

Affordability Mandate

An Example from British Columbia

CAMILLE MINOGUE, RETIRED ACTUARY
(FORMER CHIEF ACTUARY OF ICBC)

2017 SPRING MEETING OF THE CAS
TORONTO, ONTARIO, CANADA
MAY 22, 2017

Overview

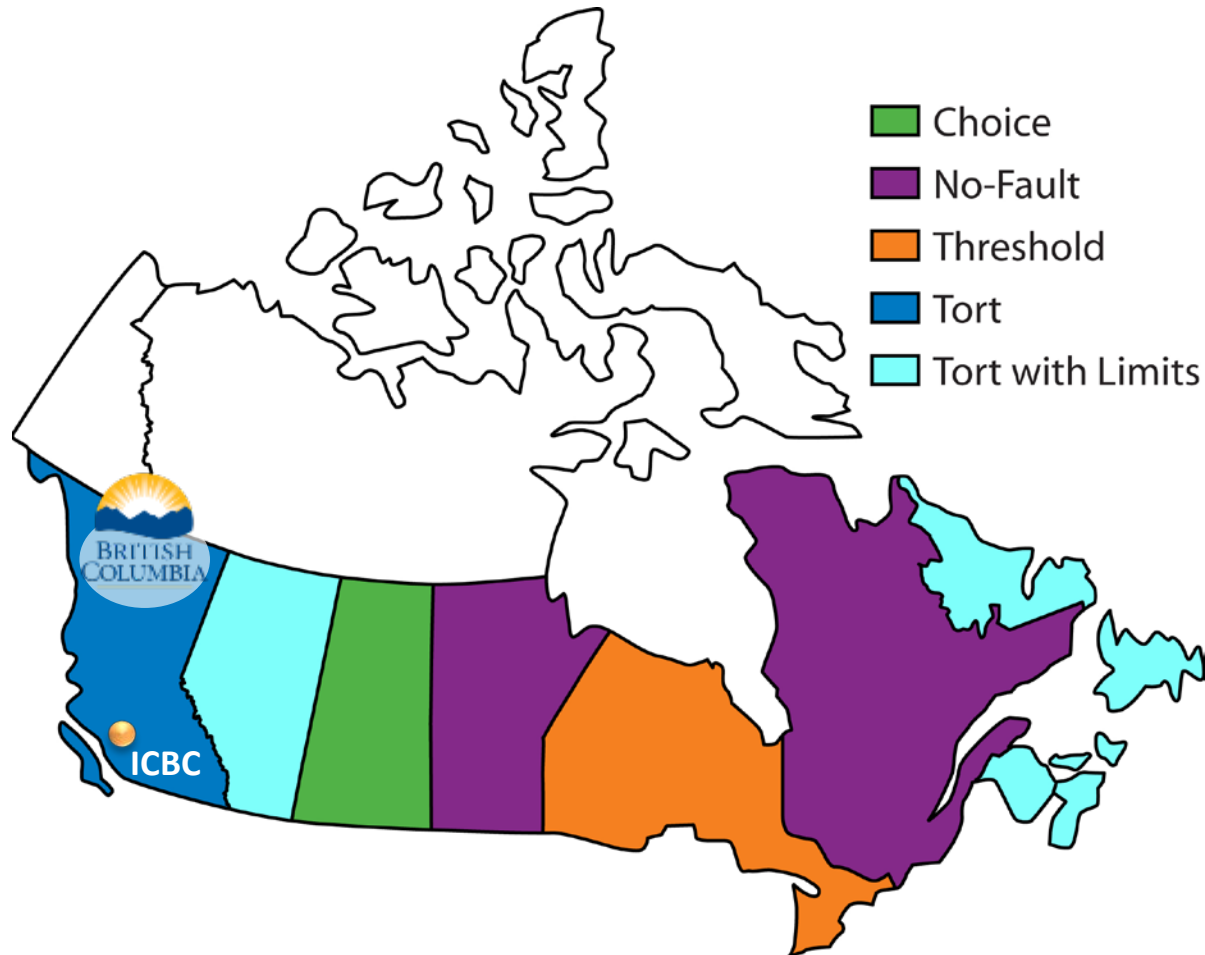
- ❑ A Brief History of ICBC
- ❑ Meeting the “Challenges of Affordability”
 - Who are the Stakeholders?
 - What are their Concerns?
- ❑ The Actuary’s Role
- ❑ Conclusion



A Brief History of ICBC

Insurance Corporation of British Columbia

A Publicly-Owned Auto Insurance Company



ICBC Created

- ❑ Created in 1973 to address:
 - High costs & apparent price fixing
 - High uninsured rate
 - Unfair claims practices
- ❑ B.C. drivers must buy insurance from ICBC
- ❑ Rate setting
 - Age, gender and marital status not used
 - Rate changes approved by government cabinet

Timeline

New Democratic Party
1973



1991

Liberals **2003**



1975
Social Credit Party

NDP

2001



Meeting the Challenges of Affordability

HOW B.C.'S SOLUTION WORKS

The Challenges of Affordability

(From Katey's Presentation)

Affordable insurance promotes opportunities for economic well-being

How does availability of insurance benefit society ?

What is the cost of uninsured drivers?

Pricing is designed to reflect risk characteristics

Should risk be adjusted or should price be adjusted?

How can price be shared across groups to maintain affordability?

Affordability is subjective

What is the value of an insurance policy?

Do different states need different thresholds?

Can insurers and regulators implement an Affordability criteria?

How should affordability be measured?

What data is needed to evaluate affordability?

Who should enforce affordability and how?

B.C. solution goes beyond: Enhances economic stability of Province

- ❑ Uninsured motorist rate < 1%
- ❑ High mandatory limits reduces safety net needs
- ❑ ICBC profits stay in B.C. to benefit policyholders
- ❑ More B.C. jobs
- ❑ Significant governmental efficiencies gained
- ❑ Low and stable insurance premiums
 - UM/UIM premium de minimis
 - Economies of scale keep premiums low

Stakeholders



Stakeholders



B.C.'s Approach to Rate Design: A Hybrid Approach

- ❑ Basic risk differentiation
 - e.g., vehicle use, length of driving experience
- ❑ Surcharges for risky behavior
 - e.g., crashes, traffic infractions
- ❑ Social pricing elements
 - e.g., discounts for disabled and seniors
 - innocent until proven risky
- Cost of subsidies absorbed by non-subsidized groups
 - Specific intergenerational subsidies, or
 - Off-balance across all, or select, segments

Measuring Affordability in B.C.

- ❑ No Affordability Index
- ❑ Success: Low and stable rates, based on
 - Demographic factors
 - Geographic factors
 - Over a long period of time
- ❑ Metrics: overall rate change & dislocation analyses

ICBC's Overall Rate Changes

Year	Total
2004	0.4%
2005	-3.4%
2006	3.7%
2007	0.2%
2008	-1.2%
2009	-1.4%
2010	-2.7%
2011	0.0%
2012	3.6%
2013	1.2%
2014	2.9%

The Role of the Actuary

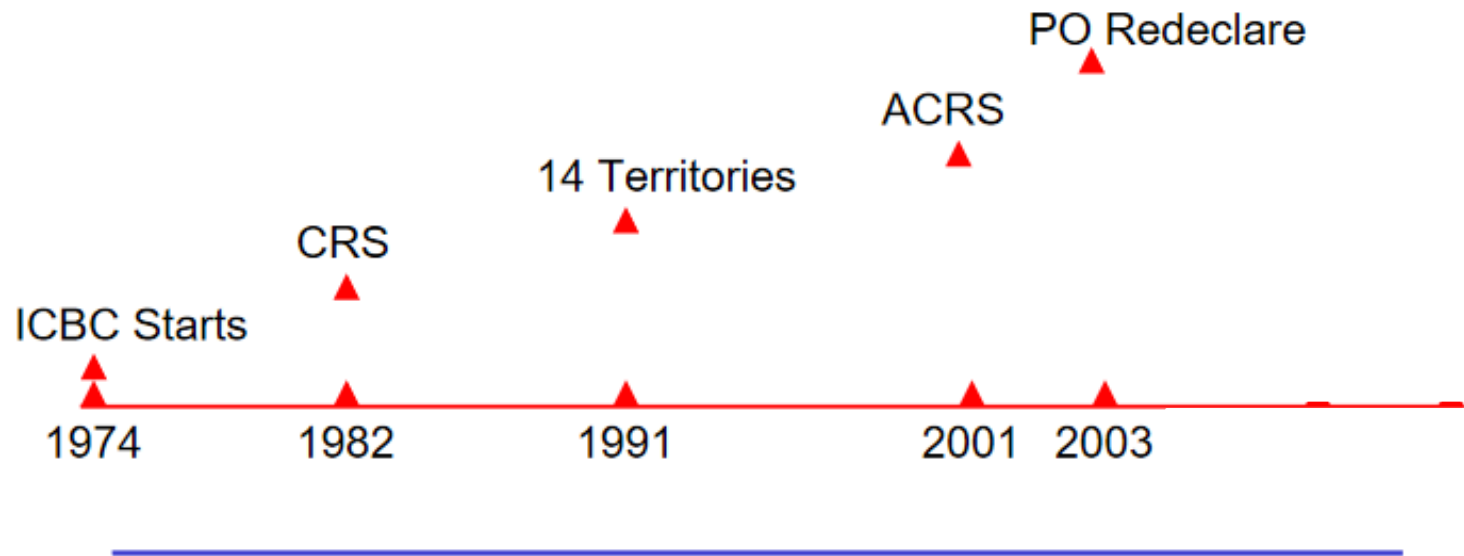
ICBC Actuary

Part traditional / Part “policy analyst”

- ❑ Performs Rate Indication Analysis
 - Used to determine revenue needed to cover costs
- ❑ Designs Capital Management Plan
 - Goals: solvency protection & moderate rate swings
- ❑ Performs Sophisticated Analyses
 - Quantifying rates subsidies
 - Assessing risk of individual claims
- ❑ And much, much more!

Rate Design:

A slow progression



Attempt at Risk-Based Pricing



ICBC targets novice drivers' households
Your car insurance will cost an extra \$25 if one or more less-experienced drivers from your household also use your vehicle and don't insure a vehicle of their own.

ICBC drops plan to charge extra \$25 fee

The Canadian Press

Published Wednesday, March 19, 2008 6:20AM PDT

Challenges

Managing stakeholder expectations

Balancing public policy objectives
with business objectives

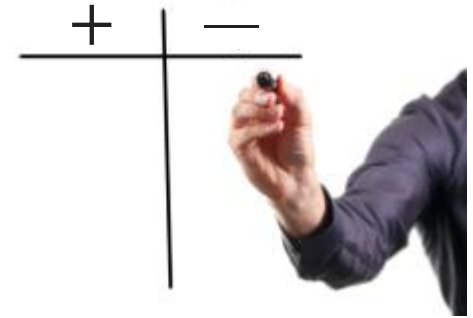
Insurance
Framework

Risk
Classification

Customers

Claims
Trends

Final Analysis



Benefits of a government insurer

- Low and stable rates over time
- Low uninsured rate - takes all comers
- Economies of scale & beyond
- Synergies with government operations
- Economic benefits to B.C.

Downside of a government insurer

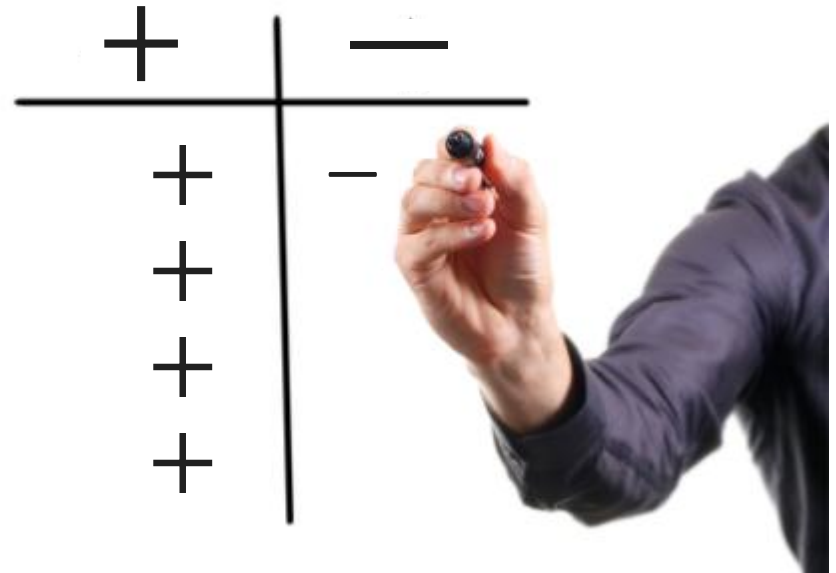
- Tension between business objectives and public policy objectives

Final Analysis

On the balance:

A good deal for B.C.

(In Camille's Opinion)



Questions?
