

# Putting insurance premiums in reverse

## Small business perspective on automobile insurance in Newfoundland and Labrador

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The Board of Commissioners of Public Utilities is reviewing the automobile insurance system in Newfoundland and Labrador. This submission will provide the views of members of the Canadian Federation of Independent Business on automobile insurance and make recommendations for consideration.

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### Introduction

Since the 2016 Newfoundland and Labrador Budget, small business owners have been concerned about the cost of insurance in general. In that Budget, the provincial government re-introduced a punitive tax called the Retail Sales Tax (RST) on insurance premiums. The 15 per cent tax is dissimilar to the Harmonized Sales Tax in that there is no input tax credit available. As a result, there has been a direct hit to the bottom line of business owners throughout the province. In its 2018 Budget, the government announced a plan to reduce the RST on automobile insurance over four years beginning in January 2019. This is a step in the right direction, but will have minimal effect on business owners.

It is within this context the Canadian Federation of Independent Business (CFIB) submits the view of its membership to the Board of Commissioners of Public Utilities (PUB) as it undertakes a review of automobile insurance in Newfoundland and Labrador. CFIB is a non-partisan and not-for-profit organization that represents independently-owned small- and medium-sized enterprises. We represent 110,000 members in Canada and over 2,000 members in Newfoundland and Labrador. Policy positions are taken at the direction of the membership through surveys and discussions with members. This submission was completed using survey data gathered from members in Newfoundland and Labrador.

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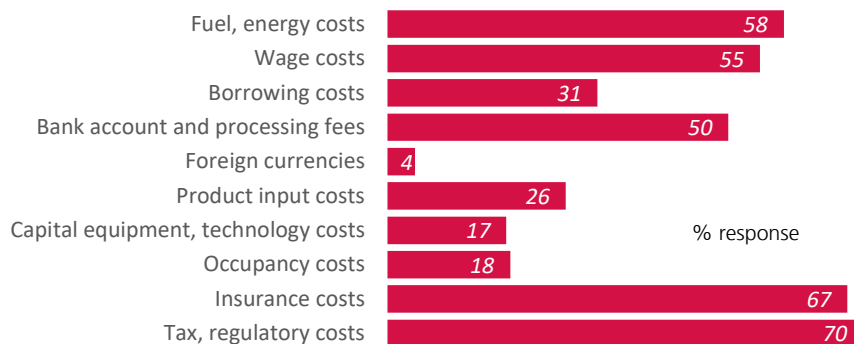
### Automobile Insurance in Newfoundland and Labrador

From a small business perspective, insurance has grown to become very expensive in recent years in Newfoundland and Labrador. Statistics show automobile insurance premiums in the

province are the highest in Atlantic Canada. According to CFIB’s monthly Business Barometer, insurance costs are one of the largest cost constraints on small business owners in Newfoundland and Labrador (see Figure 1). While much of this growth can be attributed to the re-introduction of the Retail Sales Tax on insurance premiums, small business owners in the province have noticed their insurance costs increase, even if they may have had only one claim or no claim at all. Many small business owners are unable to understand the justification for the recent significant increases in automobile insurance premiums.

Figure 1

**Major Cost Constraints (% of response)**

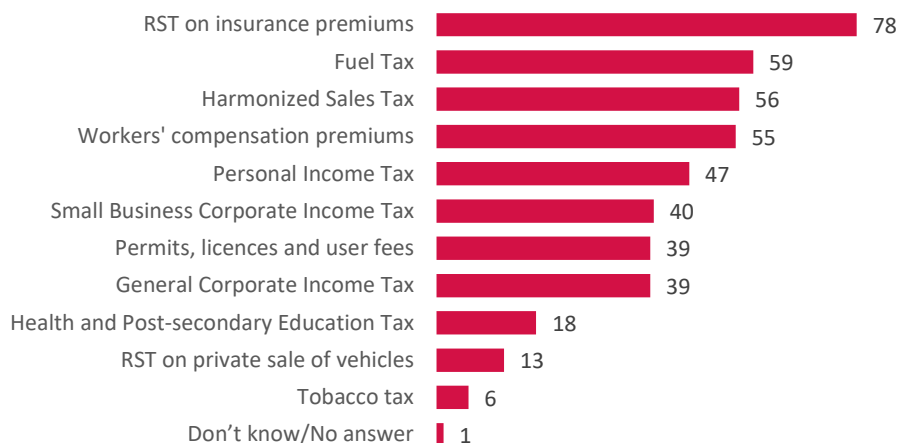


Source: CFIB, Business Barometer Index, NL data, August 2018.

CFIB members have been clear that the most harmful tax on their business is the RST on insurance premiums (see Figure 2). As it concerns automobile insurance, a recent survey showed nearly one in five do not pay for automobile insurance. For the 80 per cent of business owners who are insured, they are concerned about the high costs and are using various means to deal with these concerns. Some business owners have reduced the amount of insurance coverage they receive, cut staff hours or raised prices to offset the additional cost.

Figure 2

**Most Harmful Provincial Taxes and Charges (% of response)**



Source: CFIB, Newfoundland and Labrador Tax and Insurance Survey, October 2017, 156 responses.

CFIB estimates the cost of automobile insurance to small- and medium-sized businesses is approximately \$86.5 million per year (see Table 1). Assuming this includes tax, CFIB further estimates the government collects from small- and medium-sized businesses \$11.3 million annually in RST on insurance premiums revenue. Based on this information, it is possible small- and medium-sized businesses will save \$3.7 million (or an average of \$293 per business) once the automobile insurance reduction initiative announced in Budget 2018 is fully implemented in four years. While it is not within the purview of the Board of Commissioners of Public Utilities to make recommendations on the RST on insurance premiums, as it is government policy, it is important to recognize it as a factor.

Table 1

**Estimated Annual Cost of Automobile Insurance Premiums (by size of business)**

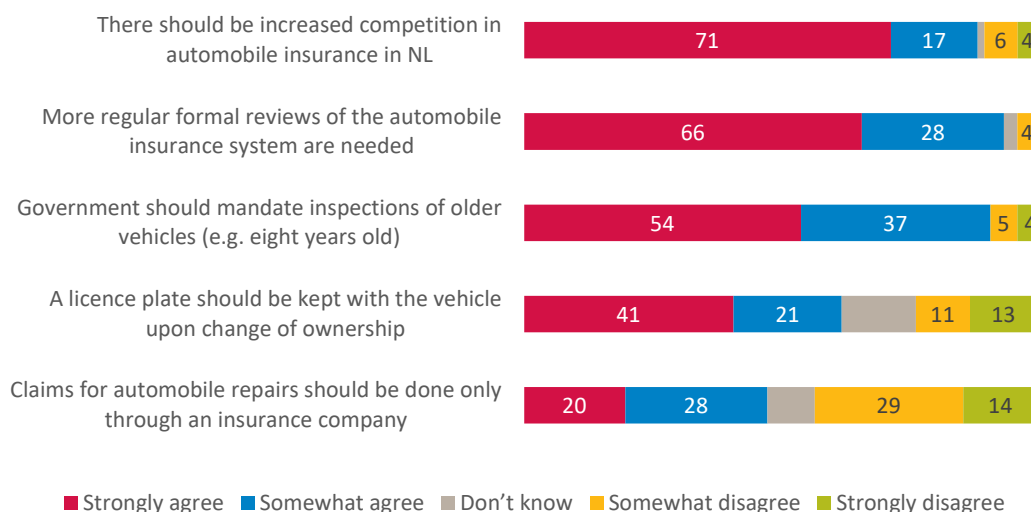
Size	Number of businesses	Average annual cost	Total annual SME cost	Average annual insurance tax
1-4	6,071	\$4,414	\$26,795,187	\$3,495,025
5-19	4,730	\$8,758	\$41,423,921	\$5,403,120
20-499	1,754	\$10,446	\$18,319,150	\$2,389,454
<i>Total</i>	12,554	\$23,618	\$86,538,258	\$11,287,599

Source: CFIB data; Number of Businesses by Employment Size Range, Trade and Business Statistics, Newfoundland and Labrador Statistics Agency (excludes Public Administration sector), [http://www.stats.gov.nl.ca/Statistics/Trade/PDF/BR\\_NL\\_Size\\_2016.pdf](http://www.stats.gov.nl.ca/Statistics/Trade/PDF/BR_NL_Size_2016.pdf). Accessed on September 6, 2018.

Small business owners lament the reduction in the number of insurance companies in the province, which has resulted in limited options at competitive rates. In the opinion of small business owners, 88 per cent strongly or somewhat agree there should be more competition in automobile insurance in Newfoundland and Labrador (see Figure 3).

Figure 3

**Do you agree or disagree with the following statements? (% of response)**



*“Automobile insurance is a ridiculous, necessary evil. We are paying for something we cannot use or we will be heavily penalized for using it. We fix our own vehicles rather than go through insurance, unless the damage is extremely expensive. We have had no claims and still receive constant increases.”*

—Manufacturer/Wholesaler, Northeast Avalon

As business owners try to find ways to deal with the growing costs of automobile insurance, the government could introduce initiatives that might lead to lower premiums. CFIB members strongly or somewhat agree (91 per cent) that the government should mandate inspections of older vehicles (e.g. eight years old). They also strongly or somewhat agree (62 per cent) that a licence plate should be kept with a vehicle upon change of ownership (see Figure 3). Some members think this could reduce the number of uninsured and unlicensed vehicles, which should help lower the costs of insurance premiums.

CFIB asked its members if more formal reviews of the automobile insurance system are needed and 94 per cent strongly or somewhat agreed (see Figure 3). The last formal review conducted by the PUB on automobile insurance was in 2005. Given the importance of automobile insurance and the influence the system can have on consumers and business owners, it is necessary for the PUB to conduct reviews on a more regular basis. It would also be beneficial to have more transparency and clarity on the information released concerning automobile insurance.

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## Conclusion

For many business owners, automobile insurance is a necessary cost of doing business because it lowers the risk of loss in the event that an unfortunate incident should occur. However, recently, small business owners have seen insurance costs grow to the extent that they are affecting business expansion. For those who have had no or few claims, it is confusing and frustrating why their insurance costs have increased (as much as 50 per cent, in some cases) in recent years. Many business owners take steps to not make a claim because they know the harmful effect it will have on their premiums. The PUB must make every effort to ensure a sustainable and affordable system is available to Newfoundlanders and Labradorians.

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## Summary of recommendations

- Introduce measures that will allow for a reduction in insurance premiums:
  - Increase competition for automobile insurance;
  - Mandate inspections for older vehicles (e.g. eight years and older); and
  - Keep license plates with the vehicle upon change of ownership.
- Implement more regular formal reviews of the automobile insurance system.

## Methodology

This submission presents findings from CFIB's *NL PRIME Program and Automobile Insurance Survey*, a new online survey completed by 108 CFIB members between August 13 and August 21, 2018. Ninety-four members responded to the automobile insurance portion of the survey. The qualifying question asked if the business pays for automobile insurance. As a result, 78 respondents completed the full survey and their responses have been presented in this submission. Of those, 64 respondents indicated the precise amount their business pays in automobile insurance (0-4 employees - 25, 5-19 employees - 26, and 20-499 employees - 13).

To determine the cost of automobile insurance to small- and medium-sized business owners, CFIB members were asked how much they pay annually for automobile insurance. CFIB classified those who pay automobile insurance by employee size. To calculate the "Number of businesses" in the table, CFIB multiplied the percentage of those to pay for automobile insurance in each employee size category to the total number of businesses found in the NL Statistics Agency data. This was then multiplied to the average cost of automobile insurance by employee size based on CFIB member responses. These results were added together to get the total cost.