COMMENTARY **ICBC**

MANITOBA'S PUBLIC AUTO INSURER INCREASING ITS COVID-19 REBATE

On 30 November 2020, Manitoba Public Insurance (MPI) requested approval from its regulator to refund Basic policyholders an additional $69 million in savings from lower claims costs. If approved this would increase the rebate to approximately $180 million for the current fiscal year. The rebates reflect a 20% reduction in crashes from March to October resulting from the effects of the social and economic restrictions instituted to reduce the spread of the COVID-19 virus.[1]

The MPI healthy financial condition has allowed the public auto insurer to provide this rebate, unlike ICBC where the unhealthy finances have precluded such a rebate.

Auto Insurers are Generally Providing Rebates

Most auto insurers have provided rebates to their policyholders to recognize that the pandemic related reduction in driving has reduced the number and cost of accident claims.[2]

In late April 2020, the MPI asked the Public Utilities Board (PUB) for approval to issue a rebate totalling $58 million from Basic savings, which together with $52 million from the profit-orientated Extension coverage, amounted to $110 million in total. The PUB noted the exceptional circumstances of the pandemic and agreed to the request.[3]

The initial one-time rebate of approximately $110 million represented a savings of approximately 10% on Basic premium revenue for the year. The second tranche increases the rebate to an average of approximately 16% per policyholder.

Recent Forecast Allows for Additional Rebate

The initial $110 million rebate was based on actual and forecasted revenue and claims costs from 16 March 2020 to 15 May 2020. Following the initial forecast MPI has

[1] https://www.mpi.mb.ca/Pages/nr2020nov30.aspx#:~:text=MPI%20customers%20will%20receive%20a,Public%20Utilities%20Board%20(PUB). See also https://www.cbc.ca/news/canada/manitoba/manitoba-public-insurance-rebate-100-1.5821995

[2] The Saskatchewan Government Insurance, which does enjoy healthy finances, has not provided any premium rebate as a result of the pandemic related drop in claims costs.

[3] http://www.pubmanitoba.ca/v1/proceedings-decisions/orders/pubs/2020-orders/71-20.pdf

recorded more claims cost savings which it plans to return to Basic policyholders. The MPI justified the additional rebate because it forecasts higher capital levels, and the provincial government has recently imposed a critical response level to combat the spread of the COVID-19 virus.[4] The tightening of restrictions on the economy would mean that some financial relief on auto insurance premiums would be desirable immediately.

A summary of the financial sources of the two rebates is shown below

	First Rebate	**Second Rebate**
Basic Net Savings	$ 58.0 M	$ 69.0M
Extension Transfer	$ 52.0 M	nil
Total Rebate	$110.0 M	$ 69.0M

Yesterday, the MPI released its second quarter (to 30 September) financial statements. The results for the first six months showed revenue growth and lower claims costs continuing in the second quarter.[5]

MPI's Healthy Finances Result in an 8.8% Price Reduction for 2021/22

In October, the MPI has requested approval for an average 8.8% reduction in Basic rates effective 1 April 2021. The reduction in the average Basic rate results from increasing the property damage deductible to $750, lower than planned claims costs, and the release of excess Extension and Basic capital.[6]

In recent years, through lower than budgeted claims costs and transfers from the Extension program, the MPI has increased its Basic capital reserves. In 2019/20, the Basic capital measured by the Minimum Capital Test (MCT) formula reached 104%, against the target of 100%. The Extension program achieved a ratio of 317%, against the 200% target. The release of the excess Extension capital has helped finance the pandemic rebate this year and part of the price reduction for next year.

In 2020/21, the MPI forecasts that after the rebates the Basic MCT will still be approximately 116%. This excess will be used to reduce the indicated rate increase over a three year period. The reduction plan anticipates the annual transfer of between $33 to $42 million in excess Extension capital during these years.

[4] http://www.pubmanitoba.ca/v1/proceedings-decisions/appl-current/pubs/2021-rebate/sra-ii/mpi-1-mpi-2021-sra-ii.pdf p. 4.
[5] https://winnipegsun.com/news/news-news/mpi-earnings-increase-on-strength-of-more-vehicles-on-the-road
[6] http://www.pubmanitoba.ca/v1/proceedings-decisions/appl-current/pubs/2021-mpi-gra/mpi/mpi-1-2021-gra.pdf Pdf 38/2150.

Should ICBC Rebate the Pandemic Savings Windfall?

The government has not released ICBC's second quarter financial report to 30 September 2020. However, it is highly probable that ICBC will report significant reductions in the cost of claims due to fewer crashes resulting from the restrictions on social and economic activity designed to slow the spread of the pandemic.

Despite some calls for ICBC to issue a pandemic related premium rebate, the BC government has resisted doing so because of ICBC's poor financial health. During the recent provincial election, the Canadian Taxpayers' Federation and the Liberal Party advocated for a rebate.[7] The minister responsible re-stated the government's position that a rebate may be provided once the year-end position was known.

The minister could have been more honest and admitted that ICBC's poor financial position precluded a rebate. Unlike the Manitoba insurer, ICBC does not have sufficient capital reserves to allow such a rebate. The policy of the previous Liberal government was to drain the policyholders' capital reserves to subsidize the Basic rates. The NDP government allowed the capital to dissipate further while it formulated a new no-fault liability model to address the unsustainable financial situation.

By 31 March 2020, the Basic program reported negative equity of approximately $300 million, while the Optional program reported negative equity of almost $250 million.[8] Lower claims costs and a rapid rebound in the equity financial markets from the March 2020 lows improved ICBC's first quarter finances, as total equity increased to approximately $500 million by 30 June 2020.[9]

ICBC's capital position should improve by Q2 (30 September), and by year-end. Even if the Q2 results show the combined equity in the $1.0 to $1.5 billion range, this is still far below the amount required to achieve the previous minimum MCT targets.[10]

Essentially, ICBC's Basic policyholders already received rebates totalling approximately $3.6 billion (equivalent to a rebate of about 48%) from 2015 to 2020, represented by the elimination of most of the policyholders' capital reserve.[11]

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[7] http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_covid_19_rebate_4_september_2020/pdf/commentary_covid_19_rebate_4_september_2020.pdf

[8] By comparison, the MCT capital adequacy ratio of the Basic program in Saskatchewan was 145% as of 31 March 2020; see https://www.sgi.sk.ca/documents/625510/2127987/SGI+Auto+Fund+Annual+Report+2019-20.pdf/a40bbcc3-64e0-4aa5-811e-b8124f7a9305 p. 11.

[9] https://www.icbc.com/about-icbc/newsroom/Pages/2020-sept10.aspx#:~:text=%E2%80%8BICBC%20posts%20first%20quarter,releases%20Q1%20COVID%2D19%20report&text=A%20positive%20net%20income%20for,%E2%80%93%20March%2031%2C%202020). Unfortunately, ICBC did not provide the split between Basic and Optional equity.

[10] My estimate is approximately $2.0 billion for Basic at 100% MCT and $2.2 billion for Optional at 200% MCT.

[11] The combined equity was $3.6 billion as of 31 December 2015, and $0.5 billion by 30 June 2020. The $3.0 billion loss is equivalent to an average rate reduction of some 48% as the corporation earned approximately $6.3 billion in premium revenue in 2019/20.

Capital Adequacy

Ensuring an adequate capital reserve is an important feature in the finances of any property and casualty insurer. Most private insurers must adhere to capital adequacy standards as measured by the MCT formula. Until it was suspended in 2018, the BC government regulated a minimum 100% MCT for ICBC's monopoly Basic program, and 200% for the Optional program. In theory, these minimums should be reactivated for the 2021/22 policy year.[12]

The government has already promised ICBC's policyholders a 20% rate reduction, averaging some $400 for a combined Basic and Optional policy, effective 1 April 2021. This lower premium results from the switch to the no-fault/enhanced care liability model lowering claims costs. The government decided to return all the no-fault cost savings as lower premiums rather than allowing ICBC to rebuild the capital buffers.

Neither ICBC nor the government has announced any plan or timeframe to achieve the 100% and 200% minimum MCT ratios.

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 was an intervener in the BC Utilities Commission's recent reviews of ICBC's and B.C. Hydro's rate requests.

[12] See OIC 67/18 of February 2018.