

# Insurance Myths KEY <http://www.ibc.ca/on/insurance-101/insurance-basics/insurance-myths>

*Like any industry, a variety of myths surround insurance. Consumers of auto, home and business insurance may have misconceptions about policies and coverage as well as how the industry operates. Learn some key facts about the Canadian insurance industry.*

## **Auto Insurance**

**MYTH:** *If I'm injured in an auto collision, my medical expenses are paid for by the provincial or territorial government's health care plan.*

**FACT:** Auto insurers pay more for medical rehabilitation costs in Canada than government health insurance plans, workers' compensation plans and private health-care plans combined. Every year, insurers pay at least \$2 billion for the medical rehabilitation of injured Canadians. Insurers pay through the **accident benefits** portion of auto insurance policies, the tort system and health care levies.

**MYTH:** *Only insurance companies pay for high or excessive legal settlements.*

**FACT:** Insurance companies collect premiums from consumers and use these funds to pay for **claims**. Money to pay for large legal settlements comes directly from these funds, or directly from the pockets of each and every policyholder. If the cost of claims increases, insurers need to adjust the premiums to keep pace.

**MYTH:** *Insurance companies keep changing the rules on what is and isn't covered.*

**FACT:** Auto insurance is highly regulated by provincial and territorial governments who set **minimum coverage levels**. Insurance companies cannot change basic coverage or premiums without government approval.

**MYTH:** *Being caught driving without wearing a seatbelt doesn't make me a dangerous driver, so my insurance premiums shouldn't go up.*

**FACT:** While you do not pose a danger to other drivers when you don't wear a seatbelt, you do pose a serious hazard to yourself. If you are in a collision when you are not wearing a seatbelt, you are much more likely to sustain injuries. Your insurance company pays your medical expenses. The cost

of the rehabilitative care for a whiplash-type injury is lower than the cost of treatment for injuries sustained as a result of being thrown out of a car during a collision. This is why your insurance premiums may increase if you are convicted of driving without a seatbelt.

## **Insurance Industry**

MYTH: *Insurance companies make a fortune on premiums.*

FACT: Of every dollar that insurance companies collect in premiums, 55¢ goes back to policyholders to pay for claims, 21¢ goes to pay operating expenses and 16¢ goes back into communities in the form of taxes. Insurers keep 8¢ as profit, as averaged over the seven years from 2007 to 2013.

MYTH: *Natural disasters, such as the 2013 floods in Alberta and Ontario, cause insurance premiums to go up everywhere.*

FACT: Major catastrophes have a direct impact only in the areas where they occur. Elsewhere, they may have an indirect effect. Here's how it works:

- Insurers also buy insurance – known as **reinsurance** – to help cover unusually large losses.
- Reinsurance companies operate around the world and pay when there is a major disaster. If reinsurers predict a year with exceptionally high losses, they may raise their rates.
- When reinsurers raise rates, insurance companies in Canada may have to pay more for their reinsurance and that, in turn, could affect your **premiums**.

The most important factors affecting your **home insurance** are local risk factors, such as where your home is located, how much it would cost to rebuild and how it's heated. Your claims history is also important.

## **Claims and Premiums**

MYTH: *It's difficult to get paid for a claim.*

FACT: Home, auto and business insurers paid more than \$30 billion in 2013 to help individuals and businesses get the care they needed, replace lost income, and repair cars and other property.

MYTH: *You always get less than you ask for, so inflate your claim.*

FACT: **Inflating an insurance claim** is a crime. Insurers will pay you for your losses according to your policy terms, levels of coverage, deductibles, and other factors. Your adjuster may review your receipts and other details to ensure you receive appropriate value and service. Insurance crime increases insurers' claims costs and, ultimately, costs everyone in the form of increased premiums.