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BY EMAIL

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

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Services

Dear Sirs/Mesdames:

**Re: Project No. 1598929 - ICBC's 2017 Revenue Requirements Application -
ICBC's Final Submission**

We enclose for filing in the above proceeding the Final Submission of the Insurance Corporation of British Columbia dated December 22, 2017.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Matthew Ghikas]

Matthew Ghikas

MTG/pmw
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 2017
REVENUE REQUIREMENTS APPLICATION**

**FINAL SUBMISSIONS OF
THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)**

December 22, 2017

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PART ONE: INTRODUCTION

1. Order in Council 602/17, which was issued on December 18, 2017, amended *Special Direction IC2 to the British Columbia Utilities Commission*¹ (*Special Direction IC2*) to require the Commission to issue by January 12, 2018:

- Its final general rate change order for the 2017 policy year; and
- Any other final orders in respect of ICBC's 2017 Revenue Requirements Application (RRA).

The direction also requires that the Commission's orders be based on evidence filed as of December 12, 2017.

2. On December 19, 2017, the Commission established an expedited timetable for final argument, to meet the January 12, 2018 deadline. ICBC is filing these Final Submissions in accordance with the Commission's timetable.

3. ICBC's Final Submissions focus on four points:

- Part Two - ICBC's proposed Basic insurance rate change for the 2017 policy year of 6.4% is just and reasonable. The rate increase is dictated this year by the magnitude of the rate change required to cover the costs of Basic insurance and the rate smoothing provisions of *Special Direction IC2*.
- Part Three - ICBC's proposed refinements to the current suite of performance measures for future revenue requirements applications are relatively minor in nature. The adoption of these refinements is efficient and keeps the focus on key metrics relevant to the Basic insurance business.

¹ BC Regulation 307/2004, as amended.

- Part Four - With the completion of the Transformation Program (TP) and TP's transition period, it is now appropriate to discontinue the TP reporting requirements.
- Part Five - ICBC's proposed refinements to operational metrics on claims and road safety, and their reporting in the applicable chapters, are appropriate and necessary.

4. Consistent with typical practice, and in light of the compressed timelines, the detailed orders sought by ICBC in this proceeding are set out in the draft Order appended to these Final Submissions.

PART TWO: PROPOSED BASIC INSURANCE RATE CHANGE IS JUST AND REASONABLE

5. The proposed Basic insurance rate change is just and reasonable. It reflects accepted actuarial practice, the applicable legislative framework, the Commission-approved Capital Management Plan, and the steps being taken by ICBC to reduce costs within the current insurance regime. The requested Basic insurance rate change of 6.4% for the 2017 policy year is dictated by the magnitude of the rate change to cover costs and the ceiling of the rate smoothing framework as specified in sections 3(1.1)(b) and (c) of *Special Direction IC2*.

A. ICBC HAS APPLIED ACCEPTED ACTUARIAL PRACTICE AND THE LEGISLATED RATE CAP

6. The current regulatory framework requires Basic insurance rates to be set according to accepted actuarial practice,² subject to applicable laws.

7. Accepted actuarial practice is the manner of performing actuarial work in Canada in accordance with the Rules of Professional Conduct (Rules) and the Standards of Practice (SOP).³ The Rules are the Canadian Institute of Actuaries' highest order of guidance. Professional

² *Special Direction IC2* s.3(1)(c).

³ Response to information request 2017.1 RR TREAD.1.1-2.

actuaries must adhere to them. The indicated rate change of 6.4% has been prepared by the actuaries to be consistent with accepted actuarial practice.⁴

8. The actuaries have computed the indicated rate change in two parts:
- First, the rate change to cover costs of 20.0% reflects the change in Basic insurance revenue needed to pay for expected future costs in the 2017 policy year.
 - Second, there is a negative capital provision of 13.6 percentage points, representing the difference between the rate change to cover costs and the rate cap of 6.4% specified by *Special Direction IC2*.⁵ Under the SOP Section 2620.14, the capital provision included in the indicated rate may be specified to the actuary. In this case, it has been specified to the actuaries according to *Special Direction IC2* and the Commission-approved Capital Management Plan.⁶
9. Basic capital will absorb the 13.6 percentage point rate deficit equivalent to \$415 million over the course of the 2017 policy year.⁷

B. EXTERNAL PRESSURES ARE DRIVING THE RATE INCREASE DESPITE ICBC'S INITIATIVES

10. The components of the rate change to cover costs are discussed in Chapter 2 of the Application, and are summarized in Figure 2.3 (inserted below).

⁴ ICBC's Chief Actuary and External Actuary have certified the rate indication as being prepared in accordance with accepted actuarial practice. The certifications are included in Chapter 2 of the Application, pp. 2-43 and 2-44.

⁵ The rate change ceiling of 6.4% is determined by adding 1.5 percentage points to the approved rate change of 4.9% for the 2016 policy year.

⁶ *Special Direction IC2*, sections 3(1)(d) and (e) addresses the capital management plan. Response to information request 2017.1 RR TREAD.1.4-5.

⁷ Application p.2-2, para.5.

Figure 2.3 – Overview of Impact on PY 2017 Indicated Rate Change

| Line No. | Components | Impact (Percentage points (ppt) of PY 2017 indicated rate change) |
|-----------|---|--|
| 1 | Carry Forward of PY 2016 Rate Offset | 10.1 |
| 2 | PY 2017 Loss Cost Forecast Variance | 4.9 |
| 3 | Loss Cost Trend to PY 2017 | 8.0 |
| 4 | Investment Income | -3.0 |
| 5a | Operating Expense: Claims Services Expense (ULAE) | 0.7 |
| 5b | Operating Expense: Other | 0.0 |
| 6 | Capital Maintenance Provision | 0.0 |
| 7 | Change in Average Premium | -0.6 |
| 8 | Other | 0.0 |
| 9 | PY 2017 Rate Change to Cover Costs | 20.0* |
| 10 | Capital Provision | -13.6 |
| 11 | PY 2017 Indicated Rate Change | 6.4 |

* The numbers shown in this table do not add to the total of 20.0% as a result of rounding. The actual components are rounded to three decimal points; however, only one decimal is provided throughout this Chapter.

11. As can be seen in Figure 2.3, the largest driver of the 20% increase in the rate change required to cover costs - approximately half of it - is simply the fact that there was no Optional income transfer this year as there had been last year. The costs that were offset by the income transfer last year now have to be included in the rate indication.

12. Claims costs are the other major driver, reflected in the loss cost forecast variance and loss cost trend (4.9 percentage points and 8.0 percentage points, respectively). These amounts reflect the external pressures on Basic claims costs including the rising number of crashes, more property damage and injury claims, and the increase in injury and vehicle repair costs.⁸

13. The evidence demonstrates that, despite the substantial rate change required to cover costs, ICBC has taken significant steps to control costs. Included in the rate change to cover costs is 1.5 percentage points of rate offset due to claims management strategies that ICBC has

⁸ Response to information request 2017.1 RR BCOAPO.5.3.

undertaken to mitigate claims cost pressures for the policy year.⁹ The Application describes how ICBC continues its efforts to moderate claims costs through its claims cost management, road safety and fraud initiatives, continuous operational improvement, and the consistent quality and fair handling of claims. After years of fiscal restraint, the operating expenses are not contributing to the rate change to cover costs with the exception of the additional expenses associated with managing claims - and the benefit in terms of reducing claims costs more than offsets these costs.

14. The magnitude of the rate change to cover costs means that the indicated rate increase will be set at the legislated cap. Lowering the rate change below 6.4% would require the implementation of further mitigation strategies that will achieve at least \$415 million of savings for the 2017 policy year. ICBC's evidence is that it is unaware of any initiatives or combination of initiatives that could be implemented in the time needed to achieve this level of savings for policy year 2017.¹⁰ In addition, "savings of this magnitude cannot be achieved without fundamental change to the Basic insurance system which will require some form of government direction."¹¹

15. ICBC's actuaries express their view in Chapter 2, Appendix A.0 that there is a relatively narrow range of results with respect to the 20.0% rate change to cover costs that could be approved by the Commission, within the constraints of accepted actuarial practice in Canada. A rate change lower than the ceiling of 6.4% would not, in the view of ICBC's actuaries, accord with accepted actuarial practice.

16. ICBC submits that the Commission should approve the Basic insurance rate change of 6.4% for the 2017 policy year on a permanent basis on the terms specified in Chapter 1 of the 2017 RRA.

⁹ See the Application, Chapter 2, Appendix E.0.

¹⁰ Response to information request 2017.1 RR TREAD.73.1. Application, Chapter 1, para. 6.

¹¹ Response to information request 2017.1 RR BCOAPO.5.5.

PART THREE: ICBC'S PROPOSED REFINEMENTS TO PERFORMANCE MEASURES ARE APPROPRIATE

17. ICBC is proposing some changes to the suite of performance measures currently reported in revenue requirements applications. The proposals will improve the alignment between the performance measures used in regulatory proceedings and ICBC's corporate performance measures. They will provide relevant information to the Commission in an efficient manner, and will ensure that the performance measures are meaningful to ICBC's business.¹²

18. A summary table of ICBC's proposals regarding performance measures is included in the appended draft Order.

A. ADJUSTMENTS TO THE PRESENTATION OF PERFORMANCE MEASURES

19. The main thrust of ICBC's proposal relates to presentation, rather than substance.

20. For instance, the proposed performance measures are categorized with respect to three of the four corporate strategic goals,¹³ as follows:

- Customer satisfaction measures, which provide information to assess the just and reasonable provision of ICBC's services from a customer point of view at key interaction points.
- Financial measures, which provide information to assess the adequacy of premiums, capital, and investment returns that are used in the provision of Basic insurance.
- Operational excellence measures, which provide information to assess the efficiency of servicing Basic insurance policies and claims.

21. ICBC is also proposing to remove certain metrics from the performance measures chapter, while continuing to report on the information as part of the applicable chapters where ICBC discusses the applicable operations or initiatives. ICBC explained that these changes are

¹² Response to information request 2017.1 RR BCOAPO.6.1.

¹³ Response to information request 2017.1 RR BCUC.46.1.

appropriate because additional context is required to interpret the trends properly (such as metrics for legal representation and road safety statistics).¹⁴

B. ICBC IS PROPOSING TO DISCONTINUE PERFORMANCE MEASURES THAT ARE CONFUSING OR NO LONGER MEANINGFUL

22. ICBC has proposed to discontinue only a very limited number of performance measures. These measures fall within the following general categories:

- Some of these metrics (i.e., injury paid severity, bodily injury (BI) reported frequency, and injured person rate) have been a source of confusion. They have a superficial comparability to claims statistics in the actuarial rate level indication analysis, whereas the relationship is in fact more complex.
- Certain metrics are more operational in nature (such as the New Claims Initiation and Customer Contact Service Level). These call wait times are no longer considered to be a leading indicator of customer satisfaction at the call centres.¹⁵
- One of the metrics that ICBC is proposing to discontinue (the Customer Approval Index) has not been meaningful to ICBC's business for a number of years and yet continues to be a part of the existing suite of performance measures at a cost to Basic policyholders.¹⁶

23. ICBC will bring forward appropriate changes to the suite of performance measures to maintain the alignment with ICBC's business as it becomes apparent that individual performance measures no longer fulfill their purpose.¹⁷

PART FOUR: TP REPORTING

24. ICBC has, for the past several years, addressed its claims initiatives and operational improvements in the Claims Cost Management chapter. The reporting included information on

¹⁴ Response to information request 2017.1 RR BCUC.52.1 and response to information request 2017.1 RR BCUC.57.1.

¹⁵ Response to information request 2017.1 RR BCUC.49.3.

¹⁶ Response to information request 2017.1 RR BCOAPO.6.4.

¹⁷ Response to information request 2017.1 RR BCOAPO.6.1.

TP. TP is now complete. It has been a significant success. As of the end of 2016, the annual benefits from TP are \$157 million - over \$50 million more each year than ICBC had originally forecasted in 2012.¹⁸ The savings are now fully embedded in the bodily injury severity trend. ICBC submits that, given these facts, it is appropriate to discontinue TP-specific reporting, including: (a) measuring and reporting on TP benefits, (b) reporting on the re-allocation of TP costs;¹⁹ and (c) reporting on transitional period operational metrics related to Claims Transformation.²⁰

PART FIVE: OPERATIONAL REPORTING ON CLAIMS AND ROAD SAFETY

25. ICBC reports on metrics associated with the claims and road safety initiatives and operational improvements in the Claims Cost Management chapter and Road Safety chapter, respectively. This will continue. ICBC has proposed relatively modest changes to the metrics, and has provided sound reasons for each change.

26. ICBC will continue to monitor and address in the chapter the rate of legal representation. The proposed change is simply to use the more refined Legal Representation Conversion Rate instead of the existing metric.²¹ The Legal Representation Conversion Rate better represents the total number of customers who may decide to retain legal counsel to handle their bodily injury claim.

27. ICBC discusses road safety initiatives in the Road Safety chapter and will continue to do so. ICBC's proposal is to monitor the Crash Frequency as the primary statistic for its Road Safety programs in preference to the crash rate²² as it provides a closer relation with the claims frequencies used in the actuarial analysis.²³

¹⁸ Response to information request 2017.1 RR BCUC.65.3.

¹⁹ Application, Chapter 5, Appendix 5 D, p. 4.

²⁰ Application, Chapter 7, Appendix 7 C, p. 3.

²¹ Response to information request 2017.1 RR RM.7.3.

²² The crash rate is one of the directional measures in the existing suite of performance measures. The other two are the injured person rate and the new driver comparative crash rate.

²³ Response to information request 2017.1 RR BCUC.57.1.

28. ICBC also makes use of other crash data and survey data to inform its education and awareness programs.²⁴ For its current review of the Graduated Licensing Program, ICBC is proposing to report on the Learner and Novice Crash Rate Ratios²⁵ until a new statistic is proposed and as data is available.

PART SIX: CONCLUSION AND ORDER SOUGHT

29. ICBC's proposed Basic insurance rate change for the 2017 policy year of 6.4% is just and reasonable. The rate increase is essentially dictated this year by the magnitude of the rate change required to cover the costs of Basic insurance and the rate smoothing provisions of *Special Direction IC2*. ICBC's proposals with respect to performance measures, TP reporting and reporting for claims cost management and road safety are improvements to ICBC's overall regulatory reporting in terms of both efficiency and meaningful content. The Commission should approve the proposals as detailed in the appended draft Order.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: December 22, 2017

[original signed by Matthew Ghikas]

Matthew Ghikas
FASKEN MARTINEAU DUMOULIN LLP
Legal Counsel to ICBC

²⁴ Response to information request 2017.1 RR BCUC.58.1. Road Safety currently focuses on statistics such as the number of crashes at intersections and the number of rear-end collisions resulting in injury.

²⁵ ICBC is proposing that these components will replace the overall new driver comparative crash rate. See the response to information request 2017.1 RR BCUC.57.2.



ORDER NUMBER
G-xx-18

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

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

and

Insurance Corporation of British Columbia
Revenue Requirements Application for Universal Compulsory Automobile Insurance
Effective November 1, 2017

BEFORE:

B. A. Magnan, Panel Chair/Commissioner
R. D. Revel, Commissioner
D. J. Enns, Commissioner

on January 12, 2018

ORDER

WHEREAS:

- A. On September 15, 2017, the Insurance Corporation of British Columbia (ICBC) filed an application with the British Columbia Utilities Commission (Commission) for its 2017 Revenue Requirements for Universal Compulsory Automobile Insurance (Basic insurance), seeking a Basic insurance rate increase of 6.4 percent for the policy year commencing November 1, 2017;
- B. In the Application, ICBC also requested the following:
- i. Approval to adopt the proposed amended suite of performance measures as the reporting baseline in future revenue requirements applications (RRAs); and
 - ii. Approval to discontinue the reporting requirements specific to ICBC's Transformation Program (TP);
 - iii. Approval to change the classification of certain metrics, presently classified as performance measure metrics, to operational metrics;
 - iv. Approval to move and vary the reporting on the abovementioned operational metrics in the performance measure chapter to report on them in other chapters in future RRAs; details of all above sets of requests are set out in the table below:

Approval sought / requests

Adopt an amended suite of performance measures that align with the corporate performance measures and that reflect three of the four corporate strategic goals: Customer Value and Service, Financial Stability, Operational Excellence. In keeping with the current practice, ICBC will not provide information pertaining to the fourth corporate strategic goal: Aligning People and Business Capabilities. The proposed amendments are set out as follows:

- **Maintain or vary** the following performance measures:
 - a) Maintain Insurance Service Satisfaction as a measure in the amended suite.
 - a. Discontinue providing survey response on whether a customer has purchased Optional coverage from an insurer other than ICBC.
 - b) Maintain Driver Licensing Satisfaction as a measure in the amended suite.
 - c) Replace Claims Service Satisfaction (Closed Claims Only) with Claims Services Satisfaction (Closed Claims and First Notice of Loss (FNOL)) as a measure in the amended suite.
 - a. Discontinue providing the results for eight additional survey service attribute questions related to the Claims Services Satisfaction score.
 - b. Discontinue providing a separate customer satisfaction score for closed claims customer satisfaction related to claimants with injuries.
 - d) Maintain the Basic Loss Ratio in the amended suite.
 - e) Maintain the investment return in the amended suite.
 - f) Replace Claims Efficiency Ratio with the Loss Adjustment Ratio as a measure in the amended suite.
 - g) Maintain the current practice of not reporting on the Employee Opinion Survey in the amended suite.
- **Discontinue** the following performance measures:
 - h) Discontinue operational metrics for Call Centres, including:
 - a. New Claims Initiation.
 - b. Customer Contact Service Level.
 - i) Discontinue Customer Approval Index.
 - j) Discontinue Complaints heard by the Fairness Commissioner.
 - k) Discontinue Basic insurance expense ratio.
 - l) Discontinue Basic non-insurance expense ratio.
 - m) Discontinue routine provision of injury paid severity measures.
 - n) Discontinue routine provision of BI reported frequency.
 - o) Discontinue Legal Representation Rate as a measure but continue reporting on the topic in Claims Cost Management chapters in future RRAs.
 - p) Discontinue directional measures as performance measures.
 - q) Discontinue the cost per policy in force as a measure.
- **Introduce** the following as performance measures:
 - r) Introduce Basic Minimum Capital Test (MCT) Ratio in the amended suite.
 - s) Introduce Insurance Expense Ratio as a measure in the amended suite.

Discontinue all TP and TP related reporting

- a) Discontinue the filing of the “Costs Outside TP Foundational Scope” report in future RRAs.

| Approval sought / requests |
|---|
| <ul style="list-style-type: none"> b) Discontinue provision of transitional period operational metrics (Average Handling Time, Average Speed to Answer, Abandon Rates and Deflection Rates) in future RRAs. c) Discontinue the routine provision of injury paid severity measures (i.e., Average Costs of Bodily Injury (BI) Claims and Litigation costs, and BI Claims Paid Loss Amounts and Costs of Litigation) in future RRAs. d) Discontinue reporting on all TP benefits analysis in future RRAs. |
| <p>Vary or Discontinue certain operational metrics reporting</p> <ul style="list-style-type: none"> a) Replace Legal Representation Rate with Legal Representation Conversion Rate and report on the latter in Claims Cost Management chapters in future RRAs b) Replace Crash Rate based on report date with Crash Frequency based on loss date and report on the latter in Road Safety chapters in future RRAs. c) Replace overall New Driver Comparative Crash Rate (NDCCR) with its components: Learner and Novice Crash Rate Ratios and report them in Road Safety chapters in future RRAs. d) Discontinue reporting on Injured Person Rate |

- C. By Order G-146-17 dated September 22, 2017, the Commission established a regulatory timetable for intervener and interested party registration and approved a Basic rate increase of 6.4 percent on an interim basis for PY 2017, pending approval of a permanent rate;
- D. By Order G-156-17 dated October 10, 2017, the Commission established further steps in the regulatory timetable for the review of the Application, which included one round of information requests, a Procedural Conference to be held on December 5, 2017, and further process to be determined;
- E. On November 24, 2017, the Commission issued a letter to ICBC and registered interveners providing the Procedural Conference agenda, and possible regulatory timetable and process options for discussion;
- F. Pursuant to Order G-156-17, a Procedural Conference was held on December 5, 2017, in Vancouver BC. The Commission heard and considered the submissions made by ICBC and registered interveners and subsequently, by Order G-180-17 dated December 11, 2017, established further steps in the regulatory timetable;
- G. On December 18, 2017, the Lieutenant Governor in Council issued Order in Council (OIC) No. 602 (OIC 602/17) amending *Special Direction IC2 to the British Columbia Utilities Commission (Special Direction IC2)*. OIC 602/17 requires the Commission to issue, for the 2017 policy year, the following orders to ICBC by January 12, 2018, based on the evidence filed with the Commission by December 12, 2017:
 - i. its final general rate change order; and
 - ii. any other final orders in respect of ICBC's revenue requirements application that was filed with the Commission on September 15, 2017;
- H. By Order G-192-17 dated December 19, 2017 (modified by Order G-192-17A, dated December 20, 2017, correcting an error to the amended regulatory timetable), the Commission amended the regulatory timetable set out in Order G-146-17, G-156-17, and G-180-17.

- I. ICBC filed its Final Argument on December 22, 2017. Registered interveners filed their Final Arguments on January 4, 2018. ICBC then filed its Reply Argument on January 8, 2018;
- J. The Commission has reviewed and considered the evidence on record and the final arguments 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. The Commission approves a 6.4 percent Basic insurance permanent rate increase for policy year 2017 commencing on November 1, 2017.
2. The Commission approves the proposed changes to performance measures, reporting on ICBC's Transformation Program and other metrics as set out in recital B to this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of January, 2018.

BY ORDER

B. A. Magnan
Commissioner/Panel Chair