

ICBC REPORTS MAJOR PROFIT INCREASES IN BOTH THE BASIC AND OPTIONAL PROGRAMS

On 6 September 2022, I distributed a review of ICBC's 2021/22 financial results at the corporate level.¹ This commentary focuses on the financial results at the program level, comparing the results for 2021/22 with the prior year. ICBC includes a single half page financial summary (in very small print) of the financial results at the program level, but no program-based discussion of the results.

ICBC's annual report does not provide any detailed service measures relating to policies sold or claims received or paid. The lack of service measures makes a detailed assessment of the financial results difficult, as the financial information provides only part of the picture. The financial results show what happened, but not why it happened. Because the Basic insurance program is compulsory one would expect ICBC to be more accountable for the operation of this program.

I Transition Year

On 30 August 2022, the government allowed ICBC to release its 2021/22 annual report.² The 2021/22 year was remarkable for two related reasons; the change to a no-fault (Enhanced Care) liability model, and a historic high of \$2.2 billion in net income.

As of 1 April 2019, the government legislated a hybrid-tort liability model, where pain and suffering payments for minor injury claims were limited to \$5,500, and the resulting savings were used to increase benefits and allow ICBC to record a \$1.5 billion in combined profits in 2020/21.

As of 1 May 2021, the legislated no-fault liability model was instituted. Under this model most pain and suffering claims were prohibited, and the resulting savings were used to further enhance benefits, and to rebuild the capital reserves. The 2021/22 fiscal year includes one month of claims under the hybrid-tort model, and 11 months under the no-fault model.

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_historic_year_6_sept_2022/pdf/commentary_icbc_s_historic_year_6_sept_2022.pdf

² <https://www.icbc.com/about-icbc/company-info/Documents/ar-22.pdf>

II Comparison of Actual Basic Results to Budget

The 2021/22 annual report provides very limited financial information about the compulsory Basic and the Optional programs. A comparison to the budget for these programs is not possible as ICBC does not present this information in its service plan. This lack of a program budget limits proper accountability.

The comparison to the prior year actuals is of limited value for premiums earned and current year claims because of the change to the no-fault model for most of the 2021/22 fiscal year.

III Basic Compulsory Program

The Basic program ended the 2021/22 fiscal year with a net income (profit) of \$2,217 million, compared to a profit of 1,538 million in the prior year. For 2021/22, the government required the BCUC to approve a net 15% rate decrease for the compulsory Basic program. With the change to the no-fault/enhanced care model, ICBC forecast that a 26.5% reduction was possible, but the government allowed it to retain 11.5% to rebuild the depleted capital reserve.

Table 1 shows that the primary reasons for the \$376 million positive swing in net income compared to the previous year were the improvement in investment income (\$286 higher) and a \$352 million reduction in current and prior year claims costs. These positive results were partially offset by a \$200 million reduction in net premiums earned and other income.

TABLE 1 – BASIC INSURANCE FINANCIAL SUMMARY (\$=million)

| | 2020/21 | 2021/22 | Change | Per Cent |
|-----------------------------|--------------|--------------|--------------|---------------|
| REVENUE | | | | |
| Net Premiums Earned* | 2,945 | 2,754 | (191) | (6.5) |
| Fees and Other | 83 | 74 | (9) | (10.8) |
| TOTAL Earned Revenue | 3,028 | 2,828 | (200) | (6.6) |
| Investment Income | 696 | 982 | 286 | 41.1 |
| EXPENDITURE | | | | |
| Claims -Current | 2,172 | 1,849 | (323) | (14.9) |
| Prior Years | (127) | (156) | (29) | (22.8) |
| Total Claims | 2,045 | 1,693 | (352) | (17.2) |
| Claim Service/Loss Man. | 299 | 331 | 32 | 10.7 |
| Administration | 123 | 138 | 16 | 12.2 |
| Taxes and Commissions | 194 | 194 | 0 | 0 |

| | | | | |
|-------------------|--------------|--------------|--------------|-------------|
| | | | | |
| Non-Insurance | 136 | 152 | 16 | 11.8 |
| NET INCOME | 926 | 1,302 | 376 | 40.6 |
| | | | | |
| EQUITY | 1,228 | 2,274 | 1,046 | 85.2 |
| MCT (est) | 60 | 103 | 43 | 71.7 |
| | | | | |

Note * excludes rebates

Source: ICBC 2021/22 annual report p. 73/75, Pdf

The net premiums earned did not decline by the 15% rate reduction, which was applicable for 11 months from May 2021 to March 2022. The amounts reported are net of the \$950 million 2020/21 rebate and the \$396 million 2021/22 rebate. If the rebates are added back the year to year decrease is about 19%.

Investment income was higher than the prior year due to an increase in value of its equity portfolio. ICBC reported an overall investment return of 7%, compared to a 5.1% return for 2020/21.³

Current year claims costs were almost 15% lower than the prior year's total. This reflects the change to the no-fault/enhanced care model. Table 1A shows the estimated costs of Basic injury claims (28.8% lower) and the property damage claims (37.6% higher) compared to the prior year. The increase in property damage claims reflects the increase in vehicle traffic to almost pre-pandemic levels.

The lower provision for prior years claims costs is the second year where ICBC has reduced the claims reserve. Table 2 shows the previous four years, where ICBC reported a cumulative increase of \$1.57 billion in adjustments for claims costs (primarily injury claims costs).

TABLE 2 – PRIOR YEARS CLAIMS ADJUSTMENT (\$=million)

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|-----------------|---------|---------|---------|---------|---------|
| Basic | 218 | 718 | 757 | (127) | (156) |
| Optional | 341 | 443 | 422 | (240) | (273) |
| Combined | 1,059 | 1,161 | 1,179 | (367) | (429) |

Source: ICBC annual financial reports.

The Minimum Capital Test (MCT) estimate of 103% is based on information provided by ICBC during the last BC Utilities Commission (BCUC) rate review. The financial results did not include this important measure for either the compulsory Basic program, or for the Optional program. The BCUC had set 145% MCT as a management target under the tort liability model, but given the lower claims cost volatility of the no-fault product a

³ <https://www.icbc.com/about-icbc/company-info/Documents/ar-22.pdf> p. 27.

target of 100% (the same as the public program in Manitoba) should be sufficient. Had no rebate been ordered by the government the Basic MCT would have been approximately 133%.

IV The Optional Program

ICBC has been reluctant to provide much detail about the performance of the Optional program, claiming that to do so much provide a competitive advantage to its private sector competitors. With the introduction of the no-fault/enhanced care liability model this argument will be less persuasive as Intact Financial has abandoned the BC market, leaving only Economical Insurance as the main alternative in the auto insurance sector.

Table 3 shows that the net income increase of \$303 million over the prior year is mainly the result of lower claims costs and higher investment income, partially offset by lower premium revenue. The no-fault model of 2021/22 has lower claims costs and lower revenue compared to the hybrid-tort model in place in 2020/21.

TABLE 3 –OPTIONAL INSURANCE FINANCIAL SUMMARY (\$=million)

| | 2020/21 | 2021/22 | Change | Per Cent |
|-----------------------------|--------------|--------------|--------------|---------------|
| REVENUE | | | | |
| Net Premiums Earned | 2,432 | 2,030 | (402) | (16.5) |
| Fees and Other | 61 | 46 | (15) | (14.6) |
| TOTAL Earned Revenue | 2,493 | 2,076 | (417) | (16.7) |
| Investment Income | 315 | 436 | 121 | 38.4 |
| EXPENDITURE | | | | |
| Claims -Current | 1,536 | 1,073 | (463) | (30.1) |
| Prior Years | (240) | (273) | (33) | (13.8) |
| Total Claims | 1,296 | 800 | (496) | (38.3) |
| Claim Service/Loss Man. | 147 | 173 | 26 | 17.7 |
| Administration | 160 | 164 | 4 | 2.5 |
| Taxes and Commissions | 593 | 461 | (132) | (22.3) |
| Non-Insurance | -- | -- | -- | -- |
| NET INCOME | 612 | 915 | 303 | 49.5 |
| EQUITY | 639 | 1,441 | 802 | 125.5 |
| MCT (est) | 47 | 130 | 83 | 176.6 |

Source: ICBC 2020/21 financial statements <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> p. 75.

ICBC has not disclosed the average 2021/22 rate decrease for the Optional insurance. Based on the decline of 16.5% decline in net premiums earned compared to the 6.5% decline in the Basic program, one might surmise that there was an Optional general rate decrease of about 20% to 25%. Table A3 shows the effect of the no-fault model, where new injury claims are reported as Basic Accident Benefits.

The new no-fault model has reduced the cost of Optional premiums, which as had significant impact on the income of ICBC's 900 broker agencies, whose commission on Optional sales are calculated on a percentage of the value of these sales. The cost of commissions paid to brokers declined by about \$100 million for 2021/22 compared to the prior year, and most of this 18% decline was related to Optional sales.⁴

The estimated MCT of 130% is below of the former regulatory minimum of 200%. The 200% MCT minimum target was established under the tort model, where cost volatility was higher. A lower MCT would be more appropriate and lessen the pressure to raise rates.⁵

Current Year Outlook

With the 2022 reduction in the value of equity markets, and the increase in interest rates, it is likely that ICBC will suffer a reduction in the value of its assets and its equity for the first half of the current fiscal year.

Unfortunately, the public will not have any detailed insight into the forecast for the Basic program until ICBC submits its 2023/24 Basic rate request to the BC Utilities Commission in mid-December.

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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 recent review of B.C. Hydro's rate requests.

⁴ <https://www.icbc.com/about-icbc/company-info/Documents/ar-22.pdf> p. 67/75 (Pdf 100/108).

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_capital_build_6_march_2022_2/pdf/commentary_icbc_capital_build_6_march_2022_2.pdf

APPENDIX

Summary of Expenditures by Program and Claim Type

Unfortunately, ICBC does not disaggregate the program expenditures shown on page 106 of the 2021/22 annual report. It is possible to separate the current year claims costs for the compulsory Basic program from the Optional program between injury and property damage using the data provided on pages 22 and 23.

The injury claims total shown on page 22 must be adjusted for the change in handling costs (a new item which ICBC added for 2021/22) to match the total current year claims costs shown on the page 73/75 summary. For example, subtracting the \$390 million in handling costs from the \$3.2 billion in total current year incurred claims costs (\$1.482 billion for injury and \$1.718 billion for material damage) equals the 2.922 billion reported on the financial statements.

The split between Basic and Optional was derived by subtracting the material damage from page 23 between the Basic property damage (e.g., the \$626 million for 2021/22) from the total \$1.713 billion (\$1.718 billion less the \$5 million in handling costs). Once the material/property damage by program was established the injury claims costs for the Basic and Optional programs were derived by subtracting the property damage costs from the program totals for current year claims shown on page 73/75.

TABLE A1 – COMBINED CURRENT YEAR CLAIMS COSTS (\$=000's)

| | 2020/21 | 2021/22 | Change | Per Cent |
|-----------------|----------------|----------------|---------------|-----------------|
| Bodily Injury | 2,359 | 1,209 | (1,150) | (48.7) |
| Material Damage | 1,349 | 1,713 | 364 | 27.0 |
| Total | 3,708 | 2,922 | (786) | (21.2) |

Table A1 shows that Bodily Injury claims costs (including no-fault Accident Benefits) dropped by approximately \$1.1 billion (48.7%) in 2021/22 compared to the prior year. This shows the impact of the new no-fault liability model, especially the elimination of pain and suffering claims, on claim costs.

Property, or material damage, costs increased by \$364 million from the prior year, with the increase almost evenly split between Basic and Optional.

TABLE A2 – BASIC CURRENT YEAR CLAIMS COSTS (\$=000's)

| | 2020/21 | 2021/22 | Change | Per Cent |
|-----------------|----------------|----------------|---------------|-----------------|
| Bodily Injury | 1,717 | 1,223 | (494) | (28.8) |
| Property Damage | 455 | 626 | 171 | 37.6 |
| Total | 2,172 | 1,849 | (323) | (14.9) |

TABLE A3 – OPTIONAL CURRENT YEAR CLAIMS COSTS (\$=000's)

| | 2020/21 | 2021/22 | Change | Per Cent |
|-----------------|----------------|----------------|---------------|-----------------|
| Bodily Injury | 642 | (14) | (656) | (102.2) |
| Property Damage | 894 | 1,087 | 193 | 21.6 |
| Total | 1,536 | 1,073 | (463) | (30.1) |

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