Intelligence MEMOS

From: Gherardo Gennaro Caracciolo

To: Auto Insurance Watchers

Date: July 22, 2025

Re: **Auto Insurance Over-Regulation is Punishing Drivers**

Car insurance is unavoidable. If you want to drive, you have to buy it.

Because it's mandatory, some people argue we need regulation to avoid unjustified sudden price hikes. That may sound reasonable. Unfortunately, it is not that simple.

This well-intentioned approach to helping consumers is backfiring, as I outlined in my recent C.D. Howe Institute paper. Instead of protecting drivers, tighter rules on pricing leave them worse off.

Rigid rules on how and when insurers can adjust premiums weaken the competition that keeps prices reasonable in the first place. The mechanism is simple: When insurers can't update their rates to match mounting repair costs or the rising impact of extreme weather, they risk losses that threaten their financial health. If enough losses pile up, some insurers may simply pull back from the market, leaving fewer companies competing for drivers' business. Fewer insurers mean less choice, more market power for the remaining firms, and, paradoxically, given regulation's purposes, higher rates and worse service for consumers in the long run.

Some provinces, like Ontario, Alberta and the Atlantic provinces, have tighter restrictions. Insurers must apply for permission to increase rates beyond narrow limits, and approvals can drag for months. Others, including British Columbia, Manitoba and Saskatchewan, give insurers more freedom to adjust prices quickly – in part because the mandatory portion of insurance is primarily (or uniquely) offered by a publicly run insurer, with private insurers offering mostly (or only) additional coverage.

By analyzing data on losses and premium changes across these different systems, we can measure how quickly insurers are able to adjust their prices when claim costs surge after, for example, unexpected inflation or severe weather. These are the kinds of adjustments that are critical if insurers – any business, really – are to survive.

The results are clear: In provinces with stricter rate controls, insurers are significantly slower to adjust premiums when losses spike. This is even more of a concern when combined with a second piece of evidence: In provinces where rate-setting regulation is more rigid, the ratio of losses paid out to premiums collected has been rising steadily for several years. That means insurers haven't been able to raise premiums fast enough to keep pace with real costs.

This financial stress is likely to build and may eventually become too much to bear. At that point, companies may scale back, pull out of risky market segments or exit entire regions – exactly the kind of outcome that reduces competition and ultimately hurts consumers.

Does this mean we should scrap regulation altogether? No, car insurance is mandatory for a reason: It protects everyone on the road. But rate regulation is not the way to address worries about insurers' conduct. Canada already has plenty of review mechanisms and regulatory bodies to deal with such things. Market conduct is regulated at the provincial level and the Canadian Council of Insurance Regulators is mandated to develop solutions to common problems faced by provincial regulators across the country.

Flexible pricing combined with oversight of firms' conduct strikes a better balance. It gives insurers the tools to stay solvent, allows the market to remain dynamic and competitive and yet holds companies accountable, thus protecting consumers.

The financial challenges facing Canadian insurers aren't going away. Tariffs, climate change, inflation and global supply shocks are here to stay. If we want a competitive, stable insurance system that works for everyone, we need to let insurers adjust to reality.

Getting this balance wrong means paying the price later, in higher premiums, fewer choices and bigger headaches for everyone on the road. Of that, you can be assured.

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A version of this Memo first appeared in the Financial Post.