

October 4, 2004

British Columbia Utilities Commission
Attention: Robert J. Pellatt, Commission Secretary
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Dear Mr. Pellatt:

Re: Project #3698362 - ICBC's Glossary for July 5th Filing

Please find attached ICBC's Glossary of Terms for ICBC's July 5th filing. The Glossary is meant to help all participants understand terms used by ICBC in the filing and this proceeding.

Yours truly,



Donnie Wing, CA
Vice President, Investments and Corporate Development

cc: Registered Intervenors

Attachment

Glossary of Terms

Accident Benefits	Wage loss, medical, rehabilitation and death benefits under Part 7 of the <i>Insurance (Motor Vehicle) Act Regulation</i> for injury to or death of an insured occurring anywhere in Canada or the United States. Subject to exclusions in the <i>Insurance (Motor Vehicle) Act</i> and its regulations, an insured can receive benefits for injuries resulting from the use and operation of a Motor Vehicle, regardless of fault.
Accident Year	A grouping of all claims that occurred in a particular 12 month period.
Acquisition Costs	Acquisition costs are the commissions paid on the sale of insurance policies and for vehicle licensing and registration transactions and premium taxes paid under the <i>Insurance Premium Tax Act</i> .
Allocated Loss Adjustment Expenses (ALAE)	Allocated Loss Adjustment Expenses are costs charged to specific claim files for legal fees and disbursements, medical reports, independent adjusters, private investigators, etc.
Basic Insurance	See Universal Compulsory Automobile Insurance below
Bulk Files	Bulk files are expenses and recoveries that are not attributed to a specific claim file. Certain claims-related costs, like those for ambulance services, are not included in the claims database. These costs, "bulk" amounts, are invoiced to ICBC periodically on an aggregate basis (instead of by individual claim).
Claim-Rated Scale (CRS)	A program which reduces or increases the vehicle premium according to the number of Collision and/or Third Party Legal Liability claims paid to or on behalf of a vehicle owner (or principle operator) and the length of driving experience with which the principle operator has been credited.
Claims Incurred Costs	Claims incurred represents the actuarially estimated costs of settling claims that occurred during the calendar year.
Claims Servicing Costs	<p>The costs of processing claims. These costs consist primarily of staff compensation, staff benefits and other general claims operating expenses related to the following major activities in the claims handling process:</p> <ul style="list-style-type: none"> • Claim reporting and customer service functions; • Interview and assessment of liability; • Vehicle damage repair assessment and salvage operations; • Rehabilitation and recovery; • Internal legal services; • Mediation. <p>Related definition: Unallocated Loss Adjustment Expenses (ULAE)</p>



Collision Coverage	A contract with an insurer that covers loss or damage to the insured's own vehicle resulting from a collision with another object for which the insured is responsible.
Combined Ratio	Percentage of each premium dollar spent on claims and related costs, acquisition costs and operating expenses.
Comprehensive Coverage	Comprehensive coverage covers loss, or damage to the insured's own vehicle, from many causes other than collision, such as fire, theft and vandalism.
Compulsory Special Coverages	Coverages for less common vehicles and insurance exposures, such as unlicensed farm tractor, garages, vintage vehicles, and all terrain vehicles.
Controllable Cost	Controllable costs are defined within ICBC as all costs (compensation and operating costs) to run the insurance and non-insurance business with the exception of claims payments and ALAE, broker commissions and premium taxes. It consists of road safety and loss management services, claims services, and insurance and non-insurance operating costs.
Court Tariff	Court Tariff used to determine the Party-and-Party costs for indemnification of successful litigants.
Deferred Premium Acquisition Cost (DPAC)	Deferred portion of Acquisition Costs (see above) which are amortized to income over the term of the policies.
Development on Known Claims	The provision for open claims that provides for any increase or decrease in the amount of claims until settlement.
Driver Premium or Driver Point Penalty Premium	<p>The driver point penalty premium (DPP) is payable on a driver's birthday and is calculated by taking into account the number of driver point penalties recorded against the driving record of the driver for:</p> <ul style="list-style-type: none">• driving offences committed and added to the driver's record during the 12-month period ending five months prior to the birthday, and• driving offences committed during an earlier period which have been recorded on the driving record since the last assessment. <p>Related Definition: Driver's Certificate</p>



Driver's Certificate	<p>The driver's certificate provides:</p> <ul style="list-style-type: none">• \$200,000 third party legal liability coverage under Part 6 of the <i>Insurance (Motor Vehicle) Act</i> Regulation where the holder has no other insurance or where primary coverage is less than \$200,000; and• no-fault accidents benefits coverage under Part 7 of the <i>Insurance (Motor Vehicle) Act</i> Regulation <p>to the driver license holder and to any member of the driver license holder's household.</p> <p>As a result of section 43 of the <i>Insurance (Motor Vehicle) Act Regulation</i>, a driver's certificate is deemed to be incorporated into every valid and subsisting driver's licence. The annual premium payable for a driver's certificate is the total of the driver point penalty premium and the multiple crash premium.</p> <p>Related definition: Driver Point Penalty Premium</p>
Expense Ratio	<p>The amount of each premium dollar earned that is spent on acquisition costs and operating expenses (including non-insurance costs in ICBC's case). This ratio measures the company's operational efficiency in underwriting its book of business.</p>
Incurred But Not Reported Reserves (IBNR)	<p>Reserves for losses that have been incurred, but have not yet been reported to ICBC by the insured.</p>
Indemnity	<p>Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.</p>
Investment income	<p>Accounting income realized from ICBC's investment portfolio including interest income from bonds, money market instruments, dividends, and realized capital gains and losses net of investment expenses.</p>
Loss Ratio	<p>The percentage of claims incurred costs, prior years' adjustments, claims services and road safety and loss management costs to earned premiums.</p>
Minimum Capital Test (MCT)	<p>A test for the determination of an insurer's capital available and capital required; developed by the Office of the Superintendent of Financial Institutions (OSFI).</p>
Non-insurance Services	<p>The driver licensing, vehicle licensing and registration, violation ticket administration and debt collection services provided by ICBC on behalf of the provincial government as set out in the Service Agreement made effective September 1, 2003 between ICBC and the provincial government.</p>

Optional Automobile Insurance	<p>Optional automobile insurance includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> • Comprehensive coverage (Part 9 IMVA Regulation) • Collision coverage (Part 9 IMVA Regulation) • Specified perils (Part 9 IMVA Regulation) • Excess third party legal liability – bodily injury and property damage (Part 9 IMVA Regulation) • Excess underinsured motorist protection (UMP) (Part 10, Division 2 IMVA Regulation) • Optional special coverages (section 153 of Part 11, IMVA Regulation) <p>Related definitions: Collision Coverage, Comprehensive Coverage, Underinsured Motorist Protection, Universal Compulsory Automobile Insurance</p>
Owner's Certificate of Insurance	<p>Certificate of insurance issued under the <i>Insurance (Motor) Vehicle Act</i> and the <i>Insurance (Motor) Vehicle Act Regulation</i> to a vehicle owner. This certificate of insurance is paid for by vehicle premium.</p> <p>Related definition: Driver's Certificate</p>
Policy Year	<p>A grouping of claims or premiums according to the period during which policies are written. For example, all policies written in calendar year 2003 belong to policy year 2003.</p>
Premiums Earned	<p>The amount of premium relating to the expired portion of a policy term within a calendar year.</p> <p>Related definition: Unearned Premium</p>
Premiums Written	<p>Total premiums (driver point penalty premium and vehicle premium) from sale of a policy.</p>
Prior Years' Claims Adjustment or Prior Years' Adjustment (PYA)	<p>Each year, monies are set aside as a reserve in anticipation of future payments that will be made on account of claims that occurred in that year (the "unpaid claims"). Unpaid claims are re-evaluated annually and any change to the amount anticipated to be required for the unpaid claims is called a "Prior Years' Claims Adjustment".</p>
Road Safety and Loss Management	<p>An activity designed to reduce the probability, frequency or severity of losses.</p>
Service Charge	<p>Service charges include:</p> <ul style="list-style-type: none"> • Interest on unpaid premium • Charge for returned cheque • Charges for cancellation of insurance prior to the expiry of the policy term.
Special Direction IC2	<p>Regulation under the <i>Insurance Corporation Act</i> giving special direction to the British Columbia Utilities Commission regarding its regulation of ICBC.</p>



Specified Perils	Specified perils coverage covers fewer, more specific situations than comprehensive coverage, and excludes windshield and vandalism coverage, and collision impacts with animals.
Third Party Legal Liability Coverage	Indemnity for liability imposed upon an insured by law for bodily injury or death, or loss of or damage to property of another or others arising out of the ownership, use or operation either by an insured owner of an insured vehicle, or if the driver is not the owner, by a driver who operates the insured vehicle with the consent of the owner.
Ultimate Claims	The estimate of what will ultimately be paid for claims that occurred in a given period.
Unallocated Loss Adjustment Expenses (ULAE)	<p>All internal claims settlement processing costs, excluding allocated loss adjustment expenses (see above) that will be used to pay for claims that have already taken place. These costs include staff adjusters, estimators, advisors, internal lawyers, clerical support and a portion of general expenses reasonably attributable to the claims function.</p> <p>The paid ULAE are the Claims Servicing Costs. The unpaid ULAE is known as the ULAE reserve.</p> <p>Related definition: Claims Servicing Costs</p>
Underinsured Motorist Protection (UMP)	This coverage provides compensation for those insured persons who suffer bodily injury or death as a result of an accident caused by a motorist who does not carry sufficient insurance to pay for claims for which he is liable.
Unearned Premium	<p>Insurance premium is not earned by an insurance company at the time that a contract of insurance is entered into, but over the course of delivering coverage in the policy period. An unearned premium is that portion of the original premium that has not yet been "earned" as the policy still has some time to run. If the policy is cancelled before the policy expiry date, the unearned premium must be refunded, less any applicable cancellation fees.</p> <p>Related definition: Earned Premium</p>
Universal Compulsory Automobile Insurance	<p>Universal compulsory automobile insurance includes the following:</p> <ul style="list-style-type: none">• Third party legal liability – bodily injury and property damage (Part 6 IMVA Regulation)• Accident benefits (Part 7 IMVA Regulation)• Unidentified motorist (hit and run) (Part 8 IMVA Regulation)• Underinsured motorist protection (UMP) (Part 10, Division 2 IMVA Regulation)• Compulsory special coverages (sections 149 and 150 of Part 11 Regulation) <p>Related Definition: Optional Automobile Insurance</p>



ICBC'S Filing re: Financial Allocation Methodology

Unpaid Claims	The unpaid claims are the monies set aside in anticipation of future claims payments on claims that have already occurred.
Vehicle Premium	Net monies paid by customers for insurance, including fees and surcharges associated with certain transactions, such as short term surcharges, cancellation fees and merchant fees. Related Definition: Owner's Certificate