

**MINISTER RESPONSIBLE FOR ICBC SAYS THOSE FACING LARGE PREMIUM INCREASES SHOULD BUY LESS INSURANCE**

On 1 September 2019, ICBC implemented a new Basic premium formula that transferred more of the cost of the Basic program to higher-risk drivers, allowing ICBC to moderate the rate increase, or even reduce the rates, for lower-risk policyholders. Key criteria in determining risk was the number of years for driving experience and the number of at-fault claims. As the implementation of the new premium scheme began it was apparent that many young policyholders were facing massive increases in their premiums.<sup>1</sup>

Despite the growing number of examples of young policyholders who upon renewal are being confronted with premium increases of hundreds of dollars, David Eby, the minister responsible for ICBC, has remained unwilling to offer the hope of lessening the rate shock. Last week he said that the redesigned rate formula was part of a multi-year turn-around project at ICBC: “It’s not gonna be fixed overnight,” Eby said. “So yes, young drivers — not just young drivers, inexperienced drivers who are predominantly young but not exclusively — will be paying higher rates. And there’s really no way around that as far as I can see.”<sup>2</sup>

In a recent interview on Victoria’s CFX radio, Attorney General David Eby suggested that policyholders facing large premium increases as a result of the new rating formula could moderate the initial cost increase by reducing their insurance coverage. Specifically, he suggested they forego purchasing collision insurance on their vehicle.<sup>3</sup>

I wonder if this is what cabinet intended when it agreed to the proposed rate changes in the summer of 2018, then imposed the new Basic insurance scheme on the nominally independent B.C. Utilities Commission?<sup>4</sup>

**New Scheme Targeted Young Drivers**

The new Basic rating scheme was intended to be “revenue neutral,” meaning that it was not designed to generate additional net income for ICBC. However, it was designed to result in approximately 1.0 million “higher-risk” policyholders paying more to allow

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<sup>1</sup> <https://vancouversun.com/news/local-news/surrey-teen-gets-sticker-shock-under-icbcs-new-rate-structure>

<sup>2</sup> <https://vancouversun.com/news/politics/eby-rules-out-changes-to-lessen-icbc-rate-shock>

<sup>3</sup> Approximately 12 minutes into the program, <https://omny.fm/shows/cfax-1070/adam-stirling-hour-3-ocotber-15>

<sup>4</sup>

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_ndp\\_perpetuates\\_4\\_sept\\_2018/pdf/commentary\\_ndp\\_perpetuates\\_4\\_sept\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ndp_perpetuates_4_sept_2018/pdf/commentary_ndp_perpetuates_4_sept_2018.pdf)

ICBC to charge approximately 2.0 million “lower-risk” policyholders less.<sup>5</sup> Most of the higher risk policyholders are inexperienced drivers, and the majority of these are young drivers.

On average, young drivers are more likely to cause a claim than older and more experienced drivers. This fact is emphasized in the new rating scheme compared to the previous model. In the previous model the actual crash history (the Claim Rating Scale) was the basis for the premium, but in the new model the years of being insured has a higher weighting in the ultimate price of the policy.

### **The Cost of the New Rate Design**

The political cost of increasing auto insurance rates for young and other inexperienced drivers may soon outweigh any perceived benefits from adjusting the relative burden of the cost of ICBC’s insurance.

The attorney general has defended the new rate scheme as better reflecting the “actual driving performance and their risk on B.C. roads” of policyholders.<sup>6</sup> But ICBC’s quest for pricing perfection has resulted in a highly complex formula that financially penalizes young policyholders to a much greater degree than was the case under the previous design.

Perhaps it is time for the government to take a second look at the new formula and order a moderation to the rate shock. This may avoid another 10 months of negative news as all policyholders renew through the balance of the year. One hopes that the NDP have been in power long enough to have learned how to graciously retreat from a poor 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 is an intervener in the BC Utilities Commission’s current review of B.C. Hydro’s rate request.

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<sup>5</sup> ICBC now says about 55% will benefit, presumably the difference includes the general rate increase of 1 April 2019.

<sup>6</sup> <https://vancouversun.com/news/politics/eby-rules-out-changes-to-lessen-icbc-rate-shock>

