

February 14, 2019

**VIA E-FILING**

Patrick Wruck  
Commission Secretary  
BC Utilities Commission  
6th Floor 900 Howe Street  
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth  
lworth@bcpiac.com  
Ph: 604-687-3034  
Our File: 7600.120

Dear Mr. Wruck,

**Re: Insurance Corporation of British Columbia – 2019 Revenue Requirements  
Application – Information Request No. 1  
Project No. 1598982**

We represent British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, BC Poverty Reduction Coalition, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, Together Against Poverty Society, and Tenant Resource & Advisory Centre ("BCOAPO et al." or "BCOAPO").

Enclosed please find the BCOAPO's Information Requests No. 1 with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,  
**BC PUBLIC INTEREST ADVOCACY CENTRE**

*Original on file signed by:*

Leigha L. Worth  
Barrister & Solicitor  
Executive Director

cc. ICBC, Registered Interveners

encl.

**REQUESTOR NAME:** BCOAPO *et al.*  
**INFORMATION REQUEST ROUND NO:** #1  
**TO:** Insurance Corporation of British Columbia (ICBC)  
**DATE:** February 14, 2019  
**APPLICATION NAME:** 2019 Revenue Requirements Application

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**1.0 Reference: General – Historical ICBC Rate Increases**

The FSCO data in the table below was posted online at

<https://www.lowestrates.ca/insurance/auto/british-columbia>

## BC auto insurance rate changes

Year	Rate Change
2010	0.0%
2011	0.0%
2012	+11.2%
2013	+4.9%
2014	+5.2%
2015	+5.5%
2016	+4.9%

*Source: fsco.gov.on.ca*

- 1.1 Can ICBC confirm that this data is accurate for the years shown? If so, please provide an augmented table that includes the years 2017 and 2018; if not, please provide a corrected table for the years shown and augment the table to include the years 2017 and 2018.
- 1.2 Please provide any information that ICBC has – or can easily obtain or provide links to – with respect to comparable data for the other Canadian provinces.

**2.0 Reference: General – Average Auto Insurance Rates by Province**

The IBC data in the table below was posted online at

<https://www.lowestrates.ca/insurance/auto/british-columbia>

## Average auto insurance rates by province

Province	Average Rates
Ontario	\$1,445
British Columbia	\$1,680
Alberta	\$1,251
Newfoundland & Labrador	\$1,132
Manitoba	\$1,080
Northwest Territories	\$978
Nunavut	\$963
Yukon	\$812

Nova Scotia	\$842
Saskatchewan	\$936
New Brunswick	\$819
Prince Edward Island	\$796
Quebec	\$661*

*Source: Insurance Bureau of Canada, 2017*  
*\*2016 data*

- 2.1 Can ICBC confirm that the data shown – at least in respect of BC rates – is accurate? If not, please provide a corrected figure.
- 2.2 Please provide any comparable data that ICBC has in its possession – or can easily access, or provide links to – for the remaining years 2013-2018 inclusive.
- 2.3 To ICBC’s knowledge, were average auto insurance premiums in BC higher than in all other provinces since ICBC’s inception?

**3.0 Reference: Exhibit B-1, Appendix 1 B, Proposal on Reporting from the 2017 RRA, pages 1B-1 to 1B-3 and Fig. 1B.1 – Reporting Approval Requests**

The referenced text includes the following:

*1. This Appendix provides a summary of the Insurance Corporation of British Columbia’s (ICBC) proposals on reporting of performance measures and on the Transformation Program (TP) from the 2017 Revenue Requirements Application (RRA). Figure 1B.1 below sets out ICBC’s requests for reporting of performance measures, for discontinuing the reporting associated with TP, and for reporting on certain operational metrics in other chapters of the RRA.*

*2. ICBC’s proposal for reporting of performance measures is to adopt an amended suite of performance measures that align with the corporate performance measures and that reflect three of the four corporate strategic goals: Deliver Value and Service for Customers, Enhance Financial Stability, and Deliver Operational Excellence. In keeping with the current practice, ICBC will not provide information pertaining to the fourth corporate strategic goal: Align People and Business Capabilities.*

3. Compared to ICBC's original proposal in the 2017 RRA, the current proposal regarding performance measures is to include additional content.
4. First, ICBC is not only proposing to maintain reporting on the Basic Loss Ratio in the amended suite, but will also include additional reporting of bodily injury (BI) frequency and severity as explanatory factors for this performance measure. These changes from the prior order sought are bolded in Figure 1B.1. [Emphasis added.]
5. Second, ICBC is no longer proposing to discontinue reporting on the Basic Insurance Expense Ratio and the Basic Non-insurance Expense Ratio. These changes from the prior order sought are shown in bold/strikethrough. [Emphasis added.]

- 3.1 Can ICBC confirm that "the prior order sought" is identical to "the prior order approved"? If not, please provide a revised Table 1B.1 that shows current approved reporting protocols with any and all proposed deviations from current approved practice clearly identified.
- 3.2 For instances in which ICBC proposes to discontinue reporting performance measures, does ICBC expect to enjoy any material cost savings which could be passed on to customers? If so, please elaborate; if not, please describe the benefit to ratepayers of decreased transparency, lowered comparability, and loss of continuity for analytical purposes.
- 3.3 For instance in which ICBC proposes to modify the current performance measure, please indicate how the modified measures can be usefully tracked for comparison with the historical (unrevised) measures so as to allow "apples to apples" comparisons.
- 3.4 Please explain why ICBC could not continue to report all performance measures which it proposes to vary, in their current form and their modified form – at least for some transitional period.

#### 4.0 Reference: Exhibit B1, page 2-9, Rate Design

The referenced page states:

*27. **Rate design** for ICBC's Basic insurance was the topic of a recent application to the BCUC. BCUC issued its September 28, 2018 Decision on the 2018 Basic Insurance Rate Design (Order G-188-18). Most of the Basic insurance rate design changes take effect on September 1, 2019. The new Basic insurance rate design sees premiums being calculated to better reflect the risk that drivers represent and is intended to be revenue neutral, which means they have no effect on the overall Basic insurance premium collected by ICBC in the year they are implemented. The BCUC has, in the past, generally kept matters of Basic insurance rate design separate from ICBC's revenue requirements proceedings. ICBC respectfully requests that matters related to Basic insurance rate design be excluded from the scope of this proceeding.*

- 4.1 Does ICBC agree that for any given class of policyholders, the only way that they can get some rate relief from overall increases in revenue requirement is through superior performance with respect to claims when the rate design provides rewards for such performance?

- 4.2 Historically, has the ICBC ever proposed considering rate design issues in conjunction with an RRA, perhaps in a “Phase2” of an RRA proceeding? If so, has this ever occurred?
- 4.3 Does ICBC expect that the next rate design proceeding will occur in the near-to-medium future?

**5.0 Reference: Exhibit B-1, Actuarial Rate Level Indication Analysis page 3-1 and page 3-5 Fig 3.3**

The referenced page states:

*The rate change to cover costs is +6.3%, which is mainly attributed to the following four impacts:*

- *+12.8 percentage points of rate since there is no longer the benefit of a \$415 million capital provision which offset a portion of PY 2017’s rate change to cover costs ...*

- 5.1 May it be inferred that a 1% rate change corresponds to a revenue change of approximately \$32.4M? If not, please explain.
- 5.2 Can ICBC confirm that the 14.0 percentage points associated with PY 2019 Loss Cost Forecast Variance corresponds to revenue of approximately \$454M and the 15.5 percentage points associated with Loss Cost Trend to PY 2019 corresponds to revenue of approximately \$503M?
- 5.3 In ICBC’s view, how would the premiums for previous years and up to and including PY 2019 been affected had the actual PY 2019 Loss Cost Forecast Variance been zero, i.e., had the loss cost forecast error been zero?

**6.0 Reference: Exhibit B-1, Actuarial Rate Level Indication Analysis, page 3-7, Investment Income, Appendix 6C Investment Performance Information for 2017/18, Figure 6C.2, and ICBC Service Plan 2018/19-2020/21, page 18, Financial Plan, Summary Financial Outlook**

The first referenced page states:

*17. Investment income is applied to offset ICBC’s costs of providing Basic insurance. The combined impact of the investment income is unfavourable, with a +0.4 percentage point impact on the PY 2019 rate change to cover costs. A breakdown of each of the investment income components is shown in Figure 3.4 below.*

*18. The cause of the unfavourable impact for this component of the indicated rate change is lower premiums required to cover costs in this Application (\$3.69 billion, shown in column (2) of Figure 3.2) as compared to the PY 2017 required premiums in the 2017 RRA (\$3.84 billion). The lower required premiums mean the assets that are available to generate investment income are less than those for the prior year and they will not generate as much investment income, assuming the same New Money Rate in*

*both cases. This component, therefore, has an unfavourable +2.7 percentage point impact on the PY 2019 rate indication. [Emphasis added.]*

- 6.1 This appears to be saying that the overall size of ICBC's investment portfolio for PY 2019 is expected to be smaller than it is currently. Please confirm or otherwise explain.
- 6.2 The referenced Figure 6C.2 indicates that as at March 31, 2018, the total asset value in ICBC's investment portfolio was \$16,160,837,000 (estimated fair value) or \$15,778,165 (carrying value). Please provide comparable forecasted figures for March 31, 2019 and March 31, 2020.
- 6.3 Have losses/gains on derivative financial instruments materially impacted investment income in any year over the past decade? If so, please provide details.
- 6.4 The Summary Financial Outlook referenced shows "Budget" increases in Investment Income for 2018/19 and beyond. Does this indicate that ICBC has revised its expectations re investment income since it developed the Service Plan?

**7.0 Reference: ICBC 2017/18 Annual Service Plan Report, page 14, and Appendix 8A Proposed Performance Measures Reporting, page 8A-11, Figure 8A.4 – MCT**

The first referenced page indicates that ICBC's actual MCT was 157% in 2015, 112% in 2016/17 (15 months), and 31% in 2017/18.

- 7.1 Were there any unforeseeable events that occurred in 2015 and going forward that required drawing down the MCT? If not, please explain.
- 7.2 Since MCT is a key measure of one of ICBC's objectives – "Ensure Financial Stability," what is the short- to medium-term significance of having an MCT of 4%?

The second referenced page and figure show MCT ratios which differ from those shown on the first referenced page.

- 7.3 Please reconcile the differing MCT ratios.

**8.0 Reference: Operational Review: The Insurance Corporation of British Columbia by PwC Canada, page 7**

The referenced page states:

*ICBC's Operating Environment The Insurance Corporation of British Columbia ("ICBC"), a provincial crown corporation, was created in 1973 with a mandate to provide Basic and Optional vehicle insurance for BC motorists. ICBC is the sole provider of the mandatory Basic insurance product which is regulated by the British Columbia Utilities Commission ("BCUC"). ICBC also sells Optional auto insurance in a competitive marketplace. Over the past several years, most jurisdictions in North America, Europe and Australia have experienced a significant increase in vehicle crashes and claims. ICBC has experienced a similar trend. Between 2012 and 2016, ICBC claims costs have increased by 58 percent, primarily due to:*

- *Increasing frequency (number of claims) and severity (cost of claims)*
- *Increasing number of claims per crash*
- *Significantly higher vehicle repair costs primarily due to embedded technology and more expensive materials*
- *Significantly higher bodily injury claims costs due to increased complexity of bodily injuries*
- *Increasing exaggerated and fraudulent claims*
  
- *Increasing incidents of distracted driving*
- *Increasing legal representation, including an increasing portion of claimants being represented at First Notice of Loss*

*Claims costs that include bodily injury costs and material damage costs represent the vast majority of ICBC's costs. With the pronounced trend in increased claims costs, insurance premiums collected by ICBC no longer cover the claims costs. This has resulted in significant financial losses in 2015/2016 and is impacting ICBC's long term projected financial stability.*

- 8.1 Can ICBC provide any comparative information from other Canadian auto insurers that demonstrate approximately similar impacts on financial performance due to these claims costs drivers?
- 8.2 The cited review forecasts annualized claims costs savings of up to \$93M in the third year after deployment. Does ICBC expect to realize ongoing savings of this magnitude ultimately?

**9.0 Reference: Exhibit B-1, Actuarial Rate Level Indication Analysis, page 3-13, Figure 3.5, Basic Loss Cost**

- 9.1 From 2013 onward, has ICBC ever observed actual Basic Loss Cost to be less than forecasted/projected loss cost? If so, please indicate when this situation last occurred.
- 9.2 Does ICBC consider the recent, continuing experience of under-forecasting key claims cost drivers, and trends of these cost drivers, as indicating a flaw in its forecasting methodology of any sort, or does ICBC believe that it is normal to continue forecasting below actuals – which appears to indicate a bias in methodology?

9.3 Does ICBC ever test its forecasting methodology for unbiasedness, stability, accuracy, etc., e.g., by looking at % above/below forecast, MAPE, MPSE, etc.? If so, please provide details.

**10.0 Reference: Exhibit A-7, BCUC IR 5.0, Actuarial Rate Level Indication Analysis, (Exhibit B-1, Chapter 3, pp. 3-6 and 3-19 PY 2019) Loss Cost Forecast Variance**

10.1 Does ICBC believe that in forecasting BI severity, its methodology is “chasing the trend” i.e., continually adjusting the projected trend upwards as each successive actual result is above the trend forecast from the previous period? If so, what steps has ICBC taken to address this issue other than to “adjust the trend, retroactively” after additional actual data from previous years is received?

10.2 Does ICBC agree that, at least some of the time, the most recent trends from the previous RRA modeling should not require ex-post data adjustments or re-valuation of the trend to remain salient for the current RRA application?

**11.0 Reference: Exhibit B-1, page 3-18 and page 3-19, Figure 3.9, Property Damage Claims Severity**

The referenced page states:

*The PY 2017 PD severity estimate in the 2017 RRA (the grey triangle in Figure 3.9 below) was based on claims emergence as of May 31, 2017 for accidents occurring prior to FLY 2016/17. The latest two years of data used in the PD severity forecast for the 2017 RRA supported an expectation that PD claim severity was increasing at a trend at 6.0% as depicted by the grey dashed line shown in Figure 3.9. However, since that time actual severity has emerged higher than expected and has continued to grow. The last five years of data supports a further increase in severity trend, shown by the black dashed line in Figure 3.9. This unfavourable impact is largely a result of continued rising costs for parts as more complex technology and more expensive materials are used in vehicles and as more hours are required to repair increasingly complex newer vehicles. These factors contribute to the increase of the PD severity trend to 7.8%, as shown by the black dashed line in Figure 3.9. [Emphasis added.]*

11.1 Please explain why ICBC’s forecasting/trend analyses do not reflect the impact of “continued rising costs for parts as more complex technology and more expensive materials are used in vehicles and as more hours are required to repair increasingly complex newer vehicles,” given that these factors are not presented as being new drivers of PD severity and given that the Figure shows the actuals exceeding the most recent trend since 2014?

**12.0 Reference: Exhibit B-1, page 3-23, Figure 3-13, Large and Catastrophic Claims Frequency, Technical Appendix B.0, pages 1-2, and Technical Appendix C.0, page 9, Figure C.0.5**

- 12.1 Do any of the data points exhibit 3-sigma (3 standard deviations) or larger deviations from forecast in the first referenced graph?
- 12.2 Generally, in checking for normality, does ICBC look at the number of 3-sigma deviations in conjunction with the sample size as a test for normality of the distribution (e.g., for the Q-Q plot for Personal Exposure shown on page 2 of the Technical Appendix B.0)?
- 12.3 Could the last referenced Figure be interpreted as indicating that there could be a structural break in the data?
- 12.4 Does ICBC employ any quantitative (i.e., non-visual) tests to check for violation of the assumption of homoscedasticity (constant variance)?

**13.0 Reference: Exhibit B-1, General – Statistical Analysis**

- 13.1 Has ICBC ever used or investigated the use of any Time Series Analysis tools in its analysis of data?
- 13.2 Is it ICBC's view, in general, that the larger drivers of cost increases in recent years are not properly characterized as having a stable, short- to medium-term trend that would be more accurate for forecasting purposes?

**14.0 Reference: Exhibit B-1, Appendix 8A, Proposed Performance Measures Reporting Claims Cost Management – Comparators**

- 14.1 Does ICBC have, or have access to, claims cost metrics for (all or some) of the insurers in other Canadian provinces which would allow comparison of its claims cost management efficacy with that of other insurers in its comparator group? If so, please provide details.

**15.0 Reference: Exhibit B-1, Chapter 5, page 5-4, Road Safety – Distracted Driving – Telematics Pilot for New Drivers**

- 15.1 When does ICBC expect to have sufficient data to afford an appraisal of the efficacy of the referenced pilot project?

**16.0 Reference: Exhibit B-1, Chapter 7, Operating Expenses and Allocation Information – M&C Employee Group**

- 16.1 Please provide a copy of the most recent compensation study that addresses the appropriateness of the compensation amounts for the M&C employee group.