

FACTS CHECK -- ICBC'S STEVE CROMBIE'S COMMENTS in KEITH BALDREY'S ARTICLE in BURNABY NEWS of MARCH 6, 2017.

<http://www.burnabynow.com/opinion/columnists/opinion-icbc-is-finally-fighting-back-1.11088754>

Mr. Crombie minimizes the growing financial crisis at ICBC, caused by the growing deficits in the Basic compulsory program. He says that ICBC **remains** on a sound financial footing.

- Yes, currently ICBC still has enough capital to cover its liabilities (including anticipated claims costs).
- The problem is the **trend** of costs exceeding revenue, which will seriously impact ICBC's financial condition in the coming year.

Mr. Crombie says the problem is “essentially a cash flow problem....”

- A continuing negative cash flow will drain the Corporations' capital reserve, which is now near the regulatory minimums for Basic and Optional, after large declines during the last two years.
- Had ICBC been regulated by the federal Office of the Superintendent of Financial Institutions (OSFI), it would be expected to raise rates, or equity (taxpayer support) to improve its reserve position.

Mr. Crombie assures Mr. Baldrey that “We're a long, long, long way from being broke....”

- ICBC, as a Crown corporation, will never be insolvent, but it's deficit projection for 2016/17 of close to **\$700 million** is the highest on record,¹ and should be a clear indicator that ICBC is facing a financial crisis.
- The February 2017 service plan forecasts the 2016/17 capital reserve (equity) falling to \$2.56 billion, some **\$280 million** below the government's regulatory minimum level.
- Based on the normal operating (or management) target, the forecast capital reserve will be **\$1.3 billion** less than the current targets adopted by the BC Utilities Commission (Basic) and the ICBC broad (Optional); falling to **\$1.57 billion** below the combined target by 2017/18.²

¹ See ICBC 2017/18 to 2019/20 Service Plan, p. 14; <http://www.icbc.com/about-icbc/company-info/Documents/Service-Plan-201718-201920.pdf>

² See p. 3 in http://www.bcpolicy Perspectives.com/media/attachments/view/doc/icbc_2017_service_plan_22_feb_2017/pdf

- As recently as March 2016, ICBC assured the BC Utilities Commission that the Basic capital management target ratio of 145% was required to provide a sufficient buffer to ensure claims would be paid.³ ICBC now seems content with the 100% regulatory minimum.

Mr. Crombie disowns the 42% five-year Basic rate increase forecast of November 2016, saying “Those are not our numbers.”

- The forecast was reluctantly provided by ICBC, and was based on reasonable assumptions provided by Utilities Commission staff, as modified by ICBC.⁴
- Mr. Crombie was not asked about, nor discussed the need for, an additional \$1.5 billion in Basic capital – in addition to the 42% rise in Basic rates – needed to keep the Basic capital ratio from falling below the government-mandated 100% minimum level.

- Factoring in the additional capital, **the 2017 to 2020 equivalent cumulative rate increase is close to 117%.**⁵

- ICBC seems to believe that the BC Utilities Commission is being unreasonable in expecting a multi-year forecast, although this is a common practice for BC Hydro and the public auto insurance monopolies in Saskatchewan and Manitoba. In fact, it warned the Commission that:

*In light of our continued concerns about long term hypothetical scenarios ICBC respectfully advises that, going forward, it will assess the appropriateness of objecting from the outset on the basis that long term hypothetical scenarios directed by the BCUC (a) have no bearing on the determination of rates that are the subject of this particular Application and (b) appear to run counter to the legislative framework itself, which the Commission has previously determined goes beyond the Commission’s mandate.*⁶

Mr. Crombie did not discuss the immediate cause of the financial deterioration of the Basic program.

- The government’s policy to suppress the required increase in Basic rates is the obvious cause of the Basic program expenditures exceeding the revenue.

³ See http://www.bcuc.com/Documents/Arguments/2016/DOC_46035_03-31-2016_ICBC-Reply-Argument.pdf

⁴ http://www.bcuc.com/Documents/Proceedings/2016/DOC_48181_B-6_ICBC-Response-to-Ex-A-9.pdf

⁵ http://www.bcpolicyperspectives.com/media/attachments/view/doc/icbc_2017_service_plan_22_feb_2017/pdf

⁶ Ibid, covering letter.

- In its 2016 rate request, ICBC forecast that a minimum of a 15.5% increase was required in the Basic rates, but the Utilities Commission was asked to approve an increase of only 4.9%.
- On December 12, 2016, the government ordered the BC Utilities Commission to approve a Basic 2016 increase of no more than 4.9%,⁷ effectively ending the 2016 rate review.

Mr. Crombie said ICBC had not eliminated claims adjudication/processing staff, and any staff reductions were largely in the management group.

- According to ICBC’s 2016 rate request, between 2012 and 2015 the FTEs in the claims division decreased by 103, comprised of 73 excluded and 30 union positions.⁸
- This 4% reduction occurred while both injury and property damage claim filings were increasing.
- The same summary shows that total FTEs were reduced by 388 (4.0%), with excluded down 179FTEs (17%), and union positions down 169 FTEs (4.4%).

Despite Mr. Crombie’s reassurances that the financial crisis has been over-blown, the recent trend in claim costs clearly demonstrates that that the rate suppression policy is untenable.

If ICBC is really “fighting back,” it recalls for me the famous 2003 television scene of the Iraqi government spokesman trying to assure the world that Iraq was winning the war, as the coalition forces bombarded Baghdad below him.

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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 ICBC’s rate requests, and is currently an intervener in the Commission’s current reviews of ICBC and BC Hydro rate requests.

⁷ OIC 960/16.

⁸ http://www.bcuc.com/Documents/Proceedings/2016/DOC_47282_B-1_ICBC-2016-Revenue-Requirements-Application.pdf p. 5C-5.

