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| REQUESTOR NAME: | **BCOAPO** |
| INFORMATION REQUEST ROUND: | **1** |
| TO: | **INSURANCE CORPORATION OF BRITISH COLUMBIA** |
| DATE: | **OCTOBER 11, 2013** |
| PROJECT NO: | **3698726** |
| APPLICATION NAME: | **REVENUE REQUIREMENT APPLICATION UNIVERSAL COMPULSORY AUTOMOBILE INSURANCE EFFECTIVE NOVEMBER 1, 2013** |

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**1.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 2, p. 2-5 Investment Risk**

"For the Revenue Requirements Application for the 2012 Policy Year, low interest rates and lower levels of Basic equity led to lower investment income, which had a significant unfavourable impact on the rate indication. For this Application, low interest rates continue to have a negative impact on the returns on the investment portfolio."

1.1 Does ICBC believe that the probability of advantageous investment portfolio variance is equal to that of adverse portfolio variance during PY2013? Please comment.

**2.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 2, p. 2-5 Deferred Costs**

"As a result of its commitment in response to the 2012 Government Review of ICBC, ICBC reduced 2013 budgeted costs by more than $50 million as compared to the original 2011 plan. The reduced operating expenses therefore have a favourable impact on the rate indication for the 2013 policy year. However, at the same time as it seeks to minimize operating expenses, ICBC must carefully balance its investment in people and tools with the requirement to maintain good control of claims costs."

2.1 What is the present value of any deferred costs for PY2013 that ICBC will have to make up for in subsequent policy years? Please list the items which are the most prominent.

**3.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 2, p. 2-7 Average Premium - Driver Experience**

"The average premium trend represents the changes over time in ICBC's average premium level due to shifts in the mix of business by rate class, territory, and level of discount. A lower average premium has the effect of reducing the expected revenue and therefore contributes to the increase in the rate indication. The average premium has been trending lower over several years. This can be partially ascribed to the gradual increase in the proportion of more experienced drivers and the decline of new drivers on the road."

3.1 Please describe how each of BI frequency and BI severity vary with driver experience years.

3.2 StatsCan reports show BC's median age increasing. If BC's driver population average age also increases during the test period, has that been specifically factored into rate indications? On decreased BI frequency?

**4.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, pp. 3-1 and 3-24 Expected Inflation**

4.1 In preparing the Application's estimates, what general inflation rate (CPI) was assumed over PY 2013?

**5.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, pp. 3-2 and 3-5 Expected Rate Change for PY 2014**

"ICBC has based its required revenue for PY 2013 on the average cost level of policies effective in the first nine months of PY 2013. The additional inflation in costs, above and beyond that cost level and relating to policies effective from August 1, 2014 to October 31, 2014, will be reflected in the 2014 Revenue Requirements Application, which will have a rate effective date of August 1, 2014."

"[The] deficiency in the Basic insurance rate will be brought forward and included in the 2014 Revenue Requirements Application."

5.1 Based on currently available information, what rate change for PY 2014 should be anticipated?

**6.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-2 Rate Indication - Elasticity Impact**

"PY 2013 rates need to increase by 11.5% to provide an additional $266.7 million."

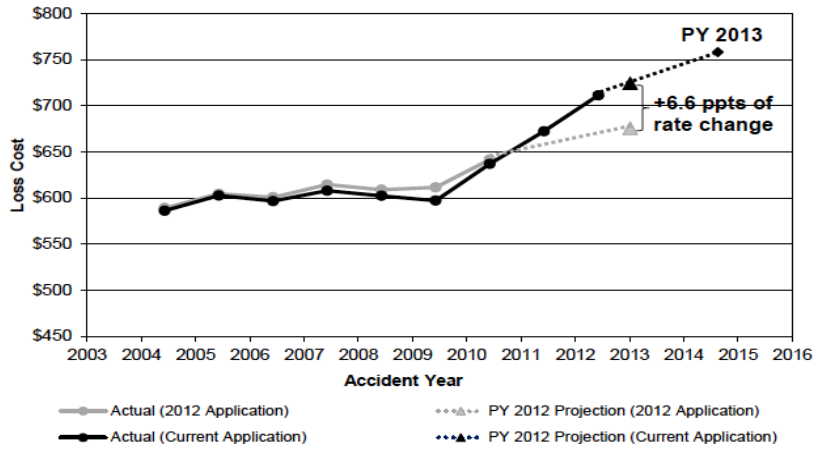
6.1 Do these figures include a specific price elasticity impact? If so, please describe it.

6.2 Do these figures include a specific income elasticity impact? If so, please describe it.

**7.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-9 Basic Loss Cost - Actual and Forecast Figures**

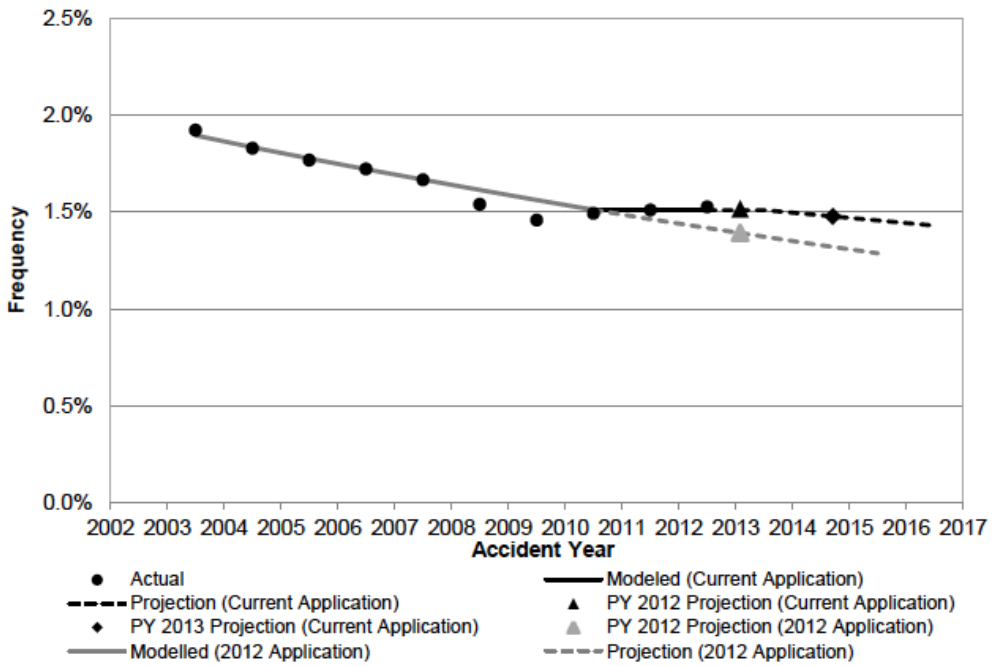
7.1 Please show the data in Figure 3.3 as tabulated numbers.

**Figure 3.3 – Basic Loss Cost**



**8.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-10, and Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 14 Loss Costs - BI Frequency Limits**

**Figure 3.5 – BI Frequency (Basic)**




8.1 From the actual figures shown in Figure 3.5, it appears Basic BI frequency may be asymptotic at approximately 1.5%. Does ICBC believe encountering a lower bound to BI frequency is less likely than the resumption of a downward trend? If so, does ICBC believe there is a lower bound to BI frequency, and if so, what are the likely explanations?

8.2 Is ICBC approaching a minimum BI frequency observed by other North American insurers?

8.3 Please provide examples of BI Frequency data for 2003 through 2012 for North American insurers comparable with ICBC.

**9.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, pp. 3-11 and 3-12 Loss Costs - Smart Phones and BI Basic Frequency**

"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.[6] In addition, 35% of drivers with a Smartphone admit to using it while driving.[7] Figure 3.6 provides an illustration that intuitively supports the logical conclusion: Smartphone use is putting upward pressure on frequency, which has the effect of cancelling out the benefits of favourable influences on frequency."

9.1 Please explain whether ICBC routinely investigates cell phone records to determine if the time of the crash coincides with cell phone use.

**10.0 Reference: Loss Costs - Cyclist And Pedestrian Accidents**

From: Vancouver Sun, August 30, 2013, "ICBC wants to hike rates by 4.9%, blames soaring injury claims"

> "The basic insurance premium may increase because bodily injury costs hit $1.86 billion in 2012, up more than $165 million from the previous year and more than $400 million from five years ago, according to the corporation.
>
> Costs are expected to top an unprecedented $2 billion this year.
>
> [CEO Mark] Blucher attributed the trend to several factors, including rising litigation and medical costs, distracted driving such as use of cellphones for texting, small crashes and accidents involving pedestrians and cyclists."

10.1 Please provide data on the number of accidents involving each of pedestrians and cyclists for the years 2003 through 2012.

10.2 Please explain how the costs of these accidents are incorporated into the PY 2013 proposed rates, and what their dollar impact is on each cost category.

10.3 Please briefly discuss any initiatives ICBC is taking, either on its own or with other BC entities (e.g., municipalities, MoTH), to reduce costs associated with these types of claims.

**11.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-12 Loss Costs - New Vehicles**

"The second significant event identified by ICBC and associated with the flattening of BI frequency relates to depressed new vehicle sales. 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. This means that the favourable influence of safer vehicles on BI frequency that was experienced before the recession has been dampened. It is unlikely that new vehicles sales will recover enough in the near-term to favourably influence the PY 2013 frequency to the degree it has in the past."

11.1 Please explain why ICBC believes new vehicles affect BI Frequency rather than BI Severity.

11.2 Please provide examples of other North American insurers expressing this belief.

**12.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-14 Loss Costs - BI Frequency Trend Assumptions**

"…ICBC believes that BI frequency will eventually resume a downward trend, but not to the degree of the long-term trend seen prior to the 2008 recession. For its forecast, ICBC is assuming that BI frequency will remain flat through 2013 and resume a

downward trend thereafter, but at half the rate of the prerecession trend line."

12.1 Please explain the rationale for assuming "half" the rate of the pre-recession trend.

**13.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-15 Loss Costs - BI & MR Frequencies in Previous Years**

**Figure 3.9 – Medical Rehabilitation Loss Cost Forecast Variance[8]**

| | PY 2012 Forecast in 2012 Application | PY 2012 Forecast in Current Application |
|---|---|---|
| **MR Frequency (per 100 policies)** | 1.84 | 2.11 |
| **MR Severity** | $1,439 | $1,717 |
| **MR Loss Cost** | $26.41 | $36.27 |

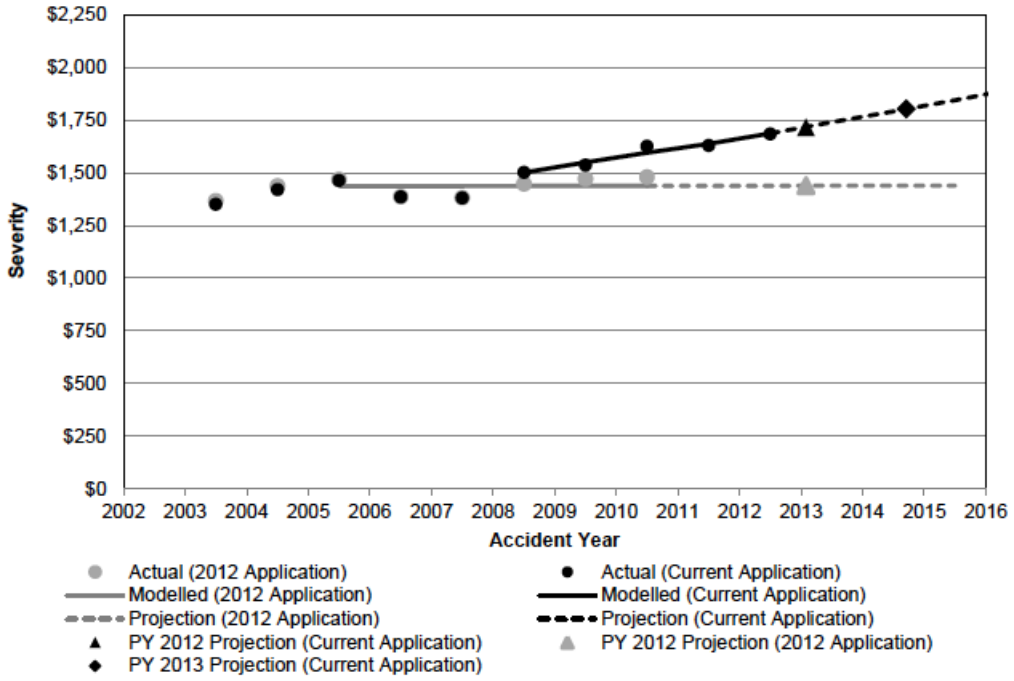
13.1 What were the BI and MR frequencies in each of 1990, 1995, 2000, and 2005?

13.2 What rate of increase in MR costs is expected?

13.3 What was the annualised trend in MR frequency over the period 2000-2010?

**14.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-16 Loss Costs - MR Severity Data**

**Figure 3.10 – Medical Rehabilitation Severity**



14.1 Please provide a table of the data shown in Figure 3.10.

**15.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-17 Loss Costs - MR Severity Data**

15.1 What were ICBC's actual premium revenues and actual loss costs for these

**Figure 3.11 – Forecast Variances Compared to Prior Applications[9]**

| Year of Revenue Requirements Application | Rate change to cover costs | Loss cost forecast variance (percentage points of rate change)[10] |
|---|---|---|
| 2006 | 6.5% | 4.0 |
| 2007 | 3.3% | 1.2 |
| 2010 | -2.4% | -5.2 |
| 2012 | 11.2% | 5.5 |
| 2013 | 11.5% | 6.6 |

same years?

15.2 For each year in Figure 3.11, what were the two most prominent factors causing the observed variances?

**16.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 3, p. 3-24 and Exhibit E.0, p. 8**
**Loss Costs - BI Frequency Trend Assumptions**

"Required premium is calculated using a discounted cash flow method." [Ch. 3, p. 3-24]

"Other future events may impact claims costs in the 2013 policy year, but are not yet fully defined or committed. For example, the statutory discount rates that are used to calculate present value settlement amounts for future wage loss and future care settlements are currently under review by BC's chief justice. This review may result in a reduction to the discount rates applied to lump sum settlements, and a corresponding increase in the cost of claims involving future wage loss or future care amounts. Although ICBC is concerned about the potential cost to policyholders from such a change, it would be speculative to include prospective adjustments for this event before there is a reasonable degree of clarity around the likely timing of implementing changes, or the new rates that will be in force." [Exhibit E.0, p. 8]

16.1 Please confirm the New Money Rate (as defined on page 5-3) was the discount rate used for all rate calculations in the Application. If not, what were the exceptions?

**17.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.1, p. 3 and Exhibit E.0, p. 7**
**Exposure Model - Impact of Road Network Improvements**

"The slowing of 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. The change in the long commute exposure trend over the past five years is concurrent with other economic related trends that ICBC has summarized in Section B of Chapter 3."

"[The BC Gateway Program] infrastructure improvements may reasonably be expected to affect traffic flow and the frequency or severity of crashes occurring on this stretch of the highway. However, the amount of analysis that would be required to estimate the savings on ICBC claims costs is beyond the scope of what ICBC would undertake with a non-ICBC project."

17.1 Does ICBC anticipate significant insurance-relevant impacts from transportation (road network) improvement projects undertaken in BC and recently completed? If so, please describe those impacts.

17.2 Does ICBC agree the exclusion of completed projects (such as Gateway) means estimates of future year loss costs are inherently overstated? If not, please explain why not?

17.3 Has ICBC analysed loss cost savings resulting from the Sea-to-Sky (Highway 99) project? If so, what impact did the project have? If not, does ICBC intend to conduct such an analysis?

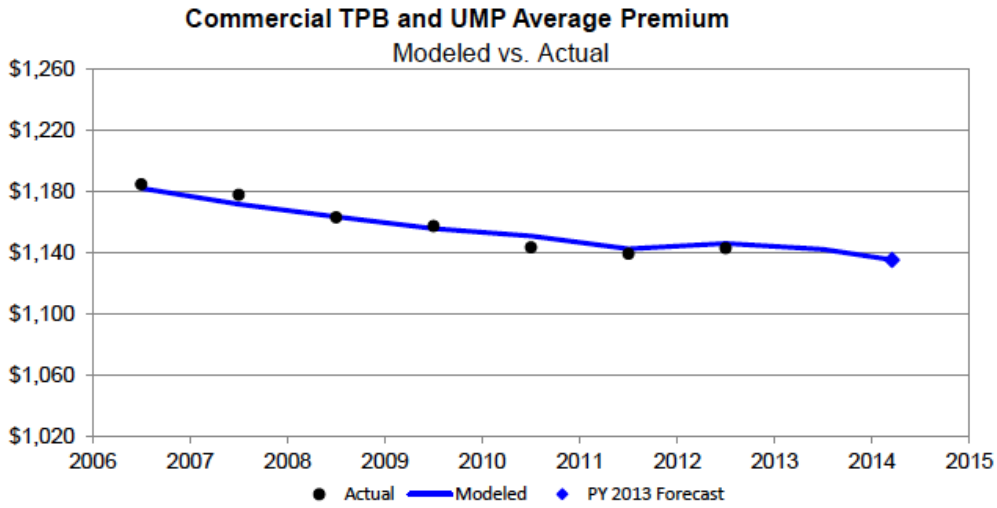
**18.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.2, p. 5**
**Average Premium - Commercial TPB and UMP Trend**

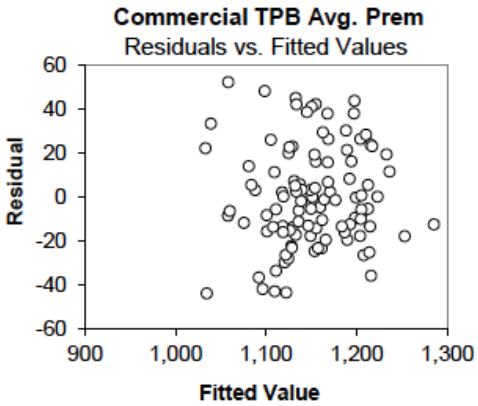
"Forecast policy year 2013 Commercial TPB and UMP combined average premium is expected to be slightly lower than 2012 due to a recently observed increase in the proportion of heavy commercial vehicles, as well as a shift into Northern territories. Since this recent trend is expected to continue and these business segments have a lower than average premium compared to the overall commercial average, ICBC expects that average premium will continue to gradually trend downward."

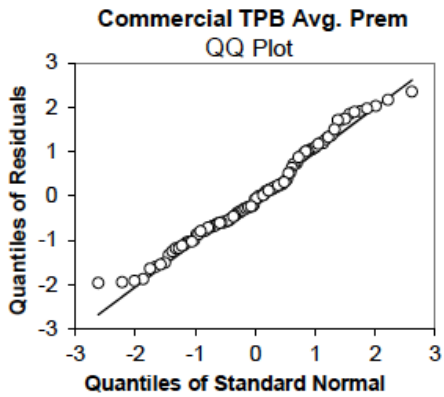
18.1 Please explain why the proportion of heavy commercial vehicles decreases the average premium.

18.2 Please explain whether heavy commercial vehicles (used by, for example, new mining operators), may be registered so as to realise discounts based on the vehicle owner (a particular person) rather than the vehicle operator (the operating company).

**19.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.2, p. 5 Average Premium - Commercial TPB & UMP - Residuals**




19.1 The QQ plot for Commercial TPB shows some deviation from standard normal in the lower left quadrant. What observation date is associated with the residual having the greatest absolute deviation?

19.2 What explains that particular deviation?

19.3 What are the dollar values for the charted figures for Commercial TPB and UMP Average Premium for the years shown?

**20.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.2, p. 5 Represented Claims - Customer Expectations as Explanation**

20.1 Has ICBC examined whether the increased use of legal representation for BI claims may be due to the way the corporation has handled claimants in the past? If so, please describe any research and its conclusions. If not, does ICBC intend to examine the possibility?

**21.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 1 Loss Statistics - Comparison to 2012 RRA**

**Figure D.1: Personal and Commercial Plate Owner Loss Statistics**

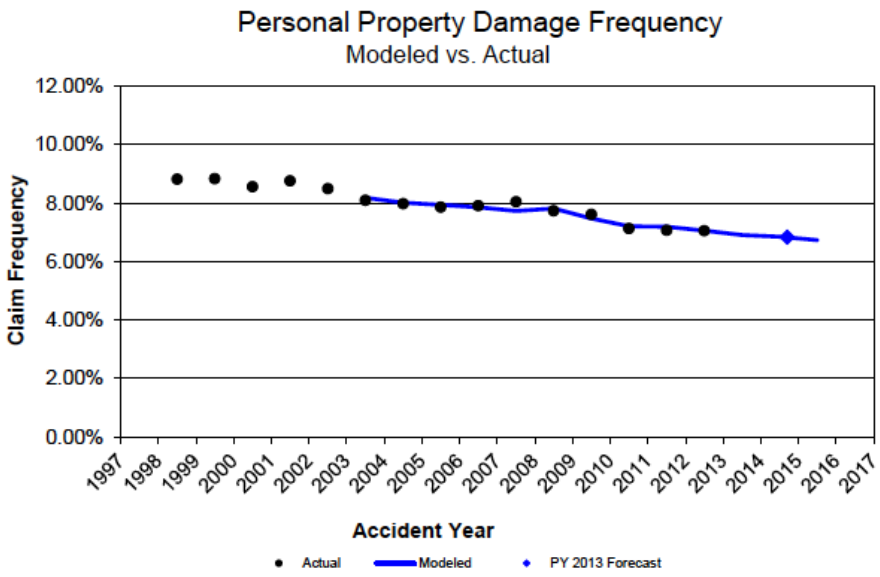
| Coverage | Personal | | Commercial | |
|---|---|---|---|---|
| | Frequency | Severity ($) | Frequency | Severity ($) |
| Bodily Injury | 1.44% | 38,312 | 1.93% | 44,567 |
| Property Damage | 6.83% | 1,770 | 9.43% | 2,869 |
| Medical Rehabilitation | 2.13% | 1,828 | 1.40% | 1,351 |
| Weekly Benefits | 0.23% | 6,055 | 0.11% | 5,409 |
| Death Benefits | 0.01% | 10,715 | 0.01% | 8,463 |

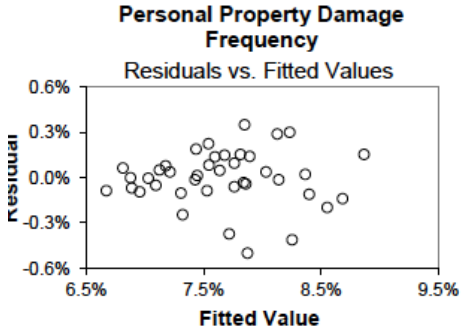
21.1 Please provide an equivalent table from the 2012 revenue requirements application.

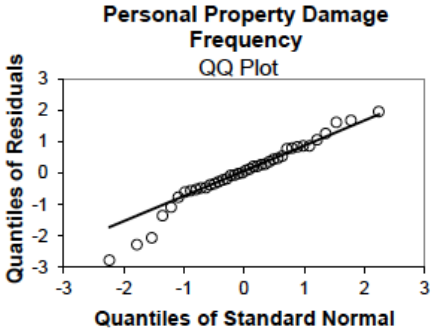
21.2 Please comment on differences between the figures from the 2012 tables and the 2013 numbers for any values having significantly changed.

21.3 Does ICBC believe WB costs are being affected by changes to laws respecting mandatory retirement? If so, explain how those changes affect the PY 2013 figures. If not, why does ICBC expect no impact on WB costs?

**22.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.2, p. 5**
**Average Premium - Commercial TPB & UMP - Residuals**



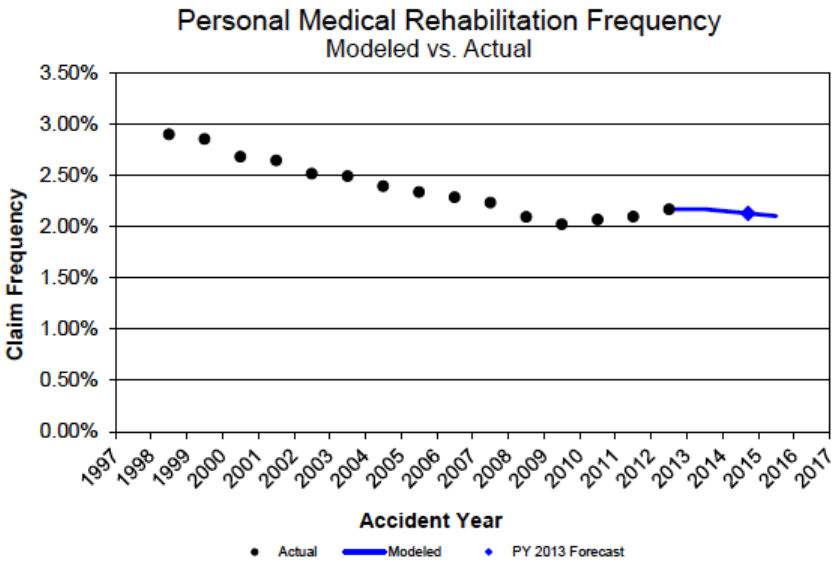




22.1 The QQ plot for Personal PD frequency show considerable residual deviation from standard normal in the lower left quadrant. Are the observations associated with these residuals mostly more dated or more recent than the other data points?

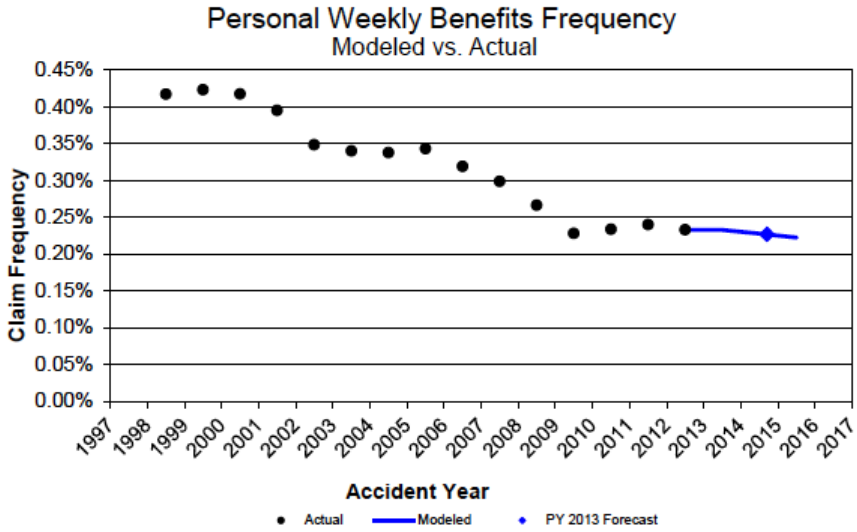
**23.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit B.0.2, p. 5**
**MR and WB Frequency - Other Insurers**

23.1 How do ICBC's observed trends for WB and MR compare to that of other North American insurers? Please cite examples.

**24.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 8 Death Benefits Frequency - Factors Affecting**




16. **Personal Weekly Benefits Frequency** – Accident year 2012 frequency was selected for the accident year 2013 frequency forecast. Half of the long-term pre-recession trend rate (1998 Q4 to 2008 Q3) was selected for accident years 2014 and later to reflect ICBC's expectation that frequency will resume a moderated downward trend.




24.1 Please explain whether ICBC changed its approach to awarding DB during the years 2004 through 2007.

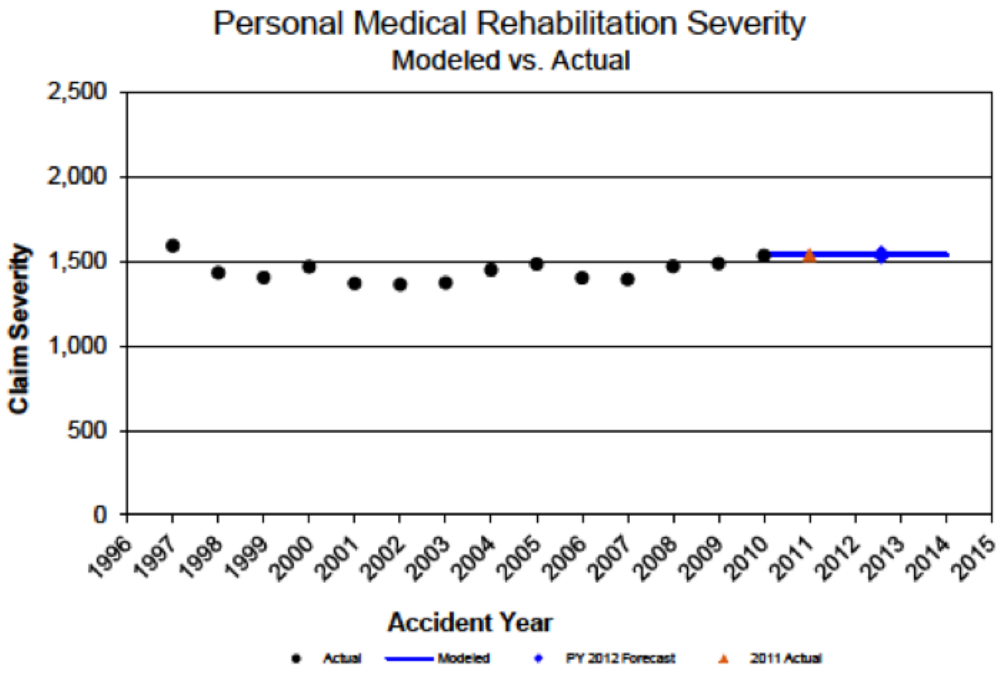
24.2 Please explain whether ICBC has observed any increase in legal representations related to DB determinations over the period 2004 through 2007.

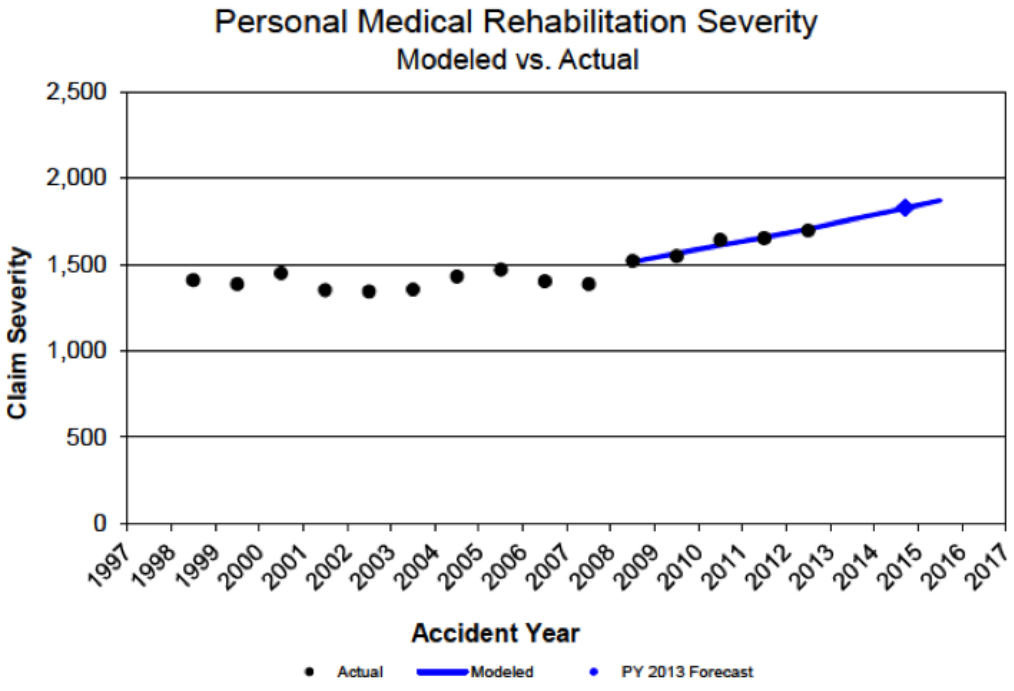
24.3 How does ICBC's DB awards frequency compare to that of other North American insurers?

**25.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 11, and Ex. B-6, 2012 Revenue Requirements Application, IR Responses Exhibit D.0, p. 11**
**MR Frequency - Factors Affecting**

25.1 The Application says that for "Personal Medical Rehabilitation Severity – a 5–year exponential trend was selected to reflect the recently emerging increasing trend."

25.2 In Exhibit B-6 of the 2012 ICBC RRA, the corporation commented that for



"Personal Medical Rehabilitation Severity – there does not appear to be a stable upward or downward trend, so a 0% trend was selected. The "modeled" value is an average of the latest 2 years (8 quarters)."

25.3 Please describe any differences between the source data used to formulate each year's model.

25.4 Please provide a table of the data points shown in each above chart

25.5 Please explain whether ICBC's MR severity cost trends are similar to other Canadian and US insurers, and give examples.

**26.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 8**
**Death Benefits Frequency - Factors Affecting**

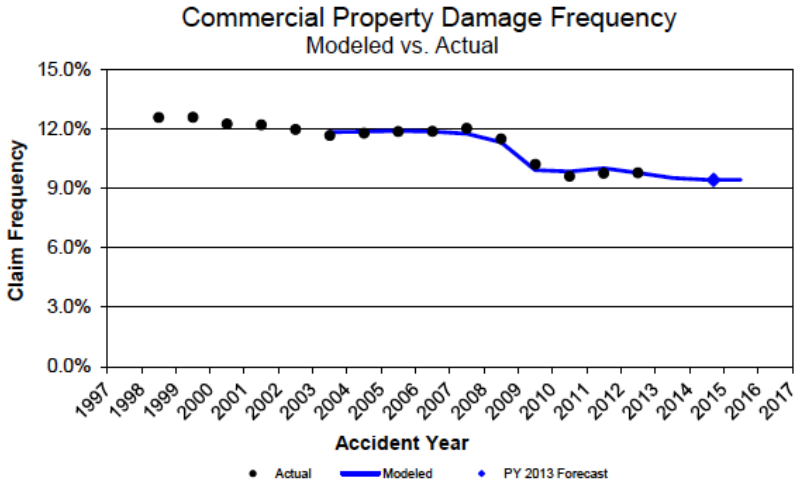
"Personal Weekly Benefits Severity – A 5–year exponential regression model was selected. The selected model has an $R^2$ value of 47% and an F statistic of 7.1. This model is significant at the 99th percentile for an F statistic of at least 4.9."

26.1 What explanatory variables were used in the model for Personal Weekly Benefits?

26.2 If weekly earnings are an explanatory variable, what directional impact on actual WB payouts have been caused by each of the following: a) unemployment linked to the recession, b) changing proportions of full time versus part time employment, and c) changes in the proportion of workforce participants over the age of 65?

**27.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 15 Commercial PD Frequency - Consistency with BC Budget**

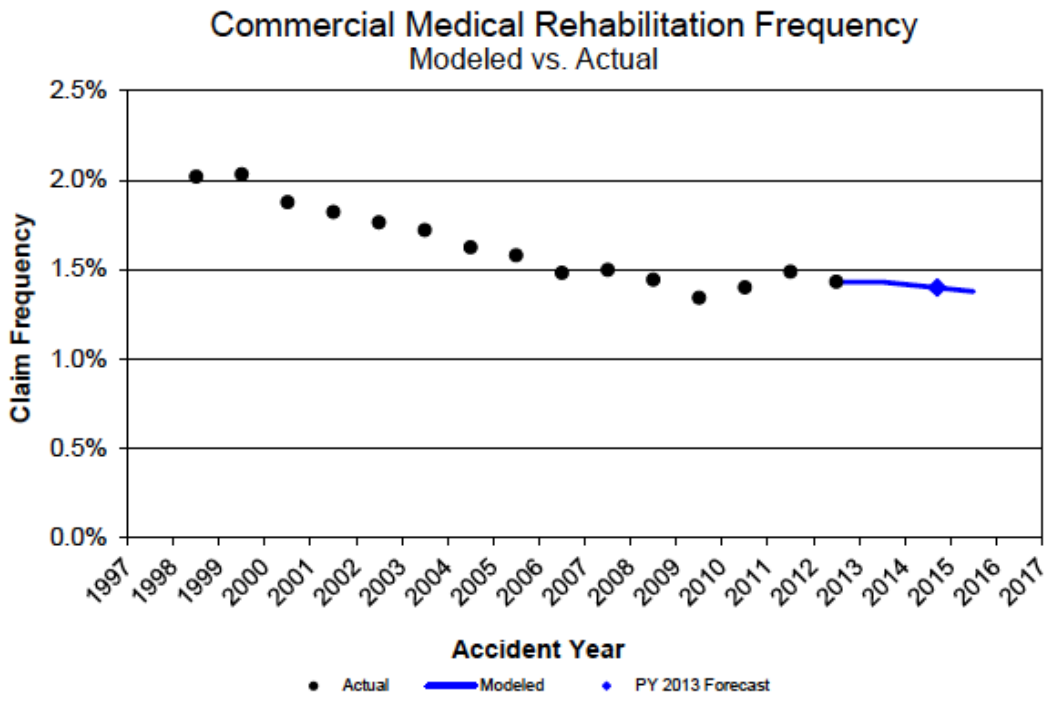
24. **Commercial Property Damage Frequency** – A 10–year econometric model was selected. The explanatory variables are decimal date, gross domestic product (GDP), and an indicator for the 2010 Olympics. The 2010 Olympics variable was included to fit a low point in the first quarter of 2010, and GDP was used to reflect the impact of the recession on Commercial travel. The selected model has an $R^2$ value of 89% and an F statistic of 48.4. This model is significant at the 99th percentile for an F statistic of at least 3.4.




27.1 The BC Budget anticipates GDP growth to 2015. How is increased GDP reflected in the Commercial PD frequency forecast?

**28.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 16 Commercial MR Frequency - Goodness-of-Fit**

25. **Commercial Medical Rehabilitation Frequency** – Using the same reasoning as Personal MR, accident year 2012 was selected for the accident year 2013 frequency forecast and half of the long–term pre-recession trend rate (1998 Q4 to 2008 Q3) was selected for the outer forecast years.




28.1 Why is there no comment on model goodness-of-fit for Commercial MR frequency?

**29.0 Reference: Ex. B-1, Revenue Requirements Application, Exhibit D.0, p. 19 Commercial BI Severity - Factors Affecting**

28. **Commercial Bodily Injury Severity** – A 15–year exponential model was selected. The selected model has an $R^2$ value of 89% and an F statistic of 129.6. This model is significant at the 99th percentile for an F statistic of at least 3.7.


29.1 What was the greatest annualised percentage increase in Commercial BI severity observed over any 2.5 year period for the data years depicted on this chart?

29.2 How does ICBC's experience with Commercial BI severity compare to that of other insurers over the period 1997 through 2012? Over the period 2009 to present?

29.3 What have ICBC investigations revealed concerning the difference in the frequency of fraud associated with commercial policies before vs. after the recession in late 2008?

**30.0 Reference: Ex. E.0, Prospective Adjustments - Territorial Factors, p. 2**

"A prospective adjustment considers the province-wide claims costs or savings arising from an event, in advance of the occurrence of the event and based on evidence, in order to produce an unbiased best estimate of claims costs for a future policy year."

30.1 Explain whether ICBC applies Territory-specific prospective adjustments, and if not, why not.

**31.0 Reference: Ex. E.0, Prospective Adjustments - In-House Counsel, p. 4**

"Greater use of in-house legal counsel on newly litigated claims is expected to generate savings in legal costs for Basic insurance of $1.9 million relating to PY 2013."

31.1 At what date did ICBC start making greater use of in-house legal counsel?

**32.0 Reference: Rate Requirements - Stable and Predictable, p. 4-1**

"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."

32.1 What does ICBC interpret "stable and predictable" to mean in this context?

32.2 What does ICBC believe are appropriate mathematical interpretations of each of "stable" and "predictable" in terms of rate changes?

**33.0 Reference: Risk Management - Volatility Risk Vs. Comparable Insurers, p. 4-7**

33.1 How much variance in the number of ICBC policies written compares to what a private insurer's number of policies would? If ICBC policies written varies less, does that mean ICBC is relatively less risky for a given MCT ratio? How has that difference been factored into required capital reserve estimates?

**34.0 Reference: Risk Management - Cost Environment, p. 4-8**

"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 a permanent and significant shift in the cost environment."

34.1 What are some examples of permanent and significant shifts that have previously occurred in ICBC's cost environment?

34.2 What are some examples of permanent and significant shifts that have been encountered by other North American auto insurers?

**35.0 Reference: Risk Management - Historical Volatility, p. 4-11**

"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."

35.1 Please show the above referenced historical results as a table of annual figures.

**36.0 Reference: Risk Management - Loss Probabilities, p. 4-12 and 4-13**

"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. If such a cumulative loss cost forecast variance were to occur under rate smoothing, the provisions under Special Direction IC2 would indeed smooth the rates, but the 20 percentage point margin would be exhausted and move the MCT ratio into the risk margin between the regulatory minimum and the 130% MCT ratio level."

36.1 What percentage point margin would be required based on the historical worst single year loss cost forecast variance in ICBC history?

36.2 What are the expected lost costs, for each of PY2013 and PY2014, at each of the following probability levels: P50, P80, and P95?

**37.0 Reference: Risk Management - MCT 150 Proposal, p. 4-14**

"ICBC is proposing a new capital management target MCT ratio of 150%, in which a higher capital maintenance provision would now be required. Similar to the situation in the current Capital Management Plan, ICBC proposes to transition to the new management target of 150% over a number of years. However, rather than using a 20 year period, ICBC is proposing to shorten the transition period to 10 years. This again strikes a balance between limiting the impact on customers and maintaining the financial health of Basic insurance. The estimated impact on customers from moving from a 20 year transition period to a 10 year transition period is less than $0.50 of the premium dollar."

37.1 Please explain whether ICBC believes the target MCT of 150% transfers wealth between ICBC insurees and other BC citizens. (Specifically, does a higher target MCT help to protect all taxpayers from risks that should be associated strictly with ICBC customers?)

37.2 Explain whether there are any programmatic connections between corporate performance toward reaching target MCT and compensation forthcoming to ICBC management.

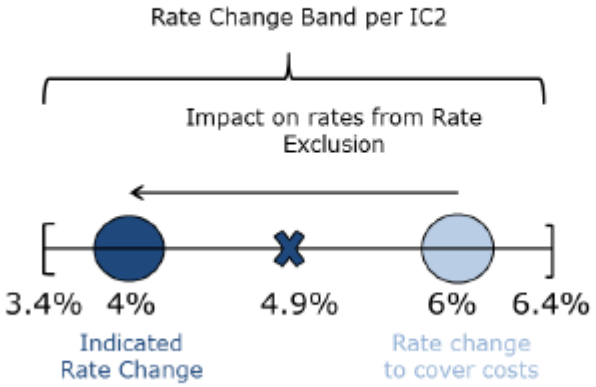
37.3 What are the annualised growth rates in real dollar claims costs over each of the last a) 10 and b) 20 years?

37.4 How has the number of policies changed over each of those time frames?

(Include any pertinent explanatory information concerning noteworthy compositional changes.)

**38.0 Reference: Risk Management - Clarification Re Sample, p. 4-16**

**Figure 4.4 – Illustration of Rate Exclusion of Full Amount of Loss Cost Forecast Variance**




38.1 Does the 4% Indicated Rate Change Figure 4.4 come from the statement in paragraph 48? If not, where does the 4% in Figure 4.4 come from?

**39.0 Reference: Risk Management - Clarification Re Example, p. 4-21 and 4-22**

"On the other hand, when there is a capital build in the indicated rate change, Figure 4.9 displays how the next year's rate change must be adjusted. The values that are presented in this Figure are for illustrative purposes only and do not reflect any internal analysis or forecast assumptions."

39.1 Paragraph 71 notes that Figure 4.9 is an illustrative example only. What would Figure 4.9 look like for 2014 if current ICBC data (i.e., those used for PY2013) are applied?

39.2 How would Figure 4.9 look for each of the next ten years using present ICBC data?

**40.0 Reference: Risk Management - MCT Forecast, p. 4-23**

40.1 Please show Figure 4.10 data as tabulated figures.

40.2 Please show a similar table to the previous question, but with MCT calculated at present rates.

**41.0 Reference: Risk Management - Customer Renewal Credit Expectations, p. 4-24**

41.1 Given existing information, what probability is there of a CRC situation occurring in any year? What is the soonest ICBC believes a CRC could be available?

**42.0 Reference: Investments - Correlation With Loss Costs, p. 5-3**

42.1 What is the historical correlation between ICBC accident year loss costs and the real estate portfolio investment values?

**43.0 Reference: Investments - Bank Forecast Weighting, p. 5-5**

**Figure 5.5 – Annual Forecasts for Canadian CPI (%) from the Multi-Dealer Survey in Appendix 5 A**

| Contributor | Q2/2014 |
|---|---|
| Scotiabank | 1.80 |
| Bank of Montreal | 1.80 |
| National Bank | 1.56 |
| TD Bank | 1.70 |
| Royal Bank | 2.00 |
| Laurentian Bank of Canada | 1.60 |
| Average | 1.74 |

43.1 Did ICBC research the historical performance of each bank's CPI forecast? If so, how does each rate in terms of accuracy?

**44.0 Reference: Investments - Basic Yield Vs. Rate Indication, p. 5-6**

**Figure 5.7 – Calculation of the Yield on Basic Equity for the 2013 Policy Year as at June 30, 2013**

| | Current Weightings | | Formula for Yield | Actual Yields | Weighted Yields |
|---|---|---|---|---|---|
| | 1.3% | x | Current Money Market Yield at Cost | 1.02% | 0.01% |
| + | 62.4% | x | Current Canadian Bond Yield at Market | 1.97% | 1.23% |
| + | 8.8% | x | Current Mortgage Yield at Cost | 4.52% | 0.40% |
| + | 23.5% | x | Risk-free rate + 6.4% | 3.8% + 6.4% | 2.40% |
| + | 4.1% | x | Current Real Estate Yield at Cost | 7.51% | 0.31% |
| - | | | Fees for Managing Investment Portfolio | | 0.09% |
| **Yield on Basic Equity for the 2013 Policy Year[5]** | | | | | **4.25%** |

44.1 Further to Figure 3.16, what is the impact on rate indication from a one percent change in Yield on Basic Equity?

**Figure 3.16 – Sensitivity Analysis**

| Line No. | Scenario | Impact on Rate Indication |
|---|---|---|
| 1 | Change new money rate from 3.75% to 2.75% | + 2.7 ppt |
| 2 | Change new money rate from 3.75% to 4.75% | - 2.6 ppt |
| 3 | Increase annual future severity trend by 1 ppt | + 2.1 ppt |
| 4 | Decrease annual future severity trend by 1 ppt | - 2.1 ppt |
| 5 | Increase ratio of ULAE to Loss and ALAE by 1 ppt | + 1.0 ppt |
| 6 | Decrease ratio of ULAE to Loss and ALAE by 1 ppt | - 1.0 ppt |
| 7 | Increase average premium trend by 0.1 ppt | - 0.4 ppt |
| 8 | Decrease average premium trend by 0.1 ppt | + 0.4 ppt |
| 9 | Increase BI annual future severity trend by 1 ppt | + 1.5 ppt |
| 10 | Increase BI annual future frequency trend by 1 ppt | + 1.6 ppt |
| Here "ppt" stands for "percentage point(s)" | | |

**Notes:**
**Items 1 and 2** examine the impact of changing the discount rate used in the Discounted Cash Flow method by ±1 percentage point.
**Items 3 and 4** compute the impact of adding ±1 percentage point, respectively, to the severity trend projection for each year starting in 2013.
**Items 5 and 6** compute the impact of adding ±1 percentage point to the estimated ratio of ULAE to loss and ALAE.
**Items 7 and 8** compute the impact of adding ± 0.1 percentage points to the estimated average premium trend.
**Items 9 and 10** compute the impact of adding +1 percentage point to the trend projection for severity and frequency, respectively, for each year starting in 2013.

**45.0 Reference: Represented Claims - Cost Of And Causative Factors, p. 6-2**

"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. As summarized below, ICBC has already implemented several initiatives to help to address cost pressures associated with represented claims, and further analysis is being undertaken."

45.1 Please show a table of the number of represented claims by claim category (e.g., Medical Rehabilitation, Bodily Injury) for the most recent 12 month period. Please include figures for the number of cases settled prior to trial, and for those going to trial, show the number heard by each applicable Court.

45.2 Please explain the extent to which ICBC retains counsel for actions heard via Small Claims Court.

45.3 What evidence does ICBC have regarding the extent to which insurees have expressed frustration with the corporation on initial settlement offers, claims denial frequencies, and similar potential relationship factors?

45.4 Please describe any research ICBC has conducted to specifically investigate why customers are increasingly opting for legal representation for BI claims.

45.5 Do current ICBC customer satisfaction research surveys provide any general information (qualitative or quantitative) on insurees' injury claims experiences with ICBC?

**46.0 Reference: Transformation Program - Measuring Impacts, p. 6-3**

"New systems and business processes are being implemented through the Transformation Program (TP), the costs for which are borne by ICBC's Optional insurance business as required by the Government Directive regarding TP. Transformation of ICBC's claims systems is a key priority for ICBC. Renewing the claims systems and business model is expected to improve the efficiency and effectiveness of claims handling, and improve the data and business indicators available to ICBC to appropriately manage claims costs."

46.1 How will ICBC measure efficiency and effectiveness improvements resulting from Transformation?

46.2 What specific business indicators will provide management with timely feedback on TP?

**47.0 Reference: Represented Claims - Factors Influencing, p. 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."

47.1 Please provide a table showing how the average severity (for each of Bodily Injury, Property Damage, Accident Benefits, Medical Rehabilitation, Weekly Benefits, and Death Benefits) of represented claims compares to that of non-represented claims.

47.2 Please provide a table showing how the minimum severity of represented claims in each category compares to that of non-represented claims.

**48.0 Reference: Ex. B-1, Revenue Requirements Application, Ch. 6, p. 6-7 Customer Experience – Earlier Payments**

"Improving interactions with injured customers, timely treatment, and timely and appropriate settlement offers are important elements of ICBC's response to factors affecting bodily injury claims costs. A recent example is ICBC's increased emphasis on streamlined processes for determining coverage and payment of accident benefits using dedicated adjusters. This helps employees to focus on customers' immediate needs and assists customers in better understanding the claims process, thereby helping to avoid unnecessary delays and litigation. It also supports timely access to treatments to help injured customers get appropriate treatment so that they can return to their daily lives and to work. While these changes result in higher and earlier payments for accident benefits (see Chapter 3), they could help 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."

48.1 Please describe any ICBC research findings to date on customer reaction to ICBC's streamlined processes for determining and payment of accident benefits.

48.2 Does ICBC have the means to determine instances wherein customers feel pressured into accepting proposed settlements? If so, in what proportion of cases does that occur?

48.3 How quickly do ICBC claimants return to work compared to injured parties covered by other North American insurers?

**49.0 Reference: Corporate Operating Expenses - Reasons For Savings, p. 7-6**

"Figure 7.1 demonstrates that ICBC has reduced 2013 forecast costs by more than $50 million as compared to its 2011 original plan…The 2011 operating expense ($630

million) shown in Figure 7.1 was the original plan amount as reflected in the 2011-2013 Service Plan. In comparing the 2013 forecast ($579 million) to the original 2011 plan ($630 million), ICBC achieved more than $50 million in operating expense reduction through:

- Staffing strategies (e.g., vacancy management, reduction of positions, corporate restructure, centralization of functions) resulting in overall lower compensation costs, approximately $29 million.
- Strategic prioritization and management of project scope/spending, approximately $10 million.
- Lower expenditures under government initiatives and unique items, approximately $4 million.
- Detailed budget reviews and discretionary spending cost containment, approximately $18 million.
- Offset by higher depreciation and computer costs, approximately $10 million."

49.1 For each of the listed expense reductions, explain whether they relate to items addressed in the recommendations made in the Ministry of Finance "Review of Insurance Corporation of British Columbia" Report.

**50.0 Reference: Compensation - Stip Program, p. 7-12**

"Bonuses paid to management have been generous with easily met criteria resulting in almost all staff receiving them." [A2-9, Ministry of Finance Review, p. 4]

The Application does not mention the STIP program.

50.1 As part of the $8 million forecast compensation reduction, has ICBC re-structured STIP? If so, what changes have been made?

50.2 If not, does ICBC believe STIP is not part of the bonuses referred to in the Audit Report? If so, what other incentive compensation program does ICBC believe the Audit Report was referring to, how has it changed, and where is this described in the Application?

50.3 Explain whether ICBC considers that linking bonus compensation to external metrics of corporate performance (e.g., the Ministry Audit Report) would reduce potential criticisms of corporate conduct.

**51.0 Reference: Compensation – Bonuses, pp. 7-15 and 7-16**

51.1 How has the percentage of employees expected to earn bonuses changed from 2010?

51.2 How has the total potential bonus expense changed from 2012?

## 52.0 Reference: Compensation - Exhibit Data, p. 7-14 and 7-19

52.1 Please explain the differences between the amounts shown in the lines from Figure 7.4 "Employee Compensation" and Figure 7.6 "Compensation for Average Compensation Calculation" for the years 2011 through 2013.

**Figure 7.4 – Compensation by Employee Group**

| Employee Group | ($ millions) | | | | |
|---|---|---|---|---|---|
| | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Forecast |
| Bargaining Unit | $ 275 | $ 273 | $ 268 | $ 269 | $ 276 |
| Management and Confidential | 124 | 135 | 141 | 145 | 131 |
| **Employee Compensation** | **$ 399** | **$ 408** | **$ 409** | **$ 414** | **$ 407** |
| Charged to Projects[10] | (10) | (6) | (8) | (15) | (16) |
| **Net Compensation** | **$ 389** | **$ 402** | **$ 401** | **$ 399** | **$ 391** |

**Figure 7.6 – Average Compensation for ICBC FTEs**

| | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Forecast |
|---|---|---|---|---|---|
| Employee Compensation* (from Figure 7.4) ($ millions) | $ 399 | $ 408 | $ 409 | $ 414 | $ 407 |
| Minus: Capitalized Labour for TP | - | - | (5) | (10) | (13) |
| **Compensation for Average Compensation Calculation**** | **$ 399** | **$ 408** | **$ 404** | **$ 404** | **$ 394** |
| Total ICBC FTEs (from Figure 7.5) | 4,981 | 4,929 | 4,986 | 4,876 | 4,734 |
| **Average Compensation for ICBC FTEs***** | **$ 80,104** | **$ 82,775** | **$ 81,027** | **$ 82,855** | **$ 83,228** |
| Change since 2009 - $ and % | | | | | $3,124<br>3.9% |
| Average increase over four-year period - $ and % | | | | | $781<br>1.0% |

* Employee compensation reflects salaries, benefits, and performance-based incentive pay.
** In order to facilitate the calculation of average compensation for ICBC FTEs engaged in core operations, capitalized labour for TP must be excluded from the overall employee compensation amount.
*** Average compensation for ICBC FTEs is calculated using dollar amounts in the millions, as shown in this Figure.

**53.0 Reference: Compensation - Bonus Structure, p. 7-20**

"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.

"The 2013 forecast reflects an adjustment to performance-based incentive budgets for both groups of ICBC employees, an increase of approximately $2 million from 2012 actual results. 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. The performance-based incentive budgets have been reset to the 2013 target payout amounts, based on the assumption that performance targets will be met for both Bargaining Unit and Management and Confidential employees."

53.1 What were the respective payouts for each employee group (Bargaining Unit and Management & Confidential) for each of 2011 and 2012?

53.2 What are the expected respective payouts for each employee group for 2013?

53.3 Please describe the bases for the respective payout schemes. In particular, explain whether applicable payouts depend on achieving a minimum threshold performance for a group, division, or at the corporate level, or on variance between forecast and actual results not exceeding prescribed minima.

**54.0 Reference: Represented Claims - Factors Influencing, p. 7-23**

**Figure 7.8 – Span of Control**

| Division | Managers with Staff to Total Employees | | | | |
|---|---|---|---|---|---|
| | 2009 Actual | 2010 Actual | 2011 Actual | 2012 Actual | 2013 Forecast |
| Claims | 1:9 | 1:9 | 1:8 | 1:8 | 1:9 |
| Insurance and Driver Licensing | 1:13 | 1:12 | 1:11 | 1:11 | 1:12 |
| Support Divisions | 1:7 | 1:7 | 1:6 | 1:6 | 1:7 |
| **ICBC - Managers with Staff to Total Employees** | **1:9** | **1:9** | **1:8** | **1:8** | **1:9** |

70. A commonly accepted span of control reporting practice is measuring the total number of employees reporting to, or supported by, each manager (i.e., ratio of managers to all employees reporting to managers). This is not an FTE ratio between Bargaining Unit employees and Management and Confidential employees. ICBC's general principle is to maximize span of control. Changes in ICBC's span of control are predominantly due to the nature of work, business requirements, and operational needs which vary by division, across the entire organization. These changes are meant to address immediate business needs, including risk management and mitigation, customer service and operational oversight, and increased complexity of operations.

54.1 How has the ratio of FTEs per claim changed since 2003?

54.2 Does ICBC think that ratio may have affected the proportion of legal represented cases?

**55.0 Reference: Expense Forecasts - Historical Performance, p. 7B-1**

1. Figure 7B.1 sets out the annual forecast versus actual variances for 2008 to 2012. The data demonstrates that ICBC has consistently operated within forecast in each of the five historical years. Specifically in 2011 and 2012 the favourable variance between forecast and actual operating expenses is a consequence of ICBC's intensive effort to manage and control operating expenses in order to minimize pressures on Basic insurance rates and in response to the 2012 Government Review recommendations.

**Figure 7B.1 – Corporate Operating Expenses Excluding TP**

| ($ millions) | 2008[1] (CGAAP) | 2009[1] (CGAAP) | 2010[1] (CGAAP) | 2010[2] (IFRS) | 2011[2] (IFRS) | 2012[2] (IFRS) |
|---|---|---|---|---|---|---|
| Forecast | $ 552 | $ 573 | $ 592 | $ 606 | $ 630 | $ 615 |
| Revised Forecast[3] | - | - | - | - | $ 594 | $ 605 |
| Actual | $ 537 | $ 560 | $ 575 | $ 589 | $ 584 | $ 591 |
| $ Change Higher/(Lower) | $ (15) | $ (13) | $ (17) | $ (17) | $ (10) | $ (14) |
| % Change Higher/(Lower) | (2.7%) | (2.3%) | (2.9%) | (2.8%) | (1.7%) | (2.3%) |

55.1 Given the presented figures, why should it not be concluded that ICBC's forecasts are upwardly biased?

55.2 Are these same forecasts used as the basis for determining incentive-based

compensation? If so, please explain which incentive programs they are related to, and how they are used.

**56.0 Reference: Span Of Control - Other Insurers, p. 7C-13**

"ICBC's general principle is to maximize span of control in accordance to the guidelines to ICBC's Organization Design Policy4 which sets out factors to be taken into consideration when assessing appropriate span of control. Changes in ICBC's span of control are predominantly due to the nature of work, business requirements, and operational needs which vary by division, across the entire organization. These changes are meant to address immediate business needs, including risk management and mitigation, customer service and operational oversight, and increased complexity of operations."

56.1 Explain whether there is insurance industry research into the optimum span of control for an insurer such as ICBC, and what that optimum span of control is.

**57.0 Reference: Performance - Customer Feedback – Seniors, p. 7F-2**

57.1 Please identify and describe the 3 issues Seniors raised most frequently in responses to ICBC customer surveys over the years 2009 to 2012.

**58.0 Reference: Performance - Cots Impact -**

"Under TP, ICBC has begun moving forward with transformational changes to replace many of its legacy insurance systems with COTS technology. The new technology will allow ICBC to automate a number of manual processes that are currently undertaken by brokers and that adds to their overhead. ICBC is also looking at new tools that will enable brokers to interact more effectively with customers, and in formats that increase their productivity."

58.1 Will COTS impact transaction processing time for brokers, and if so, how will the average transaction time be affected?

58.2 Concerning "overhead," aside from processing time, what other advantageous impacts does ICBC anticipate due to COTS?

**59.0 Reference: Broker Agreements - Economic Value, p. 7F-9**

59.1 What is ICBC's estimate of an Agreement's economic value to a broker?

**60.0 Reference: Performance - Market Share**

60.1 Please describe the correlation between the customer satisfaction survey scores and ICBC"s share of the Optional insurance coverage market. Please show applicable annual data in a table and include the years 2003 through 2012 to the extent possible.

**61.0 Reference: Broker Commissions - Future Rates & Fees, p. 7F-11**

"In March 2012, ICBC entered into a Strategic Accord (the Accord) with IBABC and

CUISA that is in effect until 2020. The Accord contemplates that ICBC is undertaking significant transformational system changes and that the Autoplan Agency Agreement may require modification or replacement in order to consider new models of interaction with customers."

61.1 Does the Accord commit ICBC to specific commission rates or fees to 2020? If so, what are those rates and/or fees?

**62.0 Reference: Future System Changes – p. 7F-12**

"One of the major projects is the replacement of its legacy insurance policy administration system with contemporary COTS technology."

62.1 Explain whether the investment in COTS will allow ICBC to implement "Flat Fees" for Non-Insurance Costs (as per Commission Order G-155-08).

**63.0 Reference: Represented Claims - Customer Satisfaction p. 9-8**

"The Legal Representation Rate is the ratio of newly represented bodily injury exposures in the current year, regardless of the year of loss, to the number of newly opened bodily injury exposures in the same year. The Legal Representation Rate reflects the number of claimants who choose to retain counsel to represent them. 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."

63.1 Does ICBC agree that this method may understate the actual probability of legal representation in the test year since the tendency to retail counsel has been increasing?

63.2 Does ICBC agree that the legal representation rate may overstate the satisfaction level, as the result of the above, and because customers may not choose to retain counsel because of concerns over ability to pay? If not, explain why not.

**64.0 Reference: Represented Claims - Territory and Age**

64.1 To what extent does the legal representation rate vary based on a) Territory and b) Senior category?

**65.0 Reference: Performance - Customer Feedback, p. 9-9**

"The number of complaints received by the Fairness Commissioner has always been very small relative to the over 6 million transactions completed annually by ICBC. The number of files received and closed by the Fairness Commissioner in 2012 was 221, which compared to 2011 of 154. 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."

65.1 What 3 issues are most frequently raised by those using the Fairness Commissioner's webpage at icbc.com?

**66.0 Reference: Broker Commissions - Management Incentives, p. 9-11**

"Basic Commissions Ratio is dependent on the number of new and renewal policies for Basic insurance as the commissions paid to brokers are on a fee per policy basis. ICBC has an agreement with its broker partners detailing the fee and broker compensation criteria for the period of the agreement. The Basic Commissions Ratio increased to 2.6% in 2011 primarily due to higher fees as a result of the agreement with ICBC's broker partners. In 2012, commissions were higher than the prior year. However, this ratio improved slightly, to 2.5%, mainly due to higher premiums earned. The 2013 Basic Commissions Ratio target, at 2.4%, reflects higher commissions (numerator) offset by slightly higher premiums earned (denominator)."

66.1 Please explain whether there is any connection between the broker commission rate and ICBC incentive payouts to management. Are they related, and if so, how?

**67.0 Reference: Broker Commissions – Historical, p. 9-16**

"ICBC establishes broker commissions on an annual basis. The commission cost per policy has evolved as commissions in 2011 increased by $2 per policy from 2010, and in 2012 increased by another $2 per policy from 2011. The 2013 forecast reflects an expected increase of $1 per policy."

67.1 Please show a table of broker commissions per policy for each year since 2003 (using a 3 significant figure format.)