

ConsumerWatch bulletin Sept. 2003

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GETTING TO THE HEART OF ALBERTA'S AUTO INSURANCE WOES

Rising auto insurance premiums are once again putting pressure on provincial governments in Alberta, Ontario, and the Atlantic provinces where private insurance companies are responsible for providing mandatory liability insurance coverage for drivers as well as optional coverage for vehicle damage. (See chart for price comparisons) Here in Alberta, a new Implementation Committee chaired by MLA Rob Renner has been told to come up with a quick fix by September 1st, 2003.

In our view, a quick fix isn't possible. Problems created by a decade of regulatory neglect, the growth of a powerful global insurance industry, and public policies that have helped fuel the cost of personal injury claims cannot be fixed overnight. Quick fixes being floated in the media – such as caps on claims or taking away the right to sue if an injured party is dissatisfied with treatment by an insurance company- will surely create even more problems.

Instead of clawing back benefits, it's time for the government to demystify the language and practices of auto insurers, investigate underlying issues, put dollars back into regulation and monitoring, and clean up the shoddy practices of some companies. Regulating and enforcing fair underwriting and marketing practices would help. So too would routine surveys of the experiences of policyholders in order to keep tabs on the industry.

More importantly, the government needs to acknowledge and deal with its own significant role in driving up injury claim costs and premiums over the past decade.

Accident benefits covering medical and rehabilitation costs and the cost of living during recovery were originally designed to compensate injured parties for additional benefits over and above public health plan benefits. At one time, benefits paid by one's own insurer or another driver's insurer went primarily to special extra needs of permanently disabled victims or to the limited use of extra non-insured services such as massage or chiropractic.

In the 1990s, provincial budget cuts, and health system restructuring completely changed the landscape for the medical expenses and rehabilitation of Albertans with injuries. The availability and/or

Consumer Price Index - Increase in Auto Insurance Premiums Feb. 2002 to Feb. 2003

British Columbia	7.3 % (partial public)
Alberta	59.4% (total private)
Saskatchewan	9.5% (partial public)
Manitoba	7.2% (partial public)
Ontario	29.7% (totally private)
Quebec	37.2% (partial public)
Atlantic	58.4% - 70.6% (totally private)

Each province has a unique auto insurance system.

timeliness of public treatment options, particularly for people injured in auto accidents with soft tissue injuries, largely disappeared.

Today, many more assessment and treatment costs are born by injured parties and auto insurers in Canada than in the past. In fact, according to Craig Harris, former Editor of *Canadian Insurance* magazine, Canadian auto insurers are facing their own "health care crisis". This is attributed to the offloading of healthcare costs by provincial governments and no controls over providers or prices in the private medical/rehabilitation field. (continued page 3)

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In Memorium

Leslie (Flood) Bombard



It is with great sadness that the Consumers' Association of Alberta announces the recent illness and passing of our Office Manager and Program Coordinator, Leslie Bombard, on May 31st, 2003.

Leslie brought remarkable skills, a joy for life, compassion for her fellow man, and a passion for justice and fairness to her work with our association - and her daily life. Her radiant smile, sense of humor, and genuine interest in everyone she met lit up the room and people's hearts. Her tenacity fighting on behalf of individuals who had been wrongly treated and the disadvantaged in society was equally fierce and relentless - and effective.

Leslie embraced the world and all cultures and religions from Christianity to Buddhism. Her favorite quote which came from Grant MacEwan was: "I am prepared to stand before my maker, the ruler of the entire universe, with no other plea than that I have tried to leave things in His Vineyard better than I found them." Indeed, Leslie did just that. She will always be an inspiration to the many people and organizations whose lives she touched. Thanks Leslie for being part of our lives.

New Digs & New Coordinator

Our Edmonton office has recently moved. It is now in a building with other non-profit associations in order to take advantage of lower-cost parking and opportunities for shared resources. Our mailing address, e-mail address, and phone number remain the same, Scott Kidd has been hired as our new Office Coordinator. He will be working three days a week.

AGM 2003

This year's AGM and board elections will be held on Thursday, Oct. 16th. Please contact the office (426-3270) for details. If you are interested in standing for a position on the board, and can attend monthly board meetings in Edmonton, please call and let us know.

BITS AND BYTES

National Board Takes on Auto Insurers

The National Board of the Consumers' Association of Canada has recently taken on auto insurance prices and practices. (The Alberta Chapter is an independent affiliate of the National organization and provides input

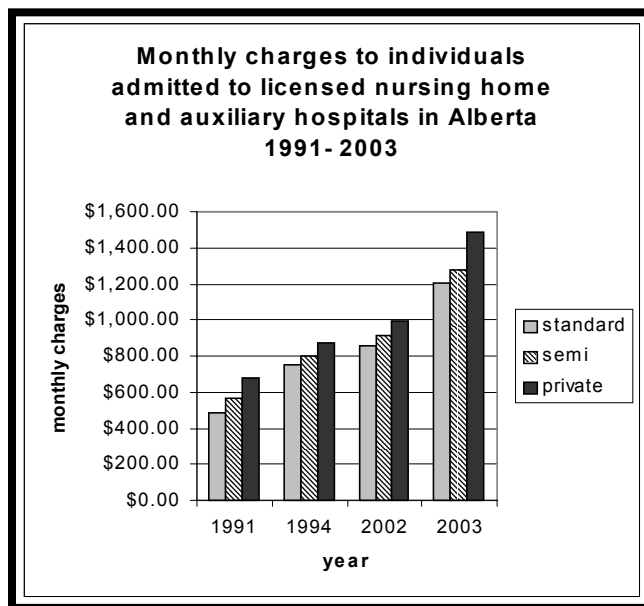
to them on such issues, as well as providing our own regional perspective to the media, public and government.) For information on recent inter-provincial price comparisons and Press Releases of the National Association, see <http://www.cacbc.com/>

Good News: Mandatory Nutrition Labels Coming to Canada

By 2005 all large food companies in Canada will finally be *required* to place nutrition labels on all of their food packages. (It was voluntary in the past.) 2007 is the deadline for small companies. New regulations include a standardized box on the label, which will contain such information as Calories, Fat, Fibre, Protein, Vitamins and other relevant facts. Health Canada will be conducting random testing to ensure that the contents of the package match what is claimed on the label. Bulk food and food sold at farmer's markets, deli counters or by vendors will be exempt. Soft drinks and snacks will have to be labeled so that consumers will finally find out how much sugar there really is in a can of pop, and how much junk in the junk-food.

Approved Long Term Care Rate Increases

Charges to individuals, regardless of age, requiring facility-based long term care due to a debilitating medical condition such as a severe stroke, dementia or auto accident have more than doubled in 12 years. (Aren't we supposed to have a public health plan?)



Why the lights went out. . .

For a revealing look at the source of today's electrical fiascoes around the world, see article by Greg Palast in British *Observer*.

<http://www.gregpalast.com/printerfriendly.cfm?artid=25>
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Auto Insurance Woes continued from page 1

A big source of frustration for injured parties is that they now often have to find the money to pay out-of-pocket for timely access to therapy and uninsured physician services and notes that used to be available in public hospitals or paid by the public plan. They may also have to go through hassles and delays to obtain an insurer's approval for treatment or reimbursement, or absorb the costs themselves - along with a temporary income loss if they don't have paid sick time.

The cost of rehabilitation outside public hospitals and the public health plan in Canada has risen dramatically during the 1990s. According to the Insurance Bureau of Canada (IBC), medical and rehabilitation costs incurred by auto insurers in Alberta, Ontario and the Atlantic region have risen on average 37% per year since 1990 compared to a 2.5% increase in general healthcare costs in Canada. Why? Because of increased administrative costs for both providers and insurers, billing fraud, new conflicts of interest with providers, and loss of the marginal cost benefits of a single-payer public system.

Since 1996, the Alberta government has also been adding to the administrative and injury treatment costs of private auto insurers by requiring companies to reimburse the Province for the use of public hospital and physician services by injured parties of at-fault drivers. **Alberta Health and Wellness now collects more than 50 million per year from auto insurers.** Other provinces with private auto insurance have also created or expanded similar levies, leading to outcries from the industry of double - dipping.

Given the dramatic changes over the past decade in the payment and delivery of medical care

and rehabilitation for injured Albertans, one has to wonder: "Are rising injury claim costs and frequency of claims really due to exaggerated claims by injured accident victims and those pesky personal injury lawyers? Or are rising costs due to the lack of access

to lower cost public care and the higher administrative costs, higher prices, and claimant frustration and reimbursement hassles in this new environment?" This is clearly an issue that requires some careful scrutiny and investigation by policy makers.

A McMaster based researcher, Alina Gildiner, cautions in a June 23rd Globe and Mail article that provincial governments need to be wary of industry generated solutions. She goes on to note: "The irony is, the [Ontario] insurers created the very multiple-payer rehabilitation market that ended up driving their costs through the roof." In 1990, insurers in Ontario won new responsibilities to provide health and rehabilitation benefits (to a threshold) in exchange for lower potential court costs through limits on the right to sue. They expected that Canada's public health system would continue to keep the cost of health and rehab low. Instead the new privately financed market helped to degrade the public system.

Now these same insurers want caps on regulated benefits, more control over providers, and more restricted access to the courts. Yet such initiatives will just make it *even more difficult* for injured people to get the treatment and financial protection they need in a crisis. Isn't this the whole point of insurance? If people can't get the care they require in the public plan, is it any wonder that frequency and costs are rising for other types of insurance?

If policy makers are genuinely interested in reducing costs, Gildiner suggests they need to put treatment and payment for motor vehicle injuries back in the public healthcare insurance pool. This would also leave medical treatment decisions with medical experts rather than insurance adjusters.

Provincial governments may not be able to influence the rising cost of re-insurance in the global marketplace related to events like September 11th, or poor market returns on insurance company investments that are eating into bottom lines, reducing competition, and driving up premiums. Provincial governments *can* build the infrastructure to better inform and protect consumers, clean up shoddy practices, reduce genuine fraud in the system, improve road safety, and bring injured auto accident victims back into the public insurance pool to provide better value for Albertans' insurance and health dollars.

It will take more than a quick cosmetic fix to get at the heart of Alberta's auto insurance woes. At the very least, the Implementation Committee must make sure that any changes "at least do no harm".

"The cost of rehabilitation outside public hospitals and the public health plan in Canada has risen dramatically during the 1990s."



INDUSTRY STATISTICS (ALBERTA)

- Between **1986** and **1999**, the number of claims for vehicle damage dropped from 59, 653 to 45, 996.
- Property (vehicle) damage claims costs per earned vehicle went up from \$75.90 to \$88.39.
- Bodily injury claims costs per earned vehicle increased from \$125.7 to \$381.61
- There are no available surveys on how many drivers have paid out of pocket or not reported claims to insurers out of fear of unknown and catastrophic premium increases.

SHOPPING FOR AUTO INSURANCE

In the last issue we told you we were going looking for some of those deals to be had for diligent shoppers, even those with short or less than perfect driving records - as reported to us by the Insurance Bureau of Canada.

While calls found some minor price differences among companies, our inability to find out each company's underwriting practices, including the risk of future loss of coverage in case of an accident **made comparing value for money impossible.**

It turns out there is no obligation for an insurance company to disclose its risk assessment or renewal practices. Practices also change frequently with company mergers and bottom lines. Some critics, such as former industry insider, Laurie Tomlinson, contend that many companies simply make up underwriting practices as they go along to meet their investors' profit expectations.

What does this mean to someone shopping for *mandatory* auto insurance? It means that switching companies for a better deal could lead to some nasty surprises down the road.

The Hidden Costs of Buying a Lemon Policy

For example, over the past few years, many drivers have turned to companies offering lower premiums to people with a 10 or 20 year accident free driving record. The reason these companies are able to provide lower premiums, is that they "cherry pick" the good drivers for their insurance pool. What these companies' agents did not always disclose to customers who switched for a better deal is that the company would drop them like a hot potato if anyone driving their car had an accident. Unlike their former insurance company that may have allowed one *forgiveness* accident during a certain period without it affecting premiums, they could now lose their coverage at time of renewal for any accident, regardless of fault.

Here's the rub. When one insurance company refuses to renew your policy, regardless of the reason, other insurance companies, who will ask you why you want to leave your old company and have ways of finding these things out, don't even want to talk to you. This forced many drivers with minor accidents into the high priced Facility Association Pool (technically reserved for only the highest risk drivers) in order to keep on the road, particularly in "hard" markets.

Yet, at least one such company selling these stripped down policies, just came out with an optional rider that enables new policyholders to insure their

insurance premium by paying an extra \$25 dollars a year to prevent rates going up with their first accident. Insuring one's insurance premium. What's next!

The Proof is in the Pudding (or claim)

The real test of any insurance policy is what happens when it comes time to make a claim and whether or not policyholders get what they expect or have been told to expect in terms of service or compensation. A 1998 national poll found that 35% of Albertans, more than in any other province, said they were "surprised" by an aspect of their settlement. What surprised them most was that their insurance settlement or policy didn't cover the costs they expected it would.

How can someone shopping for a new policy get some idea beforehand of the practices of different companies. Which companies provide easy to understand and accurate information about benefits and limitations? Which ones facilitate appropriate claims and timely compensation? Which ones leave accident victims in the dark and out on a limb – driving them to seek legal help to deal with their own company or go after the other driver's insurer? Which companies have good administrative practices that help keep premiums down? Which ones spend premium dollars on big CEO salaries or tolerate sloppy administrative practices and pass on escalating costs? We were unable to find any source of reliable information to provide some insights into the track record or treatment you'll get from an insurance company.

According to one experienced broker, there is often only about \$200 dollars difference in any given year among the 7 insurance companies he deals with. The one with the lowest premium usually varies each year over a cycle of a few years. Therefore, he says it may be better to ride out the highs and lows with one company as long as it has good management.

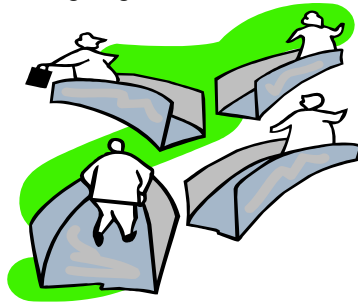
Bottom line

Letters from readers and our own experience also reveal conflicting advice when it comes to choosing an insurance company . . . **or getting an insurance company to choose you.**

Your best bet may be relying on the experience of an independent broker who has been in business for years and deals with many companies, although even brokers can be taken by surprise – and some companies only sell insurance through their own agents. A broker's advice can also be influenced by a particular company's policies they are trying to sell.

Without access to reliable and understandable information to evaluate auto insurance policies or appropriate regulation and redress, consumers are left relying on Lady Luck to obtain good prices and fair and honest dealing.

There appear to be no hidden deals out there for diligent shoppers - only hidden surprises.



BE PREPARED!

If you go shopping for a new auto insurance policy, be prepared! A prospective insurer will want to know the name of your current carrier and policy number, as well as your driving record for the past 6 to 10 years.

YOUR ACCIDENT CLAIMS HISTORY

If you can't remember details, you can obtain a free copy of your **amalgamated vehicle accident claims history** and ratings by contacting **Auto Plus** at 1-905-882-6300. This database is put together with input from insurance companies across Canada and provides insightful information as to the amount of fault attributed in each accident, and how you have been rated in the past. It is also worthwhile checking the accuracy of the information, particularly if you have common last name. Other detailed industry databases also exist but are not available to consumers. It is important to be aware that although you may think or assume an accident was not your fault, insurers commonly assign a % of "fault" to both drivers - based on industry generated charts - in order to settle claims and avoid court costs which would just be passed on in premiums. Some companies consider a deemed 20% or 50% fault the same black mark as a 100% fault on your record.

YOUR TRAFFIC VIOLATIONS

You can obtain an (expensive) copy of your **last 3 year's traffic violations** from **Alberta's Private Registries**. It will cost you about \$20 dollars for each licensed driver in your household.

Or you can ask your current insurer for a copy of your last driving record (accidents and violations) that they have on file before you start your shopping. However, it may not have been updated.

DID YOU KNOW?

- The Alberta Automobile Insurance Board only regulates premiums for the mandatory liability portion of insurance policies and the Facility Market. Companies can increase rates for collision, comprehensive and optional liability riders whenever they want.
- In the 1990s, the province shifted responsibility for handling complaints, and the monitoring of marketing practices of auto insurers to a delegated industry oriented board and the industry itself.
- According to a government official, the standard regulated insurance contract in Alberta requires policyholders to disclose all accidents to insurers, even if you pay damages out of pocket. It can be found on the Finance Department Web-site.

- Unlike "whole life" insurance, the concept of general insurance or auto insurance is that the premiums of the many fortunate policyholders without losses pay for the insured losses of the unfortunate few. Companies make money by using premiums as a pool of capital to invest in other endeavors to deliver profits to owners.

TRUE LOVE DEMANDS BIG SACRIFICES



When George met Lucy and fell in love, he forgot to ask about her driving record.

Despite having a spotless year driving record for over 10 years himself, a decision to live together before their impending marriage left George with a canceled insurance policy, a damaged record, and facing an increase in insurance premiums from \$1200 dollars to \$4800 dollars from a new insurance company.

While Lucy did have two recent "at-fault" accidents with her own car - insured by the same company- it was George's policy that the company refused to renew when it found out they were living together. When George called around looking for a new policy from other companies, he said he was "treated like dirt" and "lectured" when he told them his policy had been canceled.

He called his broker 25 times, got 12 quotes from other companies, wrote the Insurance Bureau of Canada (with no response), and called his MLA. Finally, in desperation, he called his old insurance company directly and talked to an underwriter and pleaded his case. He was ultimately re-instated with a \$400 per year increase, reduced coverage, a written exclusion clause saying that his fiancée would not drive his truck, and that he would give the insurance company \$25,000 dollars if she was ever in an accident driving his truck.

While George was satisfied with the final outcome, he noted that the "pain and suffering" he was put through, which almost led to a nervous breakdown, seemed excessive. (Summary of E-mail to CAC Alberta)

Smile for the Day

"I'm living so far beyond my means, it could be said that we are living apart."

ee cummings

www.ecn.ab.ca/consumer

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CAC Alberta may also be contacted by phone: 780-426-3270, email : cacab@ecn.ab.ca, fax:425-9578, or send a letter to Box 11170, Edmonton, AB T5J 3K4.

The Alberta Consumers' Association also known as Consumers' Association of Canada (Alberta) is a provincially incorporated and volunteer based not-for-profit society. We are committed to protecting and enhancing citizens' opportunities for health, safety and fair play through access to reliable information, good public policy and responsible marketplace practices. A fair and honest marketplace is good for individuals, good for communities and good for business.

Make the world a better place!

Become a member and receive a subscription to our newsletter, the ConsumerWatch Bulletin.

Organizations are not eligible to become members – but are invited to support the important work of the Alberta Consumers' Association through either a donation or purchasing a subscription to our ConsumerWatch Bulletin.

How Individuals can support the work of Consumers' Association

- A yearly Membership which includes subscription to the ConsumerWatch Bulletin \$25.00
- An ad hoc donation of \$_____ over and above the price of Membership
- An "associate" member to support our work in the area of utilities – for only \$2 (no newsletter)

How Organizations can support the work of Consumers' Association

- A corporate subscription to ConsumerWatch Bulletin for \$125 dollars.
- A donation of \$_____

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Please provide your Visa or Mastercard no. _____ Expiry date _____ or

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