

The Case for Pay-As-You-Drive: Public Auto Insurance under Manitoba's Sustainable Development Act

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Auto Insurance Rates before the Public Utilities Board of Manitoba (PUB)*

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Time to Respect Earth's Ecosystems (TREE) and Resource Conservation Manitoba (RCM) are NGOs committed to the advancement of a more sustainable society and economy in Manitoba. These two organizations have engaged in a series of interventions in Manitoba Hydro and Centra Gas rate hearings over the last several years to promote conservation and sustainability-based rates, incentives and program initiatives. Our interventions have been founded on the premise that utility rates should reflect the public interests as defined by principles of sustainability and justice. We believe that Manitoba Public Insurance rates and programs should be reviewed in the same light.

In a brief to the Board last year, we argued that some version of distance-based insurance charges or Pay-as-You-Drive (PAYD) would appear to better reflect the principles of justice and sustainability than the current rate regime. We will reflect on MPI's response to this proposal later in this presentation.

MPI and the Sustainable Development Act

First, we want to consider sustainable development at Manitoba Public Insurance (MPI) as the record reveals it. In Manitoba, the concept of sustainability has legal force through the Sustainable Development Act. This spells out a number of principles and guidelines of sustainability. MPI acknowledges that it has responsibilities under the Act and indeed has a variety of initiatives to fulfill these responsibilities, documented in its annual sustainability report. RCM and TREE are pleased to see the extent to which MPI has tried to integrate sustainability principles into some of its departments and operations through such mechanisms as their sustainable development policy and guidelines, action plans, sustainable development impact analyses for various policies and proposals, as well as the year-end Environmental Audit and Sustainable Development Report. In a number of respects their management systems and concrete initiatives in environmental monitoring, pollution prevention and mitigation, building and vehicle efficiencies, procurement practices, and recycling appear to be exemplary.

There are, however, important gaps in the implementation of sustainable development principles acknowledged by MPI. The elaborate management system for the implementation of sustainable development policy applies to only four of the departments at MPI. The Corporation's core activities of rate setting and public education programming are not evaluated by principles of sustainability, as indicated in response to an earlier question from RCM/TREE. Integration of sustainable development as described by MPI is quite proscribed and no example of full cost accounting that included externalized cost was produced.

As observed by PUB counsel and confirmed by MPI, the principles are applied internally, not externally. Indeed, but for the temporary posting of the 2007 General Rate Application (GRA) filing, no one could gather from MPI's public web pages that the Corporation has any obligations under the Sustainable Development Act or that it has undertaken any initiatives to fulfill them.

The public persona of MPI appears to be divorced from sustainable development despite its good works glimpsed through the filing documentation. The Corporation hides its light under a bushel. In contrast, the Manitoba Lotteries Commission, another Manitoba Crown corporation, explicitly displays its sustainable development commitments among its web pages. And of course the Manitoba Hydro home page and other public message ads like billboards are dominated by PowerSmart information. Moreover, a growing number of private corporations regularly highlight their environmental commitments and accomplishments.

MPI would do well to look to these and other examples for guidance in corporate branding and in the provision of public information detailing its obligations and commitments. The positive perception of any new sustainability initiatives may depend upon a public awareness that sustainability is an important and mandated part of MPI's corporate identity and practices.

MPI and climate change

In an order issued by the Public Utilities Board in 2005, a recommendation was that MPI consider in more depth environmentally friendly insurance concepts such as Pay-As-You-Drive insurance, along with other initiatives that would enhance sustainable development objectives. MPI has indicated that it accepts the recommendation but that other corporate priorities have prevented further investigation of these matters on their part.

In oral testimony MPI confirmed that it takes its commitment to sustainable development seriously and will continue to look for opportunities to implement the principles. MPI also acknowledged that its customer base is responsible for almost a third of the greenhouse gas emissions in Manitoba. RCM and TREE asked, then, whether MPI has any special responsibilities for greenhouse gas mitigation, especially since it is a Crown corporation under the Sustainable Development Act in a province which has made climate change mitigation a signature policy. But although the President and CEO of MPI acknowledged the legitimacy and urgency of the need for greenhouse gas mitigation, she identified a tension between demand management through pricing of insurance and MPI's historic mandate. She indicated that MPI was created strictly to provide affordable automobile insurance to Manitobans, on the premise that driving is a necessity for most of them, and advised that the Province has not assigned a broader role than that to the Corporation. In the absence of such instruction, MPI does not know what role it should play to assist in the reduction of greenhouse gases generated by the vehicles it insures.

At this point, we would observe that, even if automobiles are regarded as a necessity for large numbers of Manitobans, and even if it is the mandate of MPI to guarantee access to automobile insurance, that does not mean that every kilometre driven is equally necessary. Economic incentives provide a steady pressure to make choices that reduce demand, as explicitly described in Manitoba's Sustainable Development Guidelines. Moreover, these economic incentives are justified if they reflect real costs, and they are still compatible with broad access to transportation.

RCM and TREE do not feel that MPI needs to await orders from the Government of Manitoba before embarking on research and piloting of demand management measures. The policies of

the Sustainable Development Act provide a framework for implementation, as opposed to detailed micro-management by the central government. For Government departments, agencies and Crown corporations, the people who know the particular business are the ones who should be developing policies in conformity with the Act, as well as their own mandates. An analogous situation exists in the supply of energy to homes. Access to energy is a necessity in our climate, but an unlimited supply of energy at cheap rates is unsustainable and unnecessary with appropriate demand management. This principle is recognized in many US jurisdictions in the form of inverted rates for electricity and natural gas, which provide an initial block to dwellings at a lower price and escalate the rates as more is demanded. Manitoba Hydro has indicated that it is moving in this direction.

Distance driven and insurance risk

In addition to the above policy issues, MPI said it has specific problems with PAYD proposals. We will list a few of the difficulties cited, and offer brief responses, but obviously much more discussion is required. Our recommendations will be to conduct the appropriate research and consultation to identify issues and clarify circumstances affecting implementation in Manitoba.

- The first of the problems cited by MPI is a lack of statistical data to support the claim that risk increases with distances driven, and they provided a counter-example. In reply, we note that counter-examples can be provided for any classification scheme subject to statistical analysis. In MPI's counter-example, drivers of unequal skill levels were compared, with the lower mileage less-skilled driver having the same number of accidents as the highly skilled high mileage driver. However, it is not necessarily the case that driving skills vary in direct proportion to distances driven. Bad habits and carelessness can also develop. Is it reasonable to suppose that the high mileage driver who averages an accident every two hundred thousand (200,000) miles would lose half his skills and increase his accident frequency to one in one hundred thousand (100,000) miles if he cut his annual mileage in half? An empirical resolution of this issue is desirable and MPI should acquire the missing data and commission the necessary research.
- At the same time, MPI says that the distance factor is already included implicitly in classifications of the purposes for which vehicles are driven -- for example, the Pleasure versus All Purpose categories, and delivery vehicles and taxis and so on. So there's no need to consider distance as a separate factor. But, we reply, distance provides a further refinement within categories that plausibly is linked to risk, subject to empirical verification. Distance-based premiums, unlike these others, create an economic incentive to reduce mileage and risks that the broad insurance categories lack. Nor is PAYD somehow biased against rural clients. The distance rating is in conjunction with the other classifications, not a replacement of them, so rural drivers would be compared against rural drivers and urban drivers against urban drivers.
- A third cited obstacle is the problem of securing verified distance data from customers, by which to set the rates. This has two alternatives; one is the GPS (Global Positioning System) option and the other is the odometer reading option. In its evidence, MPI has focussed only on the GPS one and said that it raises issues around privacy. Another claimed problem is that the GPS option adds to the expense -- more expensive technology and more difficult to install on older vehicles. But we note that insurance schemes that employ this technology (like Norwich's in England) are voluntary, which mitigates these issues at least. It's not a universal compulsory requirement that everyone have their every move audited; GPS is voluntary for those who think it is worthwhile to get the special

premiums. And presumably the results of Norwich's pilot project were sufficiently actuarially sound and statistically valid to permit them profitably to implement a Pay-As-You-Drive scheme as a regular offering. We would note, however, that these privacy issues and expense issues may be reasons for MPI to consider an odometer-based scheme as a more universally available alternative.

- The odometer alternative was faulted for providing less information than GPS units, in particular concerning where and when a vehicle was driven, which may be more relevant to risk exposure than mere distance. And self-reporting of odometer readings may be unreliable. We reply that the Dutch Polis Direct model of insurance, based on an annual odometer reading, merits examination. MPI has already noted that significant portions of their data from insurance applications are self-reported (medical and vision conditions, for example, and usage for Pleasure or All Purpose). What is needed for verification is an enhanced database, a more complete record of vehicles' mileage, and periodic checks and audits of self-reported data.
- Another red herring that another intervener raised was that of program costs. Where would MPI get the replacement dollars that PAYD clients withdraw from the flat rate pool? We need to consider both sides of this equation. Although PAYD customers would indeed be reducing a portion of their premium, they will also be lowering their risks. It's just like someone deciding to give up their car for commuting to work and switching their All Purpose use insurance to the cheaper Pleasure use category.
- Another objection raised by MPI is that voluntary PAYD is a form of anti-selection that unfairly raises the rates for other customers. But this criticism would be true only if those selecting PAYD as a group actuarially imposed higher costs than their premiums and share of investment earnings yielded. Again, this is an empirical question analogous to the question of whether those who elect the Pleasure category are justified in paying lower premiums than those with All Purpose.

The overall point – and this kind of discussion needs to take place in much more detail -- is that these program-level issues need to be resolved by investigations into relationships between risk and distance, the elasticity of driving behaviour subject to economic incentives, and examples of PAYD implementation. If MPI does not have the time or inclination to conduct these investigations themselves, they should commission the research to be done by others. Where there's a will there's a way, at least to gather the information needed for informed policies and decisions.

Full-Cost Accounting

Sustainable Development Guideline 1, Efficient Use of Resources, from Schedule B of the Sustainable Development Act not only calls for demand management with appropriate pricing and incentives, but also employing full cost accounting to provide better information for decision-makers.

Our recommendation is that MPI initiate several components of a full cost accounting framework for the activities that it insures. It need not be fancy to start with, but just to gain some familiarity with the concept. For example, in addition to the collision claims paid out by MPI, collisions have external cost, that is external to the MPI financial system, imposed on the medical system, which are uncompensated by MPI. We assume that MPI only pays clients for costs that the Manitoba medical system doesn't cover, not those that are already covered under Medicare.

There must be estimates of what those costs are. One could generate estimates based on the types of injuries and medical care that various people suffer and that would be an example of a social externality of the transportation sector in accident mode that MPI does not cover.

A further such cost is climate change impacts. And there are ways that have been developed for estimating damage costs per tonne of carbon, CO₂ equivalent. Some work done here in Manitoba at the International Institute for Sustainable Development has tracked some of those costs. The basic idea is you take the increment of events like Hurricane Katrina, which result in very real and costly damages, and relate those costs to incremental greenhouse gas emissions in order to arrive at a proportional estimate of damage costs per tonne of greenhouse gas emitted.

Various cost figures have been proposed. One that was used most recently in the PUB's hearing on Manitoba Hydro's COSS (Cost of Service Study) was twenty dollars (\$20) a tonne. There are a wide range of variations on that, obviously. But the point is there are very real costs that some kind of a dollar value can be attached to, and that would be another example of quantifying some of these externalities. So the PUB has ordered Manitoba Hydro to provide that kind of information and in fact, even to go further and allocate it amongst the different customer classes.

At this stage, RCM and TREE acknowledge that this may be too much for a first step by MPI, but at least the Corporation should get some kind of a grasp of what some of these externalized costs are. Not only would it be a useful exercise, but the Sustainable Development Act says this is important for informed decision making by all parties (including MPI internally and the PUB at hearings like this). Some initial effort along those lines could be made and reports submitted along with the MPI GRA next time around.

In its August 2nd, 2006 Order 117/06 respecting Manitoba Hydro, the PUB observed: "Global warming is affecting Manitoba as it is the rest of the world and ignoring it in rate setting is not in the public interest." So a position has been taken with respect to Manitoba Hydro. Climate change brought about by carbon emissions brings particular risks to Manitoba Hydro and to Manitoba. The PUB has directed Hydro to submit marginal cost data and environmental costing that could begin to provide a full cost accounting of electricity usage by Manitobans. Regulatory consistency would suggest that some movement in this direction is appropriate for MPI.

In summary

1. RCM and TREE believe that the PUB should help MPI clarify its mandate under the Sustainable Development Act. The Corporation is obviously conflicted in trying to reconcile its historical mandate with emerging climate change policies and the encompassing requirements under the Sustainable Development Act. The Manitoba Public Insurance Corporation Act and the Public Utilities Board Act are not the only applicable pieces of legislation. A broad vision of the public good is provided through the Sustainable Development Act. We submit that the SDA itself constitutes the clear instruction from the Province that MPI says is lacking.
2. Our second recommendation to the PUB is to convert last year's Recommendation into an Order so as to raise its priority. And that was the Recommendation to investigate environmentally sensitive initiatives and Pay-As-You-Drive as an example. And we urge the Board to elaborate and specify as you see fit.

The above are recommendations to the PUB in developing its order. The following are further recommendations from RCM and TREE for consideration either as components of the PUB Order or as advice intended to be constructive and helpful to MPI:

3. There is a need to improve MPI's database, research and policy deliberations required for informed decision making, employing consultants where necessary.
4. The implications of full cost accounting need to be taken up by MPI as a framework for decision-making.
5. We would like MPI to take a look at research into implemented Pay-As-You-Drive systems, such as Norwich in the United Kingdom and Polis Direct in the Netherlands, which represent the GPS alternative and the odometer alternative, respectively. They should provide some practical insights, and there may be others out there that are worth looking at.
6. Undertake research into transportation elasticities with various economic incentives.
7. Investigate distance and risk relationships. Again, this would require an augmentation and analysis of the MPI database. MPI has stressed the legal obstacles, but if mileage readings were recorded for every claim, not just write-offs, there would be no need for any kind of new law for that. MPI's information brochure to the public indicates that the Corporation gathers information for various purposes including the development of future rate policies. This would be in line with that.
8. Publicly identify MPI as a corporation subject to the Sustainable Development Act.
9. Develop educational messages that promote sustainable development externality mitigation (for example, climate change) where this converges with safety, e.g., properly inflated tires, controlling speed, and leaving the car home and taking a bus. These are all things that promote both safety and greenhouse gas mitigation, and promoting safety both helps you with your claims and helps the medical system.
10. And finally what about a round table of stakeholders to assist MPI in the above? This might include parties such as the intervenors at this hearing, the transportation institutes at the University of Winnipeg and the University of Manitoba, the Manitoba Roundtable on Sustainable Development, IISD, Manitoba Hydro, the Department of Transportation and Government Services, the Department of Energy, Science, and Technology, the Climate Change Branch. These would be people that you'd think of, or institutions that you would think of, on a group to consider what is the role of the Corporation. Or what are the potential roles and what are the ones that make the most sense? The ingredients for this to work (and it can work successfully) include goodwill, a commitment to the agreed purpose, and some resourcing of research.

We look forward to further responses from the Board and from MPI. Thank you to the Board, to MPI, and to the other parties in this hearing.

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