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March 6, 2014

VIA E-MAIL: commission.secretary@bcuc.com

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Attention: Ms. Erica Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: Insurance Corporation of British Columbia ("ICBC")
Order G-141-13/Project No. 3698726
2013 Revenue Requirements Application

Please find attached the Final Submissions of the Insurance Bureau of Canada pertaining to the above-noted matter.

Yours truly,

A handwritten signature in black ink, appearing to read 'W.A. Adams', with a long horizontal flourish extending to the right.

William A. Adams

Attach.

cc: June Elder, Manager, Corporate Regulatory Affairs, ICBC
Registered Intervenors

BRITISH COLUMBIA UTILITIES COMMISSION

In the matter of:

The Utilities Commission Act
R.S.B.C. 1996, Chapter 473, as amended

and the

Insurance Corporation Act
R.S.B.C. 1996, Chapter 228, as amended

An Application by the Insurance Corporation of British Columbia (“ICBC”) for Approval of the
Revenue Requirements for Universal Compulsory Automobile Insurance
Effective November 1, 2013

and

For Approval of a New Basic Insurance Capital Management Plan

FINAL SUBMISSIONS OF THE INSURANCE BUREAU OF CANADA

March 6, 2014

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	FACTORS AFFECTING CLAIMS FREQUENCY	2
III.	OPERATING EXPENSES AND THE ALLOCATION METHODOLOGY.....	3
IV.	ROAD SAFETY ISSUES.....	7
V.	FUTURE APPLICATIONS.....	10
VI.	IN SUMMARY.....	11

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I. INTRODUCTION

1. The Insurance Bureau of Canada (“IBC”) is the national industry association representing Canada’s private home, auto and business insurers.
2. IBC is an intervener and has actively participated as an intervener on each of the Applications and other matters that the Insurance Corporation of British Columbia (“ICBC”) has filed with the British Columbia Utilities Commission (“BCUC”) since 2003.
3. IBC does not propose to comment on many of the issues raised in the course of the Application. IBC has focused on factors influencing rate increases, operating costs and road safety during the course of this Application.
4. These submissions address the explanations for the factors affecting claims frequency, the allocation of operating costs, issues regarding road safety, and the process for future applications.

II. FACTORS AFFECTING CLAIMS FREQUENCY

5. ICBC has provided an actuarial basis for its requested rate increase. IBC has not retained an actuary to review the filing and is not challenging the conclusions reached by ICBC's actuaries. However, IBC is concerned that ICBC has not provided sufficient evidence regarding some of the factors that are driving claims costs and the associated rate increase.

6. ICBC is a monopoly with respect to Basic insurance and has access to data regarding each and every claim that is being made. It is a question of collecting, accessing and analyzing this available data. The Commission should be strongly encouraging ICBC to better collect and use the available data.

7. Better use of data would not only assist with an understanding of the factors affecting claims, but also focus ICBC's claims initiatives, including its road safety costs.

8. Personal electronic devices (PED's) were a subject of much discussion during the course of the oral hearing. PED's provide a specific example of how data could be better collected and used.

9. At p. 3-11 and 3-12 of its Filing, ICBC explains that the mass adoption of smart phones is one of three significant events that have affected the downward trend in claims frequency and sets out some information regarding the market penetration of smartphones, the use of smartphones while driving and the increased risks. ICBC also provides Figure 3.6 which "intuitively supports the logical conclusion: smartphone use is putting upward pressure on frequency".

10. At the hearing, Ms. Minogue stated that intuition, or informed judgment as she called it, plays a very important part in actuarial practice.

Minogue, Tr. Vol. 3, p. 453, ll. 1-9

11. However, what would make this judgment more informed, and greatly assist with understanding the effect that PED's are having, is better data from ICBC itself.

12. In response to 2013.1 RR BCPSO.9.1 ICBC explained that it does not have authority to access customers' phone records to determine if the time of a crash coincides with cell phone use although where there are reasonable grounds an authorization or court order allowing access is possible.

13. However, during cross-examination Mr. Wilson explained that when a claim is reported, ICBC asks a series of questions, including whether seatbelts were being worn.

Wilson, Tr. Vol. 2, p. 266, ll. 7-14

14. In response to whether customers were asked about smartphone use, Mr. Wilson raised concerns regarding relevance and coverage.

Wilson, Tr. Vol. 2, p. 267, 1.17 to p. 268, 1.3

15. Mr. Loach raised concerns about drawing conclusions from the data.

Loach, Tr. Vol. 2, p. 268

16. There may very well be issues regarding the reliability of the data collected, including from an actuarial prospective. However, ICBC has not explored the possibility of collecting such data, let alone its reliability.

17. Now that ICBC is in the process of rolling out its new information system, it should be strongly encouraged regarding the development of data.

18. On a related but different issue illustrating the need for data, ICBC explained in response to 2013.1 RR IBC.9.1 that it is not able to identify the impact of individual initiatives on reducing severity. At issue in 2013.1 RR IBC.9.1 was whether ICBC's streamlined processes for determining coverage are affecting BI claims costs.

19. In cross-examination, Mr. Loach explained that ICBC expects to see "an increase ... in the accident benefits on the bodily injury side relative to what [ICBC] would be paying without this program in place".

Loach, Tr. Vol. 2, p. 263 ll. 17-21

20. In the future ICBC may not be able to rule out all other factors, but presumably ICBC will be able to demonstrate with actual data whether the payment of Accident Benefits on a streamlined basis reduces the overall severity of one or more groups of claims or has other positive effects such as a shorter time periods for the resolution of one or more groups of claims.

Loach, Tr. Vol. 2, p. 262 ll. 13-14

21. Ms. Taylor went so far as to acknowledge that ICBC will be able to measure in less than 5 years, whether early treatment is improving recovery time.

Taylor, Tr. Vol. 2, p. 274, 1.23 to p. 275, 1.7

22. Mr. Loach explained that the expected decrease in claims payments has been taken into account in the actuarial analysis. However, what is important is whether this expected decrease is actually realized and data in that regard should be included in a future filing.

23. Such evidence, whether positive or negative, will greatly assist with an understanding of the role of Accident Benefits in the claims resolution process.

III. OPERATING EXPENSES AND THE ALLOCATION METHODOLOGY

24. IBC continues to have concerns regarding ICBC's application of the allocation methodology developed further to the 2004 Financial Allocation Methodology Application and hearing.

25. ICBC takes the position that the allocation methodology is being applied properly, with some minor exceptions, because over the last three or four years the allocation to basic has been consistent at 67% and, on this basis, there is no reason to challenge it.

Leong, Tr. Vol. 6, p. 929, l. 23 to p. 930, l. 1

26. As pointed out by the Commission in its 2005 Decision, the allocation methodology was developed to ensure that costs are properly attributed to Basic and Optional.

January 19, 2005 Decision, p. 20.

27. Section 49(1) of the *Insurance Corporation Act*, RSBC 1996, c. 228, uses mandatory language:

1) The commission must ensure that the universal compulsory vehicle insurance business and the revenue of the corporation, other than revenue from the corporation's optional vehicle insurance business, are not used to subsidize the corporation's optional vehicle insurance business. [emphasis added]

28. It is not a matter of getting close or almost right. It is also not relevant that an improper allocation results in only a .0009% change to the rate increase. Each small subsidy is still a subsidy and small amounts add up.

Prior, Tr. Vol. 7, p. 1091, ll. 18-22

29. The larger concern, however, for IBC as an intervener, is the fact that the allocation methodology as applied by ICBC since 2005 has become increasingly difficult to comprehend. There is no transparency and it is simply a matter of trusting ICBC. This is in part because the cost centres used as part of the methodology no longer reflect ICBC's organizational structure.

30. As noted in information request 2013.1 RR IBC.31.2, and 2013.2 RR BCUC 220.1, ICBC will be carrying out a new work allocation study in 2014 to be presented to the Commission in ICBC's next financial allocation filing, to be filed by December 21, 2013. In conjunction with that process, it would be appropriate to re-examine the allocation methodology as a whole.

31. IBC asked a number of questions in the first and second rounds of the Information Requests, in cross-examination, and was even provided with information on a redirect, all in an effort to explain and understand the allocation methodology. The methodology should not be this difficult.

32. Chapter 7 of the Filing presents ICBC's operational costs from both a line of business view and a divisional or organizational view. These are two different ways of reporting income expenses. However, for purposes of ICBC's allocation methodology (as well as its financial statements and actuarial rates), the line of business view, not the divisional or organizational view, is relevant.

33. Questions were asked during cross-examination regarding the allocation of the cost centre “Claims Administrative Support” which is a cost centre that first appears in 2008 when “Regional Claims, Road Safety and Licensing Administration”, were moved from Administrative to Claim Services. With regards to this cost centre, the Commission, in its 2005 Decision, required it to be allocated equally between basic insurance and optional insurance after deducting the costs allocated to non-insurance. Following 2008 this cost centre gradually changed to 57.7/40.3 split.

Tr. Vol. 6, p. 920, 1.10 to p. 924, 1.3

34. In redirect ICBC acknowledged that this was a mistake, and that the allocation should not have changed. ICBC insisted, however, that after going back through the approved allocators for the last three years that this was the only mistake.

Prior, Tr. Vol. 7, p. 1089, l. 18 to p. 1091, l. 23

35. While this may have been the only mistake ICBC found after looking back over the last three years, there are many other examples in ICBC’s filings over the last nine years where it is not clear to the reader how the allocation methodology has remained consistent notwithstanding amalgamations and reorganizations. Allocations often appear and disappear and reorganizations occur with every filing.

36. The confusion is symptomatic of the lack of transparency in ICBC’s filings. It is now impossible to tell if the approved allocators are being used after cost centres amalgamate or realign by looking at the filings. Only ICBC is able to determine when mistakes or irregularities have occurred.

37. In another example, in cross-examination ICBC insisted that it has not changed the allocation Customer and Injury Services Operations, which was three different cost centres allocated using three different allocators (as set out in the 2010 allocation), but is now one cost centre with a single allocator (as set out in the 2011 and 2012 allocations). However, when challenged, ICBC was not able to show where that was explained in its filings. Instead, Mr. Leong argued there was a different interpretation of terminology and that “on a very high level”, the costs were consistent.

2013.2 RR IBC.46.5
Attachment F, p. 7A3, and
Attachment G, p. 1 of 5, and
Attachment H, p. 7D-3
Leong, Tr. Vol. 6, p. 929, 23 to p. 930, l. 1

38. ICBC claims this consistency on a “very high level” is the result of blending techniques. The process of blending means that if three allocations with three different allocators are merged together, the allocation still gets calculated proportionally between the three different allocators, but there is just one stated allocation.

Prior, Tr. Vol. 7, p 1090, l. 24 to p. 1091, l. 8

39. While this explains away the problem, it does not make the process any less opaque; there is still a problem with transparency and disclosure. It is nearly impossible to track whether organizational changes are using the approved allocators with the details as provided by ICBC. This should concern the Commission because the structure, as is, does not allow for effective oversight.

40. During cross-examination, ICBC agreed that what the Commission approved was an allocation methodology which was the application of specific allocators to specific cost centres.

Leong, Tr. Vol. 6, p. 920, ll. 2-8

41. So when the Cost Allocation Tables, Appendix 7D of the Filing, are examined (and more particularly the Allocators in 7D.2), the lines of business are Claims Services, Road Safety and Loss Management, Administrative-Insurance, Insurance Services and Administrative-Non-Insurance. The cost centres are those items in the left hand column and the allocators are those items in the second column from the left.

Tr. Vol. 6, p. 919, 1.5 to p. 920, 1.9

42. Mr. Leong and Ms. Prior eventually agreed as to what was a line of business, a cost centre and an allocator in the Cost Allocation Tables, but only after suggesting that what appears in left hand columns "is more function than cost centre". Even ICBC is not clear regarding the terminology.

43. When asked whether splitting up a cost centre or allocating it using different allocators was changing the allocation methodology, Ms. Prior argued that there was no change to the methodology and Mr. Leong suggested "it might be just a different interpretation of terminology".

Tr. Vol. 6, p. 928, 1.25 to p. 929, 1.15

44. There needs to be a clarification of what the allocation methodology involves. ICBC now takes the position that changes to the allocation methodology need not be approved.

45. Thus, in cross-examination Mr. Leong agreed that the allocation applied to Customer and Injury Services and Operations, by "proportionally blending the allocators of the merged areas" was not approved by the Commission.

Tr. Vol. 6, p. 924, ll. 5-7

46. Likewise, Mr. Leong acknowledged that no approval was sought when the cost centre, Out of Province BI, was merged with Out of Province Aligned Claims and a single allocator adopted. No approval was sought. Instead, the allocation used for Head Office Claims was applied.

Tr. Vol. 6, p. 930, 1.6 to p. 931, 1.19

47. At a minimum, and assuming that ICBC may create new cost centres and blended allocators, there must be clear explanations that both the Commission and the interveners can understand. It should not require two information requests and cross-examination to understand how Customer and Injury Services Operations has been allocated.

48. Not surprisingly, ICBC's corporate structure and lines of business have evolved over time. Thus, ICBC has had to adjust the allocation methodology. As stated by Ms. Prior on cross-examination, what ICBC is doing is preserving an allocator that was done at a different point in time.

Vol. 6, p. 935, Prior 1.16-24

49. But as the corporate structure has changed, a lot of work has to be done to try and preserve the allocators in their approved form. This has been admitted by Ms. Prior as being a very difficult system for everybody to understand.

Prior, Tr. Vol. 6, p. 934, l. 2-13

50. It is apparent the methodology is "very difficult" for ICBC as well as the interveners. Thus, it is time to take a second look. Since ICBC is filing a work effort study by December 31, 2014, early 2015 would be an appropriate time.

IV. ROAD SAFETY ISSUES

51. IBC has focused on Road Safety during the course of this Revenue Requirements Application because it is concerned that ICBC develop proper statistics and measurements and, given the limited budget, because the resources should be directed towards programs and tactics with measurable outcomes.

52. During the course of the hearing, the Actuarial Panel noted the importance for the actuarial rates of both road safety programs and the statistics and information being gathered by ICBC's Road Safety department.

53. In a response to questions from Mr. Weisberg regarding the size of future rate increases, Ms. Minogue advised:

I think our claims folks are making every effort to get things under control and in fact it's a corporate priority to get the bodily injury claims costs under control and our folks in road safety are working very hard around distracted driving and doing what we can. I mean, we are all rallying around this and I just can't emphasize enough.

Minogue, Tr. Vol. 3, p. 419, ll. 12-17

54. Ms. Minogue, earlier in her testimony, drew the connection between rates and road safety initiatives, suggesting that road safety initiatives can mitigate future claims costs:

For the purposes of the revenue requirement, the revenue requirement application is to put forward evidence of what rate increase we need in order to cover costs...But we definitely care about whether our costs are increasing at rates that are unacceptable to our customers. And that's why we undertake road safety initiatives and claims initiatives, in order to try to control our costs and mitigate, when we see cost pressures.

Minogue, Tr. Vol. 3, p. 383, ll. 5-16

55. If Road Safety is going to meet these expectations, it needs data that it can measure. This is the same concern raised above with respect to the factors affecting claim frequency, but from a different perspective.

56. ICBC explains in its Final Submission at paragraph 88 that the Road Safety department has been working with the Advanced Analytics team to "review data and assess countermeasures to identify potential improvements" and also "paying particular attention to distracted driving". Working with Advanced Analytics is a positive step, but it is not at all clear what steps Road Safety is taking to develop data that can be measured.

57. In its August 16, 2012 Decision at p. 61, the Commission, regarding data, stated as follows:

The Panel notes the impact of the 2008 changes to the TAS, and the resulting inability to use the data to track collision changes as was previously the case. The Panel shares the concerns that have been expressed respecting the need to obtain and use appropriate data for program evaluations.

58. Mr. Dickinson explained what the TAS ("Traffic Accident System") involves and its current limitations. With respect to the TAS data, he suggested, "I would imagine that we would be able to capture that data".

Tr. Vol. 6, Dickinson, p. 940, 1.25 to p. 942, 1.2

Tr. Vol. 6, Dickinson, p. 942, ll. 10-11

59. However, Mr. Dickinson went on to argue that ICBC could not collect the data because its adjusters "would not be in a position to capture the causal factors such as seatbelts". The difficulty with Mr. Dickinson's approach is that it confuses the collection of the data itself with an analysis of the data.

Tr. Vol. 6, Dickinson, p. 943, ll. 10-12

60. Asking whether a seatbelt was used is not the same as determining causality. What is puzzling is ICBC's resistance to actual data collection and the development of metrics based on that data. It may be difficult to develop reliable data and metrics in certain cases but the possibilities have not been explored.

61. When asked what ICBC's Road Safety department is doing to come up with the statistics it was able to derive from TAS, Mr. Dickinson began discussing ICBC's "measuring and evaluation framework".

Tr. Vol. 6, p. 943, 1.24 to p. 944, 1.5

62. The difficulty is that while the framework at issue has its uses, it is a framework for evaluating programs and tactics, but not about data collection per se. At p. 946, Mr. Dickinson stated:

With respect to our other programs and advertising and things like that, and primarily education awareness, which is that third pillar of effective crash reduction strategies, it's - - that's where we have lost something in terms of police data and the effect that our programs have had. So, what we've done in this document is outline the various ways that we can measure those - - the effectiveness of those education and awareness initiatives, and the other document goes into things like attitude surveys, self-reporting behaviour, post-implementation reviews, and then the appendix of the measurement and evaluation framework, there is a list of the amount of various possible things we can do to measure the effectiveness of those programs.

63. While it is important to measure the effectiveness of Road Safety programs and tactics, this is not the same as data collection. Actual data regarding the use of seatbelts, or for that matter, personal electronic devices, is what ICBC needs to collect and assess.

64. The collection of such data will assist in measuring the effectiveness of programs and tactics. However, measuring the effectiveness of programs and tactics will not replace the data that is no longer available through TAS.

65. The January 19, 2005 Decision states at p. 56:

Further, all projects should be targeted to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation should be carried out in a manner appropriate to the program. . . . The Commission Panel has determined that if a program does not have measurable outcome targets, or is not being managed by ICBC to ensure its effectiveness in terms of claims cost savings outcomes, it should not be in RSLM.

66. Given that ICBC is seeking to control its costs, including Road Safety, this concern is just as relevant in 2014 as it was in 2005. Road Safety expenditures, particularly those funded 100% by Basic should be effective.

67. In its October 17, 2008 Road Safety Filing, ICBC advised, at para. 46, that it would "only invest in road safety education and awareness tactics in support of programs where a driver will

experience enforceable consequences for behaving unsafely”. In Redirect during the current Application, ICBC emphasized that a tactic is a subcomponent of a program. Thus, a tactic itself need not have a measurable outcome if the overall program has a measurable outcome. This appears to be an attempt to circumvent the Commission’s ruling and allow ICBC to incur expenditures that are not effective by justifying them as tactics within a program. The 2005 Decision makes no such distinction. The key is measurable outcomes.

68. The “180 Video” contest discussed during cross-examination does not appear to have an enforceable consequence. Although Mr. Dickinson tried to relate the contest to impaired or distracted driving or speed, it is very different than a specific advertising campaign regarding speeding that is directly related to an enforceable consequence.

Tr. Vol. 6, p. 970, 1.23 to p. 971, 1.24

69. In its October 17, 2008 Filing, ICBC noted at para. 29 that it was discontinuing various education and awareness programs because they did not have enforceable consequences.

70. It appears that ICBC is now introducing other programs that do not have measurable consequences such as the Vancouver International Auto Show and Summer Activations. Such activities are essentially branding exercises. The expenditures may not be significant within ICBC’s overall budget, but at a time when rates are increasing, ICBC needs to spend its road safety budget on projects that have measurable claims cost reduction outcomes, as required by the Commission in 2005.

71. IBC is not concerned with Road Safety programs and tactics that have measurable outcomes and are being measured or those programs and tactics that are clearly tied to enforceable consequences. Thus, programs such as the Road Improvement Program and the Auto Crime programs are not a concern. However, certain of ICBC’s Driver and Vehicle programs and tactics, including speeding and driver distractions, are problematic when examined in light of the criteria previously established by the Commission.

72. ICBC has taken significant steps since 2005 to restructure its Road Safety department, but it is important that the focus continue to be on programs and tactics that are effective and measurable. The development of better data, especially now that the TAS data is limited, is also critical.

V. FUTURE APPLICATIONS

73. IBC would appreciate some direction from the Commission regarding future Revenue Requirement Applications and an opportunity to provide input as an intervener regarding the appropriate process for future Applications.

74. In response to an Information Request from Commission staff, ICBC proposed a process similar to the streamlined process approved by the Commission in 2010.

75. As explained by Ms. Prior in cross-examination, the streamlined process involved filings that were narrower in scope when the application was within a specific band.

Tr. Vol. 6, p. 979, 1.20 to p. 980, 1.16

76. IBC agrees that if there are to be annual filings something narrower in scope than the full Filing made in 2013 is appropriate. However, rate smoothing is new to all parties involved and, at least initially, the filings should be more fulsome.

77. If there is to be filings that are narrower in scope, the interveners should be informed regarding what that narrower scope involves and provided with an opportunity to comment.

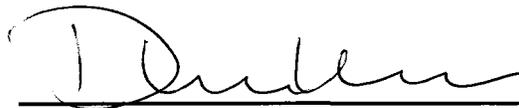
VI. IN SUMMARY

78. IBC's chief concern in the course of this Application has been the need for ICBC to develop better data. The actuaries are able to identify trends and make assumptions, but ICBC is a monopoly with access to a wealth of data if it chooses to collect and analyse it. Better data is critical to both the actuarial process and the Road Safety programs and tactics.

79. It is time to reconsider the allocation methodology or at least its presentation.

80. The next Revenue Requirements Application will involve the rate smoothing. The process, particularly if Applications will now be on an annual basis, requires further consideration.

ALL OF WHICH IS RESPECTFULLY SUBMITTED



D. Lawrence Munn,
Counsel for Insurance Bureau of Canada

March 6, 2014