COMMENTARY **ICBC**

SASKATCHEWAN NO-FAULT AUTO INSURER REPORTS HEALTHY Q2 RESULTS: ICBC GOING IN OPPOSITE DIRECTION

The compulsory public auto insurance program in Saskatchewan (called the Auto Fund --SAF) recently posted its second quarter financial report for the current fiscal year.[1] The Auto Fund is primarily a no-fault (injured parties cannot sue for pain and suffering) product with high amounts of coverage for the accident benefits available to all injured parties. Property damage claims have a $700 deductible (for passenger vehicles) to reduce costs.[2]

For the first six months the net income was $61.3 million, which increased the capital reserve to $837 million. The minimum capital test (MCT) ratio rose to 148%, slightly above the 140% management target.

SAF Operating Results

There was no general increase in Basic insurance rates for 2018/19 and net premium written revenue rose only 0.6% ($3.2 million). Investment income rose 28.5% reflecting a higher equity return compared to the Q2 of the prior year.

On a year-over-year basis net claims costs rose almost 21% ($74 million) but when the positive injury claim adjustment from the prior year is removed the current year claims increased by 6.7% over the same period for 2017/18. Property damage claims were up by 9%, and injury claims rose about 6%. An increase in the discount rate on the value of the unpaid claims reduced the claims costs by $15.1 million, helping to moderate the overall cost increase.

Comparison with ICBC

It is not possible to compare the Saskatchewan Auto Fund results for Q2 with the results for the Basic program at ICBC because ICBC does not provide this level of transparency. ICBC's highly abstract excuse for a quarterly report combines the compulsory Basic and the Optional program results. This is an affront to the notion of accountability, especially when the Basic program is a legislated monopoly.

Last month ICBC reported that for Q2 the combined Basic and Optional claims costs (including adjustments for the prior years claims estimates) had jumped by 26% over the previous year's Q2 results.[3] There was no disaggregation between current and prior year claims costs, nor any discussion as to changes in the discount rate.

---

[1] https://www.sgi.sk.ca/documents/625510/626996/SAF_2018_Sept_quarterly.pdf

[2] https://www.sgi.sk.ca/basic-auto-damage-insurance

[3] 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

ICBC reported an operating loss of $582 million, and did not provide any report on changes to the Other Components of Equity, or to the net equity position. We must assume that the combined capital (equity) reserve of $987 million as of year-end 2017/18 had dropped to about $400 million by 30 September 2018.

Late last week ICBC filed its Basic rate request for the 2019/20 fiscal year. While the 1,400-page justification contains a vast amount of detail it lacks a simple comparison of the forecast budget for 2019/20 compared to the current year forecast and the 2017/18 actuals.[4] Certain 2018/19 forecast information is scattered through the submission.

Basic Capital Reserve

The SAF has been building its capital reserve, which achieved an MCT ratio of 148% by 30 September 2018. This has been accomplished in the absence of any general rate increase during the last four years.[5]

The capital reserve of ICBC's Basic program, by contrast, has been rapidly declining as the structural operating deficit continues to deplete the policyholders' assets. As shown in the Appendix, ICBC forecasts that the Basic reserve will be practically eliminated by 31 March 2019. It can be confidentially estimated that practically no capital reserve will remain in the Optional program by the end of the year.

Claims Costs

ICBC's Basic rate request suggests that the current year-end forecast for current and prior years claims costs will increase by $518 million (up 14%) compared to 2017/18, including a large ($268 million) increase to the reserve for prior years injury claims.

The Saskatchewan and Manitoba no-fault jurisdictions have not recorded the rapid increase in injury claims costs witnessed by ICBC's tort model.

 December 20, 2018. http://www.bcpolicyperspectives.com/

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.

[4] It also lacks a multi-year forecast of revenue, expenditures and equity; https://www.icbc.com/about-icbc/company-info/Documents/bcuc/2019-revenue-requirements-application.pdf

[5] http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_mpi_rates_up_5_december_2018/pdf/commentary_mpi_rates_up_5_december_2018.pdf

APPENDIX

As of 31 March 2018, the combined capital reserve (equity) was $987 million, with $826 million reported for the Basic program, and $161 million for the Optional program. When the second quarter summary was released it was reported that the combined deficit for 2018/19 would be %890 million. ICBC did not forecast the year-end capital reserve, but we can assume that it would drop to about $100 million ($987 million less $890 million).

In its 2019 Basic rate request ICBC forecast that the Basic capital would drop to $70 million by 31 March 2019. If correct this would leave approximately $30 million for the Optional capital ($100 million combined less the $70 million for Basic). Table 1 shows the minimum capital test ratio falling to 4% leaving a capital reserve shortfall of $1.7 billion compared to the 100% minimum ratio (which was suspended by cabinet order in February 2018).

Table 1 – BASIC CAPITAL REDUCTION ($=million)

	2017/18	F2018/19
Capital Remaining	826.4	70.0
MCT Ratio	53%	4%
Capital Required @ 100%	1,500.4	1,720.0
Shortfall	(674.0)	(1,650.0)

Source: 2017/18 ICBC annual report; 2018/19 ICBC 2019 rate request pdf p. 37/1419 and p. 1069/1419.

ICBC does not provide any forward estimates of the Optional program, however my estimates are shown in Table 2. The government formerly required ICBC to maintain an MCT ratio of 200%, which means that by 31 March 2019 the Optional program will have a capital reserve shortfall of almost $2.1 billion.

Table 2 – OPTIONAL CAPITAL REDUCTION ($=million)

	2017/18	F2018/19
Capital Remaining	161.0	30.0
MCT Ratio	e18%	e1%
Capital Required @ 200%	e1,780.0	e2,100.0
Shortfall	(1,619.0)	(2,070.0)

Source: 2017/18 ICBC annual report; 2018/19 ICBC 2019 rate request pdf p. 37/1419.

By year-end there will be a funding gap of approximately $3.7 billion in the Basic and Optional reserves.