

STABILIZING ICBC'S FINANCES: ENDING POLICYHOLDERS SUBSIDY OF GOVERNMENT PROGRAMS AND POLICIES

Minister responsible David Eby said that the current auto insurance model, with annual deficits draining the capital reserves, was unsustainable. The government, he said, was considering a cap on pain and suffering claims related to minor soft tissue claims, and it would consider any thoughtful recommendations on how to reduce ICBC's costs.¹

For many years the provincial government has benefited in various ways by using ICBC to directly or indirectly fund various government policies or programs.

Given the financial crisis at ICBC, it would seem an opportune time to re-examine some of these practices to properly apportion costs and benefits between the policyholders and the taxpayers.

This paper will summarize four programs where the government should fund ICBC to recognize the costs currently borne Basic policyholders:

1. Drivers Licensing	\$ 70 million
2. Senior's Discount	\$105 million
3. Intersection Cameras	\$ 8 million
4. Fine Collection	<u>\$ 17 million</u>
TOTAL	\$200 million

1. DRIVER LICENCE FEES

In 1995, the government transferred the driver licensing program from the Motor Vehicle Branch to ICBC. The administrative cost incurred by ICBC would be deducted from the licensing fee revenue.²

Three years later the government abrogated the agreement, forcing ICBC to charge Basic policyholders for the cost of administering the program. Since 1998, policyholders have been paying ICBC for the administration of the program (estimated at approximately \$135 million in 2016/17). Basic policyholders are paying ICBC to administer the program, while also paying the provincial fee for the driver license.³

¹ BC Hansard, November 7, 2017, p. 1890.

² See http://www.bcpolicyperspectives.com/media/attachments/view/doc/article_bc_studies_icbc_2013/pdf ps. 106-7.

³ This arrangement is contrary to a 1998 Supreme Court of Canada decision respecting fees and fines.

The government should end this double charge and allow ICBC to deduct the fee revenue from the cost of administrating the driver licensing program.⁴ Last year ICBC collected \$70 million in driver licensing fees on behalf of the government.⁵

2. SENIOR DISCOUNT

In my 22 August 2016 paper, “The ‘Greying’ of ICBC’s Policyholders,” I compared the growth in Basic personal policies sold by age group for 2010 to 2014.⁶ With the data for 2016/17, the seven-year change in policies sold by principal driver is shown in Table 1.

Table 1 – BASIC INSURED PRINCIPAL DRIVERS BY AGE GROUP

	2010	2016/17	Difference	Percent Δ
Under 25	158,000	155,900	(2,098)	(1.3)
25 to 39	588,689	657,678	66,989	11.4
40 to 64	1,380,836	1,460,344	79,508	5.8
65 and Over	423,733	612,221	188,488	44.5
Not Available	74,710	73,587	(1,123)	(1.5)
TOTAL	2,625,968	2,959,732	333,764	12.7

Source: BCUC, ICBC 2015 Rate Request, IR 1, RM 4.2-3, and BCUC, ICBC 2017 Rate Request, IR 1, RM 4.9.

While the total number of personal policies sold has increased by 12.7%, the number for those aged 65 and over has increased by almost 45%.

The 65 and older principal drivers now represent over 20% of all the Basic insured policies, while drivers under 25 now represent only 5.3 % of all Basic policies.

Financial Implications

Those 65 and over who insure a vehicle for pleasure use receive a 25% discount, in addition to any low risk discounts they may be entitled to from ICBC’s claims rating scale, on their Basic insurance. Through a 2007 cabinet directive, the BCUC must include this discount when determining the annual rates for the Basic insurance program.⁷

Assuming that 80% of the 612,221 seniors qualify for the 25% discount, and assuming that the average premium is \$860, the discount equates to approximately \$105 million (\$215 X 490,000 seniors).

While it could be argued that senior drivers are low risk drivers and therefore deserving of the 25% discount, this would need to be assessed through a full risk assessment

⁴ The Manitoba government pays its Crown auto insurer to administer the driver licence program.

⁵ BCUC, ICBC 2017 Rate Request, IR 1, RM 8.3.

⁶ http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_4_22_august_2016/pdf

⁷ OIC 39/07, see http://www.bcuc.com/Documents/Proceedings/2008/DOC_17650_ICBC-2007-Rate-Design-WEB.pdf

incorporated into a rate redesign application to the BCUC. The last rate re-balancing application was filed in 2007.

The estimated \$110 million (2016/17) subsidy to drivers 65 and older is being paid by Basic policyholders younger than 65. The discount does not apply to ICBC's Optional insurance, nor do any other public or private auto insurers offer such a discount (other than that included in discounts available to any low-risk driver).

The BC Ferries Corporation provides a 50% discount on fares for seniors during certain travel days, but the cost of the discount was paid by the provincial government until 2016/17 when the provincial funding was shifted to subsidize the cost of the northern routes.⁸

3. INTERSECTION CAMERA FINE REVENUE

The government announced that it will authorize the red-light intersection camera program to operate on a 24 hour, seven days per week basis.

In 2016/17 (12 months), ICBC reported that 34,600 tickets were issued by the cameras, with fines totaling approximately \$3.4 million. Most of the administration cost is borne by Basic policyholders, while the fine revenue is paid to the government.⁹

ICBC estimates that the 24X7 operation of the intersection cameras will generate some 115,000 tickets and approximately \$10 million in additional fine revenue.¹⁰

The government should return the additional \$10 million in intersection camera fine revenue to ICBC to pay for the cost of the program, with any remaining balance be used to partially offset other road safety programs (such as design improvements on provincial roads). The net savings are estimated at \$8 million (approximately \$2 million is required for the additional administration cost).

4. FINE COLLECTION

The government uses ICBC as a fine collector for unpaid provincial ticket offenses. Through the "refuse to issue" authority, ICBC withholds the annual vehicle insurance until the amount outstanding is paid.

In 2016/17, ICBC reported that \$68 million in fines and fees were collected on behalf of the government.¹¹

The government should reimburse ICBC for the fine collection service. A 20% fee would produce \$17 million in revenue to assist in matching revenues and expenditures.

⁸ https://www.bcferries.com/files/AboutBCF/AR/BCFS_AnnualReport_2016-2017.pdf ps. 38-39.

⁹ BCUC, ICBC 2017 Rate Request, IR 1, RM 5.5.

¹⁰ Ibid.

¹¹ BCUC, ICBC 2017 Rate Request, IR 1, RM 8.3. The total excludes \$2 million in fees for the BCID card. ICBC refuses to issue on behalf of the federal government, but is reimbursed for its costs.

5. VEHICLE LICENCE FEES

Vehicle licensing is an integral part of its insurance process. The cost for this aspect of the insurance business is paid by ICBC, yet vehicle licence fees are collected and returned to the government.

For 2016/17 (12 months), ICBC reported that \$438 million in vehicle licences and fee revenue was collected on behalf of the government.

This program will require further review before any recommendation is made on an appropriate sharing of the revenue.

SUMMARY

The imbalance between ICBC's expenditures and revenue has seriously depleted the Crown auto insurer's capital reserves. The forecast for the next four years indicates continuing losses in capital.¹² The government has recognized that fundamental changes are required, and has indicated that it may legislate changes to restrict claims under the current tort model.

The government should also redress the current financial arrangements where policyholders are paying for programs or policies mandated by the government. An annual payment of \$200 million for the four programs noted in this paper would help restore ICBC to a satisfactory financial condition over the next five years.

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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 ICBC's rate requests, and is an intervener in the Commission's current review BC Hydro's rate request.

¹²

http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_28_nov_2017_basic_forecast_29_nov_2017/pdf