COMMENTARY **ICBC**

REBOUND IN INVESTMENT INCOME DRIVES ICBC'S $1.4 BILLION OPERATING PROFIT FOR 2023/24

On 30 August 2024, ICBC posted its 2023/24 annual report, as well as its fourth quarter financial summary.[1] A major increase in investment income, together with a large reduction in the provision for prior years claims costs, resulted in net income jumping to $1.40 billion.[2] This compares to a modest operating profit of $134 million in the prior year, when a sharp increase in interest rates depressed financial markets and the value of ICBC's investment portfolio.

The following report summarizes the key aspects of the fiscal year results.

Adoption of IFRS 9 and 17 Accounting Standards

A major change in the national accounting system was instituted for the 2023/24 fiscal year. The new IFRS 17 accounting standards significantly re-orders the financial reports to a more aggregate level, and now includes the change in the market value of investments as part of the net income (instead of total comprehensive income). This change will increase the annual volatility of the net income because it now incorporated the change in the market value of ICBC's investments.

There is no way to compare IFRS 17 financial results to the old key financial metrics because few of the new financial categories are a one-to-one mapping of previous financial metrics.

The new standard has been criticized by many analysts of the property and casualty insurance industry:

> But when you imagine that loss ratio and expense ratio are no longer — it's like the end times. The sun is no longer rising in the East. Cows will stop giving milk. And Canadian property casualty financial statements are now

[1] https://icbc.com/assets/en/2F3p7b8rpGvaqvl85rSFPb/ar-24.pdf See also the March 2024 Financial Summary for MCT and other detail: https://icbc.com/assets/en/5k1dztqESqzZsFpkf2eSWN/StmtOps-Mar24.pdf

[2] Or approximately $1.8 billion before deducting the government-ordered Basic rebate; see https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_government_deficit_too_low_august_2024/pdf/commentary_government_deficit_too_low_august_2024.pdf

> incomprehensible even to the executives running the company.... This is not progress.[3]

ICBC is to be commended for continuing to report its year-end, and other regular reports, using a more detailed reporting structure, as this allows more analysis of the year-over-year (YOY) results. The greater financial detail at the program level is also welcome.

Lack of Service Measures

ICBC continues to report changes to its fiscal year finances without any detail as to the actual number of policies sold, the number of claims or the cost per claim. These and other service measures would provide the reader with a more complete picture of the degree of changes which occur in revenues and expenditures.

Unfortunately, ICBC did not include the program level minimum capital test (MCT) ratio in the annual report. One must refer to the March 2024 financial summary for this key industry measure of capital stability.

1.0 Comparison of 2023/24 Actuals to Prior Year

Table 1 summarizes aggregate revenue and expenditure categories for 2023/24 compared to the previous year. The net income was almost $1.4 billion greater than the previous year due to a $1.1 billion increase in investment income. The net income would have been approximately $400 million higher had the government not ordered ICBC to institute a rebate which is being paid in the current year but charged to 2023/24.

An increase of $868 million (23.9%) in current year claims costs was mostly offset by a $698 million reduction in the YOY provision for prior year claims.

TABLE 1 – ACTUAL 2022/23 to PRIOR YEAR ($=million)

	2022/23	2023/24	Change	Per Cent
Revenue				
Net Premiums	5,304	5,672	362	6.8
Rebates/Refunds	0	(398)		n/a
Net Prem. Earned after Rebates	5,304	5,274	(30)	(0.6)
Service Fees and Other	117	198	87	74.3

[3] https://www.canadianunderwriter.ca/insurance/how-ifrs-17-changes-the-language-insurers-must-use-1004249323/ and https://www.canadianunderwriter.ca/earnings-ratings/why-insurers-combined-ratios-under-ifrs-17-cant-be-compared-in-2024-1004245390/

Investment Income	312	1,427	1,115	457.4
Claims - Current	3,626	4,101	475	13.1
Prior Years	278	(708)	(986)	n/a
Total	3,904	3,393	(511)	(13.1)
Other Costs	1,533	1,936	403	26.3
Non-Insurance Costs	162	172	10	6.2
Net Income	**134**	**1,398**	**1,084**	**445.2**
Equity	**4,052**	**5,508**	**1,456**	**35.9**
MCT	**110%**	**115%**	**5%**	**4.5**
Discount Rate - 5yr	**4.75%**	**4.89%**		

Source: 2022/23 restated from February 2024 service plan; 2023/24 from annual report of estimated based on February 2024 service plan forecast.

The investment income rebounded from the depressed level of the prior year, which was significantly lower than normal due to a decline in the fair value of ICBC's fixed income and equity investments. The growth of $1.11 billion was primarily due to a rise of $839 million in the market value of the investments.[4]

An increase of $868 million (23.9%) in current year claims costs was mostly offset by a $698 million reduction in the YOY provision for prior year claims. The 24% increase in the cost of current year claims is of concern. Most of the increase is the result of higher material damage costs (see Section 4).

The sharp increase in the adjustment for prior year claims is of note because ICBC reported a negative adjustment for the previous year as shown in Table 2.1. The calculation of the provision for prior years claims has been highly volatile for the last five years.

TABLE 2.1 – PRIOR YEARS CLAIMS ADJUSTMENT ($=million)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Basic	718	757	(127)	(156)	(135)	(393)
Optional	443	422	(240)	(274)	413	(315)
Combined	1,161	1,179	(367)	(430)	278	(708)

Source: ICBC annual reports.

[4] ICBC 2023/24 annual report, p. 32.

2.0 Comparison of 2023/24 Actuals to Budget

The comparison of the 2023/24 actuals to the service plan budget is summarized in Table 2. The premium revenue before the rebate was only slightly higher than the budget, but investment income showed a marked increase. ICBC stated that it had budgeted the investment income expecting a continued market downturn. Instead, the equity markets rebounded with an 8% investment return.[5]

Despite current year claims costs were 4.3% ($183 million) lower than the budget estimate, while the adjustment for prior year claims costs was minus $157 million (a positive result) more than the budget. A significant increase in material damage claims costs was offset by enhanced care (injury) costs being less than budgeted.[6]

TABLE 2 – ACTUAL 2023/24 to BUDGET ($=million)

		Budget	Actual	Change	Per Cent
	Net Premiums Earned	5,598	5,672	74	1.3
	Rebate	0	(398)		
	Reported NPE	5,598	5,274	n/a	
	Service Fees and Other	180	198	14	10.0
	TOTAL	5,778	5,472	n/a	
	Investment Income	134	1,427	1,293	
	Claims – Current	4,284	4,101	(183)	(4.3)
	Prior Years	(551)	(708)	(157)	(28.5)
	Total	3,733	3,393	(340)	(9.1)
	Other operating Costs	2,005	1,936	(69)	(3.4)
	Non-Insurance Costs	174	172	(2)	(1.1)
	Net Income	**0**	**1,398**	**1,398**	
	Equity	**4,052**	**5,558**	**1,506**	**37.2**

Source: ICBC 2023/24 annual report, p. 21 and 23.

3.0 Comparison of 2023/24 Actuals to the 2024/25 Budget

Table 3 compares the 2023/24 actuals to the February 2024 service plan budget for 2024/25. Based on the 2023/24 actual results ICBC appears to have underestimated the

[5] Annual report p. 31.

[6] Ibid. p. 26.

current year investment income. ICBC appears have over-estimated the premium revenue, which is up 8% when rates are frozen for the current year.

The 2023/24 report suggests that the 2024/25 net income should be in the range of $400 to $600 million, depending on the actual performance of the investment markets.

TABLE 3 – ACTUAL 2023/24 RESULTS to 2024/25 BUDGET ($=million)

		A2023/24	B2024/25	Change	%Δ
	Net Premiums Earned including 2023/24 rebate	5,672	6,126	454	8.0
	Service Fees and Other	198	224	26	13.1
	Investment Income	1,427	370	(1,057)	(74.0)
	Claims - Current	4,101	4,978	877	21.4
	Prior Years	(708)	(575)	133	18.8
	Total	3,393	4,403	1,010	29.8
	Other Costs	1,936	2,126	190	9.8
	Non-Insurance Costs	172	191	19	11.0
	Net Income include rebate	**1,796**	**0**	**(1,796)**	**n/a**

Source: Actual from Table 1 with rebate added back to 2023/24 for comparative purposes; Budget from ICBC February 2024 service plan, p. 19.

The Q1 forecast for the current year will be released in a few weeks. This will provide the first forecast of the 2024/25 year-end position. Unfortunately, ICBC does not provide any breakdown of the components of the forecast, which makes it difficult to understand the assumptions behind forecasted net income.

4.0 Program Level Key Data

The following summarizes key Basic and Optional program data from ICBC's March 2024 financial summary.[7]

4.1 Revenue

Including the $398 million rebate, Basic revenue increased by almost 2%, reflecting growth in policies earned and an increase in the average value of vehicles. Optional revenue rose by 14.6%, indicating a general price increase. The "Other Revenue" is primarily interest charged on term instalment premiums which increased with higher interest rates.

[7] https://icbc.com/assets/en/5k1dztqESqzZsFpkf2eSWN/StmtOps-Mar24.pdf

TABLE 4.1—REVENUE by PROGRAM ($=million)

	---------BASIC-----------			-----OPTIONAL--------		
	2022/23	2023/24	Per Cent	2022/23	2023/24	Per Cent
Net Prem. Earned	3,187	3,246	1.9	2,117	2,426	14.6
Exclude Rebate	3,187	2,848	n/a	2,117	2,426	14.6
Other Revenue	70	111	58.6	47	87	85.1
Investment Inc.	207	985	475.8	105	442	421.0

4.2 Claims Costs

Table 4.2 shows that current year Basic claims costs increased by 10% over the prior year. The decline in the provision for claims costs for prior years lowered the total 2023/24 basic claims costs by 2.7%.

Optional current year claims costs climbed 17.1% compared to the previous year, but a massive positive swing in the adjustment for prior years costs (primarily due to lower injury claims costs) lowered the total claims costs by 23%.

The primary driver for the increased current year claims costs was Basic and Optional material damage claims, which increased by approximately 16%.[8] The increase in the cost of material damage claims is consistent with this cost in other jurisdictions.

TABLE 4.2—CLAIMS COSTS by PROGRAM ($=million)

	---------BASIC-----------			-----OPTIONAL--------		
	2022/23	2023/24	Δ %	2022/23	2023/24	Δ %
Current Year	2,056	2,262	10.0	1,570	1,839	17.1
Prior Years Adj.	(135)	(393)	291.1	413	(315)	n/a
Total	1,921	1,869	(2.7)	1,983	1,524	(23.0)

4.3 Net Income, Equity and MCT

The increase in the net income resulted in a significant increase in the Basic and Optional equity. The Basic equity rose by $979 million (31.6%), while the Optional equity rose by $477 million (50.1%).

[8] 2023/24 annual report pp 26 to 28.

The Basic MCT as of 31 March 2024 was 173%, well above the old tort-based management target of 145%. The surplus capital is in the order of $650 million. The Optional MCT of 118% is a significant improvement from recent years.

TABLE 4.3—NET INCOME, EQUITY AND MCT by PROGRAM ($=million)

	---------BASIC-----------			-----OPTIONAL--------		
	2022/23	**2023/24**	**Per Cent**	**2022/23**	**2023/24**	**Per Cent**
Net Income	643	939	46.0	(509)	460	n/a
Equity	3,100	4,079	31.6	952	1,429	50.1
MCT	129%	173%	34.1	70%	118%	68.6

Source: Equity from 2023/24 annual report p. 23.

Observations

Last fiscal year ICBC's finances benefited from a rebound in financial markets which resulted in a jump in investment income. A worrisome increase in material damage claims costs was offset by a further reversal in the provision for claims costs arising from previous years claims.

Neither of these positive developments are likely to occur in the current year. However, based on the 2023/24 results, ICBC's budget for the current year would appear to understate the net income.

The fourth quarter (March 2024) financial summary should be included with the annual report to avoid searching two sources.

The Basic capital target should be reduced to an MCT ratio of 100%, to mirror that of the Manitoba Public Insurance and better reflect the no-fault liability model. This would eliminate an unnecessary cost pressure on Basic rates. It would also avoid policyholder anger about over-charging for the no-fault insurance, similar to that expressed by employers about the WorkSafe BC surplus.[9]

 https://www.bcpolicyperspectives.com/

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 is an intervener in the BC Utilities Commission's reviews of ICBC's and BC Hydro's rate requests.

[9] https://vancouversun.com/news/worksafebc-should-return-2-billion-surplus