OCCASIONAL PAPER No. 58 ICBC

POSITIVE FINANCIAL RESULTS FROM PUBLIC AUTO INSURANCERS IN SASKATCHEWAN AND MANITOBA CONTRAST WITH ICBC FORECAST

Unlike the projected $1.39 billion total comprehensive loss forecasted for ICBC, the public auto insurers in Saskatchewan and Manitoba have reported reasonably strong financial results for the 2017/18 fiscal year.

While we await the release of ICBC's audited 2017/18 year-end annual report, this paper summarizes the results for the Saskatchewan Government Insurance (SGI) and the Manitoba Government Insurance (MPI).

1.0 THE RESULTS

1.1 Compulsory Basic Insurance

The compulsory Basic insurance in Saskatchewan, managed through the Saskatchewan Auto Fund (SAF), and in Manitoba provide high levels of accident benefits and no-fault third-party liability.[1] There is a minimum property damage deductible of $500.

1.1.1 Saskatchewan Auto Fund[2]

Despite no general rate increase, the SAF recorded total comprehensive income of $210 million, which raised the capital reserve (equity) minimum capital test (MCT) ratio to 147% (up from about 103% last year).

The main reason for the strong result was a positive adjustment to the provision for prior year injury claims, which resulted in a combined claims costs reduction of 1.3% compared to the prior year.

The emphasis on increasing driving safety has reduced the number of driving fatalities and increased the revenue from driving penalties.

The high level of capital has prompted SGI to state that it will apply to the regulator for a small rate decrease for 2019.[3] This will likely eliminate the capital rebuild surcharge that was added to the rates a few years ago.

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[1] The SAF offers a tort-based Basic option, but less than 2% of vehicle owners purchase the tort option.
[2] https://www.sgi.sk.ca/documents/625510/626999/2948_Auto_Fund_2017_Annual_Report_final_web.pdf
[3] https://globalnews.ca/news/4330265/sgi-announces-rate-decrease-application-in-annual-report/

1.1.2 Manitoba Public Insurance[4]

The no-fault Basic program recorded net income of $34.4 million, compared to a $123 million loss in 2016/17. Again, a favourable actuarial adjustment to the provision for prior years injury claims was the primary reason for the positive result, as this resulted in a 11% decrease in total claims costs.

The Basic rates increased by an average of 3.7% and total premiums earned rose by 7.6%.

The positive result, together with a $37 million transfer from the optional program, raised the Basic MCT ratio to about 70%, which is within the range approved by the regulator.[5]

1.2 Optional Insurance

1.2.1 Saskatchewan Government Insurance (SGI)

The SGI offers auto and property insurance in B. C., Alberta, Manitoba and Ontario, as well as in Saskatchewan. In 2017/18 its claims costs rose by almost 13% (partly due to forest fire losses), while net premiums earned rose by 10.6%.

Net income was $59.4 million, a decline of almost $6 million from 2016/17, but the return on equity for 2017 was a very healthy 16%. The MCT ratio was a high 242%, after providing the government with a dividend of $43 million.

1.2.2 Manitoba Public Insurance

The optional insurance for MPI is also a profit centre, with net income rising to $56.6 million (from $38 million in the prior year). Again, a major reason for the positive result was the positive actuarial adjustment for prior years injury claims costs, which resulted in total claims costs declining by 1.6%.

The capital reserve rose by almost 12%; the MPI does not pay a dividend to the Manitoba government.

2.0 ISSUES for ICBC

The results for the two public auto insurers are not directly comparable to ICBC's (yet to be released) 2017/18 results, as the tort system in B. C. is significantly more expensive than the no-fault systems operating in Saskatchewan and Manitoba. The cheaper no-

[4] The MPI uses a March to February fiscal year; see https://www.mpi.mb.ca/en/PDFs/2017-AnnualReport.pdf
[5] The appropriate level of capital reserve has been a matter of dispute between the MPI and Public Utilities Board; MPI says an MCT ratio of 100% is required, while the regulator says a lower level is sufficient. MPI has been shifting optional capital to Basic to raise the ratio.

fault model is reflected in the premium rates, which are approximately 25% less in Saskatchewan and Manitoba.

However, some indicators do allow comparisons.

ICBC's February 2018 combined Basic and Optional forecast for 2017/18 (12-months) was compared to the 12-month prior year results in Table 3 in Occasional Paper No. 53.[6] The forecast change is compared to the results for the two other public insurers.

2.1 Claims Costs

ICBC forecast combined claims costs rising by 17.5%, with current year claims costs rising by 9.8% and the actuarial adjustment for prior years claims costs (mostly injury claims costs) rising by a massive 92%. ICBC suggests that the number of larger value settlements is growing, which implies that most of the impact will be on the Optional program.

This is the most significant difference with the no-fault liability systems, where injury claims costs increases were much smaller, and there was a positive actuarial adjustment for prior years claims costs.

ICBC admits that the forecast is conservative to account for possible increased claims costs resulting from the modification to the full tort scheme.[7]

2.2 Investment Income

ICBC forecast a decline of about 20%. The three public insurers account for investment income differently. There was a decline at SAF/SGI, but MPI showed an increase. Low interest rates have suppressed dividend income.

The market value of fixed income securities has remained relatively flat compared to 2016/17.[8]

2.3 Other Negative Adjustments

ICBC has forecast other adjustments that increased the cost of deferred premium acquisition costs in the commissions and taxes component of its cost summary. Such increases were not evident at SGI/SAF or MPI.

2.4 Unpaid Claims (Claims Backlog)

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6 http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_53_26_feb_2018/pdf/occasional_paper_no_53_26_feb_2018.pdf See Appendix.

7 http://www.bcpolicyperspectives.com/media/attachments/view/doc/jimenez_to_mccandless_march_15_18/pdf/jimenez_to_mccandless_march_15_18.pdf

8 https://www.theglobeandmail.com/investing/markets/inside-the-market/article-the-feared-bond-massacre-of-2018-never-happened/

The value of the unpaid claims liability grew very modestly at SGI/SAF and MPI. ICBC has seem a significant increase in the value of the claims backlog in recent years, which increases the pressure on rates (or reduces the capital reserve).

2.5 Capital Reserve (Equity)

ICBC forecast a major drop of $1.39 billion (57%) in the combined capital reserve. The year-end reserves for the Basic and Optional programs will be far below the minimum requirements. The government has suspended the 100% Basic minimum MCT ratio for four years as it transitions to the hybrid no-fault model.

The SGI/SAF and MPI have been rebuilding their capital position to protect policyholders in the event of a spike in costs or a downturn in the financial markets.

The lack of an adequate capital reserve for both the Basic and Optional programs increases the risk of a taxpayer bailout of ICBC.

 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.

APPENDIX

Table 3 from Occasional paper No. 53 compares ICBC's February 2018 combined Basic and Optional forecast for 2017/18 to the actual results for 2016/17, and to the September 2017 forecast for 2017/18.

TABLE 3 – LATEST FORECAST FY 2017/18 COMPARED TO PRIOR YEAR AND SEPTEMBER 2017 FORECAST ($=million)

		April to March 12-Month Comparison					Feb.'18 to Sept.'17*	
		2016/17	2017/18	Change	%Δ		Change	%Δ
1	Net Prem Ear.	4,914	5,335	421	8.6		16	0.3
2	Invest. Inc.	624	498	(126)	(20.2)		(1)	
3	REVENUES	5,644	5,948	304	5.4		22	0.4
4	Claim Current	4,612	5,064	452	9.8		345	7.3
5	Prior	202	591	389	92.5		654	n/a
6	Claims Total	4,814	5,655	841	17.5		999	21.5
7	Claim Service	365	395	30	8.2		--	
8	Tax & Comm.	688	801	113	16.4		94	13.2
9	Non-Insur.	127	126	(1)			--	
10	EXPEND.	6,256	7,244	988	15.8		1,093	18.1
11	NET LOSS	(612)	(1,296)	(684)	111.8		(1,071)	476.0
12	Tot. Com. Inc.	(381)	(1,393)	(1,012)	265.6		(977)	140.0
13	EQUITY	2,446	1,012	(1,393)	(57.0)		(977)	(48.1)
14	MCT Ratio	112	34	(78)	(30.4)		(32)	(51.5)
15	Capital Deficit	410	2,240	1,830			1,080	

Source: FY2016/17 from BCUC, ICBC 2017 Rate Request, IR 1, RM 1-4, Attachment; FY2017/18 from ICBC Three-Year Service Plan, 20 February 2018.

Notes; 3) includes revenue from driving demerits and service fees, etc.; (8) includes the commissions and taxes on policy sales as well as the 'deferred premium acquisition cost'; (10) is the total expenditures; (11) is the net operating loss; (12) is the total comprehensive loss; (13) is the year-end equity or capital reserve (14) is the marginal capital test ratio; (14) is the estimated shortfall between the available capital and that required by provincial regulation for the Basic and optional programs.