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VIA EFile

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

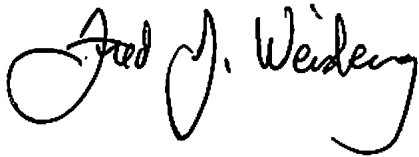
Dear Ms. Elder:

**RE: Insurance Corporation of British Columbia (ICBC) 2018 Basic Insurance  
Rate Design Application ~ Project No. 1598968  
Toward Responsible Educated Attentive Driving (TREAD)  
Questions to ICBC in Advance of Streamlined Review Process**

Further to Commission Order G-152-18, please find attached a series of questions on behalf of our client Toward Responsible Educated Attentive Driving (“TREAD”).

Should you require any clarification of the questions please contact the writer.

Yours truly,



Fred J. Weisberg  
Barrister & Solicitor  
Weisberg Law Corporation  
Counsel to TREAD

**Toward Responsible Educated Attentive Driving (TREAD)  
Questions to  
Insurance Corporation of British Columbia  
For  
Streamlined Review Process**

**Insurance Corporation of British Columbia (ICBC) 2018 Basic Insurance Rate  
Design Application ~ Project No. 1598968**

**1.0 Reference: APPLICATION  
Exhibit B-1, , p. 1-1 (PDF 9), para. 5**

ICBC states:

“While the current rate design worked well for many years, it has, over time, become less effective at distinguishing among customers with different levels of risk.”

1.1 In ICBC’s opinion for what period of years did the current rate design work well?

1.2 In ICBC’s opinion in what year did the current rate design first fail to work well? Please explain.

1.3 In ICBC’s opinion in what year did the current rate design begin to become less effective at distinguishing among customers with different levels of risk? Please provide specific examples of how it became less effective at distinguishing among customers with different levels of risk beginning in that year (Year 20XX).

1.4 For each year since Year 20XX, please provide specific examples of how in ICBC’s opinion the current rate design became less effective at distinguishing among customers with different levels of risk.

**2.0 Reference: APPLICATION  
Exhibit B-1, , p. 1-1 to 1-2 (PDF 9 - 10), para. 6**

ICBC states:

“The new rate design represents a significant change in the way Basic insurance premiums are determined. It introduces new rating variables and makes changes to existing rating variables used in calculating Basic insurance premiums, and enhances rate fairness by making the premiums that customers pay for Basic insurance more reflective of risk while also considering affordability.”

2.1 Please confirm that ICBC expressly acknowledged the need to enhance rate fairness by making the premiums that customers pay for Basic insurance more reflective of risk at least as early as June 2012 by undertaking its Customer Consultation and Engagement process related to a new rate design.

2.2 Please confirm that since 2012, despite urging from TREAD and other interveners to address much needed changes to its rate design, ICBC allowed its Customer Consultation and Engagement process initiative to wither and die and has actively resisted all attempts by TREAD to seek development and an application for BCUC approval of a new rate design. If not, please explain.

2.3 Does ICBC believe that the new rate design considers affordability? Please explain in more detail.

2.4 What specifically will the new rate design achieve to improve affordability for Basic insurance? Please quantify the affordability gains it will achieve, including the percentage increase expected to be avoided by 2/3 of BC drivers for F2019 Basic rates, compared to the cumulative rate increase percentage that has faced all BC drivers for the period F2012 through F2018.

**3.0 Reference: APPLICATION  
Exhibit B-1, p. 1-3 (PDF 11), para. 13**

ICBC states:

“This fundamental change gives rise to new factors through which drivers are more accountable for their driving than in the current system, more fairly allocating the costs of providing Basic insurance among Basic insurance policyholders while considering affordability.”

3.1 Please explain what ICBC means by “while considering affordability” in this context. Is the consideration to make Basic insurance more affordable for better drivers, or is it to ensure that drivers required to pay more to reflect greater accountability for their driving (e.g. at-fault crashes) don’t have to pay an amount that may be perceived as unaffordable for them?

3.2 Recognizing that rate design is necessarily a zero-sum game, in which lower rates for some ratepayers must be offset by higher rates for other ratepayers, does ICBC agree that affordability considerations in the context of rate design must necessarily advantage some but disadvantage others? Please explain.

3.3 If greater affordability can’t be granted to all ratepayers (e.g. because to do so would reduce the total premium collected in a given year), does ICBC agree that

it should seek to provide greater affordability to better drivers (e.g. those with the fewest at-fault crashes) and acknowledge that affordability can't be a consideration for drivers whose history includes at-fault crashes? Please explain.

**4.0 Reference: APPLICATION  
Exhibit B-1, , p. 1-3 (PDF 11), para. 14  
Higher-Risk Drivers Pay More  
Lower-Risk Drivers Pay Less**

ICBC states:

“Data analyzed by ICBC’s actuaries shows that a driver with a history of at-fault claims presents an increased risk for future claims. In the new rate design, drivers who have at-fault crashes are more accountable for their actions and their Basic insurance premiums better reflect the greater risk they represent of having additional at-fault crashes.”

4.1 Please specify the period of years included in the referenced data analyzed by ICBC’s actuaries.

4.2 By what year did ICBC’s actuaries have access to data that showed that a driver with a history of at-fault claims presents an increased risk for future claims?

4.3 With knowledge of that data-driven conclusion by its own actuaries, why has ICBC consistently and actively opposed TREAD’s pursuit of a new rate design?

4.4 Please confirm that for every year that ICBC has actively opposed TREAD’s pursuit of a new rate design, the corollary effect has been that approximately 2/3 of BC drivers have been required to pay more for Basic insurance than they would have under this new rate design and approximately 1/3 of BC drivers have paid less than they would have. Please explain.

4.5 Please confirm that such overpayment (relative to what would have been paid under the new rate design) for Basic insurance by approximately 2/3 of BC drivers likely won’t ever be recovered by them due to ICBC’s active resistance to a new rate design until directed by government to apply for it. Please explain.

**5.0 Reference: APPLICATION  
Exhibit B-1, p. 1-4 (PDF 12), para. 17  
More Accurate Assessment of Risk**

ICBC states:

“Some features of the new rate design are designed specifically to create a more complete picture of the risk associated with a Basic insurance certificate. The new feature of listing drivers of a given vehicle allows for a more accurate assessment of risk by considering the individual risk associated with each driver.”

5.1 Will the accuracy of the list of drivers for a given vehicle rely exclusively on self-reporting, or will ICBC implement some measures and/or penalties beyond the Unlisted Driver Accident Premium and Unlisted Driver Protection Premium to discourage cheating in the lists of drivers?

5.2 Will such penalties exceed the avoided Basic insurance costs for vehicle owners who cheat by omitting some drivers from the list of drivers for a given vehicle? If not, please explain the rationale in providing a financial incentive to cheat the Basic insurance scheme. If so, by how much will potential penalties exceed the maximum avoided costs for a vehicle owner?

**6.0 Reference: APPLICATION  
Exhibit B-1, p. 1-4 (PDF 12), para. 18  
More Accurate Assessment of Risk**

ICBC states:

“The new rate design updates the current risk conditions associated with a vehicle’s rate class (type of vehicle and how it is used) and territory (generally, based on the location of the vehicle when not in use). This is an essential step since, over time, the risks associated with rate classes and territories change relative to one another, and the rate classes and territories were last updated in 2010 based on an analysis which used 2007 data.”

6.1 Please specify what year(s) is the source of the data used for the analysis that underlies the new rate design.

6.2 Please specify the date when a new rate design updating then current risk conditions associated with a vehicle’s rate class and territory first became an “essential step” and identify and discuss the tipping point event(s) that made it an essential step.

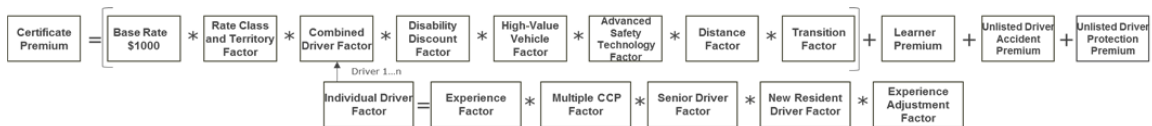
6.3 If a new rate design updating then current risk conditions associated with a vehicle’s rate class and territory only became an “essential step” in 2018, please explain what specific changes took place in 2018 other than the express direction from government that resulted in ICBC recognizing a new rate design as an essential step.

6.4 Please explain why ICBC’s internal and external actuaries apparently considered the many changes in risk conditions since 2007 (i.e. the year of the data reflected in the 2010 changes) did not make updating an “essential step” at any time prior to 2018. Is a ten year gap in analyzing changes in risk conditions consistent with Accepted Actuarial Practice?

6.5 Given ICBC’s current view that the new rate design updating the current risk conditions associated with a vehicle’s rate class and territory is an essential step, it is apparent that ICBC considered a new rate design nonessential at any time prior to 2018. Was the conclusion that it was nonessential expressly supported by ICBC’s internal and external actuaries? If so, please provide the actuarial rationale for a ten year gap in analyzing acknowledged changes in risk conditions. If not, why did ICBC disregard the opinions of its own actuaries by actively resisting TREAD’s requests for a new rate design?

**7.0 Reference: APPLICATION  
Exhibit B-1, p. 1-4 (PDF 12), para. 19  
The New Rate Design**

Figure 1.1 – New Rating Algorithm



7.1 Please describe ICBC’s plans for the type of press materials, marketing and advertising that will enable BC drivers to readily determine and understand how their own driving behavior will impact their Basic insurance premiums. In other words, how much extra will I have to pay for my Basic insurance if I cause one or more at-fault crashes?

7.2 Does ICBC agree that it is essential that BC drivers easily understand the direct connection between their own driving behavior and the amount of the Basic insurance premium they must pay?

7.3 Is there a danger that an unduly complex algorithm may make it too difficult for BC drivers to understand the connection between their driving behaviors and

the Basic insurance premium they must pay? Does ICBC agree that to the extent that the connection is not well understood, the financial benefit (i.e. incentive of lower premiums) of a good driving record or the financial cost (i.e. deterrent of higher premiums) of a bad driving record may have a reduced impact on driving behaviours?

**8.0 Reference: APPLICATION  
Exhibit B-1, p. 1-5 (PDF 13), para. 22  
THE INDIVIDUAL DRIVER FACTOR (IDF)**

8.1 Why has ICBC chosen at implementation to look at a scan period that extends back to only to March 1, 2017, and not take into account any at-fault crashes prior to March 1? What is the rationale for the choice of March 1, 2017?

8.2 ICBC's approach appears to give current drivers with a bad driving record (i.e. at-fault crashes) a "free pass" rather than looking at a scan period of the last ten years? Why is that approach necessary? Doesn't effectively erasing all at-fault crashes from IDF consequences unfairly shift costs to better drivers?

8.3 What is ICBC's rationale for not requiring New Resident Drivers to transfer provide their out of province crash and insurance coverage history?

**9.0 Reference: APPLICATION  
Exhibit B-1, p. 1-8 (PDF 16), para. 33  
THE HIGH-VALUE VEHICLE FACTOR**

9.1 Please provide an example of the calculation of the premium for:

- a. A vehicle valued at \$200,000;
- b. A vehicle valued at \$1,000,000; and
- c. A vehicle valued at \$3,000,000.

9.2 For clarity please explain whether the charge for high-value vehicles at two times the Basic insurance premium rises proportionately with the value of the vehicle or reaches a cap or limit at some point.

**10.0 Reference: APPLICATION  
Exhibit B-1, p. 1-9 (PDF 17), para. 34  
UPDATED RATE CLASS AND TERRITORY FACTOR**

ICBC states:

“The values for ICBC’s rate classes and territories were last updated in 2010, and these updates were based on data from 2007. The new rate design updates these values and expresses them as factors consistent with the new rating algorithm. The updates to Rate Class and Territory Factors occur over a 10-year period in order to moderate the impact on Basic insurance premiums.”

10.1 Isn’t it conceivable that updates to rate classes and territories may result in *decreased* premiums (e.g. resulting from changes in traffic flow, safety improvements, etc.) as well as increased premiums?

10.2 To the extent that any updates to rate classes and territories may result in *decreased* premiums, won’t updating only every 10 years tend to increase the impact on Basic insurance premiums rather than moderate them?

10.3 Given the zero-sum nature of rate design, won’t “moderating the impact on Basic insurance premiums” of drivers in higher-risk rate classes and territories necessarily shift an additional premium burden to drivers in lower-risk rate classes and territories? In other words, won’t keeping some premiums lower than justified in some rate classes and territories result in some premiums in other rate classes and territories being higher than justified?

**11.0 Reference: APPLICATION  
Exhibit B-1, p. 1-9 (PDF 17), paras. 36 - 38  
TRANSITIONING TO THE NEW RATE DESIGN**

ICBC states:

“The Transition Factor shown in Figure 1.1 applies to customers whose Basic insurance premiums would be significantly higher as a result of the implementation of the new rate design. It moderates single year Basic insurance premium increases attributable to the new rate design by limiting such increases to 20% per year.”



- 11.1 Absent the Transition Factor, what would be:
- a. the highest single year Basic insurance premium percentage increase attributable to the new rate design;
  - b. the average single year Basic insurance premium percentage increase attributable to the new rate design; and
  - c. the lowest single year Basic insurance premium percentage increase attributable to the new rate design.

11.2 Given the zero-sum nature of rate design, why does ICBC consider it fair, appropriate or necessary to moderate Basic insurance premiums that are currently below the level justified by the data?

**12.0 Reference: APPLICATION  
Exhibit B-1, p. 3-9 (PDF 40), para. 22  
YEARS SINCE LAST CRASH**

ICBC states:

“Upon implementation, the scan period will extend back to March 1, 2017 and will increase by one year every year until the full 10 years is achieved on or after March 1, 2027. This is to phase customers into the new rate design and ensures that older at-fault crashes do not unexpectedly have impact on future premiums.”

12.1 Please confirm that while the 10-year scan period in the new rate design is required by the 2018 Government Directive regarding Rate Design, the choice to phase in the 10-year scan period and look back only as far as March 1, 2017 is within ICBC’s discretion.

12.2 Has ICBC had the discretion to file a Rate Design Application with the BCUC at any time since 2012 if it chose to do so? If not, please specify any limitations on ICBC’s discretion to file any RDA on its own initiative.

12.3 If it was within ICBC’s discretion to have filed an RDA any time within the last six years, isn’t it conceivable that prior at-fault crashes might have adversely affected some drivers’ premiums? Didn’t ICBC’s 2012 Customer Consultation and Engagement clearly indicate that premiums for approximately 2/3 of BC drivers could go up to reflect their driving records? If so, how is it reasonable to assume that such impacts in 2019 could be unexpected?

**13.0 Reference: BCUC ORDER G-156-17<sup>1</sup>  
Appendix A, pp. 1-2  
RATE DESIGN**

“ICBC rate design refers to how ICBC structures its insurance premiums according to risk characteristics, including rating variables such as the Claim-Rated Scale, rate territories and rate classes. ICBC’s Basic insurance rate structure exists within the public policy and legal framework set out by the provincial government. In its 2013 Revenue Requirements Application Decision, the Commission requested ICBC provide an update of its plans around a Rate Design application by no later than December 31, 2015. In its December 2015 and June 2016 letters to the Commission, ICBC submitted that resources, systems and other considerations affect the timing of rate design plans. ICBC was continuing to work with government and was exploring the potential for filing aspects of rate design in late 2016 and/or 2017.”

13.1 Please provide copies of ICBC’s letters to the BCUC sent in December 2015 and June 2016 regarding its plans for rate design, both of which were relied upon and referenced in BCUC Order G-156-17.

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<sup>1</sup> [http://www.bcuc.com/Documents/Proceedings/2017/DOC\\_50133\\_A-3-G-156-17\\_reasons\\_scoping\\_requests\\_regulatory\\_timetable.pdf](http://www.bcuc.com/Documents/Proceedings/2017/DOC_50133_A-3-G-156-17_reasons_scoping_requests_regulatory_timetable.pdf)