

Basic insurance rates for 2020 and looking ahead

FEBRUARY 6, 2020



Introduction

In December 2019, government [directed](#) a delay in ICBC's basic insurance rate application to allow us more time to review new financial information and consider options to help make the cost of car insurance in British Columbia more affordable.

That work is now complete and the findings are positive.

For the first time in almost a decade, ICBC doesn't need to increase basic rates, as the actuarially indicated basic rate for 2020 is close to zero per cent. This is mainly the result of the successful reforms implemented April 2019, fewer crashes and injuries than expected, planned changes by government to address the cost of expert reports, and other environmental factors.

To keep basic insurance rates unchanged, government has suspended the regulated rate smoothing framework which would have limited ICBC's basic rate for 2020 to no less than 4.8 per cent¹.

While there will be no basic insurance rate change for 2020, as drivers continue to renew under ICBC's new rating model, they will pay less or more basic premium in 2020 depending on their risks, including who drives their vehicle and pricing adjustments to their rate class and territory.

In addition, most customers purchase some form of optional insurance. It is estimated that approximately 85 per cent of customers purchase optional third-party liability coverage through ICBC, and we know some of the remaining (approximate 15 per cent) customers also purchase this coverage with private insurers. The cost of this coverage has increased significantly over the last few years – a direct result of the substantial increase in the number and cost of large claims.

Keeping basic rates stable is an enormous step in the right direction but more needs to be done to achieve affordability. That's why government and ICBC are launching a whole new way of doing auto insurance in B.C. starting in spring 2021 – with Enhanced Care which will actually lower the overall cost of auto insurance for British Columbians by approximately 20 per cent on average.

This document outlines the most significant reasons why there is no need for an increase to basic insurance rates in 2020, while also acknowledging the ongoing pressures our rates are under and the challenges we face as we look ahead.

¹ The regulated rate smoothing framework would limit a basic rate change to within 1.5 per cent of the previous year's 6.3 per cent rate.



**No basic rate increase,
– first time in almost
a decade**



Cost pressures remain

Factors of basic insurance rates for 2020

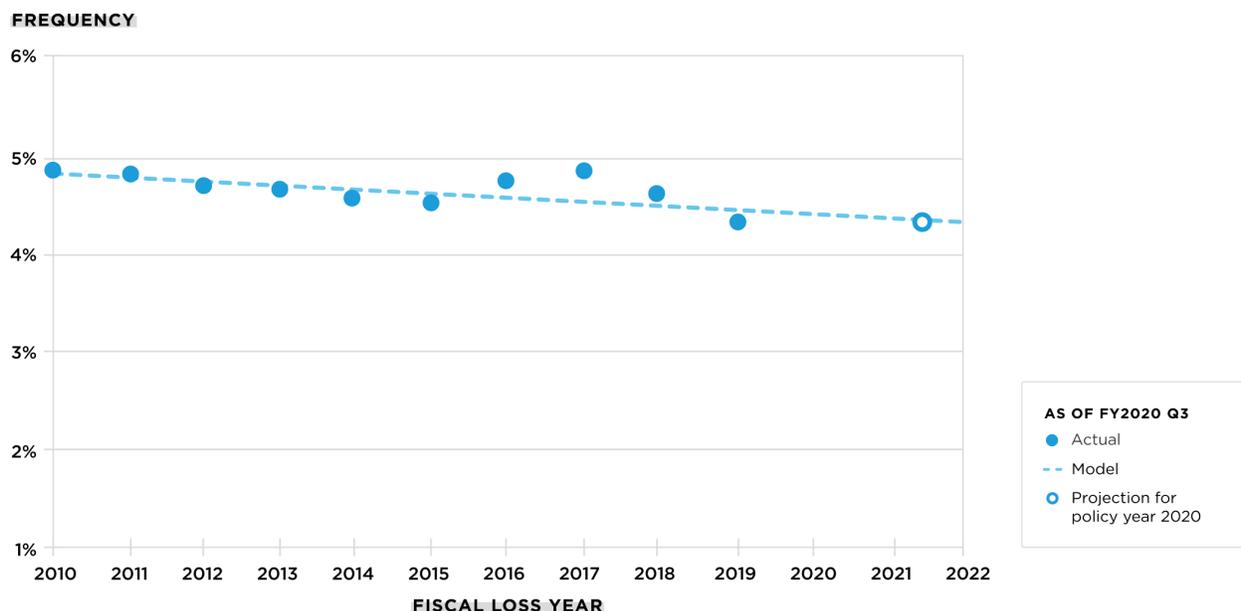
Fewer crashes and injuries than anticipated

The biggest positive impact on basic rates is fewer crashes and injuries than we anticipated.

Between 2015 and 2017, crash frequency (crashes per insurance policy) increased significantly in British Columbia. The number of crashes declined in 2018, and early indications show a similar decline for 2019. As a result of this continued decrease in frequency, we're now forecasting a moderate decline over the next few years.

Vehicle damage claims frequency (basic)

Number of crashes per policy



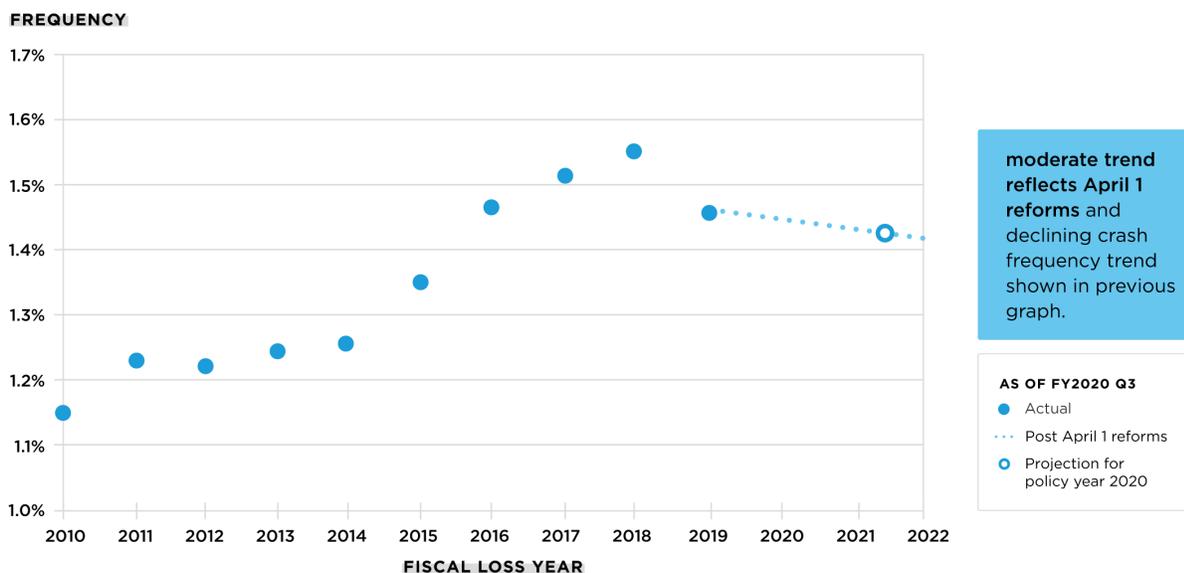
Congestion, distracted driving, and unusual winter weather are all factors that can lead to more crashes across the province. Factors that can favourably influence this pattern include fewer inexperienced drivers, increased public transit usage and more vehicles equipped with crash avoidance technology.

While it can be difficult to quantify how each of these factors have influenced the trend in crashes over the last five years, most recent data suggests that frequency is moving back towards a long-term decreasing trend. The trend seen in the graph above is also present in some other Canadian jurisdictions and the northwest U.S. states.

Fewer crashes is welcome news on many fronts – first and foremost, fewer British Columbians are being injured and having to deal with the aftermath of crashes. Fewer crashes also means fewer claims and lower costs, which are needed to bring some relief to the insurance rates. ICBC expects to pay for 15,000 fewer claims, including 2,600 fewer injury claims, for crashes that occurred in 2018/19 compared to 2017/18.

Bodily injury claims frequency (basic)

Number of bodily injury claims per policy



Helping to prevent crashes is core to who we are and as a public insurer, we have a strong interest in making investments across the province to reduce crashes. ICBC and government have recently implemented a number of new road safety initiatives including the expansion of activation and usage of intersection safety cameras across the province. We’re also piloting telematics technology that collects and transmits data about individual vehicles to determine whether this technology can improve road safety outcomes and drive behavioural change among inexperienced drivers in B.C. We are committed to continue to work with partners to reduce crashes – to reduce the toll on the lives of British Columbians and the pressure on insurance rates they pay.

Impact of April 2019 product reforms

On April 1, 2019, government and ICBC implemented changes that increased accident benefits² and introduced a \$5,500 limit to pain and suffering payments for minor injury claims. The changes also included a new independent dispute resolution through the Civil Resolution Tribunal (CRT) for bodily injury claims that do not exceed \$50,000.

2. ICBC accident benefits, included in basic insurance, cover medical care, treatment and rehabilitation expenses, and wage loss if an injured person is unable to work following a crash. The benefits are available for all British Columbians injured in a crash, regardless of who caused it.

April 1, 2019 reforms



Prior to April 2019, ICBC operated in a full tort system where an injured party, regardless of the extent of their injuries, could sue with almost no limits. Over the last several years, with the rising trend in legal representation, increasing costs of litigation, higher awards and settlements for minor injury claims, and large losses, the full tort system had reached the point where it was no longer sustainable.

These changes in product are expected to remove over \$1 billion in claims costs every year, for crashes that occurred on or after April 1, 2019. While these product reforms are still in their early stages, initial results show that year one savings are estimated to be even higher than anticipated due to fewer claims disputes being brought to the CRT than originally expected.

This favourable impact, along with fewer crashes and injuries than expected, has helped to offset the increase in basic costs from rising medical, legal and vehicle repair costs.

Evidence Act

Another factor that helps to offset the need to increase basic insurance rates is changes in response to a recent court ruling.

Government has indicated it intends to introduce two amendments to the Evidence Act. The amendments will place a limit on the number of experts and expert reports used in trials, and will provide discretion to the judiciary to include additional experts. They will also limit the reimbursement amount for an expert report and put a cap on total recoverable disbursements. These amendments are designed to encourage earlier settlements and help reduce the costs of settling injury claims, contributing to a lower basic rate need.

Basic insurance cost pressures and looking forward

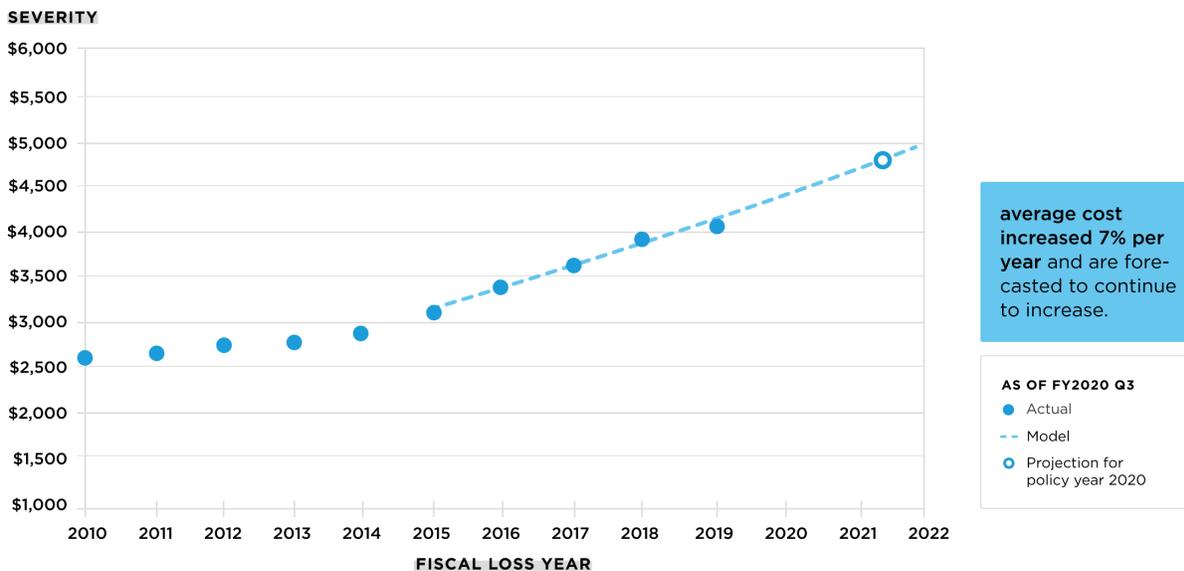
While our major reforms and fewer crashes and injuries than anticipated have helped avoid a basic rate increase for 2020, pressures on basic insurance rates continue to increase mainly due to rising vehicle repair and injury costs. And if nothing else is done, basic rates are forecasted to increase by 5-6 per cent each year.

Rising vehicle repair costs

Our vehicle repair costs have been escalating over the last decade, as is the case throughout North America, in part due to the increasing sophistication of technology present in modern vehicles. For example, a minor rear-end crash is more expensive to repair now than ever before because of sensors and cameras in the bumpers of the vehicles involved.

Our vehicle damage costs were approximately \$1.5 billion in 2018/19; and these costs impact both basic and optional rates. The average cost for a vehicle damage claim under basic insurance has increased by 56 per cent since 2009/10 (from \$2,593 to \$4,041) and is expected to continue to increase beyond the rate of inflation. The chart below illustrates the increase in severity.

Average cost of a vehicle damage claim (basic)



To help manage these increasing costs, we're in the process of implementing new collision repair and glass supplier programs. Since late 2018, we've worked closely with industry to develop new programs focusing on higher performance standards, efficiencies, and better governance to hold suppliers more accountable. The collision program was implemented on February 3, 2020 and the glass program will be in place on March 2, 2020.

Rising injury and legal costs

Looking ahead, we're concerned about the rising cost of claims from crashes which happened before the April 1, 2019 reforms went into effect but have yet to be paid out. There are more than 90,000 claims outstanding from crashes prior to April 1 and the value of those claims is rising substantially.

These outstanding claims represent more than \$10 billion dollars and are not subject to the April 1 limit on pain and suffering awards. They represent a serious financial risk which will continue for at least the next few years.

There is also added risk with the current legal challenge against the limit on pain and suffering payouts for minor injuries and the new dispute resolution process through the Civil Resolution Tribunal. If the challenge is successful, we would have to reverse approximately \$1 billion in savings that we're currently forecasting.



Optional rates

Basic insurance coverage includes \$200,000 of third-party liability – which a customer relies on if they cause a crash and are sued by the other party. Approximately 85 per cent of our customers decide to buy ICBC's additional third-party liability coverage beyond the basic limit given the increasing cost involved in our current legal system.

Our third-party liability coverage is the largest pressure on optional rates. With more large claims costing above \$200,000, optional third-party coverage has increased by double digits over the past few years.

However, we recognize affordability is an issue for British Columbians and that's why government has directed fundamental changes be undertaken to B.C.'s automobile insurance model, effective spring 2021. This new way of doing auto insurance in B.C. builds on the success of the changes made to-date, and helps to address the outstanding issue of high costs associated with our current litigation-based system.

Removing the adversarial approach of suing the driver at-fault for a crash, lowers the overall cost of our insurance system and results in significant reductions to the average insurance premiums British Columbians are paying today and substantially improves the care and medical coverage available to anyone hurt in a crash. You can read more about this at icbc.com/2021.