



Financial Summary – March 2020

Financial Results

At the end of our 2019/20 fiscal year (April 1, 2019 – March 31, 2020), ICBC posted a net loss of \$376 million. The net loss improved by \$778 million compared to 2018/2019 fiscal year.

Through our second and third quarters we had been forecasting a year-end net loss of \$91 million, but in the final two weeks of March as the fiscal year-end approached, the COVID-19 pandemic sent global investment markets into turmoil, resulting in a negative impact on ICBC's bottom line.

ICBC recorded an investment impairment charge of \$317 million for 2019/20, of which \$298 million was due to the market downturn at the end of March. For context, the impairment charge for the previous fiscal year was \$23 million.

Our accounting standards require us to record an impairment loss when there has been a significant decline in market value for equity investments. However, an impairment charge does not mean that ICBC has been selling the equity investments at a realized loss. Without the impairment charge, our net loss for the year would have been \$59 million.

In addition to this fiscal year's substantial impairment charge, the market downturn also caused a reduction in market yields, leading to a lower rate to discount claims liabilities, which increased our claims costs.

Claims costs for fiscal 2019/20 totalled \$5.9 billion, \$621 million lower than in fiscal 2018/19. Key factors behind the year-over-year reduction include fewer crashes occurring in B.C., and the reforms implemented in April 2019 that 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.

The Province also introduced changes to the Rules of Court limiting the number of experts and expert reports. However, the B.C. Supreme Court ruling in October 2019 meant ICBC had to reverse previously recognized savings. Proposed amendments to the *Evidence Act* would have mitigated some of those lost savings by reducing cost, complexity and delay in vehicle claims, but with the B.C. legislature pausing in mid-March due to the COVID-19 pandemic, legislation and regulations were not able to be passed in time for ICBC to recognize the anticipated savings in our 2019/20 fiscal year.

However, said proposed amendments have since been passed and once regulations are confirmed, anticipated savings should be recognized.

Overall, the April 2019 reforms have reduced claims costs and helped stabilize the system, but claims from crashes that occurred before the reforms continue to be a concern. The cost pressures from those claims are reflected in the prior years' claims adjustments of more than \$1.1 billion, which is a result of a higher than expected number of large and complex claims. ICBC has roughly \$12 billion in open claims subject to the pre-reform rules.

ICBC's Minimum Capital Test ratio is significantly lower than last year as a result of the cumulative net losses from recent fiscal years and lower investment returns caused mostly by the downturn in the financial markets due to COVID-19. This means that we have less ability to absorb any unanticipated adverse impacts.

ICBC continues to have a stable and low expense ratio as we continue to operate as efficiently as possible.



Statement of Operations

For the Twelve Months Ended March 31, 2020 and 2019

(\$ Millions)	Basic		Optional		Corporate	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Premiums written	\$ 3,579	\$ 3,477	\$ 2,777	\$ 2,602	\$ 6,356	\$ 6,079
Premiums earned	3,564	3,390	2,722	2,433	6,286	5,823
Service fees and other income	87	74	61	51	148	125
Total earned revenues	3,651	3,464	2,783	2,484	6,434	5,948
Current year claims	2,900	3,621	1,828	1,687	4,728	5,308
Prior years' claims adjustments	757	718	423	503	1,180	1,221
Net claims incurred	3,657	4,339	2,251	2,190	5,908	6,529
Claims services, road safety and loss management services	313	280	151	139	464	419
Total claims and related costs	3,970	4,619	2,402	2,329	6,372	6,948
Administrative and Insurance expenses	132	120	172	159	304	279
Premium taxes and commissions	227	220	548	475	775	695
Deferred premium acquisition costs adjustment	(34)	(356)	-	(32)	(34)	(388)
Total claims and expenses	4,295	4,603	3,122	2,931	7,417	7,534
Underwriting loss	(644)	(1,139)	(339)	(447)	(983)	(1,586)
Investment income	734	413	324	168	1,058	581
Income (loss) - insurance operations before impairment loss	90	(726)	(15)	(279)	75	(1,005)
Provincial licences and fines	641	630	-	-	641	630
Less:						
Licences and fines transferable to the Province	641	630	-	-	641	630
Non-insurance operating expenses	103	95	-	-	103	95
Commissions	31	31	-	-	31	31
Total non-insurance expenses	775	756	-	-	775	756
Loss - non-insurance operations	(134)	(126)	-	-	(134)	(126)
Net loss before impairment loss	(44)	(852)	(15)	(279)	(59)	(1,131)
Impairment loss	(220)	(16)	(97)	(7)	(317)	(23)
Net Loss	\$ (264)	\$ (868)	\$ (112)	\$ (286)	\$ (376)	\$ (1,154)
Insurance Industry Ratios						
%	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Loss ratio	111.4	136.3	88.3	95.7	101.4	119.3
Expense ratio	13.9	13.9	25.6	25.2	19.0	18.7
Combined ratio	124.4	139.7	114.7	120.4	120.2	131.6



Statement of Financial Position

As at March 31, 2020 and March 31, 2019

(\$ Millions)	March 31 2020	March 31 2019
Assets		
Cash and cash equivalents	\$ 52	\$ 76
Accrued interest	69	67
Assets held for sale	216	51
Financial investments	17,501	16,152
Premium and other receivables	2,212	1,832
Investment properties	610	871
Property, equipment, intangible and leased assets	438	411
Accrued pension benefits	64	42
Deferred premium acquisition costs and prepaids	410	345
	<u>\$ 21,572</u>	<u>\$ 19,847</u>
Liabilities and Equity		
Liabilities		
Current liabilities	\$ 399	\$ 385
Lease liabilities	54	12
Bond repurchase agreements and investment-related liabilities	2,406	1,714
Unearned premiums and premiums and fees received in advance	3,037	2,969
Pension and post-retirement benefits	219	360
Provision for unpaid claims	16,004	14,288
	<u>22,119</u>	<u>19,728</u>
(Deficit) Equity		
Deficit ¹	(396)	(20)
Other components of equity ¹	(165)	124
(Deficit) Equity attributable to parent corporation	(561)	104
Non-controlling interest	14	15
	<u>(547)</u>	<u>119</u>
	<u>\$ 21,572</u>	<u>\$ 19,847</u>
Minimum Capital Test ("MCT")	-30%	-7%

¹ March 31, 2019 deficit and other components of equity balance adjusted due to rounding.



Glossary – March 2020

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.

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.

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. It excludes the deferred premium acquisition costs adjustment, Rate Affordability Action Plan and Enhanced Care Coverage implementation costs as these are one-off projects. A lower expense ratio is better.

Impairment Loss

An expense arising due to the decline in the value of an asset where the price that a knowledgeable third party is willing to pay for such asset is below cost.

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.

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.