REQUESTOR NAME:	**BCOAPO *et al.***
INFORMATION REQUEST ROUND NO:	**#1**
TO:	**ICBC**
DATE:	**September 29, 2016**
APPLICATION NAME:	**2016 Revenue Requirements**

1.0 Reference: Application
Exhibit B-1, page iii

ICBC is requesting approval of a proposed allocation methodology for the deferred premium acquisition cost (DPAC) between Basic insurance and Optional insurance.

This change is driven by financial reporting requirements and does not impact the rate indication or the Outlook Minimum Capital Test (MCT) Ratio.

1.1. Can ICBC confirm that that the proposed allocation methodology will not impact <u>future</u> rate indications or MCT ratios? If not, please describe the conditions under which the proposed allocation methodology would impact Basic customers.

2.0 Reference: Application
Exhibit B-1, page iii

ICBC is applying to discontinue the quarterly reporting requirement for government initiatives while continuing to report annually as a chapter in each revenue requirements application. Moving to annual reporting only is a streamlining opportunity that would allow for sufficient regulatory review of government initiatives while maintaining an efficient process for both the Commission and ICBC.

2.1. Can ICBC confirm that should this proposal be approved, there would be no material cost savings for ICBC?

Please explain how annual reporting, as opposed to quarterly reporting, would still allow for sufficient regulatory review of government initiatives.

3.0 Reference: Application
Exhibit B-1, page 1A-1

Interim rate approvals allow the Commission to readjust rates, if necessary, back to the date they were made effective. If the Commission's final decision determines a Basic insurance rate increase other than as sought in this Application, ICBC proposes that any difference be deferred until the implementation of the next annual Basic insurance rate change. Adjusting for differences between interim and final rates in this manner, as opposed to

ordering customer refunds or billings, minimizes ICBC's costs and the number of times that customers are dealing with premium related matters, and does not add risk to implementation of the PAS. In the Decision on 2013 Revenue Requirements, the Commission accepted this approach of deferring implementation of differences between interim and final rates and ICBC continues to believe that this is the most efficient and effective manner in which to deal with such differentials, particularly given the potential added risks during implementation of the new PAS.

3.1. Please explain the potential added risks of not deferring implementation of differences between interim and final rates during implementation of the new PAS.

4.0 Reference: ICBC 2015 RR
BCOAPO IR 8.1, Attachment A, Litigated Claims Costs

4.1. Please update the table referenced response from the 2015 RR to include 2015 data.

5.0 Reference: ICBC 2015 RR
BCOAPO IR 15.1, Figure 1 – BI, Frequency

5.1. Please update the referenced figure to include PY 2015 and the PY 2016 Application.

6.0 Reference: ICBC 2015 RR
BCOAPO 15.3, Table 1 – BI, Severity

6.1. Please update the referenced table to include PY 2015.

7.0 Reference: ICBC 2015 RR
BCOAPO 16.3, Figure 1 – Relationship Between BI Frequency Measures

7.1. Please update the referenced figure to include 2015 data.

8.0 Reference: Application
Exhibit B-1, pages 2-16

Beginning on June 1, 2016, BC increased the fines and penalty points for distracted driving. However, based on current studies, fines alone may not be enough to change driving behaviour. Strong enforcement combined with publicity campaigns may be needed in order to change driver behavior over time. Further research is required to

understand the impact of a multi-tiered approach (combination of fines, enforcement, education, etc.) on driving behaviour and its influence on crash frequency.

8.1. Please further explain why ICBC is choosing to not take more aggressive countermeasures in regards to distracted riving now.

9.0 Reference: Application
Exhibit B-1, pages 2-18, Figure 2-11 – BI Frequency and

ICBC 2015 RR, BCOAPO IR 16.4
Figure 1 – Crash Statistics By Accident Year

9.1. Please provide an update to the referenced figure from the 2015 RR.

10.0 Reference: Application
Exhibit B-1, pages 2-24 and

ICBC 2015 RR BCOAPO IR 21.2
Table Loss Cost (injury coverage claims cost per policy)

The referenced page from the current application states:

In summary, the actual loss cost observed for PY 2015 is higher than the forecasted loss cost in the 2015 Revenue Requirements Application. There is an unfavourable variance of +4.5 percentage points (including impact from prospective adjustments), arising from the BI and PD coverages, as shown in Figure 2.7.

10.1. Please provide an update to the table provided in the 2015 RR in response to BCOAPO 21.2.

11.0 Reference: Application
Exhibit B-1, pages 2-25, Figure 2.17 – BI Frequency

11.1. The above referenced table indicates a decline in the BI rate for the years 2007-2009, and an increase in the BI rate for the years 2010 onwards. Please explain the factors which were influencing the downward trend during 2007-2009 and the factors which have been influencing the upward trend since 2010.

12.0 Reference: ICBC 2015 RR
BCOAPO IR 32.2, Figure 1 – MR and PD Claim Volume

12.1. Please provide an update to the table provided in the 2015 RR in response to BCOAPO 32.2 to include accident year 2015.

13.0 Reference: ICBC 2015 RR
BCOAPO IR 41.1, Figure 1 – Number of Drivers Subject to DPP and DRP.

13.1. Please provide an update to the figure in the referenced response from the 2015 RR to include actual 2015 and 2016 forecast data.

14.0 Reference: Application
Exhibit B-1, Appendix B.0.1, page 2, Description of The Exposure Model

7. Diagnostic Plots …

The second is a plot of residuals versus fitted values, where a residual is the difference between the modeled value and the actual value for one data point in the experience period. This plot is used to test the assumption that the residuals have constant variance across the entire domain of fitted values. If this assumption holds, then the dots on the residual plot will be scattered randomly. This plot is shown at the end of this Appendix B.0.1.

The third and last plot is a plot of quantiles of residuals versus the quantiles of a standard Normal distribution ("Q-Q plot"). It is used to assess whether the residuals follow a standard Normal distribution. If it is true, the points in the Q-Q plot should approximate a straight line. This plot is also shown at the end of this Appendix B.0.1.

14.1. Aside from the visual representations described above, did ICBC conduct any <u>statistical</u> tests to check whether (or not) residuals are homoscedastic or the residuals follow a standard normal distribution? If so, please provide details; if not, why not?

15.0 Reference: Application
Exhibit B-1, page 3-6, DPAC Allocation

20. As a result of the use of Optional insurance income to reduce the Basic insurance rate, it has been determined that DPAC should be calculated on a corporate basis for financial reporting purposes based on IFRS. The resulting corporate DPAC asset (or premium deficiency liability) must therefore now be allocated between Basic insurance and Optional insurance. To be compliant with reporting requirements, ICBC must ensure it has the Commission's approval of this allocation methodology.

15.1. Can ICBC confirm that the proposed allocation method is required by IFRS?

16.0 Reference: Application
Exhibit B-1, Chapter 4, Investments, page 4-3

10. The New Money Rate for this Application is 3.43% compared to 3.82% for the 2015 Revenue Requirements Application – a decrease of 39 basis points. The decrease is mainly from the fixed income and equity components of the New Money Rate and reflects lower forecasted interest rates. The decrease in the fixed income component is primarily due to lower forecasts of the 3-year Government of Canada bond yield calculated from the multidealer survey. The forecast element has decreased to 0.95% in 2016 from 1.33% in 2015.

The formula also reflects an update to the risk premium to 1.45% in 2016 from 1.43% in 2015. The equity component also reflects lower forecasts of the 30-year Government of Canada bond yields calculated from the multi-dealer survey. In addition, there is a change due to the transitioning of the strategic asset mix, which reduces equity holdings in favour of an increase in real estate holdings. Changes to the New Money Rate are largely dependent on interest rates, which continue to remain at historic lows due to the current economic climate. (Emphasis added.)

16.1. ICBC has noted that its pension and post retirement benefits expenses are putting significant pressure on premiums due to a low discount factor which in turn is related to current low interest rates. As per the extract above, portfolio, ICBC is increasing the real estate component in its portfolio.

How has ICBC taken into consideration the Real Estate Risk which could impact its returns in the event that interest rates increase in the future – causing real estate property values to fall?

17.0 Reference: Application
Exhibit B-1, Attachment 4 A1, SIPP, May 2016

17.1. In the referenced document there are numerous references to hedging activity. Please provide a high-level description of the hedging instruments used, and also a commentary on hedging costs and any potential financial risks ICBC incurs by its hedging activities.

18.0 Reference: Application
Exhibit B-1, page 5-1, Operating Expenses and Allocation

1. *ICBC's total corporate operating expenses are all costs to run ICBC's Insurance and Non-insurance lines of business, and excludes claims payments, broker commissions, and premium taxes. Total corporate operating expenses represent only a small percentage of ICBC's total costs, at approximately 12%.*

18.1. Please provide comparable, industry specific, examples of total corporate operating costs by which to measure the ICBC 12% figure.

19.0 Reference: Application
Exhibit B-1, page 5-1, Operating Expenses and Allocation

4. ICBC's corporate strategy focuses on being a low cost and operationally excellent company, with particular focus on accountability and continued spending control.

19.1. Please provide any metrics, comparatives, etc., not included in the instant application that ICBC has available which would attest to ICBC's low costs and operational excellence.

20.0 Reference: Application
Exhibit B-1, page . 5-4, Transitional Adjustment

11. As discussed above, ICBC is committed to keeping controllable operating expenses flat to the 2014 budget set out in ICBC's 2014 – 2016 Service Plan to government, and the 12 month controllable operating expense target for 2016 is $593 million. For the 2016/17 15 month fiscal period, controllable operating expense is proportionally increased by one quarter, to $741 million. The 2017 transitional quarter is based on the last quarter of 2016 planned spending except where the 2017 budget is different from the 2016 budget.

20.1. The method for estimating the three-month transition period costs, etc., appears to be to take ¼ of the 12-month costs. Does this reflect the fact that there is no 'seasonality' with respect to ICBC's operating expenses, revenues, new policies, etc.?

21.0 Reference: Application
Exhibit B-1, Application, page 5D-5

13. ICBC notes that the 2015 Reallocation impacts the financial statements by $55.7 million, of which $53.8 million relates to the historical period of 2010 to 2014. This $53.8 million is considered a prior period adjustment as per IFRS and should be made to opening retained earnings. However, the adjustment is not materially significant to adjust opening retained earnings. Therefore, management has recorded the adjustment as an expense in the 2015 fiscal year. The impact to Basic insurance and Optional insurance is an increase in Basic insurance costs and a decrease in Optional insurance costs of $29.2 million, as reflected in Appendix 5 A. The allocation of $29.2 million from Optional insurance to Basic insurance in 2015 fiscal year has no impact on the 2016 policy year as 2016 rates are based on future calendar year costs post 2016.

21.1. Please explain (i) why the adjustment was not made to retained earnings and (ii) whether the method of adjustment will impact the future viability or availability in amount of potential capital transfers from Optional to Basic.

22.0 Reference: Application
Exhibit B-1, page 7-10

35. ICBC will continue to use information from its 2014 CAS and other research as it works to enhance its customer commitments and address the key issues of concern to injured customers that are within its influence. ICBC is currently developing a follow-up study on specific aspects of the 2014 CAS. The additional research will be focused primarily on factors that ICBC may be able to influence that relate to a customer's decision to hire legal counsel. ICBC expects to complete its research by the end of 2016, followed by a period for analysis of the data and preparation of a summary report on the study's findings. ICBC anticipates filing this report as part of the 2017 Revenue Requirements Application. The information that flows from these activities will inform ICBC on ways to adapt and modify existing initiatives and to consider new ones.

22.1. Does the above excerpt imply that there have been no specific claims cost reduction initiatives undertaken since the last RR with respect to decreasing legal representation costs?