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**By Email**

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, BC V6Z 2N3

**Attention: Patrick Wruck, Commission Secretary and Manager Regulatory Services**

Dear Sirs/Mesdames:

**Re: Insurance Corporation of British Columbia (ICBC) – 2019 Revenue Requirements Application**

**ICBC Reply Submission**

We enclose for filing ICBC's Reply Submission in the above noted proceeding.

Yours truly,

**FASKEN MARTINEAU DuMOULIN LLP**

*[Original signed by]*

Matthew Ghikas  
Personal Law Corporation

MTG

**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**

**A FILING BY THE INSURANCE CORPORATION OF BRITISH COLUMBIA (“ICBC”) RELATING TO  
2019 REVENUE REQUIREMENTS APPLICATION**

**REPLY SUBMISSION OF  
THE INSURANCE CORPORATION OF BRITISH COLUMBIA (ICBC)**

**JUNE 12, 2019**

**Matthew Ghikas**  
Fasken Martineau DuMoulin LLP  
Legal Counsel for ICBC

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## PART ONE: INTRODUCTION

1. The issues raised by the four interveners in their respective submissions are limited in number. MoveUP “is generally supportive of the Application”, other than wanting ICBC to continue reporting on two operational metrics.<sup>1</sup> BCOAPO “takes no issue with the quanta of the [actuarial] estimates...”, focusing instead on performance measures.<sup>2</sup> Messrs. McCandless and Landale share scepticism of ICBC’s actuarial analysis, the regulatory framework, and ICBC’s motives generally. None of the interveners disputed ICBC’s operating expenses, the forecast investment income, the capital provisions, or the forecast premium trend. None of the interveners critiqued ICBC’s efforts to control claims costs (save for Mr. Landale, who is critical of legislated product reform).

2. This Reply Submission answers the main intervener arguments, to the extent that further elaboration beyond ICBC’s May 14, 2019 Final Submission is required. (ICBC’s silence on a particular matter should not be interpreted as agreement.) ICBC respectfully submits that the evidence supports ICBC’s requested orders.

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<sup>1</sup> MoveUP Submission, p. 1.

<sup>2</sup> BCOAPO Submission, p. 5.

## **PART TWO: ARGUMENTS STRAYING BEYOND THE PROCEEDING SCOPE**

3. Aspects of Messrs. McCandless' and Landale's respective arguments stray beyond the scope of this proceeding, and should be disregarded.

### **A. MR. MCCANDLESS STRAYS IN SEVERAL RESPECTS**

4. At times, Mr. McCandless' submission takes on the look and feel of a policy paper aimed at government, rather than a submission to the BCUC based on the evidence filed in this proceeding. Three notable instances where Mr. McCandless has raised matters that the BCUC need not decide in this proceeding are outlined below.

#### **(a) Capital Provisions Are Determined by *Special Direction IC2***

5. Mr. McCandless' "Hope" section is devoted to examining ICBC's capital levels. As Mr. McCandless concedes, *Special Direction IC2* suspends the capital build provision until the end of policy year (PY) 2021. Mr. McCandless advocates the BCUC "initiating discussions now on what MCT ratio would be appropriate to balance the risk and affordability concerns, and how quickly the reserve can be rebuilt."<sup>3</sup> ICBC submits that this would be inappropriate at the present time. The minimum MCT ratio is specified in *Special Direction IC2*, and it is currently suspended in any event. *Special Direction IC2* precludes a capital build provision for the next two policy years.

#### **(b) Information About Optional Insurance Is Unnecessary for Regulating Basic Insurance**

6. Mr. McCandless wants reporting related to Optional insurance.<sup>4</sup> The BCUC's jurisdiction relates to Basic insurance only. Contrary to Mr. McCandless' arguments, the BCUC does not need reporting on Optional insurance to assess the existence of cross-subsidization of the Optional insurance business by Basic insurance. The absence of cross-subsidy is determined by assessing whether ICBC has applied the BCUC-approved financial allocation methodology. The question of "whether the additional financial burden of the Basic program on higher-risk

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<sup>3</sup> McCandless Submission, p. 5.

<sup>4</sup> McCandless Submission, p. 8.

drivers is causing these policyholders to reduce or eliminate their Optional coverage”<sup>5</sup> is an issue for the profitability of Optional insurance, not Basic insurance.

**(c) Revisiting the Purpose of a Revenue Requirements Process Is Unnecessary**

7. Mr. McCandless suggests a rebalancing of efforts in BCUC processes to “focus more on examining longer-term issues and trends”, including questions of the appropriate Basic coverage.<sup>6</sup> ICBC submits that the BCUC’s focus should remain on matters within its jurisdiction. Re-examining coverage and the regulatory framework itself falls outside of the BCUC’s current mandate.

**B. MR. LANDALE STRAYS INTO RATE DESIGN**

8. Mr. Landale has devoted Section 2 of his submission (pages 4 and 5) to rate design. As this proceeding is concerned with ICBC’s revenue requirements, and not the rate design directed by Government, ICBC will not respond to these submissions.

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<sup>5</sup> McCandless Submission, p. 8.

<sup>6</sup> McCandless Submission, p. 9.

### **PART THREE: THE ACTUARIAL RATE INDICATION**

9. Part Three of this Reply Submission focuses primarily on the submissions of BCOAPO and Messrs. McCandless and Landale related to the determination of the rate indication. MoveUP “is generally supportive of the Application”,<sup>7</sup> so ICBC’s reply to MoveUP in this Part is limited.

#### **A. APPLYING AAP IS THE BEST WAY TO ADDRESS FORECASTING UNCERTAINTY**

10. MoveUP shares ICBC’s conviction that product reform “will have a significant positive impact, directionally, on ICBC’s longer-term prospects and viability, and will lay the basis for enhanced public confidence.”<sup>8</sup> MoveUP goes on to state that “the congruence of major qualitative changes in ICBC’s product and services make the task of projecting the impacts of all of this simultaneous transition uniquely challenging.”<sup>9</sup> There is no question that there are significant factors influencing claims costs at present. The preparation of claims cost estimates based on accepted actuarial practice (AAP) ensures that rates are set based on “best estimates”, having regard to the available information.

#### **B. REPLY TO BCOAPO**

##### **(a) The Role of Interveners Reflects the Nature of ICBC’s Costs**

11. BCOAPO laments what it sees as a limited role for interveners, focused on ensuring that rates “fall within a specified band and that they are prepared according to accepted actuarial practice as attested to.”<sup>10</sup> While BCOAPO is understating the role of interveners, the nature of the regulatory review of ICBC’s revenue requirements does differ from a utility’s rate setting process. This is to be expected, given the differences between the cost structure of an insurance company and that of an electric or gas utility.

12. The revenue requirements of a gas or electric utility are largely comprised of forecast operating and capital costs, which are more familiar, often more predictable, and often

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<sup>7</sup> MoveUP Submission, p. 1.

<sup>8</sup> MoveUP Submission, p. 2.

<sup>9</sup> MoveUP Submission, p. 2.

<sup>10</sup> BCOAPO Submission, p. 2.



directly controllable. In the case of ICBC, operating costs and depreciation expense represent a relatively small portion of the revenue requirements. The vast majority of the costs are claims costs (approximately 86% of ICBC's costs are claims and related costs),<sup>11</sup> which are inherently difficult to estimate because they are influenced by many factors. Forecasting claims costs requires actuarial modelling and judgment. Even in the absence of *Special Direction IC2*, one could expect that the actuaries would be applying AAP. The actuarial profession has developed the principles and standards of practice comprising AAP to allow actuaries to produce "best estimates" of uncertain future costs.

13. The role of interveners in testing other aspects of ICBC's applications is similar to their role in respect of other regulated utilities. ICBC has demonstrated, among other things, that:

- It has taken appropriate steps to reduce claims costs;
- Its forecast operating expenses are appropriate; and
- Its forecast of investment income is based on the BCUC-approved formula.

The intervener submissions are silent on these points (other than Mr. Landale questioning aspects of the legislated product reform).

**(b) The Objective Evidence Supports the Appropriateness of Models and Estimates**

14. BCOAPO expresses a concern that the loss cost forecast variance (LCFV) is exhibiting bias: "While six represents a small sample size, BCOAPO submits that given the cluster of under-forecasting LCFV, there may be a problem with unbiasedness [sic] in ICBC's

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<sup>11</sup> Application, Chapter 3, Figure 3.1 shows that claims and related costs represent \$3.7 billion of the total Basic costs of \$4.3 billion.

methodology.”<sup>12</sup> Although BCOAPO “takes no issue with the quanta of the estimates” in this proceeding,<sup>13</sup> BCOAPO nonetheless urges ICBC to “re-examine its methodology...”<sup>14</sup>

15. BCOAPO is too quick to point to bias as a possible explanation for consecutive adverse LCFVs, overlooking the evidence to the contrary. ICBC outlined in paragraphs 32 and 46 of the May 14, 2019 Final Submission the objective evidence supporting the actuarial modelling. Diagnostic statistics support the predictive capability of the models.<sup>15</sup> Moreover, there are a number of discrete forecasts that go into the overall estimate of loss costs and the determination of the LCFV; these more discrete forecasts exhibit the type of pattern that BCOAPO wants to see:

- There are both positive and negative variances in frequency and severity exhibited (both this year and over time);<sup>16</sup>
- Favourable variances from the 2017 RRA attributable to PD frequency, BI frequency, and Part 7 benefit frequency were outweighed by unfavourable variances in BI severity and PD severity;<sup>17</sup> and
- In the last four RRAs, BI severity has had a favourable contribution to the LCFV on two occasions and an unfavourable contribution on two occasions.<sup>18</sup>

16. The main source of the unfavourable LCFV has differed from year to year:

- The main source of the unfavourable variances in PY 2016 and before was BI frequency emerging higher than originally estimated. In other words, the BI

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<sup>12</sup> BCOAPO Submission, p. 8.

<sup>13</sup> BCOAPO Submission, p. 5: “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.”

<sup>14</sup> BCOAPO Submission, p. 8.

<sup>15</sup> 2019.1 RR BCOAPO.9.3. The results are reported in Chapter 3, Technical Appendix D.0.

<sup>16</sup> 2019.1 RR BCOAPO.9.2.

<sup>17</sup> The components of the LCFV are summarized in the Application, Chapter 3, Figure 3.6, p. 3-15. Figures 3.7 to 3.10 show the emergence of the data between the 2017 RRA and PY 2019 for each of the BI and PD frequency and severity trends.

<sup>18</sup> 2019.1 RR BCOAPO.10.1.

frequency trend changed over a period of time from a long-term downward trend to a flat trend, followed by an upward trend.<sup>19</sup> During this period, the forecast BI severity was either small or had a favourable impact.<sup>20</sup>

- In PY 2017, BI frequency was again the primary source of the variance, but PD frequency and PD severity also contributed. BI severity produced a favourable variance.<sup>21</sup>
- The main source of the unfavourable LCFV in this Application is BI severity.<sup>22</sup>

### C. REPLY TO MR. MCCANDLESS

#### (a) Specific Factors Contributed to the Size of the LCFV this Year

17. Mr. McCandless characterizes the current LCFV as seeming to be “unreasonably large”.<sup>23</sup> This is a similar argument to that made by BCOAPO, which ICBC has addressed in paragraphs 15 and 16 above. The variance resulted from distinct and unexpected changes reflected in the data in FLY 2018, not flaws in the models. Those changes included an increase in the frequency of large and catastrophic claims, which coincided with an internal review that identified additional large and catastrophic claims not previously recognized as such.<sup>24</sup> Since large and catastrophic BI claims have high severities, this has resulted in a significantly higher BI severity for PY 2017 estimated in this Application compared to that estimated in the 2017 RRA.<sup>25</sup>

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<sup>19</sup> 2019.1 RR BCUC.5.1.

<sup>20</sup> 2019.1 RR BCOAPO.10.1.

<sup>21</sup> 2019.1 RR BCUC 5.1; 2019.1 RR BCOAPO.10.1.

<sup>22</sup> The components of the LCFV are summarized in the Application, Chapter 3, Figure 3.6, p. 3-15. Figures 3.7 to 3-10 show the emergence of the data between the 2017 RRA and PY 2019 for each of the BI and PD frequency and severity trends.

<sup>23</sup> McCandless Submission, p. 3.

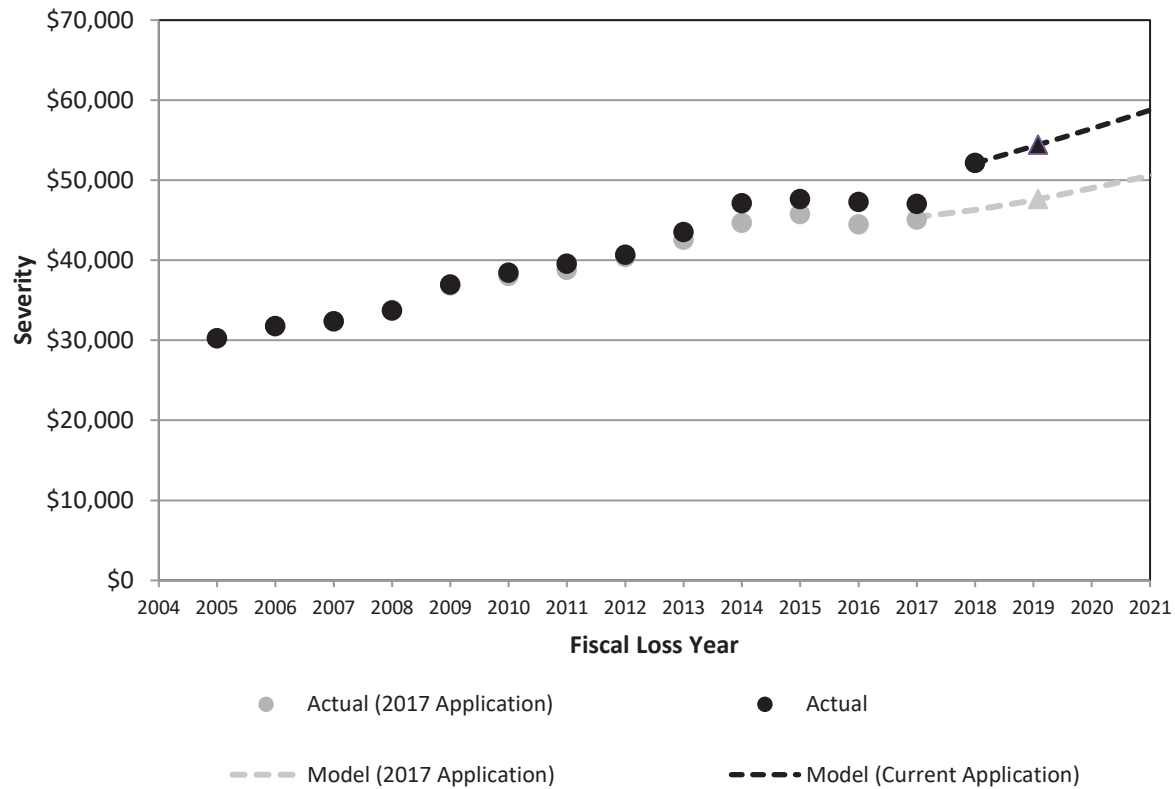
<sup>24</sup> 2019.1 RR BCUC.7.2; 2019.1 RR BCUC.34.1; 2019.1 RR BCUC.7.1.

<sup>25</sup> Chapter 3, Appendix D.1.1 shows a PY 2017 BI severity for Personal Plate Owner Basic of \$53,579 compared to a value of \$46,678 from the 2017 RRA, Appendix D.1.1.

**(b) Loss Trend to PY 2019 is Affected by 17-Month Period and Large Claims**

18. Mr. McCandless states: “The pre-change loss trend forecast for PY2019 (even allowing for minor difference between PY and FY totals) would appear to be high based on the last two years of actual and forecasted fiscal year data.”<sup>26</sup> Mr. McCandless has focused on a 17-month period. Measured on a 12-month basis, the trends are more comparable to the trends in the 2017 RRA.<sup>27</sup> Moreover, as shown in Figure 3.10 from the Application, the FLY 2018 actual BI severity (solid black dot) was materially higher than the actual severity from the previous two years. The BI severity trend line extends from the 2018 actual data point at a similar trend as in the previous year. BI severity is a significant driver of the LCFV and the loss cost trend this year.

**Figure 3.10 – BI Severity**



It was appropriate for ICBC’s actuaries to recognize the actual data in FLY 2018 in determining the trends.

<sup>26</sup> McCandless Submission, p. 4.

<sup>27</sup> 2019.1 RR BCUC.8.1.

**(c) His Product Reform Argument is Based on an Inappropriate Comparison**

19. Mr. McCandless seeks to cast doubt over the Ernst & Young (E&Y) analysis by suggesting that the estimate for pain and suffering payment savings as a result of the \$5,500 cap is out of proportion to the actual amount paid out for pain and suffering in 2017. Specifically, he poses the following rhetorical question: “Is it reasonable that some \$1.0 billion in pain and suffering payments will be saved as a result of the \$5,500 cap when only \$723 million was paid for pain and suffering in 2017?”<sup>28</sup> The estimated savings of \$1 billion are for minor injury general damages for FLY 2020, which before product reform is estimated to be in excess of \$1.3 billion.<sup>29</sup> The forecast cost of over \$1.3 billion is higher than the \$723 million amount of pain and suffering paid for claims that closed in the 2017 calendar year due to growth in the number of injury claims and in the average payments, which would occur in the absence of product reform.

20. Many of the claims closed in 2017 were associated with accidents that occurred in prior years, a period in which general damages payments had seen increases of 179% over 10 years.<sup>30</sup> The forecasted cost of general damages for FLY 2020 reflects the estimated cost for claims occurring from April 1, 2019 through March 31, 2020, many of which will close in later years and, absent product reform, be subject to further growth over that period. With the resulting estimate of over \$1.3 billion in general damages costs for minor injury claims in FLY 2020, savings of \$1 billion are a reasonable and expected outcome of the product reforms (as illustrated in Chapter 3, Figure 3.17).

**(d) Continuing to File Applications Based on Fiscal Loss Year Basis Makes Sense**

21. Mr. McCandless suggests a fundamental change to the way in which information is presented in revenue requirements applications: “The BCUC should require ICBC to explain and justify future rate requests on the basis of fiscal year changes, then provide a reconciliation to the FLY rate change.”<sup>31</sup> His intent appears to be to base the RRA on the corporate financial

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<sup>28</sup> McCandless Submission, p. 4. The amount of \$723 million is the minor injury general damages shown in Chapter 3, Figure 3.16.

<sup>29</sup> Chapter 3 Figure 3.17. Detailed calculations are provided in Technical Appendix E.0, Appendix A.1.

<sup>30</sup> Chapter 3 para. 58.

<sup>31</sup> McCandless Submission, p. 10.

reporting numbers. The presentation differences between a revenue requirements application and financial statements relate to the fundamentally different purposes of the two documents. The rate indication analysis in a revenue requirements application is intended to enable the BCUC to set Basic insurance rates for a future year on the basis of AAP. The financial statements are intended to provide information about the financial performance, financial position, and cash flows resulting from ICBC's operations in a past year, based on requirements of International Financial Reporting Standards (IFRS).<sup>32</sup> The claims for an upcoming policy year (which covers two FLYs), must be used in order to determine the appropriate premium to charge for that year. Using ICBC's fiscal year claims forecast would create a mismatch between claims costs and policy premium. Mr. McCandless is incorrect in asserting that departing from past practice and converting the actuarial analysis to a fiscal year basis for presentation purposes, and then reconciling the numbers, would simplify the BCUC's review. It would add significant complexity to the presentation and analysis, while providing little added benefit.

**(e) Maintaining Confidentiality over Commercially Sensitive Information is Reasonable**

22. Mr. McCandless addresses confidentiality. ICBC has explained the commercial sensitivity around making information available on the public record that could be used (or, more accurately, misused) by claimants' legal counsel to advocate for larger settlements. ICBC respects the need for public process; however, it continues to be concerned about the potential harm to all Basic insurance policyholders that could come from the misuse of certain claims information. Moreover, the data is only available on a total basis, meaning that the data set includes information about both Basic and Optional insurance. Disclosure of the information about ICBC's competitive, non-regulated business could harm ICBC's economic interests.

**(f) ICBC's Final Submissions Reflected the Evidentiary Record**

23. Mr. McCandless is critical of ICBC for not addressing in its May 14, 2019 Final Submission the recently announced postponement of the limitation on expert reports.<sup>33</sup> ICBC made its Final Submissions based on the evidence on the record in a proceeding.

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<sup>32</sup> 2019.2 RR RM.1.5. See also 2019.2 RR RM.5.0.

<sup>33</sup> McCandless Submission, p. 11.

Circumstances are always changing, and it is necessary to close the evidentiary record at some point. Mr. McCandless is correct that subsequent developments are accounted for in the next revenue requirements application, which is one of the benefits of having a closed system for Basic insurance.

**D. REPLY TO MR. LANDALE**

24. As in past years, Mr. Landale has expressed some scepticism (e.g., “outrageous”, “ludicrous”, “misdirection”, “ridiculous”, “altered retrospectively to support the indicated rate change”, etc.) about whether the rate indication reflects AAP.<sup>34</sup> ICBC submits that the BCUC can be confident that the rate indication does reflect AAP, consistent with the certifications of ICBC’s Chief Actuary and the Reviewing Actuary and the statements of E&Y. The professional standards to which these actuaries are subject would preclude the type of conduct alleged by Mr. Landale.<sup>35</sup>

25. Mr. Landale appears to be suggesting in paragraph 1.6 that the rate change band in *Special Direction IC2* came into play in setting rates for PY 2019. It did not. The rate indication, which was determined according to AAP, was within the band after accounting for the impact of product reform that was calculated with the assistance of E&Y.

**E. MOVEUP’S EXPLANATION FOR RISING CLAIMS COSTS IS TOO SIMPLISTIC**

26. MoveUP “is generally supportive of the Application”.<sup>36</sup> However, ICBC does take issue with aspects of MoveUP’s contextual discussion (which it calls a “current perspective for ICBC”).<sup>37</sup> MoveUP’s attempt to attribute today’s rising claims costs to ICBC’s previous staffing decisions and the adoption of the current material damage model is a significant (and convenient) oversimplification, which lacks an evidentiary foundation in this proceeding.

27. The factors contributing to rising claims costs are many-fold. Some of the factors are summarized in paragraphs 4 and 5 of Chapter 4 of the Application:

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<sup>34</sup> Landale Submission, e.g., paras. 1.2, 1.4, 1.6, 1.10, 1.12.

<sup>35</sup> Landale Submission, para. 1.12.

<sup>36</sup> MoveUP Submission, p. 1.

<sup>37</sup> MoveUP Submission, pp. 1-2.

4. Part of the continued increase in the complexity of the BI pending levels results from an increasing rate of legal representation. Claims that are litigated take an average of five to six times longer to settle than unrepresented claims. This is a function of compliance requirements for the litigation process, the introduction of multiple opposing experts, the length of time it takes to set down discovery and trial dates, and other factors. In conjunction with this, when a claim becomes represented, and particularly if litigation is commenced, costs associated with the legal process are incurred and significantly increase ICBC's BI claims costs. This can include the cost of medical/expert reports, third-party (plaintiff) legal costs and disbursements, in addition to the legal defence costs that arise from ICBC's duty to defend the insured customer against the legal action. Product reform is intended to address the issue of rising legal costs and claim payouts for minor injury claims; however, it does not substantively address the increasing impact that non-minor injuries are having on net income. Another factor having an unfavourable impact on the required rate change is the increasing emergence of large and catastrophic claims, which is discussed in Chapter 3, Section B.1.2.2, of this Application.

5. In addition to managing the BI pending levels and BI claims costs, ICBC must also address the increase in vehicle repair costs. As is the case throughout North America, these costs have also been escalating, in part due to the increasing sophistication of technology that is present in today's modern vehicles. For example, a minor rear-end crash can now cost a significant amount to repair due to sensors or cameras in the bumpers of the vehicles involved. Addressing these issues, while ICBC transitions to operationalize the product reform and MD changes under RAAP, will be a key challenge over the next year.



#### **PART FOUR: REFINEMENTS TO PERFORMANCE MEASURES AND PRODUCT REFORM METRICS**

28. MoveUP supports ICBC's performance measure proposals, with the exception of favouring the retention of two call-centre metrics. BCOAPO and Messrs. McCandless and Landale express wholesale opposition to ICBC's proposals, citing the need for transparency. The arguments of these three interveners lack nuance. None of them has acknowledged, let alone answered, ICBC's points that:

- several of ICBC's proposals relate only to the form of presentation;
- ICBC is proposing to add some measures and provide additional context for others; and
- certain measures are misleading, stale, or not meaningful.

29. ICBC submits that a more nuanced approach is warranted. As described in ICBC's May 14, 2019 Final Submission and elaborated on below, there is ample evidence on the record to demonstrate the merits of the proposed changes. The resulting suite of performance measures will provide relevant information to the BCUC in an efficient manner, and will be meaningful to ICBC's business.<sup>38</sup>

#### **A. MOVEUP SUPPORTS THE CHANGES, WITH TWO EXCEPTIONS**

30. MoveUP submits that the Application "should be approved, subject only to the continuation for the time being" of the New Claims Initiation (NCI) and Customer Contact Service Level (CCSL) metrics.<sup>39</sup> ICBC understands why MoveUP, as the bargaining unit for call centre employees, favours these metrics. However, ICBC submits:

- The more meaningful and direct measures from the perspective of claims cost management are those focused on customer satisfaction, which permit the assessment of ICBC's services from a customer's point of view. The Claims Services Satisfaction measure includes the customer satisfaction survey results at First Notice of Loss (FNOL), and provides useful insight into customer experience

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<sup>38</sup> Application, Chapter 8, para. 2.

<sup>39</sup> MoveUP Submission, p. 3.

at approximately the same point in time in the claims process as NCI.<sup>40</sup> The Claims Services Satisfaction measure also includes the results of customer satisfaction once a claim has been closed.<sup>41</sup>

- As is discussed in the Application,<sup>42</sup> CCSL is an aggregate of four different contact centres representing different aspects of the business (Broker Enquiry Unit, Customer Contact, Driver Testing and Vehicle Information, and Driver Licensing), none of which relate to claims handling capacity. The CCSL does not represent performance for any of these call centres on their own, nor does it provide a direct indication of the overall experience of customers with the service provided in any of these call centres. The existing Driver Licensing Satisfaction and Insurance Services Satisfaction measures provide the BCUC with meaningful information on customer satisfaction in these business areas.

## **B. REPLY TO BCOAPO**

### **(a) A “Meaningful Review” Requires Meaningful Measures**

31. BCOAPO cites the BCUC’s November 12, 2003 Decision, suggesting that “performance measures should ensure a meaningful review of ICBC and should be useful to ICBC, the Commission, Intervenors and Interested Parties.”<sup>43</sup> ICBC agrees that the purpose of performance measures is to provide a “snapshot” of the business that is meaningful. The problem with BCOAPO’s position is that it leaves unanswered how its wholesale rejection of ICBC’s proposals ensures a more “meaningful review”. For instance, how does it ensure a “meaningful review” to:

- oppose putting metrics in their proper context (e.g., legal representation and road safety statistics)?<sup>44</sup>

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<sup>40</sup> 2019.1 RR MoveUP.2.4.

<sup>41</sup> Chapter 8, Appendix 8 A, Section C.1.2.3.

<sup>42</sup> Chapter 8, Appendix 8 B, p. 8B-7.

<sup>43</sup> BCOAPO Submission, pp. 6-7.

<sup>44</sup> Application, Chapter 8, Figure 8.2, p. 8-4.

- continue reporting on measures that are a demonstrated source of confusion (i.e., Injury paid severity, BI reported frequency, and the injured person rate)?<sup>45</sup>
- continue reporting on TP transition metrics, three years after TP was completed?<sup>46</sup>
- provide information that is statistically unreliable and incapable of being the basis for operational decision-making (e.g., Complaints to Fairness Commissioner,<sup>47</sup> Customer Approval Index<sup>48</sup>)?
- oppose eliminating a metric that produces misleading results (i.e., New Driver Comparative Crash Rate)?<sup>49</sup>
- oppose ICBC's proposal to provide more granular information where the higher level metric is distorting the results (i.e., Cost Per Policy in Force)?<sup>50</sup>

32. ICBC submits that the information necessary for constructive discussion will be provided under its proposals. The updated suite of performance measures will be backed by a significant amount of information in the revenue requirements applications themselves.

**(b) ICBC's Proposals Maintain Transparency and Permit Comparability**

33. 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."<sup>51</sup> ICBC submits that having metrics that provide the most meaningful information is also important. ICBC can

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<sup>45</sup> For the source of confusion for injury paid severity and BI reported frequency, see 2019.1 RR BCUC.80.1-2. For the source of confusion with the injured person rate, see 2019.1 RR BCUC.81.1 (attaching 2017.1 RR BCUC.58.1).

<sup>46</sup> 2019.1 RR BCUC.85.1.

<sup>47</sup> 2019.1 RR BCUC.82.1; Application, Chapter 8, p. 8-5.

<sup>48</sup> 2019.1 RR BCUC.77.4; 2019.1 RR BCUC.81.1 (attaching 2017.1 RR BCUC.51.1).

<sup>49</sup> Application, Chapter 8, Appendix 8 A, paras. 82 and 83.

<sup>50</sup> 2019.1 RR BCUC.81.1 (attaching 2017.1 RR BCUC.55.1).

<sup>51</sup> BCOAPO Submission, p. 6.

also still provide comparability and continuity of analysis with historical performance of proposed replacement performance measures.<sup>52</sup>

**(c) Conducting a Study Is Unnecessary**

34. BCOAPO urges the BCUC to direct ICBC “to conduct a study of regulated public insurance companies in Canada with respect to performance metrics used”, and to maintain the current reporting in the interim.<sup>53</sup> This proposal seems at odds with BCOAPO’s concern about continuity in performance measures. In any event, ICBC submits that this type of review is unnecessary, given the BCUC’s experience with performance measures for ICBC and ICBC’s unique position among public insurers (i.e., Manitoba Public Insurance and Saskatchewan Government Insurance) as operating in a pure tort environment. ICBC will be proposing metrics to assess product reform in the next revenue requirements application, which will necessarily be unique to ICBC’s circumstances.

**C. REPLY TO MR. MCCANDLESS**

**(a) Mr. McCandless Has Mischaracterized ICBC’s Proposal**

35. Mr. McCandless suggests, incorrectly, that ICBC is “requesting a major reduction in the number and the level of detail in the performance metrics...”.<sup>54</sup> He also implies, incorrectly, that ICBC’s proposal is intended to reduce scrutiny.<sup>55</sup> This is another instance where Mr. McCandless has allowed his preferred narrative to take priority over the facts. In fact, ICBC discussed in Part Five of its May 14, 2019 Final Submission how:

- a main thrust of ICBC’s proposal relates to improved presentation, rather than substantive changes to the measures;
- in some cases, ICBC will be providing more discussion of measures and their components;

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<sup>52</sup> 2019.1 RR BCUC.76.1.

<sup>53</sup> BCOAPO Submission, p. 6.

<sup>54</sup> McCandless Submission, p. 1.

<sup>55</sup> McCandless Submission, p. 7.

- ICBC’s proposal also replaces several metrics with ones that offer more insight; and
- the only measures to be discontinued are confusing, no longer meaningful, or are overshadowed by other metrics.

The resulting suite of performance measures will provide relevant information to the BCUC in an efficient manner, and will be meaningful to ICBC’s business.<sup>56</sup>

36. Mr. McCandless, playing to his “Faith, Hope and Charity” theme, also mischaracterizes ICBC’s proposal as “In essence, the BCUC should rely on the charity of ICBC to determine when a new measure may be appropriate.”<sup>57</sup> The BCUC will retain oversight of ICBC’s performance measures for regulatory purposes, just as it always has done. ICBC’s logic in proposing to align the BCUC performance measures with ICBC’s corporate metrics is to make the reported measures more useful and meaningful from a business perspective. Presenting information that is useful, rather than presenting information just for the sake of it, is an appropriate objective. ICBC’s approach is consistent, for instance, with how the Independent Task Force Review of the BCUC approached BCUC compliance reporting.<sup>58</sup>

**(b) ICBC Will Propose Product Reform Measures in the Next RRA**

37. Mr. McCandless advocates a “more through [sic] review” of performance metrics.<sup>59</sup> ICBC offers two responses.

- First, ICBC’s performance measures were examined in the last revenue requirements proceeding. Performance measures were a significant focus in this proceeding as well. Three reviews in three years would be excessive. There is

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<sup>56</sup> Application, Chapter 8, para. 2.

<sup>57</sup> McCandless Submission, p. 5.

<sup>58</sup> For instance, the Task Force stated on p. 30: “For existing and future compliance reports, the BCUC should ask itself if the contents are necessary and useful, especially if the report is being prepared exclusively for the BCUC.” [https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bcuc\\_review\\_final\\_report\\_nov\\_14\\_final.pdf](https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bcuc_review_final_report_nov_14_final.pdf).

<sup>59</sup> McCandless Submission, p. 5.

ample evidence on the record for the BCUC to make a determination on ICBC's proposal.

- Second, Mr. McCandless' rationale for a review appears to be based, in part, on a desire for metrics that can be used to monitor the effectiveness of product reform.<sup>60</sup> Although Mr. McCandless has not acknowledged it in his Submission, ICBC has already indicated that it will be including proposals for such measures in the next revenue requirements application. This is addressed further in paragraph 107 of ICBC's May 14, 2019 Final Submission and in ICBC's response to 2019.1 RR BCUC.84.1.

**(c) The Application Provides Necessary Context for Performance Measures**

38. Mr. McCandless makes the following statement about ICBC's proposed performance measures:

The proposed financial performance measures may link to the highly abstract corporate measures, but they are not helpful in guiding a reader to any conclusion as to the causes for any change (either positive or negative). The claims efficiency and the loss adjustment ratios, for example, can indicate a positive trend if the increase in cost of claims exceeds the increase in the cost of administration. But this ignores the real question; why are claims costs increasing? The key measures are the frequency and severity of claims, not the ratio of claims service and general administrative costs to the claims.<sup>61</sup>

The issue that Mr. McCandless is identifying - the need for context - is not unique to ICBC's proposal. It is equally applicable to financial measures in the current suite of performance measures.

39. The need for context underlies ICBC's proposed changes to the presentation of performance measures and the proposal to add explanatory text to some measures. ICBC explained this in paragraphs 97 to 99 of its May 14, 2019 Final Submission.

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<sup>60</sup> McCandless Submission, p. 6: "Measuring the actual success of the changes compared to the anticipated results is vital to ensure that the planned savings are being achieved."

<sup>61</sup> McCandless Submission, p. 6.

40. The above-quoted passage from Mr. McCandless' argument brings into focus an important point. He, like Mr. Landale and BCOAPO, appear to have lost sight of the fact that ICBC's revenue requirements applications provide a significant amount of information on trends, costs and the causes of those costs - far beyond the results presented in the table of performance measures. The only debate is about what measures to extract and highlight in the Performance Measures chapter. ICBC submits that it should be highlighting the most meaningful and useful ones. ICBC's proposal improves on the *status quo*.

**(d) The Application Necessarily Provides More Content than the Service Plan and Year-End Report**

41. Mr. McCandless' critique of ICBC's proposal appears to be rooted, in part, in his desire for additional information to be presented in ICBC's Service Plan and year-end Annual Service Plan Report.<sup>62</sup> The purpose of this proceeding is to examine the Application, not to evaluate ICBC's corporate reporting. The Application contains a significant amount of information on ICBC's finances and claims costs (including both metrics cited by Mr. McCandless - the number of policies written or earned, and the number of claims incurred). It should come as no surprise to Mr. McCandless that ICBC would be filing significantly more information in support of its revenue requirements applications, relative to what can be reflected in a corporate report like the Service Plan.

**(e) Reporting on Optional Insurance Contradicts the Legislated Framework**

42. Mr. McCandless wants Optional-related information to be reported and probed in BCUC processes. While Mr. McCandless may choose to portray ICBC's request to discontinue reporting on Optional insurance information as nefarious,<sup>63</sup> ICBC's request is better characterized as asking the BCUC to respect the Legislature's determination to exclude Optional insurance rates from the purview of the BCUC.

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<sup>62</sup> McCandless Submission, p. 7. See, e.g.: "While ICBC has gone to some effort linking the proposed performance measures to its four strategic goals discussed in its three-year service plans and annual reports, it does not report on a variety of basic service measures (such as the number of policies written or earned, or the number of claims incurred) in these two public reports."

<sup>63</sup> McCandless Submission, p. 8.

**D. REPLY TO MR. LANDALE**

43. Mr. Landale still maintains that ICBC has not provided examples of how performance measures will be reported.<sup>64</sup> The proposed presentation is discussed and shown in Appendix 8 A of Chapter 8 of the Application, as explained in response to Mr. Landale's information requests.<sup>65</sup>

44. ICBC's submissions in response to Mr. McCandless and BCOAPO on performance measures cover off the remainder of Mr. Landale's arguments, to the extent a response is necessary.

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<sup>64</sup> Landale Submission, para. 3.6.

<sup>65</sup> 2019.1 RR RL.2.4.



**PART FIVE: CONCLUSION**

45. MoveUP and BCOAPO accept the appropriateness of the proposed rate increase of 6.3%. The arguments of Messrs. McCandless and Landale to the contrary are not persuasive. ICBC submits that the BCUC should approve the requested rate increase as just and reasonable. None of the interveners has objected to ICBC's proposal for addressing any variances between the BCUC's interim order and the final order.

46. It is overly simplistic for interveners to equate ICBC's performance measure proposals with decreased transparency or loss of continuity. The Application contains a significant amount of information about Basic insurance. The Performance Measures chapter, by design, offers only a high-level snapshot. ICBC's performance measure proposals improve the presentation of the information, provide additional context where necessary, and ensure that more meaningful measures are highlighted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:

June 12, 2019

***[original signed by Matthew Ghikas]***

Matthew Ghikas  
Fasken Martineau DuMoulin LLP  
Legal Counsel to ICBC