ICBC

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October 19, 2016

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Ms. Laurel Ross, Acting Commission Secretary and Director

Re: Errata to ICBC's 2016 Revenue Requirements Application

Dear Ms. Ross:

In reviewing ICBC's 2016 Revenue Requirements Application (the Application) and preparing related responses to information requests, it has come to ICBC's attention that the following corrections are required:

- The Application, Chapter 2, page 2-12, Figure 2.6, shows an incorrect graphical depiction of the loss cost amounts.

- The Application, Chapter 3, page 3-7, paragraph 23, refers to a premium deficiency liability of $4 million as indicated in Figure 3.3. This is an error as the premium deficiency liability indicated in Figure 3.3 is $5 million.

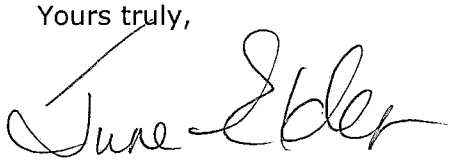
- The Application, Chapter 5, page 5-19, paragraph 62, states that the general provision is unchanged from the previous year. This sentence has been deleted as the 2016 general provision differs from the 2015 general provision.

- The Application, Chapter 5, Appendix 5 D, pages 5D-2 and 5D-3, the narrative and the headings to Section C and to Figure 5D.1 refer to costs in Figure 5D-1 as being from the 2014 TP reallocation (arising from the management review completed in December 2014). This is correct for all of the costs noted in Figure 5D-1 except for parallel processing, which had been previously excluded from TP (as discussed in the response to information request 2014.1 RR BCUC.68.3). The narrative and the headings have been amended to denote that Parallel Processing was not part of the 2014 TP reallocation. Making the changes to the aforementioned Section and Figure also results in a change to the associated Table of Contents and Table of Figures in the Appendix. Accordingly, pages 5D-i, 5D-ii, 5D-2, and 5D-3 are re-issued.

Copies of the revised pages are attached.

Please accept our apologies for any inconvenience this may have caused.

Yours truly,

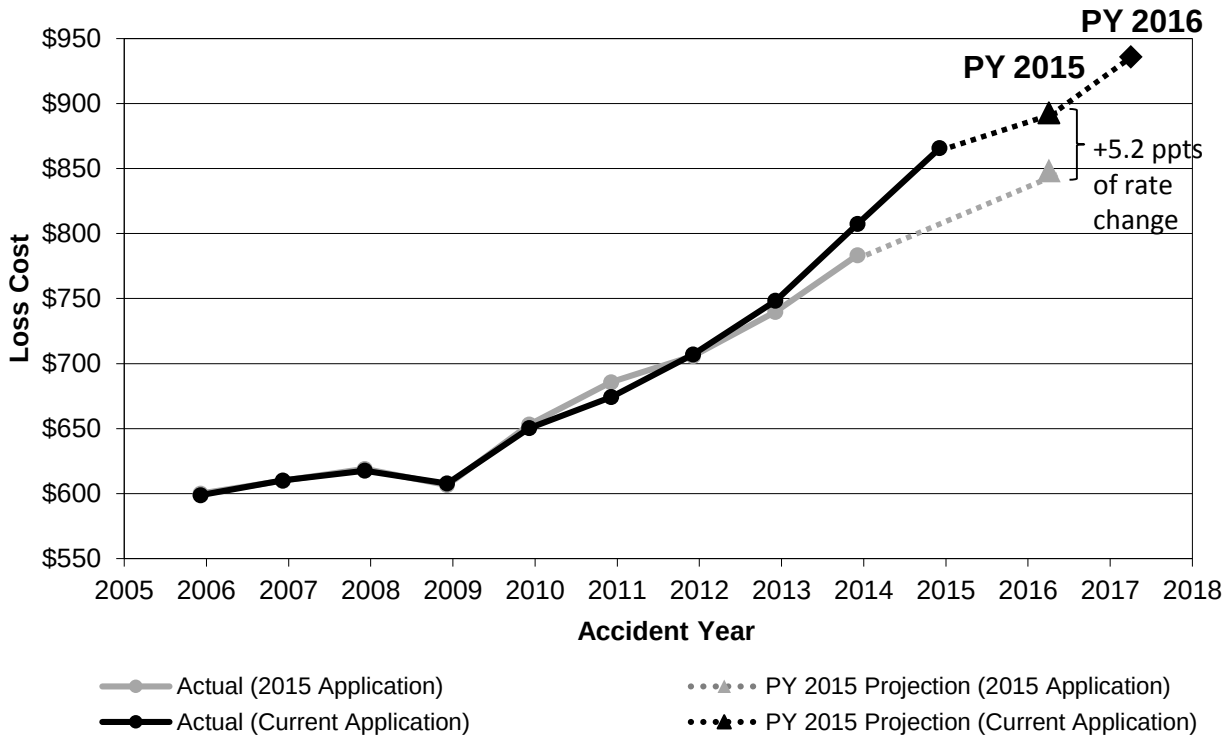


June Elder
Manager, Corporate Regulatory Affairs

Cc: Nicolas Jimenez, Vice President, Insurance Strategy, Product and Pricing, ICBC

Attachments

Figure 2.6 – Basic Loss Cost



29. The forecast variance of the PY 2015 loss cost is primarily due to higher than expected emergence of BI claims frequency slightly offset by favourable prospective adjustments that are expected to impact BI claims severity starting in the latter half of PY 2015 through PY 2016. (Note that, for the purposes of allocating the impacts from the prospective adjustments on a coverage and frequency/severity basis, all of the PY 2016 prospective adjustments are assumed to only impact BI severity, given the nature and details of each event). Since BI costs account for over 75% of the Basic loss costs, this emergence has a large impact on the indicated rate change. PD frequency and severity also have emerged higher than expected which contributes to the adverse loss cost forecast variance. Figure 2.7 compares these sources from the 2015 Revenue Requirements Application to this Application, and they are further explained in the paragraphs to follow.

that the sum of the Basic DPAC and the Optional DPAC equal the Corporate DPAC determined in (1).

23. In the 2016/17 Outlook, this results in the same amount of Basic DPAC as the direct calculation (a premium deficiency liability of $5 million as indicated in Figure 3.3).

Figure 3.3 – Outlook 2016/17 Year-End Basic DPAC

	Item	Calculation of DPAC	Notes
(1)	Unearned Premium	$1,439 M	no change
(2)	Future Costs	$1,543 M	no change
(3)	Equity in Unearned Premium	($ 104 M)	= (1) - (2)
(4)	Income Transfer	$ 99 M	April 1, 2017 transfer amount
(5)	Deferrable Acquisition Costs	$ 103 M	no change
(6)	DPAC Asset / (Premium Deficiency Reserve)	($ 5 M)	= min[(3) + (4), (5)]
(7)	DPAC adjustment to income	$ 108 M	= (5) - (6)

24. This will generally be the case, since the same calculation is used for the initial Basic DPAC in point (2) of the proposed allocation approach. However, if circumstances arose where the Optional unearned premium was significantly more profitable than the Basic unearned premium after consideration of the income transfer, then the limitation of the Optional DPAC described in point (3) of the proposed allocation would result in an increased allocation to the Basic DPAC asset, which represents a further support of Basic insurance rates by the Optional insurance income. This circumstance is considered to be unlikely to occur.

25. 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.

charged for insurance premiums has increased, its related fees have also increased. As a result of revenue reclassification, merchant fees formerly classified as a reduction to premiums written and earned are classified as an operating expense.

C.1.5 OTHER OPERATING EXPENSES

60. Other operating expenses include miscellaneous expenses such as bad debt expenses, advertising, promotion, postage, severance costs, outside information processing, telecommunications, vehicle expenses, and bank charges, offset by other additional savings to meet ICBC's controllable cost target.

61. 2015 actual is higher than 2014 restated figures by $8 million primarily due to:

- Recategorization of outside information processing costs of $5 million from computer cost to other operating expenses due to a third party vendor agreement established in 2015 for delivery of mainframe processing services.
- Adjustments for prior year accruals to actual of $6 million.
- Partially offset by lower severance costs of $3 million.

62. 2015 actual of $45 million is $15 million higher than the 2016 outlook of $30 million. This is due to:

- 2015 actual has higher severance cost of $6 million and an adjustment for prior year accrual of $1 million compared to 2016 outlook.

- 2016 outlook includes high-level estimated savings of $9 million at the corporate level and $2 million at the divisional level, which is ICBC's commitment to keep controllable operating expense flat.

- 2016 outlook includes a recovery of $3 million that is expected to reduce 2016 expenses.

- The above, explaining a higher 2015 actual, are offset by a general provision of $6 million in 2016. As in the past, the outlook contains a general provision at the corporate level in case of potential adverse events.

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5. Each year, the Treasury Board reviews and approves ICBC's TP budget and costs. The budget and costs reflect the reallocations described in this Appendix.

6. In assessing the criteria set out in the Government Directive regarding TP, ICBC used the following principles in evaluating scope for TP:[2]

i. Advance the Claims and Insurance businesses to a more modern business model.
ii. Move Claims and Insurance core systems from obsolete legacy systems – which constrain business agility, ICBC's business model, and impact customer value – onto modern Commercial Off The Shelf systems.
iii. Establish new foundational capabilities to support internal and external stakeholder access to take advantage of the new systems implemented under TP.
iv. Ensure ICBC continues to capture and store data and information (from the systems implemented under TP) required to run its business effectively.

The functionality defined in the Government Directive regarding TP will be delivered by TP.

7. The Government Directive regarding TP does not include scope that has a wider corporate benefit such as strategic planning and corporate governance. As such, strategic planning and corporate governance costs are considered outside of TP scope as discussed in Section D.

C. COSTS SHIFTED OUT OF TP – 2014 TP REALLOCATION AND PARALLEL PROCESSING

8. The table in Figure 5D.1 shows costs which were shifted out of TP to Corporate Operating Expenses that impact the 2016 policy year. The rationale and details of the reallocation have been previously described in the 2015 Revenue Requirements Application, Appendix 4 E. The cost categories listed below were removed from TP scope as a result of a management review that was completed in December 2014 (referred to as the "2014 TP reallocation"), except for Parallel Processing, which was reallocated in December 2013, as noted in the response to information request 2014.1 RR BCUC.68.3.

[2] Response to information request 2015.1 RR BCUC.40.1-1.1. For convenience this response is provided in Appendix 10C.

Figure 5D.1 – Costs Not Foundational to TP (2014 TP Reallocation and Parallel Processing)

Cost Category	Calendar 2016 (Jan – Dec) ($000's)		Calendar 2017 (Jan – Dec) ($000's)		Policy Year 2016 Expense (Nov 2016 – Oct 2017) ($000's)		Impact on 2016 Rate Indication
	Basic	**Optional**	**Basic**	**Optional**	**Basic**	**Optional**	
Claims Data Migration Project	-	-	-	-	-	-	0.0%
Parallel Processing	4,087	2,521	4,629	2,630	4,539	2,612	0.2%
Master Data Management Project	167	108	500	324	444	288	0.0%
Decommissioning	-	-	883	573	736	478	0.0%
Hardware / Software	57	37	170	110	151	98	0.0%
Impact from Project Insurance	-	124	-	372	-	331	0.0%
Miscellaneous Minor Non–core Insurance Costs	49	104	111	120	101	117	0.0%
TOTAL	**4,359**	**2,893**	**6,293**	**4,129**	**5,971**	**3,923**	**0.2%**
Cost absorbed into 2016/17 Operating Expenses*							**(0.2%)**
Net Impact to Basic							**0.0%**

* Transitional fiscal year from January 2016 to March 2017.
Rounding may affect totals.

9. The 2016 calendar year costs that were forecast in the 2015 Revenue Requirements Application have been refined in the figure above. The most significant change is the removal of the Claims Data Migration (CDM) project costs because, while ICBC had originally forecasted CDM costs in 2015 and 2016, no costs were actually incurred. In October 2014, recognizing that multiple initiatives are competing for resources, ICBC's management made a decision to stop the CDM project until a revised approach was determined for the treatment of open long tail claims in the legacy claims systems. After experiencing working with both ClaimCenter© and the legacy system, it was determined that full CDM approach was not the most operationally efficient method to move legacy data to ClaimCenter, and therefore the CDM project in its original form was never restarted.

10. The Decommissioning project has been delayed by a year and other projects have shifted due to evolving timelines, user requirements, and resourcing utilization. As with any