

WILL ICBC REDUCE PREMIUMS TO REFLECT LOWER RISK AND FEWER CLAIMS?

The restrictions on movement and work in place to combat the spread of the COVID-19 virus have resulted in far fewer vehicles on the road, and in the number of crashes and insurance claims.

On 6 April 2020, Allstate Insurance and the American Family Insurance announced one-time rebates for their auto insurance customers to reflect the fact that the COVID-19 restrictions were resulting in and a drop in the number of claims. Allstate will rebate most customers 15 percent of their monthly April and May premiums, via a credit to their bank account, credit card or Allstate account. American Family will send auto insurance customers \$50 for each vehicle on their policies.¹

Allstate's CEO Charles Wilson said the decision to provide a rebate was based on preliminary data that showed a drop in crashes and claims; "After one week's worth of data came in, we knew this was significant...."²

Is the One-time Rebate Enough?

Does the 15% reduction reflect the reduction in claims costs? It is too early to know, but Allstate (which earned \$24.2 billion in premiums for 2019) is confident that it can afford the rebate. Dan Karr, the CEO of Valchoice, a data analytics company that acts as a watchdog on the insurance industry in the United States, estimates that the reduction in claims is providing the auto insurance industry with windfall profits.³

CNN reported that American Family Insurance recorded a drop in weekly claims from 20% and 40% since 11 March and the first week of April.⁴ Their report noted that other auto insurers were considering premium reductions:

Industry leader State Farm, which is a mutual insurance company owned by customers, is "closely monitoring our automobile insurance losses and are considering how best to take this into account and return value to our auto insurance policyholders," according to a statement from the company. It said it expects a decision by the end of the week. Progressive said it is "exploring how to best return some premium to customers to reflect the decreased exposure that comes with less frequent driving during the pandemic and expect to have those

¹ <https://www.nytimes.com/2020/04/06/business/coronavirus-car-insurance.html?referringSource=articleShare>

² Ibid.

³ <https://www.valchoice.com/press-releases/100-billion-in-profits-go-to-auto-insurance-companies-due-to-covid-19/>

⁴ <https://www.cnn.com/2020/04/06/business/allstate-payments-coronavirus/index.html>

plans in place soon." Spokespeople with Geico, owned by Berkshire Hathaway, did not immediately respond to a request for comment on their plans.

Will ICBC Provide a Premium Rebate?

Attorney-General Eby, who has been leading the efforts to return ICBC to financial health, has not committed to a one-time premium rebate to mirror the action of Allstate Insurance. Richard Zussman of Global News reported that the government is working with ICBC to waive the premium cancellation fee and the fee for a new vehicle licence. However, the public auto insurer is still reviewing its financial situation in light of the recent investment losses caused by the COVID-19 impact on financial markets.⁵

Attorney-General Eby admitted that there were fewer crashes because fewer people were driving. He said that he has asked ICBC to provide him with a report on the new financial situation, but did not commit to a public release of this information.

Opposition critic Jas Johal stated that ICBC should provide a rebate similar to that provided by Allstate; "This is the moment where ICBC and government should be offering rebates or at the very least clawbacks from the rates we are paying presently."⁶

What Rebate Is Reasonable?

If ICBC was an independent insurance company governed by the federal regulator's capital adequacy rules, it would not provide any rebate. It simply could not afford to cut the premiums until it had a adequate capital buffer. During the last few years ICBC's Basic and Optional capital reserves were drained to offer lower than required premium rates. ICBC needs to rebuild these reserves to provide an adequate risk margin for future operations.⁷

If the government decides to share some of the windfall claim savings with ICBC policyholders, however, what amount would be reasonable? This depends on the size of the drop in claims. In its 2020/21 forecast ICBC estimated that current year claims would total approximately \$5.4 billion. Two estimates are provided; Scenario 1 assumes a 20% reduction in claims costs for April and May, while Scenario 2 assumes a 50% reduction in claims costs.

⁵ <https://globalnews.ca/news/6790991/icbc-cancellation-fees-coronavirus/> The lower interest rates have reduced the discount rate on unpaid claims, thereby increasing ICBC's unpaid claim liability. This is partly offset by an increase in the value of its fixed income assets, offset by a decline in the value of its investment equities.

⁶ Ibid.

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_insolvent_7_march_2020/pdf/commentary_icbc_insolvent_7_march_2020.pdf

2020/21 12 months Current Year Claims ⁸	\$5.384 billion
Estimated April and May Cost	\$ 900 million
15% Savings Scenario	\$ 135 million
50% Savings Scenario	\$ 450 million

If the rebate was applied to all estimated 3.4 million Basic policyholders the 15% scenario would result in a rebate of approximately \$40 per policy, while the 50% option would produce a rebate of approximately \$130 per policy.

The financial impact of the COVID-19 outbreak is being felt throughout the economy. Many people are suffering financially. Some of these are likely considering options to reduce their expenditures, including cancelling their auto insurance. Providing some return from the windfall gains from lower claim costs is good public policy.

Unfortunately, with no detailed information from our public auto insurer on claims and claims costs, it is very difficult to estimate the potential savings. The government exempted ICBC from seeking approval of the regulator for its 2020 Basic rates, which has also contributed to the dearth of information on ICBC's operations.

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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.

⁸ ICBC Service Plan 2020/21 to 2022/23, p.