

FRASER INSTITUTE REPORT ON ICBC FINANCIAL CRISIS: TOO LATE AND TOO CONFUSING

On 5 April 2018 the Fraser Institute released a report by Dr. John Chant, a retired economics professor, that attempted to summarize the reasons for the deterioration of ICBC's finances.¹ The report entitled "The Decline and Fall of ICBC," together with an opinion piece in the *Vancouver Province*,² is analogous to Paul Revere being late on the morning of the shot heard around the world, and delivering the warning of the British army sortie long after the fact.

The Chant report provides little or no new information and concludes that "misguided" decisions by the previous Liberal government are largely to blame for the financial crisis now evident at ICBC.³ This is old news.⁴ Some 16 months ago I warned that the government's nihilistic approach to directing ICBC's finances by suppressing the rise in Basic premiums was politically motivated and could result in massive rate increases:

Don't blame the management at ICBC for the looming rate shock, or for being unwilling to give vehicle owners fair warning of what is approaching.... I am sure that ICBC management, armed with stacks of actuarial projections, have warned the politicians that the government's basic-rate suppression policy would end in tears. But their political masters have clearly decided that it would be unwise to get 2.8 million voters upset with the financial state of ICBC months before an election.⁵

This paper will review some of the specific information in the report, and discuss some of the broader implications.

Specific Errors and Issues

The report, following the pattern of the 2017 Ernst Young report, does not provide specific references for many facts and assertions. Thus, it is difficult to verify some of the information.

¹ <https://www.fraserinstitute.org/sites/default/files/decline-and-fall-of-ICBC.pdf>

² <http://theprovince.com/opinion/op-ed/john-chant-whats-killing-icbc-and-should-it-be-saved>

³ <https://www.fraserinstitute.org/sites/default/files/decline-and-fall-of-ICBC-newsrelease.pdf>

⁴ The media have been reporting on ICBC's worsening financial health for over a year, with Rob Shaw providing the most recent summary; <http://vancouver.sun.com/news/politics/rob-shaw-ndp-must-learn-from-years-of-liberal-messes-to-fix-icbc-and-hydro> See also <https://theyee.ca/Opinion/2017/06/16/NDP-Faces-Mess/> or Gary Mason from over a year ago <https://www.theglobeandmail.com/news/british-columbia/provinces-file-bungling-has-driven-insurance-corp-of-bc-into-trouble/article34136030/>

⁵ <http://www.timescolonist.com/opinion/op-ed/comment-be-prepared-for-icbc-rate-increase-shock-1.3101218>

In some cases the facts presented are wrong. For example, the report says that ICBC incurred a loss of \$889 million in 2016/17, yet ICBC's annual report shows that the operating loss for the 15-month transition year was \$913 million, and the total comprehensive loss was approximately \$700 million.⁶ If the intention was to show the 12-month 2016/17 (April to March) loss ICBC has stated that it was \$612 million, and the total comprehensive loss was approximately \$435 million.⁷

The report makes a serious error in the introduction by saying that the government is forecasting cumulative losses of almost \$2.8 billion from 2018/19 to 2020/21 “even taking possible reforms into account.”⁸ In fact, the February 2018 service plan anticipates a cumulative loss of \$625 million for these years; the \$2.8 billion loss is **before** changes to the Basic coverage.

The paper incorrectly states that the BC Utilities Commission sets the Basic and Optional rates.⁹ The Commission has the (highly-prescribed) authority to set only the compulsory Basic insurance rates.

Like the Ernst Young report, the Chant report suffers from not clearly separating the compulsory Basic program from the Optional insurance sold by ICBC. The monopoly Basic program is regulated by the Utilities Commission, while the Optional product must compete for business with private insurers (although ICBC has enjoyed about 90% of the Optional market share for many years). The rapid increase in Basic claims costs have been the main reason for the annual operating losses and the rapid decline in ICBC's once-healthy capital reserves.

The lack of understanding of the differing capital impacts between the Basic and Optional programs is evident throughout the section on capital. Table 9 (page 17) purports to represent Basic capital when in fact it shows the combined ratios. This confusion is unfortunate because the serious decline in the Basic and Optional capital reserves threatens the future solvency of our public insurer.

The author creates a new service measure which divides the equity by the claims. The author says that this measure is “conceptually similar” to the minimum capital test (MCT) standard measure,¹⁰ but in fact it is less useful than the MCT, and further confuses an already confused discussion of the capital reserve.

The report could have been more forceful about how the drop in the Basic and Optional capital reserves has greatly increased the risk of a taxpayer bailout to fund outstanding and anticipated claims.

⁶ <http://www.icbc.com/about-icbc/company-info/Documents/ar-2017.pdf> p. 97.

⁷ BCUC, ICBC 2017 Rate Request, IR 1, RM 1-4 Attachment A.

⁸ <https://www.fraserinstitute.org/sites/default/files/decline-and-fall-of-ICBC.pdf> p. 1.

⁹ Ibid., p. 3.

¹⁰ Ibid., p. 16.

It could have also discussed the role of the BC Utilities Commission in regulating public monopoly enterprises, and how its independence can be over-ridden by cabinet directives.

Private Sector Orientation

As one would expect from a document produced by the Fraser Institute, the report suggests that opening the auto insurance market to private for-profit insurers would help protect drivers from large rate increases at ICBC.

This became clear during a Jody Vance (of Roundhouse Radio) interview with Mr. Charles Lammam of the Fraser Institute on 6 April 2018.¹¹ Mr. Lammam, in calling on the government to allow competition for the Basic insurance, echoes the position of the Insurance Bureau of Canada which represents the major for-profit insurers.

The IBC web site states; “Competition provides a powerful incentive for any company to keep prices down and to deliver the best customer service possible. Auto insurance is no exception to this rule, and allowing private insurers the chance to compete with ICBC is in the best interest of BC drivers.”¹²

The IBC incorrectly claims that BC has the highest auto insurance rates in Canada, which echoes the position of the Canadian Taxpayers Federation.

The IBC has also been strong advocates of caps on pain and suffering claims and other legal remedies to limit injury claims costs in provinces such as Ontario and Alberta. Compulsory auto insurance in these provinces is provided by private insurers, and average insurance rates are the highest in Canada.¹³

The Fraser Institute’s report on ICBC’s finances is too late and too confusing to add anything to the public understanding and the discussion as to ways to end the flood of red ink. The provincial government has outlined a number of planned changes in coverage levels and possibly some changes in rate design. But, as always, the devil is in the details which are still under development.

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¹¹ <http://cirh2.streamon.fm/listen-pl-15396>

¹² <http://www.ibc.ca/bc/auto/bc-auto-insurance>

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_40_8_september_2017/pdf/occasional_paper_no_40_8_september_2017.pdf

