

## **WHY DOES THE GOVERNMENT CONDONE POOR PUBLIC ACCOUNTABILITY AT ICBC?**

If you wondered how many Basic or Optional auto insurance policies ICBC sold, or the number and average cost of claims, you will not find the answer in its annual report.

Now that the government has addressed the affordability of auto insurance by revising ICBC's injury coverage limits and dispute process for the Basic insurance, it should turn its attention to requiring the corporation to improve its public accountability.

This paper explains how ICBC's annual service plan and the annual report are well below the standards of BC Hydro and WorkSafeBC, and of the two public auto insurers in Saskatchewan and Manitoba.

## **THE BRITISH COLUMBIA ACCOUNTABILITY MODEL**

The accountability model developed for the government and its Crown corporations is among the most advanced of all public-sector reporting schemes in Canada. Its primary benefit is the linking of financial information with key service measures at the program level. The annual service plan shows the three-year financial and related service measure forecast by program, and the annual report provides the actual financial results as well as the actual service measures produced.

The current model was first implemented in the early 2000s following an agreement between the government, the legislature (represented by the public accounts committee) and the auditor general. As the auditor general stated, "For the first time, those who prepare public performance plans and reports, those who use them and those who assess them do so from a common basis, with agreement on the fundamentals of meaningful performance reporting."<sup>1</sup>

The reporting system focused on integrating the service plan with the annual report, and was based on three fundamental tenants, the first being that the reporting system should "support an open and accountable government—one that clearly communicates to the public what government strives to achieve and what it actually achieves."<sup>2</sup>

Eight principles were approved to guide government in reporting to the public on its performance.

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<sup>1</sup> [https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/public-sector-management/performance\\_reporting\\_principles.pdf](https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/public-sector-management/performance_reporting_principles.pdf) p.1.

<sup>2</sup> Ibid.

1. Explain the public purpose served
2. Link goals and results
3. Focus on the few, critical aspects of performance
4. Relate results to risk and capacity
5. Link resources, strategies and results
6. Provide comparative information
7. Present credible information, fairly interpreted
8. Disclose the basis for key reporting judgements

The authors of the new reporting model cautioned that the eight principles should not form the structure of a plan or report. “The principles are a way of thinking about the content, completeness and quality of performance reporting. The expectation is that organizations will broadly incorporate all the principles in a plan or report, rather than reporting separately against each principle.”<sup>3</sup>

A good discussion of the application of these principles can be found in WorkSafeBC’s 2012 annual report.<sup>4</sup>

## **ICBC ADOPTS FORM OF REPORTING, NOT CONTENT**

Like all ministries and commercial Crown corporations, ICBC adopted the new reporting structure. However, it did not evolve beyond reporting at the corporate level, and its key performance indicators avoided any mention of the number of actual policies issued or the number of injury or property damage claims received.

ICBC does not use most of the insurance industry performance measures because it believes that it is fundamentally different than the privately-owned insurers. In its 2009 to 2011 service plan our public insurer stated:

ICBC has a uniquely different business model relative to other insurers in the P&C industry. Our business model is to set premiums to achieve and maintain our capital target rather than to maximize our return on capital. We operate exclusively within British Columbia under a full tort environment wherein the cost of settling a claim may be higher than in other jurisdictions that do not operate in the same system. We are mandated to provide automobile insurance to all drivers in B.C., including high-risk drivers. We provide auto insurance rates that are not based on age, gender or marital status. ICBC also provides a wide range of non-insurance services, such as driver licensing, vehicle registration and licensing, and fine collection on behalf of the provincial government. Due to our unique business model, we therefore do not set our performance targets based on industry benchmarks.<sup>5</sup>

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<sup>3</sup> Ibid. p. 5.

<sup>4</sup> <https://www.worksafebc.com/en/resources/about-us/annual-report-statistics/2012-annual-report-20132015-service-plan/2012-annual-report-20132015-service-plan?lang=en>

<sup>5</sup> <http://www.icbc.com/about-icbc/company-info/Documents/service-plan-2011-update.pdf> p. 15.

While all of this is true, is it a sufficient justification for not reporting at the program level (as required by the eight principles), or for not reporting on fundamental information such as the planned or actual policies sold, and claims received or settled?

Most of the key performance indicators used by ICBC are qualitative, such as customer satisfaction scores. The few quantitative measures, such as the combined ratio, provide some utility, but are meaningless when compared to other insurers for the reasons provided by ICBC quoted above (unlike operations).

## **RATING ICBC'S ANNUAL REPORTS**

ICBC's service plan and annual report do not provide legislators and the public with sufficient and meaningful information as to how well the corporation is achieving its objectives. The reader cannot make a meaningful judgement about the funding of the core programs, and whether these are operating within reasonable parameters.

Reading the service plans and annual reports one would understand that in recent years the corporation has been under enormous financial stress, but one would have no sense as to whether the problem was caused by more claims, or higher average cost per claim, or lack of revenue. One would have no sense as to what was happening to the Basic and Optional programs, not the program-level forecasts.

### **Program Level Reporting**

Purchasing ICBC's Basic insurance is compulsory for those who operate a motor vehicle in this province. Because of the state-granted monopoly it is incumbent on the government to ensure that the coverage is adequate and that the price is affordable. The Optional insurance covers additional third-party liability and property damage coverage for the at fault driver. Non-insurance services are funded by Basic policyholders and primarily fund the provincial driver's licensing program.

ICBC provides no program-level information in its service plan or in its annual report.<sup>6</sup> ICBC claims that to divulge the three-year Optional financial forecast in the service plan would be prejudicial to its competitive interests. If so, one must question how this same logic can be used to avoid commenting on the after-the-fact results in the year-end report. The public auto insurers in Saskatchewan and Manitoba also offer Optional insurance in a competitive market place, and they provide year-end reports.

ICBC does provide a large amount of information each year to the BC Utilities Commission to justify its annual rate request for the Basic program. This information is often at a very detailed level, and because the rate (or policy) year is different than the fiscal year, the information can quickly lead to confusion among those not familiar with the nomenclature and the concepts being discussed. In no way can the lengthy rate submission be considered as a public reporting/accountability vehicle.

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<sup>6</sup> The annual report has a single page separating Basic and Optional finances in the accompanying financial statements.

ICBC takes direction from the government. This was evident in October 2016 when ICBC balked at filing a five-year financial forecast with the BC Utilities Commission, stating that to disclose such fundamental information could be taken out of context “and used to prejudice ICBC and its Basic insurance policyholders and thereby harm ICBC’s financial interest.”<sup>7</sup>

### **Quarterly Reports**

ICBC produces a one-page “Statement of Operations” after the second and third quarters. This aggregate summary is at the corporate level and contains no commentary or information about total comprehensive income or changes to equity. In contrast, BC Hydro produces a 20+ page detailed quarterly report with commentary.

ICBC claims that the one-page summary is sufficient disclosure; “ICBC believes that its current quarterly reporting reflects the appropriate accountabilities to the government, the Commission, and the public. ICBC believes that posting Basic insurance quarterly financial results is not necessary to enhance this accountability.”<sup>8</sup>

### **Meaningful Indicators**

In most input-output analyses the input (usually the financial resource or a derivative) is measured against the output, as measured by levels of service. In ICBC’s case the revenue generated would be measured against the number of policies sold, or the claims costs would be measured against the number of claims.

Most of the key indicators in the ICBC accountability documents do not relate to the organization’s objectives, nor to providing an indication as to whether the operating objectives were achieved.

The key indicators used in the service plan and the annual report could be greatly strengthened if basic information on the number of policies sold, and the number of claims (injury and property damage) were included. Trends in industry standard indicators on frequency and severity of crashes should be included.

The reports produced by BC Hydro contain a good deal of detailed financial and service measure information (mainly the amount of electricity available and consumed).<sup>9</sup> Its report contains a multi-year data summary for many of the key input/output measures.

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<sup>7</sup> [http://www.bcuc.com/Documents/Proceedings/2016/DOC\\_47830\\_B-2\\_ICBC-IR-No-1.pdf](http://www.bcuc.com/Documents/Proceedings/2016/DOC_47830_B-2_ICBC-IR-No-1.pdf) PDF p. 213/735. The Commission required ICBC to file the forecast publicly, which caused some embarrassment for the government. The next year, following the May 2017 election, the corporation provided a new forecast without any concerns about being taken out of context.

<sup>8</sup> [http://www.bcuc.com/Documents/Proceedings/2014/DOC\\_42811\\_B-15\\_ICBC-Responses-IR-No2.pdf](http://www.bcuc.com/Documents/Proceedings/2014/DOC_42811_B-15_ICBC-Responses-IR-No2.pdf) PDF p. 1449/1465.

<sup>9</sup> <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/bchydro-2016-17-annual-service-plan-report.pdf>

WorkSafeBC's annual report combines the service plan and the annual report.<sup>10</sup> In both reports the reader learns far more about the corporations' service levels and challenges than the reader would after reading ICBC's accountability documents.

## **Analysis of Results**

Unlike the annual reports of BC Hydro, WorkSafeBC, or the public insurers in Saskatchewan and Manitoba, ICBC's annual report contains little or no discussion as to why the results differed from the prior year's results. Where some reasons for the variance in expenditure are suggested they are not supported by data or a statistical analysis.

This has been a major failing in recent reports as there was little indication of the slide to insolvency facing the corporation as the capital reserves were rapidly depleted to subsidize the Basic rates.

## **SUMMARY**

ICBC must become more accountable to the public and the legislators through a significant improvement to its service plan and annual reports. There are many models, including BC Hydro and WorkSafeBC, to use to improve the utility and effectiveness of the accountability reports. Let us hope that minister responsible David Eby and the new board of directors move quickly to enhance the accountability of this vital Crown corporation.

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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 has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

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<sup>10</sup> <https://www.worksafebc.com/en/resources/about-us/annual-report-statistics/2017-annual-report/2017-annual-report-2018-2020-service-plan?lang=en>