C11-6

ICBC makes changes to basic and optional rates

Average impact of less than a dollar a month for vast majority of customers

August 30, 2013

ICBC will file a basic insurance rate application with the British Columbia Utilities Commission (BCUC) today. If the application is approved, the average impact on the vast majority of customers will be less than a dollar a month when combined with changes to ICBC's optional insurance rates.

The basic insurance rate application will ask BCUC to approve a 4.9 per cent increase to basic insurance rates, effective November 1 on an interim basis. BCUC's full review of the basic insurance rate application will likely not be complete until a later date.

ICBC will also be lowering its optional rates by 4 per cent, also effective November 1, which will lessen the impact on customers. About 80 per cent of customers – those who purchase their full personal vehicle insurance coverage with ICBC – will see a combined average increase of about $11 a year or 92¢ per month.

The pressure on basic insurance rates is coming from bodily injury claims costs, which cover payouts for pain and suffering, future care and loss of wages. ICBC's bodily injury claims costs totalled $1.9 billion in 2012 – up by more than $165 million from the previous year and more than $400 million from just five years ago. The majority of these payments are made under ICBC's basic insurance coverage.

"For the last few years we've seen our injury claims costs increase substantially which has put a great deal of pressure on basic insurance rates," said Mark Blucher, ICBC's interim president and CEO. "While we need to file for a rate change, we're very aware of the daily financial pressures our customers are facing so we

have done everything we can to keep this increase to a minimum."

The rising number and cost of injury claims is commonly the biggest single factor driving rates for all auto insurers across North America and beyond. While many external factors are driving these increases, ICBC is continuing to look for ways to help stem the current sharp upward trend.

"We believe the most effective way to address the issue is to focus on helping our customers get access to medical treatments and we're making several improvements to help achieve this," said Blucher. "We're also continuing to invest in road safety programs to help make our roads safer and to prevent crashes from happening in the first place."

Despite the fact that ICBC's administrative costs have always been low compared to the industry average, there have also been a number of changes in recent months to aggressively reduce these costs even further. Most prominently, in late 2012, ICBC reduced its workforce by more than 260 positions – most of which came from management ranks.

"We don't think it would be right to be asking our customers for even a single dollar more per year if we hadn't already done what we could to cut back on our own costs," said Blucher. "With our staffing reductions and a heightened focus on cost efficiencies throughout the company, we have reduced our operating budget by $50 million."

ICBC's prudent management of administrative costs, along with the continued decline in auto crime in B.C., are both playing a role in helping to reduce optional insurance rates.

Beyond the need for a rate change in 2013, ICBC has implemented a new framework to help prevent year-to-year volatility in insurance rates. Going forward, any changes to basic insurance rates will be limited to within plus-or-minus 1.5 percentage points of the prior year's rate change.

"We know our customers' main concern is in how much they pay for their insurance and we hope this new approach to setting our rates will help make our rates more predictable," said Blucher. "Without this kind of forward-looking framework, we would be required to apply for a higher rate increase this year."

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Insurance consultation and engagement

ICBC Basic Vehicle Insurance Rating System 2012 Consultation and Engagement

ICBC is working on updating the way we set premiums for Basic auto insurance — the mandatory coverage that all B.C. drivers must have. Our customers have told us they think the system would be fairer if lower-risk drivers paid less and higher-risk drivers paid more.

From May 14 to June 22, 2012, we conducted a province-wide consultation and engagement process to share information with our customers and stakeholders about the changes under consideration, and to seek feedback on options for a fairer and more driver-based system.

Thank you to everyone who participated online or by attending public meetings. Your valuable feedback will help us make the most reasonable recommendations to the British Columbia Utilities Commission, which has the final say in the best interests of British Columbians.

ICBC Basic Vehicle Insurance Rating System

2012 Consultation and Engagement
Discussion Guide and Feedback Form

May 14 – June 22, 2012

Have your say about potential options to create a fairer Basic vehicle insurance rating system where lower-risk drivers pay less and higher-risk drivers pay more.

building trust. driving confidence.

ICBC

Have your say!
publicengagement.icbc.com

Feedback

How can I participate in the consultation and engagement process?

We invite you to provide feedback through any of the following consultation and engagement opportunities:

- Discussion Guide and Feedback Form
- Public Open Houses
- Stakeholder Meetings
- Online Feedback Form
- Written Submissions by Email or Mail
- Online Forum
- Webinar

The deadline to submit feedback on the Basic vehicle insurance rating system is June 22, 2012. To submit your feedback online or for more information, please visit **publicengagement.icbc.com**.

How will feedback be used?

The Insurance Corporation of British Columbia (ICBC) is updating the way it sets premiums for Basic vehicle insurance coverage to create a fairer system where lower-risk drivers pay less and higher-risk drivers pay more. Your feedback will help us make the most reasonable recommendations to our regulator, the British Columbia Utilities Commission, which has the final say in the best interests of British Columbians.

Open house schedule

ICBC wants to hear from British Columbians as it considers changes regarding proposals for key elements of a fairer and more driver-based system. To have your say, attend a **public open house** in a community near you.

OPEN HOUSE SCHEDULE			
Vancouver	Tuesday, May 22	6:00 – 9:00 pm	SFU Vancouver Segal Graduate School of Business
Kamloops	Wednesday, May 23	6:00 – 9:00 pm	Hotel 540
Kelowna	Thursday, May 24	6:00 – 9:00 pm	Ramada Hotel & Conference Centre Kelowna
Prince George	Tuesday, May 29	6:00 – 9:00 pm	Ramada Hotel Downtown Prince George
Fort St. John	Wednesday, May 30	6:00 – 9:00 pm	Quality Inn Northern Grand Hotel
Surrey	Thursday, May 31	6:00 – 9:00 pm	Sheraton Vancouver Guildford Hotel
Richmond	Tuesday, June 5	6:00 – 9:00 pm	Executive Airport Plaza Hotel
Abbotsford	Wednesday, June 6	6:00 – 9:00 pm	Ramada Plaza & Conference Centre
Prince Rupert	Tuesday, June 12	6:00 – 9:00 pm	Crest Hotel
Victoria	Wednesday, June 13	6:00 – 9:00 pm	Hotel Grand Pacific
Nanaimo	Thursday, June 14	6:00 – 9:00 pm	Coast Bastion Inn
Cranbrook	Tuesday, June 19	6:00 – 9:00 pm	Prestige Rocky Mountain Resort

Table of contents

Consultation and engagement topics

What is the purpose of the consultation?

ICBC is updating the way it sets premiums for Basic vehicle insurance coverage.[1] Our customers have told us they think the system would be fairer if lower-risk drivers paid less for their vehicle insurance, and higher-risk drivers paid more. We agree. To do this, we need to change the structure of our premiums so we can clearly identify higher-risk drivers. Currently, some higher-risk drivers get the same discount as lower-risk drivers.

So, the provincial government has directed ICBC to address higher-risk drivers by making insurance premiums more reflective of risk.

ICBC has also made commitments to its regulator, the British Columbia Utilities Commission, that it will be moving to a system that more fairly recognizes driving records. This will create a fairer system that also provides an incentive for higher-risk drivers to drive more safely.

Before making any changes, however, ICBC is undertaking a province-wide consultation and engagement process to inform our customers and stakeholders about the changes under consideration, and to seek feedback on options for a fairer and more driver-based system.

Depending on your feedback in this consultation and engagement process, about two-thirds of drivers could pay less than they do today, and about one-third of drivers could pay more. Of course, any changes to the current system could be transitioned so that the new system would be implemented gradually.

The changes to Basic insurance are not anticipated to increase the total amount of revenue collected by ICBC. Rather, ICBC will redistribute insurance premiums so that lower-risk drivers would pay less, and higher-risk drivers would pay more. ICBC is working to have its new Basic vehicle insurance pricing system ready for implementation in 2014/2015. Your feedback will help us design a fairer system for our customers.

[1] Excepts for [illegible] are not part of a fleet.

About ICBC

ICBC is a provincial Crown corporation, established in 1974 to provide universal compulsory vehicle insurance to all B.C. drivers. Along with Basic insurance, we also provide driver licensing services, vehicle licensing and registration, road safety programs and optional insurance to more than 3.3 million customers. We pay out roughly $2.7 billion each year to settle almost 900,000 injury and vehicle damage claims. Customers are served throughout the province through 38 claim offices and 120 points of service, including driver licensing offices, government agent offices, a network of more than 900 independent brokers, and our 24/7 Dial-a-Claim call centre.

Recent rate increase

After three years during which ICBC has been able to freeze or lower Basic insurance rates, rising claims costs in 2011 required ICBC to apply to the British Columbia Utilities Commission for a Basic insurance rate increase. That increase is not related to the consultation and engagement process regarding how high- and low-risk drivers should be assessed for Basic insurance.

As in other jurisdictions across Canada, motorists in B.C. are required by law to purchase a minimum level of Basic vehicle insurance. ICBC's Basic coverage is among the most comprehensive in the country, providing private passenger and certain commercial vehicle owners with a minimum of:

- $200,000 in third-party liability protection
- $150,000 for no-fault medical and rehabilitation costs
- $1 million of underinsured motorist protection

As the sole provider of this coverage, ICBC is regulated by the British Columbia Utilities Commission, which is responsible for approving rate changes to Basic insurance and ensuring that British Columbians are paying fair, just and reasonable rates.

ICBC Basic premiums are subject to approval by the British Columbia Utilities Commission, and unlike drivers in provinces that legislate caps or deductibles on pain-and-suffering awards, British Columbians are entitled to take at-fault parties to court in an effort to recover any damages they suffer.

ICBC also offers taxpayer benefits through the provision of vehicle and drivers' licensing services that are a direct cost to government in other jurisdictions.

Universal, accessible and without discrimination: insurance for everyone

Every crash claim increases the cost of insurance for all, so if customers crash less often, their insurance company saves money – a saving that ICBC has a history of passing to its customers.

To this end, many insurance companies try to minimize their costs by only insuring lower-risk drivers. They offer steep discounts to those with the best driving record, and they set large premiums for higher-risk drivers – or refuse to insure them at all.

As a universal provider regulated by the British Columbia Utilities Commission, ICBC is mandated to offer Basic vehicle insurance to all drivers, including those whose history and behaviour make them a higher risk. This mandate creates a benefit for British Columbians. It makes Basic insurance coverage available and affordable to all drivers, which means that B.C. has a much lower than average number of uninsured drivers on the road.

In some jurisdictions, vehicle insurance is rated on the basis of such things as age, gender and marital status – for example, charging higher rates to some young male drivers who are statistically a high risk. Again, as a regulated universal provider, ICBC is prohibited by provincial law from using personal characteristics such as age and gender in setting its rates. In fact, as a matter of provincial policy, ICBC provides affordable rates to new drivers and a 25% discount for seniors and disabled persons.

Given the responsibility of providing universal, accessible and non-discriminatory Basic vehicle insurance, ICBC has a vested interest in representing every driver and in trying to prevent as many crashes as possible. That's why ICBC invests approximately $45 million a year in road safety measures and programs that save lives and reduce costs.

ICBC's operating costs continue to remain low compared to the industry average, with approximately five cents of every premium dollar used for administrative costs.

Basic vehicle insurance coverage

The minimum insurance protection any vehicle must carry to legally operate in B.C.:

- **Third-Party Liability** – If you are at fault in an accident and if anyone is injured or their vehicle is damaged, you are liable and responsible for the bill. Basic insurance pays up to $200,000 for this liability to these "third parties".
- **Accident Benefits** – Covers medical expenses, rehabilitation costs and lost earnings resulting from a crash, regardless of fault.
- **Underinsured Motorist Protection** – Covers you (up to a maximum of $1 million) after a crash in which an at-fault driver does not have enough coverage to pay your costs.
- **Protection Against Hit-and-Run and Uninsured Motorists** – Covers you and your property for damage inflicted by hit-and-run or uninsured drivers.

Optional vehicle insurance coverage

ICBC competes with other insurance companies in the delivery of Optional coverage. This coverage includes such things as:

- **Third-Party Liability Over $200,000** – You can elect to protect yourself against claims where you are at fault when damages to injured parties or property exceed the Basic coverage maximum.
- **Collision** – Covers damage to your own vehicle.
- **Comprehensive** – Covers such things as windshield damage or theft from the vehicle.

Pricing for Optional coverage is not the subject of this consultation and engagement process.

	Claim-Rated Scale Level	Basic Insurance Surcharges and Discounts	At-Fault Crash Move up:
Surcharge levels	+10	205%	6 steps
	+9	165%	6 steps
	+8	130%	6 steps
	+7	100%	6 steps
	+6	75%	6 steps
	+5	55%	6 steps
	+4	40%	6 steps
	+3	30%	6 steps
	+2	20%	6 steps
	+1	10%	6 steps
	0	Base Rate	6 steps
Discount levels	-1	5%	6 steps
	-2	10%	6 steps
	-3	15%	6 steps
	-4	20%	5 steps
	-5	25%	5 steps
	-6	30%	5 steps
	-7	35%	5 steps
	-8	40%	5 steps
	-9	43%	4 steps
	-10	43%	4 steps
	-11	43%	4 steps
	-12	43%	4 steps
	-13	43%	4 steps
	-14	43%	4 steps
	-15	43%	3 steps
	-16	43%	3 steps
	-17	43%	3 steps
	-18	43%	3 steps
	-19	43%	3 steps
	-20	43%	3 steps

example

example

example

Current claim-rated scale

Crash less; pay less
Crash more; pay more

ICBC has heard from many customers that people who are more likely to cause crashes should pay higher insurance premiums and people who are less likely to crash should pay less.

However, that's not always what happens today. The current system rewards vehicle owners who have gone long periods of time without being responsible for a crash (see table). But under some circumstances, the current system allows some people to keep their maximum basic premium discount even after they have been at fault in two, and sometimes three, crashes.

For example, the current system assigns a maximum discount of 43% to every level on the claim-rated scale from 9 – 20+ years of crash-free driving.

- If a driver is at -20 and they have one crash, they move up three steps to -17 and still receive the maximum discount of 43%.
- A second crash moves the driver up another three steps to -14 and they still get the 43% discount.
- A third crash takes them to -10 and they are still eligible for ICBC's best discount of 43%.

This is unfair to those drivers who have a crash-free record.

In addition, there is also a second reason for charging higher-risk drivers a higher premium: it sends a message that there is a financial consequence to high-risk driving.

Current system – higher-risk drivers retain maximum discount

Driver A:

- 20 years of experience
- No at-fault crashes

Driver B:

- 20 years of experience
- 3 at-fault crashes

Both have a 43% discount – is this reflective of the risk these drivers represent?

The move to a driver-based system

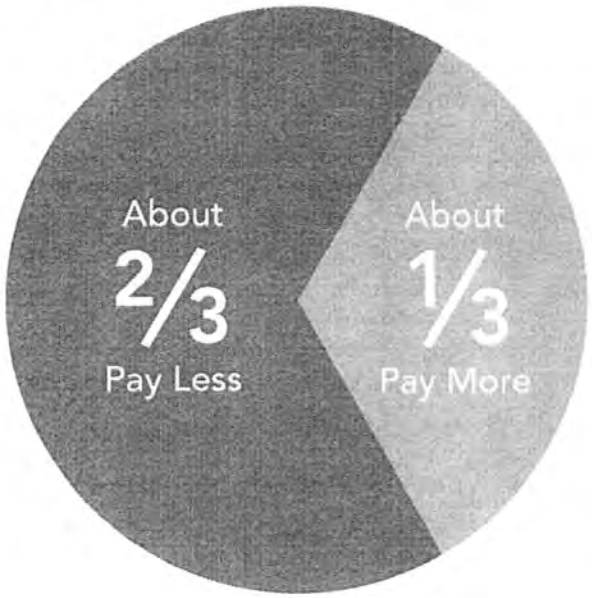
A driver-based system means that at-fault crashes would follow the driver, not the vehicle. This would result in a system that more fully recognizes both lower-risk and higher-risk driving behaviours.

One of the major barriers to moving to a system that reflects drivers' risk is the fact that ICBC's current claim-rated scale (see table on page 4) is assessed on a vehicle-by-vehicle basis. That means that a person who has had many crashes on one vehicle can insure a second vehicle and be treated as if they have never had an at-fault crash.

The obvious, fairer solution is to look at each person's full crash history and driving experience every time they insure a vehicle. It's important to note that people who own multiple vehicles and who have had at-fault crashes would pay an increased premium on all of their vehicles. Likewise, if you are a lower-risk driver with multiple vehicles, you would pay less on all of your vehicles.

Today, the maximum discount for Basic insurance is 43%. If ICBC moves to a more driver-based system, the lowest-risk customers should see an improvement in their Basic premium discounts better than the current 43% maximum discount.

With a driver-based system:



At-fault crashes

Throughout this Discussion Guide, every reference to crash refers to what ICBC calls an at-fault crash, one in which the driver was more than 25% at fault. If you are in an accident where you are 25% at fault or less, there is no impact on your premium now – and will not be under any option currently under consideration.

ICBC assesses liability in 25% increments (i.e., 25%, 50%, 75% and 100%). In more than 95% of all crashes, one driver is found to be 100% at fault – which means the other driver's premium is unaffected.

Who is low-risk? Who is high-risk?

Low-risk and high-risk drivers are not black and white categories. However, some drivers are lower risk than others. In this Discussion Guide we look at three commonly used indicators of risk: driving experience, at-fault crashes, and driving violations. Each of these elements impacts whether you pose a higher risk or a lower risk of causing a crash than other drivers.

Premium changes: how do we predict who should pay less and who should pay more?

Statistics show that if you crash your car today, there is a higher likelihood that you will crash it again within the next year.

That's why insurance companies raise your premium after a crash. They are NOT trying to recover the cost of paying out a claim. That would be impossible because some claim costs reach a million dollars and more. Rather, insurers are trying to identify higher-risk drivers – the ones who are most likely to cause crashes in the future – and to charge those drivers more for their insurance.

It's the same principle that life insurance companies use when they decide what to charge. Life insurance is less expensive for those who can demonstrate their fitness and healthy lifestyle and more expensive for smokers because the insurance industry has calculated that there is a higher risk that they will have to pay an early claim for someone who smokes.

Other vehicle insurance companies often consider risk factors such as age and gender. As a publicly regulated body that is prohibited from discriminating on such bases, ICBC is considering the following main risk assessment categories to determine discounts and surcharges:

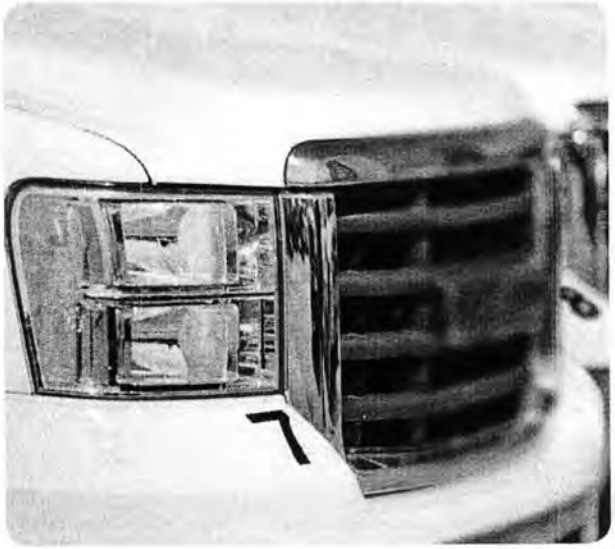
- **Driving Experience**
- **Crashes**

Although ICBC considers driving experience and crashes under its current system, we do so in a limited way.

Both of these topics are discussed throughout this Discussion Guide, along with options for how they might be incorporated into the calculation of the ICBC Basic insurance premiums. A Feedback Form, located at the end of the guide, gives you an opportunity to provide your input regarding which options you think are the fairest.

The use of actuarial statistics in insurance

The insurance industry experts who analyze risk – for example, the people at ICBC who develop statistics showing who is most likely to cause crashes – are called actuaries. Using sophisticated techniques, they study what has happened in the past to predict what is likely to happen in the future. This allows us to understand what kinds of past behaviours are likely to result in an increased risk of future claims.



Understanding premium impacts

Throughout this Discussion Guide we'll show you three illustrative drivers who will help us better understand the potential premium impacts of the different options we're presenting: *Joe Low-Risk*, *Pam One-Crash* and *Jerry High-Risk*. Each of these drivers has more than 25 years of driving experience*, but a different record of at-fault crashes.

The Discussion Guide will show you several options ICBC could use in a new pricing system. For each of these options we will show you what each driver's current premium is, and what it could be under the new system. When you read the premium impacts, it is important to bear in mind that inherent in all of the options being presented is an underlying premium shift that would result from the move from the current system to a driver-based system. In the box below, we show what this underlying premium shift would be for each imaginary driver, assuming ICBC were to implement a new system using the "middle of the road" options.

The premiums shown are based on a number of assumptions about each driver's situation and are an approximation of how a fairer system could shift premiums. The illustrations are only intended to show the direction of premium changes and order of magnitude.

* Assumptions: our illustrative drivers are located in the Lower Mainland (Territory 0) and rate their vehicles for pleasure use only (Rate Class 21)

Premium comparison example

Joe Low-Risk	*Pam One-Crash*	*Jerry High-Risk*
Current Premium $825	**Current Premium** $825	**Current Premium** $875
New Premium (Under a driver-based system) $675	**New Premium** (Under a driver-based system) $675	**New Premium** (Under a driver-based system) $1,250

Joe Low-Risk *Pam One-Crash* *Jerry High-Risk*

Throughout this Discussion Guide, you'll see *Joe Low-Risk*, *Pam One-Crash*, and *Jerry High-Risk*, three drivers who will help us better understand the impacts of the different risk assessment options on their premiums.

Joe is a low-risk driver. He has over 25 years of driving experience, and is crash-free. Currently, Joe pays a premium of $825. Joe could pay $675 under a driver-based system.

Pam also has 25 years of driving experience; however, she has been responsible for a crash in the past 10 years. Currently, Pam's premium is $825. Pam could pay $675 under a driver-based system.

Jerry is a high-risk driver. He has been responsible for multiple crashes. However, due to his 25 years of driving experience, he is also entitled to a discount on his insurance. Jerry's premium is currently $875. Jerry could pay $1,250 under a driver-based system.

(Note: Joe, Pam and Jerry are fictitious customers used for illustration purposes only. Each customer may see different results based on their actual driving record. Premiums will vary for different areas of the province and uses of the vehicle.)

Turn to page 18 to provide input on the Feedback Form

Topic 1 – Driving Experience

Driving experience is an obvious predictor of risk: it stands to reason that driving will improve with practice and that a more experienced driver would be a lower risk and therefore might deserve a lower premium. An inexperienced driver's risk of being responsible for a crash drops dramatically each year for most of the first 10 years, at which point it slows down.

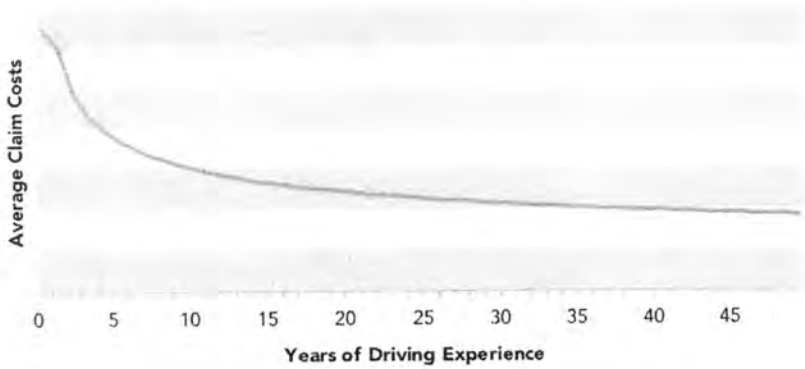
Current System

The current ICBC system does not fully give credit for driver experience. It gives credit for crash-free driving years, but for drivers who have crashes, the effect of their driving experience is negated to some extent. In other words, our current discounts only recognize the length of time a driver has gone without having a crash, not the true benefit of their additional driving experience.

The Problem

If the goal is to create a system that is fair – one that accurately and transparently considers risk and assigns higher or lower premiums depending on risk – then the current system is overlooking a major risk indicator.

Years of driving experience and predicted average claim costs



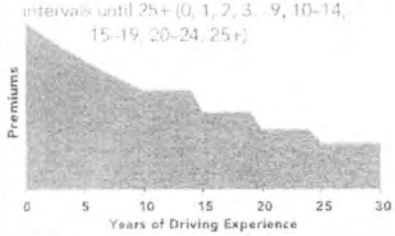
Potential Solutions

The most accurate and transparent solution would be to assign a different premium level for every year of driving – although drivers might initially find this more complicated. The simpler options – such as grouping drivers in five-year categories – send a less accurate price signal about the benefit of experience and mean that drivers would have to wait longer periods for the increased discounts that give credit for their safe driving.

Discussion and Feedback: Topic 1 – Driving Experience

Turn to page 18 to provide input on the Feedback Form

Summary of potential driver experience solutions:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS
Driving experience: How should experience be counted?	A) Increase premium discount every year for the first 25 years 	• Very accurate: every year of experience is recognized with a greater discount • Lower-risk drivers enjoy an additional discount every year	• Pricing is more detailed because discount table needs a new row for every year. This makes it more difficult for customers to follow.
	B) Increase premium discount every year for the first 10 years, and then at five-year intervals until 25+ (0, 1, 2, 3...9, 10–14, 15–19, 20–24, 25+) 	• This option recognizes that experience improves driving dramatically in early years, less so in later years	• Discounts come less frequently in the second decade • Discount table is still moderately detailed and difficult for customers to follow
	C) Increase premium discount only at five-year intervals (0–4, 5–9, 10–14, 15–19, 20–24, 25+) 	• Pricing is simple for customers to understand	• Not as accurate as Option A; does not recognize the dramatic risk reduction in the early years • Drivers wait five years for each additional discount

Turn to pages 19 – 23 to provide input on the Feedback Form

Topic 2 – Crashes

Evidence shows that every at-fault crash you have – and virtually every crash you have ever had – increases the risk that you will be responsible for another crash in the future. As shown in the graph to the right, the more crashes you were responsible for in the past, the higher the likelihood that you will crash again in the future.

But older crashes also matter in this risk assessment. For example, the statistics show that someone who was responsible for a crash nine years ago is 8% to 15% more likely to have a crash in the next year than a driver who has had no crashes.

This long-term risk factor is not fully reflected in ICBC's current system. This means that drivers with a spotless record are paying a higher cost than they would under the potential options, while others who have a history of crashes are paying less than their risk indicates they should.

Like other insurance companies, ICBC offers drivers who have many years of safe driving a "free crash" – in other words, if you have earned the best discount through many years of safe driving, we "forgive" the first mistake, honouring your current discount even after an at-fault crash. There is no statistical basis for this practice: if you cause a crash – even after a long period of safe driving – the likelihood that you will cause another in the next year rises significantly. Accordingly, drivers who have had no crashes at all may find it unfair that they have to pay as much as drivers whose "free crash" shows them to be a higher risk.

This raises a series of questions about how to design a fairer system that more accurately charges drivers according to their level of risk:

2.1 How long should crashes count against your driving record?

2.2 How should older crashes be treated, relative to newer crashes?

2.3 Should ICBC continue to offer lower-risk drivers one free crash?

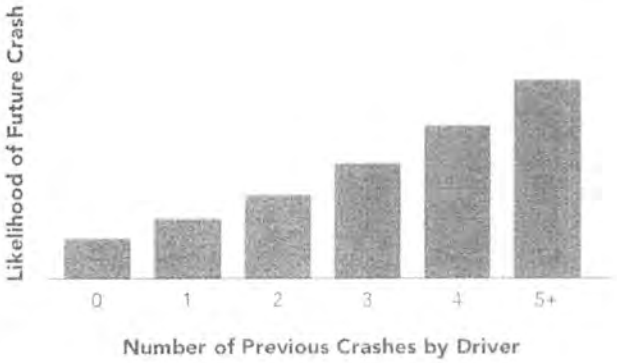
2.4 During the transition from the current system to the potential new system, how should ICBC treat crashes that occurred prior to implementation of this program in 2014/2015?

2.5 How do we account for crashes by other drivers who don't have their own policy?

Minor crashes

Sometimes drivers have crashes that involve repair costs that are less than what the driver would have to pay for in increased premiums. Today, ICBC allows its customers to repay the cost of these crashes and avoid having the crash count against them. In any new system, ICBC would continue to allow customers to make a choice about whether they want to make a claim or repay it.

Future crash potential predicted by crash history



Turn to page 19 to provide input on the Feedback Form

2.1 How long should crashes count against your driving record?

Current System

Drivers in the current system work their way gradually up or down a rating scale, which grants them a better discount on their Basic vehicle coverage if they have no at-fault crashes. Under this system, an at-fault crash counts against the vehicle's history and it takes three years to recover to the same discount level after a single crash.

The Problem

Statistically, compared to a driver who has had no crashes, someone who has had even a single crash remains a higher risk for as long as 15 years. Therefore, if higher-risk drivers only pay an increased premium for a relatively short time (usually three years), lower-risk drivers must pay more to absorb the higher risk (and cost) that ICBC faces in the long term.

Potential Solutions

Most drivers who have been responsible for a crash might prefer that their crash history count for only a short period, while those drivers who have gone decades without a crash might argue that they should be paying a lower premium to reflect their low risk. The choice, then, would be:

- A short five-year period of accountability
- A middle-range 10-year period of accountability
- A longer 15-year range period of accountability

Summary of potential solutions for how long crashes should count:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS	PREMIUM IMPACTS UNDER A DRIVER-BASED SYSTEM		
				Joe Low-Risk New Premium $675	*Pam One-Crash* New Premium $675	*Jerry High-Risk* New Premium $1,250
Crashes: How long should crashes count?	A) 5 years	• Crashes only affect a driving record for five years, then they are "forgotten"	• Long-term safe drivers pay an additional premium to make up for the crash-prone drivers' discount	$700	$700	$1,225
	B) 10 years	• Long-term safe drivers receive greater discounts	• If you have crashes, they "follow you" for a longer period of time	$675	$675	$1,250
	C) 15 years	• Maximum credit (and discount) for long-term safe drivers	• Crashes will affect your premium for 15 years	$650	$650	$1,475

Please refer to page 7 for more information about premium impacts and the illustrative examples above.

Premium comparison example

Joe Low-Risk	*Pam One-Crash*	*Jerry High-Risk*
Current Premium $825	Current Premium $825	Current Premium $875
New Premium $675	New Premium $675	New Premium $1,250

Turn to page 20 to provide input on the Feedback Form

2.2 How should older crashes be treated, relative to newer crashes?

Current System

Under the current system, crashes usually count for a relatively short period (often three years) and their impact is reduced in equal increments over that period.

The Problem

A system that more fairly and accurately takes into account driver risk would count crashes for a longer period, but could be structured so that the impact of older crashes is less than for recent crashes.

Potential Solutions

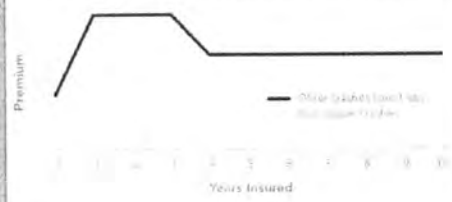
If crashes count for a longer period, some people might think it makes sense to treat older crashes differently than newer ones, but doing so will make for a somewhat more complicated system. The graph on page 13 shows how the predictive power of older crashes compares to newer crashes.

The choice, then, would be:

- Treat all crashes the same, or
- Weigh newer crashes more heavily

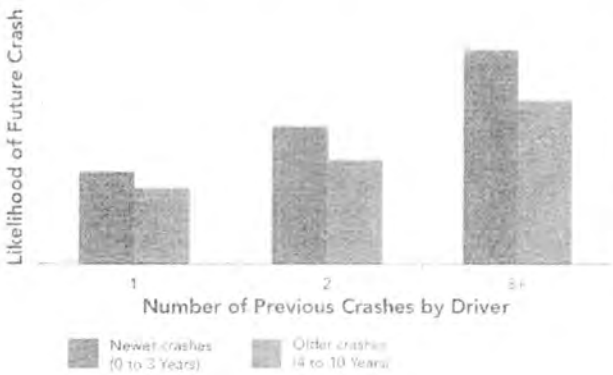
A simple way to treat crashes (assuming, for example that they will count for 10 years) would be to assign greater weight to crashes that occurred up to three years ago, and less to crashes that occurred four to 10 years ago.

Summary of potential solutions for older crashes:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS
Older crashes: How should older crashes be treated?	A) Older crashes count the same as newer crashes. Here's what happens to premiums after one crash: 	• Pricing is simple for customers to understand, as all crashes have the same impact	• Not statistically accurate: the impact of a crash on your premium doesn't diminish as the risk diminishes
	B) Older crashes count less than newer crashes. Here's what happens to premiums after one crash: 	• The impact of a crash diminishes over time, rewarding safer driving behaviour	• Pricing is more complex for customers to understand: older crashes cost less than newer ones

Turn to page 21 to provide input on the Feedback Form

Older crashes also count but are less risky



Premium impact of one crash over 10 years

2.3 One free crash

Current System

Like many other insurance companies, ICBC has a policy of "forgiving" drivers if they have a single accident after a long period (generally more than 12 years) of safe driving.

Forgiven, but not forgotten

If you have a crash after a long period of safe driving, you are currently "forgiven": you keep your maximum discount.

But after a second crash, you might face a premium increase because you have had two crashes – not one.

In other words, ICBC forgives the premium impact of the first crash as long as it is an isolated incident – but does not forget that the crash happened.

If the crash marks the beginning of a new trend (e.g., two or more crashes), it will still be reflected in your premium.

The Problem

There are two problems with the current approach:

First, there is no statistical basis for a free-crash approach. A driver who is responsible for a crash is approximately 40% more likely to be involved in another crash the following year, even if he or she had previously enjoyed a long crash-free period. Accordingly, drivers who truly have a crash-free record are paying extra to allow ICBC to offer this free crash.

Second, because of the way the current rating system works, some B.C. drivers can have as many as two or three at-fault crashes without having their premium go up (see table on page 4).

Based on our research, other insurers offer this feature to long-term safe drivers* as either part of an existing policy or as a separate coverage option. The cost of this coverage ranges from $35 to $65 annually.

*The norm in Canada is that the driver must have been licensed with no crashes for the previous six years

Turn to page 21 to provide input on the Feedback Form

Potential Solutions

There are three potential solutions. ICBC could:

- cancel the free crash
- continue with a single free crash for drivers who go 10 years without a claim
- continue to allow one free crash, but allow drivers the opportunity to waive their right to a free crash in return for a lower premium

Premium comparison example

Joe Low-Risk	Pam One-Crash	Jerry High-Risk
Current Premium $825	Current Premium $825	Current Premium $875
New Premium $675	New Premium $675	New Premium $1,250

Summary of potential solutions for crash forgiveness:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS	PREMIUM IMPACTS UNDER A DRIVER-BASED SYSTEM		
				Joe Low-Risk New Premium $675	Pam One-Crash New Premium $675	Jerry High-Risk New Premium $1,250
Free crashes: Should ICBC offer a "free crash"?	A) No free crash	• Statistically accurate: every crash impacts premium • Drivers without crashes receive the discount they deserve	• Driver who makes a single mistake after years of safe driving pays a higher premium	$625	$925	$1,225
	B) One free crash earned after 10 years of safe driving	• Drivers who make a single mistake don't pay a higher premium	• Not statistically accurate: drivers who don't have crashes don't receive the best discount	$675	$675	$1,250
	C) One free crash earned after 10 crash-free years, but drivers can waive this feature to save money	• More choice: drivers can decide whether they would rather get one free crash or save money	• More complex: drivers have to make a decision about whether to waive their free crash	Drivers who waive the free crash could save $35–$65 (based on our research into what other insurers charge for this benefit)		

*This "crash forgiveness" feature offered by the other insurers has varying eligibility criteria and coverage limitations. The estimate provided is for discussion purposes only.

Please refer to page 7 for more information about premium impacts and the illustrative examples above.

Turn to page 22 to provide input on the Feedback Form

2.4 During the transition, how should ICBC treat crashes that occurred prior to implementation of this program in 2014/2015?

ICBC is working to have its new Basic vehicle insurance pricing system ready for implementation in 2014/2015.

The Problem

Some drivers may object to the idea that they would be charged in the future for a crash that occurred before the change of policy takes effect. But there is a trade-off: if higher-risk drivers' rates don't fully reflect their past crash history, lower-risk drivers' savings will also take time to be implemented, so lower-risk drivers might object if ICBC did NOT implement a change relatively quickly.

Potential Solutions

One option would be for ICBC to cap the impact of the new rules on crashes that happened before implementation during a transition period, so higher-risk drivers' premiums would increase by no more than a specific amount (say 5% or 10%) per year. In such a system, higher-risk drivers would have a period of time in which to gradually move to their higher premium. They may choose to improve their driving habits to reduce their premiums over time. The other option is to count all crashes that happened prior to implementation using the new rules so that the highest-risk drivers pay a higher premium right away, and the lowest-risk drivers see lower premiums right away.

Summary of potential solutions for how to treat crashes that occurred prior to 2014/2015 in the transition to a new system:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS	PREMIUM IMPACTS UNDER A DRIVER-BASED SYSTEM		
				Joe Low-Risk New Premium $675	*Pam One-Crash* New Premium $675	*Jerry High-Risk* New Premium $1,250
How should ICBC treat crashes that occurred prior to implementation of this program in 2014/2015?	A) Crashes that occurred prior to implementation count using the new rules	• Pricing is accurate • Lower-risk drivers pay less, higher-risk drivers pay more	• Older crashes may have a larger and longer-lasting impact for some customers	$675	$675	$1,250
	B) Crashes that occurred prior to implementation count, but the impact is capped (in this example, the cap is 10%)	• Premium paid will not change significantly from year to year (will take both lower-risk and higher-risk drivers longer to get to their new rate)	• Rules are complicated for customers • To balance, lower-risk drivers wait longer to get the best discount; increases to higher-risk drivers are more gradual	$745	$745	$960

Please note: to page 7 for more information about premium impacts and the illustrative examples above

Why not start from scratch?

If we treat everyone as if they have never had a crash on the day the new rules come into effect, every driver with the same amount of experience would get the same premium discount. Two things would happen in the first year after any new rules come into effect:

1. Lower-risk drivers who have earned a good discount over many years of crash-free driving under the current system would pay a much higher premium, because they would share the same discount with drivers who have many crashes, and
2. Higher-risk drivers with multiple crashes would pay a much lower premium because they would have the same discount as drivers who have no crashes.

Turn to page 23 to provide input on the Feedback Form

2.5 "Other driver" crashes

Current System

ICBC's current pricing system only captures information about the crash history of the registered owner and the main driver (also referred to as the principal operator). We use no information about others (e.g., family members, employees) who may drive the vehicle regularly. Yet about 20% of crash-related claims involve other drivers.

Problem

When other drivers are responsible for crashes, the vehicle owner pays the increased premium, while the driver who caused the crash may drive another vehicle at no additional expense.

Potential Solutions

Under a driver-based system, a crash would follow the driver, rather than impact the vehicle's premium. If the driver does not have a vehicle insured with ICBC, ICBC could charge a premium directly, either against the vehicle involved in the crash (as occurs today) or against the driver who had the crash (by sending a premium bill in the mail). Either way, if the driver later insured a vehicle of their own, they would also pay a premium that takes the crash into account. The challenge is to connect charges directly to crashes and to make it clear that they are not "punishment", but rather an attempt to charge a premium that reflects the future risk, as predicted by the driving record of the person who had the crash.

Summary of potential solutions for other drivers who don't have their own policy:

FEATURE	POTENTIAL SOLUTIONS	PROS	CONS	ANNUAL EFFECT ON PREMIUM
Other driver crashes: An "other driver" is defined as someone who crashes a vehicle who isn't the owner/principal operator of the vehicle. This "other driver" may be a family member or an unrelated person, such as a neighbour or an employee.	A) "Other driver" crash has no impact on the owner's premium; however, an additional premium for all ICBC policies would apply	• Owner doesn't pay more when someone else crashes his or her car	• No incentive for owners to restrict the use of their vehicles by higher-risk drivers • Everyone who insures a vehicle pays more to absorb the higher risk	• Owner: no effect • "Other driver": no immediate impact; however, will pay an increased premium when he or she takes out insurance • All ICBC policies see a premium increase of an average of **$5**
	B) Owner pays more for insurance if an "other driver" crash occurs and the driver doesn't have their own vehicle insurance with ICBC (on which they would pay a higher premium)	• Provides incentive to owners to take care in who uses their car	• Owners whose vehicle is crashed by an "other driver" pay more for insurance • Some drivers may evade responsibility	• Owner: pays additional one-time premium of **$500** • "Other driver": no immediate impact; however, will pay an increased premium when he or she takes out insurance
	C) Driver gets a separate bill of **$500** if they crash someone else's vehicle and don't have ICBC Basic insurance of their own	• Owners who don't have other drivers or whose other drivers have not been involved in crashes receive an improved discount • Owners whose vehicle is crashed by a borrower or family member don't have to pay more for insurance	• No incentive for owners to restrict the use of their vehicles by higher-risk drivers • Driver who crashes a borrowed car and gets a bill in the mail may object to **$500** direct charge	• Owner: no effect • "Other driver": pays one-time premium of **$500**, and pays an increased premium when he or she takes out insurance

Note: ICBC currently provides insurance coverage for you and your vehicle when you lend your car.

Turn to page 24 to provide input on the Feedback Form

Topic 3 – Premiums for Driving Violations

Driving violations (both Criminal Code offences and *Motor Vehicle Act* violations) are a strong statistical indication of the risk that someone will have a crash in the future.

Current System

ICBC collects insurance premiums for driving violations. Less than 1% of people already pay increased premiums for serious driving violations.

Consistent with the proposed driver-based system where higher-risk drivers would pay more and lower-risk drivers would pay less, ICBC is seeking public input about whether higher-risk drivers who have serious convictions such as excessive speed, impaired driving and street racing should pay higher insurance premiums.

What happens to the money collected from traffic tickets?

The fines from traffic tickets in B.C. are collected by ICBC on behalf of the provincial government and all of the money is transferred to municipal governments to help offset policing costs.

Conclusion

ICBC has presented several options to update the way it sets premiums for Basic vehicle insurance coverage. Customers have told us they want lower-risk drivers to pay less for their vehicle insurance, and higher-risk drivers to pay more.

Our goal is to have a system that is fair and reasonable, and that continues to provide universal, accessible and non-discriminatory insurance for our customers. We look forward to input from British Columbians on how to update our Basic vehicle insurance coverage.

Turn to pages 8 – 9 for more information on this topic

The input that you provide through this Feedback Form will be considered, along with technical, financial and policy considerations, as ICBC refines its Basic vehicle insurance rating system.

Topic 1: Driving Experience

Driving Experience – How is driving experience counted?

Driving experience is a predictor of risk. It stands to reason that driving will improve with practice and that a more experienced driver would be a lower risk and therefore might deserve a lower premium. ICBC wants input about how driving experience should be counted when determining Basic insurance rates.

Q1.

How should driving experience be counted?

Please indicate your level of agreement with each option:

OPTION A

Q1a. Increase premium discount **every year** for the first 25 years.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q1b. Increase premium discount **every year for the first 10 years**, and then at five-year intervals until 25+ (0, 1, 2, 3...9, 10–14, 15–19, 20–24, 25+).

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION C

Q1c. Increase premium discount **only at five-year intervals** (0–4, 5–9, 10–14, 15–19, 20–24, 25+).

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to page 11 for more information on this topic

Topic 2: Crashes

At-Fault Crashes – How and what crashes count in determining Basic insurance rates?

Evidence shows that every at-fault crash you have – and virtually every crash you have ever had – increases the risk that you will be responsible for another crash in the future. ICBC is interested in getting input from the public and stakeholders about how and what crashes should impact the assessment of driver risk in determining Basic insurance rates.

Q2.

How long should crashes count against your driving record?
Please indicate your level of agreement with each option.

OPTION A

Q2a. Crashes count for a **total of five years.**

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q2b. Crashes count for a **total of 10 years**

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION C

Q2c. Crashes count for a **total of 15 years.**

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to page 12 for more information on this topic

Q3.

How should older crashes be treated, relative to newer crashes?

Please indicate your level of agreement with each option.

OPTION A

Q3a. Older crashes count the **same as newer** crashes.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q3b. Older crashes count **less than newer** crashes.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to pages 13 – 14 for more information on this topic

Q4.

Should ICBC continue to offer lower-risk drivers one free crash?

Please indicate your level of agreement with each option regarding one free crash.

OPTION A

Q4a. ICBC should offer **no free crash**.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q4b. ICBC should offer **one free crash earned after 10 years** of crash-free driving.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION C

Q4c. ICBC should offer **one free crash earned after 10 years** of crash-free driving, but drivers can waive this feature to save money.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to page 15 for more information on this topic

Q5.

During the transition to a new pricing system, how should ICBC treat crashes that occurred prior to implementation of the new system in 2014/2015?

Please indicate your level of agreement with each option.

OPTION A

Q5a. Older crashes count using the **new rules**

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q5b. Older crashes count, but the **impact on insurance premiums is capped**.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to page 16 for more information on this topic

Q6.

How do we account for crashes by other drivers who don't have their own policy?

ICBC's current pricing system only captures information about the crash history of the registered owner, including crashes that other drivers may have had in the owner's vehicle. No information is used about other drivers (e.g., family members, employees, etc.) who may drive the vehicle regularly, yet about 20% of crashes involve other drivers. ICBC is interested in getting input on how other driver crashes should impact the new pricing structure.

Please indicate your level of agreement with each option.

OPTION A

Q6a. Other driver crashes have **no impact** on the vehicle owner's insurance premium, but the cost continues to be spread across all other drivers.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION B

Q6b. Owner pays a one-time premium of $500 if an "other driver" crash occurs and the driver doesn't have their own vehicle insurance (on which they would pay a higher premium).

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

OPTION C

Q6c. Driver gets a separate bill of $500 if they crash someone else's vehicle and they don't have their own ICBC Basic vehicle insurance.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement.

Turn to page 17 for more information on this topic

Topic 3: Driving Violations

Driving violations (both Criminal Code offences and *Motor Vehicle Act* violations) are an excellent statistical indication of the risk that someone will have a crash in the future. ICBC collects insurance premiums for driving violations. Less than 1% of people already pay increased premiums for serious driving violations. Consistent with the proposed driver-based system where higher-risk drivers would pay more and lower-risk drivers would pay less, ICBC is seeking public input about whether higher-risk drivers who have serious convictions such as excessive speed, impaired driving and street racing should pay higher insurance premiums.

Q7.

Please indicate your level of agreement with higher-risk drivers who have serious convictions such as excessive speed, impaired driving and street racing paying higher insurance premiums.

Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
○	○	○	○	○

Please provide any comments to explain the reasons for your agreement or disagreement:

Additional comments

Please provide any additional comments:

Additional comments

continued:

You are (please select one):

- ❑ ICBC Customer
- ❑ ICBC Employee
- ❑ Autoplan Broker
- ❑ Other

Please provide your contact information (optional):

Name:

Email:

Phone:

Mailing Address:

Postal Code:

Consent to use information

I consent to the collection and use of my personal information by ICBC for the purpose of contacting me and keeping me updated about changes to the Basic vehicle insurance rating system.

Signature: Date:

Personal information is collected pursuant to Section 26 of the *Freedom of Information and Protection of Privacy Act* (FIPPA) for the purposes of obtaining customer feedback regarding planning and evaluating changes to the Basic vehicle insurance rating system. If you have any questions about how ICBC collects, uses or discloses your personal information, you may contact ICBC's Privacy and Freedom of Information department at 604 661 6828.

How input will be used

Your views are important to us and will help shape the future of our Basic vehicle insurance rating system. Input received through consultation and engagement will be considered, along with technical, financial and policy considerations as ICBC refines its Basic vehicle insurance rating system.

Public and stakeholder feedback will be received from May 14 – June 22, 2012

We invite you to provide feedback on ICBC's Basic vehicle insurance rating system through the following consultation and engagement opportunities:

- Discussion Guide and Feedback Form
- Stakeholder Meetings
- Public Open Houses
- Online feedback form: publicengagement.icbc.com
- Written submission: Email: publicengagement@icbc.com
  Mail: P.O. Box 4004, Vancouver, B.C. V6B 3Z4
- Phone: 604.982.6153, 1-855-982-6153 toll-free
- Webinar

The deadline to submit your feedback is June 22, 2012.

Printed with vegetable-based inks on paper made with 100% post-consumer waste. Please recycle.

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