From: Richard Landale [dicktracyy@shaw.ca]
Sent: Thursday, September 26, 2013 1:49 PM
To: Commission Secretary BCUC:EX; Regaffairs
Cc: Elder, June; Regaffairs; reg.affairs@pemberton.com; karen_hopkins-lee@canadiandirect.ca; MLee@ibc.ca; carla@tlabc.org; lworth@cope378.ca; jquail@cope378.ca; flewelling@flewellinglaw.ca; gadair@telus.net
Subject: Re: ICBC RRA 2013 Information Request #02

Erica Hamilton
Commission Secretary
British Columbia Utilities Commission

Information Request #02 Minimum Capital Target (MCT)
Extract from Application, Section 15 Special Direction IC2:
A definition of the capital management target, meaning the MCT target as determined in a capital management plan approved by the Commission, which consists of three components: the minimum regulatory level 100% MCT; plus the margin, expressed in percentage points of MCT, that reflects ICBC's risk profile in relation to the Basic insurance business and its ability to respond to adverse events that arise from those risks; and any additional margin, expressed in percentage points of MCT, consistent with relatively stable and predictable Basic insurance rates. The first two elements are already reflected in ICBC's existing capital management target. The third element is a new consideration and reflects the fact that, with rate smoothing, additional capital will be needed to smooth through rate volatility.

Based on the Workshop presentation Slide 83 - Proposed New Capital Management Target.

It was put forward by ICBC during the workshop Q&A, that the percentage range above 130% MCT to 150% called New Management Target is "New Money" that will be collected from Basic Rate premiums. This new money will be invested to generate income to help reduce future rate increases, while maintaining the new capital generated, and topping up the earned income from the new money to meet the 130% MCT Solvency Target should the MCT drop below 115% Also during the workshop the point was put forward, that in the past ICBC would receive an IOC directive ordering ICBC to transfer Capital from the Optional Insurance to the Basic Insurance to return the MCT to the 130% Solvency Target.

Slides 17 to 22 inclusive reviews the current Capital Management Plan. Particularly note worthy are Slides 20 & 21, which demonstrate the monitored Minimum Capital Test (MCT) levels, and the remedial injection of "Optional Transfer" to return to 137% MCT. This shows the current Capital Management Plan is working to address MCT Volatility.

Question ?

Being mindful of the application para's 16a,b,c,d, 17 & 18a,b where does the Special Directive IC2 or the various IOC's direct ICBC to establish the 150% New Management Target.

This question was never properly answered during the workshop, Why not continue the previous practice of using Optional Insurance capital to top up the Basic Insurance capital to meet the 130% MCT.

Following along the lines of the previous question, does ICBC continuously monitor the MCT for Basic Insurance, if so, please explain why this monitoring process can not deliver predictability, leading to rate smoothing. Provide spreadsheet examples of previous years monitoring to show why monitoring has not worked, even in light of IOC capital top up directives returning Basic Capital to 130% MCT.

Slide 86 from the workshop claims the New Capital Provisions quote: "Conform with requirements of IC2", but the application and this slide fail to arithmetically support this claim moving forward through 2014, 2015, 2016 and onwards. Please provide evidence to support this claim.

Please advise exactly the origins of this statement, extract from above:
ICBC's risk profile in relation to the Basic insurance business and its ability to respond to adverse events that arise from those risks; and any additional margin, expressed in percentage points of MCT, consistent with relatively stable and predictable Basic insurance rates.
In relation to the Slides 88 to 96 inclusive, please demonstrate in a spreadsheet and graphs how the +/-1.5ppt will not compound year over year as it applies to any Rate Change in each future year starting in PY2014.

To the BCUC:
This IR is as much a question to ICBC as it is to the Commission. I would hope that the Commission will hold ICBC very much to account on this issue in the context of ICBC "Proving" itself with respect to the assertions made, before the Commission considers any possible further action. Being mindful that this "Rate Change Band" if approved allows for an "Never Ending" precedence on the actuarial indices used to justify future PY Rate applications without a ceiling. Especially when this application establishes the premise of a -6.6ppt in PY2013, as the starting point for next year, Slides 95 & 96

Recommendation:
I would further request the Commission remove by order this New Capital Management Program from the current application, to wit the New Capital Management Program shall be a matter unto itself before the Commission. And that the Commission advise the BC Government to reset the deadline for the presentation of a New Capital Management Program before the Commission, and Interveners.
Regards,
Richard Landale
C1 Intervener