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BY ELECTRONIC FILING

British Columbia Utilities Commission
6th floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Sirs/Mesdames:

Re: Project No. 3698890 - ICBC's 2016 Revenue Requirements Application - ICBC's Reply Submission

We enclose for filing in the above proceeding the Reply Submission of the Insurance Corporation of British Columbia dated March 27, 2017.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Matthew Ghikas]

Matthew Ghikas

MTG/vde
Enc.

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT

R.S.B.C. 1996, CHAPTER 473, as amended

and the

INSURANCE CORPORATION ACT

R.S.B.C. 1996, Chapter 228, as amended

A FILING BY THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC) RELATING TO 2016 REVENUE REQUIREMENTS APPLICATION

REPLY SUBMISSIONS OF THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC) ON DEFERRED PREMIUM ACQUISITION COST ALLOCATION AND GOVERNMENT INITIATIVES REPORTING

March 27, 2017

PART ONE: INTRODUCTION

1. In Order No. G-23-17, the Commission had determined that the only matters remaining to be addressed in this proceeding are ICBC's proposals to allocate Deferred Premium Acquisition Cost ("DPAC") and to modify reporting on government initiatives.[1] BCOAPO, TREAD, and Mr. Landale filed submissions. ICBC has confined these Reply Submissions to the two issues to be determined, focussing on the interveners' main arguments rather than a line by line response.[2]

2. ICBC's March 6, 2017 Final Submission demonstrated why the DPAC allocation methodology is necessary and has very limited practical impact on (and no downside to) Basic insurance policyholders. ICBC explained why ICBC's government initiatives reporting proposal is reasonable and efficient. As discussed below, BCOAPO and TREAD generally accept ICBC's DPAC allocation proposal, and Mr. Landale appears to have misunderstood it. None of the interveners has provided a compelling rationale to maintain quarterly government initiatives reporting, and ICBC's proposal is consistent with the recommendations of the November 14, 2014 Independent Review of BCUC Final Report. ICBC submits that the proposals should be approved as sought.

PART TWO: DPAC ALLOCATION METHODOLOGY IS NECESSARY AND REASONABLE

3. ICBC addresses below the intervener submissions on the proposed DPAC allocation methodology. The intervener submissions do not detract from the fundamental rationale underlying ICBC's proposal. ICBC submits that, for the reasons described in ICBC's Final Submissions, the proposal should be approved.

A. RESPONSE TO BCOAPO

4. BCOAPO accept ICBC's description of the International Financial Reporting Standards ("IFRS") requirements. They also accept ICBC's evidence that the proposed allocation

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[1] Order No. G-23-17: "For reasons set out in Appendix A of this Order, the remaining process will be scoped to providing argument on the two outstanding requests from the Application: (i) DPAC Allocation Methodology and (ii) Government Initiatives Reporting Requirement."

[2] For this reason, ICBC's silence on a particular matter should not be interpreted as agreement.

is not detrimental to Basic insurance customers. They only question why ICBC could not calculate a corporate DPAC for the purposes of financial reporting, and continue to calculate separately the DPAC for regulatory purposes.[3] ICBC submits that using the proposed allocation methodology for all purposes is the reasonable approach. Regulatory filings and financial statements are based on the same set of accounting policies and methodologies. These accounting policies and methodologies are based on the requirements of IFRS and Accounting Guidelines in Canada for Financial Reporting by Property & Casualty Insurance Companies. DPAC impacts financial indicators of relevance to rate setting. For instance, *Special Direction IC2* requires that MCT must be determined according to the guidelines of the Office of the Superintendent of Financial Institutions ("OSFI"), and OSFI Guidelines contemplate the use of financial statement values to determine MCT. Maintaining consistency between the financial statements and presentation in regulatory filings, and avoiding "two sets of numbers", is beneficial for ease of understanding on the part of all stakeholders.

B. RESPONSE TO TREAD

5. TREAD does not oppose ICBC's proposed DPAC allocation methodology,[4] but makes some related comments that ICBC addresses below.

6. TREAD suggests "the possibility that the future years could feature an undesirable Basic rate impact due to the change."[5] This is incorrect. ICBC's evidence, backed by scenario analysis, is that there are only two possible outcomes: (1) no difference in the Basic DPAC compared to the direct calculation or (2) a larger Basic DPAC, and a corresponding improvement in ICBC's Basic capital position.[6] This is explicit in Step 4 of the methodology outlined in Chapter 3, paragraph 22, which states that the final Basic DPAC will be set equal to the direct calculation or will be adjusted upward by a separately-determined amount.

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[3] BCOAPO Submission, para. 9(a).

[4] TREAD Submission, para. 45.

[5] TREAD Submission, para. 19.

[6] 2016.1 RR BCUC.20.3 and 2016.1 RR BCUC.20.4.

7. TREAD requests that ICBC file the complete text of Accounting Guidelines in Canada AcG-3.[7] ICBC has already filed and explained the applicable portions of the standard.

8. TREAD suggests that "Functionally, it appears Optional is acting as a reinsurer for Basic insurance" and that the "reinsurance relationship should presumably adhere to Office of the Superintendent of Financial Institutions ("OSFI") requirements."[8] A legislated transfer of income and capital from one line of ICBC's business to another is not akin to a reinsurance relationship. Further, ICBC is a provincial Crown corporation and is not subject to regulation by OSFI. Provincial regulation under *Special Direction IC2* incorporates OSFI Guidelines for only the calculation of MCT.

9. TREAD's submissions in paragraphs 20 to 24 under the heading "The Change Complicates and Obscures the Separate Regulation of Basic Insurance" are aimed at the regulatory framework in which ICBC operates, rather than the DPAC allocation *per se*. ICBC will continue to operate within the framework established by legislation.

C. RESPONSE TO MR. LANDALE

10. ICBC disagrees with Mr. Landale's DPAC allocation submissions in their entirety. They are based on a misapprehension of the facts.

11. Mr. Landale poses the rhetorical question: "…why is ICBC only now complying with the IFRS[?]"[9] ICBC adopted IFRS in fiscal 2011. It has been complying with IFRS since that time. ICBC's proposal is integral to ongoing compliance with IFRS, in response to a new circumstance, i.e., the Optional income transfers. ICBC described the applicable IFRS accounting guideline in paragraph 4 of its Final Submissions.

12. Mr. Landale appears to suggest that ICBC has been insufficiently clear about what it is requesting, calling ICBC's proposal a "moving target".[10] The request is clear. ICBC is applying for approval of the methodology articulated in the Application, Chapter 3, paragraph 22. ICBC

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[7] TREAD Submission, para. 13.

[8] TREAD Submission, para. 10.

[9] Landale Submission, para. 4.8.

[10] Landale Submission, paras. 4.6, 4.9, and 4.16.

provided illustrative examples for applying the calculation methodology in its response to 2016.1 RR BCUC.20.3.

13. Mr. Landale is concerned that ICBC used the proposed allocation methodology to calculate the MCT Outlook, despite not having received the Commission's approval.[11] ICBC was transparent that it had determined Basic DPAC using the proposed methodology, and that there was no practical effect on Basic insurance policyholders. The Application stated, for instance:

> In determining the 2016/17 Outlook MCT ratio in this Application, ICBC has applied the proposed allocation method to calculate the Basic DPAC. Since the resulting Basic DPAC is the same as the Basic DPAC that would result from a direct calculation, the use of this allocation has no impact on the numbers shown in the Application. However, it is necessary to establish an allocation approach which is approved by the Commission since ICBC's total DPAC asset is now being determined on a corporate basis.[12]

14. Mr. Landale, in paragraph 4.10.2, has taken ICBC's statement about "normal circumstances"[13] out of context. ICBC used the phrase in the context of discussing the circumstances in which the proposed DPAC allocation would produce a different result from determining Basic DPAC directly. ICBC was contrasting (a) the circumstance where the Basic and Optional unearned premiums, after consideration of relevant income transfers, were expected to have relatively similar profitability ("normal circumstances"), in which case the two approaches would yield the same result, to (b) the exceptional circumstance where Basic insurance policyholders could benefit from moving to the proposed allocation approach.[14] Basic insurance policyholders are, at the end of the day, either financially indifferent or better off under ICBC's proposal.

15. Mr. Landale has quoted excerpts from ICBC's 2014 Annual Service Plan Report ("2014 Report") relating to DPAC. He questions how the proposed DPAC allocation methodology aligns with the presentation in the 2014 Report.[15] ICBC's 2014 Report includes the financial value

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[11] Landale Submission, para. 4.10.1.

[12] Application, Chapter 3, para. 25.

[13] Application, Chapter 3, para. 21.

[14] 2016.1 RR BCUC.20.3 and 2016.1 R BCUC.20.4.

[15] Landale Submission, para. 4.17.

of the DPAC asset (or premium deficiency liability) for the Basic and Optional insurance lines of business at the end of the 2014 fiscal year, whereas the Application, Figure 3.3 demonstrates in more detail the calculation of the outlook Basic value for the end of the 2016/17 fiscal year.

16. ICBC submits that the Commission should place no reliance on Mr. Landale's calculations, questions, and discussion regarding how ICBC has calculated Corporate DPAC and applied the allocation methodology. The necessary information in support of the calculations can be found in the Application and in response to information requests as cited.

PART THREE: REPORTING REQUIREMENT FOR GOVERNMENT INITIATIVES

17. ICBC addresses below the intervener submissions on government initiatives reporting. The intervener arguments favouring retaining quarterly reporting are unpersuasive where more frequent reporting has provided little additional insight, where the initiatives are mandated, and where the Commission must set rates to cover the costs associated with the initiatives. ICBC's proposal to report annually regarding government initiatives is exactly the type of streamlining initiative advocated by the authors of the November 14, 2014 Independent Review of BCUC Final Report – the proposal improves regulatory efficiency without detracting from the Commission's oversight functions.

A. RESPONSE TO BCOAPO

18. BCOAPO focus on whether quarterly reporting on government initiatives is onerous or has a material cost associated with it.[16] Reporting annually instead of quarterly will not, on its own, reduce the number of required employees or produce other material savings; however, it is self-evident that preparing quarterly reports requires time and effort on the part of a number of ICBC employees that could be spent doing other things. ICBC submits that BCOAPO's demand for demonstrable financial savings before entertaining the prospect of streamlining compliance reporting is a recipe for inefficient regulation. The Commission should give weight to the fact that continuing to report quarterly on government initiatives provides little additional value relative to the reporting that occurs in revenue requirements proceedings.

[16] BCOAPO Submission, paras. 15 and 16.

19. BCOAPO state that "It is precisely because government initiatives are at the prerogative of the government, and outside the control of ICBC or the Commission, yet may carry cost implications, that the Commission and interveners have as much advance notice as possible to consider the potential cost impacts…".[17] Earlier or more frequent reporting does not change the implications to Basic insurance policyholders, which are addressed in revenue requirements proceedings.

B. RESPONSE TO TREAD

20. TREAD echoes BCOAPO's arguments regarding costs savings and facilitating "remedial action"[18] by the Commission. ICBC's responses to BCOAPO, above, are equally applicable to TREAD's arguments.

21. TREAD provides an Appendix to support its assessment that, with annual reporting, too much time could pass between "detection", "report[ing]", and the Commission's "remedy" in a revenue requirements application decision. TREAD raises the prospect that initiatives will not be considered and addressed until over a year later. TREAD's analysis does not account for the fact that ICBC is typically in the midst of revenue requirements proceedings for the majority of every calendar year. The evidentiary record of one proceeding will typically close in the spring, and ICBC must file the next application by the end of August. The High-value Vehicles initiative, announced in November 2016, is a good example of how new government initiatives can become the subject of information requests in a proceeding already underway.

22. TREAD suggests that ICBC's proposal to streamline compliance reporting is inconsistent with the recommendations of the November 14, 2014 Independent Review of BCUC Final Report.[19] ICBC's proposal is, in fact, consistent with the Report's focus on eliminating unnecessary compliance reporting.[20]

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[17] BCOAPO Submission, para. 18.

[18] TREAD Submission, para. 39.

[19] TREAD Submission, para. 40.

[20] Application, Chapter 9, para. 16.

23. TREAD states that the "apparent trend of increasing and rapid government intervention in the regulation of ICBC suggests that this is not the time to reduce the frequency of government initiatives reporting."[21] It also seeks to link OIC 960/16 to government initiatives reporting, suggesting that ICBC missed an opportunity to inform the Commission of OIC 960/16. The government initiatives reporting addressed in ICBC's proposal is unrelated to changes to the legislative framework governing Basic insurance. The Commission is already well-positioned to assess developments in its legislative mandate without quarterly reporting by ICBC. The Commission issued Order G-195-16 one day after the promulgation of OIC 960/16.

C. RESPONSE TO MR. LANDALE

24. Mr. Landale's opposition to ICBC's proposal appears to be based on the premise that more frequent reporting is necessary to identify a "trend…requiring special questions or comments, with the view to correction or adjustment."[22] He draws the analogy to reporting on investments.[23] ICBC submits that the nature of government initiatives is such that they do not give rise to a "trend", nor do they change with the frequency of investment returns. The Commission has no jurisdiction to make "correction or adjustment" to government initiatives. The Commission must fix Basic insurance rates sufficient to ensure that the costs of these initiatives are covered.

PART FOUR: THE PROCESS HAS BEEN FAIR

25. Before concluding, ICBC offers one comment on Mr. Landale's commentary on "regulatory hearing perfidy" and procedural fairness. ICBC submits that Mr. Landale's commentary is without merit and does a disservice to the Commission. The Commission is empowered to determine its own process having regard to the scope of the Application before it and the legislative framework. The Commission sought input on hearing scope from Mr. Landale and other parties. The Commission made its determination on hearing scope based on

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[21] TREAD Submission, para. 43.

[22] Landale Submission, para. 3.5.

[23] Landale Submission, para. 3.8.

submissions from all parties, including Mr. Landale. Mr. Landale has no "fundamental right to submit evidence"[24] on matters no longer in issue in the proceeding.

26. The Commission's scoping order and reasons for decision speak for themselves. The Commission need not justify its decisions further to a party who disagrees with the outcome.

PART FIVE: CONCLUSION AND ORDER SOUGHT

27. The evidence demonstrates that ICBC's request for approval of a DPAC allocation approach is important for ICBC's financial reporting, but has little if any practical impact for Basic insurance policyholders. ICBC's proposal to report annually regarding government initiatives reporting will, consistent with the recommendations of the November 14, 2014 Independent Review of BCUC Final Report, improve regulatory efficiency without detracting from the Commission's oversight functions. Both proposals should be approved as sought.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: March 27, 2017

[original signed by Matthew Ghikas]
Matthew Ghikas
FASKEN MARTINEAU DUMOULIN LLP
Legal Counsel to ICBC

[24] Landale Submission, p. 1.