

# ICBC 2017 RATE REQUEST APPLICATION

## FINAL ARGUMENTS

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### PART 1 – THE 6.4% RATE REQUEST

ICBC is in the midst of a serious financial crisis resulting from a mismatch in revenues and expenditures. Premier John Horgan called the finances of ICBC a “train wreck”<sup>1</sup> while finance minister Carole James expressed “real worry” about ICBC’s finances.<sup>2</sup> Minister responsible David Eby said the current insurance model is “unsustainable,” as projected cost increases are unaffordable for most private and commercial vehicle policyholders.<sup>3</sup>

The previous government’s policy of controlling the increase in Basic insurance rates, combined with rapidly increasing claims costs, resulted in a structural deficit of some \$450 to \$500 million in the Basic program. Rather than take the necessary action to reduce growing claims and claims costs, the Liberal government imposed a form of price suppression, which denuded the policyholders’ capital reserves.

In the absence of approximately \$1.88 billion in Optional funding transferred from 2012 to 2017/18, the Basic capital reserve (equity) would have been in a deficit of some \$390 million, rather than the \$1.49 billion forecast for 31 March 2018.

**Table 1 – Six-Year Change in Basic Capital Reserve (\$=million)**

	2012-14	2015	2016/17	2017/18	6 Year
Start of Year	1,130	1,633	1,071	1,456	1,130
Comp. Inc/Loss	17	(562)	(438)	(540)	(1,523)
End of Year	1,147	1,071	633	916	(393)
Optional Trans.	486	--	823	569	1,878
Reported Capital	1,633	1,071	1,456	1,485	1,485
MCT Ratio	136	83	103	101	

Source: ICBC annual reports, the September 2017 Service Plan, and 2017/18 from BCUC, ICBC 2017 Rate Request.

<sup>1</sup> <http://theprovince.com/news/bc-politics/mike-smyth-horgans-year-was-happy-in-public-grieving-in-private>

<sup>2</sup> <https://thetyee.ca/Opinion/2017/10/24/Will-NDPEnd-BC-Hydro-Wild-West-Accounting/>

<sup>3</sup> BC Hansard, 7 November 2017, p. 1890-91.

Note: The 2016/17 Optional transfer includes \$622 million of capital, and the 2017/18 transfer includes the \$99 million balance of the 2016 operating transfer of \$300 million.

Table 2 shows the change in the Optional program capital reserve. From 2012 to 2016/17, the Basic capital reserve required approximately \$1.3 billion in Optional program funding to maintain the MCT ratio above the regulatory minimum level.

**Table 2 – Six-Year Change in Optional Capital Reserve (\$=million)**

	<b>2012-14</b>	<b>2015</b>	<b>2016/17</b>	<b>2017/18</b>	<b>6 Year</b>
Start of Year	1,797	1,983	2,075	990	1,797
Comp. Inc/Loss	1,048	230	(262)	124	1,140
End of Year	2,845	2,213	1,813	1,114	2,937
Trans. to Basic	(486)	--	(823)	(569)	(1,878)
Trans. to Province	(376)	(138)	--	--	(514)
Reported Capital	1,983	2,075	990	545	545
MCT Ratio	298	300	103	73	

Source: ICBC annual reports, the September 2017 Service Plan, and 2017/18 from BCUC, ICBC 2017 Rate Request.

Note: The 2016/17 Optional transfer includes \$622 million of capital, and the 2017/18 transfer includes the \$99 million balance of the 2016 operating transfer of \$300 million.

In August 2017, the new government ordered the transfer of \$470 million of Optional capital to keep the Basic capital reserve ratio above the regulatory minimum ratio of 100% by fiscal year-end. Using the Basic year-end forecast, and ICBC's September 2017 service plan combined capital forecast, this will reduce the Optional capital reserve to \$545 million, or approximately \$955 million below the 200% regulatory minimum requirement.

### **1.1 Mid-Term Capital Forecast**

The new government has not rescinded the previous government's ill-advised Basic rate suppression policy. The 6.4% requested rate increase for 2017 – the maximum allowed under the 2013 policy -- is 13.6% less than the forecast 20% increase required to fund anticipated cost increases and still maintain the 100% regulatory minimum capital ratio.

ICBC forecasted that, even with the maximum cumulative 31% increase in Basic rates allowed under the rate smoothing policy for the next three years, the Basic capital

reserve will fall to \$245 million by year-end 2020/21, or almost \$2.0 billion below the regulatory minimum capital reserve requirement.<sup>4</sup>

Minister Eby stated that no further Optional transfers will be approved to re-inflate the Basic capital reserve.<sup>5</sup>

He has also committed to finding reductions in the forecasted costs to keep Basic premium increases affordable:

We are looking at very dramatic reforms to ICBC to get them back on financial track. It's difficult at this stage to project exactly what state the insurer will be in a year from now. We expect it will be in a much better financial state and on the right track, getting back into the black. I'm not going to speculate about where the capital ratios might be at that stage, but I can tell the member that it is certainly a very grave concern for me, for our government — the state of the insurer — and we will be getting it back on track.”<sup>6</sup>

## 1.2 Transition Year

The minister's comments make it clear that the government is reviewing a variety of options to reduce the number of crashes and the cost of injury and material damage claims. The government has approved an increase in the utilization of intersection 'red light' cameras, and other measures to reduce the forecasted crashes.

However, in late November board chair Joy MacPhail stated that any changes that the new government has made are doing nothing to stem the rising number and costs of claims.<sup>7</sup>

ICBC has said that the changes undertaken or announced to date are insufficient to overcome the ongoing premium deficiency “that continues to widen through increases in the number of crashes and escalating claims costs.”<sup>8</sup> Clearly, more fundamental changes to the current insurance model are under active consideration.

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<sup>4</sup> See Table A.2 in

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_49\\_21\\_december\\_2017/pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_49_21_december_2017/pdf)

<sup>5</sup>“We will make those changes that are necessary to get ICBC back on firm financial footing, but the cupboard is bare as far as further transfers. We cannot rely on this to deal with the crisis that we're facing in terms of a go-forward basis.” BC Hansard, 7 November 2017, p. 1894.

<sup>6</sup> Ibid.

<sup>7</sup> <https://www.theglobeandmail.com/news/british-columbia/bc-attorney-general-eyes-measures-to-get-icbcs-books-in-order/article37066432/>

ICBC excuse for a second quarter 2017/18 financial report suggests that claims costs are tracking higher than the forecast provided in the September 2017 service plan.

<sup>8</sup> BCUC, ICBC 2017 Rate request, IR 1, TREAD 83.3.

Minister Eby recently stated that the government is “seriously considering” caps on minor injury claims to reduce Basic insurance claims costs.<sup>9</sup> He stated that the pay-out limits, together with an expedited court process, would eventually result in no rate increases, and may provide funding to provide more relief for good drivers. Changes in the current driver discount/demerit scale and vehicle risk weighting (rebalancing) have also been discussed.

## RECOMMENDATION

**Given the possible changes that may occur during the coming year to the Basic program, the Commission should assume that the 6.4% rate request will be the last filed based on the current insurance model. As such, the Commission should approve the request.**

**The Commission should also consider whether it will recommend changes in the current funding model for the Basic program to assist the government in its review. For example,**

- **Is it appropriate that Basic policyholders continue to fund the administration costs of the driver licensing and vehicle registration programs when all the fee revenue is transferred to the government?<sup>10</sup>**
- **Should Basic policyholders absorb the revenue foregone as the result of the government’s policy to provide drivers age 65 and older, who insure for pleasure use, a 25% discount on the Basic premium?<sup>11</sup>**
- **Is the current 100% MCT regulatory minimum capital ratio appropriate for a monopoly insurer, which is an agent of the government? Would a lower minimum ratio, such as that ordered by the Manitoba regulator for the Basic auto insurance in that province, reduce the future pressure on Basic rates, with little risk of a taxpayer bailout?<sup>12</sup>**

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<sup>9</sup> <https://www.theglobeandmail.com/news/british-columbia/bc-attorney-general-eyes-measures-to-get-icbcs-books-in-order/article37066432/>

<sup>10</sup> This arrangement has been in place since 1998, and may be contrary to the Supreme Court of Canada’s decision of the same year respecting fees and taxes;  
[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_47\\_4\\_december\\_2017/pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_47_4_december_2017/pdf)

<sup>11</sup> Ibid.

<sup>12</sup> See my paper distributed on 21 December 2017;  
[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_49\\_21\\_december\\_2017/pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_49_21_december_2017/pdf)

## **PART 2 -- THE PROPOSED CHANGES IN PERFORMANCE MEASURES**

Given that major changes are expected to the current Basic insurance program, it would be pre-mature and ill-advised for the Commission to agree to any changes in the existing performance measures.

ICBC has justified the proposed changes as better conforming to its corporate performance measures, but what the Commission, as regulator of the Basic program, may require for monitoring performance does not necessarily align with the more general corporate measures.

ICBC also states that more detailed or specific measures provide a better understanding of the complexity of a given event or process. But general indicators are not intended to provide a full explanation. Rather, they are indicators that can be reviewed over a time series to monitor trends and give an indication whether a planned change or event is resulting in the intended outcome. They should suggest where further analysis is warranted.

**It is recommended that all the existing performance measures be retained while the government reforms the insurance model for the compulsory program. The Commission should then review the existing indicators as to their continuing usefulness. ICBC could report on the existing measures as well as the proposed measures if it chooses.**

**Once the changes are in place the Commission should convene a special workshop to develop the measures it requires to monitor the performance of the reformed Basic program. All existing and proposed performance indicators could then be reviewed in a holistic manner.**

**The customer survey should also be retained to assist in the identification of specific issues, and to retain the ability to monitor the market penetration of the Optional product. Such a regular survey provides important insight into customer attitudes.**

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