Review of

Insurance and Risk Management Account

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INTERNAL AUDIT AND ADVISORY SERVICES

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Abbreviations

BC	British Columbia
CRF	Consolidated Revenue Fund
FAA	Financial Administration Act
HCPP	Health Care Protection Program
IRMA	Insurance and Risk Management Account
MIP	Master Insurance Program
MPP	Midwives Protection Program
the Ministry	British Columbia Ministry of Finance
Province or Government	Government of British Columbia
RMB or the Branch	Risk Management Branch and Government Security Office
SPP	Schools Protection Program
UCIPP	University, College and Institute Protection Program

Executive Summary and Overall Conclusion

The BC Government's Self-Insurance Program

The Government of British Columbia provides liability and property insurance for government entities (e.g., certain ministries and Crown Corporations), as well as organizations delivering public services such as healthcare and education.

Government carries the majority of risk itself, through its self-insurance program, using commercial insurance providers in limited circumstances. Premiums collected from government entities are used to fund the program and pay insurance claims. In exchange for assuming the risk of large unpredictable losses, the Province avoids the high costs associated with purchasing insurance commercially.

The insurance program is administered by the Risk Management Branch (RMB or the Branch) within the Ministry of Finance, through a special account called the Insurance and Risk Management Account (IRMA). This program is complex due to the inherent volatility of insurance claims and the associated actuarial estimates. Further complications arise when trying to account for these factors within the constraints of the government's annual budget.

Within IRMA, clients are grouped into insurance programs based on their commonality and risks. For instance, clients such as health authorities are grouped within the Health Care Protection Program—RMB's most significant program based on risk, premiums collected and overall claims paid.

Insurance and Risk Management Account

IRMA's operations are reported separately within government's financial statements. In the past five years, IRMA's average annual premiums and costs recovered from third parties amounted to $41.3 million. Average annual expenses were $33.8 million in claim costs; $7 million in operational costs.

RMB intends to recover the costs of its insurance program from its clients. The Branch's net operating budget, approximately $4.2 million, primarily funds RMB's central government operations such as enterprise risk management and security programs.

As of March 31, 2017, IRMA's account balance was $354 million. The balance increased 174% over the last 10 years because RMB paid less in overall claims than it collected in premiums; and as a result, investment income has accumulated in the account. In the private insurance industry, investment income and excess premiums are retained to pay for funding shortages in the years when claims exceed premiums. RMB does not have the same unrestricted access to the past collected insurance premiums, because IRMA's account balance is notional. This means it is tracked for accounting and budgetary purposes, but there is no separate account holding the funds. Any surplus is utilized as part of the Consolidated Revenue Fund, government's main operating account. Under the *Financial Administration Act*, RMB can draw on IRMA's balance to pay claims in underfunded years. However, budgetary controls require RMB to first receive approval from Treasury Board to spend beyond its annual budget limit.

Volatility of IRMA

As an insurance provider, RMB's expenditures are unpredictable by nature. It is often impossible to predict the timing and settlement figures for long-term injury claim payments.

RMB engages a professional actuarial firm that uses generally accepted actuarial techniques and information provided by RMB (e.g., claims history and risk factors) to provide annual estimates and projections for most of the insurance programs. The actuarial firm estimates the cost, over time, of all claims that will occur in the upcoming policy year—the ultimate losses. This estimate is used to determine the claims expense and premium for the current fiscal year. Additionally, the actuarial firm estimates the cost of all outstanding insurance claims—the overall claims liability.

Developments in ongoing and previously unreported claims, such as new information about injuries or liability, result in changes to the overall claims liability. Each year the actuarial firm must re-evaluate this estimate to reflect any changes to the individual claim reserves (the damages likely owed). Any change to this estimate must be recognized for accounting purposes, in the year in which the change is made. Adverse adjustments (increasing the liability) result in an additional expense. This expense cannot be recouped, because the claims relate to past policy years for which the premium has already been paid. An increase in the overall claims liability can lead to a budget deficit for a particular year.

Budget Implications

RMB can exceed its overall budget in any given year, even if its operating expenditures are within its annual budget, due to the challenges with forecasting insurance claims. This occurred in fiscal 2016 and 2017, due to adverse adjustments to the overall claims liability of $6.8 million and a $26.4 million, respectively. Despite this, over the last ten years, IRMA has had an overall favourable adjustment of $109 million.

When there is a budget shortfall, RMB must apply to Treasury Board for a spending limit increase which may impact government's fiscal plan. To address the significant adjustment in fiscal 2017, RMB requested an increase to IRMA's spending limit for that year. While the request was approved, Treasury Board was concerned about IRMA's year-over-year adjustments.

In fiscal 2017, the adverse $26.4 million adjustment was primarily attributed to an increase in healthcare claims reserves from past policy years. RMB advised that an unusual number of claims were re-opened during that period. Alternatively, for fiscal 2018, the overall claims liability for healthcare is projected to decrease by approximately $17 million. This was largely caused by a reduction in the estimates of three claims reserves and the settlement of a claim much lower than estimated. The financial results of the last two years highlight IRMA's inherent volatility, specifically the impact of significant changes to the claims reserves.

Deficits have occurred periodically since IRMA's inception and, as this review highlights, will occur in the future.

IRMA's Challenge: Balancing Periodic Volatility with Annual Savings

The Government of British Columbia assumes a considerable degree of risk through self-funding an insurance program, as there is potential for large periodic losses. However, there is also considerable cost savings. To date, RMB has estimated this savings at over $1.5 billion. When an organization purchases commercial insurance, the risk is transferred to the insurance provider. While this provides annual budgeting certainty, it will come at a greater cost over time.

Other insurance models have the potential to result in greater certainty from a financial perspective. Government has considered establishing a Crown corporation to administer the insurance program. Historical records suggest that a few variations of this model have been discussed, although no option has successfully addressed stakeholder and volatility concerns. Establishing or joining an **insurance reciprocal**, for its high-risk programs, is another approach for government to reduce financial risk. While RMB has not formally evaluated this option, the Branch has identified significant cost implications associated with this approach.

Insurance Reciprocal

A regulated insurance organization comprised of a group of subscribers that fund the program and agree to share risks equally. Reciprocals can be provincially-based or inter-jurisdictional and include subscribers in a similar sector such as healthcare agencies or school districts.

British Columbia's (BC) self-insurance model is unique among Canadian provinces. Most jurisdictions self-insure core government, while the broader public sector manages its insurance needs commercially or through insurance reciprocals.

To date, there has been an inconsistent understanding around certain aspects of the operational and financial management of IRMA. In addition, there has not been clear direction for the insurance program in key areas. For these reasons, in addition to the size, scope and financial implications of the insurance program, strategic-level input and review is required. An oversight committee, comprised of government stakeholders, could be established to help address IRMA's distinct challenges. This committee could help define priorities for the insurance program and consider whether the current approach aligns with these priorities, or whether changes are needed.

Mitigating IRMA's Volatility

Within the current model, there are limited opportunities to mitigate IRMA's volatility. These opportunities would not eliminate the possibility of future funding requests. Furthermore, the Ministry of Finance should establish clear direction regarding the goals and expectations for the insurance program before considering these or other changes.

Confidence Level

The actuarial estimate of ultimate losses is used as the basis for calculating the premium, which can be funded at different confidence levels. The confidence level is the probability that the annual premium collected will be enough, or more than enough, to cover the actual ultimate losses for that policy year. RMB uses the same confidence level for all its self-insurance programs.

Raising the confidence level is one way to potentially reduce the likelihood of budget deficits. Higher confidence levels result in greater certainty that premiums will cover claims expenses for a given policy year. Historically, RMB set premiums for its insurance programs at confidence levels ranging between 70-80%, meaning it was probable that premiums collected would exceed claims in seven to eight years out of ten.

Under this confidence level, the account balance grew significantly and RMB employed techniques to reduce client premiums through offering rebates. In fiscal 2015, RMB eliminated rebates and began using a 50% confidence level to lower premiums to draw down the account balance. The current 50% confidence level increases the probability of budget deficits.

RMB could consider raising the confidence level for its programs, or selectively for the highest-risk program(s). This would reduce the likelihood of budget deficits but not eliminate their occurrence. Furthermore, this would result in higher premiums and further growth of the IRMA account balance. These strategic-level decisions should be made with input from key government stakeholders.

Client Roster

Another way to mitigate some of IRMA's volatility involves changing RMB's client roster. On behalf of the Province, the Branch manages insurance for over 200 public sector entities. Over the past three decades, RMB's existing clients have been brought into IRMA through ministry and legislative direction, and client interest. Unlike commercial insurance providers who use stringent risk criteria to determine client suitability and impact on company profits, RMB is focused on its mandate to provide cost-effective insurance for public sector organizations. Currently, RMB intends to operate as a cost-recovery organization, so it does not aim to generate a profit.

RMB generally accepts organizations that meet the definition of being under government control —for example, the entity has a government controlled board of directors and receives government funding. There is no over-arching strategy regarding the direction and composition of RMB's client roster.

For new clients, RMB staff review the client's current commercial insurance policies, history and the nature of their business. In addition, RMB evaluates the impact of a new client on the existing insurance program. For current clients, RMB does not maintain client risk profiles or perform an annual risk identification process, comparable to that of a commercial insurance provider. The organization has not conducted a review of the overall risk within its self-insurance programs since 2002.

IRMA's overall risk could be reduced by removing high-risk clients from the roster or by adding different types of clients to increase portfolio diversity. As the Health Care Protection Program is RMB's largest and highest-risk program, RMB could facilitate the creation of a separate health reciprocal in BC, or RMB's health clients could join the inter-provincial Health Insurance Reciprocal of Canada. Alternatively, the Branch could add clients with different types of risk to increase the diversity of the portfolio and decrease overall volatility. Further research and consideration would be required to determine the viability of this type of program change.

Client Incentives

IRMA's volatility could be slightly minimized through using premiums and deductibles to incent clients to minimize risk exposure. Commercial insurance providers typically charge a lower premium for low risk clients; high risk clients, or those with a poor claims history, usually pay more.

The Branch does not adjust premiums based on claims history. This decision is based on RMB's rationale that changing premiums has little influence on behaviour, and certain entities have an inherently higher risk profile that is unrelated to how they operate. As well, RMB intention to operate as a cost-recovery organization has implications such that the benefits or penalties for one client will impact costs for other clients.

Similar to commercial insurance providers, the Branch uses deductibles on property insurance. For bodily injury liability claims, there is no deductible. This aligns with most insurance providers, such as the organization providing insurance for most Canadian doctors (Canadian Medical Protective Association). Higher deductibles can help to incent clients to minimize risk exposure; thus, reducing the volume of claims.

RMB conducted a review of this area over ten years ago. The Branch could benefit from establishing a more direct link between claims activity and costs, and revisiting the suitability of the cost-recovery model.

Overall Conclusion

The review identified opportunities, within the current model, to mitigate IRMA’s volatility. However, the suggested changes may reduce but not eliminate the possibility of future funding requests, due to the inherent unpredictability of the insurance business. Government could consider establishing a different insurance model. There are costs and benefits associated with any model, and further research is required to determine the suitability of these other options for BC. Before making any changes, the Ministry of Finance should establish and communicate clear direction regarding the goals and expectations for the insurance program.

This review has identified a lack of common understanding between RMB and its stakeholders about certain aspects of the operational and financial management of IRMA. With the current model, government must be prepared for periodic funding requests. This is the trade-off for the considerable cost savings of the self-insurance program. Ultimately, the risks of government’s chosen insurance model must be fully understood and accepted by stakeholders.

As an overarching recommendation, the Ministry of Finance should consider establishing a government oversight body to provide direction, set priorities, and assist with stakeholder communication and strategic decision-making. This oversight committee could also provide direction regarding the entire complement of recommendations presented in this report.

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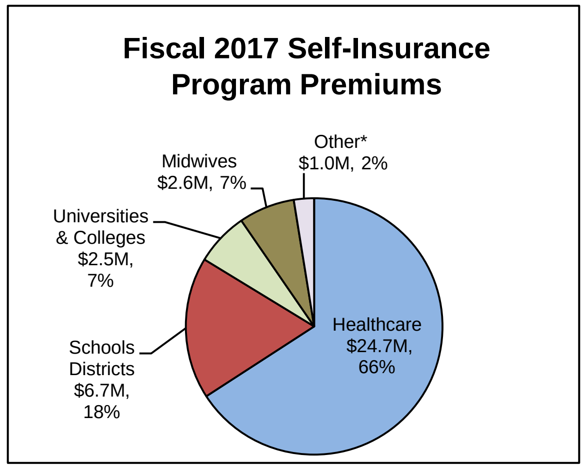
Internal Audit & Advisory Services
Ministry of Finance

Introduction

The Government of British Columbia (Province or Government) provides liability and property insurance for government entities (e.g., certain ministries and Crown corporations) and organizations delivering public services such as healthcare and education. The insurance program is administered by the Risk Management Branch (RMB or the Branch) within the Ministry of Finance, (the Ministry), through a special account, the Insurance and Risk Management Account (IRMA).

The Branch is organized similar to commercial insurance providers, with departments specializing in underwriting, claims and litigation, and client services. Similar to commercial insurance providers, there can be annual financial volatility in IRMA associated with certain long-term claims, typically health-related incidents.



Source: RMB provided data.

*Other includes various small Crown corporations and contractors providing services on behalf of government

Healthcare is the Branch's most significant program based on risk, premiums collected and overall claims paid. As shown in the chart, healthcare accounted for 66% of the $37.5 million total premiums in fiscal 2017.

A net operating budget of $4.2 million primarily funds RMB's central government operations such as risk management advisory services for core government, enterprise-wide risk management and the Government Security Office. The Branch recovers insurance program costs from clients related to direct staff salaries, professional services and other operational costs.

Over the past five years, IRMA's average annual revenues included $38.7 million in premiums and $2.6 million in costs recovered from third parties. Average annual expenses during this period included $33.8 million in claim costs and $7 million in operational costs.

Purpose, Scope and Approach

The purpose of the review was to gain an understanding of IRMA, including the management of the self-insurance program. The review also evaluated and, as appropriate, made recommendations related to the following:

- changes to IRMA, if any, which mitigate volatility of year-over-year financial results;
- the forecasting methodology and reporting including the confidence level;
- the client roster;
- the client incentives and accountability practices; and
- other matters that arose over the course of the review deemed appropriate by the review team.

The following Branch functions were out of scope for this review:

- RMB's role as government's enterprise risk management agency, including activities such as assisting ministries with their risk management programs; and
- the work of the Government Security Office which is responsible for the management and coordination of the BC Government's Security Program.

Working with an Executive Steering Committee, Internal Audit & Advisory Services conducted a broad review of IRMA.
The approach included:

- conducting interviews with key management and related stakeholders;
- reviewing legislation and policies;
- researching comparable information from other relevant organizations and other jurisdictions; and
- reviewing and analyzing financial reports, claims data and actuarial reports, other relevant documentation.

1.0 Insurance Overview

Government organizations purchase insurance to safeguard against particular risks such as property damage or third party legal claims. With commercial insurance, purchasers pay a fee (premium) for a policy while the insurance providers agree to reimburse the purchaser in the event of financial loss—spreading the premiums of the many across the losses of the few. Purchasing commercial insurance provides certainty for annual budgeting purposes, but it is generally the most expensive insurance model over time.

Beyond purchasing commercial insurance, there are different models that government organizations can adopt, such as establishing a Crown corporation. Selection of an appropriate model is based on organizational needs and priorities. Each option has unique costs and benefits that must be fully understood and ultimately accepted by decision-makers.

Considering the size, scope and financial implications of the insurance program, strategic-level input is required for major program decisions.

1.1 Self-Insurance

The BC Government predominantly uses a model of self-insurance in which premiums from government entities are used to pay claims. Exposure to large losses is mitigated by purchasing insurance from the private sector in certain circumstances.

Insurance claims are unpredictable and cannot be accurately estimated, creating the risk of large, unexpected losses. Commercial insurance providers mitigate this risk, or volatility, through establishing a diverse portfolio of many different clients. RMB's self-insurance model is also based on the fundamental principles of risk financing and diversification. Theoretically, the volatility of IRMA is reduced by combining the independent risks of its clients—the more diverse risks added to the portfolio, the greater the reduction in volatility.

Unlike commercial insurance providers, RMB has a relatively small portfolio of clients which limits its ability to diversify. And notably, RMB's largest client group, healthcare, is also its highest risk. These factors add to the volatility of IRMA. Large losses periodically occur which may impact government's fiscal plan.

In exchange for assuming a higher level of risk, self-insurance allows the Province to avoid the high costs associated with commercial insurance. The Branch estimates that broker commissions, corporate profits and overhead comprise approximately 30% of a commercial premium. Cumulatively, RMB estimates the self-insurance program has saved government over $1.5 billion since the late 1980s. The reasonableness of this estimate has not been verified, as some of the assumptions are outdated and not adequately supported.

1.2 Alternative Insurance Models

Aside from commercial insurance, there are other insurance models that provide greater certainty from a financial perspective. However, the other models may have increased costs and will require additional study.

Historical Proposals to Address Volatility

Over the years, the Branch has worked with other groups within the Ministry to consider options to mitigate the volatility of IRMA and other high-risk government programs. These discussions involved restructuring the insurance program or governance framework, although none of the proposed changes were adopted.

In an effort to reduce IRMA's volatility, government considered establishing a Crown corporation in the form of an insurance company incorporated under the *Financial Institutions Act*, the *Insurance (Captive Company) Act*, or its own act.

A proposal to diversify IRMA's portfolio and therefore reduce volatility involved moving three program areas with considerable expenditure uncertainty (Disaster Financial Assistance, Direct Forest Protection and *Crown Proceeding Act*) within IRMA. This initiative would have removed the risk of overspending from other ministries and consolidate that risk under the Ministry of Finance. This proposal also included an option to later establish a Crown corporation.

Historical documents suggest that the options presented were unable to address the concerns of all stakeholders and sufficiently reduce the volatility issues. RMB has not carried out a comprehensive evaluation to determine whether the self-insurance program is achieving its intended goals, or whether the current model is suitable.

Insurance Reciprocal

A reciprocal is a regulated insurance organization comprised of a group of subscribers, in a similar sector, with an agreement to share risks equally.

More than half of the Canadian provinces (including Alberta, Manitoba, Saskatchewan, Ontario, Nova Scotia and Newfoundland) have either joined or established a separate reciprocal insurance model for their health or public education sectors. Some are provincially-based, such as the Alberta School Board Insurance Exchange which includes most Alberta school districts. Others are inter-jurisdictional, such as the Health Insurance Reciprocal of Canada which includes healthcare organizations in the provinces of Ontario, Manitoba, Saskatchewan and Nova Scotia.

Through the exchange of insurance contracts, each member is an insurer of, and insured by, each entity in the reciprocal. In contrast, traditional insurance places the risk upon the insuring company.

There are costs associated with joining or creating reciprocals for public sector organizations. For instance, there is the risk that severe losses could deplete the fund and impact subscribers. There are also annual expenses (e.g., audits, legal fees and certain taxes), in addition to regulatory requirements to meet minimum capital tests which require significant upfront capital investment. Alternatively, there may be transferrable benefits such as some control over investments, distribution of surpluses and information sharing.

2.0 Risk Management Branch

The Risk Management Branch is part of the Provincial Treasury Division, within the Ministry of Finance. RMB is mandated to:

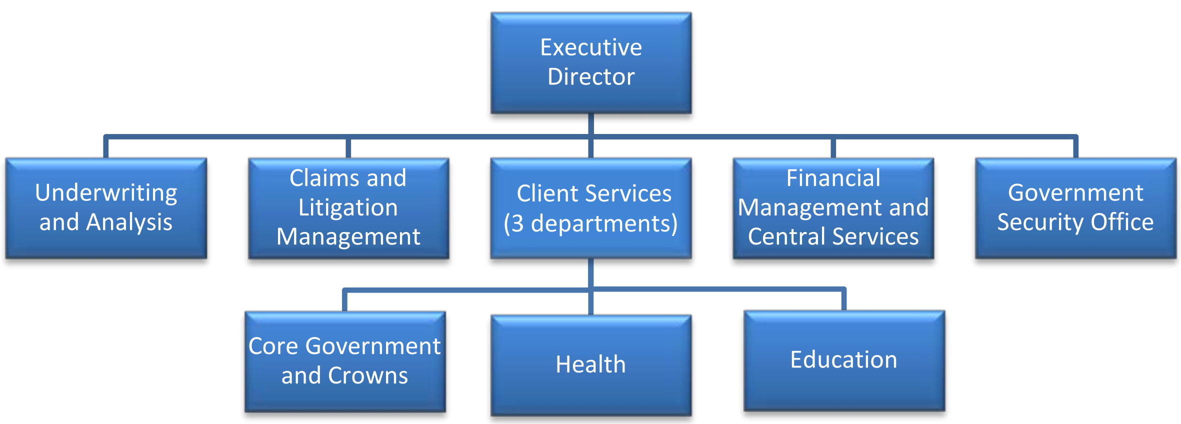
1. act as the central risk management agency within government;

2. formulate policy and provide risk management advice and guidance across the provincial public sector; and

3. develop and deliver comprehensive, innovative risk management programs that reduce the cost of risk for the Province. This includes managing government's self-insurance program.

As at March 31, 2017, RMB employed 42.4 full-time equivalent staff. The Branch is led by an Executive Director who reports to the Assistant Deputy Minister of the Provincial Treasury Division.

Risk Management Branch Organizational Chart



Source: RMB provided data.

As shown in the organizational chart, the Branch has seven departments:

a) Underwriting and Analysis manages the self-insurance programs, arranges commercial and re-insurance policies, and evaluates the onboarding of prospective clients.

b) Claims and Litigation Management manages claim investigation, settlement and litigation processes.

c) Client Services includes three departments, Core Government and Crowns, Health and Education, which manage coverage administration services and risk management services.

d) Financial Management and Central Services manage the budget, finances and administrative support needs of RMB.

e) Government Security Office manages and coordinates government's security program through advising and assisting on security strategies, awareness, investigations and asset protection.

2.1 Evolution of Government's Self-Insurance Program

The insurance industry is affected by various economic, political and environmental factors—which; in turn impact the price and availability of coverage. Over the last three decades, the Province's risk management activities have evolved. Before 1986, BC's public sector entities purchased commercial insurance. As a result of the economic conditions in the mid-1980s, government began to reconsider this model. During this time, the insurance industry began charging considerably higher premiums and restricting coverage for certain claims. For example, commercial insurance providers introduced "claims made" policies, providing no coverage for claims made after the policy period expired. These industry changes affected claims in cases where the discovery of injuries is often delayed, such as medical malpractice.

Concurrent to these market developments in the 1980s, government began exploring opportunities to improve policy, coordination and understanding of its risk management and insurance activities. At the time, many risks were not identified and efforts to mitigate risk were dispersed across the public sector.

The transition to an organized and predominantly self-insured model for core government began in the mid-1980s with the establishment of the Risk Management Services Branch, later renamed the Risk Management Branch. The original mandate envisioned the development of a cost-effective strategy for the transference and funding of all significant losses through its insurance program.

During this period, government also began providing insurance to the broader public sector including hospitals, schools and colleges. In this regard, BC's model is unique. Most Canadian provinces offer self-insurance to core government, while the broader public sector manages its insurance needs commercially or through insurance reciprocals.

2.2 RMB's Governing Legislation

In 1988, Treasury Board approved the establishment of a special account to manage the financial operations of the self-insurance activities. The Insurance and Risk Management Account was formally created the following year.

IRMA is a distinct and separate account reported in the Province's annual financial statements (the Public Accounts) and budget (the Estimates). It is a component of the Consolidated Revenue Fund (CRF), government's main operating account and the fund into which the majority of public money must be paid.

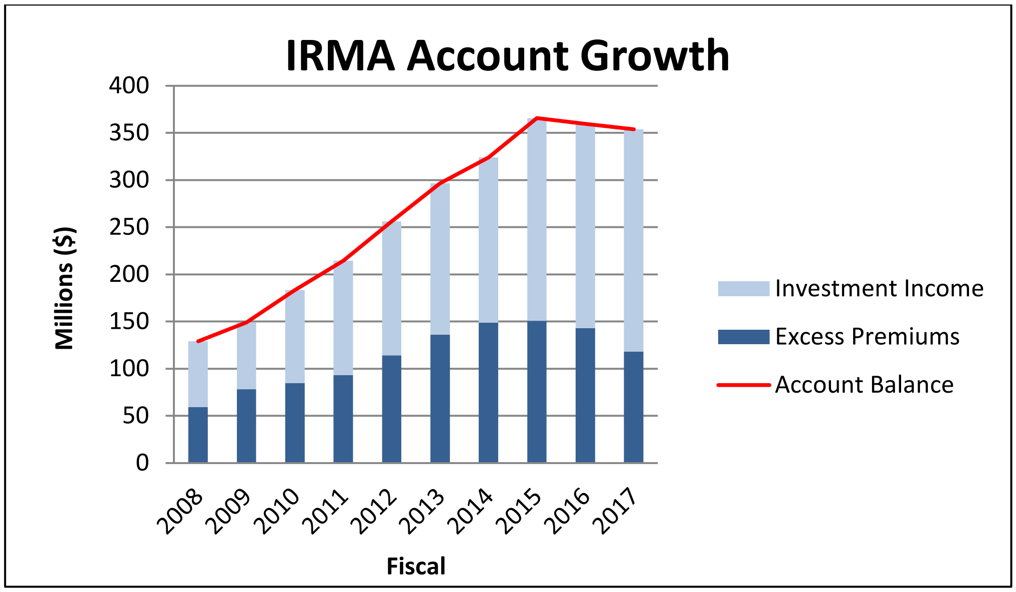
As a special account, IRMA has statutory spending authority. This means that, unlike most government budgets, IRMA's annual spending is not debated and voted on by Members of the Legislative Assembly. Instead, IRMA's spending is authorized by a provision under section 30 of the *Financial Administration Act* (FAA).

2.3 Insurance and Risk Management Account

As of March 31, 2017, IRMA's account balance in the CRF had accumulated to $354 million. The account is notional, meaning the funds are tracked for accounting and budgetary purposes, but there is no separate account housing these funds—any surplus is utilized as part of the CRF.

In accordance with the FAA, IRMA can access these funds, or even incur a deficit. However, as a budgetary control, special accounts must receive approval from Treasury Board to spend beyond their budget limits.

As illustrated by the red line in the graph below, IRMA's balance has steadily increased by $225 million, or 174%, over the past 10 years. This growth is primarily because RMB paid less in overall claims than it collected in premiums; as a result, investment income has accumulated in the account. The investment income is notionally allocated to IRMA based on returns on the account balance.



Source Data per BC Public Accounts Consolidated Revenue Fund Supplementary Schedules

The account balance does not include funds allocated for the **overall claims liability** which is set aside to pay for outstanding claims.

Overall Claims Liability

An estimate of the money required to pay all the outstanding insurance claims. Developments in claims relating to past policy periods result in annual changes to this figure –the primary contributor to IRMA exceeding its budget.

Over the same 10 year period, the overall claims liability has remained relatively steady. This liability increased from $129 million to $167 million; however, 83% of the increase is attributed to the adverse claim developments recognized in fiscal 2017.

2.4 Insurance Standards

The commercial insurance industry must comply with various statutes including the *Financial Institutions Act, Insurance Act* and *Insurance (Captive Company) Act*. In addition, industry conduct is regulated by governing bodies such as the Financial Institutions Commission and the Insurance Council of BC.

RMB Standards

As a self-insurance provider, RMB is not required to adhere to provincial regulations that govern commercial insurance providers. Although, certain Branch positions require industry experience and a professional insurance or risk management designation as a condition of employment. As of March 31, 2017, approximately one-third of RMB staff held a professional insurance qualification.

The Branch advised that it broadly adheres to insurance standards and principles established by provincial and national regulatory agencies. RMB also uses relevant statutes to inform and guide its operations. For example:

- The *Insurance Act* describes certain requirements that must be included in commercial insurance contracts. RMB refers to this Act when drafting its policies to determine conditions such as limitation periods, subrogation rights and duties of the parties.
- The *Insurance (Captive Company) Act* provides for aspects of the regulatory framework that RMB uses to generally inform its operations.

RMB Policies, Procedures and Information Management

Formally documented policies and procedures are important to help guide consistent and efficient decision-making, support succession planning and staff training, and increase accountability for organizations. While RMB has some formalized policies and procedures, there remain opportunities for enhancement in key areas of claims, client services, underwriting and financial management.

For instance, RMB advised that client information and communications are not consistently documented, because staff use the claims management software system differently. This may lead to gaps in client records and impact the quality of service delivery.

A small number of senior staff at RMB possess a significant amount of knowledge about the organization. There is a risk of losing that knowledge when staff retire or transfer positions. While this risk is common among all organizations, it is exacerbated at RMB because the Branch lacks formally documented policies and procedures in its key areas.

Recommendation:

(1) **RMB should ensure it has documented policies and procedures for its key activities.**

3.0 BC Government Insurance Program

On behalf of the Province, the Branch manages insurance for over 200 public sector entities including all health authorities and school districts, many colleges and universities, several small Crown corporations, and government ministries. RMB mainly self-insures its clients but it also purchases insurance from the private sector in certain circumstances.

3.1 Insurance Coverage

Self-Insurance

RMB provides liability, property and crime insurance coverage. The maximum coverage allowance is $250,000 for property and crime, $50 million for liability ($15 million for the Midwives Protection Program).

To determine the language for its policies, RMB's Underwriting and Analysis Department adapts Insurance Bureau of Canada policy wordings for basic coverages of smaller entities such as the Royal BC Museum. For more complicated entities such as health authorities, Department staff consults with licensed insurance brokers and legal counsel to develop policy wordings. While these experts advise on new policies and occasionally review existing policies, RMB would benefit from conducting regular reviews of its policy wordings to determine whether updates are required.

Commercial and Reinsurance Coverage

RMB purchases commercial insurance on behalf of some clients whose operational risks are unknown or unique, or clients who are not under government control but that deliver public service.

Although RMB only pays for property claims up to $250,000, it manages higher value claims on behalf of its clients. RMB also provides coverage for entities requesting guaranteed funding for property replacement. In these cases, to limit risk exposure for property losses over $10 million, the Branch purchases **reinsurance** through commercial brokers.

> **Reinsurance**
>
> Reinsurance is the practice whereby insurance providers transfer portions of their risk portfolio to other insurance providers to lessen the impact when a substantial claim is filed.

Unfunded Indemnities

An indemnity is a form of insurance for government employees and organizations doing business with, or providing programs for, the government. For example, community sports organizations receive indemnities that enable children in government care to participate in activities. The indemnity claims are paid out of IRMA. These payments cannot be reliably estimated or budgeted for, as it is impossible to accurately forecast the timing or dollar impact of a claim. RMB advised that all indemnity claims paid to date relate to the cost of legal representation for government employees. Over the last 10 years, unfunded indemnity claims have amounted to $10.1 million.

3.2 Client Roster

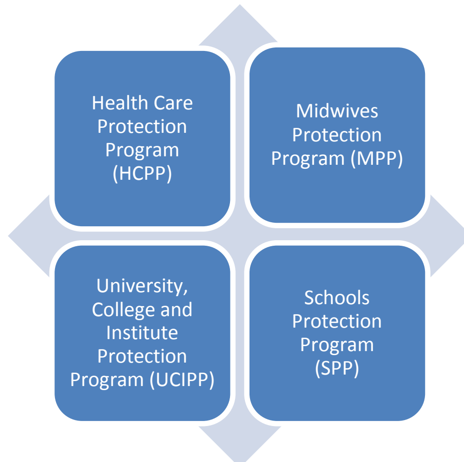
RMB's existing clients have been brought into IRMA through ministry and legislative direction, and client interest. RMB is not profit driven, as it intends to operate as a cost-recovery organization. Unlike commercial insurance providers who use stringent risk criteria to determine client suitability and impact on company profits, RMB aims to provide cost-effective insurance for public sector organizations.

RMB generally accepts organizations that meet the definition of being under government control—for example, the entity has a government controlled board of directors and receives government funding. Exceptions to this rule, such as offering insurance to midwives, are made on a case-by-case basis. There is no over-arching strategy regarding the Branch's client roster for the self-insurance program.

For new clients, RMB staff review the client's current commercial insurance policies, history (claims, size and complexity, assets) and the nature of their business. In addition, RMB evaluates the impact of a new client on the existing insurance program.

Understanding individual client risks is an important piece to managing the overall risks for an insurance organization. For existing clients, RMB does not maintain risk profiles or perform annual risk assessments, comparable to that of commercial insurance providers. The trends resulting from changes to a client's business, operational environment and risk management are not formally tracked. RMB has not conducted a review of the overall risk within its self-insurance programs since 2002.

Clients are grouped into insurance programs based on commonality and risks. The four most significant self-insurance programs based on risk, premiums collected and claims paid are as follows:



Non-Government Clients

Government accepts risks related to certain non-government entities in order to control costs and ensure the provision of public services is maximized. For example, nearly 20 years ago, RMB established the Midwives Protection Program (MPP). At the time, there was concern that the high cost of private insurance premiums would impact the delivery of midwifery services.

In addition, RMB established the Master Insurance Program (MIP) in the 1990s. Currently, the MIP provides commercial liability coverage for approximately 8,000 private contractors who deliver mostly public health and social services (e.g., seniors care facilities). This program requires coordination between several parties: RMB purchases the insurance from a commercial insurance provider, a separate commercial broker administers the program, and the contracting ministries approve the insurance coverage agreements and funding premiums for the private contractors. In addition, the Branch indemnifies the commercial insurance provider, and manages and pays the claims. Due to RMB's inadequate controls and guidance around approving these contractors, insurance has been issued to inappropriate entities under the MIP. Although the financial impacts are expected to be relatively minor, the Branch is nevertheless actively taking steps to mitigate the issue.

Mitigating Volatility through the Client Roster

One way to mitigate some of IRMA's volatility involves changing RMB's client roster. This could be achieved by removing high-risk clients or by adding different types of clients to increase portfolio diversity. As the Health Care Protection Program (HCPP) is RMB's largest and highest-risk program, RMB could facilitate the creation of a separate health reciprocal in BC. Alternatively, RMB's health clients could join the Health Insurance Reciprocal of Canada, an inter-provincial reciprocal.

Another option involves adding clients with different types of risk to increase the diversity of the IRMA portfolio and decrease overall volatility. Further research and consideration would be required to determine the viability of this type of program change. Furthermore, the Ministry should establish clear direction regarding the goals and expectations for the insurance program before considering these or other changes.

With the current model, government must be prepared for periodic funding requests. This is the trade-off for the considerable cost savings of the self-insurance program. Ultimately, the risks of the insurance model must be fully understood and accepted by stakeholders.

Recommendations:

(2) **RMB should regularly review IRMA's overall portfolio risk.**

(3) **The Ministry should confirm whether the risks of the current self-insurance model are acceptable.**

3.3 Client Incentives

In a traditional commercial insurance policy, the provider will use client risk and claims history to help determine the cost of insurance premiums and deductibles, and clients may be offered incentives based on these factors.

To reduce complexity, RMB does not adjust the insurance premiums and deductibles for its individual clients, according to their claims history. By employing this policy, RMB is foregoing an opportunity to use premiums and deductibles as a way to influence behavior and encourage clients to lower their risk profiles.

Premium Incentives and Penalties

The majority of clients pay annual premiums that are used to fund the self-insurance program. Annually, RMB engages a professional actuarial firm to recommend the insurance premium for most of the self-insurance programs. The Branch then allocates a portion of the premium to each client within the program. For example, RMB allocates premiums to health authorities on the basis of operating budget and to school districts and universities based on the number of students. In addition to the premium, clients also pay a portion of RMB's direct operating costs (salaries and benefits, overhead etc.) based on time and contracted service costs.

For programs with infrequent claims or insufficient claims history, RMB charges an initial lump-sum premium for managing and paying claims, as opposed to annual premiums. The Branch advised that claims for these clients have been minimal, and requests for additional funds have not been necessary.

Insurance providers can use premiums to incent policy holders to minimize risk exposure by charging a lower premium for low risk clients and higher premiums for high risk clients, or those with poor claims history. RMB, however, does not adjust individual client premiums based on claims history or client risk profiles. This decision is primarily based on the following rationale:

- changing premiums will have little influence on client behavior, because client insurance budgets are small compared to overall budgets;
- certain entities have an inherently higher risk profile that is unrelated to how they operate;
- consistent premiums ensure cost certainty and are helpful for clients' budgeting purposes; and
- RMB's intention to operate as a cost-recovery organization where the benefits or penalties for one client will impact costs for other clients.

While RMB has provided this rationale for not adjusting premiums based on claims history, its last review around this topic was conducted over ten years ago. The Branch could benefit from establishing a more direct link between risk, claims activity and costs; in addition to considering the suitability of its cost-recovery approach. For example, a higher premium could be charged to clients with a less favourable claims history, without affecting the premiums of other clients.

Deductibles

The deductible can be used to incentivize clients to minimize risk exposure. Larger deductibles for certain types of insurance claims can reduce the volume of claims, deter risky behaviour and potentially reduce insurance costs.

Similar to commercial insurance providers, the Branch uses deductibles on property insurance. In mid-2010, RMB increased the property claim deductible from $3,000 to $10,000. Overall, this change decreased the number of claims but did not impact the overall cost of settlements.

There is no deductible for bodily injury liability claims. RMB's rationale for this is to help ensure clients report incidents so RMB is informed of all potential liability claims. There may be unintended consequences of imposing a deductible on these types of claims, and RMB advised that its policy aligns with most commercial insurance providers. For example, this approach is consistent with the Canadian Medical Protective Association, the organization providing liability protection for most Canadian doctors.

RMB has not evaluated its approach for several years, so there is an opportunity to consider other options as part of a holistic review of client incentives.

Recommendation:

(4) **In consultation with key stakeholders, RMB should regularly review client incentives for its self-insurance programs.**

4.0 Client Services and Accountability

There are three Client Services Departments: Health, Education, and Core Government and Crowns. RMB provides support to its clients by offering two core services: insurance coverage administration, and risk management advice and education. The Branch estimates that staff time is spread equally between these core services.

4.1 Coverage Administration Services

For each of the three departments, coverage administrative services include:

- **Contract Reviews**: evaluating contracts to identify limitations of liability, insurance provisions, contract language and other common risk concerns.
- **Coverage Certificate Issuance**: providing evidence of insurance for clients entering into contractual relationships.
- **Indemnities**: reviewing existing client indemnities; identifying and recommending the approval of potential indemnities, in accordance with the FAA.
- **Public Private Partnerships**: providing support to clients entering into public private partnership agreements, which involves the identification, evaluation and assignment of risks within the contractual framework.
- **Advisory Services**: consulting on coverage and other issues.

4.2 Risk Management Services and Client Accountability

Risk awareness and mitigation activities can help reduce claims costs and keep clients accountable for their insurance losses. RMB facilitates risk management activities for clients through providing risk information, trends and advice. Branch staff do not act as risk managers—clients are primarily responsible for managing their own insurance risks.

Some of the larger programs have formalized their risk management activities. Health authorities, as well as some of the school districts, universities and colleges have in-house risk management teams to lead the management of their operational risk. RMB serves on client-driven risk management committees for the health and education programs. At these meetings, RMB reports claim updates, trends, and risk management recommendations to the insured client and relevant ministry. As well, RMB publishes educational packages on risks, coverage, claims and operational issues faced by clients.

RMB outsources property loss prevention services for health authorities. Contractors inspect facilities and provide recommendations to reduce the frequency and severity of insurance losses. For example, water damage has been the largest cause of property claims in recent years. Following inspections of health authorities, it was recommended that they perform preventative maintenance activities of water systems. Prior to 2008, the Branch also contracted loss prevention services for the education and advanced education sectors. Currently, RMB is considering re-implementing these services.

RMB does not monitor or evaluate its risk management services to assess whether its activities are reducing client losses. For instance, RMB does not monitor or set performance targets for its loss prevention activities to assess whether these services are reducing claim costs. The Branch recognizes the importance of risk management and has implemented initiatives to increase efficiencies in its coverage administration services. This has allowed more time for proactive risk management activities; although, RMB acknowledges that more focus is required in this area.

5.0 Claims

The Claims and Litigation Management Department is responsible for leading the insurance claims process for RMB's self-insurance clients. This includes assessing the initial incident report, through to managing negotiation/litigation, and settlement.

RMB has a claims processing manual that provides basic guidance and standards on recording and reviewing incidents, setting **claims reserves** for potential settlements and processing payments. A sample of claims examined showed that Department staff generally adhered to the guidance and standards outlined in the claims manual. Furthermore, staff adheres to set approval limits for both reserves and settlements.

> **Claim Reserve**
>
> Funds set aside for the future payment of claims that have not been settled. It may include factors that are difficult to estimate; such as, legal expenses, future wage losses, costs for future care, and other damages.

RMB's claims examiners and in-house counsel are responsible for investigating, negotiating and/or contesting claims; authorizing the settlement and payment of claims; and selecting and directing contracted legal counsel, adjusters and experts, as needed. In-house counsel manages complex claims and provides legal advice to clients for these cases. All litigation is handled by external lawyers who are managed by the Department.

5.1 Claims Management Process

Incident Reporting

The Department staff are assigned to insurance programs and may specialize in unique areas (e.g., obstetrics claims). When a potentially insurable incident occurs, it is reported to the appropriate claims examiner who has 90 days to investigate and determine whether the incident is a viable claim, or whether it should be closed. For viable claims, the examiner investigates further to select the appropriate course of action for the claim such as negotiation or litigation.

Setting and Re-evaluating the Claims Reserves

After the incident report is filed and a claim is officially opened, Department staff estimate the claim reserve, to cover the initial estimated costs associated with that claim. Staff have authority to approve reserves up to $250,000, depending on their position, while the Director can approve reserves exceeding the maximum. The reserve may include factors that are difficult to estimate, such as legal expenses and anticipated claim settlements. This is based on the best available information and the most probable outcome at the time. While the accuracy of the reserves is critical for actuarial projections, the claims processing manual does not provide detailed guidelines on setting reserve amounts.

The initial reserve can vary significantly from the final settlement amount. As new information is received, RMB revises its reserves. For example, court proceedings may find RMB's clients to be more or less responsible than initially assessed, or injuries and symptoms may improve or worsen. Before a claim is ultimately resolved, the reserve may increase and/or decrease multiple times as the case evolves. Annually, the actuarial firm uses this data to adjust its assessment of the overall claims liability.

For the 1,520 HCPP liability claims settled in the last 10 years, the final settlement was on average less than the initial reserve and final reserve by $6,400 and $93,000, respectively. 87% of these claims had final settlements under $50,000, and on average were $54,000 less than the final reserve.

This data shows the fluctuations of claims reserves as circumstances change over time. Notably, changes to the reserves can impact the overall claims liability figure, and thus IRMA's annual budgeting. While the actuarial firm advised that RMB performs similarly to other clients in the quality of claims information provided, the above data also shows that RMB has historically been conservative with its final reserve figures.

RMB's claims management software system has the functionality to organize insurance claims according to their severity. Therefore, the Branch could establish a ranking system to stratify claims by risk potential and amount, and then analyze the variances between reserves and final settlement. This work could identify trends that help to improve the reserve setting process.

Reserve Reconciliations

As stated in the claims manual, Department staff should perform a semi-annual file reconciliation, primarily to confirm the accuracy of reserves on all claims. File reconciliations are time consuming, as every open file must be reviewed and reserves assessed. RMB has advised that it aims to conduct these reviews annually. However, staff caseloads have increased resulting in insufficient time to complete this work. This means there may be delays in recognizing changes in the liability exposure. To ensure the liability estimate is as accurate as possible, it is important that RMB has the capacity to regularly review the claims reserves through its file reconciliation process.

Recommendations:

(5) **RMB should utilize the claims management system to analyze long-term trends and support reserve setting.**

(6) **RMB should ensure reserve reconciliations are conducted.**

5.2 Claims Committee Oversight

RMB has three committees that oversee elements of the claims management process: coverage, settlement, and liability apportionment.

The Coverage Committee consists of RMB staff. The Committee's purpose is to provide oversight and direction on coverage decisions for complex claims and to ensure a consistent approach to the management of contract wording for all programs.

The purpose of the Claims Settlement Committee is to review and approve recommended settlement values where the proposed settlement value exceeds $250,000. This Committee consists of RMB staff and external members from the relevant program. For example, a representative from each health authority participates for healthcare claims, while representatives from the Ministry of Education and select school districts participate for public education claims. RMB advised the committee has never rejected a settlement value proposed to the committee.

The Liability Apportionment Committee consists of RMB program staff and legal counsel. The Committee is responsible for allocating liability between RMB's clients who share responsibility for a claim.

5.3 Trends in Claims

In fiscal 2017, 97% of the over 18,000 reported incidents were related to liability insurance, while the remaining were related to property insurance. School districts alone comprised nearly 17,000 of the total incidents.

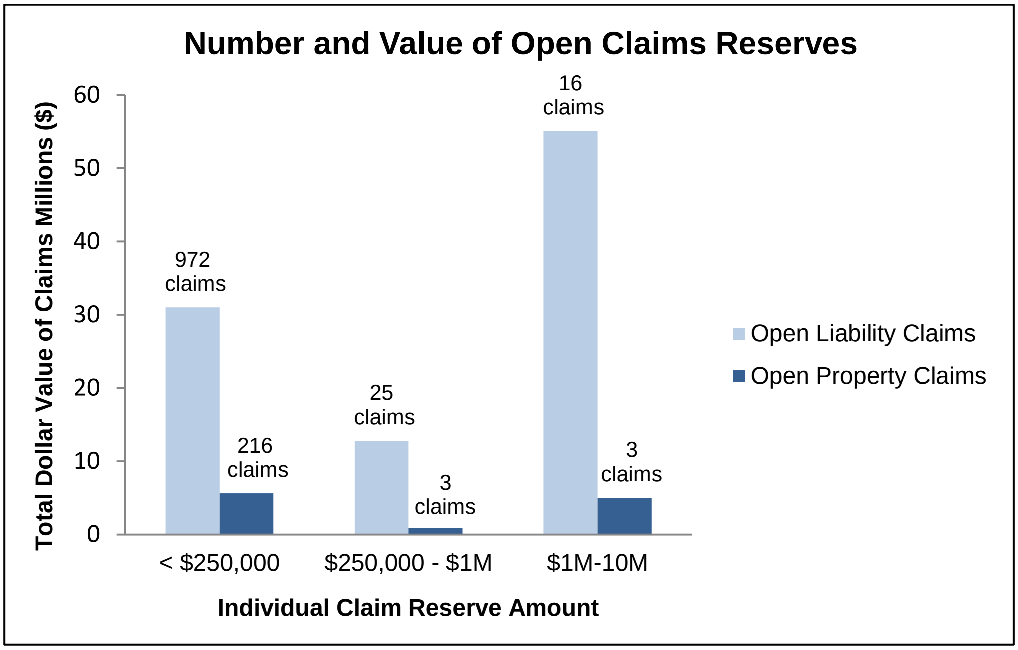
Only a portion of reported incidents will convert to viable claims. The remaining incidents are closed, and these files are retained in the event that future developments warrant re-examination of the incident. In fiscal 2017, only 4% of total reported incidents resulted in insurance claims.

The conversion rate of liability incidents for the advanced education and health-related programs ranged between 18% and 50%. School districts had a low rate of 1%, because RMB and the Ministry of Education encourage schools to report all incidents for safety reasons, no matter the significance. As a result of this practice, considerable time is spent processing school incidents that do not advance to viable claims. To address inefficiencies, the Department is working with the school districts on a project where claims can be rated and prioritized based on severity.

Over the past five years, insurance programs have expanded and there has been a 14% increase in the number of incidents reported annually. During that period the number of staff in the Department has not changed.

Open Claims

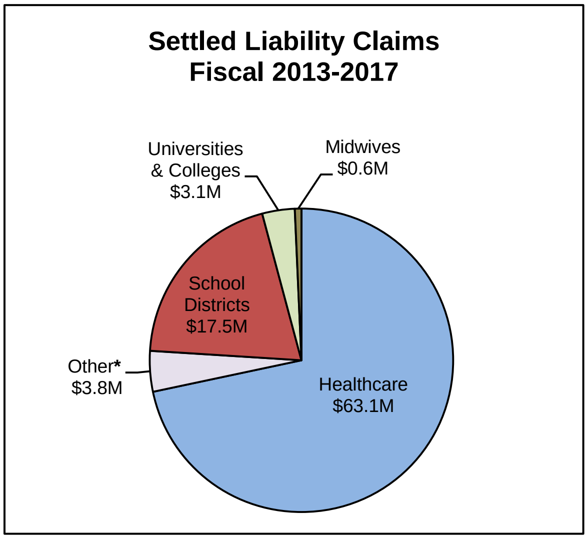
The graph below shows the value of RMB's reserves for claims that are open as of March 31, 2017. As shown, most claims have estimated liabilities under $250,000. While there are relatively few individual claims over $1 million, their aggregate cost represents nearly 55% of total claim reserves. HCPP comprises the largest value and highest number of open insurance claims and accounts for almost three-quarters of the liability claims in the $1 to $10 million range.

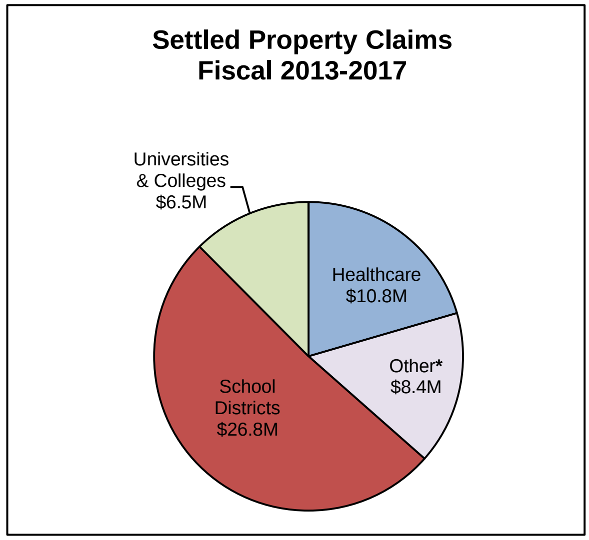


Source: RMB provided data.

Settled Claims

Between fiscal 2013 and 2017, healthcare accounted for 72% ($63.1 million) of all liability claims settled, while 51% ($26.8 million) of all property claims settled were attributed to school districts. Of the ten largest liability claims that were settled during this time, eight were from healthcare (totalling $27.6 million), and two were from school districts (totalling $4.6 million).





Source: RMB provided data.

*Other claims come from RMB indemnities and small insurance programs including Crown corporations, individuals and businesses providing public services on behalf of government.

Between fiscal 2013 and 2017, RMB has, on average, settled property and liability claims in approximately 300 days and 550 days, respectively. Smaller liability claims (<$10,000) are resolved in just over one year while larger claims can take over five years. In addition, average settlement time has decreased 3% for property and increased 14% for liability. The Branch advised that liability settlement time has increased due to a lack of internal resources, delays in court times, changes to court procedures, the inability to find experts, and difficulty in obtaining information from insurance clients.

RMB's costs related to contracted legal and adjuster services have risen approximately 30% over the past five years. RMB noted that the number of claims delegated externally has increased, and liability claims have become more time-consuming and complex.

Performance Monitoring

While RMB was able to provide the majority of data requested for this review, it does not track performance data such as settlement times, claims values, and claim resolutions (e.g., litigation or out-of-court negotiation), despite having the capability within the claims management software system to produce reports on this data. RMB has noted that annual claims examiner file reviews are one method of evaluating staff performance to ensure consistency and quality of client service and appropriate file management. RMB advised that, as a result of workload issues, there have been few file reviews conducted in the last several years.

6.0 The Impact of Long-Term Insurance Claims on the Budget

As an insurance provider, RMB's expenditures are unpredictable due to estimating when long-term healthcare claims will occur and the amount of damages. The estimated costs change as the claim evolves over time, leading to annual fluctuations for IRMA. As IRMA must operate within the parameters of government's accounting rules and annual budgeting cycle, occasionally, the Branch may exceed its budget.

Annual budget shortfalls result in an application to Treasury Board for a spending limit increase and a potential impact to government's fiscal plan. These funding requests have occurred since IRMA's inception, but only twice in the last decade. Based on the volatile nature of the business, periodic funding requests will continue to periodically occur in the future. In fiscal 2017, RMB requested that Treasury Board increase IRMA's spending limit by up to $24 million. The projected budget deficit was primarily the result of increases to healthcare claims reserves.

6.1 Forecasting

The Branch engages a professional actuarial firm that uses generally accepted actuarial techniques and information from RMB (e.g., claims history and risk factors) to provide annual estimates and projections for IRMA.

Premiums and Claims Expense for the Current Policy Year

The actuarial firm estimates the number of claims that will occur in the upcoming **policy year** and projects the **ultimate losses** of these claims over time. This estimate will be used to determine the current year claims expense. As well, the actuarial firm recommends a premium to cover this estimate of ultimate losses based on RMB's risk tolerance.

Policy Year

All the claims that occurred during a specific 365 day period, regardless of when the claim is reported.
For example, a claim that occurred in 2010 was reported in 2013, and resolved in 2015, is considered part of the 2010 policy year.

Ultimate Losses

The total amount expected to be paid for claims from a particular policy year. The exact value of ultimate losses may not be known for years due to changing estimates, delays in discovery and/or reporting the incident and the length of time it takes to settle some claims.

Annual Re-Evaluation of Ongoing Claims

IRMA's unpredictability stems from changes to the overall liability estimate—the amount required to pay all outstanding insurance claims. Individual claims evolve and claim reserves fluctuate, so the actuarial firm must re-evaluate the overall liability estimate each year. Any change to this estimate must be recognized as an increase or decrease of IRMA's liability and expenses in the year in which the change is made. Adverse changes (increasing the liability) result in an additional expense. This expense cannot be recouped, because the claims relate to past policy years for which the premium has already been paid.

An increase in the overall claims liability estimate for IRMA can lead to a budget deficit for a particular year. Conversely, favourable adjustments (decreasing the liability) will increase IRMA's account balance. However, the recovery is excluded in the evaluation of RMB's performance against its budget. This ensures IRMA's budget is not unintentionally increased.

Fiscal 2017 Budget

The actuarial firm estimated the current year claims expense for fiscal 2017 (ultimate losses arising over time from that policy year), and premiums were set to match this figure. RMB does not regularly update its forecast to match the actuarial estimates. In the Estimates, IRMA's budgeted claims and premium expenses have not changed in five years.

The table below shows how actuarial estimates can affect IRMA's budget. In fiscal 2017, there was an increase to the overall claims liability estimate relating to ongoing claims.

Fiscal 2017 IRMA Special Account Millions ($)	**Forecast[1]**	**Actual**
Annual premiums	47.1	45.4
Claims expense: ultimate losses for the current fiscal year and direct program costs (e.g. professional services and RMB recoverable salaries)	(47.1)	(39.3)
Claims expense: changes to liability estimate relating to ongoing claims	–	**(26.4)**
Net operating costs	(4.2)	(6.3)
Net expenditures	(4.2)	(26.6)

(Expense) Recovery Millions ($)	
Liability	
HCPP	(26.0)
MPP	(2.9)
SPP	7.3
UCIPP	0.3
Property & Other	(5.1)
	(26.4)

Source: Data per BC Estimates and Public Accounts

[1]Net operating costs represent subrogation (recoveries from responsible outside parties) Less non-recoverable RMB salaries and administration costs.

Over the last decade, IRMA has had favourable adjustments to its overall claims liability of $109 million. The last two years have been adverse, resulting in an additional $6.8 million and a $26.4 million expense, respectively.

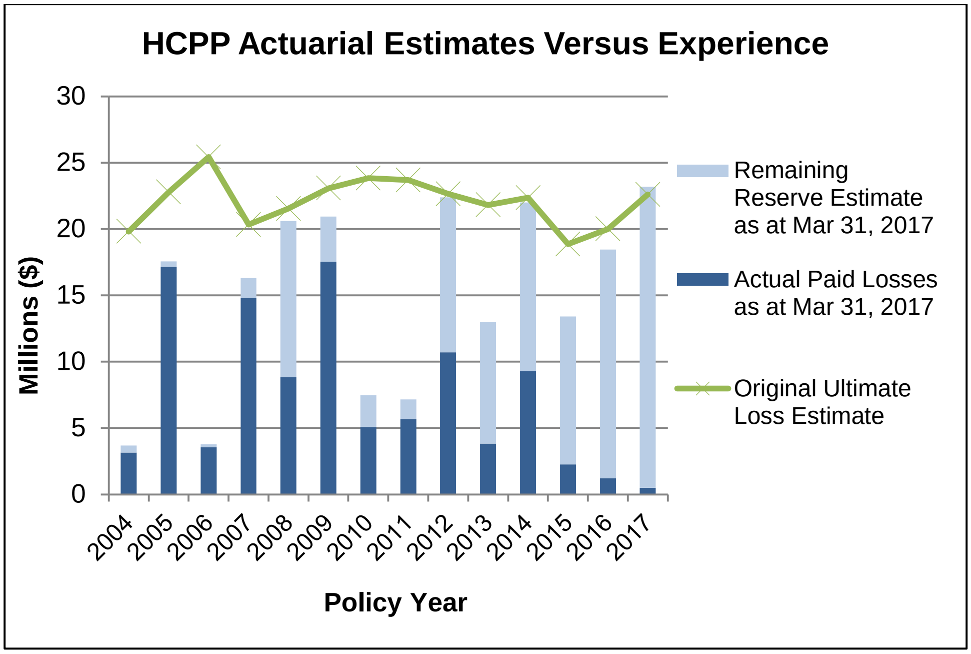
Damages incurred may not be reported, completely understood, or resolved, for years after the incident occurred. As a result, the overall claims liability can fluctuate significantly year-over-year as new information becomes available. For example, the large adverse adjustment in fiscal 2017 is primarily attributable to changes in the estimate of ongoing healthcare. RMB advised the increase in claim reserves was a result of an unusual number of claims that were re-opened during that period.

While there was a significant adverse adjustment in fiscal 2017, the overall claims liability for healthcare for fiscal 2018 is projected to decrease by approximately $17 million. This is largely caused by a reduction in the estimates of three claims reserves ($12.9 million) and the closure of a claim at $3.7 million lower than estimated.

The financial results of the last two years highlight IRMA's volatility. Deficits have occurred since IRMA's inception and, as this review highlights, will periodically occur.

Forecasting

Focusing on the HCPP claims data, the graph below shows that, as at March 31, 2017, the actuarial estimates for most years exceeded actual claims experience. The bar graph shows the actual paid losses (dark bar) and the remaining reserve (light bar) for each policy year from fiscal 2004 to 2017. The green line represents the original estimate of ultimate losses for each policy year which indicates that those years are sufficiently funded.



Source: Data per HCPP actuary reports

The last six years have a significant amount of residual reserve. This means claims are open (or have not been reported) for these policy years and the ultimate loss can still change significantly.

The actual number, type and severity of claims vary between policy years. The graph illustrates annual variances in actual ultimate losses, while the original estimates were fairly constant through the years. For example, two HCPP policy years with very different claims experience were fiscal 2006 and fiscal 2007. For both years, the premiums paid and the number of claims were similar (approximately $23 million and 450, respectively). However, the actual ultimate losses for fiscal 2007 exceeded fiscal 2006 by over $16 million. This example illustrates the challenges with forecasting ultimate losses.

6.2 Confidence Levels

Confidence levels are chosen by insurance organizations based on their risk tolerance. A high confidence level requires higher premiums in order to provide a greater likelihood that premiums collected will cover claims costs.

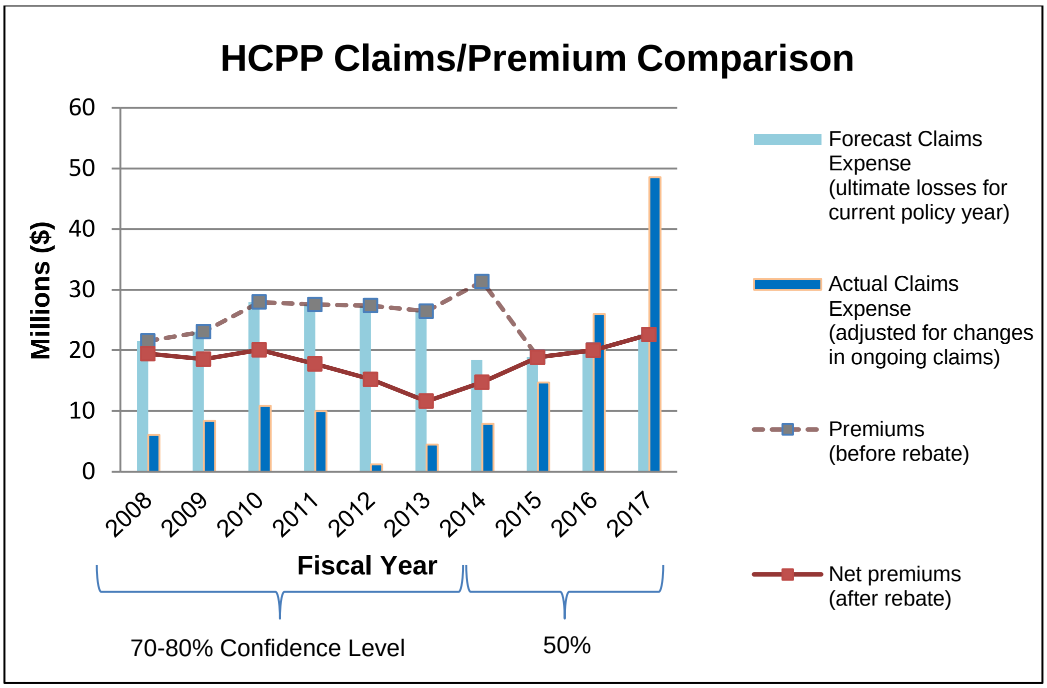
> **Confidence Level**
>
> The probability that the annual premium collected will be enough, or more than enough, to cover ultimate losses estimated for that policy year.

Historically, RMB set premiums for each insurance program at confidence levels ranging between 70-80%. Meaning, it is probable that premiums collected will be sufficient in seven to eight years out of ten. At this confidence level range, the actuarial firm provided reasonably accurate estimates for the programs sampled. Using the HCPP as an example, premiums were sufficient to pay the claims in ten out of ten policy years (fiscal 1998 to fiscal 2007) for this program based on claims data as at March 31, 2017.

IRMA's account balance accumulated under the 70-80% confidence level model. As a result, RMB incorporated rebates into its premiums to lower the account balance.

The Branch stopped client rebates in fiscal 2015 and set premiums using a 50% confidence level. This allowed RMB to lower premiums to draw down the account balance.

The graph below shows the implications of the rebate model on the annual financial statements, using the HCPP as an example. As RMB's largest program, the HCPP has significant influence on the IRMA account. Net premiums collected from fiscal 2008 to 2014 were not sufficient to cover the forecasted claims expense in the financial statements or for those policy years. If there were not reductions in the estimates for ongoing healthcare claims, RMB would have exceeded its annual budget for those seven years. In fiscal 2016 and 2017, adverse developments for ongoing HCPP claims caused IRMA to be over budget.



Source: RMB provided data.

The HCPP 2017 actual claims expense of $48.6 million is comprised of the estimated ultimate losses for the current fiscal year ($22.6 million) and the changes to the liability estimate relating to ongoing claims ($26 million). According to the actuary report dated March 31, 2016, the majority of the increase to claims reserves was a result of re-opened claims.

Overall, if RMB had used a 70-80% confidence level and not provided rebates over the last ten years, an estimated additional $70 million in premiums would have been collected. This also would have eliminated the Treasury Board funding request in fiscal 2016. While there still would have been a deficit in fiscal 2017, it would have been reduced by $4 million.

The Branch could consider raising the confidence level for its programs, or selectively for the highest-risk program(s). This would reduce the probability of budget deficits but not eliminate their occurrence. However, this would also result in higher premiums and further growth of the IRMA account balance. These strategic-level decisions should be made in consultation with key government stakeholders.

Historically, RMB has not documented IRMA-specific accounting and budgeting procedures or explained its rationale for key accounting decisions. This may have contributed to the inconsistent understanding between RMB and stakeholders about certain aspects of the operational and financial management of IRMA.

Recommendation:

(7) **In consultation with key stakeholders, RMB should regularly review the confidence level used for setting premiums for its self-insurance programs.**

7.0 Governance

Governance relates to the structures and processes put in place to ensure that intended outcomes are defined and achieved. Public sector governance requires focus in key areas including accountability, leadership, communication and strategic planning.

7.1 Accountability

Public sector entities should have a well-defined accountability framework that outlines roles and responsibilities for strategic-level oversight and decision-making, as well as day-to-day operational management and reporting. This helps stakeholders understand how the governance system works and who is accountable for what and to whom.

Oversight of the Insurance Program

In terms of organizational oversight and accountability, RMB advised that it provides updates to relevant Ministry of Finance executives regarding key changes to the insurance program. In addition, RMB has established committees to oversee and advise the claims management processes. However, the Branch does not have a group or committee with broad representation to provide strategic direction and oversight of the self-insurance activities.

A scan across Canada found that Prince Edward Island has established an advisory committee, including representatives of insured clients, to advise Treasury Board with respect to the province's risk management fund. Considering that BC's program is unique across Canada in its size and scope, it may be beneficial to create a similar oversight committee comprised of government stakeholders—potentially including members from significant client programs. The committee could assist with strategic planning decisions such as reviewing the insurance model, determining the appropriateness of the confidence level and developing a direction for RMB's client roster.

During this review, it became clear that IRMA's activities and key challenges with respect to budgeting and accounting are not well understood and communicated across the Ministry. In addition, there is an opportunity for RMB to provide greater clarity to clients regarding program objectives. For example, RMB does not have unrestricted access to the past collected insurance premiums in the years when claims exceed premiums. The committee could help to ensure the Branch's activities are clearly understood by relevant stakeholders and decision-makers.

Reporting

Reporting on financial and non-financial performance is one of the key means of communicating with stakeholders. RMB submits information to support government's annual Estimates and Public Accounts. The Branch also produces a monthly financial forecast report for internal review and quarterly reports related to its Business Plan.

RMB does not, nor is it required to, report any supplementary financial or performance related information for its internal stakeholders. A few of the other provinces, while not directly comparable to B.C.'s self-insurance program, are legislatively required to have more comprehensive reporting. Additional reporting related to insurance program activities, claims data, and trends may improve communication and understanding of RMB and its budgetary complexities.

7.2 Strategic Planning

Strategic planning is an organization's process of defining its direction and making decisions on allocating its resources to deliver on its vision and goals. It encourages an organization to set priorities, focus energy and resources, work toward common goals, and make adjustments when required. Strategic planning focuses on the future and produces fundamental decisions and actions that shape and guide an organization.

While there is not a single best approach to strategic planning, there should be consideration of the following: high-level priorities and goals, an action plan with measureable performance indicators, monitoring and evaluation.

RMB's Planning

While RMB has not updated its Strategic Plan since 2004, the Branch is currently in the preliminary stages of a new planning process. Similar to other branches within the Ministry, RMB has developed a Business Plan that it updates quarterly for its staff, management and executive. This Plan is an opportunity for RMB to detail its activities, set goals for the year and report regularly on its performance. Within the Plan, there are over 50 core activities. However, the priority areas are not clearly identified, nor are there specific and measureable outcomes with time-bound deadlines.

RMB has one measureable performance indicator to evaluate its self-insurance program: government savings achieved by not purchasing commercial insurance. Many of these savings estimates are based on commercial quotes that are not adequately supported. While RMB has certain performance standards for processing claims such as timelines and review requirements, these are not actively tracked and monitored. In addition, there are no formal performance measures for evaluating the effectiveness of its client services activities such as client feedback surveys.

RMB's Monitoring and Evaluation

Effective strategic planning articulates not only where an organization is going and the actions needed to make improvements, but also how it will track or measure success. Evaluation is a systematic method for collecting and analyzing information to assess program effectiveness and efficiency.

On a broad level, there has not been a comprehensive evaluation to determine whether the self-insurance program is achieving its intended goals or the current model is suitable for government's needs. Furthermore, there are opportunities for government to review specific areas of the insurance program such as premium setting and its client roster.

Recommendations:

(8) **The Ministry should consider creating an oversight committee, with broad representation, to provide advice and guidance to RMB for strategic planning and key decisions.**

(9) **RMB should ensure there is regular monitoring, evaluation and performance reporting for key program areas.**

Appendix 1 – Summary of Recommendations

1	RMB should ensure it has documented policies and procedures for its key activities.
2	RMB should regularly review IRMA's overall portfolio risk.
3	The Ministry should confirm whether the risks of the current self-insurance model are acceptable.
4	In consultation with key stakeholders, RMB should regularly review client incentives for its self-insurance programs.
5	RMB should utilize the claims management system to analyze long-term trends and support reserve setting.
6	RMB should ensure reserve reconciliations are conducted.
7	In consultation with key stakeholders, RMB should regularly review the confidence level used for setting premiums for its self-insurance programs.
8	The Ministry should consider creating an oversight committee, with broad representation, to provide advice and guidance to RMB for strategic planning and key decisions.
9	RMB should ensure there is regular monitoring, evaluation and performance reporting for key program areas.

Appendix 2 – Detailed Action Plan

Rec. #	Recommendations	Management Comments (Action Planned or Taken)	Target Date
1.	RMB should ensure it has documented policies and procedures for its key activities.	**Done:** Claims: Manual sets out policies and procedures and roles around committees. Client Services: Policy and Procedure Manual exists for major program. Underwriting: Documented policies and procedures on the LAN under Working Folders Financial Management: Have been documenting processes for each program area (i.e. Premiumization processes (preparation, issuance, receivables/recoveries), reconciliation of bank accounts, maintaining IRMA and interest revenue). **To be Done:** Claims is exploring opportunities to generate claims specific documentation. Use of iVOS systems across business units has been identified as a goal in strategic planning Working on the procedures for the prior year and year-end adjustments to IRMA.	Mar 31, 2019 to re-evaluate annually until end of 5 year strategic planning period
2.	RMB should regularly review IRMA's overall portfolio risk.	For the IRMA Oversight Committee. If no oversight committee is created, RMB will reassess planned actions. **See #8.**	
3.	The Ministry should confirm whether the risks of the current self-insurance model are acceptable.	For the IRMA Oversight Committee. If no oversight committee is created, RMB will reassess planned actions. **See #8.**	

The Detailed Action Plan represents the Risk Management Branch's response to the issues identified and the nine recommendations detailed in the 2018 report: *Review of Insurance and Risk Management Account*. This document was prepared by the Risk Management Branch and submitted to Internal Audit & Advisory Services to be included as an Appendix to the report.

Appendix 2 – Detailed Action Plan (continued)

Rec. #	Recommendations	Management Comments (Action Planned or Taken)	Target Date
4.	In consultation with key stakeholders, RMB should regularly review client incentives for its self-insurance programs.	Revisit research done in 2003 and reassess incentives in the next year and each 5 years thereafter.	September 30, 2020
5.	RMB should utilize the claims management system to analyze long-term trends and support reserve setting.	Exploring use of reserve stratification model (Levels 1 to 5) using iVOS coding in consultation and with recommendation of actuary.	March 31, 2019
6.	RMB should ensure reserve reconciliations are conducted.	Yes. Agree will be done annually each February/March.	Annually in February/March each year beginning 2019.
7.	In consultation with key stakeholders, RMB should regularly review the confidence level used for setting premiums for its self-insurance programs.	For the IRMA Oversight Committee. If no oversight committee is created, RMB will reassess planned actions. **See #8.**	
8.	The Ministry should consider creating an oversight committee, with broad representation, to provide advice and guidance to RMB for strategic planning and key decisions.	Agree. Prepare briefing note for DM decision.	September 2018.
9.	RMB should ensure there is regular monitoring, evaluation and performance reporting for key program areas.	RMB is currently concluding work on a strategic plan for the next 5 years. This includes working with the Corporate Services Division of Ministry of Finance (Strategic Human Resources and Performance Measurement and Corporate Priorities branches) to identify and create KPIs.	Business cycle 18/19

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