INSURANCE CORPORATION OF BRITISH COLUMBIA – OCCASIONAL PAPER No. 2a

ICBC'S FIRST QUARTER 2016 FINANCIAL REPORT[1]

In June 2016 ICBC released its first quarter report (statement of operations) for the period 1 January 2016 to 31 March 2016. The single page Q1 report is at the corporate level and contains no analysis or discussion to explain the changes from the previous year's Q1 numbers. The results at the Basic and Optional insurance level are not reported, nor are the claims backlogs values or the change in the asset values of the investment portfolio.[2] The corporate Q1 reports for the last three years were compared to 2016.

KEY INDICATORS

Premiums Earned – were up **9.2%** compared to the prior year, which suggests a healthy growth in the number of policies sold. In November 2015 Basic rates were increased by 5.5%, and Optional rates were increased by 2.2%, which given the proportions equates to an average of approximately 4.2%. In the last three years the Q1 premiums earned are up **19.7%**.

Current Year Claims Costs – the Q1 current year claims costs jumped $204 million, or **24%**, over the prior year, and in the last three years the current year claims costs are up **38.1%**. The large growth seems suggests that the rapid growth in Basic bodily injury claims reported in the last nine months of 2015 is continuing into the current year.

Net Claims – were up $305 million, or **36%**, over the prior year, reflecting the rapid increase in current claims costs and a $101 million increase in the allowance for prior year's claims. In the last three year's net claims costs are up $390 million, or **51%.**

Investment Income – reported a decrease of $200 million from the amount recorded in the prior year, reflecting the end of the sale of assets as ICBC has finished repositioning its investment portfolio.

Net Income – reported a loss of **$301** million for Q1, and a decrease of **$425** million from the Q1 2015 report, reflecting the growth in claims costs and the lack of a growth in investment income.

Capital Reserve Equity) – The amount of equity was not shown, but the MCT ratio has dropped to **141%** from the **208%** reported in Q1 2015. Assuming that for Q1 a 1% MCT equals $20.2 million ($19.8 million for 31 December 2015), the capital reserve was approximately **$2.85** billion, a drop of **$0.25** billion in three months, and a drop of approximately **$1.0** billion in one year. One can assume that the sharp

[1] http://www.icbc.com/about-icbc/company-info/Documents/statement-of-operations-q1-2016.pdf#search=statement%20of%20operations

[2] When questioned by the writer as to the adequacy of such a report, given the size and importance of such a Crown, ICBC stated that the report met the requirements of the Budget Accountability and Transparency Act. The BC Utilities Commission has not asked ICBC to produce a more fulsome quarterly report.

increase in Basic bodily injury claims costs, observed in the first nine months of 2015, is continuing into 2016.

The rise in current year claims costs, combined with the increase in the allowance for prior claims yet to be settled, is driving the net income into a deficit larger than that budgeted in ICBC's 2016/17 service plan. The table below compares the Q1 capital ratios for the last three years to the year-end ratios as of 31 December.

MCT RATIO	Q1	YEAR-END	DIFFERENCE
2014	200	193	(7)
2015	208	157	(41)
2016	141	?	?

For both 2014 and 2015 the year-end ratio was less than the Q1 ratio. If, for modeling purposes, a decline of 20 basis points is assumed, the corporate MCT could be in the 120-125% range by 31 December 2016.[3] At 125%, the corporate capital reserve would total approximately $2.6 billion, a drop of approximately $0.5 billion from the 2015 year-end level.

A capital reserve of $2.6 billion would be close to the government minimum requirement of 100% for Basic and 200% for Optional. However, based on the methodology used in Occasional Paper No. 1, the Basic insurance program could be $300 million below the 100% minimum by 31 March 2017. Assuming that the Basic is short by $150 million by 31 March 2016, it would have a MCT ratio of about 90%. The Optional ratio would be above the minimum, but a capital transfer of $150 million to Basic, combined with the planned $150 million transfer of 'excess' capital to the government, would likely push the ratio below the regulatory minimum.

In summary, ICBC's Q1 results are alarming and suggest that the growth in the Basic bodily injury claims costs is accelerating. In the absence of a significant rate increase in November 2016, and a moderation in the claims costs growth, the risk to future claimants receiving full compensation is very high.

Richard C. McCandless August 3, 2016.

The writer is a retired senior BC government public servant who's paper on the 40-year financial history of ICBC was published by *BC Studies* in 2013. The same academic journal will be publishing his paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 in the fall. He has been an intervener in the BC Utilities Commission's 2014 and 2015 reviews of ICBC's rate requests.

[3] This assumes rate increases of approximately 6% for Basic and 4% for Optional.