

May 29, 2019



VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Reply to: Leigha Worth

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Ph: 604-687-3034

Our File: 7600.120

Dear Mr. Wruck,

**Re: Insurance Corporation of British Columbia 2019 Revenue Requirements
Application ~ Project No. 1598982
BCOAPO Final Submission**

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, and Council of Senior Citizens' Organizations of BC, known collectively in regulatory processes as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel

Encl.

**BC OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY,
AND COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC
("BCOAPO")**

Insurance Corporation of British Columbia 2019 Revenue Requirements Application

BCOAPO Final Argument

May 29, 2019

Please be advised that we provide the following final argument regarding the above-noted application on behalf of our client groups known in this and other regulatory processes as BCOAPO or BCOAPO et al. The constituent groups of BCOAPO et al. represent the interests of low- and fixed-income drivers within BC and as such, their interests are directly impacted by the results of this Revenue Requirement.

BCOAPO's participation in ICBC processes before the British Columbia Utilities Commission ("BCUC" or "the Commission") spans a very long time and it is that long familiarity which informs our perspective on not only the application before the Panel, but the Insurer itself.

On December 14, 2018, the Insurance Corporation of British Columbia ("ICBC") filed its 2019 Revenue Requirements Application with the BCUC (Exhibit B-1). In that Application, ICBC has asked for Commission approval of a number of things including an increase in rates of 6.3%, a change in its performance measures, and a proposal to report on whether its product reforms are achieving expected cost savings using set metrics as described in Chapter 8 of the Application.

Introduction

It goes without saying that our clients are concerned by what they have seen in the news about ICBC, the increases in rates for seniors resulting from the most recent rate design application and those they have seen or heard are potentially coming in the future should the Insurer not somehow turn itself around. It is troubling that the Insurer has, despite the actuarial expertise it has on its side, been unable to contain, or even predict, the groundswell of Bodily Injury and Material Damages costs that have been contributing to its growing financial woes.

These concerns, however serious, are not sufficient to offset the value BCOAPO sees in a strong compulsory basic insurer.

The Rates

While our clients are not pleased by the prospect of a 6.3% increase to their insurance rates, our clients cannot take exception with the fact that ICBC's proposal falls within the 4.9% to 7.9 % range of the rate smoothing band specified by section 3(1)(j) *Special Direction IC2*.¹ Due to the significant deterioration of the Basic Minimum Capital Test (MCT) ratio currently measured at approximately 3 to 4%,² the BCUC cannot exclude any of the PY2019 loss cost forecast variance.

BCOAPO notes that despite the state of the current MCT ratio, there is no provision in rates to build up those capital reserves and that none will be applied for until 2022. If ICBC was a private insurer and not a Crown property, the MCT's dismal levels would be a serious concern. BCOAPO sees no reason to doubt ICBC's claim that past and more recent claims costs are the most significant drivers of rate increases. However, because ICBC is a Crown Corporation and we are yet to see the financial benefits of the recent rate design changes, BCOAPO remains cautiously optimistic that capping claims costs will reduce future costs significantly, allowing for greater stability until insurer begins the process of building up its MCT ratio once again.

It is strange that in this proceeding interveners' roles in regard to the rates is essentially limited to ensuring they fall within a specified band and that they are prepared according to accepted actuarial practice as attested to. We are concerned that should this kind of very constrained intervenor role continue over a long period of time that it will eventually be seen as superfluous provided these two conditions are met. There is far more to policy-holder interventions in revenue requirements than simply examining the rate change and ensuring the appropriate actuarial analysis but at present our roles seem to be contracting.

ICBC's main support for its rates application is that it falls within the approved band and that its actuarial forecasts are manifestations of industry best practices.

¹ Exhibit B-1, p. 2-4, para 12

² Exhibit B-1, p. 8A-13, Figure 8A.5

The Performance Metrics

ICBC requests changes to its performance measures, as follows³:

Approvals sought / Requests
Adopt an amended suite of performance measures as follows: <ul style="list-style-type: none">• Maintain or vary the following performance measures:<ol style="list-style-type: none">a) Maintain Insurance Service Satisfaction as a measure in the amended suite.<ol style="list-style-type: none">a. Discontinue providing survey response on whether a customer has purchased Optional coverage from an insurer other than ICBC.b) Maintain Driver Licensing Satisfaction as a measure in the amended suite.

³ Exhibit B-1, pp. 1B-1 – 1B-3, Figure 1B.1

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| <ul style="list-style-type: none"> c) Replace Claims Service Satisfaction (Closed Claims Only) with Claims Services Satisfaction (Closed Claims and First Notice of Loss (FNOL)) as a measure in the amended suite. <ul style="list-style-type: none"> a. Discontinue providing the results for eight additional survey service attribute questions related to the Claims Services Satisfaction score. b. Discontinue providing a separate customer satisfaction score for closed claims customer satisfaction related to claimants with injuries. d) Maintain the Basic Loss Ratio in the amended suite, including an additional reporting of the bodily injury frequency and severity as explanatory factors. e) Maintain the Basic insurance expense ratio in the amended suite. f) Maintain the Basic non-insurance expense ratio in the amended suite. g) Maintain the investment return in the amended suite. h) Replace Claims Efficiency Ratio with the Loss Adjustment Ratio as a measure in the amended suite. i) Maintain the current practice of not reporting on the Employee Opinion Survey in the amended suite. <ul style="list-style-type: none"> • Discontinue the following performance measures: <ul style="list-style-type: none"> j) Discontinue operational metrics for Call Centres, including: <ul style="list-style-type: none"> a. New Claims Initiation. b. Customer Contact Service Level. k) Discontinue Customer Approval Index. l) Discontinue Complaints heard by the Fairness Commissioner. m) Discontinue Basic insurance expense ratio n) Discontinue Basic non-insurance expense ratio o) Discontinue routine provision of injury paid severity measures. p) Discontinue routine provision of BI reported frequency. q) Discontinue Legal Representation Rate as a measure but continue reporting on the topic in Claims Cost Management chapters in future RRAs. r) Discontinue directional measures as performance measures. s) Discontinue the cost per policy in force as a measure. <ul style="list-style-type: none"> • Introduce the following as performance measures: <ul style="list-style-type: none"> t) Introduce Basic Minimum Capital Test (MCT) Ratio in the amended suite. u) Introduce Insurance Expense Ratio as a measure in the amended suite. |
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Discontinue all TP and TP related reporting

- a) Discontinue the filing of the "Costs Outside TP Foundational Scope" report in future RRAs.
- b) Discontinue provision of transitional period operational metrics (Average Handling Time, Average Speed to Answer, Abandon Rates and Deflection Rates) in future RRAs.

Approvals sought / Requests

- c) Discontinue the routine provision of injury paid severity measures (i.e., Average Costs of Bodily Injury (BI) Claims and Litigation costs, and BI Claims Paid Loss Amounts and Costs of Litigation) in future RRAs.
- d) Discontinue reporting on all TP benefits analysis in future RRAs.

Vary or Discontinue certain operational metrics reporting

- a) Replace Legal Representation Rate with Legal Representation Conversion Rate and report on the latter in Claims Cost Management chapters in future RRAs
- b) Replace Crash Rate based on report date with Crash Frequency based on loss date and report on the latter in Road Safety chapters in future RRAs.
- c) Replace overall New Driver Comparative Crash Rate (NDCCR) with its components: Learner and Novice Crash Rate Ratios and report them in Road Safety chapters in future RRAs.
- d) Discontinue reporting on Injured Person Rate

To the extent that the application incorporates “best estimates” and “best practices,” and there has been no evidence brought forward to the contrary in this proceeding, BCOAPO takes no issue with the quanta of the estimates but submits that what interested parties will absolutely need going forward are a comprehensive and robust set of metrics by which the performance of ICBC can be measured.

In BCOAPO’s view, there has been and remains a dearth of objective metrics by which to compare ICBC’s performance. In BCOAPO’s view, we must look within those many options to find a robust and consistent set of metrics with which to assess ICBC’s performance, against itself over time and against its peers. Without some objective way of assessing ICBC’s performance – over time and against its peers – how can ICBC’s performance be properly evaluated so the BCUC as its regulator and our clients as its policyholders really know how well ICBC is doing?

In order to jumpstart a move towards more transparent and objective comparability among regulated public insurers, BCOAPO asks that the BCUC direct the ICBC to propose – in its next RRA and supported by a study that it commissions – a number of basic operational metrics which could be recorded and tracked in the future to provide a quantitative assessment with respect to its performance over time and against its peers.

BCOAPO cannot overstate its concerns about the need for transparent and inter-temporal comparability in regard to ICBC's performance metrics and there are a number of IR's on the record that document these concerns. In our view, stakeholders, and regulators need useful information on performance to ensure there is the ability to compare ICBC as against its provincial peers (inter-provincial) and over time (inter-temporal).

In BCOAPO's view, given that most of the "normal" regulatory tweaks appear to be out of scope and beyond the reach of any intervening party in this proceeding, BCOAPO urges the BCUC to direct the ICBC to retain information sufficient to easily replicate any and all current metrics on which the ICBC reports and to provide those metrics in its next revenue requirement application. BCOAPO submits that frequent changes in metrics reported, by definition, reduces comparability and transparency both across regulated utilities and over time, negating the value of regulatory oversight and public participation in that regulation.

Additionally, BCOAPO urges that the BCUC direct the ICBC to conduct a study of regulated public insurance companies in Canada with respect to performance metrics used – with a view to informing stakeholders of Canadian industry norms and standards and with recommendations for comparatively useful industry standard metrics to be reported on a regular basis. Furthermore, BCOAPO urges that the BCUC direct the ICBC to retain its reporting information in its current format for a number of years while any changes are being made to provide apples-to-apples comparisons in the future with all presently reported metrics.

The Commission outlined the purpose of ICBC's performance measures in its Decision dated November 12, 2003 in the matter of ICBC 2004 Revenue Requirements Application, stating the following:

In fulfilling the Commission's mandate with respect to ICBC, the Commission has a number of objectives related to process. They include:

...

- establishing appropriate operating metrics by ICBC related to the Basic Insurance business which will be useful to ICBC, the Commission, Intervenors and Interested Parties in monitoring and measuring the Corporation's performance in providing Basic Insurance in a manner considered in all respects adequate, efficient, just and reasonable...⁴

In the same Decision, the Commission also held:

In conclusion, the Commission Panel is encouraged that the Corporation is placing significant importance on the measurement of customer service and overall corporate performance and as the regulatory environment for ICBC develops over time, it is expected that there will be comprehensive metrics available to the Commission and other interested parties that will ensure a meaningful review of the operations and practices of the Corporation.⁵

Accordingly, performance measures should ensure a meaningful review of ICBC and should be useful to ICBC, the Commission, Intervenors and Interested Parties.

BCOAPO submits that our proposals with respect to performance metrics outlined above are aimed to ensure that ICBC's performance measures enable meaningful review of the Corporation and are useful not only to ICBC's business but also to the Commission, Intervenors and Interested Parties.

Forecasting Concern

BCOAPO would like to register one concern about ICBC's forecasting: in our view, the estimates of Loss Cost Forecast Variance (LCFV) should be unbiased where unbiased refers to the situation in which the yearly estimates should be as unlikely to be above actual as below actual.

In this respect, BCOAPO notes that of the six years of results shown in Exhibit B-2, BCOAPO IR 1.9.1, only one of the six showed a ratepayer favourable result (i.e., reducing the rate indication): BCOAPO submits that if ICBC's estimates were unbiased, that this result would only occur with a probability of in 6 in 64 (9.375%). While six represents a small sample size, BCOAPO submits that given the cluster of under-forecasting LCFV, there may be a problem with unbiasedness in

⁴ Decision G-75-03, p. 50

⁵ Decision G-75-03, p. 32

ICBC's methodology. BCOAPO therefore urges that the ICBC re-examine its methodology in respect of its LCFV performance.

All of which is respectfully submitted.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth

Executive Director | General Counsel

Original on file signed by:

Irina Mis

Barrister & Solicitor