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November 6, 2017

VIA EFile

Ms. June Elder  
Manager, Corporate Regulatory Affairs  
Insurance Corporation of British Columbia  
151 West Esplanade  
North Vancouver, BC V7M 3H9

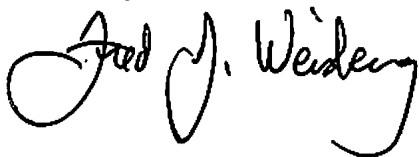
Dear Ms. Elder:

**RE: Insurance Corporation of British Columbia  
2017 Revenue Requirements Application  
Toward Responsible Educated Attentive Driving ("TREAD")  
Information Request No. 1 to ICBC**

Further to Commission Order G-156-17, please find attached Information Request No. 1 on behalf of our client Toward Responsible Educated Attentive Driving ("TREAD").

Should you require any clarification of the Information Requests please contact the writer.

Yours truly,



Fred J. Weisberg  
Barrister & Solicitor  
Weisberg Law Corporation  
Counsel to TREAD

**Toward Responsible Educated Attentive Driving (TREAD)  
Information Request No. 1 to  
Insurance Corporation of British Columbia (ICBC)**

**Insurance Corporation of British Columbia Revenue Requirements for  
Universal Compulsory Automobile Insurance effective November 1, 2017**

**1.0 Reference: APPLICATION  
Exhibit B-1, Cover letter, p.1  
Accepted Actuarial Practice**

“The proposed rate change was determined with reference to the expected costs of providing Basic insurance, consistent with accepted actuarial practice, which is a requirement under Special Direction IC2.”

1.1 Please provide the most relevant comprehensive statement of “accepted actuarial practice” as that term applies to ICBC.

1.2 Please confirm that “accepted actuarial practice” consists of a set of interrelated practices and principles that must be applied consistently and comprehensively, as opposed to selectively adopting some practices and disregarding others.

1.3 Please describe the specific steps taken by ICBC’s actuaries in assisting in the preparation of a Revenue Requirements Application.

1.4 Do ICBC’s actuaries believe that Basic premiums proposed in the 2017 RRA best reflect the risk of causing crashes and the associated financial implications, consistent with accepted actuarial practice? If so, please explain. If not, do the proposed Basic rates violate both accepted actuarial practice and the express requirement of Special Direction IC2?

1.5 Do ICBC’s actuaries believe that Basic premiums proposed in the 2017 RRA appropriately reflect actuarial pricing? Please explain.

**2.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-1  
LOSS COST TREND**

Page 2-1, paragraph 2 notes that the causes for the proposed significant rate increase includes unexpected increases in PD frequency.

2.1 What does ICBC attribute the unexpected increase in PD claims frequency to?

2.2 What are the top three types of PD claims that account for the unexpected increase?

2.3 What actions, if any, has ICBC considered that might deter similar increases in PD frequency, in future? Please explain.

**3.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-1  
LEGAL REPRESENTATION**

3.1 What typical award premium has been demonstrated as resulting from an insured opting for legal representation?

3.2 Has ICBC explored ways it may be able to "game" (i.e. in terms of game theory) the insurance program so as to neutralise the typical expected payoff from engaging legal representation? Please comment.

**4.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-41  
NEW MONEY RATE**

Figure 2.21, Lines 1 and 2, show the estimated impacts of changes in the New Money Rate (assuming +/- 1% variations). The impacts are asymmetric, in that a 1% increase causes a 3.0 ppt rate decrease, whereas a 1% decrease implies a 3.2 ppt rate increase.

4.1 What is the reason for the asymmetry? Please explain.

**5.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-41  
NEW MONEY RATE**

Figure 2.21, Lines 1 and 2, show the estimated impacts of changes in the New Money Rate (assuming +/- 1% variations). The impacts are asymmetric, in that a 1% increase causes a 3.0 ppt rate decrease, whereas a 1% decrease implies a 3.2 ppt rate increase.

5.1 Does ICBC expect equal probabilities of increases versus decreases to the New Money Rate? Please explain, including whether the company expects any variations to be normally distributed, or has a specific, non-normal

distribution, and what the probability of each outcome is (i.e., NMR of 2.91% and NMR of 4.91%).

**6.0 Reference: APPLICATION  
Exhibit B-1, Chapter 5, p.5-22  
OPERATING EXPENSES**

Page 5-22 discusses pension liabilities, and comments that "Pension and post-retirement benefit expense is subject to significant volatility resulting from changes in market-based discount rate for pension liabilities."

6.1 Please explain the factors causing "significant volatility" in the expected pension liabilities.

6.2 What discount rate was previously assumed, what discount rate is currently assumed, and why is the lower rate expected to persist? Please explain.

**7.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-12  
LOSS COST TREND**

7.1 Please provide the data depicted in Figure 2.5 as tabulated figures.

7.2 Please confirm whether Figure 2.2 depicts future years incorporating the adjustments mentioned in paragraph 31.

**8.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-15  
LOSS COST TREND**

8.1 Please describe the leading factors ICBC has observed as causing the increase in PD frequency, from 2015. For each, why was 2015 a change year for the factor? Please explain, and in particular, was there a trend reversal compared to the previous years (2002 through 2014)?

**9.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-17  
LOSS COST TREND**

Page 2-17 states that "Based on intersection safety camera data within the Lower Mainland, there has been a noticeable increase in traffic volume starting in mid-2015 in conjunction with a reduction in the growth rate of traffic speed, suggesting

more congestion within those areas. Figure 2.11 shows an increase in rear-end collisions which may indicate slow moving traffic and increased queuing."

9.1 Please explain how ICBC uses intersection safety camera data to evaluate changes in traffic speed and congestion.

9.2 Please explain how intersection camera data led to the assertion that rear-end collisions are due to increased queuing.

**10.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-17  
LOSS COST TREND**

Page 2-17 states that "Based on intersection safety camera data within the Lower Mainland, there has been a noticeable increase in traffic volume starting in mid-2015 in conjunction with a reduction in the growth rate of traffic speed, suggesting more congestion within those areas. Figure 2.11 shows an increase in rear-end collisions which may indicate slow moving traffic and increased queuing."

10.1 Please explain how ICBC uses intersection safety camera data to evaluate changes in traffic speed and congestion.

10.2 Please explain how intersection camera data led to the assertion that rear-end collisions are due to increased queuing.

10.3 Please provide the data depicted in Figure 2.11 as tabulated figures.

**11.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-18  
LOSS COST TREND**

11.1 How has the severity of rear-end collisions changed over time (i.e., over the years depicted in Figure 2.11)?

11.2 Please provide a table of figures for rear-end collision severities, for the years depicted in Figure 2.11.

**12.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-19  
ROAD SAFETY**

Paragraph 38 states that "Since 2008, police, who assign contributing factors, only attend less than 15 percent of crashes."

12.1 What proportion of crashes did police attend prior to 2008? Please explain, and provide statistics if available.

12.2 If police attended 30 percent of crashes, does ICBC believe that would have any deterrent impact on claims frequencies? Please comment, including a quantification of the expected impact (if any).

**13.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-19  
DISTRACTED DRIVING**

13.1 What is the differential in the present values of lifetime expected loss costs for drivers who use phones or Personal Electronic Devices (PEDs) while driving, versus drivers who do not?

**14.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-19  
DISTRACTED DRIVING**

Page 2-19 says that “Strong enforcement combined with fines and publicity campaigns are needed in order to change risky driver behavior over time.”

14.1 Does ICBC consider existing fines for using a phone or PED while driving as optimal? Please comment.

14.2 Has ICBC determined what the actuarially correct fines for using phones or PEDs while driving would be? If so, how much do the actual fines differ from the actuarially correct fines? If not, is there any reason why has ICBC not determined actuarially correct fines for phone or PED use while driving?

**15.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-19  
DISTRACTED DRIVING**

15.1 Please describe how ICBC determines that a driver involved in a crash was using a phone or PED while driving.

15.2 Beyond its current practices, what other measures could ICBC take to determine whether a driver involved in a crash was using a phone or PED while driving? Please comment.

**16.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-19  
DISTRACTED DRIVING**

Page 2-19 comments that "...on BC roads, 38% of drivers still use their phones at least once in every 10 trips. In addition, ICBC has data on crash fatalities that says that three of every 10 crash fatalities in BC are attributed to distractions. Based on research in other jurisdictions there continues to be a strong causal relationship between distracted driving and crashes. Research suggests that 70% of drivers use their cellphones while driving, and that during an hour-long trip, drivers spend an average of 3.5 minutes using their phones."

16.1 Please explain whether in combination these reported statistics mean that BC drivers are more, less, or equally likely to use a phone or PED while driving, than drivers in the other jurisdictions researched.

16.2 Please discuss the possible explanations for any significant difference in use of phones or PEDS while driving in BC relative to drivers in other jurisdictions.

**17.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, pp.2-20,21  
LOSS COST TREND; LEGAL REPRESENTATION RATE**

Figure 2.14 illustrates the upward trend in Repeat Claimants.

17.1 Please show a version of Figure 2.14, but with years going back to 2007 (if data that far back are unavailable, please show as many years as are available).

17.2 What is the representation propensity (i.e., the legal representation rate) for Repeat Claimants, and how has it changed over the past 3 years?

17.3 Please discuss ICBC's understanding of the reasons for the upward trend in Repeat Claimants, and comment on any connection to suspected fraud.

**18.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-22  
LOSS COST TREND**

Page 2-22 notes that "In addition, increases in labour rates and more hours are required to repair a vehicle due to the advancements and complexity of newer vehicles. All of these factors contribute to the increase in PD severity trend to 6.0%

as shown by the black dashed line in Figure 2.15.”

18.1 Please show the average vehicle repair costs, by vehicle vintage, for the most recent accident year for which data are available. Please provide a separate column of the average repair costs, by vehicle vintage, for High-Value Vehicles.

**19.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-22  
LOSS COST TREND**

19.1 Regarding Figure 2.15, are there any vehicle-related factors that might have caused a discrete increase in PD Severity, in 2015 or 2016? Please comment, and in particular, whether vehicle repairs in 2016 have elements generally not present in 2012 (e.g., reverse cameras, automatic parking, etc.).

**20.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-22  
LOSS COST TREND**

20.1 Regarding the PD trend in Figure 2.15, how much is due to repair labour cost increases, and how much is from repair parts increases? Please explain.

20.2 Please discuss whether High-Value Vehicles have had different labour vs. parts cost increases.

**21.0 Reference: APPLICATION  
Exhibit B-1, Chapter 2, p.2-21,22,23  
LOSS COST TREND**

Page 2-21 states that “The latest five years of data used in the PD severity forecast for the 2016 RRA supported an expectation that PD claim severity was increasing at a moderate rate as depicted by the grey dashed line shown in Figure 2.15. However, based on the last year of emergence, PD severity has continued to accelerate, supporting a severity trend that has nearly doubled since the 2016 RRA. This unfavourable emergence has led to an increase in the PY 2016 estimate compared to the estimate provided in the 2016 RRA. This is largely a result of continued rising costs for parts as more technology is embedded in vehicles, more expensive materials are used in vehicles, and higher costs to import parts as a result of the lower Canadian dollar. In addition, increases in labour rates and more hours are required to repair a vehicle due to the advancements and complexity of newer vehicles.”



Willis Towers-Watson reports auto property damage severity trends; they report a PD trend of roughly 3%.

Figure 1. U.S. claim cost indices  
(1982 – 1984 = 100)

Coverage	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Auto, bodily injury	4.86%	5.48%	4.57%	4.22%	-4.65%	4.52%	3.93%	2.73%	3.48%	3.32%	5.30%	3.81%
Auto, property damage	3.56%	3.54%	3.25%	7.94%	-4.21%	3.00%	2.01%	1.90%	2.62%	2.37%	3.33%	2.43%
Auto, physical damage	2.40%	2.68%	2.59%	9.51%	1.74%	1.94%	0.37%	1.18%	1.93%	1.63%	1.88%	1.27%
<b>Auto, subtotal</b>	<b>3.29%</b>	<b>3.99%</b>	<b>3.68%</b>	<b>6.09%</b>	<b>-1.45%</b>	<b>3.55%</b>	<b>1.85%</b>	<b>2.14%</b>	<b>3.08%</b>	<b>2.38%</b>	<b>4.07%</b>	<b>2.44%</b>

(Source: <https://www.willistowerswatson.com/en/insights/2017/10/willis-towers-watson-claim-cost-index-2017>)

For previous years, ICBC’s PD severity trend appears to have tracked that reported by Towers Watson, but since 2015, ICBC’s PD increase rate is significantly higher.

21.1 Considering the reasons described on pages 2-21 and 2-22, why would ICBC PD experience differ materially from the insurers reported by Towers Watson? Please explain.

21.2 Given the explanations offered, is it reasonable to conclude that the PD portion of rates means that those owning older, domestic vehicles are subsidising those who own new, imported vehicles? Please comment.

**22.0 Reference: APPLICATION  
Exhibit B-1, Chapter 4, p.4C-4,4C-5  
INVESTMENT RETURN**

Figure 4C.4 shows 4-Year Annualized Returns; Figure 4C.5 shows Annualized Returns.

22.1 Considering the benchmark figures, how would ICBC characterise the consistency (or variability) of the actual returns? Please comment.

**23.0 Reference: APPLICATION  
Exhibit B-1, Chapter 5, p.5-18  
OPERATING COSTS**

Page 5-18 says “ICBC has secured office space in Surrey to accommodate new claims staff and enable further consolidation at ICBC’s head office in North Vancouver. This will allow ICBC to terminate leases on some properties adjacent to the head office building in North Vancouver currently used to augment head office space.”

23.1 How will these facility changes impact annual lease costs? Please show

the lease costs for the old facilities versus the new one.

23.2 How will the change in facilities affect available office space, and how far into the future will the new facility accommodate foreseeable office space needs? Please comment.

**24.0 Reference: APPLICATION  
Exhibit B-1, Chapter 5, p.5-19  
OPERATING COSTS**

Page 5-19 discusses projects, including claims software upgrades, and notes that “The 2017/18 outlook is higher than the 2016 actual by \$11 million, at \$25 million. A key increase is a \$6 million periodic software upgrade cost for the claims management system.”

24.1 Does this mean the software upgrades are expensed rather than capitalized? Please explain.

24.2 If so, has ICBC considered capitalising the upgrade costs as a way of smoothing this expense? Please comment.

**25.0 Reference: APPLICATION  
Exhibit B-1, Chapter 5, p.5-20  
OPERATING COSTS**

Page 5-20 discusses Other Operating Expenses. “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, partially offset by other additional savings to meet ICBC’s controllable cost target.”

25.1 Please show the bank charges paid by ICBC for each year since 2007, as data table, with the values expressed using three significant figures.

**26.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-25; Chapter 5, p.5C-12;  
Appendix 9B, p.22  
NON-INSURANCE SERVICES**

Page 6-25 states that “ICBC operates as an integrated organization across the Basic and Optional insurance businesses and efficiencies are best measured in the same way.” Table F.1 shows the Actual Cost of Non-Insurance Services undertaken by ICBC. Figure 5C.9 shows that 100% of non-insurance expenses as allocated to Basic.

26.1 Please explain how a full allocation of non-insurance expenses to Basic is actuarially appropriate.

26.2 As non-insurance costs are allocated to Basic, does that mean an insured's non-insurance payments are scaled to their Basic charge (i.e. meaning that if someone lives in a territory having a higher Basic charge and/or is subject to DRP/DPP, they pay more for non-insurance expenses than someone who does not face those disadvantages)? Please explain.

**27.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-4  
PERFORMANCE MEASUREMENT**

Page 6-4 describes corporate performance measures, stating that "...ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type: insurance product purchase, driver licensing, and claims services."

27.1 Typically, how often do customers make those transactions (in terms of times per year)?

**28.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-10,6-30  
PERFORMANCE MEASUREMENT**

On page 6-10, ICBC proposes discontinuing the Customer Approval Index (CAI), on the basis that "it has been flat in the low 60% range" and that "...ICBC no longer uses this measure as a corporate performance measure because it does not provide actionable and relevant feedback to support the corporate strategy."

On page 6-30, Figure 6.6 shows Claims Services Satisfaction survey results that also appear 'flat.'

28.1 Why does ICBC propose discontinuing the CAI (where customers generally report a satisfaction rate of 55%-64%), but keep open the Claims Services Satisfaction survey (where customers generally report a satisfaction rate of 92%) that also appears to return 'flat' results? Please explain.

28.2 Is it reasonable to conclude that ICBC values customer feedback if it indicates high satisfaction levels but gives little or no value to customer feedback if it indicates relatively low satisfaction levels? Please explain the response in the specific context of ICBC's CAI vs. CSS survey.

**29.0 Reference: APPLICATION  
Exhibit B-1, Appendix D.0, p.7  
LOSS COST TREND**

“The footnote on page 7 of Appendix D.0 says as follows: ““Each historical and modeled point represents a full fiscal loss year, although the last two quarters of fiscal loss year 2016/17 were not used for the purpose of determining the selected model.”” The preceding page (page 6) states that ““As a result of the steeply increasing trend that has recently emerged in PD frequency, a forecast trend of 1.6% is selected based on half of the trend rate from a simple regression model over the three-year period ending September 30, 2016. This trend of 1.6% is projected forward from the one-year period ending September 30, 2016. The last two quarters of fiscal loss year 2016/17 are excluded due to the adverse winter weather...Examining a three-year simple regression ending September 30, 2016 provides an upward trend at a rate of 3.1%, which represents a significant change in pattern from the downward trend that was apparent in older historical years.””

29.1 Please provide a table of observed quarterly PD Frequencies, for the most recent 24 quarters available.

**30.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-1;  
“Affordable and effective auto insurance – A new road  
forward for British Columbia” 10 July 2017 Ernst & Young  
LLP. (Independent Review Report) , p.15  
Insurance Corporation Act, Sec. 45(3)  
AFFORDABILITY**

Page 15 of the Independent Review Report describes affordability as “a fundamental principle of auto insurance in BC.”

From page 6-1: “The proposed amended suite of performance measures aligns with the corporate performance measures which ICBC uses for public reporting. Alignment with corporate performance measures increases the efficiency of the regulatory process, ensures that measures are meaningful to ICBC’s business, and provides the necessary information to the Commission to assess whether ICBC’s provision of Basic insurance service to customers is adequate, efficient, just, and reasonable.”

The *Insurance Corporation Act Sec.45(3)* specifies that,

*After a hearing held on the commission’s own motion or on complaint, the*

*commission may determine and set adequate, efficient, just and reasonable standards, practices or procedures to be used by the corporation in providing universal compulsory vehicle insurance and may order the corporation to comply with those standards, practices or procedures.*

30.1 Does ICBC consider an Affordability metric as necessary for determining whether Basic auto insurance rates satisfy the “just and reasonable” criterion? Please explain.

30.2 Does ICBC consider that demonstrating that its expenditures reflect operating in a cost minimising manner as reasonably equivalent to meeting an affordability objective? Please comment.

**31.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-5  
PERFORMANCE MEASUREMENT**

Page 6-5 states that “In order to ensure meaningful performance measures for future RRAs, ICBC is proposing an amended suite of performance measures that aligns with the corporate performance measures used for external reporting.”

31.1 Please provide copies of the most recent editions of the key external reports that ICBC is alluding to in the quotation.

**32.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-  
PERFORMANCE MEASUREMENT**

On page 6-7, the company explains that “ICBC operates on an integrated basis across the Basic and Optional insurance lines of business for many of the services that it provides. In particular, the FNOL and settlement of claims processes do not distinguish whether the claim has a Basic insurance coverage or an Optional insurance coverage. Purchase or renewal of Basic insurance often includes purchase of Optional insurance as part of the same transaction. ICBC is therefore proposing to continue to provide corporate level performance measures in reporting to the Commission.”

32.1 Does ICBC consider that its market share of Optional coverage is a proxy for customer satisfaction with that product line? Please comment.

**33.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-8  
PERFORMANCE MEASUREMENT**

On page 6-8, ICBC proposes discontinuing the survey question asking whether the customer purchased Optional coverage from an insurer other than ICBC.

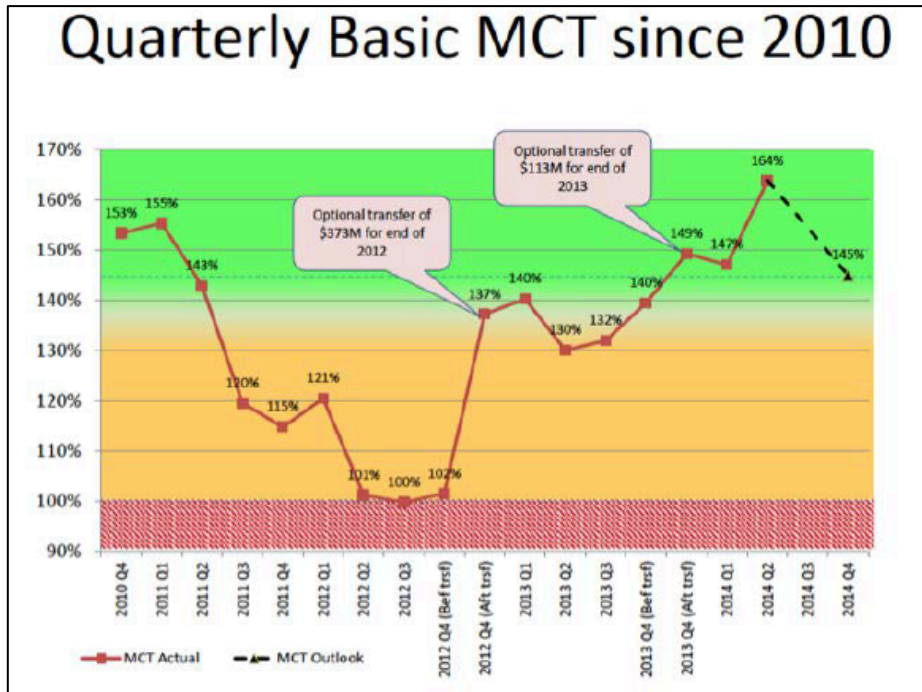
33.1 Given recent improvements in the company's information systems, is ICBC now able to accurately identify (or infer) whether a customer purchased Optional from another insurer? Please comment.

**34.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-8  
PERFORMANCE MEASUREMENT**

Page 6-8 describes why ICBC wishes to discontinue providing detailed reporting on Closed Claims customer satisfaction regarding claimants with injuries. "The smaller volumes of AB/ABBI claims results in smaller volumes of surveys completed for those claimants, which can leave the scores subject to strong fluctuations due to statistical variance, and limit the scope for additional analysis."

34.1 Please show how ICBC reached the conclusion that variations in the reported scores reflect statistical vagaries, rather than actual differences in customer experiences.

**35.0 Reference: APPLICATION**  
**Exhibit B-1, Chapter 3, Figure 3.2; Chapter 6, pp.6-13,-17**  
**ICBC 2015 Revenue Requirements, B-5, BCOAPO IR#1, 49.1**  
**ICBC 2014 Revenue Requirements, B-8, BCOAPO MOI.1.2.1**  
**PERFORMANCE MEASUREMENT**



35.1 Please provide an updated version of the quarterly MCT chart (per the response to BCOAPO IR#1, 49.1, from the ICBC 2015 RRA, shown above).

**36.0 Reference: APPLICATION**  
**Exhibit B-1, Chapter 6, p.6-12,6-24**  
**PERFORMANCE MEASUREMENT**

36.1 Please show ICBC’s Investment Portfolio returns, for each year from 2007, stated as literal percentages (of the total portfolio).

36.2 Does ICBC agree that the trend of its investment performance indicates that such returns are unlikely to significantly contribute to closing the large gap between annual premiums and claims costs? Please explain.

**37.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-23,-24  
LOSS COST TREND**

Paragraph 79 of Chapter 6 discusses the difference between BI Reported versus Incurred Frequencies. Page 6-24 notes that "For 2012, about 8% of BI claims were recorded after the end of the year in which the event occurred. By 2015, this statistic had risen to 14%."

37.1 To what extent was the noted change due to increased claims resulting from weather-related accidents at the end of 2015, versus a trend toward claims "build-up" (i.e., increases in potential fraud)? Please comment.

**38.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-23,-24  
LOSS COST TREND; CUSTOMER RESEARCH**

38.1 To what extent might the increased legal representation rate a reflection of customers not fully understanding their coverage? Please comment.

38.2 How does ICBC research customers to determine their understanding of their coverage, and to determine the alignment of coverage with the customer's actual needs? Please explain.

**39.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6-36  
PERFORMANCE MEASUREMENT**

39.1 What typically is the average Insurance Expense Ratio for auto insurers?

**40.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p.6B-4  
PERFORMANCE MEASUREMENT**

Footnote #1 on page 6B-4 notes that "The survey does not include those claimants who are legally represented. These claimants have typically had only limited or no contact with ICBC and therefore do not fully experience ICBC's customer service."

40.1 Of claimants ultimately retaining counsel, what proportion had limited contact with ICBC, and what proportion had no contact with ICBC? Please explain.



**41.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, pp. 6B-8,7A-7,18,19  
LEGAL REPRESENTATION**

Regarding changes in the Legal Representation Rate, page 6B-8 states:

*The 2016 actual result of 51% is lower than the 2016 forecast, but higher than the 2015 actual of 48%. The actual result was lower than forecast primarily because of a greater than expected volume of newly opened BI claims. The Legal Representation Rate is expected to trend upward during the 2017/18 fiscal year." Page 7A-18 reports that "...the 2016 CAS suggests that financial gain may be more important than previously indicated by survey respondents, and claimants are increasingly perceiving representation as a means to achieve a more desirable financial outcome.*

41.1 Has ICBC evaluated what the rational (or optimal) legal representation rate should be? If so, how does it compare to the 2016 results? If not, why has ICBC not done so? Please explain. (Note: The premise of an optimal legal representation rate is that the customer's expected net financial benefit from retaining counsel would just justify seeking legal representation.)

**42.0 Reference: APPLICATION  
Exhibit B-1, Chapter 6, p. 6B-13  
PERFORMANCE MEASUREMENT**

Page 6B-13 states that "the number of policies in force for the 2016/17 fiscal period was about 2% lower than the estimate for the outlook which was based on an even distribution across the various quarters of the 15-month period."

42.1 What does ICBC attribute the reduced number of policies in force during 2016/17 to?" Please explain.

**43.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p.7-5; Technical Appendix C.1.3.8  
PERFORMANCE MEASUREMENT**

Page 7-5 describes that "...BI exposure closures have increased by 30% over the last five years, and by 19% between 2015/16 and 2016/17...These favorable results suggest that ICBC's claims initiatives, including its initiative to increase its claims staff, are having a positive impact, particularly as these claims staff become more proficient in their roles."

43.1 Considering the apparent impact of the claims initiatives, is ICBC

anticipating the claims closure rate to return to pre-2013 levels? Please comment.

**44.0 Reference: Independent Review Report, p.50  
LEGAL REPRESENTATION**

The Independent Review Report comments as follows on increased legal representation and associated costs:

*In almost every jurisdiction where cost pressures arise, increased legal representation and higher legal fees are typically quoted as key drivers in pushing the cost of minor injury claim settlements upward. For example, in the UK, the Association of British Insurers (ABI) surveyed over 50,000 low-value motor accident claims in 2009 and 2010 and found that for every pound paid in compensation, 87p was paid in legal costs. One insurer has provided data to the Ministry of Justice showing that by 2010, average claimant legal costs represented 142% of the sums received by the injured victims.*

44.1 For 2016 (or the most recent year for which data are available), how much was paid in legal fees for attorneys representing both ICBC and claimants?

44.2 For 2007, what were the equivalent figures?

**45.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p.7-19  
FRAUD PREVENTION AND AWARENESS**

Page 7-19 says that “The work undertaken by the Cyber Unit helps combat exaggerated and fraudulent claims and provides value through fraud deterrence.”

45.1 What are the three types of claims exaggerations most commonly discovered by ICBC? Please explain.

45.2 What are ICBC’s estimates the annual dollar value of each of the three types of claims exaggerations most commonly discovered by ICBC?

**46.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p.7C-4  
ICBC 2013 RRA, AIC IR#1,Q1.2.a, Attachment A  
CLAIMS AND ADJUSTMENT EXPENSES**

In the 2013 RRA, ICBC responded to an Information Request from AIC (IR#1 1.2.a-

Attachment A) with a table showing “Total BI Claims Costs on Closed Litigated Bodily Injury Exposures” (below).

Total BI Claims Costs on Closed Litigated Bodily Injury Exposures														
(In \$million)	2006		2007		2008		2009		2010		2011		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Third Party Costs	\$ 21.9	2%	\$ 37.8	4%	\$ 38.1	4%	\$ 42.3	4%	\$ 46.7	4%	\$ 50.4	4%	\$ 46.3	4%
Third Party Disbursements	\$ 55.8	6%	\$ 64.1	6%	\$ 63.4	7%	\$ 70.8	7%	\$ 79.0	7%	\$ 68.9	7%	\$ 87.4	6%
Legal Fees	\$ 68.2	7%	\$ 80.0	8%	\$ 81.4	9%	\$ 92.7	9%	\$ 101.1	9%	\$ 98.0	8%	\$ 89.0	8%
Legal Disbursements	\$ 17.6	2%	\$ 20.3	2%	\$ 18.6	2%	\$ 20.4	2%	\$ 20.5	2%	\$ 18.4	1%	\$ 16.4	1%
Medical and Dental Reports	\$ 8.6	1%	\$ 10.4	1%	\$ 12.1	1%	\$ 15.4	2%	\$ 17.6	1%	\$ 19.0	1%	\$ 19.3	2%
<b>Total Costs of Litigation</b>	<b>\$ 172.1</b>	<b>19%</b>	<b>\$ 212.5</b>	<b>21%</b>	<b>\$ 213.6</b>	<b>22%</b>	<b>\$ 241.4</b>	<b>24%</b>	<b>\$ 264.9</b>	<b>22%</b>	<b>\$ 274.7</b>	<b>22%</b>	<b>\$ 258.4</b>	<b>23%</b>
<b>Other BI Claims Costs</b>	<b>\$ 749.3</b>	<b>81%</b>	<b>\$ 802.6</b>	<b>79%</b>	<b>\$ 741.3</b>	<b>78%</b>	<b>\$ 772.6</b>	<b>76%</b>	<b>\$ 915.8</b>	<b>78%</b>	<b>\$ 1,002.0</b>	<b>78%</b>	<b>\$ 879.7</b>	<b>77%</b>
<b>Total</b>	<b>\$ 921.4</b>	<b>100%</b>	<b>\$ 1,015.1</b>	<b>100%</b>	<b>\$ 954.9</b>	<b>100%</b>	<b>\$ 1,014.0</b>	<b>100%</b>	<b>\$ 1,180.7</b>	<b>100%</b>	<b>\$ 1,276.7</b>	<b>100%</b>	<b>\$ 1,138.2</b>	<b>100%</b>

Calculated based on the number closed legal represented BI exposures that were litigated. For the purpose of this response, litigated is defined as those exposures for which a Notice of Civil Claim was received or plaintiff or defense counsel costs were paid.

Third party costs and disbursements are, in general, paid to successful litigants to defray their expenses of commencing a legal action.

46.1 Please provide an updated version of the table.

**47.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, pp.7-17 thru 7-19  
FRAUD PREVENTION AND AWARENESS**

Pages 7-17 and 7-18 describe ICBC’s new fraud analytics, and say that “Post system implementation, approximately 4,000 additional investigations are expected annually.” Figure 7.5 shows the number of Injury Claim fraud investigations.

47.1 Are the 4,000 additional investigations noted on page 7-18 for both Property and Injury investigations? Please explain.

47.2 Does ICBC anticipate that the new analytics tool will mostly help detect higher-frequency small-value frauds, lower-frequency higher-value frauds, or be equally likely to catch either type of fraud? Please comment.

**48.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, pp.7A-8, 7A-9  
LEGAL REPRESENTATION**

Page 7A-8 comments on findings of the Customer Attitudes Survey, with respect to claimants retaining legal counsel: “...for the remaining portion of represented claimants who continued to work directly with ICBC for a longer period of time before retaining legal services, the main self-reported reasons behind the decision to get a lawyer were: • Perceived hassles of dealing with ICBC, • Perceived unfair treatment by ICBC.”

48.1 Considering the cost impact of increasing legal representation, what specific steps does ICBC intend to take to better understand "the perceived

hassle of dealing with ICBC"? Please comment, including dates for implementing each step.

**49.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p. 7C-4  
ICBC 2013 RRA, AIC IR#1,Q1.2.a, Attachment A  
CLAIMS AND ADJUSTMENT EXPENSES**

As Page 7-10 explains, "A recent Operational Excellence initiative completed by Claims and Driver Licensing Operations in February 2017 involves vehicles that have a high likelihood of being a total loss, based on a predictive analytics tool. With these claims, upon initial contact with FNOL, ICBC will tow customer vehicles directly to its salvage facility for an Estimator's assessment of the vehicle's damage and a determination of the settlement by the Total Loss Handler. These changes have resulted in fewer touch points and timelier customer service for the process of handling total loss vehicle claims."

49.1 What annual operational cost savings does ICBC expect to realize from introducing the predictive analytics tool described?

49.2 How accurate is the tool in comparison to 'manual' evaluations?

49.3 What is the typical write-off value of vehicles during the most recent accident year available?

**50.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p.7-  
CLAIMS AND ADJUSTMENT EXPENSES**

Page 7-16 describes that "Ensuring policyholders understand that they ultimately pay for fraudulent claims is a component of changing the social acceptability of claim exaggeration and fraud. The active profiling of fraudulent claims investigated by ICBC provides significant public exposure and is intended to deter future fraudulent activity." TREAD noted ICBC's web page with the header "Trio Caught and charged in 'passenger jump-in scheme.'

50.1 Does the Special Investigations Unit observe that people engaged in build-up schemes (like the one reported) are surprised when they get investigated—or, at least, more so than previously? Please comment.

50.2 The article reports the perpetrators receiving a \$5,000 fine. Does ICBC believe stiffer penalties would aid its efforts to deter build-up type fraud? Please comment, and in particular, what level of fine would present an

effective deterrent to such frauds.

**51.0 Reference: APPLICATION  
Exhibit B-1, Chapter 7, p.7-10  
CLAIMS AND ADJUSTMENT EXPENSES**

Page 7-10 states that "A recent Operational Excellence initiative completed by Claims and Driver Licensing Operations in February 2017 involves vehicles that have a high likelihood of being a total loss, based on a predictive analytics tool. With these claims, upon initial contact with FNOL, ICBC will tow customer vehicles directly to its salvage facility for an Estimator's assessment of the vehicle's damage and a determination of the settlement by the Total Loss Handler. These changes have resulted in fewer touch points and timelier customer service for the process of handling total loss vehicle claims."

51.1 Please provide a dataset or data table with the total loss values for vehicles written-off during the most recent accident year for which such data are available.

**52.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8A-1,-2  
LOSS COST TREND**

Page 8A-1 explains that "The new crash frequency proposal is to replace the current Crash Rate with a statistic that provides a closer relation with the claims frequencies used in the actuarial analysis."

52.1 Please show both Crash Frequency and Crash Rate, for the last 10 years.

52.2 Please list the 3 most likely reasons why the two series might diverge.

52.3 What is the maximum expected variation between the two series, over one year?

**53.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-11  
PERFORMANCE MEASUREMENT; ROAD SAFETY**

53.1 What rate of return does ICBC anticipate from its expenditures on Road Safety Programs listed in Figure 8.2? Please explain.

53.2 What return has ICBC realised on the investments it has made in Road Safety programs? Please explain.

**54.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-9  
ROAD SAFETY**

Page 8-8 says that "A driver is considered a "GLP new driver" for four years from the issue date of their first GLP Learner licence, regardless of other licences (Novice or full privilege) obtained during that 4-year period. All other drivers are considered "experienced drivers."

54.1 Is four years the experience level at which a typical driver's crash rate become more like "experienced drivers" and less like "novice drivers"? Please explain.

**55.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-11  
ROAD SAFETY**

55.1 What rate of return does ICBC anticipate from its expenditures on each of the Road Safety Programs listed in Figure 8.2? Please explain.

**56.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-12  
OPERATING COSTS**

Page 8-12 states ICBC's intent to shift 72.4% of IMPACT costs from Basic to Optional.

56.1 How did ICBC determine that shifting 72.4% of IMPACT costs from Basic to Optional was warranted? Please explain.

56.2 Does ICBC deem IMPACT as an essential part of its business? Please comment.

56.3 Would it be more appropriate to have IMPACT funded 0% from Basic? Please explain.

**57.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-12,-13  
OUT OF PROVINCE CLAIMS**

57.1 Please describe ICBC's payouts for Basic coverage claims made by out of province claimants for accidents involving ICBC-insureds driving outside of BC, since 2009.

**58.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-1  
ROAD SAFETY**

Page 8-1 explains that "The Road Safety programs also continue to support the globally recognized Safe Systems approach<sup>1</sup> to Road Safety, through ICBC's investments in enforcement and prevention programs with police and government, road safety engineering, and education and awareness programs, which benefits Basic insurance policyholders."

58.1 As the three general road safety areas are described as investments, what rate of return does ICBC realise on its expenditures in each of the three (enforcement and prevention, road safety engineering, and education and awareness)? Please explain.

**59.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-4  
PERFORMANCE MEASUREMENT; ROAD SAFETY**

Page 8-4, describing the four features of KPMG's integrated performance based model, says "Developing an intelligence-led demand management approach, which will increase the capacity to better leverage data for planning and deploying resources, assist in defining key activities that contribute to road safety outcomes, and create a more systematic and strategic method of sharing data with other road safety partners."

59.1 Please define "demand management," as the term is used in the quotation.

**60.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-5  
PERFORMANCE MEASUREMENT; ROAD SAFETY**

Page 8-5 says that "ICBC also has three driving simulators that tour communities throughout BC, allowing drivers to discover the risks associated with distracted driving first hand, but without harm to themselves or others."

60.1 Does ICBC deploy the driving simulators based on ICBC's crash data? If so, how is the data used to determine where and when the driving simulators are deployed. If not, why doesn't ICBC do so?

60.2 Does ICBC tend to deploy the driving simulators to areas with higher

crash frequencies or target novice drivers in particular?

60.3 Please describe where the three driving simulators were deployed during the last 12 months, and explain why ICBC chose those locations and state the duration at each location.

60.4 Are the driving simulators in constant operation (i.e. either in transport or available to the public)? Could ICBC increase the hours or days that the simulators are available to the public?

60.5 What was the initial cost of the three driving simulators, and what are the annual capital, operations and maintenance costs?

**61.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-5.-6  
DISTRACTED DRIVING**

Page 8-5 describes measures used against distracted drivers:

*ICBC supports community Cell Watch groups, in which community policing volunteers count vehicles with distracted drivers while standing near signs reminding drivers to leave their phones alone. Cell Watch activities are often paired with enforcement in 'two strikes' deployments, wherein drivers who do not get the message from the signage receive tickets from police further along the corridor in which they are driving...Upon completion of a police enforcement campaign, ICBC undertakes a survey to track changes in public perception on the topic of distracted driving." Page 8-6 reports that "From April to October 2016, the surveys indicated an increase in BC drivers stating the penalties for distracted driving are 'about right.'*

61.1 What is the range of values (monetary and licence points) for the tickets issued?

**62.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-5.-6  
ROAD SAFETY; CUSTOMER RESEARCH**

Page 8-6 reports an increase in those agreeing that tickets are 'about right' increased from 39% to 54%.

62.1 What did the most recent survey reveal regarding public awareness of the potential ticket severities (i.e., what proportion of those surveyed were aware of the actual applicable fines/penalties without prompting)?



62.2 How has public awareness of the ticket consequences changed since 2011? Please explain.

**63.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-14  
ROAD SAFETY**

Page 8-14 describes elements of the road improvement program: “The types of road improvement projects are highly varied, ranging from short-term, low cost safety improvements to longer-term/higher-cost improvements. Intersection, roundabout, and traffic control improvements represent approximately 30% of the total RIP expenditure, whereas road and highway corridor improvements, including rumble strips represent approximately 28% of the total RIP expenditure. Infrastructure improvement targeted at vulnerable road users (i.e., pedestrians and cyclists) accounted for approximately 19% of the RIP budget. The remaining 23% of expenditures are for other types of projects including improvements to signing, pavement markings, speed control measures, traffic calming, among others.”

63.1 How does ICBC determine the apportionment of the road improvement program budget between the types of improvements listed? Please explain.

**64.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8-15  
ROAD SAFETY; DISTRACTED DRIVING**

Page 8-15 discusses education and awareness initiatives, noting that “With significant year over year growth in the number of crashes reported to ICBC, especially crashes happening in intersections, road safety will be putting an even greater focus on addressing distracted driving and intersection crashes in the 2017/18 fiscal year. Of the almost \$2.1 million invested in 2016/17, distracted driving accounted for 39% of the total education and awareness spending. Distracted driving is the top contributing factor in police reported injury crashes and second leading contributing factor in fatal crashes.”

64.1 Of ultimate losses currently estimated for accident year 2016, what total value can be attributed to distracted driving crashes?

64.2 For accident year 2016, what proportion of intersection crashes were also attributed to distracted driving?

**65.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8A-1  
PERFORMANCE MEASUREMENT**

Page 8A-1 reports that "ICBC is proposing to replace the crash rate with crash frequency for Road Safety monitoring and evaluation. ICBC is also proposing to discontinue its reporting on the Injured Person Rate."

65.1 What cost savings will result from discontinuing reporting the Injured Person Rate?

65.2 When the Injured Person Rate was last reported, was it flat, decreasing, or increasing? Please describe the observed trend.

65.3 How has the number of Claimants per Claim changed since 2007? Please explain, and show the applicable figures.

**66.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8A-1  
LOSS COST TREND**

Paragraph #6 of page 8A-1 says that "The new crash frequency proposal is to replace the current Crash Rate with a statistic that provides a closer relation with the claims frequencies used in the actuarial analysis." The associated footnote says "These calculations are the same with the exception that the statistics used in the actuarial analysis, as provided in Chapter 2, is based on crashes related to property damage liability claims rather than all reported crashes to ICBC; therefore directionally, both measures should provide similar conclusions."

66.1 Please show both series, for the last 10 years.

66.2 Please list the most likely reasons why the two series might diverge.

66.3 What is the maximum expected variation between the two series, over the course of one year?

**67.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8A-1  
LOSS COST TREND**

"Using the date of loss of a crash instead of the report date eliminates the influence of reporting behaviours on crash trends, allows for cross-jurisdictional comparisons, and aligns with how Road Safety uses data for planning purposes."

67.1 How has the interval between the loss date and report date changed since 2008? Please explain.

**68.0 Reference: APPLICATION  
Exhibit B-1, Chapter 8, p.8A-2  
PERFORMANCE MEASUREMENT; INJURED PERSON RATE**

Page 8A-2 discusses why the corporation proposes discontinuing reporting the Injured Person Rate: "The Injured Person Rate ignores the complexity of crash trends. In particular, the Injured Person Rate includes a count of both liable parties who can claim for accident benefits (AB) coverage and non-labile parties who can claim for both bodily injury (BI) and AB coverages. This is because liability determines whether or not a person is able to claim BI, and crashes involving split liability add further complications. Furthermore, a decrease in the Injured Person Rate does not directly imply a decrease in the frequency of injury claims or the Basic insurance rate; the decrease may be due to a change in the proportions of liable and non-labile claimants."

68.1 Generally, does ICBC consider that a crash involving more injured parties is more complicated than one involving fewer injured parties? Please comment.

68.2 Does ICBC plan to replace Injured Person Rate with another metric, and if so, what metric(s) is(are) being contemplated?

68.3 Please describe the statistical relationship (if any) between the Injured Person Rate and Claims Severity.

**69.0 Reference: APPLICATION  
Exhibit B-1, Appendix D.0, p.15  
LOSS COST TREND**

From Page 15 of Appendix D.0: "Even though the historical average premium has been declining over the long term, ICBC has placed more weight on the recent changes discussed in the preceding paragraph as well as an expectation that future premiums will increase for policies that are impacted by the recent government directed initiatives on high value vehicles and reduced crash forgiveness. As a result, an upward trend has been selected for the forecast period..."

69.1 Actuarially, in terms of observed differentials in PD severities, does the \$150,000 threshold for High-Value Vehicles make sense, or should the 'High-Value' threshold be lower? Please explain, including whether ICBC has

analysed potential tiers for vehicle values that would be actuarially appropriate for additional PD premium surcharges.

**70.0 Reference: APPLICATION  
Exhibit B-1, p.ii  
LOSS COST TREND; OPERATING COSTS**

Page ii describes the rate change required to cover costs: "As determined by ICBC's actuaries, the rate change to cover costs is 20.0% and reflects the change in Basic insurance revenue needed to pay for expected future costs in the 2017 policy year. Put differently, ICBC needs to collect 20% more in Basic insurance premiums than it would collect by charging the current Basic insurance rates."

70.1 Of the indicated 20% required rate increase, how much is due to an increase in the number of exposures, how much due to increased frequency, and how much due to increased severity? Please explain.

**71.0 Reference: APPLICATION  
Exhibit B-1, p.ii  
LOSS COST TREND; OPERATING COSTS**

Page ii also states that "ICBC's new claims strategies to mitigate escalating claims costs which has a favourable 1.5 percentage point impact."

71.1 How did ICBC estimate the 1.5% cost decrease due to company mitigation efforts, and how much variation is anticipated around that estimate (in any one year)? Please explain.

**72.0 Reference: APPLICATION  
Exhibit B-1, p.ii  
REGULATORY MODEL**

Page ii gives some context surrounding the rate-smoothing framework:

"As a result of the rate smoothing framework set out by sections 3(1.1)(b) and (c) of Special Direction IC2, the PY 2017 rate must fall within the allowable rate change band that is +/- 1.5 percentage points of the PY 2016 rate change of 4.9%. Therefore, the proposed PY 2017 rate change is equal to the ceiling of the allowable rate change band, 6.4%, which is 13.6 percentage points lower than the 20.0% rate change to cover costs. As a result, Basic capital will absorb the 13.6 percentage point rate deficit, equivalent to \$415 million, over the course of PY 2017."

72.1 Given the figures presented on page ii, paragraph 3, if those trends

continue, at what point will ICBC no longer require infusions of capital? Please explain.

72.2 Given the figures presented on page ii, paragraph 3, if those trends continue, at what point will ICBC no longer require rate increases at the upper limit of the allowable "band" range? Please explain.

**73.0 Reference: APPLICATION  
Exhibit B-1, p.iii  
REGULATORY MODEL**

In paragraph 5, on page iii, ICBC states that "...the regulatory process should proceed as efficiently as possible."

73.1 Please explain what ICBC would consider to be an "efficient regulatory process," as intended by this statement.

**74.0 Reference: APPLICATION  
Exhibit B-1, p.vii  
REGULATORY MODEL; PERFORMANCE MEASUREMENT**

Page vii says that "ICBC expects the amended suite of performance measures will evolve in tandem with corporate performance measures used in ICBC's other public reporting and will bring forward to the Commission proposed changes in performance measures in future RRAs, as appropriate."

74.1 What advantage does ICBC expect from discontinuing the traditional performance metrics immediately, versus re-visiting the vestigial metrics at some future date, and eliminating them once stakeholders agree that they are no longer useful/necessary? Please comment, and in particular, describe the cost savings ICBC anticipates from the discontinuations.

**75.0 Reference: APPLICATION  
Exhibit B-1, Technical Appendix C.0, p.16  
OUT OF PROVINCE CLAIMS**

Page 16 of Technical Appendix C.0 says that "There are large outstanding out-of-province claims that occurred in FLY 2013 (Commercial), FLY 2014 (Personal), and FLY 2015 (Commercial) which are of a meaningful size relative to the total MR incurred loss and ALAE amounts. Each of these claims is valued in excess of \$1 million in expected MR payments."

75.1 What is the average MR for out of province claims?

75.2 Please show the number of out of province claims for each year, from 2007.

**76.0 Reference: APPLICATION  
Exhibit B-1, Appendix D.0, p.15  
LOSS COST TREND**

Page 15 of Appendix D.0 describes the model selected for personal PD severity: “A five-year model was selected over the post recessionary model of seven years in order to place more weight on the trend rate observed most recently, which has been increasing as a result of the escalating costs to repair vehicles.”

76.1 How do PD severities vary with vehicle original purchase values? Please explain, and provide associated statistics if available.

**77.0 Reference: ICBC "QUICK STATISTICS FOR THE MEDIA MANUAL," 2017  
"Fatal Crashes" Table, p.3  
LOSS COST TREND**

Page 3 of the 2017 "Quick Statistics for the Media Manual" presents the following table for Fatal Crashes:

Fatal crashes						
Fatal crashes reported by police, by region and in B.C.						
	2011	2012	2013	2014	2015	5-year average
British Columbia (total)	264	251	245	256	275	258
Lower Mainland	79	89	91	90	94	89
Vancouver Island	34	35	39	27	37	34
Southern Interior	96	83	67	95	90	86
North Central	55	44	48	44	54	49
Unknown	0	0	0	0	0	0

Fatal crash: Refers to a crash where a road user died within 30 days after the date when an injury was sustained in a crash involving at least one motor vehicle. Excludes roads where the Motor Vehicle Act does not apply, such as forest-service roads, industrial roads and private driveways. Also excludes off-road snowmobile crashes, homicides and suicides.  
5-year average for fatal crash counts are rounded to the nearest whole number.  
Source: Police Traffic Accident System (as of June 30, 2016).

Lower Mainland fatal crashes appear to be increasing significantly more than other areas of the province.

77.1 Please file a copy of ICBC’s 2017 “Quick Statistics for the Media Manual”.

77.2 What does ICBC attribute the increasing trend in Lower Mainland fatal crashes to? Please explain.

77.3 What measures in the 2017 Revenue Requirements application are specifically aimed at addressing the increasing number of Lower Mainland fatal crashes? Please explain.

**78.0 Reference: Application,  
Exhibit B-1, p. iii  
Independent Review Report**

“In the Application, ICBC requests that the Commission exclude the Independent Review Report from the scope of this proceeding for the following reasons:

1. Consideration of the Independent Review Report in the Basic insurance rate setting context is premature. ICBC submits the report was only formally made public on July 24, 2017, and that the Attorney General and Minister Responsible for ICBC stated at that time the Government is considering the content of the report. ICBC submits the opportunities identified in the report, including the broader issue regarding steps to tackle rising claims costs, are complex and require further analysis and discussion with Government. The time period allowing for this dialogue followed by an implementation period would leave “little or no time for any initiatives to have a significant enough impact to change the proposed 6.4% rate increase for the 2017 policy year that is the subject of this Application.” ICBC submits that the Commission will have the opportunity to consider the impact of any such initiatives in a future revenue requirements application once those decisions have been made;”<sup>1</sup>

78.1 Please specify and explain the nature of the “decisions” ICBC refers to in the above information exclusion request.

78.2 At what date or over what period does ICBC expect that such “decisions” will all be made? Provide the rationale for the expected timing.

78.3 How long does ICBC expect implementation of such “decisions” will take?

78.4 Is it conceivable that some of the decisions and implementation will be underway or completed prior to November 1, 2018? If not, please explain the basis for ICBC’s view.

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<sup>1</sup> Exhibit B-1, p. iii.

78.5 In what policy year does ICBC expect that the “decisions” arising from the Independent Review Report will “... have a significant enough impact to change the proposed...” rate increase for that policy year? Please specify the percentage change to a proposed rate increase that ICBC would consider “significant enough”? For example, would a change of 0.1% be “significant enough”?

78.6 Please explain how excluding or limiting consideration of the Independent Review Report in the 2017 RRA proceeding, and perhaps delaying such consideration indefinitely, is in the public interest. Please specifically address the impacts of unnecessarily delaying the cost savings and/or increased revenues that may result sooner from a timely consideration of the Review.

**79.0 Reference: Application,  
Exhibit B-1, p. iii  
Independent Review Report**

“In the Application, ICBC requests that the Commission exclude the Independent Review Report from the scope of this proceeding for the following reasons:

2. A number of opportunities identified in the Independent Review Report relate to product change and or Optional insurance, which fall outside of the Commission’s mandate;

79.1 Please define what ICBC means by “product change”.

79.2 Please define what ICBC means by the “Commission’s mandate” and explain why “product change” falls outside of it.

79.3 Please provide a numbered list of the “opportunities” that ICBC notes are identified in the Independent Review Report. If they are not expressly identified as “opportunities” in the Independent Review Report, please provide ICBC’s criteria and supporting rationale for determining whether something is an “opportunity”.

79.4 Please specify how many of the “opportunities” identified (and distinguish those expressly identified from those selected with ICBC’s own criteria) fall into each of the following categories: relate to product change; relate to Optional Insurance; and fall within the Commission’s mandate.

79.5 Does ICBC agree that “opportunities” that involve *some* aspect of product change or have *some* relation to Optional Insurance may involve other aspects that do fall within the Commission’s mandate? Please comment.



79.6 Does ICBC believe that any connection to product change or Optional Insurance necessarily takes an issue outside of the Commission's mandate? Please explain. If so, how would it be possible for the Commission to exercise its mandate when Basic Insurance and Optional Insurance are businesses within the same corporation managed and operated by the same Board, executives and employees?

**80.0 Reference: Application,  
Exhibit B-1, p. iii  
Independent Review Report**

"In the Application, ICBC requests that the Commission exclude the Independent Review Report from the scope of this proceeding for the following reasons:

3. Excluding the Independent Review Report from the scope of the proceeding will save time, effort and costs for all parties involved.

80.1 Please provide ICBC's estimates of the time, effort and cost for each party that would have been saved. Include a brief description of ICBC's methodology for building those estimates.

80.2 Please explain how delaying analysis, questions, discussion and consideration of the Independent Review Report for an unspecified number of years would be likely to save time, effort and costs for all parties and further the public interest.

80.3 Please address how missed opportunities, a "stale" Review, and the need to dig up a review report then several years old would be likely to save time, effort and costs for all parties.

**81.0 Reference: Independent Review Report**

81.1 Please file a copy of the Independent Review Report.

**82.0 Reference: Independent Review Report  
Letter from the Honourable Todd Stone to Mr. Barry  
Penner, Board Chair ICBC - Dec 19, 2016**

"As the Minister responsible for ICBC, I am directing the ICBC Board of Directors to commission a comprehensive independent third party review. The objective of this review is to provide a wide range of options for ICBC and Government's consideration that would increase fairness and affordability related to Basic

insurance, with the goal of future Basic rate increases being in line with the rate of inflation. Furthermore, it is Government's intention to maintain public ownership of ICBC, and to work within the current model in order to keep Basic automotive insurance as affordable as possible for British Columbians."

82.1 Considering that the ICBC Board of Directors deemed it appropriate and necessary to commission a comprehensive independent third party review, what reasons does ICBC management have for subsequently seeking to exclude or delay timely consideration of an important and impartial report?

82.2 Does the ICBC believe that Ernst & Young LLP. was in any way incompetent or negligent in preparing the commissioned report?

82.3 In the context of the Minister's letter, what is ICBC's understanding of the objective of increasing *fairness* related to Basic Insurance?

82.4 In the context of the Minister's letter, what is ICBC's understanding of the objective of increasing *affordability* related to Basic Insurance?

82.5 Please list in order of importance and rate impact all changes that might be made within the current model in order to keep Basic automotive insurance *as affordable as possible* for British Columbians.

**83.0 Reference: Independent Review Report  
Chapter 1.1 Context for Review, p. 1 or PDF 7.**

"Over the past several years, the Insurance Corporation of British Columbia (ICBC) has experienced rapidly increasing vehicle repair and bodily injury claims costs, as well as a concerning increase in the number of car crashes on BC roads. This represents a significant change from the steadily declining accident rates and relatively stable premiums that had occurred over the previous decades. These new trends are causing concern about the long-term affordability of auto insurance within the province. The government, board and management of ICBC have become increasingly concerned about these negative trends and undertook a series of significant cost reduction initiatives to flatten the organization and increase the efficiency of its claims operations and procurement processes. In addition, the Province of British Columbia introduced much stricter impaired driving enforcement in 2010 through the Immediate Roadside Prohibition program, moved to significantly increase penalties for distracted driving in 2016, doubled Basic premiums for high-value vehicles starting in 2017 and increased accountability for drivers who cause multiple crashes by having them lose their safe driving discounts faster than they have previously. However, it has become apparent that these initiatives will not be enough to overcome the spike in accidents and escalating

claims costs. In December 2016, the Minister of Transportation and Infrastructure directed the board of directors to initiate a comprehensive external review.

While other jurisdictions both in North America and abroad have also experienced increased claims costs, many have undertaken major changes to their auto insurance schemes to mitigate pressure on rates. British Columbia has been able to maintain essentially the same auto insurance scheme since 1973 but increasing financial losses and a limited public appetite for higher premiums bring into question whether this system is sustainable without significant reform or direct government financial support on a go-forward basis.”

83.1 Does ICBC agree it is apparent that the referenced initiatives “... will not be enough to overcome the spike in accidents and escalating claims costs”?

83.2 In recent years has ICBC initiated, or have its customers suggested, other changes that might help overcome the spike in accidents and escalating claims costs? What were the major initiated or suggested changes that were not implemented? Why did ICBC choose not to commence or continue each of those initiatives?

83.3 Does ICBC agree that the cost reduction initiatives and stricter impaired driving enforcement, increasing distracted driving penalties, raising premiums for high-value vehicles and increasing accountability for drivers who cause multiple crashes have not been enough to offset the spike in accidents and escalating claims costs?

83.4 Does ICBC believe that stricter impaired driving enforcement could be effective? Please provide specific examples.

83.5 Do ICBC’s actuaries believe that current rates fully recover the costs of risks related to High-Value Vehicles?

83.6 Could ICBC do more to increase accountability for drivers who cause multiple crashes by having them lose their safe driving discounts faster and/or permanently and by significantly increasing their rates? Please provide specific examples.

83.7 Does ICBC assert that there are no changes possible to either its expenses or revenues for the 2017 Policy Year that would help move toward increasing fairness or affordability related to Basic Insurance? Please comment.

83.8 If what ICBC has been doing is not sufficient, as acknowledged in the

Context for Review, does ICBC have a plan other than implementing the recommendations of the Independent Review Report? If so, what are the specifics and what is the timetable for implementing ICBC's own plan?

83.9 Unlike other jurisdictions both in North America and abroad, why has ICBC resisted proposing, facilitating or undertaking necessary changes to its auto insurance schemes to mitigate pressure on rates for British Columbians as much as possible?

83.10 Does ICBC acknowledge that increasing financial losses and a limited public appetite for higher premiums undermine the sustainability of essentially the same auto insurance scheme that has been in place since 1973? Please comment.

**84.0 Reference: Independent Review Report  
Chapter 1.2 Scope, p. 2 or PDF 8.**

“The Review includes comparing ICBC against other relevant jurisdictions across Canada and internationally (including the UK, Australia, New Zealand, the US and select European countries) in the areas of road safety, operational and financial performance, investment management, governance and product design, as well as considering other potential revenue-generation opportunities.

The Review was based on the premise that ICBC would remain publicly owned, with the mandate to provide affordable Basic auto insurance for all BC motorists. It has been grounded on the application of five guiding principles for a modernized insurance program: *affordability, efficiency, sustainability, fairness* and *simplicity*. These guiding principles are seen as an essential framework to underpin potential solution options for ICBC and the BC government's review.”

84.1 As the Commission has found the Independent Review Report is within scope for the 2017 RRA proceeding, does ICBC concede that the topic areas of “road safety, operational and financial performance, investment management, governance and product design, [and]... other potential revenue-generation opportunities” are within scope? Please comment.

84.2 Does ICBC agree with the five referenced guiding principles for a modernized insurance program?

84.3 Are there other guiding principles ICBC believes should be added?

84.4 Does ICBC consider some of these guiding principles more important than others? If so, please provide ICBC's prioritization of the five principles

and a supporting rationale.

84.5 Please explain how ICBC's requested exclusion of public consideration of the Independent Review Report by at least one year would further each one of the five guiding principles.

84.6 How would putting off informed timely discussion of the opportunities identified in the Independent Review Report enhance affordability?

84.7 How would it be more efficient to have Government and ICBC determine a course but postpone Commission and public questions and input for at least one year or more?

84.8 How would postponing potential solutions, or determining them in the absence of Commission guidance or public understanding, be likely to heighten their sustainability?

84.9 How would fairness be enhanced by suppressing questions or input from customers' representatives in the 2017 RRA proceeding?

84.10 What could better reflect a principle of simplicity than giving the customers who actually pay ICBC's rates a timely voice in what changes to Basic insurance may be needed?

**85.0 Reference: Independent Review Report  
Chapter 1.4 Risks and uncertainties, p. 3 or PDF 9.**

"The estimates in this report are based on analysis and research undertaken by EY and are also based on a review of work undertaken by ICBC."

85.1 What work undertaken by ICBC's actuaries or lawyers, or their respective staff, did EY review?

85.2 Did some of that work undertaken by ICBC include consideration of costs or revenues associated with what EY refers to as product design or driver risk premium? If so, please explain.

**86.0 Reference: Independent Review Report  
Chapter 2.2 Challenges to the current system, p. 8 or  
PDF 14.**

"BC's auto insurance system is facing unprecedented challenges. Premiums collected by ICBC today are higher than other provinces that have shifted away from a

predominantly litigation-based model (they are the second highest in Canada), yet they are not high enough to cover the true cost of paying claims. More accidents are occurring on BC's roads, and the number and average settlement of claims are increasing. Only recent government intervention has protected BC drivers from the currently required 15%–20% price increases. This rate protection has eroded ICBC's financial situation to a point where it is not sustainable. The average driver in BC may need to pay almost \$2,000 in annual total premiums for auto insurance by 2019, an increase of 30% over today's rates, assuming current trends persist, the objective is to have ICBC's rates cover its costs, and significant reform is not undertaken.

In summary, the BC auto insurance system has significant structural problems. However, based on the experience of other jurisdictions, there are proven solutions available — but ***this additional work needs to start now***. This report sets out in detail the key issues putting significant pressure on auto insurance premiums in BC. It also identifies a series of impactful solution options to underpin reform and support a safer, sustainable system.” (emphasis added)

86.1 Does ICBC agree that “BC's auto insurance system is facing unprecedented challenges” or is that an exaggeration? Please explain.

86.2 Does ICBC agree “premiums collected by ICBC today are higher than other provinces that have shifted away from a predominantly litigation-based model (they are the second highest in Canada), yet they are not high enough to cover the true cost of paying claims”? Please explain.

86.3 Does ICBC agree that the status quo approach simply is unsustainable for Basic insurance? If not, please explain.

86.4 Assuming the Rate Smoothing Framework is unchanged, when is the earliest date that ICBC's actuaries reasonably expect that Basic premiums will actually cover the true cost of paying claims for any given Policy Year?

86.5 Under accepted actuarial practice, how many Policy Years in succession may Basic premiums fall short of covering the expected cost of paying associated claims? Please provide references to professional actuarial guidance (e.g. Canadian Institute of Actuaries, Society of Actuaries, etc.) that informs the response to this question.

86.6 Is the referenced “rate protection” required by accepted actuarial practice, or are the two concepts generally incompatible? Please explain.

86.7 Is the Independent Review Report's assertion that the average driver in

BC may need to pay almost \$2,000 in annual total premiums for auto insurance by 2019, an increase of 30% over today's rates, an error or exaggeration? If so, please provide full support for ICBC's dissenting view.

86.8 Please reconcile the assertion in the Independent Review Report that "additional work must *start now*" with ICBC's request to exclude public consideration of the Independent Review Report in an RRA proceeding until an unspecified time at least one year in the future.

86.9 For each of the five Issues and related Target Outcomes set out on page 8 PDF 14 of the Independent Review Report, please identify what specific actions ICBC could take to facilitate those outcomes. Please list the actions in order of expected effectiveness (e.g. begin with the action that would have the greatest expected impact in moving toward each Target Outcome).

**87.0 Reference: Independent Review Report  
Chapter 2.2 Challenges to the current system,  
Issue 1: Accidents and claims are on the rise in BC, p. 10 or  
PDF 16.**

"Despite decades of car and road safety enhancements and long-term improvements in the number of crashes on BC roads, data from both ICBC and Transport Canada reveals a recent upward swing in the number of road accidents. ICBC data shows that approximately 20,000 additional crashes per year have been taking place in BC since 2013 (a 23% increase between 2013 and 2016). Given the focus globally on road safety — including safer vehicles, safer road infrastructure and preventing high-risk driving behaviours — an increasing trend in crashes on BC roads is a serious issue. Our research indicates that there are other jurisdictions around the world that are recently experiencing the same trend.

Further, ICBC's vehicle repair costs have also increased by more than 30% in the past two years to a total of \$1.5b in 2016. This is being driven by the increased number of crashes, rising labour costs, as well as the fact that vehicles today are more reliant on technology and expensive materials than ever before. In BC, there are approximately 70% more high-value vehicles (MSRP greater than \$150,000) on the road today than there were four years ago."

87.1 Please identify what specific actions ICBC could take to more effectively prevent high-risk driving behaviours. Please list actions in order of expected effect in reducing claims costs.

87.2 Please identify what specific actions ICBC could take to recover more revenue related to high-risk driving behaviours. Please list actions in order

of expected effect in increasing revenues.

87.3 Are premiums for High-Value Vehicles fully proportional to the value of the vehicle, or are they effectively grouped and/or capped? Are premiums for all other vehicles proportional to their value? Are premiums for High-Value Vehicles subsidized by owners of all other vehicles, and if so, what is the total annual subsidization?

87.4 In the opinion of ICBC's actuaries, did the doubling of High-Value Vehicle premiums in 2017 adequately reflect the full cost of covering claims for such vehicles, consistent with accepted actuarial practice?

87.5 Does the advanced technology, higher cost of materials and repair, and high-speed capability of High-Value Vehicles create a disproportionately high risk that is not adequately covered by current Basic premiums for such vehicles?

87.6 Is ICBC alarmed by its own data showing that approximately 20,000 additional crashes per year have been taking place in BC since 2013 (a 23% increase between 2013 and 2016)? Do ICBC's actuaries expect that trend to reverse itself in the absence of significant changes by ICBC? Provide the basis for the actuaries' expectations.

**88.0 Reference: Independent Review Report  
Chapter 2.2 Challenges to the current system,  
Issue 2: The number of claims being filed is going up faster  
than the number of accidents, p. 11 or PDF 17.**

"It is not surprising that more road crashes would lead to a higher number of claims; however, in BC the rate of claims is significantly outpacing the rate of crashes. There are more claims per crash being filed, and this highlights a second issue."

88.1 Does ICBC believe it has this issue under control?

88.2 Does ICBC confidently expect the rate of claims will decline relative to the rate of crashes? If so, on what basis? If not, what specific actions can ICBC take to facilitate a reversal of that trend? Please list actions in order of expected effectiveness.

**89.0 Reference: Independent Review Report**

ICBC RRA Effective November 1, 2017

TREAD IR No. 1 to ICBC



**Chapter 2.2 Challenges to the current system,  
Issue 3: Increasing average settlements for minor injuries,  
p. 12 or PDF 18.**

89.1 Please confirm that an average bodily injury claim for a minor injury in the year 2000 (\$8,220) had risen approximately 365% by 2016 (over \$30,038).

89.2 Would ICBC characterize that increase as out of control? Please explain.

89.3 As the average claim amount for a minor injury has risen so sharply, does ICBC believe there is a much higher incentive for fraudulent or exaggerated claims? Please explain.

89.4 How does ICBC reconcile that 365% increase in average *minor* injury claims with the strikingly lower 26.5% increase in average *non-minor* injury claims over the same period? What is the explanation for that massive difference?

**90.0 Reference: Independent Review Report  
Chapter 2.2 Challenges to the current system,  
Issue 5: Rising cost of auto insurance in British Columbia,  
p. 15 or PDF 21.**

“Affordability is a fundamental principle of auto insurance in BC. Given that Basic auto insurance is compulsory, the Basic plan has been designed to be delivered at a price that drivers can afford and not to generate a profit for ICBC.

BC auto insurance premiums have been steadily increasing over the past six to seven years, in large part driven by the increasing number and average settlement of claims being generated. Over the period of 2011 to 2015, average premiums rose by \$130, or 11%. ***Premiums have continued increasing to the point that today the average BC driver pays \$1,550 per vehicle each year for auto insurance, and they would be paying much more than this if the true costs were being borne by consumers instead of being subsidized by temporary financial measures.*** In addition, while Optional insurance profits have traditionally been used to offset losses on the Basic product, due to the trends outlined earlier, continued reliance on Optional insurance profits to manage Basic insurance rates is not a sustainable solution. By the measure of affordability alone, BC’s auto insurance system faces significant pressure. Premiums collected by ICBC today are the second highest in Canada, yet they are not high enough to cover the cost of paying claims.

***Indeed, there is a significant and growing gap of \$560m today between the***

***premiums collected under the Basic product and claims costs.*** With the trend of increasing crashes and claims costs in BC, this gap is projected to increase to \$1.1 billion annually by 2019 if it is not addressed. See charts 6 and 7 below.

Recently, BC drivers have been protected from the currently required 15%—20% price increase only through government intervention and rate-smoothing mechanisms designed to avoid sudden material year over year changes to insurance rates. This rate protection has eroded ICBC's financial situation to a point where such efforts are not sustainable. The average driver in BC may need to pay almost \$2,000 annual total premiums for auto insurance by 2019, an increase of 30% over today's rates, assuming current trends persist, the objective is to have ICBC's rates cover its costs, and significant reform is not undertaken." (emphasis added)

90.1 If the true costs of auto insurance in BC have not been borne by consumers, as the Independent Review Report asserts, who does ICBC understand has paid for subsidization "by temporary financial measures". Please identify the ultimate **source** of such subsidization (e.g. taxpayer, Optional insurance customer, etc.) as opposed to the collector (e.g. government, ICBC Optional insurance business, etc.)

90.2 Please confirm that the current gap between annual premiums collected for Basic insurance claims costs is approximately \$560 million. If not confirmed, provide the correct dollar amount gap between annual Basic premiums and claims costs.

90.3 Please confirm that the current gap between annual premiums collected for Basic insurance claims costs is expected to grow to \$1.1 billion by 2019, if not addressed. If not confirmed, provide the projected dollar amount gap between annual Basic premiums and claims costs in 2019.

90.4 Please provide an explanation reconciling the urgency of addressing the projected \$1.1 billion gap between annual Basic premiums and claims costs in 2019 with ICBC's request to exclude consideration of the Independent Review Report from this proceeding, which if granted would have delayed public discussion of addressing the gap by a minimum of one year.

90.5 On what basis does ICBC expect that the gap would be alleviated by avoiding or delaying discussion of possible solutions?

90.6 Does ICBC believe that government intervention and rate-smoothing mechanisms have eroded ICBC's financial situation to a point where such efforts are not sustainable? Please explain.

90.7 What specific action by ICBC is reflected in the 2017 RRA to improve affordability for drivers responsible for the lowest (or zero) claims costs?

**91.0 Reference: Independent Review Report  
Chapter 2.2 Challenges to the current system,  
Charts 6 and 7: Projected required premiums by 2019,  
p. 16 or PDF 22.**

Chart 6 compares Basic Premium at Current Rate Levels (\$B) Basic Required Premium (\$B).

91.1 Please confirm whether ICBC failing to address the growing the gap between Basic Premium at Current Rate Levels (\$B) and Basic Required Premium (\$B) accords with accepted actuarial practice. Provide professional support for that view. If it does accord, at what point (e.g. dollar amount, number of years in succession, etc.) would the gap no longer accord with accepted actuarial practice?

**92.0 Reference: Independent Review Report  
2.3 Summary of findings -  
BC's auto insurance system has significant structural  
problems and requires reform  
p. 17 or PDF 23.**

“The issues highlighted above point to a significant structural problem within the BC auto insurance system: the rising number and size of claims, larger cash settlements for minor injuries, and more claims costs going towards legal representation than to claimants, all of which has led to the unsustainability of the current model. Fundamentally, auto insurance in BC has structural problems and requires major reform to resolve these issues.”

92.1 Does ICBC acknowledge the referenced significant structural problems within the BC auto insurance system and that major reform is required to resolve these issues? Please explain.

92.2 Which, if any, of the issues referenced in the Preamble does ICBC expect will correct themselves without the need to proactively address them? How long does ICBC expect such self-correction will take for each issue?

**93.0 Reference: Independent Review Report**

**2.3 Summary of findings -  
BC's auto insurance system has significant structural  
problems and requires reform  
p. 17 or PDF 23.**

“This review has identified a number of opportunities to address the current failings of the system. For simplicity, these opportunities have been presented as three priority initiatives as follows:

- Firstly, there is a need to increase the effectiveness of BC's road safety approach. Successfully changing high-risk driver behaviours will result in fewer accidents on BC's roads;
- Secondly, a re-design of the current insurance product is required. This is where the bulk of the savings will come from. Successful change will alter claimant behavior, reward safer driving, increase fairness, and keep costs and premiums under control; and
- Thirdly, a set of additional interim measures should be initiated by ICBC in the near term (such as continued process and productivity improvements and changes to the risk rating model) that will have an incremental impact to the future performance of ICBC and BC's auto insurance system and lay a platform to enable successful reform.”

93.1 Does ICBC agree that these three opportunities should be viewed as the “priority initiatives”? Please explain.

93.2 For each of the three opportunities, please quantify total expenses in the 2017 Policy Year related to pursuit of that opportunity and provide references to relevant discussion in ICBC's evidence.

93.3 Does ICBC agree that the second opportunity is expected to be the source of the largest savings? If not, what other opportunity does ICBC expect would provide larger savings, and why?

93.4 Please provide the specific actions ICBC intends to take to address each of the three opportunities, and the corresponding timetable for those actions.

93.5 Please provide an explanation reconciling ICBC's claim that exclusion of the Independent Review Report would result in savings for all parties with the report's assertion that “near-term interim measures could generate up to \$150 million savings and revenues towards the rate gap”.

93.6 In the context of the Panel’s scoping decision (Exhibit A-3), does ICBC consider “changes to the risk rating model” in or out of scope in this proceeding, and why?

**94.0 Reference: Independent Review Report  
2.3 Summary of findings -  
Opportunity #1: Successful changes in high-risk driver  
behaviours will result in fewer accidents on BC’s roads  
p. 19 or PDF 25.**

“While the overall BC road accident trend over the past decade is positive, the recently observed 23% upswing in crash rates needs to be addressed.”

94.1 Please confirm the “recently observed 23% upswing in crash rates” is an accurate statement?

94.2 Does ICBC believe that considering and addressing the “recently observed 23% upswing in crash rates” can be put off indefinitely? Please explain why ICBC believes additional delay would be helpful, as it asserted in its request for exclusion of the Independent Review Report.

94.3 Please explain how ICBC’s exclusion request, if granted, would have assisted in addressing the “recently observed 23% upswing in crash rates”.

94.4 Does ICBC accept that implementing the highlighted road safety could achieve “\$250 million annual road safety saving” and “would equate to an approximate \$75 premium saving per vehicle”? If not, please provide ICBC’s estimates and supporting evidence.

94.5 Please provide a revised version of Table 1 (page 20 or PDF 26) reflecting:

- a. any additional actions recommended by ICBC;
- b. earliest implementation date(s) for each action;
- c. confirmation of annual savings contribution for each of the three initiatives, broken down by year if appropriate.

**95.0 Reference: Independent Review Report**

**2.3 Summary of findings -  
Opportunity #2: Successful re-design of the insurance  
product will help change claimant behaviour and assist in  
keeping premiums under control p. 21 or PDF 27.**

*“Chart 9: Four options represented across a continuum of different types of insurance models*

- Estimated overall claims savings range from \$770m to \$1.43b per year.
- Re-design of the current scheme shows that annual vehicle premiums could be reduced by as much as \$630 per year from projected 2019 levels (a 32% reduction) or by 14% from today’s rates.”

95.1 Does ICBC accept the estimated overall claims savings range from \$770m to \$1.43b per year? If not, please provide ICBC’s estimates and supporting evidence.

95.2 Is ICBC aware of any other proposed solution that would achieve reductions of annual vehicle premiums by up to \$630 per year from projected 2019 levels or by 14% from today’s rates? Please explain.

95.3 Why has ICBC not actively pursued such an approach in the years prior to 2017 Policy Year as the gap between Basic premiums and claims costs increased by hundreds of millions of dollars? Was ICBC unaware of such an option?

95.4 Why was re-design of the current scheme not the central focus of ICBC’s 2017 Revenue Requirements Application?

95.5 Why does ICBC’s 2017 Revenue Requirements Application fail to either express support for the specific recommendations in the Independent Review Report or alternatively, put forward ICBC’s own plan to achieve savings and/or increase revenues by the same or greater magnitude?

**96.0 Reference: Independent Review Report  
2.3 Summary of findings -  
Opportunity #3: Interim measures that will have an  
incremental impact to the future performance of  
insurance and lay a platform to enable successful reform  
p. 29 or PDF 35.**

“The Provincial Government enacted an Order-in-Council in 2016 to facilitate a High-Value Vehicle pricing, which doubles the Basic rate for high-value vehicles to better reflect the true risk of repair costs. (Footnote 12: We believe that there is an

opportunity to even take this a step further through the introduction of a High-Value Vehicle sliding scale pricing model to better recognize differing vehicle values over \$150,000.)”

“... a driver’s individual Basic premium no longer reflects the risk and cost imposed on the Basic insurance system. The current system faces a number of challenges with regards to designing rates to reflect risk — including working with an outdated, inefficient rating framework, cumbersome regulatory oversight, as well as legislative restrictions.”

“Public consultation in 2012 (Basic Vehicle Insurance Rating System Consultation and Engagement) has informed a number of preferred strategies to better set premiums for Basic vehicle insurance coverage. Customers have told ICBC they think the system would be fairer if lower-risk drivers paid less for their vehicle insurance and higher-risk drivers paid more. ***Regardless of the current or future choice of product structure, ICBC needs to change its pricing and risk model to clearly identify and penalize higher-risk drivers and conversely improve the reward system for those who drive safely.*** ICBC has committed to its regulator, BC Utilities Commission, to move to a system that better recognizes driving records. ***It is estimated that a modernized pricing and risk model could generate up to \$80m in incremental revenue per year. We recommend that detailed design on fair pricing and a modernized risk model commence immediately.*** Other initiatives are discussed later in the report.” (emphasis added)

“Going forward, with the potential for increased income from new and additional road safety and non-insurance initiatives (over \$250m annually), it is recommended that the option of having ICBC retain at least a portion of additional revenues generated by such initiatives (i.e., intersection cameras) be considered. The additional revenues would help reduce pressure on Basic insurance premiums.”

“Absent any product reform, two claims initiatives that are currently underway have the potential to achieve additional claim cost savings: successful implementation of leading Quality Assurance and Fraud Mitigation programs will generate approximately \$30–\$60 million in annual savings (between 1% and 2% of annual claim costs). We encourage the full implementation of these programs.”

“Further, ICBC undertook a review of its procurement activities and identified a number of strategic sourcing initiatives to reduce the cost of auto repair, as well as medical assessments and reports. Only a subset of these initiatives is currently approved for implementation. We would encourage the full suite of strategic sourcing initiatives be undertaken, which would provide an opportunity for ICBC to save over \$150 million over the next five years by reducing the amount paid for goods and services.”

96.1 How much additional annual cost was incurred in each Policy Year 2013 through 2016 to cover High-Value Vehicle repairs that would now be outside the limit and would not be covered?

96.2 Please confirm “... a driver’s individual Basic premium no longer reflects the risk and cost imposed on the Basic insurance system.” If not confirmed, please explain. If confirmed, please explain how that disconnect between premium and risk/cost is consistent with accepted actuarial practice.

96.3 What is ICBC’s understanding of the accuracy and context of the Independent Review Report’s reference to “an outdated, inefficient rating framework”.

96.4 What is ICBC’s understanding of the accuracy and context of the Independent Review Report’s reference to “cumbersome regulatory oversight”?

96.5 Is ICBC proposing any other initiative in its 2017 RRA that could be commenced immediately and is expected to “... generate up to \$80 million in incremental revenue per year”? If so, please provide specific references to discussion of such an initiative in ICBC’s evidence.

96.6 Please describe in detail what specifically is preventing ICBC from following the Independent Review Report’s recommendation to commence immediately on work that would improve fairness and generate up to \$80 million in incremental revenue per year that could reduce the gap between Basic premiums and claims costs.

96.7 Does ICBC support in principle the Independent Review Report’s recommendation to consider having ICBC retain at least a portion of additional revenues generated by road safety initiatives (e.g. intersection cameras) to help reduce pressure on Basic insurance premiums? Please explain.

96.8 Please provide ICBC’s most recent estimate of the potential additional annual claim cost savings following successful implementation of the Quality Assurance and Fraud Mitigation programs. Please disaggregate annual savings for each of the two programs and to the extent that ICBC’s estimate differs from the \$30–\$60 million in annual savings noted in the report, please explain the difference.

96.9 When does ICBC expect to obtain approval for implementation of the



remaining (i.e. unimplemented) strategic sourcing initiatives? Please confirm that ICBC is seeking such approval for all remaining initiatives as part of the 2017 RRA. Upon approval, how much longer does ICBC expect implementation of the full suite of strategic sourcing initiatives will take? Does ICBC agree with the estimated opportunity for ICBC to save over \$150 million over the next five years by reducing the amount paid for goods and services? Please explain.

96.10 Please describe the current extent of analysis conducted by or for ICBC and potential annual revenue of each of the following “non-insurance revenue opportunities”:

- a. salvage operations;
- b. other services;
- c. optimizing unrealized value of ICBC’s “significant real estate holdings” (e.g. sale, lease, new construction creating joint-use facilities, etc.); and
- d. more assertive auction and sale of specialized license plates (vanity plates).

96.11 If ICBC has proposed these or similar non-insurance revenue opportunities in the 2017 RRA, please provide references. If not, why were these opportunities not addressed?

**97.0 Reference: Independent Review Report  
2.4 Implementation plan  
p. 33 or PDF 39.**

“We recommend structuring the reform efforts in several parallel streams: those that require stakeholder consultation and the development of new policy and legislation (including road safety and product reform), and those interim measures that can be undertaken immediately to minimize ongoing losses and set the foundation for successful reform.”

“Experience shows there are a ***number of critical success factors*** that should underpin the reform approach and its implementation:

- ***Robust and inclusive stakeholder consultation results in better policy development and ultimately a stronger legislative framework. It is also critical for gaining support for the case for change. Key stakeholders include*** various levels of government; ***motorists and the general public***; medical, allied health and

legal professions; and other stakeholder representative groups;" (emphasis added)

97.1 Please reconcile ICBC's request to exclude consideration of the Independent Review Report from consideration in the 2017 RRA proceeding and for at least one year thereafter, with the statement that "interim measures that can be undertaken immediately to minimize ongoing losses and set the foundation for successful reform."

97.2 Does ICBC agree with the Review's listed critical success factors that should underpin the reform approach and its implementation? If not, please indicate ICBC's basis for disagreement.

**98.0 Reference: Independent Review Report  
3.2 Role and mandate of ICBC  
p. 37 or PDF 43.**

"As a public insurer, ICBC has a responsibility to keep Basic automobile insurance prices consistently affordable for British Columbians."

98.1 Please describe ICBC's methodology for determining the affordability of Basic automobile insurance for British Columbians. As needed, refer to specific metrics and thresholds such as: CPI, income levels, jurisdictional price comparisons, "rate shock", etc.

98.2 Does ICBC consider that the expected 30% rise in annual total premium for auto insurance by 2019, from today's rates, would represent affordable rates? If not, what is the *maximum* rise in annual total premium for auto insurance by 2019, from today's rates, that would continue to be affordable? Please disaggregate the % due to Basic and Optional rates.

98.3 What consequences does ICBC expect will follow if it fails to meet its mandate to keep Basic automobile insurance prices consistently affordable for British Columbians?

98.4 Does ICBC agree "the *primary* value of a public insurer is to provide stable and affordable premiums for provincial residents for a considerable time period"? If not, please identify what ICBC considers the primary value of a public insurer.

98.5 Does ICBC believe "affordability" is an actuarial consideration? Please comment.

**99.0 Reference: Independent Review Report**

**4. What does an effective auto insurance system look like for BC?  
p. 38 or PDF 44.**

“This Review is intended to provide options for ICBC and the government’s consideration that would avoid significant increases to Basic rates, while ensuring fair and reasonable benefit coverage.”

99.1 Does ICBC believe that the options identified in the Independent Review Report are appropriately considered by ICBC and government only, without timely input or comment from its own customers who ultimately pay for whatever options are pursued?

**100.0 Reference: Independent Review Report, p.54  
REGULATORY MODEL**

Page 54 of the Independent Review Report states "BC can learn from other jurisdictions in how to resolve claims speedily and how to reduce the number and cost of disputes. There are also different regulatory models in use by other schemes that include regulation of premiums and general regulation of schemes that BC could consider."

100.1 Would ICBC support adoption of a price cap-based regulatory model, wherein the corporation would submit annual rate plans for Commission review, and either a) only if the net rate impact exceeds a specified percentage, would there be any regulatory hearing, or b) where only those plan elements associated with cost increases exceeding a specified percentage would be subject to regulatory review? Please comment.

**101.0 Reference: Independent Review Report, p.54  
REGULATORY MODEL**

101.1 Would ICBC support adoption of a product-line-based regulatory model, similar to that used by the California Department of Insurance, wherein the corporation would submit proposed rate change applications for Commission review, using a set of standard forms, with intervenors able to raise any objections with the Commission for possible regulatory hearing? Please comment.

**102.0 Reference: Independent Review Report, p.131  
REGULATORY MODEL**

The Independent Review Report recommends certain potential product reforms.

"Detailed product design will need to be undertaken to refine the key elements of the product portfolio, including establishing what specifically will be included in the Basic product and what elements of choice will be offered within the Optional offerings."

As an interim measure, the Independent Review Report recommends that ICBC"

"Modernize the risk rating and pricing model to provide greater fairness and better reflect the risks related to driver behaviour and choices (e.g., implementation of sliding scale pricing for luxury vehicles, including convictions and penalties within pricing design)."

102.1 Please explain whether there is any reason why ICBC could not implement a cap on PD coverage for insured vehicles, with the residual coverage available via Optional coverage.

**103.0 Reference: Independent Review Report  
Prudence of Related Costs**

103.1 Please provide the total costs to ICBC related to the Independent Review Report. Please disaggregate those costs as follows:

- a. Initial discussions by Board of Directors and ICBC;
- b. Developing and overseeing the competitive bidding process for preparation of the Review;
- c. Providing information to and working with Ernst & Young LLP through completion of the Review; and
- d. ICBC's own review of the Independent Review Report since the July 10, 2017 release date.

103.2 Please disaggregate those total costs for Policy Years 2016 and 2017.

103.3 Please provide the allocation to Basic and Optional of costs related to the Independent Review Report.

103.4 Please discuss the prudence of the above expenditures in the event that:

- a. The Commission had granted ICBC's request to have the Commission exclude consideration of the Independent Review Report in the 2017 RRA proceeding;
- b. The Commission subsequently makes an order that limits the scope of consideration of the Independent Review Report in the 2017 RRA proceeding; or
- c. The Commission's decision in the 2017 RRA proceeding indicates that the Independent Review Report had no significant bearing on the Panel's determinations.