

ICBC FORECASTS SIGNIFICANT PROFITS AND GROWTH IN BASIC EQUITY

Last week the Legislature passed the government's 2021/22 budget. For the first time in years there were no questions or discussion about the finances of ICBC. It appears that the apparent turnaround in the finances of our public insurer has reduced the opposition parties interest in exploring the operation of ICBC.

In its 20 April 2021 service plan, ICBC is forecasting a major improvement in its finances for the 2020/21 fiscal year compared to the previous year. Table 1 shows a combined operating surplus of \$709 million, an increase of approximately \$1.6 billion when compared to the \$547 million loss suffered in 2019/20.

TABLE 1 –NET OPERATING and EQUITY by PROGRAM (\$=million)

	----Fiscal Year 2019/20----			---Fiscal Year 2020/21---		
	BASIC	OPTIONAL	TOTAL	BASIC	OPTIONAL	TOTAL
Operating	(43)	(15)	(59)	737	(27.5)	709
Impairment Loss	(220)	(97)	(317)	--	--	--
Net Operating	(263)	(112)	(376)	737	(27.5)	709
Equity	(301)	(246)	(547)	1,022	25	1,047

Source: 2019/20 from ICBC annual report; 2020/21 Basic operating forecast from ICBC PY2021 RRA, IR2, RM 7.1 and equity from ICBC PY2021 RRA, IR2 BCOAPO 26.5

https://www.bcuc.com/Documents/Proceedings/2021/DOC_63131_B-8-ICBC-Responses-to-BCUC-and-Intervener-IR2.pdf ; Optional numbers were derived.

The actual operating surplus and equity as of 31 March 2021 will likely be lower than the 20 April 2021 service plan forecast because on 11 June 2021 the government announced a second COVID-19 rebate totalling \$350 million, and ICBC appears to have set up a liability of \$390 million in response to the loss of the Civil Resolution Tribunal court case. The final 2020/21 financial report will not be released until mid-August when the government financial statements are released.

ICBC does not separate the compulsory Basic insurance from the Optional coverage in its service plan report. The Optional information was derived by subtracting the Basic forecast for 20 April 2021 supplied through the BC Utilities Commission's review of the Basic rate request from the service plan's combined numbers. Unfortunately, the

government has decided that no BCUC review will occur until early 2023,¹ therefore this level of analysis will not be possible for two years.

Primary Reasons for the Improvement

The turn around in ICBC's operating results are the result of a number of factors. The government measures designed to combat the COVID-19 pandemic have resulted in significant net operating savings due to fewer claims. This is a short-term windfall, although some net reduction in costs will occur in Q1 of 2021/22. The government has ordered ICBC to return a total of \$950 million in pandemic savings for the 2020/21 year in the form of two rebates.

A second important reason for the improvement is the adjustment for injury claims from prior years. In 2019/20 ICBC actuaries estimated that \$1.18 billion increase to the claims reserve was required, which was in addition to the \$1.22 billion increase included in the 2018/19 statements.² For 2020/21, ICBC's actuaries have decided that the claim liability can be reduced by \$242 million (with the Basic reduced by \$312 million and the Optional reserve increased by \$70 million). This represents a swing of approximately \$1.4 billion in the forecast for the change in the prior years reserves.

The 2019/20 base year forecast included \$317 million in impairment loss resulting from the temporary reduction in the market value of certain investments, which were measured on 31 March 2020. The improvement in the financial markets during 2020/21 has eliminated this \$317 million impairment and significantly increased the value of ICBC's equity investments .

Equity and the MCT Ratio

In its service plan our public auto insurer is forecasting a major turnaround in 2020/21 year-end equity, rising to approximately \$1.0 billion compared to negative \$547 million for the prior year. The second COVID rebate, announced on 11 June 2021, will lower the combined equity to approximately \$650 million. Other adjustments for the potential negative court decision on the jurisdiction of the Civil Resolution Tribunal (up to \$390 million), and a positive \$187 million adjustment for changes in the Evidence Act respecting expert reports are also possible.³

For many years the government has required a 100% minimum capital test (MCT) ratio for the Basic program, and 200% for the Optional program. The Basic regulatory minimum ratio was suspended in 2018, and ICBC reported a minus 18% ratio as of 31

¹ The current rating period request spans 23 months ending 31 March 2023.

² ICBC 2019/20 annual report, p. 108.

³ BCUC, ICBC PY2021 RRA, IR2, BCUC 84.3

https://www.bcuc.com/Documents/Proceedings/2021/DOC_63131_B-8-ICBC-Responses-to-BCUC-and-Intervener-IR2.pdf Pdf 92/271.

March 2020. The service plan forecast of \$1.0 billion for the Basic program would result in a MCT of approximately 50%, although the second COVID rebate would reduce the MCT ratio to approximately 33%. The government ordered ICBC to provide the second COVID rebate in the belief that the low capital reserve was affordable.

The Forecast for FY2022/23

In its 20 April 2021 service plan, ICBC is forecasting moderate growth in operating income and equity for the next two years. Table 2 shows combined equity growing to \$1.8 billion by 31 March 2023, adjusted to \$1.55 billion after subtracting the second COVID rebate paid from the 2020/21 fiscal year.

While the Basic MCT ratio will have increased to the mid-60% range the Optional MCT is well below the norm for private insurers and for other public insurers. This creates a clear financial advantage for ICBC in its competition for Optional policies.

TABLE 2 – FY 2022/23 FORECAST (\$=million)

	BASIC	OPTIONAL	COMBINED
Net Premiums Earned	3,205	1,843	5,048
Fees and Other Revenue	71	39	110
Investment Income	338	157	495
Claims -- Current	2,698	1,321	4,019
Prior	(96)	(70)	(166)
Claims Service/LM	375	164	539
Operating Costs	150	167	317
Taxes and Commissions	216	369	585
Non-Insurance	158	--	158
Net Income	113	246	359
Equity	1,460	363	1,823
Intangible Assets	(53)	e(220)	e(273)
Capital Available	1,407	143	1,550
Less COVID #2	(188)	(167)	(350)
Capital Available	1,219	(24)	1,195
Estimated MCT %	64	(2)	36

Source: The Combined forecast is from ICBC's service plan of 2021/22 to 2022/23 released 20 April 2021; the Basic is from BCUC, ICBC PY2021 RRA, IR2, RM 7.1

https://www.bcuc.com/Documents/Proceedings/2021/DOC_63131_B-8-ICBC-Responses-to-BCUC-and-Intervener-IR2.pdf Pdf 252/271; the Optional is derived with the Intangible Asset estimated from IR2, RM 7.2, Pdf 253/271.

Reduced Liabilities

The change to the no-fault/enhanced care model will decrease the accumulated unpaid claim liability over time as claims filed under the tort or hybrid-tort systems settle. The unpaid (pending) claims liability (UCL) is the largest component of ICBC's liabilities. In 2019/20 this totalled \$16.0 billion. ICBC did not forecast the UCL in the 20 April 2021 service plan, but did provide a Basic forecast as part of the current BCUC rate review.

The Basic UCL liability declines from \$11.3 billion as of 31 March 2020 to \$8.2 billion (down 27.5%) as of 31 March 2023.

Large Contingencies in the Forecast

The government directed ICBC to redirect some of the no-fault/enhanced care savings to rebuild the Basic equity/capital reserve.⁴ The increased reserve is not reflected in ICBC's latest service plan because the corporation decided to forecast a lower Basic net income for the next two years after allowing a large (average of some \$430 million) annual contingency.

ICBC did not provide any details on these "risk provisions," but such a large contingency clearly suggests that ICBC does not have a high degree of confidence in its forecasts.

©Richard McCandless June 25, 2021. <https://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 is an intervener in the BC Utilities Commission's recent reviews of ICBC's and B.C. Hydro's rate requests.

⁴ The equivalent to some \$420 million per year. This explains the missing millions that were discussed in my paper of 29 April 2021: https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_s_capital_build_28_april_2021/pdf/commentary_icbc_s_capital_build_28_april_2021.pdf