Bulletin

No. A-10/94

Property & Casualty

- Auto

Graduated licensing and its impact on the industry and drivers

1. Introduction of graduated licensing

On April 1, 1994, the government passed regulations that introduced a graduated licensing system for new drivers in Ontario. On June 6, 1994, amendments to the *Highway Traffic Act* will be proclaimed in force and new regulations will be passed that define two new novice driver classes for private passenger automobiles and establish qualifications and restrictions for each class.

2. Graduated licensing features (Class G - private passenger auto)

Graduated licensing is a two-step process that affects novice drivers applying for their first Ontario Class G auto driver's licence. Graduated licensing will last a minimum of 20 months for drivers during which time they can gain the knowledge and skills needed to operate a motor vehicle safely.

Level One (Class G1 Licence)

Level One lasts 12 months. If a new driver successfully completes an approved driver education course, this period will be reduced to eight months. Level one drivers

- must not drive if they have been drinking (maintain a zero blood alcohol level when driving)
- must have only one passenger in the front seat. That person, the accompanying driver, must be a fully licensed driver with at least four years of driving experience. The accompanying driver must be authorized to operate a Class G passenger vehicle and must have a blood alcohol level of less than .05 per cent
- must limit the number of backseat passengers they carry to the number of seat belts in the backseats of the vehicle
- unless accompanied by a licensed driving instructor, must not drive on "400-series" highways with a posted speed limit greater than 80 km/h, or the Queen Elizabeth Way, Don Valley Parkway, Gardiner Expressway, E.C. Row Expressway and the Conestoga Parkway
- must not drive between the hours of midnight and 5 a.m.
- may drive Class G vehicles only, and
- may choose to voluntarily display a vehicle sign indicating their new driver status. This is provided by the government to all new drivers entering Level One.

At the end of Level One, drivers must pass a road test of their driving skills to qualify for Level Two.

Level Two (Class G2 Licence)

Level Two of the program lasts a minimum of 12 months. At this level, drivers have more privileges because of their driving experience. Level two drivers

- must not drive if they have been drinking (maintain a zero blood alcohol level when driving)
- limit the number of people carried to the number of seat belts in the vehicle, and
- drive Class G vehicles only.

Obtaining full licence privileges

After completing Level Two, drivers will be eligible to take a comprehensive test to qualify for full licence privileges.

3. Minister's policy statement

On June 2, 1994, Floyd Laughren, Minister of Finance issued a policy statement on matters related to risk classification systems and automobile insurance rates. The policy statement was issued in conjunction with the introduction of graduated licensing in Ontario.

The Minister is of the opinion that the introduction of graduated licensing in Ontario will reduce claims costs and accident frequency. The Minister considered a study prepared by the Ontario Insurance Commission indicating that $34 - $40 million of claim costs annually will be saved following the implementation of graduated licensing. The study also estimates that accident frequency for the first year driver will decrease by 10 - 20 per cent.

The Minister is of the view that savings in the system associated with graduated licensing should be passed on to drivers that progress through the graduated licensing system.

The Minister indicated that in respect to risk classification systems, it is government policy that insurers take a uniform approach to rating novice and newly-licensed drivers:

- Level One drivers are not to be rated
- Level Two drivers can be rated.
- For the purpose of determining driving experience, insurers will credit drivers for the time spent at Level One to a maximum of one year, and at Level Two to a maximum of one year.

The Minister indicated that in respect to automobile insurance rates, it is government policy that

- Novice drivers entering Level Two from Level One should receive a rate reduction of 10 per cent for all coverages where the driver's experience is used as a rating factor, provided that the driver has had no chargeable convictions or at-fault accidents at Level One. This reduction should be applicable for 1 year.
- Fully-licensed drivers who have progressed through the graduated licensing system should receive a rate reduction of 10 per cent for all coverages where the driver's experience is used as a rating factor, provided that the driver has had no chargeable convictions or at-fault accidents at Level Two. This reduction is applicable for 1 year.

- Driver training discounts and credits should continue to apply.

4. Request for insurers to re-file rules, definitions and rates for novice and newly-licensed drivers

The Commission has surveyed insurer rate manuals to determine how insurers presently treat novice drivers (drivers with learner's permits). Most insurers do not rate novice drivers. These insurers typically rate persons who have a "valid driver's licence" and their rate manuals typically define a person with a "valid driver's licence" to be a person who is fully licensed. Consequently, persons possessing learner's permits are excluded from this definition.

The Commission is of the view that the definitions and rules relating to novice and newly licensed drivers must be amended and re-filed to reflect the changes made to the licensing system and the Minister's policy statement. Therefore persons possessing G1 licences (Level One) should not be rated. Persons possessing G2 licenses (Level Two) can be rated.

5. Request for re-filing of rates

The Commission is requesting that insurers re-file rates or discounts that will apply to drivers in Level Two and drivers who have obtained full driving privileges after having progressed through the graduated licensing process, recognizing the rate reductions proposed in the Minister's policy statement. The discounts need not be exact, but should approximate those specified in the Minister's policy statement.

Note: Rate reductions are to be effective December 1, 1994.

Individual insurers may determine the method used to achieve the rate reduction. For example, an insurer can achieve the rate reduction by employing a discount or by assigning the driver to a different driving record or through any other means that the insurer chooses.

6. Filing guidelines and package

The Commission has prepared a filing guidelines package for insurers to complete and file with the Commission in accordance with the Minister's policy statement. The filing package has been made available for companies that write automobile insurance.

Note: No actuarial certificate will be required for this filing. Filings should be made by August 15, 1994.

7. Impact on Facility Association Plan of Operation

Currently under the Facility Association Plan of Operation, the definition of *years of experience* is based on the principal operator having a *valid licence*. Valid licence is defined under the plan of operation to exclude a learner's permit. This definition needs to be amended to reflect the new graduated licensing system in Ontario.

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Commissioner

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