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April 9, 2019

Sent via email/eFile

ICBC 2019 REVENUE REQUIREMENTS
EXHIBIT A-13

Ms. June Elder
Manager, Corporate Regulatory Affairs
Insurance Corporation of British Columbia
151 West Esplanade
North Vancouver, BC V7M 3H9
regaffairs@icbc.com; june.elder@icbc.com

Re: Insurance Corporation of British Columbia – 2019 Revenue Requirements Application – Project No. 1598982 – Information Request No. 2

Dear Ms. Elder:

Further to your December 14, 2018 application regarding the above-noted matter, please find enclosed British Columbia Utilities Commission Information Request No. 2. Please file your responses by Tuesday, April 30, 2019.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/ad
Enclosure

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Insurance Corporation of British Columbia
Revenue Requirements Application for Universal Compulsory Automobile Insurance
Effective April 1, 2019

INFORMATION REQUEST NO. 2 TO INSURANCE CORPORATION OF BRITISH COLUMBIA

Table of Contents **Page no.**

A. INTRODUCTION

93.0 Reference: INTRODUCTION
Exhibit B-2, BCUC IR 1.1,1.2.1
Interim rate and permanent rate

In response to British Columbia Utilities Commission (BCUC) Information Request (IR) 1.2.1, the Insurance Corporation of British Columbia (ICBC) stated that if refunds are required for two million customers, the estimated cost to process and deliver refund cheques is $0.977 per affected policy. If collections are required from two million customers, the estimated cost to process and deliver the bill is $0.958 "cents per affected policy"; the variance is that cheque stock is not required for billing.

In response to BCUC IR 1.1, ICBC states: "Billing and refund functionality has not yet been built into Guidewire PolicyCenter® (PolicyCenter)."

93.1 Please confirm, or explain otherwise, that if collections are required, the estimated cost to process and deliver the bill is $0.958 and not $0.958 cents.

93.2 Please explain whether the estimated cost per affected policy of a refund or collection is fixed or variable based on the number of affected customers.

93.2.1 If the estimated cost per affected policy varies based on the number of affected customers, please explain ICBC's rationale for providing an estimated cost based on two million customers in the response to BCUC IR 1.2.1.

93.3 Please provide the original project plan including the timeline and cost to build the billing and refund functionality into PolicyCenter.

93.4 Please provide the updated project plan including the timeline and cost to successfully build the billing and refund functionality into PolicyCenter.

B. ACTUARIAL RATE LEVEL INDICATION ANALYSIS

94.0 Reference: INTRODUCTION
Exhibit B-1 (Application), Chapter 3, pp. 3-6 to 3-10; ICBC Newsroom Article dated December 14, 2018[1]
Average dollar increase per policy

On pages 3-6 to 3-10 of the Application, ICBC provides the average impact per policy in $ dollar terms for each line item. Summing this $ dollar average impact per policy appears to show a net $70 average impact per policy.[2]

In ICBC's news release dated December 14, 2018 regarding its 2019 Basic insurance rate application, ICBC states: "If approved, the new basic insurance rate would be effective April 1 and will mean an average increase of less than $60 for personal customers' basic insurance coverage."

94.1 Please reconcile the difference between the $70 average impact per policy figure calculated in the Application and the "average increase of less than $60 for personal customers' basic insurance coverage" as indicated in ICBC's news release.

95.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Ministry of Attorney General News Release dated February 11, 2019[3]
Limiting use of experts and expert reports

On February 11, 2019, the Ministry of Attorney General issued a news release announcing amendments to the BC Supreme Court Civil Rules Regulation which will limit the number of experts and expert reports permitted in motor vehicle-related court cases. The Ministry of Attorney General states:

> These amendments are designed to encourage earlier settlements and help reduce the costs of settling vehicle injury claims… Parties will be able to use one expert and report for fast-track claims (e.g., less than $100,000), and up to three experts and reports for all other claims. However, the judiciary will be able to permit additional court-appointed or joint experts at its discretion. <u>These amendments will come into effect immediately upon deposit for motor vehicle-related actions.</u> They will also apply to all personal injury claims as of Feb. 1, 2020, subject to the further analysis and consultation that the ministry plans to undertake. [*Emphasis added*]

Attorney General David Eby further stated that the changes could save as much as $400 million this fiscal year and $30 million per year thereafter.[4]

95.1 Please explain the extent to which limiting the use of experts and expert reports would have an impact on setting Basic insurance rates for PY 2019. If ICBC views that the Attorney General's announced savings have no impact on the Policy Year (PY) 2019 Basic insurance rate, please justify why not.

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[1] Retrieved from: https://www.icbc.com/about-icbc/newsroom/Pages/2018-Dec14.aspx
[2] Calculation: $123 + $134 + $149 + (-$360) + $3 + $11 + $8 + $3 + $0 + $2 + (-$3) = $70
[3] Retrieved from: https://news.gov.bc.ca/releases/2019AG0009-000208
[4] Retrieved from: https://globalnews.ca/news/4948547/b-c-government-icbc-expert-reports/; https://vancouversun.com/news/politics/b-c-government-to-limit-medical-reports-in-icbc-claims-cases

95.1.1 Please provide an update to Figures 3.1 and 3.3 in Chapter 3 of the Application to show the impact, if any, of limiting the use of experts and expert reports on the PY 2019 Required Premium and the PY 2019 Indicated Rate Change, respectively.

96.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Appendix F.0, pp. 1–2
Impact from product reform

On page 1 of Appendix F.0, ICBC states:

> To determine the required premium as shown in Appendix Set A, [ICBC] must forecast the investment income earned on policyholder premiums associated with policies to be sold during Policy Year (PY) 2019. This investment income reduces the required premium amount. Since investment income will be earned on premium revenue between the time premiums are collected and the time losses are paid, it is important to forecast the timing of the payment of loss and allocated loss adjustment expense (ALAE) amounts. The loss payment pattern is the source of the forecast.

On page 2 of Appendix F.0 of the Application, ICBC states:

> Current payment patterns are based on historical loss and ALAE payments prior to the changes effected by product reform, and these patterns may change with the introduction of product reform. Two specific impacts have been identified at this time that may exert an influence on the payment patterns for PY 2019.

ICBC further explains on page 2 of Appendix F.0 that the first impact relates to Accident Benefits (AB) and that the second anticipated impact relates to Bodily Injury (BI) claims.

However, ICBC submits that "As a result of these competing factors and the lack of information available to support a change in the current payment patterns, <u>no adjustment is made to account for product change in determining payment patterns in this Application</u>." [*Emphasis added*]

96.1 Notwithstanding the challenges in quantifying the impact of the two specific product reform impacts identified, please comment on the likely <u>overall</u> directional impact (i.e. longer or shorter overall payment patterns) of these changes on the PY 2019 Indicated Rate Change. Please include, but not be limited to, a discussion of the following:

a) The relative magnitude (%) of policyholder supplied funds for BI and AB in the pre-reform and post-reform environment;

b) Whether ICBC anticipates the post-reform BI payment pattern to still be longer than the post-reform AB payment pattern;

c) The impact (increase or decrease) on forecast investment income earned on policyholder premiums associated with policies to be sold during PY 2019; and

d) Whether ICBC anticipates that a potential issue may arise regarding cash flow and capital availability in the hypothetical scenario that the post-reform payment pattern becomes shorter, and at the same time, the pre-reform loss payment pattern remain unchanged. Please include a discussion on the likelihood of this scenario.

97.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, Appendix F.1
Average duration

In Appendix F.1 of the Application, ICBC provides a table showing its claims payment patterns forecast (paid to ultimate ratios) by coverage.

97.1 Please provide the following:

(i) The current average duration for the claims payment pattern (all coverages combined) under the pre-reform product; and

(ii) A sensitivity test of how the PY 2019 Indicated Rate Change of +6.3 percent would change for each 0.25 year increase/decrease in the average claims payment pattern duration.

98.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-2, BCUC IR 18.5
Product Reform impact

In response to BCUC IR 18.5, ICBC stated that it requested input from Ernst & Young LLP (EY) in responding to the information request, and that ICBC reviewed and agrees with EY's response.

EY included sensitivity tables to show the magnitude of potential variability in three assumptions, including the following in its response:

> … As an example of the magnitude of such potential variability, EY has illustrated below the impact of varying the assumed increase in the number of at-fault Medical Rehabilitation claims +/- 50%.

Part 7 – Medical Rehabilitation Product Reform Impact ($000s)	Current Assumptions (Table 2.1)	Number of At-Fault Claims Increases 50%	Number of At-Fault Claims Increases 150%
Fiscal Loss Year 2020	+$311,546	+$262,265	+$360,827
Fiscal Loss Year 2021	+$336,758	+$282,977	+$390,540

> Savings in Bodily Injury costs arise mainly from the cap on General Damages for minor injuries. The costing approach projected 2017 closed claims to the fiscal loss year 2020 level and, for all claims determined to be minor injuries, simply capped the projected General Damages award at $5,500. Given the size of the data set, EY believes this to be an accurate assessment of the impact of the cap on General Damages. Variability can arise, however, if the proportion of claims ultimately determined to be minor differs materially from that underlying EY's projections. Reasons for differences can be inaccurate coding of historical injuries, more serious injuries in the future than the past, a dispute resolution process that interprets injury diagnoses differently than expected, etc. EY has illustrated in the table below the impact of varying the number of claim exposures determined to be minor by +/- 10%.

Basic Bodily Injury Product Reform Impact ($000s)	Current Assumptions (Table 2.1)	Number of Minor Injuries 10% Lower	Number of Minor Injuries 10% Higher
Fiscal Loss Year 2020	-$1,465,883	-$1,222,089	-$1,709,677
Fiscal Loss Year 2021	-$1,697,676	-$1,438,125	-$1,957,226

98.1 Please explain why EY selected a range of +/-10% versus some other amount (such as range of +/-50%) to illustrate the impact of varying the number of claim exposures determined to be minor.

98.2 It appears that if the estimate of the number of minor injury claimants is 10% lower, then the product reform savings is overstated by $259,551,000 (calculated as -$1,697,676,000 minus -$1,438,125,000). In that case, how would the -37.4 percentage point savings from product reform and the requested overall rate level change of +6.3 percent?

98.3 Please explain why EY selected a range of +/-50% versus some other amount to illustrate the impact varying the number of at-fault Medical Rehabilitation claims.

98.3.1 Please confirm, or explain otherwise, that there are typographical errors in the sensitivity table provided, as follows: (i) the third column of the table should read "Number of At-Fault Claims Decreases 50%" rather than "Number of At-Fault Claims Increases 50%"; and ii) the fourth column of the table should read "Number of At-Fault Claims Increase 50%" rather than "Number of At-Fault Claims Increase 150%."

98.4 Please explain why EY selected a range of +/-5% versus some other amount to illustrate the impact of varying the severity of claims resolved by the Civil Resolution Tribunal (CRT).

99.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-2, BCUC IR 19.2
Order in Council 595/18

In response to BCUC IR 19.2, ICBC stated:

> The amended IVR [*Insurance (Vehicle) Regulation*] further defines "Psychological or psychiatric condition" in the minor injury definition as a clinical condition that is of a psychological or psychiatric nature and does not result in an incapacity.[1] This change limits the psychological or psychiatric conditions that fall under the minor injury definition from the ones where recovery occurs within 12 months to the ones where recovery occurs within 16 weeks.
>
> [1] Incapacity means a mental or physical incapacity that is not resolved within 16 weeks after the date of the incapacity arises.

ICBC further stated that it asked EY to respond to the information request and provide comment on the impact on the number of claimants that would be considered to have minor injuries from the change in the definition. EY stated: "There were 219 BI claim exposures closed in calendar year 2017 with **mild** psychological or psychiatric conditions as **primary** injury coded in the file, which is approximately 0.4% of the total BI claim exposures closed in calendar year 2017." [*Emphasis added*]

99.1 Please explain how ICBC collects data (e.g. ICBC's practices and procedures) with respect to "primary" injury type versus non-primary injury types. Please include a discussion on injury type data classification (i.e. primary or non-primary) in situations with more than one injury for the claimant.

99.2 Please provide the number of BI claim exposures closed in calendar year 2017 which had psychological or psychiatric conditions as an injury type, regardless of whether it was mild or non-mild and primary or non-primary injury. Please provide the count and the percentage of total BI claim exposures closed in calendar year 2017.

99.3 Given that limiting the impairment timing on psychological or psychiatric conditions from 12 months to 16 weeks will decrease the number of claimants that would meet the minor injury definition, does ICBC consider it possible that there may be favourable or unfavourable impacts from claimant behavioural change due to the amended IVR which may impact the -37.4 percentage point impact of product reform? Please explain why or why not, and discuss the implications.

100.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-2, BCUC IR 31.3
Broker remuneration

In response to BCUC IR 31.3, ICBC stated:

> ICBC is still assessing the impact of rate design on broker remuneration and anticipates completing the new remuneration plan by June 30, 2019. ICBC's criteria for assessing the reasonableness of the new plan is that it mirrors the current remuneration structure as closely as possible to keep distribution costs low through this period of significant change.

100.1 Please provide details of the current broker remuneration structure.

100.2 Please explain why a new broker remuneration plan which mirrors the current remuneration structure has an impact on "keeping distribution costs low."

C. SUPPLEMENTARY INFORMATION ON ACTUARIAL RATE LEVEL INDICATION ANAYLSIS

101.0 Reference: BI SEGMENTED ANALYSIS AS OF AUGUST 2018
Exhibit B-2, BCUC IR 35.1, 35.1.1
Quarterly BI segmented analysis

In response to BCUC IRs 35.1 and 35.1.1, ICBC stated:

> ICBC performs an actuarial analysis of claims information each quarter in order to determine best estimate loss and ALAE amounts. **These quarterly reserve analyses are each based on claims information available up to the end of May, August, or November,** in addition to an annual analysis which is based on claims information available up to the end of March. The August 2018 reserve analysis is therefore the quarterly reserve analysis that is based on claims information available up to August 31, 2018. Each quarterly reserve analysis encompasses an analysis of each Basic coverage and an analysis of each Optional coverage. **A BI segmented analysis is also performed as a part of each quarterly reserve analysis, to determine an estimate for the corporate (i.e. combined Basic and Optional) bodily injury (BI) loss and ALAE amounts.** For fiscal loss years 2012 and later, ICBC's best estimate BI loss and ALAE amounts in the August 2018 reserve analysis were based on the result of this BI segmented analysis. [*Emphasis added]*

101.1 To the extent possible, please provide a copy of the BI segmented analysis with data updated through November 2018, or the most recent analysis. If a full analysis and formal report is not available, but key exhibits are available, please provide any available exhibits and explanatory notes.

101.2 Has ICBC estimated the impact of the November 2018 results on the 2019 Revenue Requirements calculation? If yes, please provide a restated "Figure 3.3 – Overview of Impact on PY 2019 Indicated Rate Change" of the Application. If updates are only available or applicable to certain line items, please present those that are available and applicable, and provide explanations regarding those that are unavailable or are not impacted by loss emergence through November 2018.

101.3 Please discuss the product reform impact with respect to each of the three segments in the BI Segmented Analysis (non-represented, represented not large and catastrophic, represented large and catastrophic). Specifically, to the extent that the estimates for each of these segments may change as a result of considering the emergence through November 2018, please provide a high-level discussion as to if/how it will impact the estimated -37.4 percentage point product reform impact.

D. CLAIMS COST MANAGEMENT

102.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-1, Chapter 3, pp. 3-5, 3-7; Exhibit B-2, BCUC IR 42.1
Coexistence period

On page 3-7 and in Figure 3.3 on page 3-5 of the Application, ICBC states that product reform is estimated to have an impact of $1.2 billion in savings on PY 2019 claims costs.

In response to BCUC IR 42.1, ICBC provided the following table showing the estimated (relative) proportion of injury claims payments before and after product reform for the next five years:

Table 1 – Estimated proportion of injury claims payments

Fiscal Year*	New Care-based Model	Full Tort Model
2019	0%	100%
2020	9%	91%
2021	27%	73%
2022	42%	58%
2023	57%	43%

*Each fiscal year represents a 12 month period ending March 31; for example, fiscal year 2019 is the year ending March 31, 2019.

102.1 Please explain whether the $1.2 billion savings on PY 2019 claims costs is expected to increase, decrease or remain flat over the each of the next five years post-product reform, given the increase in the estimated (relative) proportion of injury claims payments under the new care-based model over time.

103.0 Reference: ACTUARIAL RATE LEVEL INDICATION ANALYSIS
Exhibit B-2, BCUC IR 43.1, 43.1.1, 43.1.2
External legal services

In response to BCUC IRs 43.1 to 43.1.2, ICBC stated that negotiations for its next contract for external legal services are "on track" to sign over 70 law firms by March 31, 2019. ICBC stated the form of the new contract for external legal services has been reached and described the significant changes at a high level, including (among others) "a move away from flat fees to hourly rate billing."

103.1 Please discuss the impact, if any, of a move away from flat fees to hourly rate billing for external legal services on the PY 2019 Required Premiums and PY 2019 Indicated Rate Change. Has this event been already factored into the PY 2019 Indicated Rate Change?

103.1.1 Please also explain the impact on future required premiums and Basic insurance rate changes.

103.1.2 If there is no impact, please explain why not and provide supporting reasoning and assumptions.

E. INVESTMENTS

104.0 Reference: INVESTMENT
Exhibit B-1, Chapter 3, Appendix F, p. 2; Exhibit B-2, BCUC IR 58.1, 58.3
Impact of liability mismatch

ICBC explains on page 2 of Appendix F the anticipated impact on AB and BI claims from product reform.

In response to BCUC IR 58.1, ICBC presented a table showing a weighted average duration of the ICBC portfolio of 2.37 years, and states: "Based on ICBC's financial position as of December 31, 2018, this results in a duration mismatch equivalent to $30 million."

	June 2018 SIPP Target	Duration	Impact of 1% change in rates	Duration w/ all ST CAD Bonds	Impact of 1% change in rates
T-bills	1.0%	0.3		0.3	
CAD Bonds	52.0%	4.0		2.8	
Mortgages	11.5%	2.4		2.4	
Mezzanine Debt	2.5%	0.5		0.5	
Total Fixed Income	67.0%	3.5		2.4	
Non-Fixed Income	33.0%	0.0		0.0	
Total	100.0%	2.37	$390M	1.75	$290M
ICBC Claims Liability		2.54	$420M	2.54	$420M
Mismatch			**$30M**		**$130M**

ICBC stated in response to BCUC IR 58.3:

> Liability duration is closely related to the timing of loss and allocated loss adjustment expense payment amounts, which is usually referred to as a "loss payment pattern." The introduction of product reform will likely change the loss payment patterns for bodily injury and accident benefit claims; however, due to lack of information, ICBC has not estimated the impact from product reform at this time.

104.1 Please provide the definition of "mismatch" as referred to in the table in response to BCUC IR 58.1.

104.1.1 In terms of the "Impact of a 1% change in rates", please explain whether the impact is the same for a +1% change in rates and -1% change in rates (i.e. is the $30 million mismatch symmetrical?)

104.1.2 Please explain what the consequences are, if any, of a positive or negative "mismatch."

104.1.3 What is ICBC's target mismatch, if any, when considering the bond portfolio duration? Should the mismatch target zero?

104.2 Please explain the methodology and show the calculation of the "Impact of 1% change in rates" on ICBC's total investment (i.e. $390 million), the ICBC Claims Liability (i.e. $420 million), and the mismatch (i.e. $30 million). Please also clarify whether a "1% change in rates" means 1 percentage point (e.g. 6.3 percent +/- 1 percent, which would be 5.3 percent and 7.3 percent) or something else.

104.3 Please provide a breakdown of ICBC's Claims Liability, and provide a range of reasonable estimates on how the duration of each component of ICBC's Claims Liability will be impacted by the product reform. Please justify and explain all assumptions made.

104.3.1 If it is not possible to provide a range of reasonable estimates, please explain why not.

104.4 In general terms, please discuss how increases and decreases in liability duration (and any resulting changes to the duration mismatch) would change the $30 million "Impact of 1% change in rates" provided in response to BCUC IR 58.1.

104.4.1 Please explain how the "Impact on 1% change in rates" affects ICBC's required premium for PY 2019. If the "Impact on 1% change in rates" has any other impacts, please elaborate.

105.0 Reference: INVESTMENT
Exhibit B-1, Chapter 3, p. 3-8; Chapter 3, Appendix F, p. 2; Appendix A.1
Impact from product reform

ICBC explains on page 2 of Appendix F the anticipated impact on AB and BI claims from the product reform.

On page 3-8 of the Application, ICBC presents Figure 3.4 showing the components of investment income:

Figure 3.4 – Summary of Investment Income Components

Component	Impact on PY 2019 Rate Change to Cover Costs
Lower Policyholder Premiums	+2.7 ppt
Lower Basic Equity	+1.7 ppt
Higher New Money Rate	-3.5 ppt
Higher Yield on Basic Equity	-0.5 ppt
Other	-0.0 ppt
Total Investment Income	**+0.4 ppt**

Appendix A.1 shows ICBC's Summary of the Components of Required Premium:

Summary of the Components of Required Premium ($000's)

Description		(1) Required Premium PY 2019	2017 RRA Appendix A.1 (2) Required Premium PY 2017	(1)-(2) Change from PY 2017	2016 RRA Appendix A.1 (3) Required Premium PY 2016	(1)-(3) Change from PY 2016	PY 2019 Appendix Reference / Formula
A.	Claims and Related Costs						
(a)	Loss and ALAE Payments	3,368,386	3,557,054	(188,667)	3,061,325	307,062	A.2: Row (e) Col (4)
(b)	Claims Services Expenses (ULAE)	274,446	240,763	33,683	213,654	60,791	A.2: Row (e) Col (5)
(c)	Road Safety and Loss Management (RSLM)	48,356	44,802	3,555	45,896	2,460	A.2: Row (e) Col (7)
(d)	Total Claims and Related Costs	3,691,188	3,842,618	(151,430)	3,320,875	370,313	(a) + (b) + (c)
B.	Expenses						
	General Expense						
(e)	Administration and Other	64,061	63,370	692	65,292	(1,231)	H.1 Row (d) Col (5)
(f)	Insurance Services	68,514	62,167	6,347	51,210	17,303	H.1 Row (e) Col (5) + H.1 Row (f) Col (5)
(g)	Non-Insurance Expense	106,612	100,855	5,756	100,349	6,263	H.1 Row (g) Col (5)
(h)	Total General Expense	239,187	226,392.2	12,795	216,851.1	22,336	(e) + (f) + (g)
(i)	Per Policy Broker Fee	98,730	96,996	1,735	94,237	4,494	A.2: Row (e) Col (8)
(j)	Variable Broker Fee	3,892	3,440	452	2,789	1,103	A.2: Row (e) Col (9)
(k)	Premium Tax	162,414	169,078	(6,664)	135,555	26,859	A.2: Row (e) Col (10)
(l)	Total Expenses	504,223	495,905	8,318	449,432	54,791	sum (h) through (k)
(m)	Total Claims and Expenses	4,195,411	4,338,523	(143,112)	3,770,307	425,105	(d) + (l)
(n)	Capital Maintenance	73,341	71,817	1,525	69,503	3,838	G.1: Row (n)
(o)	Total Projected Costs	4,268,753	4,410,340	(141,587)	3,839,810	428,943	(m) + (n)
C.	Miscellaneous Revenue and Investment Income						
(p)	Service Fees and Other	62,418	59,217	3,201	54,243	8,175	H.3: Row (d) Col (3)
(q)	Short Term Surcharge	18,877	17,416	1,461	18,923	(46)	H.3: Row (d) Col (4)
(r)	Driver Penalty Point & Driver Risk Penalty Premiums	32,165	21,569	10,596	20,997	11,168	H.3: Row (d) Col (5)
(s)	Multiple Crash Premium & Graduated License Plan Fee	7,392	8,853	(1,461)	6,065	1,327	H.3: Row (d) Col (6) + Col (7)
(t)	Income Transfer from Optional	0	0	0	300,000	(300,000)	
(u)	Investment Income on Basic Equity	7,468	51,139	(43,671)	52,761	(45,293)	A.2: Row (e) Col (3)
(v)	Investment Income on Policyholder Supplied Funds	449,202	409,469	39,733	306,017	143,185	A.2: Row (p)
(w)	Total Miscellaneous Revenue and Investment Income	577,522	567,663	9,859	759,006	(181,484)	sum (p) through (v)
(x)	Required Premium	3,691,231	3,842,677	(151,446)	3,080,804	610,427	(o) - (w)
(y)	Projected Premium at Current Rate Level	3,473,630	3,203,176	270,454	2,937,806	535,824	Figure 3.2 Col (1) Total
(z)	2019 Basic Insurance Revenue Surplus / (Deficiency)	(217,601)	(639,501)		(142,998)		(y) - (x)
	Rate Change to Cover Costs	6.3%	20.0%		4.9%		-(z) / (y)

105.1 Please present Figure 3.4 in terms of dollars, and discuss how each investment income component ties to the "Investment Income on Basic Equity" and "Investment Income on Policyholder Supplied Funds" amounts shown in Appendix A.1 (i.e. rows (u) and (v), respectively).

105.2 With reference to the investment income components presented in Figure 3.4 of the Application and Figure 3.4 reproduced in dollar terms provided in response to the IR above, please discuss which components would likely be impacted by the product reform and why.

105.2.1 To the extent possible, please provide an estimate of the direction and magnitude of the changes the product reform will have on each of the applicable investment income components. Please include supporting reasoning and assumptions in your response.

F. OPERATING EXPENSES AND ALLOCATION INFORMATION

106.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-2, BCUC IR 3.1
PricewaterhouseCoopers LLP Canada Operational Review

In response to BCUC IR 3.1, ICBC stated that it is implementing several non-material damage initiatives as a result of recommendations made by PricewaterhouseCoopers LLP (PwC) Canada, although these initiatives were not explicitly reference in the Application, and provides a brief description of the initiatives. ICBC stated:

> 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.

106.1 Please clarify which initiatives noted in the response to BCUC IR 3.1 are reflected in the Application and the amount of the costs and associated benefits which were included, with supporting rationale.

106.2 For the initiatives where it was not applicable to reflect numbers in the Application, please clarify which initiatives this applies to, why and when ICBC expects these initiatives to have an impact on setting future Basic insurance rates.

107.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-2, BCUC IR 68.1; Exhibit B-1, Chapter 7, p. 7-16; ICBC 2017 Revenue Requirements Application (ICBC 2017 RRA), Exhibit B-2, BCUC IR 32.1.1
Performance-based pay

On page 7-16 of the Application, ICBC states:

> Performance-based pay is part of ICBC's compensation. For Bargaining Unit employees, this is known as Gainsharing. For Management and Confidential employees, this is now known as SHP [Salary Holdback Pay]. In 2017/18, ICBC made changes to performance-based pay for Management and Confidential employees, changing from the former HIP plan to the SHP plan… The 2017/18 actual for performance-based pay was $6 million, reflecting achievement of some but not all for the performance targets. For budgeting purposes, ICBC assumes that it will achieve the performance targets set. This assumption is consistent with prior years. There are no changes to this assumption in the 2018/19 outlook, which includes $9 million for the SHP plan and Gainsharing.

In response to BCUC IR 68.1, ICBC provided the following table showing the performance targets in place for HIP/SHP eligible employees:

HIP/SHP Plan Component	2015			2016/17			2017/18			2018/19		
HIP/SHP Plan "Go Live" trigger (mechanism)	Net Income (NI) (Must achieve at least 50% of NI target of $210M)			Combination of Corporate Measures (At least 50% of Corporate measures must achieve threshold or better)			At least 1 of 3 Corporate measures must achieve threshold or better			Combination of Corporate Measures (At least 50% of Corporate measures must achieve threshold or better)		
HIP/SHP Corporate Measure Components	Corporate measures	Threshold	Target	Corporate measures	Threshold	Target	Corporate measures	Threshold	Target	Corporate measures	Threshold	Target
	1.Operational Capital Net of transformation Program Reserve	1. 286%	1. 296%	1. Basic Rate Increase	1. <5.5%	1. 4.9%	1.Optional Net Income	1. $97M	1. $194M	1. Legislated Product Changes Implemented	1. May 1, 2019	1. April 1, 2019
	2. Combined ratio	2. 111.1%	2. 107.1%	2. Optional Net Income	2. $121M	2. $242M	2. Corporate Loss Adjustment Ratio	2. 17.9%	2. 15.9%	2. BCUC Rate Design Application Filed	2. October 15, 2018	2. July 31, 2018
	3.Focus on Bodily Injury costs	3. $2.266B	3. $2.128B	3. Optional Combined Ratio	3. 103.1%	3. 98.1%	3.Corporate Expense Ratio	3. 20.5%	3. 19.5%	3. Corporate Loss Adjustment Ratio	3. 18%	3. 16%
	4.Focus on Material Damage costs	4. $1.115B	4. $1.069B	4. Expense Ratio	4. 21.1%	4. 20.3%				4. Corporate Expense Ratio	4. 19.9%	4. 19%
HIP/SHP Individual Measure Components	Individual Performance tied NI in order to payout Member must rate "Developing/Contributing" level for up to 50% of their individual performance objectives.			Individual Performance NOT tied NI. Individual portion will payout even if the Corporate Component does NOT payout. Member must rate "Developing/Contributing" level for up to 50% of their individual performance objectives.			Individual Performance NOT tied NI. Individual portion will payout even if the Corporate Component does NOT payout. Member must rate "Developing/Contributing" level for up to 50% of their individual performance objectives.			Individual portion will payout even if the Corporate Component does NOT payout. Member must rate "Developing/Contributing" level for up to 50% of their individual performance objectives.		
Discounted payout factor	2X discount of unmet portion			No Discount			No Discount			No Discount		
Payouts	$1.4M (Actual) $11.0M (Budgeted)			$9.7M (Actual) $13.8M (Budgeted) With fiscal year change, payouts are based on 15-month versus normal 12-month period for 2016/2017 only			$.86M (Actual) $1.14 M (Budgeted)			Performance year in progress		

In response to BCUC IR 68.1, ICBC further stated:

> Salary Holdback Pay (SHP) is determined on annual measurement of performance relative to (i) corporate measures that are shared by all employees that participate in SHP, with the exception of the Investment Division that is measured based on the performance of the investment portfolio; and (ii) individual measures.

In response to BCUC IR 32.1.1 in the ICBC 2017 RRA, ICBC stated:

> SHP provides eligible Executive and Management Group employees an opportunity to earn a one-time additional salary payments based on the relative achievement of annual corporate and individual performance. The relative weight of these two components varies according to the level of the employee's position.
>
> By contrast, the Gainsharing plan provides a one-time additional salary payment to unionized staff based on the relative achievement of annual corporate performance, with no individual component. All eligible employee receive the same Gainsharing incentive as a percentage of straight-time bargaining unit payroll…. The same corporate measures and targets for the Executive and Management group will be applied to Bargaining Unit employees.

107.1 Please complete or correct the table below to show the breakdown of performance-based pay between HIP/SHP and Gainsharing amounts, and the amount allocated to Basic insurance for 2015 to 2017/18 actual, 2018/2019 Outlook, and 2019/20 and 2020/21 forecasts:

Total Corporate HIP/SHP and Gainsharing and Allocation to Basic Insurance

($ millions)	2015 Actual			2016/17 Actual			2017/18 Actual			2018/2019 Outlook			2019/2020 Forecast			2020/2021 Forecast		
	Corporate (A)	Basic (B)	Basic % (C=B/A)	Corporate (D)	Basic (E)	Basic % (F=E/D)	Corporate (G)	Basic (H)	Basic % (I=H/G)	Corporate (J)	Basic (K)	Basic % (L=K/J)	Corporate (M)	Basic (N)	Basic % (O=N/M)	Corporate (P)	Basic (Q)	Basic % (R=Q/P)
HIP/SHP[1]	$1.4*			$9.7*			$0.86*											
Gainsharing																		
Total HIP/SHP and Gainsharing							$6^			$9^								

[1] 2014 – 2016/17 reflects the Holdback Incentive Pay (HIP) plan. 2018/19, 2019/20 and 2020/21 reflects the Salary Holdback Pay (SHP) plan.
* Source: Exhibit B-7, BCUC IR 68.1, Attachment A
^ Source: Exhibit B-1, Chapter 7, p. 7-16

107.2 Please explain the difference between the "Target" and the "Threshold" as it relates to the corporate measures. Specifically, for each of the four corporate measures for 2018/19, please explain how ICBC set the target and threshold, and why the "Go Live" trigger (mechanism) is based on achievement of the threshold rather than the target for the measure.

107.3 Please explain why the "Go Live" trigger (mechanism) to payout the corporate portion of the SHP is the same for 2018/19 and 2016/17 (i.e. at least 50% of corporate measures must achieve threshold or better), whereas the mechanism was "at least 1 of 3 corporate measures must achieve threshold or better" for 2017/18. Why does ICBC consider that the "at least 1 of 3 corporate measures" trigger is <u>not</u> appropriate for 2018/19 and the "at least 50% of corporate measures" is appropriate?

107.4 Please provide ICBC's rationale for selecting each of the four corporate measures for 2018/19 as it relates to achieving corporate performance. Specifically, please include in the response a discussion of why "Legislated Product Changes Implemented" and "BCUC Rate Design Application Filed" are appropriate measures given that these results are based on Government direction. In addition, why is Optional Net Income no longer a corporate measure?

107.4.1 To the extent possible, please provide examples of corporate performance-based pay measures and targets used by other P&C insurance companies.

107.5 Please confirm, or provide otherwise, that the framework/criteria for performance-based pay has not yet been established for 2019/20 and 2020/21.

107.6 Given that actual HIP/SHP plan payouts have been less than budget for each of the fiscal years 2015 to 2017/18, please explain why ICBC assumes that it will achieve the performance targets set for 2018/19 Outlook and 2019/20 and 2020/21 forecasts for forecasting performance-based pay expense.

107.7 Please provide the percentage point impact that performance-based pay has on the PY 2019 Indicated Rate Change.

107.8 In the 2017 RRA, ICBC provided a number of performance-based pay related tables which show the forecast and actual performance-based pay and the percentage of employees who received performance-based pay.[5] In a similar format, please provide updated tables for 2017/18 Actual and 2018/2019 Outlook and include additional columns showing: (i) the relative proportion (%) of percentage-based pay as component of eligible employees total compensation package; and (ii) average ($) amount of performance-based pay.

107.9 Please confirm, or explain otherwise, whether there has been any change to the SHP or Gainsharing payout structure as described in ICBC's response to BCUC IR 32.1.1.

107.9.1 Please provide the relative weight of individual and corporate performance in calculating the performance-based pay for "Executive", "Senior Director", "Director" and "Manager" employee levels with illustrative examples.

107.10 Please explain how individual performance objectives are determined for each employee. Please include a discussion of the types of performance measures and the number of individual performance objectives that must be in place in order for an employee to be eligible for the individual component of performance-based pay (given that a member must rate "Developing/Contributing" level for up to 50% of their individual performance objectives for the individual portion to payout.)

107.10.1 Please explain how individual performance objectives are evaluated. If the evaluation process is different for Management and Confidential employees and Bargaining Unit employees, please explain both processes.

108.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-2, BCUC IR 64.2, 70.1
Other controllable expenses

In response to BCUC IR 64.2, ICBC stated "Other controllable operating expenses such as building expenses, computer costs, professional fees, and staff related expenses are forecasted to grow at the rate of inflation" in order explain the method used in developing 2019/20 and 2020/21 forecasts.

In response to BCUC IR 70.1, ICBC stated that it has rented additional space in Burnaby to accommodate long term needs and that building operating expenses for this space are expected to be $1.0 million for 2019/20 and $1.4 million for 2020/21.

108.1 Please explain why ICBC considers that forecasting increases in other controllable operating expenses based on inflation is appropriate. Have expenses in these areas exhibited increases consistent with inflation in the past?

108.2 Please clarify whether or not 2019/20 and 2020/21 forecasts for building operating expenses are based on inflation when ICBC states that the building operating expense for the Burnaby space are expected to increase by 40 percent from $1.0 million for 2019/20 to $1.4 million for 2020/21.

[5] ICBC 2017 RRA, Exhibit B-2, BCUC IR 32.3

109.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-2, BCUC IR 64.3, 66.1
Full-time employees

In response to BCUC IR 66.1, ICBC stated:

> ICBC uses an integrated workforce planning approach to determine staffing requirements for a number of business areas. Regarding the FTEs in the Application, this approach was used for most claims and claims-related staff, as well as call centres, in order to determine the required number of FTEs for each position…
>
> This model takes into account key factors such as actuarially projected claims volumes, call volume forecasts, employee workload standards, learning curves, and attrition. It is then used to determine the appropriate staffing levels and support hiring in time to minimize the potential impacts associated with staff attrition and movement.

In response to BCUC IR 64.3, Attachment A, ICBC provided Figure 7.5 showing the Average full-time employees (FTEs) by Employee Group from 2014 to 2017/18 Actual, 2018/19 Outlook, and 2019/20 and 2020/21 Forecast:

Figure 7.5 – Average FTEs by Employee Group

Average[1] FTEs by Employee Group[2]	2014 Actual	2015 Actual	2016/17 Q1-Q4 Actual	2016-17 Q2-Q5 Actual	2017-18 Actual	2018/19 Outlook	2019/20 Forecast	2020/21 Forecast
Bargaining Unit	3,753	3,653	3,731	3,804	4,095	4,227	4,345	4,307
Management and Confidential	925	875	898	921	1,045	1,146	1,179	1,167
Total ICBC FTEs	**4,678**	**4,528**	**4,629**	**4,726**	**5,139**	**5,374**	**5,524**	**5,474**
Contractors	20	20	22	23	18	2	2	2
Total FTEs	**4,698**	**4,548**	**4,651**	**4,749**	**5,158**	**5,376**	**5,526**	**5,476**

[1] Average FTEs represents the sum of the number of FTEs measured at each month of the year, divided by the number of months in the fiscal year. It represents an average over a period of time, rather than at a point in time.
[2] Rounding may affect totals.

It appears that in staffing will increase by 218 FTEs in 2018/19 over 2017/18 Actual, by 150 FTEs in 2019/20 over 2018/19 Forecast, and decrease by 50 FTEs in 2020/21 over 2019/20 Forecast.[6]

109.1 For each of the key factors in the used in the integrated workforce planning approach, please provide the input (i.e. the projected claims volume, call volume forecast etc.) which was used, the basis for selection, and explain how the factor resulted in an increase or decrease to the number of required FTEs for 2018/2019 Outlook and 2019/2020 and 2020/2021 Forecast. Please complete the table below and/or modify the table as appropriate:

[6] Calculation: 218 FTEs = 5,376 FTEs – 5,158 FTEs; 150 FTEs = 5,526 FTEs – 5,376 FTEs; 50 FTESs = 5,476 FTEs – 5,526 FTEs

Factor	2017/2018 Actual	Δ FTEs	2018/2019 Outlook	Δ FTEs	2019/2020 Forecast	Δ FTEs	2020/2021 Forecast
Projected Claims Volume							
Call Volume Forecast							
Employee Workload Standards							
Learning Curves							
Attrition							
Other							
Total FTEs		218		150		-50	

110.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
Exhibit B-2, BCUC IR 64.2, 64.3, 72.1, 72.2, 72.3; ICBC 2017 RRA, Exhibit B-2, BCUC IR 40.3.4
Merchant fees

In responses to BCUC IR 64.2 and 64.3, ICBC stated that forecast year-over-year increases in merchant fees of $3 million (2019/20 Forecast compared to 2018/19 Outlook and 2020/21 Forecast compared to 2019/20 Forecast) are based on premium growth (vehicle population growth and insurance rate increases) and anticipated consumers' use of various payment methods.

In response to BCUC IR 72.2, ICBC provided a table showing the breakdown of merchant fees by payment method (i.e. VISA, MasterCard, AMEX and Debit) and the cost of each from April 2018 to January 2019, which ranges from a total of $86,000 for Debit to $21,798,000 for VISA.

In response to BCUC IR 72.3, ICBC provided a table showing a breakdown of merchant fees by debt type (MV, Non-MV, ICBC, Insurance/Licensing Claims and Legacy MV) and included the following explanatory footnotes for the debt types:

> [1] Motor Vehicle ("MV") debt includes violation tickets related to a motor vehicle infraction such as a speeding tickets.
> [2] Non-Motor Vehicle ("Non-MV") debt includes other violation ticket infractions such as fishing, liquor control, etc.
> [3] ICBC debt includes Driver Penalty Point premiums and defaulted Payment Plan.
> [4] Insurance/Licensing/Claims repayment includes driver license renewal fees, claims repayment, Driver Penalty Point premiums, and defaulted Payment Plan.
> [5] Legacy Motor Vehicle ("Legacy MV") debt includes driver license renewal fees, claims repayment, Driver Penalty Point premiums, and defaulted Payment Plan payment taken from ICBC's older payment platform.

In response to BCUC IR 72.1, ICBC stated:

> Merchant fees are part of operating expenses and are included in revenue requirements. ICBC absorbs certain cost pressures (e.g., inflationary pressures, merchant fee increases) by realizing other operational efficiencies, so that these increases do not result in an increase in total operating costs and corresponding pressure on Basic insurance rates. Because merchant fees are increasing at a rate higher than the rate of inflation, this makes the merchant fees cost increases more difficult to absorb.

In response to BCUC IR 40.3.4 in the ICBC 2017 RRA, ICBC stated:

> The Government of Canada has issued a voluntary Code of Conduct for the Credit and Debit Card Industry in Canada. This code of conduct does not allow for surcharges for paying with a credit card. ICBC's current agreements with credit card issuers and service providers do not allow a surcharge to be charged on credit card transactions.

110.1 Please explain what assumptions ICBC has used for forecasting year-over-year increases in merchant fees related to premium growth and anticipated consumers' use of various payment methods and why. Please include in the response a breakdown of the added cost from each factor.

110.1.1 What measures ICBC has taken, or plans to take, to limit future increases in merchant fees (e.g. encouraging consumers to use cheaper payment methods or eliminating expensive payment method options).

110.1.1.1 Please indicate if ICBC's response from the 2017 RRA regarding the voluntary Code of Conduct for the Credit and Debit Card Industry in Canada is still applicable. If not applicable, please provide an updated discussion with respect to whether ICBC considers adding a surcharge on certain payment methods to be an appropriate method to control merchant fee costs.

110.2 Please discuss whether ICBC has conducted any analysis to compare payment methods accepted by ICBC to that which is accepted by other public service or utility services (e.g. property tax, income tax, utility services, post-secondary tuition). If yes, please provide the findings, including (but not be limited to) a discussion of whether ICBC accepts more or less methods of payment than other institutions, and whether or not ICBC's practices with respect to credit card purchase surcharges is consistent with other public service or utility services.

110.3 If possible, please provide the current merchant rates charged by Visa, MasterCard, AMEX and debit.

110.3.1 Please explain how often agreements with credit card issuers and service providers are negotiated. When did ICBC last negotiate its merchant rates and please explain the process that was taken.

110.4 Please explain the pros and cons of discontinuing accepting high cost (i.e. high total cost or high merchant rate) payment methods.

110.5 Please confirm, or explain otherwise, that merchant fees related to new or renewal insurance policies are <u>not</u> included in the table provided in response to BCUC IR 72.3.

110.5.1 For clarity, who is responsible to pay for merchant fees related to new or renewal insurance policies?

111.0 Reference: OPERATING EXPENSES AND ALLOCATION INFORMATION
ICBC 2017 RRA, Exhibit B-2, BCUC IR 41.1, 41.3; Exhibit B-2, BCUC IR 64.1, 64.2
Corporate stretch targets

In response to BCUC IR 41.1 in the ICBC 2017 RRA, ICBC provided the following table showing the amounts of corporate stretch target budgeted in each of the past five years:

Year	Net (Stretch) / Provision (in $ millions)
2012*	1.5
2013*	4.0
2014*	1.0
2015*	(6.0)
2016*	(3.0)
2017 Transitional Quarter**	(0.8)
2016/17***	(3.8)

* 12 months period from January 1 to December 31 for years 2012 to 2016.
** 3 months period from January 1 to March 31, 2017.
*** 15 months period from January 1, 2016 to March 31, 2017.

In addition, ICBC stated in BCUC IR 41.3 in the ICBC 2017 RRA that the 2017/18 Outlook included a corporate stretch target of $9 million.

In response to BCUC IR 64.1, ICBC stated the 2018/19 outlook includes a $16 million stretch target. The 2019/20 and 2020/21 forecasts have stretch targets of $9 million and $8 million, respectively, as stated in BCUC IR 64.2.

111.1 Given the increasing trend in the corporate stretch targeted budgeted since 2015, please discuss the likelihood that ICBC will continue to find cost savings to meet the controllable operating expense budget. In what areas (divisions) does ICBC consider that cost savings will materialize and why?

111.2 Please explain the consequences of not achieving the outlook/forecast controllable operating expense budgets with respect to setting future Basic insurance rates, if any.

G. PERFORMANCE MEASURES AND TRANSITIONAL REPORTING

112.0 Reference: PERFORMANCE MEASURES AND TRANSITIONAL REPORTING
Exhibit B-1, Chapter 8, Appendix 8 B, p. 8B-2; Chapter 3, Appendix F, p. 2; Exhibit B-2, BCUC IR 76.2.1.1, 78.2
Impact from product reform

Figure 8B.1 on page 8B-2 of Appendix 8 B to the Application shows ICBC's 2015 to 2017/18 Actual and 2018/19 Target/Outlook performance measure results.

ICBC explains on page 2 of Appendix F the anticipated impact on AB and BI claims from the product reform.

In response to BCUC IR 76.2.1.1, ICBC provided a summary table with the 2018/19 Target/Outlook for each proposed replacement performance measure as discussed in Appendix 8 A.

ICBC stated in response to BCUC IR 78.2 "with the changes as a result of product reform effective April 1, 2019, there is a possibility that reductions in loss payments will produce an increase in the [Loss Adjustment Ratio (LAR)] over the short term."

112.1 Please update Figure 8B.1in the Application and the summary table in response to BCUC IR 76.2.1.1 with target/outlook for PY 2019, and discuss any assumptions made.

112.1.1 Please explain which existing and proposed performance measures will be impacted by claims cost savings from product reform, and provide an estimate of the direction and magnitude of any anticipated impact.

113.0 Reference: PERFORMANCE MEASURES AND TRANSITIONAL REPORTING
Exhibit B-2, BCUC IR 84.1
Metrics framework for product reform

In response to BCUC IR 84.1, ICBC stated:

> The metrics framework depicted in the Application, Chapter 8, Appendix 8 C, Figure 8C.1 is not submitted for approval but rather to inform the BCUC on ICBC's plan for measurement related to product reform. As indicated in the Application, Chapter 8, Section B.2, ICBC will propose reporting based on the metrics framework as part of the 2020 RRA.

113.1 Please confirm, or explain otherwise, that ICBC is not seeking any approval or acceptances related to transitional and post -product reform performance measures in this Application.

H. OTHER

114.0 Reference: OTHER
Exhibit B-2, BCOAPO IR 1.2, 2.1, 2.2
Average auto insurance rates and rate changes by province

In response to BCOAPO IRs 1.2, 2.1 and 2.2, ICBC stated that the information provided "should be viewed in the context that different jurisdictions offer different insurance products, and that there are differences in climate, population density and other external factors"; for these reasons, comparisons between jurisdictions in rate changes and rates do not represent like for like comparisons.

ICBC further stated that it "cannot confirm any of IBC's [Insurance Bureau of Canada] premium figures used for other Canadian jurisdictions. For comparisons of premiums from other sources, which show different results, please see the response to information request 2019.1 RR BCOAPO.2.2."[7]

114.1 Please provide an analysis that ICBC may have done to compare with other Canadian provinces before and after product reform with respect to insurance product, climate, population density and other external factors. If such analysis has not been done, please explain how ICBC concludes that "the information does not represent like for like comparisons."

114.2 Does ICBC consider that the comparisons of premiums to other Canadian provinces from other sources as provided in response to BCOAPO IR 2.2 are more or less valid than the IBC's data? [8]

115.0 Reference: OTHER
ICBC Newsroom article dated November 23, 2018[9]; ICBC Newsroom article dated February 7, 2019[10]
Update from Q3 2019 financial projections

ICBC stated in its newsroom article dated February 7, 2019 that for the first nine months of the current fiscal year (Q3 2019) that ICBC posted a (Corporate) net loss of $860 million and "is now projecting a year-end [Corporate] net loss of $1.18 billion." A detailed Statement of Operations is included on page 2 of the "Related documents" linked to the newsroom article, from which BCUC staff copied the following excerpt:[11]

For the Nine Months Ended December 31, 2018 and 2017 [1]

	Basic		Optional		Corporate	
($ Millions)	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Current year claims	2,835	2,561	1,256	1,251	4,091	3,812
Prior years' claims adjustments	421	251	344	191	765	442
Net claims incurred	3,256	2,812	1,600	1,442	4,856	4,254

[7] ICBC provided comparisons of premiums which were published by the Crown Investments Corporation of Saskatchewan (CIC) and Manitoba Public Insurance (MPI).
[8] As included in BCOAPO IR 2.1.
[9] Retrieved from: https://www.icbc.com/about-icbc/newsroom/Pages/2018-Nov23.aspx
[10] Retrieved from: https://www.icbc.com/about-icbc/newsroom/Pages/2019-Feb07.aspx
[11] Retrieved from: https://www.icbc.com/about-icbc/company-info/Documents/Statement-of-Operations-third-quarter.PDF, p. 2.

For the first six months of the current fiscal year (Q2 2019), ICBC stated in its newsroom article dated November 23, 2018 that ICBC posted a (Corporate) net loss of $582 million and is projecting "to report a year-end financial net loss of $890 million for 2018/19."

115.1 Please confirm, or explain otherwise, that the "Basic" columns in the excerpt from the Q3 2019 Statement of Operations shown in the preamble above, reflects the financial information relevant to ICBC's Basic insurance business which is the subject of this RRA.

115.1.1 If confirmed, to the extent possible, please provide a breakdown of the $2,835 million "Current year claims" for the first nine months of fiscal 2018/19 by coverage (Bodily Injury, Property Damage, Part 7 and Manual Basic) and Personal/Commercial.

115.1.1.1 For each coverage, please itemize how much of the $2,835 million estimate for "Current years' claims" for Basic insurance represents an increase (i.e. deterioration) or decrease (i.e. improvement) to the claim estimates underlying the 2019 RRA.

115.1.2 If confirmed, to the extent possible, in a similar format to the table provided below, please provide a breakdown of the $421 million "Prior years' claims adjustments" for Basic for the first nine months of fiscal 2018/19 by FLY, coverage (Bodily Injury, Property Damage, Part 7 and Manual Basic) and Personal/Commercial. Please modify the table as appropriate.

115.1.3 If confirmed, to the extent possible, please also provide in the table below the amount out of the $421 million which represents increases (i.e. deterioration) or decreases (i.e. improvement) to the claim estimates that underlie the 2019 RRA given that the actuarial analysis was prepared based on claims and claims related cost data as at August 31, 2018 for each FLY coverage and Personal/Commercial. Please modify the table as appropriate.

$ millions	**Prior Years' Claims Adjustments for the nine months ended December 31, 2018**					**Prior Years' Claims Adjustments for the nine months ended December 31, 2018 not reflected in the 2019 RRA**				
FLY	**Personal BI**	**Personal PD**	**Etc.**	**Etc.**	**Total**	**Personal BI**	**Personal PD**	**Etc.**	**Etc.**	**Total**
2012 and prior										
2013										
2014										
2015										
2016										
2017										
2018					**421**					

115.2 ICBC's requested rate increase for Basic insurance is equivalent to a $218 million deficiency.[12] In light of ICBC's most-recent update to its corporate year-end financial net loss projection for 2018/19 from $890 million to $1.18 billion, please recalculate the 2019 revenue requirement for Basic insurance utilizing the updated claims estimates and projections from Q3 2019 (i.e. update Figures 3.1 and 3.3, Appendix A.1, and Appendix G.1 in the Applicaiton)

If the calculation requested is not practical, please: (a) provide a detailed explanation as to why it is not practical; (b) to the extent possible, provide the impact on key components of the rate level indication and note which components cannot be reasonably estimated; (c) explain whether the overall directional impact is expected to increase or decrease the +6.3 percent Basic insurance rate increase requested in the Application (and provide rationale); (d) provide an estimate or a range of the expected impact and explain the basis for this estimate or range

115.2.1 To the extent possible, please provide a side-by-side comparison of Figure 3.1 as it relates to the PY 2019 Required Premium in the Application, the revised figures provided above, and the difference between the figures included in the Application and the revised figures.

115.2.2 For each revised line item in Figure 3.1, Appendix A.1 and Appendix G.1, please provide a brief explanation of how the updated year-end financial projections as of Q3 resulted in the revisions.

115.2.3 If there is no change to ICBC's investment income on basic equity and investment income on policyholder supplied funds, please explain why not.

115.3 In ICBC's view, how should the BCUC take into account ICBC's updated fiscal 2018/2019 year-end projections as at Q3 2019 when deciding on the permanent rate change request, if at all? Please explain.

116.0 Reference: OTHER
Exhibit B-2, Landale IR 1.7; ICBC Newsroom article dated November 23, 2018[13]; ICBC Newsroom article dated February 7, 2019[14]
Outlook/Forecast Net Cash Flows

In response to Landale IR 1.7, ICBC stated:

> ICBC's equity as of December 31, 2018 was ($119) million, which means its total liabilities exceeded its total assets. However, ICBC is not bankrupt or insolvent because:
>
> - ICBC remains on stable footing with claims reserves of $13.5 billion and an investment portfolio of $16.4 billion as of December 31, 2018.
> - Year to date to December 31, 2018, ICBC generated sufficient cash flows to meet current obligations. Net cash flows from operations were $651 million, indicating that premiums collected were more than sufficient to cover liabilities as they became due. Total net cash flow year to date to December 31, 2018 was also positive…

ICBC stated in its newsroom article dated February 7, 2019 that for the first nine months of the current fiscal year (Q3 2019) that ICBC posted a (Corporate) net loss of $860 million and "is now projecting a year-end [Corporate] net loss of $1.18 billion."

[12] Exhibit B-1, Appendix A.1.
[13] Retrieved from: https://www.icbc.com/about-icbc/newsroom/Pages/2018-Nov23.aspx
[14] Retrieved from: https://www.icbc.com/about-icbc/newsroom/Pages/2019-Feb07.aspx

For the first six months of the current fiscal year (Q2 2019), ICBC stated in its newsroom article dated November 23, 2018 that ICBC posted a (Corporate) net loss of $582 million and is projecting "to report a year-end financial net loss of $890 million for 2018/19."

116.1 Please clarify the meaning of the statement that, as of December 31, 2018, ICBC has claims reserves of $13.5 billion and an investment portfolio of $16.4 billion; i.e. Are the "claims reserves" and "investment portfolio" two separate pools of money which ICBC might access, or is there overlapping meaning between the $13.5 billion and $16.4 billion?

116.2 Please provide a detailed Outlook/Forecast Statement of Cash Flows for the twelve months ended March 31, 2019, 2020 and 2021 for Basic insurance which is prepared in accordance with International Financial Reporting Standards (IFRS).

116.3 Given the events that have transpired in Q3 2019, in the hypothetical scenario that ICBC has under forecasted the PY 2019 Required Premium and net cash flows from operations are no longer sufficient to cover liabilities as they become due, what are ICBC's options for meeting the cash shortfall? Specifically, to the extent that claims reserves and the investment portfolio are two separate pools of money, will ICBC withdraw cash from claims reserves or investments?

116.3.1 Please explain the pros and cons, as well as the short-term and long-term financial impact of withdrawing from: a) the claims reserves; and b) the investment portfolio, including the impact on expected investment income included in the 2019 RRA (which is an offset of the required premium amount), if any.

116.3.2 Please rank the two options by the order in which ICBC will exercise the options, and explain why.

116.3.3 Please provide the likelihood of the scenario and explain why.

117.0 Reference: OTHER
Exhibit B-1, Appendix 8 A, p. 8A-13, BCOAPO IR 7.2; ICBC Newsroom article dated February 7, 2019[15]
Update from Q3 financial projections – 2018/19 Outlook Basic MCT

In Figure 8A.5 on page 8A-13 of the Application, ICBC shows the calculation of the Outlook Basic Minimum Capital Test (MCT) ratio for the 2018/19 fiscal year-end, prepared as of the second quarter of the 2018/19 fiscal year, is 4%.

In response to BCOAPO IR 7.2, ICBC stated:

> The short-to medium-term significance of a low MCT ratio is that ICBC may not have sufficient capital to absorb a significant risk event during this time period, and in this event, would have a more challenging time to rebuild capital.
>
> While Basic capital levels are low, due to net losses incurred in recent years from rising claims costs, ICBC remains on stable financial footing as a public auto insurer, with total claims reserves of $13.5 billion and total investments of $16.4 billion as of the end of December 2018. ICBC is generating sufficient cash flows from premium revenue and investment income, allowing it to meet its current obligations and make payments on claims as they become due.

[15] Retrieved from: https://www.icbc.com/about-icbc/company-info/Documents/Statement-of-Operations-third-quarter.PDF, p.3.

A Statement of Financial Position as at December 31, 2018 (Q3 2019) is included on page 3 of the "Related documents" linked to an ICBC newsroom article dated February 7, 2019. ICBC reports there that, as at December 31, 2018, its Corporate MCT ratio is -17%.

117.1 Please explain and show how the Corporate MCT at December 31, 2018 is negative. What are the short, medium and long term implications of having a negative MCT ratio?

117.2 Please provide with supporting calculations ICBC's Outlook Basic MCT ratio for the 2018/19 fiscal year-end as of the Q3 2019.

117.2.1 In ICBC's view, to what extent should the BCUC consider ICBC's updated Outlook Basic MCT ratio for the 2018/19 fiscal year when setting PY 2019 Basic insurance rates, if at all.

118.0 Reference: OTHER
ICBC 2017/18 Annual Service Plan Report[16]; ICBC 2019/20 – 2021/22 Service Plan[17]; Exhibit B-1, Chapter 3, Technical Appendix E.0, p. 88
Financial reporting

ICBC prepares its financial statements in accordance with IFRS. In ICBC's 2017/18 Annual Service Plan Report, ICBC states:

> IFRS 17 *Insurance Contracts*. Effective for annual periods beginning on or after January 1, 2021. Early adoption is permitted for entities that apply IFRS 9 and IFRS 15 on or before the initial application of IFRS 17. The standard establishes the principles of recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4. The standard was issued in May 2017 and requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values. The information will be updated regularly, providing more useful information to users of financial statements. The Corporation will be evaluating the impact of this standard on its consolidated financial statements.

In February 2019, ICBC issued its 2019/20 – 2021/22 Service Plan. In the assumptions related to the Summary Financial Outlook, on pages 19-20, ICBC states that the forecasts do not include any changes from IFRS 9 (Financial Instruments) or IFRS 17 (Insurance Contracts), which will be effective April 1, 2022.

In the author's biography of the EY Product Reform Costing Report (Technical Appendix E.0), it notes that Mr. McFarlane is the lead Canadian actuary advising clients with respect to the new insurance contracts standard, IFRS 17. He works closely with EY's insurance partners on advising property and casualty companies on how to interpret this standard.

118.1 Please discuss and explain whether either ICBC or EY have conducted any analysis on the potential impact of IFRS 17 as part of this Application.

118.2 Please confirm, or otherwise explain, that IFRS 17 is now expected to become effective April 1, 2022.

118.3 Please discuss the anticipated impact on ICBC's business (e.g. risk assessment, cash flow, MCT, actuarial analysis, etc.) with IFRS 17 coming into effect. Please discuss whether IFRS 17 is expected to have favourable or unfavourable impacts on ICBC.

[16] Retrieved from: https://www.icbc.com/about-icbc/company-info/Documents/ar-18.pdf, p. 58.
[17] Retrieved from: https://www.icbc.com/about-icbc/company-info/Documents/service-plan-2019-2022.pdf, p. 19–20.

118.4 Please provide a summary of ICBC's strategy, planning and timeline for the successful adoption of IFRS 17. Include information on the process of identifying any accounting policy gaps, implementing data management and system changes, managing business processes, etc.