

**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) RELATING TO THE 2016 REVENUE REQUIREMENTS**

**Final Submissions on Deferred Premium Acquisition Cost Allocation and  
Government Initiatives Reporting Requirement**

**British Columbia Old Age Pensioners' Organization, Active Support Against  
Poverty, Council of Senior Citizens' Organizations of BC, and the Tenant  
Resource and Advisory Centre**

**(BCOAPO)**

**March 16, 2017**

## A. INTRODUCTION

1. These are the final submissions of the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre (BCOAPO) in this proceeding. BCOAPO is a coalition of community-based organizations whose members collectively represent a broad range of ICBC's low and fixed income universal compulsory automobile insurance policyholders.
2. BCOAPO has a long history of effective participation in processes before the British Columbia Utilities Commission (the Commission) and has been an active intervener in most proceedings involving ICBC before the Commission.
3. By Order G-2-17, dated January 12, 2017, the Commission approved a 4.9 percent rate change to Basic Insurance for Policy Year 2016 (PY 2016), in accordance with the Order in Council No. 960 dated and approved on December 16, 2016 (OIC 960/16).
4. ICBC's Application sought two other approvals in addition to the 4.9 percent Basic rate increase:
  - (a) Approval of a proposed allocation methodology for the deferred premium acquisition cost (DPAC) between Basic insurance and Optional insurance. The Application indicates this change is driven by financial reporting requirements and does not impact the rate indication or the Outlook Minimum Capital Test (MCT) Ratio.<sup>1</sup>
  - (b) Approval to discontinue the quarterly reporting requirement for government initiatives while continuing to report annually as a chapter in each revenue requirements application. ICBC made the request on the basis that moving to annual reporting is a streamlining opportunity that would allow for sufficient regulatory review of government initiatives while maintaining an efficient process for both the Commission and ICBC.<sup>2</sup>
5. By Order G-23-17, dated February 24, 2017, the Commission held that "the remaining process will be scoped to providing argument on the two outstanding requests from the Application: (i) DPAC Allocation Methodology and (ii) Government Initiatives Reporting Requirement".

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<sup>1</sup> Application, p. iii

<sup>2</sup> Application, p. iii

## **B. DPAC ALLOCATION METHODOLOGY**

6. In previous Revenue Requirement Applications, ICBC has provided a deferred premium acquisition cost (DPAC) calculation for Basic Insurance and a separate deferred acquisition cost (DAC) calculation for Optional Insurance.
7. As outlined in their Application<sup>3</sup>, ICBC proposes to calculate DPAC on a corporate basis going forward, arguing that this is required in order to be compliant with International Financial Reporting Standards (IFRS). ICBC then proposes to allocate the corporate DPAC to Basic Insurance and Optional Insurance according to a methodology for which it seeks Commission approval.
8. This issue was canvassed in the first round of Information Requests<sup>4</sup>. With respect to the response provided by ICBC to BCUC 20.1<sup>5</sup>, BCOAPO believes that the calculation of a corporate DPAC may be reasonably inferred under the relevant accounting guidance cited. Furthermore, the issue as to why a corporate DPAC was not required until this time under IFRS was addressed to BCOAPO's satisfaction in this same response.
9. With respect to the proposed method of allocation of the corporate DPAC, BCOAPO makes the following submissions:
  - (a) It is not clear to BCOAPO as to why ICBC could not calculate a corporate DPAC for the purposes of IFRS, and continue to calculate separately the DPAC and DAC as it does currently for regulatory purposes in its filings to the Commission. That is, is a sole form of allocation necessary when the individual components could be calculated directly?
  - (b) That said, should there be deemed to be required an allocation of the corporate DPAC to Basic and to Optional by the Commission, BCOAPO is satisfied that the proposed allocation will not result in harm to Basic ratepayers, given the assurances provided by ICBC in its responses to BCUC IR1.20.1-1.20.4 and to BCOAPO IR 1.1 and 1.151.

## **C. GOVERNMENT INITIATIVES REPORTING REQUIREMENT**

10. ICBC undertakes a number of initiatives on behalf of Government. ICBC's government initiatives reporting requirement applies to: (i) non-insurance services specified in the Service Agreement between ICBC and the Government, (ii)

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<sup>3</sup> Application, Chapter 3, Section D

<sup>4</sup> BCUC, 20.1-20.4 and BCOAPO 1.1 and 15.1

<sup>5</sup> BCUC, 20.1

changes in the Road Safety Memorandum of Understanding (MOU), and (iii) one-off items that fall outside of the Service Agreement and Road Safety MOU and are supported by a Government directive. ICBC reports to the Commission on these initiatives because the Commission is directed to fix Basic insurance rates so as to cover costs.<sup>6</sup>

11. Some of these government initiatives are funded on a cost-recovery basis, while others are funded by Basic Insurance premiums pursuant to *Special Direction IC2*.<sup>7</sup>
12. BCOAPO submits that ICBC's proposal to move from quarterly reporting, an arrangement in place since 2010, to annual reporting by way of a chapter in each revenue requirements application, should not be approved by the Commission based on both fiscal and regulatory considerations.
13. The fiscal consideration is one of continued upward pressure on the Basic Insurance rate, which shows no sign of abating. As at least some of the government initiatives are funded by Basic Insurance premiums, it is in the public's best interest for the Commission and interveners to be kept abreast of these initiatives throughout the year, as opposed to their being subsumed within the much larger volume of information set out annually in the revenue requirements application. This would allow all stakeholders to be alert to any potential upward (or downward) pressures on the Basic rate flowing from these initiatives, which would in turn bolster the Commission's oversight functions on behalf of the general public.
14. The regulatory context is the truncated revenue requirements application proceeding as a result of OIC 960/16. The Commission and interveners were confined to what limited analysis could be conducted on a preliminary review of the evidence, and the collective inability to engage in any detailed analysis and challenging of the application and evidentiary record. In addition, it is important to emphasize that interveners will not be participating in the third-party review announced by the Ministry of Transportation and Infrastructure. Given all that, the Commission should preserve all reporting requirements now in place so as to buttress a robust regulatory oversight process, augmented by informed public interest participation.
15. In their arguments for approving the reduction in reporting, ICBC has not asserted that the fulfilling of the quarterly reporting requirement has been, or is seen to become, onerous. As ICBC has not asserted a need for reducing the reporting

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<sup>6</sup> ICBC Final Argument, para. 11

<sup>7</sup> Application, Chapter 9, Section A

requirement based on any internal impact, then the considerations related to the public interest in a robust regulatory oversight process on an ongoing basis throughout the year should take precedence.

16. ICBC has indicated that the reduction in reporting would not result in a material cost savings.<sup>8</sup>
17. ICBC notes that in recent years there have been no one-off initiatives outside of the Service Agreement documentation filed with the revenue requirements applications to include in its quarterly reports.<sup>9</sup> The fact that there have been no one-off initiatives to report in recent years does not mean that there will not be any one-off initiatives to report going forward, or that such initiatives will not carry cost implications.
18. It is precisely because government initiatives are at the prerogative of the government, and outside the control of ICBC or the Commission, yet may carry cost implications, that the Commission and interveners have as much advance notice as possible to consider the potential cost impacts of these initiatives which effectively serve as wild cards in the annual Basic Insurance cost analysis.

#### **D. CONCLUSION**

19. In regards to ICBC's application for the Commission's approval of a proposed allocation methodology for the deferred premium acquisition cost (DPAC) between Basic insurance and Optional insurance, BCOAPO is not opposed to such approval.
20. In regards to ICBC's application for the Commission's approval to discontinue the quarterly reporting requirement for government initiatives while continuing to report annually as a chapter in each revenue requirements application, BCOAPO opposes such approval.

All of which is respectfully submitted.

Sincerely,  
**BC Public Interest Advocacy Centre**

Michael Seaborn  
Barrister & Solicitor

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<sup>8</sup> 2016.1 RR BCOAPO 2.1

<sup>9</sup> 2016.1 RR BCOAPO 2.1