

WHERE IS ICBC'S REPORT ON A POSSIBLE PREMIUM REBATE?

It has been four weeks since Attorney General David Eby announced that he had ICBC for a report on the impact of the measures to combat the COVID-19 pandemic on our public auto insurer's finances.

The government-ordered measures to reduce the spread of the COVID-19 virus has resulted in a significant drop in vehicles on the road and in auto insurance claims costs throughout North America. Private auto insurers were quick to announce premium reductions. For example, Intact Financial, which is the largest private sector auto insurer by market share in Canada, announced a 15% premium reduction for April to June.¹ The Manitoba public auto insurer announced rate reductions equivalent to a 11% annual premium reduction.²

In early April, when questioned about a possible ICBC premium reduction to match the reductions announced by private auto insurers, minister responsible David Eby said that he was waiting to review financial information from our public auto insurer,³ and he promised that this report would be made public. The minister stated: "We are seeing fewer crashes on the road. There is no question about that. But there are also negative financial impacts and releasing one factor in the absence of others would be misleading to British Columbians."⁴

In the last four weeks ICBC has launched a media campaign to address an increase in speeding, but it has not released any information on the recent decline in crashes or claims costs.⁵

This commentary is an attempt to outline what the long-awaited ICBC report may contain.

¹ https://www.insurancebusinessmag.com/ca/news/auto-motor/intact-financial-offers-auto-insurance-premium-adjustments-amid-coronavirus-219688.aspx?utm_source=GA&utm_medium=20200415&utm_campaign=MorningBriefing-20200415&utm_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173

² <https://steinbachonline.com/local/mpi-to-issue-rebate-cheques-help-offset-covid-19-impact>

³ <https://globalnews.ca/news/6790991/icbc-cancellation-fees-coronavirus/>

⁴ <https://globalnews.ca/news/6854341/icbc-still-doesnt-have-approval-to-wave-cancellation-fees-for-drivers/>

⁵ <https://globalnews.ca/news/6902391/icbc-slow-down-campaign-coronavirus/>

Two Key Impacts

The impact of the effects of the COVID-19 pandemic have affected ICBC's finances in two fundamental ways: the net change to its net income (including revenues and expenditures), and changes to its capital equity reserve.

Most of the impact on ICBC's capital position would have been felt in the 2019/20 fiscal year, which ended on 31 March 2020. The lower interest rates would have reduced the discount rate on the unpaid claims, which would require ICBC to increase (which ICBC calls an "unfavourable adjustment") the unpaid claims reserve. Most of this increase would have been offset by an increase in the market value of ICBC's fixed income (bonds) assets (\$9.3 billion in 2018/19), which increase in value as interest rates decline. The lower interest rates would have increased the discount rate on ICBC's pension obligations. The March drop in the value of ICBC's equity assets (approximately \$4.7 billion for 2018/19) would have lowered ICBC's year-end equity, and may have resulted in an over-all negative equity position by 31 March 2020.⁶

ICBC's 2019/20 year-end (as of 31 March 2020) is not part of this modelling exercise.

Creating an Estimate of Net Savings in the First Quarter

To develop an estimate for ICBC's finances for the first quarter (April to June) we start with the pre-COVID-19 2020/21 budget included in ICBC's three-year service plan released on 18 February 2020. The summary below shows the annual estimate, and a monthly (1/12) estimate for certain revenue and cost items (\$=million).

Table 1 – ICBC's 2020/21 BUDGET

	SP 2020/21	Month	Comment's
Net Premium Earned	6,662 M	555.0 M	ICBC's monthly revenue varies as more policies (including motorbikes and ORVs) are insured in the summer.
Investment Income	498 M	41.5 M	Investment income is dependent on dividend income and the gain on asset sales.
Claims Cost-Current	5,384 M	448.7 M	Claim costs are generally higher in the winter because of weather and road conditions.

⁶ ICBC's audited statements for 2019/20 will not be released until late June or July, so we can only speculate as to its year-end equity position.

-Prior Years	44 M	3.7 M	
Taxes (est.)	400 M	33.3 M	See Premiums Earned
Commissions (est.)	440 M	36.7 M	See Premiums Earned

Source: ICBC Service Plan 2020/21 to 2022/23, February 2020.

Key Assumptions

An unknown number of policyholders will cancel the insurance on one or more vehicles while the general stay at home policy remains in place. This model assumes a 15% drop in net premiums earned in April (some may have occurred in March), with a recovery of 10% in June. Taxes paid follows the same pattern. Commissions paid to brokers increases in April and May reflecting the increase in volumes of transactions for cancellations and reinstatement.

The major savings result from the drop in claims costs resulting from fewer crashes (frequency) and a lower average cost of injury claims (severity). This model assumes a 40% decline in costs in April, a 30% decline in May and a 20% decline June. No change is assumed in the provision for claims occurred in prior years as any increase in the claims provision because of a lower discount rate should have been recorded in 2019/20.

Annual Saving of 5%

This model suggests that the three-month net operating savings will be approximately \$350 million. This equates to an average savings of approximately \$100 per Basic policy, or about 5%. The detail is shown in Table 2.

Table 2 – SUMMARY OF THREE-MONTH CHANGE

	April	May	June	Total
REVENUE				
Net Premiums Earned %	(15%)	0	+10%	
\$	(80 M)	0	55 M	(25 M)
Investment Income	(20 M)	(20 M)	(10 M)	(50 M)
EXPENDITURES				
Current Year Claims %	(40%)	(30%)	(20%)	
\$	(180 M)	(135 M)	(90 M)	(405 M)
Taxes	(5 M)	0	3 M	(2 M)

Commissions	2 M	0	2 M	4 M
NET SAVINGS	(83 M)	(135 M)	(130 M)	(348 M)

In April and the first week of May interest rates have remained at a low level, but the financial markets have increased compared to their March lows. This should increase the value of ICBC's equities compared to the value for 2019/20.

Summary

Regardless of the amount of the net savings, ICBC's lack of a capital reserve may convince the government to use the COVID-19 claims savings windfall to begin to rebuild ICBC's equity buffer. The minister responsible has already indicated that any savings will remain with ICBC (if not the policyholders).

While contrary to the principle of the cost of service model for developing the public insurers premiums,⁷ foregoing any rebate to policyholders has a second advantage. It avoids the necessity of seeking the approval of the BC Utilities Commission to a rate rebate. Such a request may result in a public review of ICBC's revenue and expenditures for 2020/21. The government precluded such accountability in early February when it ordered the BCUC to approve ICBC's 2020/21 Basic rates without the normal open review.⁸

We await the government's decision.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

⁷ Which says in general that the revenue should match expenditures.

⁸ For a broader review see

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_bcuc_s_role_icbc_rebate_19_april_2020/pdf/commentary_bcuc_s_role_icbc_rebate_19_april_2020.pdf