IN THE MATTER OF

INSURANCE CORPORATION OF BRITISH COLUMBIA

2013 REVENUE REQUIREMENTS AND NEW BASIC INSURANCE CAPITAL MANAGEMENT PLAN

DECISION

May 14, 2014

Before:

B.A. Magnan, Commissioner/Panel Chair
L.A. O'Hara, Commissioner
R.D. Revel, Commissioner

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EXECUTIVE SUMMARY

On August 30, 2013, the Insurance Corporation of British Columbia (ICBC) submitted an application to the British Columbia Utilities Commission (Commission) for approval of the Revenue Requirements for Universal Compulsory Automobile Insurance (Basic Insurance) for the policy year commencing November 1, 2013, and for approval of a new Basic Insurance Capital Management Plan (collectively, the Application).

By Order G-141-13 dated September 5, 2013, the Commission approved ICBC's requested 4.9% Basic Insurance rate increase on an interim basis for implementation with an effective date on or after November 1, 2013 subject to a final decision on the Basic Insurance rate increase.

This Decision relates to setting the Basic Insurance rate on a permanent basis for the policy year commencing on or after November 1, 2013, and establishing a new Basic Insurance Capital Management Plan.

As a result of the Pre-Hearing Conference and by Order G-193-13, the Commission Panel determined that a full oral hearing process was warranted for the review of the Application as described in the reasons attached to that Order. In addition to the oral hearing, two rounds of information requests were also issued by the Commission and Interveners and responded to by ICBC. One Intervener filed Intervener evidence.

The Application was made pursuant to sections 59 to 61 of the *Utilities Commission Act* and the *Insurance Corporation Act*. The Decision was also rendered in accordance with *Special Direction IC2* (2013) and applicable Orders in Council.

The Commission Panel accepts the actuarial analysis prepared by ICBC in support of its Application of the requested 11.5% rate increase to cover Basic costs. As required by *Special Direction IC2*, the Panel excludes the full 6.6% Loss Cost Forecast Variance from Policy Year 2012 to set Basic Insurance rates for Policy Year 2013. Apart from the non-actuarial adjustments in other sections of the Decision, the Panel accepts the analysis that results in the 4.9% Basic Insurance rate increase for the Policy Year 2013.

However, the Panel does take issue with other non-actuarial assumptions used to arrive at the requested rate increase. The three areas of concern are the investment risk-free rate assumption, the $4 million General Provision in Operating Expenses and the allocation of Pension and Post-Retirement Benefits expenses.

As a result, for reasons cited in the Decision with reference to investment assumptions, the Commission Panel rejects the 3.8% risk-free rate in favour of the multi-dealer survey based 3.1% risk-free rate to calculate the New Money Rate and the Yield on Basic Equity. The Panel believes that 3.1% risk-free rate reflects market conditions at the time of the rate Application.

The resulting impact of this determination is an additional 0.5% rate increase to the requested 4.9% Basic Insurance rate change.

With reference to the $4 million General Provision in Operating Expenses, the Commission Panel directs ICBC to exclude the Basic Insurance portion of the $4 million general provision from the 2013 forecast operating expenses for the Policy Year 2013 rate indication and accordingly reduce the Policy Year 2013 indicated rate change by 0.1%.

To ensure the proper allocation of costs between ICBC's Basic Insurance, Optional insurance and Non-insurance lines of business, ICBC is directed to reduce the Policy Year 2013 indicated rate change by 0.064% to account for the Basic Insurance line of business share of the $1.7 million in pension and post-retirement benefits expense not appropriately allocated to the Transformation Program and recovered from government initiatives.

The result of these determinations is a net increase in the Policy Year 2013 indicated rate change from 4.9% to 5.2%. In addition, the Commission Panel accepts ICBC's proposal to defer any differences between the interim rate granted and the final rate to the next rate application.

Under Order in Council 153, dated March 18, 2013, ICBC is directed to submit a revised Basic Capital Management Plan for Commission approval by May 31, 2014 reflecting the requirements stated in *Special Direction IC2*. Determinations regarding the new Basic Capital Management Plan by this Panel are as follows:

- For purposes of this Decision, the Panel considers that the 100% Minimum Capital Test (MCT) ratio is the statutory minimum as per section 3(1)(b) of *Special Direction IC2*.
- The Panel approves the continuation of the 30% MCT ratio margin for adverse events on top of the 100% statutory minimum MCT ratio level as a component in the new Basic Capital Management Plan.
- Given the 130% MCT initial target level is there to help absorb some of the adverse conditions potentially faced by ICBC, the Panel finds the requested 20% addition to the MCT ratio for rate smoothing to be excessive and should be reduced to one half of the 30% MCT current margin for adverse events over the minimum MCT ratio, or 15%. Therefore, with the initial 30% MCT ratio margin for adverse events, and an additional 15% MCT ratio margin for relatively stable and predictable rates, the Panel determines that the new Capital Management Target is set at 145% MCT.
- The Panel accepts the ICBC proposed 10 year transition period to reach the 145% MCT new Capital Management Target.
- Based on the 145% MCT new Capital Management Target, the Panel finds that a 160% MCT ratio level meets the 'well in excess' capital available requirement for the provision for determining the possibility of a Customer Renewal Credit (CRC).

The Panel finds that the 15% MCT above the new Capital Management Target for the provision of a CRC should include provisions for any proposed payout to the policyholders. Therefore, if ICBC's Basic Insurance MCT ratio equals or exceeds 160%, ICBC is directed to pay out a CRC such that the MCT level returns to 150% MCT.

ICBC indicates it will be conducting claimant attitude surveys starting in 2014. The Panel requests ICBC to file the results of the claimant attitude survey in the next Revenue Requirements Application (RRA) including: methodology, sample size, sample representation, and the survey questions themselves. ICBC is also directed to provide any action plans including any metrics used to measure the effectiveness of claims management changes and measurable outcomes resulting from the survey in the next RRA or when available.

With regard to performance measures, the Commission Panel requests that ICBC include separate interim reporting on any new performance measures that are reflective of the impact of the operational changes. The Commission Panel also anticipates that ICBC will include a full review of performance measures as part of the 2017 RRA.

1.0 INTRODUCTION

On August 30, 2013, the Insurance Corporation of British Columbia (ICBC) submitted an application to the British Columbia Utilities Commission (Commission) for approval of the Revenue Requirements for Universal Compulsory Automobile Insurance (Basic Insurance) for the policy year commencing November 1, 2013 (PY 2013), and for approval of a new Basic Insurance Capital Management Plan (collectively, the Application).

This Decision relates to setting the Basic Insurance rate on a permanent basis for PY 2013, and establishing a new Basic Insurance Capital Management Plan (CMP). Other matters explored in the public proceeding such as claims initiatives and performance measures are also discussed in this Decision.

1.1 The Application and Approvals Sought

ICBC filed the Application pursuant to sections 59 to 61 of the *Utilities Commission Act*, R.S.B.C. 1996 c. 473, as amended[1], and the *Insurance Corporation Act*, R.S.B.C. 1996, c.228, as amended.

In the Application, ICBC seeks Commission approval for a 4.9% increase in Basic Insurance rates to apply as follows:

- Pursuant to section 89 of the *Utilities Commission Act*, and section 15 of the *Administrative Tribunals Act*, the rate increase to apply on an interim basis for all new or renewal policies with an effective date on or after November 1, 2013 that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums (Schedule C) as filed with the Commission, excluding rate class 800, rate classes 900 to 906, and policies relating to vehicles located on isolated islands; and (ii) premiums determined under a Fleet Reporting Policy. Collectively, policies under (i) and (ii) are referred to as the "Plate Owner Basic and Fleet Reporting Policies";
- ICBC applies for the 4.9% increase to be made on a permanent basis for Plate Owner Basic and Fleet Reporting Policies and all other new and renewal policies on or after the first day of the first month that is at least 60 days following the Commission's final decision on the Application.

By Order G-141-13 dated September 5, 2013, the Commission approved ICBC's requested 4.9% Basic Insurance rate increase on an interim basis for implementation with an effective date on or after November 1, 2013. The Commission noted that it will determine the manner by which any variance between the approved interim rate and the approved permanent rate, will be refunded or collected at the time it renders its Decision on the Application.

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[1] Section 44 of the *Insurance Corporation Act* limits the sections of the *Utilities Commission Act* that apply to ICBC. Section 44(2) of the *Insurance Corporation Act* provides that ICBC is not a public utility.

ICBC also seeks approval of a new CMP in accordance with *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004, as amended in 2013* (*Special Direction IC2*).

1.2 Key Participants

By Order G-193-13 dated November, 22, 2013, the Commission ordered that the Application be reviewed by way of a full oral public hearing process. The proceeding also included written information requests.

There were eleven registered Interveners in this proceeding:

- Automobile Insurance Committee of the Canadian Bar Association (AIC);
- British Columbia Seniors' and Pensioners' Organization *et al.* (BCPSO);
- Canadian Direct Insurance (CDI);
- Insurance Bureau of Canada (IBC);
- Towards Responsible and Attentive Driving (TREAD);
- Mr. Richard Landale (Mr. Landale);
- Mr. Gordon Adair (Mr. Adair);
- Pemberton Insurance Corporation (PI);
- Canadian Office and Professional Employees Union Local 378 (COPE378);
- British Columbia Automobile Association (BCAA); and
- Trial Lawyers Association of BC (TLABC).

The Commission also received submissions by way of Letters of Comment and from Interested Parties.

1.3 Decision Context

The Panel reviewed the extensive evidentiary record in this Proceeding. The two main matters that the Panel must make determinations on are: (i) the approval of the permanent rate for PY 2013 and (ii) a new Basic Capital Management Plan. While the Panel recognizes the target timelines required by the Orders in Council issued in 2013, the regulatory process in this proceeding with stakeholders' participation allows for a thorough examination of the Application.

In this Decision, the Panel will first set out the legislative and regulatory framework that is applicable to the Panel's consideration of various elements in the Application. Second, the Panel will address the components of the PY 2013 indicated rate change including the final permanent approved rate for PY 2013. Third, the Panel will provide its consideration and determination on the new Basic Capital Management Plan as required by *Special Direction IC2*. The remaining sections will discuss claims initiatives, performance measures, and other matters.

The Panel also indicated to all participants that Optional insurance and any related issues, rate design matters, and the actual implementation of the recommendations contained in the Ministry of Finance Review of ICBC, were to be considered outside the boundaries of this Application.

1.4 Key Auto Insurance Industry Terms

Although the participants may be familiar with the specific terms used in the insurance industry, the general reader of this Decision may not know the definition of these terms. The relevant definitions referred to in this Decision are as follows:

- Accident Year, Policy Year (PY) **–** Insurance premiums and costs can be accounted for in various ways. Accident Year refers to the compilation of insurance premiums and costs based on when the automobile accident occurred. For example, the Accident Year spanning November 1, 2013 - October 31, 2014, includes all losses associated with automobile accidents occurring between November 1, 2013 and October 31, 2014. Policy Year refers to the compilation of premiums and costs based on when insurance policies are issued. For example, the Policy Year spanning November 1, 2013 – October 31, 2014, includes all losses associated with insurance policies issued between November 1, 2013 and October 31, 2014.
- Loss Cost - The average loss per insured vehicle. Loss costs are comprised of two components: claim frequency (incidence rate) and claim severity (the average cost per claim). ICBC actuaries forecast frequency and severity separately to arrive at the total losses to be reflected in the revenue requirements.
  (T4: 559 to 560)
- Loss Trend – The annual rate of change in loss cost. ICBC actuaries separately analyze claim frequency trends and claim severity trends.
- Loss Cost Forecast Variance - The difference between the loss provisions reflected in the existing rates and the losses that have emerged since the setting of the existing rates.
  (Exhibit B-1, p. 3-4)

2.0 APPLICABLE LEGISLATIVE AND REGULATORY FRAMEWORK

ICBC is governed by the *Insurance Corporation Act* and Regulations. ICBC is also subject to specific sections of the *Utilities Commission Act* for the purposes of Basic Insurance regulation.

The jurisdiction of the Commission with respect to the regulation of ICBC's revenue requirements and rates is restricted by legislation to Basic Insurance. The Commission has no jurisdiction over ICBC's Optional insurance business.

Special Direction IC2 is particularly relevant. Among the provisions of *Special Direction IC2* that are relevant to this Application are:

- Section 3(1)(b) provides that the Commission must set rates for Basic Insurance that allow ICBC to maintain capital available in relation to its Basic Insurance business equal to at least 100% of the Minimum Capital Test (MCT) ratio.
- Section 3(1)(c) provides that for each year that the Commission fixes Basic Insurance rates, the Commission must fix those rates on the basis of accepted actuarial practice so that the rates allow ICBC to collect sufficient revenue to pay certain identified costs and to achieve or maintain the minimum capital required.
- Section 3 (c.1) provides that the Commission must, when regulating Basic Insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by ICBC in compliance with government directives issued to ICBC.
- Section 3(1) (e) provides that the Commission must ensure increases or decreases in Basic Insurance rates are phased in in such a way that those rates remain relatively stable and predictable.

Special Direction IC2 was amended by Order in Council 152/13, March 18, 2013, to promote greater stability and predictability in Basic Insurance rates (OIC 152/13). The Government also issued a Government directive on the same date, received by the Commission on March 19, 2013 (OIC 153/13), with respect to Rate Smoothing approved by Order in Council 152/13, (the 2013 Government Directive regarding Rate Smoothing).

The Commission must comply with the amendments approved by OIC 152/13 to *Special Direction IC2*. The Commission must also recognize and accept actions taken by ICBC in compliance with government directives issued to ICBC including the 2013 Government Directive regarding Rate Smoothing.

As mentioned above, the legislative requirements and regulatory framework applicable in this Decision mainly relate to the permanent rate for PY 2013 and the new Basic Capital Management Plan. Section 3 of this Decision relates to the components of the PY 2013 Indicated Rate Change and section 4 relates to the new Capital Basic Management Plan.

3.0 COMPONENTS OF PY 2013 INDICATED RATE CHANGE

The Basic Insurance rate increase that would be required to cover Basic costs for PY 2013 is 11.5%. The rate increase to cover Basic costs is equivalent to providing an additional $266.7 million in annual revenue for Basic Insurance. (Exhibit B-1, p. 3-2) ICBC submits the Basic rate increase is driven primarily by expected increases in bodily injury (BI) claims costs but partially offset by forecast investment income and reductions in operating expenses. (ICBC Final Submission, p. 1)

Special Direction IC2 states the Commission must fix Basic Insurance rates on the basis of accepted actuarial practice, among other requirements. ICBC states: "Accepted actuarial practice in Canada includes adherence to the *Standards of Practice* of the Canadian Institute of Actuaries, as well as the *Statement of Principals Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* and the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* of the Casualty Actuarial Society." (ICBC Final Submission, p. 6; T2: 124; T4: 551, 552)

As part of the PY 2013 rate change, the new rate smoothing framework in *Special Direction IC2* provides that: "for 2013, the Loss Cost Forecast Variance must not be reflected in the general rate change order." (Section 3 (1) (c.2) (i) of *Special Direction IC2*) Accordingly, ICBC's requested 4.9% Basic rate increase comprises the net difference between the 11.5% rate change to cover all costs and the 6.6% Loss Cost Forecast Variance which has been explicitly excluded by the amended *Special Direction IC2*. (Exhibit B-1, p. vii)

The impact of the components of the indicated rate change, expressed as percentage points for the requested 4.9% rate increase are summarized as follows:

Figure 3.2 – Overview of Impact on PY 2013 Indicated Rate Change

Line No.	Components	Impact (percentage points of PY 2013 indicated rate change)
1	PY 2012 Loss Cost Forecast Variance	+6.6
2	Loss Trend to PY 2013	+4.4
3	Investment Income	-1.1
4	Impact of IAS 19R and Assumption Changes	+0.2
5	Operating Expense (Excluding Line 4)	-0.6
6	Capital Maintenance Provision	+0.9
7	Change in Average Premium	+1.0
8	Other	+0.1
9	Rate Change to Cover Costs	+11.5
10	PY 2012 Loss Cost Forecast Variance Exclusion	-6.6
11	**Indicated Rate Change**	**+4.9**

(Exhibit B-1, p. 3-4)

ICBC states that the actuarial analysis supporting the rate indication of +4.9% was performed, and reviewed, in accordance with accepted actuarial practice in Canada. (Exhibit B-1, p. 3-8)

In consideration of the final permanent rate for PY 2013, the approach taken by the Panel in this section is to first review ICBC's actuarial rate level indication analysis and the accompanying assumptions associated with the requested 4.9% indicated rate change. After the Panel's findings on the actuarial analysis portion of the indicated rate change, the Panel will then examine the non-actuarial inputs related to investments and operating expenses. Together, the actuarial and non-actuarial findings lead to the approval of the final permanent rate. ICBC and Intervener submissions are also noted throughout in the Decision.

3.1 Actuarial Rate Level Indication Analysis

3.1.1 Estimated 11.5% Rate Increase to Cover Costs

The 11.5% rate increase to cover costs is estimated based on the forecast of future claim costs and operating expenses. All forecasts, including ICBC's forecast of its claim costs and operating expenses for PY 2013, are subject to some degree of uncertainty. ICBC acknowledges that the 11.5% estimated rate increase to cover costs is subject to uncertainty and is based upon ICBC's best estimate with information presently available. (T4: 558)

ICBC has undergone a number of internal operational changes including the development of claims cost management strategies since 2005 and more recently the implementation of the new Claims Hierarchy in early 2013. (Exhibit B-1, pp. 6-4, 6-5) These operational changes have affected the manner in which claims are reported, reserved, paid, and closed. Further, operational changes and claim initiatives have also altered ICBC's historical claim cost patterns which serve as a basis for ICBC's estimates of its future claim costs. These changes, coupled with external factors such as the changes in economic conditions and an increase in the legal representation rate, introduce a greater than normal degree of uncertainty surrounding ICBC's forecast of future claim costs.

ICBC acknowledges that the 11.5% estimated rate increase to cover costs is subject to a higher than normal degree of uncertainty. However, ICBC is not able to quantify the impact that pertains to ongoing operational and external changes. (ICBC Final Submission, pp. 17, 40; T4: 634)

ICBC submits that a range of professional judgments could be applied in estimating the rate change to cover costs that are within accepted actuarial standards of practice. However, ICBC contends that the range is narrow and limited if actuaries avail themselves of all of the relevant data. ICBC adds that changes in certain assumptions, while they may be reasonable on their own, could lead to internal inconsistency in the actuarial analysis and, hence, no longer being in conformity with actuarial standards of practice. ICBC submits that it has: "carefully considered all of those factors, both favourable and unfavourable, in selecting appropriate models and in arriving at a best estimate." (Exhibit B-8, BCUC IR 2.159.2; T4: 610; T4: 594; ICBC Final Submission, pp. 11 to 14)

3.1.2 ICBC Actuarial Assumptions

There are two key assumptions that led to the estimate of 11.5% rate increase to cover costs: (i) BI Frequency and (ii) BI Severity. Specifically, the Personal BI claim frequency rate and the effect of how ICBC's operational changes and claims initiatives impact the acceleration in the legal representation rate are the two key assumptions. Adjustments to these assumptions could lead to a higher or lower rate change estimate. ICBC's assumptions are extensively explored in the evidence. For example, ICBC provides sensitivity summary results in its Application and in the Information Request (IR) responses. (Exhibit B-1, p. 3-33; Exhibit B-8, BCUC IR 2.160.1.1)

In forecasting the PY 2013 Personal BI claim frequency rate, ICBC assumes that: (i) Personal BI claim frequency in accident year 2013 will be at the average level estimated for accident years 2010, 2011, and 2012 and (ii) Personal BI claim frequency will decline in accident years 2014 and 2015, at the rate of half the rate of decline observed during the pre-recession period. (Exhibit B-1, Exhibit D.0, p. 4)

ICBC submits these key assumptions with respect to claims frequency reflect a balanced approach that accounts for information regarding the causes of the long-term pre-recession downward trend, and the likely causes of the current flattening of the BI frequency trend. To support ICBC's actuarial assumption that BI frequency will resume at half the rate of the long-term pre-recession downward trend going forward, ICBC explains three favourable influences: (i) safer vehicles, (ii) safer roads, and (iii) a growing proportion of drivers entering their safest driving years. To explain the experience of the observed flattening claim frequency trend in recent years, ICBC cites three significant events: (i) the mass adoption of smart phones, (ii) a sustained drop in the proportion of new cars on the road, and (iii) an abrupt end in the growth of the number of vehicles per household. (ICBC Final Submission, pp. 13, 14)

As an alternate assumption, ICBC states that assuming BI frequency will remain flat throughout the forecast period would be considered reasonable and consistent with accepted actuarial practice. However, such an assumption may contain bias. Conversely, ICBC submits that assuming a more favourable than the pre-recession trend would: "be relatively speculative and therefore would most likely not be consistent with accepted actuarial practice." ICBC also states that assuming that BI frequency will continue to exhibit the slight upward trend over the observed 2010-2012 period would be a conservative estimate and not a best estimate. (T4: 590 to 591; T4: 598; ICBC Final Submission, p. 14)

In forecasting PY 2013 Personal BI claim severity, ICBC assumes that its claim initiatives will exactly offset the cost impact of the acceleration in the legal representation rate. ICBC assumes that the legal representation rate will continue to increase at about 6%. As an alternate assumption, ICBC indicates it would be within accepted actuarial practice to assume that the claim initiatives would not fully offset the impact of the accelerating legal representation rate. However, such an assumption may contain bias. (Exhibit B-8, BCUC IR 2.160.1; ICBC Final Submission, pp. 22, 23)

3.1.3 Updated Information through December 31, 2013

To examine ICBC's assumptions, as part of the Undertakings, ICBC was asked if the claims experience through December 31, 2013, continues to support its estimated 11.5% (including loss cost forecast variance) rate increase to cover costs. ICBC confirms the updated Personal BI frequency and severity claim experience is in line with the assumptions that it has originally made at the time of Application. ICBC provides an updated 2013 Accident Year frequency estimate of 1.46% as compared to its original estimate of 1.47% and an updated 2013 Accident Year severity estimate of $35,861 as compared to its original estimate of $35,725. (T4: 627; Exhibit B-29, BCUC UT.1; Exhibit B-30, BCUC UT.3)

3.1.4 Estimated 6.6% Loss Cost Forecast Variance

As stated above, *Special Direction IC2* requires the Commission to exclude the Loss Cost Forecast Variance in determining the indicated rate change for PY 2013. The Loss Cost Forecast Variance represents the difference between: (i) the PY 2012 Loss Cost Forecast as presented in ICBC's 2012 Revenue Requirements Application (RRA); and (ii) ICBC's Policy Year 2012 loss cost estimate as presented in ICBC's 2013 RRA. ICBC has calculated the Loss Cost Forecast Variance to be 6.6%. As shown in Figure 3.2, the requested 4.9% rate increase is the net result of the estimated 11.5% rate increase to cover costs less the 6.6% estimate of the loss cost forecast variance.

3.1.5 Intervener Submissions

Six Interveners made submissions regarding the overall indicated rate change including comments on ICBC's actuarial assumptions and analysis. Some Interveners are concerned about the magnitude of Basic Insurance rate increases. However, Interveners did not express concerns on ICBC's actuarial analysis set out in the Application, except for CDI and Mr. Landale.

CDI submits the proposed rate increase of 4.9% for PY 2013 taken with the rate increase of 11.2% for PY 2012 exceeds the allowable rate fluctuation warranted under the concept recognized by all parties of relative rate stability and predictability. (CDI Final Submission, p. 3)

CDI also submits that, when calculating the loss trend to PY 2013 of 4.4%, ICBC places a certain amount of weight on the impact of specific factors affecting frequency, such as the mass adoption of smartphones, the drop in new vehicle sales, and the end of growth in the number of vehicles per household to account for no downward trend of frequency. Yet ICBC acknowledges that it does not have solid data on these factors and is relying on intuition. (CDI Final Submission, p. 17)

Mr. Landale is concerned about the models and assumptions used in the Application. He asserts that the models employed by ICBC are convoluted and questions how ICBC uses the numerous models, weights, and formulas to reach the various conclusions they come to in the determination of the indicated rate change. (Mr. Landale Final Submission, pp. 7, 10)

Mr. Landale views that the proposed rate change of 4.9% should be reduced to 1.2% as noted in his Intervener Evidence based on the 2013 rate of inflation (Consumer Price Index, or CPI). (Exhibit C1-9, p. 9; Mr. Landale Final Submission, p. 12)

BCPSO submits that ICBC is generally using sound actuarial practices and dealing with a situation in which health care costs are largely rising, and these rising costs are outside ICBC's control. However, BCPSO states they have several issues with the Application, including:

- The 4.9% proposed rate increase is far in excess of inflation for health care costs;
- The 6.6% Loss Cost Forecast Variance marks the largest Loss Cost Forecast Variance in almost 10 years;
- The 4.9% proposed rate increase plus an anticipated 6.4% rate increase in the 2014 RRA, totaling 11.3%, can be considered a rate shock.
  (BCPSO Final Submission, p. 4)

BCPSO also comments on the notion of 'chasing data'. BCPSO states that ICBC should expect Intervener interest in any recent information supporting the directional changes associated with the filed figures. Such interest is reasonably associated with customers seeking greater situational awareness. (BCPSO Final Submission, p. 13)

AIC takes no position with regard to the amount of the rate increase sought in this Application. However, AIC submits that ICBC's claims management policies have been a driving force behind increased claims costs, representation rates, and corresponding settlement amounts and judgments, as was seen in the recently abandoned low-velocity impact program. (AIC Final Submission, p. 2) AIC also asserts that ICBC policies may contribute to increased costs and the proposed need for higher insurance rates. (AIC Final Submission, p. 8)

TREAD notes that it does not have the capacity to assess whether or not the rate indication of 4.9% accords with accepted actuarial practice in Canada. However, TREAD submits that: "the proposed rate increase of 4.9% appears to be necessary given the expected costs of providing Basic Insurance in PY 2013 and the restrictive legislative framework." (TREAD Final Submission, pp. 11, 20)

IBC submits that it has not retained an actuary to review the filing and is not challenging the conclusions reached by ICBC's actuaries. However, IBC is concerned that ICBC has not provided sufficient evidence regarding some of the factors that are driving claims costs and the associated rate increase. In particular, IBC is concerned about ICBC's lack of data collection relating to personal electronic devices (PED) and its potential use to understand the effects on claims. (IBC Final Submission, pp. 2, 3)

3.1.6 ICBC Reply Submission

ICBC submits that although Interveners have commented on a wide variety of topics, very few of their arguments have direct implications for the determination of the PY 2013 rate indication. (ICBC Reply Submission, p. 31)

ICBC recognizes that consecutive rate increases pose challenges for Basic policyholders; however, the proposed rate increase is appropriate and consistent with the legislative framework. Basic Insurance is subject to inflation and other cost pressures. Basic Insurance rates must cover costs (subject to the rate smoothing exclusions) in order for Basic Insurance to remain on a stable financial footing. ICBC also submits that the overriding requirement in the context of this proceeding is that rates must be set on the basis of accepted actuarial practice, which requires they be set to cover costs subject to legislated exclusions. (ICBC Reply Submission, pp. 1, 3)

Regarding claims management and claims costs, ICBC replies that AIC put forward no evidence to support the suggestion that ICBC's claims management policies have been a driving force behind increased claims costs. ICBC states that claims costs increase over time as Basic Insurance is an inflationary product.

With respect to 'chasing data', ICBC explains that it understands the Commission's desire to obtain the updated information given that its PY 2013 Decision will form the initial starting point for the rate smoothing framework. ICBC submits that, given the confidential nature of the information, the Commission should limit its use of the information to confirming the reasonableness of the original rate indication. The updated numbers should provide the Commission Panel with the desired comfort in that regard. (ICBC Final Submission, p. 10)

ICBC notes that Interveners were focused on updating data that might lead to a favourable impact on Basic Insurance rates (e.g. equity returns). ICBC states that updating the data in the middle of a proceeding is not necessarily going to produce a lower rate indication. In the present case, the sensitivity analysis undertaken by ICBC based on updated information suggests that the rate change required to cover costs would most likely increase if a new rate indication were prepared today. (ICBC Reply Submission, p. 4)

Furthermore, ICBC notes that it would be very inefficient to "chase data" in this manner in future years. ICBC submits that the Commission should acknowledge the validity of these concerns in its Decision and underscore the exceptional circumstances that prompted its requests in this proceeding. (ICBC Final Submission, p. 11)

With respect to the causes of flattening BI frequency trend associated with mass adoption of smartphones, fewer new vehicles, and vehicles per household no longer increasing, ICBC submits that CDI's argument misses a fundamental point. The actuarial analysis relies on observed BI frequency data, which had been declining prior to the recession and in recent years has flattened. (ICBC Reply Submission, p. 7)

3.1.7 Commission Panel Determination

The Panel notes that the requested 4.9% rate increase is the net result of the estimated 11.5% rate increase to cover Basic Insurance costs as per ICBC's forecasted operations and actuarial projections, less the 6.6% estimated Loss Cost Forecast Variance from PY 2012. The full exclusion of the 6.6% estimated PY 2012 Loss Cost Forecast Variance to set PY 2013 rates is required by *Special Direction IC2*.

Actuarial Analysis Component of Basic Rates

The Panel considered the actuarial assumptions and accompanying analysis provided by ICBC to reach the conclusion of the estimated 11.5% rate increase to cover changes in Basic costs. The Panel recognizes that professional judgement must be exercised, given the best information currently available, to forecast future trends as well as to understand the observed trends that happened in the past. These actuarial assumptions and possible factors are thoroughly explored in the evidence.

As for ICBC's explanations of the observed flattening BI frequency trend in recent years, the Panel understands that there could be other factors that contribute to the flattening of BI frequency trend other than the three events cited by ICBC. The Panel finds no evidence to definitively confirm or reject ICBC's explanations and therefore accepts that the three events cited by ICBC could be reasons for the observed flattening BI frequency trend.

As for ICBC's professional actuarial judgment in projecting the BI frequency and BI severity going forward, the Panel recognizes that there could be other alternatives that may conform within accepted actuarial practice or within some range of reasonableness. Any alternative will have either a favourable or unfavourable impact on the rate indication. However, the Panel notes that the updated information through December 31, 2013, appears to support ICBC's original assumptions. **Given the evidence on record with the updated information, the Panel is persuaded that the actuarial analysis performed in the Application supports the requested 11.5% rate increase to cover Basic costs. As required by *Special Directive IC2*, the Panel will exclude the full 6.6% Loss Cost Forecast Variance from PY 2012 to set Basic rates for PY 2013. Therefore, apart from the non-actuarial adjustments in later sections of this Decision, the Panel accepts the actuarial analysis that results in the 4.9% Basic Insurance rate increase for PY 2013.**

Comments on "Chasing Data"

The Panel notes ICBC and Intervener comments regarding updating the data used for the underlying assumptions for the actuarial analysis. The Panel agrees with ICBC's contention that it is difficult to update particular data without the benefit of it being fully reviewed and re-assessed for actuarial consistencies. However, the Panel disagrees with ICBC's submission that requesting updated information is a way to seek a lower rate indication. As noted earlier, some of the updated data presented supports the original assumptions made by ICBC and its actuaries.

Although Interveners and the Commission may continue to request information updates, the Panel encourages participants to limit the number of updates that may be administratively burdensome unless they consider that specific data updates would cause considerable rate impacts or that it is important to verify certain assumptions. Short of this intended result, the Panel does not believe requesting information updates after the filing of the Application would be an effective approach to the overall review process.

Magnitude of Rate Increases

The Panel also recognizes that despite the approved rate increase of 11.2% in 2012 and the potential financial impact on policyholders, the Panel must approve Basic Insurance rate changes that allow ICBC to recover its costs subject to Government direction. At the same time, the Panel notes that the Loss Cost Forecast Variance in the 2012 Application and now in this 2013 Application are unfavourable at 5.5% and 6.6% respectively. Although the Panel understands any estimate would have a certain degree of uncertainty, these unfavourable Loss Cost Forecast Variances are markedly higher than at any other time in the last 10 years. Since future rates must be within ±1.5% of the last rate change as part of the new rate smoothing framework, the Panel is concerned about high unfavourable Loss Cost Forecast Variances as the cumulative effect could undermine the objective of promoting more stable and predictable Basic rates.

In summary, and as determined above, **the Panel accepts the actuarial analysis that results in the 4.9% Basic Insurance rate increase for PY 2013.** The Panel will address non-actuarial rate determination matters of Investments, Operating Expense and Impact of International Accounting Standard (IAS) 19R and Assumption Changes in the following sections.

3.2 Investments

Chapter 5 of the Application relates to Investments. ICBC states that higher than expected investment income as compared to PY 2012 has an impact of -1.1 percentage points on the PY 2013 indicated rate change. (Exhibit B-1, p. 3-6) For the most part, Interveners did not comment on ICBC's investment performance or its corporate investment policy and procedures. However, the appropriateness of the risk-free rate used as an input to calculate the New Money Rate and Yield on Basic Equity, will be addressed in this section.

3.2.1 Risk-Free Rate to Calculate New Money Rate and Yield on Basic Equity

In the Application, ICBC states that in the September 2009 Amended Application for a Streamlined Regulatory Process, ICBC set out the proposed formulae for the calculation of the New Money Rate and the Yield on Basic Equity used in the actuarial analysis in all RRAs. The Commission accepted these formulae in its April 2010 Decision on the Streamlined Regulatory Process. (Exhibit B-1, p. 5-2)

Following the direction given in the April 2010 Decision, the formulae used in the Application make use of data averaged from the multi-dealer survey. (Exhibit B-1, Appendix 5A) The forecasts used for the purposes of this Application are those available from the financial institutions as of June 2013. The Yield on Basic Equity is calculated based on the ICBC's investment portfolio profile at June 30, 2013.

The formulae for the New Money Rate and the Yield on Basic Equity also make use of the market equity risk premium determined by the Commission in its May 10, 2013 Decision on the Commission's Generic Cost of Capital. (Exhibit B-1, p. 5-1)

In past practice, the approved formulae used a risk-free rate set equal to the average of 30-year bond yields from the multi-dealer survey. However, ICBC agrees with the Commission that 'current monetary policy is historically unusual and subsequently results in the possibility of a higher effective risk free rate.' ICBC therefore proposes for the purpose of this Application to use the 3.8% estimate for the risk-free rate in alignment with the May 2013 Decision. (Exhibit B-1, pp. 5-2, 5-3)

In the Application, ICBC provides the calculation of the New Money Rate using the 3.8% risk-free rate for PY 2013 as follows:

Table 1: ICBC Proposed New Money Rate for PY 2013

Add	Weighting	Multiply	Formula for Yield	Yields
	72%	x	Forecast 3-year Government of Canada bond yield calculated from multi-dealer survey	1.60%
+	22%	x	Risk-free rate of **3.8%** + 6.4% [market equity risk premium]	10.2%
+	6%	x	Forecast Canadian inflation from multi-dealer survey (1.74%) + 4.25%	5.99%
New Money Rate for the 2013 Policy Year				**3.75%**

Exhibit B-1, Figure 5.6, p. 5-6

In its IR response, ICBC provides a calculation of the Revised New Money Rate for PY 2013. Holding all else equal, ICBC uses the risk-free rate of 3.1%, which is the average 30 year bond yield as calculated from the multi-dealer survey provided in Exhibit B-1, Appendix 5A. The detailed calculation is as follows:

Table 2: Revised New Money Rate for PY 2013				
Add	**Weighting**	**Multiply**	**Formula for Yield**	**Yields**
	72%	x	Forecast 3-year Government of Canada bond yield calculated from multi-dealer survey	1.60%
+	22%	x	Risk-free rate of **3.1%** [from multi-dealer survey] + 6.4% [market equity risk premium]	9.50%
+	6%	x	Forecast Canadian inflation from multi-dealer survey [1.74%]+ 4.25%	5.99%
Revised New Money Rate for the 2013 Policy Year				**3.60%**
Reduction in New Money Rate resulting from use of 3.1% risk-free rate				**0.15%**

Exhibit B-3, BCUC IR 1.95.3

In the Application, ICBC provides the calculation of the Yield on Basic Equity for PY 2013 using information as at June 30, 2013, as follows:

Table 3: ICBC Proposed Yield on Basic Equity for PY 2013					
Sum	**Current Weightings**	**Multiply**	**Formula for Yield**	**Actual Yields**	**Weighted Yields**
	1.3%	x	Current Money Market Yield at Cost	1.02%	0.01%
+	62.4%	x	Current Canadian Bond Yield at Market	1.97%	1.23%
+	8.8%	x	Current Mortgage Yield at Cost	4.52%	0.40%
+	23.5%	x	Risk-free rate + 6.4% [market equity risk premium]	**3.8%** + 6.4%	2.40%
+	4.1%	x	Current Real Estate Yield at Cost	7.51%	0.31%
-			Fees for Managing Investment Portfolio		0.09%
Yield on Basic Equity for the 2013 Policy Year					**4.25%**

Exhibit B-1, Figure 5.7, p. 5-6

In its IR response, ICBC provides a calculation of a revised Yield on Basic Equity for PY 2013. In that calculation, holding all else equal, ICBC uses the risk-free rate of 3.1%, which is the average 30 year bond yield as calculated from the multi-dealer survey provided in Exhibit B-1, Appendix 5A. The detailed calculation is as follows:

Table 4: Revised Yield on Basic Equity for PY 2013					
Sum	**Current Weightings**	**Multiply**	**Formula for Yield**	**Actual Yields**	**Weighted Yields**
	1.3%	x	Current Money Market Yield at Cost	1.02%	0.01%
+	62.4%	x	Current Canadian Bond Yield at Market	1.97%	1.23%
+	8.8%	x	Current Mortgage Yield at Cost	4.52%	0.40%
+	23.5%	x	Risk-free rate + 6.4% [market equity risk premium]	**3.1%** + 6.4%	2.23%
+	4.1%	x	Current Real Estate Yield at Cost	7.51%	0.31%
-			Fees for Managing Investment Portfolio		0.09%
Revised Yield on Basic Equity for the 2013 Policy Year					**4.09%**
Reduction in Yield on Basic Equity resulting from the use of the 3.1% risk-free rate					**0.16%**

Exhibit B-3, BCUC IR 1.95.3

ICBC provides the rate impact using a risk-free rate of 3.1% instead of the proposed risk-free rate of 3.8%. ICBC states the PY 2013 Basic rate indication, holding all else equal, using the 3.1% risk-free rate would increase from 4.9% to 5.4%. (Exhibit B-3, BCUC IR 1.95.3.1) ICBC confirmed the impact of +0.5 percentage points on the Basic rate indication at the Oral Hearing. (T7: 1113; 1114)

During cross-examination, ICBC confirmed that in the last two RRAs, ICBC used the average 30-year Government of Canada bond yield calculated from the multi-dealer survey, and agreed that ICBC's use of the 3.8% risk-free rate is a departure from past practice. (T7:1113; T7: 1112)

By way of an Undertaking, ICBC also updated forecasts of the New Money Rate and the Yield on Basic Equity based on the multi-dealer surveys as of December 2013, and indicated that the updated multi-dealer survey's risk-free rate is 3.3%. (Exhibit B-29, BCUC UT.9)

No Intervener specifically addressed the issue of the change in the risk-free rate.

3.2.2 Commission Panel Determination

The Commission Panel rejects the 3.8% risk-free rate in favour of the multi-dealer survey based 3.1% risk-free rate to calculate the New Money Rate and the Yield on Basic Equity.

The Panel finds that above all, the use of the 3.1% Risk Free rate consistently reflects past practice and that ICBC has not provided sufficiently persuasive reasoning to deviate from that practice. The 3.1% risk-free rate is clearly calculated as per the most up-to-date multi-dealer survey forecasts available at the time of the Application; i.e. as of June 2013.

The Panel also notes that using the 3.1% rate, all else being equal, likely avoids a further premium revenue shortfall in PY 2013, should the actual risk free rate turn out to be lower as the 3.1% rate from the multi-dealer survey strongly suggests. (T7: 1116)

The Commission issued its decision on the Generic Cost of Capital proceeding on May 10, 2013. The purpose of that proceeding was to establish the appropriate cost of capital for the benchmark utility FortisBC Energy Inc., which is a gas distribution utility. All relevant evidence related to that proceeding was filed in the summer of 2012, one year prior to ICBC's Application[2]. The Panel considers that ICBC failed to provide sufficient rationale for using a risk free rate based on 2012 economic market conditions for utility regulation as a substitute for a key element required for setting Basic Insurance rates for PY 2013 for policies effective on or after November 1, 2013.

Finally, the Panel finds that making a change to the 3.1% risk-free rate is not the same as making changes to reflect more current conditions to other variables affecting the Basic Insurance actuarial rate indication. The Panel considers that reverting back to using the multi dealer survey 3.1% risk-free rate as part of a calculation input in the New Money Rate and Yield on Basic Equity formulae is not an actuarial matter and therefore would not violate Accepted Actuarial Practice. The 3.1% risk-free rate based on the multi-dealer survey is simply a more appropriate rate to use than 3.8%, which is essentially a "deemed" rate. The 3.1% risk-free rate reflects market conditions at the time of the rate Application.

As indicated by ICBC, a determination on using the 3.1% risk-free rate instead of the proposed 3.8% risk-free rate means that, all else being equal, the PY 2013 Basic rate indication would increase from 4.9% to 5.4%. **Accordingly, apart from other non-actuarial adjustments in this Decision, the Panel notes that an additional 0.5% rate increase to the requested 4.9% Basic rate increase is warranted as described in the Panel's determination on using the 3.1% risk-free rate based on the multi-dealer surveys as of June 2013.**

3.3 Operating Expenses

In its Application, ICBC presents operating expenses at a corporate level, prior to the allocation to the Basic Insurance, Non-insurance and Optional insurance lines of business using a financial allocation methodology. The allocation methodology is in place to allocate costs between the lines of business. In Chapter 7 of the Application, ICBC shows the allocation of operating expenses for actuarial rate indication to Basic Insurance. (Exhibit B-1, pp. 7-61 to 7-64)

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[2] In the matter of the British Columbia Utilities Commission Generic Cost of Capital (Stage 1) Decision, May 10, 2013.

For PY 2013, operating expenses do not add to the Basic Insurance rate increase to cover costs. The net impact of operating expenses on the PY 2013 indicated rate change, as filed in the Application, is as follows:

Impact of IAS 19R and Assumption Changes	+0.2
Operating Expenses	-0.6
Net Impact	-0.4

(Exhibit B-1, Figure 3.2, p. 3-4)

The Impact of International Accounting Standard on Employee Benefits (IAS 19R) and Assumption Changes contributes to 0.2% of the PY 2013 indicated rate change and relates specifically to the impact of an amendment to the IAS 19R and the impact of changes in assumptions in determining pension and post-retirement benefits. The change in all other operating expenses as compared to PY 2012 is captured in "Operating Expenses" and has a favourable -0.6% impact on the PY 2013 indicated rate change. (Exhibit B-1, p. 3-6)

This section will address several aspects of operating expenses as they have impacts on Basic rates. There are two issues: (i) $4 million general provision in operating expenses; and (ii) allocation of pension and post-retirement benefits expense, which the Panel will address and the Panel's determination will have subsequent impacts on Basic rates. Some Interveners also made submissions on matters such as operating expense reductions, incentive pay, and financial allocation methodology.

3.3.1 Operating Expenses Reductions

ICBC states in the Application that the 2013 forecast corporate operating expenses have been reduced by $51 million as compared to the 2011 plan. Corporate operating expenses represent all costs to operate the insurance (Basic and Optional) and Non-insurance lines of business excluding claims payments, broker commissions, and premium taxes. (Exhibit B-1, p. 7-1)

ICBC submits that the cost reductions have been achieved through staffing strategies, strategic prioritization and management of project scope/spending, detailed budget reviews and discretionary spending cost containment, amongst other items. (Exhibit B-1, p. 7-6)

However, the following 2013 forecast costs are excluded from the $51 million figure:

- $3 million increase in compensation costs related to the Public Sector Employers' Council (PSEC) Bargaining Mandate;
- $19 million increase in pension and post-retirement benefits costs related to changes in IAS 19R, assumption changes for accounting purposes and discount rate changes. (Exhibit B-8, BCUC IR 2.204.2)

Accordingly, ICBC confirmed at the Oral Hearing that taking the above noted items into account, the actual 2013 forecast corporate operating expenses reduction as compared to the 2011 plan, is $29 million. (T7: 1123)

3.3.1.1 Intervener Submission

TREAD submits that the actual operating cost reductions are lower than the $51 million put forward by ICBC, given that this figure "…does not reflect the allocation of only a portion of those cost savings to Basic, nor does it reflect an actual to actual comparison." TREAD contends that the accurate amount is $14.3 million, based on a comparison of PY 2012 to PY 2013 costs. (TREAD Final Submission, p. 12)

3.3.1.2 Commission Panel Discussion

With respect to TREAD's argument that actual operating cost reductions are less than the $51 million suggested by ICBC, the Panel notes that ICBC did not suggest in the Application that this amount pertained to Basic Insurance only. As a point of clarification, the Panel notes that the actual 2013 forecast corporate operating expenses savings as compared to 2011 plan are $29 million. This represents savings prior to the allocation to the Basic Insurance, Non-insurance and Optional insurance lines of business. (T7: 1123)

3.3.2 $4 million General Provision in Operating Expense

The 2013 forecast operating expenses include a $4 million general provision in the expense category "Other Operating Expenses". The general provision provides for the following:

- Potential unspecified and unforeseen adverse events;
- Divisions challenged to meet tight operational budgets;
- Additional claims cost control initiatives that may need to be implemented during the fiscal year.

(Exhibit B-8, BCUC IR 2.218.2)

ICBC confirms that the Basic Insurance portion of the general provision is approximately $2 million and contributes to be "slightly less" than 0.1% of the PY 2013 indicated rate change. (Exhibit B-8, BCUC IR 2.218.3)

In 2011, the general provision included in the forecast was $1 million and $0 was actually utilized. In 2012, the general provision included in the forecast was $1.5 million and $0.1 million was actually utilized. There were unforeseen adverse events, divisions challenged to meet tight operational budgets and additional claims cost control initiatives in each of 2011 and 2012, however, with the exception of the $0.1 million in 2012, the costs associated with these items were absorbed into the existing divisional budgets. (Exhibit B-31, BCUC UT.10)

3.3.2.1 ICBC Submission

ICBC submits that the $4 million general provision is reasonable because:

> "The provision amount of $4 million is less than 1% of ICBC's corporate operating expenses and is not unreasonable given ICBC's cost containment program, which aims to reduce and manage operating expenses at lower levels.
>
> ICBC believes that a general provision, which is centrally held, would challenge divisions to better manage costs within their own respective divisional operating budget targets." (Exhibit B-8, BCUC 2.218.2)

Interveners did not make submissions related to the $4 million general provision.

3.3.2.2 Commission Panel Determination

With the exception of $0.1 million in 2012, the Panel notes that the general provision was not utilized in either 2011 or 2012. Instead, costs associated with unspecified and unforeseen adverse events, divisions challenged to meet tight operational budgets and additional claims cost control initiatives were absorbed into existing divisional budgets. ICBC provides several examples of such costs that were absorbed into divisional budgets, including: investigation and legal costs associated with the 2011 Stanley Cup riot, costs associated with the 2011 "Connecting with the Customer" strategy and recruitment-related costs incurred in 2011 as a result of the difficulty in attracting quality resources. (Exhibit B-31, BCUC UT.10)

Considering that the general provision is not related to specific, forecast expenditures and the majority of the costs intended to be captured by the general provision were able to be absorbed into the existing divisional budgets in 2011 and 2012, the Panel is not persuaded that it is reasonable to include a general provision in the 2013 forecast operating expenses. **ICBC is directed to exclude the Basic Insurance portion of the $4 million general provision from the 2013 forecast operating expenses ($2 million) for the PY 2013 rate indication and accordingly reduce the PY 2013 indicated rate change by 0.1%.**

3.3.3 Allocation of Pension and Post-Retirement Benefits Expense

The 2013 forecast operating expenses include two pension and post-retirement benefits amounts, each in the amount of $19 million, for the following:

1. $19 million: Changes in the International Financial Reporting Standard, accounting standards, discount rate and assumption changes;
2. $19 million: Difference between the standard benefit rate as a percentage of salary charged to each user division and the actual cost of benefits to ICBC.

ICBC classifies these two amounts as "Unique Items", which are segregated and presented separately from base operating expense in order to "avoid skewing the normal trends in operating expenses." (Exhibit B-1, pp. 7-53, 7-55)

The first $19 million amount is captured in Line 4 of Figure 3.2 of the Application "Impact of IAS 19R and Assumption Changes", which contributes to 0.2% of the PY 2013 indicated rate change. (Exhibit B-1, Figure 3.2, p. 3-4) This is discussed in Section 3.3 of this Decision.

This section relates to the second $19 million amount. ICBC confirms that this amount includes costs for Basic Insurance, Non-insurance and Optional insurance, including components related to the Transformation Program and cost-recoverable government initiatives. Yet, the full amount is included in forecast 2013 operating expenses for the actuarial rate indication. (T7: 1139; 1140; 1141) Further, ICBC's allocation methodology does not pertain to the Transformation Program and cost-recoverable government initiatives (i.e. does not allocate amounts included in operating expenses for the actuarial rate indication to the Transformation Program or cost-recoverable government initiatives.) (T7: 1135; 1136)

3.3.3.1 ICBC Submission

ICBC estimates that $1.7 million of the $19 million difference between the standard benefit rate as a percentage of salary charged to each user division and the actual cost of benefits to ICBC is not appropriately allocated to the Transformation Program and recovered from government initiatives. This contributes to approximately 0.064% impact on the PY 2013 indicated rate change. (Exhibit B-31, BCUC UT.12)

Interveners did not make submissions on this allocation issue related to pension and post-retirement benefits expense.

3.3.3.2 Commission Panel Determination

Section 49 (1) of the *Insurance Corporation Act* states the following with respect to ICBC's "Separation of businesses":

> **49** (1) The commission must ensure that the universal compulsory vehicle insurance business and the revenue of the corporation, other than revenue from the corporation's optional vehicle insurance business, are not used to subsidize the corporation's optional vehicle insurance business.

To ensure the proper allocation of costs between ICBC's Basic Insurance, Optional insurance and Non-insurance lines of business, ICBC is directed to reduce the PY 2013 indicated rate change by 0.064%, to account for the Basic Insurance line of business share ($1.7 million) of the pension and post-retirement benefits expenses not appropriately allocated to the Transformation Program, and recovered from government initiatives.

3.3.4 Expenses Allocation Methodology

As noted earlier, ICBC uses a Commission approved financial allocation methodology to allocate costs associated with integrated services to the Basic Insurance, Non-insurance and Optional insurance lines of business. A number of Interveners (Mr. Landale, IBC, PI and TREAD) argue that it would be appropriate for the Commission to formally re-examine the allocation methodology, in light of the ongoing changes to ICBC's business structure.

Allocation Methodology Background

In 2004, ICBC applied to the Commission for approval of the financial allocation methodology. The Commission issued Order G-9-05 and the accompanying Decision on January 19, 2005, and directed ICBC to, amongst other things, undertake further analysis with respect to several allocators and allocation percentages. Subsequently, the Commission approved separate Negotiated Settlement Agreements related to the financial allocation methodology by Orders G-46-05 dated May 18, 2005, and G-73-08 dated April 22, 2008.

On November 26, 2009, Navigant Consulting Inc. filed with the Commission and ICBC its, "Report on Findings from the Independent Third Party Review of ICBC's Regional Claim Centres Financial Allocation and Specified Financial Allocation Functions." In response, the Commission issued Order G-75-10 and the accompanying Reasons for Decision on April 22, 2010, and directed ICBC to among other things, implement the recommendations in the report and file a detailed work effort study by September 1, 2011. Thereafter, an update of the detailed study was to be filed within 24 months of a Commission Decision on that filing. In addition, another detailed study was to be filed when significant business changes occurred or, at minimum, within 5 years from September 1, 2011.

On September 1, 2011, ICBC filed its Regional Claim Centres Work Effort Study, including a detailed work effort study relating to the Regional Claim Centres Allocation and an Independent Third Party Report. The Commission invited comments from Interveners in past proceedings but did not receive any letters of comments in response. By Letter L-87-11 dated November 17, 2011, the Commission accepted the 2011 filing. By Order G-63-13 and the accompanying Reasons for Decision dated April 25, 2013, the Commission accepted the ICBC proposal to forego the update to the 2011 filing on November 17, 2013, and directed ICBC to file a new detailed work effort study by December 31, 2014, based the new Claims Division functional organizational structure.

3.3.4.1 Commission Panel Discussion

The Panel is cognizant of the Intervener concerns related to the financial allocation methodology that is used to allocate costs associated with integrated services to Basic Insurance, Non-insurance and Optional insurance lines of business. The Panel is aware that ICBC is going through some operating changes – especially in the claims department, that could impact the actual allocation of operating expenses. As a result, the Panel considers it would be useful to ICBC, Interveners and the Commission to evaluate those allocation methodologies, and the actual amounts allocated to each line of business as practicable, that are impacted by recent and planned changes, and include any proposed alterations to allocation methodologies with their RRAs starting with the 2015 year Application.

3.3.5 Other Operating Expenses Issues

During the course of the Application process and in particular during the oral hearing, several additional issues were raised by Interveners, which included:

- Incentive Pay - Several Interveners expressed concerns related to ICBC's incentive pay program. Although the Panel examined this issue, it found that it was of no impact on its deliberations.
- Presentation of Operating expenses in future applications.
- Autoplan insurance agency agreements and Autoplan distribution.

The Panel considers these issues are not material to the determination of this Decision and as a result, makes no determinations related to these issues.

3.4 Approved Rate on a Permanent Basis for PY 2013

3.4.1 Commission Panel Determination

After consideration of the actuarial and non-actuarial components of the PY 2013 indicated rate change, the Panel concludes that a rate increase of 5.236% is warranted for PY 2013. While the Panel is satisfied with the evidence related to actuarial analysis components of the proposed PY 2013 indicated rate change, the adjustments from the initially approved 4.9% interim rate are based on the Panel's determination on the appropriate selection of the risk-free rate and reductions on operating expenses components of the PY 2013 indicated rate change.

These adjustments are summarized as follows:

Proposed Indicated Rate Change	+4.9%
Adjustment to select 3.1% risk free rate – see section 3.2.2	+0.5%
Adjustment to remove $4 million general provisions – see section 3.3.2.2	-0.1%
Adjustment of pension and post-retirement benefits – see section 3.3.3.2	-0.064%
Approved Permanent Rate	**+5.236%**
Rounding to one decimal place	**+5.2%**

The Panel finds that retaining one decimal place would be consistent with the ±1.5% rate change band as required by *Special Direction IC2*. Accordingly, **the Panel determines that 5.2% will be the indicated rate change for PY 2013 and the starting point for the next RRA.**

For the reasons above, the Panel approves a 5.2% Basic Insurance permanent rate for PY 2013.

Difference between Interim Rate vs. Permanent Rate

As established in Order G-141-13, the Commission approved the 4.9% Basic rate increase on an interim basis, and will determine the manner by which any variance between the approved interim rate and the approved permanent rate will be refunded or collected at the time it renders its final Decision on the Basic Insurance rate.

Although ICBC initially proposed refunding or additional billing due to any difference in PY 2013, ICBC submits that given the cost and the short time period between the Commission decision of PY 2013 and the commencement of PY 2014: "it is in the best interest of policyholders to defer the difference to the next rate application." (ICBC Final Submission, p. 70)

The Panel notes that BCPSO and TREAD also support this approach. (BCPSO Final Submission, p. 20; TREAD Final Submission, p. 20) Other Interveners did not make any submissions on this matter.

Given the timing of this decision relative to PY 2013, the Commission Panel accepts ICBC's proposal to defer any differences between the interim rate granted and the final permanent rate to the next rate application.

Accordingly, ICBC is directed to defer any differences between the 4.9% interim rate change and the final 5.2% approved permanent rate change in this Application to the PY 2014 RRA.

4.0 NEW BASIC CAPITAL MANAGEMENT PLAN

Chapter 4 of the Application deals with the existing Capital Management Plan (CMP) as it applies to the current PY 2013 Application and a new CMP that is to apply for PY 2014 and thereafter. The new CMP proposal is the result of amendments to *Special Direction IC2* contained in OIC 152/13 and Government Directive OIC 153/13. Certain aspects of the new CMP are required by the OICs but the Commission has responsibility to set the thresholds related to ICBC's risk profile. Key features of the new CMP include the inclusion of a rate smoothing framework requiring that 'the percentage rate change fixed by a rate change order must differ from the percentage number of a rate change fixed by the previous general rate change order by no more than 1.5, and must not decrease existing rates.' (*Special Direction IC2* as amended) The rate smoothing framework also provides for a possible Customer Renewal Credit (CRC) under the conditions indicated below. In this section, to determine the appropriate components of the new CMP, the Panel first reviews the relevant legislation and past Decisions and then considers the submissions received from ICBC and Interveners.

4.1 Statutory Framework relating to the New Basic Capital Management Plan

In consideration of the new CMP for 2014 and each following year for which rates are set, a Capital Management Target in the new CMP must satisfy the following conditions as per *Special Direction IC2*:

> "capital management target" means the MCT target, determined in a capital management plan approved by the commission that is the total of the following:
>
> (a) the MCT required under section 3 (1) (b);
>
> (b) the margin, expressed in percentage points of MCT, that reflects the corporation's risk profile in relation to the corporation's universal compulsory vehicle insurance business and its ability to respond to adverse events that arise from those risks;
>
> (c) any additional margin, expressed in percentage points of MCT, consistent with relatively stable and predictable universal compulsory vehicle insurance rates"

Where section 3 (1) (b) states that the Commission must:

> "set rates for the corporation's universal compulsory vehicle insurance business in a way that will allow the corporation to maintain, in relation to its universal compulsory vehicle insurance business, at least 100% of MCT"

The 2013 Government directive under OIC 153/13 states:

> "ICBC should bring forward to the Commission for approval by May 31, 2014, a revised Basic Capital Management Plan that continues to protect the solvency of Basic insurance while also improving ICBC's ability to use Basic capital to promote more stable and predictable Basic rates."

> "If circumstances should arise where, despite the implementation of a capital management plan consistent with the above principles, Basic capital is projected to fall below the regulatory minimum requirement of 100% MCT as determined under *Special Direction IC2* to the British Columbia Utilities Commission, then ICBC is directed to report to Treasury Board immediately and develop an appropriate plan to address Basic capital levels in conjunction with Treasury Board."

OICs 152/13 and 153/13 also specify that the Commission may direct a non-transferable, non-refundable Customer Renewal Credit (CRC). Section 3 (1) (c.3) of *Special Direction IC2* states:

> "for 2014 and each following year for which the commission fixes universal compulsory vehicle insurance rates, approve a customer renewal credit if
>
> (i) there is excess capital available,
>
> (ii) the customer renewal credit will not result in the MCT falling below the capital management target specified in a capital management plan approved by the commission, and
>
> (iii) the commission determines that rates fixed by general rate change orders will remain relatively stable and predictable despite the approval of the customer renewal credit"

4.2 Review of Past Commission Decisions

Basic Capital Management matters as they relate to the MCT were canvassed in past Commission proceedings. The Commission made determinations and past directives to arrive at the existing Basic Capital Management Plan from which the existing Capital Management Target is 130% MCT.

In the 2006 Decision[4], the Commission differentiated between the statutory minimum and the regulatory target to be established by the Commission. The Commission determined that ICBC's establishment of a 100% management target for an MCT ratio for Basic Insurance is not adequate. (2006 Decision, p. 25)

In its 2006 Decision dated July 13, 2006[3], the Commission stated that the MCT ratio requirements in *Special Direction IC2* (former version at the time of review) of 100%, 110% and 200% for the Basic, Total and Optional lines of business respectively are to be considered minimums, and that ICBC should set capital management MCT ratio targets within the Dynamic Capital Adequacy Testing (DCAT) indicated range and establish capital plans accordingly and that ICBC should, in its next RRA, include the following evidence:

1. the DCAT indicated range for Basic Insurance;

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[3] In the matter of the Insurance Corporation of British Columbia an Application for Approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance, Decision, July 13, 2006.

[4] In the matter of Insurance Corporation of British Columbia 2007 Revenue Requirements Application, Decision, January 9, 2008.

2. supporting evidence and rationale in any case where the management capital target MCT ratios is less than DCAT indication, including support for deviation from accepted actuarial practice;
3. the rate indication reflecting a capital management MCT ratio within the DCAT indicated range. (2006 Decision, pp. 29, 30)[3]

In the 2007 Revenue Requirements Application (2007 RRA)[4], ICBC sought to increase the capital management target for the Basic Insurance business to 130% as per a decision made by ICBC management to increase the MCT over the minimum Capital Management Plan target of 100% to 130%.

ICBC, in the 2007 RRA[3], responded to the above directions and stated:

> "… ICBC management has selected a capital management target of 130% for the Basic insurance business, which provides a slight margin on the average, in order to recognize that the average is based on four data points with a fairly large spread. The selected management target MCT ratio of 130% provides a reasonable buffer to reduce the likelihood of falling below the statutory minimum MCT ratio of 100% for the Basic insurance business." (2007 RRA, Exhibit B-1, p. 6.1-4)

In its Decision dated January 9, 2008[3], the Commission directed ICBC to provide additional evidence with respect to the adequacy of its choice of a management target MCT ratio of 130% as part of its 2008 Revenue Requirements filing, or by June 30, 2008, whichever occurs earlier.

On June 30, 2008, ICBC submitted a document providing the Commission additional evidence supporting its choice of a capital management target MCT ratio of 130% for Basic Insurance. In that letter, ICBC summarized the analysis as follows:

> 36. "ICBC Management believes the 130% management MCT target , which has a probability in the 10% to 5% range of falling below the regulatory minimum target, is appropriate, and that using the more severe adverse scenarios, which were originally created for the purpose of testing solvency, would result in a management MCT target that is overly protective. Using the plausible adverse scenarios of 1% probability, DCAT (solvency testing shows that Basic insurance has a satisfactory financial condition, meaning there is a low risk that ICBC Basic insurance will become insolvent in the foreseeable future."

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[3] In the matter of the Insurance Corporation of British Columbia an Application for Approval of the 2006 Revenue Requirements for Universal Compulsory Automobile Insurance, Decision, July 13, 2006.

[4] In the matter of Insurance Corporation of British Columbia 2007 Revenue Requirements Application, Decision, January 9, 2008.

37. "In summary, ICBC management is of the view that the current management target MCT ratio of 130% remains appropriate for Basic insurance and the Board of Directors of ICBC have reaffirmed the appropriateness of the current capital management MCT target of 130% of Basic Insurance."

4.3 ICBC Proposed New Basic Capital Management Plan

In the Application and in its proposal, ICBC refers to the 100% MCT as the "regulatory minimum", the margin that reflects the corporation's risk profile as the "solvency target", and any additional margin consistent with relatively stable and predictable rates as the "rate smoothing margin." (Exhibit B-1, p. 4-11)

Together, the sum of the Solvency Target and the additional Rate Smoothing Margin lead to a new Capital Management Target (CMT) ratio.

In ICBC's proposal for the new CMP, ICBC proposes that the current CMT target ratio of 130% become the Solvency Target, that there be an additional Rate Smoothing Margin of 20% MCT to result in a new CMT target ratio of 150%. The 20% Rate Smoothing Margin is proposed in recognition of the Loss Cost Forecast Variances experienced by ICBC over the last two year period.

The proposed transition period to the new CMT is 10 years, compared to the existing CMP remaining transition period of 13 years. ICBC confirmed in examination that the additional cost to reduce the transition period amounts to only $0.50 per average policy holder per year. (T5: 699, 700)

Regarding the CRC, ICBC's proposal is that a threshold of 15% MCT above the new CMT target ratio would meet the "well in excess" requirement and that an additional $25, or approximately 7-8% MCT, would be "cost effective to implement." ICBC states that: "The margin of 15 points over the proposed capital management target is to absorb the equivalent of 1 standard deviation of investment return." (T5: 712) ICBC proposes that a CRC only reduce the CMT back down to 165% MCT so that there would remain a buffer above the new CMT to avoid giving a CRC one year, and requesting a rate increase the next year.

4.3.1 Commission Panel Discussion

The Panel wish to clarify the meaning of the different thresholds or margins as it is important to understand the Panel's decision for the new Basic Capital Management Plan. While the notion of "solvency" appears in the 2013 Government Directive in OIC 153, it does not specify whether solvency means 100% or the 130% "Solvency Target" as proposed by ICBC in this Application. The Panel notes that ICBC has introduced the term "Solvency Target" which is not defined in *Special Direction IC2*.

For the purposes of this proceeding, the Panel continues to consider that 100% MCT ratio is the statutory minimum as per section 3(1)(b) of *Special Direction IC2*. The Panel views that any MCT percentage below 100% MCT would reflect the risk of insolvency for Basic Insurance. However, the Panel disagrees that a MCT level above 100% but below 130% MCT would render ICBC being insolvent. Therefore, the Panel disagrees with ICBC's proposed terminology of 130% as a "Solvency Target". The Panel simply considers that the existing 130% MCT management target is for adverse scenarios, consistent with what *Special Direction IC2* defines as "capital management target" under section (1)(b).

In summary, the Panel notes ICBC's proposal and uses the following framework to determine different components of the new Basic Capital Management Plan as required by *Special Direction IC2*.

	ICBC Proposal	**Commission Terminology**	**Consideration Criteria**
1	100% MCT, Regulatory Minimum	Statutory Minimum	Required by *Special Direction IC2*
2	+30% Margin, Solvency Target	Margin for adverse events	Subject to Commission determination
3	+20% Additional Margin, Rate Smoothing Margin	Any additional margin consistent with relatively stable and predictable rates	
4	150% MCT	Capital Management Target	
5	+15% CRC	"well in excess" of capital management target	
6	7-8% CRC Administration	CRC Administration	

For the purposes of the submissions in evidence, the Decision will keep ICBC's terminology but the Commission Panel will use the re-defined term in its determination.

4.3.2 ICBC Proposed Solvency Target

ICBC's proposed 130% MCT Solvency Target existed in the current CMP as the CMT, and ICBC confirmed that it has worked well and is consistent with past and current DCAT testing to maintain MCT above the minimum 100%. (Exhibit B-1, p. 4-11)

4.3.3 Proposed Additional Rate Smoothing Margin

ICBC's proposed Rate Smoothing Margin is 20% MCT in addition to its 130% MCT ratio level. ICBC submits that the 20% point margin provides enough Basic capital to smooth through more likely Loss Cost Forecast Variance scenarios and at the same time limits the rate impact on customers that will be required to cover the additional capital margin, while a margin less than 20% points would be insufficient to support rate smoothing. (Exhibit B-1, pp. 4-12, 4-13)

ICBC was asked about the reasons identified in its IR response in BCUC IR 2.179.3 for a 20% Rate Smoothing Margin. (T5: 687 to 693) ICBC reiterates that the 20% Rate Smoothing Margin will reflect significant loss cost variances that might occur over two years without pushing MCT into the 130% Solvency Target. In conclusion, ICBC states that:

> "So I would suggest that there's no one right answer and it really has to do with the Commission's preference ultimately on how much available they want for rate smoothing to smooth through these periods of volatility." (T5: 693)

In its Final Submission ICBC stated the following:

> "ICBC first explained that a 20 percentage point margin was appropriate in light of ICBC's past forecast variances. It would have been sufficient to handle some of ICBC's recent variances, but certainly not all circumstances."
>
> The 20 point margin works well for absorbing a significant *single year* loss cost forecast variance. ICBC walked through the details of this calculation in Chapter 4 and provided additional explanation in the responses to BCUC IR 1.66.2 and 1.66.4. Ms. Minogue, ICBC Chief Actuary, also spoke to those IRs at the hearing, and provided a useful shorthand for understanding how Basic capital is affected by a single year variance:
>
>> "So again, let me just start from first principles here. So assuming that you're at the 150 and you experience -- let's just round numbers, a 5 point forecast variance, that'll eat ten points of capital. So now you're down to 140 and now you want to bring that smoothly back into rates and so you might need to use five and then two and a half. So you can see that you need the 20- point margin for that."
>
> She added:
>
>> "It's not surprising to an actuary that when you have a standard deviation around forecast variances of 3.4, and a rate smoothing mechanism that brings it in smoothly over time, that you'll land on about a 20 point margin…" The volatility assumptions that form a basis for the recommendation of 20 percentage points are also supported by the experience in Alberta, another tort jurisdiction.
>>
>> While a significant single year variance can be addressed by ICBC's proposal, 20 points of MCT would not have been adequate to smooth through the recent two-year cumulative loss cost forecast variance." (ICBC Final Submission, p. 62)

4.3.4 Proposed Customer Renewal Credit

ICBC's proposal of an additional 15% MCT plus an additional 7-8% MCT before considering a CRC was also explored at the Oral Hearing, along with the proposal to only return the excess down to 165% MCT rather than down to the new CMT. ICBC was asked if this wasn't double counting of the OIC requirement of "well in excess" and the threshold that a CRC be "cost effective to implement".

ICBC was also asked by Commission Counsel why it wouldn't propose to give policyholders all their money back down to the CMT. Commission Counsel illustrated the following four reasons to ICBC:

- ICBC has stated that its actuarial rate indication is neither optimistic nor conservative, so that the next year's MCT is intended to be unaffected.
- OIC 152 specifies that the Commission must not decrease the existing rate even if costs are estimated to be favourable in the following year.
- If the approved rate increases for Basic Insurance for a given year prove to be inadequate, the OIC allows rates to increase by 1.5% above the previous year's approved rate increase percentage. So if the MCT dropped into the Rate Smoothing Margin there would be rate increases and capital build provisions to move the MCT back up to the CMT.
- The interim CEO states in Exhibit C11-5 that customers': "main concern is how much you pay for your insurance." (T5: 708-709)

ICBC further explains its position on the CRC in its Final Submission as follows:

> "While perhaps not stated this way in the Application, the effect of ICBC's proposal on the CRC is that when Basic capital reaches 173% MCT or more for reasons beyond ICBC's control, all of the capital above 165% MCT will be credited to customers as a CRC." (ICBC Final Submission, pp. 65 to 68)

ICBC went on to reiterate its rationale for its proposed CRC as part of the new CMP proposal which ICBC submits that it is undesirable to "pay out then collect back." (ICBC Final Submission, pp. 65 to 68)

ICBC also proposes that any CRC be repaid to customers on a percentage of premium paid basis rather than a flat rate to all policyholders in a common category. ICBC acknowledges that a flat rate may be administratively more efficient, but that ICBC's proposal is most fair since premiums are collected proportionally, so they should be returned proportionately. (ICBC Final Submission, p. 69)

4.3.5 Intervener Submissions

BCPSO questions the new MCT proposal of 150% MCT and the need to transition to that level in 10 years versus 20 or more years. (BCPSO Final Submission, p. 18) BCPSO submits that ICBC's reliance on an interpretation of *Special Direction IC2* that would see capital targets rise too high and too quickly when there is no requirement as to the specific MCT to be met and the timeframe in which an increased target should be attained. (BCPSO Final Submission, p. 4) BCPSO supports ICBC's proposal of a proportional CRC payout, although BCPSO sees this as a reason to undertake rate design. (BCPSO Final Submission, p. 19)

CDI questions the need for a CMT as high as 150% noting: "that despite periods of volatility, ICBC's MCT to Q3 of 2013 was still a solid 129%." CDI seems to support a 10% Rate Smoothing margin and a transition period of 13 years to reduce the capital maintenance provision in the indicated rate change. (CDI Final Submission pp. 13 to 17)

TREAD argues for a Rate Smoothing margin of 10% for a new CMT of 140% to avoid the, "risk of moving higher than necessary more quickly than necessary." TREAD supports the concept of a 10 year transition, in part due to the small $0.50 impact on average premium to reduce the transition from 20 years. (TREAD Final Submission, p. 15)

With respect to the CRC, TREAD proposes that when Basic capital reaches 170% MCT or more that all capital above 160% be credited back to customers as a CRC. TREAD agrees with ICBC that maintaining an additional buffer above the new MCT is reasonable to avoid unnecessary volatility. TREAD believes that the CRC should generally be based on the proportion of premiums earned, provided it is adjusted so that high risk drivers are not rewarded by receiving a higher CRC, "as they are the least deserving of a credit." (TREAD Final Submission, p. 16)

Mr. Landale argues that the current MCT of 130% should remain as the new MCT level since it provides, "all the features of fiscal management in our growing economy …" He also points out that "Not once has MCT dropped below 100%." (Landale Final Submission, pp. 7 to 11)

4.3.6 Commission Panel Determination

The Panel considered the evidence on record and submissions received. For reasons which follow, the new Basic Capital Management Plan as proposed in the Application is partially approved. The determinations on the specific components of the new Basic Capital Management Plan are described in the sections below.

Margin for Adverse Events

The evidence provided in this hearing, both written and oral, indicates continued support of the 130% MCT target. The Panel is persuaded that ICBC should continue to use the existing capital management target MCT ratio of 130% as the initial level of the MCT ratio, as it seems to continue to reflect ICBC's risk profile in Basic Insurance. The Panel also believes that the 130% MCT ratio would allow ICBC to respond to adverse events that arise from Basic Insurance. **The Panel approves the continuation of the 30% MCT ratio margin for adverse events on top of the 100% statutory minimum MCT ratio level as a component in the new Basic Capital Management Plan.**

Any Additional Margin Consistent with Relatively Stable and Predictable Rates

As indicated in *Special Direction IC2* and in the evidence before the Panel, a rate smoothing margin is needed to assist in providing stable and predictable rates. Future panels are required by *Special Direction IC2* to vary a maximum of ±1.5% from the previous year's rate change. The Panel recognizes the need for a further increase in the MCT ratio to support this directive to smooth out any unfavourable Loss Cost Forecast Variance that may be under recovered.

ICBC has proposed a 20% additional margin in the MCT ratio to 150% to account for the possibility of unfavourable Loss Cost Forecast Variances that might deteriorate the MCT over multiple years. Yet, the Panel recognizes that the present 30% margin for adverse events over the minimum 100% MCT ratio is also there to provide for adverse conditions occurring within any given period of time.

The *Special Direction IC2* requires additional margin to help stabilize and smooth rate increases. This works in conjunction with the directed rate change range of ± 1.5% of the previous year's rate change.

Over the last two years (2012 and 2013), ICBC has experienced higher than average unfavourable Loss Cost Forecast Variances at 5.5% and 6.6% respectively. The 2012 RRA Decision[5] provided coverage for the Lost Cost Forecast Variance over that particular time period. However, *Special Direction IC2* precludes ICBC from including the Lost Cost Forecast Variance in its requested rate increase for PY 2013. ICBC indicated that a one percentage point change in the rate is equal to approximately two percent of MCT. Thus, the PY 2012 Loss Cost Forecast Variance full exclusion in PY 2013 will effectively have an impact of approximately 13% reduction in MCT holding all else equal.

As outlined in earlier sections, the Panel notes that the unfavourable Loss Cost Forecast Variances since the 2012 RRA have been well above the ten year average for the various reasons cited by ICBC. (Figure 4.1, p. 4-6) The Panel recognizes that ICBC will be able to include some or all of the unfavourable PY 2012 Loss Cost Forecast Variance in future RRAs. In addition, rates beyond PY 2013 will be based on the rate established in this Decision ±1.5% maximum variance from the last rate change. Both of these factors may help mitigate the level of additional MCT ratio needed for rate smoothing. Again, as mentioned earlier, the Panel is concerned about high unfavourable Loss Cost Forecast Variances. Notwithstanding Loss Cost Forecast Variances capture unexpected volatility in estimates, the Panel believes that minimizing the Loss Cost Forecast Variance will help achieve stable and predictable rates and maintain Basic Insurance in an adequate financial position.

The Commission Panel is not persuaded by ICBC that it needs a further 20% MCT to provide for relatively stable and predictable rates. **Given the 130% MCT initial target level is there to help absorb some of the adverse conditions potentially faced by ICBC, the Panel finds that the requested 20% MCT additional margin to be excessive and should be reduced to one half of the 30% MCT margin for adverse events over the minimum MCT ratio, or 15%. Therefore, the Panel rejects the requested 20% additional margin and sets a 15% additional margin for relatively stable and predictable rates as a component in the new Basic Capital Management Plan. With the initial 30% MCT ratio margin for adverse events, and an additional 15% MCT ratio margin for relatively stable and predictable rates, the Panel determines that the new Capital Management Target is set at 145% MCT.**

<u>10 Year Transition Period</u>

The Panel considered Intervener submissions regarding the transition period to the new Capital Management Target and finds that the 10 year transition period as described in the Application (Exhibit B-1, p. 4-14) to be an efficient transition to achieve the new CMT ratio. Therefore, **the Panel accepts the ICBC proposed 10 year transition period subject to the 145% MCT new Capital Management Target.**

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[5] In the matter of the Insurance Corporation of British Columbia Revenue Requirements for Compulsory Automobile Insurance for the Policy Year Commencing effective February 1, 2012, Decision, August 16, 2012.

Rate Exclusion Proposal

As per OIC 152, the amended *Special Direction IC2* indicates that for 2014 and each following year for which rates are set the Commission may exclude some or all of that year's Loss Costs Forecast Variance in accordance with the Capital Management Plan. The Panel notes ICBC's proposal to exclude some or all of an unfavourable Loss Cost Forecast Variance when: (i) MCT is greater than 130%; and (ii) the rate change is greater than the rate change floor. (Exhibit B-1, p. 4-15) In the Application, ICBC continues on providing different scenarios and demonstrates how rate exclusions will be implemented. The Panel reviewed the various scenarios and finds the scenario descriptions reasonable and appear to meet the requirements of *Special Direction IC2*. The Panel generally accepts ICBC's approach to exclude some or all of the unfavourable Loss Cost Forecast Variance as described in the Application. However, the Panel also recognizes the uncertain nature of rate indication estimates and therefore subsequent impact on the Loss Cost Forecast Variance. The Panel views that rate exclusions could be applied in a flexible manner, which Commission Panels will consider the full circumstances prevailing at the time when a RRA is reviewed providing that the requirements of *Special Direction IC2* are satisfied.

Proposed Customer Renewal Credit

The revised *Special Direction IC2* also requires a customer renewal credit should ICBC finds itself in a financial position 'well in excess' of its Capital Management Target. ICBC proposes that this should be defined as one standard deviation of the investment volatility or 15% MCT to be added to the new Capital Management Target. The Panel finds that one standard deviation of the investment volatility reasonable to satisfy the 'well in excess' requirement. **Therefore, based on the 145% MCT new Capital Management Target, the Panel finds that a 160% MCT ratio level meets the 'well in excess' capital available requirement for the provision for determining the possibility of a CRC. The Panel approves the requested additional 15% MCT as the threshold of meeting the 'well in excess' capital available requirement for the provision of a CRC as a component of the new Basic Capital Management Plan.**

In its proposal, ICBC has also requested a CRC be distributed only if the amount available for distribution is greater than an average of $25 per policy. The $25 average per policy is equivalent to approximately 7-8% MCT, which ICBC submits would strike a balance between the costs associated with administering the CRC and ensuring the amount is meaningful to the policyholder. The Panel agrees that any refund should be cost effective to implement. However, the Panel disagrees with ICBC's proposal that another 7-8% MCT is necessary, in addition to the 160% MCT threshold level approved in this Decision, before any CRC would be payable. **The Panel finds that the 15% MCT above the new Capital Management Target for the provision of a CRC should include any proposed payout to Basic policyholders. Therefore, the Panel determines that if the MCT ratio equals to or exceeds 160% MCT, ICBC is directed to pay out a CRC such that the MCT level returns to 150% MCT, subject to the condition, as required by *Special Direction IC2*, that approval of the CRC will allow for the maintenance of relatively stable and predictable rates.**

5.0 CLAIMS INITIATIVES

ICBC submits that claims costs are the most significant factor in determining ICBC's Basic Insurance rates, representing 85% of all Basic Insurance costs. Bodily injury claims account for more than 70% of the Basic Insurance claims costs and are growing at a faster rate than other costs. Claims costs are a product of BI frequency and BI severity. Since the recession BI frequency has changed from a downward trend to slightly rising, while BI severity has been rising steadily at about 6%. (Exhibit B-1, pp. 6-1, 6-2)

ICBC is currently in a period of change as it implements various claims costs management strategies to address rising claims cost pressures. These strategies include claims handling initiatives. Throughout the proceeding, Interveners explored areas of fraud detection, accelerating legal representation rate, and Road Safety initiatives.

5.1 Claims Handling Initiatives and Transition Period

ICBC is undergoing a claims handling transformation to address the rising claim costs, particularly rising BI claim costs. The transformation involves a new organizational model, a new claims hierarchy, segmenting claims by type and complexity, expanding the Centralized Claims Injury Centre (CCIC), and a new electronic claims management system and business processes. The new organizational model and claims hierarchy involves a transition away from a geographic/regional model to a functional model in which adjusters are assigned based on claim type rather than location. Through the expansion of the CCIC since 2013, ICBC will handle a larger number of unrepresented claims by telephone. (Exhibit B-1, pp. 6-2 to 6-6)

The cost for the Transformation Program (TP) is funded by Optional insurance, although ICBC anticipates that the benefits will include an estimated $34.5 million per year in claims cost savings for Basic Insurance. (Exhibit B-4, IR 1.1.5 and 1.1.9) The changes began in 2011, when ICBC implemented the new organizational model, and continued in 2013 with the implementation of the new claims hierarchy, and transformation of the claims system. ICBC anticipates that the full transition to the new hierarchy and system will be complete in 2016, which is when most off the cost savings will start to materialize as well. (Exhibit B-4, RL 1.1.9; Exhibit B-8, BCUC 2.198.2) ICBC submits that it believes: "that these initiatives helped reduce the rate of increase in BI severity which, prior to 2005, was rising at about 8% per year but moderated to about 6% per year thereafter." (Exhibit B-8, TREAD 2.18.1)

By way of background of the TP, the Commission provided comments with respect to potential risks to Basic Insurance of the TP in Commission Letter L-61-10, as part of its ongoing review of ICBC's Information Technology programs. In Letter L-61-10, the Commission stated that although the TP is intended to be funded by Optional insurance, the Commission recognizes that there are potential risks for Basic Insurance ratepayers. If the TP delivers sub-optimal business solutions or the technology fails, both the Basic Insurance and Optional insurance lines of business will bear the costs of any consequences.

5.1.1 ICBC Submission

ICBC takes the position that the claims transformation process is necessary and based on industry best practices. ICBC anticipates that the claims transformation will have a positive impact on claims costs, including a decrease in the rate of growth of the BI claims severity trend.

For example, ICBC submits that claims segmentation and the new claims hierarchy allow claim files to be more appropriately aligned with adjuster skill and knowledge, while increasing management's focus and accountability. In 2013 ICBC adjusted payment authorities to align with the new functional model and claims hierarchy. ICBC submits that: "the new authority levels continue to reflect proven skills and abilities, and include default/minimum authority levels and maximum authority levels for each claims adjuster and examiner role." (Exhibit B-1, p. 6-10)

ICBC submits that the expansion of the CCIC is a cost-effective process that improves the overall claim experience for customers. (Exhibit B-1, p. 6-6) ICBC is not concerned that the expansion of the CCIC and a shift towards more telephone claims handling will negatively affect customer satisfaction; rather, ICBC believes that customers will find telephone handling more convenient and responsive, as they will not have to wait as long for appointments. (T5: 729, 733)

ICBC submits that the transition away from a regional model to a functional organizational model will be more efficient for customers as well as ICBC. ICBC states that customers will still have individualized service, and always have the option to attend a local claims office if they wish, and more complex claims requiring more treatments or investigation of the loss will still be dealt with in Regional Claim Centres. (T5:717 to 726)

ICBC anticipates significant claims cost savings once all the changes are fully implemented. However, ICBC does acknowledge that short-term transitional impacts associated with the changes will delay the full realization of the anticipated benefits of the claims transformation program. ICBC submits that the full benefits of the transformation will not be realized until 2016, after the transition period has passed. (Exhibit B-1, p. 6-14)

The short term impacts of the transition may have consequential impact on claims costs, as well as productivity and performance impacts. ICBC indicates that it has instituted mitigation measures to address some of these transitional impacts such as planned overtime, use of temporary workers, use of dedicated settlement desks and greater use of in-house counsel during the transition. (Exhibit B-3-1, BCUC 1.109.1-3)

ICBC further states:

> "… ICBC will continue monitoring performance throughout the implementation of Claims Transformation using existing performance measures." (Exhibit B-3-1, BCUC 1.115.1)

In spite of mitigation measures ICBC anticipates some decline in performance scores during the transition period. (Exhibit B-3-1, BCUC 1.109.1-3) ICBC also submits that it will be difficult to assess the efficacy or impact of the claims handling transformation and initiatives during the transition period. With respect to measuring the impact of the transition period ICBC states:

> "…estimated costs and benefits associated with the Transformation program are at a point in time and are expected to be refreshed periodically in order to account for the latest information." (Exhibit B-3-1, BCUC 1.109.1)

5.1.2 Intervener Submissions

In his Final Submission, Mr. Landale acknowledged that the Commission has no jurisdiction to direct ICBC how to manage claims handling and the claims transformation, and it is therefore out of the scope of this proceeding. However, Mr. Landale expressed his concern with the "lack of any oversight for this new Claims Transformation Program" as well as the costs of the transformation program. (Landale Final Submission, p. 8)

AIC questions whether the increased geographical distance between the claimant and the adjuster as a result of the new functional model will adversely impact service quality and cause conflict (T2:158 to 162)

AIC asked several IRs and cross-examination questions regarding the changes to authority levels for claims adjusters and increased management focus. (Exhibit B-4, AIC 1.3.1-3.6; T2: 167 to 169, 172 to 175) AIC submits that the evidence indicates that adjusters' and managers' settlement authorities have been reducing over several years. (T2: 172 to 174; AIC Final Submission, p. 5) AIC suggests that decreasing settlement authorities and increasing management focus on adjusters may be contributing to the increase in claims costs. (AIC Final Submission, pp. 5, 6) AIC also observes similarities between ICBC's current claims management strategy and the discontinued Low Velocity Impact (LVI) strategy. (AIC Final Submission, p. 6) AIC states:

> "Historically, ICBC's claims management policies have been a driving force behind increased claims costs, representation rates, and corresponding settlement amounts and judgments, as was seen in the recently abandoned low-velocity impact ("LVI") program." (AIC Final Submission, p. 2)

AIC submits that the Commission should review and consider ICBC's policies and steps to internally reduce claims costs. (AIC Final Submission, p. 8)

In response to AIC's submissions, ICBC submits that the evidence does not support AIC's conjecture that the current claims initiatives are similar to the LVI program. ICBC states that the LVI program was fair and effective in its time, that the reductions in authority levels are a logical outcome of the segmentation of claims, and adjusters have the necessary autonomy to negotiate and settle the bulk of their cases within their authority. (ICBC Reply Submission, pp. 10, 11)

In its Final Submission, TREAD submits that it accepts ICBC's re-organization along functional lines and claims segmentation and notes that it expects ICBC to be proactive in anticipating and minimizing any unfavourable transitional impacts, and maximizing the longer-term benefits from the claims cost management initiatives. (TREAD Final Submission, p. 14)

BCPSO asks ICBC what specific business indicators will provide management with feedback on the TP. In response, ICBC points out that the TP is funded by Optional insurance, and therefore the requested information is not relevant to this Application. (Exhibit B-4, BCPSO 1.46.2) In its Final Submission BCPSO does not raise issue with the claims transformation, but with respect to specific aspects as they relate to fraud and the legal representation rate, discussed below.

5.1.3 Commission Panel Discussion

The Panel will discuss ICBC's claims handling initiatives and transition period in the next section.

5.2 Legal Representation Rate

The legal representation rate is increasing, and beginning in 2012, it has been increasing at an accelerated rate. ICBC is experiencing more BI claimants who already begin the claims process with legal representation, or are obtaining legal representation sooner within the process, giving adjusters less opportunity to settle claims earlier. In 2006, the legal representation rate or BI claims was 34%, which increased to 45% by 2012. (Exhibit B-1, BCUC 1.105.1)

ICBC reports that a higher legal representation rate puts upward pressure on BI claims costs. The average costs of litigation for closed BI claims has increased since 2006 for both low-complexity and high complexity claim, and the costs of litigation as a percentage of total BI severity claims costs on closed BI exposures with payments has also increased from 15% in 2006 to 20% in 2012. (Exhibit B-3-1, BCUC 1.104.1 and 1.110.1)

ICBC provides the following tables showing the costs of litigation as components of BI severity and the legal representation rate from 2006 to 2012:

	2006	2007	2008	2009	2010	2011	2012
i. Average BI exposures per BI adjuster	218	209	208	216	224	230	245
ii. Average days to settle - BI only	401	404	404	431	424	432	436
iii. Average days to representation - BI only	231	220	213	203	208	186	196
iv. Litigated Claims - BI only	15,901	16,819	15,981	16,806	17,598	18,053	17,276
v. Number of Claims Involving Lawyers - BI only	21,480	22,505	21,525	22,342	23,669	23,952	26,862
vi. Legal Representation	34%	36%	37%	39%	40%	40%	45%
Lawyers involved from the outset	17%	19%	20%	22%	22%	22%	24%
Lawyers involved part-way through the process	17%	17%	17%	17%	18%	18%	21%

(Exhibit B-3-1, BCUC 1.105.1)

	Components of Bodily Injury (BI) Severity on Closed BI Exposures with Payments																	
	2006		2007		2008		2009		2010		2011		2012	
Future Care[1]	$ 1,497	6%	$ 1,640	6%	$ 1,378	5%	$ 1,463	5%	$ 1,924	6%	$ 2,096	6%	$ 1,961	6%
Damages[2]	$ 18,717	75%	$ 19,951	73%	$ 19,845	72%	$ 20,772	71%	$ 23,092	72%	$ 25,149	72%	$ 23,203	71%
Costs of Litigation[3]	$ 3,743	15%	$ 4,646	17%	$ 5,237	19%	$ 5,851	20%	$ 6,094	19%	$ 6,637	19%	$ 6,536	20%
Other BI Claims Costs	$ 1,000	4%	$ 1,093	4%	$ 1,103	4%	$ 1,170	4%	$ 962	3%	$ 1,047	3%	$ 981	3%
Bodily Injury (BI) Severity	**$ 24,957**	**100%**	**$ 27,330**	**100%**	**$ 27,563**	**100%**	**$ 29,256**	**100%**	**$ 32,072**	**100%**	**$ 34,929**	**100%**	**$ 32,681**	**100%**

[1] Future Care includes Medical and Rehabilitation costs, as well as other care costs, paid under tort.
[2] Damages include payments for past and future wage loss, general and special damages.
[3] Costs of Litigation include legal costs and disbursements (plaintiff and defense), and medical and dental reports.

(Exhibit B-3-1, BCUC 1.104.1)

The average BI severity for unrepresented claims closed in the calendar year is $7,608 compared to $61,598 for represented and litigated claims. However, ICBC notes this is not an "apples to apples comparison" as this amount does not represent the actual net amount of compensation to the claimant. (Exhibit B-4, BCPSO 1.47.1)

Represented claims cost more due to; legal costs, greater use of experts, medical services, and the complexity representation creates for the interaction between parties. (Exhibit B-1, p. 9-8) ICBC estimates that for every one percentage point increase in the representation rate, it translates into a one and a half percent impact on the BI severity trend. (Exhibit B-3, BCUC 1.7.2)

5.2.1 ICBC Submission

ICBC is the only Crown provider of Basic insurance operating in a province with a full tort system where injured parties have the right to seek representation as well as the right to seek redress through the legal process. Therefore, ICBC submits that it is difficult to make reasonable comparisons of the legal representation rate to that of other provinces, and that there is no upper bound for the percent of claimants that may become represented. (Exhibit B-8, BCPSO 2.9.1 and 2.9.2)

ICBC maintains that the causes for the acceleration of legal representation are complex, as there are a variety of factors that influence someone to seek legal representation. These factors may include the adversarial nature of the tort system, advertising by law firms, public perception of ICBC, language barriers for customers, the complexity of their medical or legal issues, or the amount involved in the claim. (Exhibit B-1, p. 9-8)

ICBC submits that it can only control or influence some of the many factors that influence a claimant's decision to obtain legal representation. Some of the factors are external to ICBC, and therefore outside of its control. ICBC submits that it has control over such factors as operational factors such as organizational structure and staffing, claims handling practices, and communication with customers and claimants. ICBC submits that through these operational factors ICBC has an ability to influence the customer experience. (Exhibit B-3-1, BCUC 1.154.4)

ICBC submits that it is taking steps to understand and respond to the accelerating legal representation rate in BC. ICBC states that it is: "currently investigating the factors underlying this trend and therefore believes it is too early to say whether this is a permanent and significant cost shift." (Exhibit B-8, BCPSO 2.7.1) ICBC anticipates that some aspects of the claims handling initiatives discussed in Chapter 6 of the Application, such as the expansion of the CCIC, will help slow the legal representation rate, as well as the costs associated with represented claims, although ICBC submits that it cannot confirm a direct correlation between claims handling initiatives and the legal representation rate. (Exhibit B-3-1, BCUC 1.111.2; Exhibit B-8, BCUC 2.201.1-5, BCPSO 2.7.1)

In addition to the claims handling transformation, ICBC submits that it is conducting a claimant attitude survey of a large sample of ICBC policyholders to develop a deeper understanding of its customers' perceptions and attitudes that may influence them to become legally represented. (Exhibit B-3-1, BCUC 1.154.2) Among other things, the survey will test the assumption that advertising messages by law firms that imply higher payouts influence customers decisions to seek representation. (Exhibit B-3-1, BCUC 1.105.4) ICBC submits that it will determine further customer relations strategies based on the survey results. (Exhibit B-8, BCUC 2.197.1)

5.2.2 Intervener Submissions

AIC submits that legal representation in BI litigation is important for fair, just and reasonable compensation. (AIC Final Submission, pp. 10, 11) AIC asks questions regarding how ICBC's settlement offers compared before and after a BI claimant obtained legal representation, although ICBC declined to provide this information due to privacy reasons. (Exhibit B-4, AIC 1.2.2; AIC Final Submission, p. 9) AIC submits that if adjusters are not making fair, just and reasonable offers of settlement to people who have been injured that could be a factor that is driving legal representation rates. (T2: 222; AIC Final Submission, p. 6)

In its cross-examination AIC questioned ICBC as to the reduction in cases settled after mediation and the increase in BI cases that went to trial between 2011 and 2012. (T2: 166, 167) AIC submits that ICBC has not provided sufficient information on what it can do to avoid increasing litigation costs. AIC states: "one may question whether ICBC is making reasonable efforts to resolve claims prior to trial, through the use of mediation or other ADR strategies." (AIC Final Submission, p. 9) AIC submits that: "despite lower litigation costs for settled claims, the number of claims settled in the year after mediation dropped dramatically from 2011 to 2012 (3539 to 2733) while the number of exposures settled through trial rose dramatically (165 to 303)." (AIC Final Submission, p. 9) AIC therefore submits that ICBC may need to effectively utilize alternative dispute resolution and mediation strategies to reduce the costs incurred by going to trial. (AIC Final Submission, p. 9)

In its response to AIC, ICBC states that mediation, as well as other less costly resolution strategies are used by ICBC, and that the number of trials is very small in proportion to total claims. (ICBC Reply Submission, pp. 12, 13) ICBC submits:

> "the total number of claims resolved by trial in any given year represented less than 1% of closed BI files in a year….ICBC settles over 99% of its BI claims through negotiated settlement, without going to trial." (Exhibit B-3-1, BCUC 1.105.3)

ICBC also points out that it has a legal duty to defend its policyholders, and therefore cannot always pay the claimant the entirety of what they ask for. (ICBC Reply Submission, p. 14)

BCPSO asks several questions of ICBC regarding its initiatives to reduce costs associated with BI claims, as well as to whether the legal representation rates may have risen due to the way the corporation has handled claimants in the past (i.e. customer satisfaction). In response, ICBC maintains that: "the reason for choosing legal representation are not limited to service satisfaction and a customer who has opted for legal representation for the purposes of their bodily injury claim could be satisfied or dissatisfied." (Exhibit B-8, BCPSO 2.10.2) In its Final Submission BCPSO takes issue with the fact that ICBC says customer expectation is probably not a factor of the rising legal representation rate while also finding it reasonable to assume that the effects of the claims handling changes will influence the rate of legal representation. (BCPSO Final Submission, p. 10) In its reply ICBC clarifies that it does acknowledge that customer experience is a factor in seeking legal representation, but emphasises that it is not the only factor. (Exhibit B-4, BCPSO 1.20.1; ICBC Reply Submission, p. 15)

In IRs and cross examination BCPSO questions the value of the Customer Satisfaction Surveys, which provide information on BI claimants' recent experience with ICBC, since it only includes claimants that are not legally represented. (Exhibit B-8, BCPSO 2.10.2-3) ICBC explains that for legal reasons ICBC is not allowed to contact represented claimants about their recent claims experience. ICBC distinguishes the Customer Satisfaction survey from the currently ongoing Claimant Attitudes Survey, which is designed to measure customers' general impressions and attitudes that may lead them to become represented, and may include policyholders who have never filed a claim. (Exhibit B-8, BCPSO 2.10.4) BCPSO submits that ICBC should be required to report on the results of its Claimant Attitudes Survey and investigation into the causes of the accelerating legal representation rate. (BCPSO Final Submission, p. 10)

BCPSO submits that ICBC should focus on raising the public's perception of a positive customer experience through the CCIC in order to influence the legal representation rate downwards.

Like BCPSO, TREAD also questions whether the increase in the legal representation rate may be a result of ICBC's own actions or omissions. (Exhibit B-4, TREAD 1.5.1 and 1.5.2) TREAD submits that ICBC should focus should on identifying aspects of its own practices and processes that may be contributing to the accelerating legal representation rate. (TREAD Final Submission, p. 14)

Like AIC, Mr. Adair also questioned ICBC as to whether reduced authority levels and increased management and committee involvement in the claim settlement process might also contribute to growth in legal representation rates. ICBC submits that even when a claim exceeds an adjusters' authority level, the adjuster still provides analysis and a recommendation and remains an active participant in the decision process. ICBC maintains that management oversight provides support to adjusters and will have a favourable effect on the legal representation rate. (Exhibit B-8, GA 2.4)

5.2.3 Commission Panel Discussion

The Panel discusses both claims handling initiatives in the transition period and the growing legal representation rate in this section.

The Panel recognizes that ICBC is undergoing significant organizational changes especially in the claims area. The Panel understands that any time change occurs within an organization, especially a major shift in how a particular area operates, the transitional period can have a consequential impact on costs, as well as productivity and performance impacts. At the same time, the evidence shows that the increasing legal representation rate puts upward pressure on claims costs, and claimants are seeking legal representation earlier on within the process. Legal representation rates have increased at an accelerated rate since 2012. The Panel understands that ICBC has a varying degree of control over a claimant's decision to obtain legal representation.

The Panel is concerned about the elements that may have an adverse effect on claims costs. As ICBC is going through a transitional period, and with legal representation rate accelerating, it is important that ICBC design a robust claims cost management process so that ICBC meets the expectations of its customers as well as its duty to make fair and reasonable settlements.

The Panel encourages ICBC to establish performance metrics specifically for the transition period so as to measure how well the transition is progressing and that the anticipated benefits are on track. For instance, further to the CCIC expansion in 2013 to handle a larger number of unrepresented claims by telephone, ICBC can assess whether the expansion provides added value to customers and ICBC. Such assessment should include efficiency, productivity, and customer satisfaction, and to the extent that it relates to claims costs. **The Panel requests ICBC include performance metrics of claims initiatives that are informative to reflect the transition period starting in the next RRA until the TP is fully implemented.**

With respect to the legal representation rate, although the Panel recognizes that mandatory auto insurance differs across Canada, it encourages ICBC to seek out the experiences in other Canadian jurisdictions. For example, it would be informative to understand if other Canadian jurisdictions are experiencing similar acceleration in legal representation rate observed in BC. The Panel is concerned that if the level of legal representation continues to accelerate in future years, that would have the impact of further upward pressure on future claims costs.

ICBC also indicated it is currently conducting a comprehensive claimant attitude survey and expects to have the analysis in mid-2014. **The Panel requests ICBC to file the results of the claimant attitude survey in the next RRA including: methodology, sample size, sample representation, and the survey questions themselves. ICBC is also requested to provide any action plans including any metrics used to measure the effectiveness of claims management changes and measurable outcomes resulting from the survey in the next RRA or when available.**

5.3 Fraud Prevention

Although it is difficult to accurately calculate the extent fraudulent activities affect BI claim costs, ICBC estimates 10 to 15% of insurance claims contain an element of fraud or exaggeration, which is consistent with industry estimates. (Exhibit B-3-1, BCUC 1.111.3)

5.3.1 How fraud has an impact on loss costs in the proceeding

ICBC states that it: "must balance the need to combat fraud and exaggerated claims while improving customer experience and working to reduce representation rates to control overall claims costs." (Exhibit B-8, BCUC 2.195.2)

ICBC submits that it: "is currently working to understand the indicators of fraud so that the system can be designed around that information." (ICBC Final Submission, p. 53)

ICBC assigns resources to support the prevention and detection of fraud as a means of managing claims costs. (Exhibit B-8, BCUC 2.195.3) For example, the probative value of information on various social networking and internet forums led ICBC to increase its cyber investigations through the Intelligence and Cyber Unit, which became a permanent unit in 2011. (Exhibit B-3-1, BCUC 1.111.3; Exhibit B-8, BCUC 1.195.4)

However, ICBC has not quantified the dollar amount associated with fraudulent or exaggerated claims and therefore cannot calculate the return on its investment in fraud detection and prevention. ICBC submits that the nature of fraud perpetrators is to avoid detection and therefore the extent of fraud and ICBC's success in detecting or deterring fraud cannot be accurately quantified. (Exhibit B-8, BCUC 2.195.6; ICBC Reply Submission, pp. 17, 18) ICBC further submits:

> "ICBC's existing claims systems are not able to accurately quantify the benefit of increased efforts to deal with fraudulent claims and the net benefit to claims cost savings." (Exhibit B-8, BCUC 2.195.6.1)

ICBC states:

> "As means to assess the SIU's effectiveness, ICBC uses indicators such as number of referrals, investigations with actionable results, criminal charges laid, as well as feedback from adjusting staff. Although ICBC is unable to accurately quantify the claims cost benefits, ICBC believes that the SIU resources are successfully supporting the business priority of managing claims costs." (Exhibit B-8, BCUC 2.195.3)

According to ICBC the new claims system, however, will provide better data in the future. ICBC states:

> "Capabilities delivered by Claims Transformation and specifically the new claims system will enhance ICBC's ability to mitigate the risk of fraudulent claims by improving data collection quality and integrity, ensuring the consistent application of best practices and file handling protocols, and increasing the focus on claims risk." (Exhibit B-8, BCUC 2.195.6; BCPSO 2.6.1)

5.3.2 Intervener Submissions

BCPSO asks questions about quantifying the impacts of fraud on loss costs, ICBC's return on fraud investigation expenditures, and how ICBC determines the correct allocation of resources to devote to fraud detection, investigation, and prevention. (Exhibit B-8, BCPSO 2.6.4, 2.6.5)

BCPSO expresses concern with regards to ICBC's inability to estimate the cost of fraud, which ICBC admits could be a substantial driver of loss costs. BCPSO submits: "Without an estimate of the cost of fraud, it is not clear how ICBC determines the appropriate expenditure on resources for detecting, investigating, and combating fraud, and the performance of the personnel and materials devoted to that pursuit." (BCPSO Final Submission, p. 7)

Since ICBC estimates 10 to 15% of insurance claims contain an element of fraud or exaggeration, BCPSO asks ICBC whether this means that 10-15% of loss costs could be fraudulent; however ICBC could not answer this question. BCPSO is concerned with the impact of fraud on the rate indication. (T2: 287, 288; BCPSO Final Submission, pp. 6, 7)

Finally, BCPSO is of the view that customers would like to see statistics showing ICBC's successes at detecting fraud, as it would offset irritation over rate increases as a result of increased resources in this area. BCPSO states that it: "would support the Commission requiring ICBC to routinely report these results." (BCPSO Final Submission, p. 9)

In response to BCPSO, ICBC states that: "the information obtained does not allow for a meaningful quantification of the return on investment of fraud investigation expenditures" but maintains that it has a desire to control fraud, whether it can precisely estimate the cost-benefit of fraud investigation or not. (Exhibit B-8, BCPSO 2.6.5; ICBC Reply Submission, pp. 17, 18)

TREAD submits that it actively supports ICBC's continuing efforts in this regard provided that the costs and resources expended are appropriate to the perceived scale of the fraud. (TREAD Final Submission, p. 14)

5.3.3 Commission Panel Discussion

The Panel agrees that fraud prevention is one of the factors that influences claims costs. ICBC has made greater investment in fraud prevention strategies and the Panel notes that the total number of BI investigations undertaken increased in 2012. Most of the BI investigation increases were driven by the Intelligence and Cyber Unit from 782 in 2011 to 1,690 in 2012. (Exhibit B-3-1, BCUC 1.111.3)

While the Panel recognizes that it is difficult to accurately quantify the claims cost benefits, the Panel notes that capabilities in the new claims system will improve ICBC's ability in data collection. The Panel encourages ICBC to consider using the new claims system to collect data that would assist ICBC in calculating the cost of fraudulent claims and ICBC's return on investment in specific areas of fraud investigation in order to inform how to prioritize fraud investigation resources and how it benefits claims costs in the future.

The Panel requests ICBC, starting in the 2014 RRA, to include information on fraud investigation efforts such as the number of investigations undertaken by operational units. ICBC is also requested to provide an update, as the new claims system becomes functional, on how the new claims system informs ICBC's prioritization on fraud investigation resources and how it may inform the Corporation about the level of claims costs savings in future RRAs.

5.4 Road Safety

ICBC invests in Road Safety programs as part of its approach to managing bodily injury claims costs. (Exhibit B-1, pp. 6-1 and 6-15) ICBC submits that fewer and less severe traffic-related deaths, injuries, and crashes contribute to lower claims costs through lower BI severity. (Exhibit B-3-1, BCUC 1.116.4)

In 2012 ICBC's total Road Safety expenses were $46,456,000, which was $1.1 million less than planned. (Exhibit B-3-1, BCUC 1.116.2, Attachment A, p. 38) ICBC submits that it plans to invest a total of $45,086,000 in Road Safety programs in 2013, which is $1.4 million less than the 2012 actual costs. (Exhibit B-3-1, BCUC 1.116.2, Attachment B)

5.4.1 ICBC Submission

ICBC recognises that its Road Safety programs directly and indirectly impact claims costs. Ms. Minogue, in her testimony, states:

> "…we definitely care about whether our costs are increasing at rates that are unacceptable to our customers. And that's why we undertake road safety initiatives and claims initiatives, in order to try to control our costs and mitigate, when we see cost pressures." (T3: 383)

ICBC submits that it focuses its investments on those Road Safety programs where there is either an expected return on investment or a link to enforceable consequences. (Exhibit B-1, p. 6-15)

ICBC's Road Safety department targets all aspects of the driving environment, from vehicles and roads to road users (drivers) themselves. (Exhibit B-3-1, BCUC 1.116.2, Attachment A, p. 3) ICBC submits that: "accident analysis studies over the past several decades consistently show that most crashes are caused by human factors." (Exhibit B-4, IBC 1.14.2) ICBC is refocusing its Road Safety department on issues related to BI frequency and to better understand distracted driving and driving behaviour in order to reduce claims costs. (ICBC Final Submission, p. 49)

ICBC submits that it has reallocated funds within the Road Safety program towards initiatives specifically targeted at distracted driving, including initiatives to reduce the use of personal electronic devices (PEDs). (ICBC Final Submission, p. 50)

ICBC submits that: "there is a consistent and growing body of evidence to support ICBC's view that distracted driving due to the use of personal electronic devices in general, and the use of smartphones in particular, is a problem affecting Road Safety throughout North America, including BC." (Exhibit B-4, TREAD 1.9.1) ICBC acknowledges that more data on PED use would be useful for assessing liability when processing claims, but submits that technological and legal limits on the extent ICBC's Claims Division can gather such data does limit such activity. (ICBC Final Submission, p. 50)

ICBC currently has a compliance filing with the Commission on Road Safety in September each year; whereas, going forward, ICBC must file its RRA on August 31st of each year. ICBC proposes to meet with Commission staff to review the current reporting process and determine the most appropriate way to review the annual Road Safety report within the revenue requirements proceeding. (Exhibit B-3-1, BCUC 1.116.3)

5.4.2 Intervener Submissions

CDI questions what data sources ICBC has to support that smartphone use is putting increasing pressure on BI frequency. ICBC submits that the combination of increasing market penetration of smartphones, the greater risks posed to drivers by smartphones as compares to traditional cell phone, and survey responses indicating smartphone use while driving supports the "logical conclusion that smartphone use is putting upward pressure on frequency" and, therefore, claims costs. (Exhibit B-4, CDI 1.4.1)

CDI also questions ICBC on how it determines if drivers in an accident were using smartphones. ICBC provides CDI with the same response as BCPSO, which is that ICBC cannot access customer phone records without a court order, which ICBC will request when there are reasonable grounds and is relevant to determining liability. (Exhibit B-4, CDI 1.5.2)

IBC recognizes that Road Safety can reduce future claims costs, but raises concerns about the proper allocation of resources without reliable and measurable data. (IBC Final Submission, p. 7) IBC submits: "Road Safety expenditures, particularly those funded 100% by Basic should be effective." (IBC Final Submission, p. 9) The Traffic Accident System (TAS) is currently the only source of observational information in BC regarding factors that contribute to a crash. ICBC submits that following changes in 2008 to the *Motor Vehicle Act* there has been a decline in the

number of injury crash reports in the database, such that TAS cannot be used to track changes in the types of crashes over time. (Exhibit B-4, IBC 1.19.2-Attachment A, p. 4) IBC is concerned about the loss of TAS data, and suggests that ICBC needs to collect actual data regarding driving behaviours such as the use of seatbelts or PEDs. (IBC Final Submission, p. 9)

In response to IBC's concerns, ICBC refers to its Measurement and Evaluation framework to collect quality data and the limitations associated with collecting various forms of data. ICBC submits that it has developed the framework in an attempt to overcome the challenges of evaluating its Road Safety programs as accurately as possible, and remains committed to exploring the possibilities of developing reliable data through the continued refinement of this framework. (ICBC Reply Submission, p. 16)

IBC also stipulates that all tactics and sub-components of a Road Safety program, not just the overall program, should have measurable outcomes or be linked to enforceable consequences. IBC identifies the Vancouver International Auto Show and Summer Activations as programs that do not have measurable consequences, and characterizes them as "branding exercises". (IBC Final Submission, p. 10)

ICBC replies that IBC's position on programs versus tactics is an issue of which education and awareness tactics qualify as a Road Safety program, which under *Special Direction IC2* are allocated to Basic Insurance. ICBC submits that IBC would prefer that more costs be allocated to Optional. However, ICBC maintains that although education and awareness tactics cannot themselves have enforceable consequences, they raise awareness about a program that does support enforceable outcomes and therefore falls within the definition of Road Safety previously approved by the Commission. (ICBC Reply Submission, p. 23)

BCPSO asks ICBC whether it investigates cell phone records to determine if cell phone use was a cause of a crash. Like IBC, BCPSO encourages ICBC to collect data on distracted driving, both through the courts to compel records of PED use wherever possible, as well as through its new claims system. (BCPSO Final Submission, pp. 11, 12)

ICBC responds that it has no authority to access cell phone records without a court order. ICBC submits that it does seek court orders for this purpose when it is relevant and material to the claim. (Exhibit B-4, BCPSO 1.9.1; ICBC Reply Submission, p. 16)

TREAD questions ICBC's statement that a growing awareness of the dangers of texting while driving and corresponding enforcement initiatives will lessen the near-term impact of the mass adoption of smartphones, and contribute to BI frequency resuming a downward trend. ICBC submits that it does believe awareness will ultimately affect driver behaviour and ease the upward pressure on BI frequency, but that this impact will be gradual. (Exhibit B-4, TREAD 1.2.1)

Like other Interveners, TREAD also questions whether ICBC has sought to obtain cellphone use data from network carriers, to which ICBC responds that this data is unattainable due to privacy laws. (Exhibit B-4, TREAD 1.8.1 to 1.8.7; Exhibit B-8, TREAD 2.10.1 to 2.11.1)

TREAD submits that it is supportive of ICBC's Road Safety initiatives and efforts to develop a distracted driving strategy. (TREAD Final Submission, p. 14)

5.4.3 Commission Panel Discussion

The Panel notes Intervener submissions relating to ICBC's Road Safety programs include an interest in focusing more on distracted driving. As an example of distracted driving, ICBC alluded to the mass adoption of smartphones to explain the observed flattening BI frequency trend. The Panel notes that ICBC invested $503,000 on the driver distractions awareness campaign in 2012. Regarding data collection, the Panel also recognizes that ICBC cannot access customer phone records unless certain conditions are met. Considering Interveners' submissions and the potential impact of distracted driving on claims costs, the Panel finds that including an update in the next RRA on ICBC's efforts to mitigate the risk of distracted driving would be useful.

Road safety expenditures are required to be paid for by the Basic Insurance line of business as per *Special Direction IC2*. The Panel continues to view that Road Safety programs benefit both the Basic and Optional insurance businesses. Consistent with past Commission Decisions, the Panel continues to consider that Road Safety filings should contain "clear funding tests, targeted programs to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation carried out in a manner appropriate to the program."[6]

The Panel accepts ICBC's proposal to work with Commission staff to review the current reporting process to potentially review Road Safety programs within the revenue requirements proceeding. In the next RRA, ICBC should submit a plan to provide an efficient review of Road Safety matters going forward and the scope of such review process.

6.0 PERFORMANCE MEASURES

ICBC's performance measures are grouped into the following general areas: Service, Financial Efficiency and Directional. In the Application, ICBC provides the 2012 actual and 2013 forecast for the performance measures as agreed to in the May 2004 Negotiated Settlement Agreement and modified in the July 2006 Commission Decision. Because ICBC operates as an integrated business, most performance measures presented in the Application are related to both Basic and Optional insurance. (Exhibit B-1, p. 9-1)

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[6] In the matter of Insurance Corporation of British Columbia
2007 Revenue Requirements Application Decision, January 9, 2008, p. 53

ICBC does not report all its performance measures to the Commission, only those that ICBC refers to as BCUC Performance Measures. In addition to the BCUC Performance Measures, ICBC has corporate performance measures that are reported in its Annual Report and Service Plan (Annual Report Performance Measures). There appears to be overlap in the use of some BCUC Performance Measures to inform the strategic and management decision for both Basic and Optional insurance. Some performance measures are gathered exclusively for the Commission. (Exhibit B-3-1, BCUC IR 1.143.5)

Figure 9.1 lists the BCUC Performance Measures reported to the Commission. ICBC shows, for comparative purposes, the actual results for the years 2010, 2011 and 2012 as well as the 2013 forecast. (Exhibit B-1, p. 9-2) ICBC does not set targets for its Directional indicators, which include New Driver Comparative Crash Rate, Crash Rate, and Injured Person Rate. It considers these as indicators of effectiveness of Road Safety programs and not as measures. (Exhibit B-1, p. 9-17)

Explanations for variances in Financial and Efficiency measures are largely addressed in earlier sections of this Decision, particularly related to the higher injury severity, investment returns, and operational costs. Legal representation rate is under the Service measure.

Parties in the proceeding explored items related to actual performance measure results as well as their appropriateness as measures for the operation and management of the Basic Insurance. The review process led to the following two issues, which will be addressed in the remainder of this section:

1. The appropriate timing for a comprehensive review of performance measures; and
2. Whether any of the existing performance measures should be modified, deleted or added at this time.

6.1.1 ICBC Submission

ICBC states that it would not be in a position to file a review of performance measures until late 2016 and the timing may align with a 2017 RRA. ICBC explains this is due to the ongoing implementation of the Claims Transformation and the implementation of a "new modern and flexible administration system." (Exhibit B-8, BCUC IR 2.224.1) ICBC confirms that it would be prepared to commit to a filing to review performance measures as part of the 2017 RRA. (T7: 1148)

In supporting this position, Ms. Prior, ICBC Chief Financial Officer, in her testimony, states:

> "Yes, there's a number of changes that we're doing organizationally. It's not just the systems but it's also the way that we're going to be servicing the policies and the customers. So it drives changes in our processes and we think we need to kind of let those settle in because that's where the performance will be driven from. To do it in between as we're going through that transition didn't seem to make sense to us." (T7: 1148)

With respect to whether any of the existing performance measures should be modified, deleted or added, ICBC states that it does not consider that the performance measures should be modified or added at this time. (Exhibit B-3-1, BCUC IR 1.143.2) However, at the Oral Hearing, ICBC agreed that the financial measure of BI frequency would be added to the existing performance measures. (T7: 1153, ICBC Final Submission, p. 54)

In the Service measure area under New Claims Initiation, ICBC noted that it had made a business decision in 2006 to no longer forecast the 210 and 120 second calls response measures as ICBC was dedicated to the improved target of 80% of calls answered in 100 seconds. (Exhibit B-1, p. 9-6) Ms. Prior confirmed that the 120 and 210 measures could be deleted since they don't track them corporately and is strictly for the purposes of the Commission. (T7: 1149)

The New Claims Initiation Service measure had declined in 2012. ICBC notes that the 2012 New Claims Initiation measure was adversely impacted by factors such as the transition phase to the new call centre technology in 2012, and bargaining unit job action that spanned several months in 2012. (Exhibit B-1, p. 9-6; T7: 1152)

In other Performance Measure areas, ICBC also suggests that other measures could be deleted, such as Customer Approval Index, the differentiation between below and above $40,000 BI severity, and New Driver Comparative Crash Rate. (T7: 1150 to 1151) ICBC states that: "The witnesses identified some of the outdated measures, and explained why it no longer makes sense to report on them. It is inefficient to require ICBC to continue, pending a comprehensive review, to report on matters when it is already self-evident that they no longer have relevance to the way in which ICBC does business." (ICBC Final Submission, p. 54)

6.1.2 Intervener Submissions

BCPSO suggests that some of the Performance measures should be adjusted prior to a full review in 2017. It notes the addition of the BI Frequency statistic as an example. However, BCPSO states that: "we are not convinced that performance measures should be removed prior to a comprehensive review." (BCPSO Final Submission, p. 19)

BCPSO recommends review of the Claims Services Satisfaction indicator since that indicator excludes those customers who have opted for legal representation. The concern is that as more customers opt for legal representation, the Claims Services Satisfaction indicator may give skewed results. ICBC replies that BCPSO's calculations are in error and that the claims satisfaction rate includes claimants with all types of claims, and BI claims are only a small minority of the survey. (ICBC Reply Submission, p. 15)

TREAD supports a comprehensive review of performance measures after the completion of the Transformation Program. (TREAD Final Submission, p. 14)

6.2 Commission Panel Determination

The Panel considered the two issues relating to the timing of a comprehensive performance measures review and whether any of the existing performance measures should be modified, deleted or added at this time.

The Panel agrees that it would be practical to have a comprehensive performance measures review in 2017 after transformation. While the Panel is persuaded that ICBC cannot adequately consider the full suite of performance measures due to current transition period, the Panel finds it difficult not be able to sufficiently evaluate whether or not the Transformation Program shows anticipated improvements in the corporate performance of ICBC in relation to Basic Insurance. Consistent with the Commission's discussion in section 5.2.3 above, to the extent possible, **the Panel requests that ICBC include separate interim reporting on any new performance measures that are reflective of the impact of the operational changes. The Panel also anticipates that ICBC will include a full review of the performance measures as a part of the 2017 RRA**.

With respect to whether or not any of the existing performance measures should be modified, deleted, or added at this time, the Panel is persuaded that there are merits to some adjustments of the existing performance measures at this time. Although New Claims Initiation performance was adversely impacted by certain events in 2012, the Panel notes that ICBC will implement strategies to improve customer experience. **In light of administrative efficiency and to adapt to operational changes, the Panel is convinced that it would be reasonable to remove the New Claims Initiative calls answered in 120 and 210 seconds and retain the performance measure of calls answered within 100 seconds.**

The Panel notes that there are other performance measures that could be added or removed. The Panel considers that the addition of BI frequency to the existing suite of performance measures is useful as BI frequency materially influences claims costs. Until a comprehensive review of the performance measures can be completed, the Panel finds no compelling reason to remove any other existing performance measures including the Customer Approval Index, the differentiation between below and above $40,000 BI severity, and the New Driver Comparative Crash Rate.

7.0 OTHER MATTERS

7.1 Rate Design

Several Interveners expressed interest in a rate design review process in the proceeding. BCPSO and TREAD request that the Commission direct ICBC to file a Rate Design Application within the next 12 months. (BCPSO Final Submission, pp. 19 to 21; TREAD Final Submission, pp. 17 to 19) PI indicates that the rate design should be a component in the revenue requirements process. (PI Final Submission, pp. 2, 3)

At the Oral Hearing, Ms. Prior explained why rate design was put on hold and why it makes more sense to undertake rate design after 2015. (T7: 1102 to 1103) ICBC submits that the priority is to move ahead with its new system and it wouldn't be in a position until post 2015 to file a Rate Design Application, as the new system is expected to be complete around the end of 2015.

7.1.1 Commission Panel Determination

During the oral hearing, several interveners raised issues that normally fall under the subject matter of rate design. Although not a part of this hearing, the Panel is aware a possible Rate Design Application may be warranted in the near future. **The Panel requests ICBC provide an update of its plans around a Rate Design Application as part of its 2015 Revenue Requirements Application or by way of a separate filing no later than December 31, 2015.**

7.2 Customer Communication

TREAD is the only Intervener who raised the issue that ICBC's customer communication is deficient. TREAD explored the matter at the Oral Hearing extensively and further addressed the matter in its Final Submission. (TREAD Final Submission, p. 6)

ICBC submits that it understands the importance of good customer communications, and submits that it has taken appropriate steps to raise awareness about this Application and its implications for policyholders. ICBC provided four points in response to TREAD's concerns. (ICBC Reply Submission, pp. 25 to 27)

7.2.1 Commission Panel Determination

The Panel notes that the Intervener raised the issue of customer communications. The Panel believes ICBC noted these concerns and will deal with all aspects of customer communications in an appropriate manner.

7.3 Future Process

OIC 152/13 requires that beginning in 2014 ICBC is to apply annually for a general rate change Order by May 31 of the year of the application for rates effective August 1 of that year. The annual dates are now changed to August 31 for filing with rates effective November 1 of that year, as per OIC 056, dated February 18, 2014.

In its IR response, ICBC states that: "The Commission should consider a process akin to the Streamlined Revenue Requirement Application (SRRA) process … Since the range of outcomes is limited, incurring the cost associated with a full regulatory process may not be warranted." (Exhibit B-3, BCUC 1.4.1)

ICBC provides a preliminary draft regulatory timetable similar to an SRRA held in 2010. ICBC notes that interim rates may be required. (Exhibit B-8, BCUC 2.158.1) At the Oral Hearing, possible scenarios were explored to consider future processes, including:

- Early notification of potential interveners in advance of the proposed informal workshop;
- Commission Panel participation in all or part of the workshop;
- Early publication of the Notice of Hearing prior to filing the Application;
- Interim rates;
- Consultation with interveners on a review schedule.

ICBC expressed general support for the measures that could provide efficiencies, except for some reservation regarding the Commission Panel attending the entire workshop. The concern is that the question and answer session may resemble a cross-examination to some extent. There seems to be agreement that having the Panel attend the ICBC presentation but leave before the question and answer session would likely work best. (T7: 1158 to 1160)

7.3.1 Intervener Submissions

BCPSO is opposed to a written streamlined review process and suggests that, at a minimum, a full written hearing process should occur. (BCPSO Final Submission, p. 20)

IBC would appreciate some direction from the Commission regarding future RRAs and an opportunity to provide input regarding the appropriate process for future applications. (IBC Final Submission, p. 10)

7.3.2 Commission Panel Discussion

The Panel recognizes ICBC and Interveners' desire to be informed of the next revenue requirements process. However, this Panel considers that the future Panel should have full abilities to establish the appropriate regulatory process at the time of the filing. As the amended *Special Direction IC2* introduced new elements to the regulatory framework of Basic Insurance and with the new Basic Capital Management Plan established in this Decision, the Panel defers the process determination of the next application to the next review Panel.

Regarding the suggestion raised during the hearing of future Commission Panels attending the workshop portion of an application, the Panel is of the view that this might prejudice any forthright discussions during the workshop and believes it prudent that future Commission Panels should not attend the workshop sessions.

8.0 SUMMARY OF DIRECTIVES

This Summary is provided for the convenience of readers. In the event of any difference between the Directions in this Summary and those in the body of the Decision, the wording in the Decision shall prevail.

	Directive	Page
1.	**The Commission Panel accepts the actuarial analysis prepared by ICBC in support of its Application of the requested 11.5% rate increase to cover Basic costs. As required by *Special Direction IC2*, the Panel excludes the full 6.6% Loss Cost Forecast Variance from Policy Year 2012 to set Basic Insurance rates for Policy Year 2013. Apart from the non-actuarial adjustments in other sections of the Decision, the Panel accepts the analysis that results in the 4.9% Basic Insurance rate increase for the Policy Year 2013.**	i
2.	**The Commission Panel rejects the 3.8% risk-free rate in favour of the multi-dealer survey based 3.1% risk-free rate to calculate the New Money Rate and the Yield on Basic Equity.**	i
3.	**The resulting impact of this determination is an additional 0.5% rate increase to the requested 4.9% Basic Insurance rate change.**	ii
4.	**With reference to the $4 million General Provision in Operating Expenses, the Commission Panel directs ICBC to exclude the Basic Insurance portion of the $4 million general provision from the 2013 forecast operating expenses for the Policy Year 2013 rate indication and accordingly reduce the Policy Year 2013 indicated rate change by 0.1%.**	ii
5.	**To ensure the proper allocation of costs between ICBC's Basic Insurance, Optional insurance and Non-insurance lines of business, ICBC is directed to reduce the Policy Year 2013 indicated rate change by 0.064% to account for the Basic Insurance line of business share of the $1.7 million in pension and post-retirement benefits expense not appropriately allocated to the Transformation Program and recovered from government initiatives.**	ii
6.	**The result of these determinations is a net increase in the Policy Year 2013 indicated rate change from 4.9% to 5.2%. In addition, the Commission Panel accepts ICBC's proposal to defer any differences between the interim rate granted and the final rate to the next rate application.**	ii
7.	**For purposes of this Decision, the Panel considers that the 100% Minimum Capital Test (MCT) ratio is the statutory minimum as per section 3(1)(b) of *Special Direction IC2.***	ii

8.	**The Panel approves the continuation of the 30% MCT ratio margin for adverse events on top of the 100% statutory minimum MCT ratio level as a component in the new Basic Capital Management Plan.**	ii
9.	**Given the 130% MCT initial target level is there to help absorb some of the adverse conditions potentially faced by ICBC, the Panel finds the requested 20% addition to the MCT ratio for rate smoothing to be excessive and should be reduced to one half of the 30% MCT current margin for adverse events over the minimum MCT ratio, or 15%. Therefore, with the initial 30% MCT ratio margin for adverse events, and an additional 15% MCT ratio margin for relatively stable and predictable rates, the Panel determines that the new Capital Management Target is set at 145% MCT.**	ii
10.	**The Panel accepts the ICBC proposed 10 year transition period to reach the 145% MCT new Capital Management Target.**	ii
11.	**Based on the 145% MCT new Capital Management Target, the Panel finds that a 160% MCT ratio level meets the 'well in excess' capital available requirement for the provision for determining the possibility of a Customer Renewal Credit.**	ii
12.	**The Panel finds that the 15% MCT above the new Capital Management Target for the provision of a CRC should include provisions for any proposed payout to the policyholder. Therefore, if ICBC's Basic Insurance MCT ratio equals or exceeds 160%, ICBC is directed to pay out a CRC such that the MCT level returns to 150% MCT.**	iii
13.	**The Panel requests ICBC to file the results of the claimant attitude survey in the next Revenue Requirements Application (RRA) including: methodology, sample size, sample representation, and the survey questions themselves. ICBC is also directed to provide any action plans including any metrics used to measure the effectiveness of claims management changes and measurable outcomes resulting from the survey in the next RRA or when available.**	iii
14.	**The Commission Panel requests that ICBC include separate interim reporting on any new performance measures that are reflective of the impact of the operational changes. The Commission Panel also anticipates that ICBC will include a full review of performance measures as part of the 2017 RRA.**	iii
15.	**The Panel requests ICBC include performance metrics of claims initiatives that are informative to reflect the transition period starting in the next RRA until the TP is fully implemented.**	41
16.	**The Panel requests ICBC to file the results of the claimant attitude survey in the next RRA including: methodology, sample size, sample representation, and the survey questions themselves. ICBC is also requested to provide any action plans including any metrics used to measure the effectiveness of claims management changes and measurable outcomes resulting from the survey in the next RRA or when available.**	41

17.	**The Panel requests ICBC, starting in the 2014 RRA, to include information on fraud investigation efforts such as the number of investigations undertaken by operational units. ICBC is also requested to provide an update, as the new claims system becomes functional, on how the new claims system informs ICBC's prioritization on fraud investigation resources and how it may inform ICBC the level of claims costs savings in future RRAs.**	44
18.	**The Panel requests that ICBC include separate interim reporting on any new performance measures that are reflective of the impact of the operational changes. The Panel also anticipates that ICBC will include a full review of the performance measures as a part of the 2017 RRA**.	50
19.	**In light of administrative efficiency and to adapt to operational changes, the Panel is convinced that it would be reasonable to remove the New Claims Initiative calls answered in 120 and 210 seconds and retain the performance measure of calls answered within 100 seconds.**	50
20.	**The Panel requests ICBC provide an update of its plans around a Rate Design Application as part of its 2015 Revenue Requirements Application or by way of a separate filing no later than December 31, 2015.**	51

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of May, 2014.

Original signed by:

B.A. MAGNAN
COMMISSIONER

Original signed by:

L.A. O'HARA
COMMISSIONER

Original signed by:

R.D. REVEL
COMMISSIONER

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-63-14

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

the Insurance Corporation Act, R.S.B.C. 1996, Chapter 228, as amended

and

An Application by the Insurance Corporation of British Columbia
for Approval of the Revenue Requirements for Universal Compulsory Automobile Insurance
for the Policy Year Commencing November 1, 2013 and
for Approval of a New Basic Insurance Capital Management Plan

BEFORE: B.A. Magnan, Panel Chair and Commissioner
L.A. O'Hara, Commissioner
R.D. Revel, Commissioner

May 14, 2014

O R D E R

WHEREAS:

A. On August 30, 2013, Insurance Corporation of British Columbia (ICBC) submitted an application to the Commission for approval of the Revenue Requirements for Universal Compulsory Automobile Insurance (Basic Insurance) for the policy year commencing November 1, 2013 (Policy Year 2013), and for approval of a new Basic Insurance Capital Management Plan (collectively, the Application);

B. In the Application, ICBC seeks Commission approval for a 4.9 percent increase in Basic Insurance rates to apply as follows:

- Pursuant to section 89 of the *Utilities Commission Act*, and section 15 of the *Administrative Tribunals Act*, the rate increase to apply on an interim basis for all new or renewal policies with an effective date on or after November 1, 2013, that have: (i) premiums determined through the use of the Schedule of Basic Insurance Premiums (Schedule C) as filed with the Commission, excluding rate class 800, rate classes 900 to 906, and policies relating to vehicles located on isolated islands; and (ii) premiums determined under a Fleet Reporting Policy. Collectively, policies under (i) and (ii) are referred to as the "Plate Owner Basic and Fleet Reporting Policies";

- ICBC applies for the 4.9% increase to be made on a permanent basis for Plate Owner Basic and Fleet Reporting Policies and all other new and renewal policies on or after the first day of the first month that is at least 60 days following the Commission's final decision on the Application;

C. By Order G-141-13 dated September 5, 2013, the Commission approved ICBC's requested 4.9% Basic Insurance rate increase on an interim basis for implementation with an effective date on or after November 1, 2013. The Commission noted that it will determine the manner by which any variance between the approved interim rate and the approved permanent rate, will be refunded or collected at the time it renders its Decision on the Application;

D. In the Application, ICBC also seeks approval of a new Basic Insurance Capital Management Plan (Basic Capital Management Plan) in accordance with *Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004, as amended in 2013* (*Special Direction IC2*);

E. By Order G-193-13 dated November 22, 2013, the Commission ordered that the Application be reviewed by way of a full Oral Public Hearing process. The proceeding also included written information requests;

F. The Oral Public Hearing, was held in Vancouver, BC, commencing on February 6, 2014, and concluding on February 14, 2014;

G. ICBC filed its Final Submission on February 25, 2014. Registered Interveners filed their Final Submissions by March 6, 2014. Subsequently, ICBC filed its Reply Submission on March 17, 2014;

H. ICBC proposes that if there are any differences between the interim rate and the final rate, it is in the best interest of policyholders to defer the difference to the next rate application;

I. The Commission Panel reviewed and considered all evidence on record for the Application.

NOW THEREFORE for the reasons set out in the Decision that is issued concurrently with this Order, the Commission orders as follows:

1. A 5.2% Basic Insurance permanent rate for Policy Year 2013 is approved.

2. ICBC's proposal to defer any differences between the interim rate granted and the final permanent rate to the next rate application is approved. ICBC is directed to defer any differences between the 4.9% interim rate and the final 5.2% approved permanent rate in this Application to the Policy Year 2014 Revenue Requirements Application.

3. The new Basic Capital Management Plan with the following components is approved:
    i. the continuation of the 30% Minimum Capital Test (MCT) margin for adverse events on top of the statutory minimum MCT ratio level;
    ii. a 15% MCT additional margin for support of relatively stable and predictable rates for a new Capital Management Target ratio set at 145% MCT;
    iii. a minimum 160% or greater MCT ratio level meeting the 'well in excess' capital available requirement for determination of a Customer Renewal Credit;
    iv. a Customer Renewal Credit payout returning the MCT level to 150%.

4. The Commission will accept, subject to timely filing and if applicable, amended Basic Insurance rate schedules in accordance with the terms of this Order.

5. ICBC is directed to comply with all determinations and directives set out in the Decision that is issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of May 2014.

BY ORDER

Original signed by:

B.A. Magnan
Panel Chair and Commissioner

ACRONYMS AND ABBREVIATIONS

AAP	Accepted Actuarial Practice
AIC	The Automobile Insurance Committee of the Canadian Bar Association
Application	Revenue Requirements for Universal Compulsory Automobile Insurance for the policy year commencing November 1, 2013 and a new Basic Insurance Capital Management Plan
Basic Insurance	Universal Compulsory Automobile Insurance
BCAA	British Columbia Automobile Association
BCPSO	British Columbia Seniors' and Pensioners' Organization *et al.*
BCUC, or Commission	British Columbia Utilities Commission
BI	Bodily Injury
BU	Bargaining Unit
CDI	Canadian Direct Insurance
CGAAP	Canadian Generally Accepted Accounting Principles
CMP	Capital Management Plan
CMT	Capital Management Target
COPE378	Canadian Office and Professional Employees Union Local 378
CPI	Consumer Price Index
CRC	Customer Renewal Credit
DCAT	Dynamic Capital Adequacy Testing
IAS	International Accounting Standard
IBC	Insurance Bureau of Canada
ICA	*Insurance Corporation Act*
ICBC, or Corporation	Insurance Corporation of British Columbia

IFRS	International Financial Reporting Standard
IR	Information Request(s)
M&C	Management and Confidential
MCT	Minimum Capital Test
MOU	Memorandum of Understanding
NMR	New Money Rate
OIC	Order in Council
OIC 152/13	*Special Direction IC2* amended by Order in Council 152/13, March 18, 2013, to promote greater stability and predictability in Basic insurance rates
OIC 153/13	Government directive of March 19, 2013 with respect to Rate Smoothing approved by Order in Council 153/13, March 18, 2013
OSFI	Office of Superintendent of Financial Institutions
PED	Personal Electronic Device
PI	Pemberton Insurance Corporation
PSEC	Public Sector Employers' Council
PY	Policy Year
PY 2013	Policy Year Commencing November 1, 2013
RRA	Revenue Requirements Application
Special Direction IC2	*Special Direction IC2 to the BC Utilities Commission, BC Regulation 307/2004*
SIU	Special Investigations Unit
TAS	Traffic Accident System
TLABC	Trial Lawyers Association of BC
TP	Transformation Program

TREAD	Towards Responsible and Attentive Driving
UCA	*Utilities Commission Act*

PROVINCE OF BRITISH COLUMBIA

ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 152 , *Approved and Ordered* MAR 18 2013

Lieutenant Governor

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that Special Direction IC2 to the British Columbia Utilities Commission, B.C. Reg. 307/2004, is amended as set out in the attached Schedule.

DEPOSITED

March 19, 2013

B.C. REG. 115/2013

Minister of Transportation and Infrastructure

Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section: *Insurance Corporation Act*, R.S.B.C. 1996, c. 228, s. 47

Other: O.C. 647/2004

March 6, 2013 R/148/2013/27

SCHEDULE

1 *Section 1 of Special Direction IC2 to the British Columbia Utilities Commission is amended*

(a) *by repealing the definition of* "capital available" *and substituting the following:*

"capital available" means capital available as that term is described in the MCT guideline; *, and*

(b) *by adding the following definitions:*

"capital management target" means the MCT target, determined in a capital management plan approved by the commission, that is the total of the following:

(a) the MCT required under section 3 (1) (b);

(b) the margin, expressed in percentage points of MCT, that reflects the corporation's risk profile in relation to the corporation's universal compulsory vehicle insurance business and its ability to respond to adverse events that arise from those risks;

(c) any additional margin, expressed in percentage points of MCT, consistent with relatively stable and predictable universal compulsory vehicle insurance rates;

"customer renewal credit" means a one-time, non-refundable, non-transferable credit that is

(a) available to an existing universal compulsory vehicle insurance policyholder,

(b) applied to reduce the universal compulsory vehicle insurance premium paid by the policyholder at the time of the policyholder's next renewal, and

(c) redeemable only within 12 months of the effective date of the order of the commission that approves the customer renewal credit;

"excess capital available" means universal compulsory vehicle insurance capital available in excess of the capital reflected in the capital management target specified in a capital management plan approved by the commission;

"existing rates" means the universal compulsory vehicle insurance rates in effect on the date the corporation files an application for a general rate change order;

"general rate change order" means a commission order that

(a) fixes rates, expressed as a percentage change from existing rates, for universal compulsory vehicle insurance to cover the overall revenue requirements of the corporation's universal compulsory vehicle insurance business, and

(b) does not include an order relating to rate design or customer renewal credit;

"loss costs" means the average amount of claims cost per universal compulsory vehicle insurance policy on an annualized basis, determined on the basis of accepted actuarial practice;

"loss costs forecast variance" means the difference, expressed in percentage points of a rate change fixed in a general rate change order, between

(a) the loss costs provision reflected in existing rates, and

(b) the loss costs that have emerged; .

2 *The following section is added:*

MCT

1.1 For each year for which the commission fixes universal compulsory vehicle insurance rates, the MCT must be determined

(a) using data available from the most recent quarter at the time the corporation files a general rate change order, and

(b) as at the end of that year.

3 *Section 3 is amended*

(a) in subsection (1) by adding the following paragraph:

(a.1) beginning in 2014, require the corporation to apply annually for a general rate change order by May 31 of the year of the application for rates effective August 1 of that year; ,

(b) by repealing subsection (1) (b) and substituting the following:

(b) set rates for the corporation's universal compulsory vehicle insurance business in a way that will allow the corporation to maintain, in relation to its universal compulsory vehicle insurance business, at least 100% of MCT,

(c) in subsection (1) (c) (ii.2) by striking out "Understanding", and" *and substituting* "Understanding",",

(d) by repealing subsection (1) (c) (iii) and substituting the following:

(iii) for 2005 and each following year for which rates are set, to achieve or maintain, as the case may be, the MCT requirement under paragraph (b), and

(iv) for 2013 and each following year, ensure that rates are set in accordance with a capital management plan approved by the commission that includes capital maintenance and build or release provisions; ,

(e) in subsection (1) by adding the following paragraphs:

(c.2) despite paragraph (c),

(i) for 2013, the loss costs forecast variance must not be reflected in the general rate change order, and

(ii) for 2014 and each following year for which rates are set,

(A) the commission may exclude some or all of that year's loss costs forecast variance from the rate fixed by a general rate change order in accordance with a capital management plan approved by the commission, and

(B) the percentage number of a rate change fixed by a general rate change order must differ from the percentage number of a rate change fixed by the previous general rate change order by no more than 1.5, and must not decrease existing rates;

(c.3) for 2014 and each following year for which the commission fixes universal compulsory vehicle insurance rates, approve a customer renewal credit if

(i) there is excess capital available,

(ii) the customer renewal credit will not result in the MCT falling below the capital management target specified in a capital management plan approved by the commission, and

(iii) the commission determines that rates fixed by general rate change orders will remain relatively stable and predictable despite the approval of the customer renewal credit; , *and*

(f) in subsection (3) by striking out "automobile" *and substituting* "vehicle".

PROVINCE OF BRITISH COLUMBIA

ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. 153 *, Approved and Ordered* MAR 18 2013

Lieutenant Governor

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that approval is given to Mary Polak, Minister of Transportation and Infrastructure, to give the attached government directive to the Insurance Corporation of British Columbia.

Minister of Transportation and Infrastructure

Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section: Special Direction IC2 to the British Columbia Utilities Commission, Reg. 307/2004, s. 3 (4)

Other:

March 6, 2013 O/177/2013/27

BRITISH COLUMBIA

MAR 19 2013

Paul Taylor, Chair
Board of Directors
Insurance Corporation of British Columbia
Executive Office
Room 517, 151 West Esplanade
North Vancouver BC V7M 3H9

Reference: 216145

Dear Chair Taylor:

Re: Government Directive Related to Rate Smoothing

I am writing to provide direction to the Insurance Corporation of British Columbia ("ICBC") to bring greater stability and predictability in universal compulsory vehicle ("Basic") insurance rates.

This letter of direction rescinds and replaces the May 18, 2010, and November 25, 2011, government directives.

ICBC is directed to base its 2013 Revenue Requirements Application on the existing Commission-approved Capital Management Plan, as modified to comply with the May 18, 2010, and November 25, 2011, government directives. However, ICBC should bring forward to the Commission for approval by May 31, 2014, a revised Basic Capital Management Plan that continues to protect the solvency of Basic insurance while also improving ICBC's ability to use Basic capital to promote more stable and predictable Basic rates.

ICBC's new Capital Management Plan should include the concept of a non-transferable, non-refundable "customer renewal credit." In circumstances where Basic capital is well in excess of the capital management target fixed by the Commission, a portion of the excess capital should normally be credited towards the cost that existing customers pay to renew a Basic insurance policy in the 12 month period following the effective date of the Commission's order approving the customer renewal credit. ICBC should seek prior Commission approval to issue any customer renewal credit and obtain direction from the Commission on how it is to be implemented and calculated. Customer renewal credits should only be proposed in circumstances where it will not detract from rate stability and predictability, and where they are cost-effective to implement.

.../2

If circumstances should arise where, despite the implementation of a capital management plan consistent with the above principles, Basic capital is projected to fall below the regulatory minimum requirement of 100% MCT as determined under *Special Direction IC2 to the British Columbia Utilities Commission*, then ICBC is directed to report to Treasury Board immediately and develop an appropriate plan to address Basic capital levels in conjunction with Treasury Board.

Government recognizes that it is not possible to eliminate all rate volatility in the face of challenging external circumstances. However, Government considers that the new rate smoothing framework in *Special Direction IC2 to the British Columbia Utilities Commission*, coupled with a new Basic Capital Management Plan, are important steps in promoting greater stability and predictability in Basic insurance rates.

This letter of direction is a government directive within the meaning of that term as defined in *Special Direction IC2 to the British Columbia Utilities Commission*.

Finally, I understand that ICBC intends to apply to the BC Utilities Commission (BCUC) to have their Revenue Requirements Application deadline extended from May 31, 2013, to August 30, 2013.

Sincerely,

Mary Polak

Mary Polak
Minister

B.C. Reg. 307/2004
O.C. 647/2004

Deposited June 30, 2004

Insurance Corporation Act;

Utilities Commission Act

SPECIAL DIRECTION IC2 TO THE

BRITISH COLUMBIA UTILITIES COMMISSION

Note: Check the Cumulative Regulation Bulletin 2014
for any non-consolidated amendments to this regulation that may be in effect.

[includes amendments up to B.C. Reg. 20/2014, February 18, 2014]

Point in Time

Contents

Definitions

1 In this Special Direction:

"Act" means the *Insurance Corporation Act*;

"capital available" means capital available as that term is described in the MCT guideline;

"capital management target" means the MCT target, determined in a capital management plan approved by the commission, that is the total of the following:

(a) the MCT required under section 3 (1) (b);

(b) the margin, expressed in percentage points of MCT, that reflects the corporation's risk profile in relation to the corporation's universal compulsory vehicle insurance business

and its ability to respond to adverse events that arise from those risks;

(c) any additional margin, expressed in percentage points of MCT, consistent with relatively stable and predictable universal compulsory vehicle insurance rates;

"customer renewal credit" means a one-time, non-refundable, non-transferable credit that is

(a) available to an existing universal compulsory vehicle insurance policyholder,

(b) applied to reduce the universal compulsory vehicle insurance premium paid by the policyholder at the time of the policyholder's next renewal, and

(c) redeemable only within 12 months of the effective date of the order of the commission that approves the customer renewal credit;

"excess capital available" means universal compulsory vehicle insurance capital available in excess of the capital reflected in the capital management target specified in a capital management plan approved by the commission;

"existing rates" means the universal compulsory vehicle insurance rates in effect on the date the corporation files an application for a general rate change order;

"general rate change order" means a commission order that

(a) fixes rates, expressed as a percentage change from existing rates, for universal compulsory vehicle insurance to cover the overall revenue requirements of the corporation's universal compulsory vehicle insurance business, and

(b) does not include an order relating to rate design or customer renewal credit;

"loss costs" means the average amount of claims cost per universal compulsory vehicle insurance policy on an annualized basis, determined on the basis of accepted actuarial practice;

"loss costs forecast variance" means the difference, expressed in percentage points of a rate change fixed in a general rate change order, between

(a) the loss costs provision reflected in existing rates, and

(b) the loss costs that have emerged;

"MCT" means MCT as that term is described in the MCT guideline;

"MCT guideline" means the Guideline for Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies issued by the Office of the Superintendent of Financial Institutions Canada as that guideline is amended or replaced from time to time.

[am. B.C. Regs. 229/2009, s. (a); 108/2010, s. 1; 115/2013, s. 1.]

MCT

1.1 For each year for which the commission fixes universal compulsory vehicle insurance rates, the MCT must be determined

(a) using data available from the most recent quarter at the time the corporation files a general rate change order, and

(b) as at the end of that year.

[en. B.C. Reg. 115/2013, s. 2.]

Application

2 This Special Direction is issued to the commission under section 47 of the Act and section 3 of the *Utilities Commission Act*.

Directions relating to the corporation generally

3 (1) With respect to the exercise of its powers and functions under the Act in relation to the corporation generally, the commission must do the following:

(a) Repealed. [B.C. Reg. 108/2010, s. 2 (a).]

(a.1) beginning in 2014, require the corporation to apply annually for a general rate change order by August 31 of the year of the application for rates effective November 1 of that year;

(b) set rates for the corporation's universal compulsory vehicle insurance business in a way that will allow the corporation to maintain, in relation to its universal compulsory vehicle insurance business, at least 100% of MCT;

(c) subject to paragraphs (c.1) and (e), for each year for which it fixes universal compulsory vehicle insurance rates, fix

those rates on the basis of accepted actuarial practice so that those rates allow the corporation to collect sufficient revenue,

(i) for 2004, to achieve the net income target set for that year under paragraph (a),

(ii) for each following year for which rates are set, to pay the following:

(A) the costs that are to be incurred by the corporation in that year for road safety programs under section 7 (i) of the Act, including, without limitation, payments by the corporation to any level of government with respect to road safety;

(B) the costs that are to be incurred by the corporation in that year for vehicle licensing, driver licensing and other services and activities of the corporation under section 7 (g) and (h) of the Act that are to be undertaken in that year in accordance with the agreement, as amended from time to time, entitled "Service Agreement between The Ministry of Public Safety and Solicitor General and the Insurance Corporation of British Columbia" and dated as of September 1, 2003;

(C) the payments that the corporation is to make in that year under the agreement entitled "Memorandum of Understanding between B.C. Provincial Government and ICBC" and executed in February, 2003;

(D) the remuneration that the corporation is to pay in that year to persons appointed as agents by the corporation under section 9.2 of the *Insurance Corporation Act* for collecting government fees, fines and other amounts payable by the corporation to the government and for collecting premiums, fees, debts and other revenue on behalf of the corporation;

(E) up to and including 2008, the payments that the corporation is to make in that year under the agreement entitled "Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding" made between the corporation and the government as represented by the

Minister of Public Safety and Solicitor General and dated December 2, 2003,

(ii.1) for 2009, to make the payments that the corporation has agreed to make under the agreement dated for reference January 1, 2009, between the corporation and the government as represented by the Minister of Public Safety and Solicitor General entitled "Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding",

(ii.2) for 2010 and subsequent years, to make the payments that the corporation has agreed to make under the agreement dated for reference January 1, 2010, between the corporation and the government as represented by the Minister of Public Safety and Solicitor General entitled "Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding",

(ii.3) for 2012 and subsequent years, to make the payments that the corporation has agreed to make under the agreement dated for reference April 1, 2012, between the corporation and the government as represented by the Minister of Justice and Attorney General entitled "Traffic and Road Safety Law Enforcement Funding Memorandum of Understanding", including amendments and extensions to that agreement,

(iii) for 2005 and each following year for which rates are set, to achieve or maintain, as the case may be, the MCT requirement under paragraph (b), and

(iv) for 2013 and each following year, ensure that rates are set in accordance with a capital management plan approved by the commission that includes capital maintenance and build or release provisions;

(c.1) when regulating and fixing universal compulsory vehicle insurance rates, regulate and fix those rates in a manner that recognizes and accepts actions taken by the corporation in compliance with government directives issued to the corporation;

(c.2) despite paragraph (c),

(i) for 2013, the loss costs forecast variance must not be reflected in the general rate change order, and

(ii) for 2014 and each following year for which rates are set,

(A) the commission may exclude some or all of that year's loss costs forecast variance from the rate fixed by a general rate change order in accordance with a capital management plan approved by the commission, and

(B) the percentage number of a rate change fixed by a general rate change order must differ from the percentage number of a rate change fixed by the previous general rate change order by no more than 1.5, and must not decrease existing rates;

(c.3) for 2014 and each following year for which the commission fixes universal compulsory vehicle insurance rates, approve a customer renewal credit if

(i) there is excess capital available,

(ii) the customer renewal credit will not result in the MCT falling below the capital management target specified in a capital management plan approved by the commission, and

(iii) the commission determines that rates fixed by general rate change orders will remain relatively stable and predictable despite the approval of the customer renewal credit;

(d) subject to subsection (2) of this section, ensure that universal compulsory vehicle insurance rates are not based on age, gender or marital status;

(e) ensure that increases or decreases in universal compulsory vehicle insurance rates are phased in in such a way that those rates remain relatively stable and predictable.

(2) The commission may approve universal compulsory vehicle insurance rates that provide discounts to or are otherwise preferential for

(a) persons who are at least 65 years of age, or

(b) persons with disabilities.

(3) In regulating and fixing rates for the corporation, the commission must treat any premiums levied under section 34 (1.1) (e) of the *Insurance (Vehicle) Act* as revenue for the corporation's universal compulsory vehicle insurance business.

(4) In this section, **"government directive"** means a directive in writing to the corporation

(a) given by the minister responsible for Part 1 of the Act, and

(b) approved by the Lieutenant Governor in Council.

[am. B.C. Regs. 313/2004, s. 1; 300/2005; 155/2007, s. 1; 229/2009, ss. (b) and (c); 108/2010, s. 2; 116/2012, ss. (a) and (b); 115/2013, s. 3; 20/2014.]

Directions relating to the corporation's optional vehicle insurance business

4 (1) With respect to the exercise of its powers and functions under the Act in relation to the corporation's optional vehicle insurance business, the commission must not fix rates applicable to optional insurance.

(2) In determining, under section 12 of the *Utilities Commission Act*, whether disclosure of information with respect to the corporation's optional vehicle insurance business is necessary for the administration of the *Utilities Commission Act* as it applies to the corporation, the commission must consider the effect of disclosure of the information on the corporation's ability to compete in the optional vehicle insurance market on a basis similar to its competitors and the harm to the corporation's competitive position that may result from the disclosure of the information.

[am. B.C. Regs. 313/2004, s. 2; 155/2007, s. 2; 108/2010, s. 3.]

Note: *this regulation replaces B.C. Reg. 321/2003.*

[Provisions relevant to the enactment of this regulation: *Insurance Corporation Act*, R.S.B.C. 1996, c. 228, section 47; *Utilities Commission Act*, R.S.B.C. 1996, c. 473, section 3]

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(5) This section is retroactive to the extent necessary to give full effect to its provisions.

Part 2 — Regulation of the Corporation

Division 1 — Interpretation

Interpretation

43 (1) [Repealed 2003-94-66.]

(2) In this Part, an activity has or is likely to have the effect of appreciably impeding or reducing competition if

(a) the activity has or is likely to have a detrimental effect on existing or potential competition, and

(b) the detrimental effect is or is likely to be large enough to be material, even though that detrimental effect may not be large enough to constitute preventing or lessening competition substantially within the meaning of sections 79 (1) and 92 (1) of the *Competition Act* (Canada).

Division 2 — Role of the British Columbia Utilities Commission

***Utilities Commission Act* to apply**

44 (1) Subject to subsections (3), (6) and (7), the *Utilities Commission Act*, other than sections 3, 5 (4) to (9), 22, 23 (1) (a) to (d) and (2), 25 to 38, 40, 41, 43 (1) (b) (ii), 44.1, 44.2, 45 to 57, 59 (2) and (3), 60 (1) (b) (ii) and (2) to (4), Part 3.1, 97, 98, 106 (1) (k), 107 to 109 and 114, Parts 4 and 5 and sections 125.1 and 125.2 of that Act, applies to and in respect of the corporation as if it were a public utility, and a reference in this Part to the *Utilities Commission Act* or to a provision of that Act is deemed to be a reference to that Act or provision as it applies for the purposes of this Act.

(2) Despite subsection (1), the corporation is not a public utility.

(3) For the purposes of subsection (1),

(a) a reference to "rate" in the *Utilities Commission Act* and in this Part is deemed to be a reference to "rate", as defined in section 1 of the *Utilities Commission Act*, as if paragraph (a) of that definition read as follows:

"(a) compensation of the Insurance Corporation of British Columbia, other than any fee or other remuneration to which that corporation is entitled for any activity it undertakes under section 7 (g), (h) or (i) of the *Insurance Corporation Act*,",

(b) a reference to "service" in the *Utilities Commission Act* is deemed to be a reference to universal compulsory vehicle insurance, and includes

(i) the corporation's practices and procedures related to universal compulsory vehicle insurance, and

(ii) the corporation's performance in providing universal compulsory vehicle insurance to its customer base as a whole or to classes of its customers,

but does not include the corporation's provision of universal compulsory vehicle insurance to any one customer,

(c) section 23 (1) (g) (i) of the *Utilities Commission Act* is deemed to read as follows:

"(i) the convenience or service of the public, or", and

(d) section 43 (3) (a) of the *Utilities Commission Act* is deemed to read as follows:

"(a) all profiles, contracts, reports of accountants, actuaries and consultants, accounts and records in its possession or control relating in any way to its property or service or affecting its business, or verified copies of them, and".

(4) In addition to any rights or powers that the commission may exercise under subsection (1) of this section in relation to the corporation, the commission is to supervise the corporation in accordance with sections 45 and 46 and Division 3 and, for that purpose, has all of the rights and powers that would be available to the commission were that supervisory duty imposed on it under the *Utilities Commission Act*.

(5) Despite section 11 (1) and (2) of the *Utilities Commission Act*, the fact that a commissioner or an employee of the commission obtains or is otherwise covered by insurance coverage provided by the corporation is not a contravention of the *Utilities Commission Act* and does not disqualify the commissioner or employee from acting in any matter affecting the corporation.

(6) Section 62 of the *Utilities Commission Act* does not apply to rates for optional vehicle insurance.

(7) The Lieutenant Governor in Council may prescribe provisions of the *Utilities Commission Act* that do not apply to the corporation or to one or more of the businesses in which the corporation is engaged.

Regulation of universal compulsory vehicle insurance

45 (1) If the corporation is authorized by the Lieutenant Governor in Council to provide universal compulsory vehicle insurance, the corporation must make available universal compulsory vehicle insurance in a manner, and in accordance with practices and procedures, that the commission considers are in all respects adequate, efficient, just and reasonable.

(2) If the commission, after a hearing held on its own motion or on complaint, finds that the manner in which universal compulsory vehicle insurance is provided by the corporation does not comply with subsection (1) or that the practices and procedures in accordance with which that insurance is provided do not comply with subsection (1), the commission must

(a) determine the manner or the practices and procedures, as the case may be, that comply with subsection (1), and

(b) order the corporation to comply with that manner or with those practices and procedures.

(3) After a hearing held on the commission's own motion or on complaint, the commission may determine and set adequate, efficient, just and reasonable standards, practices or procedures to be used by the corporation in providing universal compulsory vehicle insurance and may order the corporation to comply with those standards, practices or procedures.

(4) The commission may, by order, require the corporation to report, at the times and in the form ordered by the commission, on the corporation's performance in providing universal compulsory vehicle insurance, including, without limitation, on the corporation's performance in complying with any order made under subsection (2) or (3).

(5) The commission may exercise its powers and duties under this section in relation to the provision by the corporation of universal compulsory vehicle insurance to the corporation's customer base as a whole or to classes of its customers, but not in relation to the provision by the corporation of universal compulsory vehicle insurance to any one customer.

(6) Despite this section and section 44, and despite section 110 of the *Utilities Commission Act*, the commission does not have the power to change a term or condition of any plan of universal compulsory vehicle insurance established under the *Insurance (Vehicle) Act*.

Reserve funds

46 (1) The commission may, by order, require the corporation to maintain, for the purposes set out in section 8.4, reserves that are equal to or greater than the reserves the corporation is required to maintain under that section.

(2) The commission must take the corporation's obligation to maintain reserves into account in fixing rates of the corporation.

Commission subject to direction

47 (1) In addition to any other power the Lieutenant Governor in Council may have to issue directions to the commission, the Lieutenant Governor in Council may, by regulation, issue directions to the commission respecting the factors, criteria and guidelines that the commission must or must not use in regulating and fixing rates for the corporation, including, without limitation, one or more of the following directions:

(a) establishing financial outcome targets for the corporation generally and for its optional insurance business in particular, including targets for the corporation's capital base, within the meaning of the *Financial Institutions Act*, and the corporation's profits, and directing the commission to accommodate those targets when regulating and fixing those rates;

(b) identifying circumstances in which the commission is and is not to regulate and fix rates applicable to optional vehicle insurance;

(c) establishing criteria on which rates may, and must not, be based;

(d) identifying activities the corporation may or must undertake on behalf of the government or under an enactment, and directing how those activities, and the costs related to them, are to be treated for the purposes of regulating and fixing rates;

(e) directing the commission to consider specified factors or criteria when regulating and fixing rates;

(f) authorizing the commission to determine any factor or criterion the commission considers to be relevant in relation to the regulation and fixing of rates.

(2) In addition to any other power the Lieutenant Governor in Council may have to issue directions to the commission, the Lieutenant Governor in Council may, by regulation, issue one or more of the following directions to the commission:

(a) setting out the basis on which and the manner in which the commission is to perform its obligations under this Part;

(b) directing the commission to require the corporation to prepare a plan, in the manner and form, with the content and at the time or times required by the Lieutenant Governor in Council, of the steps the corporation will take to meet the financial outcome targets referred to in subsection (1) (a);

(c) directing or authorizing the commission to approve and monitor compliance with the plan referred to in paragraph (b) of this subsection;

(d) identifying activities the corporation must undertake on behalf of the government and

(i) establishing requirements as to the manner in which and the practices and procedures in accordance with which those activities are to be undertaken, and

(ii) providing direction to the commission as to how it should regulate those activities to ensure that they are undertaken in accordance with the requirements established under subparagraph (i).

(3) The commission must comply with any direction issued under subsection (1) or (2) despite

(a) any other provisions of the *Insurance Corporation Act* or the *Utilities Commission Act*, or

(b) any previous decision of the commission.

(4) The powers of the Lieutenant Governor in Council under subsection (1) include the power, by regulation, to issue directions that apply, rely on or incorporate, with or without modification, any or all of the provisions of any code, guideline or regulation as they may be amended or replaced from time to time before or after the making of the Lieutenant Governor in Council's regulation, including, without limitation, any or all of the provisions of the MCT guideline.

Limitation

48 Nothing in this Part or in the *Utilities Commission Act* gives to the commission the right or power to alter or affect any rights, remedies or entitlements that may exist at law with respect to compensation for injury or death, or loss or damage to property, that arises out of the use or operation of a vehicle.

Division 3 — Competition Regulation

Separation of businesses

49 (1) The commission must ensure that the universal compulsory vehicle insurance business and the revenue of the corporation, other than revenue from the corporation's optional vehicle insurance business, are not used to subsidize the corporation's optional vehicle insurance business.

(2) For the purpose of subsection (1), the commission may issue any orders it considers necessary to ensure that the corporation's optional vehicle insurance business and activities are segregated from the corporation's other businesses and activities for accounting purposes, and that, in addition, any other businesses and activities of the corporation that the commission considers appropriate are segregated from the remaining businesses and activities of the corporation for accounting purposes, including, without limitation, orders

(a) requiring reports from auditors,

(b) requiring reports from actuaries, and

(c) specifying cost allocation practices and other accounting practices that the corporation is to follow.

(3) Before taking any action under this section, the commission must consider any current reports ordered under subsection (2) (a) or (b).

(3) The following decision and orders of the commission are of no force or effect to the extent that they require the authority to do anything for the purpose of changing revenue-cost ratios:

(a) 2007 RDA Phase 1 Decision, issued October 26, 2007;

(b) order G-111-07, issued September 7, 2007;

(c) order G-130-07, issued October 26, 2007;

(d) order G-10-08, issued January 21, 2008,

and the rates of the authority that applied immediately before this section comes into force continue to apply and are deemed to be just, reasonable and not unduly discriminatory.

(4) [Repealed RS1996-473-58.1 (5).]

(5) Subsection (4) is repealed on March 31, 2010.

(6) Nothing in subsection (3) prevents the commission from setting rates for the authority, but the commission, after March 31, 2010, may not set rates for the authority such that the revenue-cost ratio, expressed as a percentage, for any class of customers increases by more than 2 percentage points per year compared to the revenue-cost ratio for that class immediately before the increase.

Discrimination in rates

59 (1) A public utility must not make, demand or receive

(a) an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia, or

(b) a rate that otherwise contravenes this Act, the regulations, orders of the commission or any other law.

(2) A public utility must not

(a) as to rate or service, subject any person or locality, or a particular description of traffic, to an undue prejudice or disadvantage, or

(b) extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description.

(3) The commission may, by regulation, declare the circumstances and conditions that are substantially similar for the purpose of subsection (2)(b).

(4) It is a question of fact, of which the commission is the sole judge,

(a) whether a rate is unjust or unreasonable,

(b) whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate or service, or

(c) whether a service is offered or provided under substantially similar circumstances and conditions.

(5) In this section, a rate is "unjust" or "unreasonable" if the rate is

(a) more than a fair and reasonable charge for service of the nature and quality provided by the utility,

(b) insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or

(c) unjust and unreasonable for any other reason.

Setting of rates

60 (1) In setting a rate under this Act

(a) the commission must consider all matters that it considers proper and relevant affecting the rate,

(b) the commission must have due regard to the setting of a rate that

(i) is not unjust or unreasonable within the meaning of section 59,

(ii) provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and

(iii) encourages public utilities to increase efficiency, reduce costs and enhance performance,

(b.1) the commission may use any mechanism, formula or other method of setting the rate that it considers advisable, and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period, and

(c) if the public utility provides more than one class of service, the commission must

(i) segregate the various kinds of service into distinct classes of service,

(ii) in setting a rate to be charged for the particular service provided, consider each distinct class of service as a self contained unit, and

(iii) set a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates set for any other unit.

(2) In setting a rate under this Act, the commission may take into account a distinct or special area served by a public utility with a view to ensuring, so far as the commission considers it advisable, that the rate applicable in each area is adequate to yield a fair and reasonable return on the appraised value of the plant or system of the public utility used, or prudently and reasonably acquired, for the purpose of providing the service in that special area.

(3) If the commission takes a special area into account under subsection (2), it must have regard to the special considerations applicable to an area that is sparsely settled or has other distinctive characteristics.

(4) For this section, the commission must exclude from the appraised value of the property of the public utility any franchise, licence, permit or concession obtained or held by the utility from a municipal or other public authority beyond the money, if any, paid to the municipality or public authority as consideration for that franchise, licence, permit or concession, together with necessary and reasonable expenses in procuring the franchise, licence, permit or concession.

Rate schedules to be filed with commission

61 (1) A public utility must file with the commission, under rules the commission specifies and within the time and in the form required by the commission, schedules showing all rates established by it and collected, charged or enforced or to be collected or enforced.

(2) A schedule filed under subsection (1) must not be rescinded or amended without the commission's consent.

(3) The rates in schedules as filed and as amended in accordance with this Act and the regulations are the only lawful, enforceable and collectable rates of the public utility filing them, and no other rate may be collected, charged or enforced.

(4) A public utility may file with the commission a new schedule of rates that the utility considers to be made necessary by a rise in the price, over which the utility has no effective control, required to be paid by the public utility for its gas supplies, other energy supplied to it, or expenses and taxes, and the new schedule may be put into effect by the public utility on receiving the approval of the commission.

(5) Within 60 days after the date it approves a new schedule under subsection (4), the commission may,

(a) on complaint of a person whose interests are affected, or

(b) on its own motion,

direct an inquiry into the new schedule of rates having regard to the setting of a rate that is not unjust or unreasonable.

(6) After an inquiry under subsection (5), the commission may

(a) rescind or vary the increase and order a refund or customer credit by the utility of all or part of the money received by way of increase, or

(b) confirm the increase or part of it.

Schedules must be available to public

62 A public utility must keep a copy of the schedules filed open to and available for public inspection under commission rules.

Schedules must be observed

63 A public utility must not, without the consent of the commission, directly or indirectly, in any way charge, demand, collect or receive from any person for a regulated service provided by it, or to be provided by it, compensation that is greater than, less than or other than that specified in the subsisting schedules of the utility applicable to that service and filed under this Act.

Orders respecting contracts

64 (1) If the commission, after a hearing, finds that under a contract entered into by a public utility a person receives a regulated service at rates that are unduly preferential or discriminatory, the commission may

(a) declare the contract unenforceable, either wholly or to the extent the commission considers proper, and the contract is then unenforceable to the extent specified, or

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Insurance Corporation of British Columbia
2013 Revenue Requirements Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated September 4, 2013 – Appointment of the Commission Panel for the review of the Insurance Corporation of British Columbia's 2013 Revenue Requirements Application
A-2	Letter dated September 5, 2013 – Order G-141-13 establishing Interim Rate, Regulatory Timetable and Public Notice
A-3	Letter dated September 19, 2013 – Letter L-54-13 Response to ICBC regarding Clarification of Order G-141-13 Directive 10
A-4	Letter dated October 7, 2013 – Commission Information Request No. 1
A-4-1	**CONFIDENTIAL** Letter dated October 7, 2013 – Commission Confidential Information Request No. 1
A-5	Letter dated November 4, 2013 – Pre-Hearing Conference procedural matters and Regulatory Timetable Options
A-6	Letter dated November 22, 2013 – Order G-193-13 establishing a Revised Regulatory Timetable
A-7	Letter dated December 2, 2013 – Commission Information Request No. 2
A-8	**CONFIDENTIAL** Letter dated December 2, 2013 – Confidential Commission Information Request No. 2
A-9	Letter dated December 24, 2013 – Confirmation of Revised Regulatory Timetable
A-10	Letter dated January 14, 2014 – Corrected Revised Regulatory Timetable
A-11	Letter dated January 17, 2014 – Commission Information Request No. 1 to Mr. Landale regarding Evidence

Exhibit No.	Description
A-12	Letter dated January 29, 2014 – Oral Hearing Information
A-13	Letter dated February 18, 2014 – Revised Regulatory Timetable

COMMISSION STAFF DOCUMENTS

A2-1	Letter dated October 7, 2013 – Commission Staff filing Growth in Capital Required 2006-2012 Exerpt
A2-2	Letter dated October 7, 2013 – Commission Staff filing Distracted Driving 2012 ICBC Revenue Requirements
A2-3	Letter dated October 7, 2013 – Commission Staff filing Cell Phone Use and Traffic Crash Responsibility A Culpability Analysis
A2-4	Letter dated October 7, 2013 – Commission Staff filing Traffic Injury Research Foundation Road Safety Monitor 2011
A2-5	Letter dated October 7, 2013 – Commission Staff filing Financial Post Canadians' auto-buying bonanza raises flags
A2-6	Letter dated October 7, 2013 – Commission Staff filing New motor vehicle sales Statistics Canada
A2-7	Letter dated October 7, 2013 – Commission Staff filing BI Frequency 2012 ICBC Revenue Requirements Excerpt
A2-8	Letter dated October 7, 2013 – Commission Staff filing Actuarial Standards Board, Actuarial Standard of Practice #30
A2-9	Letter dated October 7, 2013 – Commission Staff filing Ministry of Finance Review of ICBC August 2012
A2-10	Letter dated October 7, 2013 – Commission Staff filing Politics and Public Automobile Insurance in BC 1970-2010 R. McCandless
A2-11	Letter dated October 7, 2013 – Commission Staff filing Manitoba Public Insurance Corporation Rebate Ordered by Public Utilities Board

Exhibit No.	Description
A2-12	Submitted at Oral Hearing February 11, 2014 – Commission Staff filing WITNESS AID FOR EXHIBIT D.1.1
A2-13	Submitted at Oral Hearing February 11, 2014 – Commission Staff filing ARTICLE ENTITLED "BOOMING VEHICLE SALES, ESPECIALLY TRUCKS, RESULT OF 'PERFECT STORM' IN B.C."
A2-14	Submitted at Oral Hearing February 11, 2014 – Commission Staff filing CHART HEADED "ICBC 2012 REVENUE REQUIREMENTS, CHAPTER 3,", EXHIBIT C-1-3-2
A2-15	Submitted at Oral Hearing February 14, 2014 – Commission Staff filing DOCUMENT ENTITLED "WITNESS AID -PREPARED BY COMMISSION STAFF CHAPTER 7, OPERATING EXPENSES AND ALLOCATION INFORMATION"

APPLICANT DOCUMENTS

B-1	**INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)** Letter dated August 30, 2013 - 2013 Revenue Requirements Application
B-1-1	Letter dated August 30, 2013 - Appendix 5 C (Previously Confidential see Exhibit B-11)
B-1-2	Letter dated August 30, 2013 - Basic Info Sharing Exhibits
B-1-3	Letter dated August 30, 2013 - Actuarial Excel Exhibits
B-2	Letter received September 27, 2013 – ICBC Submitting Workshop Presentation
B-3	Letter dated November 8, 2013 – ICBC Submitting Responses to Commission Information Request No. 1 (1 to 99)
B-3-1	Letter dated November 8, 2013 – ICBC Submitting Responses to Commission Information Request No. 1 (100 to 156)
B-3-2	Letter dated November 8, 2013 – ICBC Submitting Responses to Commission Confidential Information Request No. 1 (Previously Confidential see Exhibit B-11)
B-3-3	**CONFIDENTIAL** Letter dated November 8, 2013 – ICBC Submitting Confidential Responses to Commission Information Requests 43.4 and 43.6.5
B-4	Letter dated November 8, 2013 – ICBC Submitting Responses to Intervener Information Requests

Exhibit No.	Description
B-5	Letter dated November 15, 2013 – ICBC Submitting Public Notice in Compliance with Order G-141-13
B-6	Letter dated November 15, 2013 – ICBC Submitting Prehearing Conference Comments
B-7	Letter dated November 19, 2013 – ICBC Response to Richard Landale letter of November 25, 2013 (Exhibit C1-6)
B-8	Letter dated December 23, 2013 – ICBC Responses to Commission and Intervener Information Requests No. 2
B-8-1	Letter dated December 23, 2013 – ICBC Confidential Responses to Commission Confidential Information Request No. 2 (Previously Confidential see Exhibit B-11)
B-8-2	**CONFIDENTIAL** Letter dated December 23, 2013 – ICBC Confidential Responses to Commission Information Request No. 2
B-9	Letter dated January 23, 2014 – ICBC Submitting Witness Panel and Direct Testimony
B-10	Letter dated January 24, 2014 – ICBC Submitting Errata to Responses to Information Requests No. 1 and No. 2 and Application
B-11	Letter dated January 24, 2014 – ICBC Submission regarding Exhibits B-1-1, B-3-2, and B-8-1
B-12	Letter dated January 31, 2014 – ICBC Submitting Rebuttal to Richard Landale filings of Evidence (Exhibit C1-9) and Information Requests (Exhibit C1-10)
B-13	Letter dated February 3, 2014 – ICBC Submitting Opening Statement Presentations
B-14	Submitted at Oral Hearing February 6, 2014 – DOCUMENT ENTITLED "PACKAGE OF RELEVANT LEGISLATION AND DECISIONS"
B-15	Submitted at Oral Hearing February 11, 2014 – ANSWER TO BCPSO UNDERTAKING FROM VOLUME 3, PAGE 306, LINES 9 TO 21
B-16	Submitted at Oral Hearing February 11, 2014 – ANSWER TO AIC UNDERTAKING FROM VOLUME 2, PAGE 198, LINE 7 TO PAGE 202, LINE 11 AND PAGE 252, LINE 5 TO PAGE 259, LINE 18 WITHOUT ATTACHMENT

Exhibit No.	Description
B-17	**CONFIDENTIAL** Submitted at Oral Hearing February 11, 2014 – ANSWER TO AIC UNDERTAKING FROM VOLUME 2, PAGE 198, LINE 7 TO PAGE 202, LINE 11 AND PAGE 252, LINE 5 TO PAGE 259, LINE 18 WITH ATTACHMENT MARKED "CONFIDENTIAL"
B-18	Submitted at Oral Hearing February 12, 2014 – CORRECTED IR RESPONSE TO BCUC 180.1
B-19	Submitted at Oral Hearing February 12, 2014 – ANSWER TO BCPSO UNDERTAKING FROM VOLUME 3, PAGE 311, LINE 23 TO PAGE 313, LINE 6
B-20	Submitted at Oral Hearing February 12, 2014 – SUPREME COURT OF CANADA DECISION IN SABLEOFFSHORE ENERGY INC. ET ALL V. AMERON INTERNATIONAL CORPORATION ET AL
B-21	Submitted at Oral Hearing February 12, 2014 – DOCUMENT HEADED 2013.1 REVENUE REQUIREMENTS BCUC 115.2 REFERENCE: CLAIMS COST MANAGEMENT…CLAIMS TRANSFORMATION"
B-22	Submitted at Oral Hearing February 12, 2014 – DOCUMENT HEADED "2013.1 RR RL.7.2 REFERENCE: BC GOVERNMENT "REVIEW OF ICBC AUGUST 2012" - 5.2 COMPENSATION PARAGRAPH 28"
B-23	Submitted at Oral Hearing February 12, 2014 – DOCUMENT ENTITLED 2013.1 RR TREAD 22.1 REFERENCE: REVIEW OF INSURANCE CORPORATION OF BRITISH COLUMBIA (REVIEW) AUGUST 2012…"
B-24	Submitted at Oral Hearing February 12, 2014 – ANSWER TO BCUC UNDERTAKING FROM VOLUME 4, PAGE 645, LINES 18 TO 24
B-25	Submitted at Oral Hearing February 13, 2014 – ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL NO. 287, DATED MAY 27, 2010
B-26	Submitted at Oral Hearing February 13, 2014 – ANSWER TO BCPSO UNDERTAKING FROM VOLUME 5, PAGE 763, LINE 11 TO PAGE 764, LINE 7
B-27	Submitted at Oral Hearing February 13, 2014 – EXTRACT FROM BCUC REASONS FOR DECISION DATED APRIL 6, 2010, FROM ICBC REVENUE REQUIREMENTS STREAMLINED REGULATORY PROCESS
B-28	Submitted at Oral Hearing February 14, 2014 – EXCERPTS FROM THE VANCOUVER SUN

Exhibit No.	Description
B-29	Letter dated February 20, 2014 – ICBC Submitting Undertakings No. 1
B-30	Letter dated February 21, 2014 – ICBC Submitting Undertakings No. 2
B-31	Letter dated February 24, 2014 – ICBC Submitting Undertakings No. 3
B-32	Letter dated March 12, 2014 – ICBC Submitting Undertaking
B-33	Letter dated March 14, 2014 – ICBC Submitting CONFIDENTIAL Undertaking

INTERVENOR DOCUMENTS

C1-1	**LANDALE, RICHARD T. (LANDALE)** Letter dated September 7, 2013 – Request for Intervener Status by Richard Landale
C1-2	Letter dated September 25, 2013 – Landale Submitting Information Request No. 1 – Refer to Exhibit C1-4
C1-3	Letter dated September 26, 2013 – Landale Submitting Information Request No. 2– Refer to Exhibit C1-4
C1-4	Letter dated October 10, 2013 – Landale Submitting Information Request No. 1
C1-5	Letter dated November 15, 2013 – Landale Submitting Prehearing Conference Comments
C1-6	Letter dated November 25, 2013 – Landale Submitting Comments regarding Information Requests
C1-7	Letter dated December 2, 2013 – Landale Submitting Information Request No. 2
C1-8	Letter dated December 11, 2013 – Landale Submitting Notice of Evidence
C1-9	Letter dated December 20, 2013 – Landale Submitting Evidence
C1-10	Letter dated January 22, 2014 – Landale Submitting Responses to BCUC and BCSPO Information Requests
C1-11	Letter dated February 3, 2014 – Landale Submission of Intervener Evidence, Information Request 1 and 2 with Responses and Opening Statement
C2-1	**CANADIAN DIRECT INSURANCE INC. (CDI)** Letter dated September 9, 2013 and Online Registration – Request for Intervener Status by Karen Hopkins-Lee

Exhibit No.	Description
C2-2	Letter dated October 11, 2013 – CDI Submitting Information Request No. 1
C2-3	Letter dated December 2, 2013 – CDI Submitting Information Request No. 2
C2-4	Submitted at Oral Hearing February 7, 2014 – PRINTOUT OF AN ARTICLE FROM THE ICBC WEBSITE TITLED "POLICE TARGETING DISTRACTED DRIVERS IN FEBRUARY"
C2-5	Submitted at Oral Hearing February 7, 2014 – DOCUMENT ENTITLED "2008 TO 2012, MOTOR VEHICLE FATALITIES IN BRITISH COLUMBIA: STATISTICS"
C3-1	**TRIAL LAWYERS ASSOCIATION OF BC (TLABC))** Letter dated September 13, 2013 – Request for Intervener Status by Carla Terzariol
C4-1	**PEMBERTON INSURANCE CORP. (PI)** Letter dated September 13, 2013 – Request for Intervener Status by Roger Finnie
C4-2	Letter dated October 11, 2013 – PI Submitting Information Request No. 1
C4-3	Letter dated November 15, 2013 – PI Submitting Prehearing Conference Comments
C5-1	**CANADIAN OFFICE AND PROFESSIONAL EMPLOYEES' UNION, LOCAL 378 (COPE378)** Letter dated September 16, 2013 – Request for Intervener Status by Jim Quail and Leigha Worth
C5-2	Letter dated October 8, 2013 – COPE Submitting Information Request No. 1
C6-1	**INSURANCE BUREAU OF CANADA (IBC)** Letter dated September 16, 2013 – Request for Intervener Status by Miranda Lee
C6-2	Letter dated October 11, 2013 – IBC Submitting Information Request No. 1
C6-3	Letter dated December 2, 2013 – IBC Submitting Information Request No. 2
C6-4	Submitted at Oral Hearing February 6, 2014 – DOCUMENT ENTITLED "PANEL 1 - ACTUARIAL AND CLAIMS, DOCUMENTS FOR CROSS-EXAMINATION BY IBC"
C6-5	Submitted at Oral Hearing February 13, 2014 – EXHIBIT C2-6 RE-MARKED EXHIBIT C6-5
C6-6	Submitted at Oral Hearing February 13, 2014 – PACKAGE OF DOCUMENTS "PANEL 2 - ROAD SAFETY", DOCUMENTS FOR CROSS EXAMINATION BY IBC
C7-1	**AUTOMOBILE INSURANCE COMMITTEE OF THE CANADIAN BAR ASSOCIATION (AIC)** Letter dated September 18, 2013 – Request for Intervener Status by Barbara Flewelling
C7-2	Letter dated October 11, 2013 – AIC Submitting Information Request No. 1

Exhibit No.	Description
C7-3	Submitted at Oral Hearing February 12, 2014 – SUBMISSIONS BY CANADIAN BAR ASSOCIATION - B.C. BRANCH AUTOMOBILE INSURANCE COMMITTEE (AIC) RE: ICBC UNDERTAKING TO PROVIDE CLAIMS DATA
C8-1	**ADAIR, GORDON (ADAIR)** Letter dated September 19, 2013 and Online Registration – Request for Intervener Status by Gordon Adair
C8-2	Letter dated December 2, 2013 – Adair Submitting Information Request No. 2
C8-3	Submitted at Oral Hearing February 7, 2014 – DOCUMENT FROM VANCOUVER SUN WITH PHOTO ENTITLED "DRIVER SERVICES CENTRE"
C9-1	**BRITISH COLUMBIA AUTOMOBILE ASSOCIATION (BCAA)** Letter dated September 19, 2013 – Request for Intervener Status by Glen Pentland – Moved from D-2
C10-1	**BC PENSIONERS' AND SENIORS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, BC COALITION OF PEOPLE WITH DISABILITIES, COUNSEL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCPSO ET AL)** Letter Dated September 20, 2013 – Request for Intervener Status by Sarah Khan
C10-2	Letter Dated September 27, 2013 – BCPSO Submitting Notice of additional consultant
C10-3	Letter dated October 11, 2013 – BCPSO Submitting Information Request No. 1
C10-4	Letter dated November 15, 2013 – BCPSO Submitting Prehearing Conference Comments
C10-5	Letter dated December 2, 2013 – BCPSO Submitting Information Request No. 2
C10-6	Letter dated January 17, 2014 – BCPSO Information Request No. 1 to Mr. Landale regarding Evidence
C11-1	**TOWARD RESPONSIBLE EDUCATED ATTENTIVE DRIVING (TREAD))** Letter Dated September 20, 2013 – Request for Intervener Status by Fred Weisberg
C11-2	Letter dated October 11, 2013 – TREAD Submitting Information Request No. 1
C11-3	Letter dated November 15, 2013 – TREAD Submitting Prehearing Conference Comments
C11-4	Letter dated December 2, 2013 – TREAD Submitting Information Request No. 2

Exhibit No.	Description
C11-5	Submitted at Oral Hearing February 7, 2014 – PACKAGE OF DOCUMENTS, FIRST ONE ENTITLED "AN OPEN LETTER TO CUSTOMERS FROM INTERIM CEO MARK BLUCHER"
C11-6	Submitted at Oral Hearing February 14, 2014 – PACKAGE OF DOCUMENTS, FIRST DOCUMENT ENTITLED "ICBC MAKES CHANGES TO BASIC AND OPTIONAL RATES"

INTERESTED PARTY DOCUMENTS

D-1	**WINSTANLEY, LORI** Letter Dated September 4, 2013 – Request for Interested Party Status by Lori Winstanley
D-2	**BRITISH COLUMBIA AUTOMOBILE ASSOCIATION (BCAA)** Letter dated September 18, 2013 and Online Registration – Request for Interested Party Status by Glen Pentland and Euan Rafferty – Moved to C9-1
D-3	**INSURANCE BROKERS ASSOCIATION OF BC (IBABC)** Online Registration dated October 3, 2013 - Request for Interested Party Status by Charles Byrne

LETTERS OF COMMENT

E-1	Ouderkirk, Jean Letter of Comment dated September 6, 2013 – Redacted version on web only
E-2	Varga, Dianne Letter of Comment dated September 6, 2013– Redacted version on web only
E-3	Kneller, Brittney Letter of Comment dated September 19, 2013– Redacted version on web only
E-4	Anderson, Tom Letter of Comment dated August 30, 2013– Redacted version on web only
E-5	Nem, Jackson Letter of Comment dated August 30, 2013– Redacted version on web only

Exhibit No.	Description
E-6	Nolter, Dan Letter of Comment dated August 30, 2013– Redacted version on web only
E-7	Weiss, Ken Letter of Comment dated September 9, 2013– Redacted version on web only
E-8	Marshall, Gord Letter of Comment dated September 22, 2013– Redacted version on web only
E-9	McCandless, Richard Letter of Comment dated October 1, 2013– Redacted version on web only
E-9-1	McCandless – Letter of Comment dated December 6, 2013
E-10	Entlich, Arthur Letter of Comment dated October 11, 2013– Redacted version on web only
E-11	Langlois, B Letter of Comment dated October 29, 2013– Redacted version on web only
E-12	Monteith, J Letter of Comment dated November 9, 2013– Redacted version on web only