



DECISION SUMMARY - ICBC 2019 Revenue Requirements Application

On December 14, 2018, the Insurance Corporation of British Columbia's (ICBC) filed its 2019 Revenue Requirements Application for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate increase of 6.3 percent for the policy year beginning on April 1, 2019 (Application). In the Application, ICBC also proposed changes to its performance measures and other reporting.

Following a public review process, the British Columbia Utilities Commission (BCUC) Panel approves a permanent Basic insurance rate increase of 6.3 percent effective April 1, 2019, as well as other performance measures and reporting changes per ICBC's Application. The interim rate increase of 6.3 percent that was granted to ICBC in January 2019 has now been made permanent as the BCUC has made a final decision on the Application.

BCUC Public Review Process

The BCUC reviews ICBC's Basic insurance rate every year, in accordance with [Special Direction IC2](#) issued by the BC Government. The *Insurance Corporation Act* (ICA) sets out the role of the BCUC's regulation of ICBC's Basic insurance and the BCUC must follow government directives when regulating and fixing rates using the factors, criteria and guidelines as provided.

By Order [G-1-19](#) dated January 2, 2019, the BCUC established a public proceeding to review the Application that included an opportunity for public comment and participation. By that Order, the BCUC also approved ICBC's requested rate increase on an interim basis. The BCUC noted it will determine how any variance between approved interim rates and permanent rates, including interest if any, will be refunded to or collected from policyholders at the time the BCUC renders its final decision on the Application.

The regulatory timetable for the review of the Application included intervener registration, two rounds of BCUC and intervener information requests to ICBC, and a procedural conference, followed by written final and reply arguments. There were ten registered interveners and four interested parties in this proceeding. The BCUC also received 40 letters of comment from members of the public.

Regulatory Framework

[Special Direction IC2](#) sets out the BCUC's requirements with respect to setting ICBC's Basic insurance rates for Policy Year (PY) 2019. This regulatory framework specifies that the rate-setting must ensure that any increases or decreases are phased in so that the rate remains relatively stable and predictable. Under [Special Direction IC2](#), the BCUC must:

- Fix Basic insurance rates based on accepted actuarial practice so that the rates allow ICBC to collect sufficient revenue to pay the costs related to Basic insurance;
- Set the rate change for PY 2019 within +/- 1.5 percentage points of the PY 2017 approved rate change of +6.4 percent. This means the rate change for PY 2019 must be within the band of rate changes between +4.9 percent and +7.9 percent; and

- Suspend the requirement to set rates for Basic insurance rates in a way that will allow ICBC to achieve or maintain the capital available in relation to its Basic insurance business equal to at least 100% of the Minimum Capital Test (MCT) ratio. The MCT ratio requirement is suspended until the end of PY 2021 and the Capital build and release provisions are suspended up to and including PY 2020.

ICBC's Explanations for the Proposed Rate Change

To explain the proposed rate change of 6.3 percent, or an additional \$217.6 million of premium to cover ICBC's Basic insurance revenue deficiency, ICBC outlines that claims costs are the largest component of ICBC's Basic insurance costs and bodily injury (BI) claims represent the majority of claims costs. BC's unrestricted tort system led to legal and related injury claims being the single largest category of expense. The Basic insurance business suffered a 'major' net loss for fiscal year 2017/18 due to a trend of increasing claims costs. ICBC continues its efforts to manage the increase in claims costs but the structure of the Basic insurance system prior to product reform resulted in unsustainable growth in these costs, particularly for minor injuries.

A continuation of the Basic insurance model under the pre-product reform system would require a Basic insurance rate increase of almost +40 percentage points for PY 2019 in order for the premiums collected to be enough to cover estimated costs.

ICBC worked with the BC Government to introduce product reform under the Rate Affordability Action Plan which moves BC towards a care and recovery model for Basic insurance. Product reform increases certain benefits such as Accident Benefits (AB), introduces a limit on pain and suffering payouts for minor injuries and gives the Civil Resolution Tribunal (CRT) jurisdiction over disputes on minor injuries, *Insurance (Vehicle) Act* entitlements, and claims under \$50,000. Some of the changes, such as the change to the overall AB, came into effect during 2018 while others came into effect on April 1, 2019.

The dollar amount limit on payouts for pain and suffering on minor injury claims and expanded CRT jurisdiction over disputes relating to motor vehicle injury claims are expected to save \$1.2 billion for policies being written from April 1, 2019 through to March 31, 2020. These savings include an offset due to an increase in AB and other benefits for PY 2019. Product reform significantly reduces the required rate increase from what it would otherwise have been, but a rate increase of +6.3 percent is still required to cover the expected costs of providing Basic insurance in PY 2019. The reforms are also expected to provide ongoing savings and positively impact rates in future years, due mostly to BI claims costs.

Panel Finding and Determinations

The Panel approves a permanent +6.3 percent Basic insurance rate increase for the policy year commencing April 1, 2019. Considering [Special Direction IC2](#), the Panel finds the rate increase complied with accepted actuarial practice and was within the allowable rate change band. However, the Panel acknowledges that ICBC is operating in an environment where estimates of claims costs are unstable and unpredictable. Additionally, there is significant uncertainty related to the estimated savings associated with product reform because there is limited information available to support certain assumptions used in the estimates.

With respect to performance measures and other reporting, **the Panel approves ICBC's proposed list of amended performance measures as set out in Appendix B of the Decision. The Panel also approves ICBC's request to discontinue the reporting requirements that are specific to the Transformation Program that concluded in 2016.**

For more information on BCUC's review and decision, please see Order G-192-19. All proceeding documents are public and available on our website [here](#).