

Impacts of COVID-19 pandemic on ICBC

May 14, 2020



Overview

The impact of the pandemic on ICBC and its customers has been wide-ranging and unprecedented with many unknowns still ahead. These impacts are ongoing and changing, as they are for businesses across the province. Key variables affecting ICBC's financial results include premium levels, claims costs and investment income. This report sets out how the pandemic has impacted those variables and the organization more broadly for a seven-week period from mid-March to the beginning of May.

ICBC's last fiscal year ended on March 31, 2020 and its year-end financial results are currently being audited and will be released in the summer as is the normal process. ICBC's first quarter for 2020/21 is generally reported at the same time as government releases its first quarter results, usually in September.

In the weeks after the Government of British Columbia declared a state of emergency and health officials advised people to stay close to home, ICBC saw a decrease in the number of accident claims as well as reduced premium revenue that reflected changes in driving patterns. The estimated impact of fewer claims from March 15 to May 2 is \$158 million. Customers made changes to their insurance policies, held off on getting new policies or cancelled their policies altogether resulting in an estimated \$283 million impact on written premium compared to what would normally be received for that period.

As B.C. begins its careful restart plan, we also know that over time people will get back in their cars and claims and premium levels will return to more normal levels. There are already signs of increasing traffic and claims.

To add to the uncertainty, ICBC, like other insurers, uses an investment portfolio to help offset claims costs, and the current global markets are unpredictable. When there has been a significant decline in market value below the cost for equity investments, ICBC's accounting standards require it to record an impairment loss to investment income. Through the last two weeks of March as the 2019/20 fiscal year was closing, ICBC's investment impairment charges fluctuated by more than a billion dollars. The final impairment cost will be reported as part of ICBC's 2019/20 financial results and the corporation expects continued volatility through the current 2020/21 fiscal year.

Finally, unlike other insurers, between 2011-2017, ICBC's capital reserves were depleted as a result of basic rates being directed below the level needed to cover costs, transfers of capital to government, and a greater emergence of large and complex claims. The result has been that there is no financial "cushion" to absorb significant volatility and uncertainty from crashes, claims and investment earnings.

The path forward

By early 2021 when ICBC reports on its third quarter results, the government and ICBC will have a clearer picture on the impact of the pandemic.

If ICBC's net income results are better than forecast for 2020/21, any additional net income will benefit customers. Any decisions on the use of additional net income of ICBC for the year due to lower claims resulting from the pandemic will be made at the end of the fiscal year. Options on use could include rebuilding financial capital health of ICBC to reduce longer term pressure on rates, providing one-time direct relief to customers, or any combination thereof.

Through the rest of 2020/21, ICBC will continue to support customers that have changed how they drive by giving them options to reduce their premiums and provide relief in the form of deferring payments to those who are in financial distress. ICBC will also expand the communication of its quarterly results including the impacts from the pandemic.

ICBC is more committed than ever, despite the challenges created by the pandemic, on the delivery of Enhanced Care coverage and the average expected 20 per cent rate reduction in May 2021. This new model of insurance will provide meaningful affordability and put ICBC on a path toward financial stability.

Focus on delivering customer service

Since the province declared a state of emergency on March 18, 2020, ICBC has been doing everything it can to ensure essential goods, and the people providing essential services, can continue to travel safely on B.C. roads. ICBC has been working closely with its broker, collision and glass repair shop, medical service provider, and government partners to implement a number of measures to help British Columbians through this difficult time, including:

- Enabling customers to renew and make adjustments to their insurance by phone and email.
- Developing on-line and phone-based service delivery extension options, to reduce the need for B.C. residents to physically visit a driver licensing office.
- Offering telehealth services in place of standard in-person treatments and extending pre-authorized health treatments, as well as increasing grants to community non-profit organizations providing support to injured British Columbians.
- Paying for vehicle cleaning at repair shops, which continue to operate and helping to get vehicles back on the road in a timely manner.
- Providing knowledge testing by appointment for customers whose learner's license has recently expired or will expire, new residents to B.C. and those who require a commercial knowledge test.

Relief for B.C. drivers

ICBC knows many British Columbians are facing financial challenges as a result of the COVID-19 pandemic. The corporation is responding to these needs, and helping to ease the financial burden by:

- Allowing customers who need the opportunity to defer monthly payments for 90 days and working to set up extended payment plans for customers who need that flexibility at the end of their deferral period. From March 17 to May 2, this option has allowed 40,000 customer deferrals with **\$16 million** in payments deferred.
- Waiving the cancellation fee non-fleet customers normally pay when they cancel insurance, and waiving the plating fee when they choose to reinstate the policy on their vehicle. ICBC anticipates this measure will save British Columbians who choose this option between **\$4 million** and **\$5 million**.
- Allowing fleet customers to suspend insurance on vehicles they are not driving.
- Providing an exemption to customers insured for personal use, to allow them to deliver food and medical products during the pandemic period.
- Waiving the fee for the first knowledge test required for customers whose Class 5-8 Learner Driver's Licences (LDLs) expire.

Financial impacts



fewer claims



reduced revenues and investment losses



decrease in **claims**



decrease in **written premiums**



investment losses

As noted earlier, there are key variables that impact ICBC's financial results – premium levels, accident claims costs, and investment income. As people reduce or remove coverage, premium revenue declines. As traffic levels decline from job loss, working from home, and the general “stay at home” direction of the Provincial Health Officer, accidents and claims also decline. As a public insurer, ICBC already sells an insurance policy where it expects overall costs to exceed premiums with that difference being made up from investment income. With the sudden and significant downturn to investment markets, ICBC's investment income cannot be counted on to make up that whole difference.

Lower premium revenue

From March 15 to May 2, ICBC experienced a significant decrease in insurance premium revenue, seeing a decline of \$283 million in written premiums compared to what would normally be received for that seven-week period, as drivers made policy coverage changes in response to the pandemic.¹

The decrease in premium revenue is attributed mainly to customers cancelling insurance and changing rate classes (how they use their vehicle). In addition, ICBC received fewer new insurance policies, and fewer renewals than normal.

Customers who cancelled their insurance and purchased storage policies saved up to 95% compared to what they'd normally pay for Basic and Optional auto insurance coverage.

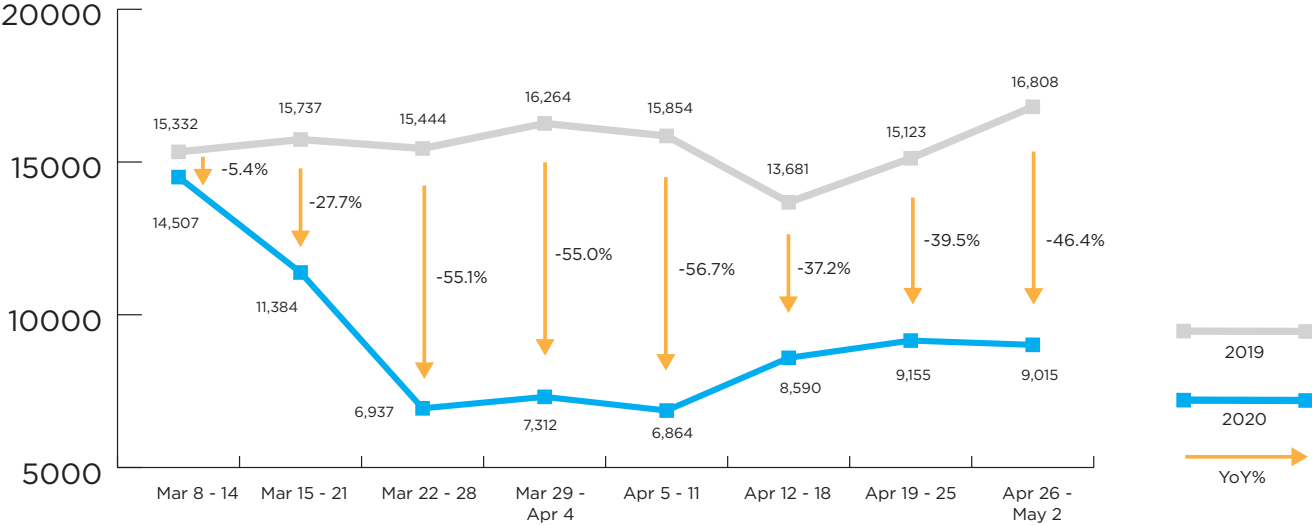
Key stats:

- 103,712 insurance cancellations, a 53% increase from the same time in 2019.
 - 21,934 insurance cancellations from April 22 to May 2, when the BCUC approved waiving cancellation fees.
- 47,020 new storage policies were purchased, a 191% increase from the same time in 2019, as many customers decided to reduce insurance coverage and park their vehicles during the pandemic.
- 57,561 rate class changes with 31,299 changes from short or long commute to pleasure-use only.
- 92,369 new insurance policies processed, a 41% decrease from the same time in 2019.
- 576,108 insurance policies renewed, a 12% decrease from the same time in 2019.

¹ *Written premium is an insurance industry term that describes the amount customers are required to pay for insurance coverage over the full term (usually one year) of the policies issued. This differs from earned premium, which refers to the premium attributable to the portion of a policy that has expired. As a result of the decline in written premium, earned pre-mium revenue was down approximately \$30 million for this period.

Claims down

When the Government of British Columbia declared a state of emergency and health officials urged people to stay home as much as possible, there was an immediate decrease in the number of reported claims. From March 15 to May 2, calls to ICBC’s Dial-A-Claim line decreased by 47% compared to the same period last year, with an average of 1,780 calls per weekday during this period in 2020, compared to an average of 3,171 calls during the same period last year.



ICBC also opened 46% fewer accident claims between March 15 and May 2 (including claims for both damage to vehicles and for injuries) compared to the same period last year, with an average weekly reduction of 7,100 claims. ICBC estimates that the value of that reduction in claims during this specific period is approximately \$158 million.

However, as the chart below shows, after three weeks of significant declines, ICBC is starting to see the number of accident claims rise and it anticipates this trend to continue as restrictions are eased and people begin to drive more regularly. ICBC expects that claim levels may be lower than previous years going forward, but by how much is not clear at this time. ICBC will need to monitor this over the rest of the year to determine the impacts of these trends on the full fiscal year.

Investment income - down and volatile

As a result of the unprecedented downturn in equity markets, the market values of ICBC’s equity investments significantly declined at the March 31, 2020 year-end which will negatively impact the company’s fiscal 2019/20 financial results. The pandemic uncertainty also presents an evolving risk to fiscal 2020/21 if the market value of ICBC’s equity investments do not recover. This negative impact on ICBC’s results could exceed \$1 billion in fiscal 2020/21 depending on the length and scope of the global market downturn.

Interest rates have also dropped, partly in relation to emergency rate cuts made by the Bank of Canada in March, which has adversely affected the expected return on some of ICBC's other current investments. This rate of return is also used to discount ICBC's projected cost of settling outstanding claims in the future to their present value today. Consequently, the reduction in the discount rate in March 2020 has significantly increased the present value of ICBC's claims cost estimates for fiscal 2019/20, and may also present a risk in 2021/20.

ICBC's fiscal year ended on March 31, 2020, roughly two weeks after the Government of British Columbia declared a state of emergency. An audit of the year is now underway, and will be publicly available when government and Crown corporation annual reports are released this summer.

Changes in driver behaviour – dependent on range of evolving factors

Following guidance from the Provincial Health Officer to stay home as much as possible, traffic volumes decreased on roads throughout B.C. leading to the reduction in reported accident claims noted above. However, recently there has been a change in the trend with more traffic on B.C. roads according to data from the Ministry of Transportation and Infrastructure, raising the prospect that the significant reduction in crashes could be short-lived.

At the same time, it appears more drivers are choosing to take greater risks by speeding, leading to concerns that crashes will be more severe and result in more catastrophic injuries. Police departments across the province have been warning about an increase in drivers being pulled over for speeding since mid-March.

The degree to which traffic volumes and subsequent auto insurance accident claims will increase from their current levels depends on a range of factors with unknown impacts, from the easing of the restrictions in place to reduce the spread of COVID-19, to the cost of gasoline, which has decreased considerably since early March, along with social considerations such as a reluctance for some travelers to take transit and carpool.

ICBC will continue to monitor these trends and the impact they have on claims costs.

Other financial risks - prior year claims, *Evidence Act* legislation and court challenges

In April 2019, B.C. made changes to its full tort public auto insurance system to address the unsustainable growth in accident claims costs; it was the last province in Canada to do so.

The reforms have helped stabilize the system, but financial risks remain. ICBC has roughly \$12 billion in open claims subject to the pre-reform rules. The costs to settle those claims could be directly and indirectly impacted by the pandemic because it has interrupted scheduled medical treatments and court dates. ICBC is closely monitoring and by the end of December 2020, ICBC will be better able to evaluate these claims impacts compared to forecast. This could also impact ICBC's 2020/21 bottom line.

The pandemic has also resulted in a delay to the provincial government's proposed changes to the *Evidence Act*. The changes would have helped ICBC mitigate some of the impact from a B.C. Supreme Court decision in October 2019 that resulted in previously recognized savings coming from a limit on expert witnesses and reports, now being reversed. The legislative and supporting regulatory changes under the *Evidence Act* did not pass by March 31, 2020 as expected. As a result, ICBC could not recognize the associated claims cost savings in fiscal 2019/20.

There are approximately 90,000 claims outstanding from crashes prior to April 1, 2019, and ICBC was already seeing the monetary value of those claims rise substantially, especially large loss claims. The recent reforms are also currently being challenged in court. An adverse decision by the courts would have a significant negative impact on ICBC's bottom line now and in future.

Operating expenses – actively monitoring

ICBC continues to manage its operating expenses prudently. As claims volumes declined, staff schedules were adjusted and staff have been redeployed to other parts of the company where volumes were higher or to address backlogs. ICBC will actively monitor and adjust its operations based on business volumes.

Enhanced Care – premium reductions coming

As ICBC responds to the immediate needs of our customers during this difficult time, the corporation remains firmly committed to implementing Enhanced Care coverage and delivering an average 20% rate reduction in the spring of 2021.

Given the far-reaching and significant financial impacts the pandemic has placed on many British Columbians, this new way of doing auto insurance in B.C. – one that will significantly lower the cost of insurance for motorists – is now needed more than ever. Anything government and ICBC can do to drive down the cost of public auto insurance now for British Columbians in both a fair and equitable way has an even greater sense of urgency.

British Columbians deserve auto insurance that both takes care of them when they need it and, just as importantly, is affordable to them. That is just what Enhanced Care coverage will deliver.

And, as ICBC transitions to its new Enhanced Care model, no basic insurance rate change was needed this year. The 0% basic rate change that took effect on April 1, 2020, is the lowest in nearly a decade.

Transparency and accountability – a commitment to British Columbians

A top priority for ICBC is to be a financially stable organization that British Columbians have confidence in. ICBC understands there has been a great deal of interest in what's been happening at ICBC since the Provincial Health Officer declared a state of emergency, resulting in reduced traffic on B.C. roads and fewer crashes.

The impacts on ICBC have been multifaceted: in the near term ICBC has seen fewer claims, but also reduced premium revenue and significant losses in its investment portfolio, which is used to help offset claims costs and reduce premiums.

There are also the unknowns – it's not clear how long the pandemic will last and how it will impact ICBC's finances over the longer term.

Summary

The COVID-19 pandemic has had wide ranging impacts on ICBC, both positive and negative, and to date it is too early to tell how it will affect ICBC's first quarter results and eventual 2020/21 full year net income.

While initial impacts, such as reduced accident claims, might be viewed as favourable to ICBC, those impacts could be short-lived. Accident claims have been increasing and it is expected this trend will continue over the remainder of the year. There have also been immediate and noticeable negative financial impacts, including a reduction in premium income as drivers cancel their insurance, a lower return on ICBC's investment portfolio as a result of the lower interest rate environment and turbulent equity markets, as well as the uncertainty and risk of a further impairment loss going forward in the value of ICBC's equity investments due to the downturn in financial markets.

ICBC is committed to using any savings realized through a reduction in claims costs as a result of the pandemic to benefit B.C. drivers.