

THE RECENT GROWTH IN ICBC CLAIMS COSTS

FINANCIAL TRENDS FROM 2011 TO 2015¹

In the last five years ICBC's total expenditures have increased by approximately \$1.3 billion, or 33%. Expenditures in the compulsory Basic program have risen by \$1.0 billion (up 42%) while those for the Optional program are up by \$280 million (19%).

The growth in claims costs has been the main reason for the increase in total expenditures. Including adjusts to the estimate for prior years claims unpaid, claims costs have risen by \$1.18 billion (41%) during the last four years, averaging approximately 10.3% per year. All other costs have increased by \$120 million (11.5%), with taxes and commissions up by \$84 million (16%), and the cost of processing claims and road safety programs remaining flat over the review period.²

The ICBC 2015 annual report shows that between 2011 and 2015 current year injury claims costs grew by \$746 million (41%), while material damage (vehicle damage including windshields) rose by \$184 million (19%).³ The total increase in the current year provision for injury claims included \$688 million (40.7%), for bodily injury (BI) claims, and \$58 million (46.4%) for Part 7 accident benefits, including medical and rehabilitation, wage loss, home support and death benefits.

CLAIMS COSTS GROWTH BY PROGRAM⁴

PERCENTAGE INCREASE IN CLAIMS COST 2012 TO 2015

	2012	2013	2014	2015	CUL. TOTAL
BASIC	6.7	5.0	5.6	14.0	34.9
OPTIONAL	1.2	4.4	9.0	9.0	25.5

Source: ICBC annual reports.

¹ Unless otherwise noted all the information is from ICBC's annual reports.

² ICBC significantly reduced claims processing staff in anticipation of efficiency gains from its information systems and business transformation initiatives.

³ Page 20.

⁴ The break-down of the type of claims costs by program is derived from information in the 2015 annual report; ICBC does not provide this level of detail.

In the Basic program, current year claims costs increased during the four years by approximately \$680 million (35%), with injury claims costs up by approximately \$620 million (40%), and property damage costs up by about \$40 million (13.6%). Of concern is that during the last two years the injury claims costs have increased (up 22%) at a higher rate than during the earlier years, despite improvements in vehicle and road design.

In 2015 the Optional program recorded approximately \$1.18 billion in current year claims, of which approximately \$720 million (61%) were for property damage claims. In the period under review, current year claims costs have increased by approximately \$240 million (25.5%), with injury claims rising by approximately \$110 million (31%), and property damage claims growing by approximately \$130 million (22%). Almost all of the four-year growth in the property damage claims costs has occurred in the last two years, while the growth in injury claims costs has averaged 7.8% per year during the four years.

REASONS FOR THE GROWTH IN CLAIMS COSTS

The previous sections outlined the significant growth in claims costs, and in particular on the growth in Basic bodily injury claims costs, during the last four years. This section will attempt to focus the discussion on what are the main factors or drivers that are resulting in the large increase in claims costs.

ICBC does not publicly report details on policies and claims by program level, claiming that providing detailed information on the Optional program, even after the fact, could provide private insurers with a competitive advantage. Details on certain aspects of the Basic program are provided to the BC Utilities Commission during the annual rate requirement process.

Are the number of crashes increasing? In its 2015 Annual Report ICBC indicated that the total claims reported for 2015 were approximately 5% less than the number in 2011.⁵ As for Basic bodily injury (BI) claims, where current year claims costs had increased by approximately 40% in the last four years, ICBC stated that the number of new BI claims had increased by 8.7% during the same period, while new property damage (PD) claims had increased by 3.4%.⁶ Clearly, the majority of the growth in Basic claims costs relates to growth in the cost per claim (severity), not to a marked increase in the number of claims.

What explains the growth in the average cost of a Basic BI claim? ICBC has indicated that an increase in the number of claimants being represented by a lawyer has increased its Basic BI claims costs. According to ICBC, a represented claim increases the settlement cost by 50%. It also explained some of the growth in BI claims costs as a product of a marked increase in the number of “mild” soft tissue (whiplash) claims since 2008.⁷ ICBC has not provided details on the changes in BI awards for past and future wage loss, future care, pain and suffering and other “heads of damages” that are included in the BI cost numbers. ICBC has filed more detailed confidential information on soft tissue claims with the BC Utilities Commission, but this has not been publicly released.⁸

⁵ ICBC, Annual Report 2015, p. 18.

⁶ The 2015 number was a projection, see BC Utilities Commission, ICBC 2015 Rate Requirements, IR 1, RM, 18 November 2015, http://www.bcuc.com/Documents/Proceedings/2015/DOC_45223_B-5_ICBC-Responses-IR-1.pdf, page 755 of 830.

⁷ Ibid., ICBC Submission of 15 October 2015, Exhibit C.0.5, p. 13.

⁸ http://www.bcuc.com/Documents/Proceedings/2016/DOC_45608_B-11-1_PUBLIC_ICBC_IR-Resp.pdf

In a recent document, ICBC suggested that the growth in BI claims costs was due to an increasing propensity to claim for damages despite safer vehicles, and “financial incentives” increasing a sense of entitlement to compensation.⁹

CAN THE GROWTH IN CLAIMS COSTS BE MODERATED OR REVERSED?

In the 2015 annual report ICBC states that it has a strategy to “manage” increasing BI claims costs, and that it is working with the government to develop short and long-term strategies to moderate the growth in claims costs. The focus seems to be on reducing the number of claims (frequency) rather than the growth in the average cost per BI claim. Recent increases in fines and penalty points for distracted driving are useful tools to help reduce the high number of rear-end collisions, but whether the number of minor BI claims will be reduced will take some time to determine.

ICBC, the BC Utilities Commission and the government should be analyzing the data regarding the recent growth in the costs of minor BI claims as this appears, from the limited information provided by the public insurer, to be an important determinate of claims costs growth.

What is in question is the willingness of vehicle owners in this province to continue to accept annual Basic insurance price increases of 3 to 4 times the level of general price increases for the compulsory insurance, and more recently a increase in the cost of the necessary additional Optional coverage.

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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.

⁹ The financial incentives were not explained, see ICBC, “BC Supreme Court Civil Rules: Considerations for Discussion,” April 1, 2016, p. 20.