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December 28, 2016

British Columbia Utilities Commission

900 Howe Street,

Vancouver, BC V6Z 2N3

Ms. Laurel Ross, Acting Secretary and Director:

This submission is in response to the Commission's letter of December 20, 2016.

The Panel offered five reasons why the 4.9% increase should be approved. Three of the reasons require clarification.

Special Direction IC2 requires that Basic insurance be fixed on the basis of accepted actuarial practice to allow ICBC to collect sufficient revenue. The 4.9 percent requested rate increase is based on accepted actuarial practice ….

Accepted actuarial practice (AAP) would suggest that a 15.5% increase is required in order that rates reflect the cost of providing Basic insurance. The modifying phrase is "subject to applicable legislation" (cabinet direction) as noted in ICBC's submission of December 23, 2016. In response to the BCOAPO, ICBC stated that cabinet directives "limit the Basic insurance rate increases that would otherwise be suggested by the Basic insurance costs and revenues."[1]

OIC 960/16 further restricts the Commissions discretion in approving a rate increase of up to 7%, as only a maximum increase of 4.9% is now permitted. Given ICBC's forecast for PY2016, any lesser amount would imperil the regulatory minimum capital ratio. Offsetting the Basic capital shortfall, which would result if the increase was less than 4.9%, with additional Optional funding would likely reduce the Optional capital reserve to less than the minimum regulatory requirement.

[1] BCUC, ICBC 2016 RRA, IR2, BCOAPO 3.1.1-2.

Maintaining [the] *Basic insurance 100% MCT* [ratio] *is in the interest of ICBC and its policyholders to maintain financial health and solvency of Basic insurance.*

ICBC forecasts that the 4.9% rate increase, together with $472 million in Optional funding, will result in a Basic capital reserve ratio of 102% by March 31, 2017. The forecasted year-end Basic capital reserve will be approximately $620 million short of the 145% management capital ratio that the Commission had previously established as the Basic reserve margin.

Cabinet had ordered that no provision for a capital rebuild factor be included in the Basic rate, and this year the capital maintenance requirement included in the request is also restricted.

Assuming the maximum rate increases allowed by the rate suppression policy, ICBC forecasts that the capital reserve ratio will be as low as 10% by March 31, 2021.[2] Some $1.5 billion of additional capital funding will be required in the next four years to achieve the regulatory minimum requirement.

Basic insurance is a closed system. Any forecast variance flows through Basic capital triggering a correction to future premium rates.

The concept of the closed system may have had some validity prior to the government's rate suppression directive. Given that the 2016 rate increase, like the increase for 2015, depends on massive transfers of Optional funding to the Basic program, the closed system concept is no longer applicable; the concept must expand to include the Optional source of funding.

The distinction between Basic and Optional policyholders never really made sense anyway, as all Optional policyholders are Basic policyholders. The depletion of policyholders' savings in the Optional and Basic capital reserves to subsidize the Basic rates was ill-conceived, and is not sustainable.

ICBC's December 23, 2016 Submission

ICBC, which must conform to government directives, submits that the 4.9% rate increase, which depends on a $472 million infusion of Optional funding to keep the Basic capital above the regulatory minimum level, is just and reasonable. Under various increasingly restrictive cabinet orders and directives, and by limiting one's perspective to a single rate year, the request of 4.9% is reasonable.

Is the continuing subsidization of Basic rates just and reasonable in terms of the sustainability of the Basic insurance model? Given the growth trends in claims costs, and with the reserves now close to the regulatory minimums, the panel must consider the financial cost to future policyholders (and potentially to taxpayers) of the current model.

ICBC has asserted that considering the current year request in the context of the longer-term sustainability of the Basic program falls outside of the Commission's jurisdiction.[3] Such a proposition should be rejected, as any regulator (even one with such restricted authority) would be mindful of the future effects of a current year rate decision.

[2] BCUC, ICBC 2016 RRA, IR 1, BCUC 19.1C, Table 2.
[3] Ibid., IR 2, BCUC 63.1, and ICBC letter of November 23, 2016, filing the Basic forecast.

The 4.9% rate increase for PY2016 should be approved. This is because a) a larger increase is not permitted by cabinet order, and b) a lesser increase would exacerbate the already high risk to the Basic (and Optional) capital reserve.

I submitted my final argument shortly after the government announced the January 16, 2017 deadline for the Commission to approve the PY2016 rate increase; see http://www.bcpolicyperspectives.com/media/attachments/view/doc/bcuc_icbc_2016_final_20_dec_2016/pdf

I look forward to receiving the amended timetable noted in your December 20, 2016 communication.

Sincerely,

Richard McCandless