**COMMENTARY** **ICBC**

# WAS THE DECISION TO REFUND $600 MILLION TO ICBC POLICYHOLDERS PRUDENT OR RECKLESS?

On 2 February 2021, the government announced that it had directed ICBC to provide a rebate to its policyholders to reflect the lower claims costs that have resulted from fewer drivers and crashes in the first six months of the fiscal year. ICBC estimates that the rebate will average $190 per policy, and cost $600 million in the current fiscal year.[1]

The government had faced some criticism during the summer for not immediately following the lead of other auto insurers in announcing a rebate. At the time the government stated that a rebate decision would be postponed until there was more clarity about ICBC's financial condition. Unlike the other insures, ICBC's Basic and Optional capital reserves had been dissipated during the last five years to keep insurance rates below the level necessary to cover claims and other costs.

Unfortunately, at the announcement ICBC did not provide any financial information or year-end forecasts to justify the assertion that it could afford the rebate. Even the summary level second quarter report for 30 September 2020 was some two months overdue. This lack of information is part of a pattern by ICBC to operate the public auto insurance system with minimal public discloser or oversight.

## ICBC's Unsatisfactory Financial Condition

Most of the major private insurers in Canada are federally regulated and must maintain significant capital reserves, as measured by the Minimum Capital Test (MCT) ratio.[2] The public Crown insurance corporations in Manitoba, Saskatchewan and BC adhere to the MCT formula, and have a minimum MCT target of 100% for the monopoly Basic insurance and at least 200% for the Optional program. The BC government suspended the Basic minimum regulatory requirement in 2018 for the 2018/19 to 2021/22 fiscal years as the Basic and Optional equity was dissipated.

The BC Utilities Commission set the Basic MCT "management target" at 145%, but since 2016 the government has prevented the Commission from requiring ICBC to increase

[1] The $190 average rebate assumes the policyholder purchased Basic and Optional coverage from ICBC for the period 1 April to 30 September 2020.

[2] https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_insolvent_7_march_2020/pdf/commentary_icbc_insolvent_7_march_2020.pdf

premiums to rebuild the Basic reserve. Table 1 shows the equity and the MCT targets for the last few years.

**TABLE 1 –YEAR-END EQUITY AND MCT RATIO ($=million)**

| | | 2015 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | F2020/21 |
|---|---|---|---|---|---|---|---|
| | BASIC EQUITY | 1,071 | 1,456 | 826 | 166 | (301) | n/a |
| | MCT | 82 | 103 | 50 | 6 | e(21) | 5 |
| | OPTIONAL EQUITY | 2,075 | 990 | 161 | (48) | (246) | n/a |
| | MCT | 300 | e132 | e18 | e(9) | e(25) | n/a |
| | | | | | | | |
| | COMBINED EQUITY | 3,146 | 2,446 | 987 | 119 | (547) | n/a |
| | MCT | 155 | 112 | 31 | (7) | (30) | n/a |

Source: The equity is from ICBC's annual reports to 2019/20. The Basic MCT for 2015 to 2018/19 is from https://www.bcuc.com/Documents/Proceedings/2019/DOC_53549_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf pdf 711/1357. The Optional MCT are estimated as ICBC does not report this information.

As of 31 March 2020, ICBC reported negative equity of $547 million, and by 30 April 2020 this had rebounded slightly to $497 million thanks to the COVID-19 claim costs savings and a rebound in the value if ICBC's equity investments. Little wonder that the government was reluctant to order ICBC to provide a pandemic rebate because, unlike the other insurers with strong reserves, ICBC essentially had no reserves.

## How Can ICBC Afford to Rebate $600 Million?

During the 2 February 2021 press conference ICBC president Nicolas Jimenez was asked how ICBC could afford the rebate when it had low capital reserves. He answered by saying that the third-quarter forecast (which was not disclosed) was "fairly good" and that the rebate was affordable.[3] Minister Mike Farnworth said that the rebate was a campaign commitment (although the specific commitment was to provide a rebate if ICBC's finances were strong enough). Rob Shaw of CHEK TV noted that ICBC did not provided information on the current year outlook and inquired about the MCT position. As Mr. Jimenez was about to answer Premier Horgan stepped in to say that the government was fulfilling an earlier commitment to have ICBC provide the rebate. No further details on the financial situation were provided.

The day after the press conference ICBC posted the long-delayed second quarter financial summary.[4] This showed that the  showed that combined equity had increased to $849 million, but no year-end forecast was released.

In its Basic insurance rate request application (filed on 15 December 2020) for the period May 2021 to March 2023, ICBC provided some minimal information on the current year forecast.

[3] https://www.youtube.com/watch?v=dz_FE3Z1M_A

[4] https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_q2_report_4_february_2021/pdf/commentary_icbc_s_q2_report_4_february_2021.pdf

The document said that as of 30 September the Basic MCT was 28% or approximately $480 million of the $849 million in equity reported in the Q2 report (which was released a day after the press conference), and was forecasted to drop to only 5% (approximately $90 million) by 31 March 2021.[5] This reduction in the MCT suggests that the pandemic rebate was planned in December 2020 when the rate request was filed.

## Where is the Plan to Rebuild the Capital Reserves?

The government has indicated that raising ICBC's capital reserves is necessary. Cabinet has directed the BCUC approve an 11.5% surcharge to the Basic rates (which will be netted from the planned 26.5% reduction) to generate almost $800 million for the capital reserve by 31 March 2023.[6] No forecast was provided as to the total Basic capital reserve by that date.

Due to the restrictive cabinet directive the BCUC cannot rebuild the capital faster than percent set by the cabinet order. But what is the plan? What is the ultimate target; the former regulatory minimum of 100% MCT for the Basic program, or the 145% MCT target set by the BCUC some years ago? The new no-fault/enhanced care model for ICBC is based on the Manitoba scheme. Has the government adopted the 100% target used in Manitoba? How quickly is the target to be achieved?

Unfortunately, the Basic rate request filed on 15 December 2020 did not address these fundamental questions. In fact, unlike previous rate applications, ICBC did not provide any information on the capital plan, and have asked the BCUC to limit the review to exclude the capital reserve issues.[7] Given the BCUC timetable for the review of the request, ICBC will not need to answer questions about the Basic capital until mid-April.

ICBC's new no-fault/enhanced care liability scheme is modelled on the Manitoba plan. It is hoped that the greater transparency of the Manitoba public insurer, and the lack of political interference in operations, will also be transferred to this province.

 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.

---

[5] https://www.bcuc.com/Documents/Proceedings/2020/DOC_60191_B-1-ICBC-2021-Revenue-Requirements-Application.pdf p. 2-5 (pdf 41/849).
[6] Ibid., Appendix A.1, (pdf 123/849). This equates to about 40% to 45% MCT.
[7] ICBC asked the BCUC to limit the initial review to only operating revenues and expenditures, not the capital plan.