

New Brunswick Automobile Insurance Review

Report Prepared for the New Brunswick Office of the Attorney General

June 25, 2004

Prepared by PricewaterhouseCoopers LLP

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Honourable Bradley Green, QC
Minister of Justice and Attorney General
Department of Justice and Attorney General
PO Box 6000
Fredericton, New Brunswick
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Dear Minister Green:

New Brunswick Automobile Insurance Review

We are pleased to present our report summarizing our review and analysis of the Final Report on Public Automobile Insurance in New Brunswick of April 2004 issued by the Select Committee on Public Automobile Insurance (the "Select Committee Report").

Our report comments upon the implications of the proposed public automobile insurance model recommended in the Select Committee Report, explores alternative automobile insurance delivery models for New Brunswick, and provides an alternative example of automobile insurance coverage given the Province's principles and objectives for automobile insurance in New Brunswick.

We thank you for the opportunity to assist you in this review.

Yours truly,

PricewaterhouseCoopers LLP

Executive Summary

PricewaterhouseCoopers LLP (“PwC”) was retained by the Office of the Attorney General (“AG”) to assist it in reviewing and analyzing the Final Report on Public Automobile Insurance in New Brunswick in April 2004 issued by the Select Committee on Public Automobile Insurance (the “Select Committee Report”) and the recommendations contained therein, and to explore the potential implications of alternative automobile insurance options for New Brunswick. More specifically, PwC was retained to:

- Review and comment upon the implications of the proposed public automobile insurance model recommended in the Select Committee Report, including the reasonableness and sustainability of the assumptions underlying the proposed public automobile insurance model.
- Explore and assess alternative automobile insurance delivery models that the Government should consider for the Province of New Brunswick; and
- Provide alternative examples of automobile insurance product coverage and estimated average premium pricing given the Province’s principles and objectives for automobile insurance in New Brunswick.

We understand that the results of our review will be used by the AG to assist it in providing advice to the Government regarding a course of action the Government should take with respect to automobile insurance in New Brunswick. Our report is subject to the limitations and qualifications outlined in Appendix A.

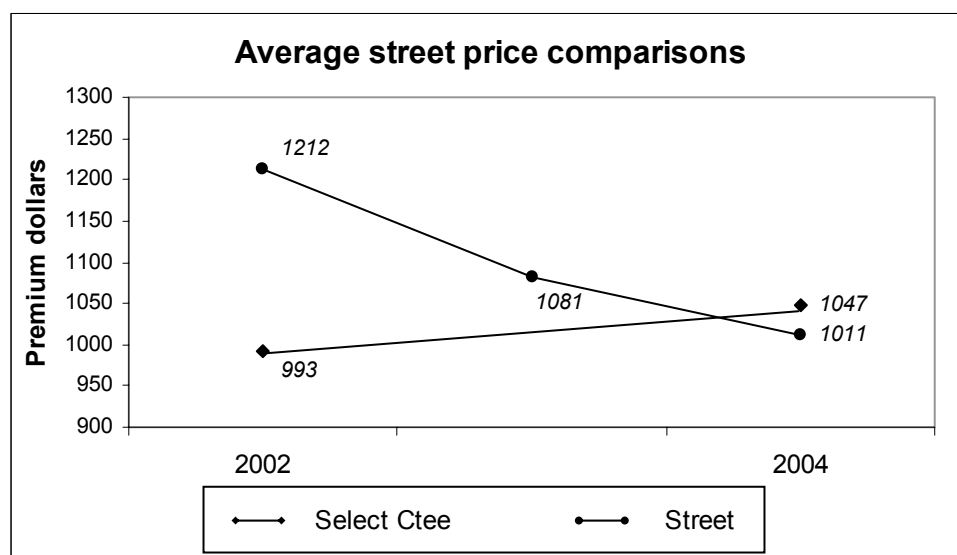
Our analysis provides the basis for conclusions in two principle areas:

- The Select Committee Report; and
- A potential alternative automobile insurance model addressing product delivery, design and pricing, reflecting the Government’s key principles and objectives for automobile insurance.

Select Committee Report

Our review and analysis of the Select Committee proposal to establish its recommended public insurance model (New Brunswick Public Insurance or “NBPI”) raises several significant concerns:

- a) The average premium price cited in the Select Committee Report, when trended for claims inflation, is higher than the estimated current “New Brunswick street price”, as illustrated below:



- b) There is a significant probability that the average premium will be higher than that cited in the Select Committee Report:
- Claims costs – the dominant cost underlying the premium – may vary significantly from those cited in the Select Committee Report;
 - Operating costs will likely be moderately higher; and
 - Additional costs associated with start-up, pre-operating expenses, and initial capitalization (see below) will either add to the indicated premium or would require a subsidy by the Government of New Brunswick.
- c) Required funding for start-up, pre-operating expenses, and initial capitalization will likely be greater in magnitude and duration than indicated in the Select Committee Report:
- There is a significant probability that costs for start-up and pre-operating expenses will be greater than indicated in the Select Committee Report;
 - Total initial capitalization would likely range between \$120-190 million in order to promote rate stabilization and avoid a potential deficit (attributable to the Government of New Brunswick). This capital would not be fully repaid to the Government in the year following implementation of the New Brunswick Public Insurance model (ie. in Year 2), as was proposed in the Select Committee Report; and
 - It is not prudent to repay the Government's debt, as proposed in the Select Committee Report, in Year 2.

- d) Risks associated with implementing the Select Committee model are significant:
- Implementation of the Select Committee model would be a complex undertaking with many potential areas for unfavourable variations from planned implementation timing and cost;
 - The proposed implementation timetable of one year is aggressive; if it is not achieved, New Brunswick drivers could potentially be left without readily available insurance since private insurers may not be in a position or be willing to provide coverage beyond the one-year implementation timeline;
 - NBPI, as an insurer likely to be perceived by drivers to be Government-controlled, would likely be under great pressure to underprice the product; with its poor initial capitalization, it will not have the financial resources to provide this without putting the Government of New Brunswick at further risk; and
 - The Select Committee Report refers to potential international trade implications under NAFTA, GATT, and WTO agreements. The negative impact that these agreements may have on the attractiveness of the Select Committee model, if any, were not investigated as part of our assignment.
- e) In our view, the methodology used to support the Select Committee Report recommendations is not sufficient to be used as a basis for wholesale automobile insurance change in the province.

Potential Alternative Automobile Insurance Model

Given our findings above, the key principles and objectives of the Government of New Brunswick may be better achieved, on a less risky basis, by implementing an alternative model. This model, which represents an enhancement of the existing automobile insurance model in New Brunswick, would feature:

- Automobile insurance provided by private insurers operating under a new and enhanced regulatory framework, characterized by:
 - A system-wide stewardship mandate;
 - A focus on insurance only;
 - Enhanced analysis and reporting of claims cost trends;
 - An emphasis on rate stability and avoidance of rate “spikes”; and
 - Introduction of a Consumer Advocate to protect consumer interests.
- A new insurance product framework featuring:
 - Two insurance products: the “basic” product (with pricing levels consistent with current pricing levels), and the introduction of a lower-cost “no-frills” product; and

- Increased driver choice regarding coverage and premium cost based upon the introduction of “direct compensation” for property damage claims.

Our detailed review and analysis of the Select Committee Report and potential alternative automobile insurance models supporting our findings and conclusions above are contained in our report.