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# THOMPSON'S WORLD INSURANCE NEWS



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## ICBC reimbursing optional customers

THE INSURANCE Corp. of B.C. is reimbursing its optional insurance customers a total of \$39m after it found it was overcharging them for at least six years.

The government-owned insurer said the problem arose with its legacy computer system, which it began to replace in 2009. As the new system was installed (the changeover is due to be completed in 2015) it became apparent that the old one assigned an "incorrect description" to some vehicles.

"Based on analysis to date, ICBC estimates on average 1.8% or 40,000 optional insurance customers per year had an incorrect vehicle description which resulted in an overpayment on a portion of their optional insurance," the corporation said in a press release last week.

"The average overpayment per year was \$21."

ICBC said it would reimburse those overcharged within 90 days. It estimates the total overpayment at \$36m plus \$3m in interest.

At the same time, ICBC reckons 2.7% or 58,000 optional insurance customers were undercharged for their coverage by an average of

\$34. But B.C. Transportation Minister Todd Stone has directed the insurer not to seek repayment from those customers, which means ICBC must absorb a \$71m loss.

"I am as angry, as I expect British Columbians to be, over this operational error at ICBC which for the past six years has been overcharging some customers and undercharging other customers for optional insurance," Mr. Stone said in a written statement. "This is not acceptable, and British Columbians expect more from their public auto insurer."

He is also ordering an outside audit of ICBC's numbers, as well as an examination of its handling of the issue.

ICBC will also spend an estimated \$4m to track down overpayments as far back as July 1, 2008 — "as far back as our legacy insurance computer system is able to accurately recalculate historical premiums for customers."

It is also employing new technology that will use vehicle identification numbers to automatically record each vehicle's make and model.

ICBC said fewer than 5% of ICBC's three million customers are affected by the glitch.

## Telematics bringing fundamental change

TELEMATICS technology is going to change the very fundamentals of how the insurance industry conducts business, an industry consultant said at the 10th annual CIP Symposium held in Toronto earlier this month.

"A great transformation is happening in the p&c industry driven by what we call disruptive technology," Deloitte partner and national insurance leader Daniel Shum said during a round table discussion on telematics.

"What we're finding is that telematics is just the beginning," he said.

"We are seeing the emergence of technologies causing interconnection between us and machines, and machines talking to each other. Telematics is just the forefront of all of that."

He said because of the new technology behind usage-based insurance, consumers and insurers are going to see a shift in the way insurance is calculated.

"We are going to move from, in insurance, a predictive exercise — using the past to determine future risk — to something more

empirical," Mr. Shum said. "That will lead to different profiling around risk and different pricing approaches."

"We will also see insurers being able to have a more direct influence through telematics on customer behaviour, either using the technology to entice customers to behave in a different way or using it as a means of direct communication to the customer."

Telematics can also help with the adjudication of claims. In essence it can be used like a black box for cars, he said.

George Cooke, former ceo of The Dominion and now president of Martello consultants, said that while some people aren't buying the benefits of telematics, they would be foolish to ignore the technology.

"There are two forces sitting out there right now driving this," he said.

"There are technology advances sitting out there that are very real and moving at a pace that some of us can't comprehend."

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## Opposition MPPs take Liberals to task over auto bill

SOME ONTARIO opposition MPPs are unhappy or apathetic about Bill 171, the Liberal government's auto insurance reform bill.

"I don't want to see it pass in its current form because in its current form the only thing that it does to help people across this province is to have a flashy title, 'Fighting Fraud and Reducing Automobile Insurance Rates,'" New Democrat Sarah Campbell (Kenora-Rainy River) said as debate continued at Queen's Park earlier this month.

"But if you look at the content of the bill, there's actually very little in there."

"It doesn't seem to do anything in the way of helping individuals in this province reduce their rates, but it does seem to do a whole lot to help auto insurance companies to bring down their costs and maximize their profits."

Progressive Conservative MPP Sylvia Jones (Dufferin-Caledon) said energy costs are a higher priority issue than auto insurance for her constituents.

"Certainly auto insurance is a concern for the people in Dufferin-Caledon, but almost without exception, what people were raising with me . . . was energy costs," she said.

"In terms of Bill 171, I would be pleased to have this referred to committee for further debate and amendments."

The NDP's Peggy Sattler (London West) said there are two key parts of the bill that her party finds troublesome: changes to the dispute resolution system and prejudgment interest rates.

"In terms of dispute resolution, currently, accident victims have the right to go to court or to arbitration if they believe they have been wrongfully denied benefits by their insurance company," she said.

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**'Telematics must remain voluntary'****RCCAQ aims for protection**

QUEBEC's broker association says it's all for telematics as long as certain conditions are met to protect the consumer.

The Regroupement des cabinets de courtage d'assurance du Québec says the benefits of this new technology must remain exclusively reserved for policyholders.

"A number of analysts believe that 10-30% of auto insurance policies in Canada will be based on and priced according to telematics by 2017," association chair Jean Bilodeau said.

"Worldwide, 60% of vehicles will be connected. This market requires a good deal of vigilance and a pro-consumer commitment."

The appearance on the Quebec market of UBI programs such as Desjardins' Ajusto or Industrial Alliance's Mobiliz has had a huge impact on the industry.

When a telematics device is installed in a vehicle, insurers can track policyholders and gather detailed data on their travel and driving habits.

The RCCAQ recognizes that, based on the data collected, policyholders can

receive sound advice from brokers aimed at enhancing their coverage and controlling their usage-based insurance costs.

However, the association is looking for certain basic principles to be respected.

Among other things, telematics must essentially remain a "voluntary option" for consumers, whose support must be based on informed consent. In addition, the association said telematics data must belong to consumers, not to insurers. Insurers must also make UBI data available so consumers can "export" it if they wish to obtain a quote or enter into a contract with another insurer.

The RCCAQ says urgent action must be taken and continues to lobby the Autorité des marchés financiers to establish a legal framework governing the ownership and use of telematics data.

"The AMF has yet to issue guidelines for devices that utilize telematics," Mr. Bilodeau said.

"These guidelines should be issued as a matter of urgency and should apply to all insurers. We must protect consumers."

**Cooke urges industry to wake up**

► *Continued from front page*

"And there is the response from this industry which is slow, burdened with regulation, compromised by public policy that hasn't even contemplated yet what some of the issues surrounding this technology might be," Mr. Cooke said. "And people that are focused on their day-to-day lives rather than what the future might look like."

Independent Broker Resources Inc. ceo Colin Simpson agreed that telematics technology is here to stay.

"Telematics as we understand it today may have a shelf life of only four or five years because technology will advance, but it is here now and it's not going away."

What this means is that there is an opportunity here for the whole industry, Travelers personal insurance vp Bill Premdas said at the symposium.

"When you think about the premium we pay there is an opportunity to change people's behaviour, to drive down the frequency of collisions, to lower severity."

"Then all those dollars we have to cover insurance cost can be used to bring those prices down. That's a real opportunity if we can do it right."

"If we don't achieve that there are still advantages for individual companies. Companies that implement telematics well and go after their target demographics can simply use it as a risk identifier. So they will do a better job of matching risk to premium."

**AMF praises 'hybrid' system**

QUEBEC's insurance regulator said collaboration with the province's auto insurer association has borne fruit.

Patrick Déry, Autorité des marchés financiers solvency superintendent, said that in comparison to issues in other provinces, Quebec's 'hybrid' model has generated interesting results.

"The accident victims are supported and no longer face the risk of insolvency, vehicle owners get insurance at a reasonable cost, and auto insurers continue year after year to do good business," he told the Groupement des assureurs automobiles annual meeting on March 26.

The organization, created in 1978 following the adoption of the Automobile Insurance Act, represents all auto insurance companies operating in Quebec.

This year marks the 40th anniversary of the Gauvin report that led to the 1978 law that implemented no-fault insurance. Before this change, Mr. Déry said, a significant proportion of victims were not compensated because the person responsible for the accident was insolvent and victims did not receive support suitable for rehabilitation.

"Some insurers thought that their profitability would decrease," he said. "Forty years later, we can say that this reform has laid the foundation for a healthy and prosperous Quebec auto insurance industry."

"Despite the fact that profitability has declined somewhat in recent years, it remains above the historical average and exceeds the performance targets set by insurers," Mr. Déry said. "So it's a win-win-win situation for victims, consumers and insurers."

The average premium (including the bodily injury part taken care of by the SAAQ) was \$712 in Quebec in 2012 — half as much as the \$1,551 in Ontario.

With this reform also came the creation of the GAA. Mr. Déry said the co-operation between the AMF and the GAA is a plus when looking at industry issues such as telematics.

"Telematics technology has been in the Quebec market for about two years," he said. "The AMF sees the use of telematics by insurers as a tool for innovative pricing and also a tool to improve the driving behaviour of policyholders."

"But, as with any innovation, it is important that all aspects are understood and in the case of telematics, the privacy issue in my view deserves attention."

**Insurers' efforts go unrecognized**

THERE ARE more insured losses today than ever before and the insurance industry's work often goes unrecognized, the president and ceo of Marsh Inc. said at this month's CIP Symposium in Toronto.

"If you don't think the insurance industry isn't playing a more vital role in natural disasters I want to give you some statistics," Peter Zaffino said.

"When looking at natural disasters and man-made disasters the economic impact in 1970 was \$76bn adjusted for inflation. Of that economic impact about \$4bn was insurable. Fast forward to 2012, where the total economic loss from natural and man-made disasters was about \$180bn, a little more than double. The amount of insured losses was almost \$80bn."

"We are living in a more prevalent age of risk. It's a time of increased economic and insured events."

He said this change is being driven by number of different factors.

"The world is becoming more balanced in terms of GDP. There are demographic changes. Coastal weather losses have increased because there are more people living in exposed areas. Weather patterns are changing. In the last decade there has been an increase in natural disasters. And then there is the interconnectedness of global supply chains, which has become a big issue in emerging parts of the world."

"We are at the forefront as different constituents look to us for leadership. I think we play a significant role and one that is under-recognized."

"We drive economic progress."

# Curtain call for entries.

Submit your nominations  
for the Annual CIP Society  
National Leadership Awards.

Nominations will be accepted  
until June 1.

For more information about the leadership awards and the nomination process, please visit the CIP Society website.

[www.insuranceinstitute.ca/cipsociety](http://www.insuranceinstitute.ca/cipsociety)

