d. participation du secteur privé et du gouvernement au modèle public); |
| 2) the start-up costs for establishing the proposed model, including infrastructure, office equipment, payroll, initial provision for losses, etc.; | 2) les coûts de démarrage pour établir le modèle proposé, y compris l'infrastructure, le matériel de bureau, la feuille de paye, la provision initiale pour pertes et ainsi de suite; |
| 3) the fixed and recurring costs of operating the proposed model; | 3) les coûts fixes et récurrents du fonctionnement du modèle proposé; |
| 4) the legal and trade implications involved in setting up the proposed model; | 4) les implications juridiques et commerciales de l'instauration du modèle proposée; |
| 5) the downstream impact of the proposed model on the legal community, the physiotherapists and other therapists, as well as on the brokers, independent adjusters, automotive repair shops and other trades or professions; | 5) les répercussions en aval du modèle proposé sur la collectivité juridique, les physiothérapeutes et autres thérapeutes, ainsi que sur les courtiers, les experts, les ateliers de réparation automobile et d'autres métiers et professions; |
| 6) the impact on provincial finances with respect to the health services levy, premium tax; cost recovery of the PUB and the Superintendent, and the impact on medicare; | 6) les répercussions sur les finances provinciales quant à la contribution pour les services de santé, à la taxe sur les primes, au recouvrement des coûts de la CESP et du surintendant, ainsi que les répercussions sur l'Assurance-maladie; |
| 7) the benefits of common inter-provincial and regional approaches; and | 7) les avantages d'une approche commune interprovinciale et d'une approche commune régionale; |

8) the creation of a basic automobile insurance policy within a public system,

and, also consider such other matters or materials to be referred by the Minister of Justice, including a discussion paper on public insurance options.

BE IT FURTHER RESOLVED THAT the Select Committee on Public Automobile Insurance will also be responsible for hearing from members of the general public, interest groups, and others, any such information which they may so wish to present. The Committee may set appropriate rules for the receiving of said submissions;

In addition to the powers traditionally conferred upon the said Committee by the Standing Rules, the Committee shall have the following additional powers:

- to sit during sittings of the House and during the recess after prorogation until the next following Session;
- to adjourn from place to place as may be convenient;
- to retain such personnel as required to assist the Committee

BE IT FURTHER RESOLVED THAT during a period when the Legislative Assembly is adjourned or prorogued, the Committee may release a report by depositing a copy with the Clerk of the Legislative Assembly, and upon the resumption of the sittings of the House, the Chairperson shall present the report to the Legislative Assembly.

BE IT FURTHER RESOLVED THAT the said Committee be composed of Ms. Weir, Mr. Stiles, Mr. C. LeBlanc, Mr. Sherwood, Mr. MacDonald, Mr. Williams, Mr. Betts, Mr. Malley, Mr. Burke, Mr. Haché, Mr. Doucet, Mr. Richard.

M.L.A. (signature)
Premier Bernard Lord

Notice dispensed by unanimous consent.
Motion moved and carried, August 5, 2003.

8) la création d'une police d'assurance automobile de base dans un système public;

et d'examiner en outre les questions ou la documentation dont il est saisi par le ministre de la Justice, y compris un document de travail sur les options en matière d'assurance publique;

qu'il soit de plus résolu que le Comité spécial de l'assurance automobile publique soit aussi chargé de recevoir les avis que voudrait présenter le grand public, les groupes d'intérêts et d'autres et soit habilité à fixer des règles appropriées sur la réception de ces avis;

que, en plus des pouvoirs traditionnellement conférés au comité en vertu du Règlement, le comité soit doté des pouvoirs additionnels suivants :

- celui de siéger pendant les séances de la Chambre et après la prorogation, jusqu'à la prochaine session;
- celui de tenir séance à divers endroits, s'il convient de le faire;
- celui de retenir les services du personnel nécessaire pour aider le comité;

qu'il soit de plus résolu que, si l'Assemblée législative est ajournée ou prorogée, le comité soit habilité à rendre public un rapport par le dépôt d'un exemplaire au bureau du greffier de l'Assemblée législative, lequel rapport, après la rentrée parlementaire, sera présenté à l'Assemblée législative par la présidence du comité;

qu'il soit de plus résolu que le comité soit composé de M^{me} Weir, de M. Stiles, de M. C. LeBlanc, de M. Sherwood, de M. MacDonald, de M. Williams, de M. Betts, de M. Malley, de M. Burke, de M. Haché, de M. Doucet et de M. Richard.

Député (signature)
Bernard Lord, premier ministre

Dispense d'avis accordée avec le consentement unanime. Motion proposée et adoptée le 5 août 2003.

Appendix B: Glossary of Terms

Insurance

There are two types of insurance as defined by the Insurance Act – life and other than life. Within the other than life category, property and casualty insurers offer automobile insurance. Many insurers not only offer automobile insurance, but also offer homeowner policies and other types of insurance.

Insurance is essentially the pooling of risk. When consumers pay insurance premiums they are putting our money in a pool with others. This pool is then used to meet the claims of those who, in the case of automobile insurance, have been involved in an accident and who have suffered a loss.

Standard Automobile Policy

The laws of the Province currently require that vehicles registered and driven in New Brunswick must be insured to minimum levels and provide minimum coverage for consumers. The coverage includes:

Liability Insurance: Sometimes called PLPD or Section “A” Coverage, this covers you as a vehicle owner and as a driver if you injure someone or damage someone else’s vehicle or property with your car. The minimum requirement in New Brunswick is \$200,000, although many New Brunswick consumers choose to carry additional coverage.

Accident Benefits: This is also referred to as Section “B” coverage. This is a “no-fault benefit” that provides medical and rehabilitation expenses, funeral benefits, death benefits, and loss of income benefits. Because it is a “no-fault” coverage, it is payable by your own insurer and is payable even if you are at-fault for the accident.

Uninsured and Unidentified Insurance: Also known as Section “D” coverage, this coverage protects individuals in the event that you as a driver are involved in an accident with an uninsured driver or in a hit-and-run accident where the automobile or driver cannot be identified.

In addition to these mandatory coverages, there are optional insurance coverages (Section “C” coverage) that many choose to purchase. These include:

Collision or Upset Insurance: This covers damage to your own vehicle, regardless of who is at fault – that is payable even if you are at fault. There is usually a deductible by which any claim is reduced. The amount of the deductible affects the rate of the coverage.

Comprehensive Insurance: This covers such risks as damage to your own vehicle caused by theft, vandalism, or fire. There is also a deductible for this coverage, except for theft or fire.

Insurance Premium

The money that is paid for insurance is called a premium, and premium amounts are based on the type of coverage and the amounts of coverage that you have. The actual amount that is paid is based on an insurance company’s assessment of the risk the company must assume to insure your vehicle.

In assessing this risk, companies use various factors including your age, sex, marital status, where you live, the type of vehicle, the age of the vehicle, what you use the vehicle for, how many kilometres you drive in a year, your driving record and that of anyone else on the policy, if you have had claims on your policy, etc.

Average Premium

Average premium is the total premium paid by all customers for all of the coverages purchased on their vehicles divided by the total number of vehicles. The average is therefore weighted for all of the mandatory coverages that everyone must buy and the optional coverages that only some customers buy.

No-Fault

No-fault is a system whereby all benefits are paid by the insured's own insurance company, that is your own company pays you regardless of fault. The no-fault system concentrates on rehabilitation of injured parties. It provides no or limited compensation for non-economic loss, such as pain and suffering and there is generally no right to sue. Compensation for property damage and personal injury are made up to pre-determined limits. There are presently two completely no-fault jurisdictions in Canada – Manitoba and Quebec. Until this year Saskatchewan has operated under a full no-fault system, however that province now has a choice system, whereby consumers may choose to purchase a no-fault policy or a tort policy. It is important to note that even under a no-fault system, fault is still determined for driving record purposes and may affect the premium of the at-fault driver.

Tort

A “tort” is a wrong or an injustice committed by one person against another. Tort law is an area of legal practice where a “wronged” party sues the party that it views responsible for the wrong. Under a tort-based automobile insurance system, it is the responsibility of the party at-fault to recompense the innocent party and to place the innocent party as close to a position as possible before the accident. Under a tort system, individuals have the right to sue for both economic loss and for pain and suffering.

Benchmark System

Until 1997, New Brunswick operated under a “benchmark” system. Under this system, the public utilities board assembled information from industry on premium income, claims, future trends, etc. and established a benchmark rate to be charged by insurers for automobile insurance. If insurers wished to charge rates that fell within 5 per cent of the benchmark, they could do so. Companies were, however, required to appear before the Board, with certain limited exceptions, every two years. If, however, they wished at any time to charge rates that were greater or lesser than 5 per cent of the benchmark figure, they were required to appear before the Board.

File and Use System

New Brunswick currently operates under a modified “file and use” system of rate regulation for regular market insurers. Rates are filed with the public utilities board at least once every 12 months. The Board has the ability, if it determines that the rates charged are excessive, inadequate or discriminatory, to investigate the rates and to confirm those rates or to modify them. In certain circumstances companies may be required to appear before the Board. In other circumstances they can use benchmark rates. Otherwise, insurance companies may use the rates that they have filed with the Public Utilities Board after 30 days of filing. The Facility Association is still required to appear before the Public Utilities Board for any rate change.

Facility Association

Because automobile insurance is compulsory for all drivers in New Brunswick, there must be access to insurance for all drivers, including high-risk drivers. For those drivers who are not able to buy insurance

through a regular market insurance company, there is access to coverage from the “Facility Association” or “FA”. The Facility Association is a not-for-profit group of insurance companies that pool resources through which they insure high-risk clients.

Territorial Rating

New Brunswick currently permits territorial rating for all coverages. Territorial rating is premised on the fact that, based on the claims experience of the place of residence of the insured, there is a risk to be considered in insurance coverage. This might include such factors as weather conditions, distances normally traveled for work purposes, road conditions, the number of automobile thefts, etc that are applicable to the particular coverage.

Underwriting Guidelines

The determination of whether or not an insurer will accept a risk is based on its underwriting practices. Different insurers can and do concentrate on different risks to determine his market. Generally speaking, those insurers that are willing to tolerate more risk would respond by charging higher rates.

To permit agents and brokers to determine if companies are willing to accept risks, companies develop underwriting guidelines. Underwriting guidelines are not currently regulated in New Brunswick. Common underwriting guidelines include factors such as the age, gender, marital status, how the vehicle is used, your driving record and accident record and that of anyone who regularly uses your vehicle and the type of vehicle and value of the vehicle. However, there are certain prohibited underwriting practices in New Brunswick whereby insurers may not refuse to insure an individual.

Appendix C: Review of Public Automobile Insurance Systems in Canada

Mandatory automobile insurance is administered by provincial Crown corporations in four Canadian provinces:

- Saskatchewan (Saskatchewan Government Insurance);
- Manitoba (Manitoba Public Insurance);
- British Columbia (Insurance Corporation of British Columbia); and
- Quebec (Société de l'assurance automobile du Québec);

Although the scope of insurance and other automobile-related services offered varies from one jurisdiction to another, all registered vehicles in the four jurisdictions are insured for a mandatory minimum amount of automobile insurance required by law solely by the Crown corporation. All drivers in Quebec and Manitoba are required to purchase public automobile insurance on a yearly basis as part of their driver's licence fee (Quebec \$23; Manitoba \$10-\$35).

Public automobile insurance companies have been operating in Canada for about 60 years. The first public automobile insurance plan to be delivered by a Crown corporation was established in Saskatchewan in 1945. The Manitoba Autopac, the compulsory public automobile insurance plan, was first sold in 1971. The Insurance Corporation of British Columbia began operating in 1974 and the Quebec system was introduced in 1978.

These systems have many things in common, including these two significant roles: they are the sole insurers for mandatory automobile insurance and they insure all vehicles registered by a resident who has a valid driver's licence in the province.

There is no Facility Association in provinces with public automobile insurance.

In Saskatchewan, Manitoba, British Columbia and Quebec, age, gender and marital status are not used to set premium levels. Because public insurance companies are required to insure all legal drivers in their respective provinces, they use the driving record of the individual and not that of his or her peer group to calculate an individual's premium level.

Significantly, most public automobile insurance corporations calculate premium levels on the driving record of the registered owner of the vehicle only. The fact that a young person may drive the car from time to time does not impact on the premium level paid by the owner of the vehicle. Rather, in most public systems, individual drivers are rewarded through good-driving discounts or penalized through fines and/or loss of insurance discounts. The risk level of the driving infraction and/or any resulting at-fault accident determines the level of financial penalty. However, safe drivers can earn back their good-driving discounts over time.

In Saskatchewan, Manitoba and British Columbia, their respective public utilities boards must approve rate increases before they can be passed on to consumers. In Quebec, the base rate for mandatory public automobile insurance is set out in provincial statute.

Although public automobile insurance corporations have similar core values and administrative/operational practices, the systems under which they operate differ. The Insurance Corporation of British Columbia is the only Crown corporation that currently operates within a tort-based system, while in the other three provinces the Crown corporations operate within predominately no-fault systems.

Each corporation has its unique characteristics or special products that have evolved over time to meet the needs of their respective clients.

As a monopoly provider, public automobile insurance companies have identified the following reasons for their ability to generally charge lower premiums:

1. lower overall administration costs due to greater efficiencies and economies of scale;
2. lower marketing costs;
3. limited underwriting costs;
4. their not-for-profit mandates; and
5. increased revenues due to lower levels of uninsured drivers and more insured drivers.

Public automobile insurance companies also aggressively invest in a variety of road safety programs in their respective provinces. Examples of these initiatives are described in greater detail in Appendix H. They also pay premium taxes and health services levies to provincial governments.

Brokers play a key role in the distribution of automobile insurance in all four public systems. They are typically the main point of contact for consumers looking to purchase automobile insurance in their local communities. In three provinces, Quebec excepted, they sell the basic public automobile insurance package on behalf of the Crown corporation as well as offer a variety of optional and extension coverage from private insurers and the public insurer. Broker commissions vary from 7 per cent in British Columbia, 5 per cent in Manitoba and 4 per cent in Saskatchewan.

Appendix D: No-Fault Benefit Levels Across Canada

| 2002 No-Fault Benefit Levels Across Canada | | | | | | | | | | | |
|--|--------------|--------------|---|------------------------|-------------|--------------------------|--------------|---------|---------|---------|------------|
| | BC | Alta | Sask Tort | Sask No-Fault | Man | Ont | Que | NB* | NS | PEI | Nfld & Lab |
| Admin | Public | Private | Public | Public | Public | Private | Public | Private | Private | Private | Private |
| Med Payment | \$150K | \$10K | \$150K | \$5M | No limit | \$100K | No limit | \$50K | \$25K | \$25K | \$25K |
| Funeral Expense | 2,500 | 2,000 | 5,000 | 5,732 | 6,442 | 6,000 | 3,951 | 2,500 | 1,000 | 1,000 | 1,000 |
| Maximum Disability Income | | | | | | | | | | | |
| % of income | 75% of gross | 80% of gross | \$15.6K for total \$7.8K for partial | 90% of net | 90% of net | 80% of net | 90% of net | N/A | N/A | N/A | N/A |
| Max/wk | \$300 | \$300 | N/A | \$58K/yr | \$63K/yr | \$400 | \$53K/yr max | \$250 | \$140 | \$140 | \$140 |
| Home support per week | \$145 | \$100 | Up to \$309 | Up to \$664 | Up to \$886 | \$185 | Up to \$640 | \$100 | \$70 | \$70 | \$70 |
| Min. Liability 3rd Party | \$200K | \$200K | \$200K | \$200K | \$200K | \$200K | \$50K | \$200K | \$200K | \$200K | \$200K |
| Right to sue | Yes | Yes | Yes (\$5K deduct) | No with few exceptions | No | Yes (if meets threshold) | No | Yes | Yes | Yes | Yes |
| Average 2001 Benefit Paid | \$2,223 | \$6,289 | N/A | N/A | \$2,403 | \$5,959 | N/A | \$5,795 | \$5,530 | \$3,419 | \$6,419 |

Saskatchewan, Alberta and Atlantic Provinces allow lawsuits for benefits over and above the no-fault minimums

*In 2002, New Brunswick introduced changes that cap the right to sue for soft tissue injuries.

Regulations came into effect in July 2003. Manitoba only covers medical expenses not covered by the provincial health insurance program that are approved under the insurance program.

The permanent impairment payment went to a maximum of \$118,192 in 2002. British Columbia, Manitoba, Saskatchewan are public with private competition for optional and excess coverage; Quebec is private for property damage.

Sources: IBC, MPI, SGI, SAAQ, ICBC

Appendix E: List of Presenters and Submissions Received

Participants in Public Hearings, October, November 2003

| | |
|--|--|
| Alexander, Hazel Y. | Canadian Association of Retired Teachers, George Little |
| Alliance Insurance, Michael St. Onge | Canadian Bar Association, Richard Bell and Leah Dayhorn |
| Allstate Insurance Company, Robert Tisdale | Canadian Coalition Against Insurance Fraud, Rick Dubin |
| Anderson, Keith, motorcyclist | Canadian Federation of Independent Business, Stéphane Robichaud and Yves Bourgeois |
| Angus-Miller Insurance, Grant Kimball | Canadian Union of Public Employees New Brunswick (CUPE), David Rouse and Raymond Leger |
| Association Acadienne et Francophone des aînées et aînés du Nouveau-Brunswick, Roger Doiron and Willie Lirette | Cantelo, Raymond |
| Association des assureurs du Nord-Ouest, Gilles Carrier, Jeannot Martin, Mona LeBel and Denis Daigle | Carnaghan, Taylor Fowler Insurance, Nancy Thorne and Douglas Shippee |
| Assurance Beauséjour Insurance, Terry Gaudet | Chartered Insurance Professionals' Society, John Delaney |
| Assurance Després Hébert Ltée, Gilles Hébert and Roger Després | Citadel General Assurance, Bruce Moore |
| Assurance Goguen Protection Insurance Corp., Gilles LeBlanc | Claims Managers Association of New Brunswick, Lynn Prescott and Rick Embleton |
| Assurance Mourant Ltée, Jean Mourant | CN Pensioners Association, Webb Vance, Gerald Dawson, Greg Murphy and Bruce Peacock |
| Assurance Pierre Roy Insurance, Pierre Roy and Gilles Frenette | Cooper, Leona |
| Aubé and DeGrace Insurance Ltd., Roger DeGrace | Co-operators Insurance, Roland Belliveau and Allan Francis |
| Aviva Canada Inc., Lorrie Hachey and Harry Trask | Co-operators Insurance, Florent Fontaine |
| Béland, Gérard, mechanic and social activist | Cormier, Archer |
| Belliveau, Kathy, insurance agent | Crawford Adjusters Canada, Guy Frenette, independent adjuster and president, CIAA, New Brunswick and Prince Edward Island Region and Raymond Aucoin |
| Boudreau, Cathy | Daigle, Janine, insurance agent |
| Boudreau, Roy, MLA | Delaney, Susan, claims adjuster |
| Boyce, Steven | Dominion of Canada, Scott Beattie |
| Breau Disposal Ltd., Sharon DeRoche, office manager | Doucette, Carmella |
| C. Landry Adjustment Ltd., Claude Landry | |
| Cain Insurance Services, Dan Cain and Luke Cain | |
| Campbell, Stuart, carpenter | |

Drost Insurance, Michael Blanchard
Dykstra, Bethany, farmer
Energy Probe Research Foundation,
Consumer Policy Institute, Lawrence Solomon
Facility Association, Peter Johnson,
David J. Simpson and Jill Hepburn
Fairweathers Insurance, Bridget Hornyak
Fanning, Claire, claims adjuster
Fenwick, W. Peter
Gallant, Betty, insurance agent
Gary Billingsley & Associates Ltd.,
Gary Billingsley
Gates, Sharon, claims adjuster
Gaudet Saulnier Assurance Ltée, Huberte Gaudet
and Jacqueline Leblanc
Geddes, Sylvia
Girvan, Paulette, independent broker
Guy R. Day & Son Limited, Tim Egan and
Daryl Spires
Hachey, Art
Hall & Fairweather Ltd., Andrew Campbell
Harbourview High School: William Nickson,
teacher, and students Cody Burke, Amanda Grant,
Diana Page, Dan Saunders and Mike Wiley
Harrison & Associates Insurance Inc., Lorne
Losier
Harrigan Insurance Agency Ltd., Danny Harrigan
Hawkins, Brian D.
Higgins General Insurance, Kendall Higgins and
Jennifer Adams
Huestis Insurance, David Huestis
Hughes, Joe, insurance agent
Hutchinson & Cochrane Insurance Services Ltd.,
Ken Cochrane
ING Insurance, Dennis Furlong
Insurance Brokers' Association of New
Brunswick, Peter Johnson, Michael Daniels and
Danny Harrigan
Insurance Bureau of Canada, Don Forgeron,
MaryLou O'Reilly and Darrell Ledbetter
Jones, Stephen, broker
Keenan, David
Law Society of New Brunswick, Bruce Noble,
Marc Richard, Tracey Deware and Rob Dysart
Leblanc, Jean, teacher
LeBlanc, Mark E.
Legge, Michael, automobile dealer
Les Aînés et Aînées Notre-Dame-des-Neiges
Centre de l'amitié
L.P. Godbout Ltd., Guildo Godbout
MacDonald, Stella, bartender
MacRae Insurance Services, Brian MacRae
Masso-Tech, Robert Langis and Peter Simpson
McLaughlin, Eileen,
Volunteer Transportation Program
Morrison, Roméo, priest
Mothers Against Drunk Driving (MADD),
Andrew Muire, Karen Dunham and Denise Green
New Brunswick Board of Commissioners of
Public Utilities (PUB), David Nicholson
New Brunswick Federation of Labour,
John Murphy, Jean-Marie Nadeau and Terry Carter
New Brunswick Mutual Insurance Association,
Sandy Morrison
New Brunswick New Democratic Party,
Nan Luke
New Brunswick Physiotherapy Association,
Ann Connolly
New Brunswick Private Practitioners of
Physiotherapy, Cathy Simon

New Brunswick Public Employees Association,
Thomas Mann

New Brunswick Senior Citizens Council,
Ed Levert and Anne-Marie Gammon

N.B. Senior Citizens Federation, R.G. Smalley

New Brunswick Seniors Citizens' Council,
Greater Moncton Section, Bob Young,
Elmo Whittom, Allister McLeod, Greg Murphy
and Barry Hould

Newman, Mike, insurance agent

O'Connor, Daniel

Olmstead Insurance and Financial Services,
Don Olmstead

Paramount Insurance, Jean-Paul Léger

Paulin, Burt, MLA

P.D. Foster Insurance (1982) Ltd., Stuart Foster
and Paul Foster

Pearson Insurance, Robert Kimball

Portage Mutual Insurance Co., Robert Wrye

Powell, Shirley, real estate agent

Ratchford, Veronica, seniors advocate

Rayworth, Gary, insurance investigator

Robichaud, Carmel

Royal & SunAlliance, Frank Mumford and
Beth Foote

Saint John Community Loan Fund, Seth Asimakos

Sears Insurance Limited, Scott Embree

Sirois, Collette

Société des enseignantes et des enseignants
retraités francophones du Nouveau-Brunswick,
Roger Doiron, Hector Cormier

Solutions Insurance Broker Inc., Georges Leger

St. Onge, Michael

State Farm Insurance, Andy Williams,
Wendy Williams and Robert Cook

Steelworkers Organization of Active Retirees,
Ed Levert

SunAlliance, Patrick Durepos and Lily Durepos

United Steelworkers of America, Cal Luedee

W.W.Thorne Insurance Ltd., Myles Hall

Walker Insurance, John Walker and Jason Walker

Walls, Roland

Whalen, Jenny

Wilhelm, Linda

Wilson Insurance, David Wilson

Submissions to the Committee Received Before February 1, 2004

Ainsworth, Philip L.

Allen, Richard

Anderson, Blake

Ashe, Randy

Atlantic Institute for Market Studies (AIMS),
Brian Lee Crowley

Audet, Jean-Guy

Basque, Jean-Claude

Bathurst and District Labour Council, Michael
Knowles, president

Branch, Gary A.

Blanchard, Léo

Bernard, Ron and Robin Bernard

Benton, S. Bruce

Chisholm, Daniel

Canadian Association of Direct Response
Insurers, Andrew Rogacki

CGI Adjusters Inc., Kelly W. Roberts

Cyr, Sylvain

Chappell, Wanda

| | |
|---|---|
| Cook, Greg | Meloche Monnex Inc. |
| Charette, Claude | Millican, Allan |
| Duclos, Roger Body Shop | Morrison, Shane |
| Duguay, Carol | Martin, Jocelyn |
| Dames d'Acadie de Campbellton, Jeannine Arseneau | New Brunswick Human Rights Commission |
| Economical Mutual Insurance Company, Garry Fox | North American Chronic Pain Association of Canada, Helen Tupper |
| Eidt, Doug | Ouellette, Morel Z. |
| Fairweather, Brad | Pitre, Murielle |
| Foran, Jackie | Rideout, Donald |
| Fraser Institute, Ontario, Mark Mullins | Robert, Jean and Alexa Roy |
| Gaddess, Sylvia | République Éducation Automobile Enr., École satellite de April Senechal |
| Gaudet, Roger | Robichaud, James |
| Gilbert, Peter | Seudath, Roderick |
| Godin, Yvon, MP | Société des Acadiens et Acadiennes du Nouveau- Brunswick, Daniel Thériault |
| Guay, Michel | Squarebriggs, Robert |
| Hughes, J., claims technical adviser | Toner, Raymond |
| Jordan, Avon | Trevors, Frank |
| Kelly, Kimberly A. | Unknown (One, e-mail address only; another, signed Concerned Citizen) |
| Lambert, Murray | Vautour, Cathy |
| LeBlanc, Jean | Walsh, Richard |
| Leonard, R. | Wawanesa Insurance and its Petitcodiac area workers: Debra Colborne, Brenda Gilmore, Judy and Earl Doucette, Shirley Mullin, Beatrice Price, Lea Jones, Kelly Donnelly, Helen Munro, Stacey Price and Julie Brown-Robichaud |
| Lunney, John, Department of Public Safety | Wheaton, Brenda |
| MacLeod, Allister | |
| Martin, Robert | |
| Matthews, Kevin W. | |
| McAllister, Glenn | |
| McGaw, Rick | |

Should you have appeared before the Committee on Public Automobile Insurance and/or made a submission to the Committee and should your name not appear on this list, please call the Office of the Clerk of the Legislative Assembly at (506) 453-5914 in order that a correction can be made to the public record.

Appendix F: Summary of Public Consultations

To hear what New Brunswickers had to say about public automobile insurance, the Committee held public hearings in eight communities in October and November 2003 at which about 100 presentations were made. Informal public gatherings were held after each hearing during which people were given the opportunity to talk about public automobile insurance with individual members of the Committee. In addition to the hearings, the Committee received comments from another 100 New Brunswickers by e-mail, written submissions and telephone calls.

The Committee received several hundred mail-in letters from a seniors group advocating a public automobile insurance system. The Committee decided that since the implementation of such a system will be a decision of government, it was appropriate to forward the letters to the Minister of Justice who is responsible for the insurance file. The Committee also received a petition containing 5,500 names in support of public automobile insurance, which will be presented to the House at the first opportunity.

The Participants

The Committee heard from representatives of the private insurance business in New Brunswick, from business and professional organizations, small business owners, Members of the Legislative Assembly of New Brunswick, community agencies, youths and seniors, unions, individual drivers with experiences to relate and other interested parties.

Summarized below are the main themes related to the Committee's mandate regarding key design elements such as tort or no-fault, risk rating features, role of the private sector and other professionals, of the optimal public automobile insurance system for New Brunswick that came through the public consultation process.

Impact of Rising Automobile Insurance Premium Rates

The Committee heard that high premium rates were having a negative affect on local economies by seriously impacting workers, small businesses, students, youths, elders, the unemployed and community service organizations.

A mechanic from Campbellton told the Committee that the number of repairs ordinarily covered by insurance (in which the shop would be likely to earn some profit) were dwindling – people, he said, are afraid to make insurance claims for fear of being penalized by sharp rises in premium rates as a result of a claim. On the Acadian Peninsula, another mechanic told the Committee that there were fewer repairs of any kind in his shop since people were keeping only one car where two were formerly the norm for a working family in that area because of distances between residences and job sites. As well, he said, fewer people were driving because insurance was prohibitive or impossible to get. The Committee heard that a woman moved from her home to another community where she could get to required services on foot as she could not afford automobile insurance premiums.

Anecdotal evidence was freely and frequently offered on the numbers of people driving without automobile insurance because of the high cost of premiums or because there was no automobile insurance available, particularly in the northern part of the province. The Committee heard no empirical evidence to support an increase in uninsured drivers.

Presenters, including the owner of a driving school and an owner of a car and recreational vehicle dealership, told the Committee how high automobile insurance rates were affecting the general economy: people are having to choose between making insurance payments or mortgage payments; minimum-wage workers can't afford the insurance they need to keep their cars on the road so they can

get to work; families are selling second vehicles, thus interfering with the possibility of extra earnings coming into the household. Small businesses can't cope with the extra cost of insurance and must cut back services and thereby risk losing customers. Others said they could afford the monthly cost of a new vehicle, but not the insurance premiums.

The Committee also heard, particularly on the Peninsula, that students who were unable to afford the cost of insurance premiums as well as tuition fees were opting out of college and university because there is no way for them to get to and from school.

Seniors told the Committee they feel isolated, that high premium rates are unaffordable for those on fixed incomes and seniors feel stranded at home. They feel anxious and fearful when the basics must be accomplished without transportation, basics such as medical visits and grocery and pharmaceutical needs. The extra burden on the stringent finances of pensioned seniors in rural New Brunswick is high.

In Saint John and in Caraquet, the Committee heard that community service organizations were hard hit by high automobile insurance premiums, particularly those organizations that operated transportation programs for the poor, elderly and incapacitated. A funding program in Saint John, designed to support community economic development, has been approached by people seeking to borrow from the fund to pay for automobile insurance and were, of necessity, turned away. In the public system, these presenters want a stable, affordable premium rate and reasonable risk rating that allows for the poor and for social agencies that struggle for funding.

The Committee also heard from individuals whose insurance premiums had not changed significantly over the previous few years and who were content with the current system.

Risk Rating and Underwriting

Presenters saw risk-rating and underwriting rules as problematic. To some, the rules are poorly understood and are perceived as obscure, arbitrarily applied and inequitable. Others explained authoritarian underwriting was necessary to recoup losses from increased soft-tissue injury claims and that some legislated changes would improve underwriting practices.

The inability to predict from year to year the consequences of an at-fault traffic accident on an individual's risk rating level and the severity of the premium consequences was a significant concern to many presenters.

The Committee heard a preference for insurance to be tied to the driver and not to the vehicle; that insurance rates should be set for the individual, based on driving record and not based on the number of drivers in the household, their driving records, age of driver, age of vehicle and other risk-rating elements.

Territories

The matter of territorial risk rating was an issue the Committee heard about frequently. Some presenters said they feel ill-served by a territorial rating system that forces the insured in one part of the province to pay significantly higher rates than in another part; or, as in the north, insurance coverage was sometimes impossible to get because companies stopped writing there. The Committee also heard that high claims payouts in some areas justified higher premium costs there. Some argued against equitable premiums, saying that drivers in one part of the province shouldn't pay more so drivers in another part could pay less.

Age and Gender

Youth were frustrated by the result of being rated high-risk drivers and argued for premiums based on driving record, not on age, in a public system. Presenters told the Committee the high premiums they were charged impeded their participation in society: They couldn't get to school, to part-time jobs and to facilities to engage in sports and other activities that are part of becoming independent adults. Some offered suggestions for improvements to the graduated licencing system for young drivers and for better driver education and safety programs.

Seniors shared the frustration felt by youth on being rated high-risk drivers because of age, resulting in unaffordable premiums, which were impeding their participation in society. They argued for insurance rates based on driving record and offered suggestions for improved monitoring of driving ability, health checks and a graduated de-licencing system that would help to promote safe driving amongst seniors.

The Committee heard that discrimination based on age is permitted in automobile insurance only in relation to minors and only if authorized by law. In any other case, the Committee heard, a complaint of discrimination could be filed with the Human Rights Commission. Similarly, the Committee heard that risk rating based on gender and marital status is of questionable legality and aggrieved persons are entitled to file complaints with the Commission.

Facility Association

The Committee heard that the role of the Facility Association in high premium rates and lack of fair access to insurance was a source of concern. The underwriting rules that allowed insurers to reject clients and force them into the high-cost Facility market were seen as unfair, particularly for seemingly innocuous occurrences such as a lapse in coverage due to illness or temporary absence or seasonal use of a vehicle.

The Committee heard the Facility Association had over 25,000 clients in 2003 and since legislative changes were made on July 1, 2003, that number has dropped to 18,000. The Committee heard that the normal number of vehicles in the Facility market in a province the size of New Brunswick is about 6,000.

System Design: Tort or No-fault

Presenters typically expressed a preference for either a tort-based (fault) system or a no-fault system.

Tort

The Committee heard that a tort-based public system without legislated caps such as the \$2,500 cap for pain and suffering on soft-tissue injuries, is preferred because it allows victims access to the courts in the case of disputes; and, it allows the courts to determine the appropriate amount of compensation to fit the individual circumstances.

In a tort-based system with no caps, accident victims can sue for loss of opportunity to earn a living, for pain and suffering, medical assistance and rehabilitation. It was acknowledged that there are delays in getting compensation to victims under the tort model.

Others expressed concern that the court process is often lengthy and difficult for victims and that there was not always a good outcome in single-vehicle accidents or uninsured driver situations.

No-Fault

The Committee heard that a universal system based on rehabilitation was preferable. Most presenters when asked to indicate their preference for a public system recommended a no-fault system based on either the Manitoba or Quebec models.

Presenters said the public no-fault system offers stable premium rates and compensation is equitable. Representatives from health and rehabilitation professional organizations expressed their support for a system that facilitates quick access to treatment services for those injured in automobile accidents. Massage therapists and physiotherapists who do a lot of work on soft-tissue injuries resulting from vehicle accidents told the Committee that the best outcomes occur when therapeutic intervention takes place quickly. In the private system, they said, their clients wait from 30 to 120 days for the compensation payments that allow for therapy and they say that is too long. They opted for any public system based on rehabilitation rather than compensation.

Other presenters were not willing to extend no-fault benefits to impaired, dangerous or criminal drivers in the public system.

(It is important to note that in a no-fault system, fault is not a determinant in access to benefits but is the most critical component in determining premium levels.)

Role of the Private Sector

Generally, the Committee heard support for the continuation of a role for brokers and agents in advising consumers on insurance matters in the public system. Presenters expressed their support for a balance between public and private on automobile insurance. A minority voice preferred no relationship with the private sector insurance companies.

Brokers acknowledged they could accept a role in selling basic, mandatory automobile insurance as well as optional coverage under a New Brunswick public automobile insurance system. The Quebec model in which private insurers take care of the vehicle while the public corporation addresses the human element had appeal for those presenters who prefer the largest role possible for the private sector.

The Committee heard a recommendation that the proposed public automobile insurance system allow brokers the authority to sell or transfer their licences to other brokers. It was also recommended that at least in the initial years of the public system, transactions be made in person rather than on the Internet or call-centre sales.

Safety

Presenters told the Committee they favoured putting insurance premium revenues back into the public system through programs to improve road safety and driver education. An argument was made for alcohol-free roads. Some presenters cautioned that impaired drivers in the public system should be treated severely.

Governance, Accountability and Financial Sustainability

The Committee heard that drivers want a transparent automobile insurance system, they want to know exactly what they are getting and at what cost – and they want affordable, basic mandatory insurance for everyone.

Of the four models available for consideration, presenters favoured two: the Manitoba and Quebec systems, with changes to reflect the New Brunswick reality.

Presenters said the model for public automobile insurance should ensure that drivers and owners, not the taxpayers, pay for the system and that any revenue surplus go back into the automobile insurance program and/or back to the rate payers and/or toward safety ventures and not be put into the provincial treasury. The Committee heard that government should not have a say in rate setting in the public system and that the public automobile insurance system should not be subsidized by general tax revenues.

The New Brunswick Board of Commissioners of Public Utilities (the PUB), through its Chairman, while not endorsing any particular type of public insurance, encouraged the Committee to examine the way in which the Manitoba public insurance system is set up with complete responsibility for oversight of the Crown corporation by an arm's length regulator, such as the PUB. The Chairman commended Manitoba's use of an independent tribunal, also at arm's length from government, to hear appeals of corporation decisions on injury awards.

He further recommended that the case managers who shepherd people through the public insurance process be separate from and independent of Government and the public insurance company. Thus, the injured parties would feel that these people were acting solely in their interests and not that of the public insurer.

The PUB further recommended that the funds of the public system should remain with the public automobile insurance corporation and not be part of the Province's general revenues. It further recommended that such provision be entrenched in the statute establishing the public automobile insurance system.

While some presenters mistrusted a Crown corporation to be transparent, others argued that a publicly owned and controlled system was more accountable to the users. The Committee was urged to build transparency and scrutiny of its operations and its finances into its legislation.

Consumer Advocate

The Committee heard there is a need for a formalized position of consumer advocate for premium-holders and there should be a clear avenue of appeal. Arguments were heard for an independent tribunal process in the public system.

Which Model for New Brunswick?

The Committee heard that Manitoba and Quebec systems were favoured as the models for a New Brunswick public automobile insurance system. Saskatchewan or Manitoba was a frequent either/or choice.

In the Manitoba model, presenters appreciated the transparency, equitability and stability of rates and services, but did not embrace the concept of territories.

In the Quebec model, it was the larger role for the private sector that was appealing to those concerned for job losses in the private sector in the move to the public system. To one presenter, that was not a concern, that job losses were sometimes the cost of change. Another presenter, an insurance agent, said that he could work with the public system by making changes in how he organized his office.

The legal community recommended the British Columbia model because it retains the right to sue and there was some support for the Saskatchewan model because it offers a choice between no-fault and tort, although it was noted that few Saskatchewan drivers have chosen the tort option.

Appendix G: List of In-Camera Presentations

Representatives of a number of government departments and agencies and other individuals met with the Select Committee on Public Automobile Insurance throughout their deliberations to provide information, guidance and advice. These included:

Desjardins, Pierre-Marcel, Université de Moncton, economic consultant to the Committee

Fréchette, Serge, trade consultant to the Committee

Insurance Corporation of British Columbia (by video-conference)

Manitoba Public Insurance

New Brunswick Department of Business New Brunswick

New Brunswick Department of Finance

New Brunswick Department of Justice

New Brunswick Department of Health and Wellness

New Brunswick Department of Public Safety

Saskatchewan Government Insurance

Schubert, Jon and Laurel Wood, insurance and business consultants to the Committee

Service New Brunswick

Société de l'assurance automobile du Québec

Appendix H: Public Automobile Insurance Corporations: Road Safety Initiatives

In the four public automobile systems in Canada, British Columbia, Saskatchewan, Manitoba and Quebec, some portion of the revenues of the automobile insurance corporation is used to address road safety concerns.

The proposed model for public automobile insurance in New Brunswick is unique; however, it sufficiently resembles Manitoba's system that it is appropriate to look mainly at its effort toward road safety to see if an equivalent could be developed here.

The amount of money dedicated to road safety in a public automobile insurance system varies province by province; however, the philosophy guiding the public systems includes concerted efforts to reduce collisions, injuries, deaths and claims.

Manitoba

Manitoba Public Insurance (MPI) developed a road safety program called RoadWise. It is the umbrella, so to speak, which covers a number of safety initiatives to protect people from the human and economic cost of vehicle accidents.

The program is managed by MPI and collaborates with partners to identify issues of road safety and to design and deliver programs to address those issues. The partners include addiction services, law enforcement agencies, fire departments, community safety organizations, insurance industry associations, schools, medical associations and federal and provincial government departments such as justice, transport and traffic engineering.

RoadWise runs several initiatives under three areas it sees as major problems in road safety: impaired driving, speeding and the use of adult and child restraints. All initiatives are community-based, are designed to educate people who use the roads, to prompt change in inappropriate behaviours and to collect data.

Much effort is directed toward high-risk drivers, those between 16 and 19 years old and those over 55 years old. These initiatives include driver education and driver testing and re-testing.

MPI has developed a special risk program to address commercial vehicle and long-haul transportation safety. This includes a diagnostic unit that is a portable vehicle inspection trailer that provides brake and suspension inspection services for large highway vehicles and collects other safety data on-site.

Saskatchewan

Saskatchewan Government Insurance (SGI) is the leading provincial agency in that province in road safety. It has safety programs and initiatives built around safe driving, impaired driving, driver education, vehicle standards and carrier safety.

SGI also does advertising campaigns and education programs to address the issues that have the highest priority to get under control: impaired driving, child passenger safety and occupant restraint use.

While it is difficult to offer precise figures on how much is spent on road safety annually and what level of monies those programs save, SGI allocates 2 per cent of annual earned premiums to road safety programs, advertising and education. As for how much SGI saves through its programs, it is equally difficult to directly correlate dollars saved to road safety programs. These are the average cost-of-collision

figures SGI uses: \$96,000 for a fatality collision; \$16,000 for an injury collision and \$3,500 for a property damage collision.

SGI programs directed to young and older drivers include probationary programs for new drivers and a medical review program that addresses, among other things, the aging driver. SGI is involved in the mandatory driver education program offered in the province's high schools and makes safety presentations in schools. It provides the operation funds for Students Against Drinking and Driving and for the Safety Squad, a summer program that sends students to community events to talk to youngsters about road safety issues. The corporation also supports the Saskatchewan Safety Council in its road safety initiatives for elementary students.

SGI does safety advertising using radio, television, newspapers, posters, billboards and in washrooms. This advertising is directed mainly at males between the ages of 19 and 35 for impaired driving and the use of seat belts.

The partnerships SGI makes in the interest of road safety include police, health professionals, emergency medical personnel, other provincial safety organizations, insurance brokers, schools, Native communities and individuals.

British Columbia

The Insurance Corporation of British Columbia (ICBC) was mandated to create a safer driving environment in that province. It concentrates on road improvements, better vehicle design, driver education, support for traffic law enforcement, a graduated licencing program for new drivers and better rehabilitation for the injured. The philosophy is to reduce claims costs and keep premiums low.

The graduated licencing program, which helps new drivers develop safe-driving skills and habits, is credited with reducing BC's new driver crash rate by 26 per cent after its second year of operation.

ICBC partners with provincial government and municipal departments to make improvements to locations where collisions occur frequently and to ensure safety issues are considered in the building of new roads and communities. These initiatives are cost-shared; ICBC invests in them if it can determine a minimum rate of return.

The Safer City program involves ICBC, municipalities, police and community groups in efforts to develop road safety initiatives to address local problems. ICBC partners with private sector organizations in such efforts as the development of a wildlife protection system and with vehicle manufacturers in the design of a head-restraint measuring device.

ICBC provides some non-insurance services for the government; for example, the corporation collects licence fees and fines and remits them directly to the government.

Quebec

In Quebec, the Société de l'assurance automobile du Québec (SAAQ) produces a number of brochures and booklets on many different driver safety topics such as drinking and driving, driving while using a cellphone, the obligations of drivers of heavy vehicles, rules for pedestrians and special safety promotions for children such as the cartoon character Monsieur S (for safety).

The SAAQ also produces study material for people to use to help them prepare for driver training and testing. Quebec has a graduated licencing program for new drivers of private passenger vehicles and for new drivers of heavy trucks. It also offers training for drivers of mopeds and motorcycles.

In 2001, the SAAQ launched a road safety program called *Politique de sécurité dans les transports 2001-2005: Volet routier*. Since 1985, accident fatalities have been on the decrease in Quebec, despite an increase in the number of automobiles and number of kilometres driven. The SAAQ attributes the decline to its awareness campaigns on drinking and driving and speeding, to increased police surveillance, a significant hike in the use of seatbelts, strict legislation on drinking and driving, and with suspended privileges and the graduated licencing system. The *Politique de sécurité* is intended to decrease the number of road fatalities even further through a four-part approach to road safety issues dealing with the human factor, the vehicle itself, the driving environment and the socio-economic environment.

SAAQ is responsible for Quebec's Road Safety Code – drinking and driving, use of cellphones while driving, bike helmets, pedestrian behaviour, rules for older drivers, etc. – and invests several million dollars a year into programs and publicity.

Salvage

An initiative on the periphery of road safety is the selling and/or recycling of “written-off” vehicles. In Manitoba, a weekly auction of about 350 vehicles brings \$20-million a year to the insurance corporation. In Saskatchewan, the equivalent program is called SGI Salvage and it sells anything that can be salvaged from a claim, from parts to complete vehicles. Salvage sells single, whole damaged vehicles and takes bids on vehicle packages. It dismantles about 2,000 vehicles a year and sells off some parts and reuses others in their repair shops. Salvage also recycles antifreeze, fuel, freon and oil from salvaged vehicles. This initiative operates out of five locations in Saskatchewan and employs more than 100 people. The SAAQ does not have a vehicle salvage program because its insurance covers the person and not the vehicle. It receives no monies from the disposal of written-off vehicles.

ICBC auctions its written-off vehicles in a web-based auctioning system. It sells about 40,000 cars a year in this way and puts \$50-million into the insurance corporation. ICBC has salvage locations throughout the province, but it doesn't drain and recycle fluids. That is up to the buyer. Some written-off vehicles are sold for parts only, some are rebuildable and some are drivable.

Appendix I: Public Automobile Insurance Corporations: Crime Prevention

It is generally accepted by the insurance industry that 10 to 15 per cent of insurance claims presented in Canada have some element of fraud. The estimate does not differentiate between public and private systems.

Since the proposed New Brunswick model of public automobile insurance is closer to the Manitoba system than it is to British Columbia, Saskatchewan or Quebec, and since those latter three provinces have much the same approach to fraud as Manitoba, this document will focus on fraud management in Manitoba to suggest how New Brunswick could establish an equivalent approach.

The four public automobile insurance corporations in Canada are members of the Canadian Coalition Against Insurance Fraud.

Manitoba

MPI participates in several initiatives to control automobile theft and insurance fraud in Manitoba. It supports:

- a special investigations unit
- a hit-and-run program
- a special Crown prosecutor
- partnerships with law enforcement agencies
- an anonymous TIPS line

Special Investigations Unit

Manitoba Public Insurance deals with fraud through a Special Investigations Unit. SIU investigates about 3,500 claims a year, or about 1.6 per cent of all claims submitted by customers. The SIU works with local police and the Royal Canadian Mounted Police to investigate claims such as bodily injury, theft and fire and to recover costs from fraudulent claims. SIU figures its efforts save ratepayers about \$14.4 million a year, a combination of avoided payment of fraudulent claims and court-ordered restitutions in cases of fraud. MPI prosecutes all cases of fraud, regardless of amount. Once investigated, claims are withdrawn or otherwise avoided; criminal charges might be laid and monies are recovered from claimants who did receive benefits from a fraudulent claim. As for the latter, once such a person is identified as having benefited from a fraudulent claim, MPI pursues that person, without exception, under civil litigation for recovery of the money at any rate the person can afford to repay it.

SIU has 19 of its own investigators on staff for automobile fraud (that is the only kind of insurance MPI provides) who handle about 250 investigations a year; it contracts out to private investigative firms to assist with about 100 bodily injury investigations a year because of the complexity of those files. For traffic accidents, SIU contracts to two traffic analysts and to one locksmith in matters of automobile theft.

The unit believes that Manitoba would experience the same frequency of padded claims of fraud as would the private sector. However, SIU says, because of its central database which includes all drivers and vehicles and because MPI is the only insurer, multiple offenders can be controlled easily.

In addition to the SIU, MPI finances an auto theft unit of officers to investigate auto theft in Winnipeg and finances a fingerprint technician to assist in such cases. MPI contracts two police officers to examine and lift prints off recovered stolen vehicles in a program unique in North America. Under that

program, an average of 25 offenders a month are arrested and charged for multiple offences relevant to automobile crime.

Automobile crime in Manitoba is a little different than in most other provinces. Manitoba doesn't have a big city sitting on a major seaport; this reduces the likelihood of finding a major automobile theft ring operating in the province. Most automobile theft in Manitoba consists of joy-riding by young males. The persons involved in such theft are flagged for attention and are monitored by all the elements of the public system, all of which are under one umbrella.

There is a 95 per cent recovery rate for stolen vehicles in Manitoba that suggests organized car-theft rings are not in operation in that province. And, where Ontario law-enforcement agencies might identify 15 so-called chop shops in a day, Manitoba investigators might identify one such operation a year. Nonetheless, theft claims in 2002/2003 in Manitoba cost \$25 million.

As vehicles age and disappear from the roads of Manitoba (the average age of a car in that province is 10 years), they are being replaced by vehicles more likely to be equipped with security systems. Once past this era of older, less secure vehicles, SIU anticipates automobile theft numbers will start to fall.

Hit-and-Run Program

MPI, together with police, provides a one-stop reporting service for hit-and-run claims in at least one city. Hit-and-run victims file their claims with MPI and fill out the required police report at one location. This makes it easier for legitimate claims and reduces the number of fraudulent claims when claimants walk away from the process or are discovered during investigation and are denied. Hit-and-run vehicles are inspected by an MPI estimator, an SIU investigator and a police officer.

In its first year of operation, the hit-and-run program in Brandon saved MPI \$70,000.

MPI Special Crown Prosecutor

MPI funds a special Crown prosecutor dedicated to handling automobile fraud cases. The availability of the special prosecutor ensures that MPI's fraud cases are handled without delay. The prosecutor also trains MPI claims staff in fraud detection.

Partnerships

MPI co-operates with police in identifying fraudulent claims by sharing expertise (see SIU above). The corporation donates funds to the Auto Theft Unit, a special unit of the Winnipeg police and to the National Committee to Reduce Auto Theft. It works with a program to involve residents in community-based crime prevention in co-operation with local police, a free vehicle identification program that deters theft and participates in a program to fund community solutions to local automobile crime. It provides rate discounts for drivers whose vehicles carry certain anti-theft devices and offers a rebate to those drivers whose security devices were defeated by thieves.

TIPS Line

MPI has a TIPS line and encourages residents to identify people who make fraudulent claims. The line receives about 60 tips a month and saves MPI about \$50,000 a year.

Quebec

Quebec manages fraud a little differently in that its public automobile insurance system insures the human body only; the private system insures the vehicle. The Société d'assurance automobile du Québec (SAAQ) manages 30,000 to 35,000 transactions in a year. Most of these, SAAQ says, do not concern fraud

but are examined for adherence to certain controls. Because the SAAQ deals with bodily injury only and intervention is swift and thorough, fraud against the SAAQ is very difficult to perpetrate.

False registrations and descriptions of vehicles, stolen vehicle identification numbers and identity fraud are of great concern to the SAAQ, but these are outside the public aspect of the automobile insurance system. Nonetheless, Quebec is actively engaged in efforts to control fraud through co-operative arrangements with other provinces and agencies and with a special committee on vehicle theft. It is also undertaking a wide-ranging examination and reorganization of its internal processes for licencing, vehicle registration, identification of the individual, identification of vehicles, and vehicle sales – new and used and imported – to thwart fraud. It has put in place a system obliging insurers to report all “total vehicle write-offs” to government, a system copied by all provinces and some states.

Saskatchewan

Like Manitoba, Saskatchewan recognizes insurance fraud as a concern for any insurance company and does not see it differentiated by type of system – public or private.

And, again like Manitoba, Saskatchewan, too, has a Special Investigations Unit to deter and manage automobile crime. Saskatchewan Government Insurance handles more than 150,000 automobile, property and injury claims each year and about 800 of those, or less than 1 per cent, are referred to SIU as suspicious. SGI belongs to the Canadian Coalition Against Insurance Fraud.

It has a budget of \$1-million a year and provides support to the public system (the compulsory program) and SGI Canada, its competitive property and casualty insurance company. SGI estimates it generates \$2 million a year in savings.

While SGI says Saskatchewan has a high number of stolen vehicles per capita, 90 per cent of those are recovered right away; they are stolen for joyrides and organized crime is not involved.

The Committee heard from SGI that a public insurance program would have less risk of automobile insurance fraud as it is the only company dealing with injury claims as a result of a motor vehicle crash. It has one comprehensive database on all drivers, owners and claimants, and fraudulent injury claims do not do well in a no-fault system. In small markets with public systems, adjusters and investigators get to know their customers very well while in private jurisdictions, fraudsters are able to move from company to company with less chance of detection.

British Columbia

The Insurance Commission of British Columbia has a zero-tolerance policy toward fraud and investigates and prosecutes vigorously. In 2003, ICBC was awarded \$4.5 million in a suit against a chop shop operation, \$4 million of that in punitive damages. Automobile theft claims rose sharply in British Columbia between 2000 and 2001 (17 per cent); vehicle break-ins, then vandalism, then theft, account for the greater number of claims.

In 2002, ICBC’s automobile insurance crime programs saved the corporation about \$50 million. Those programs are directed at vehicle theft, theft from vehicles and vandalism. The programs include a community based crime-prevention grant program through which ICBC funds local groups in automobile crime prevention. One of those projects established bike patrols, others parking lot audits and education and awareness initiatives. Another program places warning signs against automobile crime in high-risk areas, which are audited by community volunteers.

There is an active stolen automobile recovery program funded by ICBC in which community organizations are provided with portable computers, which contain information on stolen vehicles. Finally, there are program incentives for consumers to purchase anti-theft devices for their vehicles.

Appendix J: Public Automobile Insurance Corporations: Other Vehicles

Manitoba

In Manitoba, the government passes legislation to specify the mandatory insurance requirements for all vehicles. In all cases, the mandatory insurance is provided to Manitobans through the Autopac program, with one exception. All vehicles also have access to optional coverage through Manitoba Public Insurance and through other insurers.

Taxis are insured through the Autopac program and have the same mandatory coverage as the typical private passenger vehicle. Their deductible is \$100 higher to help keep their premiums down because they are involved in more accidents than private-use vehicles. For a lower deductible or other optional coverage, taxis apply to Manitoba Public Insurance's special risk department (SRE).

Off-road and recreational vehicles are snowmobiles, off-road motorcycles, all-terrain vehicles and amphibious vehicles. These vehicles are required to carry \$200,000 liability coverage. There are no mandatory accident benefits and no mandatory collision or comprehensive coverage. The mandatory liability coverage is sold together with vehicle registration through Autopac. People who want optional coverage can buy it through Manitoba Public Insurance Autopac Extension.

Antique and collector vehicle owners have the option to register in a restrictive antique category that only allows the vehicle to be used for shows and/or parades. There are fewer than 100 vehicles registered this way in Manitoba. They have no mandatory collision and comprehensive coverage and only have \$200,000 liability coverage. Most people with these vehicles want to use them more frequently, so they insure through the regular compulsory Autopac program and therefore receive full coverage for collision and comprehensive.

Commercial vehicles are insured through the regular mandatory Autopac program and owners can buy optional coverage, usually through the SRE. The largest trucks have no mandatory collision and comprehensive coverage through Autopac.

Fleets. All vehicles in the Autopac program are automatically part of a legislated fleet rebate/surcharge program if one owner has 10 or more vehicles. Each year, each fleet earns as much as a 25 per cent rebate or pays as much as a 50 per cent surcharge, based on their claims costs in relation to the premiums paid.

Exception: Public Service vehicles, those registered to haul goods or people outside Manitoba either across Canada or into the United States, do not pay any mandatory Autopac and have no coverage through mandatory Autopac. This is because they are required to carry liability coverage much higher than the \$200,000 required for private-use vehicles and it works better for them to place all their mandatory insurance with one insurer at one time. SRE insures many of these businesses, but is in competition for it.

Quebec

In Quebec, there are different insurance rates for **commercial vehicles** and **taxis**. The rates for trucks vary with the number of axles, motorcycles by the engine volume (cc), and buses by weight. When a driver of a commercial vehicle is involved in an accident, it isn't the SAAQ that takes care of the injured, they are covered, rather, by Workers Compensation.

Drivers of **off-road, recreational vehicles** are not insured; however, if a snowmobile, for example, is struck by a vehicle while crossing a road, the SAAQ insurance applies because the driver is then treated as a pedestrian or cyclist would be.

British Columbia

In British Columbia, own-damage coverage is not mandatory. Minimum liability limits are set legislatively and, with the exception of extra-provincial exempt vehicles, all vehicles must have their minimum limits coverage placed with ICBC. Extension liability and own damage coverage with varying deductibles are available from both ICBC and private carriers. ICBC has the vast majority of the market.

Taxis, buses and all other common passenger carriers are required to have \$1 million minimum liability limits. Most commercial trucks must also have a minimum of \$1 million. **Commercial trucks** carrying dangerous goods are required to have \$2 million. This is administered and enforced through a system of rate classes linked to vehicle licencing. All of these vehicles may purchase extension liability and own-damage coverage through ICBC or the private market.

Vehicles such as **ATVs, snowmobiles, off-road motorcycles** and the like are registered and carry minimum limits coverage (\$200,000) only to the extent they are permitted to operate on or cross highways. The mandatory coverage is not available for vehicles that are not required to be licenced as a result of the need to operate them on a highway. Most of these vehicles can purchase special coverage separate from licencing that provides own-damage coverage in various limits from ICBC or the private market.

Antique vehicles in BC are dealt with in much the same way as in Manitoba – extremely restricted use in exchange for very low premiums. **Collector vehicles** are dealt with separately here with specialized restrictions on status and use. Premiums are much lower than for conventional use, but much higher than for antiques. There are hundreds of antique vehicles licenced in BC and over 10,000 collector vehicles. In both cases, optional coverage can be purchased with varying deductibles and excess liability limits through ICBC or the private market.

Fleets in BC are not automatically created and administered as they are in Manitoba. The process is more manual. A single owner may have fleet status with as few as five vehicles, but must have fleet status with 20 or more. Discounts for fleets are determined through application of a claims loss ratio formula that is set out in legislation.

Saskatchewan

Saskatchewan General Insurance is similar to Manitoba Public Insurance in that it has mandatory insurance requirements for all vehicles, the Saskatchewan Auto Fund, except off-road vehicles. SGI provides basic coverage – the first \$200,000 liability coverage, injury benefits (of which there is a choice between no-fault and tort: less than half of 1 per cent choose the tort option) and damage coverage, which is actual cash value for most vehicles and is subject to a \$700 deductible. Some classes, such as heavy commercial vehicles, have limited damage coverage.

Additional coverage can be purchased from the private sector. SGI CANADA, which is separate from the Auto Fund, competes in that market.

Taxis are insured by the Auto Fund and receive the same coverage as passenger vehicles (\$200,000 liability, injury benefits and ACV damage coverage subject to a \$700 deductible). They are required to purchase higher liability and that is done through the private sector. If they want other extras, such as a lower deductible, that also comes through the private sector.

The Auto Fund does not insure **off-road vehicles**. For snowmobiles, SGI provides \$200,000 liability coverage and owners can purchase injury and damage coverage from the private sector. SGI does not cover ATVs. Motorcycles insure through SGI, but only those that are used on public roadways.

For vehicles 30 years and older, SGI offers an **antique rate** of \$60 for the \$200,000 liability, injury benefits and limited damage coverage (maximum \$800). To get antique use, a primary vehicle must be registered (antique is intended for parades and show, not everyday use). SGI doesn't have a collector vehicle class, but rates on older vehicles are quite low, between \$200 and \$300 dollars for full coverage. Special extension coverage is available for collector vehicles (stated value and the like).

Heavy commercial vehicles get \$200,000 liability, injury benefits and damage coverage that is capped at \$15,000. This includes vehicles registered under the International Registration Plan for inter-jurisdictional travel. Light/passenger commercial vehicles (half tons, vans, SUVs) get actual cash value damage coverage, as well as the liability and injury.

Fleets: Until recently, SGI had a fleet surcharge program in the Auto Fund that surcharged poor performing fleets but did not offer discounts to good performers. SGI abandoned that program and is introducing a reward program for all commercial vehicles regardless of the number of vehicles registered.

Recreational vehicles such as motor homes and trailers are all insured by the Auto Fund basic package and are rated by value.

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**

| | |
|------------------|--------------------|
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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.

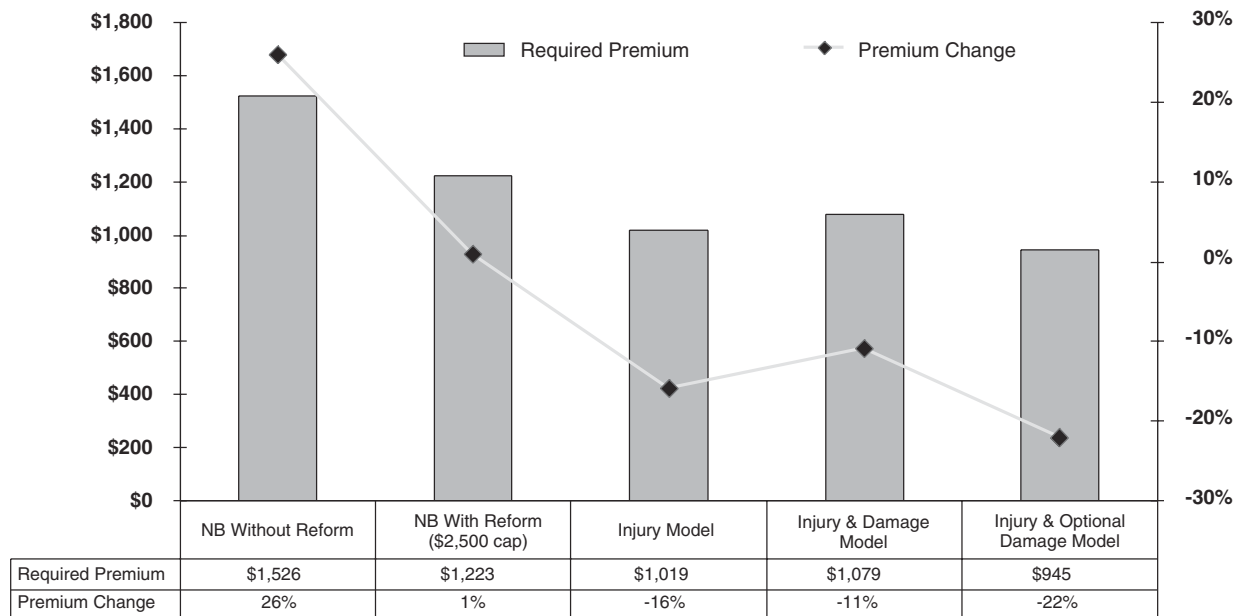
Readers should be aware that no estimate could possibly capture all the factors affecting automobile insurance costs and major reforms to the automobile insurance system. Estimates provide insight into the potential future experience and the impact of proposed changes.

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

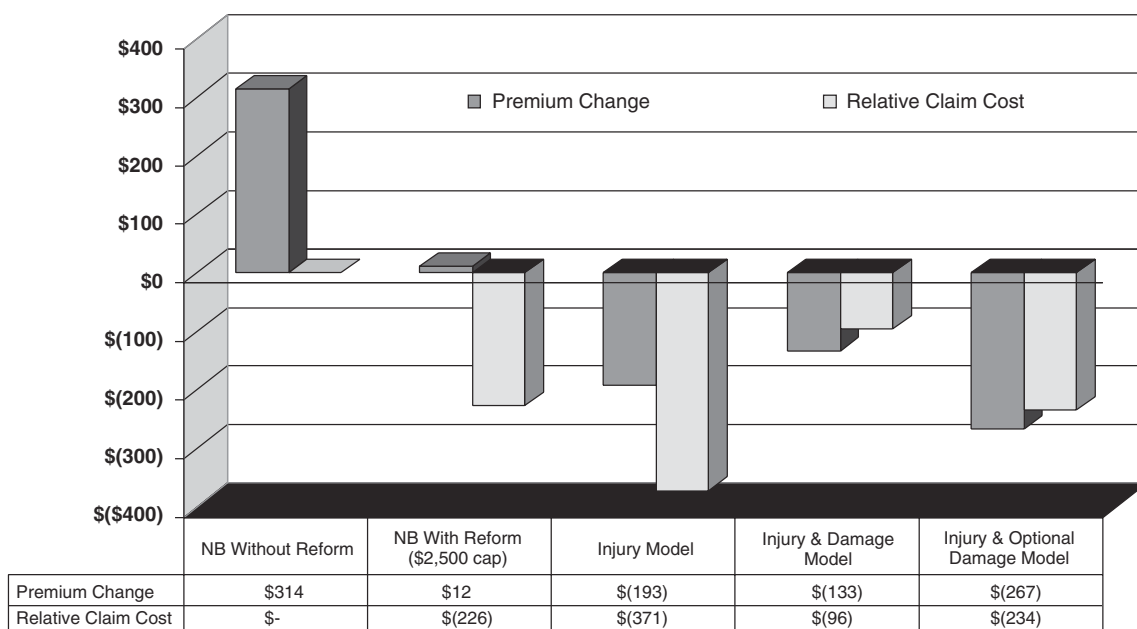


The current average street premium in New Brunswick is \$1,212.² This chart compares the required premium under each model as well as the average reduction in premium relative to the average street premium. Had New Brunswick not introduced the \$2,500 cap, required average premiums would total \$1,526 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.

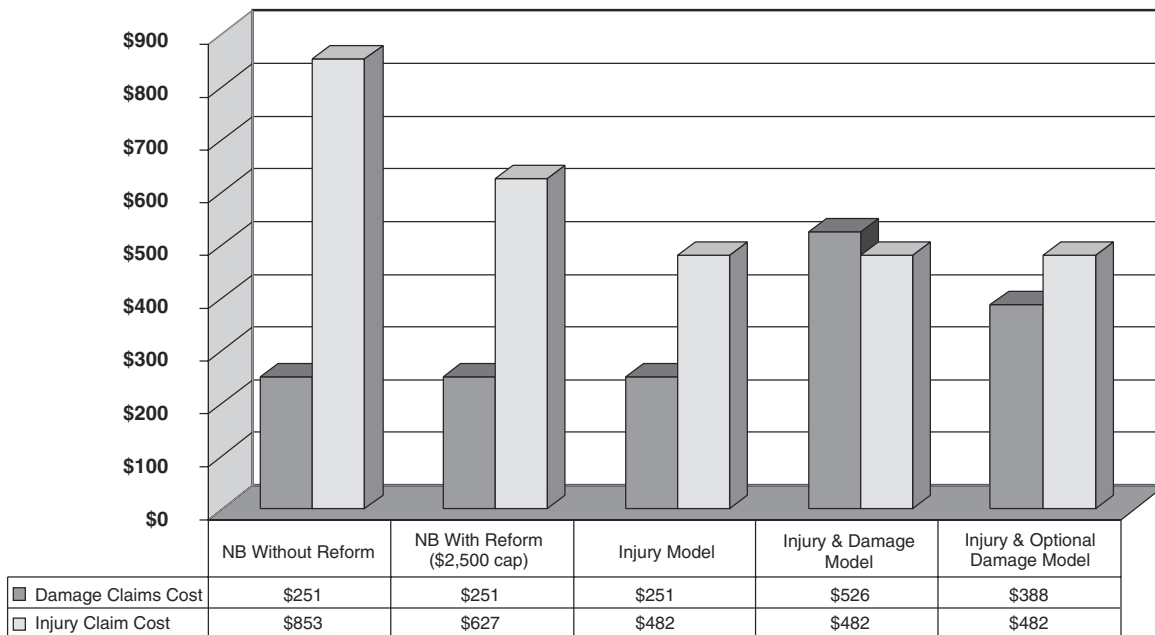
Under the injury & damage model, consumers would save an average of \$133 on premiums and claims costs would need to decrease by \$96 per vehicle relative to the claims cost in New Brunswick before the implementation of the pain and suffering cap.

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:

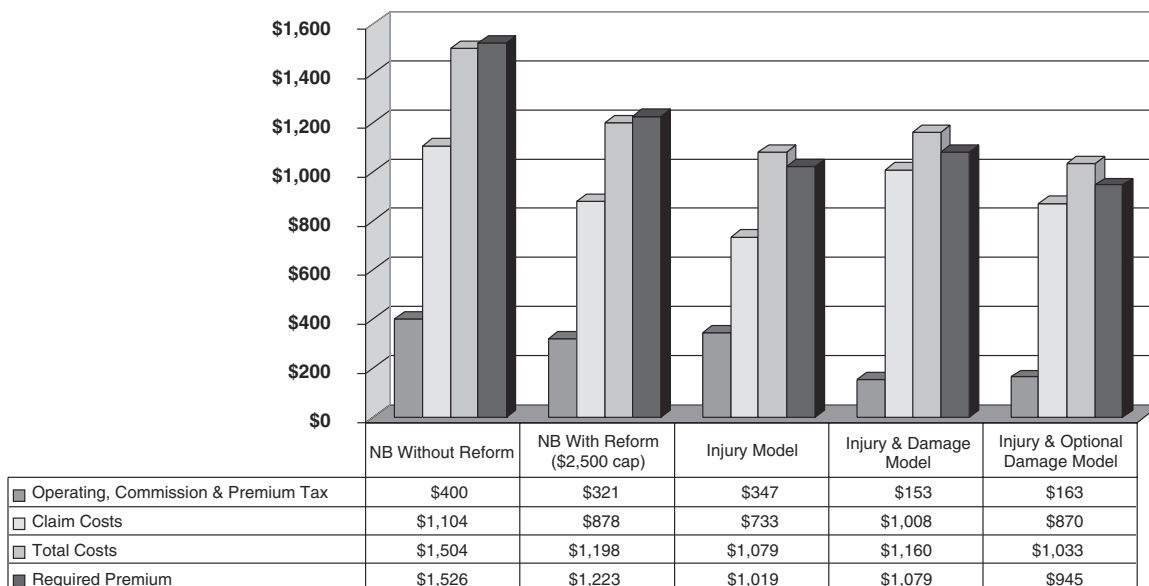
Damage & Injury Claim Costs



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).

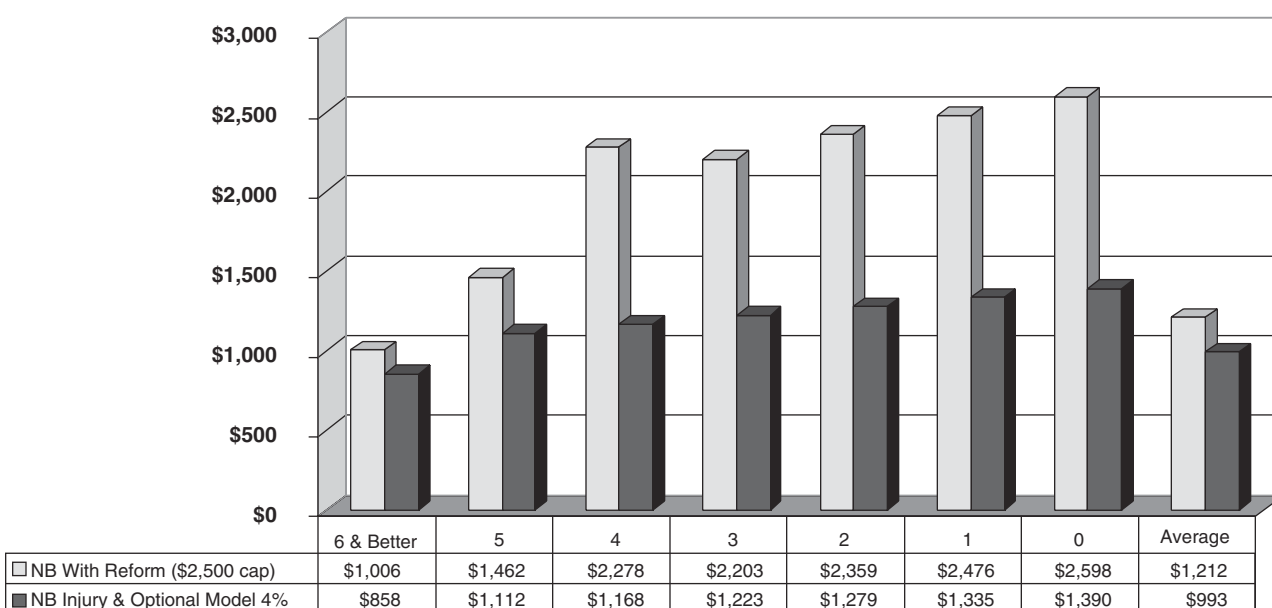
The premiums for each position in the driver penalty zone could also vary dependent on the design of the scale. We have suggested a relatively modest \$25 for each of the first two positions on the scale, followed by sharp increases as demerit points are accumulated. The following is an illustration 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 |
|---------------------------|---------------|

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
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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.

² Canadian 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.

Appendix M: Manitoba Public Insurance Letter of Intent



February 27, 2004

Ms. Elizabeth Weir, Chair
Select Committee on Public Automobile Insurance
Legislative Assembly of New Brunswick
Fredericton New Brunswick E3B 5H1

Dear Ms. Weir:

On behalf of the Manitoba Public Insurance, it is my pleasure to confirm MPI's willingness to work with the province of New Brunswick should you decide to adopt a public automobile insurance plan.

Specifically, MPI is prepared to provide the New Brunswick Public Insurance Crown corporation with the following:

1. Access to MPI's Autopac On-line system (which includes a motor vehicle registry system);
2. Data conversion;
3. Internal system forms modification (bilingual);
4. "Go Live" support;
5. Support published documentation (bilingual);
6. Initial system training effort for agents, brokers, call centre staff, and NBPI executive; and
7. An option to access information on MPI's website.

Manitoba Public Insurance is ready to provide these services on a cost recovery basis. Based on the information available at present, MPI estimates the cost of these services in the range of \$7 to \$9 million, subject to the confirmation of project details.

The above mentioned start-up costs could be charged as a one-time cost or spread over three years and recovered as part of the processing costs.

Sincerely,

A handwritten signature in blue ink that reads "J. W. Zacharias".

J. W. Zacharias
President and Chief Executive Officer

JWZ/jl

Executive Offices 912-234 Donald Street Box 6300 Winnipeg MB R3C 4A4 Telephone: (204) 985-7525
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Télécopieur : (204) 942-1133 www.mpi.mb.ca

Appendix N: New Brunswick Public Automobile Insurance Model - Economic Impact Assessment

An Economic Impact Analysis of the New Brunswick Public Automobile Insurance Model

Prepared for :

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

Submitted by :

**Pierre-Marcel Desjardins, Ph.D.
Economist**

Introduction

The Select Committee on Public Automobile Insurance was appointed by resolution of the House and adopted August 5, 2003. After a comprehensive process, the Committee is recommending a specific model for public automobile insurance in New Brunswick. This study analyzes the economic impact of the implementation and operation of the recommended model. Using an input-output model, this study estimates the impact during the start-up year as well as the impact of the new system for a regular operating year.

Results

Results were generated using an input-output model, the principles of which are presented in Appendix 1. In order to make such an analysis, a variety of assumptions have to be made. The detailed assumptions used in the present analysis are found in Appendix 2. Detailed results – on a county-by-county basis – are presented in Appendix 3.

Before presenting the results, the reader has to be reminded that the present exercise is an economic simulation. We are confident that the overall results do represent an acceptable estimate of the economic impact of the proposed public automobile insurance system, based on the assumptions that were made. Statistics theory teaches us, however, that the smaller the object of analysis, the greater the risk of error. Consequently, results on a county-by-county basis – as opposed to province-wide results – while offering important and interesting information, should be used with caution.

The Start-Up Year

The economic impact of the start-up phase of the proposed public automobile insurance system would be positive. The most significant factors during this initial stage would be the construction of the headquarters and of the five claim centres, the staggered hiring of personnel by the public insurance corporation and implementation related expenditures.

As we explain in Appendix 2, we chose Moncton as the location for the new headquarters to be consistent with a previous study completed on this issue, by Shift Central. Assumptions were also required for the location of the five claim centres. We assume that they would be located in the northeast (Bathurst), the northwest (Edmundston), the southeast (Moncton), the southwest (Saint John) and central New Brunswick (Fredericton).

During the start-up year (Table 1), gross output in the province would increase by nearly \$110 million. The greatest impact would be felt in Westmorland County, home of the new headquarters as well as of one claim centre (Table 3, Appendix 3). Other counties with claim centres would also be important beneficiaries of increased economic activity.

Table 1: Summary of Results for Start-Up Year, Province of New Brunswick

| | Direct Impact ¹ | Indirect and Induced Impacts ² | Total Impact ³ |
|---|----------------------------|---|---------------------------|
| Variation of gross output (\$) | \$75,393,152 | \$33,944,802 | \$109,337,954 |
| Variation of Employment (person-years) | 821.9 | 202.0 | 1023.9 |
| Variation of Gross Domestic Product (\$) | \$35,444,680 | \$10,705,626 | \$46,150,306 |
| Variation of Federal Gvt Revenues (\$) | | | \$6,064,549 |
| Variation of Provincial Gvt Revenues (\$) | | | \$4,450,772 |

On the employment front, it is estimated that the equivalent of more than 1,000 person-years of employment could be created. Three hundred of these would be the result of hiring by the public automobile insurance corporation. A significant number would be employed directly or indirectly as a result of the construction of the headquarters and the claim centres. The great majority of the employment creation during this start-up year would thus take place in communities where the headquarters and the claim centres would be located (Table 3. in Appendix 3).

The contribution to the provincial gross domestic product (GDP) would be, for the start-up year, about \$46 million. Federal government revenues – from activities taking place within the boundaries of the province of New Brunswick – would increase by \$6 million while those of the provincial government would increase by over \$4.4 million.

Regular Operation Year

The economic impact of the proposed public automobile insurance system would be more varied for a regular operation year than would be the case for the start-up year. In the case of a regular operation year, there would be a positive economic impact resulting from the activities of the public automobile insurance corporation as well as from the impact of the premium savings for insured drivers. There will be a negative economic impact of the reduction or elimination of activity in the private insurance sector.

Of the 2,400 actual insurance sector jobs, we estimate that the number would fall to about 1,266. It is assumed that all remaining adjusters would be employed with the public insurance corporation (the details of the assumptions are presented in Appendix 2). This would lead to the elimination of 291 private sector licensed resident adjusters and 145.5 related support positions. It is further assumed that there would be a reduction of 26.4 per cent of agent (130.7) and broker (247.9) related employment. We also estimate a further reduction of 317.7 positions in other insurance functions. At the same time, 800 positions would be created at the new public automobile insurance corporation.

¹ Direct impact measures the impact of actions directly resulting from the implementation of the public automobile program.

² Indirect and induced impacts measure the impact of actions resulting from, but not directly related to the implementation of the public automobile program.

³ Total impact may not be equal to direct impact + (indirect and induced impact) as a result of rounding off numbers.

Amongst the other factors considered, the premium savings for insured drivers is the most important, totalling \$103,587,000. Also included in the calculations are the various variations in operational expenses.

From Table 2, we can observe that the direct impact would be negative, a reflection of the fact that the size of the sector would shrink with less direct employment after the creation of the public insurance corporation. However, the indirect and induced impacts – mostly fuelled by reduced premiums – would generate a positive economic impact. The total economic impact would be positive.

Overall, gross output in the province would increase annually by over \$144 million. The impact would be positive for all regions of the province, although Westmorland and, to a lesser extent, York and Gloucester counties would be the principal gainers (Table 8 in Appendix 3).

Table 2: Summary of Results for Regular Operation Year, Province of New Brunswick

| | Direct Impact ¹ | Indirect and Induced Impacts ² | Total Impact ³ |
|---|----------------------------|---|---------------------------|
| Variation of gross output (\$) | -\$13,673,245 | \$157,854,974 | \$144,181,729 |
| Variation of Employment (person-years) | -333.2 | 608.4 | 275.2 |
| Variation of Gross Domestic Product (\$) | -\$8,469,596 | \$45,876,474 | \$37,406,878 |
| Variation of Federal Gvt Revenues (\$) | | | \$6,768,763 |
| Variation of Provincial Gvt Revenues (\$) | | | \$3,515,239 |

The total impact on employment would be positive with the creation of the equivalent of 275 person-years. In this case, the total impact is negative for some counties and positive for others (Table 9 in Appendix 3). The greatest gains are in counties with a physical presence of the new public automobile insurance corporation.

The impact on the province's GDP would be positive, increasing by over \$37 million. Federal government revenues from New Brunswick would increase by over \$6.7 million while provincial government revenues would increase by \$3.5 million.

Other Economic Issues

We have presented the overall economic impact of the proposed modifications to the automobile insurance regime in New Brunswick. These are not the only economic impacts, although the other costs are extremely difficult to quantify. Two of these are increased stability for insured drivers and the impact of the loss of jobs and displacement of workers.

Increased Stability for Insured Drivers

A new system offering both stability and predictability to insured drivers would have a positive economic impact. Facing risk and uncertainty, economic agents tend to be more cautious and restrict their exposures. Reducing this risk and uncertainty should translate into increased economic activity, both as a result of modified behaviour of consumers and of businesses.

Loss of Jobs / Displacement of Workers

Even if the model predicts a net increase in employment, one should not underestimate the impact on the displaced workers. As we have seen, we estimate a loss of about 1,134 positions. Change is very often difficult, especially when it is imposed on individuals. There are no guarantees that these individuals will easily find employment especially when one considers that the proposed system would be more centralized than the existing system. This means that individuals will surely have to move if they intend to continue working in the sector, an option that may not be viable for some.

Summary of Findings

Start-Up Year:

- Net increase of \$109 million of gross output in New Brunswick
- Net increase of employment of 1,024 person years
- Net increase of \$46 million in New Brunswick's gross domestic product (GDP)
- Net increase of \$6 million in federal government revenues resulting from increased economic activity in New Brunswick
- Net increase of \$4.4 million in provincial government revenues

Regular Operation Year:

- Net increase of \$144 million of gross output in New Brunswick
- Reduction of 1,134 private insurance sector jobs
- Creation of 800 jobs at the proposed public insurance corporation
- Net increase of employment of 275 person years (taking into account direct, indirect and induced impacts)
- Net increase of \$37 million to New Brunswick's gross domestic product (GDP)
- Net increase of \$6.7 million to federal government revenues resulting from increased economic activity in New Brunswick
- Net increase of \$3.5 million to provincial government revenues

Appendix 1: Input-output modeling

Analysis such as this can only be done with a proven economic model, in this case an input-output model. The principle of this model is essentially to follow the money trail “step by step”. For example, a firm purchases goods and services from local firms (the direct impact). These may as a result hire extra personnel, buy its own extra inputs, etc., which may also generate more purchases, etc. (the indirect and induced impacts). The input-output model takes into account all of the various relationships based on the inputs (purchases) and outputs (production) of businesses, households and governments. Our model has the added advantage of taking into account geography, yielding results on a county basis.

Appendix 2: The Assumptions

We used the financial information generated by Jon Schubert Consulting and Meyers Norris Penney LLP to estimate the economic impact. Following are further assumptions.

General Assumptions

- Headquarters (HQ): to be located in Moncton. This is the same assumption made in the Shift Central's study done for the Insurance Bureau of Canada
- Five Claims Centres (CC): Moncton, Saint John, Fredericton, Edmundston, Bathurst
- Call centre: located at headquarters in Moncton

Start-Up Year:

- Assume no impact on private sector insurance related activities during start-up year
- Employment Increases:
 - Employees: the number is going to gradually increase during the year to total 700 at the end of the start-up year. We assume an average of 300 positions for the year.
 - Salaries for employees: average of \$41,625 (excluding senior management)
- Recruitment Costs:
- Includes print media buys
 - Westmorland (70 per cent)
 - Gloucester (10 per cent)
 - York (10 per cent)
 - Saint John (10 per cent)
- System and Business Process Development Costs
 - Most expenditures out of province
 - Westmorland (1.27 per cent)
- Communication Costs:
 - Includes print media buys
 - 70 per cent in New Brunswick
 - Westmorland (40 per cent)
 - Gloucester (10 per cent)
 - York (10 per cent)
 - Saint John (10 per cent)
- Consulting Services
 - 30 per cent in New Brunswick
 - Westmorland (10 per cent)
 - York (10 per cent)
 - Saint John (10 per cent)

- Construction of Claim Centres
 - Westmorland (Moncton) (20 per cent)
 - Saint John (Saint John) (20 per cent)
 - York (Fredericton) (20 per cent)
 - Madawaska (Edmundston) (20 per cent)
 - Gloucester (Bathurst) (20 per cent)
- Construction of Headquarters
 - Westmorland (Moncton)
- Furniture and Equipment
 - \$5,000 per employees – total employees
 - Westmorland (Moncton HQ) (75 per cent)
 - Westmorland (Moncton CC) (5 per cent)
 - Saint John (Saint John CC) (5 per cent)
 - York (Fredericton CC) (5 per cent)
 - Madawaska (Edmundston CC) (5 per cent)
 - Gloucester (Bathurst CC) (5 per cent)
- Training Costs
 - Westmorland (Moncton HQ) (16.7)per cent
 - Westmorland (Moncton CC) (16.7 per cent)
 - Saint John (Saint John CC) (16.7 per cent)
 - York (Fredericton CC) (16.7 per cent)
 - Madawaska (Edmundston CC) (16.7 per cent)
 - Gloucester (Bathurst CC) (16.7 per cent)

Regular Operational Year

- Employment Increases:
 - Eight senior management positions (HQ – Moncton)
 - Employees:
 - Westmorland (Moncton HQ) (600, including the eight senior management positions)
 - Westmorland (Moncton CC) (40)
 - Saint John (Saint John CC) (40)
 - York (Fredericton CC) (40)
 - Madawaska (Edmundston CC) (40)
 - Gloucester (Bathurst CC) (40)
 - Salaries for employees: average of \$41,625 (excluding senior management)
- Operating Costs
 - 25 per cent of salaries for various centre:
 - Westmorland (Moncton HQ) (75 per cent)
 - Westmorland (Moncton CC) (5 per cent)
 - Saint John (Saint John CC) (5 per cent)
 - York (Fredericton CC) (5 per cent)
 - Madawaska (Edmundston CC) (5 per cent)
 - Gloucester (Bathurst CC) (5 per cent)

- Brokers:
 - Information received from industry identifies 939 jobs, by community
 - From Canadian Underwriter, we assume 60 per cent of business is automobile related
 - We assume 44 per cent reduction of automobile-related work, reflected by reduction in commissions from 12.5 per cent to 7 per cent
 - Hence, we assume a reduction of brokers' activity of 26.4 per cent (i.e. 44 per cent of 60 per cent)
 - Assume salaries on average of \$41,625.
 - Result:
 - Reduction of employment of 26.4 per cent (247.9 jobs), in all communities where brokers are present
 - Reduction of operating expenses of 26.4 per cent (Operating expenses buying estimated at 25 per cent of salaries)
- Adjusters:
 - Assumption is that all adjuster-related activity is incorporated in the new public automobile insurance corporation.
 - From the Insurance Branch of the Department of Justice, we estimate that we have 291 licensed resident adjusters in the province.
 - We further assume an average of 0.5 support staff for every adjuster, for a total of 145.5 support staff
 - Based on the companies names listed on the Department of Justice list, we used www.yellowpages.ca to identify communities where the offices are located. In the case of multi-locations, we distributed the numbers evenly between offices, with the consequence of most probably overestimating the impact in relatively more rural New Brunswick and underestimating the impact in relatively more urban New Brunswick.
 - We again assume an average salary of \$41,625.
 - We assume operating expenses of 25 per cent of salaries.
 - We finally assume that under the new system, all these private sector adjuster-related activities will cease.
- Agents:
 - We make the assumption that agents may continue their operations under the same rules and regulations as brokers
 - From the Insurance Branch of the Department of Justice, we estimate that we have 330 licenced agents in the province.
 - We further assume an average of 0.5 support staff for every agent, for a total of 165 support staff

- Based on the companies in the Department of Justice list, we used www.yellowpages.ca to identify communities where the offices are located. In the case of multi-locations, we distributed the numbers evenly between offices, with the consequence of most probably overestimating the impact in relatively more rural New Brunswick, and underestimating the impact in relatively more urban New Brunswick.
- We again assume an average salary of \$41,625.
- We assume operating expenses of 25 per cent of salaries.
- From Canadian Underwriter, we assume 60 per cent of business is automobile related
- We assume 44 per cent reduction of automobile-related work, reflected by reduction in commissions from 12.5 per cent to 7 per cent
- Hence, we assume a reduction of agents' activity of 26.4 per cent (i.e. 44 per cent of 60 per cent)
- Result:
 - Reduction of employment of 26.4 per cent in all communities where agents are present
 - Reduction of operating expenses of 26.4 per cent (Operating expenses buying estimated at 25 per cent of salaries)

- Other Insurance Industry:

- We did not have access to precise data, but from Shift Central's study on behalf of the Insurance Bureau of Canada, we know that there are a total of 2,400 jobs in the province, in various sectors of the non-life insurance sector. We thus make the following calculations:

| | |
|-------|--|
| 2,400 | Shift Central total number |
| 939 | Brokers |
| 495 | Estimate of agents and support staff |
| 436.5 | Estimate of adjusters and support staff. |

We conclude that there are an extra 529.5 jobs in the province.

- From Canadian Underwriter, we assume 60 per cent of business is automobile related
- We then assume that 60 per cent of these 529.5 other jobs will be lost, i.e. a reduction of 317.7 jobs, which we again estimate at an average salary of \$41,625.

We make the assumption that these jobs are concentrated in Moncton (2/3) and Saint John (1/3).

- We further assume a reduction of operating expenses of 25 per cent of lost salaries.

- Premium Savings:
 - We assume total annual savings of \$103,587,000.
This is based on an average reduction of premiums from \$1,212 to \$993.
 - We base our distribution of the savings on the data reported by Service New Brunswick, by office, for vehicle registration.
This overestimates the impact in larger urban centres and underestimates the impact in rural regions. For example, Albert County residents registering a vehicle at the Moncton (Westmorland) Service New Brunswick office.
- Health Services Levy:
 - We assume no changes for government revenues
- Corporate Income Tax:
 - Based on the report titled “Study of cost-benefit and legal implications of an Atlantic public automobile insurance system: Effects on Provincial Finances” published August 28, 2003 by the Atlantic Canada Insurance Harmonization Task Force, we assume that the potential lost corporate income tax for the provincial government is \$700,000 annually. We will make the additional assumption that the result will be the same for the federal government.
- Premium tax:
 - The reduction in premiums (\$103,587,000) will translate into a reduction of premium tax revenues (3 per cent) totalling \$3,107,610.

Appendix 3: Detailed Results

Table 3 : Start-up Year – Variation of Gross Output (\$)

| | Direct Impact | Indirect and Induced Impacts | Total Impact |
|---------------------|----------------------|-------------------------------------|---------------------|
| Albert | \$1,660 | \$293,895 | \$295,555 |
| Carleton | \$1,416 | \$497,458 | \$498,874 |
| Charlotte | \$817 | \$541,875 | \$542,692 |
| Gloucester | \$3,457,469 | \$742,895 | \$4,200,364 |
| Kent | \$1,283 | \$472,740 | \$474,023 |
| Kings | \$5,614 | \$461,783 | \$467,397 |
| Madawaska | \$3,910,406 | \$374,824 | \$4,285,230 |
| Northumberland | \$3,236 | \$514,288 | \$517,524 |
| Queens | \$87 | \$224,952 | \$225,039 |
| Restigouche | \$3,153 | \$332,472 | \$335,625 |
| Saint John | \$4,601,159 | \$2,837,543 | \$7,444,702 |
| Sunbury | \$1,329 | \$212,637 | \$213,967 |
| Victoria | \$1,505 | \$387,133 | \$388,638 |
| Westmorland | \$58,800,239 | \$23,813,480 | \$82,613,719 |
| York | \$4,597,778 | \$2,236,828 | \$6,834,606 |
| Total New Brunswick | \$75,393,152 | \$33,944,802 | \$109,337,954 |

Table 4 : Start-up Year – Variation of Employment (Person-years)

| | Direct Impact | Indirect and Induced Impacts | Total Impact |
|---------------------|----------------------|-------------------------------------|---------------------|
| Albert | 0.0 | 1.3 | 1.3 |
| Carleton | 0.0 | 2.1 | 2.1 |
| Charlotte | 0.0 | 2.3 | 2.3 |
| Gloucester | 25.5 | 8.3 | 33.8 |
| Kent | 0.0 | 2.0 | 2.0 |
| Kings | 0.1 | 1.9 | 2.0 |
| Madawaska | 24.0 | 4.0 | 28.0 |
| Northumberland | 0.0 | 2.3 | 2.3 |
| Queens | 0.0 | 0.9 | 0.9 |
| Restigouche | 0.0 | 1.4 | 1.4 |
| Saint John | 79.3 | 32.0 | 111.3 |
| Sunbury | 0.0 | 0.9 | 0.9 |
| Victoria | 0.0 | 1.6 | 1.6 |
| Westmorland | 614.2 | 115.6 | 729.8 |
| York | 78.8 | 25.6 | 104.3 |
| Total New Brunswick | 821.9 | 202.0 | 1023.7 |

Table 5 : Start-up Year – Variation of Gross Domestic Product

| | Direct Impact | Indirect and Induced Impacts | Total Impact |
|----------------------------|----------------------|-------------------------------------|---------------------|
| Albert | \$861 | \$80,005 | \$80,866 |
| Carleton | \$879 | \$153,738 | \$154,617 |
| Charlotte | \$517 | \$164,795 | \$165,312 |
| Gloucester | \$1,040,930 | \$235,034 | \$1,275,964 |
| Kent | \$665 | \$143,348 | \$144,013 |
| Kings | \$3,371 | \$134,569 | \$137,940 |
| Madawaska | \$900,000 | \$115,033 | \$1,015,033 |
| Northumberland | \$1,917 | \$158,262 | \$160,179 |
| Queens | \$53 | \$64,588 | \$64,640 |
| Restigouche | \$1,797 | \$94,611 | \$96,408 |
| Saint John | \$4,009,021 | \$965,025 | \$4,974,046 |
| Sunbury | \$883 | \$60,362 | \$61,245 |
| Victoria | \$995 | \$111,479 | \$112,474 |
| Westmorland | \$25,502,573 | \$7,384,412 | \$32,886,985 |
| York | \$3,980,217 | \$840,367 | \$4,820,584 |
| Total New Brunswick | \$35,444,680 | \$10,705,626 | \$46,150,306 |

Table 6 : Start-up Year – Variation of Federal Government Revenues

| | |
|----------------------------|--------------------|
| Total New Brunswick | \$6,064,549 |
|----------------------------|--------------------|

Table 7 : Start-up Year – Variation of Provincial Government Revenues

| | |
|----------------------------|--------------------|
| Total New Brunswick | \$4,450,772 |
|----------------------------|--------------------|

Table 8 : Regular Operation Year – Variation of Gross Output

| | Direct Impact | Indirect and Induced Impacts | Total Impact |
|---------------------|----------------------|-------------------------------------|---------------------|
| Albert | -\$986,810 | \$1,025,273 | \$38,464 |
| Carleton | -\$1,699,257 | \$6,586,942 | \$4,887,686 |
| Charlotte | -\$1,269,879 | \$5,534,139 | \$4,264,260 |
| Gloucester | -\$436,456 | \$19,103,012 | \$18,666,556 |
| Kent | \$689,266 | \$4,998,082 | \$4,308,817 |
| Kings | \$1,998,694 | \$6,035,529 | \$4,036,835 |
| Madawaska | -\$784,387 | \$6,443,555 | \$5,659,168 |
| Northumberland | -\$2,139,157 | \$8,401,206 | \$6,262,049 |
| Queens | -\$43,781 | \$1,957,848 | \$1,914,067 |
| Restigouche | -\$1,415,186 | \$7,139,895 | \$5,724,709 |
| Saint John | -\$11,436,079 | \$18,170,222 | \$6,734,143 |
| Sunbury | -\$397,963 | \$3,139,556 | \$2,741,592 |
| Victoria | \$255,732 | \$4,443,260 | \$4,187,529 |
| Westmorland | \$11,268,780 | \$44,682,731 | \$55,951,512 |
| York | \$1,389,380 | \$20,193,722 | \$18,804,342 |
| Total New Brunswick | -\$13,673,245 | \$157,854,974 | \$144,181,729 |

Table 9 : Regular Operation Year – Variation of Employment (Person-years)

| | Direct Impact | Indirect and Induced Impacts | Total Impact |
|---------------------|----------------------|-------------------------------------|---------------------|
| Albert | -18.4 | 4.2 | -14.2 |
| Carleton | -30.8 | 23.2 | -7.6 |
| Charlotte | -23.8 | 19.3 | -4.5 |
| Gloucester | -8.0 | 69.9 | 61.8 |
| Kent | -12.8 | 17.9 | 5.1 |
| Kings | -37.2 | 21.7 | -15.5 |
| Madawaska | 6.3 | 29.4 | 35.6 |
| Northumberland | -40.5 | 30.1 | -10.4 |
| Queens | -0.8 | 7.4 | 6.6 |
| Restigouche | -26.9 | 25.9 | -1.0 |
| Saint John | -234.9 | 75.3 | -159.6 |
| Sunbury | -7.5 | 11.5 | 4.0 |
| Victoria | -24.5 | 10.6 | -13.9 |
| Westmorland | 179.7 | 180.2 | 359.9 |
| York | -53.0 | 81.9 | 28.8 |
| Total New Brunswick | -333.2 | 608.4 | 275.2 |

| Table 10 : Regular Operation Year – Variation of Gross Domestic Product | | | |
|--|----------------------|-------------------------------------|---------------------|
| | Direct Impact | Indirect and Induced Impacts | Total Impact |
| Albert | -\$740,108 | \$238,897 | -\$501,212 |
| Carleton | -\$1,275,446 | \$1,901,733 | \$626,288 |
| Charlotte | -\$953,184 | \$1,559,011 | \$605,826 |
| Gloucester | -\$207,615 | \$5,604,901 | \$5,397,286 |
| Kent | -\$516,949 | \$1,423,734 | \$906,785 |
| Kings | -\$1,499,280 | \$1,697,646 | \$198,365 |
| Madawaska | -\$338,691 | \$2,075,222 | \$1,736,531 |
| Northumberland | -\$1,604,799 | \$2,371,890 | \$767,091 |
| Queens | -\$32,851 | \$541,659 | \$508,809 |
| Restigouche | -\$1,061,729 | \$2,050,281 | \$988,552 |
| Saint John | -\$8,764,206 | \$5,286,827 | -\$3,477,379 |
| Sunbury | -\$298,855 | \$928,122 | \$629,267 |
| Victoria | -\$319,211 | \$1,062,664 | \$743,452 |
| Westmorland | \$10,065,796 | \$12,937,700 | \$23,003,496 |
| York | -\$922,467 | \$6,196,189 | \$5,273,721 |
| Total New Brunswick | -\$8,469,596 | \$45,876,474 | \$37,406,878 |

| Table 11: Regular Operation Year – Variation of Federal Government Revenues | |
|--|-------------|
| | |
| New Brunswick | \$7,468,763 |
| Decrease in corporate tax | \$700,000 |
| Total for New Brunswick | \$6,768,763 |

| Table 12 : Regular Operation Year – Variation of Provincial Government Revenues | |
|--|-------------|
| | |
| New Brunswick | \$7,325,239 |
| Decrease in corporate tax | \$700,000 |
| Decrease in premium tax | \$3,110,000 |
| Total for New Brunswick | \$3,515,239 |

Appendix O: Registered Vehicles by Vehicle Type in New Brunswick, 2003

| Number of Active Vehicles as of March 31, 2003 | | | |
|--|----------------------|------------------------------|--------------------------|
| Type of vehicle | Currently Registered | Expired less than 6 month | Total Active Vehicles |
| Passenger / Light Commercial | 435,624 | 37,688 | 473,312 |
| Commercial | 24,056 | 6,953 | 31,009 |
| All Terrain | 37,289 | 20,343 | 57,632 |
| Motorcycle | 3,950 | 9,089 | 13,039 |
| Total | <u>500,919</u> | <u>74,073</u> | <u>574,992</u> |

The above table does not include trailers, mopeds, miscellaneous vehicles (e.g. payloaders), commercial (farm) tractors, etc.

Source: New Brunswick Department of Public Safety, 2003