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October 7, 2013

ICBC 2013 REVENUE REQUIREMENTS EXHIBIT A-4

Ms. June Elder
Manager, Corporate Regulatory Affairs
Insurance Corporation of British Columbia
151 West Esplanade
North Vancouver, BC V7M 3H9

Dear Ms. Elder:

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

Further to Commission Order G-141-13 with respect to the above noted Application, please find enclosed Commission Information Request No. 1. In accordance with the Initial Regulatory Timetable, please file your responses electronically with the Commission by Friday, November 8, 2013 in accordance with the Commission's Document Filing Protocols, effective May 16, 2005.

Yours truly,

Erica Hamilton

/yl
Enclosure
cc: Registered Interveners
(ICBC-2013RR-RI)

Insurance Corporation of British Columbia
Revenue Requirements for Universal Compulsory Automobile Insurance effective November 1, 2013

A. APPLICATION

1.0 Reference: APPLICATION
Exhibit B-1, Chapter 1, pp. i to ii
Approvals Sought

In the Revenue Requirements for Universal Compulsory Automobile Insurance effective November 1, 2013 Application (Application), ICBC seeks approval of a 4.9 percent increase in universal compulsory automobile insurance (Basic Insurance) rates for the policy year commencing November 1, 2013 (PY 2013).

In accordance with *Special Direction IC2*, the Government Directive of March 19, 2013, with respect to Rate Smoothing approved by Order in Council (OIC) 153/13, March 18, 2013 (the 2013 Government Directive regarding Rate Smoothing), and Commission Order G-49-13, ICBC also seeks approval of a new Basic Insurance Capital Management Plan (Basic Capital Management Plan).

The 2013 Government Directive regarding Rate Smoothing states that ICBC should bring forward to the Commission for approval of a new Basic Capital Management Plan by May 31, 2014.

1.1 Please confirm the two approvals sought: (i) 4.9 percent Basic rate increase for the policy year commencing November 1, 2013, and (ii) new Basic Capital Management Plan – are separate requests. That is, the Commission may grant approval of both requests, one of the two requests, or deny both requests.

1.2 In the event that the new Basic Capital Management Plan (or some of its components) is not approved after the review of this Application, what is ICBC's plan to re-file and meet the timeline of May 31, 2014?

1.2.1 What is the impact on the 2014 revenue requirements application if the new Basic Capital Management Plan is not approved or is only partially approved in this Application?

1.3 Recognizing that the next revenue requirements application must also be filed by May 31, 2014 as per *Special Direction IC2*, has ICBC considered bifurcating particular items such as the Basic Insurance Capital Management Plan into a separate proceeding to expedite the rate review process? Please discuss.

2.0 Reference: APPLICATION
Exhibit B-1, Chapter 1, pp. ii to iii; Order G-165-12 November 5, 2012 Decision
Government Directives

In Order G-165-12 and its Decision dated November 5, 2012, the Commission directed ICBC, among other things, to file a revenue requirements application by May 31 of each year if ICBC's rate indication estimate is above the upper threshold for the Streamlining process or if the Basic Minimum Capital Test (MCT) ratio level is below the regulatory minimum.

Special Direction IC2 was amended by OIC 152/13, March 18, 2013, to promote greater stability and predictability in Basic Insurance rates.

OIC 153/13, March 18, 2013 provides the 2013 Government Directive regarding Rate Smoothing.

2.1 Does the OIC 152/13 or 153/13 replace any of the Commission's directions in Order G-165-12? If so, please specify.

3.0 Reference: APPLICATION
Exhibit B-1, Chapter 1, pp. iv to v
Legislative Framework

ICBC on page iv states:

> "Basic insurance rates must be determined within the legislative context applicable to Basic insurance. Notable elements of the legislative framework include *Special Direction IC2*, and several Government directives issued under it. Together, these instruments specify parameters on Basic insurance rates and on how Basic insurance capital should be maintained."

Special Direction IC2 was amended by OIC 152/13, March 18, 2013, to promote greater stability and predictability in Basic Insurance rates. ICBC has summarized these amendments on page v.

The online version of *Special Direction IC2* is available as follows:
http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/19_307_2004a

3.1 Please confirm that the online version of *Special Direction IC2* includes the new amendments of OIC 152/13. Otherwise, please provide an updated copy of *Special Direction IC2* in its entirety that reflects the new amendments to OIC 152/13.

4.0 Reference: INTRODUCTION
Exhibit B-1, Chapter 2, p. 2-1
Rate Applications

On page 2-1, ICBC states:

> "In order to transition to the new requirement of *Special Direction IC2* to file future revenue requirements applications annually by May 31 for rates effective on August 1…"

4.1 In ICBC's view, what type of regulatory process would be appropriate with the annual rate application requirement of May 31st for rates to be effective August 1st?

4.2 Recognizing that the next revenue requirements application must be filed by May 31, 2014, and the need for a public regulatory review process, please indicate the lead time ICBC requires to prepare for the May 31, 2014 application.

4.2.1 Suppose the Commission decision is not issued before the estimated preparation time, what plan does ICBC have for the May 2014 application?

5.0 Reference: INTRODUCTION
Exhibit B-1, Chapter 2, p. 2-1
Policyholder Impact

ICBC is seeking a 4.9 percent increase for Basic Insurance rates for the policy year commencing November 1, 2013. ICBC on page 2-1 states:

> "In order to transition to the new requirement of *Special Direction IC2* to file future revenue requirements applications annually by May 31 for rates effective on August 1, the proposed rate change reflects the average cost level of Basic insurance policies written in the first nine months of the 2013 policy year."

The Government Directive OIC 153/13 says that the next revenue requirements will have rates effective August 1, 2014.

5.1 For the policyholders who have renewals between August 1, 2013 and October 31, 2013, how will they be affected by the proposed 4.9 percent Basic rate increase effective November 1, 2013, plus another rate change effective August 1, 2014, when they renew their policy on or after August 1, 2014? Please explain and provide an example.

5.2 Does ICBC have a customer communication plan to explain to customers how they may experience cumulative effects of rate changes effective November 1, 2013 and August 1, 2014? If so, please describe such plan. If not, please explain when planning will begin or, alternatively, why it is not necessary.

6.0 Reference: INTRODUCTION
Exhibit B-1, Chapter 2, pp. 2-3 to 2-4; Chapter 6, p. 6-7
Exclusion of Loss Cost Variance

In paragraph 12 of page 2-3, ICBC states:

> "Another contributor to the loss cost forecast variance is the higher emergence of accident benefit loss costs than expected. This is attributed to ICBC's increased emphasis on streamlined processes for determining coverage and payment of accident benefits. Although this results in higher and earlier payments for accident benefits, it also helps customers recover sooner and, over the longer term, the objective is to have a favourable impact on the legal representation rate and bodily injury claims costs."

On page 6-7 of Chapter 6, ICBC also describes the streamlined processes for determining coverage and payment of accident benefits using dedicated adjusters.

6.1 Please elaborate on the changes to ICBC's accident benefits coverage determination and payment processes.

6.2 Please explain how these changes have led to higher than expected accident benefits loss costs.

6.3 Has ICBC reflected the anticipated favourable impact of the streamlined processes on BI (bodily injury) claim costs in this Application?

6.3.1 If yes, please explain how it has done so, and what the approximate impact is on the rate level indication.

6.3.2 If ICBC has not reflected the anticipated favourable impact on BI claim costs in this Application, please explain why it has not done so.

7.0 Reference: INTRODUCTION
Exhibit B-1, Chapter 2, p. 2-4
Loss Cost Trend

In paragraph 16 of page 2-4, ICBC states:

> "The bodily injury severity trend which is unchanged from that provided in the Revenue Requirements Application for the 2012 Policy Year includes the impact of net savings from prospective adjustments for new claims initiatives that will not otherwise be captured in the loss cost trend. However, ICBC has at the same time been experiencing an acceleration in the incidence of higher cost represented claims. The bodily injury claims severity trend, which would otherwise be increasing at a greater rate than in previous years, has been maintained at the historical rate of increase."

7.1 Please explain why ICBC assumes that the new claim initiatives will exactly offset the impact of the acceleration in the incidence of higher represented claims – as opposed to assuming the new claim initiatives will partially offset the impact of the acceleration in the incidence of higher represented claims.

7.2 What would be ICBC's selected BI severity trend rate had the new claims initiatives not been implemented?

7.3 To what extent does ICBC's assumption about the impact of the claims initiatives increase the uncertainty surrounding the projected Policy Year (PY) 2013 claim costs? Please explain.

B. ACTUARIAL ANALYSIS

8.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-4, Exhibit A.0.1
Rate Indication Calculations

Figure 3.2 provides an overview of the Impact on the PY 2013 indicated rate change.

Figure 3.2 – Overview of Impact on PY 2013 Indicated Rate Change

Line No.	Components	Impact (percentage points of PY 2013 indicated rate change)
1	PY 2012 Loss Cost Forecast Variance	+6.6
2	Loss Trend to PY 2013	+4.4
3	Investment Income	-1.1
4	Impact of IAS 19R and Assumption Changes	+0.2
5	Operating Expense (Excluding Line 4)	-0.6
6	Capital Maintenance Provision	+0.9
7	Change in Average Premium	+1.0
8	Other	+0.1
9	Rate Change to Cover Costs	+11.5
10	PY 2012 Loss Cost Forecast Variance Exclusion	-6.6
11	**Indicated Rate Change**	**+4.9**

Exhibit A.0.1 provides the summary of the components of required premium for PY 2013.

8.1 Please add a column in Figure 3.2 and provide therein the dollar amounts corresponding to the percentages shown in lines 1 through 11.

8.2 To the extent possible, please map lines 1 through 11 of Figure 3.2 to Exhibit A.0.1.

8.3 Please provide a similar summary of Exhibit A.0.1 for the last three policy years and compare it to PY 2013.

9.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-7
Exhibit A2-1, Growth in Capital Required PY 2006 to PY 2012
Rate Indication Calculations, Line 6 – Capital Maintenance Provision

In paragraph 21 of page 3-7, ICBC states:

> "The impact of the capital maintenance provision on the PY 2013 indicated rate change is +0.9 percentage points. Exhibit Set G provides a summary of the calculation of the capital maintenance provision."

Exhibit G.2 presents a capital maintenance provision of $56,622,000 – based on a growth rate of 4.6 percent.

Commission staff Exhibit A2-1 shows the historical growth rate in capital required as follows:

	PY 2006	PY 2007	PY 2010	PY 2012	**PY 2013**
Growth in Capital Required	3.2%	4.4%	3.0%	3.5%	**4.60%**

9.1 Please provide supporting worksheets to show how the +0.9 percentage point estimate is calculated.

9.2 Please provide support for the 4.6 percent growth rate and explain the proportion related to exposure growth and the proportion related to loss cost growth.

9.3 The growth in capital required of 4.6 percent used in this Application is the highest growth rate since 2006. Are there any significant changes that led ICBC to increase the capital required growth rate assumption?

10.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-7
Rate Indication Calculations, Line 7 – Change in Average Premiums

In paragraph 24 of page 3-7, ICBC states:

> "Shifts in the mix of business by rate class, territory and levels of discount may create a detectable trend in the average premium. Average premium has been trending lower over several years with an annualized impact of approximately +0.3 to +0.4 percentage points of change."

10.1 Please explain how the shift in the mix of business is taken into consideration in selecting the change in the PY 2013 losses.

11.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-7
Rate Indication Calculations, Line 7 – Change in Average Premiums

In paragraph 23 of page 3-7, ICBC states:

> "The PY 2012 premium forecast variance has a +0.4 percentage point impact on the PY 2013 indicated rate change. The 2013 rates would continue to be deficient by 0.4 percentage points without adjustment for the premium forecast variance."

11.1 Please explain why the PY 2012 premium forecast variance should be included in the +11.5 percentage point estimate of rate change to cover costs.

11.2 Please provide the calculations to show how the +0.4 percentage point estimate is calculated.

11.3 Does the PY 2013 premium forecast rely upon the actual exposure for the 2012 and prior accident years, or does it rely upon the PY 2012 estimate prepared in the prior filing?

12.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-8; Exhibit E.0, p. 4
Factors Influencing ICBC's Claim Costs

On page 3-8, ICBC states: "As shown in Figure 3.2, the rate change to cover costs of +11.5% is driven mainly by the claims costs components of the required premium: the PY 2012 loss cost forecast variance and the loss trend to the PY 2013."

On page 4 of Exhibit E.0 for prospective adjustments, ICBC notes five candidate events: (i) taxable costs and disbursements initiative, (ii) in-house legal counsel changes, (iii) elimination of HST and re-introduction of PST and GST, (iv) long-term benefit claims TP and (v) transition impacts of Claims hierarchy and system change costs.

12.1 Please identify and describe any projects or events that were candidates for a prospective adjustment, but were rejected by ICBC. Explain why they were rejected along with statistical support that ICBC may have.

12.1.1 In particular, please explain why there are no explicit adjustments included in Figure 3.2 or in Exhibit E.0 for the estimated PY 2013 claim costs for future (or recent) road safety projects relating to safe driving, safer vehicles, driver licensing controls, road improvements or other road safety programs. Is it ICBC's view there have been no recent projects, and expects there to be no such enhancements, that would affect PY 2013?

13.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-11 to 3-12
Exhibit A2-2, Distracted Driving 2012 ICBC Revenue Requirements Excerpt
Mass Adoption of Smartphones

On page 3-11, ICBC states:

> "There has been a mass adoption of smartphones in recent years. In 2008 smartphones were a novelty, but by 2011 the market penetration as a percent of the available market (penetration) in BC was 51% and at the end of 2012 it was 67%. The risks associated with texting while driving are well documented: a driver is 23 times more likely to be in a collision or near collision while texting. In addition, 35% of drivers with a smartphone admit to using it while driving."

In footnote 5, ICBC notes that the market penetration data is based on a telephone conversation dated June 20, 2013. Footnote 6 notes a Key Issues document by the National Highway Traffic Safety Administration.

In a news release by the Ministry of Public Safety and Solicitor General dated January 6, 2012 titled "B.C.'s distracted driving law saves lives" – correction version, it stated:

> "The collection of data around distracted driving caused by the use of cell phones/electronic devices is challenging…"

Further, ICBC previously stated:

> "…the identification of crashes involving PED [personal electronic device] use is <u>very difficult</u>." [Emphasis added] (Exhibit B-6, ICBC 2012 Revenue Requirements)

13.1 Please clarify whether the statistics referenced in footnote 5 are supported by actual surveys or study groups. If so, please provide. If not, is ICBC confident that this information is statistically reliable?

13.2 With respect to the smartphone market penetration, is it reasonable to say that the adoption of smartphones is a natural shift in the market due to technology advancement?

13.3 What is the market penetration of cell phones in BC for each year since 2001?

13.4 In light of the Ministry of Public Safety and Solicitor General news release and ICBC's statement in the 2012 Revenue Requirements that data collection regarding PED use is very difficult, how confident is ICBC's logical conclusion that "smartphone use is putting upward pressure on frequency" is reasonable?

13.5 If ICBC is now able to collect reliable data regarding PED, use such as smartphone use, does this mean ICBC should now consider a prospective adjustment relating to BC's distracted driving laws?

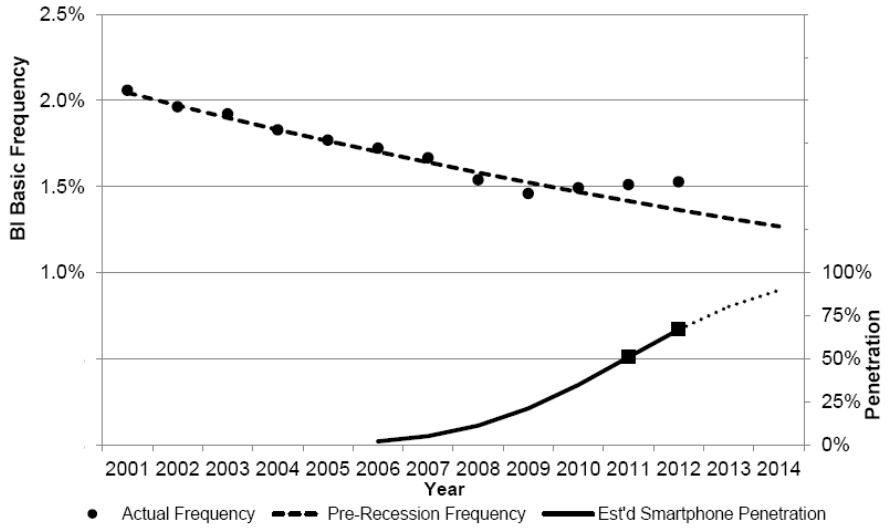
14.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-11 to 3-12
Exhibit A2-3, Cell Phone Use and Traffic Crash Responsibility: A Culpability Analysis Distracted Driving

In a report titled "Cell Phone Use and Traffic Crash Responsibility: A Culpability Analysis" published in February 2013, the authors state:

> "The current study aims to compare culpability in drivers who crashed while using a cell phone with those who did not use a cell phone… The Canadian Culpability Scale (CCS) was used to determine crash culpability from police reports drawn from the Insurance Corporation of British Columbia (ICBC) Traffic Accident System data… Culpability was assessed in 312 crashes in British Columbia (2005 – 08) where police reported cell phone use and in 936 matched (crash type, date, time of day, geographic location) crashes without cell phone use.
>
> Crash culpability was found to be strongly associated with driver cell phone use. Drivers using cell phones had nearly double the odds of a culpable crash compared to those drivers who did not use a cell phone, lending much needed evidence to existing policies directed at restricting the use of cell phones and other devices while driving." [Emphasis added]

Figure 3.6 on page 3-12 shows the flattening of BI Basic frequency correlated with smartphone penetration in BC.

Figure 3.6 – Flattening of BI Basic Frequency Correlated with Smartphone Penetration in BC



14.1 Since the report assessed ICBC's Traffic Accident System data between 2005 and 2008, and Figure 3.6 shows that BI Basic frequency had been declining during the same period, is it fair to say that crashes associated with driver cell phone use (including smartphone use) is <u>not</u> a new issue?

14.1.1 If so, to what extent should the mass adoption of smartphones be given weight to explain the flattening BI Basic frequency trend?

14.1.2 If not, is using a cell phone versus a smartphone significantly different in terms of driving distractions? Please explain.

14.2 Does ICBC have any other data regarding the percentage of drivers using an electronic device (e.g. regular cell phone) while driving since 2001? Please provide this data for each year and specify the geographic location.

14.3 Please restate Figure 3.6 to show the BI Basic frequency with <u>cell phone</u> penetration in BC. For the purpose of this question, cellular phone refers to both regular cellular phones and smartphones.

15.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-11 to 3-12
Exhibit A2-4, the Road Safety Monitor 2011
Distracted Driving Trends

The Traffic Injury Research Foundation (TIRF) released the Road Safety Monitor 2011 – Distracted Driving Trends dated February 2012. (Exhibit A2-4)

TIRF in its report states:

> "Significantly more Canadians (8.0%) indicated that they often talk on their hand-held phone while driving in 2010 compared to 2011 (4.0%) (Robertson et al. 2011). Finally, in 2010, 5.2% reported that they often text message on their phone while driving which is not significantly

different from the 4.8% reported in 2011 (Robertson et al. 2011). In sum, fewer Canadians report talking on their hand-held phone while driving in 2011 compared to 2010. However, there was no difference in the percentage of Canadians reporting talking on their hands-free phone while driving, and no difference in the percentage reporting texting while driving in 2011 compared to 2010." (Page 1)

"British Columbia, Saskatchewan, and Manitoba introduced hand-held phone bans in 2010… Albeit speculative, such laws may have influenced the trend. The effect of such laws, however have not yet been thoroughly researched. This will have to be further monitored." (Page 2)

On page 3-11, ICBC states that "35% of drivers with a smartphone admit to using it while driving," which it references a CNET news article, dated January 15, 2013.

15.1 With respect to "35% of drivers with a smartphone admit to using it while driving," as referenced in a CNET news article, please clarify whether or not this information is for the province of BC or otherwise.

15.2 Given the range of surveyed data of ICBC's referenced news article and the TIRF report, how confident is ICBC in terms of using surveyed data to explain that smartphone use is putting upward pressure on frequency?

15.3 TIRF suggests that the hand-held phone ban laws may have influenced trends. To what extent has the law in BC affected frequency or is expected to influence frequency in PY 2013? Please include any statistics or analysis available to date.

16.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-12
Exhibit A2-5, Financial Post Article dated September 4, 2013
Exhibit A2-6, Statistics Canada: New motor vehicle sales, by province (monthly); New motor vehicle sales, by province (British Columbia)
PY 2012 Loss Cost Variance – Fewer New Vehicles

In paragraph 35, ICBC states:

"Figure 3.7 shows that the proportion of ICBC's Basic policies on brand new vehicles dropped at the time of the recession in 2008 and 2009, and has not recovered by the end of 2012… It is unlikely that new vehicle sales will recover enough in the near-term to favourably influence the PY 2013 frequency to the degree it has in the past."

However, as reported in the Financial Post on September 4, 2013: "Overall auto sales in Canada hit a record high in August, up 6.5% over the same month last year. It marked the second-straight monthly sales record in the country." (Exhibit A2-5)

Source: http://business.financialpost.com/2013/09/04/canadians-auto-buying-bonanza-in-august-raises-flags/

Exhibit A2-6 also provides the new motor vehicle sales by province by Statistics Canada.

Sources: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ58a-eng.htm

http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/trade36j-eng.htm

16.1 Please provide the source of data that supports Figure 3.7.

16.1.1 Does ICBC agree that there is an upward or recovery trend in the new motor vehicle sales market in light of the information shown in Exhibits A2-5 and A2-6?

16.2 Has ICBC observed an increase in new model year vehicles sold in BC in 2013? If yes, how does this change affect ICBC's estimate of the PY 2013 frequency rate?

16.3 Please explain if new vehicle sales include all sold and leased new vehicles.

17.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-13
Vehicles per Household

On page 3-13, ICBC states:

> "The third significant event identified by ICBC is that the number of insured vehicles per BC household is no longer increasing… ICBC believes this may create some upward pressure on frequency due to higher usage per vehicle that is likely to result."

17.1 Please provide information that shows the breakdown of (i) vehicles and (ii) households. Please include the source of the information.

17.1.1 Based on the information provided, please explain if ICBC's observation is due to faster growth rate of households than growth rate of insured vehicles.

17.2 Is there evidence to support that there are higher usage per vehicle in a given household?

17.2.1 Is it also possible that static insured vehicles per BC household mean less mileage driven by private passenger vehicles, which is favourable for claims frequency?

17.2.2 Could the flattening of insured vehicles per BC household be a result of transit improvements or urbanization, resulting in lower vehicle usage?

18.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-14
Other Developments

On page 3-14, ICBC states:

> "Young people are waiting longer to obtain their drivers' licences…"

18.1 Please provide supporting evidence to substantiate this statement.

18.2 Are there any drivers licensing policy or rule changes that cause young people to wait longer to obtain their drivers' licenses? Please explain.

19.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibits C.1.1.1 and D.1.1
Basic Personal Bodily Injury Claim Count and Frequency Rate

In the current PY 2013 application, in Exhibits C.1.2.1 and D.1.1 ICBC presents estimated ultimate claim counts and the claim frequency rate for accident years 2006 to 2010. Similar information is presented in the prior PY 2012 application in Exhibits C.1.2.1 and D.2.1. This information is as follows:

	Current Application					Prior Application		
	Ultimate Claim Count C.1.2.1	Earned Exposures B.1.2	Frequency Rate D.1.1			Ultimate Claim Count C.1.2.1	Earned Exposures B.2.1	Frequency Rate D.2.1
2006	40,643		NA		**2006**	40,648	2,442,546	1.68
2007	40,176		1.62		**2007**	40,179	2,510,001	1.62
2008	37,974	2,548,746	1.50		**2008**	37,974	2,548,746	1.57
2009	36,573	2,584,478	1.43		**2009**	36,555	2,584,478	1.52
2010	38,005	2,626,166	1.46		**2010**	37,992	2,626,166	1.47

19.1 Please complete the table above and confirm the information is accurate. Otherwise, please update.

19.2 Assuming the information above is correct, please explain why the frequency rate for accident year 2008 is different between the two applications, even though the estimated claim count and exposures are identical.

20.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit D
Loss Trend Rates - Actual Data versus Fitted Data

In Exhibit D.0, paragraphs 10 to 35, ICBC presents a description of its selected trend model for each coverage, for frequency and severity separately, along with graphs of the actual and modeled data.

20.1 For each coverage, for frequency and severity separately for accident years 1998 to 2012 (fifteen years), please provide a chart presenting the following columns of data: (1) the actual data, (1.a) the year to year percentage change of the actual data, (2) any econometric data (e.g. precipitation levels) selected, (3) the fitted data based on the selected short term model and (4) the fitted data based on the selected long term model.

20.1.1 Please state the selected annual loss trend rate for each coverage, for frequency and severity separately – both the short term and long term selected models.

20.1.2 Please provide the t-test of any economic parameters included in the individual selected models.

20.1.3 Are there any changes to the economic parameters included in a loss trend model, compared to the prior rate application? If yes, explain what they are, and why they have changed.

21.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit G.1
Capital Maintenance

In Exhibit G.1, the total unpaid loss and allocated loss adjustment expense (ALAE) of $3,671,293,000 is presented, of which $3,350,037,000 is for Plate Owner Third Party Liability (TPL).

21.1 Using the estimated ultimate loss and ALAE amounts from Exhibit C, please show how the amount for Plate Owner TPL in Exhibit G.1 ($3,350,037,000) is consistent with the selection of the ultimate loss and ALAE made in Exhibit C for Plate Owner TPL.

21.1.1 Please include the supporting calculations for BI and Property Damage separately.

22.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-7 to 3-8
Change in Average Premium

In paragraphs 22 and 23 of page 3-7, ICBC states:

> "In projecting the PY 2013 premium at the current rate level, ICBC forecasts the average premium of the policies expected to be written in PY 2013 if the current premium rates continue to be charged. PY 2013 average premium is expected to continue to decline and has an impact of +1.0 percentage point on the PY 2013 indicated rate change. This impact is comprised of two elements: 1) PY 2012 premium forecast variance, and 2) trend from PY 2012 to PY 2013.
>
> The first element of the change in average premium is the PY 2012 premium forecast variance. The premium forecast at PY 2012 was based on the assumption of an economic recovery; however, the economy did not recover as quickly as expected. For example, ICBC had noted a decrease in the number of long commute and business use policies in 2008 and 2009 and was expecting these to gradually increase as the economy recovered in the PY 2012 Application. However, starting in 2010, the number of these policies has actually leveled off."

22.1 What is ICBC's assumption in the PY 2013 Application with respect to economic recovery and its impact on the average premium? What is the basis for this assumption?

23.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-8
Certification

In paragraph 26 of page 3-8, ICBC states:

> "The actuarial analysis supporting the rate indication of +4.9% was performed, and reviewed, in accordance with accepted actuarial practice in Canada. This includes adherence to the Standards of Practice of the Canadian Institute of Actuaries…"

23.1 Please explain how the actuarial analysis supporting the rate indication of +4.9 percent was performed in accordance with the new Canadian Institute of Actuaries Standards of Practice: "Ratemaking: Property and Casualty Insurance." Please include in your response an explanation of how the exclusion of the Policy Year 2012 Loss Cost Variance is in accordance with this new standard of practice.

23.2 Please confirm that other estimates (estimates other than that presented by ICBC) of ICBC's PY 2013 rate indication could also be in accordance with accepted actuarial practice in Canada or with the standards of practice of the Canadian Institute of Actuaries.

24.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-8 to 3-14
Exhibit A2-7, Bodily Injury (BI) Frequency ICBC 2012 Revenue Requirements Excerpt
Factors Influencing ICBC's Claims Costs/PY 2012 Loss Cost Variance

On page 3-9, ICBC states:

> "The forecast variance is primarily due to higher than expected emergence of BI claims frequency."

Figure 3.5 depicts how ICBC had initially forecast the PY 2012 BI frequency to be lower than that of prior years, but now estimates the PY 2012 BI frequency to be 9.4 percent higher than it had forecast (calculation based on Figure 3.4).

On page 3-11, ICBC asserts that the mass adoption of smartphones, fewer new vehicles, and an abrupt end to the growth in the number of vehicles per household have dampened the favourable impact of safer vehicles, safer roads, and a growing proportion of drivers in their safest years. (Paragraphs 32 and 33, page 3-11)

ICBC also states that it believes that the impact of these three events will be lessened in the near-term, and that as a result of other developments (young people waiting longer to obtain their drivers' licenses, a growing awareness of the dangers of texting while driving and corresponding enforcement initiatives, and new crash avoidance technologies) "…bodily injury frequency will eventually resume a downward trend, but not to the degree of the long-term trend seen prior to the 2008 recession." (Page 3-14)

For the Current Application, ICBC assumes that "bodily injury frequency will remain flat through 2013 and resume a downward trend thereafter, but at half the rate of the pre-recession trend line." (Page 3-14)

In the PY 2012 Application, Chapter 3, paragraph 33, page 3-15, ICBC stated:

> "Although the severity of bodily injury claims continues to increase, there is a long-term favourable trend in bodily injury claims frequency which acts to partially offset its impact on bodily injury loss cost. The selected bodily injury frequency trend reflects a return to the trend that was present before the recession that began in 2008. Although Figure 3.4b shows that bodily injury claims frequency has levelled off in 2010 and 2011, <u>ICBC does not believe there is yet sufficient evidence to conclude that the ongoing frequency trend has levelled off from its long-term downward trend</u>." [Emphasis added] (Exhibit A2-7)

However, as noted, BI frequency did not decline, and this is the major contributor to the loss cost variance in the Current Application.

24.1 Does ICBC now find any evidence in the current claims experience of the beginnings of a decline in the BI claim frequency?

24.1.1 If so, what is that evidence?

24.1.2 If not, given ICBC's forecast variance (in hindsight) of BI claim frequency in the PY 2012 Application, why does ICBC believe its current forecast of a decline in BI frequency is reasonable?

24.1.3 What is the basis for assuming frequency would begin to decline immediately after 2013, as opposed to, for example, six months after, one year after, etc?

24.1.4 What is the basis for assuming the rate of decline would be half of the pre-recession rate of decline, as opposed to, for example, one-third of the decline or one-quarter of the decline?

24.2 With regard to the PY 2012 Application, Chapter 3, paragraph 26, page 3-10, if ICBC accepts that the recessionary economic conditions have led to fewer miles being driven – and that this has contributed to fewer BI claims – does ICBC believe that continued economic recovery will, all else being equal, lead to more miles being driven and hence an increase in BI (and other coverage) frequency?

24.2.1 Please provide an update to Figure 3.6 ("Estimated Kilometres Travel in BC – Gasoline Vehicles") and Figure 3.7 ("Estimated Kilometres Travel in BC – Diesel Vehicles") from the 2012 Revenue Requirements Application (please refer to Exhibit A2-7, pp. 3-11 and 3-12).

24.3 Please provide an exhibit that shows how BI frequency rates have changed over time in other provinces.

24.4 Does ICBC find the BI frequency pattern in other provinces to be similar to that of BC?

24.4.1 If so, would this suggest that insurance companies in other provinces are faced with conditions similar to that of ICBC with respect to forecasting future BI frequency rates?

24.4.2 Please indicate whether or not ICBC is aware if other companies are generally forecasting a future decline in BI frequency.

24.5 Has ICBC examined and compared the characteristics (e.g., kind of loss, cause of loss, size of loss, type of vehicle, nature of injury, legal representation, etc.) of BI claims reported in PY (or accident year) 2011 or 2012 to those reported in recent policy years (or accident years)?

24.5.1 If so, does the comparison provide any explanation for the increase in frequency?

24.5.2 If ICBC has not performed such a comparison, to the extent possible, please provide a comparison to explain the higher frequency.

24.6 What would be the rate impact if the BI frequency was to be held constant or stay relatively flat?

24.7 Please provide a comparison of the reported claim size of loss distribution for Policy Years 2010, 2011, and 2012 – as of the same valuation age.

24.7.1 Does this comparison reveal any evidence that ICBC may have experienced an increase in the number of smaller BI claims?

24.7.2 If so, what are the implications of an increase in the number of smaller claims on BI severity trend and has ICBC considered this in selecting its BI severity trend?

25.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-10
Factors Influencing ICBC's Claims Costs/PY 2012 Loss Cost Forecast Variance

In Figure 3.4, ICBC presents a comparison of its BI frequency, severity, and loss cost forecasts for PY 2012 as presented in the 2012 Application and in the Current Application.

25.1 Please provide the supporting calculations for the BI forecasts that are presented in Figure 3.4, as well as those for each of the other coverages that comprise the Loss Cost Forecast Variance of +6.6 percentage points (or reference to the appropriate exhibits that provide this information).

25.2 Please show how the Loss Cost Forecast Variance for each coverage is weighted to arrive at the +6.6 percentage point Loss Cost Forecast Variance.

26.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-14 to 3-16
Factors Influencing ICBC's Claims Costs/PY 2012 Loss Cost Forecast Variance

In paragraph 39 of page 3-15, ICBC states:

> "ICBC believes that the factors underlying the forecast variance for MR [Accident Benefits – Medical Rehabilitation] frequency are largely the same as those discussed in the context of BI frequency above."

26.1 Please provide an exhibit that compares ICBC's current estimate of the frequencies for BI and MR for each accident year spanning 2000 through 2012 and comment on the similarities and differences in the year-to-year changes between the two coverages in the context of the sentence quoted from paragraph 39.

26.1.1 To the extent that the year-to-year changes differ between the two coverages, explain why ICBC believes this to be the case.

26.2 Has ICBC examined and compared the characteristics (e.g., kind of loss, cause of loss, size of loss, type of vehicle, nature of injury, legal representation, etc.) of MR claims reported in PY (or accident year) 2011 or 2012 to those reported in recent policy years (or accident years)?

26.2.1 If so, does the comparison provide any explanation for the observed MR frequency rates?

26.2.2 If ICBC has not performed such a comparison, to the extent possible, please provide a comparison to explain the observed MR frequencies.

26.3 Please provide a comparison of the reported claim size of loss distribution for Policy Years 2010, 2011, and 2012 – as of the same valuation age. If ICBC is unable to provide such a comparison, please explain why.

26.3.1 Does this comparison reveal any evidence that ICBC may have experienced an increase in the number of smaller MR claims?

26.3.2 If so, what are the implications of an increase in the number of smaller claims on MR severity trend and has ICBC considered this in selecting its MR severity trend?

27.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-16
Factors Influencing ICBC's Claims Costs/PY 2012 Loss Cost Forecast Variance

As BI and property damage claims are associated with vehicle accidents, one might expect that frequency trend patterns would be similar between these two coverages.

27.1 Please provide an exhibit that compares ICBC's current estimate of the frequencies for BI and property damage for each accident year spanning 2000 through 2012 and comment on the similarities and differences in the year-to-year changes between the two coverages.

27.1.1 To the extent that the year-to-year changes differ between the two coverages, explain why ICBC believes this to be the case.

27.2 Does ICBC believe that the factors underlying the frequency variance for BI are similarly impacting property damage frequency? Why or why not?

28.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-17
Exhibit A2-8, Actuarial Standards Board, Actuarial Standard of Practice (ASOP) #30
Factors Influencing ICBC's Claims Costs/PY 2012 Loss Cost Forecast Variance

In Figure 3.11, ICBC presents the prior policy year loss cost forecast variance for the years 2006, 2007, 2010, 2012, and 2013.

The Actuarial Standards Board, ASOP #30, Section 3.7, states:

> "The actuary should include a contingency provision if the assumptions used in the ratemaking process produce cost estimates that are not expected to equal average actual costs, and if this difference cannot be eliminated by changes in other components of the ratemaking process." (Exhibit A2-8, page 4)

28.1 Are the loss cost forecast variances in Figure 3.11 based on what was known in the year following the policy year Application, or are these loss cost forecast variances based on ICBC's current loss cost estimates as presented in the Current Application?

28.1.1 If it is the former, please provide a figure similar to that of Figure 3.11 that presents the loss cost forecast variance for each of the same policy years based on ICBC's current loss cost estimates as presented in the Current Application.

28.1.2 If it is the latter, please provide a figure similar to that of Figure 3.11 that presents the loss cost variance for each of the same policy years based on ICBC's loss cost estimates as of the year following the policy year Application (as compared to ICBC's initial estimate).

28.2 Does ICBC agree that the arithmetic average of the loss cost variances presented in Figure 3.11 is approximately 2.5 percentage points a year?

28.2.1 If yes, does ICBC believe that the average loss cost forecast variance of approximately 2.5 percentage points per year suggest that ICBC should be incorporating a contingency provision in its rate indication calculation methodology to comply with Actuarial Standards Board's Actuarial Standard of Practice #30? Why or why not?

28.3 Are ICBC's selected (ultimate) incurred loss amounts (including ALAE) by accident year consistent with those in its year-end 2012 Appointed Actuary Report? If not, why not?

28.4 Has the claim experience that has emerged since the ICBC's year-end 2012 Appointed Actuary Report was prepared, as presented in the Current Application, been in line with the expectations underlying the year-end 2012 Appointed Actuary Report? If not, how have the actual results differed from the expectations?

28.5 Please provide a copy of ICBC's year-end 2011 and 2012 Appointed Actuary Reports.

29.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-17
Exhibit A2-9, Ministry of Finance Review of ICBC August 2012
PY 2012 Loss Cost Forecast Variance

On page 3-9, ICBC in Figure 3.11 shows that the loss cost forecast variance of +5.5 percentage points and +6.6 percentage points, respectively for 2012 and 2013.

In the August 2012 Ministry of Finance Review of ICBC, it states:

> "In setting the premiums for a given year it is necessary to forecast the amount of claims that will be paid out for accidents in that year. These estimates are a significant part in determining the premiums, and <u>ICBC has been within 5% of the actual results over the last 10 years, which is reasonable for this type of forecasting</u>." [Emphasis added] (Exhibit A2-9, p. 3)

29.1 In light of the August 2012 review as underlined above, does it mean the loss cost forecast variance should be within 5 percent for it to be considered reasonable? Please explain.

30.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-17 to 3-19, Exhibits C.1.3.2 and C.1.3.13
Factors Influencing ICBC's Claims Costs/Loss Cost Trend to PY 2013

In Figure 3.13, ICBC presents its selected BI severity trend line, and in Paragraph 46, ICBC states:

> "The BI severity trend continues at the historical rate of increase of 5.7%, despite a number of claims cost management initiatives that ICBC has implemented."

ICBC presents the results for its Adjustment for Case Reserve Development and its Hindsight Outstanding Severity Method in Exhibits C.1.3.2 and C.1.3.13.

30.1 Does ICBC agree that the accident year severities that are the basis for the selected severity trend line are estimates made by ICBC and that the estimates for the most recent accident years, in particular, are uncertain and likely to change as the actual claim experience emerges over time?

30.2 Does ICBC agree that its BI estimated severities for accident years 2010, 2011, and 2012, in particular, are highly influenced by its Adjustment for Case Reserve Development and its Hindsight Outstanding Severity Method?

30.3 Does ICBC agree that the Adjustment for Case Reserve Development and its Hindsight Outstanding Severity Method are each based on the observed historical severity trends through calendar year 2007 (in the case of the former) or accident year 2007 (in the case of the latter)?

30.3.1 Would it not be expected that the selected severity trend line would continue to follow the historical rate of increase pattern for 2007 and prior?

30.4 Does ICBC believe there to be a relationship between frequency and severity, or does it believe the two parameters to be independent of one another?

30.4.1 If ICBC believes there is a relationship between frequency and severity, please explain the consideration given to this relationship in selecting the BI coverage severity trend. For example, if the forecast of a lower BI frequency trend is due to smaller claims not being reported, then would not this cause the average cost of claims that continue to be reported to be higher?

31.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-19
Factors Influencing ICBC's Claims Costs/Loss Cost Trend to PY 2013

ICBC presents Figure 3.14 as an illustration of what it states is the primary reason for the BI severity trend rate continuing at the historical rate of increase "despite a number of claims cost management initiatives that ICBC has implemented."

31.1 Please perform and provide an analysis that shows there to be a high correlation between legal representation and severity.

32.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-19 to 3-21
Recap of Revisions to the Actuarial Rate Level Indication Analysis

In Paragraph 47 of page 3-19, ICBC states:

> "This Section gives a synopsis of the noteworthy methodology and presentation changes to the actuarial rate indication analysis of this Application."

However, it does not appear that ICBC has presented all key changes from the prior Application. For example, the method by which the Adjustment for Case Reserve Development is calculated appears to be different. (In the PY 2013 Application, there is a Bornhuetter-Ferguson type weighting of the trended average case reserve with the reported average case reserve. In the PY 2012 Application, there was no such weighting; the trended average case reserve was selected.)

32.1 Please provide a complete list of all changes in methodology, key assumptions, and key calculations from the PY 2012 Application; explain why each change was made; and provide the impact on the rate indication for each change – separately for Personal and Commercial coverages.

33.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, p. 3-26
Explanatory Notes to the Exhibits/Projection of Average Premium

In Paragraph 77 of page 3-26, ICBC states:

> "Written premiums by business segment and coverage are adjusted to the current rate level."

33.1 How is this calculation performed?

34.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.0.1, p. 3
Description of the Exposure Model

On page 3 of Exhibit B.0.1, ICBC states:

> "The slowing of [personal] exposure growth starting in 2008 is associated with a sudden drop in the number of long commute policies and business use policies. These decreases levelled off in 2010 and exposure growth in these segments is expected to remain relatively flat for the forecast years…new vehicle sales and the number of vehicles per household are also no longer increasing and have levelled off in the last few years. As a result, Personal exposure is expected to continue at the moderated growth rate observed since 2010."

34.1 Please provide an exhibit that shows the number of long commute and business use policies by year through 2012.

35.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.0.1, p. 5
Description of the Exposure Model

On page 5 of Exhibit B.0.1, ICBC states:

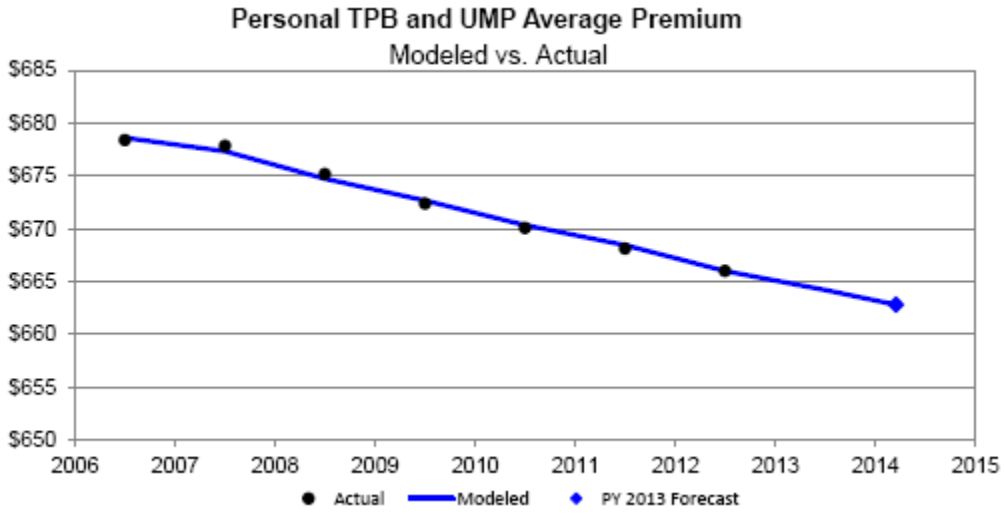
> "This [commercial exposure] increase can partially be attributed to the northern regions where mining and forestry industries have experienced recent growth. This growth is expected to continue throughout the policy year."

35.1 What portion of the observed exposure growth does ICBC attribute to the northern regions?

35.2 To what does ICBC attribute the balance of the exposure growth?

36.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.0.2, p. 3
Description of the Average Premium Model

Page 3 of Exhibit B.0.2 shows the following graph:

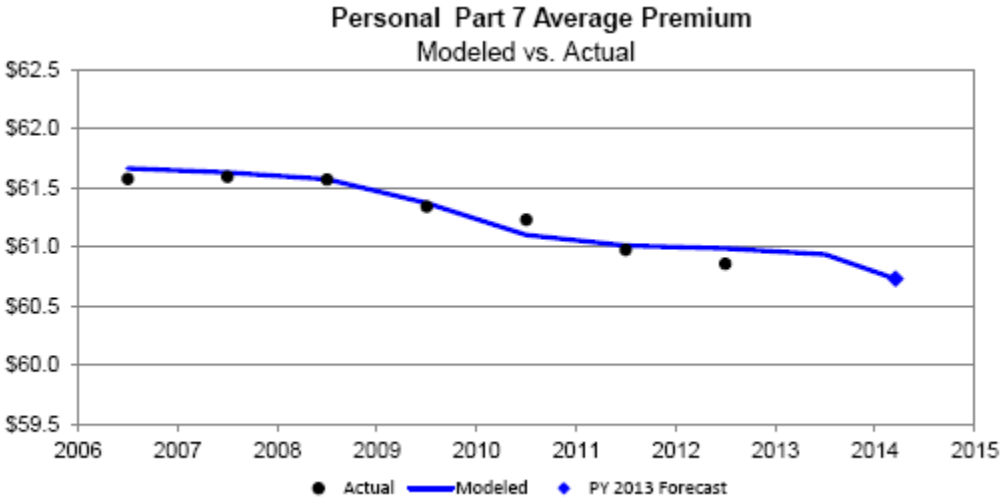


36.1 The average premium graph appears to show the rate of decline in the modeled personal Third Party Basic (TPB) and Underinsured Motorist Protection (UMP) average premium to be greater post 2012 than prior to 2012. Does ICBC agree with this observation?

36.1.1 If so, to what does ICBC attribute this somewhat greater rate of decline?

37.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.0.2, p. 4
Description of the Average Premium Model

Page 4 of Exhibit B.0.2 shows the following graph:

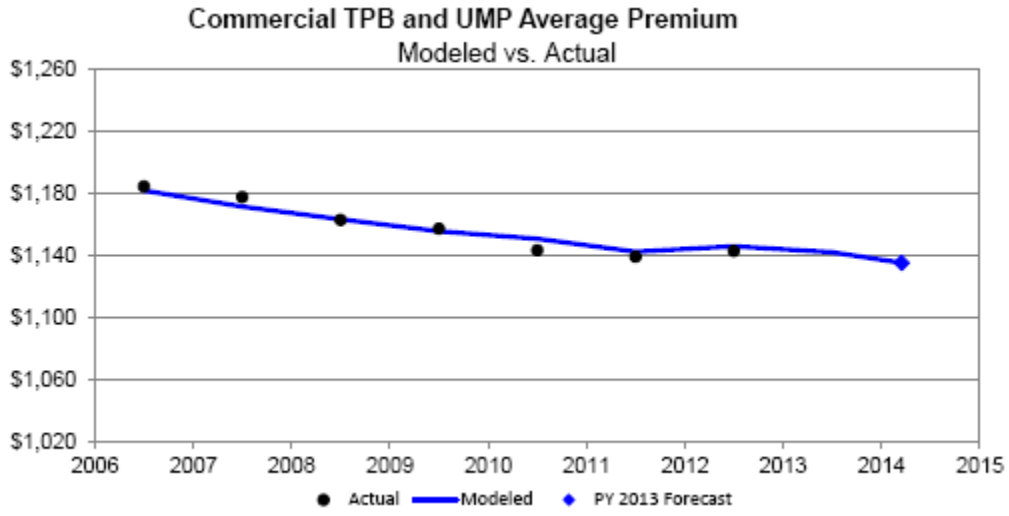


37.1 The average premium graph appears to show there to be a rather sharp decline in the modeled personal Part 7 average premium after 2013. Does ICBC agree with this observation?

37.1.1 If so, to what does ICBC attribute this rate of decline?

38.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.0.2, p. 5
Description of the Average Premium Model

Page 5 of Exhibit B.0.2 shows the following graph:



38.1 The average premium graph appears to show a decline in the modeled commercial TPB and UMP average premium following the 2012 year. Does ICBC agree with this observation?

38.1.1 If so, to what does ICBC attribute this rate of decline?

39.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.2.1 and B.2.2
Economic and Demographic Variables Selected for Use in Exposure Model

Exhibit B.2.1 and Exhibit B.2.2 provide the economic and demographic variables selected for use in exposure model for personal basic and commercial basic, respectively.

39.1 Please provide the rationale for ICBC's selection of particular economic, demographic, and other variables presented in these exhibits. In the response, please state the model used by ICBC and explain the modeling process followed by ICBC.

39.2 What variables did ICBC consider, but reject, and what were the reasons for rejecting the variables that were considered?

40.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit B.3.1
Calendar Year Basic Written Premium and Exposure – Manual Basic Coverages - Total

Section E of Exhibit B.3.1 shows there to be differences among the five separate projected PY 2013 written premium amounts for both Third Party Liability/Part 7 and Collision/Specified Perils. ICBC

selects, for PY 2013, the average of each of the five separate projected written premium amounts.

40.1 To what does ICBC attribute the variation in results?

40.2 Does ICBC find the results exhibit a downward trend? If so, to what does ICBC attribute the downward trend?

40.3 Why does ICBC select the arithmetic average of the estimates, as opposed to giving greater weight to the projections derived from the most recent two years?

41.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, p. 2
Summary of Analysis/Plate Owner Basic Bodily Injury

On page 2 of Exhibit C.0.5, ICBC describes its application of the Bornhuetter-Ferguson Method. ICBC's selected incurred loss for BI is the arithmetic average of the results of the Incurred Bornhuetter-Ferguson and Paid Bornhuetter-Ferguson methods. However, in applying these methods, ICBC selects as the Expected (or a priori) Incurred Loss amount the product of its selected incurred claim count and a trended incurred severity. The trended incurred severity is derived from the results of both the Incurred Development Method and the Paid Development Method that ICBC applied.

41.1 Why does ICBC find its manner of selecting the Expected Incurred Loss amount in applying the Bornhuetter-Ferguson Method to be appropriate?

41.2 Does ICBC find that its method of doing so gives too much weight to the results of the Incurred and Paid Development Methods? Why or why not?

41.3 Did ICBC consider other approaches to selecting the Expected Incurred Loss amount under the Bornhuetter-Ferguson Methods?

41.3.1 If so, what other methods were considered and why were they rejected?

42.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, p. 3
Summary of Analysis/Plate Owner Basic Bodily Injury/Impact of Claims Initiatives on the Actuarial Data

On page 3 of Exhibit C.0.5, ICBC states:

> "In response to rising BI claims costs, a number of claims cost management initiatives were undertaken. These initiatives are discussed in Chapter 6, and include improvements in claims handling, management accountability, and business indicator reporting and data analysis.
>
> The management accountability strategy described in Chapter 6, Section C.2 affects the incurred and paid claims data used by the actuaries in the application of the Incurred Development and Paid Development Methods. The impact of these initiatives is to affect both the loss development patterns relating to current and prior accident years as well as the timing and amount of case reserves."

42.1 Can ICBC provide more information about the prior claim initiatives (including the enhanced manager reviews and changes in adjuster authority levels) that have impacted the case reserve levels and to the extent to which they have impacted case reserve levels?

42.1.1 What did such claim initiatives entail?

42.1.2 When, exactly, did the initiatives begin?

42.1.3 When did the initiatives end?

42.2 Did the claim initiatives impact all claims reported after the start date?

42.2.1 If not, what proportion of newly reported claims was affected?

42.2.2 If not, what would cause certain newly reported claims to be affected, but not others?

42.2.3 Explain how the claim initiatives changed the manner in which case reserves are set on newly reported claims.

42.2.4 If possible, please provide a listing of all reported claims for accident year 2012 as of December 31, 2012, and for each, the amount of the case reserve and what the case reserve would have been had it not been for the claim initiatives. Please withhold any claimant identifying information.

42.3 Did the claim initiatives impact claims that were open at the time?

42.3.1 If yes, what proportion of open claims was affected?

42.3.2 If yes, what would cause certain open claims to be affected, but not others?

42.3.3 What was the process that was performed to review and change the case reserve amounts on open claims?

42.3.4 If possible, please provide a listing of all open claims whose case reserves were changed as a result of the claim initiatives; and for each claim, the accident date, the case reserve just prior to any adjustment, what the case reserve was changed to and when, and if closed, the final settlement amount. Please withhold any claimant identifying information.

43.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, p. 4
Summary of Analysis/Plate Owner Basic Bodily Injury/Incurred Development Method

On page 4 of Exhibit C.0.5, ICBC states:

> "This observed inconsistency coincides with the changes to case reserve levels as a result of prior claims initiatives including enhanced manager reviews on open claims and changes in adjuster authority levels. These initiatives are partly responsible for the changes observed in the development pattern of case reserves. <u>Data over the past few years supports that, in relation to the developed cost level, case reserves have been set at a more accurate (i.e., lower, on average) level earlier in the life of those claims compared to historical patterns.</u>" [Emphasis

added]

43.1 What data is ICBC referring to?

43.2 If it is the data presented in Exhibit C.1.3.5, exactly from what data on this exhibit does ICBC reach the conclusion that (a) the case reserves are being set at a lower level, and (b) that the case reserves are more accurate?

43.2.1 Did ICBC consider any other data in reaching this conclusion?

43.3 What does ICBC mean by "…set at a more accurate level…"?

43.4 If the case reserves are now more accurate (i.e., closer to final settlement value), should they not develop less than otherwise? Please explain why or why not.

43.4.1 If so, why does ICBC find it appropriate to adjust upward (increase) the applied incurred loss development factors for the more recent accident years?

43.5 If "…set at a more accurate level…" means something other than being closer to the final settlement value, please explain what it means and provide evidence of this explanation.

43.6 Did ICBC recently publish a new claims philosophy manual (rules and procedures for setting case reserves and settling claims for various injury types) that documents this change in reserving philosophy/practice?

43.6.1 If yes, quantify the impact the change has had on the average Personal Bodily Injury case reserve amounts for each accident year – as presented in Exhibit C.1.3.5.

43.6.2 If yes, provide the sections related to BI (case reserve setting process) from the current manual and the prior manual. Include the effective dates for the manuals.

43.6.3 Are the rules and procedures for setting case reserves and settling claims the same for both Personal Bodily Injury and Commercial Bodily Injury? If not, explain any differences.

43.6.4 Please provide two actual, similar, claims that are now closed – one that was processed under the prior procedures and one that was processed under the new procedure – that illustrate – by showing the case reserve changes and payments over time – how the claim initiatives have affected case reserve levels. In doing so, withhold any claimant identifying information.

43.6.5 Can ICBC provide BI incurred loss development triangles by report year – to remove the distortions caused by new claims being reported? If so, please provide them.

43.7 Does ICBC agree that Exhibit C.1.3.10, Bodily Injury Loss – Personal Closure Rate, indicates that closure rates have been in decline over the past few years? Why or why not?

43.7.1 If so, to what extent has ICBC considered the lower closure rate in deriving the Adjustment for Case Reserve Development or in applying its Hindsight Outstanding Severity Method?

43.7.2 Is it reasonable to assume that the declining closure rates indicate that there are more smaller claims open as at the same age of development as compared to past accident years, and could this not, in turn, explain the decline in the average case reserve that ICBC asserts has occurred? Why or why not?

43.7.2.1 Please provide data – in a size of loss distribution – that either supports or refutes the assumption that the lower average case reserves being observed are attributed to there being a higher proportion of smaller claims open.

43.7.3 Please provide an accident year triangle of average closed claim amounts for BI.

43.7.4 If available, please provide a triangle of case incurred losses on a report year basis.

44.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, pp. 4-5
Summary of Analysis/Plate Owner Basic Bodily Injury/Paid Development Method

On page 5 of Exhibit C.0.5, ICBC states:

> "The Hindsight Outstanding Severity Method is employed as a replacement method for accident years 2008 to 2012, as shown in Exhibits C.1.3.13, C.1.3.14, C.5.3.13 and C.5.3.14, because the assumptions inherent to the Paid Development do not hold true in this case."

44.1 Is ICBC referring to the lower closure rate that has been observed as one of the assumptions that does not hold true? (Please refer to Question 43.7)

44.1.1 If so, explain how the application of the Hindsight Outstanding Severity Method appropriately reflects the lower closure rate.

44.1.1.1 If ICBC acknowledges that there may be a greater proportion of smaller claims open as of the same stage of development, please explain how the application of the Hindsight Outstanding Severity Method reflects this change in the proportion of claims by size.

44.2 Has ICBC considered other loss reserving methods to recognize the lower closure rate? If so, what other methods were considered and why were they rejected?

44.3 Did ICBC consider a Paid Loss Development Method whereby the historical paid development factors are adjusted to match the current closure rate for the particular accident year?

44.3.1 Does ICBC consider this to be an appropriate method to apply and consider? If not, why not?

44.3.2 Please apply this alternative Paid Loss Development Method and provide the resulting estimates of incurred loss for Personal Bodily Injury.

44.4 Please provide the internal actuarial analysis that underlies the shaded hindsight outstanding severities appearing in Exhibit C.1.3.14.

45.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, pp. 5-7
Summary of Analysis / Plate Owner Basic Property Damage

ICBC does not apply the Adjustment for Case Reserve Development or Hindsight Average Severity Method in estimating the incurred losses for property damage.

On page 5 of Exhibit C.0.5, for Plate Owner Basic BI, ICBC states, "As compared to historical levels claim settlement rates in the latest two diagonals are also low (see Exhibits C.1.3.10 and C.5.3.10). This coincides with operational impacts from recent job action by bargaining unit employees, delays in filling claims adjuster vacancies, and the transition period of the new claims functional organizational model."

45.1 Do the "operational impacts from recent job action by bargaining unit employees, delays in filing claims adjuster vacancies, and the transition period of the new claims functional organizational model" also impact property damage claims? Why or why not?

45.1.1 If they do, then why does ICBC not find it appropriate to apply these same techniques to property damage?

46.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, pp. 6-7
Summary of Analysis/Plate Owner Basic Property Damage/Hit-and-Run Transfer

On pages 6 and 7 of Exhibit C.0.5, ICBC states:

> "ICBC data systems treat PD as a purely Basic insurance coverage; however, some of the costs are actually covered by Optional insurance, so there is a need to transfer these costs from the Basic insurance data to the Optional insurance data. The actuaries have estimated the amount of payments made on hit-and-run claims, which are covered by ICBC Collision insurance, and have transferred these payments from the Basic insurance data to the Optional insurance data.
>
> The amount of the hit-and-run transfer by accident year as of May 31, 2013 is shown as a data modification in column (2) of Exhibits C.2.3.2, C.2.3.5, C.6.3.2 and C.6.3.5."

46.1 Please provide the documentation supporting the actuarial estimates of the "data modification for the hit-and-run transfer."

47.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, pp. 5, 7-8
Summary of Analysis/Plate Owner Basic Accident Benefits

ICBC does not apply the Adjustment for Case Reserve Development or Hindsight Average Severity Method in estimating the incurred losses for MR.

On page 5 of Exhibit C.0.5, for Plate Owner Basic BI, ICBC states, "As compared to historical levels claim settlement rates in the latest two diagonals are also low (see Exhibits C.1.3.10 and C.5.3.10). This coincides with operational impacts from recent job action by bargaining unit employees, delays in filling claims adjuster vacancies, and the transition period of the new claims functional organizational model."

47.1 Do the "operational impacts from recent job action by bargaining unit employees, delays in filing claims adjuster vacancies, and the transition period of the new claims functional organizational model" also impact MR claims? Why or why not?

47.1.1 If they do, then why does ICBC not find it appropriate to make these same techniques MR?

47.2 ICBC discusses the adjustments it makes in estimating the ultimate incurred loss for Weekly Benefits (WB) to reflect structured settlement amounts. Under the Incurred Development Method, ICBC removes data related to structured settlements and separately estimates the total liability of the structured settlements. How does this approach capture the cost of structured settlement claims yet to emerge?

47.3 How does ICBC estimate the total liability for structured settlements?

48.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, p. 12
Summary of Analysis/Basic/Optional Split of TPL Claims

On page 12 of Exhibit C.0.5, ICBC states:

> "…the algorithm separates the loss amounts into its Basic and Optional components, according to the underlying TPL [Third Party Liability] policy limit, and then further breaks the claim into its BI and PD parts, according to the kind of loss coding…the algorithm splits the ALAE between Basic insurance and Optional insurance in proportion to the Basic paid loss compared to the total paid loss."

48.1 Please elaborate on how the TPL policy limit is considered.

48.2 Please elaborate on this proportional allocation between Basic and Optional insurance.

48.3 Optional insurance claims tend to be paid faster than Basic insurance claims. How do the different payment patterns affect the allocation of ALAE? In other words, is ALAE reallocated as more and more payments are made?

48.3.1 If so, how does this affect the development patterns for ALAE?

49.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.0.5, p. 12
Summary of Analysis /Basic and Optional Split of TPL Claims / Additional Payments Transfer

On page 12 of Exhibit C.0.5, ICBC states:

> "The correct allocation of these additional payments will be incorporated into the 'core' Basic/Optional split computer algorithm after the new claims systems and processes are implemented through the Transformation Program."

49.1 Is the impact on the rate indication of not applying the "correct allocation" material to the Current Application? Please explain.

50.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.1.0, p. 1
Summary of Bodily Injury Selections – Personal/Incurred Development Method and Paid Development Method

Exhibit C.1.3.5 provides the Basic BI Loss – Personal triangle of average case reserves as of May 31, 2013.

As shown in Exhibit C.1.3.5, ICBC applies an Adjustment for Case Reserve Development to its Incurred Development Method. ICBC also applied an Adjustment for Case Reserve Development in the PY 2012 Application as shown on Exhibit C.1.3.5 of that Application.

50.1 Are the case reserve adjustments in the Current Application calculated in the exact same manner as they were calculated in the PY 2012 Application? Please address the manner in which the Trended Average Case Reserve was calculated and the manner in which the Selected Average Case Reserve was calculated.

50.1.1 If applicable, why were changes in methodology made? Please respond to each change in methodology.

50.2 How does the actual case reserve development that has occurred since the PY 2012 Application compare to the case reserve development that was expected to occur? Please respond for each of accident years 2007-2011.

50.3 Why is the "Trended Average Case Reserve" based on an exponential trend of 10 accident years excluding the latest 5 accident years, while – as shown on Exhibit C.1.3.14 – under the Hindsight Outstanding Severity Based on Paid Development Method, the trend rates are based on exponential trends from the 2003 diagonal to accident year 2007?

50.3.1 Why were these particular trend periods selected? Why are they not the same?

50.3.2 How do these trend measurement periods align with the timing of the claim initiatives that were implemented?

50.3.3 Did ICBC consider shorter trend measurement periods? If so, why were shorter trend measurement periods not used?

50.3.4 Why, for accident years 2011 and 2012, in particular, did ICBC not give weight to the reported average case reserves for the more recent accident years (e.g. 2008, 2009, and 2010) that were similarly affected by the claims initiatives?

50.4 Please provide an exhibit that compares the ratio of calendar year payments to prior year case outstanding over time – by accident year. Do the results support ICBC's application and consideration of the Adjustment for Case Reserve Development and the Hindsight Outstanding Severity Method? If so, in what way?

50.5 Has ICBC examined other diagnostics to assess the appropriateness of its application and consideration of these two adjustments/methods? If not, why not? If so, please provide the diagnostics considered.

51.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.3.0, pp. 1-2
Summary of Accident Benefits Selections - Personal

In Exhibits C.3.4.1 through C.3.4.11, ICBC presents its analysis for WB. In these exhibits, ICBC makes various adjustments to reflect structured settlements (SS). These adjustments are briefly discussed on pages 1 and 2.

51.1 How do the reported case reserves relate to the outstanding SS payments? Is there any overlap?

51.2 How do the paid loss and ALAE amounts relate to the SS payments made?

51.3 In applying the Paid Development Method, do the paid loss and ALAE amounts include the SS purchase price, but not the SS payments made to date?

51.4 Please confirm that the case incurred amounts and paid loss and ALAE amounts include the SS purchase price, but not the SS payments made to date – and that this is the reason for the adjustment amounts calculated in Exhibit C.3.4.11, columns 7 and 8.

51.5 Referring to Exhibit 3.4.1, why are the results produced under the paid methods to be relatively high as compared to the results produced under the incurred methods for accident year 2004 – a relatively mature accident year?

51.6 Referring to Exhibit 3.4.8, in estimating the future loss on open claims, ICBC assumes all claimants receive weekly benefits until age 65. Has ICBC performed an analysis to determine the reasonableness of this assumption?

51.6.1 Does ICBC perform this calculation on a claimant-by-claimant basis, or does ICBC perform the calculation based on an average current age of all claimants in a particular accident year?

51.6.2 Does this exhibit exclude SS claimants?

51.7 Referring to Exhibit C.3.4.11, how are the outstanding SS payment amounts in column 5 derived?

51.7.1 Is the calculation performed in a manner similar to the way the future losses on open claims in Exhibit C.4.7 are derived?

51.8 How are the structured settlement purchase prices reflected in the paid loss and ALAE triangle?

52.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.5.0, pp. 1-2
Summary of Bodily Injury Selections – Commercial/Incurred Development Method

As ICBC discusses in Exhibit C.5.0, pages 1 and 2, ICBC applies several methods to select Incurred Loss and ALAE by accident year.

52.1 Referring to Exhibit C.5.3.1, is it fair to say that there is considerable variation in the results produced under the various methods for the 2011 and 2012 years – with the paid methods results being lower than the incurred methods results? Please explain the variation.

52.2 Why did ICBC not select the average of the two Bornhuetter-Ferguson Methods for 2011 as it did for 2012?

52.3 Do the claim initiatives affect Commercial Bodily Injury claims to the same extent as Personal BI claims?

52.4 Referring to Exhibit C.5.3.5, ICBC calculates an Adjustment for Case Reserve Development as it does for Personal BI. And as it does for Personal BI, ICBC calculates the Trended Average Case Reserve based on an exponential trend of 10 accident years, excluding the latest 5 accident years. This approach seems to produce some relatively high Trended Average Case Reserves. For example, for the 29 month column, the Trended Average Case Reserve is $89,697, yet the reported case reserves over the 2007 through 2011 year average to about $55,000.

Does ICBC agree with the above observation? Why does ICBC believe its calculation and application of the Trended Average Case Reserves to be reasonable?

52.4.1 It appears that ICBC is applying a trend rate of approximately 7 percent per year for this time interval. Does ICBC agree with this observation? Why or why not?

52.4.1.1 Does ICBC observe there to be a similar annual trend over the 2008-2011 period?

52.4.1.2 If not, why does ICBC believe this to be the case, and why does ICBC not consider applying a trend rate that reflects the observed trend over the 2008-2011 period?

52.5 If available, please provide a triangle of BI case incurred losses on a report year basis.

52.6 Exhibit C.5.3.10, Bodily Injury Loss – Commercial Closure Rate, indicates that closure rates have been in decline over the past few years. Does ICBC agree that closure rates have been declining?

52.6.1 If so, to what extent has ICBC considered the lower closure rates in deriving the Adjustment for Case Reserve Development or in applying its Hindsight Outstanding Severity Method?

52.7 Is it reasonable to assume that the declining closure rates indicate that there are more smaller claims open as at the same age of development as compared to past accident years, and could this, in turn, explain the decline in the average case reserve that ICBC asserts has occurred? Why or why not?

52.8 Please provide data – in a size of loss distribution – that either supports or refutes the assumption that the lower average case reserves being observed are attributed to there being a higher proportion of smaller claims open.

52.9 Please provide an accident year triangle of average closed claim amounts for BI.

53.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.5.3.14
Summary of Bodily Injury Selections – Commercial/Paid Development Method

Exhibit C.5.3.14 shows the historical and selected average outstanding severities under the Hindsight Outstanding Severity Method for Basic BI loss ($ 000's) – Commercial as of May 31, 2013.

53.1 Please provide the internal actuarial analysis that underlies the shaded hindsight outstanding severities appearing in Exhibit C.5.3.14.

54.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.9.0, p. 1, Exhibit C.9.1.2, Exhibit C.9.3.8
Summary of Manual Basic Selections

As discussed in Exhibit 9.0, page 1, ICBC applies several methods to select Incurred Loss and ALAE by accident year. The results of those methods are presented in Exhibit C.9.1.2.

54.1 Referring to Exhibit C.9.1.2, does ICBC agree that the results of the Kind of Loss (KOL) Method are relatively high for the 2011 and 2012 accident years as compared to the results of the other methods?

54.1.1 If so, why does ICBC believe this to be the case?

54.1.2 Why does ICBC find the results of the KOL Method to be reasonable?

54.2 Please provide the internal actuarial analysis that supports the numbers presented in Exhibit C.9.3.8.

55.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Exhibit C.10.0, p. 1
Summary of the ULAE Analysis

As discussed in Exhibit C.10.0, page 1, in selecting a provision for Unallocated Loss Adjustment Expense (ULAE), ICBC applies what is referred to as Complexity Factors.

55.1 Referring to Exhibit C.10.7, have the Complexity Factors changed from the PY 2012 Application?

55.1.1 If applicable, how and why have they changed? Please provide support for the change.

C. CAPITAL MANAGEMENT PLAN

56.0 Reference: CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-1, 4-8
Order G-109-12, Decision dated August 16, 2012, p. 49
Order G-3-08, Decision dated January 9, 2008, p. 17
Capital Management Plan Objectives

On page 4-1, ICBC states:

"The new Basic Capital Management Plan must continue to protect the solvency of Basic insurance while also improving ICBC's ability to use Basic capital to promote more stable and predictable rates. ICBC's proposed new Basic Capital Management Plan accomplishes these two objectives by incorporating a new capital management target and capital provisions that give effect to the rate smoothing aspects of *Special Direction IC2*."

In the January 9, 2008 Decision, on balance considering *Special Direction IC2*, the Commission considers that the financial strength and stability of the Basic Insurance business should be given relatively more weight than maintaining stable and predictable rates. The Commission Panel in the August 16, 2012 Decision continues to hold those views.

56.1 In light of the amendments of *Special Direction IC2* on March 18, 2013 and the accompanying 2013 Government Directive regarding Rate Smoothing, please confirm that the financial strength and stability of the Basic Insurance business should continue to be first priority as suggested in the January 2008 and August 2012 Decisions. If not, please explain.

57.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-7
Rationale for New Capital Management Plan

On page 4-7 ICBC states:

"In its August 2012 Decision on the Revenue Requirements Application for the 2012 Policy Year, the Commission said that it continues to hold the views reflected in the January 2008 Decision on Revenue Requirements that:

> Achieving appropriate financial targets, such as appropriate MCT ratios, is a critical factor in ensuring that ICBC will have the ability to achieve and maintain the satisfactory financial strength necessary to meet its obligation to its policyholders in an orderly fashion and to comply with its regulatory requirements. In that Decision, the Commission Panel also expressed the view that it would be important for ICBC to replenish its capital as quickly as possible following an adverse scenario occurrence and recognized that the severity of such an occurrence and consequential impact on rates can affect the relative stability and predictability of the rates. On balance, and giving consideration to *Special Direction IC2*, the Commission in that Decision determined that the financial strength and stability of the Basic Insurance business should be given more weight than maintaining relatively stable and predictable rates."

ICBC further states on page 4-7:

"Since any adoption of a rate that is less than that needed to cover costs depletes Basic capital, it is expected that the rate smoothing framework will create greater volatility for the Basic MCT ratio. This volatility will be over and above the ordinary volatility which occurs due to increasing claims costs and the volatility of investment markets."

57.1 Recognizing this tradeoff between the financial security of ICBC Basic insurance and the rate smoothing aspects of the new Capital Management Plan (New CMP), please discuss the risks to ICBC Basic insurance financial stability as a result of the New CMP compared to the existing BCUC approved CMP (Existing CMP).

57.2 To what extent does ICBC's Crown Corporation status play a role in placing a greater emphasis on rate stability by using a more defined rate smoothing framework via the New CMP?

57.3 The conditions that have led to a decline in ICBC's Basic MCT in the last several years appear to be mostly related to lower Investment returns and increasing BI claims costs. Please show the impact of each of these elements over each of the last five years in terms of their impact on the rate indications and ensuing MCT levels, and discuss the extent to which they are contributing factors for the 2013 rate indications and how they might impact the 2014 rates.

58.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-2, 4-8 to 4-23
Proposed Plan Summary

In Section D of Chapter 4, ICBC describes the Rate Smoothing Framework and the proposal of the new Basic Capital Management Plan.

58.1 In addition to the items listed below, please provide a summary list of all proposed items in the new Basic Capital Management Plan:

- Solvency Target of 130%;
- Rate smoothing margin of 20%;
- New capital management target MCT ratio of 150%;
- Maintenance provision be calculated based on a new transient target MCT ratio that increases each year in increments of 4% until 2023;
- And more

59.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-8
Extraordinary Circumstances

On page 4-8, ICBC states:

> "As specified in the 2013 Government Directive, the proposed new Basic Capital Management Plan does not apply in extraordinary circumstances. Extraordinary circumstances are events to which the rate smoothing framework cannot respond in a timely manner. Examples of extraordinary circumstances include the MCT being at significant risk of falling below the regulatory minimum of 100% as discussed below, or <u>a permanent and significant shift in the cost environment</u>." [Emphasis added]

59.1 Please identify the reference in the 2013 Government Directive that specifies the new Basic Capital Management Plan does not apply in extraordinary circumstances, for example "a permanent and significant shift in the cost environment."

59.2 Please elaborate the kinds of circumstances that would lead to "a permanent and significant shift in the cost environment." How should the Commission determine whether or not there is a permanent or significant shift?

60.0 Reference: CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-4, 4-7 and 4-23
Basic MCT Ratio

On page 4-4, ICBC states that the MCT ratio outlook as at the end of 2013 is 123%. On page 4-7, it states in ICBC's recent history the MCT ratio has shown significant volatility.

Figure 4.10 shows the forecasted MCT ratio using ICBC's current assumptions of 2013 through 2023.

60.1 Does the 2013 year end outlook of 123% include the assumption of a 4.9% rate increase for the PY 2013 effective November 1, 2013?

60.2 In tabular and graph format, please provide the Basic MCT ratio for each year end since 2003.

60.2.1 Please describe notable MCT ratio fluctuations, including events such as changes in accounting practice, excess capital transfer between Basic and Optional, or changes in the MCT Guideline. Please include the dollar value impact if applicable.

60.3 Is ICBC aware of any MCT Guideline changes (proposed or approved) in the next two years in 2014 and 2015 that may affect the MCT ratio? Please briefly describe each proposed or approved change. To the extent possible, please quantify the impact on the MCT ratio and update Figure 4.10.

60.4 If applicable, please recalculate the 2012 and 2013 MCT ratio based on any proposed or approved changes in the MCT Guideline.

60.5 If applicable, would any of the anticipated MCT Guideline changes affect ICBC's proposed new Capital Management Plan? Please explain.

61.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-8
Commission Order G-165-12
MCT Below 100%

On page 4-8, ICBC states:

> "As the 2013 Government Directive states, if Basic capital is expected to fall below 100%, ICBC is directed to report to Treasury Board immediately and develop an appropriate plan to address Basic capital levels in conjunction with Treasury Board. The Commission also requires that ICBC file a plan if MCT falls below 100%."

Directive 2 of G-165-12 states:

> "ICBC is directed to file a plan with the Commission for the restoration of the MCT to or above the minimum regulatory level in any case where the estimates or outlook for the quarterly and/or year-end MCT level is below 100%. Any such plan is to be filed within 60 days from the date of this Order and at any other time within 60 days of a quarter end for which ICBC determines that the MCT level is below 100%."

61.1 In light of the ICBC statement on page 4-8, please confirm that ICBC is referring to the same "plan" where if the MCT ratio is expected to fall below 100% ICBC will submit to the Treasury Board as well as to the Commission.

61.2 If the Treasury Board reviews a plan that addresses Basic capital levels, is there still a need for the Commission to review or accept such plan? Please clarify.

62.0 Reference: CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-4 to 4-7
Loss Cost Variance and MCT

On page 4-5, ICBC states that prior to the introduction of rate smoothing, ICBC had to include the full loss cost forecast variance in the new rate indication. ICBC also states:

> "By mandating the exclusion of some or all of the loss cost forecast variance so as to have it absorbed by or reflected in Basic capital, *Special Direction IC2* has removed a significant source of rate volatility for the years following this Application. Going forward, capital levels will be managed as part of the new Basic Capital Management Plan in a way that promotes greater rate stability." (Pages 4-4 to 4-5)

Further, on page 4-7, ICBC states that any adoption of a rate that is less than that needed to cover costs depletes Basic capital. It is expected that the rate smoothing framework will create greater volatility for the Basic MCT ratio. This volatility will be over and above the ordinary volatility that occurs due to increasing claims costs and the volatility of investment markets.

On page 4-6, Figure 4.1 provides the rate change to cover costs and loss cost forecast variance components for the last several years. Positive numbers in the loss cost forecast variance are unfavourable and negative numbers are favourable.

Figure 4.1 – Rate Change to Cover Costs and Loss Cost Forecast Variance Components for Last Several Years

Year of Rate Indication	Rate Change to Cover Costs	Loss Cost Forecast Variance (Percentage Points of Rate Change)[6]
2005/2006	6.5%	4.0
2007	3.3%	1.2
2008	0%	-0.7
2009	0%	-3.0
2010[7]	-2.4%	-1.5
2011/2012[8]	11.2%	5.5
2013	11.5%[9]	6.6

62.1 Please confirm that the exclusion of the loss cost forecast variance is to comply with the 2013 Government Directives (i.e. management decision), and otherwise would not be excluded under accepted actuarial practice.

62.2 If the loss cost forecast variance is excluded in 2013, all else equal, please confirm this will unfavourably impact the 2013 year end MCT as well as the 2014 year end MCT as the 4.9% rate increase is insufficient to cover the 11.5% rate change to cover costs.

62.2.1 If the proposed 4.9% rate increase is approved, what is the estimated 2014 year end MCT, assuming a rate change effective August 1, 2014, is 6.4%?

62.2.2 If the proposed 4.9% rate increase is approved, what is the estimated 2014 year end MCT, assuming a rate change for August 1, 2014, is 3.4%?

63.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-10; Chapter 3, p. 3-4, Figure 3.2
Figure 4.2 – Illustration of the Exclusion of the Loss Cost Forecast Variance

Figure 4.2 on page 4-10 shows an illustration of the exclusion of the Loss Cost Forecast Variance.

Figure 4.2[13] – Illustration of the Exclusion of the Loss Cost Forecast Variance

2013 MCT Ratio	123%
	Impact (percentage points of PY 2013 indicated rate change)
Loss Cost Forecast Variance	6.6
Loss Trend to PY 2013	4.5
Other	0.4
Rate Change to Cover Costs	**11.5**
Loss Cost Forecast Variance Exclusion	-6.6
Indicated Rate Change	**4.9**

63.1 According to Figure 3.2 on page 3-4, the Loss Trend to PY 2013 should read "4.4" instead of "4.5" and Other should read "0.5" instead of "0.4." Please confirm this correction.

64.0 Reference: CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-7 to 4-8
Exhibit B-2, slide 18
Capital Transfer

With respect to the 2012 year end MCT level, on pages 4-7 and 4-8, ICBC states:

> "Government directed a transfer of $373 million of Optional insurance capital to Basic insurance to replenish Basic capital as at December 31, 2012… The transfer, combined with an increase in net unrealized investment gains, resulted in an increase of 37 percentage points in the MCT ratio, bringing the MCT ratio as at year-end 2012 to 137% which is above the current capital management target. Without the Optional transfer the MCT ratio at year-end 2012 would have been marginally above 100%, the regulatory minimum MCT ratio.
>
> Rising claims costs and investment markets have impacted the Basic MCT ratio outlook for the end of 2013 which for the second quarter is below the current capital management target of 130% MCT."

64.1 In the absence of the Optional transfer, please specify what the MCT ratio at year-end 2012 would have been exactly.

64.1.1 In the absence of the Optional transfer, what would have been the rate change to cover costs and the indicated rate change in the Current Application?

64.2 Of the 37% MCT level increase, please provide the breakdown that is attributable to the $373 million capital transfer from Optional to Basic and the portion that is attributable to the increase in net unrealized investment gains.

64.3 Other than the 2012 transfer of $373 million, past Government Directives directed transfer of capital from Optional business to Basic in 2005 ($530 million) and 2007 ($100 million). Please describe the circumstances leading to each transfer.

64.4 Given recent trends in claims costs observed since 2011, is it fair to say that Basic Insurance is unlikely going to be able to rebuild the Basic MCT by itself without large Basic rate increases, further transfer from Optional, or some other form of capital injection?

65.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-9 to 4-11
Order in Council 152/13, March 18, 2013
Requirements of *Special Direction IC2*

Special Direction IC2 was amended by OIC 152/13, March 18, 2013, to promote greater stability and predictability in Basic Insurance rates.

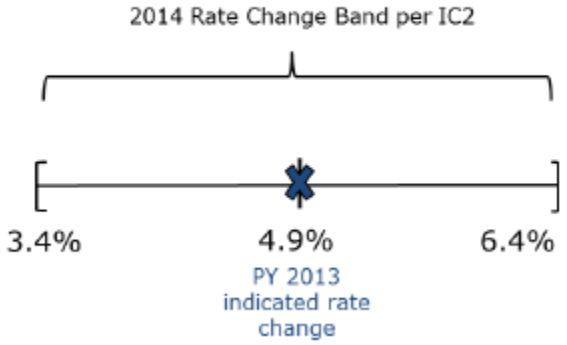
Special Direction IC2, section 3(1)(c.2)(ii), states: "for 2014 and each following year for which rates are set,

> (A) the commission may exclude some or all of that year's loss costs forecast variance from the rate fixed by a general rate change order in accordance with a capital management plan approved by the Commission [Requirement (A)], and
>
> (B) the percentage number of a rate change fixed by a general rate change order must differ from the percentage number of a rate change fixed by the previous general rate change order by no more than 1.5, and must not decrease existing rates [Requirement (B)]"

On page 4-11, ICBC further states that "Requirement (A) and Requirement (B) help to manage the volatility in rates. Any consequent rate deficiencies must be absorbed in Basic capital."

Figure 4.3 on page 4-10 illustrates the Band of Allowable 2014 Rate Changes per *Special Direction IC2*.

Figure 4.3 – Band of Allowable 2014 Rate Changes per *Special Direction IC2*



65.1 Is it possible that Requirement (A) and Requirement (B) cannot both be satisfied? For example, investment market deterioration or increase in operating costs, does Requirement (B) take priority until the MCT is forecast to fall to 100%?

65.2 Is it a reasonable assumption that the loss cost forecast variance should have equal probability of being favourable and unfavourable variances each year? Why or why not?

65.3 Suppose the upward pressure on rates build up due to a series of unfavourable loss cost forecast variance, please discuss the sustainability of stable and predictable rates as contemplated in *Special Directions IC2*.

65.4 Suppose the ceiling of Requirement (B) is insufficient to keep the MCT level above 100%, what action should the Commission take as it must set rates that will allow ICBC to maintain at least 100% MCT as per *Special Direction IC2*?

65.5 In light of Requirement (B), is it fair to say that the ±1.5 percentage point allowable band implies that stable and predictable rates should be within this range? Why or why not?

65.6 With respect to "must not decrease existing rates," please confirm that the Commission must not approve negative rate changes (less than 0%) even if the indicated rate change is negative or is within the ±1.5 percentage point allowable band.

66.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-11 to 4-13
20 Percentage Point Margin for Rate Smoothing

ICBC describes the "rule of thumb" ICBC uses is one percentage point change in the rate equates to approximately 2% of MCT. ICBC states on page 4-12:

> "…the exclusion of the loss cost forecast variance of 6.6 percentage points in year one has an approximate impact of 13 percentage points of MCT. Part of the 6.6 percentage point loss cost forecast variances could be further excluded in year two. For example, excluding 3.4 of those percentage points has an approximate impact of 7 percentage points of MCT. This would have a cumulative approximate 20 percentage point impact on the MCT ratio. Using a rate smoothing margin of 20 percentage points allows the Commission to gradually recognize the loss cost forecast variance into the rate level. If the rate smoothing margin was any less than 20 percentage points, the Commission would be unable to gradually recognize the loss cost

forecast variance into the rate level, which defeats the purpose of rate smoothing."

On page 4-13, ICBC further states that "the likelihood of a cumulative loss cost forecast variance in excess of 10 percentage points occurring is low."

66.1 Given the "rule of thumb" that one percentage point in rate equal to 2% of MCT, is it correct to say that the 20% margin for rate smoothing equates to a cumulative 10% maximum of unfavourable loss cost forecast variance holding all else equal?

66.2 The loss cost forecast variance was 5.5% in the 2012 Revenue Requirements Application and 6.6% in this 2013 Application. Hypothetically speaking, if the loss forecast variance of 5.5% was excluded in 2012, and an additional 6.6% was added in 2013, would this exhaust the 20% margin since the cumulative loss cost forecast variance is in excess of 10 percentage points?

66.2.1 The time period since the last rate change is 21 months (i.e. February 2012 – November 2013). How likely will the 20% margin be exhausted in two annual rate applications?

66.3 In the 2013 rate change the 6.6% loss cost forecast variance is excluded as per *Special Direction IC2*. What is the likelihood that the loss cost forecast variance will be more than 3.4% in 2014?

66.4 Has ICBC considered any other alternatives to the new Capital Management Plan? How would the proposed new Basic Capital Management Plan change if the Solvency Target and the margin for rate smoothing are amended based on the below alternatives? Please discuss the pros and cons of each alternative as follows:

	Solvency Target	Margin for rate smoothing	Total Target
ICBC Proposal	130%	20%	150%
Alternative #1	140%	10%	150%
Alternative #2	130%	10%	140%
Alternative #3	120%	20%	140%
Alternative #4	120%	10%	130%

66.5 What are the adverse consequences if the MCT falls below 100%, other than it is the minimum MCT level required in *Special Direction IC2*? Please explain the implications for (i) the Basic policy holder and (ii) ICBC as a company.

66.6 Recognizing that ICBC operates under a closed system (slide 19 of Workshop, Exhibit B-2), what are the risks for ICBC if the Commission is to set the MCT Solvency Target and rate smoothing target at lower levels?

67.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-11 to 4-13
Rate Smoothing Margin of 20%

ICBC states on page 4-11:

"The recent amendments to *Special Direction IC2,* and in particular the definition of the capital management target, now require an additional margin (the rate smoothing margin), addressing the fact that the Solvency Target does not account for the use of capital for rate smoothing. In selecting the size of this margin, ICBC considered the likelihood of significant fluctuations in Basic capital occurring as a result of rate smoothing, as well as the impact of such margin on customers. ICBC concluded, for the reasons set out below that a 20 percentage point additional margin should be considered as a reasonable minimum margin to effect rate smoothing as contemplated in *Special Direction IC2*.

Looking over the last 10 years of ICBC's historical loss cost forecast variance, a 20 percentage point margin would have been adequate to smooth through the worst single year by using capital to absorb volatility. The proposed 20 percentage point margin is also expected to have a minimal impact on rates. The following paragraphs provide additional support for the selection of a 20 percentage point margin."

On page 4-12 ICBC states:

"While the 20 percentage point margin for the capital management target works well for the worst single year loss cost forecast variance in ICBC's history, it would not be adequate to smooth through ICBC's recent 2-year cumulative loss cost forecast variance of 12.1 percentage points: 5.5 percentage points in 2012 followed by 6.6 percentage points in 2013."

On page 4-13 ICBC states:

"However, with the requirement in *Special Direction IC2* that ICBC file an annual revenue requirement application by May 31, ICBC expects that the likelihood of a cumulative loss cost forecast variance in excess of 10 percentage points occurring is low."

67.1 Recognizing that the current MCT Solvency Target of 130% was based on the Commission's overall assessment of ICBC's risk profile (based on adverse scenarios provided by ICBC) so that the minimum target of 100% MCT would be safeguarded, shouldn't the 130% MCT Solvency Target be reduced by some measure if a rate smoothing margin of 20% is to be added to the target? Otherwise, isn't the smoothing buffer overstated and eventually leading to excessive Basic rates?

67.2 Under ICBC's proposed 150% MCT target, rate changes limited to a ± 1.5 percentage point allowable band and no negative rate changes in future rates, please calculate the overall rate changes and MCT levels for each of the next five years, presuming that the loss cost forecast variance remains at 6.6% for the next three years and then falls to 0% for the final two years. Please discuss the fairness for customer rates under this scenario and please explain the calculations.

67.3 ICBC's rationale for the 20% rate smoothing margin seems to be based on the current worst case scenario of the mandated 6.6% exclusion in 2013. Does the rate change smoothing methodology of the recent Government Directives not make this level of rate inadequacy highly unlikely in the future? Please discuss.

67.4 Although the proposed 20% rate smoothing margin is said to be inadequate to smooth the worst two year cumulative loss cost variance, is it not appropriate that some of the 30% MCT excess over the minimum 100% MCT be used in such a worst case circumstance?

68.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-11
Proposed New Management Target

ICBC describes that the current Capital Management Plan was developed with the primary purpose of maintaining the financial health of Basic Insurance. ICBC refers to the existing capital management target of 130% MCT as "Solvency Target."

ICBC in footnote 14 on page 4-11 states that the existing capital management target of 130% was determined based on industry standard financial stress testing and was reviewed and accepted by the Commission.

ICBC also proposes a 20 percentage point additional margin to address the fact that the Solvency Target does not account for the use of capital for rate smoothing. ICBC considers this margin a reasonable minimum margin to effect rate smoothing as contemplated in *Special Direction IC2*.

68.1 ICBC concludes that 20 percentage points is reasonable for the rate smoothing margin. Has there been any industry standard financial stress testing or similar analysis to conclude that the 20 percentage point margin is reasonable? If so, please explain. If not, why not?

68.2 Since the Solvency Target is 130% and the rate smoothing margin is an additional 20%, is it fair to say that ICBC's proposal is placing greater emphasis on financial stability than stable and predictable rates? Why or why not?

68.3 In ICBC's view, is it correct to say that promoting greater stability and predictability in Basic rates does not imply low rates? Please explain.

69.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit E-9, pp. 1-5
Exhibit A2-10, Politics and Public Automobile Insurance in BC 1970-2010
Comparison with Other Jurisdictions

On page 2 of his Letter of Comment, Mr. McCandless states:

> "ICBC should be directed to provide a detailed comparison of the three public insurance plans and comparable rates to facilitate a full analysis of the operation and cost of Basic insurance in British Columbia. ICBC has never produced such a comparison."

He also states:

> "The Commission has adopted an MCT of 130 per cent as the desired level of reserve, and ICBC has now assumed that anything below this level jeopardizes the financial viability of the Basic program…
>
> In their submission ICBC now says that reserves below the 130 per cent level will result in "insolvency," which is absurd in light of the experience of the public programs in Saskatchewan and Manitoba. The Saskatchewan Auto Fund reports for 2012 and 2011 show their reserves over two years averaging 18.5 per cent of PE [premiums earned] (some 2.2 months of income). For 2013 the Saskatchewan fund has applied for a 1.2 per cent rate increase to raise their reserve to the approved policy minimum of 75 per cent. This level equates to 25 per cent of PE

in 2012, or three months of revenue, (the 130 per cent target in B.C. represents 62 per cent of PE in 2012, or over seven months of income). In their annual report the president of the Auto Fund states that the 75 per cent target (as they calculate the liability) is adequate." (Page 2)

On page 3, Mr. McCandless states:

"ICBC states that they calculate the MCT liability based on the OSFI guidelines. A quick calculation of the Saskatchewan 2012 financial report produces the following comparison:

	MCT Per Cent	Requirement	PE Months
BC	100	$1,355.0 m	7.0
Saskatchewan	100	$ 260.0 m	4.1

In Exhibit A2-10, it states:

"…The Saskatchewan Auto Fund works with an MCT range of 75 to 150 percent and ended 2010 with total reserves equaling 130 percent… the Manitoba Public Utilities Board set the basic capital reserve at between 10 and 20 percent of premiums written… if the BC government had followed the Saskatchewan/Manitoba example and set the basic target at 20 percent of premiums written, and the optional target at 30 percent, it would have greatly reduced the amount of reserved required by ICBC.

Why the government chose such a conservative approach to setting the reserve targets for ICBC requires further analysis."

69.1 By way of comparison, please contrast the Basic Insurance business and market structure of Saskatchewan and Manitoba against BC.

69.2 To the extent possible, please compare ICBC's Basic capital reserves against the Saskatchewan Government Insurance (SGI) and Manitoba Public Insurance (MPI). Please compare in terms of the following, if applicable:

- Year over year Basic rate changes since 2003;
- Year end MCT levels or equivalent percentage in premiums earned or written;
- Minimum legislated MCT requirements or equivalent percentage in premiums earned or written;
- Targets related to financial stability or solvency, if any;
- Targets related to rate stability and predictability, if any;
- Targets or thresholds related to customer rebates or credits, if any;
- Time of which the respective plans were implemented, if any;
- Time horizon to achieve targets, if any; and
- Any other features unique to the jurisdiction.

69.3 Please explain how and why ICBC's capital Basic reserve needs may differ from those of SGI and MPI.

69.4 Please respond to any notable calculation discrepancy that ICBC identifies in Exhibit E-9.

69.5 If possible, please estimate the MCT equivalent of a "basic target at 20 percent of premiums written."

69.6 In ICBC's view, please comment on if the reserve targets or its capital management targets are "conservative." How does ICBC assess the appropriateness of its capital reserve or capital management targets?

70.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-12
2013 and 2014 MCT

ICBC states on page 4-12:

> "…MCT ratio outlook as at the end of 2013 is 123%. Excluding the 6.6 percentage point forecast loss cost variance for this Application will therefore result in an approximate drop of 13 percentage points of MCT according to the "rule of thumb" that ICBC uses, which equates one percentage point change in the rate to approximately 2% of MCT."

70.1 Does this imply that ICBC's best guess of the Basic MCT level heading into the 2014 application year will be about 110%? [Calculation: 6.6% * 2 = 13.2% unfavourable to the MCT]

70.2 Recognizing the unfavourable loss cost forecast variance in this Application and the expected loss cost forecast variance in 2014, what is the forecasted MCT level for the end of 2014? Please provide a range of possible scenarios (e.g. in light of claims frequency, claims severity, and investment returns).

70.3 How accurate is ICBC's 2% of MCT "rule of thumb"? Has ICBC tested the "rule of thumb" against historical information and is the "rule of thumb" expected to hold true for the next 10 years?

71.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-14
Capital Maintenance

On page 4-14, it states that "ICBC is proposing a new capital management target MCT ratio of 150%, in which a higher capital maintenance provision would now be required."

ICBC describes that rather than using a 20 year period as established in the current Capital Management Plan, ICBC is proposing to shorten the transition period to 10 years. ICBC notes that the estimated impact on customers moving from a 20 year transition period to a 10 year transition period is less than $0.50 of the premium dollar.

ICBC proposes that the maintenance provision be calculated based on a new transient target MCT ratio that increases each year in increments of 4% ([150% - 110%] / 10) until 2023, with the exception of 2014, which would be based on an incremental increase from the current MCT transient target of 110.5% to a MCT transient target of 114%. From 2023 and forward, ICBC would base its calculation of the Basic Insurance capital maintenance provision on the capital management target MCT ratio of 150%.

71.1 What is the rationale for changing the capital <u>maintenance</u> target from 130% to 150%?

71.2 What is the rationale for shortening the transition period from 20 years to 10 years?

71.3 Is it necessary that the capital target for "capital maintenance" be the same as the proposed capital build target of 150%? If so, why is it necessary?

71.4 Please identify any risks or issues that would arise if the capital maintenance target was unchanged (and remained at 130% based on a 20 year transition period), while the capital build target changed to 150%.

71.5 Assuming the 20 percentage point rate smoothing margin is accepted, is it fair to say that the new Capital Management Plan allows for a 10% unfavourable cumulative loss cost forecast variance, which ICBC plans to recover from policyholders in 10 years? If not, why not?

71.6 From 2013 until 2023, please show the new transient target MCT ratio for each year under the proposed Capital Management Plan.

71.6.1 If possible, please show the breakdown of the 4% increment for the components of: (i) Solvency Target and (ii) rate smoothing margin.

71.7 Please clarify what is meant by "the estimated impact on customers moving from a 20 year transition period to a 10 year transition period is less than $0.50 of the premium dollar." What is the incremental rate impact in terms of indicated rate change?

72.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-14; Chapter 3, Exhibit G.2
Capital Maintenance – Growth Rate in Capital Required

On page 4-14, ICBC states:

> "The determination of the capital maintenance provision also depends upon the assumed growth rate in capital required. ICBC is proposing to maintain the same assumption used to estimate the long-term growth rate as in the current Capital Management Plan where the long-term growth rate in claims costs is a proxy for the long-term growth rate in capital required."

In Chapter 3, Exhibit G.2 shows that the growth in capital required is 4.60%.

72.1 With respect to ICBC's proposal to "maintain the same assumption used to estimate the long-term growth rate," is ICBC proposing to use 4.60% as the growth rate in capital required assumption for the next 10 years? Please clarify.

73.0 Reference: BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-14; Exhibit E-9, pp. 1-5
Capital Maintenance

In paragraph 47 of page 4-14, ICBC states:

> "ICBC is proposing a new capital management target MCT ratio of 150%, in which a higher capital maintenance provision would now be required."

On page 1 of his Letter of Comment, Mr. McCandless states:

> "BCUC should reduce the capital management target to 100 per cent and direct ICBC to design a

simple policy respecting any capital release above the 100 MCT."

On page 5, Mr. McCandless states:

> "A 130 per cent MCT may have been prudent in 2010, but not today. Reducing to 100 per cent meets the financial prudence and the rate stability and predictability criteria and begins the process of moving to a more affordable system."

73.1 Please respond to Mr. McCandless' letter, specifically addressing his recommendation that the capital management target be reduced to 100%.

73.2 Please identify any issues that would arise if the capital management target was reduced to 100% and any capital is released above 100% MCT.

74.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-15 and 4-16
Rate Exclusion

ICBC states on page 4-15:

> "The first proposed component of the capital provision is rate exclusion. For 2014 and in each following year for which the Commission fixes rates, ICBC may propose to the Commission as part of a revenue requirements application to exclude some or all of an unfavourable loss cost forecast variance, when 1) MCT is greater than 130% and 2) the rate change is greater than the rate change floor. ICBC will only propose to exclude some or all of the loss cost forecast variance if the exclusion does not result in an MCT ratio below 130%. This is permissible under Requirement (A), but is also subject to Requirement (B), (i.e., the amount of the loss cost forecast variance that can be excluded is limited by Requirement (B)). In general, when there is a rate exclusion in the rate change to cover costs, this results in a depletion of capital."

74.1 Please extend the conditions of Figure 4.4 for a three year period and show the requested rate changes and MCT levels if the rate change to cover costs remained at 6% with a 2% unfavourable loss cost forecast variance in each of the following two years. Please state the assumptions used.

74.2 Please calculate another three year scenario where the prior year's rate change was 4.9%, initial MCT is 140%, the rate change to cover costs in each year remains at the current level of 11.5%, and the loss cost forecast variance remains at 6.6%. Please discuss the findings and state the assumptions used.

74.2.1 To show what happens when MCT is low, please repeat the above scenario starting with an MCT level at 110%. Please discuss the findings including their rate smoothing ability. State the assumptions used.

74.3 Recognizing that ICBC operates under a closed system (slide 19 of Workshop, Exhibit B-2), in ICBC's opinion, does the nature of operating in a closed system allow for rate exclusion? Please discuss.

75.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-1, 4-15 to 4-18
Rate Exclusion

On page 4-15, ICBC states:

> "For 2014 and in each following year for which the Commission fixes rates, ICBC may propose to the Commission as part of a revenue requirements application to exclude some or all of an unfavourable loss cost forecast variance, when 1) MCT is greater than 130% and 2) the rate change is greater than the rate change floor. ICBC will only propose to exclude some or all of the loss cost forecast variance if the exclusion does not result in an MCT ratio below 130%."

On page 4-1, ICBC also states:

> "... In 2014 and thereafter the Commission may exclude some or all of the loss cost forecast variance. However, the amendments to *Special Direction IC2* also limit the range of allowable Basic insurance rate changes for 2014 and future years. This limitation may restrict the ability of ICBC and the Commission to exclude all or part of the loss cost forecast variance in 2014 and future policy years."

75.1 Please clarify what is the MCT's point of reference. Is it: (i) the MCT year end outlook as determined by the most recent quarter at the time of a revenue requirements application (e.g. 2013 full year outlook of 123%); (ii) current year's actual/forecast as of a quarter end (e.g. six months ended June 30 of 130%; or (iii) the actual MCT as of last year end (e.g. 2012 actual of 137%)?

75.2 Please confirm that *Special Direction IC2* allows the Commission to exclude some or all of either favourable or unfavourable loss cost forecast variances for 2014 and future years rate changes as long as the MCT level is above 100%. If not confirmed, please clarify.

75.3 Please confirm that it is only ICBC's proposal to exclude some or all of an unfavourable loss cost forecast variance when <u>MCT is greater than 130%</u> and is not a requirement by *Special Direction IC2*.

75.4 How does ICBC determine if it will exclude <u>all</u> or <u>part of</u> the total loss cost forecast variance, assuming that the rate change to cover costs is within the ±1.5 percentage point allowable band and satisfies the minimum 130% MCT criteria proposed by ICBC? Please include examples and state the assumptions.

75.5 When considering whether or not to exclude all or part of the loss cost forecast variance, what factors should the Commission consider assuming that the range of rate change options are within the ±1.5 percentage point allowable band? Should the considerations differ depending on favourable or unfavourable loss cost forecast variances?

75.5.1 Is it correct to say that ICBC is adopting a formulaic approach to exclude all or part of the loss cost forecast variance given a "MCT ratio greater than 130%" threshold? Please clarify.

75.6 For the 2014 and future year revenue requirement applications, please confirm that the Commission may choose to exclude none of the loss cost forecast variance, whether favourable or unfavourable, as long as the rate change meets the allowable ±1.5 percent allowable band and the MCT is above 100%.

76.0 Reference: BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-15 and 4-18
Rate Exclusion and Capital Build

In paragraph 52 of page 4-15, ICBC states:

> "… ICBC may propose to the Commission as part of a revenue requirements application to exclude some or all of an unfavourable loss cost forecast variance, when 1) MCT is greater than 130% and 2) the rate change is greater than the rate change floor."

In paragraph 62 of page 4-18, ICBC states:

> "A capital build provision is included in the rate only if (i) there is no rate exclusion in the year for which rates are set, and ii) MCT is less than 150%."

76.1 What "rule" (paragraph 52 or 62 or both) applies if the MCT is less than 130%, but there is a rate exclusion in the year for which rates are set?

76.2 What "rule" (paragraph 52 or 62 or both) applies if the MCT is less than 130%, but the rate change is less than the rate change floor?

76.3 Is it correct that if the rate change to cover costs falls within the Rate Change Band per *Special Direction IC2* (±1.5 percentage point allowable band), then a Capital Build provision could also be added to the rate change to cover costs, up the "ceiling" of the Rate Change Band – for the final proposed rate change?

76.3.1 If yes, then is it possible that the new Basic Capital Management Plan could include both the Rate Exclusion and Capital Build provision in the same year?

77.0 Reference: BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-11 and 4-19
Capital Build

In footnote 14 on page 4-11, ICBC states:

> "The existing capital management target of 130% was determined based on industry standard financial stress testing and was reviewed and accepted by the Commission."

In paragraph 63 of page 4-19, ICBC states:

> "…ICBC is proposing to maintain the 1/5 build when MCT is less than the Solvency Target of 130% given the need to build additional capital when there is a greater risk of becoming insolvent. However, if the MCT ratio is between the solvency target and the new capital management target of 150%, ICBC is proposing to only build at 1/10 of the capital shortfall to limit its impact on customers."

77.1 Recognizing the existing Capital Management Target is 130% MCT, did ICBC consider shortening the time horizon of the one-fifth build provision instead of introducing a new higher 150% capital management target?

77.2 How would the graph in Figure 4.10 change if only the time horizon was changed from one-fifth to one-quarter, and the new 150% target (or 20 point margin) over 10 years was not introduced? Please provide an updated Figure 4.10 with data point labels for this scenario.

77.3 How would the graph in Figure 4.10 change if only the time horizon was changed from one-fifth to one-third, and the new 150% target (or 20 point margin) over 10 years was not introduced? Please provide an updated Figure 4.10 with data point labels for this scenario.

78.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-18 to 4-19
Capital Build

On pages 4-18 and 4-19, ICBC states:

> "A capital build provision is included in the rate only if i) there is no rate exclusion in the year for which rates are set, and ii) MCT is less than 150%. The capital build is determined as follows and is subject to Requirement (B).
>
> - When the MCT ratio is less than 130%: the capital build provision is calculated as 1/5 of the capital shortfall to 130%, plus 1/10 of 20% of Capital Required, where "Capital shortfall to 130%" is equal to (130% - MCT) x Capital Required.
> - When the MCT ratio is greater than or equal to 130% and less than 150%: the capital build provision is calculated as 1/10 of the capital shortfall to 150%, where "Capital shortfall to 150%" is equal to (150% - MCT) x Capital Required.
> - MCT and capital required are estimated using data available from the most recent quarter to determine the outlook for the end of that year in which rates are being set."

78.1 Does ICBC consider that these Capital Build conditions are required by Government Directive or is this ICBC's proposal to accelerate the capital build towards 150% MCT? Please explain.

79.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-21 to 4-23
2014 Rates

ICBC states on page 4-21:

> "The 2014 indicated rate change is deficient by 6.6 percentage points; therefore, as shown in Figure 4.8, the indicated rate change must first be adjusted to recognize the 2013 rate exclusion. Next, other components of rate change (which includes loss cost trend, loss cost forecast variance, expenses, investment income, capital maintenance) of "x" percentage points are added in order to estimate the total rate change to cover costs. If "x" is greater than -0.2 percentage points, the rate change to cover costs in this scenario is above the rate ceiling of 6.4% (see Figure 4.3). Application of Requirement (B) specifies that the indicated rate change be

equal to the ceiling of 6.4%. If "x" is less than -0.2 percentage points, the indicated rate change must be within the +/- 1.5 percentage point rate band around the current indicated rate change of 4.9%."

On page 4-22, ICBC states:

"MCT is expected to decline over the next two years as a result of the loss cost forecast variance exclusion in PY 2013 rates."

79.1 Please provide the assumptions and explain ICBC's best estimate of MCT levels for 2014 and 2015 from Figure 4.10?

79.2 Are "ICBC's Current Assumptions" in Figure 4.10 still ICBC's assumptions at this time? If not, please explain the change and its implications.

79.3 If the indicated "rate change to cover costs" in 2014 and 2015 was 5% in each year, how would that impact the MCT forecasts and the allowed rate change? What if it was 10%?

80.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-21
Impact from Capital Provisions in the Next Year's Rate Change

On page 4-21, ICBC provides Figure 4.8 as follows and states:

Figure 4.8 – How Rate Exclusion is Treated in the 2014 Indicated Rate Change

	2013	2014
Removal of Prior Year's Rate Exclusion	0.0%	6.6%
Other Components of Rate Change	11.5%	x%
Rate Change to Cover Costs	11.5%	(6.6+x)%
Rate Exclusion	-6.6%	
Indicated Rate Change	**4.9%**	

"The 2014 indicated rate change is deficient by 6.6 percentage points; therefore, as shown in Figure 4.8, the indicated rate change must first be adjusted to recognize the 2013 rate exclusion. Next, other components of rate change (which includes loss cost trend, loss cost forecast variance, expenses, investment income, capital maintenance) of "x" percentage points are added in order to estimate the total rate change to cover costs. If "x" is greater than -0.2 percentage points, the rate change to cover costs in this scenario is above the rate ceiling of 6.4% (see Figure 4.3). Application of Requirement (B) specifies that the indicated rate change be equal to the ceiling of 6.4%. If "x" is less than -0.2 percentage points, the indicated rate change must be within the +/- 1.5 percentage point rate band around the current indicated rate change of 4.9%."

80.1 In 2013, the other components of rate change (e.g. loss cost trend, expenses, investment income, and capital maintenance) equals 4.9%. Is it fair to say the likelihood of "x" in 2014 being greater than -0.2% is very likely? Why or why not?

80.1.1 If "x" is greater than -0.2%, say another 11.5% in 2014 inclusive of a loss cost forecast variance, will this decrease the MCT by 36.2%? [*Calculation: 6.6% + 11.5% = 18.1% * "rule of thumb" = -36.2% MCT*]

80.1.1.1 Since the 2013 MCT outlook is 123%, would a hypothetical 11.5% indicated rate change in 2014 decrease the MCT to 86.8%? Why or why not?

80.1.2 Using the "rule of thumb," is it correct to say that the maximum indicated rate change (or rate change to cover costs) before reaching 100% MCT by the end of 2014 is 4.9%? [*Calculation: (123% - 100%) / 2 "rule of thumb" = 11.5 - 6.6% = 4.9%*]

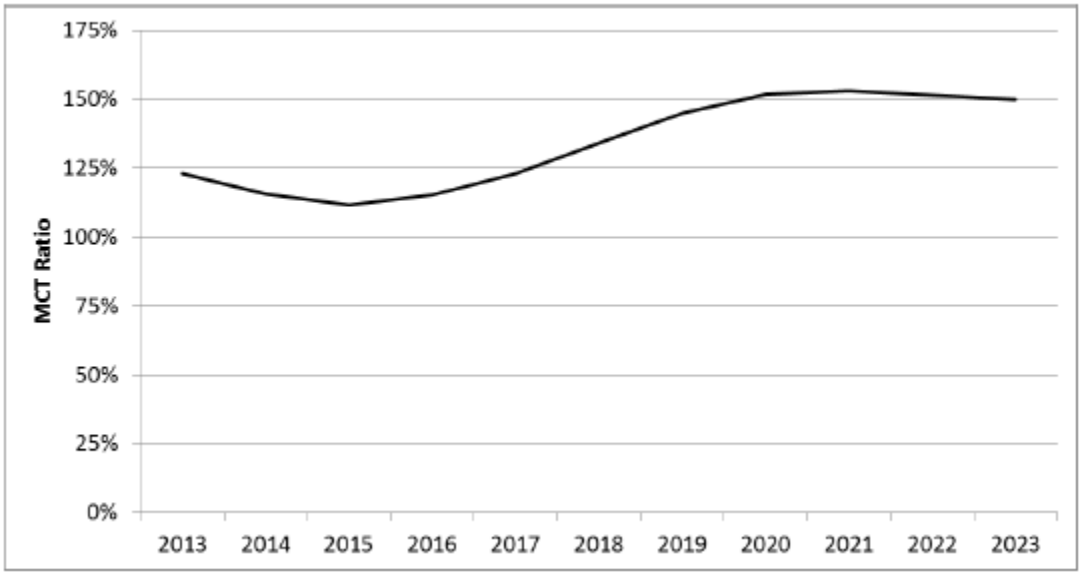
81.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-22 to 4-23
Forecasted MCT Ratio Using ICBC's Current Assumptions

On page 4-22, ICBC states:

> "MCT is expected to decline over the next two years as a result of the loss cost forecast variance exclusion in PY 2013 rates. In order to absorb this exclusion, capital will be depleted. Once the loss cost forecast variance has been fully recognized in future rates, ICBC can then build capital from which point MCT is expected to grow moderately until it reaches the capital management target ratio of 150% MCT".

Figure 4.10 shows the forecasted MCT ratio using ICBC's current assumptions of 2013 through 2023.

Figure 4.10 – Forecasted MCT Ratio Using ICBC's Current Assumptions



81.1 Please provide the supporting data for Figure 4.10 in electronic format.

81.2 Please label the forecast data points for each year.

81.3 Please draw a line that shows the 130% Solvency Target.

81.3.1 Using ICBC's current assumptions, when will the MCT reach 130% Solvency Target?

81.4 Please confirm that the MCT projection through 2023 considers Requirement (A) and Requirement (B) as directed in *Special Direction IC2*.

81.5 Please explain why the MCT projection seems to level off after 2019.

81.6 If possible, please show a revised projection assuming a "favourable" and an "unfavourable" scenario.

82.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-23 to 4-27
Customer Renewal Credit (CRC)

On page 4-24, ICBC states:

> "ICBC gives effect to the 2013 Government Directive by interpreting the requirement that CRC should be paid "in circumstances where Basic capital is well in excess of the capital management target" as meaning that the MCT ratio should be at least 15 percentage points in excess of the capital management target of 150% MCT for a CRC to be considered."
>
> "… the proposed threshold for excess capital of 165% MCT is selected to be high enough so that there is enough margin left after distribution of a CRC to withstand normal volatility in investment returns."

On page 4-26, ICBC in footnote 19 states:

> "One standard deviation in investment returns is approximately 2% of the value of Basic investment assets ($8.4 billion, as at June 30, 2013), or $161 million; this amount is divided by capital required (approximately $1.1 billion, as at June 30, 2013) to arrive at 15 points of MCT. This is added to the capital management target of 150% to arrive at the excess capital threshold of 165%."

82.1 What is the relevance of one standard deviation in the selection of an additional CRC buffer of 15%? Please explain why one standard deviation is chosen, as opposed to two standard deviations?

82.1.1 What is the MCT percentage equivalence if two standard deviations are selected?

82.1.2 Please show that one standard deviation in investment return is approximately 2% of the value of Basic investment assets.

82.2 OIC No. 153 uses the words "well in excess" in reference to the CRC but OIC No. 152 refers to "excess capital available." Is the use of "well in excess" in OIC No. 153 intended to generalize the more explicit conditions in OIC No. 152? Please clarify.

82.3 Presuming that ICBC's future rate indication assumptions are reasonably accurate in the future, how long is it likely to take to reach an MCT of 165%?

82.3.1 Figure 4.10 suggests that the MCT will not reach 165%. Does this mean under the current assumptions, the CRC actually being implemented will be unlikely in the foreseeable future?

82.4 Using historical data, how does ICBC determine that the 165% MCT threshold is enough to "withstand normal volatility in investment returns"? Does ICBC track market volatility indices to quantify "normal volatility"? Please explain.

82.5 Please explain why only investment returns are considered in the CRC threshold. Should the loss cost trend, operating expenses, or change in average premium also be considered? Why or why not?

83.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-24 and 4-25
Customer Renewal Credit (CRC)

ICBC states on page 4-24:

> "Second, a CRC is distributed only if the amount available for distribution is greater than an average of $25 per policy. The minimum amount of $25 was chosen to strike a balance between the cost associated with administering the CRC and ensuring the amount is meaningful to the policyholder. This is in line with the 2013 Government Directive which states that the CRC should only be proposed in circumstances where it is cost-effective to implement."

On page 4-25 ICBC states:

> "The amount available for distribution as a CRC is converted to a percent of premium based on the most recent 12 months of earned vehicle premium. This ratio is applied to the expiring premium of a renewing customer in order to obtain the CRC amount."

83.1 Based on the calculations in Figures 4.11 and 4.12, is it correct that MCT would have to reach a minimum of 173% before a CRC would be considered (i.e. If 175% MCT leads to a $33 refund, then approximately 173% MCT leads to a minimum level $25 refund)?

83.2 Presuming reasonably accurate rate indication forecasts in the future, approximately how long will it take to get to 173% MCT?

84.0 Reference: CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-3, 4-23 to 4-27
Customer Renewal Credit and Capital Release

On page 4-3, ICBC describes that the current Capital Management Plan must release any surplus over 130% MCT into Basic Insurance at one-fifth per year as a capital release provision.

Pursuant to *Special Direction IC2* and the 2013 Government Directive, ICBC's new Basic Capital Management Plan includes the concept of a non-transferrable, non-refundable Customer Renewal Credit (CRC).

84.1 Does the CRC replace the capital release provision of the current Capital Management Plan referenced on page 4-3?

84.1.1 If yes, in light of meeting a Capital Management Plan's objectives please compare the current capital release provision of in excess of 130% MCT versus the CRC renewal where a capital release will occur only in excess of 165% MCT (plus $25 premium impact).

84.1.2 If no, what are the capital release provisions in ICBC's proposed new Capital Management Plan?

85.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-23 to 4-25
Customer Renewal Credit (CRC)

On page 4-23, it states that pursuant to *Special Direction IC2* and the 2013 Government Directive, ICBC's new Basic Capital Management Plan includes the concept of a non-transferable, non-refundable CRC.

Figure 4.11 on page 4-25 shows the calculation of the excess capital available for CRC using illustrative assumptions.

85.1 In light of regulatory efficiency, does ICBC plan to seek Commission approval of CRC issuance as part of revenue requirement applications assuming a CRC is eligible? Please discuss.

85.2 For the Basic MCT ratio at year end of 173% (assuming the minimum calculation is correct), is it based on a year-end outlook or an actual MCT of a full year?

86.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-25 to 4-26
Customer Renewal Credit (CRC)

On page 4-25, ICBC states that the amount available for distribution as a CRC is converted to a percent of premium based on the most recent 12 months of earned vehicle premium. This ratio is applied to the expiring premium of a renewing customer in order to obtain the CRC amount.

On page 4-26, it states ICBC will ensure its new systems will have the capacity to implement CRCs in future years.

86.1 Is it administratively more efficient to issue the CRC based on a flat rate? What are the merits of issuing CRCs based on a percentage of premiums versus a flat rate?

86.2 What is the expected time and costs to accommodate the CRC system changes? Is there any system development plan in place at this time?

86.2.1 When does ICBC plan to inform the Commission of the status of the CRC system?

86.3 Why would the CRC be based on premium rather than number of policies? Doesn't this method reward poorer drivers with higher premiums compared to better drivers with lower premiums? Why or why not?

87.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, p. 4-16; Exhibit E-9, p. 4
Customer Renewal Credit

On page 4 of his Letter of Comment, Mr. McCandless states:

> "rather than propose a simple formula or model based on the mandated MCT of 100 per cent they have chosen a MCT of 150 per cent to provide the trigger point of any rebate, since the 130 per cent MCT is now a "Solvency Target"….
>
> … The proposal adds another unnecessary level of complexity to the rate determination exercise and should be rejected."

87.1 Please respond to Mr. McCandless' letter, specifically addressing his statement that ICBC's proposal of a MCT of 150 percent to trigger any rebate is unnecessarily complex.

88.0 Reference: NEW BASIC CAPITAL MANAGEMENT PLAN
Exhibit B-1, Chapter 4, pp. 4-23 to 4-27
Exhibit A2-11, Manitoba Public Utilities Board News Release dated June 23, 2011
Customer Renewal Credit (CRC)

On June 23, 2011, as noted in the Exhibit A2-11 news release, the Public Utilities Board issued Order No. 86/11 which approved a request by the Manitoba Public Insurance Corporation (MPI) for an additional premium rebate amount of 45% of the amount of Basic Autopac vehicle premium earned in the period March 1, 2009 to February 28, 2010, less the rebate paid pursuant to Order 43/11.

88.1 Is ICBC aware of any Capital Management Plan or similar plan of MPI that contemplates issuing rebates to customers in favourable financial situations? Please describe its features or guidelines and compare with ICBC's CRC proposal.

88.2 Based on MPI's experience, does ICBC anticipate any challenges of issuing CRCs (e.g. system requirements, customer communications, etc.)?

D. INVESTMENTS

89.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 3, p. 3-6; Chapter 5 p. 5-7
Rate Indication Calculations, Line 3 – Investment Income

On page 3-6, ICBC states:

> "Higher expected investment income as compared to PY 2012 has an impact of -1.1 percentage points on the PY 2013 indicated rate change."

On page 5-7, ICBC concludes:

> "…low interest rates continue to have a negative impact on the returns on the investment portfolio."

89.1 Please provide supporting worksheets to show how this -1.1 percentage point estimate was calculated.

89.2 Explain what portion of this -1.1 percentage point change is due to the investment rate change and what portion is due to the change in the claim payment pattern. Please provide supporting worksheets to show how this allocation is calculated.

90.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, pp. 5-1 to 5-2; Appendix 5 A
Multi-dealer survey

ICBC provides the details of the calculations of the New Money Rate and the Yield on Basic Equity. The data used in the calculations is obtained from financial forecasts of six financial institutions (the multi-dealer survey) included in Appendix 5 A.

The forecasts used are those available from the financial institutions as of June 2013.

Figure 5.6 on page 5-6 shows the New Money Rate for the 2013 policy year based on the June 2013 multi-dealer survey.

Figure 5.7 on page 5-6 shows the Yield on Basic Equity for the 2013 policy year as at June 30, 2013.

90.1 All the forecasts included in the multi-dealer survey are dated June 2013. If available, please provide the most current economic forecasts from the same institutions.

90.2 Please update Figure 5.1 through Figure 5.6 to arrive at a New Money Rate based on updated forecasts, if available.

90.2.1 What is the rate indication for investments if the updated New Money Rate is used?

90.2.2 Should the Commission consider a rate indication based on the updated New Money Rate? Why or why not?

90.3 Please update Figure 5.7 of the Yield on Basic Equity based on most recent information, if available.

90.3.1 What is the rate indication for investments if the updated Yield on Basic Equity is used?

90.3.2 Should the Commission consider a rate indication based on the updated Yield on Basic Equity? Why or why not?

91.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, pp. 5-1 to 5-2; Appendix 5C Confidential Filing
Information related to the Statement of Investment Policy and Procedures dated April 15, 2013

On page 5-1, ICBC states:

> "ICBC investments are governed by its Statement of Investment Policy and Procedures which is approved by the ICBC Board of Directors. In accordance with strong governance practices the ICBC investment policy is formally reviewed every four years. In early 2013 ICBC underwent an investment policy review which identified a more efficient portfolio asset mix that is expected to deliver less volatile investment returns at the same approximate expected return as the

previous strategic asset mix reported in the Revenue Requirements Application for the 2012 Policy Year. ICBC expects to move to its new asset mix over the next few years.

The new strategic asset mix, which reduces the allocation to equities and increases the allocation to Canadian real estate, is reflected in the formula for the New Money Rate."

On page 5-2, ICBC also states:

"Appendix 5 C related to the Statement of Investment Policy and Procedures (SIPP) dated April 15, 2013 has been filed confidentially with the Commission, as it contains information that could be harmful to ICBC's financial interest and could cause economic harm to ICBC and Basic insurance policyholders if disclosed to other market participants."

91.1 In prior applications, ICBC filed the SIPP on a non-confidential basis. Please explain ICBC's rationale for its request that the latest SIPP dated April 15, 2013 should be now be confidential.

91.2 Please confirm that the Commission has the ability to make a determination as to whether the SIPP should be a public or confidential document. Otherwise, please clarify.

91.3 Please confirm that future revenue requirement applications will include reporting on investment performance based on the new asset mix in a public manner.

91.3.1 Does ICBC anticipate that future reporting on investments performance may possibly reveal confidential information contained in the confidential SIPP dated April 15, 2013?

91.4 Is there a redacted version of the SIPP dated April 15, 2013 available for the public record? If so, please provide.

92.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, p. 5-1
Portfolio Asset Mix

On page 5-1, ICBC states:

"ICBC investments are governed by its Statement of Investment Policy and Procedures which is approved by the ICBC Board of Directors. In accordance with strong governance practices the ICBC investment policy is formally reviewed every four years. In early 2013 ICBC underwent an investment policy review which identified a more efficient portfolio asset mix that is expected to deliver less volatile investment returns at the same approximate expected return as the previous strategic asset mix reported in the Revenue Requirements Application for the 2012 Policy Year. ICBC expects to move to its new asset mix over the next few years."

92.1 Does ICBC consult with other BC provincial government owned/affiliated organizations, such as WorkSafeBC, who also manage an investment portfolio, when evaluating ICBC's SIPP? If yes, please briefly describe. If not, why not?

92.2 Does ICBC research other auto insurance entities operating in BC and other jurisdictions when evaluating ICBC's SIPP? If yes, please briefly describe. If not, why not?

92.3 In deciding upon a new strategic asset mix, did ICBC make comparisons with its peer organizations in the Canadian auto insurance industry? If yes, please describe the results of the comparison (i.e. were these organizations more, less, or similar to ICBC in their acceptance of investment risk and the concomitant asset mix). If not, why not?

93.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, p. 5-1
Portfolio Asset Mix

On page 5-1, ICBC states:

> "The new strategic asset mix, which reduces the allocation to equities and increases the allocation to Canadian real estate, is reflected in the formula for the New Money Rate."

93.1 On what basis are the returns on Canadian real estate forecast to be equally profitable and less volatile than equities?

93.2 Recognizing the relatively short duration of ICBC liabilities, are equities or real estate a better fit for that duration? Why or why not?

93.3 Figure 5B.1 shows that ICBC has no US Bond holdings since 2011. Why has ICBC moved out of US bonds? Does ICBC agree that such diversification assists in reducing risk? Why or why not?

94.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, p. 5-2 & Figures 5.2 to 5.4
Multi-dealer Survey

On page 5-2, ICBC states:

> "One of the financial institutions (Bank of America/Merrill Lynch) previously used for the multi-dealer survey no longer provides Canadian forecasts. ICBC has substituted the Laurentian Bank of Canada."

94.1 Why did ICBC choose Laurentian Bank as the substitute data forecaster? Were there other institutions that were considered, and if so, why were they rejected?

94.2 In Figures 5.2 through 5.4, would it be appropriate to include Q3/2014 since the 2013 rates are expected to be in place until August 2014? Why or why not?

95.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, pp. 5-2 to 5-5
Risk-Free Rate and Equity Risk Premium

On page 5-2, ICBC states:

> "In the September 2009 Amended Application for a Streamlined Regulatory Process, ICBC set out the proposed formulae for the calculation of the New Money Rate and the Yield on Basic Equity used in the actuarial analysis in all revenue requirements applications. The Commission accepted these formulae in its April 2010 Decision on the Streamlined Regulatory Process (April 2010 Decision)."

On page 5-3, ICBC states:

> "As per the April 2010 Decision, the approved formulae make use of a risk-free rate which was set equal to the average of 30-year bond yields from the multi-dealer survey. However, ICBC agrees with the Commission that "current monetary policy is historically unusual and subsequently results in the possibility of a higher effective risk free rate." ICBC therefore proposes for the purpose of this Application to use the 3.8% estimate for the risk-free rate in alignment with the May 2013 Decision."

And in footnote 4 on page 5-5, it states:

> "The average 30 year bond yield as calculated from the multi-dealer survey in Appendix 5 A is 3.1%, which is lower than the 3.8% estimated risk-free rate."

95.1 As per the April 2010 Decision relating to ICBC, the approved formulae make use of a risk-free rate which was set equal to the average of 30-year bond yields from the multi-dealer survey. If ICBC is using the 3.8 percent estimate for the risk-free rate, would that not be a departure from the approved formulae? Please explain.

95.2 The May 2013 Decision relating to the Generic Cost of Capital (GCOC) Stage 1 sets the appropriate cost of capital for a benchmark utility. Recognizing that ICBC is not a public utility, is it reasonable to say that using the 3.1 percent calculated multi-dealer survey risk-free rate previously approved by the Commission is more appropriate than using the risk-free rate of 3.8 percent that is specifically designed for a benchmark utility? Why or why not?

95.3 Based on a risk-free rate of 3.1 percent, what is the revised New Money Rate and revised Yield on Basic Equity, holding all else, equal?

95.3.1 What is the actuarial rate indication based on a risk-free rate of 3.1 percent?

95.4 Please confirm, with specific references, that the April 2010 Decision <u>approved the methodology to use the GCOC equity risk premium, but not the GCOC risk-free rate</u>, as inputs to calculate the New Money Rate and Yield on Basic Equity. If not confirmed, please clarify.

95.5 The equity risk premium of 5.5 percent was used in previous ICBC revenue requirements applications, based on the Decision regarding the Return on Equity and Capital Structure for Terasen Gas Inc., Terasen Gas (Vancouver Island) Inc, and Terasen Gas (Whistler) Inc., dated December 16, 2009.

Please confirm that the April 2010 Decision relating to ICBC, which approved the formulae to calculate the New Money Rate and the Yield on Basic Equity, allows ICBC to update the Equity Risk Premium to the May 2013 GCOC Stage 1 Decision. If not confirmed, please restate the New Money Rate and the Yield on Basic Equity using 5.5 percent equity risk premium.

95.6 Does ICBC believe that the existing methodology to calculate the New Money Rate and the Yield on Basic Equity still remain appropriate? If so, why? If not, what are the potential changes?

96.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, p. 5-6
Yield on Basic Equity Weightings

On page 5-6, ICBC states:

> "The Yield on Basic Equity for the 2013 policy year is calculated based on the investment portfolio profile as at June 30, 2013. The calculation is shown in Figure 5.7."

96.1 Please provide the end of year actual investment portfolio weightings for the last five years.

97.0 Reference: INVESTMENTS
Exhibit B-1, Appendix 5B, p. 5B-1
Actual Asset Mix

Figure 5B.1 shows the actual asset mix from 2010 through 2012.

97.1 Does ICBC agree that the fixed income portion of the asset mix seems to be declining while the real estate percentage is increasing? Please explain.

97.2 Please expand the table by providing the strategic mix percent for 2010 and 2011.

97.3 To what extent has the strategic mix percentage changed for 2013?

98.0 Reference: INVESTMENTS
Exhibit B-1, Appendix 5B, p. 5B-2
Investment Portfolio Total Asset Values

Figure 5B.2 shows the investment portfolio total asset values in 2011 and 2012.

98.1 Please provide a separate table of year end actual Basic insurance total asset values for the past five years and as at October 1, 2013. Please also identify the net annual portfolio investment earnings additions to total assets, government equity injections and net annual withdrawals or injections from the Basic insurance line of business.

99.0 Reference: INVESTMENTS
Exhibit B-1, Appendix 5B, pp. 5B-4 to 5B-5
US Equity Performance

Figure 5B.4 shows the 4-Year Annualized Returns. Figure 5B.5 shows the Annualized Returns.

99.1 For Figure 5B.4, why does ICBC present the 2010-2012 results based on a rolling 4-years ended figure?

99.1.1 Please restate the results based on each calendar year end.

99.2 For Figure 5B.5, please clarify what is meant by "rolling 12 months ended" for the 2010-2012 results shown.

99.2.1 Please restate the results based on each calendar year ended, if any different.

99.3 In both Figure 5B.4 and 5B.5, the US equity portfolio has underperformed the Policy Benchmarks. Please explain the below benchmark performance.

99.4 As shown in Figure 5B.5, it appears that the US equity market has risen to higher levels than the Canadian equity market since 2011. Why haven't the US equities in ICBC's portfolio done relatively as well?

100.0 Reference: INVESTMENTS
Exhibit B-1, Appendix 5B, p. 5B-8
Bond Ratings

Figure 5B.8 shows bonds broken out by rating in 2011 and 2012.

100.1 Has ICBC invested in any bonds below investment grade BBB? Why or why not?

100.1.1 If yes, do these bonds offer adequate levels of liquidity for ICBC's short duration of liabilities?

100.1.2 Are there any quality controls for investments in less than investment grade bonds?

100.2 Have any of the bonds ICBC did invest in fallen below investment grade? If yes, please explain.

101.0 Reference: INVESTMENTS
Exhibit B-1, Appendix 5B, p. 5B-10
Real Estate

Figure 5B.13 provides the net book value and fair market value for real estate as of December 31, 2012 and December 31, 2011.

101.1 Why did the Ontario industrial real estate holdings fair market value fall below book value in 2012?

101.2 What led to the appreciation in the BC real estate investments in 2012?

101.3 Please explain the volatility in the fair market value of BC office real estate (i.e. below book value in 2011 and five times greater than book value in 2012).

101.4 Does ICBC consider industrial, office or residential real estate to be equally profitable or risky? Why or why not? Please discuss the assessment of risk and return between these categories of real estate investments, along with ICBC's actual experiences over the last five years.

101.5 How does ICBC maintain liquidity and a low duration to meet its liabilities with real estate investments?

102.0 Reference: INVESTMENTS
Exhibit B-1, Chapter 5, Appendix 5B, p. 5B-2; Exhibit E-9, pp.1-4
Investment Income

On page 1 of his Letter of Comment, Mr. McCandless states:

> "Since the Core Review, and particularly after the world financial crisis of 2009-10 ICBC management has adopted a policy of financial risk aversion"

On page 3, he states:

> "Investment income is an important aspect of insurance schemes as the investment return on the premium income helps offset overhead and other costs. For 2012 ICBC reported Basic investment income of some $280.9 million, or a 0.9 per cent increase ($2.5 million) over 2011.
>
> Page 5B-2 of the August 30, 2013 submission shows the fair value of their total investment portfolio at $12.47 billion, up some 7.4 per cent ($860.0 million) from 2011."

On page 4, Mr. McCandless states:

> "A seven per cent increase in the distribution would have produced some $20.0 million more for the reserves available."

102.1 Please clarify any calculations that ICBC does not agree in the preamble.

102.2 Please respond to Mr. McCandless' comment that ICBC has "adopted a policy of risk aversion." How is this applicable to ICBC's investment strategy or the current SIPP?

E. CLAIMS COST MANAGEMENT

103.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-1
Introduction – Initiatives and Best Practices

ICBC on page 6-1 states:

> "ICBC has implemented additional initiatives to help address pressures on Basic insurance rates due to increasing claims costs. ICBC is building on best practices and continuing to refine its approach to managing claims costs. Without these efforts, the current pressure on Basic insurance rates would be even greater."

103.1 Have other Canadian insurers faced comparable large increases to claims costs in the last two years? In particular, have other Canadian insurers faced similar levels of BI frequency flattening and escalation in BI severity (including a rising percentage of legal representation)?

103.1.1 If yes, please briefly describe what measures these jurisdictions have implemented to address this.

103.2 Please expand on the meaning of "best practices" that ICBC uses to refine its approach to managing claims costs.

104.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-1
Bodily Injury Cost Increases – BI Severity

ICBC on page 6-1 states:

> "Bodily injury claims severity is affected by factors such as the type and complexity of injury claims, the costs of medical and rehabilitation services, payments for damages, and the costs of

litigated claims. ICBC can control or influence some, but not all, of the factors affecting bodily injury claims costs."

104.1 If possible, please provide an estimate breakdown of the average BI severity claims costs in terms of the costs of medical and rehabilitation services, payments for damages, and the costs of litigated claims for closed BI claims since 2006. Please present in dollar value and percentage components of BI severity claims costs.

104.2 Regarding ICBC's ability to control or influence BI claims costs, at what stage of the claims handling process does ICBC view that claims costs are fully controllable by ICBC? What costs can ICBC influence? What type of cost cannot be controlled by ICBC?

104.3 Please illustrate the typical claims handling process for a BI claim. As the claims handling process escalates, at what point would ICBC have no control over claims costs?

104.4 How does ICBC view a "fair and reasonable" settlement process? Does ICBC compare this with other jurisdictions or companies? Why or why not?

105.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-2
Bodily Injury Cost Increases – BI Severity

ICBC on page 6-2 states:

> "In particular, ICBC is seeing more bodily injury claimants with legal representation from the outset of the claim process or obtaining legal representation earlier in the claim process. When claims come to ICBC as a represented claim, adjusters have little opportunity to work with the customer and help them understand the claim process, and there is little opportunity to appropriately settle less complex claims earlier in the claim process. The increasing rate of legal representation is of concern to ICBC."

105.1 Please provide the following details in tabular format for each year since 2006:

i. Average number of claims per adjuster;
ii. Average number of days to settle claims;
iii. Average number of days to representation;
iv. Total number of litigated cases;
v. Total number of cases involving lawyers; and
vi. Proportion of those cases that involved lawyers from the outset of the claim compared to those that involved lawyers part-way through the process.

105.2 Please explain if there is a relationship between BI claims costs and the time it takes to settle a claim. Please discuss intuitively and statistically.

105.3 Please provide the total of BI claim files and BI claim files that went to trial for each of the last five years, including a breakdown of all associated costs. Please provide in tabular format and explain any annual differences of ±10 percentage points.

105.4 In ICBC's view, to what extent has the amount of advertising by law firms that implies injured customers will receive higher payouts if legally represented driven up BI severity costs? Has ICBC considered any customer relations strategies to counter this trend? Why or why not?

105.4.1 Can ICBC provide statistics to counter the implied assertions of these law firms? For example, is the final settlement generally lower than the initial offer from ICBC and do unrepresented claimants generally receive as high or higher payouts for similar injuries than represented claimants?

105.5 Has ICBC considered implementing a policy of having its first offer being its best offer? What are the merits of such a policy?

106.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-3
Bodily Injury Cost Increases – COPE Collective Agreement

ICBC on page 6-3 states:

"In December 2012, ICBC and the Canadian Office and Professional Employees Union (COPE), Local 378 representing its Bargaining Unit employees ratified a new collective agreement; however, some services were impacted by job action occurring during the year."

106.1 Please expand on the implications of the job action during 2012.

106.2 Is ICBC suggesting that the job action in 2012 has increased BI claims costs? Please clarify.

106.2.1 Is it fair to say that ICBC has certain control and influence over the negotiation of a new collective agreement with its Bargaining Unit employees?

107.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, pp. 6-5 to 6-6
Claims Segmentation- Functional Organization Model and Claims Handling Processes

ICBC states on page 6-5:

"In 2011, ICBC implemented a new functional organizational model, replacing the previous geographically-based organizational structure. This approach is intended to bring about more effective and efficient claims handling by aligning claims within separate organizational units for injury and non-injury claims and, for bodily injury claims, by whether a claim is represented or unrepresented. This approach allows ICBC to develop and deliver strategies appropriate to each organizational unit to further enhance claims handling and address current and emerging issues, including the legal representation rate."

ICBC further states:

"Implementation of the new Claims hierarchy in early 2013 further aligned ICBC's claims handling processes to the new functional organizational model. In the previous geographically-based model, claim files were typically handled by the claim centre nearest the location of the customer. With the new Claims hierarchy and functional organizational model, supported by claims system that is electronic rather than paper-based, it will be possible to assign adjusters to

specific types of claims based on knowledge, skills, and abilities regardless of location."

107.1 Please provide "before" and "after" organizational charts that illustrate how the organizational model has changed.

107.1.1 How has the new functional organizational structure benefited claim savings and operations cost savings to date, if at all?

107.1.2 What performance measures and targets, if any, have ICBC put in place to measure the level of efficiency and effectiveness of the functional organization model?

107.2 Please provide a depiction of the "before" and "after" claims hierarchy and claims handling process. Please describe the new claims handling process workflow.

107.2.1 How has the new Claims hierarchy and claims handling process benefited claim savings and operations cost savings to date, if at all?

107.2.2 What performance measures and targets, if any, have ICBC put in place to measure the level of efficiency and effectiveness of the new Claims hierarchy and claims handling process?

107.3 Has ICBC attempted to establish a statistical relationship between BI severity to BI Claims handling processes based on the number of BI adjusters or any other such claims handling or procedural factors that could be considered prospective adjustments (other than the Centralized Claims Injury Centre [CCIC])? If not, why not? Please discuss the merits.

107.4 Does an adjuster or manager handle a BI claim from start to finish? If so, what are some initiatives for staff to settle claims in an efficient and fair manner?

107.4.1 If not, would it be more efficient and appropriate for a customer to deal with one adjuster throughout a BI claim? In other words, given the nature of a BI claim, is it reasonable to say that it may not be ideal to have different adjusters to re-learn individual claimant's case and medical history which may cause difficulties for the claimant's recovery process? Please explain.

107.5 With a functional model instead of a geographical model, does this mean more BI claims are handled via a call centre rather than face-to-face meetings?

107.6 If applicable, due to the nature of BI injury claims, would it be more appropriate for adjustors to handle BI claims in person rather than over the telephone or otherwise? What are the pros and cons in light of the claimant's needs?

108.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-6
Claims Segmentation – Functional Organization Model

ICBC states on page 6-6:

"Both the new functional organizational model and new Claims hierarchy are foundational to the transformation of ICBC's claims systems and business processes."

108.1 What does ICBC mean in the referenced statement? Please clarify and expand.

109.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-6
Claims Segmentation – Transitional Impacts

ICBC states on page 6-6:

> "There are significant longer term benefits associated with the new functional model, Claims hierarchy, and new claims systems and business processes; however, there are short-term transitional impacts related to claims handling as adjusters were aligned to new roles, assignment of claims files was realigned, and payment authorities for adjusters were revised."

109.1 To what extent is it fair to say that the transformation of ICBC's claims systems and business processes may cause a short term increase in claims costs?

109.2 How long does ICBC anticipate that short-term transitional impacts related to the claims handling changes will last?

109.3 Please describe how ICBC plans to mitigate these short-term transitional impacts and ensure that the benefits associated with these changes are realized.

110.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, pp. 6-5 & 6-6
Claims Segmentation - Claims Handling and Litigation Centre

ICBC on page 6-5 states:

> "Claims segmentation involves classifying claims by type and complexity in order to better match each claim with appropriate claims handling models and adjuster and manager skill sets."

ICBC on page 6-6 states:

> "ICBC established the Litigation Centre in 2006, centralizing the handling of high-risk/ high-complexity represented and litigated claims formerly handled by regional claim centres. The creation of the Litigation Centre facilitates a consistent approach to the handling of these files and staffing based on the specialized skill sets needed to appropriately manage such files. ICBC has since expanded its use of the Litigation Centre model, building on the benefits of aligning practices for high risk/high-complexity claims."
>
> "ICBC is also refining how it handles other represented claims (i.e., claims not currently handled by the Litigation Centres), leveraging the best practices identified by the Litigation Centres for use in other represented files."

110.1 Please fill out the following table and make any adjustments to the table as appropriate.

	Table - AVERAGE BI CLAIMS COST AND LITIGATION COSTS								
		Average BI Claims Loss Costs for Closed Claims (Excluding Costs of Litigation)			Average Costs of Litigation for Closed Claims				
Line #	Year	Low-Risk/ Low-Complexity (in $)	High-Risk/ High-Complexity (in $)	Total Average (in $)	Low-Risk/ Low-Complexity (in $)	High-Risk/ High-Complexity (in $)	Total Average (in $)	**Average BI Paid Severity All**	**Annual Change %**
1	2006 actual								-
2	2007 actual								
3	2008 actual								
4	2009 actual								
5	2010 actual								
6	2011 actual								
7	2012 actual								
8	2013 forecast								
9	**Total Average**								

110.2 Please fill out the following table in terms of average premium per policy (in dollars) that is attributable to BI claims. Please make any adjustments to the table as appropriate.

	Table - PREMIUM PER POLICY - BI CLAIMS AND LITIGATION COSTS						
		Bodily Injury Claims Loss Closed BI Claims			Costs of Litigation Closed BI Claims		
Line #	Year Rate Levels	Low-Risk/ Low-Complexity (in $)	High-Risk/ High-Complexity (in $)	Total	Low-Risk/ Low-Complexity (in $)	High-Risk/ High-Complexity (in $)	Total
1	2006 actual						
2	2007 actual						
3	2008 actual						
4	2009 actual						
5	2010 actual						
6	2011 actual						
7	2012 actual						
8	2013 forecast						
9	**Average**						

110.3 Please provide the determination process or corporation policy guidelines (if applicable) used to classify claims by their risk and then match claims handling models and skill sets to the risk.

110.4 What are the Litigation Centre's "best practices" that are being leveraged? If legal representation and BI severity payouts are continuing to rise, why are they considered "best practices"?

111.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, pp. 6-7 and 6-8
Customer Experience

ICBC states on page 6-7:

> "The claims segmentation discussed in Section C.1.1 above, including the functional organizational model and the new Claims hierarchy, aim to improve customer experience through more effective claims handling by directing each claim to the appropriate resources for that claim. With this approach, training can be better aligned to specific claims handling roles to provide employees with the tools and skills they need to work with customers in resolving their claims…
>
> ICBC is working to help customers better understand the claim process by making information more accessible through various channels, such as Driver Licensing offices, Renewal Reminder inserts and electronic media, and working with business partners."

ICBC states on page 6-7 and 6-8, Paragraph 28:

> "In 2008, ICBC implemented Language Line translation services for customers calling CCIC [Centralized Claims Injury Centre]. This service now provides access to translation of 170 languages. This helps customers feel more confident in dealing with ICBC and allows customers and adjusters to build better rapport and improve the customer experience; this in turn can support the effective and efficient resolution of claims, with potential favourable impacts to the legal representation rate."

111.1 Please expand on how these initiatives (i.e. Driver Licensing offices, Renewal Reminder inserts and electronic media, and working with business partners) improve the customer's experience with ICBC.

111.2 Given that Language Line translation services have been available since 2008, can ICBC provide experimental and/or observational evidence that these services have supported the effective and efficient resolution of claims and have had favourable impacts to the legal representation rate?

111.3 To what extent may fraudulent activities affect BI claims costs? Please show any statistics and describe ICBC's experience in the last five years.

111.4 Recognizing the functional organizational model and the new Claims hierarchy, what type of training or controls does ICBC have in place to mitigate the risk of fraudulent BI claims?

112.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-8
Additional Claims Handling Initiatives – Taxable Costs and Disbursements

ICBC states on page 6-8:

> "Taxable costs and disbursements are governed by legislation and regulation. Taxable costs and disbursements are, in general, paid to successful litigants to partially offset their expenses for commencing a lawsuit. Taxable costs are intended to defray the legal expenses of commencing

a legal action, while disbursements generally encompass things such as the costs of medical reports and various court-related fees, both of which are in addition to the payments made for damages. Over the past five years there has been an increase of approximately 30% in the amount of taxable costs and disbursements paid by ICBC. In 2012, ICBC paid approximately $136 million in taxable costs and disbursements."

112.1 Are any of these payments voluntary on ICBC's part? If so, do they encourage legal representation even when it may not be necessary? Why or why not?

112.2 Do other private insurers across Canada also provide equivalent support to successful litigants?

112.3 Please provide a table of the amount paid by ICBC for taxable costs and disbursements in each of the last five years and estimated 2013. If there is an escalating trend, please discuss the reasons for the escalation and whether it indicates that ICBC might be in effect incenting claimants to court action by inadequate settlement offers.

113.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, pp. 6-6 and 6-10
Management Accountability – Payment Authorities

ICBC states on page 6-6:

"… adjusters were aligned to new roles, assignment of claims files was realigned, and payment authorities for adjusters were revised."

ICBC on page 6-10 states:

"Payment authorities have been adjusted to align within the new functional organizational model, Claims hierarchy, and new claim management system to be implemented beginning in late 2013. The new authority levels continue to reflect proven skills and abilities, and include default/minimum authority levels and maximum authority levels for each claims adjuster and examiner role, as well as tiers between the default and maximum authority levels. Management approval will be required to increase an adjuster beyond the default level for each role."

113.1 Please describe the purpose of payment authorities. What is the rationale of implementing different levels of payment authorities and different tiers between default and maximum authority levels?

113.2 Please describe how the payment authorities for adjusters are revised in the new claim management system as compared to the previous system.

113.3 What is meant by "proven skills and abilities"? Please explain the criteria used to set the maximum authority level for an adjuster.

113.4 To what extent will the new payment authorities impact the legal representation rate?

114.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-10
Management Accountability

ICBC on page 6-10 states:

> "Since 2006, ICBC has implemented a number of changes to facilitate management focus on, and improve management accountability for, bodily injury claims, both in terms of day-to-day claims handling as well as monitoring claims quality and metrics."

114.1 Please elaborate on the responsibility changes for management and staff including changes in coaching and training, performance evaluation process, performance review findings, and any other applicable matters.

114.2 Please elaborate on the phrase "monitoring claims quality and metrics." In doing so, please describe management's responsibilities with respect to monitoring and establishing metrics, and how those responsibilities have changed since 2006.

114.3 Please show the average ratio of managers versus staff in the claims handling line of business. Please provide this ratio for the last five years and the forecast for next two years.

115.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, pp. 6-13 and 6-14
Claims Transformation

Paragraph 53 on page 6-13 identifies five benefits from the Claims Transformation Projects.

In Paragraph 56 on page 6-14, ICBC states:

> "By comparing these staffing requirements to the current business and workload models, ICBC's most recent projections anticipate a reduction of 341 FTE's in total, once fully implemented."

In Paragraph 57 on page 6-14, ICBC states:

> "ICBC also anticipates significant claims cost savings once these changes are fully implemented. Most of these savings are expected to come from improvements in bodily injury claims handling and file quality, and improved coverage verification/breach identification. Given the magnitude of this project and the scope of changes, full benefits from Claims Transformation will not be achieved before 2016."

115.1 What performance measures are in place to measure these benefits after Transformation Project (TP) implementation, if any?

115.2 What cost savings, resulting from the reduction of 341 full time equivalents (FTEs), are anticipated for Basic Insurance in each of 2013, 2014, 2015, and 2016?

115.3 What Basic insurance claims cost savings are anticipated in each of 2013, 2014, 2015 and 2016 from the business model supporting the TP?

116.0 Reference: CLAIMS COST MANAGEMENT
Exhibit B-1, Chapter 6, p. 6-15
Road Safety

ICBC states on page 6-15:

"ICBC invests in road safety programs to help prevent traffic-related deaths, injuries, and crashes. Fewer and less severe crashes help keep people safe and help manage claims costs. ICBC follows the Safe Systems strategic framework, which is recognized by other jurisdictions as a holistic approach to road safety and focuses on the causes of crashes; i.e., road users, roads, and vehicles. To optimize benefits, ICBC invests in road safety programs where there is an expected return on investment or a link to enforceable consequences."

"In late 2011, ICBC completed upgrades to and expansion of the Intersection Safety Camera Program. An evaluation study to measure the impact of the upgraded and expanded program during its first full year of operation is being implemented in 2013."

ICBC also states on page 6-17:

"The management of claims costs is a key corporate priority for ICBC. ICBC will continue to refine its approach to managing claims costs, taking advantage of the significant benefits of new claims systems and business processes, and refining its road safety programs to ensure that it is taking appropriate steps to effectively and efficiently manage and favourably influence claims costs."

116.1 Regarding the Intersection Safety Camera Program, does ICBC expect any further claims cost savings that may warrant an adjustment to the actuarial rate indication?

116.2 Please include the most recent annual Road Safety report and provide an investment summary for 2012 actual and for 2013 planned.

116.3 Recognizing that road safety programs directly and indirectly benefit policyholders including Basic Insurance, to what extent should ICBC's road safety programs and initiatives be reviewed in a revenue requirements proceeding? Please specify.

116.4 Please explain how road safety programs would influence claims costs management.

F. OPERATING EXPENSE AND ALLOCATION

117.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 2, p. 2-1; Exhibit A.0.1; Chapter 7, p. 7-8, 7-62
Operating Expenses for Actuarial Rate Indication

Figure 7.2 presents the "Operating Expenses for Actuarial Rate Indication" between 2009 (Actual) and 2013 (Forecast).

Commission staff has prepared the following schedule based on the data provided in Figure 7.22 and Exhibit A.0.1 of Exhibit B-1.

Operating Expense Components	Figure 7.22	Exhibit A.0.1	Difference
		000s	
Claims Services	165,000	167,189	2,189
Road Safety and Loss Management Services	51,000	51,340	340
Sub-total Claims Services and RSLM	216,000	218,529	2,529
Administrative - Insurance	60,000	60,889	889
Insurance Services	28,000	28,827	827
Administrative - Non-insurance	32,000		
Driver Licencing	61,000		
Sub-total-Non-Insurance	93,000	95,700	2,700
Total Operating Expense for 2013 Actuarial Rate Indication	397,000	403,945	6,945

On page 2-1, ICBC states:

> "In order to transition to the new requirement of *Special Direction IC2* to file future revenue requirements applications annually by May 31 for rate effective August 1, the proposed rate change reflects the average cost level of Basic Insurance policies written in the first nine months of the 2013 policy year."

117.1 For each column in Figure 7.2 [e.g. "2012 Actual (IFRS)"], do the figures presented represent the results (either forecast or actual) for the period January 1 – December 31? If not, please explain the span of time that each column represents.

117.2 Please confirm that the total operating expenses used for the actuarial rate indication in Figure 7.2 (i.e. $594 million for Forecast 2013) represent the total corporate operating expenses that are allocated between Basic and Optional policy holders, rather than operating expenses for Basic policyholders only. If not confirmed, please explain otherwise.

117.3 Please explain what accounts for the differences between Figure 7.22 and Exhibit A.0.1 of Exhibit B-1, as presented in the schedule provided by Commission staff in the preamble to this Information Request.

117.4 In preparing the operating expenses component of the required premium for policy year 2013, how does ICBC account for the fact that the 2013 policy year is for 9 months, rather than 12 months?

118.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-8, 7B-1 to 7B-3
Variances in Forecast versus Actual Corporate Operating Expenses

Figure 7B.1 provides a summary of forecast versus actual variances in corporate operating expenses between 2008 and 2012. In 2011, actual corporate operating expenses were 1.7 percent lower than forecast and in 2012, actual corporate operating expenses were 2.3 percent lower than forecast.

On page 7B-2, ICBC states:

> "[In 2011], Actual operating expenses were lower than forecast mostly due to ICBC's cost

containment program."

On page 7B-3, ICBC states:

> "Although ICBC incurred a one-time, non-recurring $25 million in restructuring costs related to staff reductions, the 2012 actual results were still better than the revised forecast. In addition to lower spending on government initiatives, base operating expenses were also lower due to ICBC's cost containment program."

118.1 Please explain why the cost containment savings achieved in 2011 were not incorporated into the forecast 2011 operating costs.

118.2 Please describe any further cost containment strategies for 2013 and indicate where ICBC has accounted for any cost savings associated with these strategies in the forecast 2013 operating costs.

118.3 Given the historical variances between forecast and actual operating expenses, how confident is ICBC that its 2013 forecast is reasonable?

119.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-1, 7-6
2012 Government Review

On page 7-1, ICBC states:

> "ICBC has met the commitment made in response to the 2012 Government Review and reduced 2013 budgeted costs by more than $50 million as compared to its 2011 original plan."

ICBC also states on page 7-6:

> "…ICBC has reduced 2013 forecast costs by more than $50 million as compared to its 2011 original plan."

119.1 Please confirm that the $50 million cost reduction in 2013 is for ICBC at a corporate level. Otherwise, please clarify.

119.1.1 What is the cost reduction to the benefit of Basic policyholders? Please provide an estimate and the supporting allocation calculations to the extent possible.

119.2 Please clarify if the $50 million in cost reduction for 2013 is the cumulative amount of two years. Provide the breakdown for 2012 and 2013.

119.3 In the examination of 2011 data, please confirm if the 2012 Government Review focused on 2011 data contained in the 2011 Original Plan. If not confirmed, please explain otherwise.

120.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-16 to 7-18
Number of FTEs

120.1 Please complete the following schedule of FTEs, so that contractors and employees assigned to the Transformation Program (TP), Olympics and cost recoverable government initiatives are included in the calculation of "Total FTEs."

Employee Group	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Forecast
Net ICBC FTEs						
Bargaining Unit		4,009	3,961	3,936	3,822	3,808
Management and Confidential		972	968	1,050	1,054	926
Net ICBC FTEs (Note 1)	-	4,981	4,929	4,986	4,876	4,734
FTEs Seconded to the Tranformation Program						
Bargaining Unit						
Management and Confidential						
Total ICBC FTEs Seconded to the Tranformation Program						
Other FTEs						
Bargaining Unit						
Management and Confidential						
Total Other FTEs						
Contractors		85	52	74	40	55
Total FTEs						
Total Bargaining Unit FTEs						
Total Management and Confidential FTEs						
Total Contractors						
Total FTEs (Note 2)						
Note 1						
Agreed to Exhibit B-1, Figure 7.5. Excludes contractors and employees assigned to TP, Olympics and cost recoverable government initiatives.						
Note 2						
Total FTEs should agree to Total ICBC FTEs, including contractors and employees assigned to TP, Olympics and cost recoverable government initiatives.						

121.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-7
Transformation Program

On page 7-7, ICBC states:

> "Pursuant to the Government Directive regarding TP, the cost of TP is to be funded 100% by Optional Insurance."

121.1 Following the completion of the Transformation Program, what is the expected number of i) total eliminated FTEs; ii) FTEs reassigned to other projects or initiatives that are not recoverable from Basic Insurance policy holders (e.g. cost recoverable government initiatives); and iii) FTEs reassigned to core operations?

121.2 Following the completion of the TP, please provide a breakdown of the expected increase in base operating expenses, using the following categories:

- Net Compensation Costs
    - Reassignment of FTEs to core operations
    - Severance and other costs related to FTE eliminations
- Staff Related Expenses including Training
    - Training costs associated with the implementation of the TP
- Other costs

121.3 Please discuss the controls that are in place in order to ensure that operating costs associated with the TP are not included in those costs allocated to Basic Insurance policy holders.

122.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-14, 7-62
Compensation Costs

Figure 7.4 of Exhibit B-1 presents compensation costs by employee group and indicates an $8 million reduction in net compensation costs from 2012 actual to 2013 forecast.

Figure 7.22 of Exhibit B-1 presents the financial reporting view of operating expenses for 2013 and the allocation to Basic Insurance. For the 2013 forecast, 67 percent of total Corporate operating expenses are allocated to Basic Insurance.

122.1 Given that 67 percent of total Corporate operating expenses are allocated to Basic Insurance, is it a fair assumption that 67 percent, or $5.4 million, of the $8 million reduction in net compensation costs from 2012 actual to 2013 forecast will be to the benefit of Basic Insurance policy holders? If this is not a fair assumption, please explain why not and provide an estimate of the compensation cost savings that will be to the benefit of Basic Insurance policy holders in 2013.

122.2 Please provide a revised Figure 7.4 to include 2008 Actual and a breakdown of the "Charged to Projects" row between amounts charged to the Transformation Project and amounts charged to other projects.

122.3 Does the "Employee Compensation" row of Figure 7.4 include total ICBC compensation costs, including all compensation costs for employees seconded to support the TP and Olympics and FTEs working on cost recoverable government initiatives? If not, please provide a revised Figure 7.4 to include total ICBC compensation costs in the "Employee Compensation" category. If a revised Figure 7.4 is provided, please also include 2008 Actual.

122.4 Please complete the following schedule of Net Compensation Costs and provide a copy in a working excel document.

Net Compensation Costs ($ millions)	2008 Forecast	2008 Actual	2009 Forecast	2009 Actual	2010 Forecast	2010 Actual	2011 Forecast	2011 Actual	2012 Forecast	2012 Actual	2013 Forecast
Bargaining Unit											
Base Salary											
Pension and Post-Retirement Benefits											
Incentive Pay											
Other Benefits											
Total Bargaining Unit Net Compensation Costs											
Bargaining Unit FTEs											
Bargaining Unit Net Compensation Cost per FTE											
Management and Confidential											
Base Salary											
Pension and Post-Retirement Benefits											
Incentive Pay											
Other Benefits											
Total Management and Confidential Net Compensation Costs											
Management and Confidential FTEs											
Management and Confidential Net Compensation Cost per FTE											
Contractor Costs											
Contractors (FTE Equivalent)											
Contractor Costs Net Compensation Cost per FTE											
Total Net Compensation Costs				$ 389		$ 402		$ 401		$ 399	$ 391

122.4.1 Please provide an explanation for any increase in compensation costs per FTE between 2012 actual and 2013 forecast, for each of Bargaining Unit employees, Management and Confidential employees and contractors.

122.4.2 Please provide details of the "Other Benefits" available to each of Bargaining Unit and Management and Confidential employees and provide an explanation for any increase in Other Benefits in forecast 2013 as compared to actual 2012.

122.5 Please provide the employee turnover rate for each of Management and Confidential and Bargaining Unit employees for 2008 through 2012.

123.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-20
Compensation Level Changes – Performance Based Incentive Pay

On page 7-20, ICBC states:

> "In 2011 and 2012, ICBC's financial results did not meet all targets and performance at the corporate and divisional levels was lower than expected. Performance-based incentive payments were therefore lower than the target payout amounts and the historical actual results for both groups of employees, at approximately $19 million total, for both 2011 and 2012."
>
> "For budgeting purposes, the target payout amounts included in the 2013 forecast assume that ICBC will meet all of its performance targets for the year, as opposed to 2011 and 2012 actuals when some of these targets were not met."

123.1 Please provide details on each of the performance based incentive pay programs available to Bargaining Unit and Management and Confidential employees, including the following:

- Employee eligibility for the program;
- Specific targets for employees set by each program;
- Payment levels, and the targets that must be met in order to achieve payments at each level; and
- Corporate triggers (financial or other) that are required in order to trigger incentive

payments.

123.1.1 Please discuss how the specific targets for employees set by each program are correlated to providing benefits for Basic Insurance policy holders.

123.2 For each of Bargaining Unit and Management and Confidential employees in 2010, 2011 and 2012, please provide the following:

- Average eligible bonus per FTEs;
- Actual average bonus payment received per FTE ;
- Number of FTEs eligible to receive incentive pay; and
- Number of FTEs that received incentive pay.

123.3 Please elaborate on why it is considered appropriate to forecast the 2013 performance based incentive cost based on the assumption that ICBC will meet all of its performance targets for the year, given that some of these targets were not met in 2011 and 2012.

123.4 Please provide the percentage of performance incentive payments that are included in pensionable earnings for each of Management and Confidential and Bargaining Unit employees.

123.4.1 Please provide the pension expense included in operating costs used for the actuarial rate indication that is related to performance incentive payments included in pensionable earnings.

124.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-14 to 7-16
Pension and Post-Retirement Benefits

124.1 Please provide details on each pension and post-retirement benefit plan available to Bargaining Unit and Management and Confidential employees, including the following:

- Type of plan (i.e. Defined Benefit or Defined Contribution);
- Investment manager;
- Investment strategy; and
- Percentage of employer vs. employee contributions to the plan.

124.2 Please provide copies of the most recent actuarial valuation for each pension and post-retirement benefit plan and also indicate for each plan when the next actuarial valuation will be completed.

124.3 Please discuss the benefits to ICBC Basic policyholders of ICBC employees participating in a defined benefit pension plan.

124.4 In ICBC's opinion, is employee participation in defined benefit pension plan consistent with industry standards for employee benefits? Please discuss.

125.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-53 to 7-58
Unique Items – Pension and Post-Retirement Benefit Adjustments

Figure 7.20 includes three Unique Items related to Pension and Post-Retirement Benefits. The first adjustment of $19 million is described as "The difference between the standard benefit rate as a percentage of salary charged to each user division and the actual cost of benefit to ICBC." (Page 7-55)

125.1 Please provide the forecast and actual pension and post-retirement benefit expense for each of 2011, 2012 and 2013 (forecast only for 2013).

125.2 Please confirm if the 2013 $19 million adjustment relates to the difference between the forecast **2012** pension and post-retirement benefit expense based on the standard benefit rate and the actual **2012** pension and post-retirement benefit expense. If not confirmed, please explain otherwise.

125.3 Please provide the supporting calculation for the $19 million adjustment, including the forecast pension and post-retirement benefit expense based on the standard benefit rate and the actual pension and post-retirement benefit expense.

125.3.1 Please discuss how the standard benefit rate used in the calculation of forecast pension and post-retirement benefit expense is derived.

125.3.1.1 Figure 7.20 indicates that actual pension and post-retirement benefit expenses were higher than forecast for each of 2010, 2011 and 2012. In ICBC's opinion, does this indicate an issue with the standard benefit rate? Please discuss why or why not.

125.3.2 Please discuss the source of the actual pension and post-retirement benefit expense used in the calculation of the $19 million adjustment.

126.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-53 to 7-58
Unique Items – Pension and Post-Retirement Benefit Adjustments

Figure 7.20 includes three Unique Items related to Pension and Post-Retirement Benefits. The second adjustment of $19 million is described as "Changes in the IFRS accounting standard of employee benefits (IAS 19R), assumptions for accounting purposes, and discount rate." (Page 7-55)

126.1 Please confirm if the 2013 $19 million adjustment relates to the difference between the actual **2012** pension and post-retirement benefit expense and the forecast **2013** pension and post-retirement benefit expense. If not confirmed, please explain otherwise.

126.2 Please provide a breakdown of the $19 million adjustment between the difference components, including, i) changes to IAS 19R ii) assumptions for accounting purposes and iii) discount rate.

126.3 Please discuss the changes to the International Financial Reporting Standards (IFRS) accounting standard IAS 19R that impact the ICBC calculation of pension and post-retirement benefit expense.

126.3.1 Please provide the 2013 pension and post-retirement benefit expense in the absence of the changes to IAS 19R.

126.4 Please provide a detailed description of the "assumptions for accounting purposes" that contribute to the $19 million adjustment.

126.5 Please provide a detailed description of the "discount rate" issues that contribute to the $19 million adjustment.

127.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-53 to 7-58; Chapter 3, p. 3-4
Unique Items – Pension and Post-Retirement Benefit Adjustments

Figure 7.20 includes three Unique Items related to Pension and Post-Retirement Benefits. The third adjustment of ($7) million is described as "Exclusion of amount relating to a change in the rate used to discount pension liabilities." (Page 7-55)

The impact of IAS 19R and assumption changes (Line No. 4 of Figure 3.2) on the indicated rate change is +0.2 percent. (Page 3-4)

ICBC indicates that the following necessary conditions in order to make the $7 million pension and post-retirement benefits exclusion:

"• A large Basic insurance rate increase is indicated.
• The exclusion cannot result in the actual or forecast MCT falling below 100%.
• It must be implemented on or before January 31, 2015 (in accordance with the 2011 Government Directive).
• It is considered a one-time exclusion and is not repeated unless the first three bullets hold." (Page 7-57)

127.1 Please discuss how ICBC determined the four "necessary conditions" identified in the preamble to this Information Request.

127.1.1 Please confirm, or explain otherwise, that the exclusion of the $7 million pension and post-retirement benefits amount does not result in the MCT falling below 100 percent for PY 2013.

127.1.2 Does the 2011 Government Directive specifically address pension and post-retirement benefits exclusion? Please clarify.

127.2 Does the $7 million adjustment relate to the change in discount rate used in 2012 versus 2013? If not, please explain otherwise.

127.2.1 Please provide the discount rate used in each of 2012 and 2013.

127.3 Please provide the percentage impact of IAS 19R and assumption changes (Line No. 4 of Figure 3.2) on the indicated rate change, excluding the $7 million adjustment related to the pension and post-retirement benefits discount rate.

128.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-17
Unique Items – 2012 Restructuring Costs

On page 7-17, ICBC states:

> "During 2012, in response to the 2012 Government Review recommendations, ICBC had restructured its organization and reduced staffing. As a result, ICBC provided for a one-time, non-recurring $25 million in restructuring costs related to these staff reductions."
>
> "… in response to the 2012 Government Review recommendations, ICBC reduced FTEs and consolidated key staffing functions through a corporate wide reorganization. Management and Confidential FTEs were significantly reduced during the latter part of 2012 and this impact is reflected in the 2013 forecast."

128.1 Please provide a breakdown of the $25 million in restructuring costs incurred in 2012 between severance costs and "other" restructuring costs. Please provide a description of the costs included in the "other" category.

128.1.1 Does the $25 million in restructuring costs include all severance and other restructuring costs incurred in 2012? If not, please provide the amount of any severance and other restructuring amounts that are not included and explain why they are not considered a 'Unique Item.'

128.2 Please provide the amount of any restructuring costs in forecast 2013 and estimated 2014 forecast operating costs and provide a breakdown between severance costs and "other" restructuring costs. Please provide a description of the costs included in the "other" category.

128.3 Please complete the following schedule of eliminated FTEs and associated severance costs for each of the Bargaining Unit and Management and Confidential employee groups.

Severance Costs	2012 Actual	2013 Forecast
Bargaining Unit		
Total FTEs Eliminated		
Severance Costs		
Average Severance per Bargaining Unit FTE		
Management and Confidential		
Total FTEs Eliminated		
Severance Costs		
Average Severance per Management and Confidential FTE		

129.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-19
Operating Expenses for Actuarial Rate Indication – PSEC Bargaining Mandate

On page 7-19, ICBC states:

> "In the 2013 forecast period, the contractual arrangements under the 2010 to 2014 Collective Agreement with COPE, which increased salaries effective July 1, 2012, will give risk to an increase of approximately $6 million in Bargaining Unit compensation costs. In keeping with the terms of the PSEC Bargaining Mandate, the increase in compensation for Bargaining Unit staff

will have a zero impact on ICBC's net income."

129.1 Please elaborate on how ICBC has ensured that the increase in compensation costs has a zero impact on net income for forecast 2013.

129.2 Please provide the increase in Bargaining Unit compensation costs resulting from the Collective Agreement in each of actual 2012 and forecast 2013.

129.3 Figure 7.2 includes adjustments in the amount of $3 million related to the Public Sector Employers' Council (PSEC) Bargaining Mandate. Please discuss how these adjustments relate to the $6 million increase referenced in the preamble to this Information Request.

130.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-26 to 7-28, 7-49
Computer Costs

ICBC states the following on p. 7-26 with respect to cost pressures associated with higher rent and property taxes:

> "One example is with the relocation of ICBC's primary data centre from head office to a new site, which has allowed employees to be relocated from leased office space into the owned space vacated by the data centre. ICBC expects that in the 2013 forecast period, building operating expenses will be maintained at the same level, at $31 million."

ICBC states on page 7-27:

> "Computer costs include expenditures relating to computer software, hardware, internet, telephone and email systems."

ICBC states on page 7-49:

> "In the 2013 forecast period, computer costs are anticipated to increase by $4 million, to $22 million overall, mostly due to data centre location charges, increased data network costs, and the re-introduction of PST."

130.1 Please provide a detailed breakdown of the $4 million increase in forecast 2013 computer costs as compared to actual 2012, with an explanation as to why these costs are new in 2013.

130.1.1 Specifically, please address why "data centre location charges" and "increased data network costs" are higher in 2013 as compared to 2012 actual, considering that the relocation of the data centre took place in 2011 and the addition of a Disaster Recovery Second Site (DRSS) took place in 2012.

130.2 Please discuss how the data centre relocation has resulted in higher computer costs.

130.3 Please provide an explanation for the $3 million variance in forecast versus actual 2012 computer costs.

131.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, pp. 7-6, 7-13, 7-28 to 7-29
Depreciation Expense

ICBC states on page 7-28:

> "In the 2013 forecast period, depreciation is expected to further increase to $22 million, as compared to the 2012 actual of $18 million, mostly due to technology-related capital expenditures such as DRSS and Genesys Upgrade."

Commission staff prepared the following schedule of forecast and actual depreciation expense for 2011 and 2012, based on the data provided in Figure 7.3.

Depreciation Expense Forecast Variances	2011	2012
Forecast	17	22
Actual	15	18
Variance ($)	(2)	(4)
Variance (%)	-12%	-18%

131.1 Please confirm that the schedule provided in the preamble to this Information Request is correct. If not confirmed, please provide an updated schedule.

131.1.1 Considering the variances between forecast and actual depreciation expense over the past two years, how confident is ICBC that the forecast 2013 depreciation expense of $22 million is accurate?

131.2 Were the DRSS and Genesys Upgrade projects completed prior to the beginning of 2013? If not, please explain if the incremental depreciation expense in forecast 2013 as compared to actual 2012 for each project relates to a portion or the full amount of capital additions for the project.

131.3 Please confirm that the following capital projects have been reviewed and acknowledged by the Commission:

- Data centre relocation
- DRSS
- VOIP
- Genesys Upgrade

132.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-31
Other Operating Expenses

On page 7-31, ICBC states:

> "For the 2013 forecast, other operating expenses are anticipated to increase to $13 million, $4 million higher than the 2012 actual of $9 million, due to costs associated with operationalizing projects together with higher regulatory costs and other expenses."

132.1 Please elaborate on what is meant by "operationalizing projects together."

132.2 Please provide a breakdown of the $4 million increase in other operating expenses and provide an explanation for why these costs are new in 2013.

133.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-1, Chapter 7, p. 7-24
FTE Span of Control

Figure 7.8 of Exhibit B-1 presents the ICBC span of control for managers with staff to total employees.

133.1 Please provide the supporting calculations for Figure 7.8, including the following:

- Total managers for each division in each year.
- Total number of employees for each manager for each division in each year.

133.1.1 Please provide an explanation for any variance between the number of employees used in calculating the span of control in Figure 7.8 and the total FTEs included in Figure 7.5 for each year.

133.2 Are all employees assigned to core operations included in the span of control calculation provided in Figure 7.8, including senior management, managers, confidential employees and bargaining unit FTEs? If not, please identify the employees that are excluded and provided an explanation as to why.

133.2.1 If Figure 7.8 does not include all employees assigned to core operations, please provide a revised Figure 7.8, with supporting calculations, that includes all employees assigned to core operations.

133.3 Please discuss any plans ICBC has in place for maximizing the span of control and further reducing management employees in the organization.

134.0 Reference: Operating Expense and Allocation
Exhibit B-1, Chapter 7, Appendix 7 F, p. 7F-3, 7F-4
Number of Agreements

On page 7F-3, ICBC states:

> "Autoplan agencies are authorized by ICBC to sell its Autoplan products under the Agreement. The Agreement is a legal document and forms a contract between ICBC and the agency identifying the services that can be performed on behalf of ICBC… Over the years, the Agreement has had a number of addenda added to it to address changes in business process or technology, such as the extranet addendum, credit card addendum, document storage and retrieval addendum, and the MRS addendum."

On page 7F-4, ICBC states:

> "Autoplan agencies are distributed throughout the province to meet the needs of customers. The number of broker agencies selling Basic insurance has increased from 650, when the first agency agreements were established in 1974, to 904 in 1992. The number of Agreements has remained constant since then...

Locations of Autoplan agencies shift in accordance with the needs of the consumer marketplace. A certain number of Agreements are sold and ownership transferred each year (approximately 33 sales and transfers take place annually)."

134.1 In the last ten years, have there been any instances of a potential broker wishing to obtain a new Agreement but being unable to do so?

134.2 Under what circumstances would ICBC disapprove an Agreement ownership transfer? Are there any guidelines or policies in place regarding these transfers?

134.3 Does ICBC have specific policies with Autoplan brokers regarding customer record retention, access, or information sharing? Please discuss policies of customer information security.

135.0 Reference: Operating Expense and Allocation
Exhibit B-1, Chapter 7, Appendix 7 F, pp. 7F-4, 7F-6 to 7F-8, and 7F-12
Insurance Systems

On page 7F-4, ICBC states:

> "Insurance is a highly complex product for most customers to understand and Autoplan agencies provide in-person advice on coverage and rating issues to ensure customers have the correct coverage."

On page 7F-6, ICBC noted that in the August 2005 Revenue Requirements Application, ICBC analyzed the possibility of conducting renewals of Basic insurance through the internet and over the telephone. In its review, ICBC concluded that:

> "…considering the challenges surrounding signature requirements and decal delivery as a result of legislative requirements; cost of distribution; anticipated low uptake for direct service; and the valuable role the broker plays in ensuring correct coverage, a broker distribution system continues to be the most cost effective and customer-friendly method of processing renewals."

On page 7F-7, ICBC states:

> "ICBC has made a number of system changes since that time that are intended to improve broker efficiency, which ultimately provides greater convenience to customers. Key changes to systems or processes used by Autoplan brokers that have occurred since 2007 include:
>
> - New rate quote system.
> - Enhancements to Autoplan Data Capture (ADC) system and new interface for Interprovincial Record Exchange (IPRE).
> - Development of the Broker Performance Award (BPA) program.
> - Development of the Broker Customer Experience Award (BCEA) program."

On page 7F-12, ICBC further states:

> "ICBC's future insurance systems may provide the ability to enable customers to perform some transactions online via brokers using ICBC systems."

135.1 Since the improvements in 2007 and with the implementation of the TP, does ICBC believe that the 2005 challenges have now been mitigated? Please explain.

135.2 With key enhancements, such as the Autoplan Data Capture system that includes a more user friendly point-of-sale system for brokers, how difficult would it be to implement self-served systems for customers to renew insurance?

135.3 In developing the rate quote system, has ICBC considered making rate quotes publicly available so that customers will get a better understanding of the product?

135.4 Does ICBC believe that simple policy renewals (e.g. without new vehicle registrations) can be self-processed electronically with the systems technology available, such as online insurance policy purchases, electronic payments, internet security, etc.?

135.5 What are the merits of a pick-up service for decal and vehicle plates at Autoplan outlets? Would that improve broker efficiency and lower costs for Basic policyholders? Please discuss.

136.0 Reference: Operating Expense and Allocation
Exhibit B-1, Chapter 7, Appendix 7 F, pp. 7F-8 and 7F-10; Attachment 7 F1
Autoplan Broker Main Survey Questions

On page 7F-8, ICBC states:

> "In 2011, ICBC implemented the BCEA program. This program provides brokers with a financial award based on survey results from a random sample of customers from each Autoplan agency."

On page 7F-10, ICBC further states:

> "In 2011, ICBC introduced the BCEA program, which is based upon the survey results of customers from each Autoplan agency... A list of the Autoplan broker survey questions is provided in Attachment 7 F1 – Autoplan Broker Main Survey Questions."

Attachment 7 F1 provides the Autoplan Broker Main Survey Questions.

136.1 Please identify the funding source of the BCEA financial award? What percentage allocation of the financial award, if any, is paid by Basic policyholders?

136.1.1 Please identify the total BCEA program financial award since implementation in 2011 and how this financial award is distributed among Autoplan agencies.

136.1.2 Please explain how the BCEA program financial award benefits Basic policyholders, if applicable.

136.2 When were the Autoplan Broker Main Survey Questions implemented and how often does ICBC review the appropriateness of these questions?

136.2.1 Please confirm that these survey questions are intended for customers only.

136.2.2 Please explain at what point a person will receive this survey. Would there be any self-selection bias if responding customers are people that have paid for the insurance product?

136.3 Does the Autoplan Broker Main Survey Questions capture any information regarding range of service, hours of operations, or language options available? Please discuss.

136.4 Are there any other surveys that measure the satisfaction levels of the relationship between brokers and ICBC, instead of the customer? If so, please describe. If not, what are the merits and challenges of obtaining such information?

137.0 Reference: Operating Expense and Allocation
Exhibit B-1, Chapter 7, Appendix 7 F, p. 7F-11
Operational Costs

On page 7F-11, ICBC states:

> "ICBC believes that increasing the number of Agreements beyond the current number will increase its operational costs for Autoplan broker support. ICBC's ability to maintain its operational costs with respect to expenditures necessary to support Autoplan brokers is one of the factors that helps reduce upward pressure on its Basic insurance administrative costs. Furthermore, the changes that are anticipated to come about from TP will have an impact on broker support costs, however they are not fully defined at this time and the precise impact this will have on Autoplan services is still to be determined. As a result ICBC has not undertaken the work required to quantify the increase in Autoplan broker support costs."

137.1 Please provide the total operational cost for brokers since 2007.

137.1.1 What is the average operational cost per broker?

137.1.2 What is the expected incremental cost per new broker Agreement?

137.1.3 Please indicate and explain the proportion of operational costs for brokers that are allocated to Basic Insurance.

137.2 ICBC indicates that it "has not undertaken the work required to quantify the increase in Autoplan broker support costs" as a result of the changes that are anticipated to come about from the TP. Please explain why there will be any increase in Autoplan broker support costs. Should there be cost savings instead? Why or why not?

G. GOVERNMENT INITIATIVES

138.0 Reference: GOVERNMENT INITIATIVES
Exhibit B-1, Chapter 8, p. 8-3; Appendix 8A, p.2; Appendix 8C
Government Initiatives that are Cost Recovery – EDL/EIC

ICBC on page 8-3 identifies the "Enhanced Driver's Licence and Enhanced Identification Card" (EDL/EIC) initiative as a government initiative funded by user-fees.

Page 2 of the Addendum to the Service Agreement for 2011 states:

"Changes to the EDL/EIC initiative have been implemented in 2008 so that ongoing operating expenses are recovered through user fees. All project costs have been recovered from government up to December 31, 2011."

The Addendum to the Service Agreement for 2012 does not mention the EDL/EIC initiative.

138.1 Please clarify whether or not the EDL/EIC initiative has any ongoing operating expenses beyond 2011. Please confirm ongoing operating expenses, if any, will continue to be recovered through user fees. If not confirmed, please explain why not.

139.0 Reference: GOVERNMENT INITIATIVES
Exhibit B-1, Chapter 8, pp. 8-2 and 8-3; Appendix 8A, p. 2
Government Initiatives that are Cost Recovery

In Paragraph 8, ICBC states:

"The government initiatives discussed below are undertaken by ICBC on a cost recovery basis. As discussed in Chapter 7, costs are considered accounts receivable so there is no impact to operating expenses or Basic Insurance rates. These government initiatives have been implemented and have transitioned into normal ICBC operations.

- The Port Mann Bridge Tolling initiative… Costs for this initiative are being recovered from the Transportation Investment Corporation...
- The Translink Fines… Costs for these initiatives are being recovered from TransLink and government."

139.1 Please show that all costs (one-time and ongoing) ICBC incurs for Government Initiatives that are Cost Recovery are accurately and completely captured and subsequently fully recovered from the above parties (e.g. Transportation Investment Corporation).

139.2 Please show how common administration and general costs (e.g. staffing, computer, and building) are determined, and allocated to these initiatives? If applicable, please explain.

140.0 Reference: GOVERNMENT INITIATIVES
Exhibit B-1, Chapter 8, p. 8-3
Government Initiatives Funded by ICBC - Canadian Driver Licence Agreement (CDLA)

ICBC on page 8-3 states:

"The CDLA initiative was first introduced in the Service Agreement Addendum for the 2007 rate year filed as part of the 2007 Revenue Requirements Application, with updates provided in subsequent revenue requirement applications. Implementation will commence in 2014 with preparatory work underway in 2013. One-time costs for the initiative are estimated to be $3.2 million and ongoing costs are estimated to be $0.6 million annually. As indicated in Figure 7.21 of Chapter 7, the 2013 forecast expense on this initiative is $1 million dollars."

140.1 Please show how the 2013 forecast expense of $1 million dollars is calculated.

141.0 Reference: GOVERNMENT INITIATIVES
Exhibit B-1, Chapter 8, p. 8-3; Appendix 8A; Appendix 8C, pp. 2-3
Government Initiatives Funded by ICBC – Impaired Driving

ICBC on page 8-3 states:

> "The first phase of the Impaired Driving initiative included changes to ICBC's Driver Licensing systems and business processes to accommodate the new impaired driving roadside prohibitions and changes to vehicle impoundment introduced by government in 2010, and has been completed. ICBC entered into this initiative with the expectation that costs would be offset by anticipated claims savings."

Section II of the Addendum to the Service Agreement for 2011 on page 2 indicates implementation and operating costs for Phase I of the Impaired Driving initiative include one-time costs of $0.8M with average annual ongoing costs estimated to be approximately $0.5M from 2010 to 2015.

Section III of the Addendum to the Service Agreement for 2011 on page 3 lists Phase II of the Impaired Driving Initiative as a 'proposed' initiative under discussion with the provincial government. Phase II of the Impaired Driving Initiative is not mentioned in the Addendum to the Service Agreement for 2012."

141.1 Please show the one-time and on-going costs for Phase I of the Impaired Driving initiative incurred to-date.

141.2 Please confirm whether or not there are any remaining on-going costs for Phase I. If yes, please provide i) a forecast of expected remaining annual costs and ii) the anticipated end date of on-going costs associated with Phase I.

141.3 Have there been any claim savings realized to-date that can be attributed to the Impaired Driving initiative? If yes, please quantify and describe. If not, explain why not.

141.4 Please explain whether or not Phase II of the Impaired Driving initiative is still planned. If not, why not? If yes, please explain i) when ICBC expects it to be implemented, ii) the anticipated costs, and iii) how the initiative will be funded.

142.0 Reference: GOVERNMENT INITIATIVES
Exhibit B-1, Chapter 8, p. 8-2; Appendix 8E, pp. 3-4
Government Initiatives Funded by ICBC – Road Safety MOU

ICBC on page 8-2 states:

> "Payments made under the renewed agreement have been reduced from previous years, and employ a fixed payment amount, less ICBC expenses to support the program, rather than a percentage of Basic insurance premiums earned."

The Road Safety Memorandum of Understanding (MOU) at paragraph 7 on page 3 indicates that ICBC will pay for the actual program costs up to the maximum amounts of $23,300,000 less expenses for 2012/2013, $23,766,000 less expenses for 2013/2014, and $24,241,320 less expenses for 2014/2015.

The Road Safety MOU at paragraph 17 on page 4 indicates that if the parties wish to extend the MOU beyond the March 31, 2015 term-end date the parties agree to complete i) a study on provincial traffic

baselines, ii) a strategic plan, and a iii) review on IMPACT (Integrated Municipal Provincial Auto Crime Team) by March 31, 2013 and iv) two focused program evaluations by March 31, 2015.

142.1 Please explain why the funding formula for the Traffic and Road Safety Law Enforcement Program has changed from a percentage based amount to a fixed payment amount.

142.2 For 2012/2013, how much did ICBC pay the Minister of Justice and Attorney General (JAG) for the program? Please show any expenses incurred.

142.3 For 2013/2014 and 2014/2015, does ICBC anticipate paying JAG the maximum amount for the program as outlined in paragraph 7 of the MOU? How much does ICBC forecast it will pay JAG in each of these years before and after expenses?

142.4 Did ICBC and JAG complete i)the study on provincial traffic baselines, ii) the strategic plan, and iii) a review on IMPACT as required by March 31, 2013 in order to extend the term of the MOU? If so, please provide these items and briefly describe. If not, when are the expected completion dates?

H. PERFORMANCE MEASURES

143.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-1
Performance Measure Overview

ICBC on page 9-1 states:

> "…the 2012 actual and the 2013 forecast for the performance measures as agreed to in the May 2004 Negotiated Settlement Agreement and modified per the July 2006 Decision.
>
> "Each year, ICBC sets the forecast for most of its performance measures at the beginning of the year and then assesses the actual performance of those measures at the beginning of the following year."

143.1 The performance measures have been in place since 2004 and modified in 2006. In ICBC's view, is the current set of performance measures appropriate and meaningful? Why or why not?

143.2 Please discuss if some measures are more meaningful than others. Does ICBC consider that any of the performance measures should be modified or added to at this time?

143.3 Should BI frequency also be added to the Financial Measures to monitor performance? If not, why not?

143.4 In ICBC's view should the performance measures be reviewed? Please explain. If so, what process does ICBC recommend for such a review?

143.5 Does ICBC use the performance measure results to inform strategic and management decisions? If not, why not?

144.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-2
Performance Measure Overview

ICBC on page 9-2 provides Figure 9.1 – Performance Measures Results and 2013 Forecast.

144.1 Please restate Figure 9.1 that includes the forecast targets for each of 2010 to 2012 compared to actuals, as well as the targets compared to outlook for 2013.

144.1.1 Please identify and explain any unfavourable variances.

144.1.2 For any performance measures that have consistently lower targets than actuals, please discuss whether the targets were set too low.

144.2 Please explain how ICBC set the targets for 2013. For each of the targets set below the 2012 actual results please explain why.

144.3 If available, please provide the 2013 outlook and compare against the 2013 targets? For those measures that are not expected to meet the target, please explain why.

145.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-2,
Performance Measure Overview – Service Quality

Figure 9.1 on page 9-2 shows that over the past three years the service quality overall statistics appear to have deteriorated.

145.1 Why are the 2013 service quality statistics declining overall, especially for Insurance Services satisfaction, New Claims Initiation, and legal representation rate? Wouldn't this indicate a general trend to poorer service quality?

145.2 What is the impact on employee bonuses, if any, given the observed unfavourable customer service measures performance? Please explain.

146.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-3
Service Measures – Customer Surveys

ICBC on page 9-3 states:

> "An independent research firm is retained to conduct customer surveys for the purposes of monitoring satisfaction."

146.1 Please provide the cost of conducting each of the 2012 customer surveys (insurance service, driver licensing, and claims service) and the anticipated cost for any 2013 customer surveys. Please indicate what proportion of this cost is allocated to Basic Insurance, if any.

146.2 In ICBC's view, is the cost of the surveys proportionate to the value of the information that the surveys provide ICBC? Please explain why or why not.

147.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-3
Service Measures – Insurance Services Satisfaction

ICBC on page 9-3 states:

> "The 2012 actual was 97%, which is consistent with the 2010 and 2011 results.
>
> In 2013, ICBC set its target at 95%. It reflects that ICBC intended to maintain this high level of customer satisfaction while preparing for the renewal of technology and the changes to business processes associated with the Transformation Program [TP]."

147.1 Please explain why the 2013 target was set 2 percent below the 2012 actual for Insurance Services Satisfaction.

147.2 Please explain how ICBC estimated the impact of the TP initiatives on Insurance Services Satisfaction.

147.2.1 Does the outlook for 2013 indicate that ICBC will be able to meet its 95 percent target? If no, please explain why not.

147.3 When does ICBC anticipate it will begin seeing the benefits of the TP in its performance measures? Please explain.

147.3.1 Does ICBC anticipate that it will be able to set its 2014 target at or above the 2012 actual result? Please explain why or why not.

148.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-4
Service Measures- Driver Licensing Satisfaction

ICBC on page 9-4 states:

> "The Driver Licensing Satisfaction measure is used to determine the percentage of customers satisfied with their transaction with ICBC, which includes issuing or renewing a licence, taking a knowledge test, or undergoing a road test. This measure is weighted by the number of transactions for each type of service.
>
> The 2012 result for ICBC's customer satisfaction for driver licensing was 95%, one percentage point higher than both 2010 and 2011 results. For 2013, the target has been set at 95%. ICBC anticipates that Driver Licensing Satisfaction will remain consistent with historical norms reflective of ICBC's continued commitment to customer service."

148.1 Please provide the relative weights given to each type of service included in the Driver Licensing Satisfaction measure.

148.2 Did any of the services in the Driving Licensing Satisfaction measure receive a significantly higher or lower percentage of satisfied customers than the other services? If so, please identify which type of service.

148.3 Does the outlook for 2013 indicate that ICBC will be able to meet its 95 percent target? If not, please explain why not.

149.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, pp. 9-2, 9-4, and 9-5
Service Measures - Claims Services Satisfaction

ICBC on page 9-2 reports that the overall Claims Services Satisfaction for 2012 was 86 percent and 81 percent for Accident Benefit Only.

ICBC on page 9-5 states:

> "The 2013 forecast for Claims Services Satisfaction is 83% and 76% for Accident Benefit Only.
>
> Beginning in 2013, the new claims management system software and updated business processes will be rolled out which are expected to significantly impact all claims-handling operations and related support operations.
>
> ICBC will monitor service levels and will put strategies in place to mitigate implementation risks and minimize impacts to customers."

On page 9-4, ICBC states:

> "…ICBC agreed to report on a Claims Services Satisfaction score, which includes bodily injury claimants, accident benefit claimants, and claimants under collision, property damage and glass coverage, and to report on a separate Accident Benefit Only Satisfaction score, which includes both accident benefit claimants who have a bodily injury claim and accident benefit claimants who do not have a bodily injury claim."

On page 9-5, ICBC states:

> "The 2012 actual result for Claims Services Satisfaction was based on a representative sample of over 10,000 customers, weighted based on transactional volumes."

149.1 Please explain how the 2013 targets were set, and why they are 3 percent and 5 percent lower, respectively, than 2012?

149.2 Does the outlook for 2013 indicate that ICBC will be able to meet its 83 percent target for claims service satisfaction? If not, please explain. Please provide the same information about the 76 percent target for Accident Benefit Only.

149.3 Please explain how ICBC estimated the transitional impacts of the new claims management system software and updated business processes on overall Claims Services Satisfaction.

149.4 When does ICBC anticipate the transitional impacts will end and it will begin seeing the benefits of the new claims management system software and updated business processes on overall Claims Services Satisfaction? Please explain.

149.5 Does ICBC anticipate that it will be able to set its 2014 targets at or above the 2012 actual result? Please explain why or why not.

149.6 Please provide an estimate of the relative transaction volumes for each type of claim service included in the Claim Services Satisfaction Measure.

150.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-5
Service Measures- Additional Claims Services Satisfaction Measures

In Figure 9.2 on page 9-5, ICBC reports the 2012 actual results for eight additional survey questions related to Claims Services Satisfaction.

150.1 Please update Figure 9.2 to include 2010-2012 targets and actual results, as well as 2013 targets and outlook. Comment on any variances between 2012 and 2013.

150.2 Please explain how ICBC plans to improve the results of these additional metrics for 2014.

151.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-6
Service Measures- New Claims Initiation

ICBC on page 9-6 states:

> "As part of the 2006 Revenue Requirements Application, ICBC indicated that it had made a business decision to implement an improved target of 80% of calls answered within 100 seconds, which is the business measure used by ICBC. ICBC therefore does not develop a forecast for the 210 and 120 second measures."
>
> "In April 2012, ICBC replaced its existing end-of-life call centre technology. Call handling activities and statistics are captured and measured differently by the new call centre reporting software – thus results are reduced by an estimated 2 to 3% when compared to what would have been produced under the old technology."
>
> "…ICBC will begin implementing the new claims management system software, together with the associated changes to business processes in 2013. These implementations are expected to significantly impact all claims-handling operations and related support areas."

On pages 9-6 to 9-7, ICBC states:

> "In 2013, the new Claims hierarchy was implemented; and ICBC will begin implementing the new claims management system software, together with the associated changes to business processes in 2013. These implementations are expected to significantly impact all claims-handling operations and related support areas. CCC staffing and efficiency levels will be impacted during the training period and familiarization phase to new or changed business processes and to the new claims management system software. As a result, the 2013 forecast is set at 70% of calls answered in 100 seconds."

151.1 Although the 2013 forecast of 70 percent is higher than 2012's 68 percent, it is still lower than 2010's result of 82 percent. Please explain why.

151.1.1 When does ICBC anticipate it will begin to see the benefits of the new claims management software on the New Claim Initiation measure?

151.1.2 These statistics appear to be deteriorating. Would ICBC agree that a customer who has to wait more than 100 seconds to speak to a person is likely to start the claims initiation process with a negative view of ICBC? Why or why not?

151.2 In the future, should the Service Quality measures in Figure 9.1 be adjusted to remove the 210 and 120 second statistics in favour of the calls answered in 100 seconds statistic only? Why?

151.3 Once the new Claims hierarchy is implemented in 2013 does ICBC expect the New Claims Initiation 100 second statistic to rebound to a level above 80 percent for 2014? Why or why not? If not, what will the 2014 target be, and when does ICBC expect to be able to return to 80 percent?

151.4 Please clarify why the results from the new call centre reporting software are reduced by 2 to 3 percent. Does the reduction of 2 to 3 percent mean an improvement or deterioration in customer service? Please explain the reason behind the anticipated result.

152.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-7
Service Measures – Customer Contact Service Level

On page 9-7, ICBC states:

> "This service level measure is an aggregate from the Insurance and Driver Licensing call centres and is defined as the percentage of calls answered within 90 seconds."
>
> "The 2013 target will be 73% to reflect that the Customer Contact Service Level will be impacted by various initiatives during the year such as the implementation of GST and PST, the BC Services Card, and Claims Transformation."

152.1 How is this service measure aggregated and what weight is given to the Insurance call centre versus the Driver Licensing call centre?

152.2 Why is the target response time for calls to the Insurance and Driver Licensing call centres 10 seconds sooner than the target response time for the Claims Contact Centre (90 seconds versus 100 seconds)? Please explain any differences in the call centres that may contribute to this difference.

152.3 Why is the 2013 target 6 percent lower than 2011 and 2012 actuals given the proposed mitigation of training and hiring to counterbalance the identified impacts on Customer Contact?

152.4 Does ICBC anticipate it will be able to return to a 79 percent target for 2014? Please explain.

153.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, pp. 9-7 and 9-8
Service Measures - Customer Approval Index

ICBC on page 9-7 states that the Customer Approval Index results "do not measure customer service."

On page 9-8, ICBC states:

"ICBC does not set a corporate target for the Customer Approval Index as it is a directional measure."

153.1 Please explain the reasons that ICBC attributes to the slight decline in the 2012 Customer Approval Index from 2011.

153.2 Please explain why the Index is not a measure of customer service. Please also explain what the Index is a measure of and how ICBC uses the results to understand customer's views.

153.2.1 What is the meaning of a 2012 Customer Approval Index of 65 percent?

153.3 Please explain what a directional measure is, and how it differs from other performance measures.

153.3.1 Why does ICBC not set targets for directional measures?

154.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-8
Service Measures - Legal Representation Rate

On page 9-8, ICBC states:

"The Legal Representation Rate may provide some indication of service satisfaction related to bodily injury claims, but claimants may have reasons unconnected to service for retaining counsel.

There are a variety of reasons why claimants seek legal representation. Some claimants may seek representation due to complex medical or legal issues, or the amount involved in the claim. Some claimants may seek representation as the claims and settlement process can appear complex, due to factors such as lack of familiarity and language barriers."

On page 9-8, ICBC also states:

"The 2012 Legal Representation Rate of 45% has increased from the 2011 actual of 40%. The increase is due to a rising trend of legal representation combined with earlier identification of represented files due to more consistent claims file handling."

"The 2013 Legal Representation Rate forecast is set at 46%, recognizing the increasing representation trend. This issue is of concern to ICBC and further analysis is being undertaken."

154.1 In ICBC's view, is Legal Representation Rate a useful indicator of service satisfaction? Please explain why or why not.

154.2 Please describe what kind of "further analysis" ICBC is undertaking to investigate the rising trend of Legal Representation Rate.

154.3 Of the claimants who chose to retain counsel to represent them, what percentage retain counsel at the onset of the claim and what percentage chose to retain counsel at a later stage in the claim process?

154.3.1 In ICBC's view, would it be useful to track the percentage of claimants who chose to retain counsel part-way through the claims process?

154.4 Of the variety of factors which cause claimants to seek legal representation, which of these does ICBC have some control or influence over?

155.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-9
Service Measures - Complaints Heard by the Fairness Commissioner

ICBC on page 9-9 states:

> "ICBC attributes the slight increase to easier customer access in contacting the Fairness Commissioner. The number of complaints increased after ICBC added a new on-line customer complaint form to the Fairness Commissioner's webpage on icbc.com in July 2011.
>
> Although there were fewer Claims-related complaints relative to the total number in 2012 over 2011 (40% of the total in 2012 compared to 60% in 2011) claims-related complaints contributed the largest segment of complaints.
>
> Of the 221 complaints directed to the Fairness Commissioner in 2012, 54% of these were resolved internally by ICBC's Customer Relations Department and therefore did not require involvement of the Fairness Commissioner. As a result of the involvement of the Customer Relations Department, only 98 of the 221 complaints directed to his office were actually reviewed by the Fairness Commissioner in 2012 compared to 86 of the 154 complaints in 2011."

155.1 ICBC does not set a target for the complaints heard by the Fairness Commissioner. Please explain why ICBC does not consider setting a target for this performance measure to be indicative of overall service satisfaction?

155.2 Besides access to the Fairness Commissioner complaint form on ICBC's website, what other factors does ICBC consider to have been the cause of the increase?

155.3 If available, what are the top three most common complaints that are heard by the Fairness Commissioner? Please indicate whether they are Basic insurance related, or otherwise.

156.0 Reference: PERFORMANCE MEASURES
Exhibit B-1, Chapter 9, p. 9-17
Directional Indicators

On page 9-17, ICBC states:

> "The Crash Rate in 2012 (927) was lower than in 2011 (931). The Injured Person Rate in 2012 (294) increased from 2011 (288) and the New Driver Comparative Crash Rate in 2012 (1.01) decreased as compared to 2011 (1.02)."

156.1 While the Crash Rate and the New Driver Comparative Crash Rate have decreased, the Injured Person Rate has increased. How would ICBC explain this pattern? Is it fair to say that there may be more pedestrians or cyclist on the road or the number of passengers per travelling vehicle has increased? Please discuss.

156.2 How does the Injured Person Rate compare to higher BI frequency in recent years?

156.3 Are the findings of the directional measures consistent with the estimates of the actuarial analysis? Please explain.