

ICBC REPORTS MASSIVE INCREASE IN PROFITS: REBOUND IN INVESTMENTS AND DROP IN CLAIMS COSTS EXPLAIN IMPROVEMENT

On 28 July 2021, the government released its financial statements and the audited public accounts for the fiscal year ending 31 March 2021. The government also released the financial statements for the “self-supporting” Crown corporations, including ICBC.¹ Unlike previous years, ICBC has not released its 2020/21 annual report, therefore we do not have the benefit of their explanation for the results.

The financially troubled public auto insurer reported a major improvement in its finances with a combined Basic and Optional net income of \$1.538 billion (versus a loss of \$375 million in the prior year), and equity now at \$1.87 billion (compared to negative equity of \$547 million in the prior year).

Background

During the last four years to 2019/20, ICBC reported a cumulative \$3.46 billion in operating losses, which eliminated some \$2.45 billion in capital (equity) reserves. Rapid increases in injury claims costs were not matched by increases in premium rates, because of a deliberate government policy to use accumulated equity to subsidize the rates. In 2019, the government substituted the hybrid-tort liability system (and a civil claims resolution process for smaller value claims) for the tort model. The hybrid-tort limited minor injury pain and suffering claims to a maximum of \$5,500. This change was still in place for 2020/21 and resulted in lower claims costs.

As of 1 May 2021, the government legislated a no-fault/enhanced care liability scheme modelled on the system in place in Manitoba. This model eliminates practically all payments for pain and suffering, with the claims savings be used to enhance the coverage benefits and lower the premium for 2020/21 and beyond.

The COVID-19 Impact

The financial results for the 2020/21 fiscal year were severely affected by the efforts to combat the COVID-19 pandemic. Claims costs were well below normal levels. ICBC

¹ <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2020-21/sup-e/insurance-corporation-of-bc-fs-2020-21.pdf>

reported that crashes were approximately 30% fewer in the first six months, and 20% fewer in the second half of the year.²

The government ordered ICBC to provide a total of \$900 million in two rebates for those with Basic and Optional policies in force for the year. Based on the year-end results it appears that while most of the windfall claims savings were rebated to policyholders, a re-evaluation of the cost of prior years claims was retained to boost the net income and the equity.

As a result of the market reaction to the social restrictions to combat the pandemic, the value of ICBC's investments was abnormally reduced in March 2020. This lowered the base year for comparisons of net income and the capital (equity) reserve. The 2020/21 results reflect an improved valuation of ICBC's equity investments.

The Combined Picture

As noted earlier, the combined Basic and Optional programs reported net operating income of \$1.54 billion, an increase of \$1.9 billion over the \$376 loss in the prior year. Table 1 shows the components of the revenue and expenditures.

TABLE 1 – COMBINED RESULTS to PRIOR YEAR (\$=million)

	2019/20	2020/21	Difference	Per Cent
Net Prem. Earned after Rebates	6,286	5,377	(905)	(14.5)
Service Fees and Other	148	144	(4)	(3.1)
Investment Income	1,058	1,018	(40)	(3.8)
Impairment	(317)	(7)	310	n/a
Total	741	1,011	270	36.4
Claims - Current	4,728	3,708	(1,020)	(21.6)
Prior Years	1,180	(367)	(1,547)	n/a
Total	5,908	3,341	(2,567)	(43.5)
Other Costs	1,509	1,517	8	0.5
Non-Insurance Costs	134	136	2	1.5
Net Income	(376)	1,538	(1,914)	n/a
Equity	(547)	1,868	2,415	n/a
MCT	(30)	est 56		

² <https://news.gov.bc.ca/releases/2021PSSG0052-001134>

Source: <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2020-21/sup-e/insurance-corporation-of-bc-fs-2020-21.pdf> pp. 9-10.

The combined \$900 million in rebates returned most of the \$1.02 billion reduction in current year claims. The net gain in the re-evaluation of the prior years claims and the improvement in the net investment income explains most of the improvement in the net income compared to the prior year’s results. The large increase in the estimate for prior years claims in the last few years was the main reason for the large losses that ICBC recorded from 2016/17 to 2020/21

Equity Grows to \$1.87 Billion

As of 31 March 2020, ICBC recorded negative equity of \$547.4 million; essentially ICBC was insolvent. The rebound in the net income, and an increase in the market value of ICBC’s investment assets (especially the equity assets) boosted the combined equity to approximately \$1.87 billion as of 31 March 2021.

Of the total equity, \$1.23 billion was attributed to the compulsory Basic program, and \$640 million to the Optional program. ICBC did not provide the Minimum Capital Test (MCT) ratio, therefore I have estimated the Basic program at 68%, and the Optional MCT at 50%.

These MCT ratios are still well below the regulatory minimums that were in effect until the government suspended the regulation some four years ago. Private insurers and the public auto insurers in Saskatchewan and Manitoba have much higher equity reserves.

Comparison to the April 2021 Forecast

On 20 April 2021, ICBC released its forecast for the 2020/21 fiscal year as part of its three-year service plan.³ Table 2 compares the April forecast with the actuals. Note that the April forecast did not include the second COVID-19 rebate of \$350 million, which I have subtracted from the net premium earned to provide a proper comparison with the actual premium earned, which included the \$350 million rebate.

TABLE 2 – COMBINED RESULTS to APRIL 2021 FORECAST (\$=million)

	2019/20	2020/21	Difference	Per Cent
Net Prem. Earned after Rebates	5,258*	5,377	119	2.3
Service Fees and Other	142	144	2	1.4
Investment Income	918	1,018	100	10.9

³ <https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2021-2024.pdf>

Impairment	--	(7)	(7)	n/a
Total	918	1,011	93	10.1
Claims - Current	4,528	3,708	(820)	(18.1)
Prior Years	(242)	(367)	(125)	n/a
Total	4,286	3,341	(945)	(22.0)
Other Costs	1,538	1,517	(21)	1.4
Non-Insurance Costs	135	136	1	0.7
Net Income	359	1,538	1,179	328.4
Equity	1,047	1,868	821	n/a
MCT	est 32	est 56		

Source: Table 1 plus <https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2021-2024.pdf> pp. 21/22. Note that ICBC no longer publishes the MCT forecast in its service plan.

It would appear that in its April 2021 service plan forecast ICBC significantly underestimated the net income and the equity. ICBC had forecast that current and prior years claims costs would total approximately \$4.3 billion, while the actual costs were \$3.3 billion. The service plan forecast a combined net income of \$359 million (after subtracting the second rebate of \$350 million), while the actual was some \$1.18 billion higher. The difference was lower claims costs of \$945 million, \$119 million in higher premium revenue, and some \$93 million in more investment income.

One must question why ICBC's claims estimating was so high as of the 20 April 2021 service plan.

Unfortunately, unlike previous years, ICBC has not published its 2020/21 annual report to accompany the consolidated financial statements. This avoids public scrutiny about the reason for the results, and an explanation for the poor forecasting of claims costs. Nevertheless, the results for 2020/21 represent a significant improvement over the major losses of recent years.

©Richard McCandless July 29, 2021. <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 recent reviews of ICBC's and B.C. Hydro's rate requests.

