

ICBC FIRST QUARTER RESULTS: REBOUND IN INVESTMENTS HELPS REBUILD SOME EQUITY

On 10 September 2020, ICBC released its first quarter financial summary for FY2020/21.¹ The Q1 results included lower premium revenue and lower claims costs as a result of the impact of the COVID-19 measures which were summarized in a separate report.

The combined Basic and Optional net income of \$311 million, and a rebound in the value of ICBC's equity investments, resulted in a \$1.0 billion improvement in the equity position; \$497 million compared to \$(547) million as of 31 March 2020.

While it is premature to form conclusions on the basis of only three months of financial data, and lacking any service measure information, some aspects of the Q1 report raise questions.

Current Year Claims Costs

The current year claims costs were \$1.18 billion, or approximately \$100 million less than the costs for the prior year Q1. ICBC states that Q1 claims costs declined by approximately \$330 million because of fewer crashes as a result of the anti-pandemic measures reducing the number of vehicles on the roads.²

In the absence of the pandemic-related reduction in claims costs, the Q1 total would have been \$1.51 billion (\$1.18 billion plus \$330 million), or an increase of 17.7% over the prior year total. If true, this "normalized" increase in the cost of claims should be a cause for concern. Because of the lack of data we cannot determine if the normalized increase is concentrated in one program or applies to both.

Without actual service measure data, such as the number of injury or damage claims, or the average cost of these claims, it is impossible to understand what is driving the change.

Change in Value of Investments

As of 30 June 2020, investment assets totalled \$18.9 billion, and increase of approximately \$1.4 billion (up 8%) over the value as of 31 March 2020. In part, this

¹ <https://www.icbc.com/about-icbc/newsroom/Pages/2020-sept10.aspx>

² <https://www.icbc.com/about-icbc/newsroom/Documents/Impacts-of-COVID-19-q1.pdf> p. 4.

increase reflects a rebound in the value of ICBC's equity investments, which dropped in value during March 2020.

The Q1 value was \$1.5 billion (8.9%) higher than the value as of 31 December 2019, which was before the pandemic-induced drop in the equity markets.³ Therefore, it would appear that something else must have also contributed to the positive increase.

ICBC's brief explanation incorporates investment income gains and the total value of the investments:

ICBC's equity investments have rebounded after a significant drop at the end of fiscal 2019/20 in mid-March due to the downturn in global markets driven by the COVID-19 pandemic. Lower interest rates during this time led to the realization of bond gains through trading activities. Those factors, along with the disposition of investment properties, resulted in higher investment income in Q1 this fiscal year compared to last year.⁴

Other Components of Equity (OCE)

The OCE generally reflects changes in the market value of available for sale assets. The \$586 million recorded reflects a swing of \$751 million from the \$(165) million as of 31 March 2020. The positive change of \$751 million was much more than the negative decline of \$(320) million recorded between 31 December 2019 and 31 March 2020.

The \$751 million increase in the OCE compared to 31 March 2020 explains three quarters of the \$1.0 billion change in the corporation's equity.

Unfortunately, ICBC did not provide any details to explain the large positive change in Q1. We may speculate about the increased value of the fixed income (bonds) assets due to lower interest rates, but this should have been incorporated in the year-end results.

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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.

³ <https://www.icbc.com/about-icbc/newsroom/Documents/Q3-stmt-of-ops.pdf> p. 3.

⁴ <https://www.icbc.com/about-icbc/newsroom/Documents/Q1-stmt-of-ops.pdf>

