COMMENTARY **ICBC**

ICBC LOSSES TO INCREASE BY APPROXIMATELY $150 MILLION BECAUSE OF DELAYED GENERAL RATE INCREASES.

The government decision to delay rate increases for the Basic and Optional insurance programs from November 2018 to April 2019 will increase ICBC's 2018/19 losses and reduce the corporation's combined capital reserve by an estimated $130 to $150 million.

This should be considered as a hidden, or consequential, cost of implementing the complex coverage and rate design changes. But the change in the fixed election date also influenced the decision.

Background

Normally at this time of the year the government would announce the annual general rate increases for ICBC's Basic and Optional insurance for the policy year commencing 1 November 2018. ICBC would then file a detailed application supporting the rate increase request for the compulsory Basic program to the B.C. Utilities Commission for review and approval. The rate change for the Optional program, purchased by approximately 80% of the Basic policyholders, is set by the government.

For the current policy year ending 31 October 2018 Basic rates were increased by 6.4% while Optional rates were increased by an annualized 9.6%.

By cabinet order filed on the same day as the revised Basic rate design was announced, ICBC's policy year was changed to 1 April, which aligns with its fiscal year.[1] By a second order ICBC was directed to file a Basic rate increase request for the 2019 policy year (April to March) by 15 December 2018.[2]

Why Change the Policy Year?

In early February 2014 the government changed the policy year from February-January to November-October, while the corporation's fiscal year remained as January-December. The main reason for the change seemed to be the desire to avoid any influence of the auto insurance rate increase on the now four-year fixed election date of May.

With the NDP government's decision to move the fixed election date from May to October, it is likely that the same logic would apply.[3] It is probably good policy to avoid the temptation of understating the necessary premium increases to avoid a negative voter reaction.

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[1] OIC 456/18 http://www.bclaws.ca/civix/document/id/oic/oic_cur/0456_2018
[2] OIC 457/18 http://www.bclaws.ca/civix/document/id/oic/oic_cur/0457_2018
[3] https://vancouversun.com/news/politics/ndp-changes-b-c-s-fixed-election-date-from-may-to-october

Aligning the policy year to the fiscal year also reduces possible public confusion about ICBC finances in general, and how rates are calculated in particular.[4]

Foregoing the November Rate Increases Further Depletes ICBC's Capital

ICBC has been ordered to file a Basic rate increase for the 2019 policy/fiscal year by 15 December 2018. The 18 June 2018 letter from attorney general Eby to ICBC board chair MacPhail was quite specific that there would be no request to the B.C. Utilities Commission for the November 2018 to March 2019 period.[5]

The minister responsible said that the delay would allow the coverage changes (primarily the cap on minor injury pain and suffering claims) and the rate design changes to be reflected in the 2019/20 rate changes. While correct, ICBC could have sought an interim increase for the November 2018 to March 2019 period, subject to the filing of the 2019 rate increase in December.[6]

A more plausible explanation is that the sheer number and complexity of the changes to the Basic coverage and rate design left ICBC with no staff time to respond to information requests from the Utilities Commission or interveners which would occur if ICBC sought an interim order.

By foregoing Basic and Optional increases ICBC foregoes the benefit of the extra premium revenue for five months to off-set the increasing costs of claims and other cost pressures. Using ICBC's February 2018 financial forecast for 2018/19,[7] the forecast premium revenue lost could be in the order of $130 to $150 million.[8] This will increase ICBC's 2018/19 total comprehensive loss, and further deplete the very low capital reserves.[9]

This increase to the 2018/19 losses resulting from the inability to raise rates in November would seem to undermine the minister's claim that the rate design changes are revenue neutral.

 http://www.bcpolicyperspectives.com/

[4] Although the newly announced Basic rate design methodology is extremely complex.
[5] See June 18, 2018, letter in OIC 457/18. The decision was made some two months before being made public.
[6] I say increase because under the existing rate smoothing cabinet order ICBC cannot request a reduction in Basic rates.
[7] https://www.icbc.com/about-icbc/company-info/Documents/Service-plan-2018-2021.pdf
[8] ICBC forecasts premium earned revenue increasing by 9.8% in 2018/19. If 3% is for volume and average price changes, then 6.8% ($350 million) is the result of the general Basic and Optional rate change. Five months equals approximately $146 million.
[9] For a discussion of the capital reserves see; http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_56_19_april_2018/pdf/occasional_paper_no_56_19_april_2018.pdf