RECENT ICBC REPORTS SHOW MAJOR IMPROVEMENT IN FINANCES: BUT NOT IN TRANSPARENCY AND ACCOUNTABILITY

ICBC recently released its third quarter (Q3) financial report for FY2019/20, and the Service Plan for the years 2020/21 to 2022/23.[1] This paper will review the highlights of the two reports.

While the elimination of the large operating losses is a positive development, the lack of information on sales, claims or other service measures, nor any meaningful explanation for the results, makes it impossible to properly assess the company's performance. For example, while the initial implication of the 12% decline in current year claims costs is positive, if the number of claims dropped by 50% a reviewer would question why the claims costs declined by only 12%. In a June 2018 paper I questioned why the government condones the poor accountability at ICBC.[2]

1.0 The Third-Quarter Report

Corporate Level

The actual results for the first nine months (April to December) of the current fiscal year show a vast improvement in the financial situation of ICBC compared to the same period in 2017 and 2018. At the combined (Basic, Optional and Non-Insurance) level the net income for the first nine months was $20 million, compared to the loss of $935 million for 2017/18 and $$860 million for 2018/19.

The primary reasons for the improved performance are a $373 million increase in premiums earned, a $237 million increase in investment income, and a $574 million reduction in current and prior years claims costs. These positive changes were partially offset by higher claims service and administration costs, and a decline in the Deferred Premium Acquisition Cost (DPAC) savings.

[1] https://www.icbc.com/about-icbc/newsroom/Documents/Q3-stmt-of-ops.pdf and https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2020-2023.pdf

[2] http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_57_25_june_2018/pdf/occasional_paper_no_57_25_june_2018.pdf

1.1 -- CORPORATE Q3 SUMMARY ($=million)

	2017/18	2018/19	%Δ	2019/20	Diff.	%Δ
Net Prem Earned	4,023	4,395	9.2	4,768	373	8.5
Other Revenue	85	93	9.4	109	16	17.2
Net Income	4,108	4,488	9.3	4,877	389	8.7
Investment Inc.	396	407	2.8	644	237	58.2
Claims--Current	3,812	4,091	7.3	3,590	(501)	(12.2)
--Prior Years	442	765	17.1	692	(73)	(9.5)
Total Claims	4,254	4,856	14.2	4,282	(574)	(11.8)
Claim Serv&L/M	296	309	4.4	345	36	11.7
Administration	193	208	7.8	226	18	8.7
Taxes&Commiss.	472	521	10.4	583	62	11.9
DPAC	129	(232)	n/a	(34)	198	n/a
Non-Insurance	95	93	(2.1)	99	6	6.5
Total Expend.	**5,439**	**5,755**	**5.8**	**5,501**	**(254)**	**(4.4)**
Net Income (Loss)	**(935)**	**(860)**	**n/a**	**20**	**880**	**n/a**
Unpaid Claims	n/a	13,517	n/a	15,414	1,897	14.0
Equity	n/a	(119)	n/a	168	287	n/a

Source: ICBC third quarter financial reports for 2017/18 to 2019/20.

Program Level Results

A review of the program level results allows for greater understanding of the summary results, but a more fulsome understanding is handicapped by the lack of service or volume measures, such as the number of policies sold or the number of crashes and claims. ICBC did not provide the totals for the unpaid claims liability and the equity at the program level (although it does in its annual report).

For the first nine months the Basic program reported a minor net operating loss, while the Optional program reported a minor profit.

1.2 -- Q3 BASIC AND OPTIONAL SUMMARY ($=million)

	------- BASIC ---------			------ OPTIONAL ------		
	2017/18	Year Δ	%	2019/20	Year Δ	%
Net Prem Earned	2,714	140	5.4	2,054	233	12.8
Other Revenue	65	8	14.0	44	8	12.2
Net Income	2,779	148	5.6	2,098	241	13.0
Investment Inc.	458	172	78.2	186	65	53.7
Claims--Current	2,180	(655)	(23.1)	1,410	154	12.3
--Prior Years	521	100	23.8	171	(173)	(50.3)
Total Claims	2,701	(555)	(17.0)	1,581	(19)	(1.2)
Claim Serv&L/M	230	21	10.0	115	15	15.0
Administration	98	6	6.5	128	12	10.3
Taxes&Commiss.	174	6	3.6	409	56	48.3
DPAC	(34)	166	n/a	--	32	n/a
Non-Insurance	99	6	(2.1)	--	--	--
Total Expend.	**3,268**	**(350)**	**(9.7)**	**2,233**	**96**	**4.5**
Net Income (Loss)	**(31)**	**670**	**n/a**	**51**	**210**	**n/a**
Unpaid Claims	n/a	n/a	n/a	n/a	n/a	n/a
Equity	n/a	n/a	n/a	n/a	n/a	n/a

Source: ICBC third quarter financial reports for 2017/18 to 2019/20.

Net Premiums Earned (NPE)

Changes in the NPE are due to general rate increases, changes in the number of policies sold and the average cost per policy (which reflects changes in the vehicle fleet as newer and more expensive vehicles are added). No data on these variables was included in the report.

Despite Basic rates increasing by 6.3% the Q3 total increased by only 5.4%, while the Optional total for 2019 increased by over 12%. Assuming a 1.5% increase in policies sold, the relatively low increase in Basic NPE is a concern. It may reflect an impact from the rate design change implemented on 1 September 2029, but ICBC did not provide any analysis.

Investment Income

The Q3 investment income was significantly higher than reported in the prior Q3 period. ICBC suggests the total reflects an extraordinary increase due to the sale of certain investments earlier in the year as ICBC moved its investments to the management of the BC Investment Management Corporation.

Claims Costs

Basic current year claims costs were $655 million lower than the prior year, which reflects the limitation on pain and suffering payouts for minor injuries which took effect on 1 April 2019. ICBC reported fewer crashes (and presumably injury and material damage claims) which contributed to the drop in current claims costs. But the impact of the fewer crashes cannot be determined as ICBC provided no data on the number or cost of injury or material damage claims.

The adjustment for prior years claims costs increased by $100 million for the Basic program, while the Optional adjustment was $173 million less than the prior year. This appears to contradict ICBC's claim that rising claims and payouts for the more expensive litigated injuries (which drive the Optional costs) are driving the growth in claims costs.

Deferred Premium Acquisition Costs (DPAC)

ICBC's use of this accounting adjustment has added significant volatility to its financial reports. This accounting adjustment, whether positive or negative, is made in the expectation of a profit or loss and appears to be discretionary.[3]

2.0 The Year-End Forecast

In its February 2020 service plan ICBC provided a year-end operating forecast for 2019/20 at the corporate level, but did not disaggregate the total forecast between the compulsory Basic and the Optional programs.

The net operating losses incurred during the prior two years have been eliminated. This is primarily a result of net premiums earned increasing by almost $0.5 billion (up 8.5%), investment income increasing by $237 million (up 38.2%), and claims costs declining by $858 million (down 13.8%). These positive changes were partially offset by a reversal of

[3] The volatility of the DPAC was discussed in my review if ICBC's 2018/19 year-end report (page 3); http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_69_icbc_year_end_24_july_2019/pdf/occasional_paper_no_69_icbc_year_end_24_july_2019.pdf

a large decrease in the DPAC (included in the Taxes and Commissions category) for 2018/19.

2.1 -- CORPORATE Q3 SUMMARY ($=million)

	2017/18	2018/19	%Δ	2019/20	Diff.	%Δ
Net Prem Earned	5,329	5,824	9.3	6,319	495	8.5
Other Revenue	113	125	10.6	144	16	15.2
Net Income	5,442	5,949	9.3	6,463	514	8.6
Investment Inc.	462	558	20.8	771	237	38.2
Claims--Current	5,084	5,308	4.4	4,749	(559)	(10.5)
--Prior Years	563	1,221	116.9	922	(299)	(24.5)
Total Claims	5,647	6,529	15.6	5,671	(858)	(13.8)
Claim Serv&L/M	402	420	4.5	482	62	14.8
Administration	261	279	6.9	305	26	9.3
Taxes&Commiss. And DPAC	793	306	(61.4)	736	430	140.5
Non-Insurance	127	127	--	131	5	3.1
Total Expend.	**7,230**	**7,661**	**6.0**	**7,325**	**(336)**	**(4.4)**
Net Income (Loss)	**(1,325)**	**(1,154)**	**n/a**	**(91)**	**1,063**	**n/a**
Unpaid Claims	11,895	14,288	20.1	n/a	n/a	n/a
Equity	987	119	(88.0)	57	(52.1)	

Source: ICBC annual reports for 2017/18 to 2019/20, and the Service Plan for 2020/21 to 2022/23.

General Disclaimer

ICBC included a few vague statements about the financial forecast for 2019/20, but the document is devoid of specific qualitative assumptions regarding the number of policies sold or the number of claims. In fact, ICBC discounts its forecast for the 2019/20 fiscal year-end, even though the period close is only some six weeks away: "The forecast reflects a number of financial and behavioral assumptions, and actual results could vary from these projections, depending on actual implementation, actual behavioral changes, and associated impacts."[4]

[4] https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2020-2023.pdf p. 18.

Revenue Increases

No program level forecast was provided for the earned premiums or the investment income. In its Q3 report ICBC did state that it recorded a significant one-time increase in the investment income, but the service plan forecast is silent on this matter.

No "management discussion and analysis" section is provided to review the components of the premiums earned revenue, such as changes in the number of policies sold, or the average increase in the value of the insured vehicles.

Claims Costs

The 2019/20 forecast for the combined current year claims costs are approximately $560 million less than the amount for the prior year. It appears that the expected reduction of $1.0 billion in claims costs resulting from the $5,500 cap on pain and suffering awards for minor injuries is not being achieved. However, without the forecasts at the program level it is impossible to verify this assumption.

Neither the Q3 report nor the three-year service plan released on 18 February 2020 provided any service measure information to explain the reduction in current year claims costs. In the background documents to the 6 February 2020 enhanced care (no-fault) announcement ICBC did provide some information on the decline in crash frequency recorded in 2017/18 and 2018/19, and estimated that there were 15,000 fewer claims, including 2,600 fewer injury claims, for crashes that occurred in 2018/19 compared to 2017/18.[5]

The reduction in the provision for adjustments for prior years claims is not affected by the imposition of the cap on pain and suffering. The cap affects new injury claims beginning 1 April 2019. The almost 25% reduction in the provision for prior years claims is encouraging, as it signifies that ICBC is improving its claims estimating capability.[6]

Prior Year Claims Costs Adjustments and Net Income

The large additions to the reserve provision for unpaid claims from prior years has been a major reason for the large losses recorded in 2017/18 and 2018/19. Had ICBC not set aside a further $922 million for 2019/20 the forecast operating loss of $91 million would have been a surplus of some $830 million.

The need for such large adjustments to ICBC's initial estimation of the ultimate cost to settle injury claims has not been reviewed in any detail. In fact, over the last four years

---

[5] https://www.icbc.com/insurance/costs/Documents/Basic-insurance-rates-2020-looking-ahead.pdf p. 4.

[6] In the two years from April 2017 to March 2019, ICBC booked an increase of almost $1.8 billion in the initial estimate for the ultimate cost to settle prior years claims. The $1.2 billion provided in 2018/19 equalled the total operating losses for the year (had ICBC not booked this additional provision it would have avoided the massive operating loss).

ICBC has under-estimated the cumulative requirement for the adjustment for prior years claims by some $2.7 billion. The following shows the initial budget (from previous service plans), the actual expenditure from the annual reports (the forecast of 2019/20), and the under-estimate in millions of dollars.

	Budget	Actual	Under-Estimate
2016/17	(24)	202	178
2017/18	(63)	563	500
2018/19	(76)	1,221	1,145
2019/20	29	f 922	893

ICBC has used the growth in the cost of its litigated injury claims as a reason of the need to shift to a no-fault enhanced care liability model. Some of this growth is reflected in the huge increase in the prior years claims adjustment.

We must now wait until late July before we can review the audited actual results for 2019/20. The government's pre-emptory order of 6 February 2020 required the BC Utilities Commission to approve the 2020 Basic rate tariff without a detailed review.[7] This means that questions about the poor claims estimating will remain unanswered for at least another year.

 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.

[7] http://www.bclaws.ca/civix/document/id/oic/oic_cur/0047_2020