COMMENTARY **ICBC**

REGULATOR FAST TRACKS ICBC BASIC RATE REVIEW

In a recent decision the BC Utilities Commission decided to truncate its review of ICBC's proposed freeze of its Basic rates for fiscal years 2023/24 and 2024/25. ICBC submitted its proposed zero change in mid-December 2022, and the Commission expects to have final arguments from the interveners by 6 June 2023 and from the public auto insurer by 27 June 2023.[1]

Normally, a rate request review would consist of two rounds of information requests, where the BCUC and the interveners questions are answered by ICBC, and a workshop or information session. Some years the review may include a third round of questions or a in person hearing on various aspects of the proposal. This year the process was limited to one round of information requests an a one-day web-based workshop.

The rate request represents the second two-year period of the new no-fault (enhanced care) liability model that was launched on 1 May 2021, and resulted in a significant increase in coverage and a reduction in premiums. This was made possible by the elimination of most pain and suffering awards on injury claims.

Cabinet Continues to Restrict BCUC's Rate-Setting Discretion

Given the tight restrictions imposed by the government on the Commission's ability to adjust the Basic rates it is little wonder that the Commission decided to end the nominal review process after only one round of questions from its staff and the interveners.

By OIC 666/22 the cabinet revised its limits on the ability of the regulator to determine the just and reasonable Basic rates for 2023/24 and 2024/25. The restrictions updated the directions imposed for the previous rating period, and are summarized below:

FY2021/22 and FY2022/23 OIC 633/20		FY2023/24 and FY2024/25 OIC 666/22	
Policy Year Term 23 months		Policy Year Term 24 months	
Initial Rate Reduction	(26.5)%	Initial Rate Reduction	(6.5)%
Capital Surcharge	11.5 %	Capital Surcharge	6.5 %
Net Reduction	(15.0)%	Net Change	0 %
Capital Target fixed at 145% MCT		Capital Target fixed at 145% MCT	

[1] https://docs.bcuc.com/Documents/Proceedings/2023/DOC_70960_A-8-G-81-23-Timetable-Reasons.pdf

	Rate reduction not permitted

Source: OIC 633/20 https://docs.bcuc.com/Documents/Proceedings/2020/DOC_60191_B-1-ICBC-2021-Revenue-Requirements-Application.pdf pdf 48/849 and OIC 666/22

The initial rate reduction in the prior rate period was 26.5%, but this was reduced to a 15% reduction as the BCUC was directed to impose a 11.5% surcharge to rebuild the capital reserve (the rate stabilization fund). In the current application the initial reduction was 6.5%, but a 7% surcharge to rebuild the reserve results in a zero rate change.

The 145% MCT capital target was set by the BCUC to reflect the higher volatility of claims costs under the full tort liability model and should be lowered to reflect the lower volatility of the no-fault system. To date the government has not allowed the Commission to set rates to reflect a lower capital target.

Any year-end actual to budget variance either adds (a positive variance) to the capital reserve, or subtracts from the reserve if the variance is negative.

ICBC's Methodology Distorts Financial Request

ICBC's methodology for presenting its financial request distorts the financial requirement. It is based on a "policy year" where the investment income is calculated differently than the financial statement methodology used for ICBC's quarterly and year-end audited reports.

Table 1 compares the policy year 24-month financial plan (RRA Summary) with that of the normal financial statement presented in the annual report and audited statements.

TABLE 1—24-MONTH COMPARISON OF POLICY VS FISCAL YEAR ($=million)

	RRA Summary	Financial Stat.	Difference	Per Cent Δ
Premium	6,485	6,499	(14)	(0.2)
Fees and Other	295	218	77	26.1
Claims –Current	5,920	5,584	336	5.7
--Prior Years Adj.	--	223	(233)	n/a
Claims Service etc.	659	698	(39)	(5.6)
Admin/Taxes/Comm	834	761	(73)	(8.8)
Non-Insurance	278	340	62	22.3
Capital Provision	424	0	424	n/a
Investment Income	1,756	852	904	51.5

NET INCOME	421	(38)	459	n/a

Source: RRA Summary Appendix A.1, pdf 119/781
https://docs.bcuc.com/Documents/Proceedings/2022/DOC_69311_B-1-ICBC-2023-RRA.pdf and RM 2.1 from Exhibit B-5, RM 2.1 https://docs.bcuc.com/Documents/Proceedings/2023/DOC_70508_B-5-ICBC-response-Interveners-IR1.pdf pdf 285/322.

In the current two-year rate request ICBC uses a formula to calculate the investment income that averages a 15-year return, rather than forecast the actual return for the two fiscal years under review. This overstates the revenue and net income, which allows ICBC to meet the government direction to use a 7% annual surcharge to increase the capital reserve (the $424 million capital provision), while producing an additional $421 million in net income.

The financial statement approach forecasts a lower investment income, and a small, combined net operating loss for the two years under review. This will compare to the actual fiscal year financial statements at year-end.

As the BCUC sets rates using an industry accepted cost of service model based on a fiscal year, and a capital reserve measured by each fiscal year end, the policy year investment income calculation results in a serious overstatement of the revenue and capital available.

 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 reviews of ICBC's and BC Hydro's rate requests.