

MANITOBA'S AUTO INSURER PLANS A 10.5% RATE REDUCTION FOR 2021.

The BC legislature is about to debate the government's enabling legislation to adopt a no-fault auto insurance liability system for ICBC. The key provision is the switch to a no-fault injury scheme modelled on the system that has been in operation in Manitoba for over 26 years. The elimination of claims for pain and suffering under the no-fault model will allow for the redirection of claims expenditures to expand coverage and enhance the financial limits of that coverage, and allow for a general reduction in premiums in 2021.

The publicly-owned Manitoba Public Insurance corporation (MPI) has a proven record of achieving the key objectives of rate affordability, rate stability, financial health, and insurance availability. Emulating the MPI framework appears to be a good choice for those who believe that the adversarial tort model is too expensive.

Last week the MPI announced an overall 10.5% reduction in rates for Basic auto insurance commencing 1 April 2021.¹ The reduction is subject to approval of the Public Utilities Board, which regulates the compulsory Basic program in that province. The overall 10.5% reduction is the result of three factors; using excess capital represents 5%, increasing the property damage deductible represents 3%, while lowering the Basic net income to a break-even position provides the balance of the reduction.

Given that the MPI has been cited as a model for the new ICBC² it is instructive to have a closer look at how the Manitoba auto insurer is able to provide such a significant reduction in rates.

The COVID-19 Impact on MPI's Finances

While the audited financial statements are not yet available, in its rate application MPI provided unaudited financials for 2019/20 and forecasts for the current year and the next four years. For last year sales volumes for written premiums are forecast to decrease by some \$10.1 million, presumably due to fewer vehicles on the road because of

¹ <https://www.cbc.ca/news/canada/manitoba/mpi-rate-decrease-application-1.5615729> MPI began operation as a Crown corporation in 1971.

² <https://vancouversun.com/news/politics/b-c-s-new-insurance-system-mirrors-manitobas>

the virus. The reduction in claims costs resulting from COVID-19 are forecast at \$14.5 million.³

For the current year sales volumes are forecast to decline by \$13.6 million, while claims costs are forecast to decline by \$43.6 million due to the impact of COVID-19. The MPI is providing a rebate totalling \$58 million in the current year policyholders to reflect the lower claims costs.⁴

On 14 May 2020, David Eby announced that ICBC would not be providing a rebate, presumably because of ICBC's poor financial condition.⁵

Transferring Excess Capital Reduces Basic Rates

In recent years, the PUB has pressed MPI to use excess capital from the profitable Optional program to raise the Basic capital to the 100% minimum capital test (MCT) target level. MPI now plans to use the Extension capital subsidy as a continuing feature of its Basic rate-setting. Between this year and 2021/22 MPI is planning to transfer a combined total of \$89.5 million in excess Optional (called Extension) capital to allow the Basic program to exceed the target 100% minimum capital test (MCT) capital level. Therefore, reducing the Basic capital to near the target level allows the 2021 rates to be reduced by 5%.

Subsidizing the Basic rates through capital transfers from the profitable Optional program was the strategy employed by the previous government of BC to help keep the increase in Basic rates lower than the increase in costs.⁶ Between 2010 to 2017, the Liberal government of BC appropriated approximately \$1.2 billion in Optional excess capital, and ordered that a further \$1.98 billion be used to subsidize Basic rates.⁷

Apparently, the Manitoba government has rejected the enticement of taking the excess Extension capital to lower its borrowing costs, choosing instead to allow it to be used to lower the Basic insurance rates. However, since all Extension policyholders are Basic policyholders the cross-subsidization has little net impact on the policyholder. Keeping Extension prices higher would appear to assist private insurers to compete.

³ https://apps.mpi.mb.ca/Rate-Application/2021/GRA/2021_GRA.pdf Part V, Pdf 384 to 386.

⁴ Ibid., Part V, Pdf 382.

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http://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 And it ordered the regulator of the Basic program to keep rate increases below the increase in costs, thereby destroying the capital (equity) reserve.

⁷ The cross subsidy ended in 2017 when ICBC's capital was almost completely depleted. The NDP government has said it will legislate a prohibition on the government skimming ICBC's policyholders' accumulated capital.

Increasing the Property Damage Deductible

Beginning in April 2021, MPI is requesting that the current \$500 deductible on any property damage (PD) claims be increased to \$750. The resulting savings will fund some coverage enhancements, and reduce the overall 2021 rate by 3%. Basic policyholders can purchase a lower deductible through the Extension program. The no-fault Basic insurance program in Saskatchewan has a \$700 deductible.

Currently, ICBC does not have a mandatory deductible for Basic PD claims (either for at-fault or not at-fault claims), and such a deductible was not discussed in ICBC's enhanced benefit (no-fault) background material released on 6 February 2020. A deductible of \$700 on 165,000 property damage claims could result in significant annual savings.

Reducing the Basic Net Income

The final major component of the rate reduction results from the reduction in the Basic net income from a forecast of approximately \$78 million for 2020/21 to about zero for 2021/22. The significant net income for 2020/21 primarily due to lower collision and material damage claims costs. The reduction in the net income for 2021/22 incorporates a growth in claims costs and a modest increase in investment income.

There is no 2020/21 forecast for ICBC's Basic program, as the government ordered the BC Utilities Commission to approve a zero rate change without the benefit of a detailed rate request or a rate review hearing. A first quarter forecast is due in late September, but only at the corporate level. Service measure information at a more granular level (including by program) is unavailable after 2017/18.⁸

Rate Affordability and Stability

The price of auto insurance for public monopoly no-fault jurisdictions is significantly less than the cost of insurance in the other provinces where not at-fault claimants can sue for pain and suffering. The MPI rate application includes a variety of combined Basic and Optional rate comparisons for policyholders in cities in Canada (unfortunately there are no comparisons to BC this year).⁹

In a comparison using 2019 rates the combined Basic and Optional insurance cost for several customer examples were significantly lower for the no-fault schemes in

⁸ I produced a summary of ICBC information in June 2018;

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_68_icbc_stats_18_june_2019_2/pdf/occasional_paper_no_68_icbc_stats_18_june_2019_2.pdf

⁹ https://apps.mpi.mb.ca/Rate-Application/2021/GRA/2021_GRA.pdf Part IV, Pdf 157/2150. MPI uses the quoted price method, not the more abstract financial statement method; see

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_40_8_september_2017/pdf/occasional_paper_no_40_8_september_2017.pdf

Saskatchewan and Manitoba compared to the hybrid tort models in other provinces (see Appendix). The two public no-fault systems also offer more comprehensive coverage with higher claim limits.¹⁰

The no-fault jurisdictions have achieved a better record of rate stability than has ICBC. Table 1 compare Basic rate change for ICBC, MPI and the Saskatchewan Auto Fund (SAF) for the six years.

Table 2 – Percentage Change in Basic Rates

| Year | ICBC | MPI | SAF |
|------|------|-------|-----|
| 2015 | 5.5 | 3.4 | 0 |
| 2016 | 4.9 | 0 | 0 |
| 2017 | 6.4 | 3.7 | 0 |
| 2018 | 0 | 2.6 | 0 |
| 2019 | 6.3 | 1.8 | 0 |
| 2020 | 0 | (0.8) | 0 |

Notes: For ICBC the rating year changed in 2018 from November to October to April to March, hence the zero change, and the zero change for 2020 reflects the shift to the hybrid tort model. From 2015 to 2019, ICBC’s capital reserves were completely depleted while the reserves at MPI and the SAF increased.

Key Objectives

MPI policyholders have benefited because the public insurer in that province has consistently achieved four key objectives of an effective insurance system: rate affordability, rate stability, financial health, and insurance availability.

Rate affordability compares MPI’s rates for similar coverage to rates by other insurers. Rate stability compares the rates paid over a period of years. Financial health is the measure of the corporations ability to absorb financial losses as measured by the capital reserves. Finally, the availability of the insurance refers to whether the insurance is available to all qualified vehicle owners. The Manitoba system ranks high for all these objectives.

Given the MPI’s healthy finances and its transparent operation, an independent regulator and a provincial government that has adopted a hand-off approach, the BC government should be supported in its decision to model the new ICBC on the Manitoba public auto insurer.

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_other_canadian_auto_insurers_4_f ebruary_2020/pdf/commentary_other_canadian_auto_insurers_4_february_2020.pdf

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 has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

APPENDIX

Each year as part of its Base rate request to the PUB the MPI compiles a comparison of price quotes for different cities and insurers. It uses the most common vehicle registered in Manitoba (a 2016 Ford F-150 XLT SuperCrew), a \$500 all perils deductible, and \$2 million in third-party liability.

Scenario A – 21-year old male, claims and conviction free

Scenario B – 40-year old couple with a 16-year old son, all claims and conviction free

Scenario C – 35-year old couple, both claims and conviction free

Quoted Basic and Optional Price Comparison for 2019 (dollars)

| | Vancouver | Calgary | Regina | Winnipeg | Toronto | Montreal |
|-------------------|-----------|---------|--------|----------|---------|----------|
| Scenario A | 3,976 | 7,297 | 1,438 | 1,718 | 7,505 | 7,459 |
| Scenario B | 2,650 | 4,182 | 1,261 | 1,406 | 5,505 | 2,674 |
| Scenario C | 2,144 | 2,119 | 1,291 | 1,361 | 2,814 | 2,155 |

Source: MPI 2020 Basic Rate Request Application, Part IV; https://apps.mpi.mb.ca/Rate-Application/2020/GRA/2020_GRA.pdf Pdf 188/13334

Note: In September 2019 ICBC changed the rate design formula which resulted in much higher prices for inexperienced (young) drivers. The Vancouver numbers do not reflect this change.