

**NEW FRASER INSTITUTE PAPER ON ICBC**

On November 15<sup>th</sup> the Fraser Institute released a paper by Dr. John Chant relating to ICBC's Basic insurance costs and premiums. Entitled "Understanding Why Basic Auto Insurance Rates in BC Are So High," the paper<sup>1</sup> follows the Institute's paper by the same author released on April 5, 2018.<sup>2</sup>

Media commentary has focusses on Dr. Chant's criticism of ICBC's lack of data transparency and justification to support the August rate design changes. This is a positive development. However, many aspects of the Chant paper are either out of date or highly questionable.

**Confused Finances**

The author says that the financial losses "can be traced to two government policies: the requirement that ICBC transfer funds to the government and government directive IC2of 2013 that imposed a cap of 1.5% on ICBC's annual rate increases."<sup>3</sup> While the limitation on the growth in Basic rates has resulted in a large gap between Basic program revenues and expenditures, the capital transfer only affected the formerly profitable Optional program.

Dr. Chant ignores the huge increase in claims costs, particularly the claims costs for pain and damages claimed under the full tort scheme used in B.C.<sup>4</sup> These cost increases are a major reason for the recent massive losses experienced by ICBC.<sup>5</sup> The new coverage changes seek to reduce costs by capping minor injury claims for pain and suffering, and reduce litigation costs by enhancing the coverage limits for the no-fault accident benefits.

**Misunderstanding of Accident Benefits**

The author seems to misunderstand the purpose of the no-fault Part 7 accident benefits by suggesting that the payments for medical and rehabilitation costs, wage loss, home

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<sup>1</sup> <https://www.fraserinstitute.org/sites/default/files/understanding-why-auto-auto-insurance-rates-in-bc-are-so-high.pdf>

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_fraser\\_institute\\_chant\\_report\\_on\\_icbc\\_11\\_april\\_2018/pdf/commentary\\_fraser\\_institute\\_chant\\_report\\_on\\_icbc\\_11\\_april\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_fraser_institute_chant_report_on_icbc_11_april_2018/pdf/commentary_fraser_institute_chant_report_on_icbc_11_april_2018.pdf)

<sup>3</sup> Ibid. p. 1.

<sup>4</sup> B.C. is the only province that allows unlimited claims for pain and suffering.

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_60\\_28\\_august\\_2018/pdf/occasional\\_paper\\_no\\_60\\_28\\_august\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_60_28_august_2018/pdf/occasional_paper_no_60_28_august_2018.pdf)

care and death benefits are some form of add-on benefit. In fact, these are the primary pecuniary costs incurred by those injured in a crash.

The caps on the individual payments, such as the \$300/week for wage loss, had not been increased since 1991. The result was many more injured claimants sought legal representation and litigated claims to recoup the difference in the out-of-pocket costs. It is likely that this limitation resulted in more claims for pain and suffering than would have been filed if the coverage limits were high enough to reimburse the full pecuniary cost.

The author is apparently unaware that ICBC, not the Medical Service Plan, ultimately pays for medical and rehabilitation costs. Recent changes now provide a form of subrogation respecting private insurers.

Dr. Chant believes that the Part 7 benefits should be excluded from the Basic compulsory product; “some motorists may value the benefits of Part 7 coverage and should have the opportunity to purchase optional insurance beyond basic coverage to protect themselves against these perils. Were this coverage to become optional, they may be able to gain coverage on more favourable terms from the private insurance companies that compete with ICBC for optional insurance.”<sup>6</sup>

To suggest that the no-fault accident benefits be considered as additional or optional insurance is to completely misunderstand the fundamental nature of these coverage features. The government is actually increasing the scope and the monetary limits of the Part 7 no-fault benefits as part of the new coverage changes.

### **Non-Insurance Costs**

Dr. Chant assumes that road safety programs, driver testing and licensing, vehicle registration and fine collection should be paid by the government. I have suggested the same for some of these costs. The vehicle registration is a fundamental component of ICBC’s vehicle-based insurance system, and only some of the road safety costs should be paid by the government.

The government continues to ignore this subsidy to the government by Basic policyholders.

### **Rate Design Fairness**

Dr. Chant appears to support the government’s decision to redesign the Basic rate calculation formula to impose higher costs on inexperienced (primarily young) drivers and those who caused a crash. This development more closely aligns ICBC with private

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<sup>6</sup> <https://www.fraserinstitute.org/sites/default/files/understanding-why-auto-auto-insurance-rates-in-bc-are-so-high.pdf> p. 4.

insurers. He correctly criticizes the lack of information provided by ICBC respecting differential impacts of various design options, and the absence of data on current costs.<sup>7</sup>

The author developed a summary of differential premium costs by various age groups to demonstrate that older drivers (policyholders?) pay more than their risk would suggest while younger drivers pay less. But the matter is moot because the complex rate design changes announced in August fundamentally changed the relative proportion of revenue received from low-risk and higher-risk drivers.

The claim is made that the new rate design adds \$100/year to the cost of insurance for those with less than 10 years experience, but the source of this number is unclear. The new design is far more complex and incorporates many questionable assumptions than is suggested by the paper.

## Summary

In April 2018 I suggested that the first paper by Dr. Chant on ICBC's finances was too late and too confusing to add to the public discussion on how to reform the operation of our public insurer.

The same general comment applies to this paper. The Fraser Institute should invest more time and energy to fully understand how auto insurance is currently structured, and why ICBC's coverage and rate design changes are necessary—but are they sufficient to restore its financial health?

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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 both ICBC's and BC Hydro's rate requests.

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