

Financial Results

At the conclusion of the second quarter, ICBC is forecasting a year-end net loss of \$91 million, an increase of \$41 million from the Budget 2019 year-end forecasted net loss of \$50 million.

The increase is largely due to higher than expected large bodily injury claims from past years. While we believe ICBC is moving in the right direction after consecutive years of billion-dollar net losses, we continue to be concerned about claims from crashes that happened before the April 1, 2019, product reforms went into effect.

ICBC posted a net loss of \$87 million for the first half of its fiscal year (April 1 to September 30, 2019), which is \$495 million better than the same period last year. This improvement is largely due to the impact of the product reforms which came into effect on April 1, which increased accident benefits, introduced a limit on pain and suffering payouts for minor injuries and expanded the scope of the Civil Resolution Tribunal for certain ICBC claim disputes. However, outstanding claims prior to these reforms continue to put pressure on ICBC's financial results. Six-month results also reflect a lower rate of crashes.

Total claims costs for the first half of ICBC's fiscal year totalled \$2.82 billion, \$243 million less than the same period last year. Similarly, current year claims are \$2.51 billion, which is \$244 million less than the same time last year. ICBC attributes the improvement in both figures to the reforms introduced on April 1 in addition to a lower rate of crashes across B.C.

The continued cost pressures on outstanding claims for crashes that happened before April 1 are reflected in the prior years' claims adjustments of \$319 million. This is a result of an increasing number and cost of large and complex claims. There continues to be a significant risk of even more large loss claims emerging from prior to April 1, which has the potential to further negatively impact ICBC's financial results going forward.

Notably, on October 24, 2019, the B.C. Supreme Court ruled that changes made to the Rules of Court limiting the number of experts and expert reports to be unconstitutional. ICBC is in the process of assessing the impact of that decision. These year-to-date financial results, as of September 30, 2019, and the Q2 year-end forecast net loss of \$91 million, do not reflect the impact of that ruling. Any impacts will be reflected in future results and forecasts.

B.C.'s Attorney General recently announced an intention to introduce changes to the Evidence Act in Spring 2020, including limits to the number of adversarial expert reports, and judicial discretion to allow additional experts in appropriate cases. ICBC will assess the potential impacts of these changes to its forecast for this year and future results.

ICBC's investment income – which helps to mitigate the pressure on insurance rates – is higher than the first half of ICBC's last fiscal year mainly due to real estate and bond gains realized.

ICBC continues to manage the company efficiently as indicated by our stable and low expense ratio.



Statement of Operations

For the Six Months Ended September 30, 2019 and 2018¹

(\$ Millions)	Basic		Optional		Corporate	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Premiums written	\$ 1,978	\$ 1,847	\$ 1,503	\$ 1,358	\$ 3,481	\$ 3,205
Premiums earned	1,812	1,714	1,368	1,199	3,180	2,913
Service fees and other income	43	37	29	24	72	61
Total earned revenues	1,855	1,751	1,397	1,223	3,252	2,974
Current year claims	1,505	1,859	1,000	890	2,505	2,749
Prior years' claims adjustments	259	243	60	75	319	318
Net claims incurred	1,764	2,102	1,060	965	2,824	3,067
Claims services, road safety and loss management services	151	137	74	65	225	202
Total claims and related costs	1,915	2,239	1,134	1,030	3,049	3,269
Administrative and Insurance expenses	64	62	86	76	150	138
Premium taxes and commissions	116	114	271	230	387	344
Deferred premium acquisition costs adjustment	(34)	(102)	-	16	(34)	(86)
Total claims and expenses	2,061	2,313	1,491	1,352	3,552	3,665
Underwriting loss	(206)	(562)	(94)	(129)	(300)	(691)
Investment income	198	121	80	51	278	172
Loss - insurance operations	(8)	(441)	(14)	(78)	(22)	(519)
Provincial licences and fines	328	322	-	-	328	322
Less:						
Licences and fines transferable to the Province	328	322	-	-	328	322
Non-insurance operating expenses	50	47	-	-	50	47
Commissions	15	16	-	-	15	16
Total non-insurance expenses	393	385	-	-	393	385
Loss - non-insurance operations	(65)	(63)	-	-	(65)	(63)
Net loss	\$ (73)	\$ (504)	\$ (14)	\$ (78)	\$ (87)	\$ (582)
Insurance Industry Ratios						
%	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Loss ratio	105.6	130.6	83.0	86.0	95.9	112.2
Expense ratio	13.7	14.2	25.2	25.0	18.7	18.6
Combined ratio	117.5	138.8	109.1	112.7	113.9	128.1

¹ The financial results are unaudited and contain a number of estimates and assumptions regarding claims costs and savings. Final year end results will be subject to audit.



Statement of Financial Position

As at September 30, 2019 and March 31, 2019¹

(\$ Millions)	September 30 2019	March 31 2019
Assets		
Cash and cash equivalents	\$ 131	\$ 76
Accrued interest	75	67
Asset held for sale	-	51
Financial investments	17,240	16,152
Premium and other receivables	2,047	1,832
Investment properties	857	871
Property, equipment, intangible and leased assets	457	411
Accrued pension benefits	36	42
Deferred premium acquisition costs and prepaids	424	345
	<u>\$ 21,267</u>	<u>\$ 19,847</u>
Liabilities and Equity		
Liabilities		
Current liabilities	\$ 358	\$ 385
Lease liabilities	61	12
Bond repurchase agreements and investment-related liabilities	1,990	1,714
Unearned premiums and premiums and fees received in advance	3,249	2,969
Pension and post-retirement benefits	376	360
Provision for unpaid claims	15,028	14,288
	<u>21,062</u>	<u>19,728</u>
Equity		
Retained earnings	(108)	(21)
Other components of equity	299	125
Equity attributable to parent corporation	191	104
Non-controlling interest	14	15
	<u>205</u>	<u>119</u>
	<u>\$ 21,267</u>	<u>\$ 19,847</u>
Minimum Capital Test ("MCT")	-4%	-7%

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Combined ratio

A key measure of overall profitability within the insurance industry. It is the ratio of all costs (claims, claims-related costs, operating expenses, premium taxes and commissions, and deferred premium acquisition costs adjustment) to premiums earned. A lower combined ratio is better.

Deferred premium acquisition costs ("DPAC ") Adjustment

The deferred premium acquisition costs adjustment is an accounting adjustment that limits the amount of commissions and premium taxes that can be deferred and recorded in the income statement over the policy term based on the future profitability. If the business is unprofitable, no deferral of expenses is permitted and these costs must be immediately recognized as expenses. If the business becomes profitable, then this accounting treatment is reversed.

Expense ratio

The ratio of operating expenses (excluding claims costs and claims-related costs), premium taxes and commissions to premiums earned. A lower expense ratio is better.

Loss ratio

The loss ratio is an industry measure of claims and claims-related costs (claims services, road safety and loss management services) to premiums earned. The lower the percentage, the more profitable the product is.

Minimum Capital Test ("MCT")

An industry measure used to determine whether a company has sufficient capital levels, commensurate with the risks within its business. The measure is based on guidelines set by the Office of the Superintendent of Financial Institutions.

Current year claims

Current year claims expense is the total costs (paid and expected) to settle claims for all insured losses that have occurred during the current fiscal year, regardless of whether the loss has been reported to ICBC.

Prior years' claims adjustments

Prior years' claims adjustments are the change since the prior fiscal year-end in claims cost estimates for losses that occurred in prior fiscal periods.