

## ICBC FINANCIALS

DATE: AUGUST 22, 2017

### ICBC Recommended Responses:

- **ICBC's net loss is reflective of the considerable cost pressures they are facing from the rapid increase in the number of crashes and claims costs.**
- **ICBC has been working hard to develop short and long-term strategies to mitigate these cost pressures, and our government is reviewing which of these strategies will be most suitable to implement and make the most sense for British Columbians.**

### Background:

- This note covers ICBC's financials up to the filing of its Annual Report in August 2017. A separate note will be prepared for the filing of ICBC's Revised Service Plan that will be filed with Government's budget in September 2017.
- ICBC reported a net loss of \$612 million for the Government fiscal year, running from April 1, 2016, to March 31, 2017. ICBC reported a net loss of \$913 million for its 2016/17 fiscal year, running from January 1, 2016, to March 31, 2017.
- To align with the Government fiscal year, ICBC changed to a March 31 fiscal year-end effective January 1, 2016. Unless otherwise stated, financials for 2016/17 reflect the one-time transitional 15-month fiscal period starting January 1, 2016 and ending March 31, 2017. Starting April 1, 2017, and every year thereafter, ICBC and Government will have the same 12-month fiscal year – April 1 to March 31.
- Summary of ICBC's net loss for the 15 months period ended March 31, 2017, compared to the Service Plan 2016/17 ("Plan"):

(\$ millions)	2016/17 YTD Actual <sup>1</sup>	2016/17 YTD Plan <sup>1</sup>	2015 YTD Actual <sup>1</sup>	Variance to Plan Lower/(Higher)	Variance to 2015 Lower/(Higher)
Net (loss) income	\$ (913)	\$ (11)	\$ 131	\$ (902)	\$ (1,044)

- ICBC's corporate net loss for the 15 months ended March 31, 2017 is \$902 million higher than Plan due to higher than expected claims costs, partially offset by higher than planned investment income and earned premiums. The net loss is \$1,044 million higher than the 12 months ended December 31, 2015, due to higher than expected claims costs and lower investment income, partially offset by higher premiums earned. The period over period net loss variance is also due to the longer 2016/17 fiscal period of 15 months compared to the

## ICBC ISSUES NOTE – ADVICE TO MINISTER

12 month period in the prior year.

- The Corporation continues to experience ongoing pressure from increasing claims costs. The higher claims costs are driven by:
  - Higher and upward trending crash frequencies;
  - Accelerated trends in higher numbers of bodily injury claims per crash;
  - Greater emergence of large and complex claims which typically result in larger settlements; and
  - Material damage repair costs are higher than expected, a trend seen across Canada and the U.S.
- ICBC was directed by the former Government to transfer income and capital from the Optional insurance side of the business to the Basic insurance side to help alleviate the increasing pressure on rates and bolster ICBC's Basic capital levels.
- Prior to 2010, Government was not taking any dividends from ICBC. In March 2010, the B.C. Government announced changes in the management of ICBC's optional capital that allowed surplus capital from ICBC's optional business to be transferred to government.
- Under the current legislation, the Government dividend comes from ICBC's Optional insurance and does not come from the Basic compulsory insurance that all motorists purchase through ICBC.
- ICBC's Optional insurance is offered in a competitive market. Customers are free to purchase Optional insurance from the company of their choice based on price, service, convenience and other considerations important to consumers. If a consumer chooses ICBC for their Optional insurance, they do so voluntarily.

Year	2010	2011	2012	2013	2014	2015	2016	Total 2010- 2016
<b>Dividend to Govt from ICBC Optional Insurance</b>	\$576M	\$101M	\$0	\$237M	\$139M	\$138M	\$0	\$1.2B
<b>Transfer from ICBC Optional Insurance to ICBC Basic Insurance, based on Policy Year</b>	\$0	\$0	\$373M	\$113M	\$0	\$450M	\$472M	\$1.4B



## 2017 Rate Application

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DATE: SEPTEMBER 22, 2017

### ICBC Recommended Responses:

- **Our government wants to ensure that ICBC insurance rates are affordable for British Columbians, and we are working to take every possible step to make sure this happens.**
- **There are three primary external pressures on auto insurance rates in B.C.; they are very real and they are escalating – a rapid increase in the number of crashes, more vehicle damage and injury claims being reported, compounded by higher vehicle repair and injury claims costs.**
- **While steps have been taken by ICBC to address these external pressures, more work is needed. Our priority is to make sure that affordability for good drivers always comes first.**

### Background:

- On September 15, 2017, ICBC submitted an application to the British Columbia Utilities Commission (BCUC) asking for a 6.4 per cent increase to basic insurance rates. On September 22, 2017, the BCUC approved ICBC's application for a 6.4 per cent increase on an interim basis. This will mean an average increase of \$4.75 per month for basic insurance coverage policies effective November 1 and later.
- Even after this increase, the amount of basic insurance premiums ICBC is collecting from its customers will not cover the increasing amount paid out in basic claims costs. To cover the actual costs would require a basic rate increase of 20 per cent, or close to \$15 per month for every customer.
- Increasing costs are also putting pressure on ICBC's optional insurance rates.
- From November 1, 2017, drivers who purchase their optional insurance from ICBC will see the first quarterly increase on average, of 3.1 per cent with subsequent quarterly increases reviewed on a quarterly basis as market conditions require, up to a maximum of 9.6 per cent.
- The basic increase of 6.4 per cent and the optional increase of 3.1 per cent mean an average increase of 4.9 per cent or \$80 per year for the average driver in British Columbia. If optional rates do increase up to the maximum of 9.6 per cent, the annual blended increase will be eight per cent or \$130 for the average driver in British Columbia.

## ICBC ISSUES NOTE – ADVICE TO MINISTER

- Three external factors have continued to put pressure on insurance rates in B.C. – a sustained increase in the number of crashes which has led to more vehicle damage and injury claims being reported, compounded by higher vehicle repair and injury claims costs. These pressures have increased in 2017 at an even higher rate than anticipated and continues to worsen.
- After years of a stable crash rate, more crashes are occurring in B.C. every year, with 320,000 in 2016 alone.
- ICBC is also seeing the number of injury claims being reported increase. In 2016, there were 72,700 new injury claims reported, which is 10,000 more than two years ago, for an increase of 16 per cent.
- More vehicle damage claims are also being reported to ICBC. There were 240,100 in 2016 alone, 30,900 more than just two years ago, an increase of 15 per cent.
- The rising number of crashes has led to an increase in vehicle damage repair costs, which have increased by 30 per cent in just two years, to a total of \$1.5 billion in 2016.
- ICBC's injury claims costs totaled \$2.7 billion in 2016 for an increase of \$1.2 billion, or 80 per cent, over the last seven years.
- ICBC is committed to working alongside the new provincial government to make further changes and improvements to help mitigate the pressures on rates.
- In the short term, government and ICBC will be moving forward on the following actions:
  - an operational audit of ICBC;
  - a pilot project to evaluate distracted driving reduction technology;
  - activating red-light cameras 24 hours a day, seven days a week;
  - increasing public awareness of the risks of distracted driving through a new advertising campaign; and
  - introducing a dangerous roads initiative to improve identified dangerous roads and intersections.