

SASKATCHEWAN ANNOUNCES AUTO INSURANCE REBATE

The government of Saskatchewan just announced that the publicly-owned Saskatchewan Government Insurance (SGI) will be providing a one-time premium rebate for the current year, and enhancing the benefits for injured claimants. The Saskatchewan announcement includes a rebate resulting from fewer claims due to the COVID-19 pandemic, and follows rebate announcements by the Manitoba Public Insurance (MPI), and by the BC government respecting ICBC.

The one-time rebate will total \$285 million and results from a significant reduction in claims costs due to the pandemic (approximately \$100 million), and strong returns for the invested funds.¹

Larger Capital Reserves

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. The public insurers are exempt from these federal standards but have adopted the minimum capital test (MCT) formula and capital adequacy targets. 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.

The SGI has accumulated large capital reserves in its compulsory monopoly program (called the Auto Fund) and in its Optional program. In the third quarter to 31 December 2020, the Auto Fund's capital reserve had grown by \$542 million to \$1.35 billion, with a 12-month rolling average MCT of 172%.² This was well above the management target of 145%.

“The Saskatchewan Auto Fund Rate Stabilization Reserve is in a very strong financial position due to very strong investment returns and – to a smaller degree – fewer collision claims due to the COVID-19 pandemic,” Minister Responsible for SGI Don Morgan said. “As a result, SGI will pass on these earnings to the people of

¹ <https://www.saskatchewan.ca/government/news-and-media/2021/february/26/sgi-to-issue-rebates-to-customers-average-payment-of-285-per-vehicle>

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<https://www.sgi.sk.ca/documents/625510/2211028/SGI+Auto+Fund+Quarterly+Report+December+2020.pdf/3ef89a64-1baa-628e-ae1c-a066ad8003a9> p. 8.

Saskatchewan by issuing rebates to all registered vehicle owners and by improving injury benefits.”³

The MPI rebate was also a result of the windfall COVID-19 claims savings and strong investment returns. It has MCT targets of 100% for the monopoly Basic insurance and 200% for the Optional/Extension insurance.

Third Quarter Reports

The Manitoba and Saskatchewan public auto insurers have recently posted their financial reports for the first nine months of the fiscal year.⁴ Unfortunately, the BC government does not allow ICBC to publicly release its two-page financial summary until the province’s 2021/22 budget is released on 20 April 2021. This conforms to the government’s tight control over the finances of ICBC but makes timely comparisons with other insurers impossible. ICBC’s second quarter report was withheld for over two months and only released following the government’s COVID-19 rebate announcement.

ICBC’s simplified reports do not separate the equity and the MCT ratio between the compulsory Basic and the competitive Optional programs.

Summary of Rebates

The BC government claimed that the ICBC rebate was the largest of all auto insurers. This may be true, but on a percentage of Basic premium basis it is well below that of SAF, as shown in the table below.

SUMMARY OF REBATES

	ICBC	SAF	MPI
One-Time Rebate (\$=million)	600	285	180
Per Cent of Basic Premium	19%	26%	16%
Basic MCT as of 31 Dec. 2020	Q2 = 28%	172%	100%*
Basic MCT Target	Suspended	145%	100%

*After rebate distribution. The BC government suspended ICBC’s 100% Basic regulatory requirement in 2018.

³ <https://www.saskatchewan.ca/government/news-and-media/2021/february/26/sgi-to-issue-rebates-to-customers-average-payment-of-285-per-vehicle>

⁴ <https://www.mpi.mb.ca/Documents/2020-3rdQtrReport.pdf> and <https://www.sgi.sk.ca/documents/625510/2211028/SGI+Auto+Fund+Quarterly+Report+December+2020.pdf/3ef89a64-1baa-628e-ae1c-a066ad8003a9>

Despite the low capital reserves at ICBC, the BC government defended the \$600 million rebate as fulfilling a promise made during the October 2020 election. During the recent election in Saskatchewan the government dismissed pressure for a Covid-19 rebate on the grounds that it would increase the government's deficit/debt (which was incorrect).⁵ Apparently, the cost of auto insurance is a highly charged political issue in many provinces.⁶ But while providing a rebate may be a popular move, it should not increase the risk to the financial health of the public insurer. The rebates in Saskatchewan and Manitoba were affordable, but based on the scant financial information available for ICBC it is impossible to arrive at a similar conclusion.

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

⁵ <https://www.cbc.ca/news/canada/saskatchewan/sgi-customers-rebate-may-2021-1.5929385>

⁶ https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_alberta_adopts_changes_30_november_2020/pdf/commentary_alberta_adopts_changes_30_november_2020.pdf