

April 09, 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 – Project No. 1598982
Information Request No. 2**

We represent British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, BC Poverty Reduction Coalition, and Council of Senior Citizens' Organizations of BC ("BCOAPO et al." or "BCOAPO").

Enclosed please find the BCOAPO's Information Requests No. 2 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:

Irina Mis
Barrister & Solicitor

encl.

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #2
TO: Insurance Corporation of British Columbia (ICBC)
DATE: April 09, 2019
APPLICATION NAME: 2019 Revenue Requirements Application

17.0 Reference: Exhibit B-2, BCUC IR 1.3.1, Non-Material Damage Initiatives

The referenced response states (in part):

ICBC is implementing several non-material damage initiatives as a result of recommendations made by PricewaterhouseCoopers LLP, Canada (PwC Canada). Although these initiatives were not explicitly referenced in the Application, the costs and associated benefits, where applicable, were reflected in the numbers included in the Application.

In the Claims area, ICBC is shifting to a more supportive claimant customer experience through enhancements to communication materials and utilization of a behavioural framework to improve customer service at key touchpoints. As well, ICBC is moving ahead to improve salvage and subrogation management through the development and training of staff on standard processes and procedures, and the introduction of subrogation key performance indicators. In the Finance area, ICBC will review opportunities to automate manual processes once the Rate Affordability Action Plan is fully implemented and stabilized. In the Driver Training area, ICBC is leveraging analytics to better evaluate the quality and consistency of driving school/instructor performance and has increased staffing numbers to improve the overall quality of driver training.

- 17.1 Please describe or explain how ICBC quantified the benefits of the first two initiatives referred to above, i.e., a more supportive claimant customer experience and improved salvage and subrogation management, in order to reflect these benefits in the Application's numbers.
- 17.2 Regarding automation of manual processes in Finance, please confirm that any such automation would only be undertaken subsequent to the initiative providing benefits in excess of costs as evidenced by the application of a strict cost-benefit test.
- 17.3 Regarding automation of manual processes in Finance, does ICBC expect that any related costs will be reflected in the next RRA?
- 17.4 Please explain how or what is meant by "ICBC is leveraging analytics" in the Driver Training area.

17.5 Regarding the Driver Training area initiative, can ICBC indicate the quantum of costs incurred in respect of leveraging analytics and increased staffing numbers to improve the quality of driver training.

18.0 Reference: Exhibit B-2, BCUC IR 1.5.1, Impact of LCFV on Rates

Table 1 in the referenced IR shows significant adverse rate impacts due to LCFV for each of the last four years.

18.1 If the LCFV was calculated with respect to a forecast that employed a symmetrical unbiased estimator, does ICBC agree that the probability of getting four successive adverse impacts would be 6.25% (i.e., 1 in 16) – the same likelihood that one would get four tails in a row in the tossing of a fair coin?

The referenced IR also states:

The unfavourable LCFV in recent years is the result of an unexpected upward trend in the frequency of crashes combined with an unexpected increase in the cost of those crashes.

18.2 Is the ICBC convinced that its current forecasting methodology in respect of LCFV now captures “the unexpected upward trend in the frequency of crashes combined with an unexpected increase in the cost of those crashes”?

18.3 Generally, in respect of its forecasting methodology, does ICBC give attention to the fact that variances of three standard deviations or greater from the mean of a normally distributed random variable are expected to occur less than 0.7% of the time?

19.0 Reference: Exhibit B-2, BCUC IR 1.18.2, Actuarial Rate Level Indication Analysis

The referenced response includes the following:

To clarify, ICBC actuaries calculated the \$1.2 billion savings from product reform that have been allocated to Policy Year (PY) 2019, as shown in the Application, Chapter 3, Appendix E.2. The \$1.2 billion savings translates to a -37.4 percentage point impact on the PY 2019 rate change to cover costs.

19.1 Given the huge impact of product reform on 2019 rates, does ICBC believe (or have any view) that further product reforms or similar changes outside of ICBC’s control will be required in the future to address the long-term viability concerns of ICBC or will the current product reform, coupled with other possible changes undertaken by ICBC, be sufficient to assure long-term viability?

- 19.2 Is it ICBC's view that in the current regulatory/legislative context, ICBC can achieve long-term viability through implementation of RAAP and other initiatives in ICBC's jurisdiction/purview?

20.0 Reference: Exhibit B-2, BCUC IR 1.21.5.1, Accepted Actuarial Practice

The referenced response states (in part):

In order for an estimate to be consistent with accepted actuarial practice, it must rely on reasonable assumptions that take into account current circumstances, historical data, and the relationship of past to expected experience.

- 20.1 Is it reasonable to conclude that to demonstrate that an estimate is inconsistent with accepted actuarial practice requires a demonstration that unreasonable assumptions – which do not take into account current circumstances, historical data, and the relationship of past to expected experience – have been relied upon?
- 20.2 With respect to the requirement to take into account “the relationship of past to expected experience,” would large and persistent forecast variances be taken into consideration?
- 20.3 Is ICBC aware of any instances anywhere in which advice provided by an actuarial firm was later found to be not consistent with accepted actuarial practice?

21.0 Reference: Exhibit B-2, BCUC IR 1.42.3, Claims Cost Management

The referenced response states (in part):

ICBC does review information and best practices from other jurisdictions on a regular basis to gather relevant information as it relates to claim handling practices or best practices.

- 21.1 Can ICBC briefly explain how it determines whether practices used in other jurisdictions constitute “best practices” as opposed to “different practices”? In other words, are there generally accepted industry standards e.g., codified in some document(s) relied upon by insurers or does ICBC determine “best practices” on its own? If the latter is the case, please elaborate briefly.

22.0 Reference: Exhibit B-2, BCUC IR 1.45.3, Claims Cost Management

The referenced IR states:

ICBC is currently in discussions through an Industry Advisory Committee to get input on the program design. Design is expected to complete in March 2019 at which point a plan will be developed for province-wide industry consultations. Province-wide industry consultations are expected to take place this year from April to early July. The purpose is to provide an overview of the program design and gather feedback on gaps.

Implementation is dependent on design and a detailed analysis of people, processes, and technology required to support the program design.

22.1 Please provide an update regarding the Industry Advisory Committee.

23.0 Reference: B-2, BCUC IR 1.47.1.2, and BCOAPO IR 1.15.1, Road Safety

The first referenced IR states:

Over the spring of 2019, ICBC will recruit approximately 7,000 inexperienced drivers who either hold a Novice stage license, or who have held a full drivers license for less than 5 years. ICBC will gauge the effectiveness of providing feedback and coaching incentives to reduce driving behaviours correlated to crashes, such as speeding, rapid acceleration, hard braking, hard cornering, and phone use while driving. The results of this pilot will be used to determine the future direction of ICBC's use of telematics-supported apps.

23.1 Please provide an update regarding this initiative as to whether recruitment and testing has begun.

24.0 Reference: Exhibit B-2, BCUC IR 1.51.1, Distracted Driving, Figures 2 and 3

24.1 To what extent does the information in the referenced figures (and elaborated upon in the accompanying text) impact/inform ICBC's resource allocation decisions in allocating resources among initiatives designed to curb (i) distracted driving, (ii) speeding, and (iii) impaired driving?

24.2 Do the police services solicit feedback from ICBC or consult with ICBC regarding police resource allocation among police activities to reduce distracted driving, speeding, and impaired driving before the police allocate their budgets among these activities?

25.0 Reference: Exhibit B-2, BCUC IR 1.57.2, Attachment A, ICBC Investment Strategy Review, page 9, Statement of Investment Beliefs

The last point states:

Some exposure to unhedged FX can be beneficial

25.1 Please elaborate on this belief and explain how ICBC limits the risk of unhedged FX in its investment allocation to unhedged FX.

26.0 Reference: Exhibit B-2, BCUC IR 1.60.1, Mezzanine Debt

The referenced IR states:

High yield bonds and mezzanine debt are both income producing investments providing enhanced yield over investment grade bonds. High yield bonds will generally have more liquidity; however, this liquidity can quickly disappear when market conditions deteriorate. ICBC has defined mezzanine debt as: "subordinate or senior core-plus fixed or floating rate debt obligations secured by real assets (real estate or infrastructure) issued by private corporations." Unlike high yield bonds, the mezzanine debt obligation is secured by a charge against a tangible asset, providing a measure of capital protection that doesn't exist with high yield bonds.

- 26.1 Can ICBC confirm that mezzanine debt's claim on a company's assets is senior only to that of common shares, i.e., in the event of financial difficulty on the part of the borrower, mezzanine debt will be covered only after all other debt obligations are covered?
- 26.2 Can ICBC confirm that for an entity which issued a high yield bond and mezzanine debt, the claim on the issuer by the holder of the high yield bond would be senior to the claim by the holder of the mezzanine debt?

27.0 Reference: Exhibit B-2, BCOAPO IR 1.3.2, Reporting Approval Requests

The referenced IR states:

As provided in the response to 2017.1 RR BCOAPO.6.4, ICBC's proposed discontinuation of the Customer Approval Index will generate savings of \$40,000 per year by eliminating the need to perform and report on the survey. In addition, discontinuation of proposed performance measures will create greater efficiencies and capacity for ICBC staff to provide BCUC with the appropriate information to assess ICBC's delivery of Basic insurance and an overall more efficient and meaningful view of ICBC's operations.

- 27.1 Please explain why ICBC is not as interested in Customer Approval as it was previously, especially given the customer concerns as evidenced by the letters of comment in this proceeding.
- 27.2 Can ICBC confirm that the reporting approval changes requested will not materially impact ICBC's rates in upcoming RRAs?