BRITISH COLUMBIA UTILITIES COMMISSION
ICBC 2019 RATE REQUEST APPLICATION

INFORMATION REQUEST NO. 2

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April 8, 2019

1.0 Financial Management

In response to RM 1.1 ICBC provided the Basic 2018/19 forecast based on the second quarter 2018/19 results. On February 7, 2019, ICBC published its third quarter results for the Basic and Optional programs.

1.1 Please amend the table in Attachment A (pdf 757) replacing the 2018/19 forecast with the third quarter-based year-end forecast.

1.2 In the multi-year Basic financial summary provided in response to RM.1.1-3 (Attachment) the investment income forecast for 2019/20 is significantly lower than the 2018/19 forecast and the 2020/21 outlook. Please explain why 2019/20 seems to be an anomaly.

1.3 In the multi-year forecast (Attachment A) the forecast for the unpaid claim liability for 2019/20 to 2021/22 is relatively steady (compared to recent years) in the \$6.5 to \$6.8 billion range. Is one to conclude from this that ICBC is satisfied with this value, or is there a target value that ICBC hopes to achieve?

1.4 In response to RM 1.4 ICBC advised that the financial information used to develop PY information in Figure 3.1 (Chapter 3) was not consistent with the financial statement format; “Components included in the policy year format in the Application, Chapter 3, Figure 3.1 and the financial fiscal year format are not directly comparable. The financial fiscal year figures are presented on an earned basis, consistent with financial statement presentation, whereas the revenue requirement components from Chapter 3, Figure 3.1 are presented on a written basis.”

1.5 What is the benefit gained in presenting the RRA information on a written basis compared with the disadvantages of not having consistency between the request format and the audited year-end actual format?

1.5.1 Are there other instances, other than those discussed in the response to RM 1.4, where the format/definition is different?

2.0 In the response to RM 1.7 ICBC confirmed that the forecasted 15.5% increase in claims costs for PY 2019 (Figure 3.3 line 3) is an amalgam of the growth in policies/exposures sold (and presumably the change in the average revenue per policy) and the change in the cost of claims. This netting of revenue components against the cost of claims would—where the revenue components are increasing—understate the true representation of the forecasted increase in the cost of claims.

2.1 Why has ICBC chosen this simplified approach to explaining the change in claims costs for pre-PY 2019 adjustments and PY2019 adjustments; would not showing the revenue change components separately provide a more complete picture of how the forecast rate increase was developed?

3.0 Funding of Rate Affordability Action Plan

3.1 Are the costs of the new staff supporting the CRT process being funded from the RAAP draw on the Optional program? If so, how long will these positions be funded from this special arrangement?

3.2 If Basic claims costs are reduced by over $1.0 billion as the result of the coverage changes and the new dispute process, the ratio of Basic to Optional for determining the apportionment of the overhead costs will change. More of these costs will be apportioned to the Optional program. Is this correct?

3.3 Further to the response to RM 1.13, is there a particular reason why the government ordered (OIC 84/19) that the funding of the RAAP come from the Optional program, other than it avoids the scrutiny of the BCUC rate review process? Clearly the vast majority of the RAAP changes and financial savings affect the Basic program and rates.

4.0 In the response to RM 3.13 (figures 1 and 3) show that for 2017/18 there were 45,483 Basic BI claims closed with the average severity being $41,810, yet the response to RM 3.8 states the for the same year there were 62,000 Basic and Optional exposures closed with the average severity calculated as $39,060 ($2.46 billion divided by 62,000 closed exposures).

4.1 Please explain the difference between these two responses.

4.2 Why would the inclusion of the Optional closed claims in RM 3.8 result in a lower average severity figure?

4.3 In the 4 April 2019 response to RM 3.8, ICBC stated that there were 39,000 BI exposure counts closed by Q3 2018/19. On a straight-line basis this is projected at 52,000 for the full year, or some 10,000 less than recorded as closed for 2017/18. Does ICBC have an explanation for the apparent decline in closed claims for 2018/19 in light of the large number of claims FTEs added in 2017/18 and 2018/19?

4.4 In footnote 3 of Figure 3 of the 4 April 2019 response to RM 3.8, ICBC said that the severity figure for litigated claims includes $3,793 for defense counsel fees, expenses and medical reports. Assuming 17,000 litigated settlements for 2017/18 the total would be approximately $64.5 million. Yet in the response to RM 3.2 ICBC stated that the defense legal fees and disbursements for 2017/18 totaled $140 million. Please explain the difference.

6.0 Policy Year and Fiscal Year View

Now that the policy year and the fiscal year are finally aligned, has ICBC considered providing future rate requests that compare the revenue and expenditure forecasts for the test period to the forecast actuals for the prior fiscal year?

For example, the justification for the component of the rate increase resulting from the change in investment income includes 2.7% due to lower forecast PY2019 premiums compared to the PY2017 forecast (Chapter 3, p. 3-7; pdf 74) . However, the forecast for **actual** earned premium income for 2019/20 of $3.60 billion (RM 1.1-3 Attachment A) is about 6.2% higher than the **actual** earned premium income for 2017/18. When adjusted for the 6.3% rate increase the earned premium revenue is similar to the 2018/19 forecast and significantly more than the actuals for 2017/18.

While comparing forecasts to forecast in the previous rate request has some logic, comparing forecasts to forecasted actuals (or the audited actuals depending on the year) is much more helpful in understanding the cost and revenue changes that impact the final rate requirement.

6.0 Employer Health Tax

6.1 Please provide a reconciliation of the financial impacts to ICBC of the change from the Medical Services Premium system to the Employer's Health Tax. Please also show the annual saving to the pension plans obligation.

		2017/18	2018/19	2019/20	2020/21
	MSP Savings				
	Emp. Heath Tax Costs				

	Net Change				
	Pension Plans Saving				

RMcC.