COMMENTARY **ICBC**

QUARANTINE LIFTED ON ICBC's FINANCIAL REPORT AFTER PANDEMIC REBATE ANNOUNCEMENT

The politics of public auto insurance in this province was on display again this week as ICBC quietly posted its long delayed second quarter financial report on Wednesday. The report, which provides a high-level summary of the public's auto insurer's revenues and expenditures and the balance sheet for the half year ending 30 September 2020, should have been released by the end of November. However, the government delayed the release of this accountability document for two months.[1]

Given that the release occurred immediately after Tuesday's announcement by Premier Horgan of an average 19% (or approximately $190/policy) one-time COVID-19 rebate,[2] one can assume that the quarantine of the financial report was an essential part of the rebate media event.

The Push for a Rebate

During the summer, while most other auto insurers rebated pandemic-related savings, the BC government refused to commit to an ICBC rebate. It promised that ICBC would provide a rebate later in the year if its finances justified the action. The advocates for an immediate rebate claimed that ICBC's monopoly was the reason for the lack of immediate action, rather than recognizing that ICBC's financial position precluded a rebate.

Federally regulated insurers are required to maintain a significant capital reserve to cover claims liabilities and moderate volatility in rates caused by adverse events. This is measured by a Minimum Capital Test (MCT) ratio of risk-weighted assets to liabilities. The public Crown insurers follow a modification of the federal targets. ICBC's capital reserves were practically eliminated to subsidize lower than required rates.

Restoring ICBC's financial health has been a priority of the NDP government. The change to a hybrid-tort liability model in 2019 stopped the large operating deficits. The new no-fault/enhanced care now being instituted is expected to reduce premiums by an average 20% and begin to rebuild the depleted capital reserves.

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1 https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_q2_report_27_january_2021_2/pdf/commentary_icbc_q2_report_27_january_2021_2.pdf

2 https://news.gov.bc.ca/releases/2021PREM0008-000191

Is the $600 million Rebate Affordable?

Given that the lower claims costs were the result of a windfall event – fewer crashes and claims due to the measures imposed to combat the COVID-19 virus – it makes sense to provide a rebate. However, can ICBC afford to rebate $600 million to its policyholders? When this question was raised during the media event Premier John Horgan said that providing a rebate when the public insurer had low capital reserves was not a reckless decision. "It wasn't reckless at all and it wasn't done without consulting with Nicolas and his team to make sure we are in a position to return these dollars to the people who paid them and did not claim anything as a result and also keep the company on the right track. We are very confident that is the case."[3]

ICBC president Nicholas Jimenez said that by the third quarter (to 31 December 2020) they had a "fairly good outlook" of what the year-end position will be.[4] The outlook was not provided. Mr. Jimenez alluded to a projected $410 million combined year-end operating surplus included in the government's second quarter fiscal update released in December, but no financial reports or year-end projections were provided at the media event to justify the rebate.[5]

The last report on ICBC's equity and MCT position was for the first quarter ending 30 June 2020, when the combined MCT was only 7%. Prior to its suspension the government had a regulated requirement for a Basic MCT of 100%, and an Optional MCT of 200% which equates to approximately 150% overall.[6]

The Half-Year Financial Summary

As noted earlier, following the rebate announcement ICBC was permitted to post its second quarter financial summary.[7] It shows that the combined net income as of 30 September 2020 was $394 million, an increase of $83 million since 30 June 2020. The increase in the net operating income, combined with a significant increase in the value of the investment assets, boosted the equity to $849 million and the combined MCT to 18%.

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[3] https://www.cheknews.ca/horgan-icbc-announcement-feb-02-2021-740288/

[4] https://vancouversun.com/news/local-news/icbc-rebate-coming-for-drivers-thanks-to-drop-in-collisions-during-pandemic

[5] The lack of supporting financial information was unlike the announcement in May when ICBC released a one-sided report to justify the lack of a rebate at that time; see https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_covid_19_impact_report_19_may_2020/pdf/commentary_icbc_s_covid_19_impact_report_19_may_2020.pdf

[6] The public auto insurer in Manitoba uses these MCT targets.

[7] https://www.icbc.com/about-icbc/newsroom/Documents/Q2-stmt-of-ops-2020-21.pdf

To achieve a combined MCT of 150% would require a capital reserve of approximately $6.0 billion.

If the $83 million three month increase in the net income from Q1 to Q2 was projected for the last six months of the year it would suggest a year-end combined net income of between $550 million to $600 million before any rebate. In this simple scenario returning $600 million to policyholders would result in no net income at year-end.

The low capital reserve leaves ICBC in an unhealthy financial condition with an elevated risk of a taxpayer bailout if there is an adverse financial development, such as a drop in the equity markets.

The media and the public would have benefitted if the government had been more forthcoming about ICBC's year-end financial forecasts, and the longer term plan to rebuild the capital reserves. Unfortunately, we must now wait for the government's 2021/22 budget, which includes ICBC's three-year financial forecast, to gain a better understanding of the finances of our public auto insurer.

The withholding of ICBC's second quarter financial report is a regressive step in the continuing effort to make ICBC more accountable to its policyholders and to the public at large. While it may be acceptable for the government to justify a COVID-19 rebate as fulfilling a previous commitment, it should not be gaming the timing of such accountability documents to meet its political timetable.

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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 recent reviews of ICBC's and B.C. Hydro's rate requests.

Post Publication

Bob Mackin, *ICBC pandemic rebates may not be feasible, as monopoly spends millions on new ads*, February 4, 2021 **https://thebreaker.news/news/icbc-dumpster-spin/**