REQUESTOR NAME: **BCOAPO *et al.***
INFORMATION REQUEST ROUND NO: **1**
TO: **ICBC**
DATE: **November 06, 2017**
APPLICATION NAME: **2017 Revenue Requirements Application**

1.0 Reference: Exhibit B-1-2, ICBC Errata, Figure 5A.2, 2016/2017 Approved Allocators Using 2016/2017 Actual Cost Detail ("Approved Allocators"), Claims Services (ULAE), page 5A-4

1.1 Please explain why the allocator "Claims Division Average" shows different figures for Claims General Support (e.g. Basic Insurance: $20,359) than it shows for Claims System Support (e.g., Basic Insurance: $19,022).

2.0 Reference: Exhibit B1-2, ICBC Errata, Fig. 5A.2, Approved Allocators, Road Safety and Loss Management (RSLM), page 5A-4

2.1 Does the 100% allocation of Road Safety Initiatives to Basic reflect the view that such initiatives provide no benefit to Optional Insurance?

3.0 Reference: Exhibit B1-2, ICBC Errata, Figure 7.3- Claims FTEs, page 7-10

The referenced page states at paragraph 19:

> *19. As noted above, in 2016, ICBC began to increase the number of its claims staff to respond to the increase in the number of injury claims, the rising rate of legal representation, and growth in BI pending levels. <u>The increase in claims staff was also needed to fill positions as existing staff retired, left ICBC, or took on new roles</u>* [Emphasis added].

3.1 Please confirm that retirements and separations of claims staff from ICBC do not necessitate an overall increase in claims staff but rather replacement. If unable to so confirm, please explain.

4.0 Reference: Exhibit B-1, Revenue Requirements Application ("Application"), Structure of the Application, page vi, paragraph 16

The referenced page states:

> *16. Chapter 3 discusses the impact of capital on rates and Minimum Capital Test (MCT) ratio, specifically the $470 million transfer of capital from Optional insurance to Basic insurance by September 15, 2017 to restore the Basic MCT ratio to or above the regulatory minimum target of 100%.*

4.1 If possible, please explain how the transfer amount of $470 million was calculated or otherwise determined.

5.0 Reference: Exhibit B-1, Application, page 2-6, paragraph 12, re: Cumulative Rate Offsets

The referenced page states:

> *12. In the 2016 Revenue Requirements Application (RRA), a total of $300 million of income was transferred from the Optional book of business to reduce the PY 2016 rate change to cover costs from 15.5% to 4.9%.*

5.1 Is it fair to say that (i) for the previous two RRAs, it has required a cumulative transfer of $770 million to Basic to keep the rate increases in the allowable interval and (ii) if there is no material change in the trends of the cost drivers for the 2018 RRA or in the allowable rate increase band, a transfer similar to the most recent one will be required again for the 2018 RRA?

5.2 Does ICBC expect that another similar transfer will be <u>feasible</u> prior to the 2018 RRA?

5.3 If ICBC agrees with the premise in IR 5.1 above, are there any imminent issues with respect to the long term sustainability of Basic? If so, does ICBC have a view as to how the sustainability of Basic can be ensured?

5.4 If a 6.4% rate increase is approved by the BCUC as proposed by ICBC, will the allowable interval for the 2018 rate increase be 4.9%-7.9%?

5.5 Does ICBC believe that sustainable cost savings in the neighbourhood of $400 million per year <u>could be achieved</u> within the next four years?

6.0 Reference: Exhibit B-1, Application, Structure of the Application, page iv, paragraph 8, re: Performance Measures

The referenced page states:

> *The proposed amended suite of performance measures aligns more closely with corporate performance measures used in ICBC's other public reporting than the current set. In addition, information previously addressed as performance measures is now discussed in other chapters, which provides more appropriate context and avoids duplication of information.*

6.1 Please explain why performance measures should “align more closely with corporate performance measures.”

6.2 Please explain why, if information previously addressed as performance measures” is “discussed in other chapters,” it would be onerous to include these measures in a new summary table that also includes ICBC’s instant proposals with respect to performance metrics.

6.3 Does ICBC see value in stakeholders and the BCUC being able to track a <u>consistent</u> set of performance measures over time? If not, please explain.

6.4 Please provide the estimated cost savings to ICBC and the associated rate impact in the event that ICBC’s proposal in respect of performance measures/reporting is approved by the BCUC.

6.5 Has ICBC ever used a “Cost Per FTE” performance measure for any of its operating cost components?

7.0 Reference: Exhibit B-1, Application, Figure 2.1- Summary of Components of Required Premiums, page 2-4, re: Investment Income

7.1 Please provide the expected return on (i) Basic Equity and (ii) Policyholder Supplied Funds separately.

7.2 If the expected returns in the response to 7.1 above differ, please provide a brief explanation.

8.0 Reference: Exhibit B-1, Application, page 2-6, re: PY 2017 Loss Cost Variance

8.1 Does ICBC agree that, for all practical purposes, this component (Loss Cost Variance**)** essentially acts as a variance account which trues up forecasted 2016 costs to actual/re-estimated 2016 loss costs for recovery in 2017?

9.0 Reference: Exhibit B-1, Application, page 2-9, re: Claims Services Expense

9.1 Please provide a breakdown of ULAE between fixed (i.e., independent of claims handled) and variable ULAE.

10.0 Reference: Exhibit B-1, Application, page 2-9, re: Controllable Expenses; and page 5-1, re: Operating Expenses

The first referenced page states:

> 20. *ICBC is focused on keeping all other controllable operating expenses (non-claims operating expenses) in line with the 2014 budget as set out in ICBC's 2014-16 Service Plan.*

The second referenced page states:

> 2. *Controllable operating expenses are a portion of total corporate operating expenses. Controllable operating expenses exclude pension and post-retirement benefit expense, Transformation Program (TP) expense, and government initiatives.*

10.1 Can ICBC confirm that, subject to the referenced qualifications above, all other corporate operating expenses are controllable?

11.0 Reference: Exhibit B-1, Application, Figure 2.5- Basic Loss Cost, page 2-12

11.1 Can ICBC confirm that for the period from Fiscal Loss Year 2008 to 2019, Basic Loss Costs have increased at a compounded rate of approximately 5.22% per year?

12.0 Reference: Exhibit B-1, page 2-12, and Figures 2.6 and 2.7, pages 2.13-2.14, re: Restated 2016 Frequency and Severity

The referenced page states:

> 31. *Please note that all claims statistics provided in this Chapter reflect ICBC's new fiscal year period of April 1 through March 31. As a result, any data from the 2016 RRA provided in this Chapter has been restated to reflect the new fiscal year basis for comparison purposes. In addition, claims statistics for the PD coverage have been updated to reflect data improvements as described in paragraphs 57 to 59. As a result, all PD frequency and severity statistics from the 2016 RRA provided in this Chapter have also been restated in order to provide a meaningful comparison to the PY 2017 statistics.*

12.1 Please provide a breakdown of the changes in the restated data to show the impacts of (i) the change in fiscal year and (ii) the data improvements and use of May 2016 data, separately.

13.0 Reference: Exhibit B-1, Application, Figure 2.13- BI Frequency, page 2-20

13.1 The referenced graph appears to show BI frequency decreasing from 2002 to 2010 and increasing thereafter. Does ICBC have any explanation for this behaviour?

13.2 In its modelling of the data shown in this figure, did ICBC consider using all the data and testing for a structural break in the data occurring in 2010?

14.0 Reference: Exhibit B-1, Application, Figure 2.14- Increase in Repeat Claimants, page 2-21

14.1 Is ICBC aware of (i) increases in repeat claimants in other jurisdictions and (ii) any analyses of this phenomenon in other jurisdictions? If so, please provide details.

15.0 Reference: Exhibit B-1, Application, Figure 2.15- PD Severity, page 2-22

15.1 Has ICBC ever attempted or is it possible to remove the changes in parts costs, labour hours, and labour rates from the measured PD severity to see if there is any residual in PD severity which might indicate a change in claim behaviour over time?

16.0 Reference: Exhibit B-1, Application, Appendix B.0, page 1, paragraph 5, re: Exposure Model

The referenced page states:

> *A simple regression model which relies on one explanatory variable, time, is often the preferred model if it fits the historical exposure data well and produces a reasonable and intuitive forecast. A more complex model is chosen only if it provides a significant improvement over the simple model.*

16.1 Please elaborate with respect to how ICBC determines that a more complex model provides "a significant improvement." For example, does it depend on comparing F statistics, comparing the R statistic to adjusted R statistic when adding a regressor, p values, etc.?

16.2 Generally, when selecting a model to forecast a cost driver, how large of a role does intuition or 'visual analysis' play in determining the model selected?

17.0 Reference: Exhibit B-1, Application, General, re: Regression Analysis

17.1 Does ICBC ever calculate confidence intervals for its estimates? If so, please provide details. If not, why not?

17.2 Are the estimated regression equations <u>linear in the estimated parameters</u> in each case?

17.3 Does ICBC agree that the smaller the sample, the less confident one can be in the estimate?

17.4 Does ICBC agree that for samples of sizes less than 30, the assumption that the estimated parameters are normally distributed around their "true value" is unwarranted?

17.5 In each case that a linear regression was used to support the Application, please provide a brief summary table including (i) the equation estimated; (ii) the sample size; (iii) the parameter estimates; (iv) the F-statistic and p-value; and (v) the standard errors.

17.6 At a high level, please provide ICBC's criteria for determining whether to use some other method of estimation (e.g., rolling average) rather than linear regression in its forecasting exercise.

18.0 Reference: Exhibit B-1, Application, General, re: Forecasting Testing Ex Post

18.1 Does ICBC check the accuracy and robustness of its forecasting methodologies *ex post* by comparing forecasted values to actuals and looking for attributes such as unbiasedness, minimum Mean Squared Error, Symmetry, Stability, etc.? If so, please provide details.

19.0 Reference: Exhibit B-1, Application, Attachment 4 A1, ICBC Statement of Investment Policy and Procedures ("SIPP"), page 17; and Figure 4.2- Yield on Basic Equity, page 4-4

The referenced page states:

> ***10.7 DERIVATIVE INSTRUMENTS***
> *Swaps, options, forwards, future contracts and other derivative instruments are permitted as long as they are used to hedge portfolio risks or enhance portfolio returns. These strategies can involve foreign exchange components on a hedged basis. Derivatives are not permitted to lever the portfolio or increase portfolio risk (speculation). Derivatives can only be applied to asset classes contemplated in the Investment Policy. Derivatives will not be used to extend asset class weights outside the stated asset mix ranges.*

19.1 At a high level, please explain how, operationally, ICBC determines whether a prospective investment in a derivative product constitutes hedging or speculation. Please provide a few simple examples to illustrate.

19.2 Please indicate the row(s) of the referenced table (Fig. 4.2) which have derivatives included with the asset(s).

19.3 For asset categories of Basic Equity which currently include derivative holdings, please indicate the % of each said asset category comprised by derivatives.

19.4 Please outline at a high level the methodology that ICBC uses to value derivatives.

19.5 Does ICBC rely on Value At Risk (VAR) analysis to inform any of its investment activities? If so, please provide details.

19.6 Have there been any years for which there have been significant losses to the investment portfolio due to derivatives holdings? If so, please provide details.

19.7 Please provide a high-level description of the hedging instruments used by ICBC and also a commentary on hedging costs and any potential financial risks ICBC incurs by its hedging activities.

20.0 Reference: Exhibit B-1, Application, Appendix 7B and Attachment 7 B1, re: Claims Transformation

20.1 Can ICBC confirm that the only CT costs are sustainment costs, i.e., unlike most other projects which require a significant investment up front to enjoy benefits later?

20.2 If unable to confirm the premise stated in 20.1, please provide the benefit-cost ratio of the project (in present value terms).

20.3 Does ICBC maintain that, absent the CT project, the recent premium deficits would have been larger – by the amount of the CT savings – in each year?

21.0 Reference: Exhibit B-1, Application, Chapter 6: Performance Measures

21.1 Does ICBC believe that “inter-jurisdictional comparability” is a useful performance measure attribute for stakeholders and the BCUC? If so, please indicate how this belief is reflected in ICBC’s proposed performance suite. If not, please explain why not.

22.0 Reference: Exhibit B-1, Application, Attachment 4 A1, SIPP, page 13, re: High Yield Bond Investments and Real Estate Holdings

22.1 When did the SIPP first allow ICBC to hold bonds rated BB or lower in its investment portfolio?

22.2 When did ICBC first begin holding bonds rated BB or lower in its investment portfolio?

22.3 Have there been any defaults on bonds held in ICBC’s investment portfolio? If so, please provide details.

22.4 Please provide the impact on the return on fixed income assets to an increase of 1% in interest rates.

22.5 Please provide the impact of an increase of 1% in interest rates on ICBC's real estate holdings.

23.0 Reference: Exhibit B-1, Application, Figure 7A.2- 2014 CAS Factors, page 7A-2, and Figure 7A.4- Representation Rate, page 7A-6

23.1 Given (i) customers' perceptions regarding legal representation; (ii) ICBC's limited ability to influence it; and (iii) the tendency for claimants who were previously represented to prefer representation; does ICBC believe it has any chance of being able to materially reduce the representation rate in the short or medium term absent legislative change?