INFORMATION REQUEST 2.1

ICBC's annual financial statements show that between 2010 and 2013 ICBC's Basic claim liabilities climbed $1.1 billion, or some 25 per cent.

1) Please prepare two summary tables showing Personal and Commercial Bodily Injury claims (exposures) by fiscal year for 2009 to 2013, the 2014 projected and the 2015 to 2017 forecast. The second axis should show the number of new claims, claims closed (paid and unpaid) and the total pending claims at year-end. (Reference response to 2013 RR, AIC IR 1.1)

2) Using the same format please prepare tables for Property Damage claims.

3) Using the same format please prepare tables show the dollar amounts for each cell.

4) For the Bodily Injury information requested in 1) and 3) please prepare tables showing the number and dollar amounts that are solely for soft tissue claims.

RMC

November 2, 2014.

INSURANCE CORPORATION OF BRITISH COLUMBIA 2014 RATE REQUEST

INFORMATION REQUESTS Submitted by Richard McCandless, November 26, 2014.

1 FISCAL YEAR AND POLICY YEAR

The annual rate setting review is similar to an annual budget review, and a budget is a plan expressed in financial terms. The Commission's decision on the annual rate level must be made in light of future fiscal year implications for the Basic program and the policy holders. The fiscal year is the common time horizon and links to previous performance and to the capital target levels. The concept of stable and predictable rates clearly implies a multi-year time dimension. Yet ICBC takes the position that, although multi-year forecasts are developed for internal use (and one presumes the BC government), there are "no known pros associated to such an approach…' (RM IR 1.d response). One obvious benefit of presenting the request in a fiscal year format is having a common time period to assess multi-year impacts of past and proposed pricing decisions. The policy year comparison to the previous policy year projection is of limited value when assessing the assumptions in the request to recent actual results. In addition, policy years can and have changed during the past decade and can change again by cabinet order, making historical comparisons extremely difficult.

1) Please provide a table by fiscal year, and using the format found on page 87 of the 2013 annual report including the MCT ratio, of the PY2014 request assuming the 5.2% rate increase is approved for PY2014 and the rate smoothing minimum applies for the next three policy years. The table should show the 2013 actuals, the 2014 projection and the 2015, 2016 and 2017 forecasts. For each forecast year provide the key assumptions, such as policy exposures (PY2014 is 3.1 million), the average loss cost, the number of BI and PD claims, the discount rate, etc.

2) Please provide the 2014 actuarial evaluation of Basic policy liabilities (see RR 2013 BCUC IR 28.5).

2 EQUITY LEVELS AND THE MCT TARGET

In response to RM IR 3.a ICBC provided the document “2013 Management Target Analysis for ICBC’s Basic Insurance” dated December, 2013, which I assume is the most recent update of the DCAT analysis originally produced by Eckler Ltd. in February, 2007. The 2013 analysis provides a base scenario and four possible adverse scenarios where the average resulted in a MCT ratio of 123%. The 2013 analysis also would appear to support a further 20% margin for rate smoothing.

1) For each of the 2013 adverse scenarios what management/ regulatory response are assumed and what is the timing of this response?

2) The table of contents would suggest that the complete report was provided in the response to the request. The 2007 DCAT analysis had a large number of summary financial tables supporting the recommendations. Were there no financial tables produced as part of the December, 2013, analysis?

3) What specific analysis was conducted to support the 20% margin for rate smoothing; the 2013 analysis seems to treat this as a given.

4) The asset decline scenario had the greatest impact (133%) and was based on a sudden drop in equity values using a CIA report covering 1924 to 2010. What allowance is incorporated into this scenario for the rebound is Canadian equities following the sharp decline in 2008/09?

5) Had the 2008/09 drop in equity values been sustained causing a serious loss in Basic equity levels (but leaving net income relatively unscathed), would not such an event qualify as an unusual event as contemplated in the provision of SD IC2?

6) In the inflation scenario what was assumed for any yield increase on bonds, or an increase in the discount rate on unpaid claims?

7) In the 2007 analysis two inflation spikes over the base scenario were used, a jump of 25% and one at 75%. Why does the 2013 analysis use a spike of 120% (from 1.8 to 4.0)?

8) In the adverse loss cost scenario it is assumed that, due to a one time increase in the frequency or severity (or some combination); there is a one-time upward shift in the average cost of claims. Why is the resulting margin (121%) higher than that in the 2007 analysis when ICBC now has seven more years of experience to refine their forecasting models than were available for the earlier analysis? Was the actual FY2013 loss cost included in the analysis?

9) The adverse claim liability scenario indicates a lesser impact than the 2007 analysis even at the 80th percentile. Is this in large part because ICBC has become more adept at ultimate claim cost estimation with time and better information systems?

10) Does ICBC agree that the Commission, in their July, 2014, decision setting the rebate limit at a 160% trigger limit, has effectively given the Basic program a MCT of 160%, although the target for capital build and maintenance is 145%? What would be the implication to the PY2014 rate request if the rate was set assuming an actual FY2015 MCT of 145% and a target MCT of 100%?

11) In their response to the comparison of the MCT target of Intact Financial (RM IR 3.1 response) ICBC stated that they concur with Mr. Dionne’s statement that in his view ICBC should have a higher MCT ratio, perhaps up to 250%. Is this a fair interpretation of ICBC’s position?

12) Was Mr. Dionne made aware that ICBC has a monopoly on the sale of Basic insurance and a market share of about 90% for Optional insurance sales?

13) Was Mr. Dionne aware that ICBC’s FY2013 actual MCT was 204% compared to the 203% recorded by Intact Financial?

14) Was Mr. Dionne made aware that ICBC secured an essential service designation from the LRB in 2012?

15) Does ICBC also concur that, like Intact Financial, it has as a primary objective the maximization of shareholder value?

3 OSFI CAPITAL GUIDELINES

OSFI has guidelines to aid insurers in calculating their capital adequacy ratios. The guidelines require that certain risk factors be applied to assets and liabilities, for example government of Canada bonds have a zero risk factor.

1) What are the current risk factors for the following assets and liabilities: provincial bonds, corporate bonds rated BB or better, equity assets, real estate assets, policy claims unpaid, unearned policy premium income and the premium deficiency reserve?

2) Were these risk factors used in the December, 2013, management target analysis of capital required?

3) Did the December, 2013, analysis include a risk factor in the base scenario for premium volume?

4) If the new OSFI guidelines for the MCT (effective January 1, 2015) had been in place for FY 2013 what would the dollar value of the Basic 100% MCT level have been at fiscal year-end?

4 CLAIM PROCESSING

ICBC's annual financial statements show that between 2010 and 2013 ICBC's Basic claim liabilities climbed $1.1 billion, or some 25%.

1) Please prepare two summary tables showing Personal and Commercial Bodily Injury claims by fiscal year for 2009 to 2013, the 2014 projected and the 2015, 2016 and 2017 forecasts. Prepare a second set showing the Property Damage claims. The tables should show the number of new claims, claims closed (paid and unpaid) and the total pending claims at year-end. (Reference response to 2013 RR, AIC IR 1).

2) Using the same format please prepare tables showing the dollar amounts.

3) For the BI information requested, please prepare tables showing the number and dollar amounts that are solely attributable to soft tissue claims (if available given the response to RM 4.b-c).

4) ICBC has stated that without the recent claims processing initiatives the growth rate for average BI severity payments would have been even higher; what proof does ICBC have to support this assertion?

5) Has ICBC considered directing even more staff resources to claims processing than is planned in the PY2014 forecast to reduce the claims backlog and unpaid claim liabilities? Intuitively, reducing the cost of claim liabilities should reduce the pressure on rates as the compounding effect of the 145% capital ratio should be lessened.

5 COVERAGE LIMITS

I realize that any discussion regarding coverage limits could be considered as relating to rate design, and whistled out of bounds; however potential changes in rate design will have immediate impacts on pricing. This is probably why the other two public auto insurers tend to submit both design and pricing proposals each year. In my requests regarding limits of soft tissue (RM IR 4.d) and income replacement (RM IR 5. f) I asked if ICBC had made any recommendations to the government on changing coverage limits. I am aware of the rules respecting FOIPP, but I was asking about representations being made, not for the documents or briefing materials.

1) Has ICBC made representations to the BC government during the last five years respecting coverage limits for soft tissue claims or for income replacement?

6 INVESTING

ICBC invests in three broad classes of assets; fixed income, equities and real estate. In the presentation material there is reference to investment income that is attributable to policyholder supplied funds and to investment income from retained earnings.

1) Is it a fair statement that fixed income assets are used in most cases to cover claim liabilities, and that their average duration is managed to be similar to the average duration of these liabilities (approximately 2.6 years)?

2) As of December 31, 2013, what was the separate asset value of each of the three asset classes that relate to policyholder funds and to retained earnings?

3) Further to (2) what is the December 31, 2014, forecast?

7 REPORTING AND ACCOUNTABILITY

ICBC maintains that posting Basic quarterly financial reports on their public site would not enhance public accountability. ICBC does produce and submit such reports to the Commission (RM IR 2 response) and to the government (RM IR 12.b response). ICBC meets quarterly with ministry of finance officials to discuss the results and, I would expect, the financial outlook which now forms an important part of the government's accounts, both for revenue and assets.

BC Hydro produces a detailed quarterly report. The public auto insurers in Saskatchewan and Manitoba produce detailed quarterly and annual financial reports on their Basic programs. Yet some 3.1 million (annualized) policyholders, who are compelled to purchase the Basic product, receive no quarterly reports on performance, and a 25 item one page year-end summary of how their $2.4 billion in premiums was managed.

1) Why does ICBC believe that posting Basic quarterly financial results would not enhance accountability?

2) Would ICBC object if the Commission posted the quarterly results that ICBC submits to that agency?

In her June 10, 2014, letter of expectation to the minister responsible for ICBC the Premier directed Minister Stone to “ensure ICBC returns to a solid financial footing.” The government’s first quarter forecast (June 30, 2014) projects a transfer of $363 million of Optional policyholder capital to the government in FY2014/15, an increase of $111 million from the original budget estimate.

1) What is meant, in the context of the Basic program, by ensuring that ICBC returns to a solid financial footing?

The Insurance Corporation Act section 23 (3) compels the government to provide ICBC’s annual report and financial statement for the preceding year to the legislature within two months of the end of ICBC’s fiscal year, if the legislature is in session.

1) Has ICBC advised the government that they were in violation of section 23(3) when they tabled ICBC’s FY2013 report earlier this year?

2) ICBC provided the Commission a copy of their FY2013 financial statements on a confidential basis prior to their public release by the government. Please provide a copy of the government’s direction or order that prevents the Commission from releasing the financial statements prior to the government’s timetable.

8 PY2014 REQUEST

In response to BCUC IR 3.1-2 and IR 3.3 ICBC asserted that the Commission cannot exclude some or all of the loss cost forecast variance because after ICBC created a new cost category of cost – discontinuing previous rate reduction – the variance is minus 1.5%.The new phrasing seeks to create a distinction that was not contemplated in the 2013 cabinet order which imposed the premium deferral scheme, and borders on sophistry.

ICBC's PY2014 request for a 5.2% rate increase, we are assured, is based on accepted actuarial practice and includes a good deal of judgement, especially respecting the BI frequency and severity forecasts for PY2014.

In March, 2014, ICBC estimated that the change in the statutory discount rate, subsequently approved in April, could raise Basic rates by up to 1.6% (see 2013 RR BCUC.UT.14c). The 2014 requests include a much more modest amount.

1) Would ICBC agree that the Commission can substitute its own judgement on the frequency and severity adjustments, with a result that might result in the over-all rate increase being 3.7%?

2) Why was the March estimate for the discount rate reduction impact on Basic so much higher than the PY2014 estimate?

3) What is the Basic FY2014 forecast for the net change in available for sale assets? What is the FY2015 forecast for this item?

4) As ICBC had not released the Q3 financial summary as of the due date for the second round of information requests, please provide the Basic MCT as of September 30' 2014, and the forecast for December 31, 2014.

The PY2014 forecast is using an average BI severity average cost that is some 24% higher than the FY2013 actual. This is justified as reflecting the recent effort to close a higher proportion of more expensive claims. This may, all else being equal, raise the FY2014 actual average paid BI severity cost compared to FY2013 (and potentially lower the net income), but the total claim liabilities should decline somewhat as the average cost of the unpaid claims declines.

1) Is the above statement a fair summary of the effect on the income statement and the balance sheet?

2) What are the FY2014 and FY2015 dollar forecasts for the provision for Basic unpaid claims?

If ICBC is using its actuarially accepted forecasting models why are the fundamental details requested in BCUC IR 4.1-2 not available; the response suggests a balancing figure was used?

ICBC's responses to BCUC IRs 20.2 and 21.1 suggest that the forecasting models used in the PY2014 rate request are becoming less reliable, as more judgement factors are being applied compared to the 2012 and 2013 requests. Is this correct?

9 RATE CHANGE LIMITATION

In the response to IR RM 2 ICBC stated that the imposition of rate smoothing limits "enhances the Commission's ability to ensure that rates are relatively stable and predictable" and the cabinet directive should not be viewed as a limitation on the Commission's authority to regulate the Basic program in the interests of the public.

1) Would ICBC concede that the limitation of the Commission's authority may help achieve more stable rates in the short- term; but the longer-term consequences may include a re-enforcing of the public distrust of government?

2) What is the continuing need for a temporary limitation on large rate changes when the Commission and ICBC now operate on the basis of an annual rate review, with a fixed (until the next cabinet order) policy year? In effect, is not the cabinet directive really an expression of the government's lack of confidence in ICBC's forecasting capabilities?

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