

Moving Toward a Better Driver Rating System

*A Proposal for Improving
Manitoba's Merit Discount
and Demerit Surcharge System*



**Manitoba
Public Insurance**

Foreword

This document is an invitation to participate in the development of a single cohesive system for determining fair and appropriate insurance rates for drivers, based on individual behaviour. After more than a year of development, we are ready to propose improvements to Manitoba's merit discount and demerit surcharge system, and we look forward to hearing your views.

Manitoba Public Insurance has been considering ways to improve the current system since 2004, when driver licensing and vehicle registration operations were merged into the corporation. The alignment of our systems and processes has presented new opportunities to bring greater fairness, consistency and transparency to the way we assess driver risk and rewards. This is one of the greatest potential benefits of merging our licensing and insurance systems.

With this opportunity come significant challenges. Our goal is to retain the best features of our existing system, while providing stronger incentives for safe driving behaviour. Ideals must be balanced with practical considerations, such as what is possible using the data available to us and the need to make the system acceptable to the majority of Manitobans. And in the end, we must be able to translate these decisions into a system that can be applied consistently and efficiently with the support of technology.

Before we take this proposal to the Manitoba government, we are seeking your feedback. We need your input to ensure our proposed system will work in the best interests of Manitobans, and we hope you will take the time to share your views and insights.

If a new model is approved by the provincial government, Manitoba Public Insurance will make a special rate application to the Public Utilities Board. A special hearing would follow. If all approvals are obtained, the new system could be introduced in the fall of 2009.

Thank you for your attention to this important matter.



Don Palmer

VICE-PRESIDENT OF FINANCE AND CHIEF FINANCIAL OFFICER

Introduction

Manitoba Public Insurance is seeking improvements to the merit discount/demerit surcharge system that determines how individual insurance rates are impacted by driving behaviour. The goal is to replace the disjointed rules now in use with a simpler method that would provide stronger incentives to drive safely. The new model would apply to individual drivers only, and would be independent of programs that apply to fleet customers and corporations.

Why the system is being redesigned now

Improving the safety of our roads is a priority for Manitobans. The Public Utilities Board and other organizations have long recognized that the auto insurance rating system plays an important role in encouraging safe driving behaviour. These organizations have been calling for improvements to the current merit/demerit system for a number of years.

Until recently, the corporation's ability to improve the system was limited. This changed in October 2004, as driver and vehicle licensing operations were merged into Manitoba Public Insurance. Since then the corporation has been harmonizing the technical platforms and service delivery process for driver licensing and auto insurance, providing the corporation with access to a more complete set of data that can be applied consistently across all programs.

This alignment presents new opportunities to improve Manitoba's incentives for safe driving. Manitoba Public Insurance believes these opportunities should be pursued so that Manitobans can derive full value from the merger of our driver licensing and auto insurance systems.

The public consultation process

This discussion paper outlines the new model proposed by Manitoba Public Insurance. Manitobans are encouraged to share their views before the new system is presented to the Manitoba government for consideration.

Responses to this discussion paper should be delivered **no later than October 10, 2008**.

There are a number of ways you can provide feedback.

- Send written submissions to Manitoba Public Insurance.
By e-mail: DSRconsultation@mpi.mb.ca
By post: Driver Safety Rating Consultation
Manitoba Public Insurance
Box 6300
Winnipeg, Manitoba R3C 4A4
- Visit an information display in your community. The schedule is posted on our website at www.mpi.mb.ca/DSRconsultation.
- Participate in the survey on our website at www.mpi.mb.ca/DL/DSRsurvey.aspx.

Building on the current system

Manitoba's current merit/demerit system includes several positive features that can be built upon as we introduce improvements.

Driver history is used to determine risk and premium

Under the current system, drivers pay higher premiums and surcharges when they exhibit higher-risk driving behaviour. If they are found to be at-fault in an accident, they pay more for their insurance because they bring more risk into the pool.

The idea of paying more or less in the future because of past behaviour is a sound actuarial principle that is consistently supported by Manitobans. Statistics show that a driver who has been involved in one collision is more likely to be involved in a second collision. In customer surveys, 95 per cent of good drivers and 84 per cent of average drivers say it is important or extremely important to consider a person's driving history when determining the individual's insurance rates.

Manitobans love their merits

The concept of driver's licence merits has been embraced by Manitobans. Most drivers know how many merits they hold, and take pride in reaching the maximum. This familiar terminology would be retained under the new system.

Today's system is free of discrimination

Manitoba's public auto insurance system does not discriminate on the basis of age or gender. All new drivers enter the system paying the basic \$45 insurance premium, and then pay more or less through time, depending on their individual driving records. This has been the practice in Manitoba since the creation of Manitoba Public Insurance, and the corporation believes this practice should continue. In public opinion surveys, 75 per cent of Manitobans agree with this principle.

See Appendix A for a full description of the current merit discount/demerit surcharge system.

Concerns to address

While Manitoba's current system has many positive features, many customers feel it doesn't go far enough in rewarding safer drivers and discouraging higher-risk behaviour. The complexity of the system can also limit its ability to encourage safe driving.

Limited rewards for the safest drivers

Drivers with the longest periods of claim-free driving have expressed frustration that Autopac discounts reach the maximum after only five years of claim-free driving. Drivers with 30 years of incident-free driving receive no greater reward than those who have been incident-free for five years, a discrepancy many consider to be unfair. A recurring theme in discussions with customers is that there should be more merits available for safer driving, and it should not take as long to regain merits.

Some feel the current system is too tough on drivers who are involved in a collision after many years of incident-free driving. As one customer asked during a recent focus group: "Why is it when you get into an accident even after 20 years or more of good driving, your insurance automatically goes up? Small infractions automatically start your two years of waiting to regain a merit."

Limited penalties for higher-risk drivers

Under the current system, demerit point surcharges are limited to \$999, and many customers feel there is a need to respond with higher penalties. Courts and appeal boards can allow higher-risk drivers to retain their licences, so larger financial penalties are needed to properly reflect their risk.

Confusion and inconsistency

Since 1971, there have been two separate surcharge systems for driver's licences – one for convictions, and one for accidents. There is also a merit mark and demerit point system for driver's licences, and a merit discount system for Autopac premiums.

There has been little integration among these four systems – in part, because it was impossible to unite them before the 2004 merger of driver and vehicle licensing operations into Manitoba Public Insurance.

Over the years, each of these systems has evolved to meet different needs. These incremental changes have resulted in rules that are inconsistent, complex and difficult to understand.

An example of the widespread misunderstanding is the common belief that drivers with the most merits receive the highest Autopac discounts. In fact, drivers can receive the highest Autopac discounts if they have just one merit and five years of claim-free driving – but most Manitobans believe otherwise.

This lack of clarity sends conflicting signals to drivers. It's difficult for the average Manitoban to understand how higher-risk driving behaviour affects the amount they pay for insurance. This, in turn, dilutes the driver's motivation to reduce costs by driving safely.

In customer surveys, more than 80 per cent of drivers said it is important or extremely important for drivers to be able to clearly see how their past driving experience affects the amount they are paying for their driver's licence each year. In focus groups, customers often define "fairness" as having clear, established rules that are applied equally and that everyone knows and can understand.

Some examples of why the current program is confusing

- ▶ *Accident surcharges are based on a three-year moving window, which many Manitobans find overly complicated.*
- ▶ *Terminology used in the different methods is inconsistent. For example, the "merit" program for vehicle rating is not based on the number of "merits" in the driver licensing system.*

See Appendix A for a full description of the current merit discount/demerit surcharge system.

The proposed model: One clear system for rating driver risk

Under the system being proposed by Manitoba Public Insurance, one cohesive and integrated scale would replace the separate scales that currently exist for the accident surcharge, demerit surcharge and merit discount programs.

The foundation of the proposed system is a scale that would determine rewards and penalties, based on driver behaviour over time. From year to year, drivers would move up the scale when safer driving behaviour was exhibited, and down the scale in response to higher-risk behaviour.

Safe behaviour would move a driver up the “merit” side of the scale.

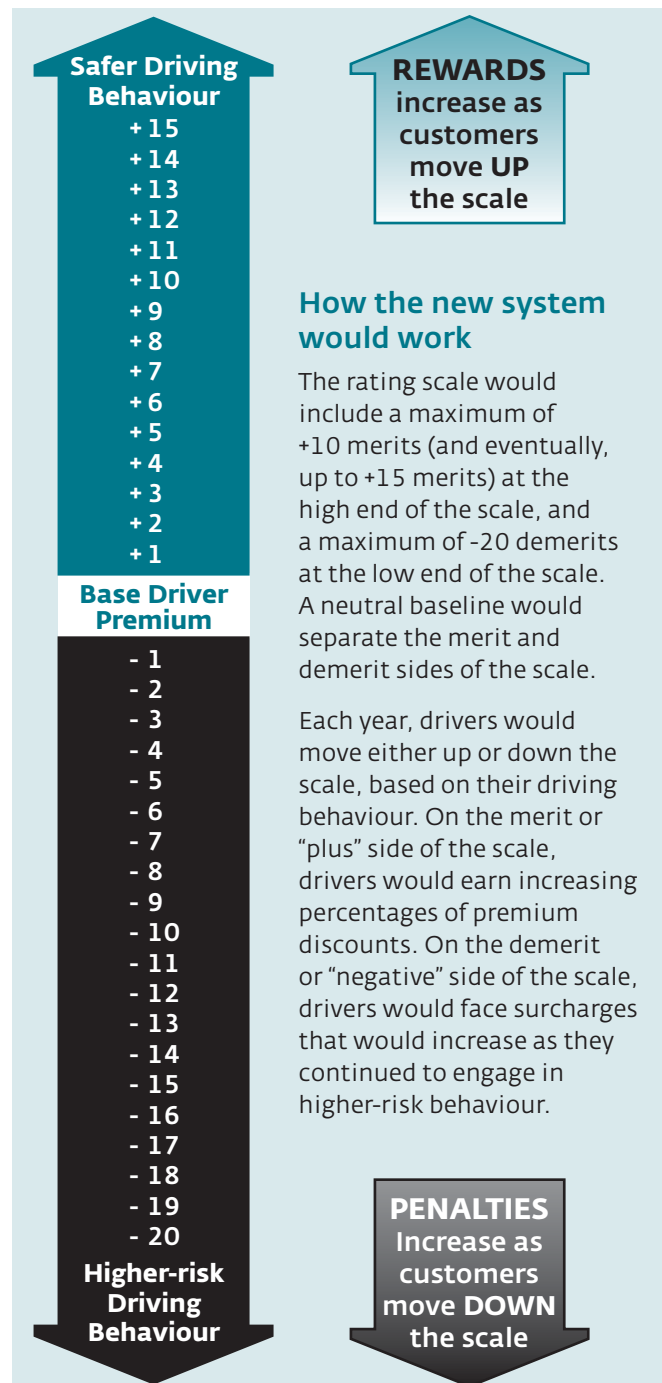
Drivers would earn one merit and move up the scale whenever they completed a year with no convictions or at-fault accidents.

Higher-risk behaviour would move a driver down the “demerit” side of the scale.

Drivers would be given demerits for at-fault accidents and traffic violations, just as they are given demerits for traffic violations today. The number of demerits – or steps down the scale – would depend on the nature and severity of the infraction.

Placement on the scale would determine discounts and surcharges.

A driver’s total merits or demerits would then determine how much he or she would pay for vehicle insurance and driver’s licence premiums each year. Premium discounts would increase as more merits were earned. Surcharges would increase if the number of demerits increased.



Data sources

The types of convictions and violations that would earn demerits would be largely unchanged. The program would consider several possible indicators of future claims activity, including:

- At-fault claims
- Minor convictions
- 24-hour roadside suspensions
- Major convictions, such as impaired driving

The only significant proposed change is that five demerits be imposed for 24-hour roadside suspensions for blood alcohol level greater than .05. Under the current system, no demerits are imposed for this.

The proposed model aims to:

- ▶ *Provide higher rewards for the safest drivers*
- ▶ *Provide stronger incentives for higher-risk drivers to improve their behaviour*
- ▶ *Improve drivers' understanding of how their driving behaviour can affect the amount they pay for auto insurance*

Benefits of the proposed system

The intent is to reward the best drivers while providing stronger incentives for everyone to drive more carefully.

Consequences of driving behaviour would be easier to understand

The scale would easily communicate the rewards of safer driving, and the penalties of engaging in higher-risk driving. Drivers would immediately see the dollars-and-sense benefits of improving their driving behaviour.

Higher rewards for safer drivers

The proposed scale would begin with a maximum of 10 merits, compared to the current five merits, and could grow to as many as 15 merits in subsequent years.

The increased scale would allow the safest drivers to earn additional rewards – in the form of either a higher vehicle premium discount, or a cushion against the financial impact of a first conviction or at-fault accident after many years of safe driving. In customer surveys, most drivers say the safest drivers should be given some form of additional reward.

Timely rewards and penalties

Today it takes two years to earn one merit, but under the proposed system, Manitobans would earn a merit after driving a year without any convictions and at-fault accidents. Drivers would be able to track their progress up and down the scale every year, providing an annual reminder of why safe driving pays.

The proposed one year/one merit system has been endorsed by more than 80 per cent of customers during surveys and focus groups. They feel annual rewards would be easy to understand, and would be a timely reminder to continue safe driving practices.

Making the transition to a new system

If the proposed system is adopted, it will be important to introduce it in a manner that is acceptable to Manitobans.

A transition strategy would ensure that the safest drivers would see benefits quickly, and that drivers at the lower end of the scale would be given time to adjust their behaviour before higher penalties are phased in.

Initial placement on the scale

At transition, no one would pay more than they would have under the current system. Individual drivers would be placed on the scale at levels that would provide the same discounts and surcharges as would apply under the current system.

For example, a driver with five merits and a 25 per cent discount under the current system would be placed on the new scale at +10 merits. At this level on the new scale, the driver would continue to receive a 25 per cent discount.

After their initial placement, drivers would move up or down the scale based on their subsequent driving behaviour.

Phased-in increases to surcharges

In time, the proposed system would move toward higher surcharges for the riskiest driving behaviour, but these increases would be phased in gradually. In the transition year, demerit surcharges would be very similar to the surcharges in place today. During the phase-in period, an individual driver would be able to avoid paying a higher surcharge by simply driving with no new convictions or at-fault accidents and moving up the scale.

Improved customer communication

Manitoba Public Insurance would support the program by introducing customized forms showing each customer how and why they have moved up or down the scale each year. Communication with each customer would be individualized to capitalize on the educational opportunities of the proposed system.

Share your views

- *Do you find the proposed system easier to understand than the current system?*
- *Do you agree with the idea of one integrated scale for driver safety rating?*
- *Is the proposed system fair?*
- *Does the proposed system address the problems in the current system?*
- *Do you feel it's better to add one merit for every year of incident-free driving, rather than one merit for every two years?*
- *Do you agree with the concept of phasing in higher surcharges to allow time for higher-risk drivers to change their behaviour?*
- *Do you agree that there should be higher rewards for those with the safest driving records, and higher penalties for those who persist in higher-risk driving behaviour?*
- *Would it be fair for all new drivers to start at the base level on the scale?*
- *Is there anything else you would like us to consider?*

Send written submissions to Manitoba Public Insurance

By e-mail: DSRconsultation@mpi.mb.ca

By post: Driver Safety Rating Consultation
Manitoba Public Insurance
Box 6300
Winnipeg, Manitoba R3C 4A4

Overview of the current merit discount/demerit surcharge system

Today individual driving behaviour has an impact on two insurance premiums – the coverage provided with a Manitoba driver’s licence, and Basic Autopac coverage for registered Manitoba vehicles. Over time, good and bad driving behaviour can impact these premiums in a variety of ways.

The coverage included with a Manitoba driver’s licence ensures that the auto insurance pool is supported by all drivers, not just those who own vehicles.

The annual basic premium on driver’s licences is \$45. The premium paid by an individual driver progressively decreases from this base amount if the driver meets the merit criteria, which include incident-free driving over specified periods of time. Premium surcharges are added to the base amount if the driver exceeds a specified threshold for driving offences and/or collisions within a certain period.

These discounts and surcharges are determined by a system known as the Manitoba Merit Mark/Demerit Point Program:

MERIT MARKS can be earned by drivers when they maintain safe and legal driving practices. One merit mark is earned for every continuous two-year period in which the driver:

- does not have any DVL demerit points,
- is not assessed any DVL demerit points,
- holds a valid and continuous Manitoba driver’s licence in the Intermediate or Full stage,
- is not suspended or prohibited from driving, and
- is not assessed a surcharge as a result of two or more collision insurance claims.

A driver can earn a maximum of five merit marks. They can be applied against any subsequent DVL demerit points at a rate of one merit mark for every two demerit points.

New residents to Manitoba with a clear driving record from another jurisdiction may be issued one merit mark when their licence is transferred or on their 18th birthday, whichever is later. Members of the Canadian Armed Forces may be eligible for special merit provisions.

APPENDIX A: OVERVIEW OF THE CURRENT SYSTEM

DVL DEMERIT POINTS are assessed when a driver is convicted of certain driving offences or involved in certain types of collisions. Points range from two demerits for a minor offence to 15 demerits for the most serious offences. Two demerit points are assessed for every collision for which the driver was at least 50 per cent responsible, but only if the collision was reported to the police. A conviction for imprudent driving would add two demerit points, while careless driving would add eight points and dangerous driving would add 10 points.

A MERIT DISCOUNT is subtracted from the \$45 annual base premium when the driver:

- has one or more merit marks,
- hasn't had an at-fault claim (that is, a claim for which the driver was found to be at least 50 per cent responsible) for one year, counting back from the last day of the driver's birth month, and
- hasn't had a major conviction for two years, counting back from the last day of the driver's birth month.

The driver earns a \$5 discount off the base premium for every merit mark, to a maximum of \$25 for five merit marks.

MERIT MARKS	BASE PREMIUM	DISCOUNT	NET PREMIUM
0	\$ 45	0	\$ 45
1	\$ 45	- \$ 5	\$ 40
2	\$ 45	- \$ 10	\$ 35
3	\$ 45	- \$ 15	\$ 30
4	\$ 45	- \$ 20	\$ 25
5	\$ 45	- \$ 25	\$ 20

If the driver has an at-fault claim, the driver loses this discount for one year, starting with the next licence renewal.

APPENDIX A: OVERVIEW OF THE CURRENT SYSTEM

DEMERIT POINT SURCHARGES are added to the \$45 annual base premium when the driver has six or more demerit points upon renewal. The surcharge amount increases as the number of demerits increases:

DEMERIT POINTS	BASE PREMIUM	SURCHARGE	NET PREMIUM
0-5	\$ 45	\$ 0	\$ 45
6	\$ 45	\$ 200	\$ 245
7	\$ 45	\$ 225	\$ 270
8	\$ 45	\$ 250	\$ 295
9	\$ 45	\$ 275	\$ 320
10	\$ 45	\$ 300	\$ 345
11	\$ 45	\$ 350	\$ 395
12	\$ 45	\$ 400	\$ 445
13	\$ 45	\$ 450	\$ 495
14	\$ 45	\$ 500	\$ 545
15	\$ 45	\$ 550	\$ 595
16	\$ 45	\$ 625	\$ 670
17	\$ 45	\$ 700	\$ 745
18	\$ 45	\$ 775	\$ 820
19	\$ 45	\$ 850	\$ 895
20	\$ 45	\$ 925	\$ 970
21 and over	\$ 45	\$ 999	\$ 1,044

APPENDIX A: OVERVIEW OF THE CURRENT SYSTEM

ACCIDENT SURCHARGES are added to the driver's licence base premium in certain circumstances:

- When a driver without a current and valid vehicle registration has an at-fault claim, the driver receives a \$200 surcharge.
- When a driver with a registered vehicle has an at-fault claim after at least six years of claims-free driving, the driver is assessed a \$200 surcharge in lieu of losing his or her merit discount on vehicle premiums.
- When any driver has two or more at-fault claims within 36 months, the driver pays a surcharge ranging from \$400 for the second at-fault claim within the period, to a maximum of \$1,200 for four or more at-fault claims within 36 months.

Impact of driver behaviour on Basic Autopac premiums

Driver behaviour risk is one of four factors currently used to determine individual vehicle insurance premiums. (The other three factors are the risk presented by the type of vehicle, how it is used and where it is used.)

MERIT DISCOUNTS are available to registered owners of passenger vehicles and light trucks insured for certain uses if the owner has at least one merit mark on his or her driver's licence.

To be eligible, the owner must also:

- be free of at-fault claims for at least a year following her or his Autopac anchor date (the day before the registered owner's policy anniversary date or the day before a new policy started); OR
- have at least six years of no at-fault claims, and no more than one at-fault claim on or after March 1, 2001.

In addition, the owner must have had:

- no major offence convictions during the previous two-year period before her or his anchor date.

The size of the discount depends on how many years the registered owner has been free of at-fault claims:

NUMBER OF YEARS FREE OF AT-FAULT CLAIMS BEFORE POLICY STARTS	1 year	2 years	3 years	4 years	5 years
BASIC AUTOPAC DISCOUNT	- 5%	- 10%	- 15%	- 20%	- 25%

Customers eligible for merit discounts also receive discounts on the premium for optional insurance coverages, such as lower Autopac deductibles, higher third-party liability limits, Auto Loss of Use, New Car Protection and Leased Car Protection.



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