

**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

Subject: ICBC Operational Review

Submission Date: Priorities and Accountability – January 31, 2018

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Page 002

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**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

Subject: ICBC Operational Review

Submission Date: Cabinet – February 7, 2018 (Minute from P&A on January 31, 2018)

s.12

Page 004

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TREASURY BOARD STAFF BRIEFING NOTE

REQUEST NO.: N/A

T.B. MEETING DATE: JANUARY 25, 2018

TITLE: ICBC FINANCIAL PLAN – *BUDGET 2018*

ISSUE SUMMARY:

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Page 006 to/à Page 008

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**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

s.12

Page 010 to/à Page 011

Withheld pursuant to/removed as

s.12

**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

s.12

Page 013 to/à Page 014

Withheld pursuant to/removed as

s.12

**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

s.12

Page 016 to/à Page 017

Withheld pursuant to/removed as

s.12

**MINISTRY OF FINANCE
FINANCIAL IMPACT ASSESSMENT
ADVICE TO THE MINISTER**

s.12

Page 019 to/à Page 020

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BRIEFING NOTE FOR INFORMATION

DATE: July 19, 2017

PREPARED FOR: Minister of Transportation and Infrastructure

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Page 022 to/à Page 024

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BRIEFING NOTE FOR INFORMATION

DATE: July 18, 2017
PREPARED FOR: Minister of Transportation and Infrastructure
ISSUE: ICBC 2017 Basic Insurance Rate Change

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Page 026 to/à Page 028

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Page 029 to/à Page 030

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Select Mitigations to date For Background

Fraud

- Exaggerated and fraudulent claims are an increasing issue for all insurers - various industry studies estimate between 10 to 20 per cent of insurance claims contain an element of fraud or exaggeration and ICBC would not be immune to that.
- If those estimates are applied to BC, that would mean up to \$600 million per year in claims costs – that's more than \$100 a year for everyone needing auto insurance in B.C.
- In 2016, ICBC's Special Investigations Unit opened close to 10,000 fraud investigations.

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- ICBC's public information campaign on the problem of exaggerated and fraudulent insurance claims has definitely sparked the interest we hoped it would, with approximately 850 calls made to ICBC's fraud tips line in just the first five months of 2017.
- ICBC is keeping the pressure on fighting fraud in 2017, with the continued implementation of a fraud analytics tools which will help more quickly target fraudulent claims, plus a new education campaign. s.13,s.17

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Windshield Repair

- From March, 2017, customers who purchase ICBC's optional comprehensive coverage for their private passenger vehicles have been able to have a windshield chip repaired for free (no deductible), as long as it is safe and appropriate to repair.

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Page 032

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Transformation Program

- ICBC's Transformation Program was a multi-year, multi-project plan, to modernize the corporation's technology and processes, with the overarching goal of improving ICBC's ability to serve customers.
- The key elements and original, projected financial benefits and service improvements of the Transformation Program as outlined in the original Order in Council have all been delivered within the \$400 million funding allocation – in fact, the program was completed \$15 million under budget at an actual cost of \$385 million.
- Now at its end, the Transformation Program is already allowing ICBC to improve its customer service and develop better, quicker and more efficient administrative processes.
- The Transformation Program includes ClaimCenter, ICBC's new claims handling system which is now being used to handle approximately 900,000 claims per year, and has made the claims process more efficient and convenient for customers.
- The Transformation Program also includes PolicyCenter, ICBC's new insurance system for brokers, one of the largest and most complex system renewal initiatives to-date, both at ICBC and in the industry. More than 3.4 million transactions have already been successfully processed using PolicyCenter – a significant result for a system implementation of this size and complexity.
- Overall, the Transformation Program is forecasted to provide annual savings of approximately \$90 million to ICBC – savings which are long-term and ongoing.
- The Transformation Program was entirely funded from ICBC's optional capital, so no basic rate increase was needed to pay for it.

Distracted Driving

- We remain committed in the fight against distracting driving, including two major education and enforcement campaigns per year – our last campaign in March saw a significant enforcement effort targeting distracted driving, while a new campaign will launch in September.
- According to police statistics distracted driving is a leading cause of car crash fatalities in our province, along with speed and impaired driving.
- One in four deaths on B.C. roads involves distracted driving.
- It's illegal in B.C. for drivers to use hand-held cell phones and other portable electronic devices.
- Effective June 1, 2016, the fine for distracted driving increased to \$368 and four penalty points.
- This means distracted driving is now considered a "high-risk" driving behavior and Driver Penalty Points will start with only one offence.
- Repeat offenders in a one-year period will have their driving record subject to an automatic review which could result in a three to 12-month driving prohibition.

Page 034 to/à Page 045

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BRIEFING NOTE

Prepared for: Richard Fyfe Q.C., Deputy Attorney General for INFORMATION
Subject: ICBC's Financial Position and Pressures on Basic Insurance Rates

Summary

Insurance rates are facing significant pressures as a result of various factors. Some of these are being experienced by auto insurers across North America but amplified in BC because of inherent features of our auto insurance system. Currently, ICBC is not collecting enough Basic premiums to cover Basic claims costs. These pressures are exacerbated by increasing trends in the factors that drive up claims costs overall.

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Page 047 to/à Page 084

Withheld pursuant to/removed as

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Page 085 to/à Page 099

Withheld pursuant to/removed as

s.12;s.13

Page 100 to/à Page 119

Withheld pursuant to/removed as

s.13;s.17

TREASURY BOARD STAFF BRIEFING NOTE

REQUEST NO.: AG 02 - 18

T.B. MEETING DATE: AUGUST 17, 2017

TITLE: ICBC FINANCIAL PLAN – BUDGET 2017 UPDATE

s.12,s.13

Page 121 to/à Page 127

Withheld pursuant to/removed as

s.12;s.13

Richard McCandless Information Request No. 2017.1 RR RM.1.6 Dated 06 November 2017 Insurance Corporation of British Columbia Response Issued 28 November 2017	Page 1 of 3
15 September 2017 Insurance Corporation of British Columbia 2017 Revenue Requirements Application	

2017.1 RR. RM.1.6 Reference: FINANCIAL MANAGEMENT

On 23 November 2016, in accordance with Commission Order G-165-16, ICBC filed a five-year financial forecast for PY2016 to PY2020. Using the same assumptions, including any revisions as required based on the 2017 RRA information, please submit an updated forecast (including the MCT) for both PY2017 to PY2021, and for FY2017/18 to FY2021/22.

Response:

ICBC has prepared this response based on the following hypothetical scenario:

- The actuarial loss cost trends as provided in the Application are utilized for the forecast years, which include the prospective adjustments that were filed in the current Application. The impact from loss cost trend is higher in the outer years because the long term bodily injury (BI) severity trend is higher than the short term trend. For more information, please see the Application, Chapter 2, Appendix D.0 paragraphs 22 and 23.
- ICBC's forecast rates follow the current legislative framework, which specifies the exclusion of the capital build provision and using a calculation for capital maintenance provision that neither increases nor decreases the rate change up to and including PY 2020.
- Assumes no further prospective adjustments for years 2018 and beyond. Please note that this is not a likely assumption given ICBC's commitment to continue to work with Government to mitigate Basic claims costs. Nevertheless, for the purposes of this forecast, ICBC does not assume any additional future changes beyond what is already included in the Application.
- Operating costs reflect a 2% increase in future years.
- Investment returns are consistent with the New Money Rate assumption that was used for policy year (PY) 2017. Other investment forecast assumptions are consistent with ICBC's 2017/18 first quarter outlook and financial forecast and are based on the same assumptions that were used for PY 2017.

Richard McCandless Information Request No. 2017.1 RR RM.1.6 Dated 06 November 2017 Insurance Corporation of British Columbia Response Issued 28 November 2017	Page 2 of 3
15 September 2017 Insurance Corporation of British Columbia 2017 Revenue Requirements Application	

- Continued growth in policies written and no impact to premium from future mix of business changes (the forecasted average premium trend is assumed to be 0% not including rate changes).
- Future rate changes are limited to the prior year's approved rate change +/- 1.5 percentage points.

Other assumptions / caveats that have been utilized for this forecast are as follows:

- This forecast represents a hypothetical scenario and is subject to considerable uncertainty.
- Future rate changes are calculated using a simplified rate forecast model including:
 - A loss cost forecast variance of zero for policy years 2018 and onward.
 - A -0.4ppt rate impact from the change in the investment income on policy holder supplied funds for policy years 2018 and onward ('Other Components of Rate' in Tables 1 and 2).
 - An additional -0.7ppts to -0.9ppts rate impact from income on capital transfers from other sources ('Other Components of Rate' in Table 1).
 - PY 2021 includes a capital maintenance provision ('Other Components of Rate')
- Tables 1 and 2 below summarize the indicated rate change for policy years 2017 to 2021 and the estimated Basic MCT levels as of the end of the next four fiscal years assuming the proposed Basic rate change for PY 2017 of 6.4% is approved by the Commission and the MCT ratio for fiscal year (FY) 2017/18 is 101% (for the purpose of the Application). Table 1 shows a scenario where the MCT ratio is maintained at 100% through ongoing capital transfers from other sources while Table 2 shows a scenario where there are no further capital transfers after policy year 2017.
- The scenario summarized in Table 2 below does not consider that if the MCT ratio were to fall below the regulatory minimum of 100%, this would require ICBC to report to the Treasury Board and file an appropriate plan to address capital levels to the Commission, nor does it consider the content of any such plan.

Table 1 – Assuming annual capital from other sources will be transferred to Basic to maintain Basic MCT at 100%

	PY 2017	PY 2018	PY 2019	PY 2020	PY 2021
Removal of Prior Year's Rate Exclusion	10.1%	12.7%	11.7%	9.9%	6.8%
Loss Cost Trend	8.0%	9.2%	9.6%	9.6%	9.5%
Other Components of Rate	1.9%	-1.3%	-1.1%	-1.1%	0.2%
Rate Change to Cover Costs	20.0%	20.6%	20.2%	18.3%	16.4%
Rate Exclusion	-13.6%	-12.7%	-10.8%	-7.4%	-4.0%
Indicated Rate Change	6.4%	7.9%	9.4%	10.9%	12.4%
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
MCT Ratio	101%*	100%	100%	100%	100%
Capital Transfer from Other Sources	\$470M	\$680M	\$505M	\$560M	\$415M

*Fiscal year 2017/18 Outlook MCT ratio accords with the \$470 million transfer of capital from the Optional business on September 15, 2017 pursuant to the Government Directive of September 2017 with respect to the Optional Capital Transfer approved by Order in Council 326/17, September 5, 2017.

Table 2 – Assuming no further capital transfers from other sources to Basic

	PY 2017	PY 2018	PY 2019	PY 2020	PY 2021
Removal of Prior Year's Rate Exclusion	10.1%	12.7%	12.6%	11.2%	8.7%
Loss Cost Trend	8.0%	9.2%	9.6%	9.6%	9.5%
Other Components of Rate	1.9%	-0.4%	-0.4%	-0.4%	0.5%
Rate Change to Cover Costs	20.0%	21.5%	21.7%	20.4%	18.7%
Rate Exclusion	-13.6%	-13.6%	-12.3%	-9.5%	-6.3%
Indicated Rate Change	6.4%	7.9%	9.4%	10.9%	12.4%
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
MCT Ratio*	101%	61%	36%	11%	-4%

*Fiscal year 2017/18 Outlook MCT ratio accords with the \$470 million transfer of capital from the Optional business on September 15, 2017 pursuant to the Government Directive of September 2017 with respect to the Optional Capital Transfer approved by Order in Council 326/17, September 5, 2017. Although the scenario summarized in this table does not include any further capital transfers, ICBC is required by the March 2013 Government Directive regarding Rate Smoothing to report to the Treasury Board to develop a an appropriate plan to address capital levels, if the MCT ratio falls below the regulatory minimum of 100%.

Page 131 to/à Page 248

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MINISTER OF FINANCE BRIEFING – ICBC FORECAST UPDATE – JANUARY 15, 2018

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Page 250

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s.12;s.13



BRIEFING NOTE - DRAFT

I. **Prepared For:** Honourable David Eby, Attorney General and Minister Responsible for ICBC, for **INFORMATION**

II. **Subject:** Deterioration of ICBC's financial results in Q3 2017/18

III. **Background:**

- ICBC has been experiencing rapidly increasing claims costs, particularly in the last three years. Premiums increases have not kept pace with the increase in costs and as a result ICBC has experienced ongoing deterioration in capital levels and net income.
- In addition to the overall negative trend note above, ICBC has more recently seen the emergence of two new, extraordinary adverse trends affecting bodily injury claims:
 - i) a continued acceleration in the increase in the number of claims with associated large financial losses, and in particular claims that become large losses over many years (versus claims that immediately present as large financial losses when first reported); and,
 - ii) an extension in the time required to resolve claims, particularly those with legal representation and litigation.
- ICBC posted a net loss of \$612M for the previous 12-month fiscal year (and a net loss of \$913M for the 15 month fiscal year January 2016 to March 31, 2017). In its 2017/18 - 2019/20 Service Plan, ICBC forecasted a net loss of \$225M for 2017/18.

s.12,s.13

- A large loss is a bodily injury claim with over \$200K in costs, with the average being approximately \$450,000. They include traditional catastrophic injuries such as paraplegia, amputation, major brain injuries, as well as injuries to high income earners. Large losses can also involve secondary injuries or pre-existing conditions such as chronic pain, psychological illness, and other injuries that are challenging to diagnose and resolve.

s.12,s.13

- Emerging large losses develop over time due to factors that can make it difficult to identify the risk of a claim becoming a large loss throughout the claims handling process. Examples of how a claim may emerge as a large loss over time include: lack of access to accurate injury information due to the claim being legally represented and information not required to be disclosed to ICBC until many years after the accident; the consequences of the injury still manifesting themselves, and, in some cases, developing into a more serious impairment (over the course of years); or other cases where the claims handling may have missed risk indicators.

s.12,s.13

- Many of the late emerging large losses therefore first appear as more minor injury claims, and subsequently develop into more serious claims with substantial legal costs and disbursements.
- For every injury claim opened, a reserve is established to earmark money for eventual payment. The amount is based on the information the adjuster has at the time. As an adjuster receives more information in the form of document disclosures from the claimant or legal counsel, the reserve is adjusted accordingly until such time as the claim is settled. ICBC's actuaries use historical patterns in the development of claims and known future changes to forecast overall claims costs and to set rates.

s.12,s.13

s.12,s.13

- There are also significant challenges with accurately estimating the number of outstanding large loss claims. As part of the Government Review in 2012, ICBC's forecasts of overall claims costs were found to be within 5% from actuals, which was deemed reasonable. s.12,s.13

s.12,s.13

- In addition to ICBC's actuaries, an external actuary appointed by the Board of Directors is responsible for carrying out annual valuations of ICBC's claims liabilities. Actuarial estimates are scrutinized by various parties including consulting actuaries engaged by the BCUC and independent reviews by consulting firms. Also, as part of the annual financial audit, the valuation of bodily injury claims liabilities at each fiscal year end are compared to an independent estimate performed by the valuation actuaries from PricewaterhouseCoopers (PwC).
- ICBC's financial projections are also the subject of two current reviews including the PwC Operational Review and the Ministry of Finance Fiscal Sustainability Review.

s.12,s.13

- Claims that remain open longer cost more, on average, than claims which are resolved sooner. In many cases, this is affected by increasing legal complexity as litigation is commenced and legal fees and disbursements accumulate for both the plaintiff and defence. There is also a risk for claims remaining unresolved over a long period of time to develop into large losses, as discussed above.
- Timely closure of claims reduces the growth of legal fees and disbursements, and results in a lower cost of claims, on average.

s.12,s.13

Key Factors

The issues of emerging large losses and longer times to resolve claims have been driven by, and exacerbated by, various factors, both internal and external to ICBC.

1. Crashes and Claims on the Rise

- There are more crashes, and crashes per policy, as well as claims per policy every

year, year over year. Many of those will include large losses. Rising claims volumes will also require ICBC to increase its workforce, which creates an influx of staff with limited experience, discussed further below.

s.12,s.13

3. Court Rules, Document Disclosure and Expert Reports

- A common challenge in setting reserves is around the timeliness of information disclosure. Reserves are set and updated as new information becomes available. However, when files are represented, ICBC's access to information can diminish considerably. Claimants have two years to submit a Notice of Civil Claim (NOCC). In many cases, the NOCC issue dates are very close to exactly two years from the loss date. In addition, plaintiff counsel can issue a NOCC without serving it to ICBC for up to one year. Only once a NOCC is served do rules of court come into effect and provide document disclosure requirements. s.12,s.13

s.12,s.13

Page 257 to/à Page 260

Withheld pursuant to/removed as

s.12;s.13

ICBC Fiscal Update

Communications Options

s.13

Page 262

Withheld pursuant to/removed as

s.13

Page 263 to/à Page 264

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s.12;s.13