THE MANITOBA AUTOMOBILE INSURANCE PLAN

REPORT OF STUDY
CONDUCTED AT

WINNIPEG, CANADA
PROVINCE OF MANITOBA

March 28, 1973

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PART I: HOW IT OPERATES

The Legislative Assembly of the Province of Manitoba, Canada passed legislation entitled "The Automobile Insurance Act" which was assented to by Her Majesty, Queen Elizabeth on August 17, 1970. This plan provided that all automobile insurance be written by a non-profit public corporation entitled the Manitoba Public Insurance Corporation.

The opposition to the plan was so fierce and vociferous that the government in power was in grave danger of being toppled by a vote of "no confidence". The plan was put into effect on November 1, 1971. Two and one-half years later, the plan is so well accepted, that even the opposition political parties are silent on the issue.

Why? The reason is obvious. The plan worked. It reduced automobile insurance rates drastically for at least 90% of the people. It introduced the no-fault concept to the Province. It provided for better service to the people. In short, the citizens of Manitoba feel they are now getting their money's worth out of their automobile insurance premiums.

How does it work? The Manitoba Public Insurance Corporation is run like any well organized business. The General Manager is the boss. He is responsible only to the Board of Directors. Like any business corporation, the directors are primarily interested in results. They do not interfere with the internal management of the corporation, including the hiring of personnel who are not under civil service. Once broad policy decisions are made, the General Manager is responsible for carrying them out. The broad general policy of the board is to provide policyholders with fast, fair and efficient service when they are faced with a loss.

The General Manager has organized the Company into four primary sections; Finance, Underwriting (which includes sales), Claims and Legal. Since claim payments accounted for 83% of the money available to the corporation during its first year of operation, the claims operations will be discussed first.

The claims operation is the key to the public acceptance of the plan. Here's how it works in Winnepeg, a city of 600,000 people. The company has three service centers in the city. The centers are primarily designed to handle collision and property damage claims. Since no-fault property damage is required, all damage to vehicles is inspected and appraised in the centers. If a car is drivable, the owner drives it in. If not, it is towed in at the company's expense. A typical drive-in case is in and out of the center within 30 minutes. Some are in and out in ten minutes. When they leave, they have in their possession an estimate that will be honored by any repair shop in the city. The garage repairs the car and the corporation pays the bill.

Under the plan, the driver who is not at fault pays no deductible. The driver at fault pays both deductibles, in effect. The minimum no-fault property damage coverage offered is $200 deductible. If both parties are at fault, each pay $100. Therefore, the centers also have liability adjusters, in addition to the appraisers in order to determine the degree of fault. Arbitration is available to settle the differences and also appeal to the small claims court at the cost of three dollars.

While the policyholder is waiting for the appraisal to be completed, the liability adjuster is gathering information regarding the facts of the accident, particularly concerning injuries. He answers all of the questions the policyholder may have concerning how to proceed. A typical example is a policyholder whose car has been hit in the rear. The other party may have already had his car towed in and admitted that he was at fault. In this case, the adjuster will mark his file, "deductible waived", and the policyholder's mind is at rest.

Almost all property damage cases are settled to the satisfaction of both parties before the cars are repaired and the bills are presented to the corporation for payment. Additionally, over 70% of the policyholders buy the optional $50 deductible and there is little to argue about.

Prompt and efficient handling of property damage claims apparently has the effect of reducing the number of bodily injury claims. Manitoba loss statistics are not yet in actuarial form, but Mr. J. O. Dutton, manager of the Manitoba plan is confident that the service center concept has drastically reduced bodily injury loss experience. He feels that prompt handling of the damages to automobiles involved in accidents reduces the tendency of victims of minor or insignificant injuries to press their claims.

Fair, fast and efficient handling of the dollars spent for claims is one key to public acceptance of the plan.

The underwriting and finance directors have an equally important function. It is their responsibility to hold down expenses so that the 83% of the premium dollar is available to be spent on claims.

The finance and underwriting directors of the plan have done the remarkable job of holding expenses to 17% during the formation of the company by the use of modern methods. They anticipate a 15% expense factor for 1973 and this includes loss adjustment expense. The annual statement for 1972 has not yet been presented to the government but the experience will be available shortly.

How do the people in Manitoba buy their insurance? This phase of the business is handled by the underwriting department because this department initiates the sales procedure. Under the Manitoba plan, the cost of insurance is borne by persons in two different catagories. Owners pay for insurance on their cars. Drivers pay a portion based on their driving records.

The computer center of the company has the registration and drivers license records of all Manitobian citizens on instant computer availability, both visual and print-out. The computer bills all owners of motor vehicles for their insurance premiums on the vehicle at least thirty days prior to expiration. The owner then goes to his agent, pays the premium, in whole or in part, and receives a decal that is attached to his license plates as well as a document similar to the Louisiana pink slip. The agent validates the "pink slip" by stamp and signature and the policyholder has his insurance for another year.

On drivers license renewal, the same procedure is followed. All persons holding drivers licenses are billed in the month of their birth. While this discussion is designed to explain the operation of the Manitoba plan, it may be prudent to explain the underwriting of that share of the automobile premium that is charged to the operators of motor vehicles. Male drivers over 24 years of age pay 7 dollars a year and under 25, they pay 22 dollars a year. Female drivers over 24 years of age pay 3 dollars a year - under 25, they pay 7 dollars a year. In additiona, penalty points resulting from traffic convictions can cost the bad driver up to $300 per year. The underwriters computer center has access to traffic convictions and is able to bill the driver correctly when his drivers license is up for renewal. When a driver receives his bill, he goes to his agent and either pays the bill or contests the surcharges with ample safeguards for the policyholder if he protests the surcharge.

This system is almost entirely automated except for the customer's contact with his agent at least twice a year. Other than to transmit the funds to the corporation, the agent has little or no paperwork! The bulk of his automobile business is handled in 30 to 45 days. The commission for the agent is 5%. A member of the Manitoba assembly from the opposition party who is an insurance agent, advised the Louisiana Insurance Commissioner that he is pleased with the system. This member violently opposed the plan when it was under debate in the assembly.

The Director of Finance has the responsibility for the computer systems, operations and accounting. The head of this department must be a computer systems expert because the success of the plan, from an efficiency standpoint, depends on automation. As the Manitoba plan is set-up, all management has instant access to all data involving drivers licenses, registration plates and traffic records as well as internal operational data. As a matter of fact, a number of "hit and run" cases have been solved by reference to the color of the car, approximate vintage, make and model. The computer will give the police the list of possibles, names and addresses, and they take it from there.

The Director of Finance also has the function of determining, on a day by day basis, what funds are available for investment. These funds are considerable. The actual investment of the funds are made by the government's Ministry of Finance under the Manitoba investment of idle funds laws. These funds are under a special account and the funds and the earnings from them are credited to the corporation's account. None of the funds of the corporation can be used by the government. Neither is the corporation exempt from regular insurance company tax.

The legal department employs only attorneys who carry out the same functions of attorneys employed by private insurance companies. They do not handle trial defense work except in rare instances. They do supervise claims that are before the courts and handle legal matters directly involving the corporation.

This has been a brief discussion of the operation of the Automobile Insurance Act of the Province of Manitoba, Canada. The plan is based on the premise that automobile insurance is a service that can no longer be regarded as just another product for sale. Everyone must have it. All drivers and owners of motor vehicles must bear the burden of the economic loss caused by the operation of such vehicles. The private sector of the economy is either unable or unwilling to furnish insurance that meets these requirements at a cost that the public can bear.

The Province of Manitoba now furnishes their people with insurance coverage that provides fast, fair and equitable claims service at the lowest possible price.

PART II: What It Costs

The cost of automobile insurance under the Manitoba, non-profit, public corporation plan is the most rewarding aspect of the concept. The cost of automobile insurance to 90% of the policyholders is reduced dramatically. The coverage to most policyholders is increased. Some very few policyholders with minimum coverage driving for pleasure only had slight increases but received substantially more coverage.

When the plan was first installed in Manitoba, the party in opposition to the government made long and loud complaints that many policyholders had actually received an increase in premiums. The Chairman of the Board of Directors, who is also the governments Minister of Municipal Affairs, challenged the opposition and the public to send their complaints of increased premiums to the corporation for examination. The underwriting manager of the corporation received only 75 complaints. Of these 75 complaints, only 3 had a slight increase in premiums.

Before discussing concrete comparisons of premiums, the minimum coverage required under the Manitoba plan should be shown. A single limit coverage of $50,000 bodily injury and property damage is required as a minimum; $2,000 medical pay and rehabilitation coverage; $50 per week total disability income for the duration of the disability; $500 funeral expenses; death benefits to $10,000; $25 partial disability benefits to 104 weeks; up to $6,000 dismemberment and disfigurement benefits; all physical damages perils benefits with the equivalent to a $100 deductible collision coverage. Except for liability coverage, all of these coverages are no-fault benefits and are compulsory for all owners and operators. The right to sue for general damages is retained but duplicate recovery cannot be made.

What does this impressive package of coverage cost the policyholder today in Winnipeg, Canada. Below is a display of rate comparison of autopac rates, pre-autopac Winnipeg rates and Baton Rouge rates:

Automobile: 1971 Chevrolet Impala
No Chargeable Accidents. Comparable Coverage

Classification	Autopac 1973	Pre-Autopac 1971	Baton Rouge 1973
Husband and wife-over 25 Pleasure Use Only	$ 78.00	$125.00	$193.00
Husband and wife-over 25 Driving To and From Work	111.00	161.00	217.00
Husband and wife with Underaged Son &Daughter	140.00	375.00	422.00
Single Male - 20 Years Principal Operator	123.00	391.00	494.00

These comparisons are deliberately designed to minimize the rate comparisons between the two systems. Consider the fact that under Autopac one chargeable accident does not increase your rates while the other rates would be increased 40% for one chargeable accident! It is also well to note that the pre-Autopac rates were 1971 rates, the last bureau Winnipeg rates. Since that time, the general rate levels have increased overall in Canada at the rate of 6% per year.

The premium comparisons with Louisiana premiums can be subject to the charge that this is like comparing apples to oranges. But, is it? The per capita income in Manitoba is about $3200 compared to about $3250 in Louisiana. The number of bodily injury and property damage claims per 100 insured cars in 1970 was 10.05 in Louisiana as compared to 10.9 in Manitoba. The trend of loss frequency is declining in Louisiana while it is increasing in Manitoba. The cost per claim in Louisiana was $495.99 as compared to $522 in Manitoba in 1970.* However, the cost per claim is increasing at a faster rate in Louisiana. The accident frequency and severity rate appear to be almost identical in Louisiana and Manitoba. The year 1970 was used because that was the last year figures were available for Manitoba under comparable systems.

The requirement of mandatory no-fault property damage results in an interesting savings. Under the present system all insureds are required to carry property damage liability. Collision is a separate coverage offered on an optional basis. Under the Manitoba plan, these coverages are merged into one coverage with the driver at fault bearing the $200 deductible. This obviously has favorable effects on the rates, particularly for those persons who carry collision insurance under the present system.

The premiums for automobile insurance in Louisiana should therefore be

*Source: Insurance Bureau of Canada
Insurance Services Office

comparable under accepted underwriting and actuarial standards. The examples shown above clearly demonstrate that premiums are not even close to being comparable. The only explanation that can possibly account for this wide disparity in costs to the people is the saving inherent in the Manitoba plan. The plan offers insurance to the vast majority of the policyholders with additional coverages at a lower cost.

PART III: Social Considerations

Operation of a state automobile insurance plan by a quasi-public state corporation on a monopoly basis is not as revolutionary as the opponents to such plan would lead one to believe. Whenever the public sector is unable or unwilling to furnish a service that has become a public necessity, the federal government, the state or local governing authorities have stepped in to provide the service at a price the public is able to bear.

There can be little doubt that the automobile is no longer a luxury or even a convenience. The automobile is now an absolute necessity. Public transportation has deteriorated to such an extent that it is practically non-existent in Louisiana. Perhaps the eventual solution to the long range problem is a re-vitalization of public transportation but such a solution lies in the future. The outmoded automobile reparation system is a problem of the present.

Almost all of the studies of the present automobile reparations system demonstrate that a drastic change is needed for two reasons. First, the small part of the insurance dollar paid for losses is not going to the accident victim who needs it most. Secondly, the cost of insurance is becoming prohibitive. In Louisiana, our young drivers are being driven out of the market.

Most of the no-fault solutions are directed at making a more equitable distribution of the loss dollar. A favorite target in this effort is to attack the present tort law system and eliminate or restrict the traditional right of a citizen to seek redress for wrongs committed against him. The right to seek redress for wrongs is a fundamental civil right that has been one of the cornerstones of our free nation. Must we abandon this fundamental right to save the present automobile reparation system?

The proposal to reimburse victims of accidents for a substantial portion of their economic loss through no-fault is basically sound. However, it is generally conceded that such proposals are not meeting the challenge that automobile insurance be provided at a cost the public can bear. The industry suggests that this objective can be met by restricting the right to sue. The industry carefully avoids the subject of who gets the premium dollar. Studies show that the insurance companies keep over half of the premium dollars in one form or another. This is commonly called the expense factor. Unless this expense factor is substantially reduced, no substantial rate relief can be expected.

The only solution suggested to this date that can offer no-fault coverages, reduce the expense factor and still retain the tort system is a state plan similar to that used in Manitoba, Canada. While this plan may be considered a drastic solution by many, it is not nearly as revolutionary as abandoning the tort system. There is ample precedent for the state government to operate businesses that once were considered the sole domain of private industry.

Transportation systems, power systems, water systems, water districts and the like are now being operated by the public sector here in Louisiana. Attached to this Part is a representative list of Federal, state and local government operations that either replace or compete with private industry. Moving into areas where the private sector has failed to satisfy the needs of the public is nothing new. The question boils down to this: Are the people in Louisiana willing to let nearly half of their automobile premiums go down the drain to save the automobile insurance industry? Is it worth it?

No one would suggest a state plan if the automobile insurance industry would propose a solution that would guarantee a return of 80% of the premium dollar to its customers. The problem is that the industry can't do it. The first years results of the Manitoba plan proves that it can be done through the improved marketing and claim handling procedures inherent in the plan. In Manitoba, there has been no social upheaval resulting from its operation. In fact, Manitobians enthusiastically endorse the plan. It is therefore submitted that a state plan for Louisiana automobile insurance would cause little social upheaval in this state - far less than the abandonment of the fault system of law.

Representative List Of Government Operated Business

I. FEDERAL PROGRAMS

1. Federal Flood Insurance
2. Federal Crop Insurance
3. Medicare
4. Medicaid
5. Social Security
6. Federal Deposit Insurance Corporation (FDIC)
7. Federal Savings and Loan Insurance Corporation (FSLIC)
8. Federal National Mortgage Association (FNMA)
9. Federal Land Bank
10. U. S. Government Printing Office
11. Rural Electrification Administration (REA)

II. FEDERAL/ STATE PROGRAMS

1. Credit Unions
2. Unemployment Insurance
3. Electrical Cooperatives
4. Farm Cooperatives

III. STATE PROGRAMS

Division of Administration operates its own printing shop.

Highway Department has its own Materials & Testing Section in competition with private enterprise.

Governor Edwards has said Louisiana should build its own natural gas transmission system to take care of Louisiana's needs first.

Maryland Automobile Insurance Fund - State sells insurance directly to risks who are cancelled or have two companies refuse to write their business.

Workman's Compensation Insurance Fund
a. Ohio operates Fund exclusive of private insurers.
b. Following states operate funds not exclusive of private insurers.

Pennsylvania, Oklahoma, Oregon, Texas, California, Colorado, Idaho, Maryland, Montana, Nevada, New York, West Virginia, Wyoming.

IV. PARISH AND MUNICIPAL PROGRAMS

1. Transportations Systems
   Buses, Public Belt Railroad

2. Utility Systems
   Gas, Water and Electricity

3. New Orleans Dock Board

Note: The United States economy is obviously mixed, not a total free enterprise system.

PART IV: Economic Considerations

What effect would the adoption of a state plan have on the economics of Louisiana? The most direct effect of the plan would be to place all automobile insurance policies under the public corporation. This means private companies could write no business in Louisiana; however, Louisiana companies that are writing automobile liability insurance write less than 1/10 of 1% of the business. This business is written by companies that are domiciled primarily in the north and east. In short, Louisiana has no companies domiciled in the state that could furnish compulsory no-fault insurance that would be affected by a state plan.

Most of the average employees of the insurance companies in the state would necessarily be hired by the public corporation. All major cities would have regional offices of the public corporation. The key employees of the foreign companies are mostly imports from other states and are moved around the country with great frequency in any event. Then, too, only automobile insurance would be effected. The experience in Manitoba was that the dislocation of insurance company personnel was relatively slight. The general manager reports that about 200 employees were either transferred or released but that autopac had hired far more personnel than were released by the insurance companies. Their plan also provides for a special assistance program for those persons who suffer particular economic hardships. The expense of this program is borne by the public corporation.

The effect on insurance agents would appear to be the most drastic at first glance. The Manitoba plan is serviced by the agency system. The commission paid by the plan was 7% for the first year, 6% for the second year and will be 5% thereafter. Under the agency system, this commission appears to be inadequate. However, the effect on the agents net commission is minimized by the fact that he has no policy to write. All he has to do is collect the premium when his customer brings his billing to him for validation by stamp on the license application prepared by the corporation. On all transactions between policy periods that do not involve a premium commission, the agent receives $3.00 except for change of address. The forms provided are simple and can be filled out by hand. The agents costs are minimal.

There are no underwriting restrictions under the plan except that the applicant must have a valid drivers license. This is a relief to the agent. When one of his good clients has a bad driving record, the agent does not have to search the entire market to place the business. This puts the small agent on a par with the large agency in writing hard-to-place risks. It also places all agents in the same competitive positions, whether they operate as direct writers, mail order agents or under the American agency system.

The advent of automobile mass marketing is gradually reducing the commissions for automobile insurance to a point where 7% will be competitive, long range commission even if the present system is continued.

Another favorable aspect to the agent is that the customer will come to the agents office at least twice a year - when he buys his license plates and obtains his drivers license. This assures the agent personal contact with his clients which is helpful in regards to other lines of business. The competition for business under the Manitoba plan is brisk, with service being the only competitive aspect. Privately, the majority of agents in Manitoba are satisfied with the operation of the plan according to the general manager. The agents are still in business.

A most favorable aspect of a state plan is that the investment income available, which is considerable, is invested within the state. No longer are these funds channeled into the great financial centers of the east and north. Funds made available for investment by Louisiana policyholders remain in Louisiana for investment here. These invested funds are bound to generate favorable economic consequences for Louisiana. The long range economic consequences of a state plan for automobile insurance are not a deterrent to the adoption of such a plan for Louisiana.