

## MANITOBA BASIC AUTO INSURANCE RATES TO INCREASE 1.8 PER CENT – ICBC’S INCREASE LIKELY MUCH HIGHER

On 3 December 2018 the Manitoba Public Utilities Board (PUB) approved an average 1.8% general rate increase for compulsory Basic insurance in that province.<sup>1</sup> The Manitoba public auto insurer had requested an average rate increase of 2.2% for the 2019/20 rate year (March to February), with 2.1% of the total new revenue destined to build the Basic capital reserve toward a minimum capital test ratio target of 100%.

Like ICBC, the Manitoba Public Insurance (MPI) Crown corporation operates the compulsory Basic insurance program, as well as two optional or extension programs which compete with private insurers and enjoy approximately 95% market share.<sup>2</sup> The PUB regulates the Basic insurance program and is more independent than the BC Utilities Commission.

### Rate Increases

Manitoba and Saskatchewan vehicle owners enjoy the lowest Basic rates in Canada. Rate increases in recent years and rate increases for the compulsory insurance have been much lower in recent years compared to the steep rise in ICBC rates.

Table 1 shows the average approved increases in the monopoly Basic rates for the three provincial auto insurers.

**TABLE 1 – BASIC PREMIUM RATE CHANGES (Percent)**

	MPI	SAF	ICBC
<b>2011</b>	(4.0)	0.0	0.0
<b>2012</b>	(8.0)	1.6	11.2
<b>2013</b>	0.0	2.0	5.2
<b>2014</b>	0.9	5.2	5.2
<b>2015</b>	3.4	0.0	5.5
<b>2016</b>	0.0	0.0	4.9
<b>2017</b>	3.7	0.0	6.4
<b>2018</b>	2.6	0.0	0.0
<b>2011 to 2018 (cum)</b>	<b>(1.0)</b>	<b>9.0</b>	<b>45.0</b>
<b>2019</b>	1.8	?	4.9-7.9

Source: MPI Decision, 3 December 2018, p17; ICBC annual reports.

<sup>1</sup> <http://www.pubmanitoba.ca/v1/proceedings-decisions/orders/pubs/2018%20orders/159-18.pdf>

<sup>2</sup> ICBC enjoys approximately 90% of the Optional market in British Columbia.

In 2018 ICBC's rate change date was changed from November 1<sup>st</sup> to 1 April, which aligns with the fiscal year but resulted in a loss of potential premium revenue in 2018/19.<sup>3</sup>

The SAF has been recording healthy operating surpluses in recent years which has increased its capital reserve to well above the 100% MCT target.<sup>4</sup> This may mean that policyholders in that province could see a minor reduction in the average rate for 2019.

### **Capital Reserve**

A single focus on the size of the rate increase does not provide a complete picture of the financial health of the Basic programs of the three public auto insurers. The rate changes must be considered in light of changes in the capital reserve as measured by the minimum capital test (MCT) ratio.

In recent years the capital reserve ratios of both the MPI and SAF have been increasing (the SAF is now higher than the 100% target), while ICBC's capital reserve may be completely dissipated by the end of the current year.<sup>5</sup>

### **No-Fault Third-Party Liability Model**

The Basic insurance coverage in Manitoba, Saskatchewan and British Columbia is quite similar in many ways, yet the trend in the claims costs has been dramatically different in recent years. The major difference appears to be that claimants in British Columbia have the option to sue the at-fault party for pain and suffering (the tort model), while pain and suffering litigation is not permitted in Manitoba and Saskatchewan, which operate under the no-fault model.<sup>6</sup>

The rapid increase in pain and suffering claims, especially for minor injuries such as strains and sprains, has been cited by ICBC and the government as a key driver of the rapid increase in both injury claims and costs.

### **The New Hybrid No-Fault Model**

The B.C. government will be instituting a hybrid no-fault model for Basic third-party coverage beginning 1 April 2019. It expects that increases to accident benefit limits, a \$5,500 cap on pain and suffering claims for a "minor" injury, and a simplified dispute mechanism will reduce Basic claims costs by \$1.0 billion within two years. A new and

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_icbc\\_new\\_policy\\_year\\_12\\_august\\_2018/pdf/commentary\\_icbc\\_new\\_policy\\_year\\_12\\_august\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_new_policy_year_12_august_2018/pdf/commentary_icbc_new_policy_year_12_august_2018.pdf)

<sup>4</sup> [https://www.sgi.sk.ca/documents/625510/626999/2948\\_Auto\\_Fund\\_2017\\_Annual\\_Report\\_final\\_web.pdf](https://www.sgi.sk.ca/documents/625510/626999/2948_Auto_Fund_2017_Annual_Report_final_web.pdf)

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_64\\_icbc\\_q2\\_results\\_24\\_nov\\_2018/pdf/occasional\\_paper\\_no\\_64\\_icbc\\_q2\\_results\\_24\\_nov\\_2018.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_64_icbc_q2_results_24_nov_2018/pdf/occasional_paper_no_64_icbc_q2_results_24_nov_2018.pdf)

<sup>6</sup> The SAF offers a choice between a tort or no-fault coverage, and some 96% of policyholders choose the no-fault plan.

highly complex premium formula takes effect in September, but the government says that the new model will not result in additional revenue (in the first year).

The government believes that these changes will end the operating losses in the compulsory insurance program. However, the government has not announced how it intends to rebuild ICBC's Basic and Optional capital reserves. At present, it is highly likely that the government may be required to cover the shortfall between ICBC's growing liabilities and its assets.

### **ICBC's 2019 Basic Rate Request**

ICBC will file its 2019/20 Basic rate increase request with the B.C. Utilities Commission (BCUC) on 15 December 2018, for the 1 April 2019 to 31 March 2020 fiscal year.

Because the 2013 "rate smoothing" cabinet directive remains in effect the BCUC is limited to approving a rate increase within the range of 4.9% to 7.9%. This limitation on the discretion of the regulator, combined with the rapid increase in claims costs, has resulted in the current financial crisis at ICBC.

When it was the official opposition the NDP supported the independence of the BCUC, but since it formed government it has ordered the regulator to fast-track reviews of the 2018 rate request (December 2017), and the new rate design (September 2018).<sup>7</sup>

It remains to be seen if the government will order the BCUC to conduct a perfunctory review of the 2019 Basic rate increase.

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

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