OCCASIONAL PAPER No. 64 **ICBC**

ICBC Q2 RESULTS: MORE RED INK AND EVEN LESS TRANSPARENCY

On Friday, the government released ICBC's "Statement of Operations" for the first six months of the 2018/19 fiscal year, which showed a net operating loss of $582 million.[1] In releasing the report minister responsible David Eby stated that the new forecast for the full fiscal year was a net loss of $860 million, which is $246 million more than the $614 million loss forecast nine months ago when the government's budget was announced.[2]

The Q2 report and the year-end forecast are notable for a number of reasons as outlined below.

The Timing of the Release

Normally, the government releases the ICBC's minimalist reports at the same time as it releases the government's quarterly updates, and when it releases B.C. Hydro's extensive quarterly reports. This bad news report was released separately on a Friday, apparently to avoid close media scrutiny.[3]

One must presume that the government communications staff preferred to keep ICBC's negative financial results from complicating what would appear to be positive second quarter results for the government as a whole.

Decreasing Transparency

Despite heightened media and public awareness about the unsatisfactory state of its finances, ICBC continues to issue a single page "Statement of Operations" instead of a proper quarterly review of the Basic and Optional programs.

The lack of any detail or discussion of the results makes a mockery of the quarterly report, as the reader cannot determine the relative performance of the compulsory and the optional insurance products, nor the changes in the total comprehensive income (net income and other components of equity). No explanation was provided for changes in equity (the capital reserve), which is a key performance measure for all insurance companies.

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[1] https://www.icbc.com/about-icbc/newsroom/Documents/Statement%20of%20Operations%20-%20Q2.pdf
[2] https://news.gov.bc.ca/releases/2018AG0098-002260
[3] The legislative media was focussed on the Speaker's staff controversy and the public was distracted by "Black Friday" and other media stories.

This lack of transparency is surprising given the NDP government's commitment to greater public accountability.[4]

In fact, the current statement has even less information, as the current year and prior years adjustment to claims costs are now combined into a single number. In recent years ICBC has been significantly increasing the provision for prior years claims costs, but it is now impossible to determine how much of the Q2 increase in claims costs can be attributed to changes in prior years estimates of the ultimate settlement claim cost.

No specific analysis was provided to explain the changes in the results compared to the prior years results.[5]

Claims Costs Continue to Escalate

Table 1 shows ICBC's combined Basic and Optional revenue and expenditure categories for the second quarter of 2018 compared to 2017.

Table 1—Comparison of Q2 2018 to 2017 ($=million)

	6 mos 2017	6 mos 2018	% Δ
Premiums Earned	2,667	2,913	9.2
Other Revenue	56	61	8.9
Investment Income	220	172	(21.8)
Total Revenue	**2,943**	**3,146**	**6.9**
Claims Costs – Current	2,421	Not Reported	
Prior	12	Not Reported	
Claims Costs Total	**2,433**	**3,067**	**26.1**
Claim Service & R.S.	191	202	5.8
Administration	130	138	6.2
Taxes & Commissions	312	344	10.3
Deferred Acquisition Cost	50	(86)	n/a
Non-Insurance	64	63	(1.6)
Total Expenditure	3,180	3,728	17.3
Net Loss	**(237)**	**(582)**	
Equity	Not Reported	Not Reported	
MCT Ratio	Not Reported	Not Reported	

Source: ICBC six-month statement of operations.

Premiums earned increased due to Basic (6.4%) and Optional (9.6%) rate increases, more policies sold and the change in the average revenue per policy.

[4] My comments on the 2017 Q2 statement and the lack of transparency are at http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_50_28_dec_2017/pdf/occasional_paper_no_50_28_dec_2017.pdf

[5] ICBC's web site contains general statements, and aspirations for the future; see https://www.icbc.com/about-icbc/newsroom/Pages/2018-Nov23.aspx In fact, the corporate statement concludes with the statement "**ICBC has no further comment to make at this time"** to preclude further inquiry.

Investment income declined which may reflect a lessening of trading activity and continuing low fixed income yields.

Claims costs (current year claims and the adjustment for prior years) jumped 26%, with vague explanations about older claim costs being under-estimated. Attorney General David Eby said that part of the cost escalation can be attributed to "plaintiff lawyers strategically building the value of the claim."[6] Presumably this was a reference to claimant lawyers using delay as a tactic to increase the ultimate settlement. Most of the cost impact of large injury awards affect the Optional program, but again this is impossible to determine. The trial lawyers' association objected to the insinuation that they are using delay as a tactic.[7]

Will ICBC Be Insolvent by Year-End?

ICBC now forecasts a net loss of $890 million for 2018/19, although we do not know if this is the operating loss or the total comprehensive loss (which directly reduces equity).

The February 2018 service plan forecast a total comprehensive loss of $614 million and total equity of approximately $440 million by 31 March 2019. Assuming the year-end $890 million represents the total comprehensive loss, the equity/capital reserve now falls to approximately $97 million, which means ICBC is hovering near insolvency.[8]

This forecast greatly increases the risk of a significant taxpayer bail-out beginning in 2019/20, especially if the planned $5,500 cap on minor pain and suffering claims and other coverage changes fail to produce the $1.2 billion in savings.

The Basis for the $890 million Loss Forecast

The casual observer may be forgiven for wondering why a loss of some $580 million during the first six months would not result in a 12-month loss of at least $1.16 billion, especially when the April to September period has much better driving conditions than the October to March period. In the absence of ICBC providing any details or assumptions to justify its $890 million loss forecast I have constructed my own year-end forecast based on the six month and year-end reports for fiscal year 2017/18.

Table 2 shows my estimate for a year-end combined Basic and Operating loss of almost $1.5 billion, assuming the current and prior years claim costs increase by 110% over the remaining six months. This is the same percentage increase as the current claims costs increase for 2017/18 for the second half of the year, reflecting higher claims in the winter months of the fiscal year.

To achieve ICBC's forecast year-end loss of $890 million will require a significant negative provision for prior years claims, a large increase in the discount rate and/or a major reduction in the current year claims and costs. A large positive change in the

[6] https://vancouversun.com/news/local-news/icbc-losses-worse-than-expected-this-fiscal-year-at-890-million
[7] Ibid.
[8] The combined Basic and Optional capital reserve was $987 million as of 31 March 2018. Subtracting the $890 million loss for 2018/19 results in only $97 million left in the combined capital reserve.

value of ICBC's investment assets could improve the bottom line outlook, but this is highly unlikely given the relatively low interest rates.[9]

Table 2—Forecast 2018/19 Using 2017/18 Per Cent Increases ($ millions)

	2017/18				2018/19		
	6 mo	**12 mo**	**% Δ**		**6 mo**	**12 mo**	**% Δ**
Premium Earned	2,667	5,329	100		2,913	5,827	100
Other Revenue	56	113	101		61	123	100
Invest. Income	220	462	110		172	360	110
Total Revenue	**2,943**	**5,904**	**101**		**3,146**	**6,310**	**100**
Claims-Current	2,421	5,084	110		??		
-Prior	12	563	na		??		
Claims-Total	**2,433**	**5,647**	**132**		**3,067**	**6,440**	**110**
Cl. Service+R.S.	191	402	111		202	410	103
Admin. + Other	492	1,054	114		396	830	110
Non-Insurance	64	127	98		63	125	98
Net Loss	**(237)**	**(1,325)**	**na**		**(582)**	**(1,495)**	
Nov. 23 Forecast						(890)	
Difference						(605)	

Source: ICBC Q2 statement of operations 2017 and 2018 for the 6-month results; ICBC annual report 2017/18 for the 12-month 2017/18 results.

The massive 26% increase in the estimate for current and prior years claims costs is 2.5 times larger than the 2017 Q2 current claims cost increase over 2016 Q2. ICBC's $890 million year-end loss forecast probably assumes that this growth will reverse somewhat in the second half of the year, but we have no way of knowing this because the forecast was not explained or justified.

Another reason for the jump in bodily injury claims costs may lie in the increase in the average cost per claim referenced by minister Eby. It may be that ICBC is increasing its claim settlement offers by 15% to 20% in order to dispose of pending injury claims at a faster rate. This "fire sale" approach would result in a drop in the unpaid claim liability, which would moderate the loss in the minimum capital test (MCT) ratio.

Massive Growth in Injury Claims Costs Not Being Experienced by Other Insurers

[9] In fact, a rise in the interest rate will normally result in a decrease in the market value of ICBC's bonds, which lowers equity. This is offset by a lowering of the cash value of the unpaid claims because of a higher discount rate.

Recently the Manitoba Public Insurance (MPI) released its Q2 report. Its current and prior years claims costs rose by 0.9% compared to 2017, primarily because of a higher discount rate reducing the provision for unpaid claims.[10] Bodily injury claims do not constitute as large a percentage of total claims costs because MPI does not pay pain and suffering claims.

The Saskatchewan Auto Fund, another public no-fault insurer, reported a 15% increase in net claims costs for Q1 (to 30 June), primarily due to a 26% increase in property damage claims. Injury claims costs declined by 19% because of declines in frequency and severity rates.[11]

Intact Financial Services, the largest private auto insurer in Canada, recently released its Q3 report to 30 September 2018. On a year-to-date basis it reported a slight deterioration in auto claims, but nothing like the massive increase in claims costs reported by ICBC.[12]

Summary

ICBC's Q2 report is concerning for the size of the loss, and for the NDP government continuing to allow ICBC to pass off the minimalist one-page summary as a quarterly report.

The primary reason for the $582 million Q2 loss was a 26% increase ($646 million) in claims costs compared to the prior year's Q2. ICBC now forecasts that the net (operating or total comprehensive?) loss for 2018/19 will be $890 million, which will drop the combined capital reserve to $97 million. No rational was provided to justify the year-end forecast, and a much higher loss—perhaps up to $1.5 billion—is possible.

The result for Q2 and the year-end forecast suggest that significant increases in Basic and Optional rates are likely commencing 1 April 2019. It is also likely that a taxpayer bailout may be required in 2019/20.[13]

 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.

[10] https://www.mpi.mb.ca/en/PDFs/2018-Quarterly-Financial-Report-2nd-Qtr.pdf p. 3. MPI has requested a 2.2% increase in Basic rates for 2019/20, with almost all the funds destined to build the capital reserve.
[11] https://www.sgi.sk.ca/documents/625510/626996/SAF_2018_June_quarterly.pdf/7a707d40-8634-44ad-ad19-6098a583aca6 p. 4.
[12] https://s1.q4cdn.com/321139868/files/doc_financials/quarterly/2018/Q3/EN/Q3-2018-MD-A.pdf p. 9 and 10.
[13] https://thetyee.ca/Analysis/2018/06/07/ICBC-Changes-Insurer-Woes/?utm_source=daily&utm_medium=email&utm_campaign=070618