

ICBC's FIRST QUARTER FINANCIAL FORECAST: TOO SOON TO DRAW CONCLUSIONS ABOUT RESTORED FISCAL HEALTH

Earlier this week the government released its first quarter (April to June) financial results for the current year. As part of the package ICBC released its first quarter statement of operations and its summary of assets, liabilities and equity.¹

The operating results show a that the compulsory Basic program broke even, while the Optional program recorded a net income of \$55 million. The ministry of finance, using advice from ICBC, has forecast a full year combined net operating loss of \$50 million, which is the same as the forecast in the February 2019 budget.²

ICBC Has Provided More Information; Service Information Still Missing

The government is to be congratulated for requiring ICBC to actually file a first quarter financial report because in recent years it usually ignored reporting on the first quarter. The financial summary to 31 June 2019 follows the format of the third quarter report of 2018/19, where the operating results are disaggregated between the compulsory Basic program and the Optional program results. This is much more information than has been provided in earlier quarterly reports, and is a welcome step toward greater accountability for our \$6.0 billion in revenue insurer.

Unfortunately, the quarterly report does not contain any measures of volume or service, such as the number of policies written or earned, or the number of injury or material damage claims filed (or settled). This makes it impossible to compare the change in revenue or expenditures with the change in the volume of effort. B.C. Hydro, for example, shows the amount of electricity sold and the change in the unit costs.

Comparing the First Quarter 2019/20 to 2018/19

Great caution should be used in attempting to forecast year-end revenue and expenditures based on the first quarter results. Certain components of ICBC's finances, including revenue and employee salaries, are relatively stable on a monthly basis. Other key components, including investment income and changes to the estimate of the cost of

¹ <https://www.icbc.com/about-icbc/newsroom/Pages/2019-sep10.aspx>

² <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2019-20-q1-report.pdf> p. 18.

claims for prior years, are more volatile and usually change significantly from Q1 to year-end.

The change in the key measures for the current year Q1 compared to the same period for last year are shown in Table 1.

TABLE 1 – CHANGE IN Q1 2019/20 TO PRIOR YEAR (\$=million)

	BASIC		OPTIONAL		COMBINED	
	\$	%	\$	%	\$	%
Net Prem. Earned	50	6.0	84	14.4	134	9.5
Policies Sold #	unknown		unknown		unknown	
Current Year Claims	(200)	(19.9)	27	6.0	(173)	(11.1)
Claims #	unknown		unknown		unknown	
Claim Services etc.	8	11.8	5	15.2	13	12.9
Investment Income	123	n/a	58	n/a	173	n/a
Net Income	265	--	58	--	323	--
Other Comp. Equity	unknown		unknown		113	
Equity	unknown		unknown		168	n/a

Net Premiums Earned

The increase for the compulsory Basic insurance appears low given the 6.3% rate increase effective 1 April 2019 and the estimated 1.9% increase in vehicles. The increase in the Optional is more inline with expectations assuming an average 12% increase in rates for 1 April 2019.

Current Year Claims Costs

The current year claims costs are estimates of the eventual cost of settling claims that occurred in the year. In recent years ICBC has a poor record in forecasting the final settlement amount, as reflected in the massive increase in the provision for prior years claims costs for the last three years. More time is required to determine if the planned \$1.0 billion reduction in Basic claims costs pans out.

Claim Service Costs

ICBC groups the road safety (enhanced policing, etc.) and loss management (fraud investigation) with the cost of managing the vehicle damage and personal injury claims.

The increase in expenditures reflects the annualization of additional staff added during 2018/19.

Investment Income

The investment income can vary significantly by quarter depending on the amount of bonds and other assets sold and the market value of these assets. The significant increase in the Q1 results is unlikely to be reflected in the second or third quarter reports.

Net Income

The positive results for Q1 are primarily the result of the decline in the Basic claims costs, which reflects the new hybrid tort liability model which capped the pain and suffering award for minor injury claims at \$5,500. The increase in investment income was also an important part of the positive net income results.

Other Components of Equity (OCE)

The OCE shows the change in the market value of pension and other assets. The retained earnings from operations and the OCE determine the change in equity. ICBC did not separate the OCE between the Basic and Optional programs.

Equity

An increase in the market value of its assets as of 31 June 2019 compared to 31 March 2019 was the main reason for the increase in the combined equity. The Corporation is still operating with equity far below the minimum capital test ratios of private insurers or the public insurers in Saskatchewan and Manitoba.

Will ICBC Meet the Net Income Forecast by Year-End?

The government/ICBC forecast that it would eliminate the large operating losses of the last two year by legislating a change to the hybrid tort model. In its February 2019, service plan ICBC forecast a combined operating loss of \$50 million, and negative equity of \$230 million.³ The results for the first quarter do not provide enough time to draw any conclusions as to whether ICBC's year-end results will approximate the forecast.

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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

³ <https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2019-2022.pdf>

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 reviews of ICBC's and B.C. Hydro's rate requests.