

**ICBC SEEKS TO REDUCE ALREADY MINIMAL INFORMATION ON OPTIONAL INSURANCE**

ICBC operates as an integrated entity where its administrative costs and other centralized management functions are allocated for reporting purposes between the compulsory and the competitive components, as well as the Non-Insurance (driver licensing) function.<sup>1</sup> This integrated operation is efficient compared to operating the Basic and Optional coverages as separate entities.

ICBC's compulsory Basic operation and rates are overseen by the B.C. Utilities Commission (BCUC) and are intended to operate on a break-even basis. The Optional coverage and rates are ultimately managed by the government. During the last five years the government (both the Liberals and the NDP) have used the Optional program to subsidize Basic rates.

This underpricing of the Basic program has reduced ICBC's once healthy capital reserves to the point that ICBC may be insolvent (liabilities exceed assets) by year-end. Basic and Optional policyholders (and perhaps taxpayers as well) have a direct interest in these matters, but little information on the Optional program is available.

ICBC is now seeking the BCUC's approval to eliminate one of the last pieces of information, which is the Optional market share enjoyed by ICBC.

**What is Covered by Optional Insurance?**

In conjunction with its compulsory Basic auto insurance program, ICBC competes with private insurers in offering private vehicle owners additional Optional insurance coverage.

The compulsory Basic coverage includes third party injury protection to a maximum of \$200,000, and the cost to repair damage to the not-at-fault vehicle. Most Basic private vehicle policyholders also purchase additional third-party injury protection, and coverage for damage to their own vehicle where the policyholder/driver is deemed to be at-fault in a crash.

**ICBC's Enjoys 90% of the Optional Market**

Based on an annual survey conducted by ICBC we can estimate that about 96% of Basic private vehicle policyholders also purchase Optional insurance. Of this number, ICBC enjoys about 90% of the market, although this declined slightly in 2017. Table 1 shows that for the last four years approximately 96% of Basic policyholders purchased

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<sup>1</sup> Of ICBC's total 2017/18 operating expenditures of \$7.1 billion, almost \$2.6 billion (37%) were for the Optional program; <https://www.icbc.com/about-icbc/company-info/Documents/ar-18.pdf> p. 97.

Optional coverage, and approximately 90% of those who purchased Optional did so through ICBC.

**Table 1 – BASIC POLICYHOLDERS PURCHASING OPTIONAL PROTECTION**

		2014	2015	2016	2017
<b>1</b>	Purchase Optional %	96.5	95.6	95.6	95.9
<b>2</b>	Purchase from ICBC %	89.6	90.4	90.8	88.5
<b>3</b>	Purchase from Private %	10.4	9.6	9.2	11.5

Source: ICBC rate requests for 2015, pdf 141/555; 2016 pdf 660/1007; 2017 pdf 692/1142 and 2019 pdf 1090/1419.

Notes: 1) the percent of those surveyed who purchased Optional insurance; 2) of those who purchased Optional this is the percent who purchased it from ICBC, while 3) is the percent who purchased it from a private insurer.

In 2017/18 ICBC wrote approximately 3.0 million policies for personal vehicles. From the percentages of the survey one can estimate that ICBC sold approximately 2.5 million Optional policies, generating approximately \$2.2 million.

### Until Recently Optional Was a Profit Centre

For many years the Optional product was highly profitable resulting in a large amount of capital reserve. In 2010 the government began to appropriate the “excess capital” and by 2015 it had taken almost \$1.2 billion to lower its direct borrowing costs.

The government also used the Optional program to bolster the Basic capital reserve which was being depleted by the government’s rate smoothing policy. This policy resulted in Basic operating losses totalling almost \$1.38 billion from 2015 to 2017/18.

Table 2 shows the operating income (loss) for the Basic and Optional programs, as well as the capital reserves, from 2015 to 2017/18.

Table 2 – CHANGE IN NET INCOME AND CAPITAL RESERVE (\$=million)

		2014	2015	2016/17	2017/18	F2018/19
Net Income -- Basic		87.1	(256.8)	(128.1)	(1,001.1)	?
--Optional		285.4	387.3	(484.0)	(324.0)	?
Total		372.5	130.5	(612.1)	(1,325.1)	(890.0)
Equity -- Basic		1,632.7	1,071.0	1,455.7	826.5	70.0
--Optional		1,983.0	2,075.0	990.4	160.7	?
Total		3,615.7	3,146.0	2,446.1	987.2	?
MCT Basic		136	83	103	52	4
Optional		298	300	132	E18	?

Source: ICBC annual reports to 2017/18; the 2018/19 net loss is from an ICBC news release and the 2018/19 forecast is from its 2019/20 rate request filed on December 14, 2018.

Between 2012 to 2017/18 the government ordered ICBC to transfer almost \$2.0 billion of Optional funds to the Basic program to keep the Basic minimum capital test ratio

above the regulatory 100% minimum. In 2018, because the Optional reserves had been practically eliminated, the government avoided a massive rate increase by suspending the 100% MCT minimum capital requirement until 2022.<sup>2</sup>

There is now a real danger that operating losses in the Optional program may tip ICBC into technical insolvency in 2018/19 or 2019/20. Because of the central role that the Optional funding has played in subsidizing the Basic rates one would expect the BCUC to take a keen interest in the financial health of the Optional program. One measure of this health is ICBC's share of the Optional market, as measured by the annual customer survey.

### **Optional Program Funding Used to Avoid Scrutiny**

The government has a history of avoiding the scrutiny of the public or the BCUC by funding major initiatives from the Optional program. In addition to using the Optional capital to subsidize the Basic insurance rates, the Liberal government ordered ICBC to use \$400 million of Optional capital to upgrade or reform the corporation's information technology platform.<sup>3</sup> Last February, the NDP government ordered ICBC to fund all the costs related to the Basic rate redesign and the process changes required due to the changes in Basic coverage.<sup>4</sup>

Most or all of these one-time costs relate to the Basic program, and should have been reviewed by the BCUC as part of the normal Basic rate request. The fact that the government ordered that these initiatives be funded from the opaque Optional program clearly suggests that it was attempting to avoid transparency and accountability.<sup>5</sup>

### **ICBC Says Surveying Optional Purchases is Not Necessary**

In its 2017 rate request ICBC proposed a major reduction in the number of performance measures, and the elimination of the question as to Optional coverage purchases. Most interveners opposed the change to the performance measures, and the BCUC declined to approve the request. In its 2019 rate request ICBC is again seeking to reduce the number of performance measures and to eliminate the question about Optional coverage.<sup>6</sup>

ICBC claims that disclosing information on its Optional program may result in financial harm as it competes with private insurers for this business. It is difficult to understand why this rationale would apply to prior years costs, policies sold or claims. The public auto insurers in Saskatchewan and Manitoba disclose much more information on their Optional programs than does ICBC.

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<sup>2</sup> OIC 67/18.

<sup>3</sup> OIC 222/10. Some 65% of ICBC's operations relate to the Basic program.

<sup>4</sup> OIC 84/18.

<sup>5</sup> This conclusion is reinforced by the fact that, unlike in 2010, in 2018 the Optional capital MCT was well below the former regulatory minimum of 200%. Properly assigning a majority (or all) of the costs to the Basic program would have required explaining and justifying the costs to the BCUC.

<sup>6</sup> <https://www.icbc.com/about-icbc/company-info/Documents/bcuc/2019-revenue-requirements-application.pdf> pdf 1090/1419.

Claiming some vague financial harm if aggregate Optional sales and claim data was released conforms to ICBC's operating philosophy that it should avoid being publicly accountable, either directly through its reports, or indirectly through the BCUC.

In its annual report ICBC does not provide quantitative measures, such as the number of policies sold, or the number of claims received or paid. It does report on a limited number of derived indicators, such as the loss ratio or the MCT, but these are not at the Basic or Optional program level. It does provide detailed data to the BCUC to justify its Basic rate request forecast, but there is no direct linkage to prior year actuals and no standard data sets for reporting.<sup>7</sup>

Given the recent calls for more accountability from our public institutions its ironic that ICBC is seeking to reduce the already minimal information on its Optional program, and reduce performance information generally. The government should instruct ICBC management to make more operational information available and thereby rebuild the public's trust in our public auto insurer.

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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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<sup>7</sup> The failings of the current methodology to review the Basic rate request are explained in [http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_65\\_13\\_january\\_2019/pdf/occasional\\_paper\\_no\\_65\\_13\\_january\\_2019.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_65_13_january_2019/pdf/occasional_paper_no_65_13_january_2019.pdf)