

FACT CHECK – ICBC CLAIMS FRAUD COSTING \$600 MILLION PER YEAR

ICBC is running TV info spots that claim that fraud is costing policyholders \$600 million each year.¹

Is the \$600 million loss accurate or reasonable?

What is ICBC doing to reduce fraudulent claims?

FACTS:

- ICBC has not provided any justification for the \$600 million claim.
- In its 2016 rate request ICBC said **the costs of fraud were unknown**, but industry estimates for other jurisdictions suggest between 10% to 20% of claims “**contain an element of fraud.**”²
- A 2012 KPMG study for Ontario said fraud accounts for between 9% to 18% of claims costs.

In 2015, ICBC reported current year claims costs of \$3.79 billion, therefore \$600 million would represent about 16%; which initially appears within the industry estimate, ignoring the “an element” caveat.

However, when certain costs are excluded from the total claims the \$600 million figure becomes questionable. The following costs, derived from ICBC’s 2015 annual report and its 2016 Basic rate request, are excluded:

- A) Vehicle damage costs (\$1.16 billion), because these repair costs are based on the actual cost of parts or ICBC’s approved auto body labour tariff.³
- B) ICBC claims defense costs (\$310 million), as these are based on invoices from its contracted lawyers, and expert reports etc.
- C) Part 7 injury, wage loss and death benefits (\$185 million), because these were authorized by ICBC staff.
- D) An estimate of 30% of the bodily injury claims (\$740 million), because the larger claim settlements (over \$200,000) have received a detailed review by ICBC claims staff and its lawyers, or were awarded by a court.

With exclusions totaling approximately 2.4 billion, the balance of claims costs subject to fraud is now approximately \$1.39 billion.⁴

If the \$600 million assertion was correct, this would represent **about 43%** of the value of claims subject to significant fraud.

¹ See <http://www.icbc.com/about-icbc/Pages/fraud.aspx>

² See p. 7-11 in http://www.bcuc.com/Documents/Proceedings/2016/DOC_47282_B-1_ICBC-2016-Revenue-Requirements-Application.pdf

³ ICBC suggest that at fault vehicle damage claimed as hit and run is a problem. If this represented \$100 million, the fraud ratio overall would decline from 43% to about 40%.

⁴ One must remember that all the claims costs paid each year have received some review by ICBC staff (or accredited auto body shops) prior to the authorization of the payment.

Clearly this is unreasonable.⁵ If the percentage of fraud was 43% one must be seriously alarmed about ICBC’s claim adjudication procedures.

WHAT IS ICBC DOING TO COMBAT FRAUD?

In its 2016 rate request ICBC said it takes fraud seriously, even though it is difficult to detect:

*Fraud is, by its nature, intended to go undetected. It is impossible to accurately measure the extent of fraud, it can only be estimated.... ICBC takes identification and allegations of fraud seriously and has long had a focus on combatting fraud. ICBC’s SIU has the skills and abilities to detect, investigate, and prevent many fraudulent and exaggerated claims and criminal offences against ICBC and its policyholders.*⁶

The rate request included the following numbers for fraud investigations:

Figure 7.2 – Number of Injury Claim Fraud Investigations

Year	SIU	Cyber Unit	Total
2011	830	782	1,612
2012	886	1,690	2,576
2013	729	2,142	2,871
2014	645	2,534	3,179
2015	539	2,351	2,890
2016f	595	2,551	3,146

In response to my information request,⁷ ICBC provided the number of charges laid and convictions obtained:

The number of charges laid and the number of convictions from 2011 up to August 31, 2016 are provided in the table below. Data prior to 2011 included both Claims and Driver Licensing charges laid. The data for 2011 and subsequent years reflects Claims investigation charges only. The 2011 and 2012 data includes both Claims and Driver Licensing related convictions. In some cases, it may take a few years for charges to be resolved.

	2011**	2012**	2013	2014	2015	2016***
Charges Laid*	93	29	38	46	51	23
Number of Convictions	106	74	31	26	23	12

* Data prior to 2011 included both Claims and Driver Licensing charges laid.

**Data for 2011 and 2012 includes both Claims and Driver Licensing related convictions; the remaining years reflect Claims investigation convictions only.

***As at August 31, 2016.

Note: Data may vary over time due to changes in the timing of criminal charge reporting. Estimates are refreshed

⁵ If 15% of the \$1.39 billion in claims were fraudulent, the amount would be approximately \$210 million.

⁶ Page 7-11 in http://www.bcuc.com/Documents/Proceedings/2016/DOC_47282_B-1_ICBC-2016-Revenue-Requirements-Application.pdf

⁷ BCUC, ICBC 2016 RRA, IR 1, RM 5.3.

periodically in order to account for current information.

So, from 2012 to 2015 (comparable data) the charges laid per investigation and convictions per investigation were:

	<u>Charge/Invest.</u>	<u>Convict/Invest.</u>
2013	1.3	1.1
2014	1.4	0.8
2015	1.8	0.8

This appears to be a very low success rate if fraud is as widespread as ICBC's claims.

ICBC stated that it was increasing its fraud infestation capability and expects to save some \$21.1 million from current claims costs by 2018. This represents only some 3.5% of the claimed \$600 lost each year due to fraud.

PERVERSE CONSEQUENCES?

By claiming that \$600 million of the annual claims costs is the result of fraud, is ICBC in fact encouraging those contemplating the filing of a fraudulent claim to do so in the expectation that the claim will be paid?

CONCLUSIONS

Fraud is a factor that must be addressed by all in the property and casualty insurers. But ICBC's claim that fraudulent claims cost \$600 million annually, in the absence of any supporting information from its claim records, appears highly exaggerated.

If ICBC believes that this is the annual loss, it does not seem to be devoting sufficient resources to reduce the loss.

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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.