CANADIAN OFFICE AND PROFESSIONAL EMPLOYEES UNION, LOCAL 378 (aka Movement of United Professionals or MoveUP)

INFORMATION REQUEST No.2 TO THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)

2016 Revenue Requirements Application ~ Project No.3698890

1.0 Reference: "Government Getting out of the Business of Insuring High-End Luxury Cars" https://news.gov.bc.ca/12949

Government is moving forward to no longer insure the high-end luxury car rate class (cars worth $150,000 and over) so that the broader ratepayer is not subsidizing these cars. The owners of these cars will have to go to private insurance instead, Minister of Transportation and Infrastructure Todd Stone announced today.

The high-end luxury car market is a growing market, with 3,000 cars insured this past year, a 30% increase compared to three years ago. Government is acting now to address the rising costs to repair these cars and to eliminate any pressures they cause on basic rates.

The government will get to work on the necessary legislative changes to have ICBC no longer insure these high-end luxury cars. This means that in the future, private owners of these cars will have to purchase their insurance through private insurance. Drivers will still be required to carry a certain amount of coverage to protect themselves and other drivers, but it will not be provided through ICBC's public insurance plan.

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Backgrounder

Top five highest repair costs (year-to-date 2016)

Vehicle year: 2015
Vehicle make: McLaren
Vehicle model: 650S
Total repair costs: $93,574
Actual cash value (ACV / Declared value (DV): DV of $405,697

Vehicle year: 2011
Vehicle make: Ferrari
Vehicle model: 458 Italia
Total repair costs: $88,481
Actual cash value (ACV / Declared value (DV): DV of $299,700

Vehicle year: 2016
Vehicle make: Maserati
Vehicle model: Gran Turismo
Total repair costs: $78,999
Actual cash value (ACV / Declared value (DV): DV of $215,654

Vehicle year: 2015
Vehicle make: Mercedes-Benz
Vehicle model: CLS63 AMG
Total repair costs: $76,796
Actual cash value (ACV / Declared value (DV): ACV of $120,952

Vehicle year: 2015
Vehicle make: Porsche
Vehicle model: 911
Total repair costs: $76,617
Actual cash value (ACV / Declared value (DV): ACV of $158,785

Vehicle year: 2011
Vehicle make: Rolls Royce
Vehicle model: Phantom
Total repair costs: $76,474
Actual cash value (ACV / Declared value (DV): DV of $246,500

1.1 Please confirm the number of private, passenger, high-end luxury vehicles worth more than $150,000 currently insured by ICBC.

1.2 Please confirm whether the exclusion described in this press release will also include all leased vehicles worth more than $150,000.

1.3 Please confirm whether this exclusion will also include all high end luxury vehicles owned or leased by businesses and corporate entities for private use.

1.4

> The new rates will apply to private passenger cars only, and not commercial trucks, pick-up trucks, collector cars or limousines. The new rule also will not apply to RVs.

Please confirm whether this exclusion will apply to high end luxury passenger vehicles in rental fleets.

1.5 Will this proposed exclusion include:

a) Only vehicles purchased for more than $150,000 CDN?

b) Vehicles with an MSRP of greater than $150,000 CDN?

c) A Bluebook value of greater than $150,000 CDN?

d) A value at auction of greater than $150,000 CDN?

e) Vehicles modified to increase their value to greater than $150,000 CDN?

f) Vehicles sold at auction for more than $150,000 CDN?

g) Vehicles purchased and imported from abroad that, if purchased here, would cost $150,000 or more?

1.6 In the Backgrounder included above, the Ministry of Transportation and Infrastructure included five of the highest repair costs (year-to-date 2016). Please provide the following information:

a. The total YTD 2016 number of MD claims for all policies/insured vehicles.

b. The total YTD 2016 number of MD claims for vehicles worth more than $150,000.

c. The total YTD 2016 vehicle repair costs paid for all policies/insured vehicles.

d. The total YTD 2016 vehicle repair costs paid for vehicles worth more than $150,000.

1.7 Please provide the PD Frequency, PD Severity, BI Frequency, BI Severity excluding prospective adjustments (per claim), and/or BI Severity including prospective

adjustments (per claim) for 2016 for just those policies that would be affected by this proposed change in ICBC coverage.

1.8 Please modify Figure 2.7, to show separately the values and impacts of the policies written for vehicles worth over $150,000 on the current policy year.

2.0 Reference: Exhibit B-6, ICBC Response to 2016.1 RR BCUC.19.1C

2.1.1

Table 1 – Assuming Annual Capital from Other Sources will be Transferred to Basic Insurance to Maintain Basic MCT Ratio at 100% (Confidential)

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Removal of Prior Year's Rate Exclusion	5.5%	10.2%	7.6%	4.3%	0.2%
Loss Cost Trend	5.0%	5.2%	5.9%	6.3%	6.3%
Other Components of Rate	5.0%	-0.8%	-0.9%	-0.9%	-0.9%
Rate Change to Cover Costs	**15.5%**	**14.5%**	**12.5%**	**9.6%**	**5.6%**
Rate Exclusion	-10.7%	-8.1%	-4.6%	-0.2%	2.3%
Indicated Rate Change	**4.9%**	**6.4%**	**7.9%**	**9.4%**	**7.9%**
	FY 2016/17	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**
MCT Ratio	**102%***	**100%**	**100%**	**100%**	**100%**
Capital Transfer From Other Sources	$172M	$330M	$405M	$405M	$365M

*Fiscal year 2016/2017 Outlook MCT ratio accords with *Special Direction IC2* which includes the $99 million transfer of income from the Optional insurance business on April 1, 2017.

Please provide a modified Table 1, contrasting the above-noted results with the recalculated results assuming vehicles worth more than $150,000 are not insured by ICBC as of the end of PY 2016.

2.1.2

Table 2 – Assuming No Further Capital Transfers from Other Sources to Basic Insurance (Confidential)

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Removal of Prior Year's Rate Exclusion	5.5%	10.2%	8.0%	5.2%	1.5%
Loss Cost Trend	5.0%	5.2%	5.9%	6.3%	6.3%
Other Components of Rate	5.0%	-0.4%	-0.4%	-0.4%	-0.4%
Rate Change to Cover Costs	**15.5%**	**14.9%**	**13.5%**	**11.0%**	**7.4%**
Rate Exclusion	-10.7%	-8.5%	-5.6%	-1.6%	0.5%
Indicated Rate Change	**4.9%**	**6.4%**	**7.9%**	**9.4%**	**7.9%**
	FY 2016/17	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**
MCT Ratio	**102%***	**76%**	**50%**	**27%**	**10%**

*Fiscal year 2016/2017 Outlook MCT ratio accords with *Special Direction IC2* which includes the $99 million transfer of income from the Optional insurance business on April 1, 2017.

Please provide a modified Table 2, contrasting the above-noted results with the recalculated results assuming vehicles worth more than $150,000 are not insured by ICBC as of the end of PY 2016.

2.1.3

Table 3 – 5 Year Rate Forecast based on Hypothetical Scenario B

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Removal of Prior Year's Rate Exclusion	5.5%	10.2%	0.0%	0.0%	0.0%
Loss Cost Trend	5.0%	4.5%	4.5%	4.5%	4.5%
Other Components of Rate	5.0%	-9.4%	-0.4%	-0.4%	-0.4%
Rate Change to Cover Costs	**15.5%**	**5.3%**	**4.1%**	**4.1%**	**4.1%**
Rate Exclusion	-10.7%	0.0%	0.0%	0.0%	0.0%
Indicated Rate Change	**4.9%**	**5.3%**	**4.1%**	**4.1%**	**4.1%**

Please provide a modified Table 3, contrasting the above-noted results with the recalculated results assuming vehicles worth more than $150,000 are not insured by ICBC as of the end of PY 2016.

2.1.4

Table 4 – 5 Year Rate Forecast based on Hypothetical Scenario C

	PY 2016	PY 2017	PY 2018	PY 2019	PY 2020
Removal of Prior Year's Rate Exclusion	5.5%	10.2%	-0.4%	-0.4%	0.0%
Loss Cost Trend	5.0%	3.0%	3.0%	3.0%	3.0%
Other Components of Rate	5.0%	-10.2%	-1.1%	-0.4%	-0.4%
Rate Change to Cover Costs	**15.5%**	**3.0%**	**1.5%**	**2.2%**	**2.6%**
Rate Exclusion	-10.7%	0.4%	0.4%	0.0%	0.0%
Indicated Rate Change	**4.9%**	**3.4%**	**1.9%**	**2.2%**	**2.6%**

HYPOTHETICAL SCENARIOS 2016 RR BCUC 19.1 - NOT A REAL FORECAST

Please provide a modified Table 4, contrasting the above-noted results with the recalculated results assuming vehicles worth more than $150,000 are not insured by ICBC as of the end of PY 2016.

3.0 Reference: Exhibit B-2, 2016.1 RR MoveUP.3.1.1

In addition, there are several sources of public information discussing the recent increases in costs for repairing vehicles. One of these is the *Industry Trends Report*, that is published by Mitchell International.[2] The Q1 2016 edition contains an article titled "The High Cost of High Tech" which states ..."popular passenger cars do cost more to repair now than they did five years ago. Despite multiple variables including the cost of insurance and service hours, the rising cost of parts has had the biggest impact on collision repair costs overall." Also: "In many cases, the rising demand for trendy and more expensive headlights, like LED 'halo' lighting, drives cost up." Original Equipment Manufacturers "...(especially Chevrolet) are working to reduce the number of components in bumper systems for greater efficiency during the assembly process. Yet despite using fewer components in bumper systems, which account for 72% of all repairable claims, collision repairs on Chevys continue to become more expensive."

And

Reference: Exhibit B-2, 2016.1 RR MoveUP IR.3.1.3

ICBC is actively developing programs and initiatives to contain property damage (PD) claims costs. These include working closely with police, government, and other stakeholders to support BC's stronger penalties for distracted driving, as well as ongoing programs like the road improvement initiatives that are described in more detail in the Application, Chapter 8.

ICBC is also in the process of implementing a new Material Damage estimating platform to assist with managing the rising PD costs. This new estimating tool has increased functionality over the current system and enables automated compliance checks to be run on estimates completed by the collision repair industry as well as ICBC staff.

Other initiatives to contain PD claims costs are still in their early stages. ICBC is discussing overall scope and timing of their implementation with its shareholder and will report on them when they are more fully developed and as appropriate.

3.1 Please identify for the years 2013 and onward, the relative proportions of bumper repairs that have been completed using OEM, Aftermarket, and Recycled parts.

3.2 Please identify the respective proportions of OEM, Aftermarket, and Recycled Parts used in repairs for the years 2013 to present. In addition, please identify the costs associated with each parts class for that same time period.

3.3 Has the concern ICBC has identified regarding the rising cost of OEM parts translated into an intention to have the new Material Damage estimating platform more strongly encourage Valet shops to use less expensive Aftermarket or Recycled parts provided they meet ICBC's safety and quality criteria?

3.4 If so, please describe

3.4.1 how the new Material Damage estimating platform will incent this change in Valet shop preferences?

3.4.2 what quantum of savings ICBC has forecast will result on a yearly basis from this increased emphasis on the use of Aftermarket and Recycled parts.

3.4.3 how ICBC will identify Valet shops that are not complying with this increased focus on Aftermarket and Recycled parts.

3.5 If in the fact of sharply rising MD costs, ICBC has not determined it should more strongly encourage Valet shops to use After Market and/or Recycled parts, please explain why not.

4.0 Reference: Exhibit B-2 2016.1 RR MoveUP.3.3

ICBC continues to monitor and audit estimates performed by material damage accredited suppliers for quality and compliance with established program standards, such as outlined in pages 10 to 20 of the Express Repair Program guide: http://partners.icbc.com/material-damage/docs/express_repair_program_guide.pdf.

The referenced Express Repair Program Guide states the following on page 18:

Recycled / Aftermarket Parts Usage	The use of recycled/aftermarket parts on all estimates should be considered. Where the most cost-effective part is not utilized, the participant should be able to support its decision in a performance review, audit or drop-in visit. If no agreement is reached, estimate will remain as written, DIV completed and subject to further review by MD Manager or Supervisor. • **Note:** this is not applicable for participants with Earned Authority level 2.

4.1 Please explain what "Earned Authority level 2" is.

4.2 What proportion of ICBC's accredited valet shops hold Earned Authority level 2?

4.3 What proportion of ICBC's total MD costs are paid to valet shops holding Earned Authority level 2 status?

4.4 Please confirm whether Valet Shops with Earned Authority level 2 are required to consider the use of recycled/aftermarket parts on all estimates.

4.5 Please explain specifically what aspects of the process described above are, "not applicable for participants with Earned Authority level 2" and why they do not apply to those participants.

4.6 Please explain how ICBC determines that the most cost effective part was not used in each of the following two scenarios:

a) Quick Approve estimates (estimate is approved without the file being opened and inspected)

b) Estimator Approved Estimates (estimate is approved, denied or modified after the file is opened and inspected by an ICBC estimator)

4.7 Please identify the number of times in the years 2012 to present, ICBC's MD Managers or Supervisors have:

a) reviewed Estimates where the most cost-effective parts requirement was not met;

b) written down estimates where they determined the decision to use more expensive parts was not supportable.

5.0 Reference: Exhibit B-2, 2016.1 RR MoveUP.4.1

Number of Unfilled ICBC FTEs	2012		2013		2014		2015	
DIVISION	Bargaining Unit	Management and Confidential	Bargaining Unit	Management and Confidential	Bargaining Unit	Management and Confidential	Bargaining Unit	Management and Confidential
Claims	-	-	42	3	-	3	18	-
Insurance/Driver Licensing	-	-	13	-	7	5	13	-
Finance	-	-	11	1	2	2	3	5
Corporate Services	-	-	14	6	14	12	2	12
Corporate & Stakeholder Governance	-	-	-	5	6	2	4	8
Information Services	-	-	37	1	-	-	17	20
Executive	-	-	-	-	-	1	-	-
Corporate	-	-	-	-	-	-	-	8
TOTAL	**201**	**121**	**117**	**16**	**29**	**25**	**57**	**53**

5.1 Please identify the vacant bargaining unit positions found within the Information Services division in 2015.

6.0 Reference: Exhibit B-2, 2016.1 RR MoveUP.5.1

Contractors by Division	
Position	**Headcount**
Corporate Services	**3**
Change Management Lead	2
Communications Lead	1
Information Services	**16**
Business Analyst	3
Corporate Project Analyst	1
Data Analyst	1
Enterprise Architect	1
IS Solutions Developer	1
IT Project Lead	1
Middleware Support Specialist	1
Project Manager	1
Senior Enterprise Architect	2
Senior Technical Specialist	3
Systems Analyst / Developer	1
Total Headcount	**19**

6.1 Please identify which, if any, of the above noted contractor positions fall under the Collective Agreement with MoveUP.

6.2 Please provide the fully loaded costs (by position) of each group of contractors.

7.0 Reference: Exhibit B-2, 2016.1 RR MoveUP.11.4

In response to an inquiry from MoveUP asking whether ICBC would start tracking the proportion of material damage (PD) claims resolved through interactions between policy holders and Valet shops with no direct interaction with ICBC's estimating staff, ICBC said the following:

ICBC anticipates its new estimating software platform (Material Damage System Solution), which will integrate with the Guidewire ClaimCenter platform, will be implemented in 2017. Once the new system is fully implemented, ICBC will have a better understanding of the data that will be available and ICBC will review metrics at that time.

7.1 Presumably, ICBC is familiar with the program it has purchased and has, potentially, had some input into what data it might track and its functionality to ensure its usefulness in ICBC's insurance environment (as a Monopolistic provider of Compulsory Basic Insurance). Please explain why ICBC does not currently have an understanding of the data that this new system will make available.

8.0 Reference: Exhibit B-2, 2016.1 RR MoveUP.14.2

The 45% service level means that the target is 45% of calls will be answered within 90 seconds. This service level is considered to be satisfactory by ICBC during the time of preparation for, and transition to, the new Policy Administration System (PAS). ICBC expected this type of service level and does not view this service level as inadequate for a major PAS implementation. Now that the new PAS has been implemented, service levels will be monitored until they return to normal service levels.

8.1 When ICBC embarked on the Claims Transformation Project, it predicted a timeline for a return to "steady state" or the new normal. What is the timeline ICBC is currently projecting for a return to "normal service levels" for its customer contact service levels?

8.2 Is ICBC projecting an improvement in customer contact service levels as a result of the implementation in its new PAS?

8.3 What is the service level ICBC is projecting will be the end result of this change in the PAS?

9.0 Reference: Exhibit B-2, 2016.1. RR MoveUP.16.1

The steps that have been taken to mitigate the Customer Contact Service Levels include hiring more staff and making use of internal staff transfers, offering overtime (based on seniority) to current and prior department employees, implementing a customer call back service on customer queues and a focus on increased awareness of online services through www.icbc.com and media. An advertising campaign was launched to inform the public of the new Policy Administration System (PAS), asking customers to consider visiting their brokers a few days in advance of their insurance renewal and asking for patience while brokers and ICBC staff get used to the new system.

9.1 Please indicate when ICBC expects to see the steps taken (hiring more staff, making use of internal staff transfers, and offering overtime) to bear fruit and improve the Corporation's customer contact service levels?

9.2 In light of ICBC's customer contact service level for calls answered within 90 seconds as shown in response to MoveUP.14.1, does ICBC have any further plans to increase staffing, engage in additional internal staff transfers, or to offer more overtime to boost its performance?