

UNLIKE ICBC OTHER CANADIAN PUBLIC AUTO INSURERS HAVE MUCH LOWER RATES AND HEALTHY FINANCES

The pending release of ICBC's third quarter financial results and the planned 2020 rate increase for the compulsory Basic insurance program will result in another flurry of media commentary on the future of our public auto insurer. The Insurance Bureau of Canada and the Taxpayers' Federation will continue to decry ICBC's legislated monopoly over the Basic product, claiming that opening the \$3.6 billion market to for-profit insurers will result in lower prices (and less political interference).¹ The Liberal opposition will offer the option of a review of the monopoly model, while not committing to open competition.

The public versus private debate over-simplifies the question of what governance model provides the best coverage for the lowest price. Drivers in Saskatchewan and Manitoba enjoy the lowest average auto insurance rates in Canada, and these are public monopolies.²

The major distinguishing feature between the coverage models in Saskatchewan and Manitoba compared to the private sector models is that the former operates with a no-fault liability model, while the latter (and ICBC) operate with a hybrid tort model where payment for general damages (pain and suffering) are capped for certain injury claims.

Financial Health

Nationally regulated private insurers must maintain a risk-based minimum capital (equity) reserve as established by the federal regulator. The public insurers of Manitoba and Saskatchewan have adopted the national Minimum Capital Test (MCT) formula and set the compulsory ratio at 100%, with a 200% target for the Optional coverage. The BC government established a 100% MCT minimum for the Basic insurance (and a 200% minimum for Optional) over a decade ago, but suspended the minimums for four years commencing 2018/19.³ By year-end 2018/19, ICBC's Basic equity had dropped to \$166 million, while the Optional equity was a negative \$48 million.⁴

¹ ICBC's \$2.7 billion Optional insurance coverage is currently open for vehicle owners to purchase coverage from private insurers or ICBC, although some 90% of those who purchase Optional insurance buy it from ICBC.

² See Appendix in

http://www.bcpolicy Perspectives.com/media/attachments/view/doc/commentary_manitoba_public_insurance_2020_gra_7_july_2019_2/pdf/commentary_manitoba_public_insurance_2020_gra_7_july_2019_2.pdf

³ OIC 67/18 of February 2018.

⁴ The year-end equity was inflated by some \$400 million in anticipated savings resulting from cabinet ordered limits on the number of expert reports; the limits were overturned by the Supreme Court.

After the first nine months (March to November) the Manitoba Public Insurer reported solid net income and increased the Basic MCT to 79%, while the Extension (Optional) MCT as at 281%.⁵ After the first six months (April to September), the Saskatchewan Auto Fund (Basic) MCT recorded a MCT ratio of 147%, well above the 100% target.⁶

Clearly, except for ICBC, the other publicly owned no-fault auto insurers have – or are on track to have – adequate reserves to protect policyholders and claimants in the even of an unexpected adverse financial event.

Rate Increases

On 16 February 2020, ICBC will submit its general rate increase request for the compulsory Basic insurance to the BC Utilities Commission. Minister responsible Eby has indicated that the growth in claims costs that has driven ICBC's large rate increases (and depleted its equity) have stabilized. This is because the April 2019 cap on pain and suffering awards for minor injuries has lowered the claims cost base, and the frequency of crashes (accident rates) has declined.⁷

ICBC's method of describing its rate increase understates the total increase in premium revenue. This is because the annual change in premium revenue increases with the growth in policies sold (about 2.5% per year),⁸ and the annual increase in the average cost per policy reflecting more expensive new vehicles displacing less expensive older vehicles in the insured fleet each year. Therefore, before a general rate increase is applied ICBC already has a revenue increase of some 3% with which to address increases in claims and other cost pressures.

The Saskatchewan public auto insurer has not sought a general rate increase in its compulsory Basic insurance during the last five years. In the same period the cumulative increase in rates for the Basic coverage in Manitoba was 12%. The five-year cumulative increase in ICBC's Basic rates was approximately 25%, while the equivalent period saw cumulative rates jump by 33.6% in Alberta.⁹

But the size of the rate increase does not tell the full story. Despite the large rate increases for ICBC, the revenue generated was less than that required to match the increase in costs. The result was major operating losses and the elimination of the

⁵ <https://www.mpi.mb.ca/Documents/2019-quarterly-financial-report-3rd-qtr.pdf> p. 4.

⁶

<https://www.sgi.sk.ca/documents/625510/626996/SGI+Auto+Fund+2nd+Quarter+Report+September+2019.pdf/fdc25670-1b51-4956-97dc-180417eb2ee3> p. 3.

⁷ <https://vancouver.sun.com/news/politics/icbcs-fairness-commissioner-to-be-supercharged>

⁸ Table 1.2 in

[http://www.bcpolicy Perspectives.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](http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional%20paper%20no%2068%20icbc%20stats%2018%20june%2019%202.pdf/occasional%20paper%20no%2068%20icbc%20stats%2018%20june%2019%202.pdf)

⁹ Alberta <https://airb.alberta.ca/ratechanges/> with 5% assumed for 2019; ICBC, MPI and SAF from https://www.bcuc.com/Documents/Proceedings/2019/DOC_53549_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf Pdf 628 and 630.

policyholders' equity. In Alberta, the cap on rate increases for 2017 to 2019 resulted in insurers suffering losses and limiting underwriting to only low-risk drivers.¹⁰

Why has the rate of increase in Basic auto insurance premiums been so much larger in Alberta and BC (ICBC) compared to Saskatchewan and Manitoba? Clearly, the delivery model (public versus private) is not the determining factor. Rather, those operating within a no-fault liability model for injury claims have witnessed much more moderate premium increases during the last five years than those operating within a tort or hybrid-tort model. And the Saskatchewan and Manitoba public insurers have not been subject to government edicts restricting rate increases to achieve some broader political objective of “affordability” (which restricted coverage in Alberta or destroyed ICBC’s equity in BC).

Total Premium Cost

A single focus on the price of the compulsory Basic insurance does not provide a meaningful picture of the cost of auto insurance for most drivers. This is because the vast majority also purchase additional liability coverage and own vehicle damage coverage as optional insurance.

The Insurance Bureau of Canada (IBC) has recently released a report that suggests that older, low-risk drivers are paying more for their combined coverage through ICBC than they would through private insurers in Alberta.¹¹ The comparison is useful in that the IBC-commissioned report is based on actual quotes from brokers, rather than their previous report that tried to equate financial statement data with average rates. The report does not fully compare like-to-like situations because it uses the lowest quote in Alberta; while a median of the quotes would result in a higher number to compare to ICBC’s quote.¹²

What about the price offered by the no-fault jurisdictions? In June the Manitoba Public Insurance (MPI) provided rate comparisons as part of its 2020 rate request application.¹³ The summary is shown in the Appendix. In this comparison the combined rates for Saskatchewan and Manitoba are significantly lower than any other province, and significantly lower than the rates in Alberta and Ontario.

¹⁰

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_recent_initiatives_auto_insurance_20_december_2019/pdf/commentary_recent_initiatives_auto_insurance_20_december_2019.pdf

¹¹ <http://assets.ibc.ca/Documents/Auto%20Insurance/BC-Auto/Comparison-of-Auto-Insurance-in-BC-and-Alberta-2020.pdf> and <https://theorca.ca/visiting-pod/apples-to-apples-bc-drivers-are-simply-paying-more/>

¹² This failing was noted by the insurance brokers’ association, see <https://www.insurancebusinessmag.com/ca/news/auto-motor/ibabc-challenges-ibcs-report-comparing-bc-and-albertas-auto-insurance-212144.aspx>

¹³ <https://apps.mpi.mb.ca/Rate-Application/2020/index.aspx> Pdf 188.

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

Figure BMK- 4 Canada Rates Map
Among the Lowest Vehicle Rates in Canada in 2019

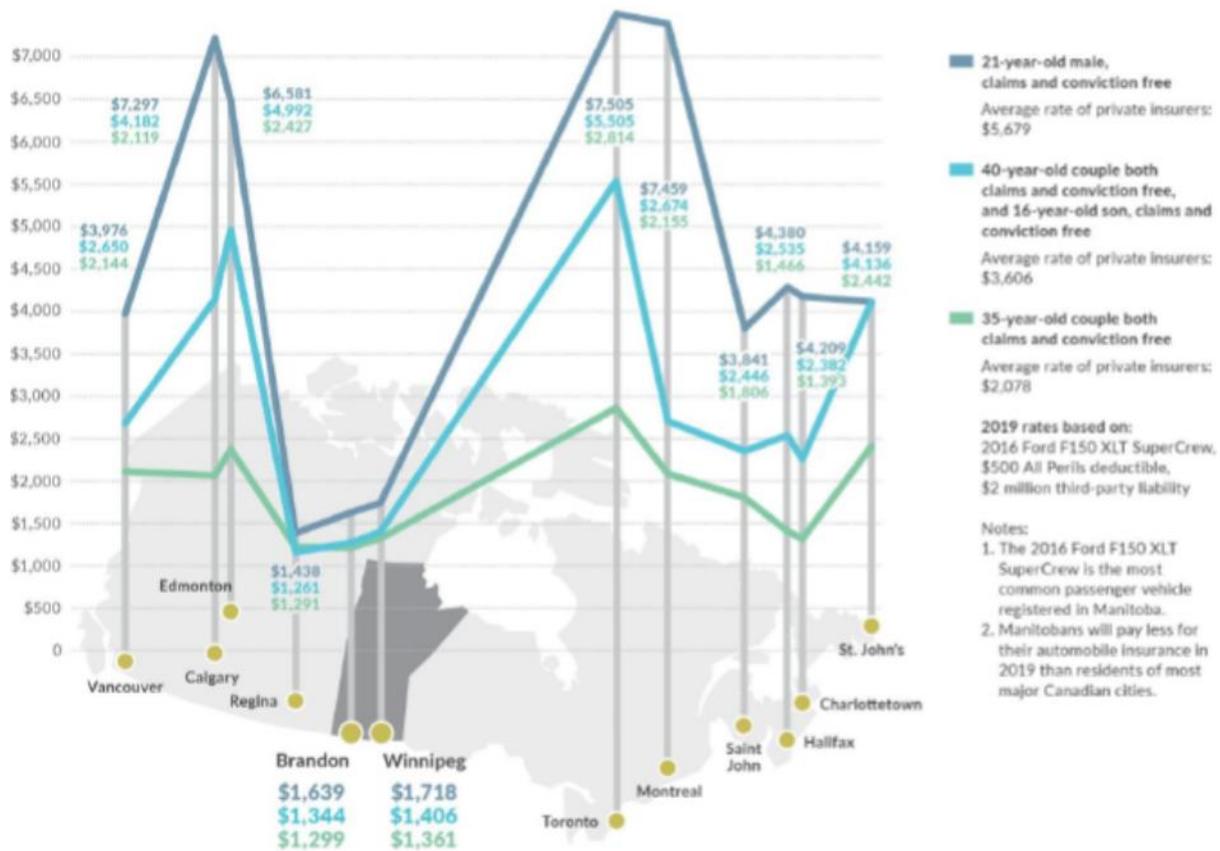


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