

ICBC FILES 15 PERCENT GENERAL REDUCTION REQUEST FOR COMPULSORY BASIC PROGRAM

On 15 December 2020, ICBC filed its Basic rate request with the BC Utilities Commission (BCUC).¹ The highlights of the request include:

- A 15% general reduction in Basic rates beginning 1 May 2021,
- A 23-month term spanning 1 May 2021 to 31 March 2023,
- Extending the 2020 policy year by one month until 30 April 2021,
- Dedicating the equivalent of an 11.5% rate reduction to rebuilding the Basic capital reserve, and
- Cabinet orders on specific items.

The filing follows an announcement on 14 December 2020 by minister responsible Mike Farnworth, where he announced that ICBC policyholders who buy the compulsory Basic and the Optional coverage can expect a 20% (or \$400) average savings.² The savings, originally announced on 6 February 2020, are the result of adopting the no-fault/enhanced care liability model. The no-fault model severely limits suits against the at-fault driver, including a ban on financial compensation for pain and suffering (general damages). The resulting savings in injury claims costs have been redirected to improving the financial limits on care and rehabilitation, to rebuilding the capital reserves and to reducing the price of the enhanced coverage.

Components of the Savings

The average combined \$400 savings (after the capital rebuild) is composed of a \$150 savings on Basic insurance and \$250 saved on the Optional coverage. The amounts are estimated for a 12-month policy year in millions of dollars (ICBC does not release data on the number of Optional policies):

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| a) Initial Basic Reduction of 26.5% | approx. \$970 (assume 3.57 million policies*) |
| b) Less Capital Rebuild of 11.5% | approx.(\$420) |
| c) Net Basic Reduction of \$150/policy | approx. \$550 |
| d) Optional Reduction of \$250/policy | approx. \$680 (assume 2.7 million policies) |

* excludes trailers and off-road vehicles

¹ <https://www.icbc.com/about-icbc/company-info/Documents/bcuc/2021-revenue-requirements-app.pdf>

² <https://news.gov.bc.ca/releases/2020PSSG0066-002038>

Government Orders Regulator to Approve New Enhanced Care Components

By cabinet orders (OIC 631/20 and OIC 633/20) of 14 December 2020, the BCUC was ordered to approve the key tariff-related components of the new no-fault/enhanced care model.³ These changes include the rebate arrangement for policyholders whose coverage overlaps with the lower rates being proposed.

Normally, the BCUC would have discretion over such matters, but the government was not open to any changes in its new and complex legislative and regulatory system for the no-fault/enhanced care scheme.

The government also ordered that the rates would remain in effect for a 23-month period, which means that there will be no opportunity for the regulator and interveners to review the compulsory Basic program until 2023.

ICBC Submission Lacks Context

The ICBC submission lacks context in three fundamental ways. It does not provide the complete picture for the vast majority of BC policy owners who purchase Basic and Optional coverage from ICBC, and it does not compare the planned budget to projected actual revenue and costs.

Historically, ICBC has resisted any attempt to extract information on the Optional program due to competitive concerns. Essentially, the fear was that disclosing the number of policies sold or the claim statistics would lessen its competitive advantage with the private insurers. However, the switch to the no-fault model will probably result in a major shrinkage of the Optional 3rd party liability market, and eliminate the concern about protecting market share.⁴ ICBC's submission is deficient because of the focus on only the compulsory product.

The submission provides a comparison of planned revenues and expenditures for the 23 months from 1 May 2021 to 31 March 2023 with the budgets for 2020/21 (not reviewed by the BCUC) and for the 2019/20 fiscal years.⁵ It does not provide any forecast of actual revenue and expenditure for the current year for comparison. ICBC believes that the proper comparison is to the previous approved rate request (essentially the budget),

³ Three orders were signed on December 14, 2020:

https://www.bclaws.gov.bc.ca/civix/document/id/oic/oic_cur/0633_2020

https://www.bclaws.gov.bc.ca/civix/document/id/oic/oic_cur/0632_2020

https://www.bclaws.gov.bc.ca/civix/document/id/oic/oic_cur/0631_2020

⁴ Intact Financial has announced that it is leaving the BC auto insurance market.

⁵ ICBC has yet to release its second quarter financial results to 30 September 2020.

and not to the forecast actual results. Both comparisons would aid in any review of the request (the budget) for the coming period.

The Submission is Silent on the Capital Reserve

The government ordered ICBC (and by extension the BCUC) to redirect some of the savings from switching to the no-fault/enhanced care model to rebuilding the Basic capital reserve. The submission includes funding over the 23-month period of \$145.7 million to maintain the capital, as well as \$798.8 million to rebuild the capital reserve buffer.⁶

Unfortunately, the submission does not provide a forecast of the capital position for year-end for 2020/21, for 2021/22 or for 2022/23. Given that the cabinet specifically ordered the rebuild, one would have expected ICBC to discuss the rebuild in some detail as a major benefit of the claims cost savings resulting from the no-fault model.

Perhaps the government was concerned that publicizing the forecast capital position would limit its options respecting a possible COVID-19 rebate for 2020/21? But since the capital maintenance and the rebuild will be achieved through operating profits (retained earnings), and through an increase in the value of assets, policyholders should be warned that significant operating profits are planned in the compulsory program.

Summary

The 23-month Basic rate change filing will present the BCUC with several challenges in determining of the rate are just and reasonable. The 15% reduction in the rates equates to an average \$150 savings per policy, but the dollar impact will be much greater for young (inexperienced) drivers and those with one or two accidents on their record. The major savings will occur in the Optional program, but no information is provided on this major component of the ICBC operation.

One hopes that the coming BCUC review of the Basic rate request will extract much more information on the structure and costs of the new no-fault/enhanced care model of auto insurance in this province.

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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 was an intervener in the BC Utilities Commission's recent reviews of ICBC's and B.C. Hydro's rate requests.

⁶ <https://www.icbc.com/about-icbc/company-info/Documents/bcuc/2021-revenue-requirements-app.pdf> Chapter 3, Appendix A.1 Pdf 123/849.

