OCCASIONAL PAPER No. 50 ICBC

ICBC'S SECOND QUARTER REPORT INDICATES ANOTHER MAJOR LOSS; BUT INSUFFICIENT INFORMATION LEAVES PUBLIC IN THE DARK

"A properly functioning democracy depends on an informed electorate." Thomas Jefferson

ICBC recently released its "Statement of Operations" for the first half (Q2) of the 2017/18 fiscal year. The one page shows corporate level selected revenue and expenditure totals with a comparison to the prior year Q2 results.[1]

Unfortunately, the single page financial summary makes any detailed analysis impossible.

The NDP promised a more transparent and accountable government; it could start by implementing a more professional approach to public reporting at ICBC.

Accountability

Quarterly reports are intended to provide information to assist shareholders and other interested parties in monitoring performance, usually against the prior year results. For public corporations, the quarterly report forms an important component of a broader set of accountability documents, including the annual report and the three-year service plan.

ICBC must manage its capital reserves (equity) at the Basic and Optional program level, and premium rate changes are also established at the program level. Yet, all ICBC's reports are aggerated at the corporate level.

Unlike BC Hydro, and the public auto insurers in Saskatchewan and Manitoba, ICBC does not issue a detailed quarterly report which includes a management analysis of the reasons for the variance from the prior period.

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 two insurance products, nor the changes in the total comprehensive income (net income and other components of equity). No results are provided for changes in equity (the capital reserve), which is a key performance measure and regulated by the government.[2]

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[1] http://www.icbc.com/about-icbc/company-info/Documents/Statement-of-Operations-Sept2017.pdf#search=statement%20of%20operations

[2] By regulation, both the Basic and Optional capital reserves must remain above minimum levels.

ICBC maintains that the single page summary complies with the requirements of the Budget Transparency and Accountability Act for quarterly reporting.[3]

As the seventh largest by revenue corporation headquartered in BC,[4] it is surprising that ICBC is permitted to issue a quarterly report which contains such a dearth of information. ICBC administers the compulsory monopoly Basic insurance, and as a monopoly one would expect ICBC to be held to a higher standard of reporting.

BC Hydro, with annual revenues of $5.9 billion in 2016/17, provides a detailed quarterly report, including a detailed management discussion of the results. The public auto insurers in Saskatchewan and Manitoba provide detailed quarterly reports specifically on the financial results of the compulsory monopoly insurance programs in those provinces.

Clearly, the practice of public accountability has a different meaning at ICBC compared to BC Hydro. During the 2017 election the NDP promised to make the government more accountable. The fact that ICBC is in a financial crisis provides even more reason for a greater emphasis on transparency and accountability by our public auto insurer.

The Second Quarter Results

ICBC's combined, or corporate, Q2 financial results show a net operating loss of $237 million, while the combined capital reserve ratio fell to 87%. This indicates a poor performance, but how poor, and why?

In an attempt to provide some context to the results, the Q2 report has been compared to the results for the Basic compulsory auto insurance program in Saskatchewan.[5] The Saskatchewan Auto Fund (SAF), administered by the Saskatchewan Government Insurance (SGI) corporation, is a public compulsory auto insurance program similar to the monopoly Basic program administered by ICBC.[6]

The most significant difference between the two compulsory programs is that about 98% of the SAF policy sales are for the no-fault product (with tort coverage for the rest), while all injured ICBC Basic not-at-fault policyholders have access to tort claims. Both provide no-fault accident benefits to injured parties, but the coverage limits are much higher in Saskatchewan for those who choose the no-fault option.

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[3] See BCUC, ICBC 2014 Rate Request, IR 1, RM 12.d.

[4] In 2016/17 (April to March), ICBC reported net earned premium and other revenue of approximately $5.0 billion.

[5] I have also consulted the comparable year-to-date quarterly reports for the Manitoba Public Insurance https://www.mpi.mb.ca/en/PDFs/2017QuarterlyFinancialReport2ndQuarter.pdf and Intact Financial https://s1.q4cdn.com/321139868/files/doc_financials/quarterly/2017/Q3/EN/Q3-2017_MD-A.pdf

[6] The SGI operates a separate division to provide property and casualty insurance, and sells this product on other provinces, especially in Alberta and Ontario. The quarterly report for this extension coverage in consolidated in the report of the Saskatchewan Crown Investment Corporation.

The SAF publishes extensive (30 plus page) quarterly reports on its operations, including management explainations for the major variances to the prior year period.[7] The SAF provides detail on operating revenue and expenditures, as well as detail on changes to equity (the capital reserve).

Both public auto insurers operate on an April to March fiscal year. But to draw comparisons from the Q2 results of SGI's Basic (Auto Fund) program and ICBC's combined Basic and Optional programs is somewhat speculative.

Revenue

Table 1 shows the reported change in revenue compared to the prior year.

Table 1 – Change in Revenue Q2 2017 to Q2 2016 ($=million)

	----SAF----		ICBC Combined	
	$	**%Δ**	**$**	**%Δ**
Net Prem. Earned	4.0	1.7	206	8.4
Other Revenue	7.4	23.1	3	3.7
Investment Income	(4.5)	(20.8)	(103)	(32.0)

- The last general Auto Fund rate increase was 4.4% in September 2014.[8] ICBC's Basic rates increase by 5.2% in November 2015, and 4.9% in November 2016. Optional rates increased 2.2% in 2015 and 2.8% in 2016.
- Changes in the number of policies sold, and the average price, also affect the total premiums earned revenue.
- In 2016, the Auto Fund instituted stiffer penalty point demerits for higher risk drivers which is reflected in the growth in Other Revenue.
- The SAF reports that investment income declined because of lower interest rates.

Expenditure

Table 2 shows the change in expenditures by major category compared to the prior year.

Table 2 -- Change in Expenditures Q2 2017 to Q2 2016 ($=million)

	----SAF----		ICBC Combined	
	$	**%Δ**	**$**	**%Δ**
Claims – Current	20.6	0.4	228	10.4
-- Prior	(104.2)		(8)	

[7] https://www.sgi.sk.ca/pdf/quarterlyreports/SAF_2017_Sept_quarterly.pdf
[8] Approximately 2% is a surcharge to increase the capital reserve to a 100% ratio.

Claims Total	(83.6)	(19.1)	220	9.9
Claims & Admin.	(4.9)	(12.3)	21	7.0
Prem. Tax&Comm.	0.2	0.4	36	11.0
Non-Insurance	--	--	(2)	(2.9)
TOTAL	(88.4)	(16.8)	275	9.5

- The SAF administers driver licensing, but includes the costs within the administrative category. ICBC shows this function as "Non-Insurance."
- SAF reports that property damage claims increased in both frequency and severity, while the frequency and severity of injury claims remained at the 2016 levels.
- The Manitoba Public Insurance (MPI) reported declines in the cost of injury and property damage claims, while Intact Financial (IF) reported an increase in property damage claims.
- Apparently, ICBC is not experiencing the flattening, or actual decline, in the frequency and severity of injury claims reported by the other three insurers surveyed.
- SAF reports that the provision for prior years claims declined because of an increase in the discount rate, combined with a decrease in risk margins; the largest reductions were in the provision for prior years injury claims.
- Total SAF claims adjudication and operating expenses dropped by 16.8%, while ICBC reported an increase of 9.5% for the combined Basic and Optional programs.

Fair Value of Assets

The SAF reported a drop in the fair value of its Basic investments of almost $65 million. A similar result was reported by MOI and IF as continuing low interest rates reduced the fair market value of the fixed-income portfolio.

A similar result would be expected for ICBC, which helps explain the large decline in the capital reserve during the six months; ICBC did not provide this information.

The Capital Reserve

During the first six months, the SAF increased its Basic capital reserve by approximately $125 million, raising the MCT ratio to 123%. Most of the positive change was the result of a higher discount rate lowering the estimated provision for prior year injury claims.

ICBC did not provide the actual value of the combined capital reserves, therefore I have estimated the combined loss at approximately $550 million, using an average value per 1% MCT from the 2016/17 actuals ($22 million=1 MCT).

Table 3 – Six Month Change in Capital Ratio

		------ICBC------	
	SAF	**Basic**	**Combined**
March 31, 2017	108	103	112
September 30, 2017	123	?	87
Difference	15	?	(25)

The SAF capital reserve target ratio is 100%, which is the regulatory minimum for ICBC's Basic program. There is no specific regulatory requirement for the combined capital reserves at ICBC, although the Optional reserve has been severely compromised by transfers to maintain the Basic ratio above the regulatory minimum level.

SUMMARY

Given that most of the recent decline in the combined capital reserve are the result of losses in the Basic program, it is reasonable to conclude that most of the losses for Q2 are also attributable to the Basic program.

This conclusion is supported by recent comments by ICBC board chair Joy MacPhail,[9] and by responses by ICBC during the 2017 rate review where it stated that large financial losses were continuing in the Basic program.[10]

The BC government is planning significant reforms to ICBC's insurance model to reduce Basic claims costs. It is hoped that it will instruct our public auto insurer to improve its public reporting transparency as part of these reform initiatives.

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

[9] In late November Ms. MacPhail said that any changes that the new government has made are doing nothing to stem the rising number and costs of claims; https://www.theglobeandmail.com/news/british-columbia/bc-attorney-general-eyes-measures-to-get-icbcs-books-in-order/article37066432/

[10] BCUC, ICBC 2017 Rate Request, IR 1, TREAD 86.3.