COMMENTARY **ICBC**

MAJOR FINANCIAL TURNAROUND AT ICBC INCLUDES BOTH BASIC AND OPTIONAL PROGRAMS

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 by category of revenue or expenditure.

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).

This writer circulated a summary of the results at the corporate level on 29 July 2021.[2] This report reviews the results at the Basic and Optional program level, which are shown on page 75 of the report. Unfortunately, ICBC uses an exceptionally small font and shades the table with the data by program, which makes reading the numbers a chore. ICBC does not report on fundamental levels of service, such as the number of policies sold, or the number of claims filed or settled.

I Key Developments During 2020/21

Second Year of Hybrid Tort Model

The fiscal year ending 31 March 2021 was the second year of the hybrid-tort liability model, which limited pain and suffering claims to $5,500 for minor injury cases and required disputes with a value of less than $50,000 to be heard by an expanded civil resolution process, rather than being filed with the Supreme Court.

It would appear that this new model resulted in significantly lower claims costs compared to the full tort model that was in place until 31 March 2019.

---

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

2 https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_2021_annual_report_29_july_2021/pdf/commentary_icbc_2021_annual_report_29_july_2021.pdf

On 2 March 2021, the BC supreme court decided that the requirement to have disputes under $50,000 only heard by the Civil Resolution Tribunal was unconstitutional.[3] This decision was appealed, and on 8 April 2021 the court of appeal stayed the trial court's decision pending a determination of the appeal.

COVID-19 Containment and Rebates

The most consequential issue of the past year was the significant drop in crashes and claims costs resulting from the government measures to combat the spread of the COVID-19 virus. ICBC reported that claims dropped by an average 30% from April to September and by 20% in the second half of the fiscal year. While there was some lessening in the growth of premium revenues, ICBC benefited from a windfall gain in lower current year claims costs.

On 11 January 2021, the government announced that Basic and Optional policyholders during the first six months would receive rebates totaling $600 million. This was followed on 11 June 2021 by a further $300 million in rebates for those who purchased Basic and Optional coverage for the second half of the year. Through responses to the BC Utilities Commission Basic rate review process, we know that the $950 million was comprised of $518 million for Basic insurance and $432 million for the Optional coverage.

The COVID-19 emergency of March 2020, declared by the United States and Canada, resulted in a sharp reduction in the market value of ICBC's equity investments at year-end 2020. ICBC established $317 million in "impairment loss" for that fiscal year, which contributed to the combined $375 million in operating losses for that year. Most of this decline in the equity valuation was recovered by Q2 2020/21.

II Basic Compulsory Program

The Basic program ended the 2020/21 fiscal year with a net income (profit) of $926.3 million, compared to a loss of $264.4 million in the prior year. The government required the BCUC to approve a zero rate increase for the 2020/21 year. This anticipated that the full implementation of the hybrid-tort model would permit enhanced benefits and no rate increase.

The primary reasons for the $1.19 billion positive swing were the improvement in investment income and the $884 million swing in the estimate of the adjustment for prior years claims costs. This is shown in Table 1.

[3] https://www.timescolonist.com/opinion/columnists/les-leyne-court-says-effort-to-push-out-lawyers-in-icbc-cases-is-unconstitutional-1.24289522

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

	2019/20	2020/21	Change	Per Cent
REVENUE				
Net Premiums Earned	3,565	2,945	(620)	(17.4)
Fees and Other	87	83	(4)	(4.6)
TOTAL Earned Revenue	3,651	3,028	(624)	(17.1)
Investment Income	734	701	(33)	(4.5)
Impairment Loss	(220)	(5)	215	n/a
Net Investment Income	514	696	182	(35.4)
EXPENDITURE				
Claims -Current	2,900	2,172	(728)	(25.1)
Prior Years	757	(127)	(884)	n/a
Total Claims	3,657	2,045	(1,612)	(44.1)
Claim Service/Loss Man.	314	299	(15)	(6.7)
Administration	132	123	(9)	(6.9)
Taxes and Commissions	193	194	1	0.8
Non-Insurance	134	136	2	2.0
NET INCOME	**(263)**	**926**	**1,190**	**n/a**
EQUITY	**(301)**	**1,228**	**1,529**	**n/a**
MCT (est)	(18)	60		

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.

The positive re-evaluation of the ultimate cost of injury claims incurred in prior years was a major change from the pattern established in recent years. It may be that the change to the hybrid-tort model as of 1 April 2020 has altered ICBC's forecast methodology, but the vast majority of the outstanding claims were filed under the tort model. Therefore, it would appear that ICBC's actuaries have re-assessed their earlier conservative outlook. Unfortunately, the government has not allowed ICBC to release its annual report, where this significant change might be explained.

Table 2 shows that in the previous four years ICBC reported a cumulative total of $3.8 billion in adjustments for claims costs (primarily injury claims costs) for prior years.

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Basic	(78)	218	718	757	(127)
Optional	509	341	443	422	(241)
Combined	431	1,059	1,161	1,179	(368)

Source: ICBC annual financial reports.

The Minimum Capital Test (MCT) estimate is based on information provided by ICBC during the current BC Utilities Commission (BCUC) rate review. The financial results released on 28 July 2021 did not include this important measure. The request for a 15% rate reduction currently under consideration by the BCUC incorporates a redirection of some of the savings from the change to the no-fault/enhanced care to rebuilding the depleted Basic capital reserve. 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 target of 100% (the same as the public program in Manitoba) should be sufficient.

III 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.

While there was no general rate increase for the Basic compulsory insurance, ICBC has not disclosed what the average increase was for the Optional insurance. Based on the decline of 10.7% decline in net premiums earned compared to the 17.4% decline in the Basic program, one might surmise that there was a general rate increase of 5% to 6%.

A review of the Optional results compared to the prior year shows the same two factors as we noted for the Basic insurance. The $724 million positive swing is explained by a turnaround in investment income, and a significant net savings in the estimate for claims costs for prior years.

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

	2019/20	2020/21	Change	Per Cent
REVENUE				
Net Premiums Earned	2,722	2,432	(290)	(10.7)
Fees and Other	62	61	(1)	(1.0)
TOTAL Earned Revenue	2,783	2,493	(290)	(10.4)
Investment Income	324	317	(7)	(2.0)
Impairment Loss	(97)	(2)	95	n/a
Net Investment Income	227	315	88	(40.0)
EXPENDITURE				
Claims -Current	1,829	1,536	(292)	(16.0)
Prior Years	422	(241)	(663)	n/a
Total Claims	2,251	1,296	(956)	(42.4)
Claim Service/Loss Man.	151	147	(4)	(0.6)
Administration	172	160	(12)	(6.5)
Taxes and Commissions	548	593	45	8.2
Non-Insurance	--	--	--	--
NET INCOME	**(112)**	**612**	**724**	**n/a**
EQUITY	**(246)**	**639**	**1,529**	**n/a**
MCT (est)	(25)	45	--	--

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.

The estimated MCT of 45% is well below of the former regulatory minimum of 200%. Operating with such a low MCT provides ICBC with a competitive advantage in the Optional market compared to private insurers. Capital reserves are much higher as mandated by the federal regulator mandates much higher capital reserve levels to protect policyholders and claimants.

The change to a no-fault model should result in a decline in ICBC's unpaid claim liability, as payments for pain and suffering will be practically eliminated. These payments comprised a large portion of bodily injury payments. Table 4 shows that the Basic unpaid claim liability began to decline last year while the Optional value was similar to the 2019/20 total.

TABLE 4 – UNPAID CLAIM LIABILITY ($=million)

	2016/17	2017/18	2018/19	2019/20	2020/21
Basic	7,851	8,608	10,338	11,318	10,802
Optional	2,667	3,288	3,950	4,686	4,718
Combined	10,518	11,896	14,288	16,004	15,520
Yearly Δ	1,425	1,378	2,392	1,716	(484)

Source: ICBC annual financial reports.

 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.