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Sent via eFile

ICBC 2018 BASIC INSURANCE RATE DESIGN EXHIBIT A-3
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Ms. June Elder
Manager, Corporate Regulatory Affairs
Insurance Corporation of British Columbia
151 West Esplanade
North Vancouver, BC V7M 3H9
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Re: Insurance Corporation of British Columbia – 2018 Basic Insurance Rate Design Application – Project No. 1598968 – BCUC Questions

Dear Ms. Elder:

Further to the Insurance Corporation of British Columbia's August 15, 2018 Basic Insurance Rate Design Application, please find attached British Columbia Utilities Commission Questions.

Sincerely,

Original signed by

Patrick Wruck
Commission Secretary

/ad
Enclosure



Insurance Corporation of British Columbia
2018 Basic Insurance Rate Design Application

BCUC Questions to ICBC in advance of Streamlined Review Process

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A.	GENERAL	
1.0	Reference: INTRODUCTION AND OVERVIEW Exhibit B-1, pp. 1-1 & 2-4 Amendments to the Basic Insurance Tariff (Tariff)	

The Insurance Corporation of British Columbia (ICBC) states on page 1-1 of the 2018 Basic Insurance Rate Design Application (Application):

This Application describes the features of the new Basic insurance rate design (rate design) and how it functions, and provides an overview of ICBC’s approach to managing this change. It outlines the legislative and regulatory framework for these changes, and seeks the Commission’s approval of the required amendments to the Basic Insurance Tariff (Tariff) in accordance with this framework.

1.1 Please confirm that the Tariff amendments that ICBC is seeking British Columbia Utilities Commission (BCUC) approval for in the Application are identical to the Tariff pages that were directed in Order in Council (OIC) No. 458/18. If not confirmed, please specify and fully explain the differences.

On page 1-1, ICBC states:

With the implementation of the new rate design, approximately two-thirds of customers will pay lower Basic insurance premiums than they do now (excluding the impact of a general rate change order or changes to DPP and DRP). Approximately one-third of customers will see an increase in Basic insurance premiums. The customers seeing the largest rate increases are those drivers who are at greatest risk of being at-fault for a crash.

On page 2-4, ICBC references the August 3, 2018 Government Directive regarding the Rate Design:

No more than 35% of Basic policyholders are to experience a premium increase due to the combined effect of rate design changes effective September 1, 2019, (excluding the impact of a general rate change order or changes to DPP/DRP).

- 1.2 Please confirm that the Tariff pages amendment filed in the Application is designed for the two-thirds/one-thirds split as referenced above. In other words, as a hypothetical scenario, what are the implications if ICBC is to consider a scenario where no more than 25% of Basic policyholders are to experience a premium increase due to the combined effect of rate design changes?
- 1.3 Please explain the approach that was used to determine and demonstrate the two-thirds/one-thirds split referenced above. Discuss the assumptions made.

2.0 **Reference: INTRODUCTION AND OVERVIEW**
Exhibit B-1, p. 1-2
At-fault crashes

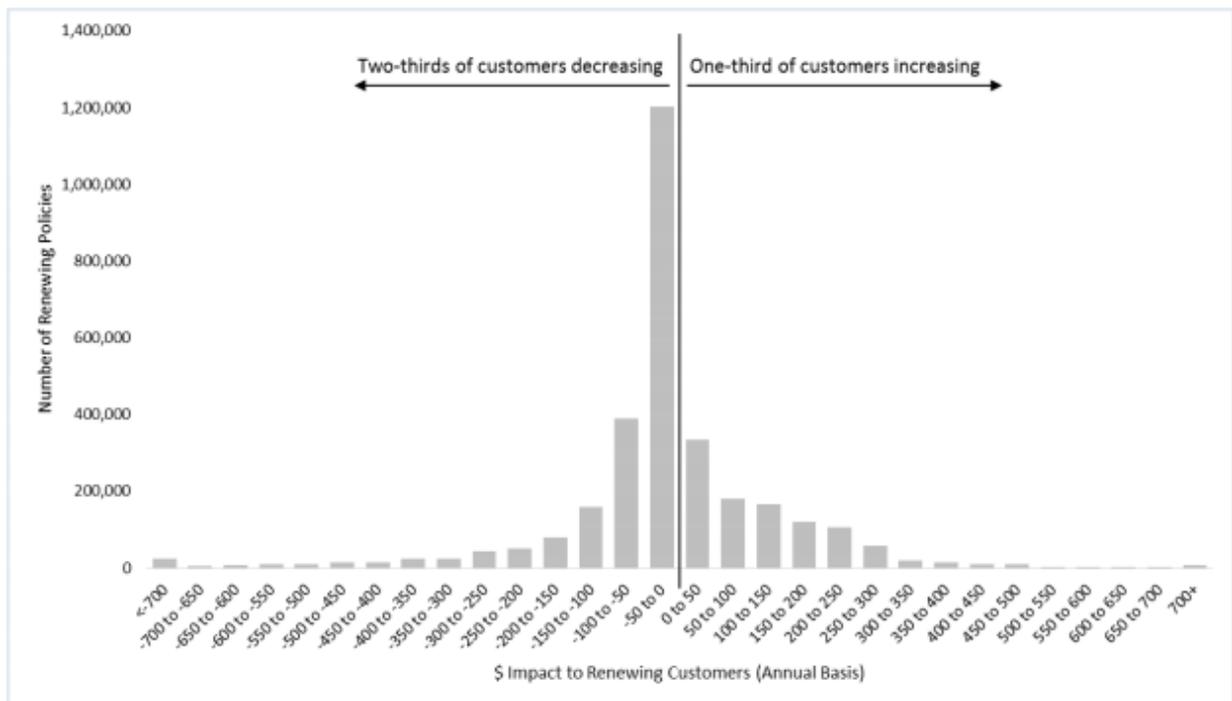
On page 1-2, ICBC states:

The risk for an automobile insurance policy is defined in terms of the claim costs (i.e., the incidence and cost of at-fault crashes) expected from that policy during the policy term as compared to the average policy.

- 2.1 What is the definition of at-fault crashes? Who determines fault and what is the appeal process?
- 2.2 With the new rate design Tariff amendments, how would partial fault impact policyholders (e.g. 25%, 50%, or 75% at-fault)?
 - 2.2.1 Are there any differences in ICBC’s practices and procedures when applying partial fault in the new rate design vs. the existing rate design? Please explain.
 - 2.2.2 If possible, please provide the approximate proportion of crashes at which shared or undetermined fault occurred for each year in the past five years.

3.0 **Reference: INTRODUCTION AND OVERVIEW**
Exhibit B-1, p. 1-10
Overall customer impacts

ICBC provides the following Figure 1.2 on page 1-10:



- 3.1 Please provide a table of numbers underlying the graph.
- 3.2 Please provide additional tables which provide further detail on the < -700 and 700+ groups. In the table, display groups of 700-750, 750-800, etc. Expand the groups in increments of \$50 until all customers are recorded in this manner.
- 3.3 Please provide risk profiles and the premium derivation using the new rating algorithm of five customers receiving increases (prior to consideration of the 20% upper cap). Indicate their risk characteristics. In one of the five examples, include a customer in the 700+ group.
- 3.4 Please provide risk profiles and the premium derivation using the new rating algorithm of five customers receiving decreases (prior to consideration of a negative cap). Indicate their risk characteristics. In one of the five examples, include a customer in the < -700 group.

B. NEW RATE DESIGN AND RATING ALGORITHM

- 4.0 **Reference:** **NEW RATE DESIGN AND RATING ALGORITHM**
Exhibit B-1, p. 3-10; Appendix B, Basic Insurance Tariff, Schedule D: Combined Driver Factor Page 5
Claim forgiveness

On page 3-10, ICBC states:

Claim Forgiveness: A forgiven claim will not be part of an individual’s claim payment record or personal claim payment record for the purpose of calculating the IDF [Individual Driver Factor]. In accordance with the 2018 Government Directive regarding Rate Design, all drivers with a minimum of 20 years of experience who have 10 years of at-fault crash-free experience will be eligible for forgiveness of one at-fault claim. Once claim forgiveness is used, customers must accrue another 10 years of at-fault claims-free experience before regaining eligibility.

- 4.1 Please clarify whether the “10 years of at-fault crash-free experience” is a cumulative 10 years or consecutive 10 years. For example, what happens if a person has their driver’s license suspended during the 10 year period and does not have an at-fault crash?

- 5.0 **Reference:** **NEW RATE DESIGN AND RATING ALGORITHM**
Exhibit B-1, pp. 3-11, 1-8, footnote 8; Appendix B, Basic Insurance Tariff, Schedule D: Combined Driver Factor Page 3
Claim repayment

On page 3-11, ICBC states:

Claim Repayment: Claim repayment is a current insurance feature that allows the insured to repay an at-fault claim and avoid the premium increase that would otherwise result from the claim. The new rate design permits claims to be repaid if they are \$2,000 or less.

In footnote 8 on page 1-8, ICBC states:

\$2,000 is a September 1, 2019 dollar threshold and is adjusted for historical years to reflect the impact from inflation. The rate of inflation was based on the BC all-items CPI produced by Statistics Canada.

In Tariff amendment Schedule D: Combined Driver Factor Page 3, ICBC provides the following table:

(Q) a claim where the total amount of all payments and any deductible amounts paid by an insured is equal to or less than the amounts set out below:

Date of CCP	Amount of CCP
Prior to September 1, 2009	\$1,700
September 1, 2009 to August 31, 2011	\$1,750
September 1, 2011 to August 31, 2013	\$1,800
September 1, 2013 to August 31, 2015	\$1,850
September 1, 2015 to August 31, 2017	\$1,900
September 1, 2017 to August 31, 2019	\$1,950
On or after September 1, 2019	\$2,000

5.1 Please confirm that the inflation adjustment is applied to historical years as shown in the table above. In other words, the \$2,000 threshold is the maximum for all future years and will not increase to adjust for inflation in future years.

5.2 Please confirm that the \$2,000 claim repayment threshold is only applicable to material damage. If confirmed, please cite the specific section(s) in the Tariff amendments. If not confirmed, please clarify.

6.0 **Reference:** **NEW RATE DESIGN AND RATING ALGORITHM**
Exhibit B-1, pp. 3-19 to 3-20; Appendix B, Basic Insurance Tariff, Schedule X: Advanced Safety Technology Factor Page 1
Advanced Safety Technology Factor (ASTF)

On pages 3-19 and 3-20, ICBC states:

Based on the 2018 Government Directive regarding Rate Design, a 10% discount for vehicles with manufacturer installed autonomous emergency braking systems is applied to reflect the lower risk associated with vehicles with this technology... Going forward, as other advanced safety technologies are incorporated into vehicles, additional technologies may be added to the eligibility criteria for this discount.

6.1 Please clarify if the 10% ASTF discount applies whether or not the manufacturer installed autonomous emergency braking system is active or disabled (i.e. disabled by the user or otherwise malfunctioned).

6.2 If ICBC believes that additional technologies may be added to the eligibility criteria for the ASTF discount, please clarify how such a process would take place.

7.0 **Reference:** **NEW RATE DESIGN AND RATING ALGORITHM**
Exhibit B-1, pp. 3-23 to 3-24; Appendix B, Basic Insurance Tariff, Schedule AA: Unlisted Driver Protection Premium Page 2; Appendix B, Government Directive Regarding Rate Design, Letter of Direction, p. 2
Unlisted Driver Protection Premium (UDPP)

The Government Directive regarding Rate Design states: "Additional coverage is to be provided, at a price, to protect customers from this charge who have unlisted incidental non- household, non-employee drivers."

In the Application, on pages 3-23 and 3-24, ICBC states:

Given that this is a new premium, the \$50 was a high-level estimate to cover the cost of this protection based on the estimated number of unlisted driver claims (non-household and non-employee) and the estimated percent of customers that would purchase this protection.

The premium amounts between \$50 and \$1,500 were based on judgment acknowledging that registered owners with multiple crashes incur higher costs to the system. As additional data is collected, ICBC will revisit this premium to ensure that it accurately reflects the cost.

- 7.1 Please specify the jurisdiction in which Basic insurance includes additional coverage in the form of the UDPP.
- 7.2 Please clarify whether ICBC intends to amend the UDPP premium table when a general rate change occurs.
- 7.3 If ICBC determines that the UDPP should be changed in the future after additional data is collected, please clarify how ICBC would make those changes recognizing that the UDPP is established by a Government Directive.
- 7.4 In the event that the BCUC directs ICBC to provide reporting after additional data is collected, when is an appropriate timeline for such reporting? Also, please explain the content for such reporting.

8.0 **Reference: NEW RATE DESIGN AND RATING ALGORITHM**
Exhibit B-1, pp. 3-25 to 3-26
Revenue neutrality

On page 3-25, ICBC states:

Policy or vehicle-based elements – revenue neutrality achieved through an off-balance factor applied to all Rate Class and Territory Factors.

Rate Class and Territory Factors were first calculated using actuarial analysis based on historical data and statistical models representing the actual risk relativities between each rate class and territory segment. However, the introduction of the additional rating factors including the ASTF, Distance Factor, and Learner Premium resulted in an overall reduction in premium. In order to offset these decreases, all Rate Class and Territory Factors were adjusted by an off-balance factor of 1.005.

- 8.1 Please clarify whether the off-balance factor of 1.005 is part of the Government Directive regarding Rate Design.
 - 8.1.1 If the 1.005 off-balance factor is a Government Directive, please provide the reference.
 - 8.1.2 If not related to the Government Directive regarding Rate Design:
 - 8.1.2.1 Please explain how the factor of 1.005 was determined. What portion relates to each individual additional rating factor? Provide supporting calculations.
 - 8.1.2.2 What percentage of policyholders is assumed to qualify for the ASTF and what is the basis/support for that assumption?
 - 8.1.2.3 What percentage of policyholders is assumed to qualify for the Distance Factor and what is the basis/support for that assumption?

- 8.1.2.4 What assumptions were made regarding the learner premium that will be collected, and what is the basis/support for those assumptions?
- 8.1.2.5 Does the offset consider any rating factors not listed in the passage quoted above? If so, itemize all rating factors considered in the offset, and explain associated assumptions.

On page 3-25, ICBC also states:

IDF elements – revenue neutrality achieved through an off-balance factor applied to Experience Factor.

The Experience Factor and the MCF were set at a level using actuarial analysis based on historical data and statistical models. However, with the introduction of additional rating factors and design elements, including the SDF, claim forgiveness, claim repayment and the phase-in to the full 10-year scan period, resulted in an overall reduction in premium. In order to offset these decreases, all values of the Experience Factor table were adjusted by an off-balance factor of 1.151.

8.2 Please clarify whether the off-balance factor of 1.151 is part of the Government Directive regarding Rate Design.

8.2.1 If the 1.151 off-balance factor is a Government Directive, please provide the reference.

8.2.2 If not related to the Government Directive regarding Rate Design:

8.2.2.1 Please explain how the factor of 1.151 was determined.

8.2.2.2 What is the percentage of policyholders assumed to qualify for the SDF, and what is the basis/support for that assumption?

8.2.2.3 What assumptions underlie the assumed impact of claim forgiveness, and what is the basis/support for these assumptions?

8.2.2.4 What assumptions underlie the assumed impact of claim repayment, and what is the basis/support for these assumptions?

8.2.2.5 What assumptions underlie the assumed impact of the 10-year scan period phase-in, and what is the basis/support for these assumptions?

8.2.2.6 Does the offset of the off-balance factor of 1.151 consider any rating factors not listed in the passage quoted above? If so, itemize all rating factors considered in the offset, and explain associated assumptions.

8.2.2.7 Will the impact of the phase-in of the 10-year scan period diminish as the phase-in progresses? If yes, will the off-balance factor be recalculated with each annual update (or otherwise considered in the overall annual rate need calculation)? Provide details.

8.2.2.8 Does the Experience Adjustment Factor generate any need for an off-balance factor? Please provide support for your response.

On page 3-26, ICBC also states:

Each of the steps described above used actual Basic insurance transactional data from January 1, 2016 to October 31, 2017. It was assumed that these transactions are a reasonable representation of the mix of drivers and policies to assess revenue neutrality for the first year of implementation. Given that ICBC has no knowledge or other comparative data on how customers will respond to these changes, it was also assumed

that there would be no change in either customer mix or customer behaviour as a result of the new rate design.

- 8.3 As the impact of the new rate design on customer mix or customer behaviour is unknown at this point, would it be appropriate to assess whether or not the revenue neutrality objective has been met? Please explain.
- 8.4 Suppose the BCUC finds that an assessment on the new rate design impacts is warranted. Please provide a timeline and anticipated content of such assessment.

9.0 **Reference: NEW RATE DESIGN AND RATING ALGORITHM
Exhibit B-1, pp. 3-28 to 3-29;
Actuarial analysis**

On page 3-29, ICBC states:

Given the 2018 Government Directive regarding Rate Design, the following components of the new rate design required actuarial analysis:

- Experience Factor.
- Multiple CCP Factor (MCF).
- Rate Class and Territory Factors.
- Revenue neutrality during the first year of implementation.

...

The actuarially indicated factors were developed using a Generalized Linear Model (GLM). GLMs are commonly used by actuaries in insurance to derive predictions based on historical experience...

- 9.1 Was revenue neutrality analyzed as part of the GLM? Or was it a separate analysis based on the results of the rating plan that was proposed based on the combination of (a) the GLM, (b) items prescribed by the Government Directive regarding Rate Design, and (c) other components that were retained from the current rating plan?

10.0 **Reference: NEW RATE DESIGN AND RATING ALGORITHM
Exhibit B-1, p. 3-30
Materiality**

On page 3-30, ICBC states:

For the overall Basic insurance premium, the materiality standard is set to be 1% of the overall Basic insurance premium. For individual Basic insurance premiums, the standard is set at the greater of 2% impact or about a \$20 impact on an individual's annual Basic insurance premium.

- 10.1 Please clarify whether the Government Directive regarding Rate Design has any directives or guidance on practicing the materiality standard.
- 10.2 If there are no related Government directives or guidance on materiality standard, please explain specifically how the following were taken into consideration:
- 10.2.1 Did these materiality standards affect the selection of the rating factors before and/or after capping?
- 10.2.2 Did these materiality standards impact the estimation of certain items required for the calculations of revenue neutrality, approximately 1/3 to 2/3 mix of increases and

decreases?

10.2.3 Did these materially standards impact the reconciliation and validation of data used in the model?

C. CHANGE MANAGEMENT

11.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, p. 4-1, footnote 1
General**

On page 4-1, ICBC states:

ICBC has retained Accenture, a firm with expertise in delivering major change management projects and experience with ICBC specifically, in developing the readiness for change among ICBC’s customers, brokers, and employees. ICBC has retained Ernst & Young to provide support for the development and implementation of systems changes...

The change management approach for rate design will be coordinated with the other Government directed initiatives that are part of the Rate Affordability Action Plan (RAAP). This coordination will reduce duplication of effort, limit undue stakeholder impact through integration of change management tactics (e.g., combining communications and training events), and manage timing of changes.

In footnote 1 on page 4-1, ICBC states: “The RAAP is funded from Optional insurance pursuant to Order in Council 048/18, March 5, 2018.”

- 11.1 Please describe the total cost associated with ICBC’s change management approach for the new rate design. Include the allocation of these costs to Basic insurance, if applicable.
- 11.2 Please provide a breakdown of the cost associated with Accenture, Ernst & Young and other third party firms contracted for this transition. Indicate the allocation of these costs to Basic insurance, if applicable.
- 11.3 For change management initiatives that will be coordinated with RAAP initiatives, please indicate if this will be funded by Optional insurance, Basic insurance or some combination.

On page 4-1, ICBC states: “The change management plan to support implementation of the new rate design is in place. As the project progresses the change management plan will continually be updated.”

- 11.4 Please summarize the most recent version of the change management plan that is currently in place.
- 11.5 Please include a project schedule for the change management plan.
- 11.6 What are the criteria for amendments in the change management plan?
- 11.7 How does ICBC measure success in the change management plan?

12.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, p. 4-4
Customers**

On page 4-4, ICBC states:

To help customers understand the new rate design and the implications for their Basic

insurance premiums, ICBC will advise and educate customers by sharing relevant and appropriate information in a timely way, coordinated with the rollout of the new rate design. The information provided to customers will be designed to be meaningful and understandable, and will be delivered through multiple channels as part of awareness-building communications campaigns. Examples of channels to be used are renewal reminders, icbc.com, earned media, etc.

- 12.1 Will customers be provided with a detailed premium derivation which outlines all calculation steps and associated rating factors?
- 12.2 Will customers be made aware that certain changes are being phased in over a 10-year period, to manage expectations about the direction of future changes they may experience?
- 12.3 Please provide a list of initiatives and timeline planned to educate customers on the new rate design.
 - 12.3.1 Please include an estimated start and completion date and approximate cost for each initiative category.
- 12.4 Please explain what is meant by earned media and elaborate on those initiatives.
- 12.5 Please list out all communication channels under “etc.”
- 12.6 Please explain how ICBC ensure the efficiency and effectiveness of its awareness-building communications campaigns.

ICBC states on page 4-4 that “ICBC recognizes the importance of informing customers about the new rate design before they approach their brokers.”

- 12.7 Please indicate how ICBC will ensure customers are aware of the new rate design before approaching their brokers as it relates to their new premiums, how the premiums were calculated, changes from previous their plan and additional driver details now required.
- 12.8 Does ICBC have any online self-serve tools available for customers to estimate or renew their own policies? If so, what is the timeline for this tool? If not, discuss the feasibility of such self-serve tool.

13.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, pp. 4-4 to 4-5
Brokers**

On page 4-4, ICBC states:

In conjunction with the Government’s public engagement process, ICBC established a rate design broker task force made up of multiple broker representatives from the Insurance Brokers Association of British Columbia and the Credit Union Insurance Services Association. Brokers fully support the need for rate design changes, and the sessions with the task force helped identify key broker issues for consideration regarding the new rate design change management and implementation. ICBC will continue to work with brokers and broker associations, as appropriate, on an ongoing basis, keeping brokers updated on developments and eliciting feedback regarding key issues and implementation of the new rate design.

- 13.1 Please provide the commencement date of ICBC’s engagement with brokers and the objective of the task force.
- 13.2 Please provide an overview of each session with the task force. Explain what issues were identified by a rate design broker task force.

13.2.1 How have these issues been addressed?

13.3 ICBC notes that there are over 900 broker offices in BC with 7,500 people handling Autoplan transaction. Please indicate the broker's participation levels in the public engagement process leading up to the new rate design application.

13.4 Please indicate what ongoing consultation is planned with brokers.

13.4.1 Please include an estimated start and completion date of each consultation activity.

On page 4-5, ICBC states:

Based on previous experience, online skills-building activities could be used to support broker adaptation to the new rate design. Training modules in the past have included broker-specific learning resources designed to assist brokers in adapting to change.

13.5 Please provide a list of knowledge and skill building initiatives planned for brokers.

13.5.1 Please include an estimated start and completion date and approximate cost for each initiative.

14.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, p. 4-6
ICBC employees**

On page 4-6, ICBC states: "Many of the initiatives outlined for use in supporting brokers in adapting to the new rate design will also apply to ICBC employees."

14.1 Please list all initiatives ICBC will use to train and educate employees of the new rate design.

14.1.1 Please include an estimated start and completion date and approximate cost for each initiative.

On page 4-6, ICBC states:

The new rate design involves many facets of ICBC's business operations. These include the BEU, Customer Contact, Insurance Sales and Distribution, Customer Relations, Risk Underwriting, Autoplan Data Processing, Claims, and others. Change impacts likely experienced by these areas include increased volume of support requests from customers and brokers, business process changes, and/or changes to day-to-day role responsibilities.

14.2 Please indicate how ICBC plans to handle the increased volume of support requests from customers and brokers.

14.2.1 Has ICBC developed any service quality metrics and targets associated with the new rate design? Please explain.

15.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, p. 4-7
Technology change**

On page 4-7, ICBC states:

Implementation of the new rate design will not, however, necessitate significant change to ICBC's overarching technology landscape, which has recently seen significant modernization, nor is it expected to impact ICBC's current IT strategy. It is currently

anticipated that the majority of the system changes required by the new rate design will take place within the existing Guidewire PolicyCenter system and the Guidewire Rating Engine, with other affected systems requiring more limited changes.

- 15.1 Please provide an overview of the project plan related to the IT changes associated with the new rate design.
- 15.2 Please describe the total cost of IT changes associated with the new rate design.
- 15.3 Please indicate if the changes to IT as it relates to the new rate design require ICBC to file an IT Capital Report to the BCUC. If yes, when will this be filed?
- 15.4 Please provide the estimated timeline of the changes required under the current Guidewire PolicyCenter system. Would these changes be done in-house or externally?
- 15.5 Please indicate what other systems, outside of Guidewire PolicyCenter system and the Guidewire Rating Engine, will be affected.
- 15.6 Please outline what, if any, additional systems will be required to accommodate the proposed changes associated with the new rate design.
- 15.7 Please describe what training will be provided to staff and brokers to handle system and IT changes.
 - 15.7.1 Please include an estimated start and completion date and approximate cost for each training initiatives.

16.0 **Reference: CHANGE MANAGEMENT
Exhibit B-1, p. 4-7
Technology change management**

On page 4-7, ICBC states:

The implementation of the new rate design will require analyzing the impact to each affected system, making the necessary changes to each system (including the creation of new business rules, system logic, and rating tables), and testing each system under different scenarios to ensure it functions as designed.

- 16.1 Please confirm if a preliminary assessment of each affected system and the changes needed have already occurred.
 - 16.1.1 If confirmed, please provide the results of the assessment.
 - 16.1.2 If not confirmed, when will this assessment occur?