

2015 Ontario Budget auto insurance reforms: in-depth information

Why the government is taking action

Ontario's auto insurance system is not working: It costs too much. Ontario drivers are expecting their premiums to drop. By including system reforms in the 2015 Ontario budget, the government will deliver financial relief to Ontario households.

Comparisons to other regions of the country highlight that something is wrong in Ontario

- As of March 2015, average annual auto insurance premiums were \$854 in the Atlantic provinces, \$1170 in Alberta and \$1,455 in Ontario.
- In 2013, Ontario consumers spent more than 5% of their disposable income on auto insurance on average. This is simply too much; consumers in Alberta and Atlantic Canada spent less than 3%.
- The average no-fault accident benefits payout in 2013 in Ontario was more than \$31,000. In Alberta and Atlantic Canada, average accident benefit claims in 2013 were around \$8,600 and \$3,700, respectively.
- In 2013, the average cost of a medical rehabilitation (med/rehab) claim was \$31,939 in Ontario. In Alberta, it was \$3,048. In Atlantic Canada, it was \$7,365.
- Also in 2013, in Ontario, the average cost of an income replacement claim was \$32,169. In Alberta, it was \$8,516. In Atlantic Canada, it was \$18,727.

Understanding the specifics of each reform

1. Catastrophic injuries: Updating the definition of catastrophic impairment to make it consistent with current medical knowledge, combining the maximum payout for med/rehab and attendant care services under one \$1 million limit. (Previous limits allowed \$1 million for med/rehab and \$1 million for attendant care.) Consumers will have the option to increase the new limit to \$2 million.

- These changes reflect the recommendation of the government's own expert panel that, along with the Superintendent of Insurance, sought a change to the definition. Changes are necessary because of updated medical knowledge, but also because in recent years less serious injuries have been increasingly designated catastrophic (and awarded the associated high benefit levels), based on deficiencies in the definition of catastrophic impairment.
- Other provinces do not offer this coverage; Ontario is the leader in this type of benefit.
- A lower limit with an option to purchase more allows choices for Ontarians.
- Clarifying what is a catastrophic injury will lead to fewer disputes and lower transaction costs inherent in disputes.

2. No-fault benefits for other injuries: Combining the maximum benefit level for med/rehab and attendant care services under one \$65,000 limit. (Previous limits were \$50,000 for med/rehab and \$36,000 for attendant care.) Consumers will also have an option to increase this limit to \$1 million.

This \$65,000 limit is the richest accident benefits product in the country. Consumers also have the option to purchase benefits up to \$1 million. This flexibility will allow consumers to select the amount of coverage that they deem appropriate.

3. Reducing the maximum duration of medical and rehabilitation benefits from 10 years to five years for all claimants except children.

- This five-year limit remains longer than claim duration available in other provinces, which is two years in Alberta and four years in the Atlantic provinces.
- Injuries do not require 10 years of med/rehab treatment. A 10-year period became an incentive to reopen claims that had remained dormant for several years and greatly increased uncertainty as to what the ultimate cost a given year's injury claims would end up being.
- Consumers will have the choice to increase their coverage.
- Consumers are protected with minimally accepted limits, reasonable choice and the option to buy up as they feel appropriate.

Background

The insurance industry acknowledges that rates are too high and we are working actively with the provincial government to reduce rates through reforms that reduce costs throughout the auto insurance system.

Since mid-2013, rates have dropped on average 7% -- a savings of \$500 million to Ontario drivers.

Even after the government reforms are implemented, the benefits in Ontario will remain among the richest in Canada.

- The government set the benefits at a level it believes is appropriate and that are intended to prevent excessive utilization of benefits.
- The vast majority of injuries from motor vehicle collisions do not require extended periods of rehabilitation services. When you take into account the availability of the benefits for catastrophically injured people, there remain more than sufficient benefits for victims of motor vehicle collisions to recover from their injuries.
- The measures in the budget will reduce opportunities for fraud and abuse, thereby lowering costs and ultimately leading to reduced premiums.
- Insurers pay a yearly health levy of \$142.3 million to OHIP to help cover the cost of treating injured collisions victims.

Insurers are working hard to crack down on fraud and abuse in the auto insurance system, including fraud and abuse perpetrated by those in the “car accident business.”

- Many insurers have restructured entire departments and instituted many new processes to fight fraud and abuse in the system.
 - Almost all companies (96%) have increased Special Investigation Unit Staff.
 - 78% have also adopted new investigative procedures.
 - 78% have restructured their special investigation units.
- Insurers are also using technology and data analytics to fight fraud. For example, on April 1, 2015, insurers representing 75% of the market joined forces and launched CANATICS, or Canadian National Insurance Crime Services.
- Even with these efforts, the “car accident business” in Ontario remains a big, expensive problem.

A report commissioned – and paid for – by the Ontario Trial Lawyers Association (OTLA) states that consumers were overcharged by \$840 million in 2013. Why then is the government further reforming the auto insurance product?

- The analysis provided by OTLA is misleading and erroneous. The authors selectively left out of their analysis companies whose Ontario auto insurance business was unprofitable. It would be like arguing that the Toronto Maple Leafs had a great season because they won 30 games – leaving out all of the games that they lost.
- All companies file their rates with FSCO. All filings have been completed and premiums have declined over 7%.
- If consumers were being overcharged, this would have been identified by the regulator.
- When the profits of all insurers in Ontario are included (as one would expect in an objective analysis), the study shows that the **actual ROE for 2001 to 2011 is minus 1.1%**. After the 2011 reforms introduced by the government, the industry-wide ROE was 4.2% in 2012 and 2.4% in 2013.
- All this talk of ROE and gouging is a diversion – it diverts attention from the real issue, which is that further reform of the current auto insurance product is necessary. If the product is going to work for consumers, we collectively need to ensure that money flows to those who truly need it – the victims of auto collisions. It should not be padding the pockets of fraudsters or personal injury lawyers.

Next steps

- Ontario's auto insurers will continue to be partners with government in reducing rates. All stakeholders and parties involved in the auto insurance system must work together to do better for consumers.
- All stakeholders must acknowledge that excessively high auto insurance premiums are not the only sign of dysfunction in the system:
 - High legal fees, expensive claims settlement processes, and a variety of other factors mean that consumers can lose a substantial part of their insurance settlement to for-profit, third parties.
 - Currently, Financial Services Commission of Ontario (FSCO) sets rates that health care providers charge auto insurers for claimant care. One way to maximize lower benefit limits would be to streamline the health care provider rates with those paid by Ontario Health Insurance Program, Workplace Safety and Insurance Board and the Community Care Access Centres.
 - Insurance fraud and a cumbersome regulatory environment further affect everyone's premium.
 - Unfortunately, the vast majority of consumers who never make a claim wind up paying more than they should because of our inability to tackle these issues.