



June 17, 2020

Sent via email

**Letter L-32-20**

Nicolas Jimenez  
President and CEO  
Insurance Corporation of British Columbia  
151 West Esplanade  
North Vancouver, BC V7M 3H9  
regaffairs@icbc.com

**Re: Insurance Corporation of British Columbia – Financial condition of Basic insurance business**

Dear Mr. Jimenez:

On February 14, 2020, by Order G-21-20, the British Columbia Utilities Commission (BCUC) set the Insurance Corporation of British Columbia's (ICBC) Basic insurance rate change at 0 percent for Policy Year 2020, as directed by the Lieutenant Governor by Order in Council (OIC) No. 047/20.<sup>1</sup> Given the nature of the OIC, the BCUC did not review the application for its regulatory or economic justification.

The purpose of this letter is to outline our concerns as they pertain to the overall financial health and solvency of ICBC's Basic insurance business.

The BCUC had a mandate under *Special Direction IC2* to ensure the financial health and solvency of ICBC by ensuring it collects sufficient revenues to cover costs and maintain at least 100% Minimum Capital Test (MCT). However, the requirement to set Basic insurance rates that will allow ICBC to maintain at least 100% of MCT has been suspended by OIC No. 067/18 until the end of Policy Year 2021.<sup>2</sup>

ICBC's Basic insurance operates under a closed system in that when variances in estimates occur, they stay in the system and affect future years' rates. Any surplus or deficit that may result from an understatement or overstatement of the revenue requirement will affect retained earnings and is therefore reflected in the level of capital available, or the MCT.<sup>3</sup>

The BCUC notes that the 2018/2019 Basic insurance MCT ratio was 6.1 percent, compared to the 100% normally required to ensure sufficient capital is available to cover potential losses. As noted in the BCUC's 2019 ICBC Revenue Requirements Application Decision, the lack of capital available to cover Basic Insurance requirements is concerning - there is no capital available to backstop further losses in the Basic insurance program, absorb unfavourable claims costs variances or withstand volatility in equity markets. As a result, further capital

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<sup>1</sup> BCUC Order [G-21-20](#).

<sup>2</sup> [http://www.bclaws.ca/civix/document/id/oic/arc\\_oic/0067\\_2018](http://www.bclaws.ca/civix/document/id/oic/arc_oic/0067_2018).

<sup>3</sup> [ICBC 2019 Revenue Requirements Application \(RRA\) Decision](#) dated August 19, 2019, p. 7.

injections from sources outside the Basic insurance system, significant cost reductions or further insurance reform amendments to reduce costs may be necessary.<sup>4</sup>

That said, we acknowledge that ICBC is working with Government to transform ICBC's Basic insurance product to reduce costs and increase care benefits planned for May 2021. The new care-based insurance system is forecast to generate \$1.5 billion in savings in the first full year.<sup>5</sup> We are also cognizant of ICBC's current investments to enhance its information technology systems to support the new insurance business model. These measures will undoubtedly be helpful, although it is unclear whether they will be sufficient to mitigate the risk of such a low MCT ratio.

At this time, the BCUC has little jurisdiction to make any substantive changes or directions given our limited oversight of ICBC. However, we will continue to closely monitor the financial health and solvency of ICBC's Basic insurance business by relying on quarterly and annual reporting. The BCUC may also require ICBC to report on its performance in providing Basic insurance from time to time, in accordance with section 45(4) of the *Insurance Corporation Act* and, as applicable, section 23 of the *Utilities Commission Act*.

If you have any questions about this letter, please contact the undersigned below.

Sincerely,

*Original signed by:*

Marija Tresoglavic  
Commission Secretary

/dg

cc: Richard Fyfe, QC  
Deputy Attorney General  
Ministry of Attorney General  
PO Box 9380 Stn Prov Govt  
Victoria, BC V8W 9M6

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<sup>4</sup> [ICBC 2019 RRA Decision](#), p. 9.

<sup>5</sup> <https://www.icbc.com/about-icbc/newsroom/Pages/2020-feb06.aspx>; <https://news.gov.bc.ca/releases/2020AG0009-000231>