ICBC'S NEW RATE AND CAPITAL RESERVE FORECAST CONFIRMS FINANCIAL CRISIS IS WORSENING

NEW ICBC FORECAST

On 28 November 2017, ICBC filed a multi-year rate change forecast for the Basic insurance program as part of the BC Utilities Commission's (BCUC) review of the 6.4% rate increase requested for 2017.[1]

The forecast for the 2018 to 2021 policy years (November to October) indicates that even if the Basic premiums are raised by the maximin allowed by the 2013 rate smoothing regulation –a cumulative increase of 47%-- an additional $2.16 billion in funding form "other sources" would be required to maintain the Basic capital reserve at the minimum regulatory level.

Essentially, the $2.16 billion is the shortfall between the four years of revenue growth generated by the suppressed rate increases and the amount required to meet increasing claims and other costs. It is equivalent, using 2017/18 dollars, to an additional 71% increase in Basic rates.

The equivalent four-year rate increase is approximately 118%.

LOOMING INSOLVENCY

The previous government imposed annual rate increase limitations on the rate of increase in the Basic rates, at a time when claims costs (both bodily injury and property damage) were rapidly escalating. The resulting operating losses rapidly depleted the Basic capital reserve. Cabinet-ordered transfers from the Optional insurance program re-inflated the Basic capital, but minister responsible David Eby has stated that such transfers will no longer be possible.[2]

ICBC was not requested to provide a financial forecast for its Optional program as the BCUC has no regulatory jurisdiction over Optional insurance.

In the absence of transfers from the Optional policyholders' capital reserve, or a taxpayer bail-out, ICBC forecasts that all the Basic capital reserve (equity) will be gone by FY 2021/22, as sown in Table 1.

[1] See response to RM 1.6 in http://www.bcuc.com/Documents/Proceedings/2017/DOC_50367_B-2_ICBC-Responses-to-IR-1.pdf pg. 1176 to 1179 of 1513.
[2] See BC Hansard, November 7, 2017, p. 1894.

CHANGE IN BASIC EQUITY by YEAR ($=million)

	-------INITIAL--------			-----REPORTED-----		
	$	**MCT**	**Fm Option**	**$**	**MCT**	**1% MCT=**
2012	1,054	101	373	1,427	137	10.4
2013	1,603	139	113	1,716	149	11.5
2014	1,633	136	--	1,633	136	12.0
2015	1,071	83	--	1,071	83	12.9
2016/17	633	45	823*	1,456	103	14.1
2017/18f	916	62	569**	1,485	101	14.7
2018/19f	1,061	61	--	1,061	61	17.4
2019/20f	730	36	--	730	36	20.2
2020/21f	245	11	--	245	11	22.4
2021/22f	(110)	(4)	--	(110)	(4)	27.7

Source: Derived from ICBC annual reports, with estimates for 2017/18 to 2021/22 derived from BCUC, ICBC 2017 RRA, IR 1, RM 1.6; see http://www.bcuc.com/Documents/Proceedings/2017/DOC_50367_B-2_ICBC-Responses-to-IR-1.pdf

Notes: * Includes a $450 million transfer in January 2016, $201 million of Optional operating and $172 million of capital transferred during the year.

** Includes $99 million form Optional transferred after the close of 2016/17, and $470 million transferred as part of the Basic rate requirements application for calculating the 2017 Basic rate increase.

ABANDON RATE SUPPRESSION

If the government rescinds the 2013 rate suppression policy for the 2018 policy year, the ICBC forecast suggests that Basic rates would need to increase by 21.5% on 1 November 2018, followed by annual increases of 9.1%, 9.2% and 10.0% for the next three years. These increases are necessary to match the forecasted increases in claims costs (less other minor offsetting savings).

The cumulative four-year increase would be 64%.

REDUCE CLAIMS COSTS

Clearly the government cannot continue to suppress the increase in the Basic premiums as the structural deficit will continue to drag the Basic program (and probably the Optional program as well) into insolvency.

Minister responsible Eby recently stated in the legislature that the government is considering capping the pain and suffering claims for minor soft tissue injuries. On 7 November 2017, he stated that: "Short of a no-fault system, I can certainly advise the member that we are willing to look at, really, any well-thought-out recommendations for how we can get costs down. The member is aware that the report that was commissioned by the previous government — the Ernst and Young report, as it's known — does recommend caps on certain types of minor injuries, soft tissue injuries, pain and suffering awards."[3]

In a *Globe and Mail* report, the minister also suggested that changes to court procedures and ways to reduce vehicle damage claims costs as other ways to reduce the overall cost of claims.[4]

WILL A CAP ON MINOR SOFT TISSUE CLAIMS BE ENOUGH?

Given the size of the forecast shortfall, it is imperative that the cap on soft tissue pain and suffering claims be imposed as soon as possible. However, if a $5,000 cap was imposed (modeled on that in place in Alberta) would the resultant savings be sufficient to eliminate the variance between the forecasted costs and the revenue?

THE TIME DIMENSION

Seeing the results of a limitation on minor soft tissue pain and suffering claims will take time. ICBC reports that the average time to settle an unrepresented (no lawyer acting for the claimant) in 2016 was eight months, while a represented claim required 17 months.

Most minor soft tissue claims are filed by unrepresented claimants. However, if the cap came into effect in September 2018 it is likely that significant savings will not occur until the 2019/20 fiscal year, as the pre-cap claims are processed.

FUTURE PAPER

I will distribute another paper on the likely savings of capping minor soft tissue pain and suffering claims, as well as other options to reduce claims costs, in the next few days.

 November 29, 2017. http://www.bcpolicyperspectives.com/

[3] BC Hansard, 7 November 2017, p. 1890.
[4] https://www.theglobeandmail.com/news/british-columbia/bc-attorney-general-eyes-measures-to-get-icbcs-books-in-order/article37066432/