BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT
R.S.B.C. 1996, CHAPTER 473

And

Re: Insurance Corporation of British Columbia
2013 Revenue Requirements Application

Vancouver, B.C.
February 11th, 2014

PROCEEDINGS

BEFORE:

Bernard Magnan,

Panel Chair/Commissioner

Liisa O'Hara **Commissioner**

Richard Revel **Commissioner**

VOLUME 4

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G. ADAIR	Self
R. LANDALE	Self

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1 **CAARS**
2 VANCOUVER, B.C.
3 February 11th, 2014
4 **(PROCEEDINGS RESUMED AT 9:05 A.M.)**
5 THE CHAIRPERSON: Good morning, everyone. Please be
6 seated.
7 **ICBC - PANEL 1**
8 **WILLIAM WEILAND, Resumed:**
9 **ANDREW LOACH, Resumed:**
10 **CAMILLE MINOGUE, Resumed:**
11 **NATALIE TAYLOR, Resumed:**
12 **ROB WILSON, Resumed:**
13 THE CHAIRPERSON: So now we've got to follow up today
14 with all the gold medals that Canada won over the
15 weekend. Some more this morning. So I guess we're
16 hard-pressed to do as well. And I'm sure we will.
17 Mr. Miller?
18 MR. MILLER: Thank you, Mr. Chair. I have had a brief
19 chat with ICBC's counsel, Mr. Ghikas. The
20 undertakings will be filed later today, to the extent
21 they are available. So I believe the first item of
22 business is Mr. Landale's cross.
23 THE CHAIRPERSON: Thank you.
24 **CROSS-EXAMINATION BY MR. LANDALE:**
25 MR. LANDALE: Q: Good morning, Mr. Chairman, fellow
26 Commissioners, ICBC panel, interveners. Good morning.

I understand my opening statement has been filed already, so I'll just get straight into the questions. Basically my filing is my script, and I pretty well intend to follow that. I hope everybody on the panel, both panels, has read every word, ready to answer me. Anyway, thank you very much.

I'm literally following page by page. Some of the questions obviously I know don't apply to this panel, so please don't hesitate to say "Not me today".

Can ICBC confirm to the best of their knowledge the Guidewire claim centre software now being used in the new claims transformation program is only being used by private insurance companies, noted in ICBC's response? What other claims transformation software did ICBC test and why did they not suit ICBC's new claims transformation program? Please be specific.

MR. WILSON: A: I can speak to that. In regards to Mr. Landale's first question, we cannot speak to the choices made by other insurers. But we understand that two public insurers, MP, Manitoba Public Insurance, and Saskatchewan General Insurance, do use different technology than Guidewire. Our business differs from those insurance companies, in that we have a full tort system. Therefore, we require a product that is focused more on the full tort system

that we operate in, and not just contractual benefits processing and insurance investigation processing. So, our needs are a little bit different than MPI and SGI.

On the second question, what other software did ICBC test, there was an open bid process, a request for proposal, in which different companies were invited to tender a bid, and ICBC went through an open and transparent process, and selected Guidewire based on business needs and costs.

MR. LANDALE: Q: Turning the page, my question 1.2, the question was, did ICBC start work not when it was launched? And that refers to when the program actually gets started by ICBC. And then I ask, please answer the question to 1.3. Oh, sorry.

MR. WILSON: A: In response to 1.2, initial planning began in late 2009, and we began implementing the transformational project in 2010. The roll-out of the new system began in 2013.

In regards to 1.3, “Please answer the question …”

MR. GHIKAS: Perhaps I can speak to this, Mr. Chairman, because in response to that question ICBC’s response was,

> "The transformation program is funded by ICBC’s optional insurance business. The

1 Commission does not regulate ICBC's optional
2 insurance business. The requested
3 information is not relevant to the
4 determination of the application."
5 **Proceeding Time 9:10 a.m. T2**
6 In this series of question, ICBC has tried
7 to walk the line in terms of trying to provide some
8 helpful information, but there are points when Mr.
9 Landale's IRs did stray well into the scope of the
10 optional business without an impact on the revenue
11 requirements. This was one of those instances where
12 the discussion was specifically with training
13 sessions, focus groups, and departments employed to
14 develop the program. That in my submission falls
15 directly within the scope of the nature of the
16 transformation program rather than its revenue impacts
17 on the revenue requirement. And so that was ICBC's
18 position in answering the IR, and it remains ICBC's
19 position today, sir.
20 MR. LANDALE: May I do a follow-up question to that?
21 THE CHAIRPERSON: As long as it's within the boundaries
22 of this hearing, Mr. Landale.
23 MR. LANDALE: Yes, of course. The reasons for my
24 questioning as a whole to the transformation program
25 is that throughout the application there's a great
26 deal of detail that ICBC have put forward with the

application, and so I considered it privy to ask any relevant question within that scope.

THE CHAIRPERSON: Unfortunately anything to deal with the transformation program is out of scope. It is part of the optional and is being paid for, as Mr. Ghikas said, by the optional insurance. So I'm afraid you'll have to restrict the kinds of questions you can ask on that particular issue.

MR. LANDALE: We're going to take less time.

THE CHAIRPERSON: Thank you.

MR. LANDALE: Q: Turning to my questions 1.5, 1.6 and 1.7, the purpose of those questions concerning the transformation program is to determine the budgeted cost versus the actual and ongoing costs, so please answer the question.

THE CHAIRPERSON: Again, you're straying into the transformational program and I'm afraid that that has to be deemed as outside the scope of this hearing.

MR. LANDALE: Just give me a moment and I'll try and jump ahead.

THE CHAIRPERSON: Thank you.

MR. LANDALE: Q: My question 1.11, in there ICBC provides a table of claims hierarchy positions, bodily injury exposures, intake six months, and provide numbers for injury adjuster, senior injury adjuster, claims examiner, senior claims examiner. And I

1 corresponding to those positions have given PY 2013
2 corresponding numbers. So my following questions
3 relate to that particular insert.
4 In ICBC's response we are referred to
5 Chapter 3, Exhibit E-5 of the application and in
6 particular referring to the above table. Is ICBC
7 saying in PY 2013 ICBC will have 30,756 bodily injury
8 exposures with an expected increase, basic bodily
9 increase loss of 20 million .785 as seen in Exhibit E-
10 5, line G?
11 I'm definitely confused with this table's
12 response. The relationship to Exhibit 5-E, the
13 question is: How many bodily injuries and how much is
14 the cost of these bodily injuries?
15 MR. LOACH: Q: So to begin with, the information in
16 Exhibit E.5 and the information in the response to Mr.
17 Landale's question 1.10, which gives the volume of
18 claims, are on different bases. The response to the
19 information request gives the number of bodily injury
20 claim exposures that were opened within the six-month
21 period that was available at that time. Which was
22 April through September, 2013. Starting in April,
23 because that's when the new claims hierarchy positions
24 were all in place. And so this is actual intake of
25 claims associated with those positions.
26 **Proceeding Time 9:14 a.m. T03**

1 What's shown in Exhibit E.5 is the
2 estimated costs associated with the transitional
3 impacts of the change from the old to the new system.
4 And those are associated again -- the way they were
5 estimated associates them with the four positions.
6 The injury adjuster, senior injury adjuster, claims
7 examiner, and senior claims examiner. And they're
8 estimated out by year, and they're associated more
9 with the year that the claim closes. And so the
10 numbers that are shown in Mr. Landale's exhibit are
11 actually not the policy year 2013 numbers, but the
12 numbers shown in the column 2013, which is associated
13 with when we expect to see the impacts. So it will be
14 calendar year 2013, effectively.
15 And those impacts are the estimates that we
16 have for each of those types of claims that are
17 associated with the four levels of injury adjusters.
18 It's the expected impacts from the transitional
19 effects of moving from the old to the new system.
20 There are a number of changes that will impact the
21 number of claims that need to be transferred, the
22 number -- the amount of time that adjusters have
23 available to focus on their case load, because there
24 is training and working in two different systems. And
25 so there is some transitional impact that we expect.
26 And that's what's estimated in Exhibit E.5.

1 MR. LANDALE: Q: So, the follow-up question I have
2 written down here, how many bodily injuries and how
3 much is the cost of these bodily injuries and how much
4 did this CTP save? Please show a comprehensive table
5 to support ICBC's response.
6 MR. LOACH: A: So, I think it may be helpful if we go
7 to Exhibit E.5 and I can walk through what's
8 represented there, in terms of the savings.
9 MR. LANDALE: Q: I didn't want to bring six volumes
10 over here.
11 Thank you. Thank you very much, Mr. Loach.
12 MR. LOACH: A: So what's shown in Exhibit E.5 --
13 MR. LANDALE: Q: I'm terribly sorry to interrupt you.
14 I wear hearing aids, and I've got them as cranked up
15 as I can go. I'm sorry. Thank you.
16 MR. LOACH: A: Okay, I'll do the best I can to
17 accommodate. I know I tend to speak a little bit
18 quietly.
19 What's shown in Exhibit E.5 on the top two
20 rows, A and B, are the expected bodily injury claims
21 savings associated with the claims transformation.
22 The first row is the annual claims savings that we've
23 estimated for the corporation, and the second row is
24 the portion of that which is expected to be associated
25 with basic bodily injury claims. And I think that was
26 one of the points that you had a question on. The way

that we've allocated that is based on the proportion in letter M in the assumptions. So we have assumed that 81.7 percent of the corporate BI savings are associated with the basic insurance. And that's based on the -- looking back at what proportion of our bodily injury corporate claims costs are associated with basic insurance and applying that appropriate assumption.

So you can see here that ultimately when we get to steady state, from the implementation of the transformation program, we're expecting 34 and a half million dollars per year as a relative savings compared to had we not implemented the transformation program.

Proceeding Time 9:19 a.m. T04

You can also see that there is a gradual ramp-up from the initial phases of the transformation program, and we only reach those levels of savings on bodily injury basic claims once we get to steady state, which is really 2016.

The second section of this exhibit shows the transitional impacts. And this is where, because of the amount of change that we're going through, we do expect, while we're working with two systems, while we're training, re-training adjusters, while we're transferring files to balance the case load under the

1 new claims hierarchy, that there will be some
2 transitional impacts on the efficiency and quality of
3 file handling, and that those will ultimately have
4 some cost implications. And so this is, as I recently
5 described, laid out by the type of claims that are
6 handled by each of the four levels of the claims
7 adjuster hierarchy -- bodily injury adjuster
8 hierarchy.
9 And so the costs are associated with -- and
10 the costs are associated with each year, 2013 through
11 2016, and you can see that by the time we get to 2016
12 we have very little of these transitional costs
13 remaining. And by the time we're in 2017, we expect
14 to be fully through this transitional period.
15 And again, at that point, we then see only
16 the savings from the transformation program. And in
17 the years prior, we have a mix, where we're starting
18 to see the savings associated with the program ramp
19 up, but we also have these offsetting transitional
20 impacts.
21 The way -- again, there are some
22 assumptions; rows N through P, where we've actually
23 done an estimate for the Corporation on an overall
24 basis to understand what our impacts are in bodily
25 injury costs. And we have done an allocation based on
26 the types of claims handled by each of these levels of

adjuster as to how much of that cost is likely to be associated with the basic insurance. And those are the amounts that are shown in the assumption rows N, O, and P.

And so putting that all together, we arrive at the overall savings amount that we have applied to policy year 2013, which is shown here as $17.9 million in savings.

MR. LANDALE: Q: Thank you very much, Mr. Loach. The last part of my question -- as a comment, the formula used in line G is derived by the weighted portions given on lines M, N, O, P, are of great concern. How did these proportions come about, *i.e.*, the 81 percent, 35 percent, 87 percent. How does that come about?

MR. LOACH: A: So, each of these are based on historical analysis of the type of claims that we're talking about. And we have looked at the type of claims handled by the different injury adjusters, or our overall bodily injury, and we have looked historically to see what percentage of those claims costs are optional versus basic. And this split occurs because we have a product, a tort product, where we have a basic liability limit for most products -- for most policies it's $200,000. And yet we have an adjuster who is handling the entire claim

1 and so if there are costs above that basic limit of
2 $200,000, then part of the costs will be associated
3 with an optional insurance policy, part of them will
4 be associated with the basic insurance policy.
5 And so when we have -- in particular, the
6 examiners who are handling the larger claims, if we
7 have impacts from transformation that affect their
8 ability to effectively, efficiently handle the file,
9 and there are cost implications from that, then those
10 impacts will affect both -- they will affect the
11 overall cost of the claims that they're handling.
12 Some of that will be associated with basic insurance,
13 some of it with optional insurance. And so there is
14 an allocation where we look at historically how much
15 of the costs associated with this type of file are
16 associated with basic and associated with optional
17 insurance, and we apply that as an assumption after we
18 estimate our overall impact to identify how much of it
19 is going to be associated with basic insurance.
20 And that's how these percentages have come
21 out.
22 **Proceeding Time 9:23 a.m. T5**
23 MR. LANDALE: Q: Just one last follow-up on that. So
24 these numbers of 81 percent and so on are based on
25 historical values that weren't employed -- that did
26 not use the claims transformation program. So in the

coming years could those numbers change, those weighted numbers change?

MR. LOACH: A: Well, these are just assumptions that we've used in order to come up with our best estimate of what the impact will be in terms of the value, and how much of that is associated with basic insurance. The ultimate impact will eventually be seen in our claims costs as the claims are actually handled and settled. And yes, the amount of the impacts itself, as well as how much of it is associated with claims that are optional and basic, could be different from the assumption that we've set, but this is our best assumption based on looking at the type of claims that we're considering.

MR. LANDALE: Q: Thank you, Mr. Loach. Moving to my MCT questions, they start at 2.1. Will ICBC please produce the original text from IOC or -- from IC-2 or OIC to support their reference in paragraph 37 of the application. Since it seems contrary to OIC 152, 153 and OIC 647 and 678, repealing Section 1(b)(2), I wrote in my notes "see markers in Volume 5", that's my volume, not yours.

MS. MINOGUE: A: Mr. Ghikas provided a packet on the first day of the hearing that includes the full text of IC-2. Mr. Landale, did you receive a copy of that exhibit?

1 MR. LANDALE: Q: Really, actually the whole next series
2 of questions relate to the use and terminology and how
3 ICBC has used the words solvency, predictability, and
4 smoothing. This is the first introduction to the word
5 solvency, and that's where I'm having the greatest
6 difficulty. And I do thank Mr. Ghikas for his handout
7 and I have read it, and I still maintain the question.
8 MS. MINOGUE: A: All right.
9 MR. LANDALE: Q: Where does the word solvency originate
10 in those OICs?
11 MS. MINOGUE: A: It can be found in the government
12 directive, and I believe that was also part of the
13 packet. And that government directive, it's the 2013
14 government directive.
15 MR. GHIKAS: So this is Exhibit B-14, the package that I
16 handed out. It's at tab 3 for the benefit of the
17 Commissioners, but page, handwritten page number 16.
18 MS. MINOGUE: A: In that directive -- Mr. Landale, do
19 you want me to give you time to turn to that?
20 MR. LANDALE: Q: Thank you. Thank you.
21 MS. MINOGUE: A: So in the second paragraph, the last
22 sentence:
23 "ICBC should bring forward to the Commission
24 for approval, by May 31, 2014, a revised
25 basic capital management plan that continues
26 to protect the solvency of the basic

1 insurance, while also providing ICBC's
2 ability to use capital to promote more
3 stable and predictable basic rights."
4 So in that, that where it continues to
5 protect the solvency of the basic insurance, that's --
6 in reference to where we are right now with our
7 current capital management plan, which the capital
8 management target and the capital management plan
9 itself is for solvency protection. And with this
10 government directive and the amendments to IC-2, we
11 are now extending the capital management plan to
12 achieve another purpose, and that's to use capital
13 more effectively to promote stable rates. So both of
14 those words, stable and predictable, are in the
15 government directive, as are the reference to solvency
16 protection.
17 MR. LANDALE: Q: So really my next series of questions
18 is: What is the definition of solvency? We'll get to
19 those as I go through. Thank you very much.
20 MS. MINOGUE: A: Okay.
21 track 6
22 **Proceeding Time 9:29 a.m. T06**
23 MR. LANDALE: Q: Next question is 2.1. Again, will
24 ICBC please demonstrate where IC-2 specifically raises
25 the MCT levels to 150 percent for basic insurance?
26 And again, where the source of the text rate-smoothing

1 as referenced in their reply.
2 MS. MINOGUE: A: All right. So, first, if we go to
3 IC-2 --
4 MR. LANDALE: Q: I'm just going to go and get my book
5 actually.
6 MS. MINOGUE: A: All right.
7 MR. LANDALE: Q: Sorry about that.
8 MR. GHIKAS: If I can be of assistance to Mr. Landale,
9 the -- if you go to page 8, and you look at the
10 definition of capital management target, which is at
11 the bottom of the page, and you'll see it has three
12 components. A is a reference to 100 percent MCT,
13 which is specified in the reference section. B is
14 dealing with a margin on top of that, that deals with
15 the Corporation's risk profile. And ICBC is
16 interpreting that to be the existing 130 percent MCT
17 capital management target. And C is what is -- Mr.
18 Landale is referring to. It's where the additional
19 margin for rate stability is indicated. And as you
20 can see, Mr. Chairman, it does not specify any
21 particular number there. And ICBC's proposal with
22 respect to 150 percent MCT -- in other words, an
23 additional 20 point margin on top of that -- is a
24 proposal for the Commission's consideration and it
25 doesn't specifically address 150 percent MCT in the
26 Direction itself. So the Commission does have

discretion with respect to that amount.

MR. LANDALE: Thank you very much.

Q: The next question is my 2.1.3, at the bottom of that page, I agree with OIC 082 is a one-time order. Although capital transfers have been ordered several times before, and can be ordered again. Does ICBC agree? If not, why not?

MR. GHIKAS: I'll handle this one again, Mr. Chairman. So, because we're in legal territory here. All prior transfers of capital from optional to basic have occurred under the direction of an Order in Council. And to the extent that government saw fit to issue another Order in Council to transfer capital from optional to basic, that is their prerogative to do so. But it cannot occur in absence of such an order.

MR. LANDALE: Q: What would stimulate the government's prerogative?

MS. MINOGUE: A: In this particular case, the government sought to restore the MCT above the 100 percent MCT.

Proceeding Time 9:33 a.m. T7

MR. LANDALE: Q: Thank you. It's just the same old stuff.

I'm going to ask this question but I think actually I already know the answer. That is my question 2.2 at the bottom of the page. OIC 152,

1 Section 3(b) does not include the wording of rate
2 smoothing margin. Will ICBC please correct the record
3 for restating their response to this question.
4 MS. MINOGUE: A: So I'd like to point out that the
5 terminology rate smoothing margin was meant to be
6 shorthand for this longer expression that's found in
7 IC-2, and under the definition section for capital
8 management target, Part C of that, it says:
9 "Any additional margin, expressed in
10 percentage points of MCT, consistent with
11 relatively stable and predictable universal
12 compulsory vehicle insurance rates."
13 So rate smoothing margin was meant to be shorthand for
14 that longer expression.
15 MR. LANDALE: Q: You've answered that one. This is
16 question 2.4. Will ICBC please restate their response
17 to the question in light of my previous related
18 questions with respect to the MCT, and capital
19 transfers for the purposes of rate predictability and
20 stability for basic insurance rates. And essentially
21 I'm referring to the generality within the entire
22 application there that there's a range of 100 percent
23 to 130 percent, and that's been well established for a
24 long, long time. And from time to time over the years
25 the MCT has sort of gone knocking on the door of 100
26 percent, and the government, using their prerogative,

1 have injected money through direction from the
2 optional to basic.
3 And this question really takes that whole
4 premise into why can't we use it as tool for future?
5 MS. MINOGUE: A: I believe that's the whole objective
6 of the rate smoothing framework, is to better use
7 capital in the future to smooth through adverse rate
8 volatility. So am I addressing your question?
9 MR. LANDALE: Q: It's a huge overview. I'm more
10 interested into the minutia of how that process
11 happens. I take into account your actuarial
12 experiences and modelling experiences, but nowhere do
13 I actually see numbers that trigger OIC directives.
14 We get it referred to and inferred, but you actually
15 produce no numbers.
16 MS. MINOGUE: A: I think Mr. Ghikas pointed out that
17 what would trigger an OIC is not within ICBC's domain
18 of influence. The government makes that decision and
19 so it's impossible to respond to that.
20 MR. LANDALE: Q: With the kindest respect, I might say
21 the government won't make any decision until you give
22 it some information to make a decision on.
23 MS. MINOGUE: A: That's true, we will consult with
24 government when we're seeing cost pressures and when
25 extraordinary circumstances arise.
26 MR. LANDALE: Q: So my question is trying to elude from

you why do your applications, not just this one but previous ones, do not include numerical information, spreadsheet or whatever that says the MCT is falling at such and such a rate. We predict over the next three -- quarter, let's use the quarter -- that it's going to drop 110 or 112 percent. We think it's timely that you use your prerogative to direct us to -- ICBC being us -- to transfer 300 million. That's kind of the numbers I'm looking for.

MS. MINOGUE: A: Okay, there's not a specific formula, and as we've seen through our history there's these unique circumstances that arise that are always different than a past experience in terms of adverse financial circumstances. But there is very much a part of the rate smoothing framework, and government acknowledges in their letter, you know, that the rate smoothing framework itself can't anticipate all circumstances, adverse circumstances and provide rate smoothing through those. And so there is a provision for when we do anticipate the MCT will fall below 100 percent that we seek -- well, we seek counsel with the Treasury Board, and come up with a plan.

Proceeding Time 9:40 a.m. T08

MR. WEILAND: A: If I might add, falling below 100 percent MCT is quite a serious matter. A private insurance company that was regulated, say, by the

1 Office of the Superintendent of Financial Institutions
2 would be shut down if it fell below 100 percent. So
3 regulators generally view falling below 100 percent as
4 being very serious.
5 Secondly, the MCT can be quite volatile.
6 ICBC has seen volatility in its MCT. That is a
7 function of the risks that the Corporation takes on
8 when it writes this business. And so, the need for
9 capital is driven by that volatility, and to have an
10 additional amount that is available, so that the MCT
11 will in fact stay above 100 percent at all times.
12 MR. LANDALE: Mr. Chairman, I'd like a brief follow-up on
13 that.
14 Q: Since 2007, when the Commission have been
15 overseeing basic rates, has the MCT ever fallen below
16 100 percent?
17 MS. MINOGUE: A: There was a period where we were below
18 100 percent. Your Commission -- or, I'm sorry, your
19 questions around the MCT and the history of its
20 volatility can be well-answered by panel 2.
21 MR. LANDALE: Q: That gets a sticker.
22 COMMISSIONER REVEL: Excuse me. May I ask one of Mr.
23 Weiland, please? You indicated that OSFI would shut
24 down a company if its MCT dropped below 100 percent.
25 MR. WEILAND: A: Yes, I believe it would.
26 COMMISSIONER REVEL: When you talk about companies of

1 that nature, these would be companies that are
2 offering based on both basic and optional. How do you
3 distinguish between the two? I have often been a bit
4 confounded about companies that are dealing only with
5 basic and you ignore the optional component of that.
6 Presumably the situation you're talking about would
7 incorporate both.
8 MR. WEILAND: A: Yes. Yes, it would. The situation in
9 British Columbia is that basic insurance is a
10 monopoly.
11 COMMISSIONER REVEL: Right. Yes.
12 MR. WEILAND: A: By ICBC. And that does make it
13 different. There is competition on the optional part
14 of the business, but for private insurers who would be
15 operating in B.C. or other jurisdictions, all of their
16 assets would be available to pay all of their
17 obligations, whether it was the basic minimum coverage
18 that was required of a driver, or whether the driver
19 was purchasing more than that. So --
20 COMMISSIONER REVEL: Yes. Just -- the reason I raised
21 that is, I find it a little bit difficult to segregate
22 or disaggregate the basic and the optional when you
23 compare it to a regular corporation that's not in a
24 monopoly situation.
25 MR. WEILAND: A: It is different, and that's one of the
26 reasons the Corporation has gone to great lengths to

be able to separate its basic claims experience from its optional claims experience. And there are strict processes surrounding all of that information to make sure that basic is truly basic, and optional is truly optional. And that there is no mixing at all.

MS. MINOGUE: A: I might add too that in the OSFI world, so, the federally regulated insurance company world, the supervisory target is 150 percent of MCT. And the calculation of the MCT ratio, and to get to the 100 percent, which is capital equal to the required capital, that formulaic calculation of required capital is based on the risks of the insurance company. It doesn't matter if you're a monopoly or not, there is volatility in your investment assets and your claims liabilities and so forth. And that required capital that corresponds to 100 percent is just around those financial risks.

The 150 adds a margin for things like innovative competitors, and, you know, those other elements that -- some of which ICBC has and some of them they don't, those risks. So, anyway. But we don't have a regulatory minimum of 150, we have it at 100 for those basic financial risks.

COMMISSIONER REVEL: Yeah, I think that's helpful. It's just I find that -- I find it hard to judge the status when you're not allowed to factor in the optional

1 insurance component, because that would put, I
2 suspect, and I'm not asking you to clarify it, my
3 suspicion is, it would put a different reality on the
4 thing.
5 MR. WEILAND: A: There would be additional risks.
6 COMMISSIONER REVEL: Yeah.
7 MR. WEILAND: A: The risk profile in optional, it would
8 be different from basic.
9 **Proceeding Time 9:45 a.m. T2**
10 COMMISSIONER REVEL: Okay, thank you.
11 MR. WEILAND: A: There could be similarities but there
12 would be differences.
13 COMMISSIONER REVEL: Right. I'm sorry, Mr. Landale.
14 MR. LANDALE: No.
15 COMMISSIONER REVEL: Proceed please.
16 MR. LANDALE: Q: My next question I'm just going to
17 suggest might be for Panel 2. It's number 2.6,
18 carries on really from the last question, I think,
19 where I want to know more information about the 130
20 percent MCT. Is that correct? Should I hold that
21 off?
22 MS. MINOGUE: A: What is the question specifically?
23 MR. LANDALE: Q: Oh, I'll read the question:
24 "2.6 The illustrations mentioned to a
25 greater extent are illustrations of MCT and
26 solvency. Capital billed to rate change.

1 With the MCT solvency starting at 130
2 percent, will ICBC please state for the
3 record what are the solvency figures in
4 respect to the current application on
5 December the 31st, 2013? Please provide this
6 information in a table. We may then be able
7 to address MCT insolvency by May 1st, but the
8 answers to this question will have a major
9 relevance for ICBC's 2004 revenue
10 requirement application due May 31st."
11 I'm really asking for the numbers at the
12 end of the year, in a table.
13 MS. MINOGUE: A: In terms of what we filed in the
14 application, we had a forecast of 123 at the end of
15 the year.
16 MR. LANDALE: Q: Yeah. No, I'm asking really for the
17 final number.
18 MS. MINOGUE: A: Mm-hmm, yeah. I think if you could
19 ask that of Panel 2, thank you.
20 MR. LANDALE: Q: Thank you. This question actually is
21 not really directed at the panel but more at the
22 Commission. Is that appropriate?
23 THE CHAIRPERSON: Asking that question of Panel 2?
24 MR. LANDALE: Of the Panel. No, of your Chair, sir, and
25 your Panel, the BCUC. I'll read the question and
26 perhaps you could let me know:

1 "2.7 ICBC has incorrectly stated their
2 reference to IC-2 Section 1 and OIC 152-13,
3 100 percent is not referenced once. Will
4 the BCUC please review the entire MCT policy
5 and give direction to ICBC."
6 MR. MILLER: Mr. Chair, perhaps I can address this. This
7 is not a forum to ask the Panel, a Commissioner Panel
8 questions. If Mr. Landale has a submission he's like
9 to make in argument and ask the Panel to do that,
10 that's for the Panel to deliberate on. But it's not
11 for the Panel to answer those questions during the
12 course of this proceeding.
13 MR. LANDALE: Thank you.
14 MR. GHIKAS: And Mr. Chairman, if I may be of assistance,
15 however, to Mr. Landale, as I understand his question
16 it's based on an understanding that the 100 percent
17 doesn't appear in Special Direction IC-2? Okay.
18 That, Mr. Landale, is actually incorrect in that
19 regard. If Mr. Landale can turn to Special Direction
20 IC-2 and handwritten page 10 in the upper corner, and
21 you'll see if you go down to the very last two lines
22 on the page, first of all the preamble of 3 dash --
23 sorry, Section 3(1), it says the Commission must do
24 the following, and then if you look at (b):
25 "…set rates for the Corporation's universal
26 compulsory vehicle insurance business in a

way that will allow the Corporation to maintain in relation to its universal compulsory vehicle insurance business at least 100 percent of MCT."

So that is where the -- what ICBC refers to as the regulatory minimum is actually stated in the requirements.

MR. LANDALE: Thank you for the correction.

Q: Turning to question 2.9, please refer to my last three questions -- actually I haven't presented them but -- to the BCUC. And in particular I offered in IR No. 2, question 2003.2 RR.RL2.12 in my discussion, along with RTL Exhibits 10, 11 and 12, wherein I illustrate my concerns to the raising spiral and compounding effect this plus/minus one percentage policy will have on basic insurance rates. It's totally unacceptable. And when you look at those graphs, I've just used basic spreadsheet numbers, so taking 2014 and just kept on adding 1.5.

Proceeding Time 9:51 a.m. T10

MS. MINOGUE: A: Right. And that's not how rates would be set, in fact. That's just -- one can't really extend that range that much every year. That's not a policy on how rates will be set. So let's be clear. That's just -- that sets the maximums in terms of what the rate can be the following year. And to expand out

1 by one and a half percent every year isn't really
2 realistic. Because it's one and a half percent band
3 around what the last year's rate change is. And so to
4 do that would assume that every year is on the upper
5 bound of the rate change band, which I don't think
6 would happen.
7 But if it did, we would consider that an
8 extraordinary circumstance, and obviously that would
9 be a situation where costs were -- we were suffering
10 some cost pressures that we would need to address.
11 And to the degree that it would be pushing MCT below
12 100 percent, and we couldn't address it in a timely
13 manner, we would probably go to the Treasury Board,
14 and there would probably need to be some sort of
15 legislative intervention, if things got too bad and we
16 couldn't mitigate or reverse the cost trends.
17 MR. LANDALE: Q: Not to sound too unkind to that, but
18 you're using the probability, might, could. Those are
19 soft words, they're not "shall", "must", "will be".
20 So, my hypothesis that I am putting forward is quite
21 reasonable. This is just as a valid as a model that
22 you use to make all the assessments you do. It's a
23 hypothesis.
24 MS. MINOGUE: A: Well, it recognizes that -- in using
25 those words, Mr. Landale, I am -- I don't have
26 certainty about what the future holds. And so we

1 don't really know what circumstances will unfold in
2 the future. So, one does have to talk in terms of
3 conditional tense, I would say.
4 MR. LANDALE: Q: I'm going to be a good boy. I'm not
5 going to argue.
6 Question 3A, ICBC's response has missed the
7 mark. By reiterating my commentary, the number of
8 exposures, vehicles, do not relate to population at
9 all. Some families have two, three, four, five
10 vehicles. Some businesses have fleets of vehicles.
11 Some have travel trailers. How do these multiples
12 relate to population?
13 MR. LOACH: A: So, I can speak to how we forecast our
14 policies. And we do sell one policy per vehicle,
15 typically. And what we do, and this is -- the set of
16 exhibits that deals with this is Exhibit set B.
17 MR. LANDALE: Q: Sorry, what Exhibit?
18 MR. LOACH: A: Sorry, exhibit set B within Chapter 3
19 deals with our forecast.
20 MR. LANDALE: Q: I'm sorry, I didn't get the number.
21 MR. LOACH: A: Exhibit set B --
22 MR. LANDALE: Q: Seven B?
23 MR. LOACH: A: Set B. So, B.0 through B.2, I think,
24 within Chapter 3, deals with our forecasts of our
25 policies. And when we approach this, we do look at it
26 through different types of vehicles, or vehicle usage,

1 different types of customers, as well as different
2 geographical areas. And many of the models that we
3 use to forecast our policies in the future are
4 population based, particularly those where we look at
5 the growth in different regions. We start from the
6 B.C. stats population forecast for each region, and we
7 look at the relationship between the population for
8 that region in the past and the growth in policies in
9 that region, which is something that we know within
10 ICBC. And if that provides -- and in many cases that
11 does provide a very good relationship which we can
12 just project to continue, and then we're very directly
13 doing that forecasting based on the B.C. stats
14 forecast of population growth within those regions.
15 MR. LANDALE: Q: A follow-up on that. I don't own the
16 vehicles now, but when I was in Alberta, I actually
17 had four vehicles, one person. I had two cars,
18 different sizes. I had a motor home and I had a
19 truck. Oh, and I also had a trailer. Believe it or
20 not, I can only drive one vehicle at a time. So when
21 I talk about population and the number of vehicles, I
22 think it's very, very relevant. You can only drive
23 one vehicle at a time. And so when taking into
24 account -- and why I'm using population is because you
25 can only do one vehicle at a time.
26 MR. LOACH: A: This is actually a very relevant factor

in our forecasts. And one of the factors that we've talked about is -- and we have looked at it as vehicles per household, rather than vehicles per population, but you would see a similar effect. What we have had in recent years in British Columbia is a change in the relationship of vehicles per household. Where in the past, prior to the recession, we had seen that year over year there was an increasing ratio of vehicles per household, which you could interpret as an increasing number of households which would have, perhaps, four vehicles and a trailer, as opposed to having just one or two vehicles,

Proceeding Time 9:57 a.m. T11

But anyway, overall the average had been increasing. Subsequent to the recession, that is no longer happening, and we see that as described. It is a favourable influence on our claim frequency if there are more vehicles per household or vehicles per driver, because there is -- one driver obviously will use each vehicle less because they can only drive one at a time.

That relationship has changed. We're no longer seeing the favourable increasing trend in vehicles per household that we were prior to the recession, and that is something that we see as having had an influence in the flattening in some of our

1 claims frequencies, particularly bodily injury, in the
2 past few years.
3 We are not forecasting that that's going to
4 resume, the previous favourable trend. In the last
5 few years what we've seen is that this ratio of
6 vehicles per household has been quite stable rather
7 than the prior favourable trend.
8 MR. LANDALE: Q: Just for the joy of saying it, I
9 sometimes agree with ICBC, my question 3.1. I'm not
10 all that bad, you know. But then I get bad with 3.2.
11 Please answer the question as asked. Taking into
12 account the preamble to the question, which was
13 explicit, would you like me to read it?
14 MR. LOACH: A: So you are referring to the B.C. Stats
15 data? And I just want to clarify that when we do our
16 forecasting of policies, we do rely, and I think
17 explicitly within the application we refer to B.C.
18 Stats as the source of our population data for
19 forecasting policies.
20 MR. LANDALE: Q: I have to accept what you say but I
21 really can't see how you do it.
22 MR. LOACH: A: I would --
23 MR. LANDALE: Q: Again, there's no numbers or tables or
24 anything that gives me a written -- I'm an anal
25 person. Shouldn't really admit that, but I am. When
26 I see it in a spreadsheet it means I can evaluate it

as equally as you can put the data in. So when I don't see a number, I find, with the kindest respect to you, Mr. Loach, I find it hard to swallow.

MR. LOACH: A: I just wanted to add a little bit of clarity to my response as well, but just to address your point, Mr. Landale, there is a lot of material already in our filing and we've made the choice not to provide additional details. I mean every figure and every discussion point could be drilled down into more and more detail and numbers, and we've struck a balance in terms of how much we're presenting and how much we're describing and that we felt struck the appropriate balance. Now, of course we do have numbers that support everything that we're saying here.

What I wanted to say also is relating to Stats Canada versus B.C. Stats. In the realm of population data, the data that B.C. Stats uses, as I understand it, is they actually use the census data from -- or, sorry, the population estimates from Stats Canada, which I believe are based on the census data. But Stats Canada provides the historical estimates of population data. What B.C. Stats does, as I understand it, is they do some modelling and do forecasting of population data. And so to rely on the Stats Canada data or the B.C. Stats data for the

historical or current population is actually effectively the same thing.

MR. LANDALE: Q: Thank you. I've got to just one brief moment take that to task. You very eloquently led us all through Exhibit E-5, and I understood -- I don't have to agree with it but I understood everything you did, and it's something I can evaluate. Your response to this particular question regarding B.C. Stats and population, I've put some numbers down, purely my model based on B.C. Government saying the population will grow 1.3 percent. There's no science to me. It would be much better for you to say, "No, actually, Mr. Landale, it's 1.1." or "It's like the CPI, .9 percent." Those things I can relate to. And I can't relate to what you've been telling me.

Proceeding Time 10:02 a.m. T12

MR. LOACH: A: I can see that it might have been helpful to provide more of an example in the response, Mr. Landale, and --

MR. LANDALE: Q: I will settle for 2014 when you give me some more information.

MR. LOACH: A: Okay.

MR. LANDALE: Q: I'm being sarcastic. When you do your next rate increase for 2014, you might address the number.

MR. LOACH: A: I think we will take a close look at

that when we set up our application for 2014 in terms of the information that we're providing.

MR. LANDALE: Q: You're a good man. Can't wait, eh? Again, I say this with some respect, and I do mean it.

3.3, since ICBC chose to misread my question to review their exhibit A01, selecting components and general expenses admin still too high. Non-insurance expenses should be removed back to the B.C. government.

What I'm suggesting is, is those elements that ICBC have taken on — I'll give an example like B.C. Licencing and -- David, for safety — give it back to the government. And I know you can't. Mr. Ghikas will tell me why. But that's not the point. You are in the insurance business. Stay in the business. I don't know how you can answer that.

MR. MILLER: Mr. Chair, just for the sake of trying to be efficient, I'll just remind Mr. Landale that this is not the time for submissions, this is a time for questions. The submission come later.

MR. LANDALE: Q: I'll finish the question then. Miscellany expenses are too high, and in light of all my MCT questions, the capital maintenance provisions is contrary to OIC 1.52-13, objectives of predictability and stability.

MS. MINOGUE: A: Can I clarify that reference to the

capital maintenance provision is in IC-2. It's in paragraph 3(1)(c)(iv). I'm not sure if I'm saying the reference quite right but --

MR. LANDALE: Q: I think I'm with you.

MS. MINOGUE: A: Down in the section:

> "For 2013 and each year following ensure the rates are set in accordance with a capital management plan approved by the Commission that includes capital maintenance and builder release provisions."

So it is codified there in regulation.

MR. LANDALE: Q: Thank you. I made no comment but I am just going to say again, you gave me the right information. On page 3.4 you give me a table and I can relate to it. Thank you.

I think the next series of questions relate to why I really am here. As a senior, CPI is a very important element. So the next series of questions are somewhat significant to me.

Question 4(a): Figure 5.5 shows the CPI of 1.74 percent. In fact the federal government has said the CPI is .9 percent. I know, I just checked my cheque. Virtually half of ICBC's forecast based on the multi-dealer survey. Why? Who are they? They are just a bunch of people I sign up with for getting an insurance policy. Why them?

1 MS. MINOGUE: A: So maybe I can clarify. But that is
2 in reference to the calculation of the new money rate,
3 and the new money rate -- you might recall from my
4 opening presen- -- oh, you weren't here. But in the
5 workshop as well, we talked about how investment
6 income, the expected investment income that we earn on
7 our invested premium dollars is invested at what we
8 call a new money rate. So new money that you have
9 that gets invested at a certain rate, and the
10 calculation of that new money rate is based on a
11 formula that is Commission approved.
12 So we went through a process where we, you
13 know, submitted a proposed formula. The idea of
14 having a formula was to try to eliminate the debate
15 around what we used for a new money rate and get
16 something that people could generally agree on. And I
17 think we got there.
18 **Proceeding Time 10:07 a.m. T13**
19 So the formula and the elements of it
20 depend on a survey of experts in terms of what rates
21 are expected in the future. And some reference rates
22 for equity returns and real estate and so forth. And
23 the details of that calculation are best put to panel
24 2, where we have our investment VP on that panel. But
25 I think we have a sound approach in terms of
26 estimating that new money rate.

1 MR. LANDALE: Q: Thank you.
2 This is question 4.1, 4.1.1 and 4.1.2. And
3 my question covers all those three responses from
4 ICBC. I thought I was asking a straightforward
5 question. I'm almost lost by the answers. Can
6 someone from ICBC please enlighten me? I really
7 didn't understand your responses, all three of them.
8 MS. MINOGUE: A: All right. So this -- your question
9 is in regards to the policy effective period for this
10 policy period, is only nine months, because we -- the
11 application was filed 90 days later than initially
12 planned, and so because our schedule is to file on May
13 31st, we had to come up with a rate indication based on
14 kind of a nine-month policy period, if you will.
15 And in order to do that, what we -- I
16 talked about forecasting what our future costs will
17 be, and the future costs are according to claims that
18 will be incurred in nine months' worth of policies, as
19 opposed to twelve. So it's kind of a shorter period.
20 And so what we need is the inflationary level for that
21 nine-month period as opposed to a twelve-month period.
22 So if you account for the inflation on that
23 nine-month period, it's a little bit less inflation
24 than on a twelve-month period. So we did that so that
25 we were not putting extra costs in, knowing that we
26 would change rates nine months from now.

1 So the whole purpose was to not -- to
2 reflect just the right amount of inflation and not too
3 much. Does that help?
4 MR. LANDALE: Q: I think so. And you landed on the
5 word I was interested in. It's the word of
6 "inflation". It actually -- how do you quantify that
7 to a senior?
8 MS. MINOGUE: A: Okay, so, let me clarify here that in
9 automobile insurance we have claims cost inflation,
10 which is not the same as consumer -- the consumer
11 price index or the general inflation. And so when I
12 refer to inflation on claims costs, it's a different
13 rate of inflation. So the CPI is a market basket of
14 consumer goods. Claims inflation is a different
15 market basket of goods, namely, you know, the costs
16 associated with legal rep, medical cost inflation,
17 medical -- increase in utilization of medical services
18 and so on. So it's a very different market basket
19 that tends to go up at a rate faster than the rate of
20 general inflation.
21 MR. LANDALE: Q: The inflation number that you use,
22 does that vary from model to model? In other words,
23 let's just for the sheer point of discussion, let's
24 just say your BI indicators, your largest number, 73
25 percent or something like that. You give that a
26 weighted number and we'll just say for the sake of

1 argument that's a three percent point. Is that three
2 percent used across all models? Or in particular to
3 the one you're examining?
4 MS. MINOGUE: A: The inflation rate on claims costs
5 does vary, depending on the coverage. So we have --
6 MR. LANDALE: Q: Coverage?
7 MS. MINOGUE: A: Yes. So we talk about --
8 MR. LANDALE: Q: So, well, basic --
9 MS. MINOGUE: A: Yes. There is basic coverage and
10 under that there is different coverages. So there is
11 the bodily injury coverage that we have talked a lot
12 about. That's about 75 percent of our claims costs.
13 There is also the property damage, the first-party
14 accident benefits coverage, and there is also the
15 death benefits coverage.
16 **Proceeding Time 10:12 a.m. T14**
17 So there's a number of coverages and they
18 run at different rates of inflation. The bodily
19 injury is the most challenging because it has the most
20 cost pressures, particularly the pressures around --
21 as a result of litigation. That puts the most
22 pressure on bodily injury.
23 MR. LANDALE: Q: So an individual like me would never
24 really know what those weighted inflation numbers are,
25 would we?
26 MS. MINOGUE: A: I think we've got them laid out here

in the application for you.

MR. LANDALE: Q: Could you give me some -- I'll look at it later, but could you give me a point?

MR. LOACH: A: If I could refer you to Exhibit D.1.1, we actually lay out -- there's four tables and we talk about frequency and severity, severity being the average cost per claim. And we actually lay out the most recent years for each of the coverages referred to by Ms. Minogue, as well as our forecast for each of the coverages. And you'll see there that each of them have a different forecast in terms of what rates -- well, you'll see that they have different rates in the history as well as in the forecast for what rate of cost increase we expect each year, by coverage.

MR. LANDALE: Q: Terrific answer. You also caught me out. In my years of experience, terminology has always caught me out. You're talking about frequency and severity and I'm talking about inflation. We're talking about the same thing, just didn't know it. Terrific. Thanks. That was a good comment. I praise you for it.

MR. LOACH: A: I'm glad it was helpful.

MR. LANDALE: Q: Turn any more pages and I'll get to the end of this. Yeah, jump to page 4.7. I have two questions there, 4.7(a) and 4.7(b). 4.7(a):

"Thank you, ICBC, your response hits my

1 point. ICBC does not consider CPI
2 regardless of the financial institutions.
3 Outlook highlighted in their application.
4 So why did ICBC put them in?"
5 And towards the end of your exhibits you've
6 got everything from BMO, TD, Royal Bank, and somebody
7 very cleverly put little squares around different
8 highlights so in all of those tables. You're trying
9 to make a point. And yet when I try to use those
10 numbers that related to inflation, investment incomes
11 and so on, couldn't find any application within the
12 application of those highlighted numbers. I don't
13 understand why you put those exhibits there. What are
14 you trying to say?
15 MS. MINOGUE: A: Could you point us to what you're
16 referring to?
17 MR. LANDALE: Q: I've got to go to my book. Just a
18 moment. I should get you to ask me more questions
19 like that. That walk was lovely. You're a good man.
20 I wish I had all that staff at home. Gosh.
21 So we're looking at tab 5 and the first one
22 up is Scotiabank Economics.
23 MS. MINOGUE: A: Panel 2 is --
24 MR. LANDALE: Q: I'm not actually --
25 MS. MINOGUE: A: Okay.
26 MR. LANDALE: Q: I'm not asking questions about the

numbers.

MS. MINOGUE: A: Okay. Okay.

MR. LANDALE: Q: I'm using it, the highlights that one can see. Let's just turn to RBC, page 7.

MR. MILLER: Just for the record, Mr. Chair, it's Chapter 5 of the application.

MR. LANDALE: Q: This is RBC, page 7. There's just one square. It says 2 percent. I use that as an example of 50 that's in the application. I don't need to go through all 50. May I approach to help you?

Proceeding Time 10:19 a.m. T15

MR. MILLER: Mr. Chair, staff tells me that it's page 446 of 1,038. Somewhere around there.

MR. LANDALE: Q: This is just one example of 50 or more that are highlighted. Somebody has gone through these financial economic statements by various financial institutions and highlighted things like, "In this case, headline CPI forecasts for 2004 in the second quarter is two percent." Nice information. What are we supposed to learn from these highlights and how it applies within the application? Is it useful information to help us?

MS. MINOGUE: A: This question probably does go better to panel 2, because I'm not familiar with the boxing around that number, whether that was done by RBC and that's their annotation on their publication. Because

1 this not an ICBC document. Or whether we overlaid it.
2 I suspect that it was from RBC, so.
3 MR. LANDALE: Q: Oh, okay.
4 MS. MINOGUE: A: Mm-hmm.
5 MR. GHIKAS: Mr. Chairman, I can clarify, it is actually
6 ICBC's overlay as I understand it, but the question
7 does, because these relate to investments and a rate
8 at which the investment income is being forecast, they
9 are best put to panel 2, in particular Ms. Gould, who
10 is the VP of investments.
11 MR. LANDALE: Ms. Gould?
12 MR. GHIKAS: Gould, yes.
13 MR. LANDALE: Mr. Chair, I notice it's coming up to
14 twenty-five past. Can I invite some relief?
15 MR. MILLER: I believe Mr. Landale is asking if we can
16 take the break a few minutes early.
17 THE CHAIRPERSON: Yes, I believe I understood correctly.
18 Mr. Landale, do you have an idea of how much more time
19 you're going to need?
20 MR. LANDALE: Unfortunately probably a good hour more.
21 THE CHAIRPERSON: Yes, okay, then we will take our break
22 now and we will reconvene at twenty to eleven.
23 MR. LANDALE: Thank you, sir. Thank you.
24 **(PROCEEDINGS ADJOURNED AT 10:22 A.M.)**
25 **(PROCEEDINGS RESUMED AT 10:40 A.M.)** **T16**
26 THE CHAIRPERSON: Please be seated.

Mr. Landale, you are up again.

MR. LANDALE: Thank you, Mr. Chairman. The next question would have been 4.8 but I'm actually going to jump to 4.12 because everything before that seems to be my personal opinion.

Q: 4.12, please refer back to my follow-up questions, really. ICBC continues to be evasive. The answer is "none". I'm just going to read ICBC's response if I may.

> "Please see responses to information requests 2013.1 RRRL.2.3.1.3 and 2.1.4 about the mechanisms under the transfer capital of ICBC's optional insurance to ICBC's insurance business."

And I just don't get that answer. You're not answering me. I'm going all over the place and I'm not getting to your point.

So again, I'm asking. There are no mechanisms that prohibit future transfers. ICBC has deliberately been obtuse in their response by negating to say OICs can be issued to direct ICBC to transfer capital from the optional insurance to the basic insurance. Quite frankly, I must ask why. And Mr. Ghikas, please.

MR. GHIKAS: Mr. Chairman, ICBC has followed the typical convention in terms of cross-referencing other

1 information responses and were it not to do so the
2 record would become unmanageable. The simple answer
3 is that the question is asking whether there's any
4 impediment to government enacting legislation, and the
5 simple answer is, no, there is no impediment to
6 government enacting legislation, but it does require
7 government to do something and not ICBC.
8 MR. LANDALE: Thank you very much.
9 Q: 6.1. Thank you for the history lesson as to the
10 primary business of the BCUC. The response is
11 misleading with respect to the BCUC's approvals and
12 the MCT targets in regard to the approval of 130
13 percent MCT levels. In essence, a hundred percent MCT
14 minimum and 130 percent maximum was approved. This
15 range was established to address the components that
16 were affected by BI and other reactive circumstances.
17 Essentially I know you are following OSFI guidelines
18 and things like that, but really, again I've come back
19 to the hundred percent to a hundred and thirty percent
20 and I know you've answered to some degree the question
21 already, but really, it comes back to the BCUC
22 approved that range, and you are asking for more.
23 ICBC is asking for more.
24 MR. GHIKAS: Perhaps I can just jump in again here. I
25 think Mr. Landale hasn't quite captured the nature of
26 the past Commission decision in using the term that "a

range has been accepted" or that "a maximum of 130 has been accepted".

The 130 percent approved by the Commission represented a capital management target, which is the target to which ICBC manages its capital given the inherent volatility in the business. And the capital management plan also included components of the plan that required release of capital over time down to that target, as well as building capital over time to that target. So before Ms. Minogue speaks further on that, I just wanted to clarify and make sure that the nature of the decision was clear on the record.

MS. MINOGUE: A: All right, so I'm assuming I understand the question. Basically, where is the 130 percent coming from and why is it appropriate to --

Proceeding Time 10:45 a.m. T17

MR. LANDALE: Q: No, I understand where it was set and approved by the BCUC. The whole question is that has been a satisfactory range to address a lot of ICBC's concerns in terms of BI influences and other elements, or I use the word "component".

It is beyond me. Even though I know bodily injuries are 73 percent major factor, it is beyond that as the population of British Columbia increases, the number of people who have a vehicle have increased. It is beyond me to understand why suddenly

in 2013 solvency is such a critical issue you need to tack on another 20 percent, and the BCUC has already established an adequate 30 percent range. It's beyond me.

MS. MINOGUE: A: Right. Let me clarify, thank you. The solvency always has been a concern from the onset of IC-2, I believe in 2003, and that the 130 percent was proposed in a capital management plan that we filed for Commission approval and was ultimately accepted in I believe the 2008 decision. And so solvency always has been a concern, and I think we have that well looked after.

And what is different with this application is the addition of rate smoothing. So with rate smoothing we've talked about how we'll intentionally set rates below costs for a period while we're trying to moderate cost pressures, and that, by the very nature of it, will deplete capital. And for this reason it adds more pressure on the capital levels and we need to have that margin available for setting rates below costs when the time comes. So that's the whole premise there.

This is now a new framework on top of solvency. So as government pointed out in their directive letter that we're to continue to protect the solvency and the basic insurance while now improving

our ability to use capital to smooth through this adverse rate volatility. So there's new requirement. The capital is not just for solvency protection but it has this new added dimension.

MR. LANDALE: Q: Thank you very much. 6.2. Help. The whole question of MCT levels have questioned and challenged me -- by me already. It seems both ICBC and I are on a merry-go-round. Please, please -- oh yeah, I'm sorry, this is directed to the BCUC. I'm sorry. I'll pass this question over.

6.3. This is an illogical response. If Figure 3.2, line item 6 is the rate indicator driving the application to ask for a 4.9 percent basic rate increase, the capital management, which includes MCT levels, 100 percent, 130 percent and whatever, up to 173 percent has been discussed, then plus or minus 1.5 percent capital maintenance does have a direct link on basic rate setting. See Chapter 4, paragraphs C2 and D1 wherein the link is established. Paragraphs D3 and D4 continue to link discussion. And again I'm just coming back to -- we start with 100 percent, got 130 percent, we now have a ceiling of 173 percent.

This whole line of MCT gets an added bonus of plus or minus 1.5 percent increase. And as I've already said before in my Exhibits RTO 10, 11 and 12, it's exponential as we go through to 2022. And this

is beyond -- as I said, I start out -- I need response.

MS. MINOGUE: A: All right. So to be clear, the one and a half percent is not in reference to capital maintenance. So if you look at IC-2 and where the reference is.

Proceeding Time 10:50 a.m. T18

MR. GHIKAS: Handwritten page 13, Mr. Chairman.

MR. LANDALE: Thank you.

MS. MINOGUE: A: Okay, it's in paragraph 3, subparagraph (1).

MR. GHIKAS: C.2.

MS. MINOGUE: A: C.2.

MR. GHIKAS: Sub (B).

MS. MINOGUE: A: Okay, thank you.

MR. GHIKAS: So you'll see a capital B one-third of the way down the page.

MS. MINOGUE: A: So the 1.5 is in reference to the amount of general rate change order that the Commission might make. So it's not in reference to capital maintenance, it's in reference to how much the rate change can be. So, it can be within plus or minus 1.5 percentage points of the prior year's rate change. So it's not in reference to the maintenance.

MR. LANDALE: Q: With all due respect --

MS. MINOGUE: A: Sorry?

1 MR. LANDALE: Q: With all due respect, if the basic
2 rate has an MCT component, then yes, I understand the
3 1.5 is not a direct impact. But the MCT is influenced
4 by that plus-or-minus 1.5. Because it's a combined
5 part of that table 3.2. Figure 3.2.
6 MS. MINOGUE: A: Correct. Yeah, I guess it's a matter,
7 I guess, of what we call direct or indirect -- I would
8 call it more an indirect link, but to the degree that
9 the capital maintenance provision is included in the
10 4.9 percent proposed rate change, yes, and then next
11 year's rate change would be plus-or-minus one and a
12 half percentage points around whatever the approved
13 rate change is.
14 So the approved rate change will include a
15 component for capital maintenance.
16 MR. LANDALE: Q: I see. Thank you. Obviously I object
17 to that.
18 6.4, I really like ICBC's response 73.1-2
19 referenced above. Comprehensive, explorative, and
20 verbose. Sounds like me, actually.
21 I will not agree with the assertion to
22 raising the MCT to 150 percent level. Primarily in
23 Canada there is no government basic insurance program
24 that needs it. ICBC has continued the stance to
25 follow government directives is commendable. So to
26 the B.C. -- oh, god, another one of those questions.

1 Sorry.
2 Turning the page just to 7.2. Will ICBC
3 please clarify I am -- am I to understand in each
4 year, given in this table, compounding savings are to
5 be had? Along with the associated full-time employee
6 reductions?
7 And if you basically look at the chart from
8 2013 to 2017, the first year is 10 employees, the
9 second is 127, the third 341. The fourth is 341, and
10 by 2017, my question of compounding -- you've got
11 nearly 1200 employees being laid off. Is anybody
12 going to be left?
13 MR. WILSON: A: First of all, the chart that Mr.
14 Landale refers to, in the years 2013 to 2017, those
15 figures of FTE reductions are not incremental, they're
16 compounding.
17 MR. LANDALE: Q: That's the question. Are they
18 compounding?
19 MR. WILSON: A: Yes. They are compounding. So it's an
20 aggregate total, it's not incremental year over year.
21 MR. LANDALE: Q: So am I right --
22 THE CHAIRPERSON: If I may, just a question of
23 clarification. So you're saying in 2017 there will
24 have been a total of 341 employees laid off within
25 that four-year period.
26 MR. WILSON: A: That is correct.

THE CHAIRPERSON: It's not 341 additional in 2017.

MS. MINOGUE: A: Correct.

MR. WILSON: A: That is correct.

THE CHAIRPERSON: Thank you. So in total --

MR. LANDALE: It's not compounding.

THE CHAIRPERSON: Yes. It's not compounding. It's cumulative.

MR. WILSON: A: Cumulative. Did I say compounding?

MR. LANDALE: Q: Yeah.

MR. WILSON: A: My mistake.

Proceeding Time 10:57 a.m. T19

MR. LANDALE: Q: Don't worry, Mr. Wilson, I've made lots already.

Jumping to 7.5. I do believe this response is not correct. One only has to review ICBC's responses to my questions 7.1 and 7.2 to realize compensations are rising and out of control. The fact that some down-sizing as discussed in TREAD 22.1 has taken place, nothing was discussed regarding bonuses and incentives. Why?

And before you answer, I might just give you the reason for the question. And since reading TREAD 21.12, the very last table to see Mr. Craig Norton paid $38,728 for parking is hideous and approved by the Board of Directors.

MR. WILSON: A: I would refer this question to panel 2.

1 MR. LANDALE: Q: Thank you. Question 7.6. Sorry, it's
2 a lengthy question. 7.6. Again, excellent response
3 but just not an accurate one. Drawing attention to
4 the August 15th, 2012 letter to the Minister, item 4,
5 ICBC says, and I quote:
6 "ICBC's goal is to maintain overall claims
7 cost growth in line with the ten-year trend
8 so that on average insurance rates do not
9 increase more than the rate of inflation.
10 This will sustain our ongoing commitment to
11 providing customers with the best insurance
12 coverage at the lowest possible price."
13 This quote and reference to inflation does
14 not marry with my concerns raised in IR 2 RR.RL2.12,
15 where RTL Exhibits 11 and 12 show ICBC rates far
16 exceed CPI rate by 5.38 compound annual growth rate
17 percent.
18 Will ICBC please clarify this wide
19 divergence from the statement made to the Minister?
20 MS. MINOGUE: A: The reference to the 2 percent, can
21 you give me that reference exactly so I can --
22 MR. LANDALE: Q: It's a letter to the Minister, August
23 15, 2012.
24 MS. MINOGUE: A: Right. So this is -- you know, we are
25 looking at, in the long term, the rate change being
26 within inflation is definitely an aspirational goal.

1 We do have the requirement that we set rates to cover
2 costs and we also acknowledge or recognize that in the
3 insurance business there is short-term volatility that
4 you will have. We won't have every year being very
5 smooth but there are those periods of volatility
6 where, as we've seen, claims costs -- we could have
7 frequency come in lower than expected and we have
8 favourable results, and we can also have the opposite
9 happen, which is what we are seeing right now. We are
10 having more claims than we expected and more costs as
11 a result. And so that reference in that letter to the
12 Minister was really around kind of a longer term on
13 average perspective, not any one individual given year
14 which we know will have more fluctuation than average.
15 MR. LANDALE: Q: I understand your explanation, but
16 really -- perhaps I'm being a little unkind by this
17 question. I was asking, this is a direct letter to
18 the Minister and I don't think what you just said
19 answers that point. Everything about this application
20 seems contrary to the quote I've taken from that
21 letter.
22 MS. MINOGUE: A: There is the word "on average" with
23 reference to ten years, so I don't think that we are
24 being -- we're not addressing your question, Mr.
25 Landale, but we do -- we are -- we are putting every
26 effort to manage our claims cost growth, and I think

that what my colleagues in the claims division have talked about are a number of initiatives aimed specifically at managing the claims cost growth. But there is an element of it this time that in our volatility and claims cost that is a bit out of our control, and that's the flattening of the frequency trend, and that's a new pressure that we haven't had for many years and it is putting pressure on our rates, and it's making it a challenge to stay within inflationary increases.

Proceeding Time 11:02 a.m. T20

MR. LANDALE: Q: Thank you. Another question for the Commission. I'm sorry, just trying not to ask questions that aren't relevant.

I think we've already discussed this next one, question 2Q, which basically means IR 2 on my part, and we're now 2.1. It's kind of gone backwards. The first series of questions were to IR 1. This now relates to IR 2.

I'm not satisfied, as indicated by prior questions, ICBC has failed to express. Again it comes back to this solvency target and rate smoothing. It might be helpful before you answer to jump to the bottom where I ask 2.1, the requested origins for solvency target mainly call because solvency would suggest a critical failure of the business concern, or

1 imminent financial crisis. There is no contest in
2 regard to OIC 152 and 153/13 where is the arithmetic
3 to -- oh, the question: Where is the arithmetic to
4 support solvency? That comes really back to what I've
5 asked before.
6 Throughout the application, the words are
7 there, but I don't see any arithmetic.
8 MS. MINOGUE: A: The arithmetic is in a prior
9 application. We followed industry standard stress
10 testing, a methodology called dynamic capital adequacy
11 testing which is used by Canadian actuaries to
12 establish a solvency target.
13 MR. WEILAND: A: The methods used to establish that 130
14 percent was an appropriate capital target for ICBC's
15 basic insurance were standard approaches used by
16 actuaries in Canada, as Ms. Minogue has said, and
17 those approaches involve looking at a variety of
18 different risks and establishing the impact should one
19 of those risks actually emerge. And the risks are
20 evaluated at a level of approximately 10 percent
21 probability.
22 So we look at what is the impact from a one
23 in ten year event and say the capital required at 100
24 percent is so much, we need to be able to withstand
25 that 1 in 10 year event and still remain at 100
26 percent MCT or higher. So that was the basis, and in

1 the broadest of terms, for the approach that was used
2 to get to the 130 percent target. That analysis was
3 filed with the Commission and there is a significant
4 amount of detailed support for the 130 percent target.
5 COMMISSIONER REVEL: May I ask a clarification, Mr.
6 Weiland? How do you accommodate the possibility that
7 you've got two one-in-ten year events, one year after
8 the other?
9 MR. WEILAND: A: Under those conditions then, if you
10 were operating at 130 percent MCT, then you would fall
11 below 100. So the 130 percent is not intended to
12 respond to all circumstances and keep you above 100.
13 It is designed to give management time to deal with
14 issues so that responses can be constructed so that we
15 will remain above 100. But it is possible, to respond
16 to your question, that you would have two events
17 happen in a very short space of time, and if you had a
18 one in 50 year event or one in 100 year event, they
19 would have significantly greater severity and would
20 undoubtedly cause the MCT to fall below 100 if the
21 company were operating at approximately 130.
22 **Proceeding Time 11:08 a.m. T21**
23 COMMISSIONER REVEL: Thank you very much.
24 MR. LANDALE: Q: All right, Mr. Weiland, when you talk
25 about 130 percent MCT level, are you saying on a
26 corporate-wide basis or on basic insurance basis?

1 Because I understand it from a corporate-wide but not
2 from a basic point of view. I guess I'm taking a
3 disagreement there.
4 MR. WEILAND: A: All of my comments were directed
5 towards basic, basic insurance, and as I mentioned
6 earlier, the costs associated with basic insurance are
7 rigourously separated from optional. So we are able
8 to conduct this kind of analysis only considering the
9 issues affecting basic insurance.
10 MR. LANDALE: Q: Thank you very much, Mr. Weiland. We
11 jump almost to the end, almost to the end. 2.9. It's
12 in relation to RTL Exhibit 07, question 2.9. Please
13 correct me if I'm wrong. Surely the age groups are 16
14 to 64 and above 65 years.
15 MR. LOACH: A: So just to clarify what we're talking
16 about here, we're talking about the data that's used
17 from B.C. Stats in terms of population, history and
18 forecasts. And the age groups that those are used in
19 when we are using them in the forecast models. Those
20 age groups from B.C. Stats are typically grouped into
21 five-year ranges, and so the range would be, for
22 example, 15 to 20 -- sorry, 15 to 19, 20 to 24,
23 including 60 to 64. So the range 15 to 64 is an
24 aggregation of those five year ranges which would be
25 provided by B.C. Stats.
26 MR. LANDALE: Q: Really the whole question is

1 targetting the first part. Fifteen years old? Who
2 is 15 years old and getting insurance?
3 MR. LOACH: A: There's a clarification there as well
4 regarding the way that the age is measured. When B.C.
5 Stats looks at their age, they are looking at July 1st.
6 So there are actually a number of people who are rated
7 as 15 within the grouping of population but who will
8 turn 16 and get their licence within that same year.
9 MR. LANDALE: Q: This is a great place to learn things,
10 isn't it? I'm sorry.
11 Next one is 2.10. If ICBC were to use
12 B.C. stats, they would know the population would grow
13 by 1.3 percent annually. So taking the two age
14 groups, ICBC could easily forecast policy growth for
15 2014 and 2015. And those age groups, I'm essentially
16 saying, is -- what was it? 15 to 64 and 65 and up.
17 That's what I'm talking about.
18 MR. LOACH: A: I'm not sure what the question is here
19 exactly.
20 MR. LANDALE: Q: The question is, is forecasting those
21 age groups going forward into 2014 and 2015, you
22 haven't provided any of that information and again I
23 keep relating back to what B.C. stats are saying, and
24 they are saying that the population is going to grow
25 by 1.3 percent.
26 MR. LOACH: A: So when we do policy forecasting, and I

1 think I responded to one of your earlier questions on
2 this point, we do look at the B.C. stats population
3 information as well as our policy information as a
4 base. And we forecast it at a more detailed level.
5 So for example, we look at the different territories
6 within the province, and because each of those
7 territories may have different relationships between
8 population and the number of vehicles. Some of them
9 may have different growth in, for example, commercial
10 vehicles which may not be closely related to
11 population. Others may have a different number of
12 vehicles per person due to the different preferences
13 of people in those areas.
14 So we don't look at just an overall
15 population growth, we actually do our modelling in
16 more detail, with, for example, the different
17 geographic areas or the different types of use. And
18 that information is -- in terms of how we do that, is
19 described in Chapter 3, Exhibit B.0.1, I believe.
20 **Proceeding Time 11:13 a.m. T22**
21 MR. LANDALE: Q: Sorry. The whole premise of the
22 question really comes from your reply, and I'm just
23 going to take the last -- the second-to-last sentence.
24 ICBC had forecast 2013 Autoplan policies to increase
25 at 1.4 percent over 2012 actual results to equal the
26 magical number of 3.4 million. On Friday we were

always talking about 3 million, but it's actually 3.4 million. The forecast for ICBC policy growth for 2014 and 2015 is not currently available. And that's the premise for the question.

MR. LOACH: A: Okay. In terms of this response, so, this goes to the -- I'm sorry, it's the ratio of staff to policies, or -- is that correct? I believe that the policies earned -- used here is calculated -- it's not something that comes out of our models that we're using for the revenue requirement forecast. It's actually provided on a slightly different basis. And so the Autoplan policies are a number that's used in this calculation of staff per policy, is not driven directly from the models that we have updated. And so that number was not available. I don't have all the details on hand. I believe it uses the same components that we forecast, but also included some other miscellaneous types of policies that are not included in our forecast. For consistency over time.

And therefore we did not have a forecast available going beyond one year for that version of the policies earned number.

MR. LANDALE: Q: I'm going to leave this to your discretion as an answer. Is there a need for ICBC to undertake to get that information? In terms -- would having this information have any relevance to the rate

1 increase application?
2 The reason I ask is, from what you were
3 telling me, the number of 3.4 million here is just a
4 number from the air. But actual policies, you were
5 saying, is a lesser number. And that's why I'm asking
6 if there is a difference, and would that difference
7 have an impact on the rate?
8 MR. LOACH: A: The ratio that we're using here, and the
9 forecasts of that, is really more informational. The
10 policy forecasts that we use for the rate have been
11 included in the application and are sufficient to the
12 information that's needed to forecast the rate. This
13 is a particular metric that the staff per policy ratio
14 that is more informational. So not having a forecast
15 for that really is -- if having it would provide
16 additional information, but not having it doesn't
17 really have an impact on the revenue requirement.
18 MR. LANDALE: Q: So, I've gained from your response a
19 completely different question. On Friday the
20 generality of discussion was that there are three
21 million policies. What I've gathered from what you
22 just told me, there are for the sake of a number 3.4
23 million. Is that a 10, 11 percent difference?
24 MR. LOACH: A: No, I would disagree.
25 MR. LANDALE: Q: Okay.
26 MR. LOACH: A: I think both of those, like, we would

1 talk about 3 million. The number of policies that are
2 not included in this calculation would be a very small
3 portion of that. And not very meaningful. I would
4 say that it's helpful to highlight this difference,
5 and it's something that we'll probably look to address
6 and clarify in the future.
7 Actually, just to -- I can clarify
8 regarding the 3.4 million. If we refer to Exhibit
9 B.1.1, in Chapter 3 --
10 MR. LANDALE: Q: Was that David?
11 MR. LOACH: A: Exhibit B point --
12 MR. LANDALE: Q: Bravo.
13 MR. LOACH: A: Bravo, yes.
14 MR. LANDALE: Q: Thank you. B.1?
15 **Proceeding Time 11:19 a.m. T23**
16 MR. LOACH: A: B.1.1.
17 MR. LANDALE: Q: I'm with you.
18 MR. LOACH: A: On the very top line we have the
19 exposure, which is our number of annualized policies,
20 and you'll see that the total here is also 3.4
21 million. In some cases when we refer to 3 million
22 policy holders we are excluding the trailers, which is
23 the number just to the left of that 3.4 million,
24 because those are sort of additional policies.
25 MR. LANDALE: Q: I knew that trailer would come in
26 there somewhere.

1 I don't mean this to be an argumentative
2 question, but I was just trying to actually defend my
3 point. Where does ICBC think I came up with the
4 manager times 8? I came up from the application. And
5 in your response you're saying my exhibit RTL 08 is
6 incorrect and if you were able to pull up the exhibit
7 it's easier on the computer to read. I've shown you
8 my table, really the four different levels of
9 employees, and at the bottom there the executive
10 manager is times 8, and I got that number from your
11 application. So I'm not quite sure why I'm incorrect.
12 Please don't ask me where I got it. I did.
13 MS. MINOGUE: A: Mr. Landale, if you can ask this
14 question of Panel 2, I really don't know -- I'm not
15 familiar with that.
16 MR. LANDALE: A round of applause for everyone. I'm
17 done. Thank you so much.
18 THE CHAIRPERSON: Thank you, Mr. Landale.
19 MR. LANDALE: Thank you very much, Mr. Chairman. I know
20 you've given me some latitude and I do appreciate it.
21 THE CHAIRPERSON: Mr. Miller.
22 MR. MILLER: Thank you, Mr. Chair.
23 **CROSS-EXAMINATION BY MR. MILLER:**
24 MR. MILLER: Q: Good morning, panel. First of all,
25 Staff and the actuarial consultants would like to
26 commend the Insurance Corporation for a well prepared

1 actuarial component of the application. It's better
2 than they've seen in many jurisdictions, so welcome --
3 I mean thank you.
4 Okay. The first, I want to clarify what's
5 meant by policy year. So this application is for
6 rates or premiums to be charged for basic insurance
7 for policies written between November 2000 and --
8 November 1, 2013 and July 31, 2014, correct?
9 MS. MINOGUE: A: Correct.
10 MR. MILLER: Q: Okay. If we turn to the application on
11 page 3-27.
12 **Proceeding Time 11:23 a.m. T24**
13 COMMISSIONER REVEL: Sorry, was that 327?
14 MR. MILLER: 3-27.
15 COMMISSIONER REVEL: 3-27.
16 MR. MILLER: Q: Okay, the footnote at the bottom of the
17 page says,
18 "The average accident date for PY-2013 is
19 calculated as the average date that an
20 accident can occur between November 1, 2013
21 and July 31, 2015 for policies written
22 between November 1, 2013 and July 31, 2014."
23 Okay. Can you clarify what you're
24 referring to there when you refer to policy year 2013?
25 You've got different dates, so can you --
26 MS. MINOGUE: A: So, policy year 2013 isn't that kind

1 of setting rates for a policy year 2013 that with
2 inflation on costs only for the first nine months of
3 that policy year. So all the numbers we've presented
4 are annualized, but at the inflationary level of the
5 first nine months. So I just want to clarify that --
6 and again, the reason we did that, there is a couple
7 of reasons. We wanted to show annualized amounts,
8 because for comparative purposes across applications,
9 and it would be, I think, confusing to put nine
10 months' numbers in. And furthermore, should the rates
11 be in effect longer than that -- I mean, things
12 happen, you know, it could -- it does project out what
13 the costs -- I'm sorry, what the cost level is for the
14 -- that we're proposing for one year's worth of
15 policies. So, but that too -- sorry, the question
16 here -- the average accident date for this policy year
17 that's stated with nine-month cost levels, what we
18 look is the inflation on costs associated with
19 policies written in that time period, beginning
20 November 1 to the end of July, 2014. And the
21 accidents that can occur on those policies span even
22 one year out. And then you have to take the average
23 of all the dates at which accidents can occur on those
24 policies.
25 So think about policy becoming effective
26 November 1, at the very beginning, expires on November

1, the following year. A policy written at the very end of that period, July 31, 2014, expires July 31, 2015. And what you do is, you look across all those possible dates of accident occurrence dates, and you take the average to get the average cost level of the policy year. Is that -- hopefully that's clear.

THE CHAIRPERSON: Just as a point of clarification, if I may. So you're saying that a policy issued on July 30th, 2014 is in effect until effectively July 30th, 2015. And so it would be classified as in this accident year, not in next year.

MS. MINOGUE: A: Well --

THE CHAIRPERSON: It will be in the 2013/14 accident year, because it is based on a 2014 issued policy.

MS. MINOGUE: A: That's correct. And then converting accident year to the year in which the policy is written, that's where the policy year comes into play.

THE CHAIRPERSON: Thank you.

MS. MINOGUE: A: So --

MR. MILLER: Q: Okay, let's go back to page 3.1 of the application. On the bottom of the page, the footnote number 1, it says,

> "In this chapter, PY-13 refers to all policies becoming effective between November 1, 2013 and October 31, 2014."

So how do we reconcile that with the explanation

you've just given regarding the definition on page 3-27?

MS. MINOGUE: A: Right. And there is a distinction here. I know it's subtle, and forgive me for the confusion. But, so the policy year 2013 really does cover one full year of policies written. But the reference on 3-27 is reflecting that -- that we're reflecting the cost level of only the first nine months in that annualized amount. So, we're kind of suspending reality, if you will, for a moment on the cost level of that policy year, and saying it's not going to be the full -- reflect all the inflation, it's only going to reflect the first nine months of the policy year. And that's what we're setting the cost level at. So we're peeling back a little bit of inflation to reflect that we expect that policy year to be in effect for only nine months. But we are, like I said, stating the whole thing on an annualized level.

I have to say, I know it sounds a little bit nuanced, and perhaps even confusing, but we deliberated long and hard about how to present this. And, you know, we could have presented nine months' cost levels. But we ultimately chose annualized, reflecting only nine months of inflation, for the comparability benefit that you'd have across the

applications. That was the reason we landed on this presentation of the numbers.

Proceeding Time 11:29 a.m. T25

MR. MILLER: Q: Can you turn to page 3.4 -- or sorry, 3-4 of the application. At the top of the page it's "Figure 3.2". So under line item 9 it says, "Rate change to cover costs". Do you have that?

MS. MINOGUE: A: Yes.

MR. MILLER: Q: Is that for policies effective between November 1, 2013 and July 31, 2014?

MS. MINOGUE: A: Yes.

MR. MILLER: Q: Can you turn back to page 3-2 of the application under the heading "Rate Indication Calculation". Now, in that heading -- or under that heading, I should say, what I understand you are doing is that are calculating or you are describing the rate indication calculation for policy year 2013 and indicating that is performed in three steps, correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: And the first step is the calculation of the policy year 2013 required premium, which is the value of all anticipated loss, expense, and revenue and investment income for the policy year 2013, correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: And the second step is the calculation

of policy or 2013 projected premium at current rate level and this represents the total basic insurance premium ICBC would collect for the policy year 2013 if the current premium rates where charged in policy year 2013, correct?

MS. MINOGUE: A: Yes.

MR. MILLER: Q: And then the third step is excluding the policy year 2012 lost cost forecast variance, correct?

MS. MINOGUE: A: Yes, that's correct.

MR. MILLER: Q: And if we just go to the next page, 3-3, ICBC is showing that the policy year 2013 required premium is greater than the policy year 2013 projected premium at current rate level by roughly 11.5 percent, correct?

MS. MINOGUE: A: Yes, correct.

MR. MILLER: Q: So that means that prior to consideration of the exclusion of the lost cost variance, you are estimating that basic insurance rates that are currently being charged must increase by 11 and a half percent to cover the claims cost, claims settlement related expenses and other expenses associated with policies written between November 1, 2013 and July 31, 2014?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: Okay, I want to ask you some questions

about that 11.5 percent and we'll talk about the lost cost forecast variance a bit later. Now, is it correct that the 11.5 percent is not a certainty with respect to policy year 2013?

MS. MINOGUE: A: That's right.

MR. MILLER: Q: You don't know exactly that you are going to end up at 11.5 percent, correct? For 2013?

MS. MINOGUE: A: That's correct. It's our best estimate at this time based on information we know.

MR. MILLER: Q: And you won't know what the true rate level needed is going to be until some time later because it's going to take some years to settle the PY 2013 claims, correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: Okay, let's talk a bit about claim or loss costs. Is it fair to say that what you're doing is projecting your claims costs associated with policies written in policy year 2013 by first examining your claims cost from prior years and then assuming that future costs will be similar to past claim cost and then doing some adjustments to reflect changes and conditions that either have occurred or you expect to occur.

MS. MINOGUE: A: I would say that's an accurate summary.

MR. MILLER: Q: Okay, can we turn to Exhibit A-2.1 in

1 the Exhibit part of the application. If you look at
2 row four it says:
3 "PY 2013 incurred loss in ALAE before
4 adjustment."
5 Can you explain to the Panel what that line
6 represents?
7 **Proceeding Time 11:34 a.m. T26**
8 MS. MINOGUE: A: So in my opening presentation I talked
9 about this provision for claims costs in the rates, so
10 that the expected future claims cost per policy holder
11 is what the actuary is after when they're projecting
12 future costs. And I mentioned that it's useful to
13 break it down in the components of the frequency and
14 the severity. So the frequency being the likelihood
15 of a claim and the severity being the average cost of
16 a claim. And so the actuaries end up forecasting
17 those separately, and that's the subject of Exhibit
18 set D in the actuarial exhibits, all the trend models.
19 So from those trend models we forecast forward to that
20 point in time that reflects the average cost level of
21 the policy period, and we get an estimate of our
22 future frequency and future severity. And we also
23 talked about the forecast of the policy counts or the
24 policy exposures.
25 So if you take your claims cost for policy,
26 which is frequency times severity times the number

1 expecting policies, that's what you get there in line
2 item 4 is the projected total claims costs, or the
3 revenue requirement corresponding to the policy year.
4 MR. MILLER: Q: And what does the acronym ALAE stand
5 for?
6 MS. MINOGUE: A: ALAE is the allocated loss adjustment
7 expenses. That's what the acronym means. And it
8 corresponds to costs that are incurred in adjusting
9 the claim that can be allocated specifically back to
10 the claim. So things like private investigators,
11 legal fees, and fees of that nature.
12 MR. MILLER: Q: So does ICBC agree that claims costs
13 related to plate owner, bodily injury, and personal
14 represent the largest component of the required
15 average premium?
16 MS. MINOGUE: A: Yes.
17 MR. MILLER: Q: Okay, let's talk a bit about the claims
18 costs for plate owner, bodily injury, and personal.
19 Now, row 4 shows the ICBC claim cost estimate for
20 plate owner, bodily injury, personal is roughly 1.5
21 billion, correct?
22 MS. MINOGUE: A: Correct.
23 MR. MILLER: Q: Okay. And that number is arrived at by
24 calculating -- or sorry, by multiplying the numbers in
25 rows 1, 2 and 3 above, correct?
26 MS. MINOGUE: A: Yes.

MR. MILLER: Q: Okay, and row 1 represents your forecast of the exposure in policy year 2013, correct?
MS. MINOGUE: A: Correct.
MR. MILLER: Q: And row 2 represents the forecast of claim frequency, correct?
MS. MINOGUE: A: Correct.
MR. MILLER: Q: And row 3 represents the forecast of claim severity, is that right?
MS. MINOGUE: A: Correct.
MR. MILLER: Q: Okay, let's talk a bit about BI frequency. Now, according to this exhibit, you're forecasting a BI frequency of 1.44? Is that correct? That's on line 2. Oh sorry. Yeah, line 2.
MS. MINOGUE: A: That's correct.
MR. MILLER: Q: Yeah. Now, if we go a bit further in the application to Exhibit D.0, it's about a little more than an inch into the binder, is that the amount shown at page 5 of Exhibit D.0? 1.44?
MR. LOACH: A: I would start with that's the amount shown on page 1 of Exhibit D.0 in the table. It is also provided graphically on page 5, that's correct.

Proceeding Time 11:39 a.m. T27

MR. MILLER: Q: Thank you. And while you're there, if you can turn a couple of pages to D.1.1. D point 1 point 1. This is a table entitled "Personal basic loss trend analysis, "plain over basic".

1 Mr. Chair, I'm going to hand up a witness
2 aid to the panel. I believe they have seen this
3 witness aid but I'm also going to have staff
4 distribute it through the room. It should be marked
5 Exhibit A2-12.
6 **(WITNESS AID FOR EXHIBIT D.1.1 MARKED EXHIBIT A2-12)**
7 MR. MILLER: Now, for the record, Mr. Chair, this
8 document was compiled from material previously filed
9 in the application. There has been one modification
10 to this document that was filed in an errata last
11 week. So the original document where says
12 "frequency"? The first row, under weekly benefits, it
13 should read "judgment" instead of ten-year
14 exponential. But it doesn't affect our questions.
15 Q: Okay, as I indicated, the upper part of the
16 document I just handed out is labeled "Frequency". If
17 you look under the row called "Bodily injury", under
18 PY-2013, we have the number 1.44 percent in the top
19 right-hand corner of the chart. Correct?
20 MR. LOACH: A: That is correct.
21 MR. MILLER: Q: And that's the same 1.44 we've just
22 been talking about, correct?
23 MR. LOACH: A: It is, yes.
24 MR. MILLER: Q: So, Exhibit D.1.1 shows us to some
25 extent how you arrived at your 1.44 frequency for the
26 policy year 2014, correct?

1 MR. LOACH: A: I suppose you could say that to some
2 extent. It's described more in Exhibit D.0, where you
3 took us previously.
4 MR. MILLER: Q: Okay. Let's look at this handout,
5 which was again Exhibit A2-12, which is referencing
6 Exhibit D.1.1. So in the row labeled "Bodily injury",
7 we've got the number 1.47 in 2013. So it's about four
8 columns from the right-hand side, correct?
9 MR. LOACH: A: That's correct.
10 MR. MILLER: Q: So what does that number represent?
11 MR. LOACH: A: So that number represents the forecast
12 bodily injury personal frequency for accident year
13 2013. So that's accidents occurring from January 1st
14 through December 31st, 2013.
15 MR. MILLER: Q: And again, can you just explain for us
16 briefly how accident year relates to policy year?
17 MR. LOACH: A: So, accident year is the accidents that
18 occur within that year. And they will occur against
19 policies that are either written in that year or in
20 the previous year. When we talk about policy year
21 2013, we're talking about accidents that occur in
22 2013, 2014, and 2015 relating to policies that are
23 written from November 1st, 2013 through July 31st, 2014.
24 MR. MILLER: Q: So, at page 4 -- I'm not sure you need
25 to turn there, but at page 4 of Exhibit D.0, ICBC says
26 that a three-year average, 2010 to 2013, was selected

for the accident year 2013 frequency forecast, which is -- and that's the 1.47 number we just talked about. Correct?

MR. LOACH: A: That's correct.

MR. MILLER: Q: Now, were these frequencies for those years 2010 through 2012 actual, or estimates of the frequencies?

MR. LOACH: A: For 2010 through 2012, these are largely actual. There is a certain amount of estimation that goes into these numbers, because not all of the accidents that have occurred in those periods have been reported yet. But primarily those are based on actual.

Proceeding Time 11:45 a.m. T28

MR. MILLER: Q: But still, a component of estimations will.

MR. LOACH: A: There is a certain amount of estimation that goes into those numbers, but they are largely known by the point in time that we filed the application. And for the years 2010 to 2012 with respect to accident year frequencies, are those also estimates? Because not all accidents are reported immediately?

MR. LOACH: A: I believe that's the question you just asked. Can you clarify?

MR. MILLER: Q: Sure. I guess I was getting to the

point that there still is a component of unknown cost associated with those years, because not all the claims have necessarily been reported or finalized, correct?

MR. LOACH: A: With regard to frequency, we're not talking about costs and finalization of the claims, we're talking about the claims that have been reported. When we talk about costs, yes, I mean to a greater degree, the claims associated with those years have not yet closed and been settled. When we talk about reporting, there is a small amount of claims associated with those years that may have occurred and not yet reported, but it's much smaller. The greatest part of the claims from those years has been reported, and we do estimate that additional amount, that's correct.

MR. MILLER: Q: Okay, can we go back to the handout which is referencing Exhibit D.1.1. It's been marked as -- well, I'll call it the witness aid. It's Exhibit A2-12. So if we look at estimated frequency for accident year 2009, we've got 1.43 percent, correct?

MR. LOACH: A: For bodily injury personal, that's correct.

MR. MILLER: Q: Yeah, and then for 2010 we've got 1.46 percent?

1 MR. LOACH: A: That's correct.
2 MR. MILLER: Q: And then 2011, the number is 1.47?
3 MR. LOACH: A: Correct.
4 MR. MILLER: Q: And then for accident year 2012, 1.49?
5 MR. LOACH: A: That's correct.
6 MR. MILLER: Q: So don't these numbers show us that
7 the frequency rate is exhibiting an increasing
8 pattern?
9 MR. LOACH: A: These numbers have been increasing to a
10 small degree over the past few years. We've described
11 it as a flattening relative to the prior downward
12 trend. It could be described as a very small
13 increase. As you see, that it's really only one in --
14 I think that's one in 10,000 claims that has been
15 increasing, for example from 2010 to -- sorry, one
16 claim in 10,000 policies is the rate of that increase
17 from, for example, 2010 to 2011, which is much smaller
18 than the rate of decrease that we'd seen in the past.
19 So in relative terms we've really described it as a
20 flattening. But there has been a certain degree of
21 increase, that's correct.
22 MR. MILLER: Q: And you are basing that flattening
23 trend projection, if I can put it that way, on a
24 couple of factors. One is young people are waiting
25 longer to obtain their driver licences, correct?
26 MR. LOACH: A: No.

MR. MILLER: Q: No?

MR. LOACH: A: That's not something that we have considered part of the flattening. That's actually a favourable influence that we've considered when projecting our future trend. When we've looked at the flattening of the trend, we've really been looking at kind of the change from the prior downward trend. In the previous trend there are some favourable factors that we understand to contribute to that trend, which is ongoing increases in the safety of roads, the safety of vehicles, as well as the shifts in the population of drivers to the safer age ranges.

And where we see the flattening in 2010 through 2012, we are attributing that to some other recent developments that have emerged such as the increasing penetration of smart phones and the distracting influence that those can have for drivers. The lower percentage of new vehicles in terms of their representation in the B.C. vehicle population and therefore less influence from the newer and safer vehicles.

And the change that I actually was discussing earlier this morning in terms of vehicles per household, where that was previously following an increasing trend, and has actually flattened, so it's less favourable than it was prior to -- well, prior to

the recession, and so in a period of flattening, those are the three major influences that we've discussed.

Proceeding Time 11:51 a.m. T29

MR. MILLER: Q: Those influences you've just discussed, those influences have been in place for some period of time in the past, correct?

MR. LOACH: A: Yeah, in particular in this period we're talking about, 2010 to '12.

MR. MILLER: Q: And yet the numbers I just took you through show that there's a slight upward trend in any event. So I'm going to ask you again, not with respect to what's occurred in the past, but what gives you such great comfort that there is going to be a flattening rather than a gradual increase in the trend as the numbers seem to be showing?

MR. LOACH: A: Well, as we go back to kind of the long-term trend, and as Ms. Minogue mentioned earlier, it's really been since 1996 that we've seen this favourable downward trend in bodily injury frequency as well as frequency of other coverages, and there is a -- there are sort of the three major factors that have continued and do continue to assist that downward trend. We do see that every year vehicles are safer than effectively the year before. There are new features and improvements on existing features that come forward that help to both prevent accidents and

1 also to reduce and prevent injury in the event of an
2 accident. We do continue to take efforts as ICBC, as
3 well as it's something that's considered another
4 infrastructure improvements to improve the safety of
5 our roads, and that's something that goes on year over
6 year. There are improvements where we see areas that
7 are less safe. We bring forward improvements to try
8 and increase the safety and reduce accidents and
9 injuries.
10 And in terms of the demographic shifts, we
11 have and we do continue to see that the proportion of
12 the population of drivers, which is the most safe, is
13 and has been and is increasing as compared to the
14 proportion of drivers in other age ranges. And really
15 this has to do with the baby boom and they're moving
16 into their safest driving years as they become a more
17 mature set of drivers.
18 So those factors have been driving the
19 downward trend down over time, and those factors are
20 all continuing to take place presently and into the
21 future.
22 MS. MINOGUE: A: I should also mention that we've
23 responded in information request, this is Round 1,
24 BCUC 24.1-1.2, and there we were asked whether we're
25 -- do we now find any evidence in the current claim
26 experience of beginnings of a decline? And we said

yes, we note there's preliminary evidence supporting the beginnings of a decline, and for accident year 2013 it's very early and 2013 was a very dry year. But we do show that there's the beginnings of the sign of a return. So, but it's hard to separate out the effects of the good weather, but the frequency at eight months, at 2013 at eight months compared to eight months at 2012 is favourable. So there is the beginnings.

MR. MILLER: Q: So when we talk about these factors that you expect to help to flatten the trend and not increase frequency, is there specific weighting you give to individual factors? For example, which one is the most important? How is it weighted in determining that there would be a flattening of the trend?

MR. LOACH: A: Unfortunately these types of factors are very difficult to quantify, particularly as they're all happening at the same time. We do see this demographic shift that has been happening very slowly over a long period of time. We do see vehicle safety that's happening very gradually. There are new features that come in. People, some people buy them, some people don't. Some of them are proven out and become mandatory. It's a very gradual process. And likewise over time with road safety there are incremental improvements that go on every year.

1 So it's not something where the individual
2 influences can really be ascribed and quantified, the
3 amount of their impact on the trend. I mean the way
4 to test it would be to stop one of them from
5 happening, which would really not be a responsible
6 experiment to undertake or largely within our control
7 either.
8 MR. MILLER: Q: So these factors and the weighting
9 you've given them, is it fair to say it's a matter of
10 informed judgment for you, rather than a mathematical
11 exercise?
12 MR. LOACH: A: In terms of our understanding of the
13 downward frequency trend and the factors driving that,
14 I would say that it is certainly not a mathematical
15 exercise. And it is something where we do our best to
16 be informed about the factors that are influencing
17 frequency and any relevant information. So I would
18 think that's a reasonable characterization.
19 MR. MILLER: Q: Ms. Minogue, you indicated a moment ago
20 that some preliminary data for 2013 indicated possibly
21 some evidence for a flattening of the trend, correct?
22 MS. MINOGUE: A: Correct.
23 **Proceeding Time 11:57 a.m. T30**
24 MR. MILLER: Q: Okay. Do you have an estimate of
25 whether or not the frequency is going to be around the
26 1.47 number, or something else?

1 MS. MINOGUE: A: The forecast of 1.47 was based on an
2 assumption of returning -- frequency returning to a
3 downward trend. So, our forecast hasn't changed in
4 light of these emerging -- this emerging data.
5 MR. MILLER: It might be a convenient time to take the
6 break, Mr. Chair.
7 THE CHAIRPERSON: Let me just ask one question. In
8 talking about differences between 1.47 and 1.44, so,
9 for every 0.01 change in that ratio, what impact does
10 that have on the lost costs? So you say 6.6 percent.
11 MS. MINOGUE: A: Yeah.
12 THE CHAIRPERSON: Is the total. Including a 1.44 ratio.
13 If it was 1.45, what difference would it make to that
14 number?
15 MS. MINOGUE: A: I believe it's half of point --
16 MR. LOACH: A: Is that one of the sensitivities we did?
17 And figure of 3.16?
18 MS. MINOGUE: A: 3.16?
19 We can get that for you.
20 **Information Request**
21 THE CHAIRPERSON: If you would, please.
22 MR. MILLER: Q: Can I ask a follow-up question? Do you
23 have the actual results for the frequency for the
24 first nine months of 2013?
25 MS. MINOGUE: A: The information request has it at
26 eight months.

MR. MILLER: Q: At eight months?
MS. MINOGUE: A: Yeah, the one that I cited. We tend to do our analysis --
MR. MILLER: Sorry, Commissioner Revel.
COMMISSIONER REVEL: No, that's fine. Mr. Loach, I'd just like a bit of a clarification, which I found your answer to Mr. Miller very interesting. You indicated that we're reaching a stage where the population of drivers is reaching their safest stage, if I understood. So, as they become more mature, effectively the slope of the graph is becoming positive, and more strongly positive.

I guess my question is, at what point looking -- since you live your lives on a prospective basis, or you predict that, at what point ahead does that population of drivers become, for want of a better word, over-mature and the graph becomes negative? You presumably look ahead in that.
MR. LOACH: A: Yes, that is something that -- that's definitely a question that interested us as well. When we looked at it --
COMMISSIONER REVEL: It certainly interests me too, by the way.
MR. LOACH: A: When we looked at it in the past, we see that the favourable influence is continuing until some time in the 2020s, and then there may be a turnaround.

1 COMMISSIONER REVEL: And is there a general statistical
2 age bracket at which that takes place among the
3 drivers? Is it 75, is it 80, is it 85? Or -- 50?
4 This is for my curiosity, just to help get
5 things in perspective.
6 MR. LOACH: A: So, we generally characterize the age
7 range of 55 to 74 as our safest age range for the
8 population.
9 COMMISSIONER REVEL: Thank you very much. That's very
10 helpful.
11 THE CHAIRPERSON: Okay. If you're fine, Mr. Miller, we
12 can take our break now. So, we can reconvene at 1:30,
13 please.
14 **(PROCEEDINGS ADJOURNED AT 12:01 P.M.)**
15 **(PROCEEDINGS RESUMED AT 1:31 P.M.)** **T31**
16 THE CHAIRPERSON: Please be seated.
17 Mr. Ghikas, I see you standing.
18 MR. GHIKAS: I am standing.
19 THE CHAIRPERSON: Do you have a reason for it?
20 MR. GHIKAS: The universal signal for "I have something
21 to say."
22 I have three -- handed out three
23 undertakings to the Commission Panel. You will see
24 there should be a stack of three separate pages beside
25 your desk there. For everybody else in the room, they
26 only got two. And so if we'll start -- we'll start

with the one that is labeled "Requestor BCPSO". This should be marked as Exhibit B-15, I believe.

And this is in response to a question from Ms. Khan regarding the -- providing the number of investigations that ICBC has undertaken involving organized fraud, and the consequences or outcomes. And that occurred at Volume 3, page 306, lines 9 to 21.

THE HEARING OFFICER: Marked B-15.

(ANSWER TO BCPSO UNDERTAKING FROM VOLUME 3, PAGE 306, LINES 9 TO 21, MARKED EXHIBIT B-15)

MR. GHIKAS: The second one, there are two documents that you will have that look the same, except that I've highlighted one "Confidential" -- with the word "Confidential" on one of them. What we have done here, Mr. Chairman, this addresses the undertaking left by Ms. Flewelling, AIC, at Volume 2, page 198, lines 7 to page 202, line 11, and page 252, line 5 to page 259, line 18.

And the request was to provide claims data showing the claims that went to trial, and include the final offer to settle the claim, and the amount awarded at trial.

Now, what I have circulated to the whole room is a version that has the cover document of the undertaking, but no attachment. So, the information

in the attachment is what is confidential. So everybody has a complete version of the cover, but no attachment. And that one I'd suggest we mark as Exhibit B-16.

THE HEARING OFFICER: Marked B-16.

(ANSWER TO AIC UNDERTAKING FROM VOLUME 2, PAGE 198, LINE 7 TO PAGE 202, LINE 11 AND PAGE 252, LINE 5 TO PAGE 259, LINE 18 WITHOUT ATTACHMENT MARKED EXHIBIT B-16)

MR. GHIKAS: And what the Panel has, the Commission Panel has, and no one else in the room, is the same document highlighted yellow "Confidential", with the attachment. And you'll see the statistics are in the attachment there. The substance of the cover page essentially outlines the reasons for ICBC's objection to providing the information on the public record. And I believe it's self-explanatory. So, my proposal would be that this -- and I haven't spoken to this with Mr. Miller, but my proposal would be to file this as a confidential exhibit number at this time, and allow the Commission Panel to consider the issue further.

Does that make sense? Or do you want it not marked yet? So this would be Exhibit B-17, confidential.

THE HEARING OFFICER: Marked B-17, confidential.

(ANSWER TO AIC UNDERTAKING FROM VOLUME 2, PAGE 198, LINE 7 TO PAGE 202, LINE 11 AND PAGE 252, LINE 5 TO PAGE 259, LINE 18 WITH ATTACHMENT MARKED "CONFIDENTIAL" MARKED EXHIBIT B-17)

track 32

Proceeding Time 1:35 p.m. T32

MR. MILLER: Mr. Chair, just as a reminder, Ms. Flewelling e-mailed me this morning wondering when the undertaking would be filed. Staff intends to send a copy of the public document to her, B-16, but she did indicate that she wanted a chance to, I believe, challenge the confidentiality, so she may appear tomorrow to do that.

MR. GHIKAS: My business is done, Mr. Chairman, so unless you have any questions --

THE CHAIRPERSON: Your business is done, thank you, Mr. Ghikas, I appreciate that.

MR. GHIKAS: Thank you.

THE CHAIRPERSON: Thank you for filing the undertakings. My apologies for being a little tardy there.

Mr. Miller, I believe the floor is now yours again.

MR. MILLER: Thank you, Mr. Chair.

MR. MILLER: Q: Panel, I'd like to start off with a topic we ended up on just before the lunch break. Now, ICBC updates its trends every quarter and that

1 includes the bodily injury frequency. Is that right?
2 MR. LOACH: A: That's correct.
3 MR. MILLER: Q: So how, or when is your most recent
4 estimate of the BI frequency for accident year 2013?
5 I believe Ms. Minogue indicated that in one IR, the
6 eight month numbers had already been filed. Are there
7 any further updates to those numbers?
8 MS. MINOGUE: A: We have updated the forecast for 2013
9 and it comes in at 1.46 as opposed to the 1.47 that
10 was -- that was filed in the application as a
11 forecast. I just want to emphasize that 2013 was a
12 dry year, and so there is going to be normal variation
13 around the forecast because our forecasts generally
14 assume kind of normal weather. And so that's why I
15 would say that the frequency came in low. We should
16 take that into account.
17 And to your question, Commissioner Revel,
18 the .01 change in forecast is about a .5 percentage
19 point impact on rates. We don't think that this
20 differential, though, would perpetuate into the
21 forecast period because it is kind of a variation off
22 the trend line because of the weather.
23 THE CHAIRPERSON: So if I may just clarify that, so .5
24 percent, so in other words if it was 1.46 it would be
25 another 1 percent on top of the 6.6 percent, is that
26 correct?

1 MS. MINOGUE: A: It's a half a -- let's see. So the
2 differential is a half a point on the rate. So the
3 .01.
4 THE CHAIRPERSON: Is a half a point on the rate?
5 MS. MINOGUE: A: Yes.
6 THE CHAIRPERSON: So the rate with the lost cost is 11.5,
7 correct?
8 MS. MINOGUE: A: Yes.
9 THE CHAIRPERSON: So if it was .01 higher, it would be 12
10 percent, is that correct?
11 MS. MINOGUE: A: That's right.
12 THE CHAIRPERSON: So a 2 point difference would be 12 and
13 a half percent.
14 MS. MINOGUE: A: Yeah.
15 THE CHAIRPERSON: Yeah, and that would be, since it's a
16 lost cost, it would be part of the -- added to the 6.6
17 percent, is that not correct?
18 MS. MINOGUE: A: Correct. It's mostly correct. The
19 challenge here is that the forecast variance is for
20 the policy year 2012, which spans more than just one
21 accident year. And that's because the policies that
22 are effective for policy year 2012 are effective in
23 2012 and 2013 and so there's accidents occurring in
24 both of those years.
25 THE CHAIRPERSON: So there'd be some variance on that,
26 but as a rough --

1 MS. MINOGUE: A: Yeah.
2 THE CHAIRPERSON: A rough implication it's about
3 somewhere between .5 and one and a half percent
4 depending upon the variance that comes in this coming
5 year.
6 MS. MINOGUE: A: Right, and we can, you know, whatever
7 variation of that we can look at the impact on the
8 forecast variance. I'm glad you raised that. But any
9 difference in the forecasts of the accident years and
10 how they're emerging does affect the forecast
11 variance.
12 THE CHAIRPERSON: Yeah, okay, thank you. Go ahead, Mr.
13 Miller.
14 MR. MILLER: Q: Two last small follow-up questions on
15 that. When you used the 1.46 number as your most
16 recent number, when is that as of?
17 MR. LOACH: A: That's based on the year end 2013
18 analysis.
19 **Proceeding Time 1:41 p.m. T33**
20 MR. MILLER: Q: Okay. And then when the Chair was
21 talking about the 0.01 number equating -- or what that
22 equates into rate change. So this number is actually
23 down a bit. So, the number is actually downwards on
24 the rate indication, is that right? Where we're
25 projecting 147 and now we're at 146?
26 MR. LOACH: A: That is correct. So, the -- going from

1 the 11.5 and going down 0.01 percentage point in
2 frequency would bring it to an 11.0 effectively,
3 applying the sensitivity in the other direction.
4 THE CHAIRPERSON: Was the 11.5 based on a 1.47 forecast?
5 MR. LOACH: A: Yes.
6 THE CHAIRPERSON: Or one -- it was. Okay. Thank you.
7 MR. MILLER: Q: So, if we've got numbers at 1.46, how
8 confident do you remain that you're still going to see
9 a rate of decline following 213 -- 2013 at one-half
10 the rate of the pre-recession trend?
11 MR. LOACH: A: Our updated estimates, based on the
12 year-end numbers, are still very much consistent with
13 our best estimate that was put into the filings.
14 MS. MINOGUE: A: It needs to be emphasized, though,
15 that that beneficial frequency that we saw in 2013
16 largely affects the forecast variance. So if you look
17 at the 11.5 and what component that it impacts, it's
18 the forecast variance that it has a lot of effect on.
19 MR. MILLER: Q: Okay.
20 MS. MINOGUE: A: So the 4.9 would not be altered.
21 MR. MILLER: Q: Now, I don't think you need to turn
22 there, I'm not going to ask you a question on it, but
23 for the record, in BCUC 24.1-1.2, attachment A, ICBC
24 presented a bodily injury reported claim counts.
25 Number of annual policies, and the eight-month
26 frequency rates by accident. I think that was the IR

you were referring to earlier, Ms. Minogue.

MS. MINOGUE: A: Mm-hmm.

MR. MILLER: Q: As an undertaking, can you update attachment A to show the reported claim counts, number of annual policies, and 12-month frequency by accident year? For all the years shown in attachment A.

MS. MINOGUE: A: We can undertake to provide that.

Information Request

MR. MILLER: Q: Thank you. I want to explore one of your assumptions for a flattening of the BI frequency rate. On page 3-11 of the application, you explain that one of the three significant events that have dampened the favourable influence is a sustained drop in the proportion of new cars on the road.

And in an IR response to BCUC 16.1 in round 1, you provided an attachment A, new vehicle policies as a percentage of total basic insurance. And you state that if new vehicles continue to increase over the next few years, it will strengthen the favourable influence on claims frequency.

I want to hand out an article, which I believe you got a copy of this morning. I believe staff gave you a copy. That should be marked as Exhibit A2-13.

THE HEARING OFFICER: Marked A2-13.

(ARTICLE ENTITLED "BOOMING VEHICLE SALES, ESPECIALLY

TRUCKS, RESULT OF 'PERFECT STORM' IN B.C.", MARKED EXHIBIT A2-13)

MR. MILLER: Q: In this article, the president of the New Car Dealers' Association of B.C. indicates that this is for -- this article is dated January 21, 2014. It says this past year has been incredibly strong, and he believes 2013 will surpass 2012's big sales.

Now, that's just for context. So, ICBC gathers its own data by looking at new vehicle policies as a percentage of total basic insurance policies. Correct, that's correct, isn't it?

Proceeding Time 1:46 p.m. T34

MR. LOACH: A: That is correct.

MR. MILLER: Q: Do you use data from the New Car Dealers Association as well, to compare?

MR. LOACH: A: No. What we look at in terms of the percentage is based on ICBC's data.

MR. MILLER: Q: Okay. And why -- or are there any reasons why you don't use the other collateral sources of data such as the information coming from the New Car Dealers Association?

MR. LOACH: A: If the vehicle is insured in B.C., then ICBC will have it in our data.

MR. MILLER: Q: In response to, and again you don't need to turn there, but for the record, in response to BCPSO Round 1 Information Request 11.1-2, ICBC states:

1 "In recent years manufacturers have also
2 focused on advancements that prevent crashes
3 from happening, such as forward collision
4 avoidance and lane departure warning
5 systems. These technologies impact crash
6 frequency and are only starting to appear in
7 new vehicles. However, ICBC is not aware of
8 the beliefs of other North American insurers
9 on the influencer of BI frequency."
10 And then in response to CDI information
11 request Round 1, 6.2, you go into particular features
12 which distinguish new vehicles from those which will
13 have a favourable influence on BI frequency, and you
14 set out a list of features such as electronic
15 stability control, forward collision warning, lane
16 departure warning, and adaptive headlights, correct?
17 Those are some of the factors you're expecting?
18 MR. LOACH: A: Just to clarify, the factors that are
19 discussed in CDI 6.2 are factors that are in newer
20 vehicles to a great degree, which is different from
21 some of the factors that are discussed elsewhere as
22 being very new. So some of the things in CDI 6.2,
23 like electronic stability control, is now normal in
24 new vehicles, which distinguishes it a little bit from
25 some of the factors that are just very kind of leading
26 edge.

1 I think -- sorry, just for the context of
2 CDI 6.2 and for this discussion in general, when we
3 talk about the influence of new vehicles we're talking
4 about the fact that a certain proportion of vehicles
5 on the road are new and that there's therefore a
6 renewal of the fleet every year. So the important
7 aspect of that influence is that new vehicles are
8 safer than old vehicles. It doesn't rely on kind of
9 these leading edge new technologies but the fact that
10 even a five-year-old vehicle is a lot safer than a 15
11 or 20-year-old vehicle that may be coming off the road
12 when it's replaced by a newer vehicle.
13 So it's this general, gradual increasing of
14 safety in vehicles which relies -- yes, now to some
15 degree there are new vehicle safety features which are
16 very innovative use of technology, but even aside from
17 that -- I'm sorry, I don't have the reference in front
18 of me but there are other technologies that have been
19 improving over time. So seatbelt technology in newer
20 vehicles has some pre-tensioners and aspects that make
21 it better than the technology in old vehicles.
22 Airbags in new vehicles, you're more likely to have a
23 side airbag as well as a front airbag, which is safer
24 in a collision in terms of injuries than what you
25 would have had in older vehicles.
26 So I wouldn't want to limit the discussion

to what's in the CDI response in terms of why are new vehicles safer than older vehicles.

MR. MILLER: Q: What --

Proceeding Time 1:50 p.m. T35

THE CHAIRPERSON: Excuse me for a second, Mr. Miller. What does ICBC define as a new vehicle? What is a new vehicle, in ICBC parlance?

MR. LOACH: A: So, for the purpose of the information that we've put forward in the application, and I'd refer to Figure 3.7, we have defined new vehicles within a given year as the -- when we look at the proportion of the fleet that's represented by new vehicles, we are talking about vehicles in the current model year or the upcoming model year. So in 2013 new vehicles would be the 2013 model vehicles and the 2014 model vehicles.

THE CHAIRPERSON: Okay.

MR. MILLER: Q: I think you somewhat anticipated where I was going, so I'm just going to explore this topic a bit more.

So, with new cars, we have -- I guess we can divide it into two categories, that's the way I do it simply. We have features which were innovative some time ago, but becomes part of the standard package. So, those help increase things. Vehicles become safer, correct?

MR. LOACH: A: Yes.
MR. MILLER: Q: Because there is more -- it's displayed in more vehicles than it was previously, right? Such as maybe anti-lock braking or something like that. You talked about seat belts, they become more safe, correct?
MR. LOACH: A: Yes.
MR. MILLER: Q: And then we have what you might call more advanced technology, such as maybe the headlights, trying to go around the corner, predicting you're going to go around the corner. So on those types of improvements, that's much less of a penetration in the new car market, isn't that right? Because fewer vehicles have those features, because they cost extra generally.
MR. LOACH: A: Absolutely, yes.
MR. MILLER: Q: Do you track what number of vehicles in the definition you gave to the Chair about what a new vehicle is, how many new vehicles have these more new type of technologies? Do you go down to that level?
MR. LOACH: A: That's actually quite challenging to track. For a large amount of the tracking that we do of vehicle safety features, we rely on vehicle data that we're able to obtain from the IBC. And in most cases, that data does not include information on these kind of new innovative safety features.

1 MR. MILLER: Q: So you don't have that data?
2 MR. LOACH: A: That's correct.
3 MR. MILLER: Q: So the assumption the Insurance
4 Corporation is making -- tell me if I'm wrong on this
5 -- is that every year new vehicles would be somewhat
6 safer because of what I've referred to as the "creep
7 factor". Those old -- it was new technology at one
8 time in the past, gets incorporated into vehicles to
9 make them safer. Correct? And then we're not sure
10 about the effect on these more adaptive -- new
11 adaptive types of technologies, what effect that's
12 going to have in the future.
13 MR. LOACH: A: I think our position is that, yes, as
14 there is -- as you describe the "creep factor", that
15 this is an existing influence on vehicle safety that
16 is continuing. And that with regard to the new
17 technology, we have cited it as being sort of a
18 favourable influence that we expect to gradually
19 affect the trend. But it is something that is having
20 very little influence right now, just because it's
21 present in very few vehicles on the road.
22 MR. MILLER: Q: Again, you don't need to return to
23 this, but I'm going to put the reference on the
24 record. In response to BCUC IR Round 1, 24.4, you
25 were asked about bodily injury frequency patterns in
26 other jurisdictions, and what other actuaries or

1 insurance companies in those jurisdiction were
2 forecasting with respect to bodily injury frequency
3 trends in the future. And you indicated that since
4 most provinces do not provide public filings with
5 trend selections, ICBC cannot determine the forecasted
6 trends of insurers in those provinces. However, since
7 Alberta's rate analysis is made public, ICBC has
8 determined that Alberta has also selected a downward
9 bodily injury frequency trend.
10 The two forecasts were in fact similar.
11 Alberta forecasted a declining trend of 1 percent per
12 year for private passenger bodily injury frequency,
13 through 2015, while ICBC is forecasting a flat trend
14 for 2013, followed by a return to a slight downward
15 trend of minus 1.8 percent per year thereafter.
16 **Proceeding Time 1:56 p.m. T36**
17 Then you continue on in your answer and you
18 say that bodily injury claims frequency in Washington
19 is almost identical to that of B.C. in quantum, and it
20 exhibits a flattening after a long pre-recession
21 decline. You state since Washington's state filings
22 are also available publicly on-line, ICBC determined
23 that Washington insurers had a variety of forecasts,
24 which included flat, upward, and downward trends. So
25 have I summarized that accurately?
26 MR. LOACH: A: Yes, you have.

1 MR. MILLER: Q: Okay. Given the research that we've
2 just talked about there, do you -- does the Insurance
3 Corporation consider it to be within accepted
4 actuarial practice to select frequency rates for
5 accident years 2014 and '15 that are the same as the
6 selected frequency rate for accident year 2013? So I
7 know you haven't picked it and I know why you haven't
8 picked it. I just want to know if you consider it to
9 be within accepted actuarial practice.
10 MR. LOACH: A: Just to clarify, I think what you're
11 asking by saying "the same as 2013", you're saying
12 that it would remain flat through 2014 and '15?
13 MR. MILLER: Q: Yes.
14 MR. LOACH: A: I believe we've actually responded to an
15 IR on this point, if you'll give me a moment.
16 MR. MILLER: Q: You might want to look at 164.1 in
17 Round 2 BCUC.
18 MR. LOACH: A: 164.2 actually.
19 MR. MILLER: Q: 164.2, okay.
20 MR. LOACH: A: So, what we've said in -- oh, I'll give
21 you a moment to pull that up.
22 So what we've said in this response is that
23 an alternate assumption that bodily injury frequency
24 will remain flat throughout the forecast period would
25 be considered reasonable and consistent with accepted
26 actuarial practice, although such an assumption may

1 contain bias.
2 MR. MILLER: Q: Okay.
3 MR. WEILAND: A: Now, in the context of accepted
4 actuarial practice, the actuary's job is to make a
5 best estimate, and that best estimate needs to account
6 for a number of things, including the past experience
7 but also all of the circumstances in which the
8 assumption is being struck. So all of the items that
9 Mr. Loach has been discussing that would affect
10 frequency, like number of vehicles per household and
11 so on, number of new vehicles, all of those sorts of
12 things need to be considered when one is deciding
13 whether or not in fact your forecast is a best
14 estimate.
15 And ICBC has done a considerable amount of
16 work investigating the various factors that are
17 affecting frequency, and that is why, after taking all
18 this into account, we feel that the forecast that's in
19 the filing is a best estimate and we believe does not
20 contain a meaningful amount of bias.
21 THE CHAIRPERSON: If I may, just to follow up on that,
22 has any -- I don't know whether it would affect this
23 particular hearing or not, but has any work been done
24 on where you have the law of diminishing returns
25 coming in? In other words that it would flatten out
26 because there is no more room to improve? It'll have

a certain -- reach a certain point where that's it, based on the population, based on the number of accidents that happen in a given year, and based on the number of BIs, you're not going to go below, say, 1.2 or something like that, it will bounce around that particular level and not go anywhere. Has any work been done on that, and if so, where has it led you to?

MS. MINOGUE: A: I would say that the casual conversations in the actuarial conferences and so forth is that the future of automobile insurance is, you know, with Google cars and the self-driving cars, it's really going to transform into a product liability type of insurance and away from it, because the at-fault crash now is going to instead be replaced with product liability, that the vehicle wasn't manufactured to avoid the crash. So I don't think that there is this, you know, lower bound other than zero, quite frankly, that we're approaching because of all the things coming on line in terms of self-driving and crash avoidance that's very significant, powerful technology coming on board.

So it's out there a ways, but you know, there's no like intermediate point where we think it's leveling off.

Proceeding Time 2:02 p.m. T37

I think we're in a kind of a short-term --

1 I'm talking from my own personal perspective, from
2 knowing what I know about insurance and all the
3 drivers on our trends, but I think we're in a point
4 now where we're kind of experiencing these pressures
5 on frequency from the distractions that are out there,
6 but that will resume a downward trend ultimately. And
7 in fact that's what our application is predicated on.
8 THE CHAIRPERSON: Thank you. Sorry, Mr. Miller.
9 MR. MILLER: Q: If I can go back to the research that
10 you conducted, and let's use Washington state for an
11 example. The information was the insurers had a
12 variety of forecasts which included -- well, I guess
13 the whole range, flat, upward, and downward. To your
14 knowledge, were those forecasts conducted in
15 accordance with accepted actuarial practice?
16 MR. LOACH: A: I would expect that they were.
17 MR. MILLER: Q: And so, within this range of accepted
18 actuarial practice, there is room for -- I think as
19 Mr. Weiland put it, some judgment to try and eliminate
20 whatever bias the particular actuary may feel is
21 contained in the data they're looking at. Correct?
22 MR. LOACH: A: I would hesitate to draw the conclusion
23 that you are from looking at this chart. One of the
24 key differences in Washington is that these insurance
25 companies would be forecasting the frequency for their
26 own book of business, not for the state book of

business, which is what we've provided a comparison to.

So the trends -- like, each of these insurance companies may have a very different type of customer base, or very different trends that affect them. And their history might look significantly different within their own claims history from the state average frequency. So, their trends would therefore reflect what is their best forecast for their book of business. As in our case, we have the entire province, and we have made forecasts for our book of business.

MS. MINOGUE: A: I want to point out also that accepted actuarial practice in the U.S. is not the same as in Canada. And a contingency provision in their forecasts may well be present. We can't say for sure. But the standards of practice are different in that regard.

MR. MILLER: Q: Okay, but accepted actuarial practice is not just a matter of formulas. There is some judgment involved, correct?

MR. LOACH: A: Yes.

MR. MILLER: Q: And if actuaries are like any of the other professionals, if you get a group of them in the room, they will look at the same set of facts and assumptions, and they can come to different opinions,

1 correct?
2 MR. WEILAND: A: Yes, that's true, that there could be
3 different judgments applied to the same information.
4 It's critical when you make these kinds of
5 comparisons, though, that you make sure that people
6 have taken the time to understand all of the
7 circumstances and factors that have been affecting the
8 data, and are likely to affect the experience in the
9 future. So that you have an apples-to-apples
10 comparison. If one actuary has not done as much
11 investigation, chances are they will have a wider
12 range of assumptions, because they don't have the same
13 level of understanding.
14 So, in ICBC's circumstances, put in a
15 significant effort to understand these various
16 factors, and they are in the position on basic
17 insurance of having a monopoly. So they have all of
18 the experience with respect to basic insurance that
19 there is to get. So they can spend the effort to make
20 sure they understand these various factors.
21 MR. MILLER: Q: And to the extent that there is an
22 element called judgment in adjusting the numbers you
23 have already got, there is also room for error. Or
24 you may be bang-on, but there is also room for error.
25 Correct?
26 MR. WEILAND: A: Yes, that's correct. Yeah.

1 MS. MINOGUE: A: Mr. Miller, could I add, though, that
2 there -- in our numbers, there is no explicit
3 contingency provision added. And so when you're
4 comparing across the border, there may well be. So I
5 just want to make -- I want to emphasize that point.
6 We do not put contingency provisions in our numbers.
7 MR. MILLER: Q: Okay. I'm going to test this concept
8 one more time, at least. Does ICBC considered it to
9 be within accepted actuarial practice to select
10 frequency rates for accident years 2013 through 2015
11 that continue the slight upward trend that's been
12 observed from 2009 to 2012?
13 MR. WEILAND: A: You are speaking about bodily injury--
14 MR. MILLER: Q: Frequency rates.
15 MR. WEILAND: A: Frequency rates, I think are --
16 MR. MILLER: Q: I took you through the numbers this
17 morning. They have gone in slightly over the years.
18 MR. WEILAND: A: Yeah, I think the evidence that's been
19 filed in 160 -- in response to 164-1 is that we would
20 consider something within the range of a flat
21 frequency to resumption of the downward trend that
22 previously existed to be in accordance with accepted
23 actuarial practice.
24 MR. MILLER: Q: That wasn't my question, though. My
25 question was, you've got an increase, or at least on
26 Exhibit A -- sorry. Exhibit D.1.1, the staff aid,

which has been marked as Exhibit A2-12.

MR. WEILAND: A: Mm-hmm.

MR. MILLER: Q: You've got bodily injury frequency rates from 2009 up 1.43 up to 2012, 1.49, and then 2013, 1.47. So, would you -- if we take just the years 2009 to 2012, we've gone from 1.43 to 1.49. And I understand your assumptions and why you're making the adjustments. That's not what I'm asking.

What I am asking is, would you consider just an increase in that upward trend for forecasting purposes to be actuarially acceptable?

Proceeding Time 2:09 a.m. T38

MS. MINOGUE: A: Okay. I just want to give some context to the -- where we're -- you're starting at a low point where we understood those low points that you're citing, the 2008 and '9 period, that those were during the recess when we know people were driving less. And so you have a reference point that's low relative to the environment today. So I don't think it's appropriate to kind of extend a trend off of those low points when we know that driving amounts have recovered.

And it's really our position that in our view, accepted actuarial practice would be a frequency -- bodily injury frequency trend selection that's between flat or resumption of the downward trend line.

1 We struck it in the middle. We don't think that an
2 upward trend would be appropriate. I think in my
3 opinion it would be a conservative estimate.
4 MR. MILLER: Q: So again, I understand why you don't
5 agree with the number. But I'm just asking, is it
6 acceptable from an actuarial perspective to do this?
7 And I think I heard no but I'm not sure, because there
8 was a lot of qualification.
9 MS. MINOGUE: A: I could see how an actuary without the
10 context on the data might come to that conclusion.
11 But knowing what we know, I don't think it's an
12 acceptable -- it would effectively be a forecast that
13 had a contingency provision in it, and that's not the
14 type of estimate we try to achieve. We try to achieve
15 an estimate without bias.
16 MR. WEILAND: A: I would agree that it would not be a
17 best estimate.
18 MR. MILLER: Q: Again, Mr. Weiland, I understand it's
19 not your best estimate, but is it acceptable from an
20 actuarial perspective?
21 MR. WEILAND: A: We're required to make a best estimate
22 with no bias. Not conservative, not unconservative,
23 but as nearly as we can make it straight, straight
24 down the middle. And I think for the reasons that Ms.
25 Minogue has articulated, I don't think that's a
26 reasonable expectation in this case.

1 MR. MILLER: Q: If you can turn to page 3-33 of the
2 application.
3 COMMISSIONER REVEL: Mr. Miller, may I just interject for
4 a minute and follow up Mr. Weiland. Does ICB compare
5 it's actuarial predictions with counterparts in other
6 jurisdictions? And how much emphasis, if you do, do
7 you place on any such comparisons? And on the basis
8 of that, would you consider reworking or recalculating
9 your own numbers based on perhaps different
10 assumptions?
11 MR. WEILAND: A: I am not especially familiar with any
12 comparisons that ICBC might have done, but let me
13 provide some general comments and then perhaps Mr.
14 Loach or Ms. Minogue can follow up.
15 It's very difficult to find a comparison to
16 ICBC. Two keys reasons for that. One, the monopoly
17 nature of basic insurance, and secondly, the full tort
18 product that they have. Both of those make it
19 difficult to compare. Both the other monopoly
20 jurisdictions both have heavy elements of no fault in
21 their products.
22 Other tort jurisdictions in Canada also
23 have different products, the largest being Ontario
24 that has gone through significant change that is
25 expected to affect things like bodily injury
26 frequency. So it's very difficult to find a

1 comparison within other Canadian jurisdictions.
2 COMMISSIONER REVEL: I can see that, but surely the
3 variables and the emphasis you've placed on the
4 variables is transferable from one jurisdiction to
5 another, is it not?
6 MS. MINOGUE: A: Right, right, and Mr. Loach had
7 pointed us to an IR and I don't recall the graphical
8 comparison though. We do keep an eye on industry data
9 for Alberta, which is a tort jurisdiction albeit a
10 different -- bit of a different product because they
11 have caps on the minor injuries. And then we also
12 compare to the industry data in Washington State.
13 Washington State is a full tort jurisdiction. They
14 have lower policy limits, but still it's very
15 comparable. And there's an organization in the United
16 States that collects data for all the companies doing
17 business in -- or most of them doing business in
18 Washington. And that was the trend line that Mr.
19 Loach pointed to where ICBC actually -- our trend
20 lines are right on top of each other. We're very
21 similar jurisdictions in that we have the same kind of
22 mix of geography and same kind of weather and daylight
23 hours and so forth, and that's why our numbers are so
24 well aligned. And they've seen a flattening. The
25 industry data has seen a very flat trend line since
26 coming out of the recession.

1 So we do, you know, do comparisons to make
2 sure that what we're seeing is validated with other
3 jurisdictions, to the degree that we can.
4 COMMISSIONER O'HARA: Could I please still have that IR
5 reference number for the record?
6 MR. LOACH: A: Mr. Miller actually brought us to it.
7 It's BCUC 24.4 from the first round where we do a
8 comparison of frequency to Alberta and to Washington
9 and Oregon.
10 And I would just add again that on the
11 topic of forecasts and whether our forecasts are in
12 line with what actuaries and other jurisdictions are
13 seeing, Washington, we do see a very similar BI
14 frequency trend, but Washington doesn't make state-
15 wide rates. And so each of the companies who do
16 business in that state would have their own forecast,
17 which would actually -- which could be significantly
18 different. And we see that there's quite a range in
19 their forecast in that IR response because they're
20 dealing with their own mix of business which may have
21 trends that differ from the state average.
22 COMMISSIONER REVEL: Let me follow up, if I may, Mr.
23 Miller. This is an area that kind of intrigues me a
24 little bit. We've talked a bit about actuaries and
25 actuarial practice within the context of your
26 profession. Given that you actuaries along with most

of the rest of us live our lives determining probabilities and trying to run them on that basis, it's virtually all prospective in nature, would you find a great deal of variation -- I'm asking you to just project because it's to help me get my head around some of this. If you were to give the same data set to a number of different actuaries and ask them to crunch the numbers, would you find -- or is it likely that you would have highly different outcomes than predictions? Or would they be reasonably close in alignment?

Proceeding Time 2:16 p.m. T39

MR. WEILAND: A: I would think that if there was detailed information provided on context, and all of the actuaries that were given the test had the same information, I would like to think that there would be a fairly -- a fairly narrow range, because they would all have the same understanding of the circumstances.

COMMISSIONER REVEL: Okay, that makes sense. What was I was wondering, though, if there was some range, you'd expect some range of difference in the whole thing, based on assumptions or whatever statistical test you chose to apply. Would OSFI find highly divergent results acceptable, from an acceptable actuarial practice? I mean, how does OSFI determine whether it's acceptable actuarial practices, I suppose. But,

I mean, for example, let's take the example this morning. We talked about MCT. But if you went below a hundred, you'd be wiped out, or shut down by the OSFI.

But if you work your numbers so that you came in with 110 instead of 99, you'd be okay. So, I'm just wondering, does OSFI set any standards or guidelines as to what would -- or do they do any tests to see whether the actual actuary's practice is --

MR. WEILAND: A: The MCT is subject to a rigorous set of rules, and it is required that the company's external auditor opine on application of those rules, if they have to issue a separate audit opinion on it. So, there is very little variance, and it is a risk based capital approach. So it is driven by a series of algorithms. So there is judgment involved in certain places, but a lot of it is not. And it needs to be audited, so.

The other thing I would say is that when it comes to determining rate levels and rate indications, OSFI is not in that business. They do not get involved in any kind of price regulation or oversight. Although they are concerned that prices be adequate for the product. That's more of a provincial responsibility.

COMMISSIONER REVEL: Okay, thank you.

1 MS. MINOGUE: A: And there is some variation in terms
2 of capital requirements, and depending on the kind of
3 coverage or product there is, and so a tort product
4 that has -- is more subject to volatility and, you
5 know, the vagaries of the legal system and that kind
6 of thing, you would probably have more volatility in
7 capital requirements than something's that very
8 prescribed. So that's also -- it's something that
9 OSFI takes into account. And this is kind of
10 connected into rates in that way.
11 COMMISSIONER REVEL: Okay, then. Thank you very much.
12 MR. MILLER: Q: Panel, would the Insurance Corporation
13 consider a different estimate of the accident year
14 2013 frequency rate that's lower than what ICBC has
15 selected to be actuarially sound? Say we picked --
16 say we based it on a pre-flattening trend. Would you
17 consider that to be actuarially sound?
18 MR. LOACH: A: Sorry, are you referring to accident
19 year 2013 or policy year 2013 forecast?
20 MR. MILLER: Q: Accident year. And the frequency in
21 2013 I think contains some component of estimate,
22 right? Because not everything has been reported yet
23 to the Insurance Corporation.
24 MR. LOACH: A: That's correct.
25 MR. MILLER: Q: So would you consider it actuarially
26 sound to use maybe a slightly lower number? And, if

so, what would your comfort range be on that?

MR. WEILAND: A: The 2013 accident year at the end of 2013 would have approximately -- these are round numbers -- approximately 90 percent of the claims reported. So there would only be slightly over 10 percent that is left to be reported. So, the frequency is, at this point for that accident year, pretty well, pretty well determined.

In our experience, there is not a lot of volatility in the development of those reported claims, so I would think the estimate that's been made is pretty solid. There should be a high level of confidence attached to it.

MR. MILLER: Q: So it wouldn't be actuarially acceptable to pick a lower frequency?

MR. WEILAND: A: I don't think it would, no.

MR. MILLER: Q: So in your response to BCUC IR round 2, 164.1, may require some further explanation. The response says,

> "In light of the trends observed in the past, and uncertainty regarding the timing of changes and full impact of interacting influences on bodily injury frequency, ICBC believes that anything in the range between a flat frequency through 2013 and a return to the full pre-recession trend rate

1 thereafter could be a reasonable assumption
2 to make and hence be consistent with
3 accepted actuarial practice."
4 So how do we reconcile those two. Maybe
5 just me, I'm missing something.
6 MS. MINOGUE: A: That statement was meant to refer to
7 after the year 2013 was complete.
8 MR. MILLER: Q: Okay. You may want to take a pen in
9 hand on this one. Can you assess the relative
10 likelihood of the following three EI frequency trend
11 scenarios for the accident years 2014 and ’15? So the
12 first one, the first trend scenario is a decline at
13 half the pre-recession frequency trend, as you’ve
14 assumed in the application. The second is a flat
15 frequency trend. And third, an increasing frequency
16 trend at the trend rate exhibited over the period 2009
17 through 2012. Are you able to do that?
18 MS. MINOGUE: A: We haven’t done that, and it’s not
19 something that we’ve, quite frankly, endeavoured to
20 do, have tried to do. I think we mentioned that we’re
21 not expecting the frequency to increase for the reason
22 that I mentioned before, that it’s coming off low
23 points that are well understood and that aren’t
24 repeating right now. So if I had to say on the fly
25 here, I’d say that the increasing is unlikely. The
26 flat is more likely. You asked for relative

1 likelihood here.
2 The flat is more likely but the half is our
3 best estimate and most likely of the scenarios.
4 MR. MILLER: Q: Can we do anything better than those
5 very generic descriptors?
6 MS. MINOGUE: A: I thought that was doing pretty well
7 there.
8 MR. WEILAND: A: Are you looking for specific
9 probabilities, Mr. Miller?
10 MR. MILLER: Q: If you had them. But again, I don't
11 want to put you through four weeks of work. I want to
12 know can you do it and then what's involved in doing
13 it so that we can determine whether it's worthwhile.
14 MS. MINOGUE: A: We did talk about this in our response
15 to BCPSO 36.2, that was Round 1, where we did say that
16 we don't produce these percentiles on these
17 probability distributions and that's just not part of
18 the work product. So without that kind of work, which
19 actuaries typically don't undertake by the way, for
20 coming up with forecasts, without that kind of work we
21 wouldn't be able to give you hard probability numbers.
22 MR. MILLER: Q: Thank you. That's all on that point.
23 We're not going to make you take pen to paper and try
24 and calculate the number.
25 Okay, on the witness aid that I handed out
26 this morning, Exhibit A2-12, the first page is a

reference to Exhibit D.1.1 and then if we turn it over, there's a reference to Exhibit D.2.1. And this is with regard -- and the heading on the top of the second page is "ICBC 2012 Revenue Requirements, Chapter 3". So in that revenue requirements from 2012, for BI frequency it showed that ICBC used a 12-year exponential model, and that was between '97 and 2008 in which you excluded the recessionary period, correct?

Proceeding Time 2:28 a.m. T41

MR. LOACH: A: That's correct.

MR. MILLER: Q: And then in this application you've used judgment rather than the exponential model. You've incorporated judgment, I should say, rather than relying solely on the exponential model, correct?

MR. LOACH: A: Yes, that's correct. And that's discussed in Chapter 3 and in the IRs to some degree.

MR. MILLER: Q: So what were the main factors that led to a departure from the purely exponential model? Can you run through those quickly for us?

MR. LOACH: A: So in the 2012 application, we were projecting frequency based on -- and returning to the pre-recession long-term trend, and that's what is represented by that 12-year exponential model. What's actually happened since the 2012 application is that what we've seen as frequency has not been following

that downward trend, and instead has been essentially flat or to a very minor degree increasing over the last couple of years.

Therefore that exponential trend no longer provides a good fit to the data and we've done some additional investigation to get an understanding of what factors are influencing the unexpected flattening in the bodily injury frequency trend, and that's led us to take our current approach where we are looking at that kind of current level where the bodily injury trend has been flat, and projecting then a resumption of the declining trend. We still have reference to the pre-recession trend, but what we are assuming now is that we will resume a lesser trend and we've assumed half of the downward trend going forward.

MS. MINOGUE: A: I'd like to refer the Commission Panel to the opening presentation too, slides 14 through 16 that visually depict what Mr. Loach has just said. So you can see the data and what we made our proposed frequency selection based on in the 2012 application. It was right around the downward trend line. There was no reason to assume otherwise at that point in time, that frequency would not resume that downward trend line.

Then the data that emerged since came in flat, and you can see in this graphical depiction

where policy year 2013 selection lies relative to the data and experience.

MR. LOACH: A: And that illustration is also at figure 3.5 in Chapter 3, which in that section we describe kind of the change from our 2012 model which no longer represents what's happening in the data.

MR. MILLER: Q: Would it have been acceptable from an actuarial perspective to continue to apply the 12-year exponential model in 2013?

MR. LOACH: A: Given the differences that we've seen emerge since the 2012 application, I would not expect an actuary who is reasonably familiar with the circumstances to have selected that model, no.

MR. MILLER: Q: Would you agree with that, Mr. Weiland?

MR. WEILAND: A: Yes, I do.

MR. MILLER: Q: And would it have been acceptable to use some exponential model in determining the frequency -- or the rate indication, I guess, in 2013? So would it have been at all acceptable to use a component of that 12-year exponential model? Or any exponential model.

MR. LOACH: A: I would say it is appropriate to consider exponential trends in the selection and that we've done so in our projection where we have referred to the pre-recession trend and applied half of it to

1 the forecast period.
2 MR. MILLER: Q: If you were to use an exponential model
3 to some extent, what parameters would you be putting
4 around the model so that it produced a reasonable
5 amount? Are you able to answer that? What sort of
6 things would you need to look at? You talked about
7 2008 recession or beginning in 2008.
8 MR. LOACH: A: Well, I think the key features of the
9 data that an actuary would consider in looking at this
10 is what we've laid out in Chapter 3, and what Ms.
11 Minogue presented in her opening presentation. There
12 is a long-term downward trend that exists. There is
13 clearly a divergence from that trend in 2008 and 2009
14 where it's gone below, and that was during a
15 recession. But an actuary would, seeing a stable
16 trend and us move away from it, would want to
17 understand the factors that led to that. And then
18 following 2010 there is this flattening and again a
19 divergence now above the long-term trend line in 2011
20 and 2012. Which again, an actuary would see that
21 feature in the data and should investigate to
22 understand what are the factors that may be
23 contributing to that, in order to make sure that when
24 selecting a forecast trend the actuary considers the
25 relevant factors that could impact that trend line.
26 **Proceeding Time 2:35 p.m. T42**

1
2 MR. MILLER: Q: Thank you. So I just want to confirm
3 first of all some of the models that you've used in
4 your application. So in 2010 you used a ten-year
5 econometric model for BI frequency, correct?
6 MR. LOACH: A: I don't have that in front of me, but to
7 my recollection I believe that's correct.
8 MR. MILLER: Q: Then in 2012 you used the exponential
9 model that we just talked about, correct?
10 MR. LOACH: A: Excluding the recessionary years, that's
11 correct.
12 MR. MILLER: Q: Yes. And this year 2013 we're using
13 what I'm calling more of a judgment model, correct?
14 MR. LOACH: A: Yes, we've used judgment to select a
15 combination of a flat trend and a return to half of
16 the exponential models trend.
17 MR. MILLER: Q: So I'm not criticizing you for this,
18 but over a short period of time we've got three
19 different models. So can you explain to us so that we
20 can make some sense of what the assumptions are doing
21 and what the models are doing to influence the data,
22 why are we using different models, three different
23 models in such a short period of time? What were the
24 factors that led to that?
25 MR. LOACH: A: This is a discussion point that's come
26 up, I think, each year as we have looked at the data

1 and found that the model that was used in the past has
2 not performed well. And really what's occurring is
3 that there is -- and really the factors that I just
4 described in my previous response, there's a
5 significant amount of variability that's occurring in
6 the BI frequency trend that is due to external and
7 unusual factors.
8 Going into the previous application, we
9 were using the pre-recession downward trend as an
10 exponential trend because we saw that the recession
11 years were significantly different and were not
12 modeled well by the model that had been used in the
13 previous filing or previous forecasts. And that was
14 occurring because what was happening was really
15 outside of the experience in the period that that
16 model had been fit. And so we wouldn't expect an
17 econometric or a model that relies on external
18 variables that fit over a period when there was no
19 recession, to necessarily respond well in a period
20 where there is a recession because the factors that
21 come into play are quite a bit different than what you
22 would see in a stable period. And so that was the
23 change that was made in the last filing.
24 And now in this filing what we've seen is
25 that our expectation of a return to that long-term
26 trend has not materialized, and so to continue to

assume as we're getting higher and higher above that line, and I'm referring to Figure 3.5 here, that we would return to that for the forecast period is simply not a reasonable assumption.

So the considerations are the same, I would say, as what I had just described.

MR. MILLER: Q: Thank you.

I'd like to move on to severity now, and we're going to start again with Exhibit A2-12 and the side of the page that says, "Personal Basic Loss Trend Analysis". So in the middle of the second last row, that's the row dealing with severity, correct?

MR. LOACH: A: The third table you're referring to?

MR. MILLER: Q: That's Exhibit D.1.1 and I marked it earlier this morning just for reference A2-12.

MR. LOACH: A: You're referring to the third table in the exhibit.

MR. MILLER: Q: Yes.

MR. LOACH: A: Yes.

MR. MILLER: Q: Yes. Okay. Now, if we go on that row to PY 2013 under Bodily Injury, you've got the number 38,312, correct?

MR. LOACH: A: That's correct.

MR. MILLER: Q: Okay. And that's the same number that's modeled on page 9 of Exhibit D.0. You might want to turn there just to check.

1 MR. LOACH: A: That's represented as the diamond in the
2 graph on page 9 of Exhibit D.0, that's correct.
3 MR. MILLER: Q: Thank you. Just above that graph is
4 paragraph 18, and you say that an eight-year
5 exponential model was selected to keep the experience
6 period starting at 2005, which was the year claims
7 initiatives for BI began, correct?
8 MR. LOACH: A: That's correct.
9 **Proceeding Time 2:41 p.m. T43**
10 MR. MILLER: Q: So, a moment ago, we were looking at
11 the 38,300 number. So if we go over to the left three
12 columns, you've got the number 35,725. Correct? And
13 that's labeled accident year 2013?
14 MR. LOACH: A: That's correct, for accident year 2013.
15 MR. MILLER: Q: And what does that number represent?
16 MR. LOACH: A: So that represents the forecast for
17 personal bodily injury severity for accident year
18 2013.
19 MR. MILLER: Q: Based on the eight-year exponential
20 model.
21 MR. LOACH: A: That would be based on the eight-year
22 exponential model, yes.
23 MR. MILLER: Q: Okay. So if you look at the numbers
24 for the years prior to 2013, accident year 2013, the
25 35,700 and change, you looked at the average severity,
26 saw that it had been rising at some rate per year, and

1 essentially estimated a continuation of that pattern
2 to get to the 35,700 number. Is that about right?
3 MR. LOACH: A: That's a continuation of the trend
4 that's evident in the past eight years, that's
5 correct.
6 MR. MILLER: Q: Did that trend work out to be just
7 under about 6 percent, was it? Somewhere around 5.7
8 to 6?
9 MR. LOACH: A: I believe the trend is 5.9 percent on
10 the short-term model.
11 MR. MILLER: Q: Okay, so we'll use round numbers,
12 somewhere around 6 percent.
13 MR. LOACH: A: Roughly 6 percent, that's right.
14 MR. MILLER: Q: Okay. So that indicates, does it not,
15 that ICBC has found that the average cost per bodily
16 injury claim has been increasing at roughly 6 percent
17 and you're assuming the average will continue to
18 increase at this rate, correct?
19 MR. LOACH: A: Yes, that's correct.
20 MR. MILLER: Q: So when we come to projecting the
21 future, for 2014 and '15, how do we derive those
22 numbers? Is it the same eight-year model?
23 MR. LOACH: A: So, for 2014 and '15, we're also looking
24 at a longer-term model, which is described in the
25 table above as a 15-year exponential model. And in
26 this case, 2013 relies on the short-term model, 2014

relies on a mix of the short-term and long-term models, and 2015 relies on the long-term model. Although you can see in the bottom table that the trends for 2014 and '15 are increases of 5.9 percent. So the longer-term 15-year model is actually providing a forecast that's at a similar rate of increase as the shorter-term eight-year model.

MR. MILLER: Q: Okay. When we look at the first number I directed you to, the PY-2013 number, which is just above 38,300, how was that number achieved? Was it essentially a weighted average of the selected severities for 2013, '14, and '15? Or was some other method used?

MR. LOACH: A: It's a weighted average of the projected severities for the relevant accident quarters that make up policy year 2013. So, although the data here is presented on an annual basis, our modeling is done on a quarterly basis. And we've taken the accident quarters that make up 2013 and we've done a weighted average of those. You could simplify it and say it's a weighted average of the 2013, '14, and '15 numbers, but functionally that's not a hundred percent accurate. But it does simplify too, yes. It's a weighted average of the forecast years.

MR. MILLER: Q: Okay. When we started after lunch, I believe I got an affirmative response to ICBC

1 indicating that it updated its trends quarterly. And
2 so my question is, is based on claims experience
3 throughout the end of -- well, I guess to December 31,
4 2013, can you tell us whether or not the BI severity
5 for accident year 2013 is as you had anticipated? Or
6 is it different, and if so, by how much? What does
7 your latest data tell you, if it's not the end of
8 2013?
9 **Proceeding Time 2:46 p.m. T44**
10 MR. LOACH: A: The year-end results have not come in
11 substantially different from our forecast, is my
12 understanding.
13 MR. MILLER: Q: Again, you're using terms and I'm sure
14 Mr. Ghikas is very happy. What does substantially
15 mean? What are we talking about?
16 MR. LOACH: A: It means I don't have the number at
17 hand, but it hasn't come in differently in a way that
18 would make us change our view of the forecast.
19 MR. MILLER: Q: But when you say substantially, we're
20 talking within 10 percent, 5 percent? Can you give us
21 some -- I'm not going to pin you down. I just want to
22 --
23 MR. LOACH: A: I think it's quite a bit closer than
24 that, but without having the number in front of me I
25 would hesitate to put a number on it. It is very
26 close, I guess, I would say.

MR. MILLER: Q: Can you file an undertaking with those updated numbers for year end 2013?

MR. LOACH: A: I think we could probably confirm the number for you after the break, as we did with the frequency number earlier.

MR. MILLER: Q: Okay.

Information Request

MS. MINOGUE: A: I just want to point out that some of these numbers are not through the audited financials yet, and so that I'm concerned about releasing numbers that are not -- haven't gone through the process at this point. What we could undertake and I'm happy to undertake this is flow the impact through the forecast and give you the impact on the rate indication, if I could update the rate indication with the updated forecast. But putting the numbers out on the table in terms of the current year incurred, that's my moment of hesitation because those numbers are still subject to the --

MR. MILLER: Q: The severity numbers have to go through --

MS. MINOGUE: A: Well, the thing is you can calculate out what the incurred is by knowing the components of the frequency and the severity. Is it good enough to flow through our forecasts into the impact on the rate, I guess is what I'm asking.

1 MR. MILLER: Q: We'll take them as unaudited with the
2 cautions that you've already extended.
3 MS. MINOGUE: A: Okay.
4 MR. MILLER: Q: I want to talk a bit about claims
5 reserve process. Okay. If we can go to Exhibit
6 C1.3.10 in the application. Let me know when you're
7 there. Are we there? Okay.
8 So as I understand this document, this
9 shows number of years for which claims have been made,
10 and it gives a breakdown on claims that are open and
11 closed, is that correct? At the time of your
12 analysis.
13 MR. WEILAND: A: I'm sorry, Mr. Miller, I was looking
14 at another exhibit, so would you mind repeating the
15 question?
16 MR. MILLER: Q: Sure. So this first table on the top
17 of the page is attempting to provide information about
18 the number of claims that are open and closed over
19 various years, correct?
20 MR. WEILAND: A: Yes, it's the ratio of the number of
21 claims closed and the number of claims reported.
22 MR. MILLER: Q: Okay. Now, each one of these claims,
23 when it comes in or is reported to ICBC, gets a case
24 reserve number that's established by ICBC or its
25 adjusters, correct?
26 MR. WEILAND: A: When claims are reported they would be

-- the circumstances would be explored and investigated, and in many cases a reserve would be put up, yes.

MR. MILLER: Q: So if a claim came in and let's say it was just someone with some bruising, that would generally get a lower case reserve number than a file that came in and you knew there was quadriplegia and huge care expenses involved or a brain injury, right? So you try and estimate what it's going to cost the Insurance Corporation, correct?

MR. WEILAND: A: The reserves would be set by the claims folks according to the circumstances of the case.

MR. MILLER: Q: What they expect the severity of the claim to be.

MR. WEILAND: A: Well, this question probably would be best directed to Mr. Wilson or Ms. Taylor, but --

MR. MILLER: Q: Well, it's what it represents, doesn't it?

Proceeding Time 2:53 p.m. T45

MS. TAYLOR: A: Could you just repeat that question, please? Sorry.

MR. MILLER: Q: Sure. Someone calls up ICBC and says, "I've got an injury," and they make a claim, right? So let's deal with bodily injury. So if it was just somebody that came in and said, "I've got some

1 bruising on my arm but I can still rotate everything
2 and I'm not feeling any other pain," that would
3 generally get a lower case reserve number than a
4 quadriplegia or a brain injury claim that came in,
5 correct? Because you're expecting the costs of that
6 pain to be less than the more catastrophic thing.
7 MS. TAYLOR: A: That would be correct. The adjuster or
8 examiner would take the information that they had at
9 that point in time and set the reserve based on the
10 information that they had. So to your example, that
11 would be true, yes.
12 MR. MILLER: Q: Okay, and is there a specific
13 definition or a meaning that ICBC gives to case
14 reserve internally different from what we've just
15 talked about a case reserve being? Do you have a more
16 technical definition or is it generally as we've
17 explained it? That's your estimation of what you
18 expect using, again, crystal ball gazing about what a
19 claim may cost?
20 MS. TAYLOR: A: Yes. What the adjuster would do is to
21 evaluate all the information they had at hand and set
22 the reserve appropriately. So if it was represented
23 or litigated, those would form components of the
24 reserve, as well as the medical evidence and what the
25 claimant or customer has told them.
26 MR. MILLER: Q: So again, if you go back to Exhibit

C1.3.10 we note that -- say we pick any particular accident here. We take say 2003, for example. So at this point in time ICBC would know what it's paid out on 2013 claims so far, correct? Sorry, on 2003 claims because you'd have the data, "We paid this", right?

MR. WEILAND: A: Yes, we would know that.

MR. MILLER: Q: Okay, and then why wouldn't you take that sum, the amount you've already paid and then just take the balance, or add your case reserve onto that, or what's left of the case reserve and say, that's what our ultimate claims cost is going to be? Why does that simplistic notion not work?

MR. WEILAND: A: That does not work because injuries in particular manifest themselves over time, and the cost associated with them manifests itself over time. In the case of 2003, which at this point is quite old, most of the claims are closed, but there are still some open, and it's very likely that those claims are the subject of litigation and that would contribute some additional vagaries to the amount.

So because the claims change over time, the nature of the claim changes over time, as Ms. Taylor said, the reserves are set based on information that's known at a particular point in time. So as that information changes, the adjuster would change the reserve.

1 In the case of bodily injuries, what that
2 usually means is the cost tends to go up over time.
3 This process actuaries refer to as lost development.
4 And so the reason you just can't take the case reserve
5 is that it only represents the information that the
6 adjuster knows at that moment in time, which is the
7 way they are supposed to strike the reserve. The
8 actuaries compute the additional amount to account for
9 this loss development process.
10 MR. MILLER: Q: In Exhibit C-0-5, on page 4, and again
11 I don't think you need to turn there, I'm going to
12 read some stuff for the record, but it says:
13 "ICBC describes one of the actuarial claims
14 cost estimation methods it uses…"
15 And it's called the incurred development method. And
16 then in paragraph 14 on page 4 you state:
17 "Under the incurred development method the
18 average case reserve amount should be
19 constant from year to year considering paid
20 loss, severity trends and the usual level of
21 volatility in the underlying claims data."
22 And you go on to say that this consistency does not
23 exist and that:
24 "This is due to changes of case reserve
25 levels as a result of prior claims
26 initiatives including enhanced manager

1 reviews on open claims and changes in
2 adjuster authority levels."
3 **Proceeding Time 2:58 p.m. T46**
4 And you go on to state that
5 "Data over the past few years supports that
6 in relation to the developed cost level,
7 case reserves have been set at a more
8 accurate, *i.e.*, lower on average level,
9 earlier in the life of those claims compared
10 to historical patterns.":
11 So, given that preamble, my question is,
12 does this mean that as a result of operational and
13 other changes that occurred, ICBC believes the
14 standard incurred development method produces too low
15 of a result?
16 MR. WEILAND: A: Yes, that's correct, because applying
17 the standard method you would need to adjust for the
18 impact of some of these changes that have been made in
19 claims operations. Without making those adjustments,
20 the -- given the nature of those changes, you'd be
21 expecting that that would produce an estimate that
22 would be too low.
23 MR. MILLER: Q: It was upward adjustment you'd expect,
24 correct?
25 MR. WEILAND: A: Yes, that's correct.
26 MR. MILLER: Mr. Chair, I note the time. With your

1 indulgence, I'd like to ask just a couple of more
2 questions, and then take a break, it would be
3 convenient.
4 THE CHAIRPERSON: Go ahead, Mr. Miller.
5 MR. MILLER: Q: Now if we turn to Exhibit C1-3.2, if we
6 go to column 6. Are we there, panel? If we go to
7 column 6, it's entitled "Adjustment for case reserve
8 development". And these are the adjustments, Mr.
9 Weiland, that you just spoke about, is that correct?
10 MR. WEILAND: A: Yes, that's correct, Mr. Miller.
11 MR. MILLER: Q: So, if we look down the bottom of that
12 column, the adjustments that the Insurance Corporation
13 has been making to the incurred development method for
14 the 2012 accident year, that amounts to roughly a 38
15 or 38.29 percent indicate -- adjustment to the
16 indicated ultimate cost, correct?
17 MR. WEILAND: A: Yes.
18 MR. MILLER: Q: And then if we look at the row above,
19 for 2011, there was a 22 percent adjustment.
20 MR. WEILAND: A: Yes, that's correct.
21 MR. MILLER: Q: Were these adjustments made in the 2012
22 revenue requirements application? Were they made to
23 the incurred development method?
24 MR. WEILAND: A: Yes, they were.
25 MR. MILLER: Okay. Now would be a convenient time to
26 take a break, Mr. Chair. Thank you, panel.

1 THE CHAIRPERSON: Okay. Then we'll reconvene at twenty
2 after three.
3 **(PROCEEDINGS ADJOURNED AT 3:05 P.M.)**
4 **(PROCEEDINGS RESUMED AT 3:28 P.M.) T47**
5 THE CHAIRPERSON: Be seated.
6 Mr. Ghikas, I see you're up.
7 MR. GHIKAS: Mr. Chairman, before the break, Mr. Miller
8 asked the panel for information on accident year 2013.
9 The BI severity as at year end, 2013. And the comment
10 was -- or the question was in respect of the numbers
11 on A2-12. The panel has that information now, and I
12 believe Mr. Weiland can speak to that.
13 Mr. Weiland?
14 MR. WEILAND: A: Yes. The year-end 2013 number for
15 accident year 2013 severity, personal, basic, is
16 35,861. Which is a difference of less than one-half
17 of 1 percent from the number on the page of 35,725.
18 MR. GHIKAS: Thank you, Mr. Weiland.
19 THE CHAIRPERSON: Thank you.
20 MR. MILLER: Q: I'm going to ask you a question that's
21 a bit out of sequence, then I'm going to start off
22 where I was -- where I left off just before the break.
23 We were talking about bodily injury frequency numbers
24 earlier, and we were talking about the 1.44, I think
25 was the number we were talking about.
26 So when you came up with that number, the

1.44 number, had you already considered the close-down, or the shut-down, of the LVI program in projecting those numbers? I think you said that occurred in early 2013.

MR. LOACH: A: So at the time we made the forecast of the 1.44 percent, we were aware of the change to the low-velocity impact guidelines that took place in 2013. Those changes were not expected, and we still do not think have had any impact on the bodily injury frequency.

MR. MILLER: Q: Wasn't one of the effects of that program to decrease the frequency rate? Didn't ICBC experience claims that were no longer coming forward because they'd have to meet the LVI program that ICBC had in place?

MR. LOACH: A: If a claim was brought forward, regardless of whether it met the LVI criteria, a claim was opened. If the claimant advanced a claim for bodily injury. That claim may not have had any money paid against it if it met the guidelines. But it was still counted as a claim, and it did affect our bodily injury frequency. So the changes to the program guidelines, or elimination of the program, didn't have any impact on frequency.

MS. MINOGUE: A: One of the impacts that we're hoping -- one of the objectives is to reduce the

representation rate on those type of claims. Maybe that's what you're thinking.

MR. MILLER: Q: Okay. Did it happen -- did you factor in, then, an expected increase for a lower severity on claims?

MR. LOACH: A: So it wouldn't --

MR. MILLER: Q: Oh, sorry. A higher severity, I guess. Because now you'd be dealing with claims that would have been defeated previously by the LVI program.

MR. LOACH: A: That's correct. It would have affected the severity, and we did include that, when we talked about our severity forecast, we talk about some of the adverse influences as well as some of the favourable influences. And this was considered as one of the claims programs that is helping to offset the upward pressure that we're seeing.

MR. MILLER: Q: Thank you. If I can get you to turn your attention once again to Exhibit C.1.3.2.

COMMISSIONER REVEL: Excuse me, Mr. Miller.

MR. MILLER: Q: Sorry, I've ended up at the wrong --

COMMISSIONER REVEL: Sorry, C.1.3.2?

MR. MILLER: Q: I think I just gave you the wrong reference. Hold on.

One moment, Mr. Chair.

Proceeding Time 3:34 p.m. T48

I'm going to produce a similar exhibit to

1 Exhibit C1.3.2 except it's from the 2012 revenue
2 requirements. If we can mark this as Exhibit A2-14.
3 THE HEARING OFFICER: Marked Exhibit A2-14.
4 **(CHART HEADED "ICBC 2012 REVENUE REQUIREMENTS, CHAPTER**
5 **3,", EXHIBIT C.1.3.2 MARKED EXHIBIT A2-14)**
6 MR. MILLER: Q: So I'll just give you a chance to look
7 quickly at the 2012 document. And again we're going
8 to be focusing on column 6. So in the 2012 revenue
9 requirements, for accident year 2010 the Insurance
10 Corporation made an adjustment factor of 2.74 percent,
11 correct?
12 MR. WEILAND: A: That's correct.
13 MR. MILLER: Q: And in 2009 it was 4.3 percent,
14 correct?
15 MR. WEILAND: A: Yes, that's correct.
16 MR. MILLER: Q: And this year we're making larger
17 adjustments than we made in 2012, correct?
18 MR. WEILAND: A: Yes.
19 MR. MILLER: Q: Is that a reflection or an indication
20 of the greater uncertainty in this year's severity
21 forecasts over last year?
22 MR. WEILAND: A: That's a reflection of the decrease in
23 the strength of the case reserves as compared to the
24 prior application. So there is a larger adjustment
25 needed.
26 MS. MINOGUE: A: Can I point the Commission to an IR

1 reference that shows very starkly the drop in the
2 average case reserve level? That reference is first
3 round BCUC 43.1-2.1, and we can see the two years that
4 have -- subsequent to the last application there's
5 been a very significant drop.
6 COMMISSIONER REVEL: Sorry, that was 43. --
7 MS. MINOGUE: A: 43.1-2.1.
8 MR. MILLER: Q: Ms. Minogue, what do you attribute the
9 drop to in the case reserves?
10 MS. MINOGUE: A: This is a direct result of the
11 operational changes occurring in the claims division,
12 and their emphasis on the accurate reserving approach
13 and some of the changes toward putting claims through
14 the centralized process, achieving more consistency
15 across the claims adjusters in terms of protocol on
16 claims and so forth. And my colleagues from the
17 claims division can speak to that in more detail than
18 I can, but these are definitely factors that are
19 influencing the average amount that is reserved on a
20 claim.
21 MR. MILLER: Q: Thank you. Now, before the break we
22 were talking about one of the methods ICBC uses, and
23 it was the incurred development method. Another
24 method the Insurance Corporation uses, and this is
25 referenced in paragraph 15 of Exhibit C.0.5 and it's
26 called the paid development method, correct?

1 MR. WEILAND: A: Yes, that's correct.
2 MR. MILLER: Q: Okay, and in paragraph 16 ICBC states:
3 "As compared to historical levels, claim
4 settlement rates in the last two diagonals
5 are also low."
6 And then you cite several reasons for this, namely
7 operational impacts from recent job action by the
8 bargaining unit employees, delays in filing claims
9 adjuster vacancies, a transition period of new claims
10 functional organizational model, and an increase in
11 the number of legally represented pending BI claims.
12 And you conclude by saying, "Without adjustment, the
13 paid development method is not appropriate."
14 So my question is: Is it correct to say
15 that the paid development method needs consistent
16 claim settlement rates from year to year to produce
17 reasonable results?
18 MR. WEILAND: A: Yes, that's correct.
19 MR. MILLER: Q: And so essentially what ICBC does or
20 the actuaries do is they make upward adjustments to
21 the results of the paid development method. Or is it
22 -- I guess another way to put it, is it more accurate
23 to say that ICBC applies another method and it's
24 called the hindsight outstanding severity method, to
25 address the deficiencies in the paid development
26 model?

1 MR. WEILAND: A: Yes, it's the latter.
2 MR. MILLER: Q: Okay. So it is fair for me to
3 summarize by saying that due to internal operational
4 changes and external changes that have occurred or are
5 contemplated to occur, that ICBC made adjustments to
6 the standard incurred development method and the paid
7 development method? Or it says -- you just corrected
8 me, sorry, the hindsight outstanding severity method?
9 And that these adjustments made by ICBC result in
10 higher estimates of what the ultimate claim costs
11 would be than otherwise?
12 MR. WEILAND: A: Yes, that's correct.
13 MR. MILLER: Q: Is it also -- I'm sorry.
14 MS. MINOGUE: A: I'd like to point out that this is
15 consistent with accepted actuarial practice. In fact
16 not to do so would not be consistent with accepted
17 actuarial practice. We did put a reference in the
18 response to first round IRs 44.1 that speaks directly
19 to when development techniques work and when they
20 don't, and an authoritative source that's on the
21 syllabus for all actuaries qualify, and it speaks to
22 the leverage effect of these methods and without --
23 and that sometimes they are not -- they don't work
24 appropriately, and that you need to make adjustments.
25 So I have referred the Commission to that
26 IR, but our methods of adjustment are actually

1 expected within accepted actuarial practice.
2 **Proceeding Time 3:41 p.m. T49**
3 MR. MILLER: Q: I wasn't suggesting otherwise. There
4 was no intent to say that it wasn't appropriate. I'm
5 just trying to go through what you're doing. Okay?
6 MS. MINOGUE: A: I just wanted to clarify.
7 MR. MILLER: Q: Okay. So, is it also fair to say that
8 as a result of internal -- oh, I think we just went
9 through this. No. I'll start over.
10 Is it also fair to say that as a result of
11 the internal operational changes and external changes
12 that either have or are expected to occur, that the
13 level of uncertainty surrounding ICBC's estimates of
14 the ultimate claim costs, and therefore the policy
15 year 2013 severity, is higher than it would otherwise
16 be the case?
17 MR. WEILAND: A: Yes, I would agree that uncertainty is
18 greater than it used to be.
19 MR. MILLER: Q: Okay. Are you able to quantify the
20 higher level of uncertainty with an upper and lower
21 bound that can be translated somehow into rate impact?
22 MR. WEILAND: A: We have not attempted to do that.
23 MR. MILLER: Q: How much work would it be to try and do
24 that?
25 MR. WEILAND: A: I would have to consider that, Mr.
26 Miller.

1 MR. MILLER: Q: How long will it take you to consider
2 it? How much time do you need? I'm not trying to
3 force you, or anything, I'm just trying to figure out
4 whether it's worthwhile to get into or not.
5 MR. WEILAND: A: I'd like to chat with my colleagues,
6 so --
7 MR. MILLER: Q: Go ahead.
8 MR. WEILAND: A: We can do that now, and --
9 MS. MINOGUE: A: Okay, as I mentioned, we don't
10 generally undertake to try to put probability
11 distributions around things, and create models of that
12 nature. What we tend to do is look at scenario-based
13 analyses. And we have put forward in a couple of the
14 Information Requests in the 160 series of BCUC some
15 sensitivities around whether or not the claims
16 initiatives are able to offset the acceleration in the
17 rate of representation. And so, I suggest that that's
18 kind of the likely range in terms of how much the rate
19 indication would be impacted.
20 MR. MILLER: Q: Okay. I'll move on. I want to talk a
21 bit about the legal representation right now as it
22 applies to severity. So when -- again, you don't need
23 to turn there. This is just for the record. In
24 Chapter 3, paragraph 46, page 3-19, ICBC states that
25 the BI severity trend continues at the historical rate
26 of increase of 5.7 percent despite a number of claims

1 costs management initiatives that ICBC has
2 implemented. And you go on to say, the primary reason
3 for this is a steadily increasing rate at which claims
4 become represented by a lawyer, and beginning in 2012
5 an acceleration in that rate. Okay?
6 And then in BCUC IR round 1, 7.1, ICBC was
7 asked about the acceleration in represented claims,
8 selecting the bodily injury coverage severity trend.
9 And you responded as follows. You say,
10 "ICBC believes it's reasonable to assume
11 that the bodily injury claim severity trend
12 will continue at the historical rate of
13 about 6 percent."
14 And you go on to say,
15 "The actuaries have assumed these…
16 And that's referring to the claims,
17 "…initiatives will be able to fully offset
18 the cost pressures associated with the
19 recent acceleration in the representation
20 rate."
21 And you go on to say,
22 "And ICBC believes it is reasonable and
23 practical until more is understood about the
24 nature of the acceleration in representation
25 rate, and the effectiveness of the claims
26 initiatives, to not assume they will be

1 unable to offset the corresponding cost
2 pressures."
3 So, if I can just summarize that, what
4 you're saying in that response is, you're making what
5 you consider to be a practical and what you believe to
6 be a reasonable assumption that the claims initiatives
7 will offset the impact of the higher representation
8 rate, in terms of claims severity, correct?
9 MR. LOACH: A: That's correct.
10 MR. MILLER: Q: And again, just the focus on -- you
11 believe this will exactly offset the impact of the
12 higher representation rate. That's the basis on which
13 you've prepared your application, correct?
14 MR. LOACH: A: That is -- the assumption is that it
15 will fully and exactly offset the cost pressures
16 resulting from the increase in representation. Sorry,
17 the acceleration of the representation rate.
18 **Proceeding Time 3:47 p.m. T50**
19 MR. MILLER: Q: Now, we have already established that
20 there is some greater uncertainty with respect to the
21 current forecast of bodily injury severity, which
22 leads into overall claims costs for the policy year
23 2012. Or is ICBC able to quantify with this level, a
24 higher level of uncertainty with an upper bound and a
25 lower bound similar to the last question I was asking
26 you, which I believe you indicated you don't normally

1 do? But in this case are you able to answer?
2 MR. LOACH: A: I believe that is the same question, and
3 the answer is no, that's not a result that comes out
4 of the analysis that we've done.
5 MR. MILLER: Q: Okay. Now, in -- again for the record,
6 you don't need to turn there. I'll read the response
7 for you. But in BCUC Round 2, 160.1, ICBC stated:
8 "If it were assumed that the claims
9 initiatives would be unable to fully offset
10 the cost impact of the acceleration and the
11 legal representation rate, this would lead
12 to a higher forecast for bodily injury
13 severity, which represents a more
14 conservative assumption than ICBC's best
15 estimate."
16 So my question for you is: Would it be
17 within accepted actuarial practice to select a
18 somewhat higher bodily injury severity rate, if you're
19 not able to fully offset the accelerating rate of
20 represented claims?
21 MR. LOACH: A: And I believe, yeah, you referred to
22 160.1, and I think we answered the question there.
23 MR. MILLER: Q: Okay.
24 MR. LOACH: A: What we've said is that an alternate
25 assumption that claims initiatives will be unable to
26 fully offset the cost of the acceleration in the legal

representation rate, would be reasonable and remain in accordance with accepted actuarial practice, although such an assumption may contain bias.

MR. MILLER: Q: Okay. And that's reflected in the sensitivity analysis in Summary Scenario No. 1, correct? Or I guess the question is, is that reflected in Summary Scenario No. 1?

MR. LOACH: A: So there's a specific scenario that looks at the -- we were asked what would be the impact of a scenario where claims initiatives were able to offset half rather than all of the cost of the accelerating representation. And we constructed a scenario and provided some description of that scenario, and that was included as a -- with a sensitivity analysis in the information request response.

MR. MILLER: Q: So is it appropriate then to say that Scenario 1 has a high probability that it may be the upper level of a worst case scenario?

MR. LOACH: A: When you say Scenario 1, can I just clarify the reference?

MR. MILLER: Q: 213.2 BCUC 160.1.1, Attachment A, the Sensitivity Summary. It's on -- it doesn't have a separate page number. But it's about -- it looks to be about 10-15 pages under the tab 213.2 RR BCUC 57 to 169.

1 MR. LOACH: A: Yes, so we have that, and in the table
2 that refers to sensitivity summary from Round 2
3 information requests.
4 MR. MILLER: Q: Yes.
5 MR. LOACH: A: It is the first scenario in that table.
6 MR. MILLER: Q: And does that represent what may be a
7 worst case scenario, the upper bound of a worst case
8 scenario?
9 MR. LOACH: A: I don't believe that it does. I think
10 that's one illustrative scenario. As I said, I don't
11 think that we've necessarily put a range around our
12 estimate. And as Ms. Minogue said earlier, that's not
13 something that is an outcome of the estimation
14 procedure that we've used. But that is an
15 illustration of an adverse scenario.
16 MR. MILLER: Q: Now, we talked earlier about updating
17 your trends. Do you have the year-end data for 2013
18 for the legal representation rate? And if so, can you
19 file it as an undertaking?
20 **Information Request**
21 MS. MINOGUE: A: Yes, we can. To be clear, that would
22 be updating the performance metric. Okay, per graph
23 rate.
24 MR. MILLER: Q: We're just looking for the last
25 available data you have for 2013. Do we know whether
26 those numbers came in as expected or reasonably close?

MS. MINOGUE: A: They came in higher than expected. So in Chapter 3 of the application we had our original expectation in Figure 3.14 and I believe that number was 46. It came in at 48.

MR. MILLER: Q: Okay. While we're at that figure, this is a good spot to jump into the next series of questions.

MR. LOACH: A: I'm sorry, before we move on, can I just clarify that that's higher than the forecast shown in Figure 3.14, but that does match our expectation going into the application which is addressed in the sentence before the figure. Where we say preliminary indications are that the 2013 legal representation rate will be somewhat higher than the original forecast. So it has emerged higher than the original forecast but consistent with our expectation that it would emerge higher.

Proceeding Time 3:53 p.m. T51

MR. MILLER: Q: Yes. We are just looking for where you ended up at the end of the year, okay?

Now, if we -- in figure 3.14 it shows over the years that there's been a steady increase in the legal representation rates since 2003. And then there are from 2009 to 2011 there was a bit of a levelling off and then it really jumps in 2012 as the Insurance Corporation has already noted.

1 You provided your explanation for the sharp
2 increase but let me test you with another possible
3 explanation. Is it possible that 2012 was just an
4 unexpected blip that is not to be repeated? You can
5 call it an outlier or something like that and is
6 really distorting data and not showing trends? Or is
7 there something to indicate it's more along the lines
8 of trends?
9 MR. LOACH: A: I think this follows up from your
10 previous question. We do have the 2013 results as
11 well and it is consistent with an accelerating trend
12 in representation. So unfortunately that -- what
13 occurred in 2012 is not just a kind of a one-time
14 divergence from the trend line. We have not come back
15 to the trend in 2013.
16 MR. MILLER: Q: Thank you. In BCUC 154.4, attachment
17 A, ICBC says:
18 "Under the CCIC model claims adjusters would
19 deal immediately with a BI claimant when
20 they reported their claim at the first
21 notice of loss. Over the years it has
22 proven to be a successful model with low
23 representation rates and high settlement
24 rates."
25 And then in BCUC 201.1 you've shown that the legal
26 representation rate handled in CCIC is better than the

1 claims handled in the field.
2 My first question is, is does your legal
3 representation rate, the original forecast include the
4 expansion of the CCIC? Was that contemplated in
5 producing the numbers?
6 MR. LOACH: A: The original forecast of the BI legal
7 representation rates is based on looking at the
8 history and projecting forward. Given that the CCIC
9 has been expanding over that history as well, it is
10 consistent -- the further expansion of the CCIC is
11 consistent with the forecast that was used for the
12 legal representation rate.
13 MR. MILLER: Q: So if you considered it in coming up
14 with the numbers in the application, can you tell us
15 what sort of weighting or what consideration this
16 factor played in the forecast? Did it have a
17 dampening effect and if so, what magnitude?
18 MR. LOACH: A: I believe we actually discussed it in
19 the application. Give me a moment and I'll see if I
20 have the reference for that.
21 I would refer you to Exhibit E.0, paragraph
22 29 where we talk about -- well, at paragraph 28 and 29
23 where we talk about improvements to ICBC's claims
24 handling and how those have been reflected.
25 **Proceeding Time 3:59 p.m. T52**
26 MR. MILLER: Q: Thank you. I want to change topics

now to lost cost forecast variance. Now, in the 2012 revenue requirements application, ICBC assumed that bodily injury claim frequency would decline. But as we now know, it didn't decline as we had -- as ICBC had forecasted, correct?

MS. MINOGUE: A: That's correct.

MR. MILLER: Q: And then in response to BCUC round 1 IR 66.2, ICBC says that the lost cost forecast variance of 6.6 percent in 2013, and 5.5 percent in 2012, are unusually large. Now, my question is, if ICBC's forecast of a decline in BI frequency doesn't appear again, or doesn't materialize again when we look back, that means there will be a potentially corresponding adverse effect on the lost cost forecast variance for 2014, correct?

MS. MINOGUE: A: I'm unclear what you mean. Can you repeat that? Or rephrase it?

MR. MILLER: Q: Well, let me put it this way. If BI frequency turns out much higher than we're anticipating, correct? Or, sorry, that the Insurance Corporation is anticipating in its application, that's going to have a negative effect on the lost cost forecast variance for 2014 and years to come, possibly. Correct?

MS. MINOGUE: A: Correct.

MR. MILLER: Q: Now, with respect to the lost cost

1 forecast variance on medical and rehab benefits,
2 Figure 3.9 on page 3-15 of the application shows that
3 your estimate for policy year 2012 medical rehab lost
4 cost is now $36.27, and it was projected to be just
5 over $26 in the 2012 revenue requirements. Correct?
6 MS. MINOGUE: A: That's correct.
7 MR. MILLER: Q: Well, I don't need to get into the
8 reasons, we've heard about those already. But that's
9 an increase of about 37 percent, that's made up of
10 roughly 15 percent increase in frequency and roughly
11 19 in severity. Is that right?
12 MR. WEILAND: A: Yeah, that's correct.
13 MS. MINOGUE: A: Correct.
14 MR. MILLER: Q: And this 37 percent increase, that
15 contributed to a component of the 6.6 percentage point
16 lost cost forecast variance, correct?
17 MS. MINOGUE: A: That's correct.
18 MR. MILLER: Q: Now, similar to the other questions
19 I've asked you on previous issues, do you have year-
20 end numbers for 2013? And if you have them, for MR
21 frequency and MR severity, could you file them with
22 us?
23 MS. MINOGUE: A: We could do that.
24 **Information Request**
25 MR. MILLER: Q: Then again, do we have any knowledge of
26 where they turned out versus projections? I don't

need the exact numbers, just are they up, down? Where are we at?

MS. MINOGUE: A: I think we need to take it away.

MR. MILLER: Q: Okay.

MS. MINOGUE: A: Yeah.

MR. MILLER: Q: We're almost done, panel. With regard to the factors -- now, let me generalize the factors that have led to the changes in the application from previous years, and the assumptions that you've made. Is it fair to say that, due to both internal changes and external factors, ICBC has made what it believes to be reasonable assumptions, and appropriate adjustments, to the actuarial cost estimation methods it has applied in calculating the 11.5 percent rate change to cover costs?

MS. MINOGUE: A: I agree.

MR. MILLER: Q: Okay. And certain of the assumptions and adjustments, they serve to increase the cost estimates, which drives up the rate indication, from what would otherwise be the case. And sometimes they drive them -- drive the cost estimates down, and lower the rate indication. Is that fair?

MS. MINOGUE: A: I wouldn't characterize it as driving them up or driving it down. I think you're referring to -- when I probably jumped ahead of your line of questioning, and that was around the appropriateness

of our adjustments, and it's within accepted actuarial practice to -- well, when you see changes in your claims operations that are affecting the data, that you need to address those with appropriate adjustments to the methods, and that's what we've done. That doesn't drive the costs up.

Proceeding Time 4:05 p.m. T53

What happens if you don't apply those adjustments is that you are unduly optimistic and you're not taking into account the realities of the situation, and in a way, you know, while you are setting yourself up for a big shock later. That's why we have actuaries because they are trained in this, in watching, keeping their eye on the ball and making sure that the appropriate methods are applied to estimate ultimate claims costs.

MR. MILLER: Q: So if we take away the word -- I agree with your comment driving out. I didn't mean anything untoward about that. They serve to, and sometimes drive costs up and sometimes serve to drive costs down. Sorry, serve to increase costs and serve to lower costs in some instances depending on the assumptions you are making, correct?

MS. MINOGUE: A: Serve to increase. Well, we are --

MR. WEILAND: A: Some adjustments are upward and some have a downward effect.

1 MR. MILLER: Q: Yes, and some are downward.
2 MS. MINOGUE: A: But that's not driving costs upwards.
3 That's the part where you're -- the way you're
4 phrasing that is objectionable to an actuary.
5 MR. MILLER: Q: Fair enough. Okay. I think we have
6 the point. So again, take out "drive" and we can
7 agree with what Mr. Weiland has said. Correct?
8 MR. WEILAND: A: Yes.
9 MR. MILLER: Q: Okay. Now, but despite what ICBC
10 believes to be reasonable and appropriate assumptions
11 and adjustments that its making, there is still a
12 level of uncertainty underlying the indicated rate
13 change of 4.9 percent. And that is subject to a
14 higher than normal level of uncertainty than we've
15 experienced in the past. Is that fair?
16 MS. MINOGUE: A: I would say that's fair.
17 MR. MILLER: Q: Okay. Now, in conclusion I want to
18 deal with going forward and assuming the panel --
19 let's say they determine an alternative assumption or
20 maybe one or two differently than the Insurance
21 Corporation has made in its application, ICBC needs to
22 -- am I correct -- review and update the full set of
23 assumptions in order to provide a level of indication
24 that's consistent with accepted actuarial practice?
25 MS. MINOGUE: A: I agree we would need to do that. And
26 one element that I think the Commission would be very

interested in is if there were any adjustments to the assumptions that there may be some differences between the forecast variance, how much of the rate change is to cover cost, lost cost forecast variance and how much is the rest. So there would be that element of it as well.

MR. MILLER: Q: Okay, and I believe in one of the IR responses the Insurance Corporation indicated -- and this was based on the limited information it had available to it. Doing the extra work, if I can call it that, on ICBC's end could take between two to six weeks, maybe more if it was really labour intensive task, is that correct?

MS. MINOGUE: A: That's the -- yeah, that's what we put forward.

MR. MILLER: Q: Now, in response to BCUC 159.1 ICBC discussed the possibility to defer the difference between the interim rate and the permanent rate to the next rate application. So how would that work with respect to if the panel accepts one or more alternative scenarios? What effect does that have?

MS. MINOGUE: A: So what we've discussed, and not just here but back at the ranch, is that we could do it much like the forecast variance. So if the Commission determined that the rate should be .2 higher -- no, okay, let's say lower, .2 lower than what we've put

1 forward, then what we would do is, much like the
2 forecast variance where you start your rate indication
3 in the cost level .2 as a basis point, add to it the
4 6.6 lost cost forecast variance and then the
5 additional cost elements. So we would treat it much
6 like the lost cost forecast variance in terms of
7 resetting the rate level.
8 **Proceeding Time 4:10 p.m. T54**
9 MR. MILLER: Q: Thank you.
10 Mr. Chair, that concludes my questions of
11 this panel on the actuarial matters. We do have
12 several actuaries in the room that are being
13 externally paid and they're very expensive, so my
14 suggestion would be, before I move on to capital and
15 questions on that for the balance of the panel, I
16 would suggest that I stop at this point in time, that
17 the Panel ask actuarial questions that it may have of
18 this panel, and then allow Mr. Ghikas to ask re-exam
19 questions so that the actuaries can make their flights
20 and have a nice evening tonight, if that would be
21 appropriate.
22 COMMISSIONER O'HARA: I have one follow-up question to
23 the work that Mr. Miller has done here. I just want
24 to have a better understanding how this world of
25 interaction between the in-house and external
26 actuaries, how it works.

1 So first of all, Mr. Weiland, am I correct
2 that this type of a third party certification or the
3 reviewing actuary's opinion is mandatory in this type
4 of a filing, or is that just an additional assurance?
5 MR. WEILAND: A: This is not mandatory. ICBC does this
6 voluntarily.
7 COMMISSIONER O'HARA: Okay. So we could have this
8 application here without your presence. You are just
9 giving extra assurance that --
10 MR. WEILAND: A: That's correct. I am not necessary to
11 the process.
12 COMMISSIONER O'HARA: Okay, thank you. Okay. So
13 following on that then, we have heard a lot how
14 everything has to be at a best estimate and has to be
15 within actuarial best practices. Are there any sort
16 of mandatory assumptions that ICBC just has to follow,
17 or are all these assumptions and choices -- are there
18 choices for everything or are there certain things
19 that are mandatory that you have to follow with these
20 assumptions and methods?
21 MR. WEILAND: A: IC-2 requires that the rate indication
22 be prepared according to accepted actuarial practice
23 in Canada. And that involves the actuaries looking at
24 all of the factors that will affect the rate
25 indication in making best estimate assumptions.
26 So there are no prescribed assumptions.

1 There are standards which require you to examine
2 certain features of the data and take certain things
3 into account when preparing the rate indication. And
4 so it's that process that the actuaries would go
5 through.
6 MS. MINOGUE: A: That's with respect to the cost
7 elements. And then with respect to the capital and
8 the capital provisions, those are mandatory based on
9 the capital management plans that the Commission
10 approves. And in the case of this year the 6.6
11 forecast variance exclusion is mandatory.
12 COMMISSIONER O'HARA: Yes. I think my question is more
13 to what has been discussed today, various assumptions
14 and scenarios you have been outlining. So what we
15 have heard today regarding the assumptions, you have
16 some choices there. You can be somewhat more
17 aggressive or conservative or whichever way you
18 outline those assumptions as long as they are
19 reasonable. So have you had discussions that you
20 disagree with certain assumptions, or has it been
21 pretty straightforward to come to these final choices?
22 MS. MINOGUE: A: Well, the way we do it is, you know,
23 Mr. Weiland reviews our work, but we select our
24 assumptions based on a lot of discussion with the
25 actuaries in selecting the models. We validate some
26 of the things that we believe we're seeing in terms of

1 what might be driving the trends, and for example the
2 smart phone usage and that kind of thing. We
3 definitely consulted outside of the actuarial realm to
4 try to kind of nail down a more reasonable assumption.
5 But then once we get those assumptions, Mr. Weiland
6 vets those assumptions and in some cases we involve
7 him early, but his role is to validate that they are
8 consistent with accepted actuarial practice.
9 COMMISSIONER O'HARA: Thank you.
10 MR. GHIKAS: Before we move on I would just add something
11 because there is actually some legal provisions around
12 Mr. Weiland's role, the role of the appointed actuary.
13 And I'll just -- we can print this off for you,
14 Commissioner O'Hara, but in the *Insurance Corporation*
15 *Act,* Section 23, there is a requirement that ICBC
16 prepare documents for the benefit of the Minister
17 annually. And one of the things that ICBC must do is
18 have a report prepared by an actuary that is not an
19 employee of the Corporation as to whether or not both
20 the optional business and the basic business "have
21 been valued in accordance with accepted actuarial
22 practice". And so Mr. Weiland is ICBC's appointed
23 actuary fulfilling that role as well, and so this
24 piggybacks on that.
25 COMMISSIONER O'HARA: That's helpful. Thank you, Mr.
26 Ghikas.

track 55

Proceeding Time 4:16 p.m. T55

COMMISSIONER REVEL: Panel, I find myself struggling a little bit, and I'm hoping you can sort me out. Don't take anything away from the fact I'm struggling. I'm fairly experienced in that area.

Mr. Weiland, you indicated that the basic MCT determination is rigorously separated from the optional determination. Is that correct? And that the acceptably -- actuarially acceptable safe MCT for basic was 130. I believe that's what you said this morning.

MR. WEILAND: A: Yes.

COMMISSIONER REVEL: Where I'm struggling, and that would be adequate for basic -- where I'm struggling is, if indeed that is the case, then could you please give me an idea as to why the government has to step in and bail ICBC out from time to time? And with cash infusions. If 130 is adequate to cover the costs, why do we need cash infusions of what I presume is a fairly materially significant effect of a few hundred million dollars.

MR. WEILAND: A: The minimum MCT requirement is 100 percent.

COMMISSIONER REVEL: I understand. Yes.

MR. WEILAND: A: And the company has applied the

1 procedures that I discussed this morning to produce
2 its own target of 130.
3 COMMISSIONER REVEL: Right.
4 MR. WEILAND: A: And it provided documentation to the
5 Commission on how we got there, and the Commission
6 accepted that after consideration. When a company
7 falls below its target, normally what the regulator
8 would require is some kind of a plan to --
9 COMMISSIONER REVEL: Right.
10 MR. WEILAND: A: -- within a reasonable period of time,
11 to get above the target. Which a reasonable period of
12 time --
13 COMMISSIONER REVEL: Which is exactly what happened last
14 year, is it not?
15 MR. WEILAND: A: Right.
16 COMMISSIONER REVEL: Yes.
17 MR. WEILAND: A: It depends on -- it does depend on the
18 circumstances. And for companies under OSFI's
19 jurisdiction, they sometimes have a pretty short space
20 of time that they want that gap closed, so that you're
21 operating day-to-day above the target.
22 But the idea is that you have some plan
23 which is acceptable to the regulator for getting to
24 the 130 percent -- in this case, 130 percent level.
25 COMMISSIONER REVEL: Okay, but the MCT, as I recall,
26 looking through, can plummet really very, very

1 quickly. And I'm struggling with if 130 is a safe
2 actuarial prediction, and it can drop that quickly,
3 whether indeed the 130 isn't enormously liberal in its
4 interpretation.
5 MR. WEILAND: A: Well, the --
6 COMMISSIONER REVEL: Or conservative.
7 MR. WEILAND: A: Conservative. The target is re-
8 examined on a regular basis. And in a consistent
9 fashion. So, continues to be appropriate as far as I
10 can tell.
11 COMMISSIONER REVEL: Okay.
12 MR. WEILAND: A: The MCT is composed of two parts.
13 It's got a capital available, and a capital required.
14 COMMISSIONER REVEL: Right. d
15 MR. WEILAND: A: And so it is a ratio, and both the
16 numerator and the denominator can move around. It is
17 especially sensitive in certain areas, with respect to
18 investment assets and so on. So, since assets are
19 valued at market, if there is a drop in the value of
20 equities, for example, then that is going to reduce
21 the basic insurance equity as well.
22 COMMISSIONER REVEL: So then you don't find it surprising
23 that if an MCT of 130 for basic is a prudent
24 actuarially acceptable number, you don't find it
25 unusual that a cash infusion is required.
26 MR. WEILAND: A: Hmm. Whether a cash infusion is

1 required depends on the adequacy of the rates. And
2 what we have seen in basic insurance in B.C. is that
3 they have gotten inadequate very quickly over a short
4 space of time. I think that's somewhat unusual.
5 To kind of put it in perspective, federally
6 regulated companies have a supervisory target of 150.
7 COMMISSIONER REVEL: One fifty.
8 MR. WEILAND: A: And companies need to have their
9 targets on top of that. For companies writing auto
10 insurance, in the private market, which is subject to
11 competitive forces, a lot of them would be in the 190
12 percent range. But they also have competitive
13 pressures which add to the requirement for capital
14 that ICBC doesn't have. So, just from my experience,
15 the 30 points is -- you know, it intuitively it feels
16 right, to me. But you do need to continue to monitor
17 the risk profile.
18 COMMISSIONER REVEL: Now, when you say other companies
19 would have 190, that presumably would be incorporating
20 optional and the whole across the Corporation. Is
21 that correct?
22 MR. WEILAND: A: That's correct. Yeah. Yeah. Yeah.
23 **Proceeding Time 4:22 p.m. T56**
24 COMMISSIONER REVEL: Thank you very much
25 THE CHAIRPERSON: Okay, I have a couple of questions and
26 it has to go to figure 3-14 re: the accelerated rate

1 of represented bodily injury claims. It was noted
2 earlier that there was an apparent significant
3 increase of almost 5 percentage points in 2012
4 continuing at a slightly abated level in 2013.
5 Was there any indication as to why that
6 significant jump in that particular year? Was there a
7 change in how the Corporation dealt with claims? Was
8 it just all of a sudden everybody decided, "Well, we
9 need to have a lawyer"? Was it advertising? What
10 caused that to happen? Do you have anything to do
11 with that?
12 MR. WILSON: A: I think that when we looked at the
13 acceleration in 2012 there's three buckets or there's
14 three areas that we put it into. And so the short
15 answer is there's no one single reason.
16 If we look at internal people and
17 processes, this is what I would refer to as what ICBC
18 can do once we have the claim. We realized that there
19 are always pressures on ICBC to deliver a good service
20 and that there were some impacts to this service
21 during our transition, which I would put as the second
22 point.
23 We recognized that during the transition
24 period we moved people around, we moved files around,
25 we changed our structure, and that impact I would
26 expect to be shortened, not to be sustained over a

1 long period of time but simply a transitional impact.
2 We did look at our -- we continuously look
3 at our internal people and processes and what we call
4 frustrations that can lead people to get a lawyer, and
5 we've implemented some initiatives in 2013 which we
6 hope to improve the customer's understanding of their
7 benefits in the process, and to improve the customer
8 experience.
9 The third point which we noticed in 2012 is
10 what we call early legal representation, or it's
11 someone's choice to get a lawyer before they even come
12 to ICBC. So when I talk about internal improvements
13 so that we improve customer experience or transitional
14 impacts due to moving files around, those two aren't
15 affected or aren't impacted by this recent trend in
16 accelerated representation before they come to ICBC.
17 And we've referred to that in 154.4. But also in
18 154.2 we discussed that ICBC is doing some analysis to
19 what are the attributes or the attitudes of people, or
20 people that are influencing customers to get a lawyer
21 before coming to ICBC.
22 So it's really three areas. The first area
23 is an ongoing pressure that ICBC hopes to improve, not
24 only with the new organizational structure, but also
25 with the new system. The transitional impacts, we
26 expect to be just that, transitional, and we don't

1 expect them to go all the way through to 2016 because
2 there will be some -- the training is completed before
3 2016 and the staff will be more adept on the systems
4 and will have the new case loads prior to 2016.
5 The final point, the choice of people to
6 get a lawyer before coming to ICBC, we've addressed
7 some of those concerns already in areas such as better
8 service to multicultural customers and better
9 explanation of the process to people.
10 But this is a corporate initiative and this
11 is something that we address also in TREAD 19.1, round
12 2, where we really have all areas of the corporation
13 looking at what it is that they can do to understand
14 and impact people's decisions to get a lawyer.
15 THE CHAIRPERSON: So would the intent be to have some
16 sort of program to make it easier for people to deal
17 with the Corporation and therefore not necessarily
18 seek legal representation because they become
19 satisfied with the way their file is being dealt with.
20 MR. WILSON: A: That is correct.
21 THE CHAIRPERSON: Thank you, those are all the questions
22 that I have.
23 Mr. Ghikas, did you --
24 MR. GHIKAS: I have nothing in re-examination for the
25 actuaries, so I'm fine for today.
26 MR. MILLER: So Mr. Chair, that takes us -- we are just a

few minutes from 4:30, so I'm in your hands, but we could start off at the top of the capital management plan with this panel tomorrow. I believe this panel should be about two hours of cross-exam tomorrow. And I believe so far our estimates are around ten hours in total for panel two. So it looks like Thursday, if things go smoothly towards the end of the day, or maybe half a day, we may be close to the evidentiary questioning being finished.

THE CHAIRPERSON: Sounds like a plan to me, Mr. Miller. Okay, and therefore we are adjourned until 9:00 tomorrow morning.

(PROCEEDINGS ADJOURNED AT 4:28 P.M.)