



**INSURANCE BROKERS
ASSOCIATION OF SASKATCHEWAN**

Extended Auto Advisory Committee Recommendations

Wednesday, May 15, 2019

Enhancing protection. Expanding choice. Maintaining affordability.

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Overview

In March 2018, the Insurance Brokers Association of Saskatchewan (IBAS) board of directors (hereinafter, the *Board*) approved the creation of a special Extended Auto Advisory Committee (hereinafter, the *Committee*), mandated to provide recommendations that inform and guide the association’s positions and activities related to the future of both personal and commercial extended auto insurance in Saskatchewan.

About IBAS

Founded in 1952, IBAS is a voluntary, membership-based organization, comprised of more than 95 per cent of the province’s independent insurance brokers. As a registered not-for-profit entity, IBAS represents the interests of both its members and consumers to government, the industry at-large, and the general public.

IBAS’s membership consists of 206 independent brokerages in 378 branch locations across 249 Saskatchewan communities. These businesses employ roughly 1,600 licensed insurance brokers.

Committee Members

Full Members

The Board determined that the Committee be comprised of no fewer than nine (9) and no more than 24 *Full Members*. These must be representatives of IBAS brokerage members in good standing, and must be comprised of at least three (3) individuals from each of Regina, Saskatoon, and rural Saskatchewan (defined as outside of Regina and Saskatoon). The Board further agreed that membership include varying levels of seniority and job function.

The following 16 licensed insurance brokers were approved as Full Members:

- | | |
|---|---|
| Barb Gottselig
Vice President, Personal Insurance
Harvard Western Insurance | Doug Trapp
Director, Mergers & Acquisitions
HUB International |
| Chalen Schneider
Vice President, Commercial Insurance
Knight Archer Insurance | Jason Farrell
President & CEO
Farrell Agencies |
| Darren Grimes
Saskatchewan Area Manager
Andrew Agencies | Jaycee Turtle
Branch Manager
Lakeview Insurance Group |

Jennifer Konopelski
Office Supervisor & Broker
Meota Agencies

Lori Madsen
Director, Insurance Services
CAA Saskatchewan

Judy McCuskee
Principal
McCuskee Consulting Ltd.

Morgan Kolababa
Broker & Customer Service Rep.
Hoffmann Kool Insurance

Kelly Richards
Broker
Saskatoon Insurance Agencies

Rick Smith
Senior Vice President
Henderson Insurance

Kristi Hofer
Account Manager
Butler Byers Insurance

Rose Freeman
Owner
Willow Insurance Corp.

Levi Smith
Account Manager
Dickson Agencies

Stephen Barlow
Vice President
Dusyk & Barlow Insurance Brokers

Advisory Members

The Board determined that the Committee may also include no more than six (6) *Advisory Members*. These may be representatives of insurers, policymakers, or other stakeholders, whose purpose is to provide insight and guiding context to the Committee, yet who do not vote on any specific actions undertaken or recommendations made by the Committee.

The following three (3) individuals were approved as Advisory Members:

Cindy Anweiler
Associate Vice President, Marketing
Saskatchewan Mutual Insurance

Lana Jordan
Senior Director, Broker Strategy
SGI CANADA

Garth Driedger
Leadership Team – Analytics
My Mutual Insurance

Chairperson

The Committee is chaired by:

Derek Lothian
Chief Executive Officer
Insurance Brokers Association of Saskatchewan

Background

The way Saskatchewan drivers insure themselves and their vehicles is significantly different from many other Canadian jurisdictions.

When registering a vehicle in the province through the government-administered SGI Auto Fund, drivers receive a basic package of insurance that is included with their licence plates. This insurance consists of:

- Third-party liability insurance of up to \$200,000 for damage caused by the driver to another property or person;
- Coverage for damage to the driver's vehicle, subject to a deductible of \$700; and
- Personal injury insurance, should the driver become injured due to a collision.

What many Saskatchewan drivers do not understand, however, is that this basic insurance is not enough to properly protect them from all accidents — especially those caused by themselves and their vehicles. That could leave them liable for out-of-pocket expenses to cover damage to property, physical injury or death to another person, or a victim's loss or lost potential of income.

To mitigate this risk, drivers may choose to purchase *extended auto insurance* — also known as *package policies*. These supplemental policies have a range of coverage options, such as additional liability insurance of up to \$5 million, and family protection in the event of an accident where the at-fault driver does not have sufficient liability insurance.

Unfortunately, half of Saskatchewan drivers still only carry the \$200,000 minimum liability coverage associated with basic plates. In British Columbia and Manitoba, meanwhile, two other provinces with public auto insurance frameworks, more than nine in 10 drivers have liability protection of at least \$1 million.

Position Statement

The following statement was adopted by the Committee, and was then approved as the official IBAS policy position at the June 18 Board meeting:

The percentage of Saskatchewan drivers compared to other Canadian provinces with only \$200,000 liability coverage is inadequate, represents a significant consumer and public risk, and must be addressed.

Guiding Principles

To frame discussion and establish criteria by which it should consider recommendations, the Committee unanimously agreed that IBAS endeavour to increase the uptake of Saskatchewan drivers with third-party liability coverage greater than \$200,000 only when its actions and policy positions promote all three of the following *guiding principles*:

- Competition and affordability in the marketplace;
- Choice, education, and independent advice for the consumer; and
- Protection of the broker channel.

Approval of Recommendations

The IBAS Board has unanimously approved the slate of recommendations put forth by the Committee, which are contained in this document. These recommendations now constitute as official IBAS policy positions and recommendations, although they remain subject to ongoing consultation and dialogue, and can be altered, removed, or supplemented at any time.

The IBAS Board consists of:

Dave Pettigrew (*Chair*)
 President & CEO
 Harvard Western Insurance

Dave Reidy
 President & CEO
 Henderson Insurance

Jayne Gorrill (*Vice Chair*)
 Partner
 Hoffmann Kool Insurance

Nicole Korpusik
 Partner
 Norquay Agencies

Peter Bennett (*Secretary-Treasurer*)
 Owner
 Saskatoon Insurance Agencies

Sarah Edwards
 Owner
 Aberdeen Agencies

Chad Parenteau
 Partner
 W.W. Smith Insurance

Tracy Archer
 Chief Operating Officer
 Knight Archer Insurance

Summary of Recommendations

1. Require all Motor Licence Issuers to be licensed insurance brokers (minimum Restricted Auto Licence, with a target implementation of year-end 2020), while making offsetting provisions to reasonably mitigate incremental burden faced by small businesses.
 - a. Permit MLIs to function in an unlicensed capacity — subject to the same restrictions limiting their scope today — for a designated probationary period under the supervision of a Level 3 licensee.
 - b. Ensure total brokerage commission on auto insurance transactions meets the national average.
 - c. Strengthen online licensing and continuing education pathways.
2. Enhance licensing systems to allow for real-time, rated, multi-carrier quoting and binding on extension auto products in a single-transaction, single-payment environment.
 - a. Strengthen the liability prompt in the SAM software to include a dual-gate consumer warning and electronic signature requirement.

3. Reconfigure SGI New Issuer Training to remove redundancies, incorporate a greater scope of basic insurance knowledge, and be offered online.
4. Embed content on Saskatchewan automotive insurance into driver education.
5. Create a shared, industry-wide website to help Saskatchewan drivers better understand the province's auto licensing and insurance framework in a non-sales-based and easy-to-understand manner.
6. Complete — by the end of 2021 — a multi-stakeholder provincial consultation to consider the separation of third-party liability and/or physical damage coverages out of basic plate insurance.
 - a. As an interim measure, review and adjust the physical damage deductible associated with basic plates on an annual basis.

Recommendation #1

Require all Motor Licence Issuers to be licensed insurance brokers (minimum Restricted Auto Licence, with a target implementation of year-end 2020), while making offsetting provisions to reasonably mitigate incremental burden faced by small businesses.

It is imperative that drivers understand what insurance is included and — perhaps more importantly — what protection is *not* included when purchasing their licence plates. That starts with ensuring those facilitating the transaction are qualified professionals with the knowledge and permissions necessary to educate the consumer and provide independent advice. Under the current regulatory regime, to do this effectively, the Committee believes all Motor Licence Issuers (MLIs) should be licensed insurance brokers.

The Committee also recognizes, though, the business realities that brokerages today operate within — some of which are unique *to* or amplified *in* the Saskatchewan marketplace, such as:

- Extended hours of weekday operation;
- Weekend office hours;
- Workforce availability constraints, especially in rural regions;
- Long and costly commutes to access training in urban centres;
- A low commission rate on auto insurance compared to other provinces;
- Rising wages; and
- Dwindling margins.

Therefore, as part of this new licensing requirement, the Committee recommends the following measures to ease the transition and avoid inflicting undue hardship onto brokerages:

Recommendation #1A

Permit MLIs to function in an unlicensed capacity — subject to the same restrictions limiting their scope today — for a designated probationary period under the supervision of a Level 3 licensee.

Common practice for many brokerages is to hire part-time or seasonal staff in motor licence issuing positions to accommodate for extended office hours and vacation time, most notably in the summer months. As with all such hires, there is potential for a high degree of turnover in these roles. Thus, it is reasonable to permit a brief probationary period that would limit unlicensed MLI work while reducing undue financial and administrative hardship on brokerages.

Note: The intended definition of *supervision* would not require the Level 3 licensee to be on-site at all times; rather, the licensed individual must be reasonably accessible, and would be responsible for the activities of the unlicensed MLI.

Recommendation #1B

Ensure total brokerage commission on auto insurance transactions meets the national average.

Saskatchewan brokerages are subject to some of the lowest standard compensation rates in the country when considering the totality of auto insurance transactions.

For instance, a carrier in a province with a strictly private insurance regime may provide commission of 12.5 per cent on an \$1,800 policy, which would cover physical damage, injury, and liability, resulting in total broker compensation of \$225. Hypothetically, as it stands, that same policy in Saskatchewan would be divided into two distinct transactions:

- The basic plate portion — covering liability, injury, *and* physical damage with a deductible of \$700 — worth approximately \$1,600 at a commission of 4.75 per cent (if performed manually; otherwise, if sold online, commission is set at 3.75 per cent), for compensation of \$76; and
- The extended coverage portion — worth approximately \$200 at a commission of 15 per cent, for compensation of \$30.

Using the above example, compensation for Saskatchewan brokerages would be a maximum of \$106 — at least 53 per cent lower than it would be in the comparative province.

By moving toward an approach similar to that of Manitoba, where all MLIs must be licensed, it is both reasonable and necessary for those compensation rates to be adjusted to offset expanded training costs and higher wage demands.

Recommendation #1C

Strengthen online licensing and continuing education pathways.

Given the dispersed geographical base of the broker channel in Saskatchewan, IBAS must continue to improve the accessibility and online delivery of its Restricted Auto Course (Part I and Part II) and other continuing education offerings, to ensure rural brokers can fulfill the new licensing requirements advocated for in *Recommendation #1*.

Furthermore, the Committee believes candidates pursuing Restricted Auto Licences should be waived of their requirement to complete the General Insurance Council of Saskatchewan Bylaws exam when taking Part I *and* Part II of the Restricted Auto Course, as it contains a substantial ethics component, and because Restricted Auto Licence-holders are heavily supervised by individuals who hold higher levels of licence.

Recommendation #2

Enhance licensing systems to allow for real-time, rated, multi-carrier quoting and binding on extension auto products in a single-transaction, single-payment environment.

Saskatchewan's public insurance system is unlike any in the country. And, by most accounts, it is one of the most stable and cost-effective. But the strength of SGI CANADA as a Crown insurer, along with its unique structure in tandem with the SGI Auto Fund, has resulted in diminished consumer choice and limited external competition.

The Committee believes the SGI Auto Fund has a responsibility to work with *all* insurers, of all sizes, to create a level playing field with respect to how driver information is used in the insuring process. It should *not* be used, or limited in its usage (including through unreasonable cost burdens), to create unfair advantages amongst carriers — especially small insurers or those with minimal market share. Instead, as a public entity, the SGI Auto Fund should be an *enabler* of competition.

One of the primary indicators in the successful uptake of extended auto coverage is transaction time. As with many other industries, insurance customers are demanding unparalleled convenience — they want options, and they don't want multiple payment processes or long wait times. Software systems, such as the SGI SAM portal, should be responsive to these buying preferences.

This would require insurers offering extended auto products in Saskatchewan to have real-time access to driver validation numbers in SAM, to allow for instant pricing, rating, and communication of coverage options back to the customer — all in a single-window service environment.

Recommendation #2A

Strengthen the liability prompt in the SAM software to include a dual-gate consumer warning and electronic signature requirement.

The Committee recommends adopting the following verbiage as part of the standard liability prompt within SAM:

The Insurance Brokers Association of Saskatchewan strongly warns drivers that \$200,000 in liability coverage is not enough. Additional coverage can cost as little as 'X' per year. Would you like to discuss your options?; and (should the driver choose to remain with only \$200,000 in coverage), Do you accept that \$200,000 in liability coverage may not be adequate?

In addition to facilitating the consideration of appropriate coverage levels for each vehicle owner's unique needs, such a prompt — with requirement for a customer signature — would also alleviate errors and omissions exposure for brokers.

Recommendation #3

Reconfigure SGI New Issuer Training to remove redundancies, incorporate a greater scope of basic insurance knowledge, and be offered online.

Due to internal training and system familiarization processes brokerages undertake when onboarding new employees, some of the current content that centres around SAM usage may not be required — or could be condensed to allow for supplementary material.

The Committee feels it is important for this course to dedicate more time to helping MLIs understand and explain to consumers basic principles specific to Saskatchewan’s auto insurance framework, such as: What is *tort*? What is *no-fault*? What can you be sued for? What do basic plates cover? And, what do they *not* cover?

Additionally, the Committee strongly recommends New Issuer Training be offered (although not exclusively) in a fully web-based environment, enabling greater access and removing significant travel costs for out-of-town brokerages.

Recommendation #4

Embed content on Saskatchewan automotive insurance into driver education.

Without dispute, Saskatchewan drivers are woefully uninformed when it comes to protecting themselves, their families, and their livelihoods with the right insurance coverage. That is a culture that needs changing. As with any major cultural shift, it starts with introducing new information at earlier points in the education process.

The Committee believes that one of the most progressive steps forward Saskatchewan can take is by incorporating curriculum related to insurance and licensing into provincially regulated new driver education, including in the *Saskatchewan Driver's Handbook*.

But this measure will only be effective if the instructors delivering the curriculum fully understand the content they are teaching, which is why the Committee is also recommending the completion of a mandatory 'train the trainer' course for instructors once every three years. IBAS should volunteer to partner with SGI on this initiative.

Recommendation #5

Create a shared, industry-wide website to help Saskatchewan drivers better understand the province's auto licensing and insurance framework in a non-sales-based and easy-to-understand manner.

Under the leadership of IBAS, Saskatchewan's brokers, insurers, and government should come together to develop a universal, one-stop online resource that educates drivers and taxpayers on the province's licensing and auto insurance system.

The website should incorporate 'learning from loss' examples, as well as multimedia and other interactive tools. Basic information should also be made available in multiple languages to help connect with and educate new immigrant audiences.

All partners in this project should endeavour to promote the site through their respective online and traditional marketing channels, including through SGI Auto Fund renewal e-mails.

It has been pointed out that several individual brokerages have already begun to produce similar content; however, the Committee has determined that a neutral resource, removed from any perception being a 'sales vehicle,' remains a worthwhile undertaking. IBAS should allocate a portion of its Broker Identity Program (BIP) funds for this purpose.

Recommendation #6

Complete — by the end of 2021 — a multi-stakeholder provincial consultation to consider the separation of third-party liability and/or physical damage coverages out of basic plate insurance.

There are varying models across Canada for the distribution of third-party liability and physical damage automotive insurance — each with unique advantages and disadvantages.

In Saskatchewan, the inclusion of liability coverage up to \$200,000, as well as physical damage coverage subject to a \$700 deductible, into the overall cost of vehicle registration offers drivers unparalleled convenience, but can also dissuade them from fully understanding the implications of their insurance decisions.

For that reason, the Committee believes that all stakeholders — including IBAS, insurers, government, and consumer groups — should come together to study whether separating one or both of these coverages from basic plates makes sense for Saskatchewan.

In doing so, the Committee feels that any change to the current system should only be ultimately pursued if:

- Tort and no-fault injury benefits remain compulsory under basic plates;
- A minimum of \$200,000 in liability coverage remains mandatory (may be sold separately from basic plates, as part of an extension auto policy); and
- Affordability is not adversely impacted.

Recommendation #6A

As an interim measure, review and adjust the physical damage deductible associated with basic plates on an annual basis.

When the SGI Auto Fund set the deductible on basic plates at \$700 more than two decades ago, it was accompanied by a mandate to regularly amend the rate to account for inflation.

Since that time, of course, the economic realities in Saskatchewan have changed markedly. The cost of virtually every good and service has risen, including the technology, training, personnel, and overhead costs associated with auto body repair work.

By keeping the deductible fixed at \$700 — and then allowing customers to pay it in interest-free, equalized installments when there *is* a claim — Saskatchewan has been subsidizing the true cost of the coverage, and has been artificially deflating the value of extended auto insurance.

There is a general acceptance that Saskatchewan drivers do not understand the limitations of liability coverage on basic plates and their consequent exposure to risk. Instead, their primary point of reference is that easiest to understand: The physical damage portion. Adjusting the physical damage deductible to reflect current economic conditions is an important first step in compelling drivers to take a less passive approach to considering the entirety of their insurance coverages.

Accordingly, the Committee recommends the physical damage deductible be evaluated and set annually as part of the regular rate review process until the consultation outlined in *Recommendation #6* is completed.

Contact Information

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