

Impacts of Tort Access on Driver Premiums in the Care-First Model

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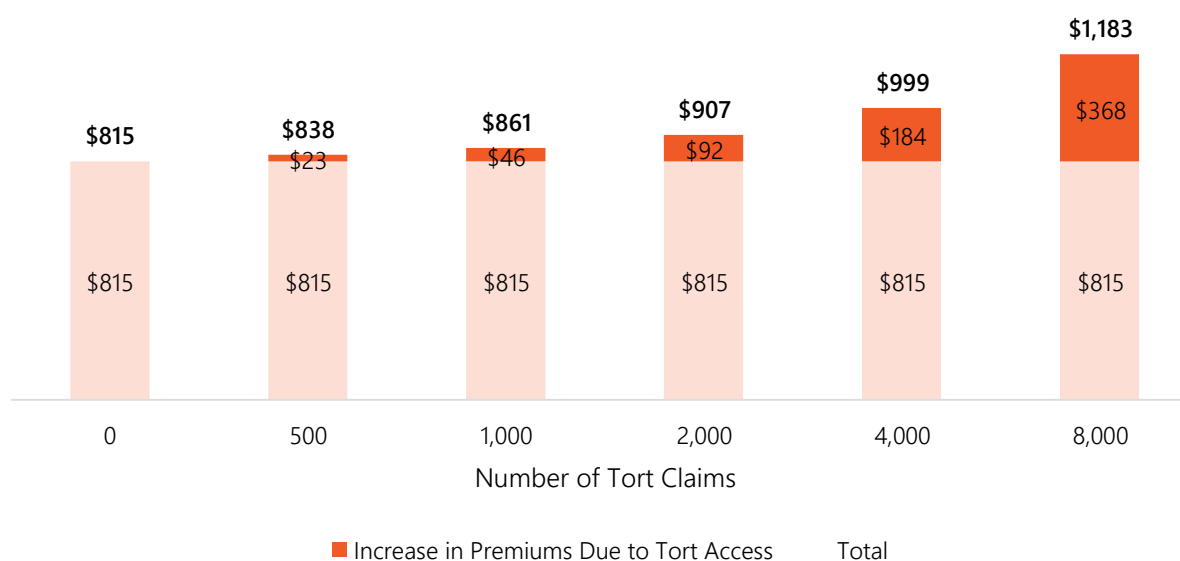
Executive Summary

The transition to the Care-First auto insurance system aims to enhance benefits while reducing reliance on litigation to lower legal costs, resulting in more stable and affordable premiums. The Alberta government has estimated that under the new no-fault system, the required premium for basic coverage would be \$815—approximately \$389 lower than what drivers currently pay. However, this estimate is based on a model with no tort access. The Insurance Bureau of Canada (IBC) engaged MNP to assess the impact of including limited tort access on premiums for drivers.

Key Findings

Expanding tort access is expected to increase the number of tort claims, leading to higher costs for drivers. If there are 500 tort claims, the required premium would increase by approximately \$23. If there were 2,000 tort claims, average premiums were estimated to increase by \$92 (11 percent) and if there were 8,000 tort claims average premiums were estimated to increase by \$368 (45 percent).

Figure A: Sensitivity Analysis: Change in Driver Premiums in the Number of Tort-Claims



Note: The sensitivity analysis assumes an incremental cost of \$100,000 per average tort claim.

MNP assessed the impact of tort access on premium changes for two scenarios (see Table A). In Scenario 1, where tort access is available for accidents caused by any Traffic Safety Act and Criminal Code offences, as well as out-of-pocket expenses exceeding policy limits—including income loss, medical, and rehabilitation costs—Alberta drivers were estimated to pay between \$92 and \$218 more than if there were no tort access. If tort access is restricted to only a select list of major Traffic Safety Act and Criminal Code offences, and claims for out-of-pocket medical expenses exceeding policy limits are allowed only for medical and rehabilitation costs, the additional cost to drivers were estimated to be limited to between \$52 and \$120.

Table A: Estimated Change in Driver Premiums Under Different Tort Access Scenarios

Scenario 1: Tort Access under All TSA and Criminal Code Offences, and Out-of-pocket expenses that exceed policy limits for Income and Medical/Rehabilitation	
All Traffic Safety Act Offences	\$43 to \$129
All Criminal Code Offences	\$14 to \$19
Income Replacement Above Limit	\$7 to \$16
Medical/Rehabilitation Above Limit	\$28 to \$54
Scenario 2: Tort Access under a restricted list of TSA and Criminal Code Offences, and Out-of-pocket expenses that exceed policy limits for Medical/Rehabilitation	
Select Traffic Safety Act Offences	\$19 to \$56
Select Criminal Code Offences	\$5 to \$10
Medical/Rehabilitation Above Limit	\$28 to \$54

It is important to note that there is limited information on the number of injury related claims that are the result of traffic safety violations or criminal offences. Consequently, the estimates presented in Table A are based on assumptions about the incidence of accidents arising from traffic safety violations and criminal offences derived from data published by Statistics Canada and the Government of Alberta for select offences. This data is based on past enforcement behaviours by law enforcement and may not fully reflect the incidence of offences contemplated in this report. Changes in enforcement behaviour related to specific offences could result in a material change to the estimates.

Conclusion

MNP's analysis showed that allowing tort access in Alberta's Care-First system will increase the average basic premium. The magnitude of this increase will depend on the number of tort claims and the incremental cost of those claims. This suggests that limiting access to tort to a narrow range of situations could help to limit the increase in the average premium from allowing tort access.

1. Introduction

1.1 Background and Purpose

Alberta is set to transition to a Care-First auto insurance model on January 1, 2027. This system, broadly based on the model in place in Manitoba today, will provide enhanced benefits for drivers, with the ability to sue for damages in limited circumstances. The Alberta government projects potential savings of up to \$389 per driver under the new system.

Manitoba's auto insurance system does not provide the ability to sue at-fault drivers following collisions, except for property damage. Permitting tort, as envisioned in Alberta's Care-First model, will have a negative impact on potential premium savings. The Insurance Bureau of Canada (IBC) engaged MNP to assess the impact of including limited tort access on premiums for drivers under the following scenarios:

- Tort access would be available if an accident was the result of a criminal code violation, a traffic safety violation or for economic losses above the income replacement or medical/rehabilitation limits.
- Tort access would be available if an accident was the result of select criminal code violations, select traffic safety act violations, or for economic losses above limits for medical/rehabilitation only.

1.2 Approach

In conducting the study, MNP undertook the following activities:

- Reviewed the Oliver Wyman Feasibility Study of Long-Term Auto Insurance Reforms that was prepared for Alberta Treasury Board and Finance.
- Gathered information from IBC, the General Insurance Statistical Agency (GISA), and publicly available sources.
- Gathered information on the incidence of criminal code violations, traffic safety violations and income distributions from public sources.
- Estimated the impact of providing tort access on premiums for the specified options.

1.3 Report Limitations

This report is provided for information purposes and is intended for general guidance only. It should not be regarded as comprehensive or as a substitute for personalized, professional advice.

We have relied upon the completeness, accuracy, and fair presentation of all information and data obtained from IBC, GISA, the Superintendent of Insurance and other public sources, believed to be reliable. The accuracy and reliability of the findings and opinions expressed in this document are conditional upon the completeness, accuracy, and fair presentation of the information underlying them. As a result, we caution readers not to rely upon any findings or opinions expressed for business or

investment decisions and disclaim any liability to any party who relies upon them as such. Before taking any particular course of action, readers should contact their own professional advisor to discuss matters in the context of their particular situation.

Additionally, the findings and opinions expressed in the presentation constitute judgments as of the date of the presentation and are subject to change without notice. MNP is under no obligation to advise of any change brought to its attention which would alter those findings or opinions.

1.4 Data Limitations

There is limited information on the number of injury related claims that are the result of traffic safety violations or criminal offences. Consequently, the estimates presented in this report are based on assumptions about the incidence of accidents arising from traffic safety violations and criminal offences derived from data published by Statistics Canada and the Government of Alberta for select offences. This data is based on past enforcement behaviours by law enforcement and may not fully reflect the incidence of offences contemplated in this report. Changes in enforcement behaviour related to specific offences could result in a material change to the estimates.

In addition, the incremental cost of tort claims under the Care-First Model is not known. If average incremental costs are substantially different from the estimates used in this report, the magnitude of the estimated impacts could be materially affected.

2. Analysis of Premium Impact

2.1 Transition to the Care-First Model

Care-First is a no-fault system that will provide drivers with enhanced benefits and will prioritize timely access to treatment. Under the Care-First system, all Albertans injured in a collision will receive unlimited coverage for eligible medical and rehabilitation expenses and income replacement limits will be increased. The ability to sue for damages will be limited to cases where:

- The at-fault driver is convicted of a Criminal Code offence.
- The at-fault driver is convicted of select major Traffic Safety Act (TSA) offences.
- Out-of-pocket expenses exceed policy limits.

Reducing reliance on litigation is expected to lower legal costs, resulting in lower and more stable premiums. Auto insurance will continue to be delivered by private insurance companies.

The Alberta government projects potential savings of up to \$389 per driver. These estimates are based on a study by Oliver Wyman¹ (the “Oliver Wyman” study) examining a transition to a privately delivered

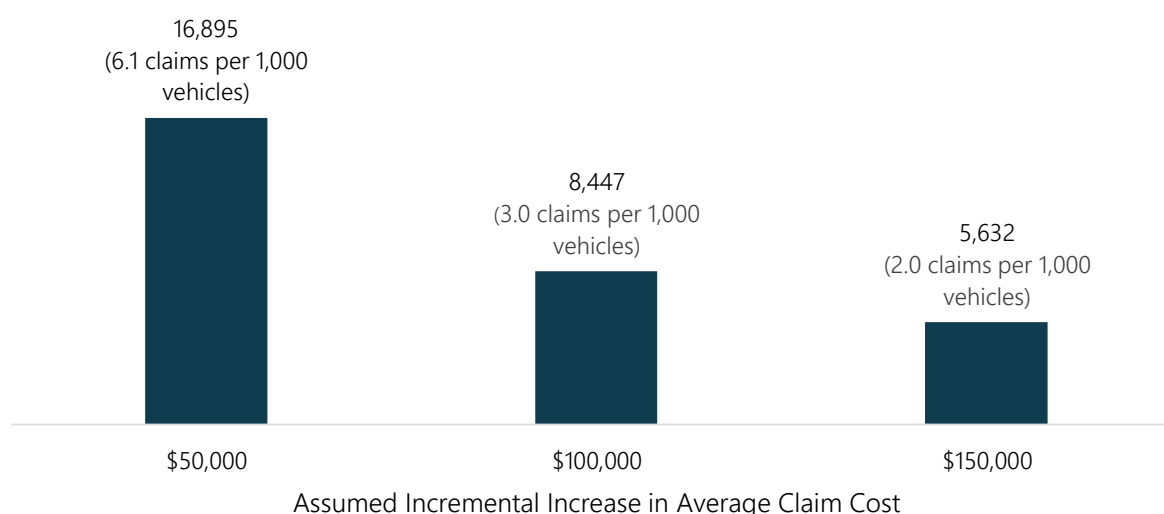
¹ Oliver Wyman Feasibility Study of Long-Term Auto Insurance Reforms Alberta Treasury Board and Finance. URL: <https://open.alberta.ca/dataset/6a9575f8-eed8-4773-8f2e-93325ba68a04/resource/f75ae36c-1721-4b64-af69-b882750b73d6/download/tbf-auto-insurance-changes-in-alberta-2024.pdf>

model similar to that used by Manitoba Public Insurance (MPI). The estimate assumes the adoption of MPI's model, where drivers have limited to no ability to sue. However, the Alberta government has suggested that drivers in Alberta may have broader rights to sue than in Manitoba. An expansion of tort access could reduce the premium savings for drivers.

2.2 Impacts of Tort Access on Premiums

To illustrate how the cost and frequency of tort claims could affect driver premiums in the new model, MNP estimated the number of claims that would eliminate savings for drivers if the incremental claim costs for each tort claim were between \$50,000 and \$150,000.² As shown in Figure 1, the number of tort claims that would eliminate the \$389 premium savings was estimated to be between 5,600 if the incremental cost of each tort claim averaged \$150,000 and 16,800 tort claims if the incremental cost of each tort claim averaged \$50,000.

Figure 1: Number of Tort Claims That Would Eliminate Premium Savings



Note: The number of tort claims and claim frequency are calculated using the same five-year average number of vehicles sourced from the Oliver Wyman study.

² This range is consistent with differences in the cost of represented vs unrepresented claims reported in rate filings by the Insurance Corporation of British Columbia and a 2023 study prepared by MNP for IBC that examined the impact of litigation on premiums in Alberta (System Costs and Auto Insurance Premiums, 2023. URL: <https://www.albertaautoinsurancefacts.ca/wp-content/uploads/2023/09/IBC-System-Cost-Report-September-2023.pdf>)

2.3 Tort Access Scenarios

To assess the impact of tort access on the potential savings for drivers we estimated premium changes relative to the Oliver Wyman projections for two scenarios. In the first scenario (Scenario 1) claimants would have access to tort under the following circumstances:

- Where the at-fault driver has been convicted of a Criminal Code offence.
- Where the at-fault driver has been convicted of a Traffic Safety Act ("TSA") offence.
- Out-of-pocket expenses that exceed policy limits, including economic losses above the limit for income, medical and rehabilitation costs.

The second scenario (Scenario 2) restricted tort access to the following circumstances:

- Where the at-fault driver has been convicted of any of the following Criminal Code offences:
 - Sections 220, 221: Causing bodily harm or death by criminal negligence.
 - Sections 235, 236, 239: Murder, manslaughter, and attempted murder.
 - Section 320.13 (1-3): Dangerous operation of a vehicle causing bodily harm or death.
 - Section 320.14 (1-3) (a-d): Operation of a vehicle while impaired, causing bodily harm or death.
 - Section 320.15 (1-3): Failure or refusal to comply with demand to provide breath sample; accident causing bodily harm or death.
 - Section 320.16: Failure to stop after accident; accident causing bodily harm or death.
 - Section 320.17: Flight from a peace officer.
- Where the at-fault driver has been convicted of any of the following TSA offences:
 - Sections 88, 88.01, 88.02, 88.1, 94.1(1), Immediate Roadside Sanction/Impaired Driving, which would align with impaired driving provisions in the Criminal Code.
 - Section 115(2), 115.1, 115.2, 115.3, 115.4, Careless and distracted driving provisions, which would align with criminal negligence and dangerous operation provisions of the Criminal Code.
 - Section 166(2), Failure to stop for peace officer, which would align with failure to comply provisions of the Criminal Code.
- Out-of-pocket expenses that exceed policy limits, including economic losses above the limit for medical and rehabilitation costs only.

For the analysis, MNP used the assumptions on claim frequency and costs contained in the Oliver Wyman study. MNP then estimated the incremental costs of tort coverage based on an average incremental cost of \$100,000 per tort claim for those as the result of TSA or Criminal Code violations and between \$50,000 and \$100,000 for economic losses above the limits. The incidence of TSA violations causing bodily injury was estimated using data on casualty collisions from the 2021 Alberta Traffic Collision Statistics Report, along with the proportion of collisions attributed to speeding and distracted driving, as reported by Transport Canada's National Collision Database. The incidence of Criminal Code offences causing bodily injury was estimated based on the number of Criminal Code violations in Alberta by offence type, as reported by Statistics Canada. Income distributions were based on provincial income data for Alberta, also sourced from Statistics Canada.

Table 1 presents the estimated change in driver premiums for allowing tort access when the at-fault driver

has been convicted of either a TSA offence or a criminal code offence. As shown, allowing tort access for all TSA offences is estimated to increase the required premium for basic coverage by between \$43 and \$129. If tort access is allowed for all criminal code offences, the required premium is estimated to increase by between \$14 and \$19.

Table 1: Change in Premiums from Allowing Tort for Accidents involving a TSA Offence or a Criminal Code Offence

	All TSA Offences	All Criminal Code Offences
Estimated Frequency of Violations Causing Bodily Injury per 1,000 Vehicles*	1.0	0.11 to 0.14
Estimated Frequency of Tort-Claims per 1,000 Vehicles**	0.34 to 1.0	0.11 to 0.14
Estimated Number of Tort-Claims	935 to 2,800	300 to 400
Estimated Incremental Loss Cost	\$33 to \$100	\$11 to \$14
Estimated Required Premium	\$858 to \$944	\$829 to \$834
Change in Driver Premiums	\$43 to \$129	\$14 to \$19

*TSA violations causing bodily injury were approximated using data from the Alberta Traffic Collisions Statistics report (<https://open.alberta.ca/dataset/25020446-adfb-4b57-9aaa-751d13dab72d/resource/1d1f57ad-87b6-4846-86a3-68303a7058fb/download/tec-alberta-collision-statistics-2021.pdf>), and Transport Canada's National Collision Database. According to Transport Canada, distracted driving contributed to approximately 20 percent of fatal and major injury collisions, while speeding contributed to approximately 22 percent. (<https://tc.canada.ca/en/road-transportation/statistics-data/canadian-motor-vehicle-traffic-collision-statistics-2022>). Criminal Code violations causing bodily injury were sourced from Statistics Canada, Table 35-10-0183-01: Incident-based crime statistics by detailed violations, police services in Alberta. To account for multiple injury claims from a single accident and that a driver that committed a criminal code offence may not always be charged with an additional criminal code offence related to causing an injury MNP assumed that the number of injury claims was twice the number of criminal code charges for "causing an injury" with a vehicle. **It was assumed that between one-third and all incidents of bodily injury involving a TSA violation would become tort claims. For Criminal Code offences it was assumed that all incidents of bodily injury involving a criminal offence would result in tort claims.

Table 2 presents the estimated change in driver premiums when the at-fault driver has been convicted of one of the specified TSA offences or Criminal Code offences, as described in Section 2.2. Allowing tort access for only a selected list of TSA offences is estimated to increase the required premium for basic coverage by between \$19 to \$56. Similarly, if tort access is allowed for only a selected number of Criminal Code offences, the required premium is estimated to increase by between \$5 and \$10.

Table 2: Change in Premiums from Limiting Tort to Selected TSA Offences and Selected Criminal Code Offences

	Selected TSA Offences***	Selected Criminal Code Offences
Estimated Frequency of Violations Causing Bodily Injury per 1,000 Vehicles*	0.43	0.036 to 0.072
Estimated Frequency of Tort-Claims per 1,000 Vehicles**	0.14 to 0.43	0.036 to 0.072
Estimated Number of Tort-Claims	400 to 1,200	100 to 200
Estimated Incremental Loss Cost	\$14 to \$43	\$3.6 to \$7.2
Estimated Required Premium	\$834 to \$871	\$820 to \$825
Change in Driver Premiums	\$19 to \$56	\$5 to \$10

*Selected TSA violations causing bodily injury were approximated using data from the Alberta Traffic Collisions Statistics report (<https://open.alberta.ca/dataset/25020446-adfb-4b57-9aaa-751d13dab72d/resource/1d1f57ad-87b6-4846-86a3-68303a7058fb/download/tec-alberta-collision-statistics-2021.pdf>), and Transport Canada's National Collision Database. According to Transport Canada, distracted driving contributed to approximately 20 percent of fatal and major injury collisions (<https://tc.canada.ca/en/road-transportation/statistics-data/canadian-motor-vehicle-traffic-collision-statistics-2022>). Criminal Code violations causing bodily injury were sourced from Statistics Canada, Table 35-10-0183-01: Incident-based crime statistics by detailed violations, police services in Alberta. **It was assumed that between one-third and all incidents of bodily injury involving a selected Traffic Safety violation would become tort claims. For Criminal Code offences it was assumed that all incidents of bodily injury involving a selected criminal offence would result in tort claims. ***Note that there are overlaps between the selected TSA violations and Criminal Code offences. In such cases, TSA incidents were filtered to avoid double counting. Immediate Roadside Sanction/Impaired Driving and Failure to Stop for a Peace Officer—two of the three selected TSA violations—also appear on the list of selected Criminal Code offences. Therefore, to avoid double counting, changes in premiums for selected TSA violations were calculated primarily based on Careless Driving and Distracted Driving provisions.

Table 3 presents the estimated change in driver premiums due to tort access for income losses above the policy limit. Allowing tort access for income loss, with the assumption that the incremental increase in average claim cost would be \$50,000, is estimated to increase the required premium for basic coverage by \$7. Doubling the incremental increase in average tort claim cost to \$100,000 was estimated to increase the required premium by \$16.

Table 3: Change in Premium Savings Due to Tort Access for Income Loss

	Low	High
Assumed Incremental Increase in Average Claim Cost for Disability Income Due to Tort Access	\$50,000	\$100,000
Estimated Percentage of Population exceeding Policy Limit of \$120,000*	10%	10%
Frequency of Disability Income Claims per 1,000 Vehicles**	1.4	1.4
Estimated Frequency of Tort-Claims per 1,000 Vehicles***	0.14	0.14
Estimated Number of Tort-Claims	391	391
Estimated Incremental Loss Cost	\$5	\$12
Estimated Required Premium	\$822	\$831
Change in Driver Premiums	\$7	\$16

*The percentage of the population with income above the policy limit is sourced from Statistics Canada, Table 11-10-0055-01: High Income Tax Filers in Canada. **The frequency of disability income claims is sourced from the Oliver Wyman study. ***The frequency of tort claims was estimated by multiplying the percentage of the population exceeding the policy limit by the frequency of disability claims.

To assess the potential impact of tort access to recoup out-of-pocket costs for medical expenses and rehabilitation not covered, MNP assumed that the average medical claim cost would increase by \$1,500 and \$3,000. Under this assumption, the required premium was estimated to increase by between \$28 and \$54.

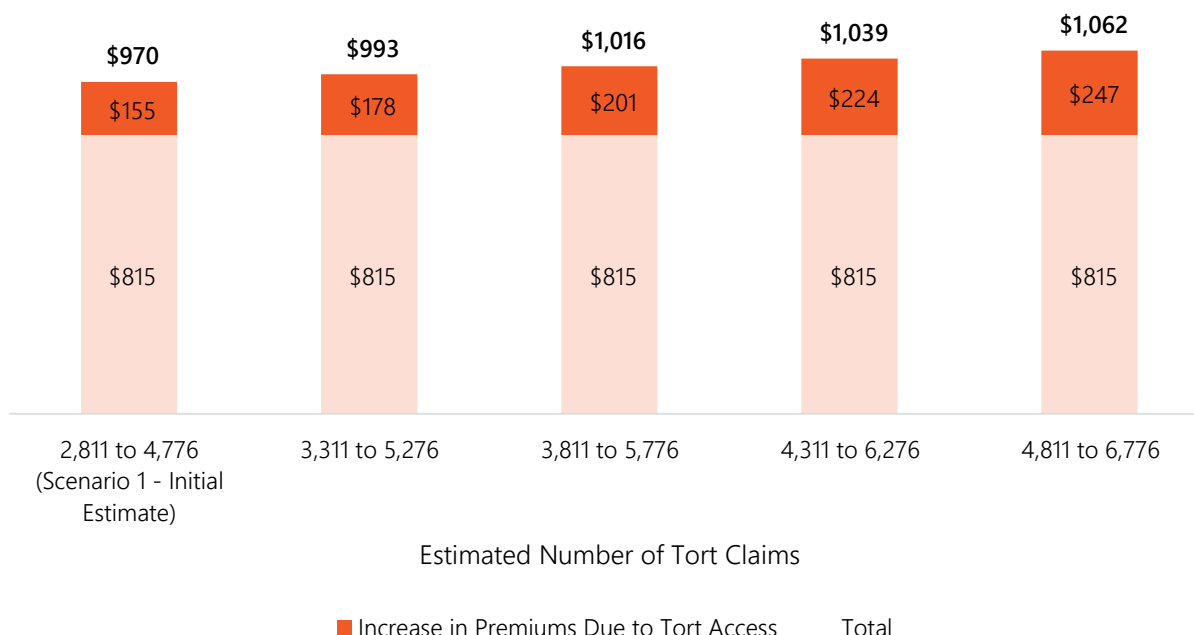
Table 4: Change in Premium Savings Due to Tort Access for Medical Expenses and Rehabilitation

	Low	High
Assumed Incremental Increase in Average Claim Cost for Medical Expenses and Rehabilitation Due to Tort Access	\$1,500	\$3,000
Frequency of Medical Expense and Rehabilitation Claims per 1,000 Vehicles*	13.9	13.9
Estimated Incremental Loss Cost	\$21	\$42
Estimated Required Premium	\$843	\$869
Change in Driver Premiums	\$28	\$54

*The frequency of medical expense and rehabilitation claims is sourced from the Oliver Wyman study.

Figure 2 illustrates the total impact on driver premiums based on tort access in Scenario 1. The estimated number of tort claims ranges from 2,811 to 4,776, resulting in driver premiums increasing by between \$92 and \$218 (or a mid-point increase of \$155). It is important to note that the impact on premiums depends on the number of tort claims. For every additional 500 tort claims, driver premiums are estimated to increase by approximately \$23.

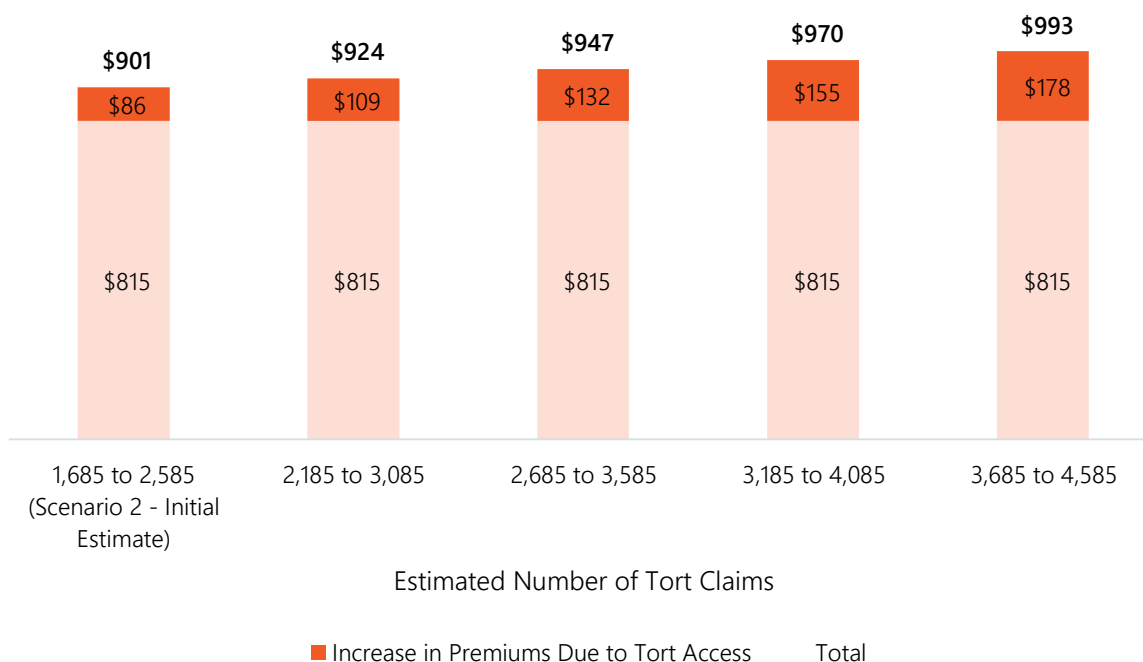
Figure 2: Estimated (Mid-Point) Driver Premiums in Scenario 1 by Number of Tort Claims



Note: The additional change in premiums per 500 tort claims assumes an incremental cost of \$100,000 per average tort claim. In the initial estimate, MNP assumed that tort access for economic losses exceeding policy limits would result in an incremental increase of between \$50,000 to \$100,000 per tort claim for income loss, and between \$1,500 to \$3,000 for medical and rehabilitation expenses, distributed across all medical and rehabilitation claims. This estimate is based on 1,185 tort claims related to medical and rehabilitation, each incurring an assumed incremental increase of between \$50,000 to \$100,000 in average claim cost.

Figure 3 illustrates the total impact on driver premiums based on tort access in Scenario 2. The estimated number of tort claims ranges from 1,685 to 2,585, resulting in driver premiums increasing by between \$52 to \$120 (or a mid-point increase of \$86). For every additional 500 tort claims, driver premiums are estimated to increase by approximately \$23.

Figure 3: Estimated (Mid-Point) Driver Premiums in Scenario 2 by Number of Tort Claims



Note: The additional change in premiums per 500 tort claims assumes an incremental cost of \$100,000 per average tort claim. In the initial estimate, MNP assumed that tort access for economic losses exceeding policy limits would result in an incremental increase of between \$50,000 to \$100,000 per tort claim for income loss, and between \$1,500 to \$3,000 for medical and rehabilitation expenses, distributed across all medical and rehabilitation claims. This estimate is based on 1,185 tort claims related to medical and rehabilitation, each incurring an assumed incremental increase of between \$50,000 to \$100,000 in average claim cost.

3. Summary of Findings

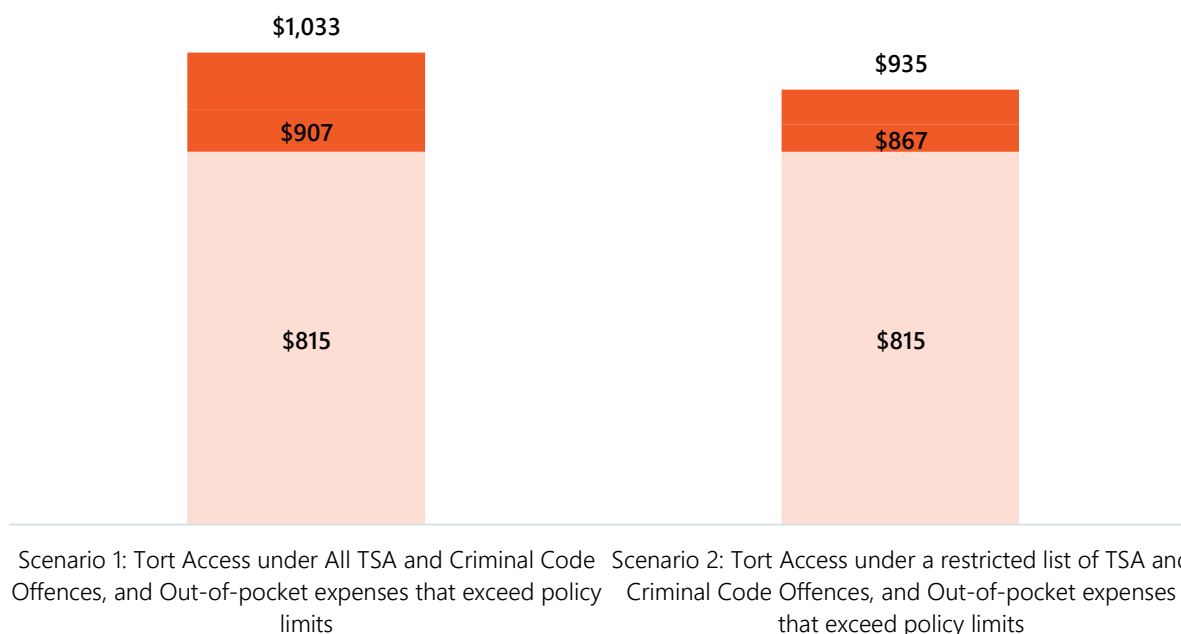
The transition to the Care-First auto insurance system aims to enhance benefits while reducing reliance on litigation to lower legal costs, resulting in more stable and affordable premiums. The Alberta government has estimated that under the new no-fault system, the required premium for basic coverage would be \$815—approximately \$389 lower than what drivers currently pay. However, this estimate is based on adopting Manitoba's Public Insurance (MPI) model, which only allows tort access for property damage. Expanding tort access beyond the MPI model would increase the required premium.

Our analysis showed that allowing tort access to recoup economic losses above policy limits would likely result in an increase of approximately four to nine percent in driver premiums, relative to not allowing tort access. For traffic safety and criminal code violations, the fewer the restrictions on what is eligible for tort access, the greater the increase in driver premiums.

Figure 4 compares the total impact of two scenarios for allowing tort access on required premiums. In

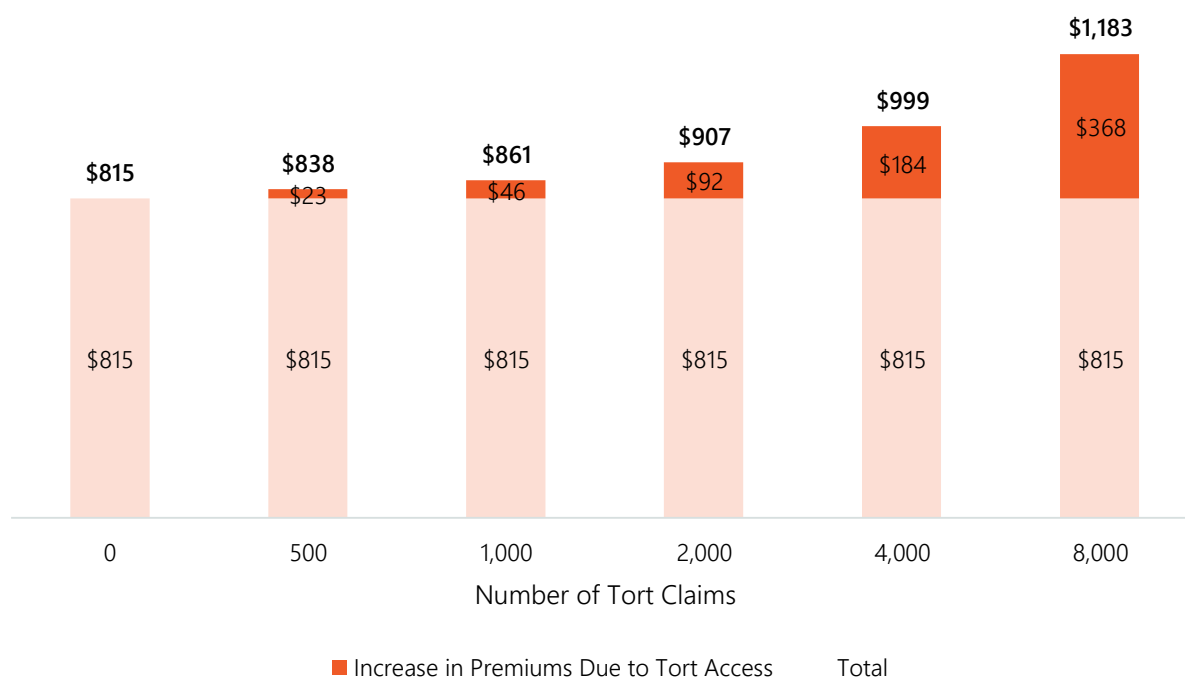
Scenario 1, where tort access is available for accidents caused by any TSA and Criminal Code offences, as well as out-of-pocket expenses exceeding policy limits—including income loss, medical, and rehabilitation costs— Alberta drivers would pay between \$92 and \$218 more in premiums relative to premiums with no tort access. If tort access is restricted to only a select list of major TSA and Criminal Code offences, and claims for out-of-pocket medical expenses exceeding policy limits are allowed only for medical and rehabilitation costs (as described in Section 2.2), the additional cost to drivers would be between \$52 and \$120.

Figure 4: Impact of Different Levels of Tort Access on Driver Premiums



A sensitivity analysis was conducted to illustrate the increase in driver premiums resulting from a higher number of tort claims. As the number of tort claims increases, total claim costs for insurers rise, leading to higher required premiums for drivers. As shown in **Figure 5**, for each additional 500 tort claims the required premium would increase by approximately \$23. If tort access resulted in 2,000 tort claims with an incremental average cost of \$100,000, the average premium would rise by \$92 (11 percent), and if there were 8,000 tort claims, the average premium would increase by \$368 (45 percent).

Figure 5: Sensitivity Analysis: Change in Driver Premiums in the Number of Tort-Claims



Note: The sensitivity analysis assumes an incremental cost of \$100,000 per average tort claim.

Appendix A – About MNP

For over 60 years, MNP has proudly served and responded to the needs of clients in the public, private and not-for-profit sectors. Today, MNP is the fifth largest Chartered Professional Accountancy and business consulting firm in Canada and is the only major accounting and business consulting firm with its head office located in Western Canada. MNP has more than 117 locations and over 7,100 team members across the country. In Ontario, MNP has more than 2,000 team members located in 36 offices. We have over 350 partners in the province who support businesses ranging from small and medium enterprises to large public companies.



About MNP's Economics and Research Practice

Economic and industry studies are carried out by MNP's Economics and Research practice. The Economics and Research practice consists of a team of professionals with a successful track record of assisting clients with various financial and economic impact studies. Our work has encompassed a wide range of programs, industries, company operations and policy initiatives, and has helped clients with decision-making, communication of economic and financial contributions, documentation of the value of initiatives and activities, and development of public policy.



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