

TAXPAYER FEDERATION'S CALL FOR A COVID-19 REBATE MISPLACED

The spokesperson for the BC branch of the Canadian Taxpayers Federation (CTFBC) continues to call on the government to order ICBC to follow the lead of other auto insurers and provide a COVID-19 premium rebate. The taxpayers federation says the reduction in claims costs ICBC is achieving because of the drop in crashes and injury claims must be returned to policyholders.¹

The CTFBC advocacy for a COVID-19 rebate is part of a larger campaign to generate public support to force the government to end the ICBC monopoly over the sale of Basic auto insurance.² The CTFBC states that other private auto insurers in Canada have provided some rebates, yet ICBC's expensive and inefficient monopoly precludes this option. If the private insurers could compete for the Basic business, it argues, then the ratepayers would benefit through lower prices (and the occasional windfall).³

Is ICBC Enjoying Windfall Savings?

There is no question that ICBC has seen lower claims costs due to fewer vehicles on the road for the last number of months. In a distorted report released in mid-May, ICBC admitted that from mid-March to May 2nd new claims dropped by 46%.⁴ It argued that policy cancellations and coverage changes negated most of the savings. It presented the worst case scenario, as no allowance was made for policyholders re-activating their policies as restrictions were loosened. This is what is now happening, as evidenced by almost normal (pre-pandemic) vehicle traffic on the roads.⁵

We have been promised a new COVID-19 impact summary on ICBC's finances sometime in late September or early October. This may be released in conjunction with ICBC's minimalist first quarter financial summary.

¹ https://www.insurancebusinessmag.com/ca/news/auto-motor/taxpayer-advocacy-group-says-bc-drivers-need-auto-insurance-rebates-now-232700.aspx?utm_source=GA&utm_medium=20200904&utm_campaign=IBCW-MorningBriefing-20200904&utm_content=D983809D-3C18-4C3F-B2CB-4900E2C97173&tu=D983809D-3C18-4C3F-B2CB-4900E2C97173

² <https://www.vancouverislandfreedaily.com/opinion/opinion-reformed-or-not-icbc-is-still-a-monopoly-why/>

³ <https://w7news.com/b-c-taxpayers-federation-acts-against-car-insurance-monopoly/>

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_covid_19_impact_report_19_may_2020/pdf/commentary_icbc_s_covid_19_impact_report_19_may_2020.pdf

⁵ It was just reported that the bridges in greater Vancouver are recording almost normal traffic patterns; <https://vancouver.sun.com/news/covid-19-bridge-traffic-on-the-rise-in-metro-vancouver>

Taxpayer Federation Argument Puts Taxpayers at Greater Risk

The argument that ICBC should pass on the windfall COVID-19 claims savings to hard-pressed policyholders is intuitively correct – if ICBC could afford to do so. But because the previous Liberal government politicalized the rate-setting process by allowing costs to escalate much faster than premium revenues, ICBC’s policyholders have seen their once healthy capital reserves evaporate.

In 2014, as claims costs began to rapidly increase, the government ordered the BC Utilities Commission to limit Basic rate increases to a maximum increase of 1.5% over the increase of the previous year. It did little to restrict coverage and was the only Canadian province to retain the full tort liability model. From FY2014 to FY2018/19, total claims costs (including adjustments for prior years claims) increased from \$3.1 billion to \$6.5 billion. During these four years the policyholders’ equity (the capital reserve for adverse events) dropped from a healthy \$3.6 billion to practically zero.

Yet the Taxpayers Federation (and the Liberal party ICBC critic⁶) ignore the fact that ICBC has no capital buffer, thereby significantly increasing the risk of a taxpayer bailout to pay of outstanding claims. In fact, as of year-end 31 March 2020, ICBC reported negative equity of \$547 million.⁷ It also reported that unpaid claims had climbed to approximately \$16.0 billion, and increase of almost 100% in five years.

Other major private auto insurers must maintain significant capital reserves as a buffer for adverse financial events. If their capital reserve were to fall below a federally-regulated level, they would be in danger of being taken over by the federal regulator. The publicly owned insurers in Saskatchewan and Manitoba have avoided the worst excesses of political control and have maintained healthy capital reserves. The politicians in this province are much more prone to interfering in the rate-setting process of the public auto insurer than are their counterparts in Saskatchewan and Manitoba.

The Subsidized Rates Shell Game

In the last few years BC drivers/policyholders have paid rates that were below the level required to cover costs. In effect, they have been enjoying rate windfalls for the last five or so years. The irony is that the lower rate windfalls have been financed by the policyholders’ accumulated equity.

The CTFBC, and others who are pressing for a COVID-19 rebate, appear to disregard the fact that granting a rebate will likely make the financial (equity) hole that much deeper. This increases the risk of a taxpayer subsidy or other form of bailout for the corporation.

⁶ <https://www.iheartradio.ca/580-cfra/icbc-to-release-date-on-how-pandemic-is-affecting-bottom-line-1.12407956>

⁷ If the effects of the drop in equity markets in March were excluded, the negative equity would have been closer to \$230 million.

Operating with low or negative equity is in itself a subsidy for the Optional program, which must compete with private insurers who are required to maintain a significant capital reserve.

More Fruitful to Press for More Accountability

The CTFBC would better serve the driving public by demanding less political interference in the operation of ICBC. It should also press for ICBC to be more transparent and accountable to its policyholders and the public by reporting on key service and performance measures that relate to revenues and expenditures. These should include the number and type of policies sold and the number, type, and average cost of claims.

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