

AUTO INSURANCE AFFORDABILITY IS AN ISSUE IN THE SASKATCHEWAN ELECTION

The people of Saskatchewan will be electing a new government in less than two weeks. The opposition NDP recently promised that it would reduce Basic auto insurance premiums by 7% and provide a one-time \$100 rebate to every policyholder. The governing Saskatchewan Party denounced the plan as unaffordable as it would drive up the provincial debt.

As affordable auto insurance is an issue in the BC election the issue in Saskatchewan deserves a closer look.

The Saskatchewan Auto Fund has Excess Capital

The publicly-owned Saskatchewan Government Insurance (SGI) operates the compulsory Basic monopoly (called the Auto Fund) as well as the Optional coverage for property and casualty insurance.¹ Similar to the Manitoba system, it operates under the no-fault liability model and has high financial limits on its injury coverage. The Auto Fund enjoys a strong financial condition, with a healthy capital reserve and low rates.²

The NDP is correct in arguing that the Auto Fund's actual capital reserves, as measured by the minimum capital test (MCT) formula, are greater than the target. The MCT "is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available to capital required. The Auto Fund's Capital Management Policy is to maintain an operating target MCT of 140% on a rolling 12-month average."³

As of 30 June 2020, the capital reserve had grown to \$1.81 billion, which resulted in a 12-month average MCT of 158%. The \$100 rebate would reduce the MCT to the 140% targeted level, which is still much higher than the 100% MCT target required of the Manitoba public insurer. The BC government had mandated a 100% MCT target for the

¹ SGI competes in other provinces for P&C business.

² The Auto Fund has not requested a rate increase for the last six years.

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https://www.sgi.sk.ca/documents/625510/2211028/SGI+Auto+Fund+Quarterly+Report+August+2020.pdf/a430f65a-825e-489b-9ccc-d416276eacf4_p.5 ICBC says the MCT is an industry measure "used to determine whether a company has sufficient capital levels, commensurate with the risks within its business. The measure is based on guidelines set by the Office of the Superintendent of Financial Institutions; <https://www.icbc.com/about-icbc/newsroom/Documents/Q1-stmt-of-ops.pdf>

ICBC Basic insurance, but this was suspended in 2018 as the capital reserve rapidly dissipated.⁴

The Auto Fund has enjoyed windfall savings due to the Covid-19 pandemic. In the first quarter (April to June) property damage claim costs were down approximately 30% compared to the prior year, while injury claim costs dropped by 42%. Injury claim frequency during the first three months of the year decreased to 0.4 claims per 1,000 insured years compared to 1.0 in the same period last year.⁵

Politicians Confuse Auto Fund Accounting

National public sector accounting rules require the net income (or loss) from a “government business enterprise” to be recorded as government income. This makes sense where the net income is transferred to the government consolidated revenue fund as a dividend. However, this rule can confuse the media and the public (and often the politicians) when no dividend is transferred.⁶

The Saskatchewan Party said the NDP plan to lower rates and to provide a rebate would increase the government debt.⁷ “The NDP’s plan to use the SGI [reserve] as an election slush fund would plunge Saskatchewan almost \$400 million further into deficit over the next four years,” said its spokesperson Jim Billington.⁸

The Auto Fund is kept separate from the consolidated revenue fund and does not pay a dividend to the government; therefore, the spokesman was wrong. However, the NDP plan would reduce the Auto Fund’s net income and assets. SGI’s Optional program did provide a \$54 million dividend in 2019/20.

The same accounting confusion occurs in this province, where the net income (or loss) from BC Hydro and ICBC is included the government’s surplus/deficit calculation, but does not impact the borrowing requirements.

⁴ The government suspended the regulatory requirement for a Basic MCT of 100% in February 2018.

⁵ <https://www.sgi.sk.ca/documents/625510/2211028/SGI+Auto+Fund+Quarterly+Report+August+2020.pdf/a430f65a-825e-489b-9ccc-d416276eacf4> p. 4.

⁶ http://www.bcpolicyperspectives.com/media/attachments/view/doc/accounting_rule_adds_complexity_17_feb_2018/pdf/accounting_rule_adds_complexity_17_feb_2018.pdf

⁷ <https://leaderpost.com/news/saskatchewan/ndp-promises-100-rebate-to-drivers-from-sgi-fund>

⁸ <https://globalnews.ca/news/7327424/saskatchewan-ndp-insurance-rebate-promise/>

Auto Insurance Affordability in the BC Election

In this province the opposition Liberal party has advanced the argument that opening ICBC's Basic program to competition from private insurers will reduce rates and enhance affordability. It also pledged to provide a onetime rebate to reflect the drop in claims costs due to the COVID-19 containment measures.⁹

The NDP has said that it will order ICBC to provide a rebate if the year-end finances warrant such an outlay. It is relying on the savings in claims costs from the adoption of a no-fault liability model to lower rates by an average of 20% beginning in May 2021.

Neither of the two main parties has offered a plan on how to restore ICBC's once healthy capital reserves. As of 30 June 2020, the combined Basic program and Optional equity was approximately \$500 million (MCT of 7%), or about \$3.0 billion below the minimum targets that were required until 2018. ICBC did not provide the actual MCT ratios for the compulsory Basic or Optional programs in its annual report for 2019/20, or in its first quarter report.

Operating with little or no capital reserve is a high-risk strategy, which may require a taxpayer bailout if financial markets turn negative again.

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_liberal_proposal_for_icbc_7_october_2020/pdf/commentary_liberal_proposal_for_icbc_7_october_2020.pdf

